



Overview

1. Introduction

1.1. SADC's origins

The Southern African Development Community, formed in 1992, was the successor to the Southern African Development Co-ordination Co-operation (SADCC). Although shaped principally by political motivations, the most important of which was the members' intent to attain economic independence from *apartheid* South Africa, the SADCC did have a strong and specific industrial policy component: an economic model based upon import substitution.¹ Protecting domestic industries from foreign competition was facilitated by the imposition of high tariffs on imported goods, particularly those goods that were also manufactured locally, so that local employment could be created and protected.

By the early 1990s, once it was certain that South Africa would hold all-inclusive democratic elections and that the political and economic sanctions imposed against the *apartheid* regime would be withdrawn, a shift was needed. As the SADCC was transformed into the SADC, a series of changes were introduced, including a regional emphasis on poverty reduction and economic liberation. The transformation was also vital for the region to focus on economic issues in order to achieve those important aims.

1.1.1. Objectives of the SADC Protocol²

The objectives of the SADC, as outlined in the Protocol, are:

- Promotion and defence of peace and security;
- Development and economic growth, poverty alleviation, enhancement of the standard and quality of life of the people of Southern Africa, support for the socially disadvantaged through regional integration and the evolution of common political values, systems and institutions;

¹ Since 1992, SADC members are Angola, Botswana, the DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Swaziland, South Africa, Tanzania, Zimbabwe and Zambia.

² The SADC Protocol is the umbrella of all the specific Protocols SADC has committed itself to. Other than the SADC Trade Protocol there is also the SADC Protocol on Finance and Investment; the SADC Protocol Against Corruption; and the SADC Protocol on Control of Firearms, Ammunition and other related materials.

- Promotion of self-sustaining development on the basis of collective self-reliance and the interdependence of member states;
- Achievement of complementarity between national and regional strategies and programmes;
- Promotion and maximization of productive employment and use of the region's resources;
- Sustainable use of natural resources and effective protection of the environment;
- Strengthened links and consolidated social and cultural affinities among the people of the region.

Spurred on by the success of the European Economic Community (EEC), many economic blocs, especially those involving developing nations, attempted to integrate their economies in order to stimulate economic development. Yet, in the absence of centralised institutions and full-time personnel available to run the day-to-day affairs of such institutions, it was always going to be a challenge for the SADC to achieve the objectives outlined in its Protocol. Table 1 summarises the macroeconomic targets that the SADC region set for itself for the period 2008-2018.

Realising that it faced constraints, the SADC heads of state approved a *Report on the Restructuring of SADC Institutions* in 2001. The new SADC structure had four Directorates: the Trade, Industry, Finance and Investment Directorate; the Food, Agriculture and Natural Resources Directorate; the Infrastructure and Services Directorate; and the Social and Human Development and Special Programmes Directorate. A link between these directorates and the various national governments was established through National Committees.

Table 1: Macroeconomic indicators: targets for the SADC, 2008-2018

Target indicators	Realised, 2005	2008	2012	2018
Core inflation (%)	10.7 [*]	9	5	3
Budget deficit as % of GDP	n/a	5	3	1
External debt as % of GDP	66.9 [*]	60	60	60
Current account deficit as % of GDP	n/a	9	9	3
Growth rate (%)	5.0	7	7	7
External reserves (import cover in no. of months)	5.3 [#]	3	6	6
Central Bank credit to government	n/a	10	5	5
Domestic savings rate (% of GDP)	13.0	25	30	35

Source: Botswana Institute for Development Policy Analysis (Bidpa) and the World Economic Indicators (World Bank)
^{*} CPI annual change and excludes Zimbabwe; ^{*} excludes Namibia; [#] excludes the DRC, Malawi, Mozambique, Zambia and Zimbabwe.

Compared to its predecessor (the SADCC) and other economic unions, the SADC's approach to economic integration has been different.³ When the SADCC was formed, the chief focus was on reducing trade with and economic dependence on *apartheid* South Africa. Significantly, the SADC adopted an integrated development approach rather than a market development one. Government was also perceived as pivotal to the development of the economy. The region's governments argued that there was a need to provide an enabling environment by, among other things, developing the region's infrastructural base via the construction of roads and other communication systems.

Although data problems persist in the region, as highlighted in the previous editions of the Intra-SADC Trade Policy Review, the region fared well in meeting the set targets. However, the savings rate has been a major concern, particularly since savings are an important component of a country's growth prospects. Comparing the 2005 (realised) targets with targets set for 2008, it was clear that the region's domestic savings rate fell far short of the specified target. Of the 14 members of the SADC, Botswana, Angola and Namibia had the highest savings rates at 47.6%, 32.8% and 26.7%, respectively. Lesotho and Malawi had negative savings rates as a proportion of the Gross Domestic Product (GDP). Although the external debt position as a percentage of GDP was close to the target, the debt status of the DRC, Malawi and Zimbabwe was more than double the set target. Madagascar, Mozambique, Tanzania and Zambia missed the target by small margins.

1.2. Objective of the report

This Review, the final in a series produced within the current programme, focuses on general developments in SADC and on particular aspects pertaining to trade for the period 2000-2005. While previous Reviews described trade developments at a SADC country level only, this report focuses on a sub-sample of member countries and directs attention principally at those policy issues that are relevant to these particular countries and to the region as a whole. Contributions from two leading researchers, which offer vital insights into those issues that influence trade in the SADC region, have been included in this Review.

Therefore, in addition to the overview, this report consists of three further sections. Section two provides an economic profile mapping the trade flows and patterns of three SADC countries – Mauritius, Tanzania and Zambia. Section three focuses on two thematic areas of concern for the region. First, Chris Stevens discusses the Economic Partnership Agreements between SADC and the EU and their impacts for the

³ See Carbone (2003).



region.⁴ He notes that while countries were expected to negotiate with the EU as blocs, during the critical months preceding the expiry of the trade component of the Cotonou Agreement, several countries broke away from their original blocs. Although the SADC was supposed to sign the EPA as a unit, by the end of 2007 Angola and South Africa had not endorsed the agreement.⁵ Within the Economic Community of West African States (ECOWAS), considered by some as the most disorganised bloc, two countries, Côte d'Ivoire and Ghana, initialled the interim EPA while most of the other countries elected to be part of the Everything But Arms (EBA) group and Nigeria chose the Standard Generalised System of Preferences (GSP) option.⁶

However, Stevens points out that membership of an EPA may continue to offer countries commercial advantages during a period when most of the SADC states will have to complete their tariff cuts. Significantly, real preferential access-related losses would be incurred if some SADC countries exited the EPAs before completing these tariff cuts.

Section three also features Gregory Mthembu-Salter discussing non-tariff barriers to trade within the SADC region. It is worth noting that beyond the economic theory of NTBs, there is very little published literature available on the topic, especially pertaining to the SADC region.⁷ In part, this is because NTBs are difficult to enumerate and countries often disagree on whether certain measures qualify as an NTB. For instance, there is no consensus on whether safety and health regulations are NTBs since they are perceived as protective measures against the transfer of animal diseases and other related problems from one market to another.

This chapter discusses some importers' and exporters' supply chain challenges, identifies critical NTBs and their costs in the region – specifically those associated with unfavourable customs procedures – inadequate infrastructure and import bans.

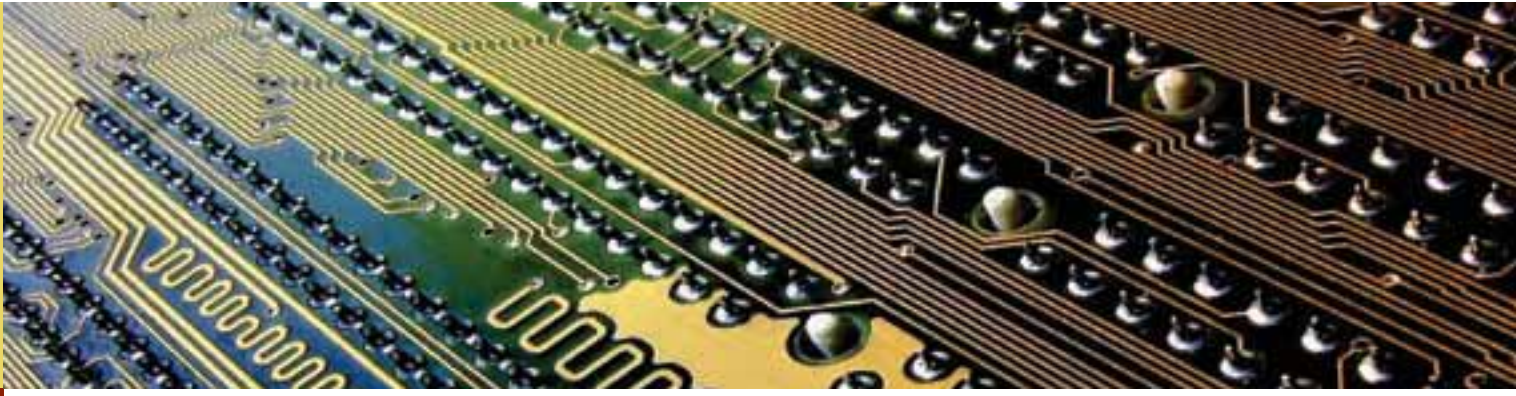
The chapter also presents a case study of the NTBs that exist for trade in goods moving between Durban, South Africa, and Zimbabwe via Beit Bridge. Due to the economic and political difficulties in Zimbabwe, northbound trucks travelling from South Africa to Zimbabwe take longer to transit the Beit Bridge border than do southbound trucks.

⁴ The EPA is a post-Cotonou Agreement in which the EU provides preferential access to ACP countries on the basis of reciprocity.

⁵ The SADC EPA group initially comprised Angola, Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland.

⁶ Twelve countries form this group: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania and Niger.

⁷ NTBs are trade barriers that restrict imports but not in the usual form of a tariff. They include anti-dumping measures and countervailing duties that are only imposed under certain conditions.



Among other things, Mthembu-Salter notes that the introduction of an SAD system for the SADC, which reduces the paperwork required for moving goods within the region, will go a long way towards reducing the amount of time cargo trucks spend at this particular border crossing.

2. Macroeconomic analysis

The SADC region has a population of about 237-million people and a total GDP of US\$369-billion. SADC's 'wealth' makes the region a lucrative market from an African perspective. However, the SADC bloc is weak compared to other economic blocs beyond Africa. SADC's average Gross National Income (GNI) per capita for 2005 was recorded at US\$1,808 – lower than the African average of US\$2,394 (2004).⁸ If the GNI per capita is used as a measure of a nation's wealth, SADC's purchasing power has to be discounted. However, that average disguises the extremes in GNI per capita across the region. Half of the SADC member countries have a GNI per capita of US\$500 or less. As shown in Table 2, the DRC and Mozambique have the lowest GNI per capita in the region. Historically both countries have been affected adversely by intense internal political turmoil. One would assume, given Angola's history, that it would be in a similar situation, but its high levels of oil revenues have resulted in a somewhat higher GNI. On a positive note, the DRC and Mozambique recorded positive growth rates of at least 4% in the review period of 2000-2005.

Botswana, Mauritius and South Africa are the 'richest' of the SADC countries. But while Botswana's economy continues to be driven by the mining sector, Mauritius and South Africa are relatively diversified.

The latest United Nations Development Programme's (UNDP's) Human Development Index (HDI) rankings for 2007-2008 provide further information on the quality of life experienced in different SADC member states.⁹ Using its HDI, the UN divides countries into high, medium and low human development categories.¹⁰

According to the HDI, Mauritius was the only country in SADC with a high human development ranking. Seven countries – South Africa, Botswana, Namibia, Lesotho, Swaziland, Madagascar and Zimbabwe – were in the medium human development classification (ranked in this

⁸ While GNI statistics cannot capture the true quality of life in a country, they do offer an indication of a country's overall poverty or wealth status. GNI per capita is the gross national income, converted to U.S. dollars, divided by the mid-year population.

⁹ United Nations Development Programme (<http://hdr.undp.org/en/statistics/>).

¹⁰ The HDI is a normalised measure of life expectancy, literacy, education, standard of living and GDP per capita for countries worldwide. It is a standard means of measuring well-being and is used to determine and indicate whether a country is developed, developing or underdeveloped. It also takes into account how economic policies impact on quality of life.

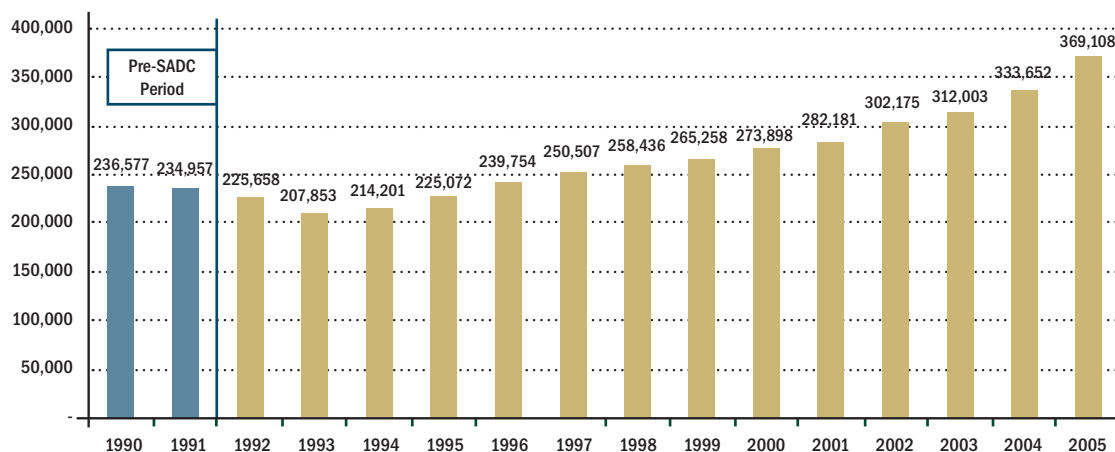
order). Tanzania, Angola, Malawi, Zambia, the DRC and Mozambique, constituting the rest of SADC, were classified as poor countries with low human development indices. As discussed in section three of this Review, many of the countries in the latter group did not initial the interim EPA; being poor they qualify to benefit from the EBA facility.

Botswana and Mozambique recorded the most impressive growth rates for 1995-2005. However, most of the other SADC countries experienced higher average growth over the period 2000-2005 than for 1990-2005.¹¹ Angola's growth rate, above 10%, was the highest annualised growth in the region, while Zimbabwe's economy contracted at an annualised rate of 5.6%, reflecting the deep political and economic turmoil evident in that country since the late 1990s. Mozambique registered the second highest growth rate for the period under review, in line with expansion in the country's manufacturing sector. Its share of GDP rose from 12% to more than 16% for the period 2000-2005.

Overall, the growth data reflected a mixed economic performance amongst SADC member countries. For instance, the SADC economy contracted by 1.3% over the 1990-1995 period, as shown in Table 2.

Angola, the DRC, Madagascar and Zambia were largely responsible for such decline because of political turmoil in both Angola and the DRC, while Madagascar had economic problems.¹²

Figure 1: SADC's GDP (US\$m), 1990-2005



Source: World Development Indicators, World Bank

¹¹ Although SADC was formed in 1992, data have been considered from as far back as 1990 for the purpose of this Review. While the report focuses on the 2000-2005 period, referring to a longer time period provides a better sense of how the region has progressed over the years.

¹² Between the 1960s and the 1980s, Madagascar pursued socialist economic policies and included the nationalisation of many private enterprises. Though a reversal of numerous government policies occurred in the early to mid-1990s, the new policies were slow to take effect.



Zambia, too, experienced difficulties during the early 1990s, even as the country attempted to recover from a severe decline in the copper price during the mid-1970s. In a bid to lift economic activity, Zambia turned to foreign and international lenders for relief. As copper prices remained depressed, it became increasingly difficult for the Zambian government to service its growing debt. More than 30 years later, Zambia still had not recovered fully from the adverse copper price shock of the 1970s, although this trend changed recently following China's high and growing demand for resources.

New hope seemed to characterise the period 1995-2000. The region's GDP grew by 8.2% per annum. Those countries that had registered negative economic growth rates in the period 1990-1995, with the exception of the DRC where the war continued to ravage the country's economic foundations, experienced a positive turnaround. Angola, whose economy had contracted by almost 40% between 1990-1995, recorded a 68.6% increase in GDP in the 1995-2000 period. Mozambique grew by almost 8%. Unfortunately, for the same period, the problems facing Zimbabwe were made manifest in the key indicators and the country's GDP increased by a meagre 0.7% compared to 1.2% in the previous period.

For 2000-2005, the region's economic activity recorded positive growth, although the growth rate was half of that recorded for the previous five years. While Angola's growth was still high by international standards, it stabilised to 10.3%. Mozambique continued its positive run, recording 8.9% growth in its GDP. Tanzania, which reaped the fruits of reforms undertaken in the mid-1990s, also recorded an impressive 6.9% level of growth. Zimbabwe was the only country where economic activities declined, by 5.6%.

Table 2: The SADC GDP, GNI per capita and GDP growth per annum

	GNI per capita (US\$), 2005	GDP, 2005* (US\$m)	Country GDP as a share of SADC GDP	GDP growth, 1990-1995	GDP growth, 1995-2000	GDP growth, 2000-2005
Angola	1,410	149,350	40.5%	-39.8%	68.6%	10.3%
Botswana	5,590	8,204	2.2%	4.0%	8.3%	5.8%
DRC	120	5,236	1.4%	-7.3%	-3.9%	4.0%
Lesotho	950	988	0.3%	4.0%	2.9%	2.8%
Madagascar	290	4,340	1.2%	-0.3%	3.8%	2.3%
Malawi	160	1,986	0.5%	3.0%	3.9%	2.6%
Mauritius	5,250	5,475	1.5%	5.1%	5.4%	4.1%
Mozambique	310	5,773	1.6%	2.5%	7.9%	8.9%
Namibia	2,990	4,231	1.1%	4.9%	3.5%	4.4%
South Africa	4,770	159,695	43.3%	0.9%	2.8%	3.7%
Swaziland	2,280	1,548	0.4%	2.9%	3.3%	2.2%
Tanzania	340	12,646	3.4%	1.8%	4.1%	6.9%
Zambia	500	4,090	1.1%	-1.4%	2.8%	4.8%
Zimbabwe	350	5,547	1.5%	1.2%	0.7%	-5.6%
SADC total / average	1,807.9	369,108	100.0%	-1.3%	8.2%	4.1%

*2000 constant prices

Source: World Development Indicators

The GDP data reflect the dominance of a handful of countries in SADC. South Africa and Angola together accounted for more than 80% of SADC's GDP. In spite of a relatively similar contribution to SADC's GDP – 43.3% and at 40.5%, respectively – the structures of the South African and Angolan economies differ significantly. South Africa's economy is highly diversified relative to the rest of SADC, while Angola is more dependent on oil and other mineral resources. As shown in Table 3, Tanzania, Botswana and the DRC had, for the period, the third, fourth and fifth biggest economies in SADC.

The economies of most developing countries, especially those in Africa, still depend heavily on agriculture. Generally, agriculture's contribution to GDP is significantly higher than that recorded for developed countries. Which economic sectors contribute to GDP matters because it indicates the presence of a well-diversified, resilient economy that is able to withstand shocks. For instance, an economy dominated by agriculture is susceptible to adverse weather conditions. At the same time, a country that depends too much on the mining sector is susceptible to international price fluctuations, as was the case for Zambia in the 1970s. It is therefore important that an economy is reasonably diversified.¹³ In Africa, when a country has a large and dominant agricultural

¹³ Diversification does not imply that each sector's contribution to GDP should be equivalent to 25%, however.

sector, it is often the case that a significant number of poor people are concentrated in that sector, hence any shock to the sector carries large socio-political implications.

As shown in Table 3, the various SADC economies, over the review period, had quite different economic structures. While some countries were heavily reliant on agriculture, others were more mining-oriented.¹⁴ The agricultural sector in the DRC and Tanzania contributed 41.1% and 38.4%, respectively, to the GDP in 2005. Both countries also had a very low GNI per capita. In contrast, Angola and Botswana were more reliant on the performance of their mining sectors, while Madagascar, Mauritius and South Africa had services-driven economies, a trend that reflected the expansion of specific service sectors, most notably the construction sector in Madagascar and the tourism and finance sectors in Mauritius.

Table 3 also reveals that Botswana's manufacturing sector contributed the least to that country's GDP compared to the sector's contribution to GDP in all other SADC member states. Interestingly, Botswana's agricultural sector was small.

The size of the service sector is a good measure of a country's developmental stage. It is not surprising, therefore, that South Africa, the most developed country in the SADC region and on the continent, had the largest service sector, contributing more than 60% to its GDP in 2005. However, the South African service sector's growth possibly reflected the construction boom the country had experienced since 1994.

A number of factors influenced the general post-1995 performance of the South African economy. Sanctions were scrapped by the international community following democratisation while trade in goods was liberalised aggressively. For the period 1990-2005, the service sector's share of GDP grew from 55% to almost 61%, a trend reflecting the sector's support of trade in goods and expanded investments.

When examining how the shares evolved for the period under review, a more mediocre performance has been observed. The service sector's contribution to GDP grew by 1.9% between 2000 and 2005, which could suggest that a threshold has been reached. Worryingly, internal developmental, possibly supply-side, limits may have been responsible for the sector's share of GDP not converging with international trends.

¹⁴ Agriculture corresponds to the International Standard Industrial Classification's (ISIC's) divisions 1-5 (Revision 3) and includes forestry, hunting and fishing, as well as the cultivation of crops and livestock production.

Manufacturing's share of GDP in South Africa declined from 18% in 1990 to 16% in 2005.¹⁵ Though a displacement of economic activities in favour of services partially accounted for the drop, South African firms found it difficult to cope with foreign competition. With uncompetitive domestic firms shutting down, the manufacturing sector contracted and the data shown in Table 3 confirm a decline, albeit a marginal one.¹⁶

Table 3: SADC's sectoral statistics

Country	Services (%) [*]			Agriculture (%) [*]			Manufacturing (%) [*]			Mining (%) [#]		
	1990	2000	2005	1990	2000	2005	1990	2000	2005	1990	2000	2005
Angola	30.2	22.2	18.7	8.1	5.7	6.9	3.2	3	3	58	69	71
Botswana	32.0	36.1	35.1	5.0	4.1	3.2	4.6	2	2	58	58	60
DRC	26.2	29.4	31.2	60.1	49.4	41.1	7.7	5	5	6	16	23
Lesotho	35.4	36.6	37.6	22.3	16.8	14.1	11.5	15	16	31	31	33
Madagascar	50.3	51.5	51.0	26.0	26.1	25.7	10.9	11	12	13	11	12
Malawi	47.7	38.4	39.5	24.3	35.7	29.9	15.7	12	11	12	14	20
Mauritius	49.2	54.4	59.3	20.6	20.5	17.5	10.2	5	5	20	20	18
Mozambique	47.3	42.7	42.0	30.6	23.5	22.4	n/a	12	16	n/a	22	19
Namibia	52.4	54.7	54.4	11.7	10.0	10.8	9.8	10	8	26	25	27
South Africa	55.2	59.0	60.9	3.3	3.0	2.6	18.2	17	16	23	21	20
Swaziland	25.8	27.6	28.7	14.1	10.8	9.5	26.3	25	24	34	37	38
Tanzania	35.9	36.2	34.8	40.7	41.6	38.4	7.1	7	7	16	15	20
Zambia	38.3	46.7	45.2	15.6	19.9	16.4	9.6	10	10	37	23	28
Zimbabwe	43.0	48.5	40.4	12.7	15.9	13.6	16.5	14	10	28	22	36

* 2000 constant prices # Own calculations


Source: World Development Indicators

Over the period, Angola's service sector's contribution to GDP declined to levels of almost half its contribution in 1990. Partly contributing to this was the rise in prominence of the mining sector. Fluctuations also characterised Angola's service sector. Services grew, in value terms, from US\$25.6bn in 1990 to US\$27.9bn in 2005. However, the country only registered US\$20.3bn worth of services in 2000; in other words, there was a drop in value terms for 1990-2000.

Mauritius has been one of the best performing economies in Africa. However, with an Export Processing Zone (EPZ) in place, one would expect a more considerable contribution to GDP from the country's manufacturing sector than the just under 5% recorded for the 2000-2005 period. A number of factors adversely affected the country's econ-

¹⁵ Manufacturing refers to those industries belonging to ISIC divisions 15-37. The origin of value added is determined by the third revision of the ISIC. Data are expressed in constant 2000 US\$.

¹⁶ The service sector might have increased relative to the manufacturing sector.



omy, including the fact that companies started to disinvest during the period 2000-2004 as the benefits associated with preferential agreements provided by the African Growth and Opportunity Act (AGOA) for the textiles and clothing sectors were removed.

2.1. Foreign direct investment

The link between foreign direct investment (FDI) and trade is unambiguous. Countries that attract more FDI have the prospect of trading more and thus benefit most from the gains offered by trade. Consequently, FDI is an important component in a country's development.¹⁷ Compared to portfolio investment, FDI flows are more resilient, as such investment is seldom withdrawn abruptly from the recipient country. This type of investment is vital to trade performance and to trade. It also provides employment opportunities for the recipient country's labour force. FDI also enhances the country's technological stock, thus shifting the productivity frontier positively. A transfer of technology occurs as a result of FDI and the trade with other countries. There are also direct benefits for the government, such as higher tax revenues from enhanced corporate profits.

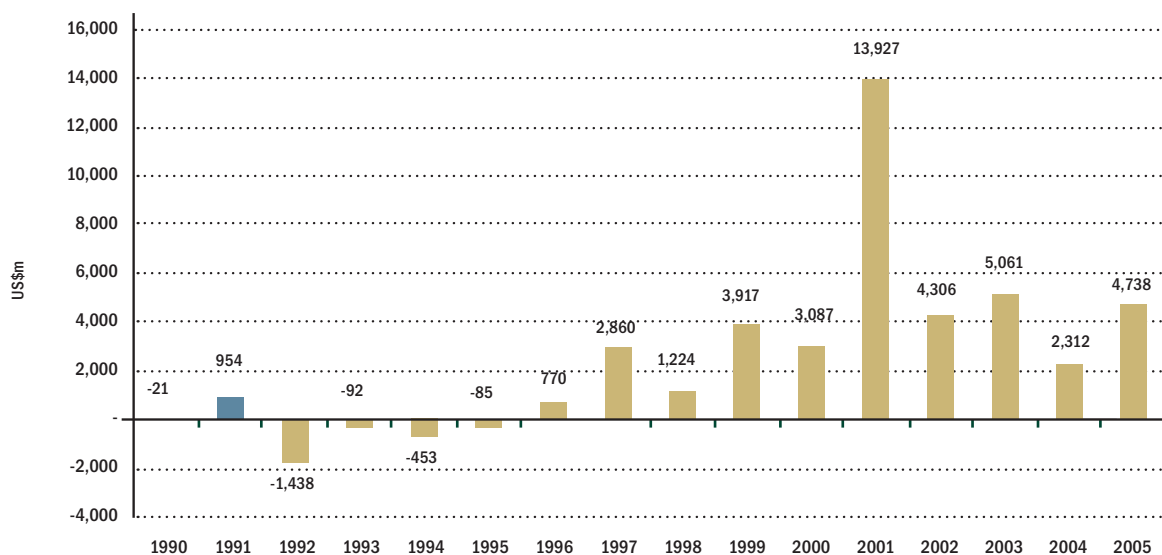
Figure 2 captures the performance of FDI in the SADC region, while Figure 3 shows the FDI trends for specific countries. The figures reveal that FDI in the SADC countries did not increase consistently. Member states found it difficult to attract consistent levels of FDI. It is therefore important for countries to improve their respective investment climates and deal with all related issues, such as respect for the rule of law, including property laws pertaining to intellectual content and real estate, urgently. That said, there were exceptions in this regard, with Botswana, Mauritius and Swaziland recording positive net FDI for 1990-2005.

Figure 2 shows that 2001 was an exceptional year for the region: US\$13.9bn net FDI inflows were recorded overall, of which about 77% was intended for South Africa. The restructuring of the corporate relationship between Anglo American Corporation and the De Beers mining company, along with the AGOA, which encouraged textile companies to invest in Africa in order to qualify for exports to the US, mainly account for 2001's remarkable FDI levels.

There was very little inflow in the form of portfolio investment into countries other than South Africa within the SADC region. This is a dis-

¹⁷ FDI is defined as the net inflows of investment to acquire a business entity operating in an economy other than that of the investor by having 10% ownership or more. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance of payments.

Figure 2: SADC's net FDI (US\$m), 1990-2005



* Current prices

Source: World Development Indicators, World Bank (excludes portfolio investment)

incentive for multinational companies intending to establish operations in the region, particularly in other SADC countries. The absence of well-developed stock markets in most SADC countries worked against the efficient allocation of capital and inhibited the capacity of firms to raise capital by pooling domestic resources. Those SADC members with functioning stock exchanges are South Africa, Namibia, Botswana, Mauritius, Mozambique, Swaziland, Tanzania, Malawi, Zambia and Zimbabwe.¹⁸ Unfortunately, few are well developed, although those in Mauritius, Namibia and Botswana are relatively developed.

South Africa's Johannesburg Stock Exchange (JSE) is the most developed stock market in Africa and there is a tendency for investment institutions, including governments in the SADC, to invest in this particular stock exchange. In essence, this situation helps South Africa's development more than it does that of other countries in the SADC region. A common problem among these smaller stock markets, in addition to being dominated by a few large firms, is that very few firms are listed there, which may potentially raise anti-trust concerns.

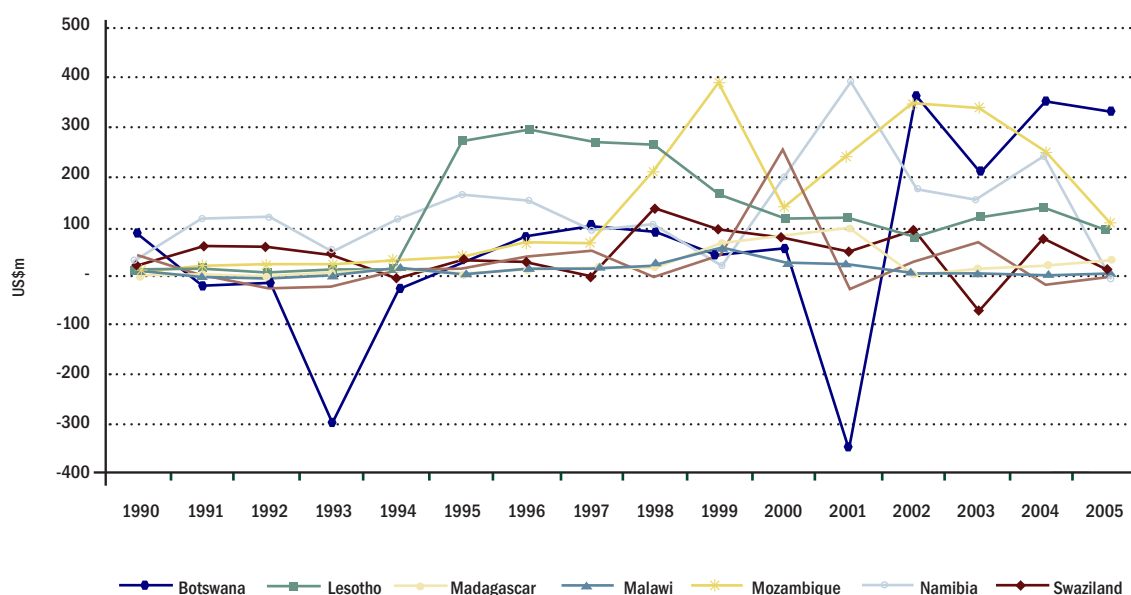
¹⁸ The SADC Committee of Stock Exchanges was formed in 1997. Its objective is to increase co-operation and links between the stock exchanges in the region in terms of operations, communications, regulations, technical skills development and other issues. The JSE has been a leader in this regard. Given the lack of data in the public domain, it is very difficult to assess the effect of this intervention.

Figure 4 shows the FDI trends in Angola, South Africa and the rest of SADC for 1990-2005.

Angola attracted consistently more investment than it lost, except for 1990 and 2005. In Angola, investment was directed mostly towards the mining sector and at oil and natural minerals extraction. On the other hand, South Africa generally had net FDI outflows, an indication that South African firms invested abroad to increase their market share. In most cases, other African countries were the beneficiaries of such investment.

Collectively, the rest of the SADC recorded consistently positive FDI inflows for 1990-2005.

Figure 3: The net FDI trend for selected SADC countries, 1990-2005 (US\$m)

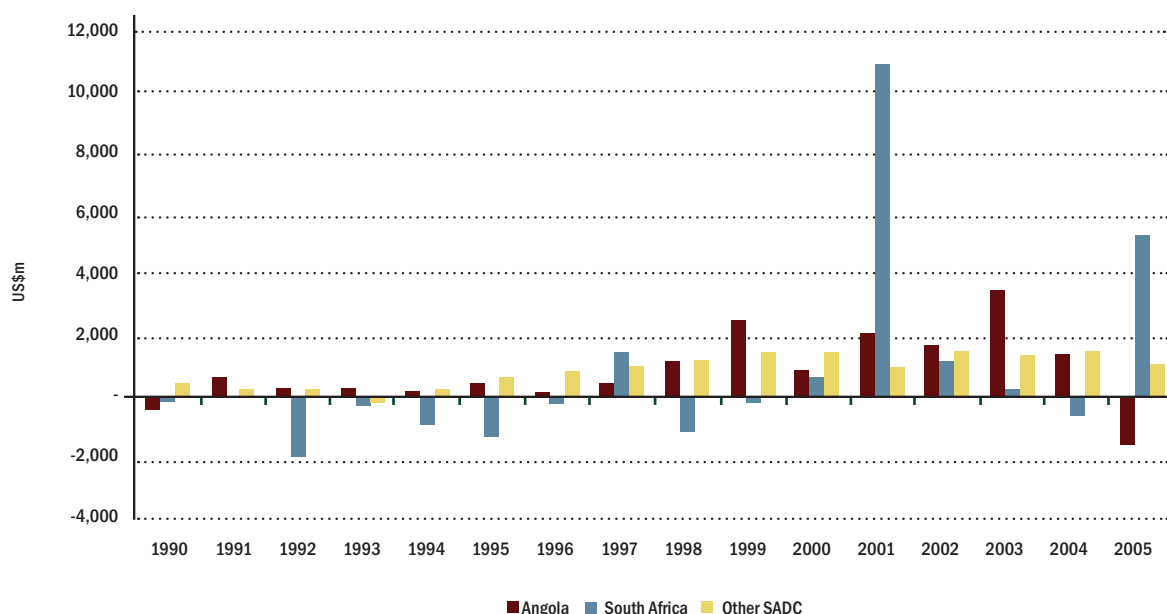


Source: World Development Indicators

Figure 5 illustrates the net FDI flows for Mauritius and Tanzania. The latter's performance has been comparatively impressive: in Mauritius, FDI peaked at US\$260m in 2000 while Tanzania enjoyed FDI levels in excess of US\$400m since 1999.

A large percentage of Tanzania's FDI (as much as two-thirds of the total) was directed into the country's mining sector. Although Tanzania attracted FDI at an increasing rate since the 1990s, it experienced a series of positive, structural shocks that influenced its FDI flows in 1998-1999. First, Tanzania held its first democratic elections in 1995.

Figure 4: The net FDI trend in Angola, South Africa and other SADC countries, 1990-2005 (US\$m)

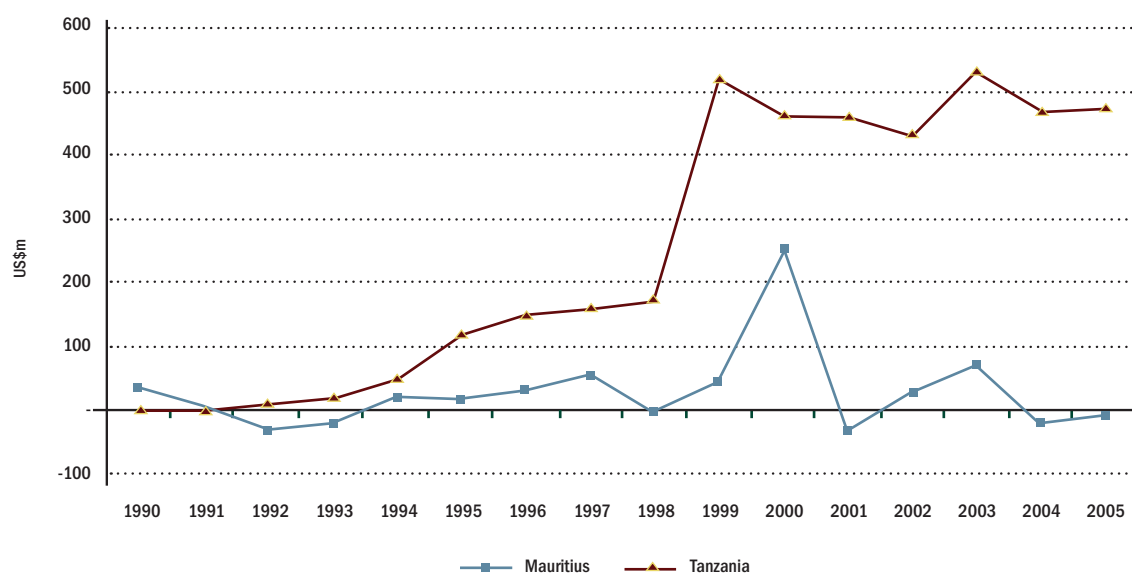


Source: World Development Indicators, World Bank

Since then, there have been two successful elections with the third held in mid-2005. Second, Tanzania undertook a range of economic reforms, including the divestiture of over 300 state-owned enterprises, which encouraged FDI. The increased FDI flows contrasted with the situation during the country's socialist period, when FDI was virtually unwelcomed and an average of a third of a million dollars worth of investment per year was recorded. The Tanzanian government's present priorities include achieving macroeconomic stability, boosting domestic savings and investment, and promoting human resource development. Tanzania achieved growth rates of 5% to 6% in recent years and inflation was brought down to around 4%. FDI flows are likely to remain high for the foreseeable future.

In contrast to Tanzania, Mauritius's net FDI trend, which exhibited some fluctuations, was similar to that observed for the other SADC countries. For the period under review, the Mauritian economy depended on three sectors: sugar, light manufacturing (EPZ) and tourism. Previously dependent on sugar export earnings, Mauritius worked hard to transform its economy. The country's tropical climate and small land-mass restricted its agricultural potential. Certain drivers of change were also addressed by the Mauritian government. For instance, the authorities tackled the country's rapid population growth and the potential for ethnic tension in the society. Geographically, Mauritius is farther away

Figure 5: Mauritius and Tanzania's net FDI trend: 1990-2005 (US\$m)



Source: World Development Indicators, World Bank

from world markets than most other African countries, which could impact adversely on the country's development and involvement in world markets. However, Mauritius has developed better operating ports and harbours than could be found in many other SADC member states that have coastlines.

The change in attitude of both the Mauritian government and the populace spurred the country's economic growth. Not only was FDI encouraged, but from as early as 1984, Mauritians owned about half of the total equity of the EPZ firms. The relatively high investment inflow was supported by a number of instruments that segregated the export from the import sector (Subramanian and Roy, 2002: 18; Sachs and Warner, 1995 and 1997) and included

- Duty-free access to all imported inputs and tax incentives to firms operating in the EPZ;
- The segmentation of the labour market for the export sector. After 1984, firms were given more flexibility to hire and fire workers and pay overtime. In the 1980s, a large number of employees were women whose minimum wage was lower (by as much as 40%) than that for the rest of the labour force; and
- Respect for the rule of law and property rights.

Other efforts to encourage growth were implemented by the Mauritian government. To diversify the economy, the government and the Development Bank of Mauritius created an equity fund for investments in cotton spinning, information technology, biotechnology and other strategic economic areas. A second fund, the Mauritius Venture Capital Fund, was formed to provide equity and quasi-equity capital to new and expanding businesses.

For almost 20 years, from the 1980s until the late 1990s, the Mauritian economy grew at more than 5%. From previously being considered a poor country – with per capita income of only US\$260 in the 1960s – per capita income rose to US\$5,250 in 2005. Tourism, the fastest growing sector, partly accounted for the positive economic performance as well as the increased contribution by the service sector to GDP. In the review period, more was done to enhance the tourism sector by improving hotel standards and capacities. These efforts have contributed to the sector's continually growing share of GDP.

3. Trade

Foreign trade is important for a country's sustained development. It offers the country opportunities to increase its market and its foreign exchange earnings, in the form of export revenues, and improve its competitiveness through the adoption of more efficient production methods. In line with this, trade is an important component of GDP. This applies equally to the smaller SADC countries like Lesotho and Swaziland and to the larger ones like South Africa.

Historically, there has been very little intra-SADC trade. The SADC Trade Protocol was designed to reduce or eliminate the factors that inhibit trade. The Trade Protocol envisages free trade occurring among the SADC member states in the future; however, freeing trade presents, for some member states, a risk of significantly depleting their governmental revenues.

3.1. The SADC Trade Protocol

The SADC Trade Protocol aims to have 85% of all intra-SADC trade at zero tariffs by 2008, with the remaining 15% of that trade to be liberalised by 2012. It also has specific objectives pertaining to trade, including:

- Further liberalising intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements, complemented by protocols in other areas;
- Ensuring efficient production within SADC that reflects the current and dynamic comparative advantages of its members;



- Contributing to the improvement of the climate for domestic, cross-border and foreign investment;
- Enhancing the economic development, diversification and industrialisation of the region; and
- Establishing a Free Trade Area (FTA) in the SADC region.

3.2 The effect of trade liberalisation in SADC and the Southern African Customs Union (SACU)

Trade liberalisation offers several benefits to trading countries. Some of those benefits relate to enhanced investment inflows, such as in the form of FDI, technology transfer, lower prices and efficiency gains. In the short term, however, developing countries that have not prepared for the shock that follows trade liberalisation risk having to deal with a number of concurrent socio-economic issues, including the loss of employment in those industries that are not internationally competitive. Most of the SADC member states face trade liberalisation-related challenges.

Trade liberalisation does seem to threaten individual economies in the adjustment period (over the short run), and can also impact adversely on people's livelihoods. While liberalisation is positive for welfare over the long run, trade liberalisation will result in tariff revenue losses.

In the SADC context, new losses have been associated with the implementation of the (interim) EPAs. Those countries that have signed the EPAs – Botswana, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Swaziland and Tanzania – are required to provide reciprocal market access. Four countries have not signed but continue to access the EU market on a duty-free basis under the EBA facility because they are classified as Least-Developed Countries (LDCs). They are Angola, the DRC, Malawi and Zambia. South Africa also has not initialled the interim EPA. However, South Africa has a standing arrangement with the EU under the Trade Development and Co-operation Agreement (TDCA).

The EPA has split the original SADC group into three configurations: the SADC EPA (consisting of seven SADC countries), the EAC EPA (consisting of five countries plus one SADC member, Tanzania), and the ESA EPA (consisting of six countries, five of which are SADC members). The DRC fell under the Economic and Monetary Community of Central Africa (CEMAC)¹⁹ EPA. (A detailed discussion on the

¹⁹ Its members are Cameroon, Chad, Central African Republic, Congo, Equatorial Guinea and Gabon.



EPA and its implications for SADC is contained in section three of this Review.) Other layers of complexity exist in addition to that of the EPAs. Within the SADC, there is the Southern African Customs Union (SACU) to which Botswana, Lesotho, Namibia and Swaziland (the BLNS countries) as well as South Africa are signatories. Three of the BLNS countries rely heavily on trade taxes from the SACU, as can be seen from Table 4.

The revenue pool, which is a source of government revenue for most countries, is gradually declining due to multilateral and bilateral trade liberalisation processes under way. This is the case, for example, with the Trade Development and Co-operation Agreement between South Africa and the EU. In turn, the SACU's own bilateral tariff liberalisation with certain of its strategic trading partners, such as the US, the Common Market of the South (MERCOSUR), China and India, has influenced the amount received by the BLNS group.

An interesting development in 2007 was when South African policymakers, concerned about the rate at which the economy was growing, deliberated over the issue of liberalisation of the trade in goods. Some policy-makers advocated that South Africa should liberalise its trade further without taking on board the other, smaller members of the SACU.

On the other hand, the South African Department of Trade and Industry (**the dti**), the custodian of trade policy, pressed for a more gradual liberalisation approach over a longer time period which takes into account the concerns of the other SACU members. The departmental strategy identifies and develops key industries by offering some level of protection to them until they are internationally competitive. The Motor Industry Development Programme (MIDP)²⁰ is an example of the implementation of this strategy.

In essence, South Africa's stance relative to liberalisation centres on the issue of the speed of liberalisation. Although South Africa needs the consent of the other SACU members to further lower or eliminate tariffs, the recent developments pertaining to the initialling of the EPA by the other four governments, which is a breach of the SACU agreement, may have set a precedent that South Africa, too, may carry out unilaterally certain decisions that work in its favour.

A temporary stay in trade liberalisation is set to benefit the smaller SACU members in the short term, providing them with an opportunity to devise strategies that could aid against the negative effects of trade liberalisation.

²⁰ This is a South African government-sponsored programme with the aim of encouraging local automobile manufacturers to specialise in one or two high-volume models and thereby secure economies of scale necessary to export competitively.

Table 4: Receipts from the SACU revenue pool, 2006

	Millions of Rands				% of GDP	% government revenue
	Excise	Development	Customs	Total	Total	Total
Botswana	586	483	4,565	5,634	9	20
Lesotho	85	560	2,191	2,836	28	53
Namibia	357	523	4,584	5,463	12	41
Swaziland	152	534	3,023	3,708	24	57
South Africa	13,512	493	3,620	17,625	1	4

Source: World Bank African Economic Indicators 2004 and budget documentation from the five member states (Flatters and Stern, 2006:2, Table 1)

3.3. Exports and imports

The majority of SADC countries, as shown in Tables 5 and 6, respectively, continued to export raw materials while importing manufactured goods from advanced economies. This has been an ongoing concern for policy-makers and confirms the notion that African countries, in general, continue to be technological laggards within the world economy.

The region's dependence on exportation of primary goods reflects the deep-rooted supply-side constraints which exist, and in particular, the persistence of the shortage of skills that would normally play a pivotal role in adding value to these exports. This export pattern, though, did indicate that the SADC countries had a comparative advantage in primary products. A significant amount of the region's raw material exports were produced by South Africa and, while not changing the structure of the SADC's trade, South Africa's inclusion in the dataset did inflate the region's performance.

Tables 5 and 6 show that over the 10-year period 1995-2005, there has been little sign that the structure of trade and the SADC economy had changed. Although a shift cannot happen overnight, it is reasonable to expect that some change would have occurred 16 years after the formation of the SADC.

As is evident from Table 5, vehicles were among the top five exports for 2005, an outcome of South Africa's MIDP, yet vehicle trade also featured in the top 10 list for 1995 because Swaziland and Botswana assembled AMC medium buses and Hyundai passenger car vehicles, respectively.



The SADC's total trade with the rest of the world almost doubled for 2000-2005, increasing from US\$71.3bn to US\$138.2bn.

The EU continued to be the region's major trading partner. Exports from the SADC to the EU (of which there are 25 member countries) grew from US\$14.5bn in 2000 to US\$24.4bn in 2005, as shown in Table 7. The growth in exports to that region represented an annualised increase of 11%.

The EU was also a major source of imports for the region. Imports into the SADC from the EU rose from US\$11.7bn in 2000 to US\$22.1bn in 2005, equivalent to an annualised increase of 14%.

The SADC's second largest trading partner was the North American Free Trade Area (NAFTA) bloc, which comprises Canada, Mexico and the US. For 2000-2005, the SADC's exports to NAFTA grew by an annualised average of 12%, reaching a little over US\$6.5bn in 2005. Interestingly, the share of SADC exports to NAFTA dropped from 11% to 10%.

Imports from NAFTA grew from about US\$3.8bn in 2000 to US\$5.3bn in 2005, representing an annualised growth rate of 7%. As a source of imports, NAFTA's share declined significantly, falling from 10% of total imports in 2000 to 7% in 2005.

Table 5: SADC's total exports, 1995 and 2005 (US\$m)

1995				2005		
Rank	HS code	Product	US\$m	HS code	Product	US\$m
1	72	Iron and steel	2,981	71	Precious stones	13,643
2	71	Precious stones	2,777	72	Iron and steel	6,020
3	27	Mineral fuels and oils	2,595	27	Mineral fuels and oils	5,253
4	74	Copper	1,292	87	Vehicles	4,346
5	84	Nuclear reactors and boilers	1,024	84	Nuclear reactors & boilers	3,849
6	26	Ores, slag and ash	987	76	Aluminium and articles thereof	2,778
7	24	Tobacco	840	26	Ores, slag and ash	2,777
8	28	Inorganic chemicals	828	74	Copper	1,858
9	87	Vehicles	786	7	Edible fruit	1,421
10	17	Sugars and sugar confectionery	690	28	Inorganic chemicals	1,389
11	7	Edible fruit and nuts	633	85	Electrical machinery	1,343
12	47	Pulp of wood	614	47	Fish and crustacean	1,152
13	61	Art of apparel & clothing access (HS 61)	549	17	Sugars and sugar confectionery	1,065
14	62	Art of apparel and clothing access (HS 62)	488	61	Art of apparel & clothing access	1,047
15	48	Paper and paperboard	460	22	Beverages, spirits and vinegar	974
16	94	Furniture, bedding, mattress	445	24	Tobacco	903
17	85	Electrical machinery	426	29	Organic chemicals	889
18	73	Articles of iron or steel	417	33	Essential oils and resinoids	821
19	22	Beverages, spirits and vinegar	396	73	Articles of iron or steel	816
20	3	Fish and crustacean	369	44	Wood	705

Source: UN COMTRADE

Table 6: SADC top 20 total imports (US\$m), 1995 and 2005

1995			2005		
Rank	Product	US\$ m	Rank	Product	US\$ m
1	Nuclear reactors and boilers	6,576	1	Nuclear reactors and boilers	11,119
2	Vehicles	4,130	2	Mineral fuels and oils	10,785
3	Electrical machinery	3,495	3	Vehicles	7,726
4	Mineral fuels and oils	2,918	4	Electrical machinery	7,399
5	Plastics	1,162	5	Plastics and articles thereof	2,119
6	Optical, photo, and cine	1,138	6	Optical, photo and cine	2,023
7	Organic chemicals	1,082	7	Pharmaceutical products	1,755
8	Paper and paperboard	730	8	Aircraft, spacecraft, and parts	1,619
9	Cereals	703	9	Articles of iron or steel	1,321
10	Pharmaceutical products	657	10	Natural/cultured pearls	1,248
11	Miscellaneous chemical products	598	11	Organic chemicals	1,175
12	Articles of iron or steel	588	12	Cereals	1,164
13	Iron and steel	569	13	Paper & paperboard	1,135
14	Aircraft and spacecraft	558	14	Iron and steel	1,131
15	Rubber and articles	529	15	Rubber and articles	1,128
16	Animal/vegetable fats and oils	505	16	Inorganic chemicals	1,003
17	Cotton	480	17	Miscellaneous chemical products	981
18	Inorganic chemicals	473	18	Printed books, newspapers, pictures	751
19	Natural/cultured pearls, prec stone	400	19	Copper	746
20	Man-made staple fibres	320	20	Furniture	723

Source: UN COMTRADE

There were similarities in the goods recorded as imported in 1995 and in 2005, as is evident in Table 6.

The SADC continued to import technologically advanced goods like machinery. While it may be indicative of the continued growth in the SADC economy, such imports reflected the under-development of an indigenous, high-tech, manufacturing goods sector in the region. Nevertheless, Tables 5 and 6 show that there was a reasonable degree of inter-industry trade in nuclear reactors, boilers and machinery; and vehicles, electrical machinery and other products. The data also show that some agricultural products, such as cereals and cotton, were imported into the region, indicating that SADC was not yet self-sufficient in the production of food and other agricultural goods.²¹

²¹ Most countries in the region have maize as a staple food. The region is prone to droughts and with most farming done on a subsistence basis, weather conditions affect the output of the agricultural sector.

Table 7: SADC's regional trading partners (US\$m)

	2000		2005		Growth, 2000-05
	US\$m	% share	US\$m	% share	Compounded (%)
Exports					
Caribbean Community Market (CARICOM)	20	0	23	0	3
East Asia	3,590	10	9,379	14	21
EU25	14,484	42	24,376	37	11
Middle East	1,422	4	2,429	4	11
Mercosur	326	1	417	1	5
NAFTA	3,746	11	6,573	10	12
Oceania	1,107	3	1,616	2	8
Rest of Africa	1,192	3	2,827	4	19
Rest of Americas	88	0	112	0	5
South Asia	630	2	1,550	2	20
South East Asia	936	3	1,544	2	11
Other*	7,069	20	14,378	22	15
World	34,612	100	65,224	100	14
Imports					
Caribbean Community Market (CARICOM)	22	0	26	0	3
East Asia	4,708	13	12,075	17	21
EU25	11,683	32	22,072	30	14
Middle East	4,366	12	8,641	12	15
Mercosur	516	1	1,589	2	25
NAFTA	3,828	10	5,290	7	7
Oceania	916	2	1,552	2	11
Rest of Africa	453	1	1,359	2	25
Rest of Americas	49	0	105	0	16
South Asia	746	2	2,092	3	23
South East Asia	1,355	4	2,917	4	17
Other	8,085	22	15,255	21	14
World	36,726	100	72,972	100	15
Trade balance	-2,114		-7,747		

*Includes South America, the Rest of Europe and individual countries not classified into regional blocs

Source: UN COMTRADE

The growth rates recorded for exports and imports offer different insights into SADC's pattern of trade.

In Table 7, data show that South Asia, a region that includes India and Pakistan, was the fastest growing regional market for the SADC's exports. That growth was associated with increased exports sent mainly to India. Exports to South Asia grew by an average of 20% annually, albeit from a very small base of US\$630m in 2000.

On the imports side, the EU was SADC's chief source. Imports were driven mainly by high-value goods such as machinery and other value-added products, used in manufacturing production processes.

Focusing on combined imports and exports, the data reveal that the SADC's trade deficit widened over time. The regional deficit grew from US\$2.1bn in 2000 to US\$7.7bn in 2005. The widening deficit was not surprising, since the SADC economy grew by more than 6% in the review period; with growth, demand expands.

Table 6 lists which products dominated SADC's imports basket. The diversity of imports indicated in the Table included goods needed for production processes, as well as other high-value goods, whose consumption grew as incomes in the region rose. Significant intra-industry trade between the SADC and the rest of the world has been recorded for the period under review.

3.4 Trade agreements and intra-SADC trade

Table 7 highlights which economic blocs SADC may forge trade partnerships with in future.

During the period under review, the EU, NAFTA and the Middle East were the SADC region's major trading partners. In fact, the EU was by far the major consumer of SADC's exports, and as indicated earlier, trade agreements between the SADC and the EU have been put in place through the EPAs. In terms of NAFTA, there is a pending agreement between the US and SACU members, which has the potential to be upgraded to include all of the member countries of both NAFTA and SADC.

One of the objectives of the SADC Trade Protocol was to increase intra-regional trade by liberalising trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements. Yet, as Tables 8 and 9 reveal, very little intra-regional trade took place in SADC during the period under review. Most countries in the region traded with partners in the rest of the world, a trend which goes against the SADC's objective of establishing an FTA by 2008. In support of the FTA, the SADC aims to implement the following:

- The gradual elimination of tariffs;
- The adoption of common rules of origin;
- The harmonisation of customs rules and procedures;
- The attainment of internationally acceptable standards, quality, accreditation and metrology;
- The harmonisation of sanitary and phytosanitary measures;

- The elimination of non-tariff barriers;
- The liberalisation of trade in services; and
- An evaluation of trade policies and strategies.

It must be noted that these objectives would enable SADC to achieve its overall objective of establishing an FTA before going on to form a customs union, and ultimately a monetary union.

Table 8: Intra-SADC trade: exports, 2005 (US\$ m)²²

Partner	Reporter										
	Botswana	Madagascar	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Angola	0	-	0	0	1	179	544	5	1	1	1
Botswana	-	-	2	0	0	11	-	0	4	3	29
DRC	1	1	0	-	-	12	276	-	13	97	7
Lesotho	0	-	0	1	0	0	-	1	-	1	0
Madagascar	0	-	-	114	-	0	85	8	1	0	0
Malawi	0	-	-	0	49	0	255	3	8	62	26
Mauritius	3	15	0	-	0	0	337	5	0	1	1
Mozambique	0	0	17	1	-	18	991	76	7	1	39
Namibia	12	-	-	0	0	-	-	2	0	9	12
South Africa	374	5	91	26	178	748	0	1,135	292	333	577
Swaziland	0	-	0	0	4	1	-	-	1	1	0
Tanzania	1	0	4	3	0	1	418	20	-	93	3
Zambia	12	0	7	1	1	13	848	3	9	-	77
Zimbabwe	182	0	11	2	12	5	1,158	5	2	74	-
Rest of World	3,821	738	359	1,843	423	1,491	41,480	259	1,167	1,083	611
World	4,408	759	493	1,990	669	2,479	46,391	1,522	1,506	1,758	1,384

Source: UN COMTRADE

Over the years, tariffs in SADC declined and a number of products were traded on a duty-free basis. However, as shown in Table 8, data do not support the view that tariff reductions have had a notable impact on trade flows. Although Table 8 only reflects trade activity for 2005, a similar picture existed prior to 2005.²³ Economic theory dictates a positive relationship between the lowering of trade taxes and trade, specifically for imports trading. Regional trade, however, was not spurred by

²² The 'reporter' country is the same as the exporting country, while 'partner' refers to the importing country. The row titled 'rest of the world' refers to total exports by exports to the rest of the world excluding those destined for SADC.

²³ It is worth noting that some of the SADC countries do not report data to the United Nations or to the TIPS Southern African Trade database.

lower tariffs, which could mean that the presence of non-tariff barriers counteracted the reduction in tariffs. Possibly, since most countries in the region produce primary products, consumer taste and preferences may lean more towards value-added products that are manufactured in either South Africa or elsewhere in the developed world.

Tables 8 and 9 confirm that most countries in the region traded with South Africa. In 2005, Swaziland, which has close links with South Africa, exported to its neighbour, as a share of its total exports to the world, almost 75% of all of its exports. South Africa was also an important source of imports for Swaziland, with 88% of all of its imports coming from South Africa. Botswana and Namibia, too, sourced more than 80% of their imports from South Africa in 2005.

Table 9: Intra-SADC trade: imports, 2005 (US\$m)²⁴

Partner	Reporter										
	Botswana	Madagascar	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Angola	0	-	0	-	0	3	297	-	0	0	0
Botswana	-	0	1	0	2	5	303	0	1	11	104
DRC	1	0	0	0	-	0	4	-	1	22	77
Lesotho	0	4	0	1	0	0	0	0	0	0	-
Madagascar	-	-	-	15	0	0	2	0	0	0	0
Malawi	1	2	0	-	29	0	69	0	4	14	3
Mauritius	6	84	1	0	6	0	25	0	5	2	5
Mozambique	1	3	148	16	-	0	26	13	2	10	204
Namibia	9	-	0	0	22	-	128	0	1	6	12
South Africa	2,267	99	380	270	700	2,079	-	1,269	403	1,182	309
Swaziland	0	10	5	7	16	3	0	-	24	4	1
Tanzania	1	2	32	3	4	0	39	0	-	65	6
Zambia	4	-	62	9	3	1	202	1	4	-	845
Zimbabwe	46	0	90	3	17	20	483	0	2	109	-
Rest of World	349	1,432	436	2,833	798	386	48,203	153	2,799	1,023	510
World	2,686	1,637	1,155	3,156	1,597	2,499	50,071	1,436	3,244	2,447	2,064

Source: UN COMTRADE

²⁴ The 'reporter' country is the same as the importing country, while 'partner' refers to the exporting country. The row titled 'rest of the world' refers to total imports by goods from the rest of the world excluding those destined for SADC.

4. Conclusion

The structure of trade in the SADC has not changed much since the community's formation in 1992 – primarily because the structure of the SADC economy has remained unchanged.

Most of the SADC members' economies are not diversified and many depend overwhelmingly on a single sector. Angola and Botswana, for example, are dependent on their mining sectors, limiting their ability to resist shocks that impact on their economies.

During the period under review, trade in primary goods continued to be a significant trade trend in the region. In addition, many of the SADC members failed to develop those manufacturing segments that suited their internal needs and they neglected their technological base. As such, the trade deficit of most SADC countries widened as value-added imports from developed countries, especially from the EU, NAFTA and South East Asia (particularly China), increased. And while most countries registered net FDI inflows, the levels fluctuated greatly in certain years.

Very little intra-SADC trade occurred over the review period. Countries traded mostly with the rest of the world, which limited intra-regional trade and suggested, as Mthembu-Salter argues in section three of this review, that although tariffs declined over the period, NTBs have been bulwarks to such trade. Further, while incomes have grown in relation to African and regional standards, 'consumers' in SADC appeared to prefer more technologically advanced, imported goods. To stimulate intra-regional trade, supply-side constraints will have to be addressed.

In terms of trade agreements with other countries and regions, SADC members should forge agreements with partners that are determined by economic principles rather than by political motives. If SADC prioritises the latter rather than the former, consumer welfare will be compromised as a result of trade diversion.

Finally, the trade liberalisation driven by the EPAs signed with the EU poses short-term threats to a number of economies in SADC, particularly those relying largely on trade taxes. Beyond that, regional integration between the SADC members' economies, as Stevens argues in section three of this Review, is also threatened by liberalisation over the short term.





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