Globalisation and Trade Development : A Case Study of Southern African Development Community (SADC) Region

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ABSTRACT

The rationale for trade as an engine of economic growth and development is inescapable in the face of globalisation. The unfolding development in social, economic and political spheres has brought about changes in international business, entailing radical shifts in economic relations. Trade practices within and among nations are changing at rapid pace, political and economic liberalisation is sweeping across nations bringing with it the quest for good governance in the form of stability and a conducive environment for national, regional and international competitiveness.

Trade development influences economic performances of countries. Trade policies of countries at national and regional level have to respond positively to tap the opportunities and challenges. Southern African Development Community (SADC) has been working in the direction of forging consensus to address its macroeconomic challenges for fulfilling the desired trade policy objectives. In the process of trade development, the SADC has to enhance economic development, diversification and industrialisation of the region. The SADC region will improve its macroeconomic performance in building a strong, diversified and resilient economy especially industrial sector and will be capable to compete within national, regional and global markets.

In this paper an attempt is made to understand the nature of trade development, energy potential and macroeconomic performance in the SADC region. The study lays emphasis on various challenges and constraints of trade development in this region.

Keywords: SADC, Trade, Production, GDP, FTA.

Introduction:

The rationale for trade as an engine of economic growth and development is inescapable in the face of globalisation. The unfolding development in social, economic and political spheres has brought about changes in international business, entailing radical shifts in economic relations. Trade practices within and among nations are changing at rapid pace, political and economic liberalisation is sweeping across nations bringing with it the quest for good governance in the form of stability and a conducive environment for national, regional and international competitiveness. Moreover, innovations in the field of ICT have culminated in digital revolution. Customer expectations are changing and the business world is forced to strive for higher quality, lower prices and first class services. Trade policy must reflect these dynamic international realities. Trade development policies whether at national or at regional levels ought to respond proactively to these emerging opportunities and challenges. This requires nations and regional blocks to forge consensus in addressing impediments for the realisation of the desired trade policy objectives. The declaration and treaty establishing the Southern African Development Community(SADC) was signed in 1992 at Windhoek, Namibia to attain a Free Trade Area(FTA) by the year 2008, followed by the Customs Union(2010), a common market (2015) and an economic union(2018)[1].

In 1996, SADC adopted a trade protocol whose implementation started in 2000 with the main objective of first, liberalisation of intra-regional trade in goods and services; second, ensure efficient production within SADC region and dynamic comparative advantages of member states, third, contribute towards the improvement of domestic cross border and foreign investment; fourth, enhance economic development , diversification and industrialisation of the region.

Trade Performance:

The trend of current account balance as a percentage of Gross Domestic Product (GDP) displays a disappointing picture as a whole . As shown in table 1 only three countries namely Botswana, Mauritius and Namibia out of fourteen member countries registered positive current accounts while the rest recorded current account deficits. The deficit reflects a weak export capacity in most of the member states.

Table 1

Current Account as Percentage of GDP in SADC Countries 2010-2017

Countries	2010	2011	2012	2013	2014	2015	2016	2017
Angola	-12.0	-25.0	-28.0	9.0	-15.0	-5.8	-6.2	-4.4
Botswana	4.0	11.0	10.0	6.0	4.6	11.6	11.0	6.4
DRC	-9.0	-5.0	-9.0	-1.0	-4.0	-4.0	-0.7	-1.4
Lesotho	-26.0	-31.0	-24.0	-18.0	-14.0	-19.0	-11.8	-15.0
Malwi	-12.2	-14.0	-18.0	8.0	-11.0	12.0	-10.2	-7.9
Mauritius	-7.2	-4.4	-3.0	-1.0	5.0	2.2	2.0	0.6
Mozambique	-8.0	-11.0	-17.0	10.0	-23.6	-17.8	- 18.9	-13.1
Namibia	1.0	3.0	5.0	7.0	2.0	2.2	4.0	4.2
Seychelles	-12.0	-18.0	-19.0	-8.0	-17.0	-16.3	-2.8	0.7
South Africa	-1.5	-1.7	-0.5	-0.4	-0.3	0.3	-1.2	-1.8
Swaziland	-18.0	-26.1	-17.3	-19.6	-2.1	-1.0	-4.6	-4.8
Tanzania	-5.0	-11.0	-9.6	-5.5	-5.1	-2.6	-2.6	-6.0
Zambia	-6.0	-18.0	-14.0	30.0	28.0	-15.5	-13.7	-13.0
Zimbabwe	-9.0	-5.0	3.0	-2.0	-4.0	-4.0	-4.5	-8.8
Regional average	-8.6	-11.2	-10.1	-2.1	-4.0	-5.8	-4.3	-4.6

Source: Statistics for SADC Countries April 2005, IFS Year Book, July 2018

Some improvements however were recorded (2013) in Angola, Malawi, Mozambique and Zambia while a worsening situation was registered in DRC, South Africa, Swaziland, Tanzania and Zimbabwe. More specifically, the current account deterioration in Tanzania was partly caused by the decline in current transfers coupled with a sharp increase in the value of imports of capital and intermediate goods[2]. In the case of other SADC member countries, the decline in current account position was associated with poor external trade performance particularly the continued increase in oil prices in the world market and the regional loss of competitiveness due to continued strength of the South African currency – the Rand vs major currencies, especially the US dollar[3].

The economic structure of the SADC displays a typical developing economy. Primary products account for the largest part of export while imports are largely dominated by capital and intermediate goods. A large share of the Gross Domestic Product (GDP) originates from primary sector whose contribution to the GDP is on average more than 50 percent[4]. The formerly sizable manufacturing sector of Zimbabwe is currently unsustainable due to several factors including high costs of inputs and shortage of foreign exchange to import industrial inputs[5]. Mozambique is a service economy, reliant on fees from ports and railways and on Mozambican workers' remittances from South African mines. Migrant workers from Mozambique to south Africa account for over 20 percent of mine workers in South Africa[6]. About two-thirds of exports from Angola, Botswana and Zambia are from one commodity: oil, diamond and copper respectively. One commodity accounts for over one-third of total exports for Malawi- tobacco, Swaziland-sugar and Tanzania- coffee/cotton[7].

In view of the low level of manufacturing sector in the region, trade in manufactured goods holds a great potential. Emphasis on trade would expand the market for manufactured goods thereby stimulating further production. Since some of the industrial products can be used as inputs in manufacturing industries, intra-industry specialisation and vertical integration would be induced and set in motion economic growth and development. Intra-regional trade in manufactured goods would stimulate production through inducing background and forward linkage in the economy. This spill-over or multiplier effect will make trade in manufactured goods dynamic.

Energy Resources:

The SADC region is well endowed with energy resources. Table-2 shows total energy production in SADC region.

Table-2

Total Energy Production, Consumption and Export, 2017

Countries	Total Energy Production-Quadrillion (BTU)*	Total Energy Consumption-Quadrillion (BTU)*	Net Energy Export-Quadrillion (BTU)*	Carbon Dioxide Emission(Million metric tons of Carbon)
Angola	1.960	0.135	1.825	4.34
Botswana	0.023	0.052	-0.029	1.04
DRC	0.112	0.080	0.032	0.49
Lesotho	0.004	0.007	-0.003	0.06
Malwi	0.013	0.025	-0.012	0.22
Mauritius	0.001	0.052	-0.051	1.01
Mozambique	0.157	0.166	-0.009	0.47
Namibia	0.015	0.051	-0.036	0.63
Seychelles	0.000	0.016	-0.016	0.32
South Africa	5.916	4.901	1.015	112.16
Swaziland	0.011	0.021	-0.010	0.37
Tanzania	0.032	0.078	-0.046	0.96
Zambia	0.090	0.108	-0.018	0.61
Zimbabwe	0.136	0.189	-0.053	3.01
Regional average	8.470	5.881	2.589	125.69

Source: SADC, Energy Information Administration, 2018

*BTU= British Thermal Unit.

The SADC countries collectively consume 5.881 quadrillion British Thermal Unit (BTU) of commercial energy (1.4 percent) of total world consumption and produce 8.470 quadrillion BTU of commercial energy (2.0 percent) of total world production. The region also generates 125.69 million metric tons of carbon dioxide (1.8 percent) of world total emission. The Region's dominant economy, South Africa accounts for 83.33 percent (4.901 quadrillion BTU) of the Region's energy consumption. South Africa also accounts for 69.84 percent (5.916 quadrillion

BTU) of the energy production and 89.23 percent (112.16 million metric tons) of carbon dioxide emission in the Region.

Petroleum Production:

Throughout the Region, there are significant reserves of petroleum, natural gas and coal. Table 3 shows the petroleum production and the crude oil reserve.

Table- 3

Petroleum Production, Export and Crude Oil Reserve

Countries	Production (‘000 barells/ Day) 2016	Consumption (‘000barrels/ day) 2016	Net Exports (‘000 barrels /day)(2017)	Crude oil reserves million barrels	Refining capacity(‘000 barells/day) 2017
Angola	1051.2	57.0	994.2	5412.0	39.0
Botswana	0.0	13.0	-13.0	0.0	0.0
DRC	21.1	7.0	14.1	187.0	0.0
Lesotho	0.0	2.0	-2.0	0.0	0.0
Malawi	0.0	6.0	-6.0	0.0	0.0
Mauritius	0.0	27.0	-27.0	0.0	0.0
Mozambique	0.0	11.0	-11.0	0.0	0.0
Namibia	0.0	23.0	-23.0	0.0	0.0
Seychelus	0.0	4.0	-4.0	0.0	0.0
South Africa	250.8	466.0	-215.2	489.5	489.5
Swaziland	0.0	3.0	-3.0	0.0	0.0
Tanzania	0.0	22.0	-22.0	14.9	14.9
Zambia	0.1	13.0	-12.9	23.8	23.8
Zimbabwe	0.0	18.0	-18.0	0.0	0.0
Regional Average	1323.2	672.0	652.1	6127.2	567.2

Source: SADC, Energy Information Administration, 2017, Oil & Gas Journal, 2017

Angola , South Africa's only significant oil producer, produces an average of 1.05 million barells per day(mbl/d). Angola estimated oil reserves of 5.4 billion barells constitute 96.0 percent of the Region's estimated proven crude oil reserves[8]. Other reserves are found offshore DRC and South Africa. The regions refineries are concentrated in South Africa with additional refining capacities in Angola, Tanzania and Zambia. South Africa is the regions' largest oil consumer (over 68 percent of the region's total consumption) and the second largest oil consumer in Africa after Egypt[9].

South Africa's oil production meets a fraction of its domestic needs. The government has concentrated its exploration efforts on South Africa's western and southern coasts. Several discoveries of crude oil reserves have been made in the Bredasdorpdistrict. In Mozambique seismic studies indicate that there are large oil and gas reserves in the Rovuma offshore basin. Further according to the National Petroleum Corporation of Namibia, there are plans to drill on the Kunene oil reserves which have been estimated at as high as 1.4 billion barells of oil and 8.0 trillion cubic feet of gas. In fact, natural gas is becoming more significant in the SADC region's energy sector. The gas fields are being developed in Mozambique, Namibia, South Africa, and Tanzania. Due to the Region's relatively small urban population (approximately 30 percent of total population) access to commercial energy sources is limited. The majority of the Southern Africa's population still relies on the use of biofuel as their primary source of energy.

Electricity Overview:

The largest electricity generator by far is South Africa (215.9 bkwh), followed by Mozambique (15.14 bkwh), Zimbabwe (8.88bkwh) and Zambia (8.35bkwh). In 2003, total regional electricity consumption was 243.6 bkwh, led by South Africa (197.37 bkwh), Zimbabwe (11.56 bkwh), Mozambique(10.46 bkwh) and Zambia (5.76bkwh). The Southern Africa's total installed electric generating capacity was 51.983 Mw as shown in table 4. Created in 1995, the Southern African Power Pool(SAPP) aims at providing reliable and economic electricity to the consumers of each member state in the SADC region. The national utilities participating in the SAPP are Angola's National Electric Company, the Botswana Power Corporation, the DRC National Electric Company, the Lesotho Electricity Corporation, Namibia's Nampower, South Africa's Eskom, the Swaziland Electricity Board as well as Mozambique's Independent Power producer [10].

Table- 4

Electricity Overview, Billion Kilowatt Hours in SADC Region

Countries	Consumption 2015	Generation 2015	Installed capacity(gig watts) 2015	Export 2015	Import 2015
Angola	1.78	1.92	0.635	0.00	0.00
Botswana	2.26	0.94	0.132	0.00	1.39
DRC	4.32	6.04	2.548	1.30	0.01
Lesotho	0.36	0.35	0.076	0.00	0.04
Malawi	1.21	1.30	0.303	0.00	0.00
Mauritius	1.81	1.94	0.655	0.00	0.00
Mozambique	10.46	15.14	2.392	9.50	5.88
Namibia	2.37	1.46	0.000	0.06	1.07
Seychelles	0.22	0.24	0.028	0.00	0.00
South Africa	197.37	215.88	40.481	10.14	6.74
Swaziland	1.16	0.39	0.124	0.00	0.80
Tanzania	2.96	3.15	0.862	0.00	0.03
Zambia	5.76	8.35	1.786	2.00	0.00
Zimbabwe	11.56	8.88	1.961	0.00	3.30
Regional total	243.6	265.98	51.983	23.00	19.26

Source: EIA, Country Information, 2016

In addition to the energy resources discussed in the foregoing section, some member countries in the Region such as the DRC have extensive hydro electric power potential approximately 100,000Mw. The Inga Dam alone on the Congo River has a potential capacity of about 45000 Mw which could supply electricity needs to the whole SADC region. But, due to the continuing political instability and lack of investor interest, only a fraction of this potential has been developed.

From the foregoing discussion, it is justifiable to point out that the prevailing economic framework within the SADC region demands concerted efforts from the member states towards the Regions main agenda of establishing a Free Trade Area (FTA). Macroeconomic dimensions such as Gross Domestic Product(GDP), budget deficits, inflation, external debts etc seem to remain far away from the desired levels that could set an appropriate stage for a vibrant trade development in a free trade area leading to robust economies in the Region. Table 5 recapitulates salient features of the macroeconomic dimensions in the SADC region.

Table-5

Salient Features of Macroeconomic Dimensions in the SADC Region

Countries	Real GDP Growth (%)	GDP Percapita(US $)	Budget deficit/ Surplus (GDP)	Inflation(%)	Money supply	Real landing Rates	Depriciation Against (US$)	Export plus Import	Current Account(% DP)	Aid as (% import)	External debt (% GDP)
Angola	4.6	623	-20.8	57.8	NA	NA	-15.3	80.3	-10.4	21.1	393.8
Botswana	5.0	2763	5.7	12.5	8.7	0.3	6.5	124.8	7.2	15.4	26.2
DRC	-7.3	158	NA	5444.5	2530.0	NA	-91.0	43.7	NA	24.7	170.9
Lesotho	5.4	590	-4.5	13.9	13.5	3.7	-5.8	147.4	9.6	15.4	26.3
Malawi	3.5	203	-13.3	30.8	31.1	0.0	-18.6	62.0	-14.7	79.2	112.6
Mauritius	5.3	2947	-2.9	8.2	13.6	9.4	-2.5	126.7	-2.6	3.5	37.2
Mozambiq	4.9	87	-25.5	47.5	NA	NA	-34.3	86.5	-29.2	143.4	423.9
Namibia	4.2	1938	-6.9	11.8	25.0	6.9	-5.8	119.7	3.6	9.1	12.9
Seychelles	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
S. Africa	0.6	2908	-6.5	11.8	16.3	5.8	-5.8	44.9	0.8	1.1	16.5
Swaziland	2.3	1133	-1.6	12.7	13.9	2.5	-5.8	172.6	3.2	7.4	24.0
Tanzania	3.5	143	-6.5	28.9	31.3	6.8	-15.3	65.8	-14.8	68.3	156.7
Zambia	1.3	400	-12.4	107.5	61.0	-34	-43.9	64.6	NA	95.2	219.4
Zimbabwe	0.5	597	-15.3	25.9	37.0	0.0	-19.6	83.3	-1.5	21.4	71.0

Source: Economist Intelligence Unit, Country Reports, various issues, SADC Countries.

As table 5 illustrates, Angola's macroeconomic policy is evidently inconsistent and unsustainable. High growth rate can only be explained by oil production by foreign companies. As a percentage of GDP, the fiscal deficit is quite high (-20.8%).It also appears that monetary policy is inactive. It is swamped by the need to finance the budget deficit. Monetization of deficit usually generates inflation. Large annual depreciations are inadequate to support export drive, given the very high rate of inflation which causes the real exchange rate to appreciate. The absorption of domestic resources to finance the deficit and service the external debt(393.8) is equally inconsistent with the needed investment in export capacity. Unless a greater degree of economic stability is achieved in Angola, trade policy will remain subordinate to macroeconomic fundamentals in the economy. Under such conditions trade liberalization will hardly produce the expected growth.

With respect to Botswana, the macroeconomic situation appears sustainable. The economy is quite open. Its exchange rate control regime appears to be liberal. A small external debt, high economic growth and restrained growth in money supply set the economy on a sound footing and sustainability. The country appears to be in a favourable condition to exploit the opportunities presented by the regional free trade area of the SADC.

The macroeconomic position of the DRC is extreme. Foreign exchange reserves are minimal. The economy is characterised by large external debt (170.9 % of the GDP) and severe inflation. It is also characterised by money supply growth and a sharp economic contraction. The economy is tightly closed.

Concerning Lesotho, the macroeconomic policy package demonstrates sustainability. With respect to Malawi, despite some efforts in recent years to implement a cash budget, the country has run fiscal deficits which are , on average, more than 12 percent of the GDP for almost two decades. For Mauritius, the economic indicators suggest that the macroeconomic package which had been adopted is consistent and sustainable. Despite the tightening of fiscal policy and higher real interest rates, economic growth has accelerated. Inflation has fallen. Marginal growth of money supply has not been fuelling inflation but accommodating an average annual economic growth rate in excess of 5 percent. With regard to Mozambique, there is currently a considerable optimism about the prospects for economic growth. Since the end of the civil war in the 1990's , the average rate of growth of real GDP has been nearly 5 percent. In spite of the considerable improvements however, the macroeconomic package will remain unsustainable unless more investments would be forthcoming. Namibia after attaining political independence(1990), committed itself to a tight fiscal policy regime and to a strict control over foreign borrowing. This commitment has wavered and the deficit has grown as a proportion of the GDP. With regard to South Africa, its inflationary effects of the worsening fiscal position have been controlled by tight monetary policy which has reduced inflation and stemmed the depreciation of the Rand (local currency of South Africa). This has inevitably had crowding out effects. With regard to Swaziland, the monetary policy is tight. Trade and foreign exchange regimes are liberalized. During the 1990s, Swaziland's budget moved from surplus to deficit. Growth is modest. The macroeconomic regime is broadly supportive of trade liberalization. The government needs to focus on macroeconomic interventions and labour policies to foster diversification into non- traditional exports. Concerning Tanzania, the economy displays macroeconomic imbalance inspite of overall policy regime. The external debt ratio has grown considerably. Budget deficits remain high. Zambia's economic policy history has been characterized by external shocks. According to World Bank (2005), Zambia introduced in the mid-1990s a cash budget in order to control inflation, government expenditure and bring down inflation which was in excess of 100 percent per annum. As inflation fell in the 1990s, real interest rates soared equally dramatically, setting off a series of liquidations. Further, the Zimbabwe's effectiveness of structural adjustment of its economy is being undermined by the inability of the government to reduce inflation (Table 5), which averages about 15 percent of GDP.

Briefly, having examined stability indicators by country, it gives an indication of whether the macroeconomic policy regime in each country is compatible with or likely to undermine regional trade liberalization. From the discussion in the preceding section, it is evident that some countries are implementing policies that place them in a position to take advantage of opportunities presented by the Region's Free Trade Area, while others have a macro policy package that makes them hostile to private sector investment.

Conclusion:

The challenges emerging from the preceding analysis is that in order to accelerate growth and benefit from the Free Trade Area, SADC member countries have to take action both individually and collectively to restore internal balance. For at least half of the member states, this will mean significant and sustained tightening of the fiscal stance. Governments in the region should aim at covering recurrent expenditures out of revenues. In most SADC countries, the fiscal position is incompatible with either unilateral or regional trade liberalisation.

Member countries are unlikely to benefit from increased access to neighbouring markets (economies) while their governments drain resources from private sectors. South Africa is an exception because of its relatively large size of its economy within the Region without necessarily requiring large scale investment in additional capacity. However, with respect to large market outside the SADC region, South Africa will face similar difficulties with other member states. Unless macroeconomic balance is attained, the benefits of SADC Free Trade Area (FTA) will be elusive to most of the SADC member states.

Governments must also strive to prevent currency overvaluation. An appropriate exchange rate policy is crucial in supporting trade liberalization initiatives. For most countries this will mean bringing inflation under control. Any removal of trade restriction must be accompanied with currency depreciation to provide some protection to domestic producers. Depreciating exchange rates will be required to offset the initial balance of payments impact of the Free Trade Area (FTA) and to encourage investment in the export sector over the longer term, although member states should avoid a series of competitive depreciations against one another.

Further, the fact that, the SADC region is well endowed with a variety of minerals, energy resources and agricultural potential, there exists great trade prospects that could be exploited through the Free Trade Area arrangement. An important suggestion for the SADC member countries to establish regional information and trade promotion centres to identify prospective customers and their demands in terms of technical standards, quality designs and payment modalities for the commodities.

The SADC region experiences difficulties in the development of human resources, a situation which is already a constraint towards trade development. To benefit from the SADC Free Trade Area, the development of human resources must be at the centre. It must be a priority because it can help each member country enhance economic competitiveness through raising productivity. Better managerial and administrative skills can come with improved education and training which also promotes scientific and technological capacity.

End Notes:

1.SADC founding member countries: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

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