CHAPTER 7

Regional integration and industrial development in Southern Africa: Where does South Africa stand?

by Maria Nkhonjera and Simon Roberts

1 Introduction

Integration in Africa has moved rapidly up the agenda in the past decade with the Tripartite Free Trade Agreement (TFTA) between COMESA, EAC and SADC, signed on 10 June 2015.[1] This has been followed by the agreement on an African Continental Free Trade Area (AfCFTA), signed by most African countries on 21 March 2018.[2] These agreements are in the context of the widely observed low levels of intra-African trade, at just 12% to 15% of Africa's total trade, way below other regions of the world.[3]

The regional integration agenda in Africa is being pushed by an expectation that the wider markets will prove attractive to investment and that increased regional trade will underpin more efficient markets. Agglomeration economies mean that economic activity tends to cluster around core urban areas, generally in the larger economies, while periphery regions do not see investment unless there are very active policies to encourage it. However, efforts to integrate the continent have largely been about the signing of agreements rather than concrete actions and implementation of regional commitments.[4] It is therefore important to understand how various interests shape regional integration and have served as impediments to deepening the integration process. The lessons from integration around the world are that there are winners and losers which create huge tensions that have to be managed.

1 Common Market for Eastern and Southern Africa, East African Community and the Southern African Development Community.
2 South Africa subsequently signed in July 2018.
3 Hoekman B & D Njinekeu, 'Integrating Africa: Some trade policy research priorities and challenges', *Journal of African Economies*, 2, 2017, pp. 12–39.
4 Jiboku P, 'The challenge of regional economic integration in Africa: Theory and reality', *Africa's Public Service Delivery and Performance Review*, 3, 4, 2015, pp. 5–28.

Successful integration has been driven by political will and foreign policy, not least in Europe after the Second World War where former enemies France and Germany led the integration project. In the Association of Southeast Asian Nations (ASEAN) community, integration has provided a platform for some countries to upgrade and diversify their economic structures, contributing positively to wider development outcomes.[5] In Latin America, MERCOSUR's state-led integration process stagnated following almost a decade (1991-1999) of positive steps in regional integration.[6] Social, political and economic integration was stalled by Brazil's unwillingness to integrate and a focus towards international markets.[7]

South Africa dominates the Southern African region and is by far the largest economy in the Southern African Development Community, accounting for almost half of the SADC GDP.[8] At the same time, SADC is a very important market for South Africa's diversified industrial exports, that is, excluding minerals, basic metals and chemicals.[9] The regional markets are crucial for South Africa's industrialisation. However, other SADC countries have aspirations to industrialise and view South Africa's motivations with suspicion – as simply seeing the other SADC countries as markets for South Africa's exports.

Firms themselves have been extending across the region, as evident in patterns of foreign direct investment (FDI), including in food and beverages, services and industrial goods sectors.[10] Supermarket chains, from South Africa but also other countries such as Choppies from Botswana, have spread across borders building logistics and distribution networks.[11]

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5 Santos-Paulino A, 'The Asian Economic Integration Cooperation Agreement: Lessons for Economic and Social Development', Research Paper, 3. Geneva: UNCTAD (UN Conference on Trade and Development), 2017.

6 MERCOSUR is the Southern Common Market for Latin America signed by Argentina, Brazil, Paraguay and Uruguay in 1991.

7 Campos G, 'From success to failure: Under what conditions did Mercosur integrate?', *Journal of Economic Integration*, 4, 2016, pp. 855–897.

8 SADC, 'SADC Selected Economic and Social Indicators, 2016', https://www.sadc.int/files/7315/0996/2411/SADC_-__Selected_Indicators_2016.pdf (accessed 11 December 2018).

9 Arndt C & S Roberts, 'Key issues in regional growth and integration in Southern Africa', *Development Southern Africa*, 35, 2, 2018, pp. 297–314.

10 Ramkolowan Y, Craig S & S Munro, 'The Dynamics of South African Investment in the Rest of Africa', Discussion Paper. Johannesburg: GEG (Global Economic Governance Africa), 2018.

11 Das Nair R, Chisoro S & F Ziba, 'The implications for suppliers of the spread of supermarkets in southern Africa', *Development Southern Africa*, 35, 2, 2018, pp. 334–350.

The region thus stands at a cross-roads, with South Africa needing to be clear where it stands beyond the rhetoric of regional development. Is South Africa committed to a vision and concrete policies for development of SADC as a whole? What does this mean in practical terms? What trade-offs are required?

In this chapter we address these issues through analysing the overall trends in regional trade and through drawing on in-depth research on selected regional value chains. This provides the basis for examining the policy challenges and an evaluation of what South Africa's foreign policy regarding African economic integration in the 2020s could be.

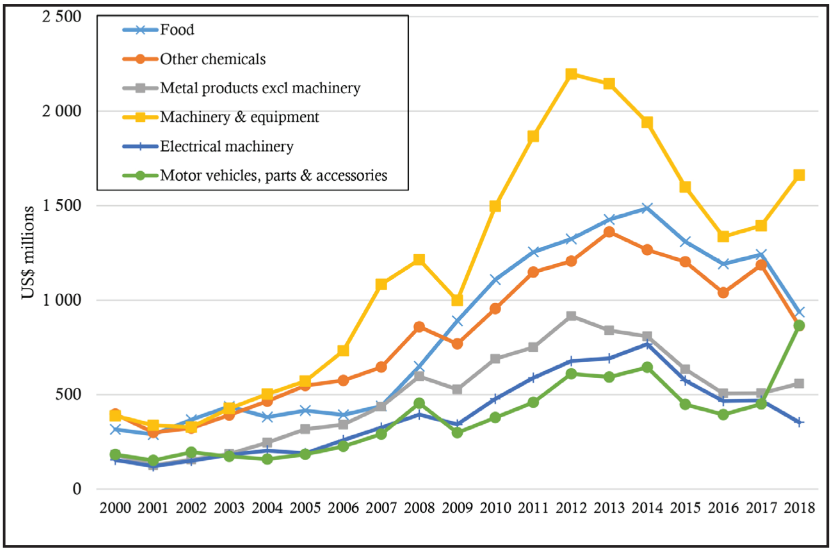
2 Regional integration and industrialisation – a South African perspective

2.1 Overview of regional trends

Regional trends show strong growth in intra-SADC trade with exports among SADC countries more than doubling from US$17 billion in 2009 to US$35 billion in 2018. This growth in trade was rapid from the mid-2000s to 2012 and has been consistent with the objectives of a SADC FTA.[12] South Africa exports a diversified basket of goods, including food and machinery and equipment, to SADC (Figure 1).[13]

12 Arndt C & S Roberts, *op. cit*.
13 Based on EasyData by Quantec, http://easydata.co.za (accessed 25 April 2019).

Figure 1: South Africa's leading exports to SADC countries (excluding basic metals, coke & petroleum and basic chemicals)[14]



Source: Quantec

The trade patterns observed are particularly linked to rising incomes, urbanisation and the regional spread of supermarkets, while mineral extraction and processing in the region reflects the demand for machinery and equipment. The decline in mineral prices from the peak in 2012 was followed by a fall in South African exports in all categories which bottomed out after 2016 although the export levels remain much higher than in the previous decade. The growth of regional economies is strongly linked to demand for South African exports. South African manufacturers have also faced growing competition from the influx of Chinese manufactured products into the region.[15]

SADC, as a whole, continues to export minerals and agricultural commodities while importing manufactured goods. However, South Africa runs a large trade surplus in manufactured goods with SADC. It is the only region with which South Africa has a competitive advantage in these products. For most other SADC countries this is reflected in a commensurate large trade deficit with South Africa. The Tripartite FTA

14 We note that the increased exports observed between 2009 and 2010 is at least partly due to an adjustment in reporting of exports to the Southern African Customs Union (SACU) countries. Prior to 2010 exports by South Africa to other SACU countries were not properly recorded, implying under-reporting in earlier years.

15 Edwards L & R Jenkins, 'The impact of Chinese import penetration on the South African manufacturing sector', *Journal of Development Studies*, 51, 4, 2015, pp. 447–463.

aims to boost intra-regional trade between East and Southern Africa. As such, it could benefit South Africa significantly. However, this of course depends on whether the agreements are implemented. This is a big question mark given the persistence of non-tariff barriers (NTBs) within SADC, as also within the other trade blocs. The continental-wide market integration, through the AfCFTA, aims to open markets even further but is subject to even larger challenges of implementation in practice.

Industry trends also show that South Africa's trade patterns with the region have been complemented by rising FDI, contributing substantially to the increase in intra-SADC FDI.[16] Unbalanced trade patterns are therefore reinforced by these investment patterns. However, it is important to realise that foreign ownership has also increased dramatically in South African companies so that a number of these companies are themselves transnational.

The dual challenges at the heart of regional integration are thus recognising and managing South Africa's particular role in the region and crafting a shared agenda for increased trade and investment to build productive capabilities across countries. The numerous policy statements and goals reached by governments at successive summits largely fail to come to grips with the central realities of industry in SADC.[17] In the meantime, since at least the 1980s, countries in Southern Africa have prematurely de-industrialised. The growth which has been recorded from the mid-1990s has been reliant, in the main, on minerals while manufacturing has registered a diminishing share in GDP. The SADC target of increasing the region's manufacturing value-added to 20% of GDP by 2020[18] is unachievable. What we set out below are key considerations for a strong industrialisation drive to be able to at least move in the right direction.

A series of research studies have explored the development of regional value chains in Southern Africa, within the overall economic changes.[19]

16 Ramkolowan Y, Craig S & S Munro, *op. cit*.

17 Elitcha K, 'The Private Sector and Regional Integration in Southern Africa: Accelerating Opportunities for Investment and Growth'. N.p.: UNSAO (UN Southern Africa Office), 2018; Arndt C & S Roberts, *op. cit*.

18 SADC, 'Action Plan for SADC Industrialisation Strategy and Roadmap'. Gaborone: SADC, 2017.

19 Fessehaie J, 'Regional Industrialisation Research Project: Case Study on the Mining Capital Equipment Value Chain in South Africa and Zambia', Working Paper 1/2015. Johannesburg: CCRED (Centre for Competition, Regulation and Economic Development), 2015; Fessehaie J, Roberts S & L Takala-Greenish, 'Key Findings from Case Studies of Mining Capital Equipment, Infrastructure Inputs and Soy Agro-Processing in Southern Africa and Implications for the Regional Industrial Development Agenda', Working Paper 14/2014. Johannesburg: CCRED, 2015; Fessehaie J & Z Rustomjee, 'Resource-based industrialisation in Southern Africa: Domestic policies, corporate strategies and regional dynamics', *Development Southern*

These studies illuminate the inter-relationships between firm strategies, productive capabilities and the changing structure of trade relations between SADC member states, as we set out in the next section.

2.2 Key issues for regional integration and industrialisation

We assess three key issues for regional integration and the challenges of reversing de-industrialisation across Southern Africa through building regional value chains and industrial clusters. First, we examine the implications for minerals, in particular, with regard to meeting the demand for mining machinery. The resource sector is one of the main drivers of economic growth in the region and, in addition to generating export earnings, it stimulates demand for a range of inputs including machinery.

Second, we consider issues in food production and processing. The manufacture of food products is typically a large part of the early industrialisation stages of economies and is linked to urbanisation and changing demand patterns to more processed foods. We assess the development of regional food value chains with a focus on the poultry industry, which is the largest source of protein in most SADC countries and the largest industry in South Africa's agricultural sector.[20]

Third, we assess transport issues and intra-regional trade. Transport infrastructure is critical to integration and reducing the costs of trade in goods and services, and underlies deepening integration in value chains.

2.3 Mining inputs and the development of industrial capabilities

As noted, growth in SADC economies has been driven by mining and resource-related activities, with weak diversification towards manufacturing

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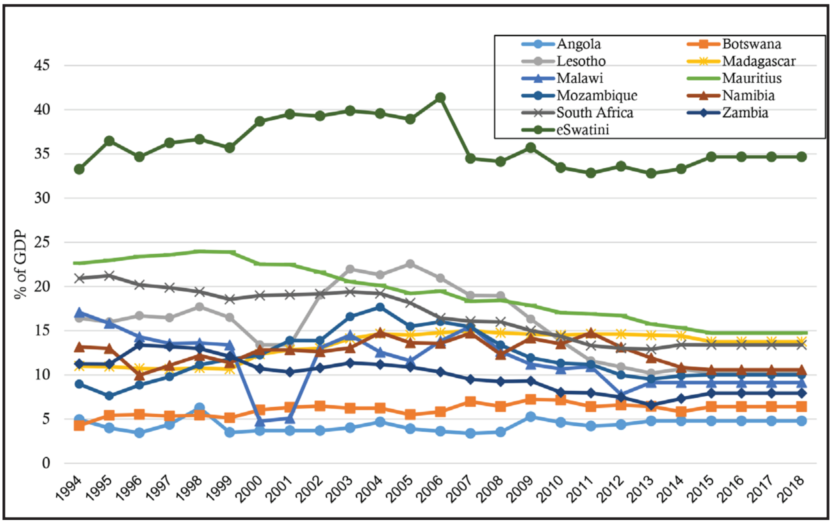
Africa, 35, 3, 2017, pp. 404–418; Langa E, Mondliwa P & M Nkhonjera, 'Maintaining and Building Capabilities in Capital Equipment and Related Industries in Mozambique and South Africa', Working Paper (2018/1). Johannesburg: CCRED, 2018; Ncube P *et al.*, 'Identifying Growth Opportunities in the Southern African Development Community through Regional Value Chains: The Case of the Animal Feed to Poultry Value Chain', Working Paper 2017/4. UNU-WIDER, 2017; Ncube P, Roberts S & T Zengeni, 'The Southern African Poultry Value Chain', Working Paper 2017/97. UNU-WIDER, 2017; Vilakazi T, 'The causes of high intra-regional road freight rates for food and commodities in Southern Africa', *Development Southern Africa*, 35, 3, 2018, pp. 388–403.

20 Bagopi E *et al.*, 'Competition, agro-processing and regional development: The case of the poultry sector in South Africa, Botswana, Namibia and Zambia', in Roberts S (ed.), *Competition in Africa: Insights from Key Industries*. Cape Town: HSRC Press, 2016.

activities. This is evident through a declining manufacturing value-added contribution to GDP since the 1990s. With the exception of eSwatini, Mauritius, Madagascar and South Africa, the share of manufacturing is below 13% of GDP for SADC countries. Manufacturing in South Africa declined from 21% of GDP in 1994 to 13% in 2018 (Figure 2).[21] A similar scenario is evident in Mauritius, which recorded a decline to just under 15% over the same period. Eswatini has a relatively high share of manufacturing, but this must be considered in the context of a relatively small formal economy and low levels of GDP *per capita*. Worth noting is the slight increase in the share of manufacturing value added in Madagascar, Botswana and Mozambique between 1994 and 2018.

Figure 2: Manufacturing value added (% of GDP) for selected SADC countries[22]



Source: African Development Bank Group

The importance of resource-based exports poses a challenge for macroeconomic policy for industrialisation as the exchange rate tends to reflect a country's endowments of minerals and not its productive base in terms of skills, infrastructure and fixed capital stock. Imports, including of manufactured products, are cheaper in local currency terms than they would otherwise be. An appropriately valued exchange rate is thus one

21 Both the DRC and Zimbabwe are omitted from the discussion due to poor data reporting. Meaningful observations can therefore not be made on each country.

22 See COMSTAT Data Hub, 'AfDB socio economic database, 1960–2019', http://comstat.comesa.int/wiqcbkg/afdb-socio-economic-database-1960-2019 (accessed 25 April 2019).

which encourages a country to save a portion of the mineral rents and invest this in long-term infrastructure.[23]

Mining activity, however, also provides a stimulus to industrial development in the form of demand for specialised machinery, equipment and engineering services. The challenge is how to leverage the potential backward linkages to build local industrial capabilities.

The demand from mining has underpinned strong growth in regional trade, mainly in the form of exports by South Africa to other countries in the region. Mining capital equipment is the single most important category of South Africa's diversified manufactured exports. This reflects South Africa's long-established mining sector and the country's role as a regional hub with an internationally competitive mining inputs cluster.[24] Hence any analysis of upstream linkages in Southern Africa has to understand the key role played by South Africa in servicing mining companies. For South Africa, the decline in local mining activity means that export markets become more important.

Instead of demand growth across SADC countries strengthening a regional industrial base in machinery and equipment, the weak competitiveness of producers in SADC has seen an increasing penetration of imports of machinery and equipment from outside the region. More specifically, in relative terms, there has been a hollowing out of capabilities in South Africa, which is reflected in a substantial loss in market share by South Africa in countries such as Zambia, the single largest export market for South African machinery and equipment (Table 1).[25]

The record from Mozambique reveals a similar picture in terms of the missed opportunities to build local capabilities from supplying inputs and services for megaprojects linked to minerals. Local firms have participated only in the lowest value activities, while links have not been built with the existing capabilities base in South Africa.[26] In Zambia, South African original equipment manufacturers (OEMs) have provided little support to upgrade local capabilities, resulting in weak regional linkages in the copperbelt. The evidence further suggests inconsistencies between national local content policies in South Africa and Zambia, which make it difficult for firms to create a coherent strategy for regional investment and value addition, to support mutually beneficial outcomes.[27]

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23 Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development*. Washington DC: World Bank, 2008.

24 Fessehaie J, *op. cit.*; Fessehaie J & Z Rustomjee, op. cit.

25 *Ibid*.

26 Langa E, Mondliwa P & M Nkhonjera, *op. cit*.

27 Fessehaie J, Rustomjee Z and L Kaziboni, ' Can Mining Promote Industrialization? A Comparative Analysis of Policy Frameworks in Three Southern African Countries'.

Table 1: South Africa's share in Zambia imports by mining machinery grouping

	2002	2008	2013	2014	2015	2016	2017	2018
Mineral Processing Equipment	77.5%	52.4%	28.2%	26.7%	36.8%	34.1%	23.1%	19.3%
Off-road special vehicles	59.5%	63.3%	58.3%	78.15	60.3%	41.9%	53.9%	41.1%
Pumps and Valves	64.1%	61.6%	51.6%	62.0%	74.9%	63.8%	71.5%	68.0%
Conveyor systems	62.0%	65.4%	42.2%	55.4%	40.4%	44.6%	29.5%	36.8%

Source: Calculated from data sourced from Trademap

This last aspect is particularly important for expanding the scope for regional industrialisation. Current patterns of integration, especially as they relate to the strategies of OEMs, need to be considered as part of a regional vision. For South African OEMs, strategic cooperation would guarantee greater levels of local involvement on mining sites and reduction of the initial investment costs associated with setting up workshops and training labour.[28]

South Africa's prominent role in the region has several dimensions, extending beyond exports, as it is also a major source of investment and skills.[29] There is therefore a key potential role for South African OEMs and their linked investments in the region to create productive and dynamic linkages for shared regional industrialisation. The failure to do so in practice is perhaps the greatest indictment of SADC's industrialisation objectives and the apparent inability to link economic realities with regional foreign policy objectives on the part of South Africa. It also reflects the single biggest opportunity if lessons can be learned, as the expansion of mining continues in many countries.

Working Paper No. 6/2016 WIDER Working Paper 2016/83. Johannesburg: CCRED (Centre for Competition, Regulation & Economic Development), 2016.

28 Langa E, Mondliwa P & M Nkhonjera, op. cit.; Fessehaie J, *op. cit*.

29 Fessehaie J, Rustomjee Z & L Kaziboni, *op. cit*.

2.4 Regional food production and processing

The SADC region has recorded substantially improved trade performance for food over the past decade but has sustained a deficit in processed foods.[30] Developing agro-processing value chains is at the core of meeting the growing regional demand for processed food products and advancing industrialisation. However, trade between countries is dominated by low-value products, with most having been through no, or very little, processing. This means that a lot of value-added food products, which could potentially be produced in the region are instead imported.

Research across various sectors finds modest progress towards the coordinated development of regional value chains. This weak performance is especially concerning given the significant scope for industrialisation through import replacement and growth in these activities.[31] The discussion here draws from the poultry sector, in particular.

Poultry demonstrates particularly rapid demand growth as the most important source of protein for low-income consumers, with strong backward linkages to animal feed. As urban incomes increase, demand for poultry grows strongly. The poultry industry is a key sector in a number of countries in the region, including South Africa.[32] Critical to the competitiveness of poultry production and developing a regional value chain is access to low-cost inputs in the form of animal feed. This means backward linkages to the production and processing of maize and soya.

The Southern African region is a large net importer of animal feed and its constituents. This is due mainly to demand in South Africa being met by imports of soybeans and soya oilcake from South American countries, despite the potential in the region to expand production of these goods. While South Africa's ability to increase its soya production is limited by water scarcity, in recent years Zambia, in particular, has become a net exporter with competitive production, reflecting the potential in that

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30 In 2007 SADC recorded a negative trade balance of $331.2 million in food, beverages and tobacco products. By 2016 the deficit had reversed to a positive trade balance of $1.7 billion. This is due mainly to a surplus of $3.1 billion in 'edible fruit and nuts' (largely citrus) and a surplus of $2 billion in tobacco, as there is still a deficit in processed foods. See Paremoer T, 'Regional Value Chains: Exploring Linkages and Opportunities in the Agro-Processing Sector across Five SADC Countries', Working Paper 4/2018. Johannesburg: CCRED, 2018.

31 Das Nair R, Nkhonjera M & F Ziba, 'Growth and Development in the Sugar to Confectionery Value Chain', Working Paper 2017/16. Johannesburg: CCRED, 2017; Ncube P, *op. cit.*; Nkhonjera M & R das Nair, 'Developing Capabilities in Mozambique's Food Processing Sector: The Role of South African Food Processing Firms and Supermarket Chains', Working Paper 2018/10. Johannesburg: CCRED, 2018; Paremoer T, *op. cit.*

32 Ncube P *et al.*, *op. cit.*

country for substantially expanded output.[33] A stronger regional value chain can meet the demand in the greater Johannesburg (Gauteng) area of South Africa. By lowering input costs, this would improve the competitiveness of poultry production in South Africa in which there are net imports of around 20% of demand.[34]

Realising a more competitive regional value chain requires investments in production and capabilities across borders, coupled with cooperation on standards and logistics. Instead, South Africa has sought to support local soya production and processing and not looked to regional production to meet part of its demand.

The performance of South Africa's (and the region's) poultry sector has also been undermined by alleged dumping of certain poultry products, based on differential preferences in global markets. Anti-dumping duties have been imposed on imports originating from Brazil and European countries since 2013.[35] The US was excluded from the poultry duties (instead a duty-free quota of imports up to 65 000 tonnes was agreed, in exchange for the extension of the African Growth and Opportunity Act trade agreement). The South African poultry industry has subsequently tried to lobby to have the US quota suspended, although without success.

In addition, it is important to consider the long-term challenges associated with climate change which will increasingly impact the production of soya (and maize) in the Southern African region. Projected climate change effects are, however, expected to differ across Southern Africa. Decreasing annual rainfall is expected over much of South Africa.[36] At the same time, regions further north, such as in Zambia, the DRC and Tanzania, are expected to continue receiving good rainfall, creating optimal conditions for growing poultry feed. A regional value chain approach to agricultural production can be used to leverage variability in weather conditions across countries and make the most sustainable use of endowments and capabilities in different countries.

Approaching food from an industrialisation lens needs to acknowledge the linked investments required in transport and logistics, which are key to reducing the cost of trade in goods and services. Reducing transport costs

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33 Although from a low base, Zambia's production of animal feed increased by 31% between 2016 and 2017 alone.

34 Paremoer T, *op. cit*.

35 *Ibid*.

36 DEA (Department of Environmental Affairs), *Climate Change Adaptation: Perspectives for the Southern African Development Community (SADC)*, Report 1. Pretoria: DEA, Long-Term Adaptation Scenarios Flagship Research Programme, 2014.

and border delays have been identified as one of the biggest impediments to developing regional value chains.[37]

2.5 Transport as a bottleneck to intra-regional trade and integration

Transport links have historically served colonial trade patterns, with railway lines linking mines to ports. In South Africa infrastructure including silos and railway sidings were also constructed to serve white commercial farmers in maize and wheat. At the centre of deepening integration in value chains is the need to invest in infrastructure to lower costs of intra-industry trade along with harmonising the system of regulations and standards to facilitate trade. Again, the record here has been very poor with greater progress made in linking countries with markets in Europe, Asia and North America than with the region.

To some extent this reflects geopolitics and the influence of blocs such as the EU. It also reflects a static approach which seeks to build stronger trade links for the largest existing partners. In addition, within SADC, countries are wary of losing industries to South Africa and have sought to maintain protection in the form of non-tariff barriers (NTBs), while dragging their feet in implementing SADC agreements to lower tariffs.

The majority of intra-SADC trade occurs through South Africa, either as a key trading partner, or transit route through Durban.[38] Landlocked SADC member states are therefore reliant on South African transport infrastructure – ports, roads and railway lines for connecting to the regional market. The regional spread of South African supermarkets has also meant that a large percentage of products is still sourced from South Africa.[39] However, the growth of supermarkets in the region also opens up opportunities for producers in other countries. They could exploit opportunities to transport goods offered by South African trucks that supply products to supermarkets in their respective countries but return empty to South Africa.[40]

The development or expansion of physical infrastructure only forms part of the process of achieving more dynamic outcomes in regional

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37 Vilakazi T & A Paelo, 'Understanding intra-regional transport competition in road transportation between Malawi, Mozambique, South Africa, Zambia, and Zimbabwe'. WIDER Working Paper 2017/46. Helsinki: UNU-WIDER, 2017.

38 *Ibid*.

39 Das Nair R & S Chisoro-Dube, 'The Expansion of Regional Supermarket Chains: Implications on Suppliers in Botswana and South Africa', Working Paper 2017/3. Johannesburg: CCRED, 2017.

40 Das Nair R, Chisoro S & F Ziba, *op. cit*.

transport networks. The biggest challenge lies in the harmonisation of standards and establishment of soft infrastructure and systems required to run a regionally integrated transport network.[41] This is also important for levelling the playing field for other countries in the region.

Transport inefficiencies are exacerbated by border systems and trade regulations. Overland cross-border freight prices are higher in Southern Africa than in other regions of the world. This is largely due to border delays and obstacles including anti-competitive conduct among transport services companies.[42]

High intra-regional transport and logistics costs invariably favour trade with deep-sea markets. For example, transport costs from Zambia to Gauteng are US$100/tonne compared to a competitive benchmark of US$40/tonne.[43] It is therefore less costly to import animal feed and refined sugar from South America to South Africa, than it is from Zambia, despite Zambia being a low-cost producer of both.

Existing transport links and differences in regulations and border clearance and procedures, in particular, often constrain the regional transport sector and do not effectively link countries in the region. Efficient transport links are critical for enhancing the integration of Southern African markets, the development of value chains and boosting regional industrial activity. It has been estimated that lower transport costs improve the cost competitiveness of regional producers by 10%.[44] Cheaper transport rates, for example, could increase opportunities for smaller producers in the region to produce and deliver goods to regional hubs at more competitive prices, opening-up opportunities for industrial development.[45]

3 Policy dimensions of regional integration and industrialisation in Southern Africa

Historically, the integration of Southern African markets has been driven less by economic factors, and more by political considerations of solidarity.

41 Peters-Berries C, Regional Integration in Southern Africa – A Guidebook. Berlin: InWEnt – Capacity Building International and International Institute for Journalism, 2010.
42 Vilakazi T & A Paelo, *op. cit*.
43 *Ibid.*
44 *Ibid.*
45 Woolfrey S & E Verhaeghe, 'Understanding the SADC Trade and Transport Agendas: Consolidation and Corridors'. Maastricht: ECDPM (European Centre for Development Policy Management), 2017.

Initially the Southern African Development Coordination Conference (SADCC) was organised by the Frontline States to reduce dependence on apartheid South Africa.[46] With the dawning of democracy in South Africa, SADCC became, in 1992, the Southern African Development Community and South Africa joined. The impetus was political and symbolic rather than being based on a clear economic development agenda.

From a policy perspective, the region was identified as important for South Africa's interests. At the emergence of a democratic South Africa, the first foreign policy document adopted by the government (in 1996) was a 'Framework for Co-operation in Southern Africa' with a vision for economic cooperation, mutual assistance and joint planning of regional development initiatives consistent with socio-economic, environmental and political realities in the Southern African region.[47]

While South Africa has been actively involved in pushing SADC activities, the question is whether it has recognised its hegemonic power and what is required to build common commitments. In terms of actions, South Africa has often placed its short-term interests first, such as in not agreeing to purchase electricity from Botswana's power plant, Mmamabula, or not looking to more actively source agricultural crops such as soya from the region. South Africa has also been viewed as a gateway to the region by foreign investors and risks simply being the conduit for multinational companies' (MNCs) control of regional markets.

The SADC integration agenda has therefore been significantly influenced by the behaviour and interest of South Africa as a hegemonic power, both in terms of its economic and political strength.[48] However, the implications of South Africa's size and development have not been squarely confronted when the member states of SADC have placed industrialisation at the core of the region's integrated development agenda. The SADC Industrialisation Strategy and Roadmap (SISR) highlights the importance of trade facilitation and industrial development, while the Action Plan recognises the importance of building value chains as part of a broader industrialisation strategy.[49] Although products and sectors (including agro-processing and capital goods) with demonstrable potential for value chain enhancement are identified, the Action Plan does not

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46 Frontline States were Angola, Botswana, Lesotho, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.

47 Saurombe A, 'The role of South Africa in SADC regional integration: The making or braking of the organisation', *Journal of International Commercial Law and Technology*, 3, 2010, pp. 124–131.

48 Woolfrey S & E Verhaeghe, *op. cit*.

49 SADC, 'SADC Industrialisation Strategy and Roadmap'. Gaborone: SADC, 2015; SADC, 2017, *op. cit*.

address some of the challenges facing specific regional value chains, nor the support required to deepen regional linkages.

A large regional market is especially attractive for South African firms, with relatively more advanced capabilities. Indeed, South Africa has to maintain a balance between the interests of its own industries and the priorities of the region and the continent. However, efforts to deepen integration would entail reducing South Africa's domestic policy space with respect to using trade and industrial policies as instruments to pursue its own industrial development objectives, in favour of genuinely collaborative strategies.[50] In addition, development of regional value chains requires increased private sector engagement, particularly with the major South African based MNCs who drive trade and investment throughout the region. Their role in Southern Africa's integration efforts and in facilitating the implementation of the SISR cannot be understated.

The AfCFTA Business Summit that preceded the launch of the AfCFTA was a unique platform that attempted to formalise engagements between business and government leaders, as did the Southern African Business Forum (SABF), established in 2015.[51] The role of the state in engaging the private sector is also central to the SISR, as part of a 'compact for industrialisation'.[52] Across the value chains studied, this does not appear to be happening effectively. The SISR especially ignores the role of large MNCs, including the ways in which they can grow or can skew regional markets. Most of South Africa's goods are exported into the region as finished products, which undermines local small and medium sized businesses. South Africa's MNCs have generally pursued their own strategies into the region, and have not been part of a regional agenda for a stronger and more integrated regional economy. Efforts to build stronger regional linkages should not only ensure an environment conducive for private sector investment, but also mutual cooperation in knowledge diffusion, skills development and exchange of technical and advisory services. This will facilitate value chain upgrading between and within member states and ensure regional interests are served.

The Department of Trade and Industry's (dti) Industrial Policy Action Plans (IPAP) set out several objectives for the development of (priority) value chains, with a core focus on building regional investment, trade

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50 Woolfrey S & E Verhaeghe, *op. cit*.

51 The Savuti Declaration – a key outcome of the SABF identified industrialisation and regional value chains, along with other themes, including trade facilitation, NTBs and transport corridors as focus areas for the region's integration priorities (see Elitcha K, *op. cit*.).

52 Nkhonjera M & R das Nair, *op. cit*.

and industrial development.[53] The tenth iteration (2018/19-2020/21) emphasises the need for South African firms operating in Africa and the sub-continent to play a more strategic role in the region, and identifies long term strategies for mutually beneficial development.[54] The establishment of Trade Invest Africa (TIA) in 2016 was seen as the vehicle through which this can be driven. Practically supporting this still requires much more alignment between the business sector, government and even development finance institutions. A number of existing policy measures in the IPAP also need to be targeted directly within a framework that supports regional industrialisation.

Overall, the record of implementation of SADC industrialisation has been poor and not a lot of headway has been made to integrate the economies of the region. The SADC Treaty, adopted in 1992 (and amended in 2001), was the main framework for integration in Southern Africa. It aimed to overcome obstacles to integration, facilitate intra-regional trade and the transfer of technologies (among others).[55] The SADC Protocol on Trade, approved in July 2000, aimed to establish a SADC FTA by 2008 and South Africa was envisaged to play a central role in shaping its implementation.[56] However, to a large extent, South Africa has primarily pursued its own interests and those of its business community.[57] Its strategy in the SADC FTA opened up regional markets to its products and protected its domestic agricultural and manufacturing sectors as much as possible. This undermined the potential growth in two-way regional trade.[58] A nationalist approach is incompatible with the requirements of deepening integration and developing value chains. Moving into the 2020s, the demands of regional industrialisation require regional cooperation in policy making and implementation to build value chains and industrial clusters across border. This requires facing the trade-off between a narrowly framed industrial policy for South African industry with properly resourced policies and institutions for industrialisation at the regional level.

Moreover, the effect of NTBs which are often times intentional, have limited the intended opportunities of regional trade agreements.[59] The cost

53 See Government of South Africa, 'Industrial Policy Action Plan 2018/19–2020/21', https://www.gov.za/sites/default/files/gcis_document/201805/industrial-policy-action-plan.pdf

54 See Government of South Africa, 'Industrial Policy Action Plan 2017/18–2019/20', https://www.gov.za/sites/default/files/gcis_document/201705/ipap17181920.pdf

55 Outside of the SADC Treaty, most SADC member states have bilateral agreements with South Africa.

56 Peters-Berries C, *op. cit*.

57 Saurombe A, *op. cit*.

58 Elitcha K, *op. cit*.

59 NTBs include technical regulations, administrative barriers and import bans.

of a fragmented regional market has also meant slow regional cooperation around building institutions such as testing and certification facilities, as well as the regional harmonisation of standards.[60] The harmonisation of standards, which can otherwise serve as a technical barrier to trade, should in principle be implemented by national bureaus of standards as a means to support the integration of markets. However, given the reality of under-capacitated institutions in the region, this process would need to be facilitated and supported at a SADC level, while drawing on specialised skills and capabilities from South African partner institutions. Such cooperation is critical for regionalising capabilities across product markets and value chains.

For the mining capital equipment value chain, policy developments in individual countries fail to recognise and leverage regional linkages.[61] The regional strategies of South African OEMs are not part of a coherent regional vision to capitalise on existing strengths while expanding opportunities across countries. A study on Zambia and South Africa's mining capital equipment value chain identified that regional suppliers faced conflicting local content policies.[62] South Africa's industrial policy appears to have targeted only the domestic market and not the regional one.[63] A regional strategy to increase value addition between South Africa and countries such as Zambia would necessitate building regional market linkages across South Africa and the Zambian Copperbelt, for example. This would also require intensifying linkages between South African and Zambian mining inputs clusters.[64] Research suggests that the success or failure of a resource-based industrialisation approach is country and sector specific, requiring the deployment of different and appropriately tailored interventions.[65] The IPAPs include a sectoral intervention for the minerals value chain that includes mining inputs suppliers, recognising the opportunities for mining turnkey projects in the rest of Africa and developing local supplier capabilities, among others.[66]

However, deepening regional integration, in this context, requires an integrated approach to industrial policy development with South Africa's national priorities being located within regional industrialisation. A collaborative approach to regional industrial development and policy

60 Das Nair R, Nkhonjera M & F Ziba, *op. cit*.; Langa E, Mondliwa P & M Nkhonjera, *op. cit*.; *World Bank, Harnessing Regional Integration for Trade and Growth in Southern Africa*. Washington DC: World Bank, 2011.

61 Fessehaie J, *op. cit*.; Langa E, Mondliwa P & M Nkhonjera, *op. cit.*

62 *Ibid.*

63 Fessehaie J, Roberts S & L Takala-Greenish, *op. cit*.

64 Fessehaie J, *op. cit*.

65 Fessehaie J, Rustomjee Z & L Kaziboni, *op. cit*.

66 See Government of South Africa, 'Industrial Policy Action Plan 2017/18–2019/20', *op. cit*.

that is structured not just around expanded market opportunities but also on developing local manufacturing capabilities and competitiveness across the region is crucial.

The agro-processing sector is given a prime spot in SADC's industrialisation strategy, identifying soya (along with other key products) as a critical sector for regional value chain development. The regional value chain for poultry in Southern Africa is underdeveloped, although there have been important developments and strong growth in a number of countries. Building on the region's growth thus requires coherent trade and industrial policies to support investments across countries, from agricultural production through to final products, coupled with practical measures to reduce the barriers to, and transport costs of, intra-regional trade, especially into South Africa.[67] Developing stronger regional value chains in this sense requires overcoming coordination failures and presenting a credible case of mutually beneficial growth in a situation where other SADC countries are (understandably) concerned about a possible mercantilist agenda in South Africa.[68] Better co-ordination is required at the regional level, particularly in relation to the manner in which trade agreements are structured; for example the recent preferential trade agreement in favour of imports of South American soybean oilcake into the countries of the Southern African Customs Union (SACU).[69]

Strengthening integration through regional value chains will also depend on efficient transport and logistics. The SADC Action Plan seeks to address key infrastructural constraints in support of industrialisation. The value chain studies[70] draw attention to high transport costs and continued use of NTBs in some countries as some of the main reasons for the poor progress of integration. There is need for facilities to expedite border processes which requires coordination at a regional level. There have been a number of ongoing and new regional initiatives aimed at addressing these bottlenecks. The Move Africa Initiative led by the New Partnership for Africa's Development (NEPAD) focuses on soft cross-border transport and logistics challenges, such as driving down costs and increasing efficiency for companies and manufacturers engaged in intra-Africa trade.

If supermarkets are to become key routes to regional markets for suppliers across the region and not only for exports from South Africa, then national policies need to be harmonised across the region with the

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67 Paremoer T, *op. cit*.
68 *Ibid.*
69 Ncube P, Roberts S & T Zengeni, *op. cit*.
70 Das Nair R, Nkhonjera M & F Ziba, *op. cit*.; Fessehaie J, *op. cit*.; Ncube P, Roberts S & T Zengeni, *op. cit.*; Vilakazi T & A Paelo, *op. cit.*

goal of developing regional value chains. Present restrictions to trade on food products and consumables, through local content policies, import duties, and import quotas, undermine the potential for regional integration, supplier upgrading and industrialisation.

The AfCFTA aims to accelerate trade facilitation and ease cross-border trade. However, given the challenges faced by regional blocs, a critical question for the AfCFTA is how it is going to succeed where the regional blocs have struggled.

4 Conclusions and implications for South Africa's regional agenda

Drawing together observations from the above discussion suggests that South Africa's policy orientation is targeting national and not regional outcomes. South Africa has sought to preserve its domestic policy space rather than embrace collective initiatives which require some compromises regarding narrow national objectives. This is counter-productive as it fails to take into account the interdependence between South Africa's industrialisation and the growth and development of SADC economies. Outside of the dti there is little if any recognition (for example, in the National Development Plan) of the importance of addressing broader regional industrialisation. It bears repeating that regional industrialisation is in South Africa's own interests as well.

A narrow national view of industrialisation ignores the benefits of scale and scope associated with regional markets, as well as the potential for strong cross-border value chains to leverage off existing capabilities and the advantages of endowments and land that some countries have. This view requires rising above short-term national interest to realise that huge collective benefits can be derived from building the institutional and physical infrastructure that could support mutually beneficial joint industrialisation across SADC. Moreover, this collective view is necessary to effectively address the colonial economic structure of economies in the region as a whole, the legacy of structural adjustment programmes that contributed to de-industrialisation and the impact of apartheid South Africa's policies to undermine its neighbours. In addition, business is highly internationalised with major lead firms in most industries operating across countries.

There is, however, little evidence that the regional integration has been coordinated across foreign and industrial policies. We argue that South Africa must actively pursue regional integration in Southern Africa and the development of regional value chains as an important foreign policy priority. Just as isolated islands of prosperity within South Africa are not sustainable in the long run, so South Africa cannot separate itself from its neighbours given the movement of people and goods. At the same time, this chapter has shown that the prospects for broader industrialisation in South Africa are linked to regional markets.

Across the value chains researched, South Africa is indeed perceived as a dominant player and industrial hub, but also as a source of important production inputs such as skills, technology, networks and finance. This base provides considerable scope to deepen regional linkages in areas such as mining machinery as part of building a regional system of innovation.[71] Increasing food processing should support a move to more productive, higher-value and more complex activities at a regional level and also develop strategies for the regional sourcing of critical inputs in agriculture value chains. Efforts to co-ordinate and harmonise regional activities would also require a re-orientation of strategies that create an enabling environment for goods to be efficiently transported within the SADC region and contribute to greater integration.

As in the case of Brazil as a political and economic power in MERCOSUR, South Africa's regional leadership position and role is fundamental to sustaining SADC's integration process. The focus of South Africa's integration agenda should thus reflect the interests and incentives between and within countries in the region, as they relate to investments, infrastructure, and trade. This should be framed as supporting the industrial development objectives of SADC member states. Although integration does appear to be gaining political traction, the willingness of all SADC members to deepen integration for the long-term transformation of the region is also key. Furthermore, given that countries in the region rely on South Africa for intra-regional trade, governments of these countries should in principle adopt supportive domestic policies to ensure that they are able to benefit more positively from the integration.

The region needs a coherent sector-specific approach to support the development of regional value chains. Partnerships and policy interventions across countries are required at the sectoral level to realise the regional potential. Maximising the synergies from all SADC member states is also an essential step for facilitating the region's insertion into the global economy.

71 Fessehaie J, Roberts S & L Takala-Greenish, *op. cit*.