USAID/RCSA Strategy

Global Competitiveness and Regional Market Integration

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Regional Market Integration
Research Team

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List of Acronyms

ACP	African, Caribbean, and Pacific countries
AGOA	Africa Growth and Opportunity Act
CAP	Common Agricultural Policy
CBI	Caribbean Basin Initiative
COMESA	Common Market for Eastern and Southern Africa
EPA	Economic Partnership Agreement
EBA	Everything but Arms
EPZ	Export processing zone
EU	European Union
FDI	Foreign direct investment
FTA	Free Trade Agreement
GCR	Global Competitiveness Report
GSP	Generalized System of Preferences
MFN	Most-favored nation
OECD	Organization for Economic Cooperation and Development
RCSA	Regional Center for Southern Africa
R&D	Research and development
ROI	Rules of origin
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SATRN	Southern Africa Trade Research Network
SETA	Sector Education and Training Authority
SO	Strategic objective
SPS	Sanitary and Phytosanitary Standards
S&D	Special and differential treatment
TBT	Technical Barriers to Trade
TIPS	Trade and Industrial Policy Secretariat
TRIPS	Trade-Related Aspects of Intellectual Property Rights
URA	Uruguay Round Agreement
USAID	U.S. Agency for International Development
WFD	Workforce development
WTO	World Trade Organization

Executive Summary

The authors of this report concur that global integration with the world trading system is the appropriate emphasis for the Regional Center for Southern Africa's (RCSA's) economic strategic objective (SO). From the work of the World Economic Forum's Global Competitiveness Program, we know this strategy should be based on support for a balanced and stable macroeconomic policy framework, a "competitive" private sector (i.e. one that is at the forefront of innovation and use of technology for maximum productivity), and sound institutions to support private sector growth.

GLOBAL TRADE INTEGRATION

The broad literature on economic growth, poverty reduction, and global trade integration confirms that countries that are open to global trade grow – and thereby improve standards of living for their people – more rapidly than countries that remain closed or skeptical of integration. Developing country concerns about the risks of increased openness need to be assessed as comprehensively as possible, balancing the welfare gains to consumers from improved access to cheaper goods and services, increased allocative efficiency in the economy, and increased foreign assistance and debt relief for countries on the path to global integration, with the welfare losses to producers from reduced protection, the likelihood of increased inequality of per capita incomes, the possibility of increased social and political tensions, and the increased costs associated with managing the transition.

In other words, global integration is not instantaneous or smooth. It is facilitated by helping countries (and their private sector interests) develop the capacity to fully participate in global trade negotiations, by policy and regulatory reform, by infrastructure investments, and by private sector development assistance (see Global Competitiveness section to follow).

REGIONAL TRADE INTEGRATION

Regional trade integration is an important input into this global integration objective, not because small economies are somehow disadvantaged, but as a means to the ultimate end of global integration rather than as an end in itself. Regional integration should be viewed as a broader package than just free trade within the Southern African Development Community (SADC). It should ultimately involve cross-border integration of capital and labor markets, infrastructure, institutions and regulatory frameworks, inter-firm collaboration through joint ventures and outsourcing arrangements, and of course, flows of actual goods and services. The purpose of this integration is to allow goods and services to flow into and out of SADC member countries to/from the global market as efficiently as possible. Regional integration may also further the production of goods and services for the world market from within regionally integrated value-chains, if overall competitiveness is thereby enhanced.

Regional integration is also not instantaneous or smooth. It is facilitated by the same things as above, i.e. helping countries (and their private sector interests) develop the capacity to fully participate in regional trade negotiations, by policy and regulatory reform, by infrastructure investments, and by private sector development assistance.

GLOBAL COMPETITIVENESS

Global competitiveness is first and foremost a private sector concept, emphasizing productivity and technology. "Being competitive" also refers to a range of business relations in which firms (farms are considered within this broader term) are part of a strategic compact within a "cluster" or subsector. This strategic compact may encompass relations within the firm (between management and labor), between the firm and its clients, between the firm and suppliers, among firms, and between the firm and the government.

An open, competitive economy in Southern Africa (either viewed as consisting of fourteen individual countries or of one regionally integrated economy) will probably look different than it did when it was relatively closed to global competition. We know that, left unfettered, economic activity migrates in a geographic sense over time to cities, coasts, and areas of dynamic clusters. It is also reallocated over time across sectors in the economy. Since workforces in higher income countries are far more heavily concentrated in services and industry than in primary sectors, we would expect a shift of SADC employment out of agriculture over time.

Economic transitions in pursuit of global competitiveness are not instantaneous or smooth either. They can be facilitated by providing workers with portable skills of a technical, entrepreneurial, or managerial nature that are desired by dynamic, competitive clusters; supporting the growth and maturation of institutions, and assuring business development and financial services to promote enterprise growth.

IMPLEMENTATION PRIORITIES

What activities should RCSA consider to implement its economic SO? RCSA's latest thinking focuses on activities in regional competitiveness corridors, organized in three broad areas: policy, regional and global export relationships, and economic infrastructure. Further specification on these programmatic areas is provided below.

Policy

RCSA needs to consider policies both within the region as well as relative to international trade fora. Greater harmonization of macro and sectoral policies (e.g., fiscal balance, inflation, exchange rate, banking sector, capital controls, labor migration) is required to introduce greater economic stability and increase investor confidence in the region. Greater simplification of trade policy among imperfectly overlapping regional trade regimes is also needed.

Trade capacity building is critical, if SADC member countries are to be able to interpret the implications of regional and global trade commitments for their own stakeholders and play active roles in regional and global trade fora in the future. RCSA should encourage individual SADC member countries to maximize their participation in the World Trade Organization (WTO) and its myriad of agreements as individual countries. To the extent that SADC as a regional entity has any role to play at the WTO, it is most likely to be as a participant in the Africa bloc in the development of regional positions. SADC may play a role in negotiating preferential trade arrangements with other bi/multilateral partners, such as in pursuing a regional economic partnership agreement with the European Union (EU) or a free trade agreement (FTA) with the U.S.

SADC member countries also need support from USAID for coherent international trade policies. Of key importance is the need to ensure that developed countries provide meaningful market access to developing country exports and reduce the tariff escalation that penalizes value-added processing by developing countries.

Forging Global Competitiveness

A competitive cluster is one in which workers have the entrepreneurial, managerial, and technical skills required by global markets, in which firms produce goods and services according to the quality and other standards demanded by those markets, and in which institutions exist – e.g., legal, regulatory, policy, financial, research, education and training, market development, utilities, public safety, trade facilitation, social services – that allow firms to have confidence in the business environment and invest in the future. The public sector clearly has a role to play in assuring the existence and efficient functioning of these institutions.

RCSA should take a closer look at barriers to global competitiveness within specific regional sectors or clusters. To the extent that regional value-chain collaboration makes sense, as in the pursuit of efficient triangular or cross-border commercial collaboration possibilities to take advantage of the Africa Growth and Opportunity Act (AGOA) for instance, RCSA can help to foster commercial cross-border collaboration among private enterprises in the region. This will attract investment capital, both from within the region (e.g., South African capital) as well as from abroad, to productive regional investment opportunities.

Human capital infrastructure is required to accomplish this. RCSA's strategic plan should include recognition of the importance of understanding supply and demand forces in the region's labor markets, the need to balance those forces and thus create employment, the need to look at the wage effects of increased global integration, and the need to understand the likely trends in the region of future demands for labor. Finally, RCSA should initiate regional reflection on the implications of these labor market trends for education and training needs, which could perhaps be satisfied on a regional basis.

Support for global competitiveness in the region should also include an emphasis on the creation of sustainable markets for the delivery of "competitiveness-enhancing services," i.e. the development of private or public-private collaboration/transactions for R&D, productivity enhancement, information systems, market development assistance, etc. between firms and potential competitiveness service providers in the region (universities, technical colleges, training institutes, research centers, think tanks, consulting firms, etc.).

Improving Economic Infrastructure

RCSA's definition of economic infrastructure should include all aspects of physical infrastructure – e.g., getting transport, telecommunications, energy/water utilities, and waste treatment systems to work properly. This is not only a question of physical investments, but again of investments in human capital to ensure that operations personnel and regulators have the skills required to maintain these networks.

Thinking about HIV/AIDS and Competitiveness

As the effects of HIV/AIDS are beginning to be felt throughout the economies of SADC member countries, private firms will need assistance with long-range strategic planning in two areas. First, firms will need to learn how to cope with the effects of HIV/AIDS on workforce issues such as benefits policies regarding care, sick leave, and personal leave, as well as training policies to ensure adequate skills coverage either through multi-skilling of individual workers or planning for worker redundancies. More broadly, firms need to begin to think about the longer term consequences of HIV/AIDS-related morbidity and mortality on the local and regional markets they face for their goods and services. Diversification strategies may be required to examine alternative products or alternative markets in which to sell their traditional products.

Priorities under Gender

There is a need for greater regional dialogue on the gendered effects of trade liberalization issues. Donors should ensure greater consultations with and involvement by women in trade policy-making positions. SADC member countries also need to strengthen their public and private sector analytical capacity to assess the effects of trade liberalization policies on women's income, women's employment, and migration flows, and to explore options to mitigate the potentially negative social outcomes of trade liberalization policies on women. Finally, as part of a general focus on labor market issues as the region seeks to improve its global market competitiveness, attention should be paid to the promotion of labor legislation that ensures fair and equitable working conditions for women.

1. Purpose of the Assessment

The purpose of this assessment is to support the Regional Center for Southern Africa (RCSA) in its development of a strategic plan for FY 2004-2010. As part of the strategic plan development process, a concept paper was developed in late 2002 by several thematic Results Framework Working Groups at RCSA, leading to the articulation of a basic development model. Thematic literature reviews are now underway to contribute to a final plan for RCSA. As part of this process, the Global Competitiveness and Regional Market Integration research team reviewed the basic mission documents and compiled a set of research questions to examine the underlying development hypothesis, offer insights from the literature, and derive implications for RCSA.

RCSA's thinking about regional market integration, global orientation, and competitiveness has evolved since the mission first submitted its concept paper in December 2002 to USAID/ Washington. As expressed in the most recent version of RCSA's competitiveness strategic objective (USAID RCSA 2003), the development hypothesis identified by the Competitiveness Results Framework Working Group is as follows:

> SADC nations must improve their global competitiveness dramatically in order to achieve their economic goals of reduced poverty, lower unemployment, and higher per capita incomes. Because of the smallness of most of the region's economies, the achievement of increased economic growth necessarily depends upon regional economic integration to attract foreign direct investment and the ability to access global markets. Thus, to do so, the SADC nations must create an atmosphere conducive to trade and investment and produce and sell goods and services that can compete on the world market. For this region, this implies: A responsive policy environment that facilitates competitiveness, a strong supply response from entrepreneurs, and lower input costs.

RCSA proposes to concentrate much of its effort in countries linked along an "economic corridor" stretching from the Indian Ocean to the Atlantic, namely Mozambique, Zambia, Swaziland, Lesotho, South Africa, Botswana, and Namibia. These are considered to have the highest potential to achieve concrete improvements in competitiveness. In addition, RCSA proposes to focus on those industries that show the most promise for achieving global competitiveness, emphasizing a cluster approach that seeks to work with groups of firms within a value-chain. Illustratively, these selected industries may include high-value, tradable agricultural products (fresh and processed), textiles and apparel, and tourism. The mission presently expects to engage in three broad programmatic areas: policy, forging export relationships regionally and globally, and improving economic infrastructure to lower transaction costs for businesses.

2. Regional Trade Integration

REGIONAL INSTITUTIONAL BACKGROUND

The Southern African Development Community (SADC), representing fourteen member countries, is the major regional partner of USAID's Regional Center for Southern Africa. Table 1 presents the sometimes overlapping regional institutional affiliations of SADC member countries. RCSA also intends to build strategic relationships with a number of the other regional trade organizations to which SADC member countries may also belong, e.g. the Southern African Customs Union (SACU), the Common Market for Eastern and Southern Africa (COMESA), and others. RCSA's core business also involves servicing bilateral USAID missions and U.S. embassies in non-presence countries.

With respect to U.S.-oriented trade promotion activity, most RCSA countries are eligible for benefits under the Africa Growth and Opportunity Act (AGOA) and all are covered by the Southern Africa Global Competitiveness Hub (as well as, in a few instances, by the East and Central Africa Global Competitiveness Hub). In November 2002, the U.S. announced its intention to initiate negotiations on a free trade agreement (FTA) with Botswana, Lesotho, Namibia, South Africa, and Swaziland, which collectively comprise SACU.

In addition, the EU's Everything But Arms initiative covers Lesotho, Malawi, Mozambique, Tanzania, and Zambia. The EU and South Africa negotiated a free trade agreement in 1999. All sub-Saharan African countries are also part of the EU's Cotonou Agreement, until such time as Economic Partnership Agreements are negotiated on a bilateral or regional basis.

IS SMALL SIZE AN ECONOMIC DISADVANTAGE?

One of the primary arguments in favor of regional integration is that small economies cannot compete on their own. The United Nations and other international organizations have studied this issue since at least the 1940's as part of the de-colonization process. The subsequent literature emphasizes the following problems faced by small economies:

- Their small domestic resource base limits the capacity for transformation, resulting in less diversified economic activity.
- There are limited opportunities for economic development and greater dependence on external factors, creating greater economic instability and vulnerability.
- High dependence on a few primary products for exports leaves small economies vulnerable to external shocks and natural hazards.
- Small countries present few(er) opportunities to realize economies of scale.

Concerns boil down to three. First, small economies will have to specialize in what they produce. Second, small economies will be forced to rely on international trade and become vulnerable to foreign shocks. Third, small economies will not be able to take advantage of economies of scale.

Table 1: SADC Country Membership in Regional Initiatives

African Initiatives				*U.S. Initiatives*			
SADC (14)	**SACU (5)**	**COMESA (19)**	**Cross-Border Initiative (14)**	**USAID Bilateral Missions**	**AGOA-eligible Countries**	**SA Global Compet. Hub (14)**	**ECA Global Compet. Hub (18)**
Southern Africa							
Angola		Angola		Angola		Angola	
Botswana	Botswana				Botswana	Botswana	
DR Congo		DR Congo		DR Congo	DR Congo	DR Congo	DR Congo
Lesotho	Lesotho				Lesotho	Lesotho	
Malawi		Malawi	Malawi	Malawi	Malawi	Malawi	
Mauritius		Mauritius	Mauritius		Mauritius	Mauritius	Mauritius
Mozambique				Mozambique	Mozambique	Mozambique	
Namibia	Namibia	Namibia	Namibia	Namibia	Namibia	Namibia	
Seychelles		Seychelles	Seychelles		Seychelles	Seychelles	Seychelles
South Africa	South Africa			South Africa	South Africa	South Africa	
Swaziland	Swaziland	Swaziland	Swaziland		Swaziland	Swaziland	
Tanzania		Tanzania	Tanzania	Tanzania	Tanzania	Tanzania	Tanzania
Zambia		Zambia	Zambia	Zambia	Zambia	Zambia	
Zimbabwe		Zimbabwe	Zimbabwe	Zimbabwe		Zimbabwe	
Eastern Africa							
		Burundi	Burundi	Burundi			Burundi
					CAR		CAR
		Comoros	Comoros				Comoros
					Congo (Bra)		Congo (Bra)
					Djibouti		Djibouti
		Eritrea		Eritrea	Eritrea		Eritrea
		Ethiopia		Ethiopia	Ethiopia		Ethiopia
					Gabon		Gabon
		Kenya	Kenya	Kenya	Kenya		Kenya
		Madagascar	Madagascar	Madagascar	Madagascar		Madagascar
		Rwanda	Rwanda	Rwanda	Rwanda		Rwanda
				Somalia			Somalia
		Sudan		Sudan			Sudan
		Uganda	Uganda	Uganda	Uganda		Uganda

Each of these concerns has some merit, but evidence from around the world suggests that small size is not nearly the problem implied by this list. It is true that small economies are more specialized than larger economies. This tends to be the case in sectors with traded products, but much less so in non-traded goods. To the extent that the required inputs are in the non-traded sector (energy, labor, building materials), this issue is not a serious constraint.

It is also true that specialization in and of itself is not necessarily the problem. Cases exist of small countries specializing in industries which suffer declining global demand and lower prices, such as rubber in Sri Lanka. Other cases demonstrate just the opposite, as in Botswana, where specialization in diamonds has brought substantial economic benefits. Mauritius' recent specialization in garments has brought it high growth and greater diversity away from its highly volatile sugar exports. Obviously, specialization can be good or bad, depending on the industry. The argument about small economies suffering from diseconomies of scale is not obviously correct either. With trade liberalization, countries can export to the largest market of all: the world market. For instance, it is not clear that Mauritius' small size has prevented it from achieving economies of scale in garment manufacture.

Turning to the global evidence, we find no proof of a bias against small economies. Table 2 shows average GDP per capita of small and large economies, broken out into island and non-island countries. There is little evidence that per-capita GDP is significantly lower in small economies, either among islands or land-based economies.

Table 2: Mean GDP in 1980

(1985 US Dollars per-capita, PPP-adjusted)	**Number of Countries**	**GDP**
Islands	29	4940
Small Islands	17	4918
Non-Islands	113	4715
Small Non-Islands	55	4851

Note: "Small" is defined as having a population of less than 8 million.

MOST IMPORTANT BARRIERS TO GROWTH AND POTENTIAL POLICY ACTIONS BY SADC

The issue of integration of the Southern African region can be thought about along five dimensions. These are:

1. cross-border integration of capital and labor markets;
2. cross-border infrastructure;
3. cross-border integration of institutions and regulatory frameworks;
4. cross-border, inter-firm collaboration through joint ventures and outsourcing arrangements; and
5. cross-border integration of goods and services flows.

In other words, the economically relevant degree of integration depends not only on removal of trade restrictions but any barriers that raise the costs of transport of goods or labor or financial and physical capital.

The literature on regional integration efforts in Africa is fairly skeptical of the economic benefits to be realized from trade integration alone. Radelet (1999) cautions that there is little reason to expect significant economic gains from formal trade agreements in Africa unless they are preceded by decisions within member countries to follow more general open trade strategies. He suggests that the pursuit of more open trade policies, coupled with more disciplined fiscal and monetary policies (and hence more economic stability), and perhaps augmented by regional infrastructure cooperation efforts, appears to be a more promising initial strategy. Jenkins et al. suggest that the SADC Free Trade Agreement (FTA) should not be viewed as an end in itself or as an alternative to more general removal of trade restrictions, but rather as a means of improving competitiveness in Southern Africa so that the region can take advantage of wider trade and investment opportunities (Jenkins, Leape, Thomas 2000, 21). They also propose that the SADC FTA be viewed as one of a series of trade arrangements in which Southern African countries participate, and suggest that a SADC-EU FTA would be a logical follow-on to the South Africa and SACU FTAs with the EU.

That being said, the barriers to growth within the SADC region are substantial. They include:

- *macroeconomic policy:* lack of internal macroeconomic balance, overvalued currencies, high rates of inflation (Jenkins and Thomas 2000);
- *taxation and fiscal adjustment:* lack of indirect and direct tax policy coordination, persistence of capital controls (Leape 2000);
- *trade policy:* overlapping membership and incoherent rules of origin and trade tariff treatment of SADC member countries in different preferential trade arrangements (Chauvin and Gaulier 2002);
- *foreign direct investment:* [1] political and economic instability, pervasive bureaucracy and inefficiency, lack of regulatory transparency, underdeveloped private sector, restrictions on movements of persons, underdevelopment of capital markets and persistence of capital controls, lack of regional product standards, shortages of skilled labor, low productivity, restrictions on land ownership (Hess 2000);
- *microeconomic considerations:* supply-side constraints relating to provision of physical infrastructure, education and training, and finance; transfer of technology and information; market development activities; political concerns regarding potential job losses from integration, especially in "sensitive industries," so identified in the SADC Protocol on Trade; lack of definition of priorities for launching private sector growth, especially in micro-, small, and medium-sized enterprises; concerns about predatory behavior by local, regional, and international firms; substantial labor market differentials between organized labor in South Africa and workers elsewhere in the region; underdeveloped human resource capacities (Maasdorp 2000).

DRIVING FORCES OF GROWTH TO DATE

Economists' understanding of economic growth has increased dramatically in recent years, helped in part by an equally dramatic increase in the data available for cross-country analysis. Many of these advances have been incorporated in recent years in the data and rankings of the Global Competitiveness Report (GCR). For the 2002-2003 GCR, executives in 80 countries were asked about economic, technology, structural, governance, and other variables to estimate composite indices on microeconomic and growth competitiveness. Countries are ranked by these indices, and shifts in the rankings are tracked from year to year as one indicator of national progress or slippage. Among the 80 countries are five SADC member countries: Botswana, Mauritius, Namibia, South Africa, and Zimbabwe.

The Microeconomic Competitiveness Index is composed of variables regarding company operations and strategy and the national business environment (Porter 2002). "Company operations and strategy" considers production, workforce development, management, marketing,

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[1] Many of the barriers identified by Hess with respect to FDI could just as easily apply to the entire group as "barriers to growth."

and R&D factors. The “national business environment” covers variables under the four points of the Porter competitiveness diamond, i.e. factor (input) conditions, demand conditions, related and supporting industries, and firm strategy and rivalry. The Growth Competitiveness Index is based on three broad categories of variables found to influence economic growth, namely technology, public institutions, and the macroeconomic environment (Cornelius et al. 2002).

Data from the 2002 GCR are used to evaluate the growth potential of the five SADC countries. A new LCD Competitiveness Index is developed that ranks the growth potential of LDC countries specifically. The sample is comprised of countries from the GCR data set with incomes below $10,000 in 1991, excluding Eastern Europe, China, and Vietnam.

Macroeconomic variables were first tested for significant correlation with growth. Five variables – the inflation rate, the fiscal surplus as a percent of GDP, the national savings rate, the average spread between bank deposit and credit rates, and exchange rate misalignment – proved to be the most significant in terms of their correlation with growth in the 1990s. Each of these exhibits a significant link to growth during the 1990s and summarizes an important aspect of macroeconomic policy. Inflation is a proxy for monetary policy, the deficit summarizes the sustainability of fiscal policy, the national saving rate represents incentives for capital accumulation, exchange rate misalignment suggests international price competitiveness, and the interest rates spread summarizes the efficiency of financial intermediation.

These five variables were then combined to form a macroeconomics conditions index, according to which developing countries are ranked (Table 3). Malaysia and India top the list. Malaysia is ranked first due to its combination of low inflation, high national savings, low interest rate spread, and relatively competitive exchange rate (a negative number signifies greater competitiveness). India owes its ranking to exchange rate competitiveness plus low interest rate spreads and low inflation.

With this macroeconomics index serving as a control variable, the importance of other key variables in the data set was tested subsequently. These variables measure a wide range of phenomena, from technology, health, and education, to infrastructure, business strategy, extent of clustering, and financial depth. Through this testing, two additional groups of variables were identified that exhibited additional explanatory power over recent growth rates. These variables are summarized in a technology index and an institutions index, also displayed in Table 3. The indices are based on specific variables, but should be interpreted as broad measures of innovation and institutional quality, respectively.

The technology index measures the enabling environment in support of innovative and scientific activities. It is based on the extent to which companies in each country tend to pioneer their own products and the extent to which talented people tend to stay in the country (i.e. a “brain drain” measure). These two indicators are included because they perform best in the statistical tests. Nevertheless they are highly correlated with other aspects of the technical and scientific environment such as the quality of research institutes, the extent of collaboration between universities and businesses, and the quality of technical education.

The institutions index measures four different aspects of institutional strength: corruption, legal systems for settling disputes, organized crime, and legally-supported financial property protection.

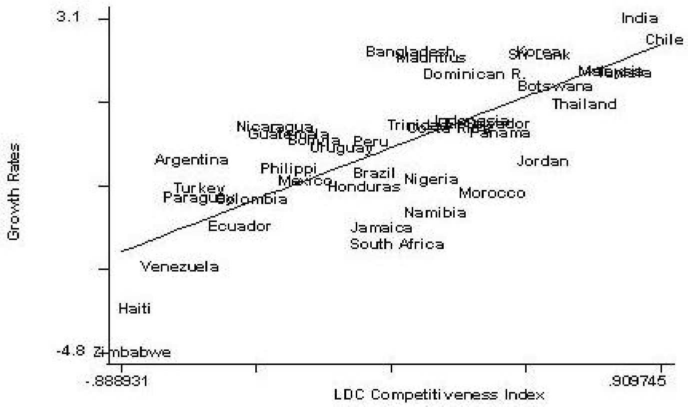
Table 3: SADC Country Rankings on LDC Competitiveness Index

LDC Competitiveness Index		Macroeconomic Index		Technology Index		Institutions Index	
Rank	**COUNTRY**	**Rank**	**COUNTRY**	**Rank**	**COUNTRY**	**Rank**	**COUNTRY**
1	Chile	1	Korea	1	Malaysia	1	Chile
2	Korea	2	Brazil	2	India	2	Uruguay
3	Malaysia	3	Chile	3	Jordan	3	Tunisia
4	Tunisia	4	Costa Rica	4	Panama	**4**	**Botswana**
5	Thailand	5	Malaysia	5	Thailand	5	Korea
6	**Botswana**	6	Thailand	6	Morocco	6	Malaysia
7	Panama	7	Tunisia	7	Tunisia	**7**	**South Africa**
8	Jordan	8	Panama	8	Indonesia	**8**	**Mauritius**
9	**South Africa**	9	Dominican Republic	**9**	**Botswana**	9	Thailand
10	Trinidad and Tobago	**10**	**Botswana**	10	Chile	10	Jordan
11	**Mauritius**	11	Indonesia	11	Korea	**11**	**Namibia**
12	Costa Rica	**12**	**Mauritius**	12	Trinidad and Tobago	12	Sri Lanka
13	India	**13**	**Namibia**	13	Argentina	13	Trinidad and Tobago
14	**Namibia**	14	El Salvador	14	Bangladesh	14	Brazil
15	Morocco	15	India	15	Philippines	15	Costa Rica
16	Sri Lanka	16	Mexico	16	Honduras	16	El Salvador
17	El Salvador	17	Trinidad and Tobago	17	Dominican Republic	17	Peru
18	Dominican Republic	**18**	**South Africa**	**18**	**South Africa**	18	Jamaica
19	Brazil	19	Morocco	19	El Salvador	19	Colombia
20	Uruguay	20	Turkey	20	Sri Lanka	20	Panama
21	Mexico	21	Sri Lanka	**21**	**Mauritius**	21	Morocco
22	Indonesia	22	Colombia	22	Mexico	22	Mexico
23	Jamaica	23	Jordan	**23**	**Namibia**	23	India
24	Peru	24	Guatemala	24	Jamaica	24	Dominican Republic
25	Colombia	25	Peru	25	Nigeria	25	Turkey
26	Argentina	26	Jamaica	26	Venezuela	26	Nicaragua
27	Honduras	27	Uruguay	27	Ecuador	27	Argentina
28	Philippines	28	Honduras	28	Peru	**28**	**Zimbabwe**
29	Turkey	29	Nicaragua	29	Guatemala	29	Bolivia
30	Guatemala	30	Argentina	30	Bolivia	30	Philippines
31	Venezuela	31	Venezuela	31	Colombia	31	Paraguay
32	Paraguay	32	Paraguay	32	Paraguay	32	Venezuela
33	Bolivia	33	Philippines	33	Costa Rica	33	Guatemala
34	Ecuador	34	Bolivia	34	Haiti	34	Ecuador
35	Bangladesh	35	Ecuador	35	Uruguay	35	Honduras
36	Nigeria	36	Bangladesh	36	Turkey	36	Indonesia
37	Nicaragua	37	Nigeria	37	Brazil	37	Nigeria
38	**Zimbabwe**	**38**	**Zimbabwe**	38	Nicaragua	38	Bangladesh
39	Haiti	39	Haiti	**39**	**Zimbabwe**	39	Haiti

The SADC countries are shown in bold type. The SADC countries as a group score relatively better on institutions than they do on macroeconomic conditions and technology. South Africa in particular is hurt by its relatively low rate of national saving and by the judgment of its business leaders that talented people tend to leave the country, which undermines its technology rating. Botswana and Mauritius obtain high ratings on institutions, but Mauritius is hurt by a relatively high interest rate spread and a relatively large fiscal deficit. Botswana obtains relatively high ratings overall, but its rank is reduced by its relatively poor performance on the extent to which local firms pioneer their own products from the technology index.

The overall ranking of LDC competitiveness is displayed in the left-hand column in Table 3. Chile tops the rankings, followed by Korea, Malaysia, and Tunisia. Chile owes its ranking to strong performances on institutions and technology, while Korea ranks especially high on technology and Malaysia on macroeconomics. The LDC competitiveness index is an average of the macroeconomics, technology, and institutions indices. Figure 1 shows the evidence for a link between this overall index and rates of economic growth during the 1990s. Growth in the 1990s is measured on the vertical axis, while the values for the LDC competitiveness index are on the horizontal axis.

Figure 1: Correlation Between Economic Growth and LDC Competitiveness



The line in Figure 1 depicts the average relationship between growth and the index. For South Africa, Zimbabwe, and Namibia, which lie below the line, growth has been slower than expected, given the variables in the index. Mauritius, on the other hand, has outperformed the index. Botswana is on the line, indicating that the regression relationship exactly accounts for its growth. The relationship depicted in the figure controls for the so-called catch-up effect (i.e. poorer countries grow faster than richer countries, holding other things constant).

These ratings help to focus RCSA's policy considerations by drawing attention to those factors that have exhibited empirical correlation with recent rates of economic growth. For the SADC region, these rankings suggests that the challenge for fast growth is to maintain or improve macroeconomic conditions while working to improve the supporting environment for innovation, technical change, and diffusion of new technologies within the region. Nevertheless, it would not be correct to take this analysis too far and focus exclusively on these factors, for two reasons. The first is that the future need not be like the recent past, and the second is that there are inevitably country-specific factors that affect growth rates. These country-specific factors must also be understood for an effective policy strategy.

An additional clue about some of the special country-specific factors that can assist growth also comes from Figure 1 above. Note that Mauritius, Bangladesh, Dominican Republic, and Sri Lanka lie above the line. This indicates the presence of some missing country-specific factor that assists growth but that is not captured in the broad competitiveness index. One common denominator among this group is that all have significant textile and garment exports, some of which is assisted through specialized institutions such as export processing zones (EPZs). This may suggest that active export promotion in this sense can provide an additional boost to growth above and beyond the other factors included in the competitiveness index. However, these policies should not be pursued at the expense of improving macroeconomic conditions, institutional strengthening, and technology policy.

The following graphs pursue this point a little further with reference to Mauritius.

Figure 2 plots output, employment, and the stock of capital employed in Mauritian EPZs between 1982 and 2002. After the boom in all three key economic variables in the early 1980s, the number of persons employed in EPZ firms stopped growing significantly around 1987. Capital continued to be invested in the zones up to the early 1990s, after which the capital stock leveled off for a significant period, before picking up again in the very late 1990s. However, EPZ output kept growing throughout the period. This continued growth in output despite the lack of increase in employment and only a moderate increase in capital means that the EPZ sector saw significant productivity gains during the late 1980s and 1990s. In Mauritius, these zones were an engine of productivity and also a significant engine of growth.

Figure 2: Mauritius and Export Processing Zones

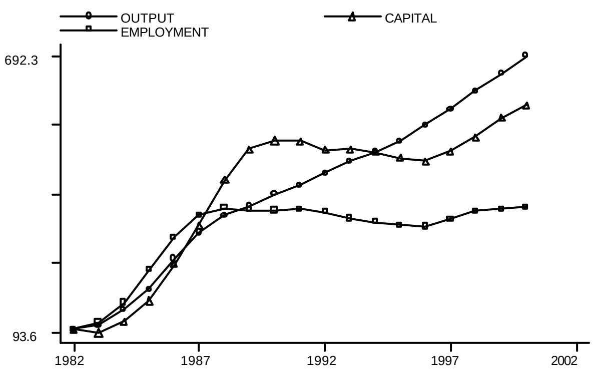
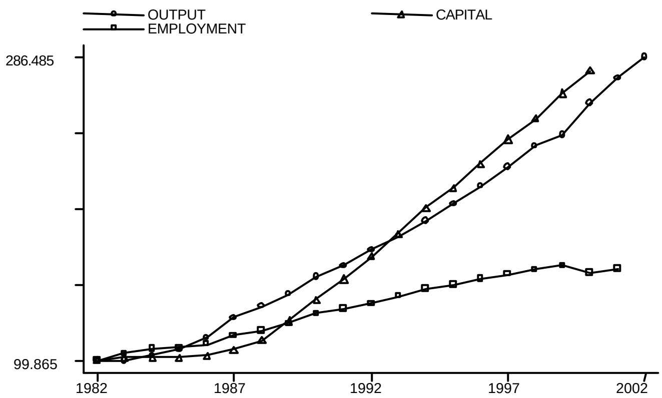


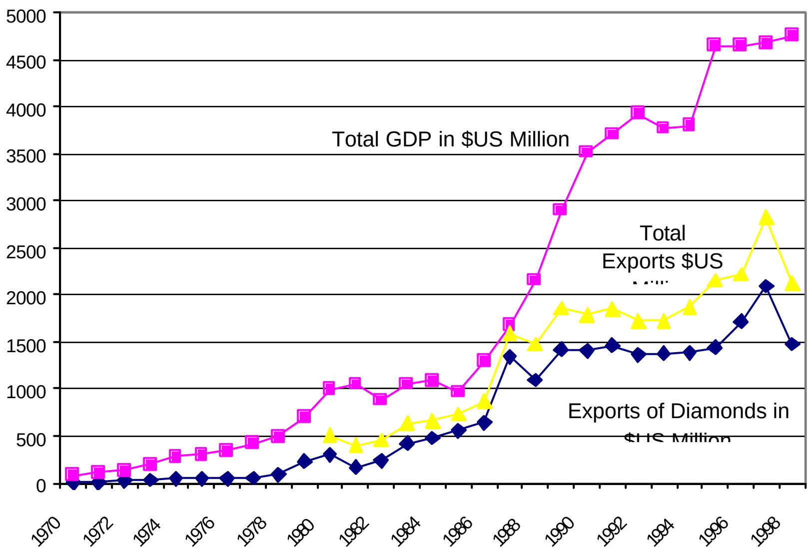
Figure 3: Mauritian Economy Excluding EPZs



Contrast this evidence with what took place in the rest of the Mauritian economy. Figure 3 plots similar data for the rest of the economy, excluding the EPZs. Here one can see that output growth overall was driven by capital accumulation – in other words, there were no clear productivity gains, just a lot of savings accumulation and investment to achieve the growth. This evidence supports the view that Mauritius achieved an extra kick to its growth through export promotion.

The other fast-growing country in the SADC region has been Botswana. Have there been special factors behind Botswana's growth? GDP, exports, and diamond exports are all shown in Figure 4 in U.S. dollars. The figure shows Botswana's rapid growth, but also shows that the increase in diamond exports played an important role in this growth. By the 1990s perhaps a third of Botswana's economy could be directly traced to income from the diamond mines. It is noteworthy that during the 1990s the evidence from the earlier growth analysis suggests that Botswana's rate of growth can be fully explained by the competitiveness index, without appeal to special country-specific factors. This may indicate that Botswana's current rapid growth is sustainable based on its policies and not on continued expansion of diamond exports.

Figure 4: Botswana's GDP, Exports, Diamond Exports



In summary, what have been the driving forces behind growth in the SADC region, and what will be the driving forces in the future? This question can be answered in two ways. First, analysis of the GCR data to understand the driving forces behind LDC growth during the 1990s suggests that this growth has been influenced by macroeconomic conditions and the institutional and technological environments. A significant part of recent growth for the five SADC countries in the GCR data set can be explained in terms of their performance on these indicators. Zimbabwe ranks low in all three areas; the other countries tend to rank lowest in the environment for innovation and macroeconomic conditions. Second, recognizing that only two countries in the region, Botswana and Mauritius, have achieved anything close to the rapid growth of 5 percent or higher that is required to make significant progress in raising living standards raises the question of other, country-specific factors that may have played an important role. In addition to their relatively good performance on the competitiveness indicators, which is part of the reason for the fast growth records of these two countries, export promotion in Mauritius and good fortune regarding diamond mines in Botswana have also played an important role.

LIKELY ECONOMIC EFFECTS OF SADC FTA

Geographic Reallocation of Economic Activity

In addition to the impact of greater trade integration on growth of the region as a whole, greater integration will change the distribution of economic activity within the region. RCSA should know what the likely impacts are, in order to be prepared for them and to craft an intelligent policy towards these changes. We offer two pieces of evidence to understand these likely changes. One is from an examination of the distribution of economic activity across the regions of *large countries,* since by definition these regions are already institutionally integrated. The second is from the experience of the European Union, which has been pursuing greater regional integration for four decades and has a controversial regional aid program to go along with it.

The evidence on growth trends from large countries suggests that over time economic activity migrates away from a) mountainous areas, b) areas far away from coastlines or navigable rivers,

c) tropical areas or areas with extreme climates, and d) towards pre-established cities. The same will probably happen within the Southern African region.

This migration of economic activity comes about both from the movement of mobile factors, such as labor, as well as from greater population growth and different rates of capital accumulation in the remote and favored areas. Greater trade of goods and services may be seen as indirect movement of factors, too, rather than as a separate process.

The only parts of this gravitation of economic activity that may be affected by policy are really the movements of labor and goods. It is very difficult to affect or alter the different rates of accumulation in different regions. Attempting to resist the natural reallocation of economic activity is likely to result in bad policy. There are usually better means to ameliorate any problem than erecting barriers to mobility.

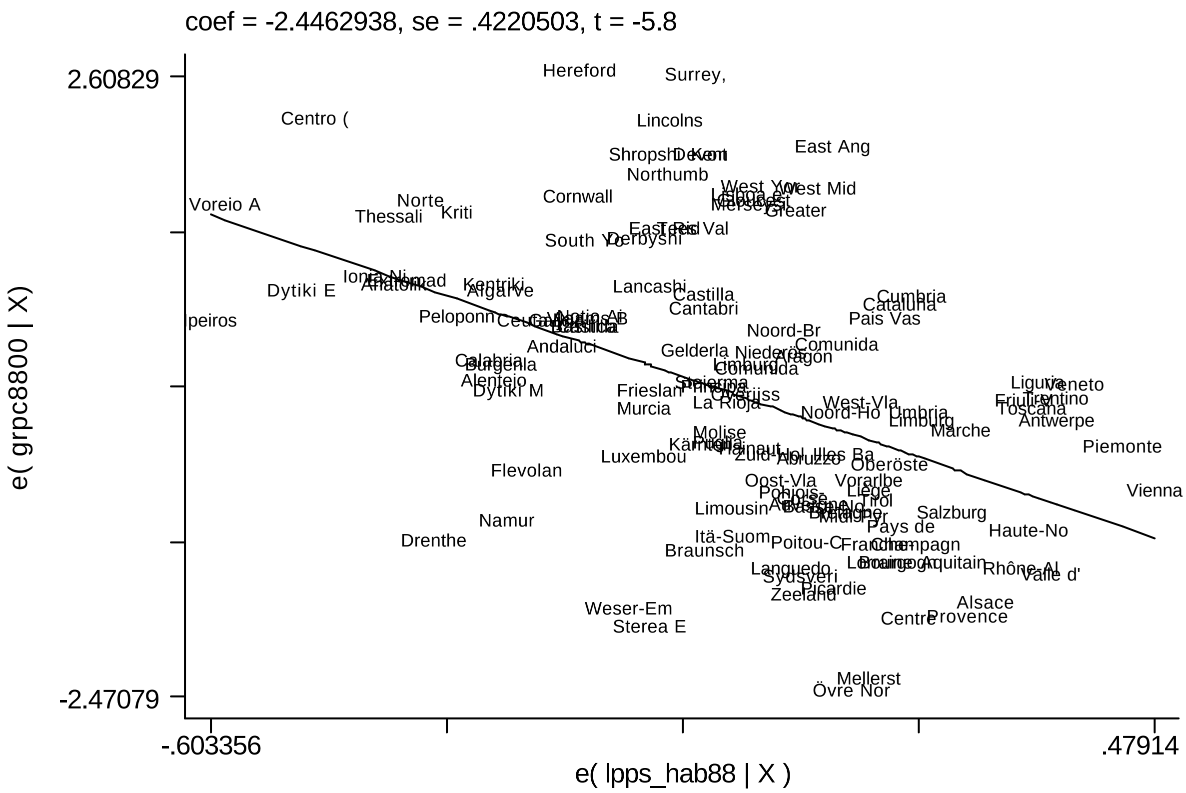
Spatial Convergence of Incomes

Although some argue that this economic activity relocation process will impoverish remote regions that are left behind, this is far from obvious. Although people leave the remote regions, *average* incomes in the remote regions may actually rise as the people that are left behind face less congestion in trying to make a living off of limited economic opportunities. The migration may actually serve to *reduce* regional inequalities.

The evidence from Europe is helpful on this point. In Figure 5 below, growth rates of European regions between 1988 and 2000 are plotted on the vertical axis, and the level of income back in 1988 is plotted on the horizontal axis. Poorer regions are to the left and richer regions on the right-hand side of the graph. Note that the poorer regions actually tend to have had higher growth than the richer regions. That means that regional integration in Europe has served to lessen, not widen, regional income disparities. Although labor, capital, and economic activity have continued to gravitate towards richer regions and cities, and the richer regions have grown, the poorer regions have grown even faster in terms of *average* income.

Europe’s regional policy has been first and foremost to reduce barriers to the free movement of goods and services, labor, and capital across the European Union. A secondary aspect of its regional policy has been its programs of regional aid. As Figure 6 below shows, this aid has tended to go to the EU’s poorer regions. EU regional development policy is implemented through four Structural Funds and a Cohesion Fund. Seventy percent of the structural funds are allocated to regions whose GDPs are less than 75% of the EU average, while the cohesion fund is spent in member countries whose GDPs are 90% below the EU average, i.e. Greece, Ireland, Spain, and Portugal. The expected cost of EU regional aid in 2000-2006 is €231 billion. On an annual basis, this is about 0.5% of EU GDP. Note in Figure 6 that richer regions (again, to the right of the graph) have tended to receive less regional aid, depicted on the vertical axis.

Figure 5: European Regional Per Capita Income, 1988, and Growth Rates, 1988-2000



The question is whether this regional aid has played a role in the convergence of income levels seen in the earlier graph. The regional aid was partly income support and partly infrastructure projects that would, by facilitating movement of factors, potentially assist the income convergence. Regression analysis performed in the background for this study shows some evidence that the regional assistance did tend to assist income convergence. This is not a firm conclusion, but there is some evidence to support the idea that European regional assistance helped facilitate income convergence among its regions.[2]

Skill Composition of Employment and Effect on Wages

Another important effect of regional (and, by extension, global) trade integration, as economic activity restructures, is the effect on labor markets. As the structure of an economy changes under free trade, the sets of skills required by firms also changes. Increased integration may follow Hecksher-Ohlin principles and favor low-skill, labor-intensive manufacture opportunities, thereby increasing the demand for assembly labor and thus lead to upward pressure on low-skill wages. However, the *relative* increase in demand for high-skilled labor is even greater. Experience with trade liberalization around the world has shown that increased integration with world markets shifts labor demand relatively more in favor of higher- rather than lower-skilled workers, thereby further increasing the spread in wages between qualified and unqualified labor.[3] As the demand

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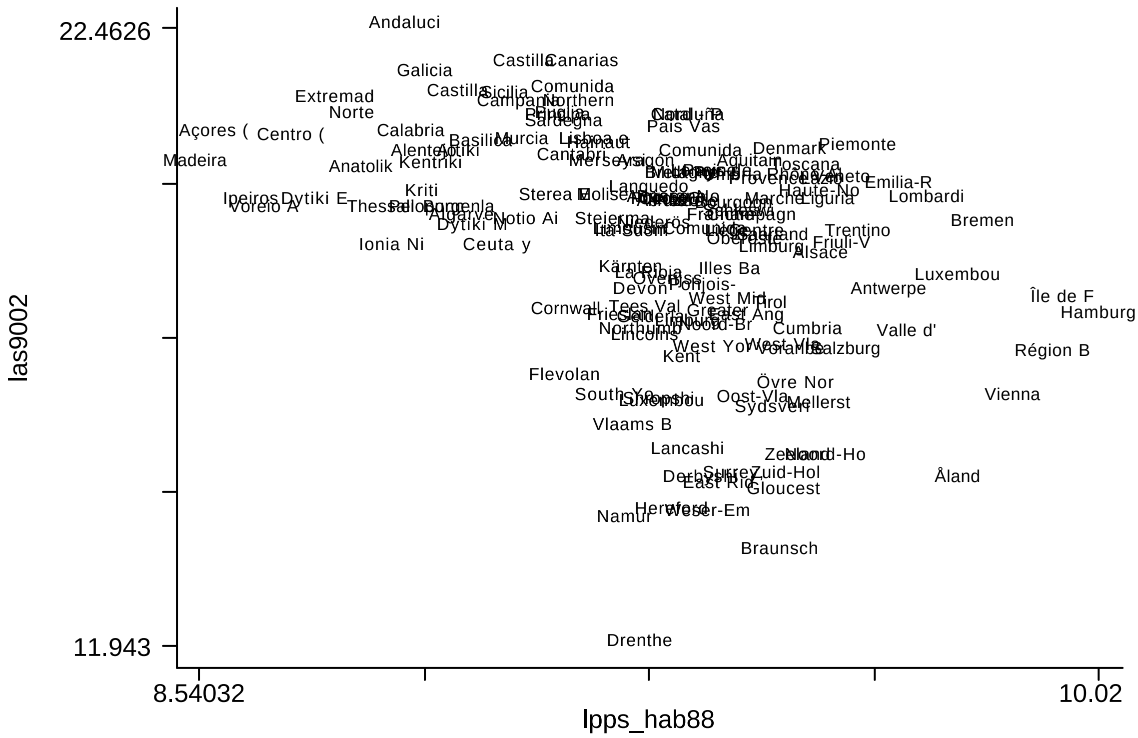
[2] See Jenkins (2000) for a discussion of regional integration schemes' compensatory mechanisms and their possible application to SADC.

[3] Confirmed by experiences in Brazil (Pavcnik et al. 2002), Indonesia (Agrawal 1995), and Mexico (Revenga 1995).

for higher-skilled workers grows, pressure grows for the country’s education and training system to provide appropriate curricula, teaching methods, and learning and skills acquisition opportunities.

Figure 6: European Regional Per Capita Income and Regional Development Assistance



South Africa’s experience with increased global integration has been a structural change in production toward capital-intensive sectors, an increase in demand for higher skilled labor, and increasing unemployment among low-skilled workers (Tsikata 1999; Lewis 2001; Alleyne and Subramanian 2001). While this is bad news for South Africa’s low-skilled workers, with increased regional integration in SADC, it may be good news for other SADC member countries whose low-skilled workers are lower cost than South Africa’s.

ANTICIPATED EFFECT OF SOUTH AFRICA ON REST OF SADC

South Africa, representing two-thirds of SADC’s exports and three-quarters of its GDP, swamps SADC. The conundrum of South Africa within SADC is of course the presence of a capital-intensive, relatively more industrialized economy, alongside thirteen other countries that are largely primary sector-driven. Free trade within such a region immediately conjures images of the North American Free Trade Agreement with South Africa playing the U.S. relative to the rest of SADC’s Mexico. Yet the great irony in SADC is the legacy of apartheid in South Africa, resulting in a labor market story that in some ways mirrors those of the other SADC member countries – with high rates of unemployment and low skill levels – *juxtaposed against* the political and economic importance of organized labor, which has resulted in high wages and stymied employment growth.

So what role will South Africa play in the region? Will South Africa’s capital base and more sophisticated value-chains encourage it to make cross-border investments elsewhere in the region, taking advantage of lower wages for “off-shore” labor-intensive manufacturing, in a NAFTA-ization of Southern Africa?[4] Will various policy constraints to factor mobility, incentives created by the EU-South Africa FTA, and difficulties in efficient transport of goods across borders conspire to keep South African investors reasonably close to home to take advantage of informal labor arrangements in-country and within SACU? Or will the EU-South Africa act as a growth pole for SADC suppliers into South Africa, where inputs can be transformed to satisfy rules of origin for preferential access to the EU market?

Given the difficulties in attracting FDI from abroad, SADC member countries would do well to attract South African investors. They know Africa, they are probably better equipped to handle the risks and uncertainties posed by the region. Examples of South African investments in mining, agro-processing, clothing manufacture, retailing, telecommunications, and banking elsewhere in SADC and around sub-Saharan Africa are growing.

However, in considering this same set of questions using a series of computable general equilibrium model simulations, Lewis, Robinson, and Thierfelder (2002) conclude that because of its limited size, South Africa is *not* a viable growth pole for the region. Access to EU markets and/or world markets provides substantially bigger gains for the other SADC countries than does access to South Africa. They also find substantial gains for the remaining SADC member countries of a SADC-EU FTA, in light of the South Africa-EU FTA.

Model results notwithstanding, there are incentives at work that might yet encourage variations on triangular trade arrangements within the region. The rules of origin of AGOA stipulate that by 2004 all AGOA-eligible suppliers must use U.S.- or African-sourced fiber and fabric in the manufacture of garments for duty-free access to the U.S. market. South Africa’s industrial base will certainly seek African cotton – from within SADC, if at all possible – to process textiles that will enter a later stage of the value-chain for processing into apparel – possibly in other SADC member countries, where wage costs are lower. While much of the debate in individual African countries with which one of the authors is familiar has been about creating complete fiber-thread-fabric-clothing value-chains in-country,[5] the RCSA could facilitate the expansion of regional textile-clothing pipelines under AGOA.

[4] Lustig (1998) provides one of the more recent and objective accounts of the impact of NAFTA on the Mexican economy.

[5] Single country considerations have dominated to date in Mali, Uganda, Madagascar, and – albeit to a lesser extent – in South Africa. Source: Salinger and Carpenter (2001); Salinger and Greenwood (2001); Salinger, Bhorat, Flaherty, and Keswell (1998). Madagascar assessment made based on Orsini et al. (2002) and preparation for work to begin in July 2003 (estimated).

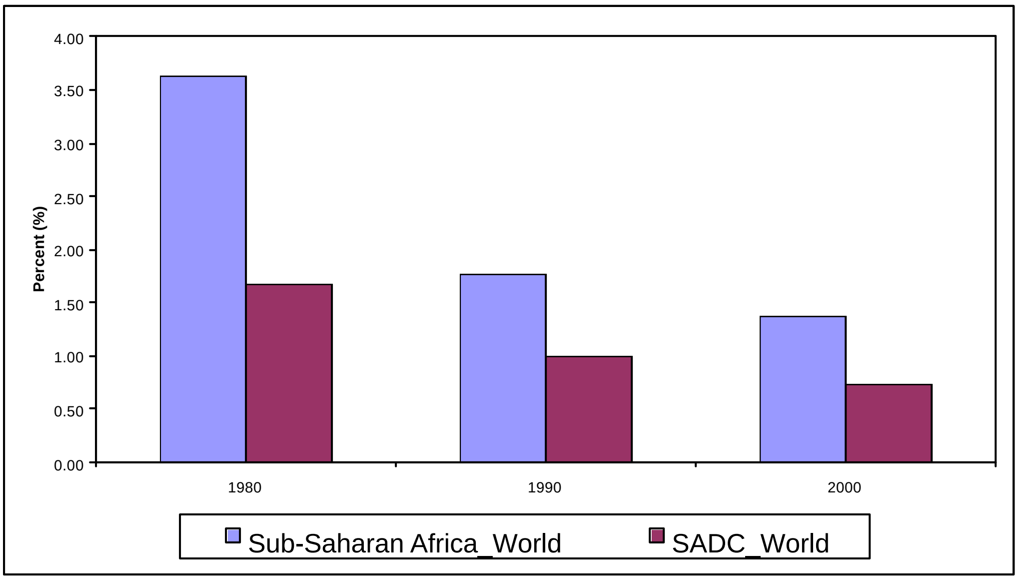
3. Global Trade Integration

INTRODUCTION

A more integrated world economy in which existing trade barriers are further reduced will provide increased opportunities for all countries to take advantage of gains that growth in trade can provide. However, as countries navigate down the stream of globalization, both opportunities and challenges will emerge. Initially, as with all trade liberalization, there will be winners and losers both among and within countries, among both consumers and producers. The challenges lie not merely in the identification of these groups ahead of time but also in the design of multi-dimensional strategies for assisting potential winners and losers alike. If policy makers understand this diversity, they will be able to debate effectively the consequences of specific types of liberalization and discuss possible complementary and mitigating measures.

However, in this age of rapid global integration, SADC's share of world merchandize trade has declined from close to 2 percent in 1980 to less than 1 percent in 2000 (Figure 7).

Figure 7: Sub-Saharan Africa's and SADC's Shares of World Merchandise Trade



Source: Author's calculations and UN Comtrade

Greater integration of SADC economies into the world market could play an important role in the promotion of sustainable development and poverty alleviation in the region. For the SADC region to integrate into the global market, it is imperative that the sources of marginalization are better understood. There are three factors that have contributed to this increased marginalization: (i) the region's weak domestic polices have failed to stimulate growth and have been biased against exports, which led to the decline in the region's share of global exports; (ii) restrictive market access policies in developed countries have limited SADC's export growth, especially in higher value-added products; and (iii) global demand for primary products (SADC's major export) has been considerably weaker than demand for high value-added agricultural products, thereby causing a decline in the region's share of world trade.

In this section, the objective is to bring forth some of the critical issues affecting the SADC region in the process of global integration. These issues center around seven specific questions:

- What are the relative impacts of unilateral liberalization with respect to the world versus regional trade liberalization?
- What do multilateral trade negotiations mean for the SADC region?
- Why participate in multilateral trade negotiations?
- How engaged are the region's policy makers in multilateral trade negotiations?
- What are the major multilateral trade negotiation issues for SADC?
- What are the challenges and limitations to increased engagements and implementation of WTO obligations and commitments?
- What is the way forward in the "Doha Development Agenda"?
- Are preferential trade agreements important for the SADC region?

WHAT ARE THE BENEFITS OF UNILATERAL LIBERALIZATION WITH RESPECT TO GLOBAL TRADE VERSUS REGIONAL TRADE LIBERALIZATION?

The SADC region has made tremendous progress in trade liberalization under the structural adjustment programs in effect since the mid-1980s. Countries in the region have liberalized their exchange rates, privatized marketing boards, decontrolled pricing systems, and removed quantitative restrictions, among other things (ESRF 2003). However, trade liberalization is still unfinished business in the region.

Using a general equilibrium analysis, Diao and Robinson (2003) show potential gains and market opportunities for six SADC countries (Malawi, Mozambique, Tanzania, South Africa, Zambia, and Zimbabwe). Their scenarios identify possible winners and losers from unilateral liberalization of agricultural trade (i.e., elimination of tariffs). For the region as a whole, agricultural GDP declines by 1.12 percent, while economy-wide GDP rises by 0.67 percent. The drop in agricultural GDP is a result of producer price declines, and thus drop-offs in agricultural production, in South Africa and Zambia. This is compensated by a shift of resources to non-agricultural sectors, and the net effect on economy-wide GDP is positive. Elsewhere, agricultural output increases in Zimbabwe, remains unchanged in the case of Malawi, and falls by 1.5 percent in the rest of the countries. Agricultural exports increase by 4.8 percent for all six countries, and imports pick up even more, increasing by 23 percent. It is not surprising that Zimbabwe is the only country that gains, since the Zimbabwean agricultural sector is distorted by high protection. There, significant tariff reduction improves efficiency, resource allocation, and increases employment in the agricultural sector. Overall, unilateral liberalization raises Zimbabwe's agricultural GDP by 1.9 percent and economy-wide GDP by 3 percent. Potential benefits from unilateral liberalization in certain countries, e.g., Malawi, Mozambique, Tanzania, and Zambia, are eroded by disincentives caused by export taxes, export subsidies, parastatal margins, poor infrastructure, and high transportation cost. Unilateral liberalization, in this respect, is an unfinished agenda.

If the six countries engage in regional trade liberalization, agricultural GDP increases by 0.40 percent ($36 million), real total GDP by 0.21 percent, total agricultural imports increase by 4.0 percent, and total agricultural exports rise by 2.2 percent. Even though regional liberalization leads to an increase in real agriculture GDP compared with a decline in the case of unilateral liberalization, total GDP increases under unilateral liberalization. Previously protected agricultural producers suffer losses but are relocated into non-agricultural sectors.

From these scenarios, it is clear that results from unilateral trade in the agricultural sector in some cases hurt the SADC countries, while regional trade liberalization gives much better results. Potential benefits from unilateral liberalization in certain countries, e.g., Malawi, Mozambique, Tanzania, and Zambia, are eroded by disincentives caused by export taxes, export subsidies, parastatal margins, poor infrastructure, and high transportation cost. Unilateral liberalization, in this respect, is an unfinished agenda. Even though regional trade liberalization is favorable, high market transaction costs in the region reduce gains from liberalization.

MULTILATERAL TRADE NEGOTIATIONS AND THE SADC REGION

What do Multilateral Trade Negotiations Mean for the SADC Region?

The new trade negotiations in the World Trade Organization (WTO) offer a multilateral forum for the SADC region to take advantage of a rules-based system for trade and development. Most countries have acceded to the WTO,[6] and the Doha Development Agenda offers opportunities and enormous challenges. New structures of the global trading system and governance can increase the region's market access and clarify its rights in the international trading framework. But they also bring obligations, including giving up a degree of sovereignty over trade and investment. Also, as a consequence of continued global trade liberalization, there will be a continuing erosion of the preferences enjoyed by SADC countries. In the case of agriculture, trade preferences will remain beneficial in cases where MFN tariffs are still exceedingly high.

SADC countries have a lot to gain from a multilateral system based on strong rules, both to protect them against pressures from more powerful countries and to help them improve their own trade and domestic policies. The importance of this system to the region and other developing countries has increased greatly as they have become increasingly integrated with the world economy. Recent trade negotiations, in particular, have given SADC countries more secure access to the developed markets (by reducing the scope of import restrictions) in exchange for better developed country access to the expanding markets of developing countries (through lower tariffs on imports from the developed countries).

Why Participate in the Multilateral Trade System?

The economic literature is by now replete with well documented arguments in favor of increased global trade integration as a key variable for countries to increase economic growth and reduce poverty (summarized in Stryker, Salinger, Plunkett 2003). Ingco and Kandiero (2002) suggest several additional reasons why African countries, including SADC, should participate in the multilateral trade system. One reason is the key preoccupation of most countries in the region with the objective of food security. Realization of this objective requires access on an assured

[6] Of the 14 SADC member countries, all are WTO members except for the Seychelles, which is a WTO observer.

basis to world market supplies, as well as agricultural raw materials for encouraging light manufacturing in rural areas. Most countries in the SADC region have a stake in building an efficient food system and maintaining market stability. Therefore, the region can gain by participating fully in the current WTO discussions aimed at progressive liberalization of agricultural trade.

The multilateral trading system can also provide a framework to improve the region's trade and domestic policy regimes affecting the rural sector. Sectors such as agriculture still account for a significant share of GDP and a major source of employment in most SADC member countries, where over two-thirds of the poor population live in rural areas. Thus, continuing the process of reform of the global trading system to facilitate the adoption of rural sector policies that will reduce/eliminate policy distortions and improve the efficiency of the allocation of scarce resources in these countries can provide significant gains both in terms of consumer welfare and incomes.

Another reason for supporting and participating in multilateral negotiations is that the supply response to structural adjustment depends upon the credibility of reforms. In fact, establishing the credibility of policy measures is at least as important as choosing the efficient policy solution. As shown in many countries, the private sector does not invest if the persistence of the reforms is in doubt. Unfortunately, reform programs have frequently been reversed or halted. Establishing the credibility of policy measures can be achieved through the framework of multilateral rules where member governments can lock in domestic policy reforms. The multilateral system has built-in instruments to prevent policy reversals, thus providing a framework for more credible policy reforms.

The Doha round provides another opportunity for SADC countries to go beyond their unilateral liberalization efforts in exchange for multilateral concessions, or to bind their domestic reforms to an internationally binding framework. RCSA and organizations such as the World Bank and the United Nations, just to mention a few, can help facilitate this process and the development of appropriate trade and domestic policy measures, including the institutional or regulatory framework to effectively implement these measures.

How Engaged are the Region's Policy Makers in Multilateral Trade Negotiations?

In November 2001, the "Doha Development Agenda" emerged from the WTO's Fourth Ministerial Conference. This trade agenda is considered to be the most ambitious multilateral trade round ever (Mbekeani 2002). Negotiations cover a number of critical topics, including implementation, agriculture, services, market access for non-agricultural products, environment, and WTO rules on subsidies, regional trade agreements, and anti-dumping, and dispute settlement. The dispute settlement understanding is to be completed by May 31, 2003. All other areas have to be concluded by January 2005 as a "single undertaking," meaning that the trade round will not be concluded until all members agree on everything.

Most developing countries believe that the Uruguay Round Agreement (URA) did not produce fruitful results (Adhikari 2000). Negotiators from the SADC region and their counterparts from other developing countries signed documents that most of them did not fully understand. As a result, not much progress was made, in particular on market access for textiles. Also, most developing countries did not anticipate the enormous burden of implementing some of the WTO agreements (Hoekman 2002). The Doha Development Round is welcomed as a chance for developing countries to participate effectively, promising potential gains from trade liberalization. Even in light of this optimistic view, there are still several concerns. Though policy makers in the region embrace the negotiations, the interpretations of the Doha ministerial declaration seem to differ among countries (Mbekeani 2002). Confusion regarding commitments by trade ministers and ambiguities in several areas remain. For instance, there is confusion as to whether or not negotiations have started on the issues identified at the Singapore Ministerial (e.g., competition policy, investment, trade facilitation, and transparency in government procurement), and whether or not negotiations on the TRIPS agreement have been launched, under which body, and according to what timeframe. These concerns could explain why negotiators have missed the March 31, 2003 deadline for countries to agree on modalities on agriculture and services.

What are the Major Multilateral Trade Negotiation Issues for SADC?

Issues of interest for SADC countries pertain to market access in the region, policies in OECD countries, the TRIPS Agreement, and special and differential (S&D) treatment provisions.

Regional Market Access

The two most important sectors for SADC and other sub-Saharan countries are agriculture and the labor-intensive manufacturing sector (e.g., textiles and clothing). Although the WTO Agreement on Textiles and Clothing stipulates that all textile quotas be abolished by January 1, 2005, exceedingly high tariff barriers in the sector still exist. In 2001, textiles and clothing product categories in South Africa faced average tariffs peaks around 19 percent and 38 percent, respectively (Cassim and Onyango 2002). High tariffs in agricultural products in the SADC region also impinge on trade. Countries like Zimbabwe have MFN tariff rates as high as 80 percent for some products (Ngqangweni, Kandiero, Gebrehiwet, and Kirsten 2003). The average bound tariff rates by SADC member countries such as Lesotho, Malawi, Mozambique, Tanzania, Zambia, and Zimbabwe are as high as 100 percent or more (Table 4).

Table 4: Uruguay Round Bound Tariff Rates In Agriculture

Country	Average Bound Tariff Rates (%)
Angola	80
Botswana	40
Congo, Dem. Rep.	30
Lesotho	200
Malawi	124
Mauritius	120
Mozambique	100
Namibia	40
Seychelles	..
South Africa	40
Swaziland	40
Tanzania	120
Zambia	124
Zimbabwe	146

Source: Adapted from J. M. Finger, M. D. Ingco, and U. Reincke (1996)

Market access in the area of services is high on SADC's agenda. Due to high protection in the services sector, gains from further liberalization are expected to be high (Hoge 2002, 221). However, liberalization in services sector should be accompanied by effective regulation to ascertain that market failures and infrastructure are addressed. To date, only South Africa, Tanzania, Zambia, and Zimbabwe have competition policies and institutions to support further liberalization in the services sector (Hartzenberg 2002). Nonetheless, the SADC region has made some progress in the financial and telecommunication sectors. The restructuring and closure of some state-owned banks in Lesotho indicate progress in the financial sector (Mathlanyane 2002). Even though there has been some progress in Lesotho, South Africa, Botswana, Mozambique and Malawi, more still needs to be done in the region. Countries such as Angola still la g behind in terms of financial liberalization (Table 5). While the financial liberalization index for Lesotho is as high as 8, Angola scores only 1. A sound financial system will attract more foreign banks, leading to more foreign direct investment. Liberalizing the telecommunication sector has been gradual but promising. From Table 5, one can see that Tanzania and Madagascar have more liberal telecommunication policies compared with Angola, Swaziland, and Zimbabwe. The region has already incurred most of the adjustment costs in this sector. This means that in the future the liberalization process will be at a much faster pace.

Table 5: Liberalization Indices for Selected SADC Countries

Country	Financial Liberalization Index*	Country	Telecom Liberalization Index**
Angola	1	Swaziland	1
Malawi	7	Zimbabwe	1
Mozambique	7	Angola	2
Zimbabwe	7	Lesotho	4
Lesotho	8	Malawi	4
South Africa	8	South Africa	5
Mauritius	8	Botswana	5
		Mozambique	5
		Zambia	5
		Madagascar	9
		Tanzania	9
		Mauritius	5

Source: Mattoo, Rathindran and Subramanian (2001)

Notes : * Index ranging from 1-8 with higher values indicating more financial openness

** Index ranging from 1-9 with higher values indicating more liberalization in telecommunication.

OECD Market Access and Export Subsidies

OECD market access policies, in particular in the agricultural sector, are a major concern for the SADC region. Although SADC wishes to increase market access in OECD countries, protection in still high. For example, the post-Uruguay tariff rate for tobacco is about 350 percent in the

United States; groundnuts and coffee are as high as 550 percent and 30 percent, respectively, in Japan; and maize rates are about 84 percent in the EU (Ingco, Kandiero, and Nash 2003). While SADC exporters must contend with these tariff peaks, tariff escalation is also a major problem for products such as tobacco and meat. The EU has promised to remove tariffs on all products but arms. However, issues relating to food safety and standards are still at the forefront. While the safety of food safety is undoubtedly a real concern, SADC countries are worried that standards will indirectly replace tariffs to restrict trade.

OECD countries' export subsidies policies are another concern. The EU accounts for about 90 percent of the expenditure of total export subsidies in the world. When export subsidies are significant, as in the case of the EU, they have the potential to depress world market prices, leading to lower producer prices received by farmers in the SADC region and other developing countries than they would in the absence of those subsidies. In the short run, the elimination of export subsidies could have an adverse impact on net-importing countries that would have to pay higher prices for imported food products. However, in the long run, SADC countries would likely benefit from elimination of export subsidies as their producers will face more encouraging incentives to boost food production. Of course, the actual impact of elimination of export subsidies in SADC will depend on the policies adopted by individual countries, and on the impact on world prices of a negotiated liberalization package.

Trade-Related Aspects of Intellectual Property Rights

The TRIPS Agreement grants minimum standards for levels of protection to innovators of intellectual property in numerous fields. This Agreement is considered to be the most comprehensive multilateral agreement on intellectual property rights. TRIPS has relevance to drug policies in SADC countries through articles that protect public health and that define patent rights. These articles protect intellectual property rights by excluding third-party use, offering for sale, selling, or importing of patented products for a minimum of 20 years from the date the patent application is filed. Civil claims around breaches of patents put the burden of proof on the defendant. At present, most essential drugs are not patented. In South Africa, less than five percent of the 693 essential drugs are patent-protected. The TRIPS Agreement is thus less of an issue for the vast share of existing essential drugs than it is for new and future essential drugs patented after 1995 (Loewenson 2001). Patent protection leads to increased costs of patented drugs – including new drugs for HIV/AIDS, resistant tuberculosis, and malaria, among others – which puts a significant burden on public health budgets. SADC thus faces a challenge in accessing these new essential drugs at affordable prices.

Special and Differential (S&D) Treatment

Provisions according special and differential (S&D) treatment for developing countries are also an important issue for SADC (SATRN 2002, 23). The rationale behind S&D provisions was based on two main considerations. First, developing countries sought to ascertain that there is equity and fair competition in world markets where structural conditions differ. Second, developing countries sought protection from potential biases created by the stronger negotiating capacity of developed countries in the international trade system.

In addition, least developed countries were promised some measure of technical assistance to increase their capacity to participate fully in global trade negotiations.[7] There is concern among

[7] The record of the U.S. government in contributing to trade capacity building in developing countries is presented in USAID (2003).

developing countries that the S&D treatment agenda in from the Uruguay Round did not meet its goal. SADC member countries – like other countries in sub-Saharan Africa – believe that many promises were made and very little was delivered. Elements dealing with technical assistance and implementation periods will be re-addressed under the Doha Round. For instance, the uniform transitional period for trade reforms to be implemented does not take into consideration the different speeds at which SADC countries can adjust to the new provisions.

What are the Challenges and Limitations to Increased Engagements and Implementation of WTO Obligations and Commitments?

As the SADC region engages in the multilateral negotiations, countries will incur large financial costs as they create the institutions and implement the myriad of standards demanded by the trading system. For some of the countries, implementing WTO obligations would cost as much as an entire year's development budget. Finger and Schuler (2002, 493) note that WTO obligations reflect little awareness of development problems and little appreciation of the capacities of the least developed countries. More fundamentally, it is not clear that all of these standards are ideal for the developing countries, and there is the ever-present danger that they will be used to protect markets.

The SADC region faces many constraints associated with the implementation of such measures as Sanitary and Phytosanitary Standards (SPS) and Technical Barriers to Trade (TBT). The major constraints pertain to lack of resources, infrastructure, and expertise. In trying to help the region cope with the provisions of the SPS Agreement, the multilateral trade system should allow sufficient time for SADC countries to adjust and implement new regulations. To help enforce and assess standards, it is critical that the region request appropriate technical assistance to enhance their expertise. Oyejide (2000) points out that the cost of implementation of some of the WTO agreements, the lack of financial support, the failure of developed countries to deliver the agreed "special and differential" treatment to least developed countries, and the potential problems of some of the WTO agreements may constraint Africa's efforts to improve economic performance.

SADC countries also have to take some precaution when they further open their financial sectors. In principal, financial liberalization offers gains, but costs may be associated with countries opening up to the world. Apart from the demand associated with effective regulation and infrastructure, financial liberalization may increase risks in terms of capital volatility, lead to a loss of autonomy, and increase the likelihood of contagion (Bossone, Hanohah, Long 2001).

Many of these issues are complex and lack of trade capacity in the region is a substantial limitation. The major issues under the Doha Round will require careful and conceptually robust analytical work. Research and analyses that evaluate SADC countries' proposals will be crucial to enhancing the participation of the region.

What is the Way Forward in the "Doha Development Agenda"?

The Uruguay Round Agreement made significant efforts to improve market access conditions. However, the general consensus after the Uruguay Round was that African countries did not go far enough in lowering their bound duty rates (Ingco 1995; Harrold 1996). Therefore, under the Doha Round it is crucial that countries in the SADC region further reduce and move towards greater uniformity across products in their bound and applied tariff rates in order to capture the gains from the liberalization process. The exceedingly high protection rates still prohibit countries in the region from fully capturing the gains from trade. A tariff regime characterized by non-uniformity among products, escalation, and overall high rates has adverse effects on the domestic economy. Among these are implicit taxation of exports, creation of productive inefficiencies, regressive taxation of domestic consumers, and promotion of rent-seeking and corruption. Lowering bound tariff rates in the context of multilateral trade negotiations sends a powerful signal of the government's intentions to permanently adopt an open, pro-export trade regime. In this way, it guides and promotes investment in appropriate sectors and technologies. Overall, the region should give priority to the "traditional" market access issues, including all goods and services, in particular in the agricultural sector and labor-intensive manufactures. However, these market access initiatives should definitely not be in conflict with the region's development initiatives (Helleiner 2000).

With regards to the TRIPS Agreement, an important issue is in relation to HIV/AIDS. Loewenson (2001) suggests five initiatives for SADC countries: (i) governments in the SADC region should make the fullest use of the transition period that has been granted by the WTO to prepare for the consequences of implementation of the agreement; (ii) national drugs policies and regulations should include the right for countries to shop worldwide for the best prices; (iii) regulatory and institutional frameworks need to be set up to foster pharmaceutical companies incentives to continue research into new drugs, while at the same time finding the ways of improving access to drugs by the poor; (iv) focus on alternatives to patenting that promote research and development for drugs needed domestically; and (v) health ministries should request to be involved in the process of revision of patents laws from the beginning.

At the 2002 Southern Africa Trade Research Network symposium, it was suggested that S&D treatment should be binding, i.e. should be fully integrated into the multilateral trade negotiations. However, the region should recognize that blocking the negotiations with S&D conditions that will never be implemented may not be the best way forward. In deciding the kinds of S&D treatment provisions to try to adopt in the negotiations, these countries should also focus on those provisions that would have maximum developmental impact and would not postpone or avoid undertakings necessary for domestic reforms. The optimal solution, however, would be for the region to ascertain that the WTO rules are fair, which in turn would make S&D treatment unnecessary.

OECD countries should deal with the "Uruguay Round hang-over." Tariff peaks and escalation, in agricultural products in particular, should be further reduced. In addition, subsidies should be modified or further reduced as well.

In terms of trade capacity, the SADC region requires support in this new WTO round in several areas including: (i) research and quantitative economic analyses to evaluate the implications of the new trade agenda's trade and sector policies; (ii) assistance in preparing and formulating appropriate negotiating positions in areas such as market access, domestic support, and export competition; (iii) assistance in evaluating trade-offs and options on various new trade issues, including SPS measures and intellectual property; (iv) assistance to enhance local institutional and human resource capacity to implement the pending commitments under the Uruguay Round Agreements; and (v) assistance to strengthen analytical capacity to effectively participate in this new WTO negotiations (Ingco and Kandiero 2002).

This new trade round will provide another opportunity for the SADC countries to go beyond their unilateral liberalization efforts in exchange for multilateral concessions, or to "lock in" their domestic reforms to a multilateral framework. For the WTO agreements to be more effective, they should be complemented by domestic policy initiatives to address SADC's capacity constraints, as well as improve the investment climate and competition policy in the region.

ARE PREFERENTIAL TRADE AGREEMENTS IMPORTANT FOR THE SADC REGION?

SADC countries belong to other preferential trade arrangements, in addition to being part of the WTO accords. The main objective of trade preferences is to help developing countries achieve self-sustainable development. Essentially, preferential treatment through the reduction in tariffs by developed countries is supposed to translate into larger export revenues for developing countries. In addition, market access opportunities are expected to foster investment, technology transfers, employment creation, and income generation. Therefore, the idea of "trade, not aid" has some economic appeal.

Under the WTO three major forms of preferential treatment are permissible: (i) the Generalized System of Preferences (GSP); (ii) special preferential regimes established by developed countries for sub-sets of developing countries (e.g., the EU's Lomé/Cotonou Agreements for African, Caribbean, and Pacific (ACP) countries, the EU's Everything but Arms (EBA) agreement, the U.S. Caribbean Basin Initiative (CBI), and the U.S. Africa Growth and Opportunity Act (AGOA); and (iii) regional free trade areas among developing countries (e.g., SADC, SACU, COMESA, etc.).

With increased global trade liberalization, there is concern that the benefits stemming from preferential arrangements will be undermined as continued reductions of MFN tariff rates will reduce preference margins, i.e. the difference between MFN rates and preferential rates, and increase competition. In the particular case of agriculture, trade preferences potentially remain beneficial, considering that MFN tariffs are still exceedingly high for a number of products. Even though MFN rates are in the process of being reduced, it could take some time before exceedingly high tariffs on some agricultural products are low enough for a complete erosion of the margin of preferences to occur. Empirical evidence from several recent studies indicates that some benefits have been realized from trade preferences, as the margin between MFN and preference rates in agricultural products remains positive (Tangermann 2001). The export value of the ACP preference margin is estimated at approximately 630 million ECU. Beef and sugar have the highest share of the margin. Reducing MFN rates to 28 percent of the pre-UR base would reduce the margin by more than half.

The most important sector concerned by U.S.-SADC relations is the textiles and clothing sector under AGOA. Mauritius and South Africa dominated as the top two sub-Saharan exporters of apparel to the United States in 2001 (Mattoo, Roy, and Subramanian 2002). In 2002, led by foreign investment from Asia and South Africa, Lesotho's clothing exports to the U.S. climbed significantly, leading it to the #1 position. South Africa had modest growth of 19 percent, while Mauritius experienced a negative growth rate of -3 percent. In the particular case of South Africa, other product lines such as motor vehicles and citrus juices have the potential to gain under AGOA (Stern and Netshitomboni 2002).

The main hurdle for SADC countries under AGOA is the issue of rules of origin (ROI) requirements on clothing and textiles that stipulates U.S. or African origin for yarns and fabric. Lesser-developed sub-Saharan African countries eligible under AGOA may use third-party yarn/fabric suppliers through September 30, 2004, subject to quantitative restriction. The use of ROI is considered protectionist and could be costly for the region. On the other hand, with regard to textiles/clothing, ROI can encourage regional integration if AGOA-eligible countries begin to collaborate in the regional supply of fiber and fabric. Mattoo, Roy, and Subramanian (2002) estimate that non-oil exports from Sub-Saharan Africa to the U.S. would increase by about 43 percent without AGOA's ROI restrictions on access to the U.S. market, 80 percent of which would have been made up of clothing exports. Consequently, AGOA's rules of origin limit the full benefits of the tariff preferences.

However, in making the case for preferences, some economists such as Wang and Winters (1997) caution that trade preferences could have some negative results. They report that preferences may: (i) divert resources to export industries and away from sectors which could assist in sustainable development; and (ii) provide a poor basis for investment because they are temporary and subject to removal at the discretion of the granting country, and therefore do not provide incentive to industrialize.

Overall, preference regimes may hurt industry. The evidence from the Lomé Agreement protocols, in particular, is that preferences have hurt agriculture by promoting dependency both on products (bananas, sugar, and beef) and markets (Ingco, Kandiero, Nash 2003). However, it is important to emphasize that these are not the real issues facing SADC and the rest of sub-Saharan Africa. Rather, the critical issue is what position to take on preferential arrangements. For example, in the case of the EU Economic Partnership Agreements (EPAs) under the Cotonou Agreement, SADC countries will have to compare the benefits they will obtain under Everything But Arms (EBA) with the benefits they will obtain from joining an EPA. They will also need to consider what position to take on the ongoing negotiations in the WTO so as not to compromise their position in the simultaneous negotiations with the EU.

4. Global Competitiveness

WHAT ARE THE KEY DRIVERS TO COMPETITIVENESS?

Expanding the Competitiveness Conceptual Framework

As described more fully in Salinger (2001), the term "competitiveness" is used in different ways by different writers. It is sometimes used interchangeably with the economic notion of comparative advantage, referring to the economic cost of production of a good relative to an international reference price (and may be referred to as "cost competitiveness"), or it may be used in an even narrower sense to evaluate the financial performance of firms (Cockburn et al. 1996; Siggel 2003). It may also be used interchangeably with technical efficiency or productivity (Biggs and Raturi 1997). Some researchers have used it to measure the economic performance of industries and firms within countries (Wangwe 1995), localities (Kanter 1995), or countries (World Economic Forum (WEF) *various*).

In the management and business literature, the term competitiveness is a private sector development concept, referring to the ability of firms to master a range of qualitative management concepts within the industry or broader cluster in which they operate or at the national level (Porter 1990; Fairbanks and Lindsay 1997; Salinger 2003).

Comparative advantage, or cost competitiveness, is particularly important to producers and traders of non-differentiated commodities. However, even in supposedly "non-differentiated" commodity markets, where one might think that cost competitiveness dominates over qualitative variables, technical, management, and cluster collaboration issues come into play. Costs are a function of productivity (and thus *inter alia* of research and development, innovation, technology, and management skill in combining inputs and factors of production as efficiently as possible), and sales depend on the efficiency with which commodities are financed, marketed, and transported to their ultimate consumers. As products and services become increasingly heterogeneous, these qualitative dimensions of competitiveness become increasingly more important.

Porter's familiar competitiveness diamond depicts the competitiveness conditions required for clusters (core firms and supporting industries) to be successful. With regard to the *context for firm strategy and rivalry,* there must be a local context and rules that encourage research and development investment, innovation, and sustained upgrading (e.g., intellectual property protection). Open and vigorous competition among locally-based rivals is essential. High quality, specialized *factors and inputs* – e.g., human resources, capital resources, physical infrastructure, administrative infrastructure, information infrastructure, scientific and technological infrastructure, natural resources – should be available to firms. Optimal *demand conditions* include a core of sophisticated and demanding local customers, local customer needs that anticipate those elsewhere, and unusual local demand in specialized segments that can be served nationally and globally. These conditions are reinforced through the presence of capable, locally-based *related and supporting industries,* which collaborate with key firms as part of clusters, instead of operating independently as isolated industries.

Broader qualitative factors are also important in the competitiveness equation. Examples of factors that enter the competitiveness equation include understanding the size, degree of capitalization, extent of outreach, and product mix of firms; position of firms within the cluster; access to/use of various capital and inputs; access to financing and foreign exchange; degree of infrastructure development; export and marketing strategies; strategies for workforce development; innovations with respect to product development, manufacturing, and marketing processes; and cluster-level behavior with respect to policy makers (Salinger 2003).

For example, in deciding where to invest overseas and/or with whom to enter into commercial relationships, American electronics and textile firms evaluate national factors to narrow down the number of eligible country platforms, before pursuing individual firms with which they might do business (McMillan, Pandolfi, and Salinger 1999). Electronics firms report that cheap labor is no longer sufficient to attract FDI. As workforces become increasingly sophisticated around the world, new opportunities for developing countries are not in traditional, labor-intensive manufacturing for export opportunities, but rather in a host of new engineering and manufacturing opportunities, as manufacturing becomes increasingly distinct from innovation and market intelligence activities. Textile firms report that in addition to costs and taxes, other factors that determine their selection of developing country partners are local labor and management skills, production and marketing infrastructure, the regulatory and business environment, U.S. trade relations with the country under consideration, and the reputation of the country and local partner firms for labor conditions.

In addition, experience in successful economies suggests that **effective workforce development systems** (WFD) are also needed to support competitive cluster growth (Aring 2002; Aring, Belghazi, Bouzri, Salinger 2003). Only when a thriving workforce development system – connecting education and training institutions, employers, government policy makers, and workers – is in place can clusters hope to maximize their competitiveness. In recognition of this dynamic, Aring's workforce development diamond adapts Porter's competitiveness diamond to include education and training institutions as one of the four points, in addition to market conditions and the policy environment, workforce supply, and employers. Workforce development strategies may include strengthening linkages among these actors, working with employers to develop skills certification for specific clusters, developing lifelong learning systems, encouraging productivity and quality through industry-university R&D partnerships, extending competitiveness services through agricultural and industrial extension outreach by technical colleges and training institutes, fostering cluster growth, addressing youth employment challenges, or building entrepreneurship programs.[8]

For developing country businesses to understand how to strategize for global competitiveness, they need an **understanding of global value-chains** and how they are structured in their particular industries or clusters.[9] The global value-chain approach (sometimes

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[8] For further information on workforce development-related activities, see USAID's Global Workforce in Transition (GWIT) project website, www.gwit.us/overview.asp.

[9] The term "cluster" and the notion of "sector" both imply a web of related enterprises, encompassing input suppliers, skills providers, financial institutions, producers, marketing agents, processors, advertising firms, professional associations, distributors, government agencies, research institutions, consulting firms, public relations/marketing companies, wholesalers, retailers, and so forth, all working on a related set of products and services. The difference between "cluster" and "sector" is one of location (clusters are usually geographically proximate) as well as function. Businesses organized in clusters tend to exhibit collaborative behaviors within the commodity chain – resulting *inter alia* in lower input costs, better qualified and educated workers, and improved

referred to as *analyse de filière* in French, or as subsector analysis) analyzes the structure and behavior of the entire chain including factor/input procurement, production, collection, processing, marketing, and wholesale and retail distribution. Most importantly, value-chain analysis identifies the pivotal power points in the chain that maximize control over profits.[10] Knowing how global value-chains are structured and operate gives developing country enterprises insights into how the local or regional cluster can strategize to attract the attention of global value-chain clusters, seek to become integrated with them, or even how to compete with them.

A useful distinction is made between two types of value-chains (Gereffi and Korzeniewicz 1994; Campbell and Parisotto 1995). In some industries, "producer-driven" value-chains are dominated by capital-intensive product research and design and manufacture. For example, in the electronics and automobile industries, the manufacturer plays the pivotal role in establishing the terms and conditions of production in components and supply industries, as well as final distribution. In other industries, "buyer-driven" value-chains are characterized by low barriers to entry in manufacture, but high barriers to entry in managing market relationships relating to sourcing and distribution. In the clothing and footwear industries, for example, it is thus the distribution channel – the creator of the branded products (e.g., Nike, The Gap) or the department stores (e.g., Federated Department Stores, Marks and Spencer, Wal-Mart) – that drive production.

Drivers of Competitiveness in SADC

This chapter is concerned with southern African firms' abilities to become increasingly integrated with regional and global markets. Consequently, it focuses on potential areas of intervention by USAID that will ultimately lead to 1) the creation by governments of environments that promote cost and qualitative competitiveness and 2) investments by firms and/or clusters of firms that implement strategies to achieve these goals.

Realization of these objectives requires attention *inter alia* to the following cross-cutting issues that drive competitiveness, namely

- technical skills, research, and innovation;
- entrepreneurship and management skills;
- institutional depth and publicly financed social protection;
- infrastructure modernization and integration; and
- institutions of trade facilitation.

Technical skills are essential. Whether the objective is to improve the productivity of Tanzanian cotton to be used as an input in South Africa's textile milling sector or to improve the quality of Mozambican specialty horticulture to be processed for regional and global export, SADC industries need advanced training to adapt or introduce new products, production methods, processing techniques, manufacturing systems, packaging technologies, information and communication networks, and so forth. Education and training institutions need to be

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logistical efficiency (Fairbanks and Lindsay, 1997) – and vis-à-vis other stakeholders in the competitiveness diamond.

10 As discussed in Sturgeon (2000), Gereffi et al. (2002), and Kaplinsky and Morris (2003).

communicating with professional associations in order to understand what employers need for a competitive workforce. In Morocco, a recent workforce assessment found many donors supporting increased professional training activities on the supply side, with only a few professional associations involved to any degree with the articulation of technical, management, and language skills requirements (Salinger, Aring, Belghazi, Bouzri 2003).

Entrepreneurship and management skills are also vitally important. Salinger and Barry (1996) found that while a long tradition of skilled trading has existed in West Africa, whereby business men and women take advantage of spatial, temporal, and policy-induced *arbitrage opportunities*, far fewer business men and women understand how to assess *market opportunities for manufacturing new products* and grow companies to take advantage of them. In Africa, local markets may offer more profitable arbitrage or rent-seeking opportunities for generating wealth than do opportunities available via export-oriented manufacturing. How local economic actors respond to economic incentives is also fashioned by the sociology of the business culture in which they operate. There may be something about "African" culture that helps to explain Africa's weak economic performance with respect to private sector development, trade, and investment.[11]

Part of the explanation lies in the lack of business or entrepreneurship training available. Private sectors in many developing countries are typically characterized by a plethora of informal, micro-enterprises and a handful of large, formal firms (often state-owned or privatized only in the last ten years), and very little in between. Yet the small business sector can be a significant generator of employment. In Zambia, for example, approximately 18 percent of the workforce is employed in the micro/small business sector, of which half is women and just over half are based in rural areas (Parker 1996). In a study of the "missing middle" of small/medium-sized enterprises (SMEs) in developing countries, UNCTAD (2001) suggests that attention needs to be paid to micro-level approaches, coupled with increased public-private sector dialogue, to facilitate the development of SMEs and help them navigate the transition to new market conditions.

Another part of the explanation lies with **weak institutions**. Collier and Gunning (1999) review the growth literature related to Africa and highlight a number of possible explanations for why African countries grow more slowly than others. These include a lack of "social capital" (by which is meant the web of institutions and associations which connect households and firms and promote growth), lack of openness to trade, geography and risk factors, deficient public services (civil service, education, infrastructure), lack of financial depth, and high dependency on aid transfers. Nevertheless, even after accounting for these factors, the African dummy variable on certain slopes and the intercept remains significant, indicating that other factors must also be at work.

Linked to weak institutions are **inadequacies in African financial markets**. Inadequate access to credit is a proverbial problem in developing countries. As a consequence, the family (and by extension, the ethnic clan) becomes the primary means for securing and allocating savings and investment. Even where micro-finance programs provide capital for start-up of

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[11] It is recognized that treating all of sub-Saharan Africa as if it shared one "mega-culture" verges on the absurd. Across the continent, different ethnic backgrounds, different climatic and geographical endowments, and different colonial histories with respect to both politics and religion, have yielded different regional, national, and sub-national cultures. Yet whether speaking of "East Asian miracles" (World Bank 1993) or "socio-cultural fitness" (Wilhelms 1998), regional dummy variables are often either implicitly or explicitly incorporated into our searches for explanations.

micro-enterprises, credit for expansion into formal small- or medium-sized enterprises is often unavailable. The **inadequacy of social protection institutions** to help families manage the risks of market uncertainty, health, climate, old age, etc. means that private capital must first be shared among family/clan members before it can be allocated to external productive purposes. In order to improve incentives for private investment and entrepreneurship, new systems of social protection will have to be introduced to help families manage risk (Salinger 2001; Klein 2003). De Soto argues, in addition, that mechanisms need to be found to allow the assets of the poor – which he claims are not insubstantial – to be collateralized (Woodruff 2001).[12]

Little of the present literature on African economic growth potential and constraints acknowledges that Africa's high-risk natural environment has led to the evolution of cultural practices and institutions that constrain African businesses from functioning efficiently along the lines of western-managed firms. Sachs (1999) talks about the effect of Africa's climate and geography risks on its (lack of) agricultural progress. However, there is also a link between **risk, culture, and business entrepreneurship** in Africa. Recognizing the social challenges facing African entrepreneurs today may help to identify areas that need strengthening in order to favor African participation in globalization. This opens up a huge area for research. Greater emphasis must be paid in microeconomic case study work to understanding the socio-cultural factors which have helped to change the attitudes of those African business men and women who are moving beyond personal networks into global markets, increasing their market outreach by relying on depersonalized markets of suppliers and clients.

The **physical infrastructure** requirements for global competitiveness are well known. They include access to low-cost and reliable transportation networks (by land, air, sea), telecommunications (cellular and land communications networks for telephone and data transmission), energy, water, and waste treatment operations. However, physical infrastructure can only work effectively if skilled and non-corrupt operators are available to maintain these networks. In both southern and West Africa, for example, as an accompaniment to investments in regional distribution lines of gas and electricity, regional electricity power pool engineers and local policy makers have participated in a training exercise, funded through USAID cooperative agreements. The exercise has involved data collection, participation in the construction of a comprehensive forecasting model, and application of the model to operational issues (Plunkett 2001). Such technical assistance has developed local capacity to consider issues such as the structure of the pools, pricing policies, national autonomy requirements for both generation and reserves, and data reporting requirements. Issues specific to West Africa include identification of the hourly demand function for each country, the effects of seasonality on hydroelectric power availability, and ensuring sufficient integration with the operating systems of the regional gas pipeline. These models also highlight the benefits from increased electricity trade, power pooling, and collective regional approaches to new generation and transmission projects, which amount to billions of dollars in savings over many years.

Similarly, global (and regional) trade integration requires not only that tariffs be lowered and harmonized and roads/rails exist to carry goods across borders, but also that **trade facilitation systems and personnel** (e.g., customs, transportation, clearing/forwarding agents) are available

[12] While the focus of de Soto's book is on land titling, Woodruff points out that titling by itself is unlikely to be effective. Improving the efficiency of judicial systems, re-writing bankruptcy codes, restructuring financial market regulations, and similar reforms – albeit much more challenging politically – will be needed to stimulate viable financial markets for the poor.

to ensure efficient border crossings.[13] As noted in a trade needs assessment for Mozambique in the context of AGOA and preferential access to the U.S. market, "… high transport costs, slow customs processing times on crucial inputs, and delays in loading and unloading ships in port can quickly erode the advantage of a 20 percent tariff preference by increasing an export's final price" (Nathan Associates Inc. 2002, 5).

WHAT ARE CURRENT COMPETITIVENESS ACTIVITIES?

Current Competitiveness Activities in SADC

Understanding what competitiveness is begs the question of what to do about it. While many of these issues are *not* specific to a particular cluster or industry, implementation of specific activities to further their realization is usually done within specific clusters or industries. Development donors may provide technical assistance to broad private sector or employers' associations or industry-specific associations. Rarely is competitiveness assistance delivered by public development agencies to individual firms, as this would certainly distort markets.

In addition to RCSA, USAID has bilateral missions in nine SADC member countries (Angola, the Democratic Republic of the Congo, Malawi, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe. Competitiveness-related activities in each of these missions are summarized in Table 6 below. Outside of missions currently experiencing extreme civil conflict (Angola, DRC, Zimbabwe), the focus in these largely agricultural economies is understandably on improving rural incomes through credit, entrepreneurship, productivity, and market linkages support. Broader private sector development assistance is also offered, beyond the rural sector, in Mozambique, Namibia, South Africa, and Tanzania. Several missions (Mozambique, South Africa, Zambia) have made global and regional trade integration a focus. Skills training activities are included under economic growth objectives only in South Africa and Namibia. Labor laws are only mentioned in Mozambique. Rural infrastructure issues are addressed in Tanzania and Zambia.

Table 6: USAID-Sponsored Activities Related to Competitiveness in SADC Member Countries

Bilateral Mission	Annual Report/R4 Program Objective*	Competitiveness-Related Strategic Objectives (Activities)
Angola	Wartime recovery	None found
D.R. Congo	Promote health, food security, transition to peace	Lines of credit to promote economic opportunities for small/medium enterprises
Malawi		Increased agricultural incomes through improved market linkages Sustainable increases in rural incomes
Mozambique	Poverty reduction through economic growth via private investment & trade	Increased rural household incomes through crop diversification, increased market options Improved enabling environment (trade policy, private sector capacity to engage in policy dialogue, tax reform, alternative dispute resolution, telecommunications sector deregulation, labor law reform)

[13] This issue is highlighted in three recent trade needs assessments (Mali, Morocco, and Mozambique) conducted by USAID's Trade Capacity Building project, www.tcb-project.com.

Namibia	Economic, social, political empowerment of historically disadvantaged Namibians	Accelerated private sector growth (entrepreneurial, management, technical skills; business development services for small/medium enterprises; new business links and markets)
South Africa	Economic & democratic transformation to reduce disparities faced by historically disadvantaged populations	Skills training (in addition to basic, higher education programs) Improved capacity to formulate economic policies (training black economists, policy analyses including of AIDS impact, public-private partnerships, tax policy) Job creation through small business growth
Tanzania		Increased economic participation of micro/small enterprises (public-private business dialogue, business environment reform, rural roads & bridges investments, enterprise trust fund)
Zambia		Increased rural income (rural entrepreneurship, improved trade & investment climate at global, regional, preferential levels, participation in PRSP/Integrated Framework to include trade issues, electricity sector reform)
Zimbabwe	Crisis mitigation	Increased economic opportunity for disadvantaged groups (given present circumstances, mostly social safety nets for rural/urban poor, HIV/AIDS attention, microfinance)

Source: www.usaid.gov, Africa region, country pages (accessed May 25, 2003)
Note: * Not always specified

For non-USAID donor-sponsored activities, the Nathan RCSA team drafted an inventory in each of the RCSA strategic themes, including global competitiveness and regional integration, displayed in Donor-led, regional, and national level competitiveness-related activities are presented below. A matrix of additional activities is presented in Table 8.

Donor-led Activities

http://www.afdb.org/projects/projects_country.htm
African Development Bank Group activities in SADC-member countries related to competitiveness include: physical infrastructure development projects and rural income enhancement projects.

http://www.idrc.ca/library/world/idrcproj.html
http://network.idrc.ca/ev.php?URL_ID=5895&URL_DO=DO_TOPIC&URL_SECTION=201
The **International Development Research Centre** is a public corporation created by the Canadian government to help communities in the developing world find solutions to social, economic, and environmental problems through research.
The Acacia initiative is an international program to empower sub-Saharan communities with the ability to apply information and communication technologies (ICTs) to their own social and economic development. This initiative is designed as an integrated program of research and development and demonstration projects to address issues of applications, technology, infrastructure, policy and governance. Partners include science, technology, and telecommunications organizations in South Africa, Tanzania, as well as elsewhere throughout Africa. Conceived and led by the International Development Research Centre (IDRC), Acacia supports Canada’s contribution to the African Information Society Initiative (AISI) which was

endorsed by African governments as an action framework to build Africa's information and communication infrastructure.

http://www.unido.org/en/doc/3704
The **U.N. Industrial Development Organization**'s (UNIDO) major initiatives in Africa include a plan of action to address capacity-building, including strategies, policies and institutional support for industrial competitiveness; linking industry and agriculture to enhance productivity and competitiveness; promoting growth in small and medium enterprises (SMEs), including rural development and the informal sector; promoting private investment and technology; environmental management and cleaner production; and private sector development, productivity and the application of standards for international competitiveness.

World Bank-led activities
http://www4.worldbank.org/sprojects

http://www.ifc.org/johannesburg/docs/Projects.doc
IFC projects in Southern Africa include:

- Mozambique aluminum smelter project to outsource non-core operations to local small and medium enterprises;
- assistance to Kruger National Park, South Africa, to privatize/outsource many tourism services;
- assistance to develop linkages between a South African winery estate and local agricultural and service providers;
- support to Eskom, South Africa, to develop commercial markets for energy-efficient lighting technologies;
- the Africa Project Development Facility (APDF) is a multi-donor initiative, managed by IFC, that seeks to strengthen African small and medium enterprises through the provision of business advisory services, enterprise support services; and skills development.

http://apdf.ifc.org/annual_message_from_management.htm
The Africa Project Development Facility (APDF) has been a vital part of efforts to promote private sector development in Africa. Critical new roles, these include building capacity in local consulting companies, business associations and African financial institutions, and helping SMEs to benefit from business opportunities with big corporations and investment projects.

Building on its expertise in business plan development and raising finance, APDF has broadened its services to include enterprise support services. This mainly involves assistance in strategic planning, organizational development, market planning and strategies, production process and accounting systems improvements. These services are needed and are in high demand, and clients have been willing to pay for them.

APDF has started working on business clusters and linkages programs, aimed at growing and strengthening business between African SMEs and large corporations and investment projects. These initiatives are underway in Nigeria, Chad, South Africa, and Zambia. Alongside these innovations, APDF is continuing its efforts at developing support programs and initiatives that will involve women entrepreneurs. Specific programs are underway in Nigeria and South Africa.

http://www1.worldbank.org/wbiep/trade/Standards/africa.htm
Issues related to trade standards and technical regulations are becoming of increasing importance to the least developed countries as they seek to strengthen industrial performance, increase agricultural productivity and competitiveness, and expand access to international markets. The World Bank International Trade Team, through the Africa Trade Standards Project (ATSP), is helping to bridge the gaps in capacity, and to promote concrete and deeper understanding of the role, impact, and opportunities for improving of the standards and regulatory framework in Africa. Mozambique and South Africa are two SADC member countries involved with the Bank via the ATSP.

Among the country level, World Bank-led, competitiveness-related projects in SADC member countries are the following:

TANZANIA: Implementation of small agricultural development sub-projects planned and managed by community members and farmers groups.
This objective will be achieved by:

- empowering self-selected rural communities and farmers' groups to make decisions regarding choice of sustainable and remunerative productive technology;
- sharing of costs by the public sector and participants, and hence sharing the risk of adoption of improved technologies, again for self-selected participants;
- enhancing demand for products and services provided by the private sector in rural areas by increasing the purchasing power of participating groups and encouraging the growth of savings;
- promoting improved land and crop husbandry practices by participants;
- supporting the ongoing decentralization process at the district level;
- partially financing maintenance and/or construction of roads, bridges, and other small sub-projects to improve access to markets.

TANZANIA: The development objective of the project is to provide a reliable, affordable and sustainable water supply service and improve the sewerage and sanitation services in area served by the Dar es Salaam Water and Sewerage Authority (DAWASA) that includes Dar es Salaam and part of the Coast region . This will help improve public health and well being in a city prone to cholera outbreaks or other water borne diseases and support productive activities of the country's main economic center.

ANGOLA: The objective of the Economic Management Technical Assistance project is to strengthen the ability of the key economic ministries to implement institutional and policy reforms that create an enabling environment for the private sector to flourish, building on reforms already under way as agreed with the International Monetary Fund. The project will support implementation of a Poverty Reduction Strategy Paper, which is being prepared.

LESOTHO: The objective of the Water Sector Improvement project is to support the Government to secure sustainable, adequate and clean water supply and appropriate wastewater services for consumers living in the Lowland areas.

MALAWI: The objective of the Financial Management Transparency and Accountability project is to promote effective and accountable use of public resources through improved budget implementation and increased transparency of government institutions. The project will focus on expenditure accountability by (a) improving management systems and information flows, (b) promoting compliance and oversight, (c) strengthening performance monitoring, and (d) developing skills and capacity.

MOZAMBIQUE: The objective of the Energy Reform and Access program is to expand access to electricity in rural and peri-rural areas. Components will include technical assistance, capacity building, investments in low-cost main grid extensions to rural areas, setting up isolated mini-grids where main grid extension is not economical or feasible in a timely manner and photovoltaic lighting systems for institutions and households in underserved areas. The program is expected to reduce barriers that impede development of renewable energy and to facilitate energy sector reforms including restructuring/privatization of public energy enterprises.

SOUTH AFRICA: The primary objective of the Industrial Competitiveness and Job Creation Project is to support sustainable economic growth and job creation needs by enhancing industrial competitiveness of South African firms, particularly small, medium, micro- and medium-sized enterprises, thereby accelerating their supply response. The project has three components: (1) A Competitiveness Fund to enhance competitiveness and stimulate the market for business development services through cost-sharing grants; (2) A Sector Partnership Fund to support initiatives to foster information-sharing and networking among groups through cost-sharing grants; and (3) A Short-Term Export Finance Guarantee Facility to reduce the perceived risk associated with export financing.

ZAMBIA: The Support to Economic Expansion and Diversification (SEED) Tourism project seeks to support the Government's efforts to stimulate diversified economic growth and private sector investment, using tourism as an entry point. This is to be achieved through public/private partnership for building an enabling environment conducive to private sector growth and community-based development, and by preserving Zambia's extensive cultural, natural and wildlife assets. Appraisal mission was scheduled for late May 2003.

ZIMBABWE: The Railways Restructuring project will include staff retrenchment and rationalization, infrastructure rehabilitation, studies and technical assistance, training and counseling and assistance to retrenched staff. Project preparation is on hold due to the country situation.

Southern Africa regional activities

http://www.asareca.org/about/about.htm

The **Association for Strengthening Agricultural Research in Eastern and Central Africa** (ASARECA) is a non-political organization of the National Agricultural Research Institutes (NARIs) of ten countries: Burundi, D. R. Congo, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Sudan, Tanzania and Uganda. It aims at increasing the efficiency of agricultural research in the region so as to facilitate economic growth, food security and export competitiveness through productive and sustainable agriculture.

http://www.jitap.org/country.htm
http://www.jitap.org/URT.htm (Tanzania)
Joint Integrated Technical Assistance program (Trade development in Africa): JITAP, jointly funded by the International Trade Centre, the World Trade Organization, and UNCTAD enhances development opportunities of African country partners, through their more effective participation in the Multilateral Trading System (MTS). Its activities aim to meet the most pressing needs of eight countries, one of which is Tanzania. JITAP's three objectives are to build national capacity to understand the evolving MTS and its implications for external trade; adapt the national trading system to the obligations and disciplines of the new MTS; and seek maximum advantage from the new MTS by enhancing the readiness of exporters. In Tanzania, JITAP's Inter-Institutional Technical Committee (IITC), has played an active role in assisting the preparations of the Tanzanian position in different important meetings, organizing a workshop on WTO issues, and holding national seminars on Post-Doha results and services/ tourism trade in Tanzania.

http://www.saen.info/saenframeset.htm
The **Southern African Enterprise Network** (SAEN), officially launched in September 1998 and encompassing Angola, Botswana, Namibia, Lesotho, Madagascar, Malawi, Mozambique, South Africa, Swaziland, Zambia, and Zimbabwe, is part of a pan-African association that brings together new generation African entrepreneurs who seek to improve the business climate in their home countries and to foster regional trade and investment in their geographic sub-regions.

http://www.sdi.org.za/
The **Spatial Development Initiative** (SDI) program, launched in 1996/7, is modeled on the successful Maputo Development Corridor sponsored by South Africa's national Departments of Transport and Trade and Industry. SDI activity focused on preparations to facilitate investment-led growth, as well as to pilot some institutional models to support joint planning and integrated development while newly created or changing institutions 'jelled' in the shifting socio-political environment of that period. SDI is a program of the Department of Trade and Industry (DTI) located at the Development Bank of SA (DBSA). The rationale behind physically locating SDI in the DBSA was mutually acknowledged synergies between DBSA's infrastructure investment programs and the objectives of SDIs to bring new fixed investment into high potential areas, and the role of DBSA specialists in SDI technical task teams.

National Activities

Mozambique

http://cyber.law.harvard.edu/itg/projects/past_projects.html
Networked Readiness of Mozambique: The Center for International Development selected Mozambique as the first country in Africa to collaborate with on ICT policy development. Mozambique, a country that is one of the fastest growing countries of the world, and one of the poorest, is eager to enter the information age. The Information Technologies Group worked

closely with the ICT Policy Commission, headed by Prime Minister Mocumbi, to make this happen. The ITG conducted an initial Networked Readiness Assessment of Mozambique as part of its efforts to provide assistance to the government.

Namibia

http://www.mti.gov.na/

Namibia's Ministry of Trade and Industry website, with links to international trade, investment, and SME development activities.

South Africa

http://www.naci.org.za/a06.cfm

National Advisory Council on Innovation: The National Advisory Council on Innovation (**NACI**) is appointed by the Minister of Science and Technology to advise him (and through him, the Ministers Committee and the Cabinet) on the role and contribution of innovation (including science and technology) in promoting and achieving national objectives, including to strengthen the country's competitiveness in the international sphere. The membership of **NACI** is broadly representative of all sectors and is constituted in a manner that ensures a spread of expertise and experience regarding: national and provincial interests; scientific and technological disciplines innovation the needs and opportunities in different socio-economic fields; and research and development in all sectors. Current projects include the development of a national competitiveness strategy for South Africa. This will be done by focussing on human capital, technical progress / infrastructure indicators, business performance, R & D / innovation generation, absorption and diffusion, and the technology balance of trade.

http://www.africacncl.org/Linkages/saibl.asp

The **South African International Business Linkages Program** (SAIBL) builds the capacity and international competitiveness of historically disadvantaged, small and medium South African businesses through trade and investment partnerships with U.S. companies. SAIBL, a cooperative agreement between USAID and the Corporate Council on Africa, offers South African and U.S. companies an opportunity to be a part of expanding business opportunities in South Africa.

http://www.tips.org.za/

http://www.tips.org.za/satrn

The online resource centre for trade and industrial policy research in South Africa. TIPS is also institutional home to the Southern Africa Trade Research Network (SATRN).

http://www.naci.org.za/home1.cfm

The **National Advisory Council on Innovation** (**NACI**) is appointed by the Minister of Science and Technology to advise him (and through him, the Ministers Committee and the Cabinet) on the role and contribution of innovation (including science and technology) in promoting and achieving national objectives. including to strengthen the country's competitiveness in the international sphere.

http://www.nrf.ac.za/profile/

South Africa's **National Research Foundation** (NRF) is the government's national agency responsible for promoting and supporting basic and applied research as well as innovation.

http://www.csir.co.za
CSIR is South Africa's premier Science Council, created to bridge market-oriented research contracts. CSIR is committed to supporting innovation in South Africa to improve national competitiveness in the global economy. Technology services and solutions are provided in support of various stakeholders, and opportunities are identified where new technologies can be further developed and exploited in the private and public sector.

http://www.productdevelopment.co.za/Index.asp
Productdevelopment.co.za: Example of a skills and product development company, based in South Africa, funded by the Department of Science and Technology. Special funds available for innovation, technology and human resources, small and medium enterprise development, and competitiveness research.

Tanzania
http://www.sdi.org.za/members/iii/sdi.nsf/d2f50fb68d1b021142256c3f00611326/1669c0b1c232272542256c4400486d60!OpenDocument
Determined to capitalize on an encouraging flow of foreign investment, Tanzania is stepping up its program to attract more investors by opening and promoting opportunities in special export-driven development corridors in partnership with neighboring countries.

Table 8 in Appendix C. While this matrix may not be exhaustive, it is indicative of the kinds of donor-financed activities being supported currently:

- **Infrastructure development:** Support to the southern African power market for regional electricity generation and trade (World Bank, also USAID in the past); regional development corridors, including ports (European Community); road and rail transportation restructuring in the region (World Bank, EU);
- **Industrial competitiveness:** Support for job creation in small/medium enterprises (World Bank); economic management and private sector adjustment in Mozambique (World Bank);
- **Regional trade facilitation:** Support for trade finance via insurance (World Bank);
- **Policy coordination:** Support for the Trade and Industrial Policy Secretariat (TIPS), which examines issues from national (South Africa) and regional (SADC) perspectives (CIDA); SADC Regional Integration and Capacity Building Program (EU).

Noticeably absent from this broader donor list are regional cluster promotion activities. There does not appear to be any private sector development effort at a regional level, i.e. the promotion of communication and regional collaboration among related and supporting firms within industries or cluster groupings. It is not clear how well such regional private sector consultations are already working within SADC's Directorate of Trade, Industry, Finance, and Investment.

Another noticeable omission is support for activities that promote a flexible, qualified, and mobile workforce. USAID considers this a key element of trade capacity building (USAID 2003, 14). In South Africa, workforce competitiveness is being addressed through a National Skills Development Strategy, launched with some assistance from USAID/South Africa. Skills training is supplied through more than 25 Sector Education and Training Authorities (SETA). Financed through the collection of skills development levies that are collected from employers, the employer groups have direct input into the kinds of training delivered to their potential employees.[14]

USAID Promotion of Competitiveness Around the World

In addition to USAID mission-specific detail on on-going competitiveness activities being undertaken in other SADC member countries, a list of competitiveness programs sponsored by USAID elsewhere around the world is provided in Table 7.

Cluster-specific activities being funded include the promotion of competitiveness in specific clusters; promotion of competitive workforce skills in specific clusters; promotion of exports, global market development for specific clusters; and promotion of competitiveness business roundtables to promote communication and collaboration among members of specific clusters. In addition, cross-cutting competitiveness activities include promotion of policies that support a competitive business environment; promotion of trade capacity building; and promotion of regional participation in global trade fora.

[14] Information available from www.labour.gov.za/docs/legislation/skills/index.html.

WHAT SHOULD BE DONE ABOUT SELECTING PROMOTING CLUSTERS?

Choosing Clusters

Further detail on competitiveness initiatives undertaken by PriceWaterhouseCoopers (PWC) and SRI International for USAID is available in a self-evaluation (PWC 2001). PWC suggests that a number of general constraints can affect the success of competitiveness projects. A lack of collaboration within the private sector or between the private and public sectors is one risk. Some clusters may be less cohesive or too diffuse to work with successfully. It may be difficult to identify effective and committed cluster champions. Or the public sector may not be sufficiently motivated to address cross-cutting issues (e.g., infrastructure, workforce development, policy reform). More specific to USAID-funded projects, their report suggests that risks include inadequate and uneven funding commitments from USAID, a perception from local stakeholders that USAID support may be intended to benefit the U.S. rather than the host country/ region, inadequately mobilized local business sector support, and misallocation of attention to quantitative results rather than the qualitative benefits of cluster processes.

Table 7: Global USAID Competitiveness Activities

Mission	Program	Strategic Objective	Technical Assistance Areas	Specific Focus
Africa Regional (East, West, Southern)	TRADE competitiveness hubs		Promote U.S.-African business linkages; enhance competitiveness of African products and services; expand role of trade in African poverty reduction strategies; Improve delivery of public services supporting trade; build African capacity for trade policy formulation and implementation; strengthen enabling environment for African businesses.	Particular support for textile/ clothing and other industries, per AGOA
Bulgaria	183-0100	Improved Business Climate in the Bulgarian Economy	Export growth & competitiveness of target industry sectors (e.g., agriculture, light manufacturing, info technologies, tourism)	Quality standards, marketing, export product development, production efficiency, access to credit, export promotion, facilitation of joint ventures
Caribbean Regional	538-004	Increased Employment & Diversification in Select Non-Traditional Activities	Extension of international best business practices	Product quality, IPR, financial management, professional & business services, investment policies
Central American Regional	596-005	Increased Central American Competitiveness in Global Markets	Promote readiness to participate in subregional, hemispheric, global markets; regional involvement in trade regimes; enlarge internal market of the region; strengthen economic & trade infrastructure	Trade openness, adoption of IPR laws, protection of workers' rights, advances in energy & telecomm
Croatia	160-0130	Growth of a Dynamic, Competitive Private Sector	Improving overall environment for private sector development; stimulating growth of SMEs	Develop markets for business development services, improving competitiveness of agribusiness/agro-industry
Dominican Republic	517-007	Policies for Good Governance for Sustainable Economic Growth	Policy reform to enhance economic competitiveness, quality basic education, sustainable NRM, rural electrification	Cluster focus (envir sustainable tourism, high-value tree crops & vegetables)
Egypt	263-017	Skills for Competitiveness Developed	Management, IT skills development	Establishment of private Technical University focusing on IT education
Eurasia Regional	110-0130	Accelerated Development and Growth of Private Enterprises	Technical advice in micro, small, medium enterprise development; regional guidance re harmonization of commercial law reform; promotion of regional approach to competition	Enhancement of entrepreneurial skills, strengthened business/trade associations, improved land registration/titling and development of land markets, modern standards & quality control procedures

			policies & regulatory frameworks; encouragement of regional food industry cluster formation	
Macedonia	165-0130	Economic Growth - Private Sector Competitiveness	Development of cluster strategies for modern product development, export promotion	Cluster focus (2-3, to be identified)
Sri Lanka	383-004	Increased Sri Lankan Competitiveness in Global Marketplace	Promote appropriate policy, institutional and industry-level initiatives aimed at private sector growth within global competitive market environment	Analyze SL industries relative to global competitors, prepare competitiveness strategies for 8 clusters, reduce operational & policy barriers, training of government policy makers

Source: Search of USAID website, www.usaid.gov, for "competitiveness program data" (May 15, 2003)

There is a good deal of consternation among economists that “picking winners” is an inappropriate pastime for government officials and development donor professionals alike. Golub and Edwards (2003) analyzed the cost competitiveness of 24 manufacturing sectors in South Africa by looking at wages, productivity, and unit labor costs. They compare South Africa’s relative costs to a sample of developed and developing countries and observe significant variability in South Africa’s rankings over time. Their conclusion is that “there is no easy way to pick winners based on industry characteristics and […] the government should not attempt to favor some sectors over others.” Instead, they suggest, the focus should be on a general policy environment that is propitious to productivity growth and wage moderation, including a competitive exchange rate. After that, market forces will determine cluster success.

Nevertheless because of the practical difficulty of implementing cross-cutting policy, institutions, and productivity-enhancing reforms *without* going through existing organizations, many of USAID’s portfolios focus on specific clusters for implementation. Winkler (2003) suggests several criteria for choosing clusters. His selection criteria include 1) *special advantages*, such as initial factor endowments; 2) *competitive potential*, demonstrated through existing firms and profitable activity; 3) *industry leadership*, demonstrated through the existence of a trade association or other leadership group.

Maasdorp (2000) indicates that a series of regional industrial location studies has been prepared on a country-by-country basis for the SADC region in order to identify those products and sectors in which each country enjoys a comparative (competitive?) advantage. Opportunities for investment were identified in a broad range of industries. There is, however, a notable absence of the SACU countries from the list. The methodology for identifying “comparative advantage” is not specified. Maasdorp indicates that some of the studies were based on in-depth interviews with firms, while others were based on analysis of official documents and statistics.

5. Cross-Cutting Issues

Two relevant cross-cutting issues identified in the Nathan Global Competitiveness and Regional Integration team's research questions address the labor and competitiveness challenges posed by 1) HIV/AIDS[15] and 2) gender bias in international trade. Each of these is addressed below.

EFFECTS OF HIV/AIDS ON LABOR AND COMPETITIVENESS CHALLENGES

Productivity and Profitability Effects

Whiteside and Sunter (2000) depict the following organizational hierarchy for considering the social and economic impacts of HIV/AIDS. On the social side, they consider the effects on the individual, family, community, tribe, ethnic group, nation, and finally, on mankind. On the economic side they consider the effect on a unique consumer or producer, the household, units of production (firms), subsectors, sectors (clusters), the national economy, and finally, on the global economy.

The progression of economic effects of the epidemic through the national level are:

- *on individual consumers/producers:* illness, morbidity, declines in labor productivity;
- *on households:* declines in earnings, reallocation of savings from productive purposes to health care and family security;
- *on farms and firms:* declines in productivity and profitability;
- *on subsectors/clusters:* increased social responsibility by professional associations on behalf of AIDS education and advocacy;
- *on national economies:* all of the above, plus reduced economic growth (lower GDP and GDP per capita than in the absence of AIDS); possible fall-off in foreign investor interest in national economy; possible macroeconomic effects of increased development aid inflows for AIDS-related activities on local currency value and government expenditure priorities that may have negative repercussions on export competitiveness.

African businesses are coping with effects particularly at the level of firms and subsectors (clusters) (International AIDS Trust 2001a, 2001b). The immediate effect is on labor market attrition and decreases in productivity.[16] These costs are borne with far greater difficulty by micro/small/medium enterprises than by large firms. HIV/AIDS affects workers in their prime, in whom general and workplace-specific education and training investments have already been made. Sick workers and workers tending sick family members or attending funerals need increased time off from work. The adverse effect on the morale of co-workers of HIV/AIDS sufferers can also negatively affect productivity. The cost of illness in terms of reduced

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[15] A comprehensive source of research findings can be found on the International AIDS Economics Network website, www.iaen.org.

[16] This is true of agricultural operations as well as "firms" in services and industry. For a case study of the potential effect of HIV/AIDS on the livestock sector in Namibia, see www.fao.org/WAICENT/FAOINFO/SUSTDEV/WPdirect/WPan0046.htm.

productivity due to reduced energy, distraction, and workdays lost to the illness is being felt across Africa. The International AIDS Trust (2001a) and Bloom et al. (2002)[17] report that:

- In Botswana, it has been estimated that 35 to 40 percent of all teachers are infected with HIV.
- In a sugar mill in South Africa, 26 percent of all tested workers were infected with HIV. Infected workers incurred, on average, 55 additional days of sick leave during the last two years of their life.
- One study in Kenya on a sugar estate found that 25 percent of the estate's work-force was infected with HIV. Another Kenyan company experienced a 40-fold increase in funeral expenses between 1992-93 and 1996-97. During the same period, 41 per cent of the employees left the company because of illness or death. Healthier workers had to work overtime – increasing direct overtime costs and possibly indirect costs, such as stress and reduced efficiency among overworked workers.
- A Tanzanian company experienced a five-fold increase in its medical care costs per employee during 1993-97 and has now instituted a cap on expenditures per employee. At the Tanzania-Zambia Railway Authority, medical costs associated with AIDS-related illnesses increased in one year to 1995 by 63 percent
- At Barclays Bank in Zambia, the death rate among employees rose from 0.4 per cent in 1987 to 2.2 percent in 1992 (the company lost an average of 36 of its 1,600 employees annually to HIV/AIDS). *Ex gratia* payments to families increased by nearly 350 per cent between 1991 and 1992. The bank also paid increased funeral costs. More than 70 per cent of the deaths occurred in those under 40.
- At a large Zimbabwean firm of 11,500 workers, which offers significant health benefits to its employees, a study estimated 3,400 HIV-positive workers in the firm, with 64 having so far died of AIDS. It estimated the cost of AIDS in 1996 to be 20 per cent of the company's profits, with half the costs due to increased health care. By the year 2005, the costs are projected to triple.
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Firms may also experience decreased profitability due to an increase in direct HIV/AIDS-related expenditures, such as medications and burial fees. Labor searches, worker training, and maintaining redundancies on the payroll in order to cover lost days or labor turnover are expensive. As the impact of HIV/AIDS grows, national health insurance costs rise, some or all of the cost of which may be borne by employers. Firms also may increase their own social responsibility activities on behalf of AIDS education and advocacy.

Broader, Indirect Effects

Firms may also need to anticipate changes in the structure and behavior of their traditional consumer markets. In South Africa, Whiteside and Sunter (2000) report that some firms have begun to anticipate the possible loss in local market sales as consumers shift expenditures away from consumables toward increased expenditure for health and family security needs. Taking a

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[17] Citing reports from Bollinger and Stover 1999; Bollinger, Stover and Nalo 1999; Bollinger, Stover and Riwa 1999; Bollinger et al. 1999.

long term view of HIV/AIDS prevalence rates and likely demographic consequences, one retail firm decided to re-emphasize its areas of core competency, leverage its existing capacity to cater for other consumer needs related to its core functional specialty, and diversify its market outreach geographically away from the epicenter of HIV/AIDS (to seek markets in East/Central Europe).

More indirectly, the effect of HIV/AIDS may disrupt the delivery of intermediate goods and services to market that are inputs into other firms' production processes. For instance, in Zambia the increase in mortality among employees of its electricity corporation resulted in disruptions to the electricity supply (Whiteside and Sunter 2000, p. 108). Also, as the epidemic leaves scores of orphans in its wake, it is likely that increased social disruption may disrupt over time, possibly leading to increased street crime and thereby further discouraging the region's image to potential foreign investors. High prevalence of HIV/AIDS may also be a deterrent to increased expansion of tourism service exports. Another indirect impact may be the impact of intervention (or lack thereof) in HIV/AIDS on brands and corporate reputations (Bloom et al. 2002). While this issue has received little attention in the literature to date, experiences from other "business ethics" issues (e.g., Western consumer responses to labor and environmental practices of multinational corporations) suggests that companies' records with respect to HIV/AIDS activism may have eventual repercussions (positively or negatively, depending on public perceptions of their behavior) on their bottom lines.

Implications for Donors

The implications for donors in the region with respect to labor and competitiveness challenges is that firms and cluster organizations may need assistance to help with long-range strategic planning with respect to addressing the workforce impacts of HIV/AIDS.[18] Financial cost models are being developed of the potential impact of HIV/AIDS on businesses, which can be useful (Simon et al. 2000). Unfortunately, experience from a survey of over 200 firms in Nigeria suggests that firms are far more likely to take action only once someone in the company has died or left the company in the past two years because of HIV/AIDS (Rosen 2002). However, the private sector may need facilitation assistance most to brainstorm about the longer term and more holistic, indirect effects of HIV/AIDS on the structure and behavior of future labor and goods/services markets and the implications of those effects for future commercial diversification.

GENDER BIAS IN INTERNATIONAL TRADE

What Can We Learn from Experience Elsewhere?

Conventional wisdom states that trade liberalization is good for economic performance. However, how trade liberalization affects gender groups is still open to discussion. The process of trade liberalization is likely to affect women and men differently, considering that they have different roles in production. In this era of intensive global integration, there is a valid concern that trade liberalization policies do not take gender into account and may, in turn, adversely affect women. For instance, some trade policies in developed countries threaten food security in the SADC

[18] In South Africa, further bibliographic information on the effect of HIV/AIDS on firms is available from The Joint Center for Political and Economic Studies. www.jointcenter.org/international/hiv-aids/index.htm

region, an issue that affects most women and their families. As supported by proponents of human development paradigms, trade policies should be a means to eliminate poverty, gender, and social inequalities.

Surveying the SADC region, the Africa Growth and Opportunity Act (AGOA) has created jobs for many women in the clothing and textiles industries in the region. Wages are very low and work is carried out under harsh conditions (Dejene and Martin 2002, 33). APRODEV (2002) analyzed the impact of the ACP-EU Partnership Agreement in Zimbabwe. The results are two-fold. First, the EU's Common Agricultural Policy (CAP) will most likely depress the price of maize, which will likely lead to a decline in the production of maize by women farmers. Second, women's employment in the floriculture business, of cut-flowers specifically, is likely to increase. This will increase household income and improve livelihoods for women farmers and their families. The CAP is likely to have similar effects on other SADC members. Some markets will be displaced, while others will prosper.

In the sections below, lessons are drawn from other African countries, parts of Asia, and Latin America to derive implications for the SADC region.

Tariff Cuts in Bangladesh and Zambia

Fontana (2003) compares the impact of trade liberalization in Bangladesh and Zambia. The two countries differ not only in terms of geography, but also export concentration and gender distribution of employment. Bangladeshi manufactures account for 92 percent of total exports and 11 percent of the female work force. Copper in Zambia accounts for 78 percent of the export market but employs only one percent of the female labor force. In both countries, the majority of the female labor force (60 percent) is employed in the agricultural sector. Using a computable general equilibrium model, Fontana analyzes the impact of different liberalization policies, such as tariff cuts, on Zambia and Bangladesh.

Both countries have low levels of average tariff protection – less than 19 percent across all commodities. However, the degree of tariff dispersion is wide, in Bangladesh in particular, ranging from 2 percent in jute, tea, and sugar to 61 percent on processed commodities such as edible oil. When all tariffs are removed, imports in the manufacturing and agricultural sectors increase by only about 4 percent in Zambia and 15 percent in Bangladesh. In addition to changes in the two sectors, the tariff cut decreases total trade (imports plus exports), leading to a depreciation of the exchange rates. As a result of the exchange rate depreciation, exports increase from both countries, particularly in mining and male labor-intensive agriculture. In Zambia, while the production of male-intensive commercial crops and maize increases, production in the female labor-intensive sector (food staples and horticulture) declines. As a result of these changes, domestic market output increases in both countries by 0.5 percent and economy-wide (market and non market) output by 0.2 percent. Taking into account the differences in gender composition in both countries, the experiment leads to a larger female labor force participation rate and wage rate in Bangladesh than in Zambia.

The gains in both countries also vary across different levels of education. Employment in the garment sector in Bangladesh goes up by 37 percent, with female employment rising the most. The increase is higher for less educated women (primary school) and less for highly skilled. An increase in the wage rate reduces the gender gap between women and men. In Zambia female market employment also rises, although by a smaller magnitude than in the case of Bangladesh. The increase in employment in agricultural sector is more visible among women with no education, while in the mining sector women with secondary school education gain. However, the gender gap in Zambia widens.

Overall, because of differences in export concentration and the gender distribution of employment, the gender impact of tariff cuts seems to be more positive in Bangladesh than in Zambia, as Bangladeshi women gain more in terms of employment and wages. Most of all, the wage gap between men and women declines. In Zambia the gains are smaller and the wage gap increases.

Trade Liberalization and Food Security in Sierra Leone

In most Sub-Saharan African countries, women constitute the backbone of agricultural production and their work is important for food security. Most women are often small farmers and focus mainly on subsistence farming. Trade liberalization may offer new market opportunities, more easily realized by large and medium producers than by possibly less competitive, smaller agricultural producers.

For example, Genta observes that the production of Sierra Leone's staple food, rice, has suffered a great deal due to trade liberalization (Genta 2001). Over the years, domestic rice production has decreased due to imports of cheaper rice. Like in many other African countries, food production is dominated by women farmers. Therefore, the reduction in domestic agricultural markets for traditional crops may result in a loss of employment (or shift to alternative employment), threats to food insecurity, as well as loss of women's income that supports their families' livelihoods.

The availability of cheaper imported rice creates a disincentive to domestic rice producers, causing some domestic rice markets to be displaced. Some displaced producers have switched to producing other products like tobacco, or have relocated to other sectors entirely. The facility with which farm workers can shift to production of other crops or to employment in other sectors depends on a myriad of factors, including their skills, knowledge, access to land and capital, entrepreneurship, and physical mobility. Winters (1999) notes that women who lose their jobs due to trade liberalization are concentrated in informal sectors, among small farmers, and among low-skilled workers. Poor, rural women farmers suffer more than the rest, since the latter can relocate more easily into other paid work. The impact on poor women is even more severe in cases where there are no safety nets.

Another consequence of low domestic production of rice is therefore potentially a threat to food security. On the other hand, consumers obviously benefit from the increased availability of cheaper rice. Moreover, there are many international sources of rice supply, therefore making it unlikely that Sierra Leoneans will suffer from a rupture in international rice supply due to global trade wars.

Trade Liberalization and Tourism in Uganda

Trade liberalization can also affect women through its impact on the environment. In many developing countries, women, rural women especially, are responsible for management of the environment. Not only are they responsible for collecting water and fuelwood, but in general women rely on the environment for resources (Cagatay 2001). Therefore, liberalization policies that result in environmental degradation may adversely impact women, in particular in rural Sub-Saharan Africa.

In Uganda, tourism continues to grow due to trade liberalization (Genta 2001). However, ecotourism has had negative effects on the environment. Tourist hotel developers are said to have little or no regard for the wishes and advice of local residents. The forests, previously conserved diligently, are sometimes destroyed in the process of constructing tourism facilities. The local people are left with no access to their natural resources such as land, a crucial resource for production. Disturbances to biodiversity and livelihood have also resulted in problems such as soil erosion, with ensuing negative agricultural productivity consequences for women farmers. The government unfortunately lacks the financial resources to monitor activities that lead to environmental degradation.

Trade Liberalization and Women in Latin America

Cagatay (2001) discuses a World Bank study on trade liberalization and women in Latin America. The study concludes that during the early stages of liberalization in Latin America, hourly wages earned by women declined drastically compared with those earned by men. Women's employment was concentrated in low-paid sectors such as apparel manufacture that benefited from the liberalization. The message from the study is that, although in some cases liberalization leads to an increase in women's labor force participation, their competitive advantage – given the dominance of women among the less-skilled – is in low-paying jobs with extremely poor working conditions. Liberalization therefore results in an increase in gender-based wage inequality in developing countries such as Latin America.

Gender, Liberalization and the Care Economy

The expansion of the WTO agreements to cover other agreements such as TRIPS may have additional negative effects on women. The familiar story is the controversy around the availability of affordable medicines for the treatment of patients with HIV/AIDS. Current patent rights under the TRIPS Agreement restrict governments from either producing or importing cheaper medicine (Loewenson 2001). As the number of people with HIV/AIDS increases, women are the ones left with the heaviest burden to provide care for the sick. This leads to more time away from work, leading to diminished resources for their households.

Some Lessons

Three major lessons emerge from the cases discussed, with implications for the development of RCSA's strategic plan:

- The impact of trade liberalization in different countries depends on their geographical location, economic structure and type of sector affected , and worker education levels.
- Men and women are affected differently by trade policy outcomes, taking into consideration their different roles in production.
- More gender-sensitive assessment and analysis is needed in the formulation of trade liberalization policies.

6. Conclusions – Underlying Development Model and the RCSA Competitiveness Results Framework

Is the overall RCSA competitiveness results framework model logical? Are there weak links that should be reinforced? What does the literature inform us about the linkages between regional integration and enhancement of competitiveness; competitiveness and growth; and economic growth and reduction of poverty and inequality?

RCSA's original concept paper included two possible strategic objectives: 1) enhanced Southern African competitiveness in global markets and 2) a more integrated regional market. Regional and global trade integration are sometimes interpreted to be contradictory objectives. Regional integration can be a shorthand for continued import-substitution, albeit on a regional scale. On the other hand, if regional integration is seen as a way of reducing barriers (physical, policy, social, political, etc.) in order to facilitate communication and collaboration, then it can also serve the purpose of global integration as well.

IMPROVING PROSPECTS FOR GROWTH THROUGH FURTHER REGIONAL INTEGRATION

There are two ways by which further regional integration can improve Southern Africa's prospects for growth. One is by improving the diversity and lowering the cost of the supplier base available for businesses in each country. Reduced costs of mobilizing goods will widen the range of key services and specialized inputs available at competitive prices. These lower costs all around should increase the range of businesses that can thrive in the region. The relative prices of key imported inputs like capital goods should be reduced with further integration.

A second way that further integration will improve prospects for growth is by lowering the costs to domestic firms of reaching a larger market for their goods and services. Anything that lowers the cost of selling to larger and more distant markets can encourage growth directly by lowering costs or enabling the firm's production to reach a sufficient scale to make activities economically viable. Since the global market is much larger than the regional market, facilitated trade access to the outside world is the prime issue.

LIKELY IMPACT OF GREATER COMPETITIVENESS AND GROWTH ON EMPLOYMENT AND INCOME INEQUALITY

It is very important to distinguish between the level of real income of poorer people, measuring their absolute level of material well-being, and income inequality, i.e. the gap between rich and poor. Greater competitiveness, if successful, leads to greater economic growth and material well-being. Growth almost always leads to a higher incomes for all income classes, including the poor. In addition, the international evidence – shown below – is that growth leads to a *proportional* increase in the real income of the poorest segment of society, measured by the share of income accruing to the bottom twenty percent of the population.[19] In other words, the poor share in growth and they share equally with the rest of the economy. This is the average experience when we pool the countries together and look at all countries in the world with available evidence.

There is an influential line of argument that the pursuit of competitiveness neglects poverty and income distribution. A closely related view is that the pursuit of growth mainly benefits business interests, often harms the prospects of poorer segments of the society and usually leads to widening income disparities. This view only has merit in the narrow sense that competitiveness does not target poverty as its prime focus of action – instead it targets business strategies designed to increase the level of income and growth. But all the evidence suggests that the real income of poorer people will grow at the same rate as the rest of the economy and that, as a consequence, income inequality will not change, and certainly will not worsen with economic growth.

In short, although policies that promote growth and competitiveness do not target the real income of the poor directly, the international evidence suggests that different segments of society will benefit about equally from any given rise in the overall growth. The evidence also implies that the economy's overall growth rate has a larger quantitative impact on real incomes of the poor than do changes in income shares across time.

PRIORITIES FOR RCSA

In light of the findings on regional integration, global trade integration, and competitiveness summarized in this report, it is recommended that RCSA consider the following priority areas:

Policy Priorities

- Improve harmonization of macro and sectoral policies (e.g., fiscal balance, inflation, exchange rate, banking sector, capital controls, labor migration).
- Simplify and increase coherence of trade policy among imperfectly overlapping regional trade regimes.
- Increase trade capacity building in a number of key areas:
  - Assist trade negotiators in the SADC region in preparing and formulating appropriate negotiating positions in international trade systems such as WTO.
  - Strengthen capacity of government officials to understand the economic implications of global trade integration; facilitate private-public sector discussions to build a consensus for trade policy reform needed to accelerate implementation of international trade agreements; strengthen analytical capacity of Southern African research institutions and networks to conduct analyses of trade policy issues; facilitate more collaboration on global trade-related research between institutions in Southern Africa and U.S.-based institutions.
  - Offer specialized technical assistance to support SADC countries in implementation of WTO agreements, in particular Sanitary and Phytosanitary (SPS) and Technical

[19] The literature on pro-poor economic growth is reviewed in DAI and BIDE (2002).

Barriers to Trade (TBT), as well as to evaluate trade-offs and options on issues such as trade-related aspects of intellectual property rights (TRIPS Agreement).

– Support international trade policy coherence of developed countries by reducing tariff peaks and escalation in order to improve market access opportunities for SADC exporters.

Global Competitiveness Priorities

- Support for development of cross-cutting institutions – e.g., legal, regulatory, policy, financial, research, education and training, market development, utilities, public safety, trade facilitation, social services – that allow firms to have confidence in the business environment and invest in the future.
- Support to key clusters in the region should focus on improving business relations and helping them to respond to global quality and other standards. Priorities to consider when deciding which clusters to emphasize include the extent to which a sector is labor-intensive and will generate new employment, the extent to which an existing skills or capacity base already exists in the region, and the extent to which some threshold of SADC firms have already demonstrated some measure of competitive advantage (e.g., development of niche products or services, ability to innovate at some point in the value-chain), and whether some measure of incentives or interest in regional collaboration already exists.
- Support for a regional workforce development strategy to assess labor market supply and demand trends and prospects for employment creation, address human capital infrastructure needs, and develop regional plan for satisfying education and training needs.
- Support creation of sustainable markets for the delivery of "competitiveness-enhancing services." By supporting the creation of local/regional competitiveness think tanks, research firms, lobbying groups, consultancies, university centers, professional association strategy groups, and the like in key economic growth and integration areas, USAID can help nurture consumers and suppliers of competitiveness-related value-added activities, while at the same time contribute to enhanced productivity, strategy, and linkages of SADC enterprises to regional and global market partners.

Economic Infrastructure Priorities

- Increase regional competition and liberalization of physical infrastructure, e.g. transport, telecommunications, energy/water utilities, and waste treatment systems.
- Strengthen capacity of operators of physical infrastructure to analyze regional pricing, ownership, operational, trade, and reporting issues.
- Assure that trade facilitation systems and personnel (e.g., customs, transportation, clearing/forwarding agents) are available to ensure efficient border crossings.

Priorities under HIV/AIDS

- Assist private firms with long-range strategic planning of how to cope with effects of HIV/AIDS on workforce issues (policies regarding care, sick leave, personal leave; training for multi-skilling and worker redundancy);
- Assist private firms with long-range strategic planning to contend with eventual effects of HIV/AIDS-related morbidity and mortality on local and regional markets for goods and services.

Priorities under Gender

- Promote regional dialogue on gender and trade liberalization issues; ensure greater consultations with and involvement by women in trade policy-making positions.
- Strengthen analytical capacity on effects of trade liberalization policies on women's income and employment and on migration flows; explore options to mitigate negative social outcomes on women of trade liberalization policies.
- Promote labor legislation that ensures fair and equitable working conditions for women.

Appendix A

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Appendix B

REGIONAL COMPETITIVENESS ACTIVITIES

Donor-led, regional, and national level competitiveness-related activities are presented below. A matrix of additional activities is presented in Table 8.

Donor-led Activities

http://www.afdb.org/projects/projects_country.htm
African Development Bank Group activities in SADC-member countries related to competitiveness include: physical infrastructure development projects and rural income enhancement projects.

http://www.idrc.ca/library/world/idrcproj.html
http://network.idrc.ca/ev.php?URL_ID=5895&URL_DO=DO_TOPIC&URL_SECTION=201
The **International Development Research Centre** is a public corporation created by the Canadian government to help communities in the developing world find solutions to social, economic, and environmental problems through research.
The Acacia initiative is an international program to empower sub-Saharan communities with the ability to apply information and communication technologies (ICTs) to their own social and economic development. This initiative is designed as an integrated program of research and development and demonstration projects to address issues of applications, technology, infrastructure, policy and governance. Partners include science, technology, and telecommunications organizations in South Africa, Tanzania, as well as elsewhere throughout Africa. Conceived and led by the International Development Research Centre (IDRC), Acacia supports Canada's contribution to the African Information Society Initiative (AISI) which was endorsed by African governments as an action framework to build Africa's information and communication infrastructure.

http://www.unido.org/en/doc/3704
The **U.N. Industrial Development Organization**'s (UNIDO) major initiatives in Africa include a plan of action to address capacity-building, including strategies, policies and institutional support for industrial competitiveness; linking industry and agriculture to enhance productivity and competitiveness; promoting growth in small and medium enterprises (SMEs), including rural development and the informal sector; promoting private investment and technology; environmental management and cleaner production; and private sector development, productivity and the application of standards for international competitiveness.

World Bank-led activities
http://www4.worldbank.org/sprojects

http://www.ifc.org/johannesburg/docs/Projects.doc
IFC projects in Southern Africa include:

- Mozambique aluminum smelter project to outsource non-core operations to local small and medium enterprises;
- assistance to Kruger National Park, South Africa, to privatize/outsource many tourism services;
- assistance to develop linkages between a South African winery estate and local agricultural and service providers;
- support to Eskom, South Africa, to develop commercial markets for energy-efficient lighting technologies;
- the Africa Project Development Facility (APDF) is a multi-donor initiative, managed by IFC, that seeks to strengthen African small and medium enterprises through the provision of business advisory services, enterprise support services; and skills development.

http://apdf.ifc.org/annual_message_from_management.htm
The Africa Project Development Facility (APDF) has been a vital part of efforts to promote private sector development in Africa. Critical new roles, these include building capacity in local consulting companies, business associations and African financial institutions, and helping SMEs to benefit from business opportunities with big corporations and investment projects.

Building on its expertise in business plan development and raising finance, APDF has broadened its services to include enterprise support services. This mainly involves assistance in strategic planning, organizational development, market planning and strategies, production process and accounting systems improvements. These services are needed and are in high demand, and clients have been willing to pay for them.

APDF has started working on business clusters and linkages programs, aimed at growing and strengthening business between African SMEs and large corporations and investment projects. These initiatives are underway in Nigeria, Chad, South Africa, and Zambia. Alongside these innovations, APDF is continuing its efforts at developing support programs and initiatives that will involve women entrepreneurs. Specific programs are underway in Nigeria and South Africa.

http://www1.worldbank.org/wbiep/trade/Standards/africa.htm
Issues related to trade standards and technical regulations are becoming of increasing importance to the least developed countries as they seek to strengthen industrial performance, increase agricultural productivity and competitiveness, and expand access to international markets. The World Bank International Trade Team, through the Africa Trade Standards Project (ATSP), is helping to bridge the gaps in capacity, and to promote concrete and deeper understanding of the role, impact, and opportunities for improving of the standards and regulatory framework in Africa. Mozambique and South Africa are two SADC member countries involved with the Bank via the ATSP.

Among the country level, World Bank-led, competitiveness-related projects in SADC member countries are the following:

TANZANIA: Implementation of small agricultural development sub-projects planned and managed by community members and farmers groups.
This objective will be achieved by:

- empowering self-selected rural communities and farmers' groups to make decisions regarding choice of sustainable and remunerative productive technology;
- sharing of costs by the public sector and participants, and hence sharing the risk of adoption of improved technologies, again for self-selected participants;
- enhancing demand for products and services provided by the private sector in rural areas by increasing the purchasing power of participating groups and encouraging the growth of savings;
- promoting improved land and crop husbandry practices by participants;
- supporting the ongoing decentralization process at the district level;
- partially financing maintenance and/or construction of roads, bridges, and other small sub-projects to improve access to markets.

TANZANIA: The development objective of the project is to provide a reliable, affordable and sustainable water supply service and improve the sewerage and sanitation services in area served by the Dar es Salaam Water and Sewerage Authority (DAWASA) that includes Dar es Salaam and part of the Coast region . This will help improve public health and well being in a city prone to cholera outbreaks or other water borne diseases and support productive activities of the country's main economic center.

ANGOLA: The objective of the Economic Management Technical Assistance project is to strengthen the ability of the key economic ministries to implement institutional and policy reforms that create an enabling environment for the private sector to flourish, building on reforms already under way as agreed with the International Monetary Fund. The project will support implementation of a Poverty Reduction Strategy Paper, which is being prepared.

LESOTHO: The objective of the Water Sector Improvement project is to support the Government to secure sustainable, adequate and clean water supply and appropriate wastewater services for consumers living in the Lowland areas.

MALAWI: The objective of the Financial Management Transparency and Accountability project is to promote effective and accountable use of public resources through improved budget implementation and increased transparency of government institutions. The project will focus on expenditure accountability by (a) improving management systems and information flows, (b) promoting compliance and oversight, (c) strengthening performance monitoring, and (d) developing skills and capacity.

MOZAMBIQUE: The objective of the Energy Reform and Access program is to expand access to electricity in rural and peri-rural areas. Components will include technical assistance, capacity building, investments in low-cost main grid extensions to rural areas, setting up isolated mini-grids where main grid extension is not economical or feasible in a timely manner and photovoltaic lighting systems for institutions and households in underserved areas. The program is expected to reduce barriers that impede development of renewable energy and to facilitate energy sector reforms including restructuring/privatization of public energy enterprises.

SOUTH AFRICA: The primary objective of the Industrial Competitiveness and Job Creation Project is to support sustainable economic growth and job creation needs by enhancing industrial competitiveness of South African firms, particularly small, medium, micro- and medium-sized enterprises, thereby accelerating their supply response. The project has three components: (1) A Competitiveness Fund to enhance competitiveness and stimulate the market for business development services through cost-sharing grants; (2) A Sector Partnership Fund to support initiatives to foster information-sharing and networking among groups through cost-sharing grants; and (3) A Short-Term Export Finance Guarantee Facility to reduce the perceived risk associated with export financing.

ZAMBIA: The Support to Economic Expansion and Diversification (SEED) Tourism project seeks to support the Government's efforts to stimulate diversified economic growth and private sector investment, using tourism as an entry point. This is to be achieved through public/private partnership for building an enabling environment conducive to private sector growth and community-based development, and by preserving Zambia's extensive cultural, natural and wildlife assets. Appraisal mission was scheduled for late May 2003.

ZIMBABWE: The Railways Restructuring project will include staff retrenchment and rationalization, infrastructure rehabilitation, studies and technical assistance, training and counseling and assistance to retrenched staff. Project preparation is on hold due to the country situation.

Southern Africa regional activities
http://www.asareca.org/about/about.htm
The **Association for Strengthening Agricultural Research in Eastern and Central Africa** (ASARECA) is a non-political organization of the National Agricultural Research Institutes (NARIs) of ten countries: Burundi, D. R. Congo, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Sudan, Tanzania and Uganda. It aims at increasing the efficiency of agricultural research in the region so as to facilitate economic growth, food security and export competitiveness through productive and sustainable agriculture.

http://www.jitap.org/country.htm
http://www.jitap.org/URT.htm (Tanzania)
Joint Integrated Technical Assistance program (Trade development in Africa): JITAP, jointly funded by the International Trade Centre, the World Trade Organization, and UNCTAD enhances development opportunities of African country partners, through their more effective participation in the Multilateral Trading System (MTS). Its activities aim to meet the most pressing needs of eight countries, one of which is Tanzania. JITAP's three objectives are to build national capacity to understand the evolving MTS and its implications for external trade; adapt the national trading system to the obligations and disciplines of the new MTS; and seek maximum advantage from the new MTS by enhancing the readiness of exporters. In Tanzania, JITAP's Inter-Institutional Technical Committee (IITC), has played an active role in assisting the

preparations of the Tanzanian position in different important meetings, organizing a workshop on WTO issues, and holding national seminars on Post-Doha results and services/ tourism trade in Tanzania.

http://www.saen.info/saenframeset.htm
The **Southern African Enterprise Network** (SAEN), officially launched in September 1998 and encompassing Angola, Botswana, Namibia, Lesotho, Madagascar, Malawi, Mozambique, South Africa, Swaziland, Zambia, and Zimbabwe, is part of a pan-African association that brings together new generation African entrepreneurs who seek to improve the business climate in their home countries and to foster regional trade and investment in their geographic sub-regions.

http://www.sdi.org.za/
The **Spatial Development Initiative** (SDI) program, launched in 1996/7, is modeled on the successful Maputo Development Corridor sponsored by South Africa's national Departments of Transport and Trade and Industry. SDI activity focused on preparations to facilitate investment-led growth, as well as to pilot some institutional models to support joint planning and integrated development while newly created or changing institutions 'jelled' in the shifting socio-political environment of that period. SDI is a program of the Department of Trade and Industry (DTI) located at the Development Bank of SA (DBSA). The rationale behind physically locating SDI in the DBSA was mutually acknowledged synergies between DBSA's infrastructure investment programs and the objectives of SDIs to bring new fixed investment into high potential areas, and the role of DBSA specialists in SDI technical task teams.

National Activities

Mozambique
http://cyber.law.harvard.edu/itg/projects/past_projects.html
Networked Readiness of Mozambique: The Center for International Development selected Mozambique as the first country in Africa to collaborate with on ICT policy development. Mozambique, a country that is one of the fastest growing countries of the world, and one of the poorest, is eager to enter the information age. The Information Technologies Group worked closely with the ICT Policy Commission, headed by Prime Minister Mocumbi, to make this happen. The ITG conducted an initial Networked Readiness Assessment of Mozambique as part of its efforts to provide assistance to the government.

Namibia
http://www.mti.gov.na/
Namibia's Ministry of Trade and Industry website, with links to international trade, investment, and SME development activities.

South Africa
http://www.naci.org.za/a06.cfm
National Advisory Council on Innovation: The National Advisory Council on Innovation (**NACI**) is appointed by the Minister of Science and Technology to advise him (and through him, the Ministers Committee and the Cabinet) on the role and contribution of innovation (including

science and technology) in promoting and achieving national objectives, including to strengthen the country's competitiveness in the international sphere. The membership of **NACI** is broadly representative of all sectors and is constituted in a manner that ensures a spread of expertise and experience regarding: national and provincial interests; scientific and technological disciplines innovation the needs and opportunities in different socio-economic fields; and research and development in all sectors. Current projects include the development of a national competitiveness strategy for South Africa. This will be done by focussing on human capital, technical progress / infrastructure indicators, business performance, R & D / innovation generation, absorption and diffusion, and the technology balance of trade.

http://www.africacncl.org/Linkages/saibl.asp
The **South African International Business Linkages Program** (SAIBL) builds the capacity and international competitiveness of historically disadvantaged, small and medium South African businesses through trade and investment partnerships with U.S. companies. SAIBL, a cooperative agreement between USAID and the Corporate Council on Africa, offers South African and U.S. companies an opportunity to be a part of expanding business opportunities in South Africa.

http://www.tips.org.za/
http://www.tips.org.za/satrn
The online resource centre for trade and industrial policy research in South Africa. TIPS is also institutional home to the Southern Africa Trade Research Network (SATRN).

http://www.naci.org.za/home1.cfm
The **National Advisory Council on Innovation** (**NACI**) is appointed by the Minister of Science and Technology to advise him (and through him, the Ministers Committee and the Cabinet) on the role and contribution of innovation (including science and technology) in promoting and achieving national objectives. including to strengthen the country's competitiveness in the international sphere.

http://www.nrf.ac.za/profile/
South Africa’s **National Research Foundation** (NRF) is the government's national agency responsible for promoting and supporting basic and applied research as well as innovation.

http://www.csir.co.za
CSIR is South Africa’s premier Science Council, created to bridge market-oriented research contracts. CSIR is committed to supporting innovation in South Africa to improve national competitiveness in the global economy. Technology services and solutions are provided in support of various stakeholders, and opportunities are identified where new technologies can be further developed and exploited in the private and public sector.

http://www.productdevelopment.co.za/Index.asp
Productdevelopment.co.za: Example of a skills and product development company, based in South Africa, funded by the Department of Science and Technology. Special funds available for innovation, technology and human resources, small and medium enterprise development, and competitiveness research.

Tanzania
http://www.sdi.org.za/members/iii/sdi.nsf/d2f50fb68d1b021142256c3f00611326/1669c0b1c232272542256c4400486d60!OpenDocument
Determined to capitalize on an encouraging flow of foreign investment, Tanzania is stepping up its program to attract more investors by opening and promoting opportunities in special export-driven development corridors in partnership with neighboring countries.

Table 8: Inventory of Donor Programs in Global Competitiveness and Regional Integration

	All Donors	*World Bank/ IMF*	*ADB*	*UNDP*	*DFID*	*EC/EIB*	*Canada*	*Sweden*	*Denmark*	*Norway*	*Germany*	*Japan*	*Commonwealth Secretariat*
General	1. AMSCO 2. APDF 3. CDE Southern Africa mining and quarrying program	Support to Air Transport Liberalization and to SATCC; Southern African Power Market Project; African Connection Initiative; Macro and Trade Dialogue; ATIA	COMESA harmonized public procurement rules		Support for trade and transport	Regional development corridors including ports; SADC Regional Integration and Capacity Building Program; ESIPP SQMT, Improvement of COMESA rules of origin; ATIA, Regional Harmonization of customs and statistics systems; cross-border trade and investment facilitation	JITAP/UN; ITC; African Trade Policy Center	Support for infrastructure	Trade and Development are explicitly mentioned as strategic objectives of Danish Aid.	Studying support for SADC and other regional institutions		Infrastructure development	Support for country trade issues with WTO, ACP-EU and electronic access to information.
Angola			See general			The Namibia Corridor				Petroleum Management; improve government procurement; private sector support			
Botswana					Tsetse control, vet epidemiology	Support to Mining sector and other private sector development					Support to bureau of standards		
DRC			See general										

Lesotho						Industrial development; transport and infrastructure support							
Malawi			See general	Regional Cooperation Framework	Dedza Malawi Exports - TEEM	Funds most major roads projects, and those to Mozambique and Tanzania EBAS ASYCUDA					EDEP-		
Mauritius			See general	Trade and environment seminar, small island developing states workshop		COMTEL project and other private sector							
Mozambique						The Nacala Corridor Private Sector support; Limpopo railway							
Namibia			See general			Productive sectors including private sector development							
Seychelles			See general			Melon Fruit Fly Eradication Program;							
South Africa						European Program for Reconstruction and Development; Banana Industry Support; Risk capital fund; Investment promotion	TIPS for Trade	Supports collaboration between Swedish and local firms; supports micro-finance activities					

Swaziland			See general		SME and private sector support	Agriculture and Forestry Project							
Tanzania	11 donors support private sector and infrastructure development projects					EIB Private Sector Financing							
Zambia			See general			Airport rehabilitation; Mpulungu Harbour; rehabilitation of sections of the Monze Zimba road			Transport project	The Zambia Export Growers' Training Trust	Transport project		
Zimbabwe			See general										

Appendix C

DATA TABLES

Table 9: Global Competitiveness Report 2002 – Basic Descriptor Factor Rankings

South Africa

29	Microeconomic Competitiveness Index 2002
32	Growth Competitiveness Index 2002
28	Interest Rate Spread 2001
28	Patents 1990-1999
29	Patents 2001
30	Fiscal Surplus 2001
32	Government Expenditures %GDP 2001
41	Internet Service Providers 2000
44	Internet Usage 2000
44	PCs per person 2000
46	Mobile Telephones 2000
51	Inflation 2001
56	Growth GDP pc 2001
70	Growth GDP pc 1991-2001

Mauritius

49	Microeconomic Competitiveness Index 2002
35	Growth Competitiveness Index 2002
9	Growth GDP pc 1991-2001
9	Growth GDP pc 2001
24	Government Expenditures %GDP 2001
34	Internet Usage 2000
35	PCs per person 2000
43	Patents 1990-1999
44	Inflation 2001
48	Internet Service Providers 2000
49	Mobile Telephones 2000
68	Interest Rate Spread 2001
74	Fiscal Surplus 2001
74	Patents 2001

Namibia

51	Microeconomic Competitiveness Index 2002
53	Growth Competitiveness Index 2002
49	Internet Service Providers 2000
51	Government Expenditures %GDP 2001
53	Interest Rate Spread 2001
56	PCs per person 2000
62	Internet Usage 2000
63	Growth GDP pc 2001
66	Fiscal Surplus 2001
67	Growth GDP pc 1991-2001
67	Inflation 2001
74	Patents 2001
.	Mobile Telephones 2000
.	Patents 1990-1999

Botswana

57	Microeconomic Competitiveness Index 2002
41	Growth Competitiveness Index 2002
5	Growth GDP pc 2001
17	Growth GDP pc 1991-2001
23	Fiscal Surplus 2001
43	Interest Rate Spread 2001
54	PCs per person 2000
57	Inflation 2001
58	Internet Service Providers 2000
65	Government Expenditures %GDP 2001
66	Internet Usage 2000
74	Patents 2001
.	Mobile Telephones 2000
.	Patents 1990-1999

Zimbabwe

70	Microeconomic Competitiveness Index 2002
79	Growth Competitiveness Index 2002
47	Government Expenditures %GDP 2001
62	Patents 1990-1999
63	Patents 2001
67	Internet Service Providers 2000
69	Mobile Telephones 2000
71	PCs per person 2000
74	Internet Usage 2000
78	Growth GDP pc 1991-2001
78	Interest Rate Spread 2001
80	Growth GDP pc 2001
80	Inflation 2001
.	Fiscal Surplus 2001

Table 10: Global Competitiveness Report 2002 – Innovation Factor Rankings

South Africa

29	Microeconomic Competitiveness Index 2002
32	Growth Competitiveness Index 2002
6	Licensing is common
18	Collaboration btw businesses and universities
21	Quality of research institutions
27	Company's spending on R+D
29	Companies agressive in absorbing technology
30	Country's position in technology
32	Innovation plays important role
33	FDI is source of new technology
39	Are ICT laws well-developed
41	Is there sufficient competition among ISPs
41	Does government procurement encourage innovation
42	Are ICT programs of gov successful
43	Is ICT a priority for government
44	Importance of fiscal incentives for R+D

Mauritius

49	Microeconomic Competitiveness Index 2002
35	Growth Competitiveness Index 2002
7	Is ICT a priority for government
21	Are ICT programs of gov successful
25	Innovation plays important role
38	Licensing is common
41	Are ICT laws well-developed
51	Country's position in technology
52	Quality of research institutions
54	Companies agressive in absorbing technology
57	Importance of fiscal incentives for R+D
61	FDI is source of new technology
63	Does government procurement encourage innovation
67	Company's spending on R+D
70	Collaboration btw businesses and universities
80	Is there sufficient competition among ISPs

Namibia

51	Microeconomic Competitiveness Index 2002
53	Growth Competitiveness Index 2002
14	Innovation plays important role
30	Does government procurement encourage innovation
34	Are ICT programs of gov successful
35	FDI is source of new technology
40	Importance of fiscal incentives for R+D
46	Company's spending on R+D
47	Country's position in technology
47	Are ICT laws well-developed
47	Licensing is common
48	Is ICT a priority for government
49	Is there sufficient competition among ISPs
52	Companies agressive in absorbing technology
54	Collaboration btw businesses and universities
66	Quality of research institutions

Botswana

57	Microeconomic Competitiveness Index 2002
41	Growth Competitiveness Index 2002
20	Innovation plays important role
32	Are ICT programs of gov successful
32	Is ICT a priority for government
36	FDI is source of new technology
43	Licensing is common
45	Does government procurement encourage innovation
48	Importance of fiscal incentives for R+D
53	Country's position in technology
54	Company's spending on R+D
56	Quality of research institutions
57	Are ICT laws well-developed

Zimbabwe

70	Microeconomic Competitiveness Index 2002
79	Growth Competitiveness Index 2002
53	Company's spending on R+D
56	FDI is source of new technology
59	Companies agressive in absorbing technology
61	Collaboration btw businesses and universities
62	Innovation plays important role
63	Quality of research institutions
65	Country's position in technology
66	Does government procurement encourage innovation
68	Licensing is common
69	Is there sufficient competition among ISPs
76	Are ICT laws well-developed

59 Collaboration btw businesses and universities	76 Importance of fiscal incentives for R+D
62 Companies agressive in absorbing technology	76 Are ICT progrms of gov successful
71 Is there sufficient competition among ISPs	77 Is ICT a priority for government

Table 11: Global Competitiveness Report 2002 – Government Policy Factor Rankings

South Africa

29 Microeconomic Competitiveness Index 2002
32 Growth Competitiveness Index 2002

9 Do government subsidies improve productivity
15 Impact of legal donations on politics
19 Tax system simple and transparent
24 Illegal donations to pol parties
25 Are regulations clearly communicated
26 Misuse of legal donations
26 Effectiveness of legislature
31 Trust in financial honesty of politicians
31 Administrative regulations not burdensome
39 Are officials impartial in contracts
57 Competence of civil service

Mauritius

49 Microeconomic Competitiveness Index 2002
35 Growth Competitiveness Index 2002

9 Tax system simple and transparent
24 Effectiveness of legislature
39 Are regulations clearly communicated
41 Are officials impartial in contracts
41 Do government subsidies improve productivity
44 Trust in financial honesty of politicians
45 Impact of legal donations on politics
48 Competence of civil service
52 Misuse of legal donations
65 Administrative regulations not burdensome
70 Illegal donations to pol parties

Namibia

51 Microeconomic Competitiveness Index 2002
53 Growth Competitiveness Index 2002

10 Tax system simple and transparent
12 Administrative regulations not burdensome
19 Impact of legal donations on politics
23 Are regulations clearly communicated
25 Illegal donations to pol parties
27 Do government subsidies improve productivity
27 Effectiveness of legislature
28 Trust in financial honesty of politicians
33 Misuse of legal donations
37 Are officials impartial in contracts
56 Competence of civil service

Botswana

57 Microeconomic Competitiveness Index 2002
41 Growth Competitiveness Index 2002

3 Tax system simple and transparent
14 Trust in financial honesty of politicians
14 Effectiveness of legislature
17 Administrative regulations not burdensome
18 Are regulations clearly communicated
19 Do government subsidies improve productivity
20 Impact of legal donations on politics
20 Misuse of legal donations
21 Illegal donations to pol parties
25 Are officials impartial in contracts
32 Competence of civil service

Zimbabwe

70 Microeconomic Competitiveness Index 2002
79 Growth Competitiveness Index 2002

38 Impact of legal donations on politics
42 Tax system simple and transparent
56 Illegal donations to pol parties
70 Administrative regulations not burdensome
72 Are regulations clearly communicated
73 Trust in financial honesty of politicians
73 Misuse of legal donations
74 Effectiveness of legislature
74 Competence of civil service
75 Are officials impartial in contracts
78 Do government subsidies improve productivity

Table 12: Global Competitiveness Report 2002 – Legal & Regulatory Framework Factor Rankings

South Africa	Mauritius	Namibia
29 Microeconomic Competitiveness Index 2002	49 Microeconomic Competitiveness Index 2002	51 Microeconomic Competitiveness Index 2002
32 Growth Competitiveness Index 2002	35 Growth Competitiveness Index 2002	53 Growth Competitiveness Index 2002
17 Is there neutral dispute resolution framework	18 Costs imposed by organized crime	20 Is there neutral dispute resolution framework
19 Intellectual property protection	27 Is there neutral dispute resolution framework	23 Independence of judiciary
20 Independence of judiciary	27 Absence of press censorship	31 Are financial assets well protected
21 Are financial assets well protected	29 Bribes for influencing judiciary	32 Bribes for influencing judiciary
24 Bribes for influencing judiciary	29 Independence of judiciary	33 Costs imposed by other firm's corruption
25 Costs imposed by other firm's corruption	29 Confidence that bribed services delivered	34 Intellectual property protection
30 Bribes connected with taxes	29 Are financial assets well protected	37 Corrupt diversion of public funds
31 Bribes connected with loan applc	31 Bribes connected with taxes	44 Costs imposed by organized crime
33 Absence of press censorship	34 Costs imposed by common crime	44 Bribes for influencing legislature
34 Bribes for influencing legislature	35 Bribes connected with loan applc	46 Decrease in bribes over past 3 years
36 Corrupt diversion of public funds	36 Costs imposed by other firm's corruption	47 Importance of bribes related to import permits
36 Bribes connected with pub contracts	39 Decrease in bribes over past 3 years	48 Bribes connected with taxes
37 Importance of bribes related to import permits	40 Percentage of unofficial businesses	52 Absence of press censorship
46 Percentage of unofficial businesses	40 Bribes for influencing legislature	53 Percentage of unofficial businesses
47 Bribes related to utilities	45 Corrupt diversion of public funds	53 Bribes connected with loan applc
53 Decrease in bribes over past 3 years	49 Intellectual property protection	56 Bribes related to utilities
56 Costs imposed by organized crime	51 Police protection	58 Costs imposed by common crime
59 Police protection	52 Importance of bribes related to import permits	58 Bribes connected with pub contracts
65 Confidence that bribed services delivered	53 Bribes related to utilities	58 Police protection
67 Costs imposed by common crime	56 Bribes connected with pub contracts	69 Confidence that bribed services delivered

LEGAL & REGULATORY FACTOR RANKINGS, continued

Botswana	Zimbabwe
57 Microeconomic Competitiveness Index 2002	70 Microeconomic Competitiveness Index 2002
41 Growth Competitiveness Index 2002	79 Growth Competitiveness Index 2002
18 Independence of judiciary	45 Confidence that bribed services delivered
20 Corrupt diversion of public funds	54 Bribes for influencing judiciary
21 Is there neutral dispute resolution framework	55 Bribes connected with loan applc
24 Are financial assets well protected	55 Bribes connected with taxes
25 Decrease in bribes over past 3 years	57 Costs imposed by organized crime
26 Bribes for influencing legislature	59 Intellectual property protection
27 Bribes for influencing judiciary	60 Importance of bribes related to import permits
28 Bribes connected with pub contracts	64 Costs imposed by common crime
29 Percentage of unofficial businesses	66 Bribes for influencing legislature
32 Confidence that bribed services delivered	69 Is there neutral dispute resolution framework
33 Bribes connected with taxes	70 Corrupt diversion of public funds
35 Costs imposed by organized crime	70 Bribes related to utilities
35 Costs imposed by other firm's corruption	71 Costs imposed by other firm's corruption
36 Bribes related to utilities	73 Percentage of unofficial businesses
39 Intellectual property protection	75 Independence of judiciary
39 Bribes connected with loan applc	76 Bribes connected with pub contracts
40 Importance of bribes related to import permits	77 Are financial assets well protected
41 Police protection	77 Police protection
45 Costs imposed by common crime	78 Decrease in bribes over past 3 years
59 Absence of press censorship	80 Absence of press censorship

Table 13: Global Competitiveness Report 2002 – Infrastructure Factor Rankings

South Africa	Mauritius	Namibia
29 Microeconomic Competitiveness Index 2002	49 Microeconomic Competitiveness Index 2002	51 Microeconomic Competitiveness Index 2002
32 Growth Competitiveness Index 2002	35 Growth Competitiveness Index 2002	53 Growth Competitiveness Index 2002
21 Air transport	28 Ports	22 General infrastructure
24 General infrastructure	31 Air transport	25 Ports
25 Railroads	34 General infrastructure	26 Railroads
26 Quality of electricity	43 Would you trust postal system with $100	31 Quality of electricity
31 Ports	45 Use of mobile telephones	46 Internet access in schools
41 Internet access in schools	46 Quality of electricity	48 Air transport
42 Use of mobile telephones	48 Internet access in schools	49 Would you trust postal system with $100
58 Would you trust postal system with $100	54 New telephone lines available	55 Use of mobile telephones
58 New telephone lines available	60 Railroads	56 New telephone lines available

Botswana	Zimbabwe
57 Microeconomic Competitiveness Index 2002	70 Microeconomic Competitiveness Index 2002
41 Growth Competitiveness Index 2002	79 Growth Competitiveness Index 2002
29 Railroads	42 General infrastructure
32 Would you trust postal system with $100	43 Railroads
33 General infrastructure	64 Quality of electricity
50 Quality of electricity	70 Would you trust postal system with $100
52 Air transport	71 Air transport
56 Internet access in schools	73 Internet access in schools
60 Use of mobile telephones	74 New telephone lines available
63 Ports	76 Use of mobile telephones
65 New telephone lines available	78 Ports

Table 14: Global Competitiveness Report 2002 – Health, Education, Labor Factor Rankings

South Africa

29	Microeconomic Competitiveness Index 2002
32	Growth Competitiveness Index 2002
50	Quality of public schools
60	Talented people remain in country
65	Scientists and engineers available
65	Gap in health care for poor vs rich
66	Pay is strongly related to productivity
69	Wage setting decentralized
70	Labor-employer relations cooperative
71	Math and science in schools
74	Hiring/firing flexibility

Mauritius

49	Microeconomic Competitiveness Index 2002
35	Growth Competitiveness Index 2002
42	Gap in health care for poor vs rich
45	Talented people remain in country
46	Quality of public schools
50	Labor-employer relations cooperative
53	Math and science in schools
59	Scientists and engineers available
71	Pay is strongly related to productivity
72	Hiring/firing flexibility
75	Wage setting decentralized

Namibia

51	Microeconomic Competitiveness Index 2002
53	Growth Competitiveness Index 2002
37	Wage setting decentralized
44	Talented people remain in country
47	Pay is strongly related to productivity
48	Quality of public schools
49	Gap in health care for poor vs rich
52	Hiring/firing flexibility
53	Labor-employer relations cooperative
65	Math and science in schools
79	Scientists and engineers available

Botswana

57	Microeconomic Competitiveness Index 2002
41	Growth Competitiveness Index 2002
26	Labor-employer relations cooperative
34	Talented people remain in country
36	Wage setting decentralized
37	Gap in health care for poor vs rich
41	Pay is strongly related to productivity
43	Quality of public schools
49	Hiring/firing flexibility
55	Math and science in schools
72	Scientists and engineers available

Zimbabwe

70	Microeconomic Competitiveness Index 2002
79	Growth Competitiveness Index 2002
54	Math and science in schools
60	Quality of public schools
67	Labor-employer relations cooperative
69	Scientists and engineers available
76	Gap in health care for poor vs rich
79	Talented people remain in country
79	Pay is strongly related to productivity
80	Hiring/firing flexibility
80	Wage setting decentralized

Table 15: Global Competitiveness Report 2002 – Finance Factor Rankings

South Africa		Mauritius		Namibia	
29	Microeconomic Competitiveness Index 2002	49	Microeconomic Competitiveness Index 2002	51	Microeconomic Competitiveness Index 2002
32	Growth Competitiveness Index 2002	35	Growth Competitiveness Index 2002	53	Growth Competitiveness Index 2002
13	Sophistication of financial markets	33	Hidden import barriers	13	Insider trading
16	Is equity finance possible	35	Bank solvency	18	Money laundering through banks
17	Financial auditing	36	Bank loan with little collateral	25	Money laundering through non-banks
20	Regulatory obstacles: local vs national	37	Is equity finance possible	26	Bank solvency
26	Venture capital	37	Financial auditing	28	Financial auditing
27	Money laundering through banks	38	Money laundering through non-banks	33	Regulatory obstacles: local vs national
29	Hidden import barriers	40	Regulatory obstacles: local vs national	35	Credit conditions over last year
31	Bank solvency	43	Money laundering through banks	36	Hidden import barriers
34	Bank loan with little collateral	48	Venture capital	41	Is equity finance possible
35	Level of all fees related to importing	57	Credit conditions over last year	42	Sophistication of financial markets
35	Money laundering through non-banks	59	Insider trading	45	Bank loan with little collateral
40	Insider trading	60	Sophistication of financial markets	51	Venture capital
44	Credit conditions over last year	60	Level of all fees related to importing	52	Level of all fees related to importing

FINANCE FACTOR RANKINGS, continued

Botswana	Zimbabwe
57 Microeconomic Competitiveness Index 2002	70 Microeconomic Competitiveness Index 2002
41 Growth Competitiveness Index 2002	79 Growth Competitiveness Index 2002
15 Money laundering through banks	3 Regulatory obstacles: local vs national
16 Bank solvency	6 Is equity finance possible
18 Money laundering through non-banks	22 Financial auditing
26 Hidden import barriers	37 Sophistication of financial markets
27 Insider trading	39 Credit conditions over last year
30 Financial auditing	50 Bank solvency
32 Credit conditions over last year	52 Venture capital
35 Bank loan with little collateral	53 Bank loan with little collateral
35 Is equity finance possible	53 Money laundering through banks
38 Level of all fees related to importing	60 Hidden import barriers
41 Venture capital	66 Money laundering through non-banks
55 Regulatory obstacles: local vs national	75 Insider trading
57 Sophistication of financial markets	80 Level of all fees related to importing

Table 16: Global Competitiveness Report 2002 – Competition & Clustering Factor Rankings

South Africa		Mauritius		Namibia	
29	Microeconomic Competitiveness Index 2002	49	Microeconomic Competitiveness Index 2002	51	Microeconomic Competitiveness Index 2002
32	Growth Competitiveness Index 2002	35	Growth Competitiveness Index 2002	53	Growth Competitiveness Index 2002
13	Are parts sourced locally	32	Is starting new business easy	20	Is starting new business easy
22	Is anti monopoly policy effective	45	Stringent product standard regulations	49	Is anti monopoly policy effective
23	Source of competition: imports vs domestic	46	Buyer sophistication	50	Buyer sophistication
25	Intensity of competition	47	Quality of local suppliers	50	Stringent product standard regulations
27	Level of collaboration btw clusters and suppliers	49	How common are clusters	50	Source of competition: imports vs domestic
28	Quantity of local suppliers	51	Active buyers	56	Is corporate activity dispersed
29	Is starting new business easy	52	Quantity of local suppliers	58	Quality of local suppliers
30	Quality of local suppliers	58	Intensity of competition	62	How common are clusters
33	Is process machinery obtained local	62	Is anti monopoly policy effective	62	Active buyers
34	Stringent product standard regulations	65	Is specialized research and training available	63	Intensity of competition
35	How common are clusters	69	Level of collaboration btw clusters and suppliers	70	Is process machinery obtained local
38	Buyer sophistication	74	Is corporate activity dispersed	73	Level of collaboration btw clusters and suppliers
44	Is specialized research and training available	75	Are parts sourced locally	74	Quantity of local suppliers
47	Is corporate activity dispersed	75	Source of competition: imports vs domestic	76	Is specialized research and training available
48	Active buyers	79	Is process machinery obtained local	76	Are parts sourced locally

Competition & Clustering Factor Rankings, continued

Botswana		Zimbabwe	
57	Microeconomic Competitiveness Index 2002	70	Microeconomic Competitiveness Index 2002
41	Growth Competitiveness Index 2002	79	Growth Competitiveness Index 2002
31	Is starting new business easy	27	Source of competition: imports vs domestic
40	Buyer sophistication	51	Is corporate activity dispersed
47	How common are clus ters	54	Is starting new business easy
58	Is anti monopoly policy effective	56	Stringent product standard regulations
58	Is corporate activity dispersed	57	Is anti monopoly policy effective
60	Source of competition: imports vs domestic	58	Level of collaboration btw clusters and suppliers
62	Stringent product standard regulations	65	Buyer sophistication
62	Intensity of competition	66	Quantity of local suppliers
63	Active buyers	67	Active buyers
68	Level of collaboration btw clusters and suppliers	68	Quality of local suppliers
72	Quality of local suppliers	70	Intensity of competition
77	Is specialized research and training available	72	How common are clusters
78	Is process machinery obtained local	74	Are parts sourced locally
78	Quantity of local suppliers	74	Is specialized research and training available
79	Are parts sourced locally	77	Is process machinery obtained local

Table 17: Global Competitiveness Report 2002 – Management & Corporate Governance Factor Rankings

South Africa		Mauritius		Namibia	
29	Microeconomic Competitiveness Index 2002	49	Microeconomic Competitiveness Index 2002	51	Microeconomic Competitiveness Index 2002
32	Growth Competitiveness Index 2002	35	Growth Competitiveness Index 2002	53	Growth Competitiveness Index 2002
12	Do corporate boards represent shareholders	24	Exporting companies: focus on resource extraction vs	30	Do corporate boards represent shareholders
13	Are management positions held by professionals	29	Do exporting companies do own marketing	31	Is country's competitiveness due to unique products
15	Are management stock options common	35	International distr mkt local	35	Are management positions held by professionals
18	Extent of marketing	35	Do companies invest in employee training	40	Do companies invest in employee training
20	Quality of business schools	38	Willingness to delegate	42	Corporate ethics
23	Willingness to delegate	42	Customer Orientation	44	Are management stock options common
28	Are exports to neighbors growing	44	Are production processes world class	46	Willingness to delegate
28	Do companies invest in employee training	46	Extent of marketing	55	Do exporting companies do own marketing
29	Corporate ethics	48	Scope of Exporting: Regional vs Global	58	Are production processes world class
31	Scope of Exporting: Regional vs Global	52	Are management stock options common	58	Is technology obtained by importing vs pioneering
36	International distr mkt local	54	Is country's competitiveness due to unique products	60	Scope of Exporting: Regional vs Global
38	Are production processes world class	55	Is technology obtained by importing vs pioneering	65	Extent of marketing
43	Is technology obtained by importing vs pioneering	57	Corporate ethics	67	Are exports to neighbors growing
51	Do exporting companies do own marketing	63	Are management positions held by professionals	68	Exporting companies: focus on resource extraction vs
61	Customer Orientation	63	Quality of business schools	68	Customer Orientation
65	Exporting companies: focus on resource extraction vs	63	Are exports to neighbors growing	71	International distr mkt local
68	Is country's competitiveness due to unique products	65	Do corporate boards represent shareholders	77	Quality of business schools

MANAGEMENT & CORPORATE GOVERNANCE FACTOR RANKINGS, continued

Botswana		Zimbabwe	
57	Microeconomic Competitiveness Index 2002	70	Microeconomic Competitiveness Index 2002
41	Growth Competitiveness Index 2002	79	Growth Competitiveness Index 2002
24	Is country's competitiveness due to unique products	20	Do corporate boards represent shareholders
31	Do corporate boards represent shareholders	24	Are management positions held by professionals
33	Corporate ethics	30	Are management stock options common
33	Are management positions held by professionals	42	Do companies invest in employee training
43	Do companies invest in employee training	45	Willingness to delegate
56	Willingness to delegate	53	Corporate ethics
59	Are management stock options common	65	Quality of business schools
65	Is technology obtained by importing vs pioneering	65	Are exports to neighbors growing
67	Do exporting companies do own marketing	66	Extent of marketing
68	Quality of business schools	67	Scope of Exporting: Regional vs Global
68	Are production processes world class	73	Customer Orientation
69	Scope of Exporting: Regional vs Global	74	Is technology obtained by importing vs pioneering
71	Exporting companies: focus on resource extraction vs	76	Exporting companies: focus on resource extraction vs range of products
72	Customer Orientation	77	Do exporting companies do own marketing
72	Extent of marketing	79	Are production processes world class
74	Are exports to neighbors growing	80	Is country's competitiveness due to unique products
76	International distr mkt local	80	International distr mkt local

Table 18: Global Competitiveness Report 2002 – Environment Factor Rankings

South Africa	Mauritius	Namibia
29 Microeconomic Competitiveness Index 2002	49 Microeconomic Competitiveness Index 2002	51 Microeconomic Competitiveness Index 2002
32 Growth Competitiveness Index 2002	35 Growth Competitiveness Index 2002	53 Growth Competitiveness Index 2002
13 Env Regulations offer no option	32 Subsidies for Energy	15 Env gains achieved through conflict vs cooperation
20 Use of ISO 14000	37 Compliance with env regs high priority	17 Complying with env reg hurts competitiveness
28 Env gains achieved through conflict vs cooperation	42 Toxic Waste Disposal	21 Env Regulations confusing/transparent
29 Subsidies for Energy	43 Speed of enacting environmental legislation	21 Env Regulations offer no option
30 Env Regulations confusing/transparent	43 Env Regulations confusing/transparent	30 Env Regulations enforced consistently
31 Toxic Waste Disposal	44 Chemicals used in manufacturing	33 Toxic Waste Disposal
32 Water pollution	45 Stringency of environmental legislation	34 Compliance with env regs high priority
33 Chemicals used in manufacturing	47 Env gains achieved through conflict vs cooperation	37 Chemicals used in manufacturing
37 Speed of enacting environmental legislation	47 Water pollution	37 Use of ISO 14000
37 Stringency of environmental legislation	48 Env Regulations enforced consistently	38 Subsidies for Energy
37 Env Regulations enforced consistently	49 Env Regulations offer no option	39 Speed of enacting environmental legislation
38 Complying with env reg hurts competitiveness	53 Air pollution	39 Water pollution
41 Compliance with env regs high priority	63 Complying with env reg hurts competitiveness	41 Air pollution
44 Air pollution	68 Use of ISO 14000	42 Stringency of environmental legislation

ENVIRONMENT FACTOR RANKINGS, continued

Botswana	Zimbabwe
57 Microeconomic Competitiveness Index 2002	70 Microeconomic Competitiveness Index 2002
41 Growth Competitiveness Index 2002	79 Growth Competitiveness Index 2002
17 Env gains achieved through conflict vs cooperation	43 Env gains achieved through conflict vs cooperation
30 Env Regulations offer no option	44 Subsidies for Energy
31 Env Regulations confusing/transparent	53 Use of ISO 14000
40 Complying with env reg hurts competitiveness	55 Chemicals used in manufacturing
41 Subsidies for Energy	58 Stringency of environmental legislation
43 Env Regulations enforced consistently	58 Complying with env reg hurts competitiveness
44 Water pollution	59 Env Regulations confusing/transparent
47 Speed of enacting environmental legislation	60 Toxic Waste Disposal
48 Stringency of environmental legislation	60 Speed of enacting environmental legislation
48 Toxic Waste Disposal	61 Water pollution
50 Use of ISO 14000	67 Env Regulations enforced consistently
51 Air pollution	70 Air pollution
53 Chemicals used in manufacturing	70 Env Regulations offer no option
54 Compliance with env regs high priority	75 Compliance with env regs high priority