

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.