Regional Integration in Southern Africa - Vol. 6

Deepening Integration in SADC

South Africa - SADC's Economic Engine

Mmatlou Kalaba, TIPS
Owen Willcox, TIPS

Takudzwa Fundira, tralac
Brian Williams, tralac

Philip Alves, SAIIA

FRIEDRICH EBERT STIFTUNG

A study conducted for the
Friedrich Ebert Foundation

Regional Integration in Southern Africa
Vol 6

Deepening in Integration SADC

South Africa – SADC's Economic Engine

A study conducted for the
Friedrich Ebert Foundation

Authors:
Mmatlou Kalaba, TIPS
Owen Willcox, TIPS

Takudzwa Fundira, tralac
Brian Williams, tralac

Philip Alves, SAIIA

December 2006

Impressum

Published by

Friedrich Ebert Foundation -
Botswana Office
ISBN 99912-564-7-4
December 2006

Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community, SADC is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation through its office in Botswana and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on "Deepening Integration in SADC – Macroeconomic Policies and their Impact".

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries followed the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana and in April 2005 in Stellenbosch, South Africa the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study on the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis a vis SADC. A study on

South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussion among the participating institutions as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled "Regional Integration in Southern Africa".

The 6th volume, presented here, contains the findings of the Country Study and Survey from South Africa by the *Trade and Industrial Policy Strategies*, TIPS, and the *Trade Law Centre of Southern Africa, tralac, South African Institute of International Affairs*, SAIIA all from South Africa. My special thanks go to the authors, to Philip Alves, Mmatlou Kalaba, Owen Willcox, Takudzwa Fundira, Brian Williams for writing and revising the document, to Mompoloki Bagwasi for editing, Sara Wagner for proof reading as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, December 2006

Dr. Marc Meinardus
Resident Representative
Friedrich Ebert Foundation
Botswana Office

Table of Contents

Part 2: Business Perception in South Africa

Deepening Integration in SADC

South Africa – SADC's Economic Engine

Part: 1

Macroeconomic Policies and Their Impact
in South Africa

List of Tables

List of Figures

List of Abbreviations

ABET	Adult Basic Education Training
ADB	African Development Bank
AIDS	Acquired Immunodeficiency syndrome
ARV	Antiretroviral
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
CUBP	Clinic Upgrading and Building Programme
EPWP	Expanded Public Works Programme
FTA	Free Trade Area
GDP	Gross Domestic Product
GDS	Growth and Development Summit
GEAR	Growth, Employment and Redistribution
GNI	Gross Domestic Income
GNP	Gross National Product
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IMF	International Monetary Fund
IMR	Infant Mortality Rate
MDG	Millennium Development Goals
MERS	Microeconomic Reform Strategy
MRC	Medical Research Council
MTEF	Medium Term Expenditure Framework
NEDLAC	National Economic Development and Labour Council
NEPAD	New Economic Partnerships for African Development
NGO	Non Government Organisation
PPP	Purchasing Power Parity
RDP	Reconstruction and Development Programme
RI	Regional Integration
RISDP	Regional Indicative Strategic Development Plan

SADC	Southern African Development Community
SETA	Sector Education and Training Authorities
SMME	Small, Medium and Micro Enterprises
STATSSA	Statistics South Africa
STD	Sexually Transmitted Disease
TB	Tuberculosis
UN	United Nations
UNDP	United Nations Development Programme
USD	USDollars

Executive Summary

Deepening integration in SADC remains a highly challenging and contentious process, hence member states are cautious in their approach. On one hand member states have made commitments of deeper regional integration through various steps, from free trade area to common markets, as stipulated in the Regional Indicative Strategic Development Plan (RISDP) document. On the other hand, members remain committed to multiple and overlapping memberships to other regions despite obvious incompatibilities. Instead of seeking solutions to the existing problems, more complexities to the problem are added. The recent addition is in the form of the ongoing Economic Partnership Agreement with the European Union. All these are taking place concomitant with the need to harmonise domestic policies of those regional groupings to which they are members.

A series of country studies ware undertaken under the leadership of Friedrich Ebert Foundation (FES) Botswana to develop a research program that will a) provide an in depth understanding of regional integration, b) carry out comparisons of broad macroeconomic, trade and labour market policies; compare main linkages between policy frameworks and social impacts; and c) attempt to link relationships between policy frameworks and their impacts on institutional and legal reforms. The South African conceptual study is necessitated by the need to provide policy research that informs national policy about regional integration, how it can be facilitated and offer viable options for the way forward. The basic thrust of the study is to provide a broad stock-taking of the status of the policy frameworks of South Africa by identifying the main linkages (and causality) between the policy frameworks and their economic and social impacts.

SADC member states adopted the RISDP in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities. The ultimate objective of the RISDP is "to deepen the integration agenda of SADC with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals. SADC Member States generally agree on the principal of macroeconomic convergence (MEC). Together with RISDP, MEC is necessary for effective policy coordination and regional integration. The memorandum of understanding (MOU) between the SADC Member States on macroeconomic stability and convergence seeks to address the following key issues:

- principles of macroeconomic stability and convergence;
- indicators to measure macroeconomic stability and convergence;
- provision of data and information by member states;
- establishment of a collective surveillance procedure;
- presentation of annual convergence programmes by member states to the committee of ministers; and
- allocation of responsibility for implementation.

Within the context of the MEC MOU, economic indicators which will be used to measure macroeconomic convergence identified. Secondly, some numeric targets were set for the chosen indicators. These numeric target indicators are deemed very important in the context of regional macroeconomic stability, they are bench-marked as table below shows.

Table 1: SADC Macroeconomic Target Indicators

Numeric Values of Target Indicators	2008	2012	2018
Core Inflation	9%	5%	3%
Budget Deficit as a percentage of GDP	5%	3%	1%
External Debt as a percentage of GDP	60%	60%	60%
Current Account Deficit as a percentage GDP	9%	9%	3%
Growth rate	7%	7%	7%
External Reserves (Import Cover in months	3	6	6
Central Bank credit to Government	10%	5%	5%
Domestic savings rates	25%	30%	35%

[BIDPA, 2005]

For South Africa, only three out of the eight indicators on the table appeared unlikely to be attained in 2008. This is based on the historical and current trend on the performance of the economy, relative to those indicators. The two indicators are economic growth and domestic savings. The current account deficit has shown signs of spiralling out of control, but measures are being put in place to keep it within the regional targets. The regional growth rate target of 7% per annum from 2008 up to 2018 is considered to be ambitious for South African point as the national target is predicted to be 6% per annum between 2010 and 2014 (Presidency, 2006).

South Africa's efforts in inflation targeting, budget deficit control and maintaining a low level of foreign debt must be commended. Bold policy decisions have resulted in the current macroeconomic stability. On inflation targets, the South African Reserve Bank whose major designated responsibility to reduce is the inflation rate has maintained inflation within the target range of 3% - 6% since September 2003. Thus, it is quite reasonable to expect that South Africa will not struggle to meet the SADC inflation target of 9% in 2008, 5% in 2012 and 3 % in 2018 as they are still within the country's capabilities. The major risk for South Africa failing to achieve the inflation target comes from abroad. South Africa's openness to world market forces, especially on the capital account, since 1994 and the ever larger amounts of portfolio capital circulating the globe have made South Africa more vulnerable to exchange rate crises. These have often resulted in higher domestic inflation as the price of imported goods rose.

South Africa's budget deficit has been problematic at times. Reducing the deficit, increasing employment and the redistribution (GEAR) policy framework are some key aims to achieving growth. The budget deficit was steadily reduced, in order to reduce the public sector borrowing requirement, and hence pay down public debt. South Africa has generally had a low level of foreign debt. This was probably due to difficulties encountered in raising foreign finance at the end of the Apartheid era. South Africa's fiscal prudence paid off in terms of better credit ratings in foreign capital markets. This allowed South Africa to increase foreign debt but foreign debt levels never breached the 30% of GDP level. This means that South African foreign debt is currently less than half of the SADC target level, and will remain thus until 2018.

The GEAR's policy framework defined orientation and scope of government intervention. The objective was to transform the South African economy which was divided by the previous apartheid regime. Furthermore, the emphasis of the framework was on implementation of tight fiscal and monetary policies, trade and financial liberation and privatisation. The policy was similar to the Washington Consensus style of transformation that is why initially it failed to garner support or inspire enough confidence. However, in the end it is seen to have contributed to the current macroeconomic stability.

South Africa's trade policy was guided by three interrelated strategies, that is, import substituting industrialization, the development of strategic industries (in arms, oil and coal) due to the sanctions imposed and the development of minerals-related exports. After South Africa's democratic elections, the newly elected government was faced with the mammoth task of reversing the imbalances caused by apartheid. South African went ahead with tariff liberalisation and the abolition of quantitative restriction, despite exposing the industries to global turbulence. Furthermore, South Africa has also made significant moves towards strengthening bilateral ties with its main trading partners, the EU and SADC.

South Africa's trade with SADC has shown signs of improvement in the recent years although trade is highly skewed in favour of South Africa. Trade with SADC is growing faster than trade with the rest of the world, which provides a positive sign and indicator for regional integration. The unbalanced trade pattern may also be reflective of South Africa's relatively good infrastructure for getting products to markets, in comparison with other SADC countries' weaker infrastructure. Infrastructure appears to be one of the limiting factors if SADC is to endeavour to increase intra-trade. South Africa's exports are mainly higher value-added manufactured goods but imports are largely lower value primary commodities. This explains the problem that SADC faces in terms of manufacturing capacity. SADC members continue to be providers of raw materials while in return they import high-value consumer goods. The RISDP target on exports of manufactured exports needs to be considered if there is to be an improvement in this area.

The labour market policies reflect previous and current complexities in the South African labour market. This arises from the apartheid era policies as well as the current legislation that does not address the current problems. Such problems point to complications in the generation of suitable solutions for the country as a part of the SADC region. The country has not been able to reduce the unemployment figures and the crisis of the working poor, and uncertainties of a labour market that is highly deregulated. The crisis of the poor is a time bomb waiting to explode with dire consequences for labour market reforms which are responsible for balancing social justice with economic development. The rigid labour market undermines the real debate which should be about how to create jobs and strengthen the economic development capacity of the country. A major part of the problem is the lack of an integrated strategy and the absence of relevant data to guide skills development. The trade union movement's weakness, the anger of the communities which are victims of a poor delivery system and the unprecedented power of the capitalist class are key factors which influence the direction of events in the labour market.

Despite the positive macroeconomic achievements that South Africa has accomplished in the past decade, the social ills of the society paint bleak prospects for the majority of the society. Indicators on poverty, unemployment, crime, and income inequality remain important social phenomena that are gravelling the nation. Estimates about the number of people in poverty vary according to the choice of poverty line and assumptions about the intra-household allocation. The presence of persistent poverty in an economy that is regarded as performing well is an indication of wealth inequalities within the society. Income inequality remains pervasive. South Africa is one of the most inequitable countries in the world. Official unemployment statistics indicate that almost one in three economically active individuals is jobless.

The health status of the nation provides even a bigger concern as the negative impacts start to reverse gains from macroeconomic performances. The drastic rise in HIV/AIDS-related deaths has significantly changed life expectancy in South Africa. It is estimated that by 2015 the average life expectancy could fall by more than 30%. HIV/AIDS will be a severe problem for many years to come and the future demographic impact is expected to be huge. Thus, the pressure on the provision of health services (medical facilities, personnel and medicine) by both the public and private will continue to accumulate.

Furthermore, the problem of AIDS has raised the cost of doing business in South Africa. A concerted effort is needed to contain the socio-economic repercussions of the disease. According to Statistics South Africa (2003) 15% of adult South African, are HIV positive. Direct public spending on the disease has increased sharply in recent years. The expenditure on HIV/AIDS was 0.2% in the GDP of 2003/

2004 financial year. The major upgrade of personnel, facilities and management will be required for the treatment of the disease in future, especially with the ARV roll out. The total spending is even higher given that most of the department's health expenditure is HIV/AIDS related.

Most of the social indicators have not improved significantly in the past decade despite having sound policies on paper. This raises serious concerns about the Government's implementation capacity. Policy gaps point to education and health as the most affected sectors. The two are key to the success of the economy and they need to start playing even a bigger role in providing healthy, capable and skilled human resources to take up the global challenges.

The Government's own performance assessment of the last ten years reveals admission of own short-comings from the authorities. This can be viewed in a positive light as long as it is carried forward to inform priorities and set new performance targets for future periods. The most important would be coming up with corrective measures to ensure that such short comings are not repeated. The challenges of improving the economic growth rate so that it can keep up with the quality of life remains the main priority for the Government. However, it will be meaningless to the region if the majority of South Africans would remain poor, unemployed and fail to access the basic amenities. This is a challenge to improve the quality of life for the marginalised people who are unlikely to benefit from improved economic growth rate.

For deepening regional integration, the country remains the torchbearer in the region in terms of mutually beneficial integration. At the same time South Africa need to be mindful of the role it plays so that it doesn't appear too arrogant. That is a difficult balance to manage, yet it remains an important challenge for the country, and its people. Another challenge is to address the past inefficiencies of the country that was divided along racial lines, and still align the new policies with regional goals and objectives.

1 Introduction

SADC has adopted a Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities. The Plan is intended to give the SADC structures clear guidelines on what are the approved SADC social and economic policies and priorities, as well as provide Member States with a coherent and comprehensive development policy agenda, for both social and economic policies. The ultimate objective of the Regional Indicative Strategic Development Plan is "to deepen the integration agenda of SADC with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals." (SADC, RISDP, p7)

The Regional Indicative Strategic Development Plan captures SADC's ambitious goals and objectives, which entail developing a Free Trade Area (FTA) by 2008, establishing a Custom Union by 2010, creating a regional common market by 2015 and forming a monetary union by 2016. These finance and investment sub-sector targets are pursued through the development of the Finance and Investment Protocol (FIP) development process, which commenced in 1998 and entails the development of specific Memoranda of Understanding, focusing on the areas of fiscal and monetary policies, financial markets, central banks, investment, taxation, development finance and non-banking regulators.

SADC is committed to deepening the integration processes amongst its members as part of its strategic plan to "achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration," (Gaolathe, 2002). Amongst the various measures that governments can implement to further such integration, ensuring sound macroeconomic management is vital. For the region as a whole, this is reflected in the Memorandum of Understanding (MOU) on Macroeconomic Convergence adopted in 2001. In order to monitor the implementation of the MOU, four indicators were identified, viz.: a member state's rate of inflation; the ratio of the budget deficit to GDP; the ratio of public and publicly guaranteed debt to GDP; and the balance and structure of the current account. Convergence targets for these indicators and the macroeconomic policy framework needed to achieve such targets will provide the basis for more smoothly integrating, in a series of stages, the economies of Southern Africa into a fully-fledged economic union, while addressing the challenges of achieving the Millennium Development Goals.

1.1 Background

The conceptual framework of this study was borne from ideas generated at a meeting in Botswana organised in close consultation with the SADC Secretariat. The aim was to bring together the macroeconomic brainpower of the region in order to develop a model and draw the terms of reference for a study on deepening integration in SADC. The SADC RISDP served as a reference document and thus, the main framework for the study.

For RISDP goals to be realised, there is a need to specific policy research in the field of integration. The main challenges are to find the right ways of integration, to convince the communities to work together and to interact. The lack of communication between researchers and decision makers is hindes the research that is already available from being used in the decision-making processes. Another challenge is that policy makers are often preoccupied with administrative tasks of integration.

In its first chapters the RISDP reviews the current policies and strategies of the SADC and analyses the recent economic, human and social trends. Departing from there, the RISDP provides the plan and overall goals for different areas.

Specific targets for Trade, Economic Liberalization and Development are stated as follows:

- Achieving Free Trade Area - 2008
- Completion of negotiations of the SADC Customs Union - 2010
- Completion of negotiations of the SADC Common Market - 2015
- Establishment of a SADC Monetary Union - 2016

Other targets involve e.g. the diversification of industrial structures and exports, macroeconomic convergence and other financial indicators.

Discussions at the meeting resulted in provisional research contents as well as some first project activities to be undertaken in 2005. The timeframes and the designation of focal points for the respective research component and topics were established.

In a follow up meeting, the researchers from the region met to develop concrete Terms of Reference for the different components of the research programme: country studies, questionnaires and context studies. The participants built a foundation on which the various studies should be implemented in a coherent manner. The two day workshop focused on the development of Terms of Reference for the three components of the research programme:

(1) Country studies, which give an overview on the status of integration in the following SADC countries: Botswana, Madagascar, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe;
(2) Surveys, which focus on the perception of businesses and civil society organisations (CSOs); and
(3) A context study to put the SADC-oriented research programme into a broader regional and global context.

The results are to be used as a basis for policy discourse and guide national and regional policy-making towards sound macroeconomic integration.

1.2 Objectives of the Study

The main objective of the study is to provide policy research that informs national policy on the integration and show how it can be facilitated to offer viable options in the path of integration. This is to be done by looking at case studies in individual countries as well as and evaluating those policies that are aligned to integration objectives. This portion of the study examines South Africa's social impact assessment.

1.3 Organisation of the Study

The basic thrust of the country study is to provide a broad stock-taking of the status of the policy frameworks of South Africa. Therefore the study attempts to identify the main linkages (and causality) between the policy frameworks and their economic and social impacts.

The study covers these broad areas; in Section II the RISDP goals and objectives are discussed, the Macroeconomic Convergence and SADC Policies are examined in Section III. In Section IV, the analysis switches to Macroeconomic Stability Indicators as identified in the RISDP. In Section V we focus on South Africa's Macroeconomic Convergence Programme and Section VI looks deeper into the detailed assessment of the Convergence Programme. Social Impact Analysis and Macroeconomic Challenges are discussed in Sections VII and VIII, respectively. Finally, in Section IX we look at concluding remarks as well as recommendations.

2 RISDP Goals and Objectives

The development of the RISDP was decided in the context of the review of operations of SADC Institutions that was embarked upon in 2001. The plan's main objective is to provide Member States, SADC Secretariat and other institutions, regional and international stakeholders with a long term strategic development framework. Therefore, RISDP was adopted as a 15-year strategy that aims at realigning the cooperation and integration priorities of the Secretariat.

It serves as a guide in the regional deepening process. There are four main areas of the RISDP that have been identified for policy interventions. They include, trade and economic liberalization; infrastructure and services; food security; and social and human development. The areas are crucial for sustainable development in the region.

The main intervention areas of the RISDP show the overall goal, areas of focus, key strategies and broad targets. The targets take into account the Millennium Development Goals (MDGs) and other internationally agreed parameters.

The RISDP emphasises that good political, economic and corporate governance are prerequisites for sustainable socio-economic development, and that SADC's quest for poverty eradication and deeper levels of integration will not be realized if these are not in place. The RISDP focuses on trade (goods and service market integration), economic liberalisation (tariff phase down schedules) and development, liberalisation in the movement of factors of production, the creation of an enabling institutional environment and improvement of competitiveness and productivity. All these are crucial for moving towards sustainable development and require careful sequencing and timing if they are to be effective catalysts for deeper integration and poverty eradication.

The RISDP was approved by SADC Council and endorsed by Summit in 2003. After the approval of the RISDP, the Secretariat started working on the implementation framework. This process involved disaggregating and analysing the RISDP in areas to enable ranking and prioritisation of the regional cooperation and integration intervention areas, taking into account SADC objectives and the inherent resource constraints facing the Organisation.

After developing the RISDP implementation framework, the different directorates and units at the SADC Secretariat developed the respective medium and short-term plans. This exercise was also aligned to the New Economic Partnerships for African Development (NEPAD) Initiative in order to benefit from the resources mobilized under the continental development framework.

2.1 RISDP Programme, Goals, Strategies and Targets

The human development and social trends in SADC that are based on selected socio-economic indicators are discussed in this section. Social and economic growth and development across the region are diverse, with some countries attaining high growth rates and others achieving very low growth rates. This section examines the programmes of RISDP by concentrating on some priority areas specified in the Plan. Each of the focus area elaborates on policy strategies, goals that are pursued and finally the targets that have been set. The following five areas are discussed in detail; poverty, education, health, employment and gender developments.

According to the agreement amending the SADC Treaty, the RISDP is designed to provide strategic direction with respect to SADC programmes, projects and activities. The RISDP aligns the strategic objectives and priorities with the policies and strategies to be pursued towards achieving those goals over a period of fifteen years. It should set up a logical and coherent implementation programme of the main activities necessary for the achievement of the region's broader goals with a reasonable, feasible and agreeable time frame that takes into account resource constraints.

2.2 Poverty Situation

Eradicating poverty requires that opportunities be created for the poor to create wealth for themselves. This entails building up the capital assets of the poor, redistributing natural assets, constructing and maintaining infrastructure and promoting knowledge and health in poor areas; protecting the environment and reducing economic inequalities. It also entails expanding into regional and international markets and promoting investment to stimulate economic growth and employment creation for the poor.

Goal

The overall goal of the poverty intervention area is to promote sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation with the ultimate objective of eradicating it.

Poverty in all its dimensions is one of the major development challenges facing the SADC region. The poverty situation in the region is largely reflected in the low levels of income and high levels of human deprivation. Available statistics indicate that about 70% of the population in the region live below the international poverty line of USD 2 per day while 40% of the region's population or 76 million people live below the international poverty line of USD 1 per day. Figures from the African Development Bank (ADB) and the World Bank show that about 80% of the population in some Member States such as Mozambique and Zambia is estimated to be living in extreme poverty.

Poverty in the SADC region is particularly acute among various vulnerable groups such as households headed by old people and child-headed households that are now on the increase due to the impact of HIV and AIDS pandemic. The greatest deprivation is mainly in the area of low access to safe drinking water and child malnutrition. Often, the poor lack adequate capital assets - physical, financial, human, natural and social. Among other things, lack of adequate physical and financial capital is caused by unwillingness or inability to postpone consumption and lack of access to financial markets. Lack of adequate human capital may be the result of absence of educational facilities, high cost of being in school, high cost of education and the impact of brain drain.

Target

According to RISDP, a target of GDP growth of at least 7% per year and halve the proportion of the population that lives on less than USD 1 per day between 1990 and 2015 is desired.

2.3 Socio-economic Situation in SADC

The levels and rates of human development, as measured through the Human Development Index (HDI) vary and fluctuate among SADC member States. HDI measure incorporates life expectancy at birth, combined gross enrolment ratios at all levels of education, adult literacy, and real per capita income. The Social and Human Development cluster covers areas of human resources development, health, employment and labour. SADC Member States accord priority to social and human development in view of its crucial role both as a factor and as a broad measure of development. As one of the core areas of integration, it is responsible to ensure the availability of educated, skilled, healthy, productive human resources required for promoting investment, efficiency and competitiveness of the region in the global economy as well as improving the quality of lives of the region's population.

If the region is to achieve the Millennium Development goal (MDG) of halving the poverty level by 2015, GNI per capita must grow consistently over the next few years at rates of approximately 10%. This is of particular relevance to the less developed countries in the region. GNI per capita growth should also be accompanied by appropriate policies of wealth distribution to achieve poverty reduction. The focus is on five key socio economic areas, namely; poverty, education, health, employment and gender issues.

2.4 Education

The social and human development intervention contributes to the reduction of poverty, development and utilization of human capabilities required for promoting investment, efficiency, competitiveness, and to deepening integration as well as consolidating historical, social and cultural ties and affinities of the people of the region. Investment in education can mitigate future hardships and other social ills that plaque the region. This area is also critical in addressing issues such as human poverty; gender mainstreaming, HIV and AIDS.

Policies and Strategies

The Protocol on Education and Training provides for seven main areas of cooperation, namely, policy for education and training, basic education, intermediate education and training, higher education, distance education, training fund, research and development, lifelong education and training, publishing and library resources. The Protocol seeks to promote a regionally integrated and harmonised educational system especially with regard to issues pertaining to access, equity, relevance, and quality of education interventions. The Protocol aims to achieve its objectives over a period of 20 years, i.e. by the year 2020.

Goal

The main goal of SADC's integration agenda in the human resources development field is to increase the availability of educated and highly skilled personnel through equivalent and harmonised education and training systems of Member States.

A further disaggregation and deeper examination of the social and human development indicators reveals wide variations and gaps in terms of levels of human capabilities among Member States.

Adult Literacy Rate

Indicators of educational status such as adult literacy rate, and enrolment ratios at various levels are also characterised by wide variations among Member States. Although SADC recorded the lowest adult illiteracy rate of 27% as compared to other regions in Africa, some Member States have rates above 50%. In addition, only 6 Member States have adult literacy rates in the range of 80%. The region is still faced with a challenge of eradicating one of the basic components of human poverty; namely, adult illiteracy.

Primary and Secondary Enrolment Rates

The majority of Member States have net enrolment rates at the primary level that are below the range of 80 - 100%. This situation has implications for the attainment of universal access to education in the region. At primary level, only Mauritius, Botswana, Lesotho and South Africa have net enrolment rates in the range of 80 - 90% in 2002 (African Development Indicators, 2005).

Tertiary Enrolment Rates

In spite of significant investments made by the region in tertiary education, the region has not fully realised its potential in respect to the provision of high level education. Tertiary enrolment rates are below 50% in most Member States. This state of affairs has serious implications for the region in terms of its competitiveness given the critical role that high level skills play in the knowledge-based global economy.

Unit Costs of Education (Efficiency Levels)

Although it is not possible to provide a comprehensive picture on the unit costs of education in the SADC due to lack of up-to date data, available information show that the region is characterised by low levels of efficiency in the provision of education. The unit costs of education relative to GDP per capita are higher in SADC compared to other regions in the developing world. This is a consequence of high repetition/dropout rates and higher overhead expenses. There is, therefore a need to improve the efficiency in education spending in the region so that scarce public resources are allocated where the returns are higher and for the benefit of the majority of the population.

Targets

All Member States should achieve universal primary education and ensure that all children complete a full course of primary schooling by 2015.

Enrolment gaps between boys and girls in primary and secondary education should be eliminated preferably by 2005 and at all levels of education by not later than 2015.

2.5 Health

In the area of health, the main goal of integration is to attain an acceptable standard of health for all citizens to reach specific targets within the objective of "Health for All" in the 21st century by 2020 in all Member States through the primary health care strategy.

The SADC policy framework for health provides a comprehensive coverage of all the key aspects of health and health services delivery in the region. It proposes policies, strategies and priorities in various areas such as health research and surveillance; health information system; health promotion and education; HIV and AIDS and sexually transmitted diseases; communicable and non-communicable disease control; disabilities; reproductive health; health human resources development; nutrition and food safety; violence and substance abuse.

HIV and AIDS Pandemic

HIV and AIDS continue to be the greatest public health and developmental challenge in the region. The levels of prevalence and the incidence of HIV and AIDS in most Member States continue to increase. This is in spite of several measures that have been put in place to address the epidemic. This calls for a radical scaling up of innovative responses at both regional and national levels.

Goal

The goal of the SADC HIV and AIDS intervention is to decrease the number of HIV and AIDS infected and affected individuals and families in the SADC region so that HIV and AIDS ceased to be a threat to public health and to the socio-economic development prospects of Member States.

The SADC region faces a severe HIV and AIDS epidemic. The current extent of the pandemic has affected virtually every aspect of the lives of the people in the SADC region and has now reached crisis proportions. Since the mid-80s when HIV and AIDS was identified in most countries of the region, there has been a rapid increase in the numbers of adult and children infected with, and dying from HIV and AIDS, with corresponding adverse impact on the socio-economic development of the region. The HIV and AIDS pandemic, by virtue of its magnitude, is the single greatest developmental and public health concern. UNAIDS has estimated that over one million people died of AIDS in the SADC region in 2001, cumulatively this brings the total number of deaths since the beginning of the epidemic to over 20 million.

Targets

The first target is to ensure that by 2010 at least 95% of young men and women aged 15 to 24 have access to information, education, including peer education and youth specific HIV education.
Secondly, Member States should have reduced the proportion of infants infected with HIV by 50% by 2010.
Thirdly, all Member States should halt and begin to reverse the spread of HIV and AIDS by 2015.

The broad targets for social and human development are as follows:

- Under-Five Mortality Rates should be reduced by two-thirds between 1990 and 2015 in all Member States
- Maternal Mortality Rates reduced by three quarters between 1990 and 2015 in all Member States.
- All Member States should halt and begin to reverse the incidence of malaria and other major diseases by 2015.

Furthermore, SADC Protocol on Health provides a legal and broad policy framework for cooperation in 24 areas, which include some of the major health challenges in the region such as HIV and AIDS and sexually transmitted diseases (STD); tuberculosis (TB) control; malaria control; reproductive health; childhood and adolescent health; chronic diseases; emergency health services and disaster management and bulk purchasing of essential drugs.

A strategic framework which is a multi-dimensional was developed as a response to the HIV and AIDS pandemic by the region. It is aimed at intensifying measures and actions to address the devastating and pervasive impact of the HIV and AIDS pandemic in a comprehensive and complementary way. The focus of the response is both on the prevention of HIV and AIDS and on the mitigation of its impact in order to ensure sustainable human development of member states.

Infant and Maternal Mortality Rates

The health status of the region's population is characterised by large discrepancies among Member States on basic indicators such as infant, child and maternal mortality rates. Available statistics from the SADC Health Sector Policy Document show that the average Infant Mortality Rate (IMR) for the SADC region is 80 per 1,000 live births.

2.6 Employment and Labour Issues

The low employment levels in the region are largely due to a combination of factors leading to low levels of economic growth. These include distortions in factor prices and the short-term negative effects of structural adjustment programmes. The use of capital-intensive techniques of production in some sectors of the economy that have the potential for employment generation have further aggravated the unemployment problem. As a consequence, a large proportion of the growing labour force is absorbed in the informal sector, which is currently characterised by low levels of incomes and underemployment. The youth and women are the most affected by unemployment and underemployment.

With regard to productivity, available figures show that labour productivity during the mid 90s increased by an average of 1.3% per annum in the SADC region. The net effect of high levels of unemployment and low levels of productivity contribute towards increases in levels of poverty.

Employment levels and labour productivity trends in the region are generally low. Although it is difficult to quantify the employment levels due to lack of data, available information indicates that there has been a general decline in formal sector employment in the majority of Member States.

Policies and Strategies

The primary objective of the employment strategy is to stimulate the demand for labour, or increase the rate of labour absorption in the economy. A number of priority areas and specific strategies have been identified. The emphasis is on a proactive approach to employment promotion at national level. This should be accompanied by some consensus on what such an approach entails, and how it is to be coordinated and harmonised at the regional level.

The selection of unemployment and underemployment, and the inadequacy of labour standards and regulations, as well as their implications for regional integration, are the critical issues of concern in this sector. The objectives and strategies identified under the headings of employment promotion and labour market regulation are concrete and are targeted at addressing poverty reduction. Moreover, they take into account international labour standards.

However, the policy acknowledges that the labour market in Southern Africa is characterised by gender inequalities, as reflected in legislation, laws, policies and practices that disadvantage women. The policy calls upon member states to review and reform them, commit themselves to develop and implement gender sensitive policies, and take positive action to promote equality for women in work and employment.

2.7 Gender and Development

It has been demonstrated that greater equality between women and men contributes to economic growth, the reduction of poverty and overall human development. Yet pervasive inequalities exist between women and men in the SADC region. Women constitute the majority of the poor in the region, because of their limited access to, and control over productive resources such as land, livestock, credit and modern technology. In addition, women have limited access to adequate health facilities, formal education and employment, and are over represented in the informal sector where returns are extremely low and unreliable. Moreover, laws, which restrict women's legal capacity, and have a direct bearing on women's income earning capacities, exist in most Member States.

Goal

The goal is to facilitate the achievement of substantive equality between women and men in the SADC region, through mainstreaming gender into all national and regional policies, programmes and activities, and to adapt positive measures to accelerate progress in this regard.

Targets

The targets for gender and development are as follows:

1. Development and strengthening of national gender policies and institutional frameworks by end of 2003, harmonisation by the Secretariat and development of a regional gender policy by the middle of 2004.
2. Signature, accession, and ratification by Member States of international and regional human rights instruments on gender equality by the middle of 2004, and incorporation by end of 2004.
3. Repeal of gender discriminatory provisions in member states' constitutions, laws, policies and any other sources by mid 2005, and enactment of provisions guaranteeing substantive gender equality by end 2005.
4. Establishment of enforcement mechanisms and service delivery institutions by mid 2006.
5. Adoption of gender responsive planning, budgeting and implementation processes, regular gender capacity building and training programmes; and mechanisms for the collection of gender disaggregated data by end of 2006.
6. Development, strengthening and implementation of specific programmes for the economic empowerment of women by end of 2007.

7. The achievement by all Member States of:
   - At least 30% women in decision-making positions in local government, parliament, cabinet and senior positions in the public sector by 2005, or affirmative action measures in place to accelerate the attainment of this target;
   - At least 40% women in decision-making positions in local government, parliament, cabinet and senior positions in the public sector by 2010, or affirmative action measures in place to accelerate the attainment of this target;
   - At least 50% women in decision-making positions in local government, parliament, cabinet and senior positions in the public sector by 2015, or affirmative action measures in place to accelerate the attainment of this target;
   - At least 20% women in decision making positions in large private sector firms as defined by Member States by 2005, 30% by 2010 and 40% by 2015.

8. Eradication and reduction of all forms of violence against women and children
   - Reduction by at least 50% of all acts of violence and abuse of women and children by 2007.
   - Eradication of all forms of violence against women and children by 2015.

Gender gaps weaken the contribution of women who should be seen as resources for development. The strategies are therefore designed to address these gaps to achieve poverty reduction and eradication objectives.

The RISDP policy strategies provide some guidelines for Member State governments to start addressing their national challenges. Some of the policy goals and targets may not be attained by the times set, but the understanding is that member state would still pursue the goals. Attainment of some policy goals may still leave certain groups and individuals in the same situation (or even worse) they were before the goals were set. Therefore, some adjustment mechanisms need to be in place so that policy goals and achievements translate to economic and social benefits for the affected groups and individuals.

3 Macroeconomic Convergence and SADC Policy[1]

3.1 Memorandum on Macroeconomic Stability and Convergence

The Member States agreed that a substantial degree of macroeconomic convergence is necessary for effective policy coordination and regional integration. To this end, a Memorandum of Understanding (MOU) on Macroeconomic Stability and Convergence addresses the following issues was signed by SADC Member States:

- The principles of macroeconomic stability and convergence;
- Indicators to measure macroeconomic stability and convergence;
- The provision of data and information by Member States;
- The establishment of a collective surveillance procedure;
- The presentation of annual convergence programmes by Member States to the Committee of Ministers; and
- The allocation of responsibility for implementation.

To achieve macroeconomic convergence, Member States must converge on stability-oriented economic policies which aim to:

- Restrict inflation to low and stable levels;
- Maintain a prudent fiscal stance based on the avoidance of large fiscal deficits, monetisation of deficits, and high or rising ratios of public debt to GDP;
- Avoid large financial imbalances in the economy; and
- Minimise market distortions.

Within the context of the Macroeconomic Convergence MOU, the Committee of Ministers for Finance and Investment made two distinct decisions, namely, the identification of economic indicators which will be used to measure macroeconomic convergence and secondly, finding appropriate numeric targets for the chosen indicators. Since these

[1] This section draws mostly from Senaoana, M.P. (2005). Deepening Regional Integration in SADC: The Current Status of Macroeconomic Convergence in the SADC Region. Paper presented to the Friedrich Ebert Foundation Workshop on Deepening Regional Integration in SADC – Macroeconomic Policies and Their Impact. Stellenbosch, South Africa.

numeric target indicators need to be internationally credible to yield the full fruits of macroeconomic stability, they were bench-marked as shown in Table 2.

Table 2: SADC Macroeconomic Target Indicators

Numeric Values of Target Indicators	2008	2012	2018
Core Inflation	9%	5%	3%
Budget Deficit as a Percentage of GDP	5%	3%	1%
External Debt as a Percentage of GDP	60%	60%	60%
Current Account Deficit as a Percentage GDP	9%	9%	3%
Growth rate	7%	7%	7%
External Reserves (Import Cover in months)	3	6	6
Central Bank Credit to Government	10%	5%	5%
Domestic Savings Rates	25%	30%	35%

[BIDPA, 2005]

Note: The Current Account Deficit of 3% to 9% of GDP by 2008 should be considered in conjunction with the economic growth rate of the country, the import cover should exclude official transfers in its calculation.

3.2 Finance and Investment Protocol

The policy objectives for the finance and investment sector include encouraging movement towards regional macroeconomic stability and convergence through prudent fiscal and monetary policies; providing a framework for co-operation in the area of finance; promoting the development of sound investment policies and encouraging savings; facilitating and stimulating investment flows and technology transfer and innovation in the region.

The strategies for achieving the policy objectives for finance and investment include pursuit of macroeconomic convergence, co-ordination of direct and indirect taxes, liberalisation of current and capital account transactions, reform of payments systems, resource mobilisation through development finance institutions and other financial entities and improving incentives for investment. In addition, it is important that national investment acts, codes or guidelines facilitate investment in the region and that policies promote free movement of capital in SADC as well as encourage Member States to accede to international conventions on the protection and guarantee of investments.

For a number of themes, Memoranda of Understanding (MOUs) have been prepared. The MOUs on Macroeconomic Convergence and Cooperation in Taxation and Related Matters have been signed while those on Investment promotion, Exchange Control Policies, Payment, Clearing and Settlement Systems, and Harmonisation of Legal Operational Frameworks of Central Banks of SADC and Development Finance Institutions (DFI) are still being processed. Other forms of cooperation exist amongst stock exchanges, commercial banks and non-banking financial institutions.

Under the Macroeconomic Convergence MOU, Member States have agreed that to achieve and maintain macroeconomic stability, all countries should converge on stability-oriented economic policies, which include, restricting inflation to low and stable levels, maintaining prudent fiscal stance that eschews large fiscal deficits, achieving high debt servicing ratios, and minimising market distortions. A macroeconomic surveillance mechanism will be established to monitor the move towards convergence on selected indicators.

The MOU on Cooperation in Taxation and Related Matters underscores the need for cooperation on capacity building in the area of taxation with the aim of harmonising tax regimes, applying and treating tax incentives, direct and indirect taxes and treaties to avoid double taxation.

The policies and strategies are generally consistent with the SADC Common Agenda and they conform to the overall strategic priorities of the region as they relate to achieving complementarity between national and regional strategies and programmes, creating appropriate institutions and mechanisms for mobilisation of requisite resources and progressive elimination of obstacles to the free movement of capital.

There has been substantial liberalisation of the banking, finance and capital markets as well as investment services in SADC unilaterally and through a number of agreements and memoranda of understanding. Apart from the on going initiative of developing the Finance and Investment Protocol, the sector has already implemented a number of activities to promote investment, such as the investment forums in the region and outside and the annual Southern African Economic Summit. The SADC Committee of Central Bank Governors has a monetary and financial statistical database, developed an information bank on the policies and structures of SADC Central Banks, improved the national clearance, payments and settlement systems and facilitated repatriation of bank notes and coin among SADC countries, among others.

Financial reforms in Southern Africa have largely focused on the banking sector with a view to making them more competitive. The main features of these reforms have been liberalisation of entry into the banking industry, removal of official controls on deposit and lending interest rates, and strengthening of central bank regulatory and supervisory functions to improve prudence. The adoption of these financial reforms has permitted new financial institutions to enter the banking industry and facilitated the introduction of new financial products. These reforms have however not been sufficient to increase competition or stimulate increased savings mobilisation and intermediation services in all countries. Access to credit and capital remains an area of concern for small to medium enterprises and the vulnerable groups such as the disabled and women. Most SADC members operate effective stock exchanges, which have an important role in mobilising savings, facilitating privatisation and attracting foreign capital.

However, except for the Multilateral Monetary Area (MMA) countries (such as Lesotho, Namibia, South Africa and Swaziland) there is no substantial integration in the monetary sector within SADC. As SADC approaches the Common Market, there will be need to coordinate and to some extent harmonise monetary policies in order to achieve balanced development of the region.

Seven SADC Member States have investment acts whose main aim is to attract foreign investment by offering low corporate and personal income tax rates; tax holidays and exemptions on profits, dividends, interest and royalties; exemptions from import duties and sales tax on inputs and capital equipment; tax rebates and drawbacks; and other allowances. In many respects these investment laws are similar and hence very competitive. Therefore, there is need to coordinate policies and activities in order to promote investment in the region Member States also need to accept credit rating, which would give investors confidence in the region.

Challenges

The main challenge for SADC is to intensify the pace of integration and harmonisation in this sector and to increase domestic savings and investment in the region. SADC also needs to implement sound macroeconomic and prudent fiscal and monetary policies that will facilitate the reduction of inflation and interest rates, deficits, debts and the free flow of capital through liberalisation of exchange controls. Another challenge is that despite substantial liberalisation in the financial sector, small and medium enterprises continue to face difficulties in accessing credit from the banking system. There is therefore need for financial reforms for the non-bank finance institutions. Such reforms should address the case for women entrepreneurs, who are constrained by laws and procedures, which deny them full capacity to access credit.

The other serious challenge facing the region is how to stamp out money laundering, which is assuming great proportions not only in the region, but also at continental level.

3.3 Trade Protocol

The SADC Protocol on Trade, as amended, envisages the establishment of a Free Trade Area in the region by 2008 and its objectives are to further liberalise intra-regional trade in goods and services; ensure efficient production; contribute towards the improvement of the climate for domestic, cross-border and foreign investment; and enhance economic development, diversification and industrialisation of the region. The specific strategies adopted to achieve these objectives are:

- The gradual elimination of tariffs;
- Adoption of common Rules of Origin;
- Harmonisation of customs rules and procedures;
- Attainment of internationally acceptable standards, quality, accreditation and metrology;
- Harmonisation of sanitary and phytosanitary measures;
- Elimination of non-tariff barriers; and
- Liberalisation of trade in services.

The overall objective of the SADC Trade Protocol is to attain a Free Trade Area as a step towards achieving a Customs Union and subsequently a Common Market. On the whole, the SADC trade policies and strategies are consistent with the objectives of eliminating obstacles to the free movement of capital, labour and goods and services and improving of the region's economic management and performance through regional cooperation with the ultimate goal of eradicating poverty.

The success of this depends on the effective implementation of the trade protocol by all Member States especially with regard to elimination of tariff and non-tariff barriers that take into consideration the specificities of different Member States. These are to be accompanied by appropriate rules of origin, which will encourage the optimum utilisation of regional resources and allow forward and backward linkages in the various production chains.

Measures have also been taken to harmonise customs rules and procedures. These coupled with internationally acceptable standards, quality, accreditation and metrology as well as harmonisation of sanitary and phytosanitary measures are expected to enhance intra-SADC trade. As far as services are concerned, a legal framework will be adopted to ensure compliance with international commitments made by SADC Member States.

Challenges for Trade Policies and Strategies

The key challenge for SADC is to establish a Common Market within a reasonable time frame in order to increase the percentage share of SADC trade in the world market. This will only be possible, if Member States comply with the decisions agreed within the framework of the SADC Trade Protocol and speed up implementation bearing in mind the underlying principles and objectives of the protocol. This will entails. compliance with and implementation of WTO obligations as well as taking advantage of preferences provided under the Cotonou Agreement and the Africa Growth Opportunity Act.

It would be essential therefore to address the supply side constraints as well as competitiveness of industry with regard to production and to cushion the impact of the international tariff reduction on the development of the smaller, landlocked and less developed members of SADC.

As SADC moves into higher levels of integration such as the customs union, the issue of overlapping membership of SADC countries in a number of other regional bodies and the conflicting obligations arising thereof should be addressed urgently. A resolution on this issue would strengthen SADC's position as a building bloc of the African Union. The challenges posed by globalisation especially within the framework of the WTO, the AGOA and the Cotonou Agreements should be taken into account.

The other challenge is in developing new policies and strategies that would target vulnerable groups such as the rural and urban poor, small businesses, informal operators and women to ensure that they take advantage of the policies.

3.4 Labour Market Policies in SADC

Although the SADC region has generally improved its human capabilities over the last decade, there are a number of major challenges that should be addressed.

- Removing structural distortions in the economies of Member States and combating high levels of unemployment and underemployment, especially among women and youth.
- Gender inequalities in the labour markets and inadequate mainstreaming of gender concerns in the policy formulation and programme implementation.
- Inadequate integration of employment and labour issues in overall economic and social development.
- Weak institutional and human capacity for the collection, analysis, harmonisation, utilisation and dissemination of labour market information and data.
- Lack of a policy framework for promoting social dialogue and social protection.
- Lack of a comprehensive framework to facilitate smooth movement of labour as a factor of production.
- Lack of a comprehensive regulatory mechanism to promote the informal sector.

- HIV and AIDS affecting the most productive labour force.
- Lack of positive cultural attitudes towards productivity, entrepreneurship and innovation.

However, there are opportunities for improving human capabilities and well-being in the region. The major factors include the creation of appropriate policy and legal frameworks through the adoption of Protocols in nearly all the afore-mentioned areas. In addition, some key programmes have been designed to address the existing constraints. The region has also been able to forge strategic links and partnerships with key stakeholders within the region and with specialised inter-governmental agencies to share expertise, information and experiences on best practices in dealing with the identified challenges.

4 Macroeconomic Stability Indicators

Fiscal policy is articulated through the national budget process. The Medium Term Expenditure Framework (MTEF), announced in parliament in October every year, contains broad information about the budget for the next 3 years. Government spending is determined by policy priorities. The annual budget announcement in parliament in February builds on the broad outline of the MTEF and includes a lot of detail on expenditure, as well as information on tax policy. There is little evidence to suggest that South Africa being a member of SADC has had any effect on macroeconomic policy.

Monetary policy has also undergone a slight shift in focus.

4.1 Inflation

Monetary policy is the preserve of the independent South African Reserve Bank (SARB). When GEAR was published, SARB's policy was to target inflation through restricting growth in the money supply. By the mid-1990s it was clear that the relationship between money supply and inflation in South Africa had broken down. The SARB was not achieving its targets for the growth of money supply yet inflation was subsiding from the 14-16% range of the late 1980s to 7-8% by the mid-1990s. Although the Constitution required the SARB to protect the value of the currency, monetary policy was amended in 1998 for the SARB to focus solely on inflation targeting. Interventions in the market for foreign exchange were of limited importance. A new target variable was introduced, namely CPIX. CPIX is the conventional measure of inflation (the consumer price index, CPI) without the effects of rental prices and mortgages, which reflect interest rates which are set by the SARB. The inflation target was for the annual average of CPIX to range between 3% and 6%.

Figure 1: The Consumer Price Index and CPIX, 1994-2004

[Source: SA Reserve Bank]

As can be seen in Figure 1 above, inflation has declined markedly in the last 2 years. CPIX has consistently been inside the target range since September 2003. At the moment, CPIX is more likely to fall out of the bottom of the target range than to rise out of the top. This, combined with consistent action by the SARB to maintain inflation within the target range even at the cost of lower economic growth, has meant that inflation expectations in South Africa have been permanently lowered. Where previously market actors expected inflation to be in the high single digits or low teens, inflation can reliably be expected to be within the target range. CPI is very closely linked to CPIX. Thus, it is quite reasonable to expect that South Africa will not struggle to meet the SADC inflation target of 9% in 2008. The next targets of 5% in 2012 and 3 % in 2018 may be more difficult to achieve but they are still within the country's capabilities. The Reserve Bank has no designated responsibility, other than the inflation rate. In the last year the Bank may have been influenced by trade unions demands for lower interest rates to devalue the currency.

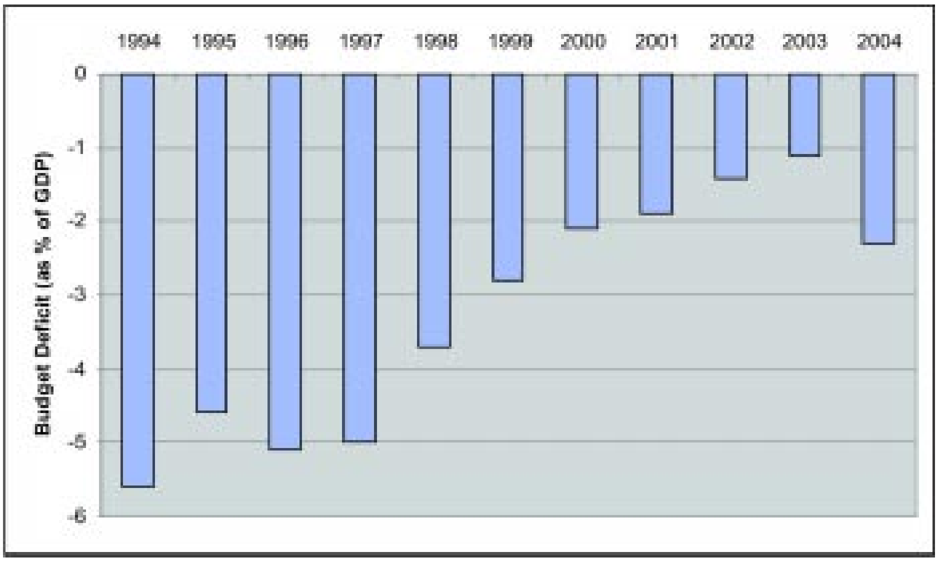
The major risk for South Africa failing to achieve the inflation target comes from abroad. South Africa's great openness to world market forces, especially on the capital account since 1994 and the ever large amounts of portfolio capital circulating the globe have made South

Africa more vulnerable to exchange rate crises. These have often resulted in higher domestic inflation as the price of imported goods rose. This is quite evident in Figure 1 above. After a large depreciation of the currency in late-2001, inflation rose dramatically in 2002.

4.2 Budget Deficit

The budget deficit is probably a more important variable economically than the current account deficit. As one can see from Figure 2 below, South Africa's budget deficit has been problematic at times. Indeed, reducing the deficit was one of the key aims of GEAR. It is remarkable how the government continued with the principles of GEAR, even when the policy turned out not to be pro-poor. The budget deficit has been steadily reduced in order to reduce the public sector borrowing requirement, and hence pay down public debt. The deficit increased in 2004 as government began to experiment with more expansive fiscal policy. The SADC target figure for this variable is 5% in 2008. This is unlikely to be an issue for South Africa; neither is the 3% target in 2012. The 1% target for 2018 might appear challenging at present but there is sufficient time to make plans to reach this target.

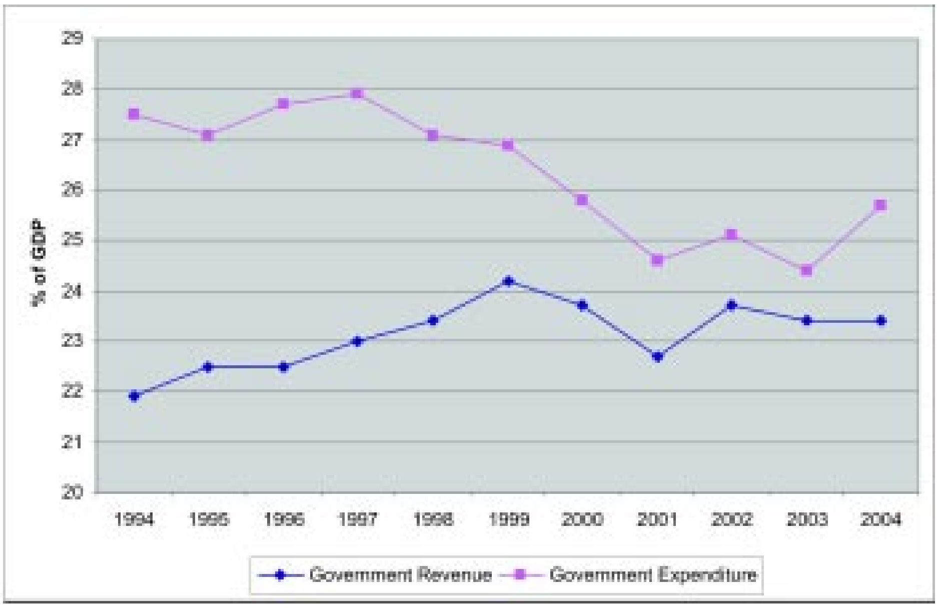
Figure 2: SA Budget Deficit as a Percentage of GDP, 1994-2004



[Source: SA Reserve Bank]

The budget deficit is the result of two different processes, namely government revenue and government expenditure. As can be seen in Figure 3 below, the improvement in the budget deficit has been driven by the decrease in government expenditure as well as a slight increase in revenue.

Figure 3: Government Revenue and Government Expenditure, as a Percentage of GDP, 1994-2004

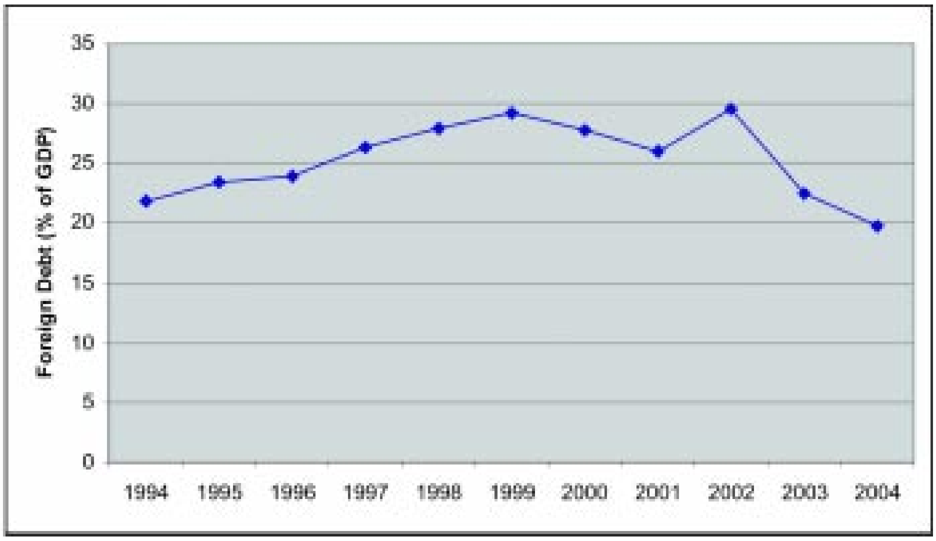


The increase in revenue was significantly driven by improved tax collection. Marginal tax rates have been reduced steadily but revenue has hardly changed, indicating that the tax base has been broadened. Expenditure has been reduced sharply. Government has indicated that it will henceforth follow a more expansionary fiscal policy.

4.3 Debt

A further method that countries can use to insulate themselves from the effect of an exchange rate crisis is to pay down levels of foreign debt. The lower the levels of foreign debt, the less this debt will balloon when the exchange rate depreciates meaning there is less chance of a depreciation becoming a major macroeconomic crisis, a la Argentina. From Figure 4 below it is clear that South Africa has generally had a low level of foreign debt. This was probably due to difficulties in raising foreign finance at the end of the Apartheid era. South Africa's fiscal prudence paid off in terms of better credit ratings in foreign capital markets. This allowed South Africa to increase foreign debt but foreign debt levels never breached the 30% of GDP level. This means that South African foreign debt is currently less than half of the SADC target level, and would remain thus until 2018. Obviously this target should be very easy for South Africa to achieve.

Figure 4: SA Foreign Debt as a Percentage of GDP, 1994-2004



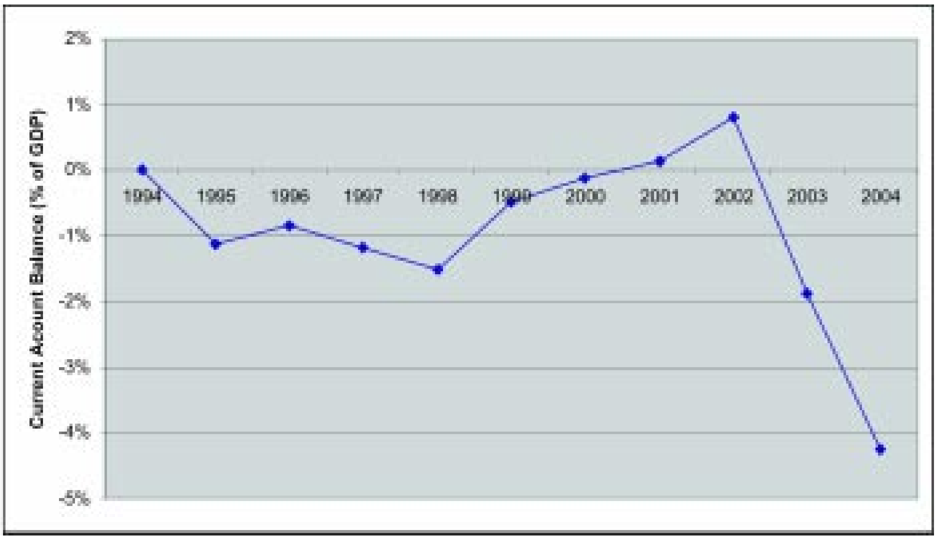
[Source: SA Reserve Bank]

4.4 Current Account

Another target variable that South Africa should not struggle to reach is for the current account balance. The SADC target is 9% of GDP in 2008, 9% of GDP in 2012 and 3% of GDP in 2018. As Figure 5 below illustrates, South Africa's current account balance has mostly been around the 1% to -1% of GDP range. This changed sharply in 2003 and 2004. A number of factors contributed to this. Firstly, South Africa found herself at a point in the business and interest rate cycle opposite that of the developed world. This led to large inflows of portfolio flows to take advantage of the large interest rate differential. This led to the Rand rising to quite high levels so that

South African exports fell off and imports increased. The large current account deficit was financed by an even larger capital account surplus.

Figure 5: SA Current Account Balance as a Percentage of GDP, 1994-2004



[Source: SA Reserve Bank]

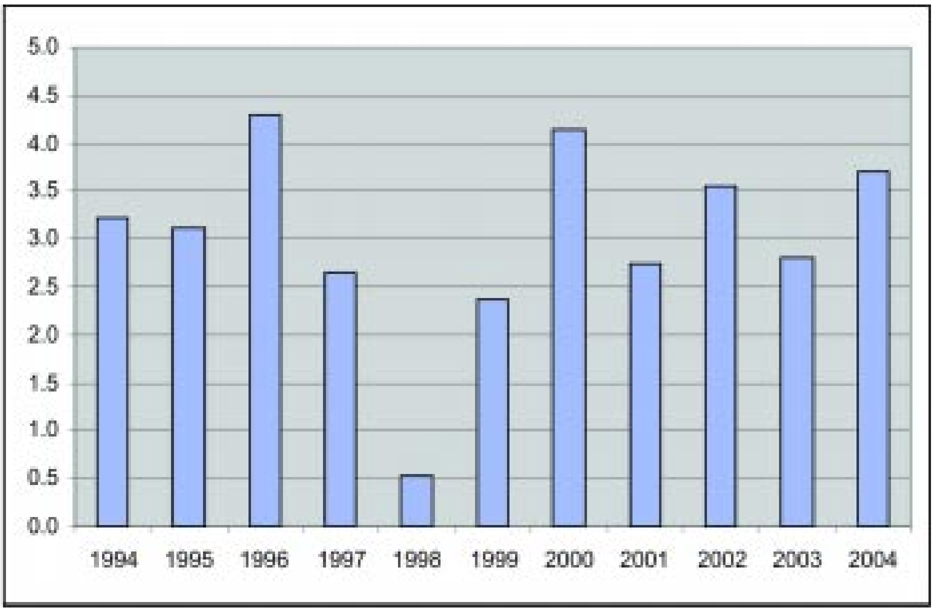
In the interim, South African interest rates have fallen while developed country rates have risen. This has halted the appreciation of the Rand. Exporters are slowly learning to compete at these adverse price levels. In addition, the accumulation of reserves by the SARB should prevent any further appreciation. Thus, one would not expect the current account deficit to worsen in the coming years. Once again, South Africa should reach the SADC target levels quite easily.

4.5 Other Indicators

Growth rate

The one route that South Africa must take to increase savings is higher economic growth. Obviously this is much easier said than done, especially because a faster growth will need more savings. South Africa would have to significantly improve her economic performance in order to reach the SADC target of 7% annual growth rate. Figure 6 below shows that South Africa has not even reached 5% growth in the last 10 years. Current optimistic talk in the country is about boosting growth to the 6% level, obviously viewing 7% as being too ambitious. Fortunately growth has never been negative but it is still short of the 7% level.

Figure 6: South Africa's GDP Growth Rate, 1994-2004.



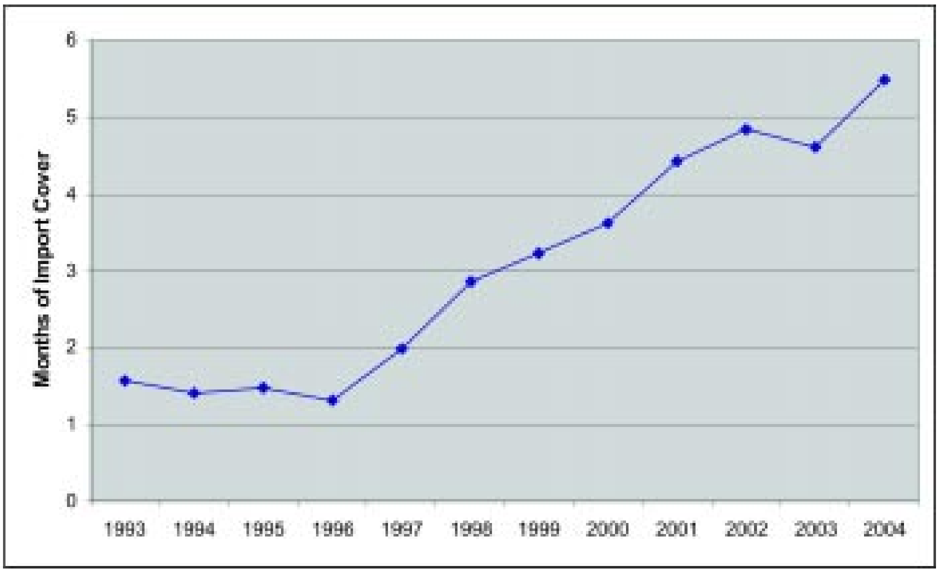
[Source: SA Reserve Bank]

Government has recently begun the process of reformulating a growth policy, with the stated target of 6% GDP growth per annum. Some initial modeling has shown that this will only be possible towards 2010. Few details have emerged about this new economic policy but one departure from current policy would have to be greater public investment. Indeed there seems to be a shift away from a stated commitment to privatisation, to keeping these assets in state hands and using these firms to carry out investment and improve infrastructure. Besides these details, the new policy is essentially unknown. There was some mention of a plan to make the labour market more flexible by making the firing of workers easier. The 2005 economic growth of 5% provides hope that South African could be within the SADC target range of 7%.

Foreign Exchange Reserve Accumulation

There is little that a country can do to protect itself from exchange rate crises. One option is to accumulate foreign exchange reserves. Historically South Africa has had very low levels of reserves but the levels have been rising, as can be seen in Figure 7 below.

Figure 7: SA Reserve Bank Foreign Exchange Reserve Accumulation, 1994-2004



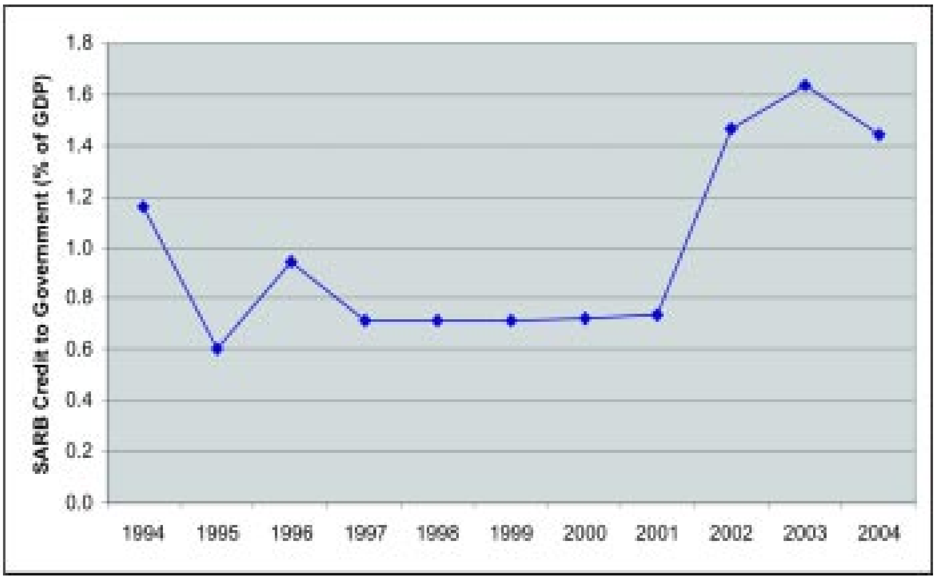
[Source: SA Reserve Bank]

South Africa's level of reserves is already greater than the SADC target for 2008, and is nearly at the target for 2012 and 2018. Preliminary data for 2005 indicates that South Africa is very close to 6 months of import cover. The quicker rate of reserve accumulation is due in part to political pressure to push down the value of the Rand as this has been perceived to be having a harmful effect on South African exports. Accelerated reserve accumulation will probably continue so long as the currency remains strong. Once again, the major threat to South Africa not meeting the targets is an exchange rate crisis which could mean that South Africa would need to use its reserves.

Credit extension

One of the sources that countries use to finance a budget deficit is credit from the central bank. Figure 8 below shows that this has not really been used as an option by the South African government. Credit extension from the central bank has consistently been below 2% of GDP. In fact, only in the past 3 years has the level been above 1% of GDP. South Africa's main method of credit extension appears to be from private banks, which extend about 6 times more credit to general government than the SARB does. Meeting the targets for SADC macroeconomic convergence should not be a problem in this regard.

Figure 8: SARB Credit Extension to Government, as a Percentage of GDP, 1994-2004

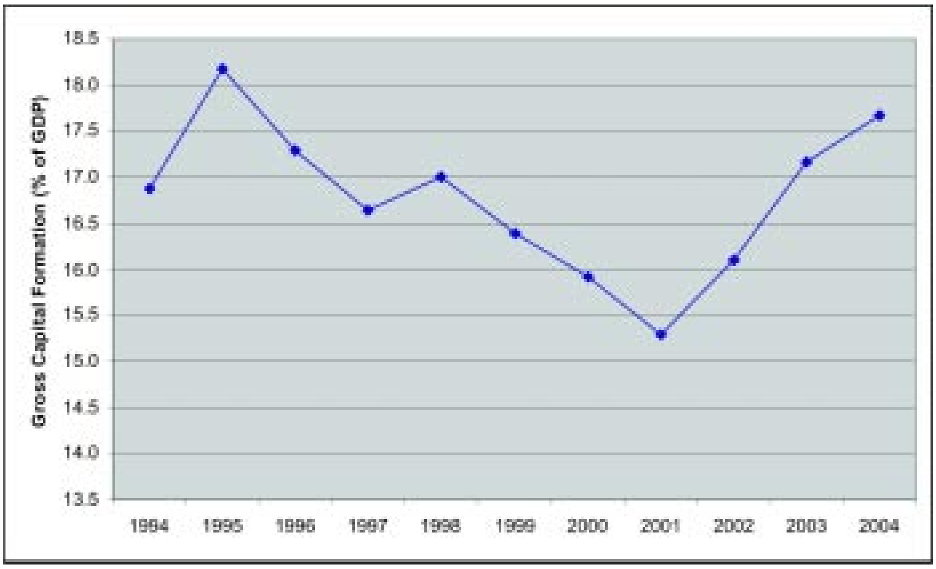


[Source: SA Reserve Bank]

Savings

One of the areas where South Africa will probably struggle to reach the proposed targets is in savings. Figure 9 below shows that savings in South Africa are currently less than 18% of GDP. Although this represents quite a strong increase from 2001 when savings were only 15.3% of GDP, this is still significantly short of the SADC target of savings being 25% of GDP by 2008. Savings will have to double before 2018 to reach the target of 35% of GDP in 2008.

Figure 9: South Africa Savings as a Percentage of GDP, 1994-2004



[Source: SA Reserve Bank]

There are a number of reasons why savings are so low. Firstly, inequality is very high thus some sections of the population have enormous wealth and savings while the majority is too poor to save. The formal financial mechanisms that enable savings in most countries (i.e. banks, long term insurance) are geared towards servicing the upper end of the income scale so the poor have had no way of saving, except for informal methods such as savings clubs but these do not earn interest, a disincentive to saving. Government dissaving has also been high, especially in the late-1980s and early 1990s. some people have argued that there is no culture of saving, as there is in some other countries, for example, East Asia. These factors are all very difficult to change over the short term, meaning that it will be quite hard for South Africa to significantly improve her savings performance.

In conclusion, South Africa should have no difficulty in reaching most of the targets. The policy variables (budget deficit, external debt, external reserves, and central bank credit to the government) are particularly well within the limits set by the memorandum of understanding on macroeconomic convergence. This reflects the prudence and ability of South Africa's macroeconomic managers; the National Treasury, the government department responsible for macroeconomic policy, is probably the most effective department in national government. The outcomes variables (savings rate, growth rate, current account deficit) are much harder to control and these are the targets that South Africa will struggle to meet, with the probable exception of the current account deficit.

Table 3: SADC Macroeconomic Convergence Targets and South Africa's Historical Performance.

	Targeted			Historical Actual				
Numeric Values of Target Indicators	**2008**	**2012**	**2018**	**2000**	**2001**	**2002**	**2003**	**2004**
Core Inflation (%)	9	5	3	5.4	5.7	9.2	5.8	1.4
Budget Deficit (% of GDP)	5	3	1	-2.1	-1.9	-1.4	-1.1	-2.3
External Debt (% of GDP)	60	60	60	27.7	26	29.5	22.4	25
Current Account Deficit (% of GDP)	9	9	3	-0.1	0.1	0.8	-1.9	-4.2
Growth Rate (%)	7	7	7	4.2	2.7	3.6	2.8	3.7
External Reserves (Import Cover in Months)	3	6	6	3.6	4.4	4.9	4.6	5.5
Central Bank Credit to Government	10	5	5	0.7	0.7	1.5	1.6	1.4
Domestic Savings Rates (% of GDP)	25	30	35	15.9	15.3	16.1	17.2	17.7

[Source: SA Reserve Bank]

Obviously there is a lot of extremely subjective debate about the solutions to South Africa's problem of having only 4% growth. Many economists believe that the labour market is a problem. The current regulations make firing workers difficult. Legislation also adds a number of non-wage costs to the average workers' remuneration. This legislation has already been amended to ensure that it does not apply to small businesses. Broad unemployment is currently running at 42%.

The data used in this study was published by the South African reserve Bank. This data is published in line with World Bank standards for macroeconomic data.

5 Macroeconomic Convergence Programme

After the political transition of 1994, there was a lot of anticipation from all sides as to which macroeconomic policy that the ANC would follow. Within the organisation itself, the debate was between a strongly interventionist approach, articulated in the Reconstruction and Development Programme (RDP), and more neoliberal policies, in line with the Washington Consensus. In the end, the neoliberal policy won out and this policy was formalised as a policy for (Growth, Employment and Redistribution (GEAR) in 1996.

5.1 Basic Elements and Targets

The core elements of the GEAR strategy were:

- "A renewed focus on budget reform to strengthen the redistributive thrust of expenditure";
- A faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment;
- An exchange rate policy to keep the real effective rate stable at a competitive level;
- Consistent monetary policy to prevent a resurgence of inflation;
- A further step in the gradual relaxation of exchange controls;
- A reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate depreciation;
- Tax incentives to stimulate new investment in competitive and labour absorbing projects;
- Speeding up the restructuring of state assets to optimise investment resources;
- An expansionary infrastructure programme to address service deficiencies and backlogs;
- An appropriately structured flexibility within the collective bargaining system;
- A strengthened levy system to fund training on a scale commensurate with needs;

- An expansion of trade and investment flows in Southern Africa; and
- A commitment to the implementation of stable and coordinated policies (GEAR, 1996)."

These core elements have all been carried out to differing degrees. There has been no major reform of macroeconomic policy since 1996. Although the emphasis of the policy has shifted slightly and some aspects have changed, GEAR is still the framework behind policy.

Although the list above may give the impression that all the elements of GEAR were of equal importance, this is not correct. In terms of fiscal policy, reducing debt was considered paramount. This meant that the fiscal deficit was decreased quite quickly. One of the effects of this was that government investment declined so the core element of infrastructure investment was not as important as debt repayment.

5.2 Basic Macroeconomic Policy Framework

GEAR was introduced in 1996 as a macroeconomic strategy to link fiscal discretion with the ability to ease tight monetary policy and encourage private local and foreign investment. Government dissaving was one of the problems that concerned the government and was therefore targeted. There were other elements of the strategy such a trade and industrial programmes that aimed at encouraging new investment through tax breaks and credit facilities, industrial innovation, small business development and export growth. In the labour market the goal was to improve productivity through better industrial training, improve competitiveness through more flexible labour markets and link wage growth to productivity growth. There were also intentions to speed up privatisation and support government investment in municipal infrastructure.

- The GEAR's policy framework defined orientation and scope of government intervention. The objective was to transform the South African economy. Furthermore, the emphasis of the framework was on implementation of tight fiscal and monetary policies, trade and financial liberation and privatisation.

The Growth, Employment and Redistribution (GEAR) Policy

Growth, Employment and Redistribution (GEAR)

Fiscal policy

Policy measures

- Deficit Reduction
- Income tax revision
- Decrease government consumption expenditure
- Decrease tax to GDP ratio

Expected outcome

- Contain debt service
- Counter inflation
- Free resources for investment by decreasing government dissaving
- Promote redistribution
- Correct fiscal drag

Monetary policy

Policy measures

- Tight monetary policy
- Relaxation of exchange controls
- Relax access to domestic credit by foreign investors
- Doubling limit for institutional investors to obtain foreign asset via assets swaps

Expected outcome

- Reduce inflation
- Stabilise REER
- Increase domestic saving and investment
- Promote higher economic growth
- Increase employment opportunities
- Promote equitable income distribution

Trade policy

Policy measures

- Accelerate tariff reform
- Tax incentives
- Competition policy
- Offset import costs against exports
- Replace quantitative restrictions with tariffs
- Phase out GEIS
- Accelerate depreciation for new manufacturing investments
- Promote SMMEs

Expected outcome

- Contain input prices
- Facilitate industrial restructuring
- Stimulate new investment
- Increase private investment
- Increase manufacturing output
- Increase foreign fixed investment
- Develop SMMEs

Labour market policy

Policy measures

- Increase labour market flexibility
- Reduce indirect wage costs
- Increase incentives for more shifts, job sharing and increase jobs flexibility
- Productivity linked wage increases
- Wage moderation
- Flexible regulatory labour market framework

Expected outcome

- Increase competition and labour intensive growth paths
- Accelerate investment and employment
- Lower inflation pressures
- Flexible collective bargaining structures
- Wage and salary increases limited by productivity growth

GEAR's main targets for 2000 (drawn in 1996)

- GDP growth of 6%
- Accelerated employment growth reaching 400 000 jobs annually after the year 2000 and reverse unemployment
- An inflation rate of below 10% throughout the period
- Average annual real non-gold exports growth of 8.4% during the five year period
- Rise in gross domestic savings from 18% to 22% of GDP
- Increase gross domestic investment from 20% to 26% of GDP in the year 2000, with an average annual real private investment growth of 11.7%
- Inflows of foreign investment of about 4% of GDP

Actual outcomes in 2000

- Average annual GDP growth was 2.1% between 1997 and 2000. In 2000 the growth rate of GDP was 3.1%
- Employment declined by 500 000 in non agricultural sectors
- Inflation was below 10%. In the year 2000 CPIX was 8%
- Average annual real growth rate for exports of goods and services was 4.3%
- In the year 2000, gross savings were 15.2% of GDP
- Gross domestic investment for 2000 was 16.7% of GDP
- Direct foreign investment for 2000 was only 0.7% of GDP

Developmental Goals and Objectives

GEAR had set out clear goals and objectives to benchmark the economic performance. Some of the unambiguous goals to achieve were:

- GDP growth of 6% per annum between 1996 and 2000.
- Accelerated employment growth reaching 400,000 jobs annually after the year 2000 in order to reverse unemployment.
- An inflation rate of below 10% throughout the period.
- Average annual real non-gold exports growth of 8.4% during the five year period.
- Rise in gross domestic savings from 18% to 22% of GDP.
- Increase gross domestic investment from 20% to 26% of GDP in the year 2000, with an average annual real private investment growth of 11.7%.
- Inflows of foreign investment of about 4% of GDP.

Broad Policy Approach and Priorities

The main tenets of the economic policy framework were fiscal policy, monetary policy, trade policy and labour market policy. This was a very restrictive framework as it focused on meeting selected intermediate targets. Policy Measures for the framework were outlined as:

Fiscal Policy

- Deficit reduction;
- Income tax revision;
- Decrease government consumption expenditure;
- Decrease tax to GDP ratio.

Monetary Policy

- Tight monetary policy;
- Relaxation of exchange controls;
- Relax access to domestic credit by foreign investors;
- Doubling limit for institutional investors to obtain foreign asset via assets swaps;

Trade Policy
- Accelerate tariff reform;
- Tax incentives;
- Competition policy;
- Offset import costs against exports;
- Replace quantitative restrictions with tariffs;
- Phase out GEIS;
- Accelerate depreciation for new manufacturing investments;
- Promote SMMEs.

Labour Market Policy
- Increase labour market flexibility;
- Reduce indirect wage costs;
- Increase incentives for more shifts, job sharing and increase job flexibility;
- Productivity linked wage increases;
- Wage moderation;
- Flexible regulatory labour market framework.

Expected outcome

The GEAR plan included a set of projections indicating the desired macroeconomic policy indicators. All the indicators were to be measured as a five-year programme, ending at the end of 2000. The expected outcomes were stipulated as follows:

Fiscal Policy
- Contain debt service;
- Counter inflation;
- Free resources for investment by decreasing government dissaving;
- Promote redistribution;
- Correct fiscal drag.

Monetary Policy
- Reduce inflation;
- Stabilise REER;
- Increase domestic saving and investment;

- Promote higher economic growth;
- Increase employment opportunities;
- Promote equitable income distribution.

Trade Policy

- Contain input prices;
- Facilitate industrial restructuring;
- Stimulate new investment;
- Increase private investment;
- Increase manufacturing output;
- Increase foreign fixed investment;
- Develop SMMEs.

Labour Market Policy

- Increase competition and labour intensive growth paths;
- Accelerate investment and employment;
- Lower inflation pressures;
- Flexible collective bargaining structures;
- Wage and salary increases limited by productivity growth.

5.3 Macroeconomic Successes and Problem Areas

In some areas, performance exceeded expectations of GEAR. Inflation was below 10%. In the year 2000 CPIX was 6%. The fiscal deficit was down to 3% of GDP.

Some of the areas such as manufacturing exports were considered relatively successful even though they missed the target by small margins.

The main disappointments were in the areas of growth, investment and jobs. The latter was not surprising, averaging 2.6% over the period instead of the projected 6%. Investment was disappointing, especially in the years, of 1999 and 2000.

- Average annual GDP growth was 2.1% between 1997 and 2000. In 2000 the growth rate of GDP was 3.1%.
- Employment declined by 500,000 in non-agricultural sectors.
- Average annual real growth rate for exports of goods and services was 4.3%.
- Gross domestic investment for 2000 was 16.7% of GDP.

- In the year 2000, gross savings were 15.2% of GDP.
- Direct foreign investment for 2000 was only 0.7% of GDP.

Social Impacts of Policy Frameworks

The tight and contracting policy framework was partially in response to the Asian, Russian and Brazilian crises around that time. The currency depreciated by about 20%, and that led to the low investment and growth. As a result, most of the set targets were missed. However, its main contribution to the current growth rates is due to macroeconomic stability that it introduced.

6 Assessment of Macroeconomic Convergence Programme

6.1 Prevailing Macroeconomic Conditions

South Africa became a constitutional democracy with the first non-racial elections that took place in 1994. The country is located at the Southernmost tip of Africa, with a total land area of 1,221,037 km^2 and a population density of 27 people per km^2. South Africa is divided into nine provinces, and the capital city is Pretoria, situated in Gauteng province.

6.1.1 Economic Structure

South Africa's economy is reasonably diversified, with manufacturing and services contributing a sizeable share of total GDP. The growth in real domestic product reported in 2000 can be explained by steady increases in the output of the three sectors (Table 4). Agriculture contributed to this result, owing to fortuitous seasonal climate behaviour. However, the shrinking of mining output by 3% in 2000 did not offset this good performance in agriculture. Gold production declined the most, counter-balancing increases in other sectors of the mining industry, such as platinum.

Table 4: Real Gross Domestic Product Components and Growth Rates for 2000

	Share in GDP, 1999	Growth rate (%)	Growth contribution
Primary sector	**10.5**	**0.5**	**0.05**
Agriculture	4.2	3.8	0.2
Mining	6.3	-1.8	-0.1
Secondary	**26.3**	**3.2**	**0.9**
Manufacturing	19.7	3.6	0.7
Tertiary	**63.2**	**3.6**	**2.2**
Wholesale and retail trade	13.6	5.1	0.7
Transport, and comm.	10.7	6.5	0.7
Financial intermediation	18.7	4.8	0.9
General govt. services	14.9	-1.2	-0.2

Source: South Africa Reserve Bank - Quarterly Bulletin March 2001

At the same time, output growth in the secondary sectors firmed in 2000, owing to net improvement in demand conditions (both at the domestic level and in terms of export demand). The tertiary sectors continued to expand significantly all through 2000. The buoyant commercial sector, aided by the boost in household disposable income, made a solid contribution to such growth. This trend was further enhanced by the dynamism in tourist activities and the expansion of cellular telephone and Internet networks. A slightly longer-term perspective is presented in Table 5.

Table 5: Structure of Output (Value-Added as a Percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Primary sector (%)	26.7	21.1	18.8	17.9	17.4	19.3	19.5	17.4	17.0
Agriculture	6.1	6.3	5.6	4.3	4.6	5.0	4.8	5.5	5.8
Mining	20.6	14.8	13.2	13.7	12.7	14.3	14.7	11.9	11.2
Secondary (%)	27.8	31.0	31.1	31.2	30.6	29.6	29.5	29.9	30.4
Manufacturing	21.6	24.1	23.8	23.6	23.1	22.0	22.0	22.5	23.0
Tertiary (%)	45.6	47.9	50.1	50.8	52.0	51.1	51.1	52.7	52.6
Wholesale and retail trade	12.0	13.1	13.3	12.9	11.7	11.2	11.2	12.4	12.7
Transport, and comm.	8.5	8.5	8.4	8.4	9.0	8.5	9.0	9.1	9.1
Financial intermediation	10.7	11.0	11.9	12.5	13.0	13.3	12.4	12.6	12.9
General govt. services	14.4	15.3	16.6	17.0	18.3	18.2	18.5	18.6	17.9

Source: World Bank World Development Indicators (WDI), 1999
Note: Services incorporates unallocated items

A striking feature of Table 5 is the relative decline of agriculture and mining, and the considerable increase in the contribution of services to overall GDP. This would be indicative of decreasing reliance on hitherto traditional activities in the primary and secondary sectors.

6.1.1.1 Growth and Size

South Africa is one of the world's key emerging market economies and is Africa's most developed economy. South Africa's GDP in 2002 was USD 104.2 billion placing South Africa firmly within the group of leading emerging market economies such as Malaysia (USD 95.2 billion), Argentina (USD 102.2) and Thailand (USD 126.4). Economic growth has been moderately accelerating over the last decade but in particular has shown significant resilience during downturns in the global economy. Growth over the period 2000-02 averaged 3.2% (Table 6).

Table 6: South Africa at a Glance, 1993 to 2002

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP growth	1.4	3.0	3.0	4.2	2.6	0.8	2.2	3.6	2.9	3.0
GDP(current prices, R billion)	426.13	482.12	548.10	617.95	685.73	738.93	800.77	888.45	983.45	1120.90
GDP per capita (current prices, R)	11,286	12,504	13,920	15,368	16,699	17,620	18,697	20,338	22,075	24,674
Foreign debt (% of GDP)	20.7	21.8	23.4	24	26.3	28	29.7	28.8	27	31.3
Inflation (%)	9.7	9	8.7	7.4	8.6	6.9	5.2	5.4	5.7	9.2
FDI[2] (R billion)	36.33	44.7	54.76	61.98	81.46	91.86	318.83	328.86	370.7	301.31

Source: South African Reserve Bank

Structure of SA Economy

As a partially-developed economy, South Africa offers mixed standards with poverty being a constraint to development but on the whole the country bears many of the features of OECD economies. In 2002 the service sector accounted for 63.7% of GDP whilst the primary sector accounted for only 11.9% and secondary contributed 24.4%. Nonetheless, South Africa's substantial mineral wealth has ensured that the resource industries remain a key component of the economy either through upstream linkages into mining, or downstream into capital equipment and intermediate products. The financial services industry is an important component of the services sector and has experienced a sustained period of rapid growth of 8.2 % over the period 2000-02. South Africa also has a substantial informal sector which is not fully recorded in the official data, this involves enterprises that are generally concentrated in transport and retail trade sectors.

[2] Foreign Direct Investment

Living Standards

South Africa has a population of approximately 43.6 million people. GDP per capita was approximately USD 2400 in 2002, comparing favourably with Argentina with a GDP per capita of USD 2,696.6. Disposable income has been growing consistently and domestic demand is substantial. According to the latest survey (2002), about 74% of the population live in formal housing with 76% having access to electricity and 44.3 % access to telephony services.

Balance of Payments and Trade Performance

South Africa has undergone a significant trade liberalization episode starting in the late 1980s. In 2002 South Africa's total exports accounted for USD 23.06 USD and imports USD 26.21 million. South Africa suffered a deficit in trade of USD 3.15 million. This deficit is mainly attributed to the Rand's appreciation in 2002 year.

South Africa's central bank, the SA Reserve Bank operates within a rigid inflation targeting framework. The target range is CPI 3% to 6%. Although South Africa's exchange rate is fully floated and highly traded, interest rates are the primary mechanism through which the central bank manages inflation. To some extent this has led to exchange rate instability as high real interest rate differentials lead to inflows of portfolio capital thereby strengthening the Rand against the major traded currencies.

Trade Preferences

South Africa has negotiated a highly preferential and comprehensive Free Trade Agreement with the European Union. The central component of the Agreement revolves around a tariff phase-down schedule for agricultural and industrial products. In terms of this agreed schedule, South Africa will eliminate tariffs on 86% of EU exports to South Africa over a period of 12 years. The EU in turn will eliminate tariffs on 95% of South African exports to the EU, over 10 years. In addition, South Africa is also a beneficiary of the US Africa Growth and Opportunity Act (AGOA) which allows for duty-free exports of a range of consumer goods especially in the clothing and textile. Exceptions include fabrics and yarns not imported as part of the finished apparel product, and products determined by the U.S government to be import sensitive. Furthermore, South Africa has a Free Trade Agreement with the Southern Africa Development Community which comprises 14 Southern African countries leading to a combined market of over 185 million consumers. Naturally, South Africa is a signatory of the WTO.

Infrastructure and Facilities

The South African economy is characterized by standards similar to those found in developed countries. Its well-developed road and rail links provide the platform and infrastructure for ground transportation deep into sub-Saharan Africa. Sea ports are located on both the East and West coasts of South Africa allowing for easy movement of containerized cargo from either Durban or Cape Town. Bulk exports take place via Saldanha Bay, mainly iron ore, or Richards Bay, mainly coal and Aluminum. The Durban port is currently being concessioned and privatized and major infrastructural investments are planned to increase both its capacity and efficiency.

The country also boasts of a sophisticated financial sector, with an array of corporate and merchant financial institutions including all the major multinational banks. The Johannesburg Securities Exchange is ranked 17th largest in the world with all the major international stock brokerages represented. Its market capitalisation reached R 1.4 trillion in February 2003.

Political Stability

The South African government under, first President Mandela and now President Mbeki, has placed significant emphasis on ensuring political stability in South Africa. As a rapidly maturing democracy, South Africa has taken its rightful place amongst multilateral institutions such as the United Nations, the IMF and the World Bank. Political stability is no longer a question and indeed South Africa is playing an increasingly crucial diplomatic and peace-keeping role in sub-Saharan Africa.

Conclusion

South Africa's market size of 44 million people, infrastructure, and pro-business environment make it the location of choice for an increasing number of companies seeking a steppingstone to conduct business in the continent. South Africa is ideally positioned for easy access to the countries comprising the Southern African Development Community (SADC), the islands off Africa's east coast, and even the Gulf States and India. SADC in particular, with a combined gross national product (GNP) of USD 170 billion and approximately 185 million people represents a growing and largely as-yet untapped market for world trade and investment.

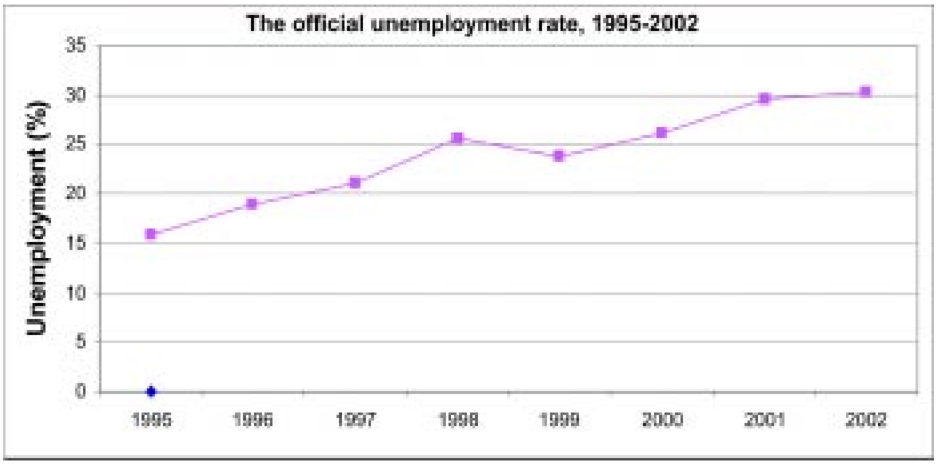
6.1.1.2 Employment and Unemployment

South Africa may have stabilised the macroeconomic environment to a larger extent, however, the long term challenges are unemployment and widespread poverty. As a matter of fact, the high unemployment rate is the main impediment to poverty reduction. A lot of work associated with raising growth and employment relies heavily on initiatives that boost labour demand and factor productivity. These include labour market reforms, enhancement of job skills and further steps in areas of trade liberalisation and privatisation.

According International Monetary Fund (IMF) country assessment, high unemployment in South Africa is a result of serious skills mismatch, institutional rigidities that kept labour cost high. There are rigidities, skills deficiencies and relatively high costs in the labour market which impede efforts to achieve significant reduction in unemployment. Minimum wages have aggravated the unemployment problem, especially in agriculture where most unskilled labour force is employed.

The latest statistics show that almost one in three economically active individuals is unemployed. This is based on the official definition of unemployment that excludes discouraged workers. Figure 10 shows that unemployment rose from 16% in 1995 to 30% in 2002. The rise in unemployment was mainly due to a number of new entrants in job market growing at a higher rate (10% per annum between 1996 and 2001) than growth in jobs created (5% per annum).

Figure 10: The Official Unemployment in South Africa, 1995 - 2002.



[Source: Statssa, 2003]

As part of poverty reduction, Government attempted to directly stimulate employment through various programmes. The Expanded Public Works Programme (EPWP) is a short-term programme that aims at reducing poverty, developing skills, delivering assets and building capacity. It contributes to infrastructure development through labour intensive construction activities. Therefore temporary jobs are created which generate income to remote areas. They mainly target impoverished areas, women and female-headed households.

6.1.2 Investment Flows

Compared to other emerging economies, South Africa is still characterised by low levels of investment. The investment/GDP ratio decreased from 18% in 1995 to 16% in 2002. Despite government emphasis on the need for public investment as a boost to economic growth, public sector investment has not expanded at a significant pace in the last five years. Foreign direct investment (FDI) in South Africa remains meagre. Few transactions such as the privatisation of Telkom in 1997, as well as the restructuring of the corporate relationship between Anglo American Corporation and the De Beers mining company boosted inflows in 1997 and 2001. However, if these deals are discounted, the level of inward investments would be more or less flat since 1994.

A report by Helmo Preuss in business iafrica.com[3] indicates that there is a positive outlook for FDI over the next five years in South Africa. This has already been reflected by major investments over the past 3 years. In 2003, South Africa recorded a sharp 803% jump in FDI, to USD 7.2 billion from only USD 0.8 billion a year earlier. This was boosted by Barclay's acquisition of a controlling stake in ABSA. These sentiments have also been reinforced by the fact that UK-based Vodafone Group Plc is considering increasing its stake in South African-based mobile phone operator Vodacom from 35% to 50% at the cost of some USD 2.4 billion or R16 billion. Large sources of FDI have been emerging from the likes of Barclays, Mittal, Tata and Vodafone.

Conversely, South Africa is the main source of outward FDI (OFDI) in Africa and spans a wide range of industries, from cellular communications to mining activities (see Annex 1). According to a UNCTAD 2005 report[4] , South Africa's OFDI flows have been increasing since 1990, though inconsistently, contributing to an OFDI stock of USD 29 billion in 2004. The report indicates that outflows have exceeded inflows of FDI in most years since 1990 and South Africa is ranked among the top 10 largest emerging market investors with the lion's share of its OFDI concentrated in Europe and Africa, and lately, North America (particularly the United States). The OFDI is geographically concentrated, with over 90% of the country's OFDI stock in 10 host economies in 2003 (see table below) mainly large South African enterprises and no notable exceptions in overseas investments by South African SMEs.

[3] See article on http://business.iafrica.com/features/727825.htm
[4] Report available on http://www.polity.org.za/pdf/OutwardFDI.pdf

Table 7: Top 10 Destinations of South Africa's OFDI, 2003 (Rm)

Rank	Country	Amount
1	United Kingdom	44,084
2	Luxembourg	43,704
3	Belgium	23,080
4	United States	14,936
5	Austria	11,183
6	Australia	6,804
7	Germany	6,559
8	Netherlands	5,925
9	Mozambique	5,071
10	Mauritius	4,106
	Total (top-10)	**165,452**
	Total OFDI stock	**180,507**

Adapted from UNCTAD, 2005 (TD/B/COM.3/EM.26/2/Add.5)

OFDI into the region has continued to increase in the past decade with South Africa as the largest investor in Mozambique[5] and one of the leading investors in many other African countries. More than 22% of FDI flows received by the South African Development Community (SADC) between 1994 and 2004 were from South Africa, with the share in some years exceeding 40% share (see table below).

Table 8: South Africa: OFDI to SADC, 1994 - 2004 (Rm; %)

Year	Total FDI to SADC	Souht African	South African
1994	60	26	43%
1995	1420	214	15%
1996	1149	97	8%
1997	2517	1062	42%
1998	5085	1988	39%
1999	1282	114	9%
2000	904	281	31%
2001	9808	1585	16%
2002	4600	1884	41%
2003	7443	932	13%
2004 (1st half)	4976	397	12%
Total	**39244**	**8781**	**22%**

Adapted from UNCTAD, 2005 (TD/B/COM.3/EM.26/2/Add.5)

5 According to a report in Mail & Guardian *26 January 2006,* BuaNews cited Mozambique Investment Promotion Centre (CPI) director Mahomed Rafique, who said that South African FDI totalled USD 93.7 million in 2005 across about 52 large infrastructure and construction projects, accounting for 58% of the total FDI into the country over the past 12 months.

With its sophisticated infrastructure and modern transport network, South Africa is the gateway to Africa, providing access to an extended market of more than 180 million people south of the equator. South Africa plays a leading role in most of Southern Africa's economies. A number of neighbouring countries' currencies are pegged on a par with the South African Rand, making the currency a prominent driver in the regional economy.

Budgetary Framework

South Africa is still considered a country in transition. The change in government brought about by the first democratic election in 1994 set off a transformation process that attempt to incorporate the democratic principles established in the pre-election negotiations. The principle of budget accountability is no exception. The budget process has been reformed in ways that markedly increased the degree of transparency and participation. The following developments were essential to this dramatic transformation in the budget process:

- The new Constitution, enacted in 1996, calls for specific measures to translate transparency and participation principles into practice.
- In 1997, the executive embarked on a drive to reform budget management in the public sector to improve service delivery. The reforms are based on a world-wide trend towards more performance-oriented management, including the devolution of power with increased accountability and transparency.
- The introduction of a Medium Term Expenditure Framework (MTEF) for the 1998/99 fiscal year brought forward a projection of macro-economic assumptions, revenue and expenditure over two years beyond the fiscal year, illustrating how revenue and spending will develop over the medium term. The first MTBPS was published at the end of 1997 for the 1998/99 fiscal year. This pre-budget report stated government's overall fiscal policy (balance between expenditure, revenue and the deficit) objectives and its budget policy objectives (the relationship between spending decisions and policy priorities) for the forthcoming budget and the following two fiscal years.

- The evolution of an intergovernmental fiscal relations system was marked by the establishment of a clear intergovernmental budget process, intergovernmental negotiation structures and legislation (the Intergovernmental Fiscal Relations Act and the Financial and Fiscal Commission Act) to provide a legal framework for the division of revenue and assignment of roles and responsibilities between spheres of Government.
- As the term of the country's first democratic legislatures (national and provincial) in office progressed, it increasingly became clear that the legislative arm of Government was developing an identity separate from the executive, resulting in demands for more information and greater participation in the decision-making process.
- The Government also enacted critical legislation in 1999 that will have important effects on budget transparency and participation in the years ahead. In February, the Public Finance Management Act (PFMA) was passed which establishes stringent transparency requirements, including regular reporting and the assignment of accountability. The PFMA is the cornerstone of new public financial management in South Africa. It has far-reaching provisions covering the scope and usefulness of information on fiscal activities. For example, the PFMA demands monthly actual expenditure reports from departments to treasuries and audited statements to the legislatures within seven months after the end of the fiscal year. It also brings public enterprises under the transparency and accountability net. The PFMA Amendment Act, passed in March, extends the requirements of the PFMA to the sub-national level of government.

In the South African system the decision on the division of national revenue is firmly located in the national sphere of Government. Whereas the Constitution envisaged a key role for an independent advisory body, the Finance and Fiscal Commission (FFC), in ensuring agreement on the assignment of revenue, has never gained enough influence to fulfil its function. An ineffective FFC means that the independent authority that could have given weight to the division of revenue decisions is lacking. Instead, decisions are made within the national sphere, reducing clarity on who would be responsible for poor service delivery.

National policy decisions and national norms and standards in those areas of concurrent responsibility (known as joint competencies) bind provinces to spend the largest proportion of their budgets on national spending mandates. Often these are not funded.

Secondly, in the joint competencies the roles of the spheres of government are not clear. Broadly speaking, national government is theoretically responsible for policy and for norms and standards, while provincial governments are responsible for delivering services.

In practice, historically available capacity determines what happens where, and this is inconsistent across sectors. Education is a good example: in the 1998/99 budget the national department not only took over the delivery of text books in provinces which were without books (a provincial responsibility) but for a period also entertained the notion that provinces should be allowed to set their own teacher/ pupil ratios (a national responsibility).

Despite the above concerns, it would be unfair to ignore government efforts to make explicit the expenditure responsibilities of sub-national governments. For example, the Budget Council, an intergovernmental body of national and provincial ministers, now discusses and agrees on the divisions of revenue between provinces and across areas of spending. The MTEF enables national and provincial spending departments to plan within spending trajectories, and then to argue cases of under-funding when they are unable to stick to their budgets. For national legislation with provincial budget implications, a memorandum needs to be attached assessing the potential cost to provinces. Finally, decision of the national sphere to exercise its Section 100 Powers has forced three provinces to accept budget constraints and responsibility for delivery within these constraints. Whereas this is an extreme measure, it has had the effect of setting precedents that make provinces' expenditure responsibilities explicit.

Medium Term Budget Policy Statement

Government's spending plans for a period three years is published in advance. These plans are supposed to give substance to Government's commitments, within an overall level of spending that the nation can afford. The Budget reflects Government's social and economic priorities, and its expenditure plans define the nature and scale of the Government's ambitions for the nation.

The Medium Term Budget Policy Statement sets out the policy framework for the coming budget. It describes Government's goals and objectives. It explains the economic environment within which those objectives are being addressed, and projects the total level of resources that will be available. The Policy Statement analyses the trade-offs and choices that the nation confronts in addressing its reconstruction and development priorities.

The Medium Term Budget Policy Statement is an important step forward in the budget process. In keeping with the nations commitment to open, transparent and cooperative policy-making, it invites the nation to share with Government the important choices that must be made.

The Medium Term Expenditure Framework (MTEF)

The key features of the medium term budgeting system are:

- Publication of three-year forward estimates on Budget Day, consistent with Government's policy priorities and commitments;
- Detailed analysis of the policy implications on budget projections;
- Cooperative teams, composed of national and provincial treasuries and line departments, analysing key sectors and reporting to Cabinet and Executive Councils;
- Quantified, analysed policy options presented to political office-bearers for decision; and
- The publication of a Medium Term Budget Policy Statement, to enable Parliament and the institutions of civil society to participate meaningfully in the debate.

The Medium Term Expenditure Framework initiates a process of rolling three-year budgets. The MTEF projections published on Budget Day are revised according to new information and policy priorities. The three-year allocations represent the starting point for that process, and departments have to agree to spending trajectories within which to plan.

Departments are expected to frame their policy proposals within their three-year allocations. The introduction of resource-based planning represents a significant change in the planning environment and will initiate a major process of programme reprioritisation and redesign within spending departments.

The MTEF and budget reform

The publication of the Medium Term Budget Policy Statement, and the publication in March of three-year budget projections, are among the first steps in a wider overhaul of the budgetary process, emphasising transparency, output-driven programme budgeting and political prioritisation. The MTEF provides the bridge between the technical preparation of budgets and the need to reflect political priorities in expenditure plans.

Provincial and Local Government

The policy goals of Government are reflected not only in the national budget, but also in the budgets of provincial and local government. Provincial and local government will receive their equitable share of nationally raised revenues as well as other transfers. However, they have the responsibility of developing their own budgets, within expenditure allocations consistent with the nation's policy priorities. The national government does not control the details of these budgets, but can influence them indirectly through agreed policies and framework legislation setting norms and standards.

The introduction of three-year budgets and their consolidation into resource envelopes for the major provincial services is an important step in the evolution of the institutional framework for intergovernmental policy making and budget planning. The intergovernmental forums of the spending departments will, for the first time, have expenditure projections within which to develop and refine the norms and standards for service delivery.

Once parliament and provincial legislatures have approved their budget proposals, departments must adjust their expenditure to ensure that they stay within their budgets. It is the responsibility of Accounting

Officers, appointed by political office-bearers, to ensure that allocations are applied to their intended purposes and spending limits are respected. This principle will be strictly enforced by the proposed Treasury Control Bill which is due to be introduced in parliament next year, replacing the ten Exchequer Acts which govern provincial and national financial management.

6.1.3 Fiscal Trends, Causes of Budget Deficits and Debts and Functional Categories of Expenditures

The Government has made steady progress in restructuring the country's economy from an inward focus to export orientation. Moreover, the success of the country's third democratic elections has reinforced international confidence in the country's political system. Consequent to that, there has been relative success on both monetary and fiscal interrelationships.

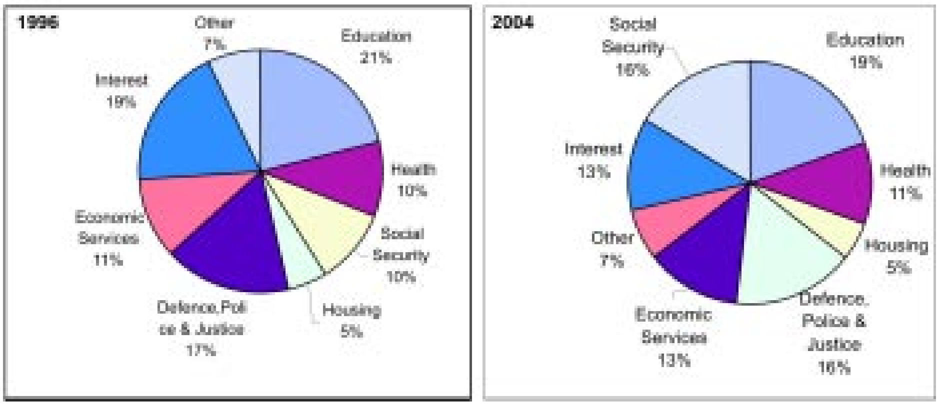
The government's continued efforts to contain the deficit resulted in a deficit/GDP ratio of 1.4% in the 2001/02 fiscal year, and that was well below the official target of 2.5%. That was a sign of improved tax collection, and increased efficiency from the South African Revenue services. Overall, South Africa has made relative progress on both monetary and fiscal frontier, as evidenced in the downward sloping inflation trend, low foreign debt and low deficit/GDP ratios. With that accomplished, the attention has now moved to public policies that may triggers improvements on employment creation.

Functional expenditure

Financial resources are required to implement and accomplish the set plans and goals. Expenditure by Government between 1996 and 2004 has not changed much for most activities or services. Over this period, the only service to have significantly increased its share of the total budget is the social security. Figure 11 shows that social security increased its share from 10% of total expenditure in 1996 to 16% in 2004. This was mainly due Government's intentions to achieve poverty reduction goals.

The increase in social security expenditure seems to come from Government savings from debt servicing. Over the period, expenditure on debt servicing has declined by the same amount as an increase in social spending. Education is on the priority list of government as its expenditure takes the highest share of the budget, although in 2004 that share declined by 2%. Despite increasing prevalence of HIV and TB cases over the period, expenditure on health services rose by just one percent of the total budget. Other services such as economic, police, defense and justice as well as housing did not realise significant changes in their budget allocation.

Figure 11: South African Budget Allocation for 1996 and 2004



[Source: Treasury Department]

Budget allocation in the two periods that are being compared displays minor changes between department and services. The programmes and plans that have been identified are within departments and therefore adjustments are done within the department.

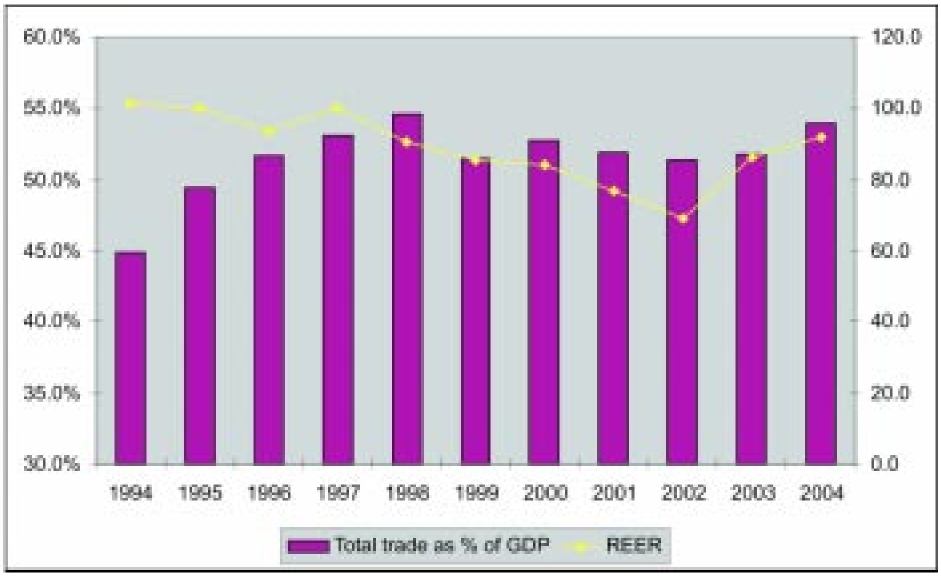
Overall, South Africa's priorities sectors are different from the regional priorities. The South African Government is pushing for more progress in areas such as telecommunication, technology, transport and infrastructure development. The RISDP goals are more dependent on services that can be provided by government. However, there is an agreement in terms of South Africa and SADC's poverty and unemployment priorities.

6.1.4 Monetary and Exchange Rate Policies and Trends

Towards the end of 2001, the South African Rand was subjected to a steep and sudden depreciation, which saw it lose over 30% of its value against the US Dollar in a matter of months. This was attributed to a number of factors. Given that the exchange rate is one of the most important policy variables that could override any export promotion initiative, one question that is central to understanding trade behaviour is: how realistic is the exchange rate? This involves taking a view on what the real equilibrium exchange rate ought to be for a viable and sustainable level of exports, and to what degree the exchange rate is indeed undervalued or overvalued.

We take a look at South Africa's total trade over the last decade. Total trade, i.e., total imports plus total exports, including merchandise and services, as a proportion of GDP increased rapidly until the late 1990s on the back of considerable exchange rate devaluation. After 1998, the casual relationship between the Real Effective Exchange Rate (REER) and total trade as a proportion of GDP breaks down and other factors appear to be asserting an increasing influence on trade performance.

Figure 12: SA Total Trade as a % of GDP (in 2000 constant prices) and the REER



[Source: SARB]

It is important to realise that a successful strategy hinges on a stable and competitive exchange rate. Problems typical of emerging markets like South Africa where high volatility has been the norm up to the year 2000 mean that this may not always be the case. Indeed, a separate discussion on macro-economic policy is needed to establish whether the exchange rate policy in South Africa has been conducive to exporting.

6.1.5 Institutional Arrangements

Since South Africa's transition to democracy more than ten years ago, the battle against social inequality has been a difficult one for the government. During the apartheid era, basic capabilities, well-being and choices of a significant portion of the population were severely compromised. Therefore the new government was faced with enormous challenges like eradication of poverty, extreme income and wealth inequality, provision of access to quality and affordable basic services, promotion of environmental sustainability, reduction of unemployment, and attainment of sustainable high growth rates. The government had to define both the strategy and policy direction that was needed to address all these and other challenges. In this section we will look at how government approached the poverty, education, health care, employment, housing, environment and service delivery issues.

Poverty

Poverty is defined as multidimensional phenomenon that is reflected in malnutrition, poor, low survival rates, low literacy levels, inadequate clothing, housing and living conditions, apart from low incomes. Poverty is thus measured in terms of deprivation of basic dimensions that are necessary for human life. The World Development Report defined poverty as the "inability to attain a minimal standard of living measured in basic consumption needs or income required to satisfy them". According to this definition poverty is measured in terms of income or the percentage of people below a certain income level. The responsibility remains with a number of government departments.

However, the department of social development is the principal institution dealing with such poverty and poverty-related issues.

Income Distribution

The presence of persistent poverty in an economy that is regarded as performing well is an indication of wealth inequalities within the society. Income inequality remains pervasive in South Africa. South Africa is one of the most inequitable countries in the world. There are reports that suggest that very little has been done in this regard since 1994. This situation arises primarily due to South Africa's legacy of apartheid and the growing joblessness.

The National Treasury is being entrusted with the responsibility to create growth that would result in job creation which will increase earning capacity of the people. With that it is hoped that high Gini-coefficient will decline. The presidency as well as Public Works department are working on uplifting the second economy that should result in improvement of the living standards of the marginalised sector of society.

Education

Since 1994 the Department of Education has developed a succession of discussion documents; since 1994, Green Papers, White Papers, new legislation, amendment to existing laws and regulatory procedures. These led to the transformation of the education system. Some of the outcomes included creation of one Department of Education out of the nineteen racially, ethnically, and regionally divided departments of education; creation of non-discriminatory school environment; laws and policies that govern education were put into place; increases in matriculation (end-of-school) pass rates; creation of institutional typologies; delivery of certain basic services; and maintenance of high enrolment rates.

Health Care

The Department of health embarked on a complete transformation of the health system. This was in an attempt to make the health system more equitable. The department's activities are guided by the White Paper on Transformation of health system and the Health Sector Strategic Framework 1999-2004. The new National Health Bill will provide a framework for governance in health sector, including the relationship between the three spheres of government and regulation of the private sector.

Deprivation of health is a reflection of inadequate or inaccessible health care services, while access to healthcare services remains a key component of any country. Recent publications of Statistics in South Africa brought out some of the worrying aspects of the health care system in the country (Statistics South Africa, 2004). One such aspect is the causes of death in the country that have changed the mortality patterns over time. In addition to unnatural causes of death, HIV/AIDS, tuberculosis (TB), influenza and pneumonia are highlighted as the main causes.

Gender Issues

South Africa has adopted the approach of developmental welfare. South African policy frameworks are underpinned by very strong formal commitments to gender equality. Social rights and gender equality have both been conceived as integral to citizenship in democratic South Africa. The constitution imposes particular responsibilities on government to address socio-economic inequalities as part of a progressive realisation of human rights and in ways that erode inequalities of gender in addition to inequalities of race. The constitutional obligations ensure the inclusion of gender equality concerns in policy formulation. For women, the emphasis on citizenship in the transition to democracy was significant in creating a framework for women to articulate claims on the state on the basis of their individual entitlements rather than on the basis of their status as mothers or tribal subjects. Since 1994, South Africa has consistently been among the highest performers in the world in terms of the numbers of women elected to political office.

Capacity constraints

To address the above challenges, first there is a need to identify some problem areas. Some of the problems include:

- Deficiencies in input sectors such as transport and communications;
- Human resource development;
- Technology, and research and development (R&D);
- Access to capital;
- Infrastructure;
- Management of state-owned enterprises;
- Economic Development Capacity of Local government;
- Geographic spread;
- Small enterprises.

These problems are just a fraction of the social ills of the country. However, in some case, major steps have been taken to address them. The next section looks at some of those mitigating factors.

Remedying Actions

There are some improvements in the crosscutting sectors with initiatives such as new Skills Development Programme, National Research and Development Strategy, International Marketing Council and broad based black economic empowerment. There is still a great deal of work required in areas of local government economic management outside of the metros, microbusiness development and in the governance of state-owned enterprises.

Some sector strategies are well developed and relatively successful, such as the automobile manufacturing sector and the tourism industry. For others, such as information and communications, clothing and textiles, agro-processing sector, businesses services sector and communications technology sector, the Government believes that there is potential. However, there is a need to get the strategies in those sectors right before the growth potential is realised.

The Government is more concerned that while employment creation is the key challenge, the most successful amongst manufacturing sectors are capital intensive industries (metals processing, chemicals, pulp and paper). On the other hand, potential labour absorbing sectors such as textile and clothing, footwear, food processing, wood and wood products continue to struggle against imports.

The Government has also resorted to temporary work opportunities, skills development and access to finance for poor households and micro enterprises to relief some of the burden from the affected unemployed and poor. The Expanded Public Works Programme (EPWP) is one major national initiative to create temporary jobs. One million temporary jobs are targeted in the areas including labour intensive construction, home- and community based health care, and conservation programmes.

Other commitments towards addressing the challenges include:

- Sector Education and Training Authorities (SETA) which is meant to increase the uptake of learnership candidates and participants in other skills development programme;
- Extension of adult basic education training (ABET);
- Improve investment in technical colleges (or further education and training) and their realignment with the needs of the economy;
- Establish a database of graduates to link unemployed graduates with training programmes or employment opportunities;
- Finalisation of immigration regulations in order to allow for the immigration of skilled people where needed.

In the ten year review, the Government acknowledged that the delivery has been uneven. This acknowledgement implies that there are many areas for improvement. The capacity of Government alone is not sufficient, and therefore cooperation with civil society is necessary. Restructuring of the economy should not be entrusted in market-led economic growth only.

6.1.6 Institutional Reforms

The South African Government approach to service delivery by institutions is summarised as the provision of minimum or basic service level for all. Policies that impact social infrastructure are largely and well stipulated in the constitution Act. The Bill of Rights establishes the right to education for all South Africans including basic education (ABET) and further education training (FET).

On the budgetary side, education has been a recipient of nominal increase of about 11% per annum from 1995 to 2002 (R31.1 billion - R59.6 billion) (South African Reserve Bank, 2003). In real terms, the annual average increase in current expenditure was about 1% per annum. The share of Government's total expenditure allocated to education declined from 19.2 % in 1995 to 18.8% in 2002. Therefore, the question that needs to be asked is whether the financing of education system improved fiscal equity in schools and higher educational institutions.

Lack of real growth in the education budget made it difficult to finance teacher development programmes, materials expenditure, classrooms and school buildings and other non-personnel related costs. There have also been reported cases of high dropout rates in larger and poorer provinces such as KwaZulu Natal, Eastern Cape, Mpumalanga, Limpopo and North West. Furthermore, the policy mechanism that seeks redistribution effect on education system has not shown an effect on the poorest schools.

There is yet another concern regarding the ability of education to close the skills gap that exists in the economy. In 2003, as indicated in Table 9, the overall pass rate of senior certificates was 73% compared to 58% in 1994. Furthermore, Table 9 shows that the overall pass rate in 2003 was less than that of 1994 and 1998 implying that fewer numbers enrolled for senior certificate.

Table 9: Senior Certification Examination: Number of Candidates, Percentage Passed, and Percentage with University Entrance Pass (1994, 1998 and 2003)

Year	Number of candidates	Proportion passed (%)	Proportion with university entrance pass (%)
1994	495,408	58	18
1998	552,384	49	13
2003	440,267	73	19

[Source: NEDLAC, 2005]

The pass rate picture is different when university entrance pass rates are taken into consideration. Even though the university entrance pass rate was higher in 2003 (19%) than 1998 (13%), the rate is still considerably low. Universities are currently entrusted with the task of addressing the problems of shortage of skills. However the rate of matriculants who obtain university entrance pass rate is currently too low to have a significant impact in reversing the problem of shortages of skills.

From 1994 to 1998 the focus on the Department of Health was primarily on increasing provision of health care that would b afforded and accessible to all. However, the current phase has been focused on accelerating quality of health services. There are challenging situations in all these areas.

HIV/AIDS

The drastic rise in HIV/AIDS-related deaths has significantly changed life expectancy in South Africa. The 2001 report by Medical Research Council (MRC) estimated that about 25% of all deaths in South Africa were as a result of HIV/AIDS (2002). It is estimated than by 2015 average life expectancy could fall by more that 30% relative to 1996 (South African Institute of Race Relations, 1998). HIV/AIDS will be a severe problem for many years to come and the future demographic impact is expected to be significant. Thus, the pressure on the provision of health services (medical facilities, personnel and medicine) by both the public and private will continue to accumulate.

Estimates of HIV-positive infections have increased to about 12% of the population, from 3% in 1996. The major increase over the period has occurred in the 20 - 49 age group. More women are infected than men, and the gap is reported to be growing. HIV infection is highest among women of the ages of 20 and 39.

The Public Healthcare

The restructuring of the health system is based on the provision of a primary healthcare. From 1994 to 1998, the primary focus was on increasing healthcare provision that would be affordable and accessible to all, particularly targeting rural and historically disadvantaged areas. The emphasis has been on accelerating the quality of health service delivery. The Clinic Upgrading and Building Programme (CUBP) was created as an early strategic health programme. The CUBP focused on bringing primary health care closer to underserved and poverty stricken areas.

In 1996 the Hospital Strategy Project was introduced to strengthen and decentralise management of hospitals at institutional level. A new grant framework called, Health Facilities Revitalization Grant was formulated to help fund the strategy. This grant focused on larger projects which are in line with the National Planning Framework and strategies. Components of the programme include physical construction, organisational development and improving the quality of care.

The Government has increased the expenditure on primary healthcare since 1996 by 11% per annum (The presidency, 2003). The free health care policy for pregnant and lactating mothers as well as children under the age of six was extended to cover all primary healthcare services for everyone in the public health system. Expanded programme on immunisation provides children with immunisation against measles, diphtheria, tetanus, whooping cough, polio and TB.

Table 10 below shows statistics for some of the diseases for which government has stepped up provision of immunisation and other health services. TB cases are associated with HIV/AIDS and are on the rise, reaching nearly 110,000 in 2001. Table 10 indicates that HIV prevalence is high, but it is somehow leveling off at around 25%. Prevalence of other sexually transmitted diseases (STDs) such syphilis is declining gradually. Incidences of malaria declined sharply in 2001. Measles cases have declined dramatically, suggesting that improved primary health care services for children may be effective.

Table 10: Some Selected Epidemio Logical Indicators, 1998-2001

Diseases	1998	1999	2000	2001
HIV prevalence antenatal (%)	22.80%	22.40%	24.50%	24.80%
Syphilis prevalence antenatal (%)	10.80%	7.30%	4.90%	2.80%
TB cases	90,747	59,896	89,497	108,826
Malaria cases	26,445	51,535	61,934	26,506
Measles cases	1,148	694	646	N/A

[Source: NEDLAC, 2004]

The Department of Health set aside funding for health infrastructure delivery programmes. Free health care for children under the age of six years continues to be provided at all government hospitals and clinics. However the standard of service delivered varies.

In terms of infrastructure and services, public hospitals account for more than 50% of public health expenditure. However, the human resource constraints create key problems in the delivery of services. In many hospitals and clinics there have been reports of insufficient medical support stuff to handle the workload. Retention of skilled staff has been a major problem. Doctors have been leaving the public service to enter private practice or seek employment abroad. The active recruitment of nurses by foreign countries has depleted the hospitals of many skilled nursing staff.

6.2 Political Priorities

Policy Formulation in South Africa

South Africa's development, policy making and implementation has evolved through different stages periods of time. The period since 1994 has been characterised by a range of policy and legislative reforms. There were remarkable achievements in some policy developments, many attached to economic and social development and containing specific provisions to promote those goals.

Ten years later, there seem to be a gap between policy and its implementation. This is based on the broad policy intent and the implementation of the legislation. The main factors that have contributed to the implementation gap are identified as human resource constraints, macroeconomic policy and the budget and finally, coordination between the policy and the budget.

The human capacity constraints are a contributing factor to policy implementation gap, especially in municipalities. At that level, there is absence of policy skills and middle level governance and management skills. There were very few efforts to build human resources at local government in the first five yeas of democracy.

At this level of government, budgets are used as substitutes to the planning process. The budgetary process is a very useful coordination tool. However, expenditure control considerations that rely heavily on budgets allow the budgetary framework to dominate other policy frameworks. There is a need for a mechanism that enables the centre to integrate expenditure control objectives into the government overall objectives. However, the introduction of the Medium Term Expenditure Framework (MTEF) shifted emphasis of the budgeting process from restrictive expenditure to encouragement of effective expenditure.

Policy Development Path in South Africa

In South Africa, there is a significant increase in conflict on policy matters amongst the alliance partners (African National Congress (ANC), Congress of South African Trade Union (COSATU) and the South African Communist Party (SACP)), government and civil society (churches, and NGOs). The issues of main contention include the macroeconomic policy framework, industrial policy, privatisation, trade policy, and other matters. The core issue is the dynamic relationship between orientation of government policies in these areas, and the actual and expected socio-economic outcomes.

Pre-1994 Policy Consensus

Prior to 1994, policy development had two paths which opposed each other in terms of post-apartheid policy developments. The first one was articulated by the Alliance partners, and took the Reconstruction and Development Programme (RDP) route. The second path which differed from that of the alliance partners was developed by the organised business.

RDP Route

RDP was an of efforts by anti-apartheid forces to reach a unified transformation prior to the 1994 elections. It was viewed as a vital step in the process of developing detailed policy and legislative programme for implementation by the incoming government. It articulated the vision and development path in six basic principles:

- Integrated and sustainable programme;
- A people driven process;
- Peace and security for all;
- Nation building;
- Link construction and development; and
- Democratisation of South Africa.

However, the RDP's development programme was not shared entirely by the white who dominated the business sector's vision of post-apartheid era.

Big Business Consensus

The post-apartheid vision of the organised business was articulated through its structures (South African Chamber of Commerce, Chamber of Mines, Freedom Foundation, South African Foundation, etc.) and through political parties such as the National Party and the Democratic Party. The vision was articulated in various documents and public statements between 1990 and 1994.

Its main tenets were:

- Preservation of property rights;
- Adoption of market friendly policies to be reflected particularly in the limited role of the state;
- Promoting redistribution through growth;

- Integration into the world economy; and
- Labour relations.

The end of apartheid saw the emergence of broad visions for the country. One was shared by organised anti-apartheid movements, and although it was powerful in terms of broad social and political acceptability, it was relatively weak in terms of support from economically powerful business forces. The other belonged to the organised business sector and was shared by the weakened apartheid-era political parties.

Post-1994 Development Path and Policy

The alliance partners continued to support the RDP through a document that was referred to as the embodiment of its vision and development path for South Africa. This document which was in the area of economic policy within government policy framework became controversial. Concerns were raised in the early stages about the direction of economic policy.

In 1996 the Government released the Growth, Employment and Redistribution (GEAR) strategy document. It was presented to parliament as a non-negotiable policy framework for the period 1996 -2000. Its main pillars were fiscal contraction, characterized by major cuts in government deficit-GDP ratio, privatisation, tight monetary policy, accelerated trade liberalisation and deregulation of financial markets.

Since the adoption of GEAR, the Government moved to institutionalise its main underpinnings. The two measures that need to be mentioned are the adoption of the MTEF for budgeting purposes and inflation targeting as a framework for monetary policy. The differences between the RDP and the current policies are potentially significant in explaining the persistence of undesirable trends in socio-economic developments.

Government has recently reaffirmed its commitment to the macroeconomic strategy and policy framework. The current state of socio-economic development and policy formulation indicates a need for improvement in implementation capacity. There is a also an urgent need to articulate a socio-economic strategy and policy framework that is designed to reduce high levels of poverty, income inequality, unemployment, and lack of access to affordable and quality services.

6.3 Trade Policies Affecting Macroeconomic Performance and SADC Integration

South Africa's trade policy was guided by three interrelated strategies, that is, import substituting industrialization, the development of strategic industries (in arms, oil and coal) due to the sanctions imposed and the development of minerals-related exports. After South Africa's democratic elections, the newly elected government was faced with the mammoth task of reversing the imbalances caused by apartheid.

The accession to the WTO increased the pace of trade policy reform where the key aspects of liberalization of phased tariff-reduction measures were contained in an offer to the WTO. The tariff reform programme took effect early in 1995 signaling the commitment of the new government to trade reform. The tariff phase down commitments were scheduled to last 10 years. Analysts speculate that the rapid liberalisation of tariffs that were more than South Africa's GATT bindings were made possible through lobbying by pressure groups such as COSATU which played an important role in the ANC's political transition[6].

6.3.1 Existing Multilateral Commitments

South Africa has a trade agreement with the EU (the EU-South Africa Trade and Development Co-operation Agreement), and is in the process of negotiating free trade agreements with the European Free Trade Association (EFTA), the US, China, India and Mercosur. South Africa is also a member of SACU and SADC. South Africa is a beneficiary of the US Africa Growth and Opportunity Act (AGOA) and the Generalised System of Preferences (GSP). The details about some of these agreements are given in the next sections.

[6] According to Draper (2006) citing Bell, COSATU played a very critical role in the political transformation of South Africa such that COSATU's agreement to the tariff liberalization strategy was a result of a bargain struck with the ANC in return for which they were rewarded through the institutionalization of the bargaining model pioneered by the National Economic Forum (NEF) in the form of the National Economic Development and Employment Council (NEDLAC).

Notwithstanding some trade liberalisation in the 1980s, it is really in the 1990s that a more significant and sustained process of liberalisation began. The WTO, in particular, has been symbolically important in terms of binding South Africa's tariff phase-down schedule.

South Africa's offer to the WTO consisted of a five-year tariff reduction and rationalisation programme, which entailed reducing to six the number of tariff categories, which had previously numbered over 100. These were to be at the rates of 0, 5, 10, 15, 20 and 30%, with any discretionary changes to the system being disallowed. The only exceptions to the five-year tariff liberalisation process were the clothing and textiles and the automotive sectors, which were granted eight years to attain the levels made in the WTO offer.

Average weighted import duties were also to be reduced from 34% to 17% for consumption goods, 8% to 4% for intermediate goods, and 11% to 5% for capital goods. With the GATT/WTO bindings for these categories being 26%, 4% and 15% respectively, South Africa's commitment to the opening up of these sectors to foreign competition was implicit.

South Africa's average tariff declined from 11.7% to 5.3% in 2000 as the tariff phase-down schedule under the WTO was required to be undertaken.

Other aspects of the WTO offer included:

- Increasing the proportion of bound tariffs from less than 20% to just over 50%;
- Increasing the percentage of bound zero-rated tariff lines to just over 25%; and
- Reducing the simple average tariff for industrial tariffs by one-third in a phased reduction programme (GATT, 1995).

For the agricultural sector, liberalisation first took the form of tariffication of QRs, followed by the reduction in diversity of ad valorem tariffs. While the absolute number of tariff lines was well below the 2004 target by the end of 1996, the range of tariffs is still comprehensive. In 1996, for instance, these ranged from 0% to

131.5%, while the WTO-bound rates ranged from 0% to 597%. It must be noted, however, that the requirements of the Marrakesh Agreement specify maximum levels of duty for agricultural products, which are in general much higher in comparison to those for industrial products. Moreover, South Africa also binds the rate of customs duties on agricultural products at a level that is necessary to increase the price of imported products to the imported price level of the SACU.

Industrial products, on the other hand, had tariffs in 69 categories, resulting in a large divergence from the 2004 target of 17 categories. For industrial products, it is envisaged that all tariffs below 3% will be zero-rated, while tariffs on inputs will be lowered and peaks in absolute tariff levels reduced. Further, where protection is not warranted, tariffs will be reduced to 0%. The ultimate aim will be to reduce the plethora of current tariff lines to six tariff categories. For instance, in 1996, there were 1710 tariff lines (representing 31% of all tariff lines) above the 30% maximum. With the most urgent simplification of tariffs being in this category, it is envisaged that by 2004: there will be only 17 categories; all tariffs will be below 30%; and only 446 (or 7%) of all tariff lines will be in excess of 30% (it seems inconsistent to argue that on the one hand all tariffs will be below 30% and only 446 of all tariff lines will be in excess of 30%).

Besides tariff liberalisation and the abolition of QRs, South Africa has also made significant moves towards strengthening bilateral ties with its main trading partners. This has mainly taken the form of free trade areas, the most important of which are discussed below.

South Africa and the EU

The EU-South Africa Free Trade Agreement, which came into force in January 2000, was the culmination of five years of protracted negotiations. This asymmetric agreement entails the liberalisation of tariffs on 95% of EU imports from South Africa, mostly between 2000-2003. Furthermore, by 2010, almost all of the EU's imports from South Africa will be liberalised, the only exceptions being agricultural exports and wines and spirits, the latter being subject to a separate accord.

South Africa is required to free 86% of tariffs on imports (effectively 73% of all industrial sector tariff lines) from the EU, spread over a 12-

year period. The only exception is in the case of tariff lines in sectors like clothing and textiles, footwear and automotive products, where tariffs will be scaled down but not eliminated altogether.

South Africa and SADC

The SADC Trade Protocol was concluded in August 1996, although it has taken some time for the majority of Member States to ratify the treaty (by 2000, seven out of the 12 member countries had done so, one country short of the number needed for the Protocol to come into force). In addition, there were other contentious issues outstanding, such as rules of origin for clothing and textiles and cane sugar, dispute settlement mechanisms and customs and trade facilitation. It is estimated that 85% of the Protocol will be in effect by 2008, with full-scale liberalisation scheduled for 2012. Once again, this is an asymmetric arrangement, with South Africa liberalising most of its sectors to imports from SADC countries faster than they would for imports from South Africa. However, it should be pointed out that there is considerable backloading in the proposed phase-down, and it remains to be seen whether there is sufficient political will to stick to the proposed schedules (Flatters, 2001).

6.3.2 Influence of South Africa's Membership to SADC

Looking at South Africa's economic and trade policies post-1994, the core interest with regard to Africa was the promotion of increased trade and investment flows from South Africa to SADC and the rest of sub-Saharan Africa, with a view to enhance domestic growth and employment creation (Gelb, 2001). However, South Africa's entry into SADC materialised after much debate within the country and the region about its membership to SACU versus SADC

Scepticism was high regarding the role of South Africa, with fear that South Africa would gain an excessive share in the distribution benefits of integration. There was fear that South Africa would dominate rather than be a partner because of the expected difficulties of exports from the region to gain market access into South Africa.

However, this has not been the case especially after the democratic elections when South Africa became one of the more significant reformers within the region.

According to Gelb (2001), the conclusion of the SADC Trade Protocol[7] in August 1996, conformed with South Africa's view on how best to achieve the asymmetrical arrangement required to open South Africa's markets to the region. Although it took some time for the majority of Member States to ratify the treaty which came into effect in 2000, the delay in the ratification was a result of outstanding contentious issues, such as Rules of Origin for clothing and textiles and cane sugar, dispute settlement mechanisms, and customs and trade facilitation. Furthermore, South Africa's negotiation of the TDCA with the EU also delayed the process as it had to take into account South Africa's involvement in SADC (Cassim et al. 2004).

One of the SADC Trade Protocol objectives is to establish a FTA by 2008 however, there is slow progress and according to analysts this is a result of a lack of commitment to implement multilateral agreements reached within the SADC including (but not limited to) the Free Trade Protocol. The Namibian Economic Policy Research Unit (NEPRU) has criticised the South African Development Community (SADC) for lack of leadership and fears that SADC will remain at the edge of developments in Southern Africa if it continues at its current slow pace of integration. Both the South African Customs Union (SACU) and the African Union (AU) may overtake it. NEPRU has criticised SADC for:

- Failing to create an efficient secretariat;
- Not meeting the restructuring deadline set for March 2003;
- Not having functioning SADC National Committees[8] (SNCs) although they have been established in all member countries; and
- Failing to overcome obstacles to restructuring at a national level.

A source of contention in the implementation of the protocol is the multiplicity of membership. A problem that arises is that it would not

[7] A full version of the protocol is available from http://www.sadcstan.co.za/protocol.html

[8] SNCs are supposed to implement regional projects at the national level, coordinate and communicate national inputs to the secretariat and ensure popular participation and support for SADC. NEPRU also referred to the recently published Commission for Africa Report, where it is clearly stated that good governance, the elimination of corruption and the end of conflict should be rewarded with increased aid, debt elimination, and access to global trade markets.

be possible for SACU members who are also members of SADC or COMESA to participate in a parallel customs union and also that its most likely that these regional blocs will pursue separate trade agreements with the EU and other external partners (Kirk and Stern, 2005).

A 2005 report by the African Union Commission and Economic Commission for Africa notes that a country from a legal and technical viewpoint cannot apply two different CETs and therefore cannot be a member of more than one customs union. Possibilities which may arise are that current and future customs union merge into one where they would adopt a CET that all members from other overlapping groups could draw from. It further notes that from individual countries' viewpoints, there is a possibility of joining one customs union and maintaining membership in a FTA of another regional economic community. The implication of this is that any individual trade agreement negotiated by a member affects the whole group which has to bear the administration costs. An example is the indirect impact of the EU-TDCA on the BLNS which South Africa negotiated prior to adoption of the new SACU Agreement.

In the same context, conflicting obligations arise from Member States pursuing similar programmes at different rates. For instance, trade liberalization was envisaged to have achieved zero tariffs by 2000 under COMESA. In contrast, trade liberalisation is expected to achieve zero tariffs by 2008 under SADC. The common external tariff expected to be established under the COMESA Customs Union programme will most likely have a trade diversion effect on members that belong to both institutions. Furthermore, the difficulties of which tariff rate will apply when two countries trade within these blocks will be a source of much confusion.

6.3.3 Implementation of SADC Trade Protocol

As the developed member of the region, South Africa together with the rest of SACU members was required to offer a more generous phase down schedule. Therefore, South Africa committed to liberalise tariffs as follows:

- MFN rates which were 0% in 2000 were bound at 0%;

- MFN rates between 1 and 17% were eliminated as soon as the protocol came into effect;
- MFN rates between 18 and 25% were to be phased down in the first three years;
- MFN rates over 25% were to be phased down over a five year period.

By the end of 2005, about 88% of SADC exports will have duty-free entry in South Africa, representing approximately 90% of all tariff lines. The following products were excluded and subject to further negotiations: dairy products, wheat and wheat products, sugar and sugar confectionary, cotton, knitted or crocheted fabrics, knitted or crocheted clothing, other clothing, leather footwear and motor vehicles. These were classified under Category C or sensitive products by South Africa.

The movement of SADC free trade in textiles and garments is slow. This is one area where there is a need for improvement in coordination. Most non-SACU Member States have postponed significant trade reductions until very late in the transition process. Even SACU has postponed full liberalisation in the case of clothing. With exception of yarn, the rules require double transformation in order to qualify for preferences. Garments must be produced from regionally produced textiles; fabric must be made from regionally produced yarn; yarn must be made from uncarded, uncombed fibre or from chemical products.

6.3.4 Trade Flow Analysis

South Africa's trade balance declined from quite healthy positive balances in 1999 and 2000 to a general even level between 2001 and 2003. The movements of the Rand have been quite central to South Africa's trade. For instance, there was a large depreciation of the currency at the end of 2001 and the effect of this can clearly be seen in the large increase in exports in 2002. During 2002 and into 2003, the Rand strengthened and exports declined. The decline in imports in 2003 was probably due to a slowdown in domestic demand. The long run trend appears to be that imports are growing more quickly than exports. This is in line with government policy not to run a trade surplus.

Figure 13: South Africa's Trade Balance with the World and with SADC, 1999-2003 (Rm).

	1999	2000	2001	2002	2003	Growth
Exports	161,508	208,285	215,248	277,993	255,560	12.8%
Imports	147,383	188,064	215,441	274,458	258,431	16.2%
Trade Balance	14,126	20,220	-193	3,535	-2,871	
Exports to SADC	16,662	20,477	23,543	29,734	25,583	13.1%
Import from SADC	3,383	2,530	4,477	5,568	5,584	19.6%
Trade Balance with						
SADC	13,279	17,946	19,066	24,166	19,999	

[Source: SADC Member States Trade Data and own calculations]

South Africa has consistently run a trade surplus with SADC. In fact, much of South Africa's large trade surplus in 1999 and 2000 appears to be due to trade with SADC. Trade with SADC is growing marginally quicker than trade with the rest of the world. SADC trade also mirrors world trade in that imports are growing quicker than exports but South African exports to the region are still nearly 5 times as large as imports. Exports to the region make up 10% of total exports but only 2% of imports. Trade with the region is unbalanced. This explains why South Africa has undertaken asymmetrical liberalisation as part of the SADC Trade Protocol. The unbalanced trade may also be reflective of South Africa's relatively good infrastructure for getting products to markets, and the SADC countries' relatively weaker infrastructure. It may also be due to the terms of trade between South Africa and other SADC countries; South Africa, as discussed below, exports mainly higher value-added manufactured goods but imports largely lower value primary commodities.

The only formal statement of trade policy from Government came as part of the macroeconomic strategy, the plan for Growth, Employment and Redistribution (GEAR), which was issued in 1996. GEAR was similar in many respects to a structural adjustment programme. As part of the policy, South Africa sought to liberalise trade. One of the side effects of sanctions and disinvestment during the Apartheid era was very high tariffs. GEAR sought to make the economy more competitive and export-focused by reducing tariffs. South Africa acceded to the WTO in 1995 and the initial offer contained significant cuts in levels of protection. Tariffs were reduced from the mid-1990s, quicker than the rate bound in the WTO offer. This process ended around the turn of the century. Since then, South Africa has pursued liberalisation through bilateral trade agreements.

6.3.4.1 Commodity Composition of Trade

South Africa's profile of trade with the world differs significantly from that with SADC (see Table 11). South Africa imports predominantly manufactured goods from the rest of the world, and primary goods from SADC. This reflects South Africa's relative comparative advantage in producing manufactured goods, when compared to SADC, and its comparative advantage in producing primary goods, with respect to the world. This is quite typical of a middle-income country such as South Africa.

Table 11: Commodity Composition of Imports

Product	Share of total imports from world (%)	Share of total imports from SADC (%)
Ch 1: Live Animals	0.7	0.8
Ch 2: Vegetables C02: Vegetable products (6-14)	1.6	4.0
Ch 3: Animal or Vegetable Fats	0.8	0.1
Ch 4: Prepared Foods	2.0	4.9
Ch 5: Mineral Products	15.2	41.8
Ch 6: Chemicals	9.1	0.9
Ch 7: Plastics	3.7	0.8
Ch 8: Leather	0.5	0.5
Ch 9: Wood Products	0.6	2.4
Ch 10: Wood Pulp & Paper	1.6	0.3
Ch 11: Textiles	3.3	15.0
Ch 12: Footwear	0.9	0.3
Ch 13: Stone & Glass	1.2	0.4
Ch 14: Precious Metals	1.7	3.6
Ch 15: Base Metals	4.2	11.0
Ch 16: Machinery	26.0	6.7
Ch 17: Vehicles	13.4	3.7
Ch 18: Scientific Equipment	3.3	1.0
Ch 19: Arms & Ammunition	0.0	0.0
Ch 20: Misc. Manufactures	1.4	1.0
Ch 21: Art & Antiques	0.1	0.1
Ch 22: Unclassified	0.1	0.7
Ch 23: Special Classification:		
Motor Parts	8.5	0.0
Total value of imports (Rbn)	306	7

[Source: SADC Member States Trade Data and own calculations]

South Africa's relative comparative advantage to SADC in the production of manufactured goods, is again reflected in the difference between its export profile with SADC, and that with the world (see Table 12). South Africa's exports to SADC countries are predominantly manufactured goods, while South Africa's exports to the world are predominantly commodity based.

Table 12: Commodity Composition of Exports

Product	Share of total exports to world (%)	Share of total exports to SADC (%)
Ch 1: Live Animals	1.2	1.5
Ch 2: Vegetables	3.4	4.7
Ch 3: Animal or Vegetable Fats	0.1	0.7
Ch 4: Prepared Foods	3.5	7.9
Ch 5: Mineral Products	11.8	16.5
Ch 6: Chemicals	6.0	12.9
Ch 7: Plastics	1.8	6.8
Ch 8: Leather	0.5	0.1
Ch 9: Wood Products	1.1	0.6
Ch 10: Wood Pulp & Paper	2.2	4.1
Ch 11: Textiles	1.7	2.1
Ch 12: Footwear	0.1	0.2
Ch 13: Stone & Glass	0.7	1.2
Ch 14: Precious Metals	27.4	0.2
Ch 15: Base Metals	19.6	14.0
Ch 16: Machinery	8.2	16.9
Ch 17: Vehicles	8.7	6.9
Ch 18: Scientific Equipment	0.5	1.4
Ch 19: Arms & Ammunition	0.0	0.0
Ch 20: Misc. Manufactures	1.6	1.5
Ch 21: Art & Antiques	0.0	0.0
Ch 22: Unclassified	0.1	0.0
Ch 23: Special Classification:		
Motor Parts	0.0	0.0
Total value of exports (Rbn)	**291**	**24**

[Source: SADC Member States Trade Data and own calculations]

6.3.4.2 Fastest Growing Export Commodities

Many of South Africa's most quickly growing export commodities are manufactured goods, including textiles, clothing and motor vehicles (see Table 12). This appears to reflect the real depreciation of the Rand between 1999 and 2001, during which period South Africa's manufactured exports were growing strongly. More recently, this trend reversed itself, and the manufacturing sector in general and manufactured exports have been under significant pressure[9]. The clothing and textiles sectors are not expected to recover significantly due to the end of the Multi-Fibre Agreement, which allowed countries to protect their clothing and textiles industries through the impositions of quotas, absent substantial intervention by Government[10].

The South African industry remains highly vulnerable to greater imports from China and other East and Southern Asian competitors. Motor industry exports have better prospects, due to the Motor Industry Development Plan (MIDP), which provides a system of import credits for motor industry exports. There are concerns about the legality of this programme in terms of WTO rules, and there is some uncertainty about the extension of the programme beyond 2012, which may limit further investment in the sector and growth in exports.

Annual average nominal growth in exports over the period was good, at 13%. This is in line with the Government's plans to achieve export-led economic growth that could to some extent be a benefit flowing from the substantial trade liberalisation that took place during the 1990s. One worrying aspect of the results in the table below is that most of the industries listed, with the exception of motor vehicles and machinery, have quite small exports. South Africa will only achieve export-led growth when the larger export sectors achieve faster growth rates.

---

9 See, for example, Reserve Bank Quarterly Bulletin no. 236, June 2005, www.reservebank.co.za. The most recent Monetary Policy Committee Statement, issued on the 11th of August, shows that manufacturing recovered somewhat in the second quarter of 2005.

10 See, for example, Barnes, A Strategic Assessment of the South African Wearing Apparel Sector, http://www.tips.org.za/events/satppjuly2005.asp

Table 13: Fastest Growing Exports to the World (Average Growth Rate 1999-2003)

Product	% growth	Exports 2003 (Rm)
H53: Vegetable textile fibres nes, paper yarn, woven fabric	157.3	44
H23: Residues, wastes of food industry, animal fodder	52.8	213
H92: Musical instruments, parts and accessories	43.3	94
H56: Wadding, felt, non wovens, yarns, twine, cordage, etc	39.0	183
H46: Manufactures of plaiting material, basketwork, etc.	38.9	14
H33: Essential oils, perfumes, cosmetics, toiletries	37.7	1,125
H59: Impregnated, coated or laminated textile fabric	30.5	155
H50: Silk	29.2	3
H62: Articles of apparel, accessories, not knit or crochet	29.1	1,303
H87: Vehicles other than railway, tramway	28.9	22,925
H22: Beverages, spirits and vinegar	28.6	4,871
H19: Cereal, flour, starch, milk preparations and products	26.1	240
H10: Cereals	25.5	1,169
H02: Meat and edible meat offal	25.2	474
H84: Nuclear reactors, boilers, machinery, etc	24.9	16,980
H01: Live animals	24.8	164
H78: Lead and articles thereof	24.8	14
H69: Ceramic products	23.8	258
H63: Other made textile articles, sets, worn clothing etc	23.3	299
Total Exports	**12.8**	

[Source: SADC Member States Trade Data and own calculations]

South Africa's fastest growing exports to SADC are quite diverse. There are some advanced manufactured goods but mostly the list consists of commodities and some processed goods. This may indicate that South Africa could be losing its edge in manufacturing advanced goods for SADC. This could be due to competition from developed countries in the SADC market.

Table 14: Fastest Growing Exports to SADC (Average Growth Rate 1999-2003)

Product	% growth	Exports 2003 (Rm)
H71: Pearls, precious stones, metals, coins, etc	97.7	121
H97: Works of art, collectors pieces and antiques	56.7	5
H10: Cereals	46.5	1,014
H66: Umbrellas, walking-sticks, seat-sticks, whips, etc	45.7	7
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	43.2	134
H52: Cotton	38.2	168
H89: Ships, boats and other floating structures	37.3	38
H08: Edible fruit, nuts, peel of citrus fruit, melons	34.5	256
H22: Beverages, spirits and vinegar	33.5	945
H41: Raw hides and skins (other than fur skins) and leather	29.3	4
H33: Essential oils, perfumes, cosmetics, toiletries	29.1	350
H01: Live animals	28.6	62
H13: Lac, gums, raisins, vegetable saps and extracts nes	27.6	13
H59: Impregnated, coated or laminated textile fabric	26.4	4
H49: Printed books, newspapers, pictures etc	26.4	68
H75: Nickel and articles thereof	25.8	154
H78: Lead and articles thereof	24.5	1
H42: Articles of leather, animal gut, harness, travel goods	23.0	11
H50: Silk	22.6	16
H46: Manufactures of plaiting material, basketwork, etc.	21.7	2
Exports to SADC	13.1	

[Source: SADC Member States Trade Data and own calculations]

6.3.4.3 Fastest Growing Import Commodities

South Africa's fastest growing imports from the world are mainly manufactured goods, although primary commodities feature significantly in the list (see Table 15 below). This trend is set to reinforce the shifts in comparative advantage discussed in section 1.4 above. The further appreciation of the South African Rand since 2002 means that this trend is likely to have continued. Imports have grown slightly more quickly than exports over the period. This reflects greater integration with the world economy, as South Africa benefits from trade liberalisation and the entry of foreign firms into local markets.

Table 15: Fastest Growing Imports from the World (Average Growth Rate 1999-2003)

Product	% growth	Imports 2003 (Rm)
H26: Ores, slag and ash	87.9	1,400
H75: Nickel and articles thereof	39.6	1,256
H17: Sugars and sugar confectionery	36.8	343
H87: Vehicles other than railway, tramway	32.6	19,261
H97: Works of art, collectors pieces and antiques	32.2	217
H89: Ships, boats and other floating structures	29.2	1,167
H99: Commodities not elsewhere specified	28.0	363
H52: Cotton	27.3	1,317
H78: Lead and articles thereof	26.9	85
H31: Fertilizers	26.8	941
H14: Vegetable plaiting materials, vegetable products nes	25.5	25
H88: Aircraft, spacecraft, and parts thereof	24.2	9,552
H19: Cereal, flour, starch, milk preparations and products	23.0	295
H07: Edible vegetables and certain roots and tubers	21.7	428
H46: Manufactures of plaiting material, basketwork, etc.	21.7	37
H62: Articles of apparel, accessories, not knit or crochet	21.1	24,325
H61: Articles of apparel, accessories, knit or crochet	21.0	1,447
H04: Dairy products, eggs, honey, edible animal product nes	20.3	862
H53: Vegetable textile fibres nes, paper yarn, woven fabric	19.9	318
H86: Railway, tramway locomotives, rolling stock, equipment	19.9	115
Total Imports	**16.2**	

[Source: SADC Member States Trade Data and own calculations]

The fastest growing imports from SADC are a mixed bag, mainly consisting of basic processed goods with some agricultural commodities too. The value of imports is too low for one to infer anything as the direction of dynamic comparative advantage. Therefore, South Africa's relative comparative advantage (compared with SADC) in the production of manufactured goods is likely to continue for some time.

The table below shows that growth in imports from SADC was slightly higher than growth in imports from the world.

Table 16: Fastest Growing Imports from the SADC

Product	% Growth	Imports 2003 (Rm)
H26: Ores, slag and ash	261.8	1,061
H17: Sugars and sugar confectionery	146.0	98
H51: Wool, animal hair, horse hair yarn and fabric thereof	136.6	6
H97: Works of art, collectors pieces and antiques	122.5	148
H13: Lac, gums, resins, vegetable saps and extracts nes	91.2	1
H88: Aircraft, spacecraft, and parts thereof	85.6	156
H54: Manmade filaments	77.5	6
H57: Carpets and other textile floor coverings	71.3	1
H79: Zinc and articles thereof	70.4	31
H55: Manmade staple fibres	66.2	10
H67: Bird skin, feathers, artificial flowers, human hair	64.4	0
H22: Beverages, spirits and vinegar	63.0	14
H16: Meat, fish and seafood food preparations nes	60.6	22
H15: Animal, vegetable fats and oils, cleavage products, etc	60.0	14
H66: Umbrellas, walking-sticks, seat-sticks, whips, etc	60.0	0
H19: Cereal, flour, starch, milk preparations and products	57.9	11
H86: Railway, tramway locomotives, rolling stock, equipment	55.3	9
H59: Impregnated, coated or laminated textile fabric	48.8	2
H90: Optical, photo, technical, medical, etc apparatus	44.3	105
H47: Pulp of wood, fibrous cellulose material, waste etc	40.8	1
Imports from SADC	19.6	

[Source: SADC Member States Trade Data and own calculations]

6.3.4.4 Trade Intensity with the SADC Region

The trade intensity indices in Table 17 below shows that figures for both imports from and exports to the SADC region are significantly above 1. This indicates that, regarding exports, either South African exporters prefer trading with SADC countries to trading with the world in general or that SADC consumers prefer buying South African goods rather than goods from the rest of the world. However, SADC consumers preferred South African goods less (or SA exporters preferred trading with SADC countries less) in 2003 than in 2002.

The import intensity indices for both years are less significant than those for exports. This implies that South African consumers prefer goods from SADC relative to goods from the rest of the world (or that SADC exporters prefer exporting to South Africa) but that this preference is less pronounced than the preference of SADC consumers for South African goods (or SA exporters' preference for trading with SADC countries).

Table 17: Trade Intensities for Exports and Imports in 2002 and 2003

	Exports	Imports
2002	63.5	4.4
2003	46.3	5.1

Source: SADC Member States Trade Data and own calculations

The export intensity figures are clearly too large to be of any true meaning. Intensity calculations sometimes produce absurd results such as these. Nevertheless, the general picture is that South Africa appears to be obtaining more benefit from its relationship with SADC than vice versa. The export intensity declined in 2003, indicating that exports to SADC declined more quickly than South Africa's exports to the rest of the world. Exports to rest of the world declined by 8%, compared to exports to SADC which declined by 14%.

6.3.4.5 Intra-Industry Trade

Intra-industry trade (IIT) for South Africa with the rest of the world largely reflects the incentives provided by the motor industry development programme (MIDP). A significant proportion of the 15 commodities in which South Africa has the highest degree of intra-industry trade are related to the motor industry. The MIDP essentially provides credits for companies exporting motor vehicles and motor vehicle parts towards the importation of motor vehicles and parts. Thus a significant degree of exports and imports of such products has arisen, which has been relatively beneficial for South Africa. The motor industry is generally accepted as the prime sector worldwide in which intra-industry trade takes place, as a result of the market structure of the sector. The MIDP reinforces this phenomenon.

Certain commodities with high degrees of intra-industry trade, such as chemical fertilizers, may reflect imperfect competition that cause reciprocal dumping in these product markets[11]. Essentially, companies

[11] See Brander, J & Krugman, P, 1983, 'A "Reciprocal Dumping" model of International Trade' *Journal of International Economics* 15 (November 1983)

in both countries perceive higher prices in the foreign market compared to prices in the domestic market, and sell the product at a lower price in the foreign market (once transport costs are taken into account). There is at least one complaint that is before the South African competition authorities in the fertilizer sector, which supports this conclusion[12].

Table 18: Intra-Industry Trade with the World: Top 15 Commodities (HS4)

HS code	Commodity	Grubel-Lloyd index	Exports 2003 (Rm)	Imports 2003 (Rm)
8708	Parts and accessories for motor vehicles	0.99	3,827	3,721
4011	New pneumatic tires, of rubber	0.98	1,366	1,317
3808	Insecticides, fungicides, herbicides etc (retail)	0.98	993	947
8207	Interchangeable tools and dies for hand or power tools	0.94	537	473
8704	Motor vehicles for the transport of goods	0.91	2,075	1,732
8544	Insulated wire and cable, optical fibre cable	0.87	641	496
8409	Parts for internal combustion spark ignition engines	0.87	819	1,062
5402	Synthetic filament yarn(not sewing thread) not retail	0.86	613	466
8407	Spark-ignition internal combustion engines	0.84	604	437
8703	Motor vehicles for transport of persons (except buses)	0.80	16,325	10,950
8474	Machinery to sort, screen, wash, etc mineral products	0.78	816	524
2905	Acyclic alcohols and their derivatives	0.75	798	474
8479	Machines nes having individual functions	0.74	625	1,059
1005	Maize (corn)	0.65	1,039	501
3102	Mineral or chemical fertilizers, nitrogenous	0.65	3,827	3,721
Weighted average of total intra-industry trade		0.29		

Source: SADC Member States Trade Data and own calculations

[12] Competition Tribunal case no.61/IR/Nov2003, www.comptrib.co.za

Intra-industry trade with SADC differs markedly with IIT with the rest of the world (see Table 18). While IIT in South Africa largely reflects the MIDP, and a few cases of possibly imperfectly competitive markets, trade with SADC countries appears to reflect brand competition, the standard rationale for IIT. IIT with SADC is largely in manufactured commodities, which compete substantially on branding.

There is a lower amount of intra-industry trade in commodities with SADC relative to the amount of IIT between South Africa and the world. The weighted average of intra-industry trade with the world is 0.29, while the weighted average of IIT with SADC is only 0.01. Nevertheless, the IIT index for the world will be biased upwards because SA is a middle income country and thus trades different goods with different countries but no IIT actually occurs.

These trends, on balance, suggest that there are fewer gains to expanding trade with SADC countries than there are gains to increasing trade with the rest of the world, as it is less likely that SA will benefit from economies of scale in the specialisation of the production of fewer brands, and is more likely to experience a decline in industries in which it does not have a comparative advantage, with the concomitant greater impact on unemployment. As discussed above, moving workers between industries is significantly harder than moving workers within industries, and the costs of trade liberalisation are likely to be higher where there are lower levels of intra-industry trade between two countries.

Table 19: Intra-Industry Trade with SADC: Top 15 Commodities (HS4)

HS code	Commodity	Grubel-Lloyd index	Exports 2003 (Rm)	Imports 2003 (Rm)
8429	Self-propelled earth moving, road making, etc machines	0.82	126	88
8430	Earth or snow moving, boring or pile driving machines	0.82	33	48
5205	Cotton yarn not sewing thread >85 cotton, not retail	0.81	71	104
8428	Lifting, handling, loading machinery nes	0.76	43	70
8516	Electric equipment with heating e lement, domestic etc	0.71	54	30
4407	Wood sawn, chipped lengthwise, sliced or peeled	0.69	48	91
7102	Diamonds, not mounted or set	0.68	86	166
8525	Radio and TV transmitters, television cameras	0.53	109	40
8544	Insulated wire and cable, optical fibre cable	0.51	109	37
8537	Electrical power, etc, control and distribution boards	0.48	59	18
2401	Tobacco unmanufactured, tobacco refuse	0.43	79	287
7326	Articles of iron or steel nes	0.37	87	20
0902	Tea	0.36	22	99
9403	Other furniture and parts thereof	0.33	179	36
1701	Solid cane or beet sugar and chemically pure sucrose	0.30	516	92
Weighted average of total intra-industry trade		0.01		

Source: SADC Member States Trade Data and own calculations

6.3.4.6 Revealed Comparative Advantage

In the long run one would expect the terms of trade to move against commodities and primary goods, hence the general desire to trade in the more advanced manufactured goods. According to the calculations reported in Table 20, South Africa's comparative advantage is, however, still vested in primary goods and commodities. Advanced manufactured goods are notable in that they are listed in Table 20, which shows the commodities in which South Africa has a comparative disadvantage.

This indicates that South Africa exports them at a "revealed" comparative disadvantage.

Table 20: Revealed Comparative Advantage with Respect to the World: Top 20 Commodities (HS2)

HS code	Product	Exports 2003 (Rm)	Index value
71	Nat etc pearls, prec etc stones, pr met etc; coin	59,100	13.6
26	Ores, slag and ash	9,125	8.1
8	Edible fruit & nuts; citrus fruit or melon peel	6,814	8.0
51	Wool & animal hair, including yarn & woven fabric	1,542	4.4
72	Iron and steel	29,143	3.8
22	Beverages, spirits and vinegar	4,871	3.4
25	Salt; sulphur; earth & stone; lime & cement plaster	1,210	2.9
20	Prep vegetables, fruit, nuts or other plant parts	2,239	2.3
81	Base metals NESOI; cermets; articles thereof	340	2.2
36	Explosives; pyrotechnics; matches; pyro alloys etc	392	1.9
47	Wood pulp etc; recovd (waste & scrap) ppr & pprbd	2,793	1.9
28	Inorg chem; prec & rare-earth met & radioact compd	7,774	1.8
76	Aluminium and articles thereof	2,737	1.8
3	Fish, crustaceans & aquatic invertebrates	1,906	1.7
17	Sugars and sugar confectionary	1,279	1.7
41	Raw hides and skins (no fur skins) and leather	4,338	1.7
94	Furniture; bedding etc; lamps NESOI etc; prefab bd	754	1.4
75	Nickel and articles thereof	3,361	1.3
44	Wood and articles of wood; wood charcoal	345	1.3
6	Live trees, plants, bulbs etc.; cut flowers etc.	59,100	1.2

Source: SADC Member States Trade Data and own calculations

Table 21: **Revealed Comparative Advantage with Respect to the World: Bottom 20 Commodities (HS2)**

HS code	Product	Exports 2003 (Rm)	Index value
91	Clocks and watches and parts thereof	13	0.0
50	Silk, including yarns and woven fabric thereof	3	0.0
92	Musical instruments; parts and accessories thereof	94	0.0
95	Toys, games & sport equipment; parts & accessories	105	0.0
64	Footwear, gaiters etc. and parts thereof	140	0.1
43	Fur skins and artificial fur; manufactures thereof	12	0.1
30	Pharmaceutical products	655	0.1
4	Dairy prods; birds eggs; honey; ed animal pr NESOI	332	0.1
67	Prep feathers, down etc; artif flowers; h hair art	18	0.1
65	Headgear and parts thereof	37	0.1
96	Miscellaneous manufactured articles	82	0.1
37	Photographic or cinematographic goods	85	0.1
90	Optic, photo etc, medic or surgical instruments etc	1,344	0.1
60	Knitted or crocheted fabrics	65	0.1
85	Electric machinery etc; sound equip; TV equip; pts	5,269	0.1
15	Animal or vegetable fats, oils etc. & waxes	292	0.2
10	Cereals	1,169	0.2
46	Mfr of straw, esparto etc.; basket ware & wickerwork	14	0.2
89	Ships, boats and floating structures	388	0.2
49	Printed books, newspapers etc; manuscripts etc	13	0.2

Source: SADC Member States Trade Data and own calculations

6.3.4.7 Revealed Trade Barriers

There appear to be relatively low trade barriers in South Africa for agricultural commodities and certain kinds of manufactured goods produced in SADC countries (see Table 22 below). South Africa importing these commodities from SADC as a proportion of total imports from SADC is significantly higher than South Africa importing the same commodities from the world as a proportion of total imports from the world. It would appear that this is related to the comparative advantage that SADC countries have in the production of primary goods, which we would expect from their lower levels of economic development.

Table 22: Revealed Trade Barriers with Respect to SADC: Top 20 Commodities (HS2)

HS code	Product	Exports to SADC 2003 (Rm)	Index value
80	Tin and articles thereof	4	23.5
11	Milling products; malt; starch; inulin; wht gluten	220	11.5
4	Dairy prods; birds eggs; honey; ed animal pr NESOI	267	17.4
10	Cereals	1,014	11.7
31	Fertilizers	556	12.9
49	Printed books, newspapers etc; manuscripts etc	154	13.4
1	Live animals	62	12.4
15	Animal or vegetable fats, oils etc. & waxes	200	10.4
34	Soap etc; waxes, polish etc; candles; dental preps	458	12.6
64	Footwear, gaiters etc. and parts thereof	48	11.1
91	Clocks and watches and parts thereof	5	11.1
52	Cotton, including yarn and woven fabric thereof	168	8.2
92	Musical instruments; parts and accessories thereof	2	10.8
96	Miscellaneous manufactured articles	37	8.2
69	Ceramic products	125	6.6
19	Prep cereal, flour, starch or milk; bakers wares	140	7.8
23	Food industry residues & waste; prep animal feed	52	8.4
79	Zinc and articles thereof	48	8.6
21	Miscellaneous edible preparations	311	7.6
30	Pharmaceutical products	181	7.1

Source: SADC Member States Trade Data and own calculations

However, there are a substantial number of goods that are relatively under-traded where imports from SADC are concerned. Many of these reflect the fact that SADC countries simply have no or relatively few firms producing the commodity concerned, such as inorganic chemicals or aluminium. In other cases, it may well be the case that South Africa has significant trade barriers for SADC imports for the commodities concerned. It is clear from the tariff analysis above that a substantial proportion of imports from SADC countries face tariffs of greater than

20%. These tariff bands relate largely to motor vehicles, and clothing and textiles. We would expect other SADC countries to have a comparative advantage in the production of labour intensive goods (at least relative to South Africa) such as clothing and textiles, and it may well be that these revealed tariff barriers imply that South Africa has not done enough to give other SADC countries differential treatment with respect to liberalisation of tariffs on these products.

Table 23: Revealed trade Barriers with Respect to SADC: Bottom 20 Commodities (HS2)

HS code	Product	Exports to SADC 2003 (Rm)	Index value
75	Nickel and articles thereof	1	0.0
47	Wood pulp etc; recovd (waste & scrap) ppr & pprbd	51	0.0
71	Nat etc pearls, prec etc stones, pr met etc; coin	121	0.0
26	Ores, slag and ash	14	0.0
41	Raw hides and skins (no furskins) and leather	4	0.1
81	Base metals NESOI; cermets; articles thereof	1	0.1
45	Cork and articles of cork	1	0.1
8	Edible fruit & nuts; citrus fruit or melon peel	256	0.1
51	Wool & animal hair, including yarn & woven fabric	19	0.2
97	Works of art, collectors' pieces and antiques	5	0.2
6	Live trees, plants, bulbs etc.; cut flowers etc.	8	0.2
76	Aluminium and articles thereof	273	0.2
3	Fish, crustaceans & aquatic invertebrates	78	0.2
54	Manmade filaments, including yarns & woven fabrics	39	0.3
74	Copper and articles thereof	42	0.3
43	Furskins and artificial fur; manufactures thereof	1	0.5
72	Iron and steel	1,320	0.5
29	Organic chemicals	226	0.6
28	Inorg chem; prec & rare-earth met & radioact compd	312	0.6
44	Wood and articles of wood; wood charcoal	178	0.6

Source: SADC Member States Trade Data and own calculations

6.3.4.8 Conclusions

South Africa's trade with SADC has shown glimpses of improvement over a five year period. Trade is highly skewed in favour of the former as South Africa consistently runs a trade surplus. Trade with SADC is growing marginally quicker than trade with the rest of the world. Trade with the region is unbalanced. The unbalanced trade may also be reflective of South Africa's relatively good infrastructure for getting products to markets, and the SADC country's' relatively weaker infrastructure. Therefore, infrastructure appears to be one of the limiting factors in SADC endeavours to increase intra-trade.

South Africa's exports are mainly higher value-added manufactured goods but the imports are largely lower value primary commodities. This explains the problem that SADC faces in terms of manufacturing capacity. SADC members continue to be providers of raw materials while in return they import high-value consumer goods. The RISDP target on exports of manufactured exports would have to be reached so that there can be an improvement in this area.

There is a lower amount of intra-industry trade in commodities with SADC relative to the amount of IIT between South Africa and the world. This suggests that there are fewer gains to expanding trade with SADC countries than there are gains to increasing trade with the rest of the world, as it is less likely that SA will benefit from economies of scale in the specialisation of the production of fewer brands, and is more likely to experience a decline in industries in which it does not have a comparative advantage, with the concomitant greater impact on unemployment.

South Africa's comparative advantage is still vested in primary goods and commodities. Advanced manufactured goods are rarely notable in the top products, these are the commodities in which South Africa has a comparative disadvantage. This indicates that South Africa exports them at a "revealed" comparative disadvantage. A vast amount of investment is required in human capacity both in South Africa and in SADC to boost comparative advantage in advanced manufactured and dynamic products.

There are relatively low trade barriers in South Africa for agricultural commodities and manufactured goods produced in SADC countries. South Africa importing these commodities from SADC as a proportion of total imports from SADC is significantly higher than South Africa importing the same commodities from the world as a proportion of total imports from the world. This may be due to the comparative advantage that SADC countries have in the production of primary goods, which would be expected from their lower levels of economic development. The low tariffs are also a result of the implementation of the SADC Trade Protocol as South Africa was required to front-load its tariff phase down schedule.

However, there are a substantial number of goods that are relatively under-traded where imports from SADC are concerned. Many of these reflect the fact that SADC countries simply have no or relatively few firms producing the commodity concerned. In other cases, it may well be the case that South Africa has significant non trade barriers for SADC imports for the commodities concerned. The rules of origin may be the reason for such low imports in the presence of low tariff barriers.

6.3.5 South Africa's Trade Facilitation Initiatives

The DTI's mandate is to lead and facilitate access to sustainable economic activity and empowerment for all South Africans through higher levels of investment, and increased access for South African products and services in international markets and to create a fair, competitive and efficient marketplace for domestic and foreign businesses, as well as for consumers. It is the lead department in the formulation and implementation of trade policy and has a number of institutions responsible for negotiations, administration of trade policy and driving industrial strategy. It also works in conjunction with other government departments such as the National Treasury and the Customs and Excise Department which falls under the South African Revenue Services (SARS).

SARS performs several important roles in the general area of international trade. Its customs division, monitors, controls and facilitates the movement of goods and people through all the country's ports of entry, and controls the storage and manufacturing of certain goods with the aim to:

- Correctly assess and collect the applicable duties and taxes on all goods;
- Prevent the movement of any prohibited goods;
- Administer the movement of restricted goods; and
- Maintain appropriate records on the movement of goods.

The fact that Government is committed to an export-led economy and prevention of all forms of corruption and fraud puts responsibility on the customs administration to manage imports, transit and export movements of people and goods.

Through the Law Administration Division, trade is further facilitated by the negotiation of tax and custom agreements with trading parties. These arrangements are designed to promote equitable trade and tax arrangements for both companies and individuals. The Customs Agreement with the Netherlands, which had been signed previously, came into force on 1 April 2003. Another agreement[13] was signed in October 2005 by the Dutch Minister of Foreign Affairs, Ben Bot and the South African Minister of Finance, Trevor Manuel. During the 2003 year tax agreements were signed with Brazil, Ethiopia, Kuwait, Rwanda, and Ukraine and the tax agreements with Belarus and Oman, which had been signed previously, were ratified and came into force on 29 December 2003.

Customs is involved in the administration of regulations pertaining to external trade, not only for duty and trade regulation purposes, but also in environmental, anti-dumping, consumer protection, health and agricultural controls. The Customs declaration is the principal support for statistical data concerning external trade.

SARS participates in the activities of the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). SARS's key objective within both SADC and SACU is to streamline the movement of goods through borders by applying

---

[13] This agreement replaces the existing agreement of 1971 and brings the mutual agreements in line with the fiscal developments which took place in both countries ever since. The tax agreement still has to be ratified by the parliament both in the Netherlands and South Africa and will probably be active from 1 January 2007. The new agreement improves the investment climate for Dutch companies who would like to invest in South Africa and South African companies who would like to invest in the Netherlands. http://www.sanec.nl/news.php?newsid=12

modern controls based on international standards, enhanced Customs cooperation and the transfer of skills. This approach is underpinned by the following principles (SARS, 2005):

- Simplifying and harmonising procedures;
- Eliminating duplication;
- Facilitating legitimate trade and people movement;
- Implementing an integrated business solution to ensure secure trade facilitation;
- Using modern technology and techniques; and
- Embedding a professional service culture.

At the present moment South Africa is engaged in a process parallel to the multilateral SADC policy and treaty exercises of developing projects on a bilateral basis with its neighbours. The intention is to embody a regional strategy aimed at incorporating South Africa and the region into the global production networks (Gelb, 2001).

6.3.5.1 Trade Barriers

Tariffs are applied to achieve various goals by different governments and trade regimes. Tariffs may be applied as a protective tool for some industries by governments. In that case they can be set high enough to discourage imports. Alternatively, tariffs may used as a source of revenue. Again, if tariffs are needed for this purpose they still need to be high enough to maximise revenue potential. There is however, a dilemma in this case because revenue is earned on imported goods. Therefore a balance must be attained to make sure that imports are not reduced or discouraged by the tariffs.

However, in many cases tariffs were used as the only form of protection before Uruguay Round. These tariffs have since been bound to maximum WTO levels. There is now more transparency such that the protection role of tariffs is almost redundant. For most countries and products, protection involves non-tariff barriers. All these issues are discussed below.

6.3.5.1.1 Tariffs

South African tariffs levied on imports from SADC are mostly low, as can be seen in Table 24 and Figure 14 below. Imports from the world are included in Table 24 but it must be borne in mind that imports from the rest of the world face significantly different tariffs. The tariff schedule with SADC has been significantly liberalised. The maximum tariff is 44% but this only applies to one tariff line out of 4514. In fact, this is the only tariff above 30%.

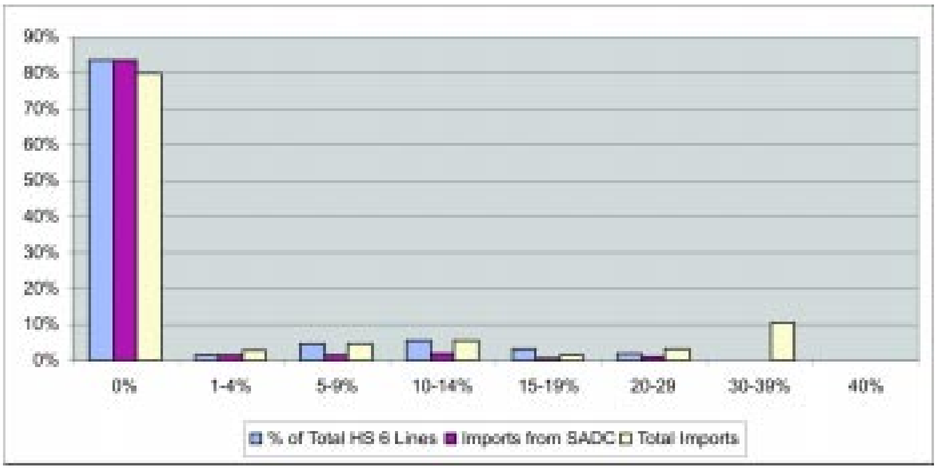
Table 24: Tariff Analysis, 2003

Tariff (%)	% of Total HS 6 Lines	Imports from SADC (%)	Total Imports (%)
0	83.6	83.5	79.9
1-4	1.5	1.5	2.8
5-9	4.6	1.3	4.4
10-14	5.6	1.9	5.3
15-19	3.1	0.6	1.3
20-29	1.7	1.1	3.4
30-39	0.0	0.0	10.6
40	0.0	0.0	0.0

[DTI and own calculations]

Figure 14 below illustrates the information discussed above graphically. Tariffs on SADC imports are low. Imports from SADC are generally directed towards the cheap tariff lines. One spike that stands out is for imports from the rest of the world which are in the 30%-39% range. These are imports of motor vehicle parts. South Africa imports no such parts from SADC.

Figure 14: South African Tariffs on SADC Imports, 2003



Source: SADC Member States Trade Data and own calculations

It is important to know which industries face the highest tariffs. This is done in Table 25 below. As one would expect, given SADC's trading profile with South Africa, basic processed goods face high tariffs. The highest tariffs are in the chapter identified above for motor vehicle parts.

Table 25: 10 Highest HS 2 Average Tariffs, 2003 (R).

	HS 2 Code	Description	Average Tariff	Imports from SADC	Total Imports
1	98	Special classification of parts for motor vehicles	30.0%	959,825	24,325,026,124
2	64	Footwear	21.0%	20,649,034	2,041,221,550
3	24	Tobacco	19.4%	166,107,567	633,715,536
4	66	Umbrellas, walking-sticks, riding-crops	18.3%	749,447	23,828,565
5	42	Leather art; saddlery	18.1%	19,633,905	488,693,833
6	57	Carpets	18.0%	1,334,408	137,033,563
7	60	Knitted or crocheted fabrics	15.4%	10,029,739	350,079,035
8	65	Headgear and parts thereof	13.4%	151,600	116,065,366
9	19	Prep cereal, flour	12.4%	9,304,893	293,298,086
10	46	Basket ware & wickerwork	11.7%	161,669	37,012,112

Source: SADC Member States Trade Data and own calculations

Once again, it is obvious that the tariffs are quite low and can in no way be considered prohibitive. The industries that are protected from SADC are mainly labour-intensive and low-technology industries. Since trade with SADC is not prohibited by tariffs yet imports from the region fail to flourish, then it is possible that other barriers to trade may be in existence. The next sections probe those possibilities.

6.3.5.1.2 Rules of Origin

The objective of a Free Trade Agreement (FTA) or the Closer Economic Partnership (CEP) is to foster trading and economic relationships between members. This trade is increased through two channels: trade creation and trade diversion. Trade creation is the extra trade that results, while trade diversion is merely the substitution of a preferential source away from a non-preferential source, thus distorting flows to non-members. Therefore, by definition, the absence of a trading agreement means that trade is lower than it would be if one were in place.

One area of potential trade diversion is the Rules of Origin criteria. These are intended to define where a product is actually made, and in today's increasingly integrated world this is not an easy question to answer. A particular problem is the complexity and potential restrictive nature of different Rules of Origin criteria.

The Rules of Origin can also affect trade between countries when bilateral policies such as anti-dumping and countervailing duties are in place. They are potentially an extra transaction cost for exporters when their country belongs to more than one trade agreement and these have different Rules of Origin criteria.

New empirical work suggests that recent FTAs have diverted more trade from non-members than they have created among members. This finding is consistent with the observation that many of the provisions needed in preferential arrangements to underpin and enforce their preferential nature - such as rules of origin - are in practice quite trade restricting.

Rules of Origin are therefore an essential element of regional trading arrangements. In a trading agreement they are used to confirm that the goods claiming preference result from a significant economic activity in an eligible country. Furthermore, ROO are applied to prevent trade deflection, i.e. importing from outside the preferential and re-exporting under preference into another member. The importance is dependant on intra-regional variance and external tariffs. The greater the variance, the greater the dangers of trade deflection.

In the SADC regional, Rules of Origin are among the more contentious issues of the arrangement. Rules of Origin have not yet been agreed upon in some of the sectors, five years after the implementation of the Trade Protocol. In other sectors where rules have been agreed, resolution of outstanding differences has been put off for consideration in the midterm review of the trade protocol that is underway.

SADC Rules of Origin

The Rules of Origin in SADC are considered to be relatively complex and prohibitive (Brenton et al.; 2004). Initial rules included the general conditions stipulating the simple packaging, assembly and labeling. However, these were considered insufficient to confer origin, and specific rules setting out minimum levels of economic activity in the region were set. Specific rules stipulate that goods would qualify for SADC tariff preference if they:

- Underwent a single change of tariff heading; or
- Contained a minimum of 35% regional added value; or
- Included non-SADC imported materials worth no more than 60% of value of total inputs used.

For agricultural and primary products to be eligible for preferences they need to be wholly produced or obtained in the region (Brenton, et al. 2004). This is a more general rule and common in many PTA's in many parts of the world. If this rule is properly enforced, it can sufficiently prevent trade deflection in agricultural products. As it was indicated in the earlier sections, most of South Africa's imports from the region are made of this category. This is also confirmed by the fact that many SADC economies are still dependent on agriculture and other primary products.

Some exceptions were considered on some of the initially agreed sector-and product specific rules. In most sectors and products agreement was reached. The only products for which a rule has not been agreed are wheat flour (HS 11) and products of wheat flour (HS 19). The main differences among the proposed rules for flour hinge on the amount of local or regional wheat that is required. One proposal is that 70% of wheat used (by weight) be sourced from the region. An opposing proposal suggest that no reference be made to the source of wheat but that the flour be milled in the region. The latter proposal is a simple form of change in tariff heading requirement. The main differences in the proposed rules for downstream flour products are also related to the requirement on local wheat content of flour used.

6.3.5.1.3 Rules of Origin on Selected Commodities

The focus now switches to those commodities that dominate SADC exports to South Africa. These are mainly primary products, as indicated earlier. Rules of Origin require that they need to be wholly produced or obtained in the region. Even though the rule may appear less complex, there are still contentious issues especially in areas of wheat, wheat flour and their products, textiles and garments where there is still no agreement.

Wheat, Wheat Flour and Their Products

Rules of Origin have not yet been agreed for wheat and flour or for the products of wheat and flour. The main arguments are between wheat producing and non-wheat producing member states. The issue is whether the use of locally or regionally grown wheat should be required for flour to qualify for SADC preferences. This point is driven by the need to protect the local grain growers against unfair, subsidized international competition as well as protecting downstream millers.

An interesting fact is that all SADC Member States are net wheat importers. Few members produce significant amount of wheat to justify protection through rules of origin. Because there was no agreement on wheat flour, it was also not possible to reach an agreement on products of wheat flour. These products include tapioca, pasta and biscuits.

An adoption of a simple rule requiring a change of tariff heading, e.g. from wheat to flour, can help verify that flour originates from the region. That is also to say that it results from an economic activity in the region and thus, should qualify for SADC trade preference. The same rule can be applied for wheat flour products.

Coffee, Tea and Spices

Member States that are significant producers of these raw materials generally prefer high external tariffs on these products, and thus seek protective rules of origin in the form of high regional content requirements. The motivation for protective Rules of Origin is to encourage regional economic activity or protection of regional producers of raw materials or processed products. The restrictive Rule of Origin would increase demand for the regional agricultural product and encourage downstream processing.

The agreed Rules of Origin on these products state that:

- For tea, coffee and spices at least 60% by weight of raw materials must be wholly originating from the region; and
- For curry and mixtures of spices, there must be a change of tariff of tariff heading and all cloves used in such mixtures must be wholly originating in the region.

The problem with these rules is that many relevant spices are not available in the region (Flatters, 2002). Therefore they are unlikely to achieve the intended goals. If any thing, they are likely to have unintended consequences of preventing potential intra-SADC trade. Furthermore, they will impede and not encourage downward development of downstream processing activities.

Arbitrary and restrictive Rules of Origin have a potential to limit flexibility in raw materials sourcing. This will not only reduce their competitiveness, but will also harm the regional consumers. Member States that might have comparative advantage in tea, coffee or spice blending by virtue of local availability of some necessary ingredients would be deprived of preferential access to SADC markets under the current rules. The ultimate cost would be borne by the regional consumer.

Textiles and Garments

Textiles and garments are of particular interest in SADC due to the fact that it is one of the manufacturing sectors that has significant production in a number of countries. Differences in labour intensity at various stages of textile and garment value chain mean that there are potential complementarities among Member States which might enhance regional competitiveness in the world. Opportunities opened by Africa Growth Opportunities Act (AGOA) make it possible to remedy both domestic and regional policy weaknesses and enhance international competitiveness.

The movement of SADC free trade in textiles and garments is slow. Most non-SACU Member States have postponed significant trade reductions until very late in the transition process. Even SACU has postponed full liberalisation in the case of clothing. With exception of yarn, the rules require double transformation in order to qualify for preferences. Garments must be produced from regionally produced textiles; fabric must be made from regionally produced yarn; yarn must be made from uncarded, uncombed fibre or from chemical products.

These Rules of Origin are deemed to be too restrictive compared to AGOA, and are nevertheless very difficult to satisfy for most regional garment producers. The rules are inward looking and were set primarily in the interest of domestic textiles and garment industries. The rationale for this rule was to use the SADC Trade Protocol to encourage the development of regional input supplying industries.

Strict Rules of Origin and the backloading of tariff reduction schedules for textiles and garments will prevent SADC from taking full advantage of AGOA and international markets in general. To take advantage of international export opportunities, producers would need to benefit from flexibility in sourcing raw materials and intermediate inputs. Any constraints on these choices increase costs and hence reduce international competitiveness. SADC's double transformation rule is seen as a deterrent to regional integration.

6.3.5.1.4 Conclusions

The Trade Protocol is burdened with restrictive Rules of Origin that are contrary to long term development interests. These may undermine the protocol as the vehicle for promoting development in the region. The rules seem to have replaced the transparent and declining tariff barriers, and this is bound to increase costs, reduce flexibility of producers and make international competitiveness hard to achieve.

6.3.5.2 Non-Tariff Barriers[14]

As international tariffs are being reduced more attention is given to the role of non-tariff barriers in impeding trade flows. The working definition of NTBs used here is "government barriers other than tariffs that restrict trade flows". This covers a range of barriers from health and safety barriers through to the suite of regulations associated with trade and general matters such as transport costs and customs and administration procedures that may not be directly under the control of governments but certainly under its influence.

Internationally, agriculture is a very distorted sector as the OECD countries continue to heavily support their producers. This would suggest that NTBs are a problem, and that is indeed the case. Balancing this is the preferential access that the region has to some agricultural products into the EU in particular. Sugar is the sweetest example; Mauritius and others gain considerable economic rents into the EU market. SPS issues are a concern for many products into the developed country markets, because it is difficult for the smaller countries in the region to meet these exacting standards. Other NTBs include tariff quotas on fruit exports.

Many see NTBs as existing for legitimate reasons such as consumer protection or as a component of the necessary business methods of doing trade. They only become genuine NTBs when they are implemented in such a way that they do not unnecessarily add to costs or inhibit trade. In the multilateral context the WTO is the

[14] This section draws mostly from Ron Sundrey's work on Non tariff measures2003) http://www.tips.org.za/research/

international disputes arbitrator on many NTBs. Bilateral FTA negotiations also present opportunities to alleviate these problems as well as reduce tariffs, and these opportunities must be taken.

A useful means of examining NTBs is to place them into categories. In this study they are consolidated into three (admittedly sometimes arbitrary) broad groupings.

The first grouping is those barriers that are put in place to protect the heath and safety of both consumers and the environment in importing countries. These measures can be and often are viewed as inhibiting trade when viewed from the exporters perspective. This category includes:

- Health, safety and environment: measures including import and export bans, SPS requirements, and standards and conformance requirements.

The second group comprise a wide range of regulations that are in place for a variety of reasons. This category includes:

- Trade policy regulations: broader policy measures including export assistance, export taxes, import licenses, import quotas, production subsidies, state trading and import monopolies, tax concessions, trade remedies practices (i.e. anti dumping, safeguard, and countervailing duty measures). They also include issues such as tariff escalation and issues associated with regional trading arrangements themselves

The third category is not generally regulations per se, but rather a wide grouping of procedures and factors that operate in a manner that generally inhibit trade flows. This category is:

- Administrative disincentives to export: customs clearance delays, lack of transparency and consistency in customs procedures, overly bureaucratic (and often arbitrary) processing and documentation requirements for consignments, high freight transport charges and services that are not user-friendly.

This section will discuss these NTMs in general terms. It gives a list that is by no means exhaustive. Some of the NTMs discussed in the subsequent analysis may be generic or common across all sectors.

6.3.5.2.1 Health, Safety and Environment

Standards and Conformance

Many exporters are faced with the problem of is the diversity of standards among countries. The need to adjust production processes to comply with different standards raises production costs. As the major trading nations tend to have at least some differences in standards, the concept of mutual recognition raises the question of which set of standards should be mutually recognised. Joining the wrong "club" may add a cost further down the line if the major "clubs" do not recognise each other's standards. This will impede trade.

The WTO Agreement on Technical Barriers to Trade (the TBT agreement) was one of the Uruguay Round (UR) outcomes[15]. Its objective is to ensure that regulations, standards, testing and certification processes do not create unnecessary obstacles to trade. It does not prevent WTO member countries adopting the standards they consider appropriate in areas such as product safety, labelling and environmental impacts, but it does encourage them to use international norms. It also sets out a code of good practice. The WTO Disputes Settlement Mechanism exists by which members can consult on matters relating to the agreement and establish working parties if necessary.

Sanitary and Phytosanitary (SPS) Measures

The WTO SPS Agreement sets out the basic rules for food safety, and animal and plant health standards. Its objective is to protect life and health while preventing unnecessary trade barriers. Most importantly, measures should:

- Be applied only to the extent necessary to protect human, animal or plant life or health;
- Not arbitrarily or unjustly discriminate between countries where identical or similar conditions prevail; and
- Be based on science and must not be maintained without this scientific justification.

[15] See, for example, www.mfat.govt.nz/foreign/tnd/wtonz.html for a more comprehensive discussion of the WTO agreements in this category.

Measures must be transparent and not applied in a manner that constitutes a disguised restriction on international trade.

Export and Import Bans

Export restrictions[16] directly influence trade flows. An example is the export of unprocessed logs. While often promulgated for environmental reasons, their effect is to encourage downstream processing through the availability of cheaper raw materials. Logs are diverted from export sales to the home market and a wedge is driven between domestic and imported prices. This applies or is similar for import bans.

6.3.5.2.2 Trade Policy Regulations

Export and Production Subsidies

Underlying free and fair trade is the concept that countries should export the goods in which they have a comparative advantage and import others.

Production subsidies are an incentive given to local producers for a variety of reasons, but the overall impact is that domestic production reaches a higher level than would otherwise be the case. Export subsidies in the region are seldom applied in the region.

An export subsidy is defined as a subsidy contingent on export performance. Therefore, resorting to export subsidies is an indication that the exporting country is not, by definition, internationally competitive in that sector.

Export and production subsidies drive down the international price of exports, and make efficient operators in other countries worse off because they face subsidised competitors. Trade is distorted.

Subsidies are prohibited under the WTO in manufactured goods, which includes the forestry and fisheries sectors. They have been permitted in agriculture, but an important outcome of the UR Agreement on Agriculture was that some forms of domestic subsidies

[16] This section is drawn from the OECD Working Paper TD/TC/WP(2003)7, "Analysis of Non-Tariff Measures: The Case of Export Restrictions", April 2003.

and all export subsidies were capped at average 1986-1990 levels and reduced over the UR implementation period.

Trade Remedies (Anti-Dumping, Safeguard and Countervailing Measures)

Dumping is the introduction of a product to the market of another country at less than the product's "normal value". This practice is not allowed under WTO rules, as it undermines the established industry in the importing country. It actually increases trade. Anti-dumping duties may be applied to counter these effects once it has been established that the practice threatens material injury to the domestic sector of the importing country. The mere existence of anti-dumping remedies may have a "chilling" effect upon trade, although differential pricing is common in many industries. Disagreements between WTO members are addressed through the disputes settlement mechanism.

A *safeguard* gives temporary relief when imports increase unexpectedly. They are designed to give domestic producers a period of grace in which to become more competitive. They usually take the form of duty increases or quantitative restrictions on imports. The WTO also has a mechanism for addressing challenges to these measures, and this has been globally active in recent years.

Countervailing measures in the WTO context are special duties imposed on imports to offset the benefits of prohibited or actionable subsidies to producers or exporters in the exporting country. They can be applied only after an investigation showing that the subsidies are prohibited under WTO rules, there is material injury to producers in the importing country, and there is a causal linkage between these imports and the material injury. As with the other two measures in the trade remedies category, the investigations must be conducted in a transparent manner and there is a disputes mechanism.

It can be seen that there is a linkage between all three of these trade remedies measures. When tariffs reduced, the use of these measures became more common[17].

[17] An article South African "Business Day", Thursday 16 October 2003 by Gerard Soverall and Riaan de Lange, discusses these linkages and how they are accentuated by currency fluctuations.

Import Quotas and Licensing

Import quotas are permitted by the WTO for agricultural products and the textile and clothing sectors, but there is limited application for these within the region excepting for South Africa's use of tariff quotas. Rather, the region faces quotas in other markets.

Sometimes licences are associated with import quotas, but they may also be used for other purposes such as foreign exchange rationing or determining if specific import requirements have been met. In many cases licences amount to no more than a formality, but in other cases they can and do create an extra cost to traders.

Agricultural Tariff Quotas

Quantitative restrictions had long been prohibited under GATT rules for manufactured goods[18], but not for agriculture. The URAA formalised access tariff quotas, bringing agriculture more into conformity with manufactured goods. These tariff quotas would not be less than the average annual import quantities for the 1986-88 base period and be provided on terms at least equivalent to those which existed during the base period. This protected existing market access opportunities and, in theory, allowed for increases over time.

In addition, minimum access opportunities were established for products where no significant imports of the product had occurred during base period. These tariff quotas were introduced to ensure that the minimum level of market access in all markets represented not less than three percent of corresponding domestic consumption during the base period, expanding to five percent of domestic consumption by the end of the implementation period. It was agreed that minimum access tariff quotas would be implemented on the basis of a quota with a low or minimal tariff rate, although in practice some in-quota tariffs are still relatively high.

[18] With the exception of textiles and clothing, which is discussed in detail later.

State Trading and Government Procurement

State trading is a procedure under which a government agency has the exclusive right to trade, or has assigned this right to a private monopolist. This situation can apply to either or both imports and exports.

Government procurement typically involves a situation in which preference is given to domestic suppliers in public tenders for the supply of goods and services to government agencies. These agencies can operate at the state or local level.

Local Content Requirements

In return for achieving a certain degree of local content, producers are allowed to import a certain amount of equivalent goods or raw materials at lower or even duty-free prices. This protects domestic suppliers at the cost of importers.

Tariff Escalation and Classification Issues

On the face of it these are tariff issues and therefore by definition not an NTM. However, some consideration needs to be given to the subtle way in which tariffs may be applied.

In the case of both escalation and classification, a tariff is applied in a manner that distorts trade flows to an extent greater than the tariff.

Tariff escalation takes place when further processed goods face higher import duties at foreign borders than those levied on the base raw material. The result is that "escalation" (sometimes known as "cascading") of the duties paid inhibits further processing and cause trade in more elaborately transformed merchandise goods.

An example is the forestry sector, where often logs are generally imported duty-free while processed products such as veneers and plywood face higher duties.

Similarly, tariff clarification issues are potentially a concern in the fisheries sector. This happens when a definition of species and its associated tariffs classification is set in a manner that favours domestically harvested species over foreign species. Trade is distorted.

Labour Standards

A relatively new issue in trade is the developed country concern about labour standards and, in particular, child labour in the developing world. While the concern is legitimate, and that African exporters should comply with these conditions, the case of child labour may deprive many poor families extra income when they stop their children from doing some light safe work without interfering with their education or well-being.

6.3.5.2.3 Administrative Disincentives to Export

Excessive Customs and Administrative Procedures

Customs procedures can become excessive or inappropriate if they differ too much from international norms. The result can be delays and extra costs (both directly and indirectly) in processing goods at the border.

Valuation techniques are sometimes raised as an issue. Naturally, the importer will want to place as low a value as possible upon goods at the border, while the importing government will seek to counter this and raise as much tax as possible. Again, the WTO Customs agreement operates to promote a fair, uniform and neutral system for the valuation of these goods. This precludes the use of arbitrary or fictitious values. It plays an essential part in ensuring that correct duties are paid, and acts to avoid regimes based upon, for example, minimum values.

Associated with customs procedures is the issue of irregular payments. These are inconsistent with good governance and have a negative long-term effect on a nation's economic well-being.

The Standard Bank provides a valuable review of the regulations and administrative procedures to be followed for exporting to a large number of South Africa's trading partners[19]. Many of these steps

[19] See http://www.scmb.co.za/home/ibc/ibc_Countrytradingprofiles.html# for the country tables.

represent the normal manner in which business is transacted, and no judgement is made as to the extent to which any of them represent an NTM. It is likely however that the administration of the measure and not the measure per se may, in some cases, represent an NTM.

6.3.5.3 Trade Agreements Planned and Currently in Force

South Africa has a trade agreement with the EU (the EU-South Africa Trade and Development Co-operation Agreement), and is in the process of negotiating free trade agreements with the European Free Trade Association (EFTA), the US, China, India and Mercosur. South Africa is also a member of the Southern African Customs Union (SACU) and SADC. South Africa is a beneficiary of the US Africa Growth and Opportunity Act (AGOA) and the Generalised System of Preferences (GSP). South Africa has been a member of the WTO since 1995.

The Regional Groupings and Associated Trade Preferences

To put the regions trade policy in perspective and to assist in analyzing regional integration faced by the 14 countries in the region it is necessary to examine the regional groupings, their general policies and what preferences regional countries gain in the form of better access to the main markets.

The Southern African Customs Union (SACU) has been in place since 1910, and it is the world's oldest customs union. Its five members of South Africa, Botswana, Lesotho, Namibia and Swaziland work together to achieve a (declining) GDP of USD 124 billion in 2001, a GDP that dominates Southern Africa. SACU is, as the name implies, a customs union, whereby a common external tariff is set and revenue sharing from these tariffs operates according to a formula. Under the SACU Agreement, which was revised in 2002, members are free to enter into trade agreements with outside countries.

Eleven countries in the region are members of the Southern African Development Community (SADC), along with 3 others. The objectives of SADC include the achievement of development and economic growth, alleviation poverty, enhancement of the standard and quality of life of the peoples of Southern Africa and the support of socially disadvantaged through regional integration. Importantly, the trade protocol makes it clear that member countries cannot offer trade benefits to a third country without immediately extending them to all SADC members.

The Common Market for Eastern and Southern Africa (COMESA) has Zambia, Zimbabwe, Malawi, Mauritius and 13 others as members. Its objectives are to eliminate tariff and non-tariff measures between members, and find a common external tariff and general trade policy regulations. Some progress is being made, with Malawi, Mauritius, Zambia and Zimbabwe members of the core FTA within COMESA. Other members are involved to varying degrees.

In addition, there are some bilateral arrangements within this general framework. The most significant of these is the Trade, Development and Cooperation Agreement (TDCA) between South Africa and the EU. This provides for a free trade area by 2012, although with several significant exceptions for EU products into South Africa and agricultural products into the EU. The EU will liberalise 95% of its imports from South Africa in ten years, starting from 1 January 2000, when the TDCA came into force. The bulk of industrial products will be liberalised during the first part of the tariff phase-down period, and the EU is scheduled to complete most of its obligations by 2006. These overlapping agreements are becoming increasingly complex.

Trade access preferences to outside markets concentrate upon 3 major agreements. The first of these is the international Generalised System of Preferences (GSP) schemes, under which industrialised countries grant trade preferences to all developing countries. This is usually in the form of lower tariffs, although coverage varies by importing country as several exceptions are in place to protect sensitive products. It is often these sensitive products that are important to developing countries. South Africa in particular is a major beneficiary of the GSP scheme internationally[20]. Some industrialised markets differentiate between LDCs, and offer the poorer members even more preferences. The EU's EBA initiative is an example of this.

[20] The US Department of Commerce reports that South Africa was the world's eight largest GSP beneficiary, with benefits of USD 553.5 million in 2001. At www.agoa.gov/resources/TRDPROFL03.pdf

However, a recent World Bank paper[21] argues that the changes introduced by the EBA in 2001 are relatively minor for the currently exported products. Over 99% of EU imports from the LDCs are in products which the EU had already liberalised and the complete removal of barriers to the key remaining products, rice, sugar and bananas has been delayed. The paper considers that more simple rules of origin are likely to enhance the impact of EU trade preferences both in terms of improving market access and in stimulating diversification towards a broader range of exports, thus reinforcing that Rules of Origin are an NTM.

In addition to this international provision, there are two major preference schemes of importance to Africa. The first of these is the Cotonou Agreement (an extension of the old Lome Convention) with the EU, whereby all countries in the region except South Africa have non-reciprocal trade preferences into the EU, but subject to a safeguard clause and Rules of Origin. This access includes special access for bananas, beef and veal, and sugar. The agreement is valid till 31 December 2007. However, supply side constraints, restrictions upon sugar and rice imports and the potential trade remedy legislation associated with EBA are moot as to whether there will actually be major benefits to the region.

The second is the AGOA, between the US and some sub-Saharan African countries. This is significant for the extra provisions available for textile and clothing products from many countries in the region, but the conditions applied (including Rules of Origin) may limit its benefits. All countries in the region except Zimbabwe are among the 38 eligible African countries.

Southern African Customs Union (SACU)[22]

Although the five members discussed above have different economic and development profiles, they all face problems of poverty alleviation and income redistribution, HIV/AIDS and high unemployment rates. The common tariff schedule (with its associated common revenue pool)

---

21 "Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything But Arms", Paul Brenton, International Trade Department, The World Bank, 1818 H Street St. NW Washington DC 20433.

22 SACU WTO TPRM, March 2003.

has been simplified (although it still remains complex with many specific and formula rates), and the simple average MFN applied rate declined from 15% in 1997 to 11.4% in 2002.

The trading regime within the SACU members is very complex, as there are several overlapping trade agreements and different eligibility for partner preferences. For example, Lesotho is eligible for the EU EBA initiative, while Botswana, Lesotho, Namibia and Swaziland (BLNS) are eligible for better US access for textiles and clothing under the US AGOA. This complexity, accentuated by differing memberships in actual or potential bilateral agreements with possible Rules of Origin (ROO) criteria, adds to the costs of doing business and could be classified as an NTM in its own right. The import regime is made even more complex by the differing excise taxes, levies and value-added taxes set by the individual members.

BLNS have no competition policy, and in areas such as standards and technical regulations and SPS measures, the South African regime becomes the de facto regime for these countries. They do however have some autonomy in procurement regimes, some import quantitative restrictions, infant industry protection, taxation concessions and tariff bindings. Similarly, BLNS are participants in the numerous anti-dumping actions taken by South Africa without the structures to initiate their own actions (and this includes against South Africa). There is a range of tariff quotas applied to a large number of agricultural imports and also some export restrictions applied from South Africa.

The monetary and exchanges rate policies are led by South Africa, with all except Botswana having a freely convertible currency at par with the Rand.

Regional and Bilateral Negotiations

Proliferation of regional trading arrangements (RTAs) has become an important feature in the global environment. In 2005, up to 300 RTAs were in force around the world, and they accounted for up to 60% of global trade (Carrim, 2005). Although economic benefits of RTAs remain a subject of dispute, countries still pursue them to retain competitive position in external markets. More positively, by promoting competitiveness at a regional level, RTAs can be used as stepping-stones for national firms to compete globally.

SA's regional negotiations have unfolded in three directions: In Southern Africa, the key economies are in the 'South', and the 'North'. In Southern African Customs Union (SACU) Agreement has opened an extensive trade related work programme. Aside from requiring that future trade negotiations be pursued by SACU as a block, the Agreement envisions deeper economic integration in SACU through the establishment of SACU institutions and the development of common policies for industry, agriculture, investment, competition and intellectual property, amongst others.

Following the leadership provided by SA in concluding the SADC Trade Protocol in 2000, the SADC trade agenda now confronts certain challenges. While overlapping membership in regional organizations and the viability of concurrently establishing customs unions pose serious challenges, the wide variety of trade- related protocols in SADC under negotiation, along with a diverse set of programmes, suggest an unwieldy trade agenda. The widespread perception is that without effective engagement the SADC integration agenda will unravel, particularly with respect to forging a regional industrial base.

The initiation of negotiations between the EU and SADC for an Economic Partnership Agreement (EPA) has raised additional challenges. That only seven Members are committed to negotiate under the SADC banner suggests a weakness. South Africa's TDCA with the EU also complicates the picture. The SADC-EU EPA negotiations together with the current mid- term Review of the TDCA, offer an opportunity to begin a process of harmonising Southern Africa's trade relations with the EU. South Africa has to define its interests and role in the process.

SACU has undertaken to consider integration initiatives beyond Southern Africa and to identify an appropriate negotiating partner in Africa. Still on a South-South axis, SACU concluded a Preferential Trade Agreement (PTA) with Mercosur in December 2004. The PTA establishes an institutional basis for further integration and co-operation.

In short, trade with Mercusor will be the subject of ongoing negotiations. SACU was supposed to begin negotiations for a similar arrangement with India in the second half of 2005. Those negotiations have been postponed for a while. The limited scope of negotiation suggests this may be concluded in one year. While there is a commitment to negotiate a trade arrangement with China, the challenges posed suggest that more analysis and consultations with industry are required before formal negotiations commence.

Deepening links with key economies in the North is imperative to lock in markets and supplies of capital, technology and finance. This consideration informed the TDCA between South Africa and the EU and underpins the rationale for negotiations with the European Free Trade Association (EFTA) and the US. Negotiations with EFTA were also seen as an opportunity to harmonise SACU trade arrangement with Europe as a whole. The SACU-EFTA negotiations were set to conclude in August 2005. However engagement with the US raised serious difficulties, and the negotiations have stalled, with substantive negotiating differences on all issues.

SACU believes that the objective of locking in current access in goods is of strategic importance and could be achieved. The serious difficulties relate to new-generation issues- services, investment, procurement, IP, environment and labour. New generation issues tend to be advanced by industrial countries. Aside from the US, EFTA initially proposed these and the EU has placed them on the agenda in EPA negotiations and as part of the TDCA Review.

Besides underscoring the lack of policy integration in SACU in these areas, industrial countries' approach to such issues tends to limit development and regional integration policy options in SACU. Obligations in these areas could also impose standards that are inappropriate for developing countries and the burden of substantive policy, legislative and regulatory adjustment would fall entirely on SACU. Demands in these areas go far beyond obligations agreed in the WTO, they introduce into the bilateral context issues that contribute to failures at the multilateral level (investment, government procurement and labour). Moreover, by negotiating these issues bilaterally, SACU would be complicit in bypassing WTO negotiations or prejudging its negotiating positions in the Doha round in areas of IPR protection, environment and e-commerce where multilateral negotiations are ongoing.

6.3.6 Implications for South Africa and SADC's Integration Agenda

The fact that trade policy is intertwined with domestic economic policy puts emphasis on South Africa and other SADC Member States to develop trade policies as distinct from negotiating positions[23]. In this paper, attempts have been made to show how trade reform in South Africa evolved in the last decade and the various policy changes that have taken place. The liberalisation of barriers to trade and the countervailing measures that have traditionally encompass trade policy have led to the evolution of policy to include according to Draper "behind the boarder" issues which are of a regulatory nature such as intellectual property rights, investment, services, standards and customs administration. The impact of trade liberalisation on both imports and exports, for example, revealed that trade increased. This result may be associated with increasing specialisation in the economy thus ensuring greater efficiency.

Looking at the SADC integration agenda, the slow progress that has characterized the implementation process of the Trade Protocol may be a result of a number of issues, some of which have already been highlighted in this paper. Amongst the issues is the loss of revenue that will arise. In some countries such as Malawi, and Zambia, the full implementation of SADC free trade will result in an estimated 66% and 50% revenue loss respectively, while Zimbabwe and Mozambique are predicted to lose about 42% and 34% respectively. However, these losses should not be regarded as economic costs to the Member States but rather as transfers from the countries' treasuries to the industrial users and final consumers of taxed imports[24].

Another challenge for the SADC integration agenda will be finding a common ground for negotiating with the already existing SACU, in-order for the successful establishment of a SADC Customs Union in which the SACU members will be part of.

As a point of departure, SADC Member States should not view regional integration in Southern Africa negatively but as a building

---

23 see comment on South Africa trade by Peter Draper in the Business Day – *Development through Trade* in the South African Exporter, February 6, 2006, pg 8

24 see Filmer and Mushiri, 2001, pg 15

block to enhance the competitive edge of the region when trading with other regional blocks or the rest of the world.

6.3.7 WTO Rules on Regional Integration[25]

The WTO Agreement allows member countries to conclude customs unions and free-trade areas as an exception to the fundamental principle of non-discrimination set out in the most-favored-nation provision of GATT Article I. Conditions to be met for regional trade agreement (RTA) dealing with trade in goods are set out in GATT Article XXIV which was clarified to some extent and updated by an Understanding on its Interpretation. For trade in services, the conclusion of RTAs (referred to in GATS as economic integration agreements, (EIAs) is governed by GATS Article V. Preferential trade arrangements on goods between developing country members are regulated by the "Enabling Clause" dating from 1979.

Non-reciprocal preferential agreements involving selected developing and developed countries require WTO members to seek a waiver from WTO rules. An example of such an Agreement that received a waiver and which is relevant to the SADC is the Cotonou Agreement[26] between the EU and the African, Caribbean and Pacific (ACP) countries.

The Committee on Regional Trade Agreements (CRTA) has a mandate to carry out the examination of all RTAs referred to it by the Council for Trade in Goods (agreements under Article XXIV of the GATT 1994), the Council for Trade in Services (agreements under Article V of the GATS) and the Committee on Trade and Development (agreements notified under the Enabling Clause).

The WTO rules on regional integration have long been a source of contention amongst members. Therefore it is difficult to determine what the impact and implications of the WTO rules will be for both South Africa and the SADC for two reasons. First, the exact interpretation of GATT Article XXIV and the GATS Article V remain uncertain and is still subject to negotiation by WTO Member States. Second, the CRTA to date has not been able to conclude a factual examination of a notified RTA largely due to this uncertainty and

[25] Sourced from FAO website link> http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/004/y4793e/y4793e08.htm

[26] For full text of Agreement visit

conflicting interpretation by Members. The SADC Protocol was notified in 2004[27] and is yet to undergo an examination by the CRTA.

6.4 Major Elements of Labour Market Policy

The purpose of this study is to provide some insight into the major elements of the Republic of South Africa's labour market policy framework. These policy frameworks include inter alia; employment regulation, basic conditions of work, skills development, minimum wages, employment of non-citizens, labour migration etc.

There is no single national wage minimum which applies to the economy. The vast majority of wage minimums are the consequences of collective bargaining for those sectors based on the cost predictability requirements of the employers for those industries. It is estimated that 70-80% of the economy is not governed by bargaining council agreements or sectoral determinations. For example even though there is a national bargaining council for the electrical contracting industry, only 10,000 employees are covered by the agreements. In those areas of the economy where legal wage minimums do not exist, workers can be paid as little as R1.00 per hour because there is no law which prevents this. Some thoughts are provided which highlight the fundamental weaknesses in the way that labour market skills development data is designed.

There are renewed arguments about the flexibility of labour market and the Department of Labour has announced that it will be conducting research on the question of labour market rigidity and its impact on job creation.

The study will also seek to analyse trends in the labour market with the view to interpreting some of the reasons why there is a low employment growth, a rising unemployment rate, as well as an inadequate income growth. The very latest debates and arguments regarding this problem and the suggested solutions are included in the text. Civil society responses to problems in the labour markets are also included to demonstrate or signify the type offorces which are beginning to take shape in the labour market. Social alliances have been formed and there is also an agreement between the two

[27] see http://www.wto.org/english/tratop_e/region_e/status_e.xls

federations, Nactu and Fedusa to merge and form one labour union federation.

The conditions in the South African labour market have an impact on the labour markets in the SADC region. There are key policy initiatives necessary to strengthen the integration of the regional labour markets. A number of these developments will be identified and discussed.

The role of SADC in setting timetables and goals towards the integration of a single labour market is briefly discussed. The current labour law approach towards illegal aliens who are unfairly and unlawfully dismissed is highlighted and the formation of the Alliance for Refugees in South Africa is briefly alluded to. The equality laws which contain affirmative action measures do not include Africans from outside the borders of South Africa. in the pool of candidates who can used to promote higher levels of excellence and representivity.

The macroeconomic strategies of South Africa and the economic strategies of the SADC partners need to be harmonised in order to bring about a greater labour market alignment for purposes of trade relations. SADC at its last meeting admitted Madagascar as a member, bringing to 14 the membership of the organisation. The key SADC targets up to 2016 are mentioned in the study.

6.4.1 Historical Context of South Africa[28]

The South African labour market in a post apartheid period is influenced by the developments which occurred centuries ago. The history of modern South Africa has been shaped by commercial decisions made by European powers.

The change in the patterns of land and mineral resource ownership which began in 1652 and continued beyond 1994,[29] started as a result of a business decision made by the multi-national Dutch East India Company (DEIC) in order to ensure the sustainability of its commercial interests in South East Asia.

---

[28] This section of the paper draws on some aspects of the excellent book by Professor Sampie Terreblanche "the History of inequality in South Africa 1652-2002. I would highly recommend the book as a necessary intellectual tool for all who wish to have deeper sense of the history of the patterns of inequality in South Africa.

[29] The year in which South Africa held its first democratic elections, which resulted in a black majority government

First the dispossession of land from the Khoisan in the geographical region of South Africa referred to as the Cape, was essential and then the brutal control of labour to work the land, became a commercial necessity. It was only a short five years after the invaders arrived that a new kind of "merchandise" was brought to the Cape. According to various historians, the first slaves who arrived at the Cape in 1657 numbered only 12[30]. On 28th March 1658, the "Amersfoort" brought 174 slaves from Angola, seized from a rival Portuguese ship. In April, 1658, the "Hasselt" brought 200 slaves from Popo on the Guinea Coast[31]. Slave ships brought slaves from Madagascar, Bengal, Malabar and Ceylon. The Cape became a place of oppression and exploitation for the original inhabitants of the Western Cape region, descendants of the Khoisan and slaves, who are referred to in contemporary society as coloured people[32].

Pass Law System: Hottentot Proclamation

In order to placate the whims of most of Dutch settlers in 1809 the new British political leaders at the cape introduced the Hottentot Proclamation which placed the Khoisan in "legal bondage". In terms of this law, only the employer could release the Khoisan bonded labourer from this arrangement. It is perhaps significant that the first pass laws in South Africa were imposed on the black social grouping at the Cape by the British. The forebears of the grouping now referred to as coloured[33] (descendants of mainly Khoisan and slaves) were the first to be subjected to this harsh form of labour control in South Africa.

The very basis of the apartheid system was to legitimise the historical plunder of the indigenous resources and to create an opportunity for further foreign control of the wealth generating capacity of the country. The essence of the apartheid system is therefore deeply economic, with racist features within the social and political control measures of the state.

---

30 V. de Kock: "those in bondage" See Jaffe (1985; 27)

31 Van Riebeeck Journal, 1658. See Jaffe (1985; 29,30)

32 In terms of the Employment Equity Act 55 of 1998 - EEA {section one) Coloured persons are regarded as one of the discriminated groups located under the generic umbrella term Black, alongside; Africans and Indian.

33 See section one of the EEA

Terreblanche (2003) argues that:

> "…although the NP did not drastically transform the economic system of racial capitalism institutionalised by the English establishment, it used its political and ideological power to institutionalise a new version of it."

Further historical illumination is reflected in the introduction to the Explanatory Memorandum to the Employment Equity Bill:

> "Apartheid has left behind a legacy of inequality. In the labour market the disparity in the distribution of jobs, occupations and incomes reveals the effects of discrimination against Black people, women and people with disabilities. These disparities are reinforced by social practices, which perpetuate discrimination in employment against these disadvantaged groups, as well as by factors outside the labour market, such as the lack of education, housing, medical care and transport. These disparities cannot be remedied simply by eliminating discrimination. Policies, programmes and positive action designed to redress the imbalances of the past are therefore needed."[34]

The international community in the form of a tripartite body based in Geneva, the International Labour Organisation (ILO) established in its country review conducted in 1992, that South Africa had the highest levels of inequality of any country in the world for which they had data.[35]

Apartheid Defined

The Constitutional Court in formulating its position on the issue of equality expressed a view about the history of inequality in South Africa as follows:

> "Apartheid systematically discriminated against Black people in all aspects of social life. Black people were prevented from becoming owners of property or even residing in areas classified

[34] *Explanatory Memorandum to the Employment Equity Bill*, General Notice 1840 of 1997, 1 December 1997, Government Gazette 18481, 5.

[35] *Explanatory Memorandum to the Employment Equity Bill*, General Notice 1840 of 1997, 1 December 1997, Government Gazette 18481, 6.

as 'White', which constituted nearly 90% of the land mass of South Africa; senior jobs and access to established schools and universities were denied to them; civic amenities, including transport systems, public parks, libraries and many shops were also closed to Black people. Instead, separate and inferior facilities were provided. The deep scars of this appalling programme are still visible in our society."[36]

At the end of the apartheid era, various forms of industrial democracy began to be reflected in the relationship between labour and capital in the workplace and the economy. In 1980, in Cape Town unity talks started with the intention of forming a super trade union federation. The labour movement had developed strong organisational capacity and the eighties saw waves of strikes taking place The Congress of South African Trade Unions (COSATU) was formed in 1985 and the National Council of Trade Unions (NACTU) was launched in 1986. These two federations and their affiliates formed the trade union wing of the liberation struggle. It was the power and unity of workers, which caused the real political damage to the apartheid regime. The fear and actual loss of profits caused investors and others to eventually abandon support for the apartheid regime.

6.4.2 Labour Relations System[37]

The South African Labour Relations system contains 3 key stakeholder groups or actors that contribute towards the regulation of the system, i.e: government, labour and business. The National Economic and Development Labour Council (NEDLAC) is a key coordinating structure of the stakeholder groups in the system. Brief comments are made about the three actors.

Department of Labour

The Department of Labour represents Government in the tripartite relationship in our labour relations system. The Department publishes

[36] *Brink v Kitshoff NO* 1996 (4) SA 197 (CC); 1996 (6) BCLR 752 (CC) para 40 (per O'Regan J).
[37] Financial Mail, 22 July 2005

legislation that regulates labour practices and activities. The Department seeks to play a significant role in reducing unemployment, poverty and inequality through a set of policies and programmes developed in consultation with social partners.

Organised Labour

The three main trade union federations are; Congress of South African Trade Unions (COSATU); National Congress of Trade Unions (NACTU) and Federation of Unions of South Africa (FEDUSA). These trade union federations in South Africa; (COSATU, NACTU and FEDUSA), represent the bulk of South Africa's organised labour force. There are however also other trade union federations and independent labour unions which exist in the labour market.

There are talks that FEDUSA and NACTU are likely to merge in the near future forming a federation that could see its membership grow to ± 1 million.[38]

The membership of the trade unions has fallen and there are moves afoot to engage in major recruitment drives. In 2003, there were 365 unions with an estimated membership of 3,277,685.

This is down from the 2002 figures of 4,069,000. The Labour Force 4,069,000 Survey of March 2005 published in July 2005, which includes a question regarding trade union membership suggests that there were ±2.9 million union members. The figures in 2002 to ±2.9 million in 2005 shows an even more dramatic decline.

The figure of the economically active population is 16.1 million as per the March 2005 Labour Force Survey. If we accept that the union density is 2.9 million then this suggests that the trade union movement's representation of the labour market is only 18.12%. This fact is staggering in terms of its implications for the protection of workers who are bearing the brunt of the shifts in the labour market driven by globalisation. Casualisation, outsourcing, temporary workers, homework and atypical forms of employment are increasingly becoming the norm for workers.

38 NEDLAC website (www.nedlac.org.za)

The union movement may be even more enfeebled numerically given that there is a tendancy for the organisations to exaggerate their numbers

Organised Business: Business Unity South Africa (BUSA)

The business organisations in South Africa have combined the various business entities to form one major business group which is the biggest organisation of its kind in Africa and one of the biggest in the world. BUSA represents business at NEDLAC and is viewed as the authentic commercial voice of the entrepreneurial class in South Africa. The government is a big supporter of the organised business sector and regularly seeks their view on major economic issues.

NEDLAC (National Economic and Development Labour Council)

In order to avoid the trap of unilateralism, the approach of the central government was to form a consensus seeking body made up of all the stakeholders and their representatives viz business, labour and government but it included an additional group made up of community representatives.

A law was passed to birth the National Economic Development and Labour Council (NEDLAC). At NEDLAC, Government converges with organised business, organised labour and organised community groupings on a national level to discuss and try to reach consensus on issues of social and economic policy. NEDLAC's aim is to make labour market policy development and economic decision-making more inclusive in order to promote the goals of economic growth and social equity.

NEDLAC's work is conducted in four chambers which discuss different aspects of social and economic policy. These are the:

- Labour Market Chamber;
- Trade and Industry Chamber;
- Development Chamber; and
- Public Finance and Monetary Policy Chamber.

NEDLAC also engages in research and information sharing which can help the constituencies (government, business, labour and community) in developing economic policy. In terms of Section 77 of the Labour Relations Act, NEDLAC has a dispute resolution function between trade unions and government and/or business on issues of socio-economic policy.

6.4.3 Labour Market Realities

The intense heat which inflames the current labour market debates is anchored around the labour legislation and its apparent rigidity in the market place. There are powerful forces which argue that the labour market policies of the national government act as inhibitors of economic growth and contribute to the rising levels of unemployment. These groups maintain the orthodoxy that the labour laws add an unacceptably high cost to enterprises and hence there is a need to look for production methods which limit employment. Others argue that it is precisely the macro- and microeconomic policies adopted by the state which is the cause of the problems in the labour market. There are highly passionate views that the broader societal needs cannot be sacrificed for the enrichment of a few, because this will lead to a catastrophe for the transformation of South Africa and the SADC region.

Peter Dwyer, writing an article[40] which is entitled "State must enshrine right to work", seems to capture many of the arguments of those within the labour movement and in the broader community. He provides the foundation for his reasoning by inter alia stating that

> "…South Africa is a near textbook example of how neo-liberal globalisation impacts on a semi-industrialised country. Big business has been the main beneficiary as productivity and returns on investments have grown…
>
> Intensified competition on a national and global scale has resulted in wave after wave of job losses that have afflicted the economy since 1994, and so South Africa has one of the worst unemployment levels in the world. The depth of the crisis is all the stark given that at the worst point in the "Great Depression"

[40] Cape Times, Monday, 22 August 2005

in the United States in 1993 Unemployment reached 25%, but in South Africa today it is 40%.

From 1994 to 2002 more than one million jobs were lost, destroying the lives of working class families. With one worker supporting between five to 10 family members, two thirds of workers earning under R2 500 a month and unemployment at 40%, millions of people, both employed and unemployed, are condemned to a life of poverty by the twin evils of low pay and high unemployment. As such the fate of workers and the unemployed are connected.

Unemployment must be declared a national emergency. This is because, with HIV/AIDS, unemployment is a virus eating away at the heart and soul of our communities.

The erosion of human dignity and sense of self-worth largely explains why our townships have become places of fear and misery with violence, abuse and crime being the daily reality."

As if to confirm the fears and anxieties of many in the country, the United Nations Human Development Index, lists South Africa 120th out of 170 countries. South Africa has dropped 35 places since 1990 and is lower than the Occupied Palestinian territories, in terms of life expectancy, educational attainment and adjusted real income.

"By bringing into focus issues of deprivation and inequality, human development puts people and among them, the most deprived at the centre of development interventions."[41]

The HIV/Aids issues are a major cause for concern at all levels, not only in SADC but also in South Africa. According to a report in the Cape Argus, entitled "Millions infected with HIV in SA" on the 26 August 2005.

"South Africa has the fifth highest prevalence of HIV in the world, with 21.5% of the population estimated to be infected."

[41] Cape Times article written by Leon Emgelbrecht " SA drops on UN's development index" 08 September 2005

The concerns about the worsening conditions of the poor and the destitute have become so intense that a number of moves are afoot to mobilise and consolidate working class and community based groups into more cohesive organisational forms. There have been a number of spontaneous outbursts of anger by communities across the country. Marches by protestors who have endured more than enough of the failure of the Government to provide basic services have taken place. Crime is another factor that impacts on the lives of working class communities and the working poor. People are trapped in their homes and cannot socialise and enjoy simple recreational activities. The promised constitutional rights have no value to the millions of the country's people who are trapped in poverty, outside the protection of the law and excluded from the social and other services of the government. A leading commentator states that

> "…general socio-economic rights and specific rights served as a basis for mass mobilisation of workers in the 1980s. Labour's ability to mobilise its constituency on the basis of the same rights will largely determine its political influence and the realisation of rights in the future…Ten years of democracy in South Africa have demonstrated that civil and political rights are not in themselves a guarantee of the rapid elimination of poverty and inequality, but the democratic dispensation is a structure that can be used to address past and present injustices.
>
> The poverty and inequality in South Africa show that it is not sufficient merely to codify socioeconomic rights. Such rights come about as a result of struggle and their exercise and extension require struggles of diverse kinds and in multiple arenas."[42]

The need to form a new alliance of rural and urban groups, which seek to provide the basis for a new alignment in the political and social landscape, was launched by Cosatu on the 22 August 2005 in Cape Town. The organisation has subsequently been named as the Coalition Against Poverty (CAP)

[42] "*Putting socioeconomic rights on the agenda" by* Peris Jones and Kristian Stokke Cape Times, 16 August 2005

> "The launch of the Congress of South African Trade Unions expanded jobs and poverty campaign on August 22 in the Cape Town City Hall brought together more than 70 organisations spanning a broad spectrum of issues as well as political ideologies…
>
> For COSATU, the jobs and poverty campaign gave expression to its national congress resolution to initiate talks with a broad range of progressive social movements in an attempt to strengthen the hand of the working class and communities as a whole.
>
> Whilst the focus of the meeting on August 22 was jobs and poverty, many of the speakers reflected on matters that were a consequence of deepening levels of poverty and unequal distribution. The common message was that there is empirical evidence that supports the fact that unemployment has grown from 16% to 40% and that the deepening levels of poverty borne indicate that the bottom 60% of the society today earn nearly 7% less of the national wage. The levels of inequalities between the rich and the poor have grown over the past 10 years.
>
> The startling facts referred to above reveal a national crisis that threatens to undermine the achievements of our democracy. There is no doubt that, at the political level, we have done really well with the transition, but the economic transformation has been a dismal failure for the working class, the majority of our population, and the core constituency of the ANC."[43]

The assault against the poor and the most vulnerable in society is further confirmed by the following facts established by the University of Kwazulu-Natal's Industrial, Organisational and Labour Studies unit.

> "The private debt crisis is costing South Africa an estimated R12 billion a year and sinking financially illiterate working people into deepening poverty, with almost 20 000 judgements a month against debtors in Cape Town alone"[44].

---

43 "Poverty and jobs the key challenge" – Tony Ehrenreich of COSATU Cape Times, 31 August 2005

44 "Private debt is costing SA R12bn a year, study finds" by Lyse Comins ;Cape Times, 04 October 2004

Caroline Skinner from the School of Development Studies at the University of KwaZulu-Natal estimates that 2-3 million workers in the informal economy contribute between 8% and 12% to South Africa's gross domestic product. The informal economy is marked by extensive casual labour and labour broking, meaning that many workers lack basic labour rights and cannot afford formal union membership[45].

From the various sources within the Government it is estimated that South Africa's growth rates have remained between 3%for the past ten years. This growth rate in the macroeconomy has principally been condemned as a jobless growth rate by many analysts and the official representatives of the three trade union federations; Cosatu, Nactu and Fedusa.

This argument is not entirely accurate. It is more appropriate to argue that the rates of such employment have not been able to absorb those who were unemployed and those entering the labour market on a continuous basis. Vic Van Vuuren, a senior representative of organised business in South Africa's argument in an address before the Parliamentary Portfolio Committee on Labour was that

> "…the concept of "jobless growth" in South Africa was a myth - the numbers of new jobs created have been growing steadily since 1995."[46]

Recently an article appeared in the Cape Times[47] entitled 'Right to Work' a fundamental right by Leon Louw, attempts to camouflage his argument for the removal of labour market rigidities by means of a right to work for employees perspective. He postulates that the

> "The choice we face is between allowing workers to decide for themselves (sic) or forcing them to be unemployed against their will..."

---

[45] See article by Vicki Robinson entitled Cosatu to launch new union Mail & Guardian, 15-21 July 2005

[46] See article by Lynda Loxton entitled " Make labour laws more flexible, BUSA begs MPs" 03 August 2005

[47] Cape Times, Wednesday, 31 August 2005 Louw is the executive director of the Free Market Foundation. This article was first published in full at www.freemarketfoundation.com

Allowing workers to decide for themselves means that no minimum wages should determine up front what the workers should earn. The employee should have the right to freely choose the acceptably agreed upon wage level, according to this logic.

This kind of reasoning has no prospect of successfully convincing the policy makers to alter the labour law and collective bargaining regime in South Africa to one which pits the individual worker up against an employer without any underlying basic protection to regulate that arrangement. A free market that allows one to freely choose between two consenting parties, one an individual and the other the employer, is the underlying premise of Louw's argument. There is nothing free about the free market. This is a myth and despite the outrageous nature of this decidedly rightwing view, there are a number of conservative business and political leaders who subscribe to these ideas. What Louw and others like him have consistently argued is that unemployed workers as individuals should be allowed to determine what wage they would be prepared to work for.

This crude form of wage competition under conditions of high unemployment will see workers bargaining downwards against one another. It is an attempt to sophisticate exploitation by means of an agreement between two consenting yet fundamentally unequal parties. There must be no restraints, placed on businesses except market forces according to the argument by Louw and others.

Mark Lamberti, a business leader writing in the Business Times[48], makes some sober minded comments when he argues that there are three challenges facing South African business and that one of the first things to recognise is that

> "...even at substantially higher growth rates, unfettered capitalism and a market orientation on the part of the first economy are not going to alleviate the "poverty trap" of the second economy, which comprises simply too many people without the skills or the financial capital to leverage themselves into the first".

---

48 The three factors according to him are the abnormal socio-economic divide, the second is the transformation imperative and third is the debilitating skills shortage; 04 September 2005

A Cape Times article[49] argues that the factors contributing to South Africa's low levels of economic growth are its labour laws, and the overpricing of key inputs like steel, chemicals, and telecommunications. The International Monetary Fund says that without structural reforms, the economy will be constrained to a 4% growth rate. But the fund's deputy managing director, Anne Krueger, argues that if there are structural reforms, particularly of the labour market, and a further liberalisation of the tariff structure, a growth rate of 6% could be achieved."

A number of economists have scoffed at the idea that the growth rate projected by the President of the Republic will be achieved. In a Business Report article[50] Renee Bonorchis states that:

> "'Political leaders' hopes of achieving 6% growth in South Africa are a little more than a pipe dream, according to economists…Citadel's chief investment strategist, Dave Mohr, yesterday added his voice to the chorus of nay sayers…On Monday the spiking price of oil was just one of the factors that led Azar Jammine, the chief economist at Econometrix, to reckon that 6 percent growth was nothing more than a fantasy…We are not managing to cope with 4% growth. We don't have the skills base to sustain 6% said Jammine."

There are however other economists such as Professor Brian Kantor who believe that it is possible for a 6% growth pattern to emerge if certain conditions are met.

President Thabo Mbeki recently announced that a strategic and high level government panel will be tasked with the mandate to identify what the country needs to do within all sectors of society, to achieve its desired growth rate of 6%. The cat was set amongst the pigeons when the President said that Government might even look at deregulation of its labour market, relaxation of certain labour laws and how it can alleviate the burden on small businesses.

49 Cape Times, "Red tape holds SA back from a 6% growth rate" Jonathan Katzenellenbogen ; 29 August 2005
50 Business Report "Economists say 6% growth target is a pipe dream" 31 August 2005

Itumeleng Mahabane, writing in a Sunday newspaper points out that:

> "On the other side of this debate it was said that the labour market is quite flexible and that government is failing to realise the broader challenge that South Africa has with regards to its manufacturing sector which is not competitive and that even if South Africa does decide to make our labour laws more flexible it would still not be competitive."

In the same article Mahabane, refers to the Minister of Labour's speech to diplomats in 2003 when the Minister stated that:

> "In some instances the South African labour laws can be regarded as too flexible - with many companies in South Africa employing too few full-time employees, government is concerned that these companies employ casual workers, who are far more vulnerable than permanent employees are often under the thumbs of labour brokers,"

While the debate rages on about the creation of higher levels of flexibility in the labour market, the facts reveal that:

> "…a set of Department of Labour documents suggest that 20% of all employees, or two-million workers, can be described as being in "atypical" forms of employment (casual and temporary employment)…In essence, this means that one in five South African workers fall outside of the country's labour market regulatory framework. More than 40% of these workers earn less than R500 a month; only one in 10 earn more than R4 500 a month."[51]

The Minister of Labour, Membathisi Mdladlana, in a Business Report[52] article stresses that:

---

[51] See Mail and Guardian article "More flexible than an elastic band" by Hayley Mueller Vicki Robinson 01– 0 7 July 2005

[52] See the article entitled "Government plans to double number of businesses exempt from skills levy" - SAPA ; 19 July 2005

> "…there would be no deregulation of the Labour Market and that there were already many exemptions that small businesses could benefit from. The government has not suddenly woken up from a deep slumber to the needs of small businesses...The country's labour laws were sufficiently flexible to enable employers to hire and fire staff, the minister added."

A sectoral breakdown of survey results presented in the labour department's report show that the sectors with the highest proportion of casual workers include: construction (56%), agriculture (30%), wholesale and retail trade (26%, and transport (24%).[53]

The major employers' representatives in South Africa, Business Unity South Africa (BUSA), on the 02 August 2005 made an appeal to government to help the economy increase its growth, increase employment and decrease productivity wastages by pushing for more flexible labour laws.[54]

The present passions surrounding the complex issues are the key drivers of the ideological pressures to influence the central government's direction in steering the economy. The ruling party's economic transformation committee very recently set out in detail that

> "…Our new industrial policy…must be bold in the sense that it should aim to achieve a real step change in the growth and employment trajectory of our manufacturing and services economy… After several years of tinkering at the margins, the government is now contemplating robust interventions in what it believes are crucial sectors of the "real economy": a dramatically expanded regime of subsidies for some industries, more support for strategic clusters and a tougher crackdown on the pricing of basic inputs such as steel, telecommunications and chemicals…The Industrial Development Corporation is also likely to see its role expanded as the government seeks to push resources toward targeted areas of the economy."[55]

---

53 Supra see footnote 23

54 Business Report, Wednesday, 03 August 2005 – Lynda Loxton

55 "State set for dramatic industrial intervention" Nic Dawes Mail&Guardian ; 02 –0 8 September 2005

The post-1994 democratic state has the unenviable task of trying to deal with historical problems which arose over a sustained period of a narrow siege based economics. After the 1994 elections, the country was accepted into the world community and alongside that process, a new path was chosen that would take South Africa forward in the context of global power dynamics.

From a neo-liberal perspective of macro economics, it is generally agreed that the economic and industrial strategic fundamentals as envisaged by the national government are in place within the South African society.

> "Recognising soon after the euphoria of the transition, that the international community needed clear signals concerning the economic policy direction of the new government, domestic policy makers produced a set of policy stances, encapsulated under the Growth, Employment and Redistribution (GEAR) strategy. The GEAR strategy was formally announced in 1996, and represents the formal economic approach of the African National Congress government. The broad objectives of GEAR are:
> - Higher growth in non gold exports;
> - Expansion in capital accumulation by the private sector;
> - Rise in public sector investment;
> - Investment and output growth that is job creating;
> - Increase in infra structural development and service delivery."[56]

According to a number of economists, the democratic government inherited a labour market that had been subject to the long-run effects of both structural shifts and technological change in the domestic economy. The former was represented by the shift in output away from the primary sectors, toward the services sectors, while the latter has of course been manifest in the onset of the microelectronics revolution as well as significant increases in capital-labour ratios. The labour market consequences of these changes have been to increase the demand for highly skilled workers, combined with large-scale attrition at the bottom-end of the labour market. The post-apartheid period has also been marked by the addition of one crucial causal

[56] See Employment Paper (2002/32) by Haroon Bhorat et al, Director, Development Research Unit (DPRU) (The South African labour market in a globalising world: Economic and legislative considerations;

variable - the relatively poor performance in economic growth. There can be no doubt that this low level of output expansion has impacted negatively on the propensity of the economy to create employment.[57]

Old debates about the so called inflexibility or as others would put it, the rigidity of South African labour laws have emerged again, by key role players such as government, business groups, labour and community based organisations. The trends in the labour market are open to different explanations regarding the limited employment growth patterns.

Since 1994, South Africa has been able to obtain a high degree of macroeconomic stability. However the anticipated levels of economic growth necessary to tackle and make a dent in the massive poverty faced by millions and the high unemployment levels has simply not happened.

The data of the official Labour Force Survey of March 2005, issued by Statistics South Africa on the 28 July 2005 indicates that there is an economically active population of 16.19 million, of which 11.9 million are employed and 4.2 million unemployed.[58]

The Deputy President's speech at NEDLAC at the end of August 2005 highlighted some of the key problems facing the country.

> "Unemployment has remained a crucial challenge and there is growing concern over the rising number of qualified people whose qualifications are not needed, deputy president Phumzile Mlambo-Ngcuka said on Saturday at the opening of the 10th annual NEDLAC summit in Midrand. Unused talent tells us that we need to synchronise our efforts and have a more integrated programme. She applauded NEDLAC, a forum for government, business, labour and civil society, for its achievements over the decade, but urged it to shift from a general policy debate to a more sectoral approach with practical implications."[59]

---

57 See Labour Force Survey March 2005

58 See page iii of the March 2005 Labour Force Survey. From the data, the statistics of the unemployed is 26.2% according to the definition of the unemployed used by Statistics South Africa. The definition of who constitutes the unemployed is a contested one. For example, Census 2001 used a different formula to calculate who can be classified as unemployed. Peter Dwyer's article in the Cape Times 22 August 05 lists the unemployed as 40%

59 "Jobs remain a challenge" – Business Report, SAPA; 29 August 2005

Despite the Minister of Labour's reflection of the present argument about the rigidity of the labour market, he has issued instructions to the Department to launch a research project in order to ascertain whether the labour laws are indeed inflexible as claimed by many of the detractors of the government or too flexible and to determine what its impact on job creation in South Africa is[60]. On the 18 July 2005 the announcement was made in Pretoria that

> "...the Labour Department would look into legislation like the Basic Conditions of Employment Act, the Labour Relations Act, the Employment Equity Act and the Skills Development Act."[61]

As the labour legislation and its impact in the sphere of employment relations is the main source of contestation, it is useful to contextually highlight some of the key pieces of the laws which impact on the labour market.

6.4.4 Key Laws Influencing Labour Market Developments

The central question which users of the legislation are confronted with is whether laws as tools in the labour market meet the necessary standards to ensure the achievement of the stated goals of the constitution and the primary purpose of the Labour Relations Act, which is to ensure inter alia social justice and economic development. The real challenge is to determine whether the law as it is presently constructed can contribute towards job creation and job security. A further question is whether it is possible in the process, to achieve the twin goals of protecting employee rights and managerial prerogative to operate enterprises and organisations efficiently. Additional challenges facing the actors in the South African labour market centre around issues of minimum wages, employment relations, employment law, minimum conditions of work, skills development, employment of non-citizens, cross border migration of workers and economic refugees etc.

Labour laws are in essence a product of a range of complex factors, historical, political, cultural, economic and global. The ideological

[60] Labour Laws' effects on job creation to be studied - Cape Times, Tuesday, 19 July 2005
[61] See 19 July 2005 Cape Times article supra

aspirations and needs of those who seek employment and those who provide employment is one of perpetual contestation. Accordingly the national government is constantly under pressure from various powerful interest groups and influential sources, to change the labour laws in order to make these laws labour friendly or market friendly.

In the hierarchy of laws in South Africa the Constitution[62] is supreme and all other laws inconsistent with the terms of the Constitution are invalid.[63] The Employment Equity Act[64], in relation to issues of affirmative action, equality, discrimination and the general principles of employment equity, reigns all powerful and is subject only to the Constitution. All other laws in conflict with the tenets of the Employment Equity Act must subordinate themselves to the Act[65].

The pre-1994 political negotiations at Kempton Park which laid the foundation for the democratic elections of 1994, changed the fundamental complexion of labour laws and included constitutional protection[66] by proclaiming that

> "everyone has the right to fair labour practices."

The wording of the section creates flexibility and does not limit the protection to employees only and the courts have interpreted everyone to include employers. This protection is extended to independent contractors as well as non citizens, including illegal aliens.

One of the first tasks of the Government was the dismantling of all the apartheid laws. In the context of the labour market, a set of labour laws were introduced by the new government including the Labour Relations Act (LRA), the Skills Development Act (SDA) and the Employment Equity Act (EEA).

Since 1994 the Central Government, as the political manager of the Republic, has passed a number of labour laws to try and regulate

---

62 The Constitution of the Republic of South Africa Act 108 of 1996

63 See section 2 of the Constitution of the Republic of South Africa.

64 EEA

65 See section 63 of the Act Chapter 6, Section 63, reads as follows; "Application of Act when in conflict with other laws: If any conflict relating to a matter dealt with in this Act arises between this Act and the provisions of any other law other than the Constitution or an Act of Parliament expressly amending this Act, the provisions of this Act prevail."

66 See section 23(1) of the Constitution

the South African labour market. The main labour laws in South Africa are briefly explained below:

6.4.4.1 The Constitution of the Republic of South Africa[67]

The Constitution[68] is the supreme law in South Africa and provides fundamental rights to all those who are subject to its jurisdiction. The Constitution plays a pivotal role in the South African labour market because it sets out the fundamental rights of workers and employers in the Bill of Rights[69], section 23:

1. Everyone has the right to fair labour practices.
2. Every worker has the right
   a. to form and join a trade union;
   b. to participate in the activities and programmes of a trade union; and
   c. to strike.

Every employer has the right

   d. to form and join an employers' organisation; and
   e. to participate in the activities and programmes of an employers' organisation.

All workers, including atypical workers defined as employees, have the right to Freedom of Association rights as reflected in chapter 18 of the Constitution. Section 23(2) of the Constitution also states that

> "every worker has the right to form and join a trade union."

Despite the provisions of the constitution which encourage respect for; human dignity, equality, human rights, non-racialism, non-sexism and anti discrimination conduct which is unfair, the reality for atypical workers remains bleak because of the enfeebled condition of the trade union movement and the fact that 75%[70] of workers do not have representation when they appear at the CCMA[71]. This suggests that

[67] Act 108 of 1996

[68] Section 2, Act 108 of 1996

[69] This Bill of Rights is a cornerstone of democracy in South Africa. It enshrines the rights of all people in our country and affirms the democratic values of human dignity, equality and freedom. The state must respect, protect, promote and fulfil the rights in the Bill of Rights.

[70] Commission for the Conciliation and Mediation and Arbitration (CCMA) Annual Report 2003

[71] Commission for the Conciliation and Mediation and Arbitration (CCMA)

those at the bottom of the economic ladder will struggle to obtain relief.

Illegal workers from the SADC region are automatically deprived of any access to labour law rights yet there are constitutional rights which they have, which could provide protection. There has to date not been any rulings by the Constitutional Court in regard to the protection of illegal workers in relation to basic protection from exploitation.

6.4.4.2 The Labour Relations Act[72]

The major tool that shapes employer/employee relations in the workplace is the Labour Relations Act (1995) which has as its purpose the following key objectives:

> "... to advance economic development, social justice, labour peace and the democratization of the workplace ...."

- To give effect to and regulate the fundamental rights conferred by section 23 of the Constitution;
- To encourage collective bargaining;
- To promote employee participation; and
- To effectively resolve labour disputes.

The LRA provides for various dispute resolution bodies to manage the disputes which arise out of the employment relationship. A Commission for Conciliation, Mediation and Arbitration (CCMA) carries the bulk of the responsibility to handle disputes. The Bargaining Councils have automatic dispute resolution functions except in cases where there are non parties to the Council.

This act is supreme law [73] in the employment arena where all issues which are covered in the act are set out. The LRA codified the law of unfair dismissals and unfair labour practices. The LRA makes provision for bargaining mechanisms at plant level and at industry level and via the bargaining councils and its collective agreements. In this way minimum wage levels are set per category of employee.

[72] 66 of 1995

[73] See section 210 of the LRA which states that all laws which conflict with the Act are subordinate except the Constitution

The act makes provision for mutual interest collective bargaining to have the force of law and to be the subject the investigation of bargaining council agents where there is a breach of the agreement. Collective bargaining is voluntary and there is no law that can be used to force a company to negotiate wages and employment conditions.

Table 26: Trade unions, Membership, Registered Employer' Organisation and Bargaining Councils

Year	Registered trade unions	Membership	Registered employers' organisations	Bargaining councils
2000	464	3 552113	252	73
2001	485	3 939 075	265	73
2002	504	4 069 000	270	62
2003	365	3 277 685	238	56

[Source: Department of Labour Annual Report 2004]

From Table 25 the number of bargaining councils in 2003 was 56. It is estimated that between 70-80% of those in the labour market are not governed by bargaining council agreements and sectoral determinations. For example, even though there is a national bargaining council for the electrical contracting industry, only 10 000 employees are covered by the agreements and geographically 73% of the land mass of South Africa falls outside the jurisdiction of the council. The nature of these agreements arise because the two parties, organised employers and organised employees believe that it is in their best interests to jointly determine the conditions under which they will have a relationship.

6.4.4.3 Basic Conditions of Employment Act[74]

The purpose of the Basic Conditions of Employment Act (BCEA) is to advance economic development and social justice by affecting the constitutional right to fair labour practices, by establishing and enforcing basic or minimum conditions of employment, such as hours of work, leave (sick leave, annual leave, etc.), termination of

[74] 75 of 1997

employment, etc. and by regulating such basic conditions of employment.

The BCEA also makes provisions for establishing an advisory body, the Employment Conditions Commission, to assist the Minister of Labour with reference to establishing Sectoral Determinations which establish minimum wages and employment conditions for workers in unorganized sectors of the economy.

Neither the Basic Conditions of Employment Act nor the Labour Relations Act has a section that relates directly to minimum wages but the BCEA has a section which deals with Sectoral Determinations which directly regulates minimum wages.

Below are the sectoral determinations that are currently legislated in South Africa:

- Children: basic conditions of employment applicable only to children in the performing arts and their employers.
- Civil engineering sector: special conditions of employment applicable only to employers and workers in the civil engineering sector.
- Contract Cleaning: the Contract Cleaning Sectoral Determination regulates wages, working hours and other basic conditions of employment for contract cleaning workers.
- Domestic workers: special rules governing the employment of domestic workers.
- Farm workers: basic conditions of employment for farm workers
- Learnerships: a sectoral determination establishing conditions of employment and rates of allowances for learners in South Africa.
- Private security: sector basic conditions of employment applicable only to employers and workers in the private security sector.
- Taxi Sector: the Taxi Sectoral Determination regulates wages, working hours and other basic conditions of the employment for taxi workers.
- Wholesale and retail sector: basic conditions of employment only applicable to employers and workers in the wholesale and retail sector.

A worker to whom the minimum rates are applicable and who has been paid wages at less than these rates shall be entitled to recover, by judicial or other legalised proceedings, the amount by which he has been underpaid, subject to such limitation of time as may be determined by national laws or regulations.

Measures of compliance with this labour standard should not only take into account legislation initiating minimum wages, but enforcement measures and their efficacy. The BCEA details monitoring and enforcement procedures with reference to minimum wages legislated for through Sectoral Determinations. A measure of compliance would by evidence show that these determinations are being promulgated and enforced, and that they apply to a significant section of the unorganized workforce in SA.

The Ministerial Determination for Special Public Works Programmes provides for a lot of variation on the BCEA, most of which is variation downwards. The determination applies the following programmes: Working for Water; Community-based public works; Coastal Care; Sustainable Rural Development; Landcare; Community Water and Sanitation; and Arts and Culture poverty relief projects. The determination excludes a large number of the BCEA's provisions from applying to workers employed on the above programmes and projects.

Sectoral Determinations are published in the Government Gazette setting minimum wages and conditions of employment for a particular Sector. A comprehensive communication, training and education strategy was developed for the implementation of the Sectoral Determination.

South Africa has ratified[75] two International Labour Organisation conventions that relate to minimum wages:

- Convention numbers 26: Minimum Wage-fixing Machinery Convention, 1928 (Appendix 1).
- Convention number 63: Convention Concerning Statistics of Wages and Hours of Work, 1938 (excluding parts II and IV).

While there are minimum wage setting structures in South Africa, which arise out of collective bargaining processes, mainly in terms of

[75] See annexure attached of the Conventions adopted by South Africa

Bargaining Councils, these forms of bargaining, represent a small percentage of the labour market.

Even in cases where a bargaining council is a national one, it does not follow that it has national jurisdiction in terms of wage minimums. In order to have collective bargaining jurisdiction there has to be organised labour and organised employer representivity. The National Electrical Industry Bargaining Council of South Africa, does not represent 73%[76] of the geographical land mass and labour market. There jurisdiction is limited only to the key metropolitan areas and labour market because the parties to the council do not represent the employers and employees in those areas. The result of that lack of representation means that employers falling outside of the council's area of authority can pay whatever they like. In those circumstances the market forces dictate what the price of labour will be because there is no wage minimum stipulated.

Employers can on their own also have wage regulating policies which set the minimum salary scales for their employees, in the different occupational categories and levels.

There is no single national minimum wage level for workers in South Africa. So it is possible for employers to pay workers extremely low wages. In those areas of the economy where wage minimums do not exist, workers can be paid as little as R1.00 per hour because there is no law which prevents this.

It is estimated that the greatest percentage of the labour market is not regulated by minimum wage mechanisms. It is estimated that at the very least, 70-80% of employees fall within the non regulated sectors of the economy.

6.4.4.4 Employment Equity Act[77]

The Employment Equity Act[78], which was promulgated in 1998, and the provisions dealing with the prohibition of unfair discrimination in chapter two, became operational in August 1999.

---

[76] Desmond Lewis, Secretary of one of the trade unions operating in the sector. Desmond was also the former chairperson of the Electrical Bargaining Council for the Cape. Interviewed 03 September 2005.

[77] 55 of 1998.

[78] Act 55 of 1998. Hereinafter referred to as EEA.

The purpose of the EEA (section two[79]) is to seek equity in the workplace by:

- promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination; and
- implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, in order to ensure their equitable representation in all occupational or categories levels in the workplace.

Discrimination Concepts

Substantive equality requires an examination of the actual social conditions of groups and individuals in order to determine whether the Constitution's commitment to equality is being upheld. It has been referred to as "equality in lived, social and economic circumstances and opportunities needed to experience human self-realization."[80] The Constitutional Court has made significant rulings in relation to non citizens with valid work permits who have been deprived of benefits because of their citizenship. The anti-discrimination and equality provisions apply to all those who are within the jurisdiction of the Court, including illegal aliens.

Affirmative Action Measures

Affirmative action must be understood in its correct context and applied in order to build the human capital and the social capital foundation of the country and improve South Africa's ability to compete globally. Excellence cannot be sacrificed in order to select candidates for higher paying leadership posts at the expense of one of the key directives in the preamble viz:

> "promote economic development and efficiency in the workforce..."

79 Section 2 of the EEA contains two purposes which guide the approach of the courts.
80 Klare (1998) *SAJHR* 146 at 154 n.15.

In the context of South Africa, those groups (blacks, females and the disabled) who were historically and calculatedly disadvantaged are identified as the designated group[81] and they are now in a position to gain access to opportunities at various levels in the society.

Africans from the continent, especially from the SADC region, are not viewed as Africans in terms of the definition contained in section one the Act. Accordingly the provisions of the law, as it applies to employment equity planning does not take into account those Africans from the SADC member states for the purposes of the affirmative action equality tenets of the law. This is a mistake because those from the SADC regions were also victims of apartheid and its devastating consequences, which were not confined to the borders of South Africa. In the context of the integration of the SADC labour market and the need for expertise to drive economic progress in South Africa, there ought to be a rethink about the way in which the term African is defined in the Employment Equity Act.

More research is needed to argue for new labour market policy initiatives in relation to the necessary widening of the definition of an African, in the context of employment equity, to include Africans from SADC in particular and also those from the rest of the continent.

6.4.4.5 Skills Development Act[82]

The purpose of the Skills Development Act (SDA) is to provide an institutional framework to devise and implement strategies to develop and improve the skills of the South African workforce by providing for learnerships that lead to recognised occupational qualification funded by means of a levy-grant system. The act also provides and regulates an employment services system.

The economy has been divided into 25 sectors, each with a Sector Education and Training Authority (SETA). These SETAS' are responsible for the skills development and skills planning of their specific areas in the economy. The problem that the country as a member of the international community of nations faces is the fierce nature of global

---

81 Section 1 of the EEA
82 97 of 1997

competition. The rapid pace of technological shifts and changes in the world of work and the attendant skills required to operate at the levels needed to ensure productivity gains, is one of the biggest challenges facing South Africa.

In the 2004 Annual Report of the Department of Labour there is a striking comment about the state of skills development in South Africa. The report[83] bemoans the fact that 80% of the economically active population is not skilled or highly skilled. The report states

> "one of the principal cause of our economic deficiencies is the low level of skills in an environment that experiences major changes in the workplace the low skills base is one of the reasons there are low levels of investment."

A major weakness in the creation of industry based skills plans is the complete absence of data necessary for the accurate identification of skills gaps in each occupational category and level of the workforce of the economically active population, for a particular sector. Not one of the SETAS have the information. The Department of Labour itself does not have this data to guide the design of macroskills planning. This startling and incredible gap in the data is one of the fundamental reasons why there is so much spinning and lack of delivery. Justin Wilson, a labour law researcher with a Cape Town-based consultancy, made various attempts[84] to obtain the data of the economically active population for each occupational level. He was informed by all the SETAS, the Department of Labour that it does not exist. Ironically even Statistics South Africa does not have this data. From this one can deduce that the data for the following;

Male/Female; Disabled; African; Coloured; White; and Indian categories in each of the occupational levels of the workforce in a sector are not known.

This is the same problem faced by those who wish to determine the numerical goals for the implementation of the affirmative action measures as set by the Employment Equity Act. The data needed as a

[83] See page 10 under item 2.4, para two

[84] Periods of written communication with the various bodies, occurred during the months of May, June, July and August 2005. Justin works for Brian Williams Consultancy based in Cape Town

comparator to determine under representation for each of the occupational levels does not exist. The government indicated that

> "…the Department is committed to skills development to meet the skills needs of economic growth, job creation and improving the productivity and competitiveness of big and small enterprises"[85].

The problem with the current strategies is that the expertise which does exist within SADC members states is not used to alleviate the skills gaps in South Africa. There are many highly qualified refugees in South Africa whose skills are not being utilised.

6.4.4.6 Extension of Security of Tenure Act[86]

The legislation was enacted to redress discriminatory policies of the past, which have prevented certain groups from enjoying security tenure of their homes and the land, which they use. The purpose of the act is to curtail unfair evictions, promote security tenure of land occupiers while balancing the interests of the state and landowners. The act proposes to achieve its objectives by regulating the rights of persons to reside on land and the conditions and circumstances under which the eviction of occupiers of land is to be conducted.

In an article by Yolandi Groenewald entitled "One million forced from their land" it is estimated that

> "Research has shown that only 1% of almost one million evictions from farms in the past 10 years have involved legal process."[87]

What is alarming is the fact that the research suggests that evictions peaked after the 1997 introduction of the Extension of Security of Tenure Act (ESTA), which ironically was designed to provide protection and tenure rights for farm dwellers and their families. A frightening indicator highlights the fact that statistically

[85] See page 11 of the report, supra
[86] 62 of 1997
[87] Mail&Guardian, 02 – 08 September 2005

"the scale of evictions in the decade after 1994 was greater than that in the preceding 10 years, when 737 000 people were evicted...Most evictions took place because the main breadwinners had been fired (31%), followed by women and children turned out after the death of their husbands and fathers (28%)"

It would appear under a post-1994 democratic dispensation that

"the dispossession of black South Africans has continued unabated in post-apartheid South Africa," said Marc Wegerif, Nkuzi's programme manager. "Evictions have undermined the limited gains of land reform and contributed to consolidating farm ownership in fewer hands."

According to Ms Groenewald the figures help to explain the massive growth in peri-urban shanty towns in the past decade, particularly in the Free State. More than 48% of evictees now live in townships, mostly in the poorer sections and 30% have moved into informal settlements.

The agricultural areas which lie on the borders of South Africa are notorious for the use of illegal cheap labour with the attendant high levels of exploitation which accompanies these labour market decisions by farmers. The illegal aliens, especially from Zimbabwe have fled the conditions there to work on farms in the border regions of South Africa.

6.4.4.7 Mine and Health and Safety Act[88]

The purpose of the act is to provide protection for the health and safety of employees and other persons at the mines. The act requires employers and employees to identify hazards and to eliminate control and minimise health safety risks. To enhance this function greater employee participation is encouraged through the creation of health and safety representatives and committees. Health and safety conditions will be monitored, measures enforced, improvements made,

[88] 29 of 1996

risks investigated and training provided, so as to promote a culture of health and safety in the mining industry.

There are many thousands of miners from the SADC region who work at the mines and there also many who have been killed or seriously injured as a result of industrial accidents. Regrettably the statistics for SADC region workers are not available. Compensation is provided in terms of current law.

6.4.4.8 Occupational Health and Safety Amendment Act[89]

The act provides for the health and safety of persons at work and in connection with the use of plant and machinery. The act also provides for the protection of other persons (not at work) against hazards arising out of or in connection with the activities of persons at work. The act proposes to achieve its objectives by the establishment of an advisory council for occupational health and safety. This act should be understood in relation to the Compensation for Occupational Injuries and Diseases Act which provides compensation for injuries sustained or diseases contracted as a result of a work related activity. The data for injuries and compensation is obtainable from the web site of the Department of Labour.

The current laws in the South African labour market are necessary to provide specific direction and guidance to the actors in the market place. In one sense the labour law regime is quite advanced and the dispute management systems could be used as models for SADC member states. The dictates of globalisation impose an industrial culture which requires certain compliance standards. The International Labour Organisation also provides the Conventions and Recommendations to guide labour market behaviour globally. South Africa as the most powerful economic force in the Africa and within SADC will have a huge influence on the policy developments in the SADC region.

[89] 181 of 1993

6.4.5 Labour Markets and SADC

The Southern African Development Community (SADC) which started in Zambia in 1980 as the Southern African Development Coordination Conference (SADCC) celebrates its 25th anniversary in 2005. It became known as SADC in 1992 as a result of the Windhoek Declaration.

In February 2005, the SADC Council of Ministers meeting in Mauritius launched the strategy for the development of Southern Africa. This strategy is based on two key long term plans to bring about a Regional Indicative Strategic Development Plan (RISDP) and the Strategic Indicative Plan for the Organ (SIPO) on Politics Defence and Security.

SADC has an important role to play in the integration of the labour markets of the member states and the sooner a committed collective approach is sought, the sooner the 210 million people in the SADC region will benefit.

> "There is an urgent need for SADC countries to institute policies and programmes aimed at accelerating social and human development," outgoing executive secretary Prega Ramsamy told delegates…" the summit also adopted the African Union position on gender equality which provides for 50% target of women represented in all political and decision-making bodies", the final communiqué stated.[92]

As part of the integration of the SADC region's various markets and cross border population activity, a study[93] has been commissioned on

> "...harmonisation of Immigration Laws, Regulations and Procedures."

With regards to the Social and Human Development and Special Programmes directorate, efforts are being made

[92] AFP in the Cape Times, SADC summit end with plea for more funds 19 August 2005
[93] SADC Today Vol 6 page 7 February 2005

> "to address the challenge of improving the availability of educated, skilled, healthy, informed, culturally responsive and productive human resources.' To this end a SADC Intra-Regional Skills Development Programme was designed to increase the pool of skilled and competent specialists in the priority development areas."[94]

The targets[95] set by SADC are as follows:

- SADC regional development fund and self financing mechanism 2005;
- Elimination of exchange controls on intra SADC transactions 2006;
- Free trade area 2008;
- SADC Customs Union, common external tariff 2010;
- Common market agreement 2015;
- SADC Central Bank, preparations for a single currency 2016;

Many people in the SADC region find South Africa an attractive refugee destination. George Pambason, founder of the Alliance of Refugees in South Africa states that as a refugee one has freedom of movement as long as he is registered at the offices of Home Affairs. Unlike many African countries, the refugees in SA are not confined to camps and are allowed to move around freely. There are economic opportunities in South Africa but he expressed frustration at the slow pace at which many refugees who have valuable skills and qualifications are allowed to contribute to the country's development.

> "We want to show that refugees can make a meaningful contribution and we feel that we are now part of South Africa and want to contribute but the society has to accept us."[96]

In the Home Affairs annual report for 2003/2004, work permits were issued to 11,686 and temporary residence permits were issued to 4,599 refugees. There are however many refugees who were sent back to their countries of origin. For the same reporting period, there were

94 SADC Today Vol 6 page 7 February 2005
95 SADC Today Vol 8 page 3 April 2005
96 Weekend Argus " Chance for refugees to play their part" written by Igsaan Salie 24 September 2005

164,294 persons removed as illegal aliens and 1,093 deportations took place.

Illegal aliens who are unfairly and unlawfully dismissed or not paid in terms of relevant sectoral determinations, or bargaining council's agreements have no rights. Even if it can be shown that a an illegal worker was viciously exploited, sexually harassed, discriminated against and not paid for the work performed, such a worker has no recourse in law.

The logic in the current law is that the employment of non citizens who are illegally working does not give rise to an enforceable contract[97] of employment. The Aliens Control Act of 1991 makes it an offence to employ someone who is not entitled to employment in South Africa. This is the present state of affairs and the complainant (a foreign national) would first have to prove to the CCMA or a court of law that jurisdiction exists for the matter to be heard and for relief to be obtained.

There would be sufficient grounds for sections of the law in relation to illegal aliens in the labour market, to be declared unconstitutional. It is an absurdity and discriminatory to allow for the exploitation of a worker by excluding legal relief, purely on the grounds that such a person was not entitled to employment in the first place. Besides the unfair competition that such a situation creates between employers who pay workers correctly and others who do not pay workers according to stipulated minimums, the very essence of the constitution is to provide fair labour practices to everyone[98]. There are no distinctions made, everyone means just that everyone. The constitution should be read in terms of its stated objectives, human dignity, justice and equality.

6.4.6 Conclusions

The analysis indicates that the complexities in the South African labour market may provide complications in the generation of suitable solutions for the country as a part of the SADC region. The country has not been able to reduce the unemployment figures and the crisis of the working poor, who are functioning in a labour market that is

97 Dube vs Classic Panelbeaters 1997 (7) BLLR 868 (IC)

98 Section 23(1) of the Constitution of the Republic of South Africa

highly deregulated. The crisis of the poor is a time bomb waiting to explode with dire consequences for labour market reforms which attempt to balance social justice with economic development. The myth of an extremely rigid labour market undermines the real debate which should be about how to create jobs and to strengthen the economic development capacity of the country. A major part of the problem is the lack of an integrated strategy and the absence of relevant data to guide skills development. The trade union movement's weakness, the anger of the communities which are the victims of a poor delivery system and the unprecedented power of the capitalist class are key factors which influence the direction of events in the labour market.

SADC is moving towards greater integration of the labour market but faces huge challenges at a range of levels, which includes HIV/AIDS, skills deficits, infra structural weaknesses, lack of adequate human capital and financial resources. Accordingly the key policy issues for labour market integration is the adoption of a number of strategies which can

- Identify the macroneeds of the SADC region (tri-partite - governments, labour and capital) in terms of a single labour market. The NEDLAC model is an excellent starting point for consensus seeking in the SADC region. Member States should adopt such an approach and from there develop a SADC type of NEDLAC;
- Develop Macro economic policies and common approaches to work place problem solving strategies by the SADC tri-partite groups;
- Harmonise the labour laws in order to bring about greater commonality in the formation of a new industrial culture which accepts the need for economic development and social justice as its key objectives;
- Enhance joint labour relations and labour law projects to increase working relationships and partnership building amongst the SADC tri-partite groups;
- Creation of a single SADC research and development organisation to facilitate labour market analysis and trends in relation to human capital and social capital development;

- The labour federations in the region should play a more active role in the Southern African Trade Union Coordinating Council (SATUCC) which comprises of the union federations of SADC members states.
- Embark on capacity building of the unions and non government organisations in SADC, through common programmes and projects designed to build self-reliance.

Prospects for greater cohesion in the labour market of SADC, is a necessity and its realisation is inevitable. There is a powerful imperative to generate unity within SADC in order to serve SADC society made up of 210 million people. Social partners have an interest to act as the principal drivers of this development. South Africa with the strongest infrastructure and human capital base, is in a strategic position to provide quality support to the SADC Member States.

7 Social Impact Analysis

The Southern Africa region constitutes a small market of a population about 200 million. However within the African context, SADC's aggregate gross domestic product (GDP) is more than double that of the Economic Community for West African States (ECOWAS) and equivalent to more than half of Sub-Saharan Africa's aggregate GDP. SADC's total volume of exports is more than double that of ECOWAS. The sub-region's total population is about a third of that of sub-Saharan Africa (SSA).

The population is unevenly distributed; with South Africa, Tanzania and the Democratic Republic of the Congo (DRC) having 64% of the population, and the remainder distributed among the other eleven countries. The four smallest countries in terms of population (Botswana, Lesotho, Mauritius and Namibia) account for less than 4% of the sub-regional total.

The region is also characterised by diversity in political regimes and differences in levels of political stability. Over the past few years some countries managed to consolidate democratic culture, good governance, the rule of law and respect for human rights. Angola and the DRC are slowly emerging from decades-long war. The second most economically diversified country, Zimbabwe, is facing a serious political and economic crisis, which has resulted in its de-linking from international and regional financial support.

The United Nations Development Programme (UNDP) human development index (HDI) ranked Mauritius the highest among SADC countries (71st of 175 countries with an HDI of 0.761) and Mozambique the lowest (168th with an HDI of 0.341) in 2000. About 40% of the sub-region's population is estimated to be living in extreme poverty. Poverty is increasing due to high unemployment. Unemployment is estimated to have increased from 30.5% in 1986 to nearly 59% in 2000 (UNDP). Even in Botswana and Mauritius, which are among the region's best economic growth performers, unemployment is worrying.

The sub-region is facing yet another threat to its development in having the highest adult HIV/AIDS prevalence rate in the world. According to UNAIDS HIV/AIDS prevalence rates among adults in 2002 exceed 30% in Botswana, Zimbabwe, Lesotho and Swaziland. The estimates were about 20% in South Africa and Zambia. Estimates indicate that the adverse social and economic impact of HIV/AIDS will be substantial, affecting GDP growth, labour supply, income inequality, domestic saving, productivity, and human, physical and social capital. The spread of the HIV/AIDS pandemic will most probably further compound the problem of poverty in the region in the foreseeable future.

In terms of economic structure, SADC seems to be struggling to diversify its productive base with progressive industrialisation remaining elusive in most countries. Overall, economies in the sub-region are largely undiversified, resulting in a lack of complementarity, which limits the scope for trade, except between South Africa and the rest of the region. The economies are reasonably open, and given that most countries in the sub-region are heavily dependent on exports of primary and semi-processed agricultural and mineral commodities, the sub-regional economy remains excessively vulnerable to rainfall variations and commodity price fluctuations.

7.1 Shortage of Skills

South Africa has a shortage of more versatile and experienced managers and professionals across all sectors of the South African economy. Most of the problems are experienced in recruiting professional engineers - especially mechanical, civil, electrical and industrial engineers. IT professionals are also needed in many areas. Shortages of computer programmers, as well as systems analysts and software engineers are often reported. The South African labour market is specifically affected by the world wide demand for IT skills. The shortages experienced at present are not only the result of the inability of the education sector to satisfy the demand, but also of the loss of skills to the international market.

Accountants and related professionals are needed urgently and shortages have also been hampering the country's performance. Shortages were also reported in the following subcategories: economics (economists, financial analysts, investment specialists); medicine (practitioners, as well as trauma, intensive care and theatre nursing staff) and mathematics (actuarial occupations).

The interesting thing is that shortages exist in most of the occupations that have been identified as high growth occupations (IT professionals, engineers/engineering technicians and accountants). It is therefore probable that these shortages will continue, given the high growth in demand and that growth in actual employment will not match the estimated growth in demand.

Shortages in the managerial occupational group have adverse effect on most companies' performance. These shortages seem to exist especially in the administrative and technical areas of management, and the combination of technical, business and financial skills and "people skills" are often cited as being in short supply.

These shortages put upward pressure on the remuneration of certain categories of highly skilled people - to the extent that some employers can no longer afford those skills. Some organisations also report that they are compelled to employ under qualified staff in positions that actually require highly skilled managers, professionals and artisans. In some instances employees are developed and trained to increase the supply of scarce skills while other organisations selectively downsize in other areas to employ more needed skills.

There are difficulties involved in recruiting black managers, professionals and artisans. The historical exclusion of blacks from professional and managerial positions is at present seriously affecting the availability of skills. Not only are affirmative action policies forcing employers into competition for these skills, but the total pool of experienced high level human resources also seems to be too small for the current needs of the country.

This shortage of skills comes at a time when they are most needed. Profound internal changes combined with the opening up to international competition place a premium on these resources. In the longer term, a solution is to be found in the training of far more people locally. But training highly skilled persons has a very long lead time. In the short-medium term, South Africa will have to make optimal use of its existent resources.

7.2 Plans and Programmes

In 10 years following the collapse of apartheid, South Africa has recorded impressive social and economic achievements. The remarkable progress in social transformation is due to goals set and reflected in the Freedom Charter, RDP, and even political party manifestos. All of these are consistent with the vision of sustainable development. The assessment of Government performance has been topical in most discussion circles, and the Government has taken a look at its own achievements.

The Government's own performance assessment of the 10 years, "Towards a Ten Year Review" not only reviews its efforts, but also prioritises and set performance targets for the future periods. Improving the economic growth rate so that it can keep up with the quality of life is considered key government priority. This also goes with the challenge of improving the quality of life for the marginalised people who are unlikely to benefit from the improved economic growth rate, or what is commonly referred to as "second economy."

Although the set programs were initially drafted as election manifesto of the ruling party (the ANC), they were later adopted as priorities for government (Hirsh, 2005).

Some of the socio-economic priorities include:

- Reduce unemployment by half (of 2004) by 2014;
- Reduce poverty by half (of 2004) by 2014;
- Provide skills required by the economy;
- Improve government services (health, crime reduction, etc.);
- Position South Africa as an effective progressive force in global relations.

To address the above challenges, the Government has designed policies that focus on microeconomic conditions. That strategy which is called Microeconomic Reform Strategy (MERS) attempts to address three main elements namely:

- Deficiencies in input sector such as transport and communications;
- Create opportunities that will improve crosscutting interventions such as small businesses and state-owned enterprises; and

- Develop and improve sector specific strategies for sectors that have a potential for significant growth and employment creation or exports.

The MERS targets have been identified for each element.

In the input sector or utilities, the following have been identified:
- Transport and logistics;
- Energy;
- Telecommunications;
- Water.

There are urgent challenges that need to be addressed in the identified sectors, mainly in the transport and logistics. Particular areas of concern include freight transport and logistic sector as well as the operations of rail and port sectors where major bottlenecks to trade and growth seem to be situated. With the successful bid to host 2010 soccer world cup public transport has now emerged as another key challenge. Telecommunications services have grown significantly in the past decade mainly due to the cell phone sector. Though, the costs remain high. That becomes an obstacle to investment in the sector and other business.

Crosscutting interventions are being directed towards:
- Human resource development;
- Technology, and research and development (R&D);
- Access to capital;
- Infrastructure;
- Management of State owned enterprises;
- Economic Development Capacity of Local government;
- Geographic spread;
- Small enterprises;
- Black Economic Empowerment.

There are some improvements in the crosscutting sectors with initiatives such as new skills development programme, National Research and Development Strategy, International Marketing Council and broad based black economic empowerment. There is still a great deal of work required in areas of local government economic management outside of the metros, microbusiness development and in the governance of state-owned enterprises.

Priority growth and Employment sector

- Agriculture/agro processing;
- Tourism;
- Cultural and Crafts;
- ICTs;
- Mining and Metals;
- Clothing and Textiles;
- Chemicals and Biotech;
- Auto and transport;
- Services.

Some sector strategies such as the automobile manufacturing sector and the tourism industry are well developed and relatively successful. For others, such as information and communications, clothing and textiles, agro-processing sector, businesses services sector and communications technology sector, the government believes that there is potential. However, there is a need to get the strategies in those sectors right before the growth potential is realised.

The Government is more concerned that while employment creation is the key challenge, the most successful amongst manufacturing sectors are capital intensive industries (metals processing, chemicals, pulp and paper). On the other hand, potential labour absorbing sectors such as textile and clothing, footwear, food processing, wood and wood products continue to struggle against imports.

The Government has also resorted to temporary work opportunities, skills development and access to finance for poor households and micro enterprises to relief some of the burden from the affected unemployed and poor. The Expanded Public Works Programme (EPWP) is the major national initiative to create temporary jobs. One million temporary jobs are targeted in the areas including labour intensive construction, home- and community based health care, and conservation programs.

Other commitments towards addressing the challenges include:

- Sector Education and Training Authorities (SETA) which are to increase their uptake of learnership candidates and participants in other skills development programme;
- Extension of adult basic education training (ABET);
- Improve investment in technical colleges (or further education and training) and their realignment with the needs of the economy;
- Establish a database of graduates to link unemployed graduates with training programmes or employment opportunities;
- Finalisation of immigration regulations in order to allow for the immigration of skilled people where needed.

In the ten year review, the government acknowledged that the delivery has been uneven. That also implies that there are many areas for improvement. The capacity of Government alone is not sufficient, and therefore cooperation with civil society is necessary. Restructuring of the economy should not be entrusted to market-led economic growth only.

7.3 Decision Making Processes

South Africa's development, policy making and implementation has evolved through stages and over periods of time. The period since 1994 has been characterised by a range of policy and legislative reforms. There are remarkable achievements in some policy developments, many attached to economic and social development and containing specific provisions to promote these goals.

10 years later, there seems to be a gap between policy and its implementation. This is based on the broad policy intent and the implementation of the legislation. The main factors that have contributed to the implementation gap are identified as human resource constraints, macroeconomic policy, the budget and finally, coordination between the policy and the budget.

The human capacity constraints are contributing factor to policy implementation gap, especially in municipalities. At that level, there is absence of policy skills and middle level governance and management skills. There were very few efforts to build human resources at local government in the first five yeas of democracy.

At this level of government, budgets are a used as substitute to planning process. The budgetary process is a very useful coordination tool. However, expenditures control considerations that rely heavily on budgets allow the budgetary framework to dominate other policy frameworks. There is a need for a mechanism that enables the centre to integrate expenditure control objectives into the government overall objectives. However, the introduction of the Medium Term Expenditure Framework (MTEF) shifted emphasis of the budgeting process from restrictive expenditure to encouragement of effective expenditure.

In order to avoid the trap of unilateralism, the approach of the central government is to form a consensus seeking body made up of all the stakeholders and their representatives viz business, labour and government that includes an additional group made up of community representatives.

A law was passed to birth the National Economic Development and Labour Council (NEDLAC)[99] At NEDLAC, Government converges with organised business, organised labour and organised community groupings on a national level to discuss and try to reach consensus on issues of social and economic policy. NEDLAC'S aim is to make labour market policy development and economic decision-making more inclusive in order to promote the goals of economic growth and social equity.

NEDLAC's work is conducted in four chambers which discuss different aspects of social and economic policy. These are the:

- Labour Market Chamber;
- Trade and Industry Chamber;
- Development Chamber; and
- Public Finance and Monetary Policy Chamber.

NEDLAC also engages in research and information sharing which can help the constituencies (government, business, labour and community) to develop economic policy. In terms of Section 77 of the Labour Relations Act, NEDLAC has a dispute resolution function between trade

---

99 NEDLAC website (www.nedlac.org.za)

unions and government and/or business on issues of socio-economic policy.

Decision making is done at a national level in what is called an integrated planning cycle. Departments review previous year's reports on an annual basis and report to the president's office. Then the cabinet identifies overarching strategic priorities and reviews the progress. Priorities would include department's business plans, MTEF and strategic plans. Then, the Director Generals of departments will finalise the programme of work and prioritise the clusters for approval by cabinet.

Once the cabinet approves, then the implementation of programmes and strategies will go ahead. Around mid-year all the Director Generals go back to cabinet to report on progress with priorities and action plans. Then implementation data is collected for measurement of impact.

The National Economic Development and Labour Council (NEDLAC) is the forum that ensures that development of trade policy is conducted in the context of democratic governance. NEDLAC brings together business, labour and government to define the framework and details of requests and offers for the negotiations (Carim, 2005). However, the consultative process in NEDLAC has been questioned and recommendations have been made to have it strengthened. Amongst the questions is that of representativity which has been highlighted during consultations to determine private sector interests in negotiations.

7.4 Economic, Environmental and Social Indicators

This section gives a synopsis of some of South Africa social and economic indicators. The implications of these indicators are explained further in other sections of the report.

Gross National Income (GNI) per capita

South Africa's GNP purchasing power parity (ppp) has been fairly stable over the years 1990 through to 2002. The indicator has been fluctuating around USD 3000. Solely, the GNI per capita is not an indicator of development.

Employment

The total absolute employment statistics have improved over the decade. Most of the increases were in the informal sector, while the formal sector actually declined by about one million jobs in over 12 years. Table 26 below shows that total employment numbers decreased from 8.3 million in 1990 to 7.4 million in 2002. Employment by skill levels shows a very small increase of highly-skilled individuals from 1990. There were few job losses of skilled individuals and as expected, about one million less jobs at unskilled and semi- skilled levels.

Unemployment

The fact that there is a rise in the number of jobs at high-skilled individuals, and losses at the opposite end suggest that the problem of unemployment is linked to skills deficiencies. The high unemployment is partially a result of skills mismatch. The unemployment rates stand at over 30%, as the single most important impediment to poverty reduction.

Human Development Index (HDI)

HDI is a measure of a country's economic and social wellbeing. It is a composite index of three equally weighted indices: life expectancy index, educational attainments index, and gross domestic product (GDP) index. The index is measured from 0 to1, with 0 being the lowest level of development and 1 being the highest.

South Africa's 2002 HDI value was 0.68. GDP index and educational attainments had positive influence on the HDI values. However, the life expectancy was less encouraging, declining to 51.4 years in 2002. The overall HDI showed a decline since 1995.

Table 27: Selected Social Indicators for South Africa, 1990 - 2002.

Indicator/year	1990	1995	2000	2001	2002
GNI per Capita (US$ PPP) Employment	3,029	2,903	2,948	2,948	3,037
(Formal and informal)	10,105,431	10,752,633	10,876,350	10,886,245	10,896,420
Highly skilled (formal)	1,034,081	1,157,907	1,130,293	1,112,150	1,118,725
Skilled (formal)	2,909,521	2,808,174	2,778,421	2,757,605	2,760,912
Semi-and unskilled (formal)	4,419,074	3,945,325	3,502,268	3,476,854	3,471,498
Total Formal	8,362,677	7,945,181	7,410,982	7,346,610	7,351,135
Informal	1,742,754	2,807,452	3,465,367	3,539,634	3,545,284
Unemployment rate (%)	14.67	15.91	24.64	29.33	30.51
Human Development Index	0.72	0.73	0.70	0.69	0.68
Life expectancy at birth (Years)	61.60	61.40	55.50	53.30	51.40
Adult literacy rate	0.81	0.83	0.85	0.86	0.86
Primary enrolment (Total '000)	7,011	8,268	7,528	7,584	7,650
Tertiary Education enrolment (Total '000)	446	687	652	699	744
Education attainment index	0.79	0.85	0.83	0.84	0.84

Source: United Nations Development Report, African development Indicators

Life Expectancy, Literacy Rate and Education Indices

Life expectancy in South Africa has been falling, mainly due to HIV/ AIDS pandemic. It declined from over 60yers in 1990 to slightly above 50 years in 2002. This is also the main contributor to the falling HDI. However the literacy rate has been improving, increasing to 86% of the population. This is also supported by improving education indices over the same period.

The improvements in the literacy rate have been brought about by government contribution to this course by investing in ABET. The budget allocated to ABET has been increasing in both values and as a share of total education allocation. Table 28 shows that the allocation for ABET increased from R165 million in 1995/96 to R401 million in 2001/02. These amounts are small, both in absolute values and as percentage of total education expenditure. The ratio of expenditure on ABET to total education was below 1% throughout the period under observation. However, adult literacy rate in (Table 28) has been slightly improving from the mid-1990 to early 2002. Initiatives such as ABET and Skills Development are to a certain extent, credited for those improvements.

Table 28: Education and ABET Budget, and Share of ABET, 1995/96-2001/02

Financial Year	Education Budget (Rm)	ABET Budget (Rm)	Share in Education Budget
1995/96	29,498	165	0.56%
1996/97	36,505	219	0.60%
1997/98	34,772	292	0.84%
1998/99	37,193	309	0.83%
1999/00	39,828	362	0.91%
`2000/01	43,223	410	0.95%
`2001/02	46,889	401	0.86%

[Source: The Presidency: Ten Year Review]

7.5 Mitigating and Enhancement Measures

South Africa has been putting measures in place to curb some of the social illnesses that are plaguing the society. Some have been implemented with limited success while others have not shown any effect at all. There have been some improvements in many of the social indicators, although performance in some areas has been impeded by the severity of HIV/AIDS.

7.5.1 Employment

South Africa has stabilised the macroeconomic environment to a larger extent. The long term challenges remain unemployment and widespread poverty. As a matter of fact, the high unemployment rate is the main impediment to poverty reduction. Much of the task of raising growth and employment rely heavily on initiatives that boost labour demand and factor productivity. These include labour market reforms, enhancement of job skills and further steps in areas of trade liberalisation and privatisation.

Causes of Unemployment

According to IMF Article IV report (2004), high unemployment is as a result of serious skills mismatch and institutional rigidities that have kept labour cost high. There are rigidities, skills deficiencies and relatively high costs in the labour market which impede efforts to achieve significant reduction in unemployment. Minimum wages have aggravated the unemployment problem, especially in agriculture where most unskilled labour force is employed.

Some of the possible measures include:

- Decentralise collective bargaining system to allow small and medium enterprises autonomy in setting wages. Small enterprises evade payment of minimum wages by choosing not to employ. The cost of dismissing an employee is so high that it discourages employment of new recruits;
- Strengthen government skills development programmes, by training most of the presently unemployed. A Skills Development Programme (SDP) has been initiated to enhance skills and increase employability opportunities. The problem is that, it is funded by a levy on labour, and thus depresses labour demand. Furthermore, the training focuses on those who are already employed, rather than the unemployed;
- Labour intensive public works programme targets to create one million temporary jobs for the unemployed over five years at a cost of 0.2% of GDP per year;
- The trade liberalisation needs to be accompanied by labour market reforms so that the potential benefits of productivity for job creation can be realised in full;
- As the government programme suggests, to decrease unemployment by half in 2014, the real GDP growth will have to be substantially high, over 5% per annum. This will also have to be

accompanied by increased investments that are necessary for generating new jobs and increasing growth.

Expanded Public Works Programme (EPWP)

Government has allocated R20 billion over five years for EPWP (SALGA, 2005). About 75% is targeted for construction, while the remainder goes to the environment, social sector projects and cultural activities. The private sector will also play a role by providing equipments and bridging financial gaps.

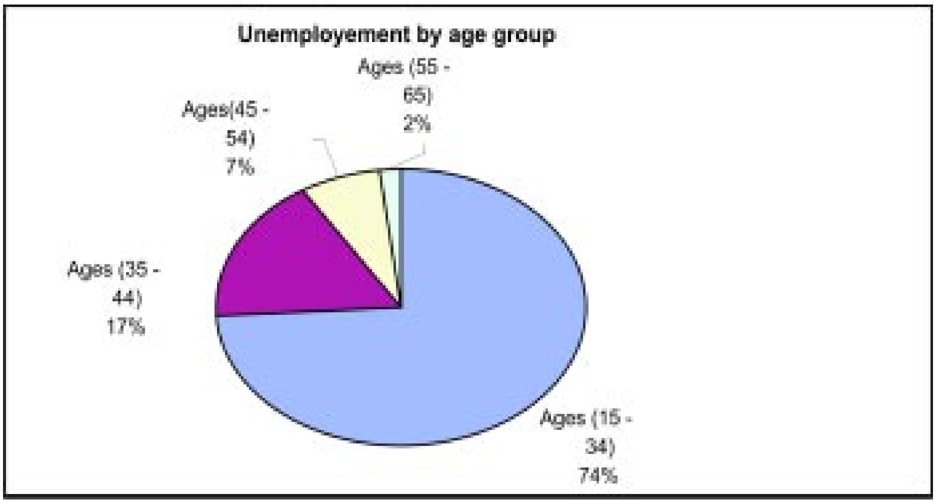
EPWP can provide poverty and income relief through temporary work for the unemployed to carry out socially useful activities. These activities are designed to equip participants with small a degree of training and work experience, which should enhance their ability to earn a living in future.

The projects are launched in communities with greater emphasis on providing and improving basic and essential infrastructure. These will of course provide short-term jobs. Examples of such projects include: school cleaning and renovations, community gardens, erosion control and land rehabilitation, removal of alien vegetation, dipping schemes, access roads in rural areas, tree planting and maintenance of school, clinics, drainage, roads and public buildings.

Skills Development Programme

The majority of the unemployed are young people, accounting for nearly three quarters of the unemployed (Figure 15). It has been realised that it is increasingly difficult for these young people to find jobs partly because there are no enough jobs and also because they do not possess skills that are demanded in the labour market. Women, disabled individuals and people in rural areas have additional obstacles that prevent them from finding employment and developing skills. Few young individuals get opportunities to improve their skills in areas that enhance employability.

Figure 15: Unemployment by Age Group, 2004



[Source: Labour Force Survey]

The Skills Development Act of 1998 introduced a programme and funding policies that are designed to increase investment in skills development (Department of Labour, 2000). This allows government to provide grants to encourage employers to invest in training and development of their staff. The objectives of the programme include:

- Fostering skills development in the formal economy;
- Stimulating and supporting skills development in small, medium, and micro enterprises (SMME);
- Promoting skills development in social development initiatives;
- Assisting new entrants in the labour market;
- Facilitating access to employment and income generation for the unemployed and under-employed.

To address unemployment challenges, new skills development learnership frameworks were established. These are to serve as a useful vehicle for addressing problems and developing much needed skills. The drive to recruit young, unemployed people into the learnerships was started. These would help them to acquire skills, and some to be economically independent. This initiative which was driven by both government and business, 72,000 unemployed learners (Table 29). The goals have been set to align their commitments with the Growth and Development Summit (GDS) goals. The funding for the project came from the SETA and National Skills Fund.

Table 29: Required Intake of Learnership Programmes by 2004

Sector	Number of learners
Public service	10,000
Manufacturing and engineering	8,831
Defence	8,600
Tourism and hospitality	8,000
Mining	7,340
Education and training	5,000
Temporary employment agencies and domestic	4,148
Transport	2,250
Construction	2,174
Health and welfare	2,000
Wholesale and retail	2,000
Information systems	1,500
Chemicals	1,466
Food and beverages	1,200
Financial services	1,200
Clothing and textiles	1,080
Banking	1,050
Primary agriculture	1,000
Forestry industries	825
Energy	782
Local government and water	670
Media, advertising, printing, publications and packaging	653
Secondary agriculture	489
Insurance	350
Police, legal and correctional services	300
Total	**72,908**

[Source: NEDLAC]

The learnerships have also been disaggregated into further equity categories. The National Skills Development Strategy equity targets learnership as a whole of 85% black, 54% women and 4% people with disabilities. It is also targeted that 95% of the learners will be under the age of 35 years. Special efforts will be made to ensure that young people living in rural areas have access to these learnerships. According to the Department of Labour, in 2003 about 80,000 learners under the age of 30 entered the learnership programme.

The programme is facing several challenges. The training is centred on upgrading skills of individuals who are already employed, and therefore contributes very little towards reducing unemployment. It is also reliant on workers levy, and therefore long term financial sustainability remains at risk. Many small businesses in South Africa are informal and fall outside the regulatory and tax arrangements.

7.5.2 HIV/AIDS

The HIV/AIDS epidemic is exerting an increasingly heavy toll on the society. The incidence of AIDS has raised the cost of doing business in South Africa. A concerted action is needed to contain the socio-economic repercussions of the disease. According to Statistics South Africa (2003) 15% of adult South African is HIV positive while prevalence rates continue to rise for most age groups. The UN/World Bank estimate for the HIV/AIDS prevalence rate was around 25% in 2003.

Direct public spending on the disease has increased sharply in recent years. The expenditure on HIV/AIDS was 0.2% of GDP of 2003/2004 financial year. The major upgrade of personnel, facilities and management will be required for the treatment of the disease in future, especially with the ARV roll out. The total spending is even higher given that most of the department's health expenditure is HIV/AIDS related. Nutrition and income support programmes are also part of the broad response to the disease.

Some enhancement measures include:

- Provision of Antiretroviral drugs: These offer prospects of mitigating the worst impacts of HIV/AIDS AIDS has the potential to cause severe deterioration in the economic conditions of many countries. However, there are steps that can be taken to keep the epidemic from getting worse and to mitigate the negative effects. Some of the necessary responses include:

- Prevent new infections: There is need to support programmes that reduce the number of new infections. Some of the effective national responses include information, education, communications, voluntary counseling, testing, condom promotion, availability of services, stigma and discrimination reduction. Efforts of government, NGOs and commercial sector, can make a difference. Workplace-base programmes can prevent new infections among experienced workers.
- Designing of major development projects: Some major development activities may inadvertently facilitate the spread of HIV. Major construction projects often require a large number of male workers to live apart from their families for extended periods of time. This leads to increased opportunities for commercial sex. This can be avoided by creating special villages where employees can stay with their families. Some special prevention programs may be put in place from the very beginning of the projects such as mines or new ports.
- Programmes to address specific problems: Special programs can mitigate the impact of AIDS by addressing some of the most severe problems. Reduced school fees or special arrangements can be made for children from poor families and AIDS orphans so that they can stay at school longer and avoid deterioration in the education level of the workforce. Benefits or other incentives for training can encourage firms to maintain worker productivity in spite of the loss of experienced workers.

  The impacts of AIDS on households can be reduced to some extent by public funded programmes to address the most severe problems. Such programmes may include home care for people with HIV/ AIDS, support for the basic needs of the households coping with AIDS, foster care for AIDS orphans, food programmes for children and support for educational expenses. Such programs can help families and particularly children survive some of the consequence of an adult AIDS death that occur when families are poor or become poor as a result of AIDS.

7.5.3 Income Inequality and Poverty

The acute income and wealth inequalities are also a source of social strain. South Africa has embarked on important initiatives that seek to reduce income and wealth disparities. The BEE and land reform are two such initiatives that are in the forefront of addressing some of the causes of inequality. Land redistribution and are BEE helpful in addressing some of the problems and injustices created by the apartheid regimes. The two are important features that should help sustain the support of all groups in the country. The land redistribution programme involves the provision of grants to subsidise land purchases. The 2004/2005 budget provides the equivalent of 0.1% of GDP for this purpose over the next three years.

Black Economic Empowerment (BEE)

The BEE strategy was developed to address patterns of development in South Africa, mainly in black communities among women, youth, disabled and people living in rural areas who are largely excluded from the benefits of mainstream society. This was achieved through lack of opportunities, limited ownership opportunities, discrimination in the work place, and through consequences of apartheid geography and spatial development. All that left a legacy of inequality.

BEE comprises a set of integrated strategies that aims at

- Promoting broad-based black economic empowerment (BBBEE), including women, youth, disabled and those living in rural areas;
- Ensuring the broadest ownership of productive assets and resources;
- Ensuring increasing levels of employment in the formal economy;
- Increasing household incomes;
- Improving literacy and develop skills;
- Accelerate sustained broad economic growth and social development;
- Promoting extension of basic services to those who do not currently have them;
- Child support grants that are targeted for extension to older children;
- Provision of free basic utilities to poor households.

Some mitigating measures include:

- The BEE seeks to encourage the transfer of assets and the promotion of black participation in management and operations;
- Government has set aside an equivalent of 1% of GDP for the next four years for BEE transactions;
- The land reform is a potentially important vehicle for maintaining social stability and reducing rural unemployment and poverty;
- A target has been set at 30% of agricultural land to be transferred; to black ownership by 2015. By end of 2003, only 3% had been redistributed or restituted;
- Administrative capacity constraints and restrictions on the subdivision of land will need to be addressed;
- Since the land reform is based on the willing buyer-seller principle, the government will have to ensure that fiscal resources are available, and that they don't constrain the pace of land transfers.

Some of the mitigating and enhancement measures are not yet in place, but if implemented they can help seal some of the immediate social strains. These measures are demanding in terms of both financial and human resources. Sometimes it may be necessary that such resources be taken from other activities, and thus placing those activities at strain as well. However, if measures are not placed sooner, the cost could even be higher in future. Furthermore, South Africa policy measures on these issues need to be co-coordinated with regional policies. This can also reduce some resource strains where economies of scale are applicable.

8 Macroeconomic Challenges

Since South Africa's transition to democracy more than ten years ago, the battle against social inequality has been a difficult one for the government. During the apartheid era, basic capabilities, well-being and choices of a significant portion of the population have been severely compromised. Therefore, the new government was faced with enormous challenges like eradication of poverty, extreme income and wealth inequality, provision of access to quality and affordable basic services, promotion of environmental sustainability, reduction of unemployment, and attainment of sustainable high growth rates. The government had to define both the strategy and policy direction that needed to address all these and other challenges. In this section we will look at how government approached the poverty, education, health care, employment, housing, environment and service delivery issues.

8.1 HIV/AIDS

The drastic rise in HIV/AIDS-related deaths has significantly changed the life expectancy in South Africa. The 2001 report by Medical Research Council (MRC) estimated that about 25% of all deaths in South Africa were a result of HIV/AIDS (2002). It is estimated that by 2015 average life expectancy could fall by more than 30% relative to 1996 (South African Institute of Race Relations, 1998). HIV/AIDS will be a severe problem for many years to come and the future demographic impact is expected to be significant. Thus, the pressure on the provision of health services (medical facilities, personnel and medicine) by both the public and private will continue to accumulate.

Estimates of HIV-positive infections have increased to about 12% of the population, from 3% in 1996. The major increase over the period has occurred in the 20 - 49 age group. More women are infected than men, and the gap is reported to be growing. HIV infection is highest among women of the ages of 20 and 39.

8.2 Poverty

Poverty is defined as a multidimensional phenomenon that is reflected in malnutrition, poor or low survival rates, low literacy levels, inadequate clothing, housing and living conditions, apart from low incomes. Poverty is thus measured in terms of deprivation in basic dimensions that are necessary for human life. The World Development report defined poverty as the "inability to attain a minimal standard of living measured in basic consumption needs or income required to satisfy them." According to this definition poverty is measured in terms of income or the percentage of people below a certain income level.

Despite the positive macroeconomic achievements that South Africa has accomplished in the past decade, poverty and inequality remain important social phenomena that are gravelling the nation. Estimates about the number of people in poverty vary according to the choice of poverty line and assumptions about the intra-household allocation. In the case of South Africa the income and expenditure survey of 1995 was used to derive national poverty line of R354 per month per adult equivalent. The international poverty lines of USD 1 purchasing power parity (PPP) a day and USD 2 PPP a day per person are most commonly used yardsticks. For each poverty line, poverty gap was calculated as the average shortfall below the poverty line and expressed as a percentage of poverty line.

Table 30 below presents a summary of the state of income poverty in South Africa. It highlights the extent to which income poverty and poverty gap marginally declined between 1995 and 2002. The percentage of the population living below poverty line has decreased from 51.4% in 1995 to 48.5% in 2002 using national poverty line. Table 30 also shows that poverty in South Africa continues to have a gender dimension. Females constitute 50.9% of the poor in 2002, compared to 45.9% of males.

Table 30: Trends in Absolute Poverty and Poverty Gap (1995 and 2002)

South African poverty line		International poverty line				
Population below the poverty line (%)		Population below $2 a day (%)			Population below $1 a day (%)	
	2002	1995	2002	1995	2002	1995
Trends in absolute poverty (1995 and 2002)						
National	48.5	51.1	23.8	24.2	10.5	9.4
Male	45.9	48.9	22.6	22.5	9.9	8.7
Female	50.9	53.4	24.9	25.8	11.1	10.1
Trends in poverty gap (1995 and 2002)						
National	18.0	17.8	9.6	6.2	4.6	2.5
Male	17.8	17.1	9.4	5.7	4.6	2.3
Female	18.2	18.4	9.8	6.6	4.7	2.7

[Source, UNDP, 2003]

The population living in extreme poverty is estimated by using the international poverty line of the percentage of the population living on less than 1 USD per day, using purchasing power parity (PPP) exchange rates. In South Africa, the percentage of the population living below 1 USD per day has increased from 9.4% in 1995 to 10.5% in 2002. The rate increased for both males and females.

Poverty gap reflects the depth of poverty and is measured using the poverty lines. In South Africa, that has also increased over the two periods. Overall, the rise in poverty gap has been more significant among men relative to women.

8.3 Lack of Human Capital

South Africa has serious problem of skills shortages. This shortage comes at a time when they are most needed. The cause for the situation is both internal and external with the opening up to international competition placing a premium on these resources. South Africa will have to make optimal use of its existent resources.

The Department of Education developed a succession of discussion documents since 1994, Green Papers, White Papers, new legislation, amendment to existing laws and regulatory procedures. These led to the transformation of the education system. Some of the outcomes included creation of one Department of Education out of the 19 racially, ethnically, and regionally divided departments of education; creation of non-discriminatory school environment; laws and policies that govern education were put into place; increases in matriculation (end-of-school) pass rates; creation of institutional typologies; delivery of certain basic services; and maintenance of high enrolment rates.

On the budgetary side, education has been a recipient of nominal increase of about 11% per annum from 1995 to 2002 (R31.1 billion - R59.6 billion, South African Reserve Bank, 2003). In real terms, the annual average increase in current expenditure was about 1% per annum. The share of government's total expenditure allocated to education declined from 19.2 % in 1995 to 18.8% in 2002. Therefore, the question that needs to be asked is whether the financing of education system improved fiscal equity in schools and higher educational institutions.

Lack of real growth in the education budget make it difficult to finance teacher development programmes, materials expenditure, classrooms and school buildings and other non-personnel related costs. There have also been reported cases of high dropout rates in larger and poorer provinces such as KwaZulu Natal, Eastern Cape, Mpumalanga, Limpopo and North West. Furthermore, the policy mechanism that seeks redistribution effect on education system has not shown effect on the poorest schools.

There is a further concern regarding the ability of education to close the skills gap that exists in the economy. In 2003, as indicated in Table 31, the overall pass rate of senior certificates was 73% compared to 58% in 1994. Furthermore, Table 31 shows that the overall pass rate in 2003 was less than that of 1994 and 1998 implying that fewer numbers enrolled for senior certificate.

Table 31: Senior Certification Examination: Number of Candidates, Percentage Passed, and Percentage with University Entrance Pass (1994, 1998 and 2003)

Year	Number of candidates	Proportion passed (%)	Proportion with university pass (%)
1994	495,408	58	18
1998	552,384	49	13
2003	440,267	73	19

[Source: NEDLAC, 2005]

The pass rate picture is different when university entrance pass rates are taken into consideration. Even though the university entrance pass rate was higher in 2003 (19%) than 1998 (13%), the rate is still considerably low. Universities are currently entrusted with the task of addressing the problems of skills shortage. However the rate of matriculants who obtain university entrance pass rate is currently too low to have a significant impact in reversing the problem of skills shortages.

8.4 Lack of Economic Diversification

South Africa is struggling to manage its reintroduction to the world economy, especially in the new globalised era. The business cycle in the last decade has been dominated by portfolio speculation, with the typical business cycle occurring as follows: a boom results in an increase in imports to meet strong demand. At some point, a speculative attack on the Rand will drive the value of the currency down very quickly. In response to the attack, the SA Reserve Bank will increase rates to attract portfolio flows back into the country. Once the speculation ceases, the Rand slowly return to pre-crisis levels. In the interim, the price of imports will go up rapidly, as do the prices of tradable commodities due to import-parity pricing. To dampen inflation, the SARB will increase rates further, thus depleting demand and reducing economic growth. After a period of slow growth, demand once again will increase and the cycle will repeat itself.

South Africa may have broken the cycle with the current boom, although demand is once again causing the Rand to depreciate. However, this effect is being offset by the worldwide depreciation of the US dollar, which has enabled South Africa to sustain the current boom longer than during most previous cycles. These problems are mainly attributed to the economy's dependence on the mining sector.

8.5 Lack of Infrastructure

In terms of infrastructural problems, sectors such as transport and logistics, energy, telecommunications and water were identified as priority sectors. There are urgent challenges that need to be addressed in the identified sectors, mainly in the transport and logistics. Particular areas of concern include freight transport and logistic sector as well as the operations of rail and port sectors where major bottlenecks to trade and growth seem to be situated. Public transport has recently emerged as another key challenge after the successful bid to host 2010 soccer world cup. Telecommunications services have grown significantly in the past decade mainly due to the cell phone sector; though the costs remain high. That becomes an obstacle to investment in the sector and other businesses.

8.6 Lack of Finance and Income Distribution

The overriding impression is that savings levels in SA are very low. This is probably due to the fact that wealth is highly concentrated in a few hands, with the majority of the population too poor to save significantly. However, recent research by the FinMark Trust suggests that most poor people do not save via conventional banks because of high banking costs. Because informal saving mechanisms are largely unrecorded in national statistics, it is therefore possible that savings - by poor households in particular - are significantly under-recorded.

The presence of persistent poverty in an economy that is regarded as performing well is an indication of wealth inequalities within the society. Income inequality remains pervasive in South Africa. South Africa is one of the most inequitable countries in the world. There are reports that suggest that very little has been done in this regard since

1994. This situation arises primarily due to South Africa's legacy of apartheid and the growing joblessness.

The skewed income distribution is confirmed by the Gini Coefficient, which measures the extent of income inequality in a country. The coefficient ranges from zero to one. If the Gini coefficient equals zero, there is perfect income equality. A Gini coefficient of one is an indication of perfect income inequality. In 1995, Gini coefficient for South Africa was 0.596 and it rose to 0.635 in 2001 (UNDP Report, 2003). This situation continues to place South Africa in the ranks of the most unequal societies in the world.

8.7 Gender Issues

South Africa has adopted the approach of developmental welfare. South African policy frameworks are underpinned by very strong formal commitments to gender equality. Social rights and gender equality have both been conceived as integral to citizenship in democratic South Africa. The constitution imposes particular responsibilities on government to address socio-economic inequalities as part of a progressive realization of human rights and in ways that erode inequalities of gender in addition to inequalities of race. The constitutional obligations ensure the inclusion of gender equality concerns in policy formulation. For women, the emphasis on citizenship in the transition to democracy was significant in creating a framework for women to articulate claims on the state on the basis of their individual entitlements rather than on the basis of their status as mothers or tribal subjects. Since 1994, South Africa has consistently been among the highest performers in the world in terms of the numbers of women elected to political office.

This new framework created the expectation that the expansion of citizenship rights to include social rights and the increased participation of women in political decision-making would result in greater attention to gender inequalities. However, South Africa has performed significantly better in improving women's political position than it has in improving women's economic position in the ten years since the inception of democracy. On the Gender and Development Index of the United Nations, South Africa ranks 90th out of 144 countries

(Hassim, 2005). Clearly, political presence does not necessarily imply that poor women's interests are adequately addressed in economic and social policy.

Poor women are in many respects the most vulnerable citizens in South Africa. STATSSA's labour force study in 2003 showed that women on the whole had lower incomes, higher unemployment rates and less access to assets than men. African women make up 42% of the workforce but only 30% of them are part of the employed population. Young African women are even worse off, with African women under the age of 30 facing an unemployment rate of 75%.

8.8 Governance Problems

More than a decade after the death of apartheid, there are still gaps between policy and its implementation. This is based on the broad policy intent and the implementation of the legislation. The main factors that have contributed to the implementation gap are identified as human resource constraints, macroeconomic policy and the budget and finally, coordination between the policy and the budget.

The human capacity constraints are a contributing factor to the policy implementation gap, especially in municipalities. At that level, there is absence of policy skills and middle level governance and management skills. Efforts which were made to build human resources at local government in the first six yeas of democracy are yet to yield results.

9 Conclusions and Recommendations

The purpose of this study is to examine national policies and programmes and link them up with the SADC regional goals, such as deepening the integration agenda. Furthermore, the outcomes should inform policy decision making on how integration can be facilitated and elaborate viable options for the way forward on the path to integration. In this study, South Africa's social-economic policies and activities were examined.

The guidelines of the study were provided by the RISDP. The RISDP's main objective is to provide Member States, SADC Secretariat and other institutions, regional and international stakeholders with a long term strategic development framework. The plan captures goals and objectives, which entail developing a FTA by 2008, establishing a Custom Union by 2010, creating a regional common market by 2015 and forming a monetary union by 2016. South African policies were examined to see how they fit into the RISP goals.

The human development and social trends in SADC are based on selected socio-economic indicators that are discussed in the report. Social and economic growth and development across the region are diverse, with some countries attaining high growth rates and others achieving very low growth rates. Poverty, education, health, employment and gender issues have been identified as the main focus area for the study. These areas have clearly stated strategies, goals and targets that guide Member States to work towards achieving a common goal.

South Africa, as the dominant member in terms of its economic development, is required to play a leading role in the regional integration. South Africa's main challenges come from the national agenda, given that it is coming from a background of international isolation and separate policy making. South Africa's development, policy making and implementation have evolved through stages and over periods of time. The period since 1994 has been characterized by a range of policy and legislative reforms. There were remarkable achievements in some policy developments, many attached to economic and social development that contained specific provisions to promote those goals. However, there is still a gap between policy and its implementation. Some of the factors that contributed to the implementation gap include human resource constraints, macroeconomic policy, coordination between the policy and the budget.

South Africa's transition to democracy more than ten years ago coincided with the battle against social inequality. During the apartheid era, basic capabilities, well-being and choices of a significant portion of the population were severely compromised. However South Africa managed to put in place sound macroeconomic policies and programmes that are starting to benefit the society.

Despite the positive macroeconomic achievements that South Africa has accomplished in the past decade, poverty and inequality remain important social phenomena that are gravelling the nation. Estimates about the number of people in poverty vary according to the choice of poverty line and assumptions about the intra-household allocation. The presence of persistent poverty in an economy that is regarded as performing well is an indication of wealth inequalities within the society. Income inequality remains pervasive. South Africa is one of the most inequitable countries in the world. This situation arises primarily due to apartheid era policies and the growing joblessness. Unemployment records indicate that almost one in three economically active individuals is jobless.

On education, the department has developed a succession of discussion documents since 1994 that led to the transformation of the education system. Some of the outcomes included the creation of one department out of the nineteen racially, ethnically, and regionally divided departments of education; creation of non-discriminatory school environment; laws and policies that govern education were put into place; increases in matriculation pass rates; creation of institutional typologies; delivery of certain basic services; and maintenance of high enrolment rates.

Education has the highest share of government budget, averaging around one fifth of total expenditure. The department has been pressed with challenges have such as lack of real growth in the education budget, materials expenditure, classrooms and school buildings and other non-personnel related costs. These challenges raised further concerns regarding the ability of education to close the skills gap that exists in the economy as fewer matriculants achieve university pass rate.

The department of health has also embarked on a complete transformation of the health system. This was an attempt to make the health system more equitable. Deprivation of health is a reflection of inadequate or inaccessible health care services, while access to healthcare services remains a key component of any country. The drastic rise in HIV/AIDS-related deaths has significantly changed the life expectancy in South Africa. There are reports estimating that about 25% of all deaths in South Africa are a result of HIV/AIDS. HIV/AIDS will continue to be a severe problem for many years to come unless serious measures are taken. Furthermore HIV/AIDS exert more pressure on the provision of health services (medical facilities, personnel and medicine) by both the public and private.

The restructuring of the health system produced a primary healthcare system that focuses on increasing healthcare provision and that is affordable and accessible to all. In particular, the main targets are rural and historically disadvantaged areas. The emphasis has been on accelerating the quality of health service delivery. Furthermore, government has increased the expenditure on primary healthcare over time. The free health care policy for pregnant and lactating mothers as well as children under the age of six has been extended to cover all primary healthcare services for everyone in the public health system. Expanded programmes on immunisation provide children with immunisation against measles, diphtheria, tetanus, whooping cough, polio andTB.

TB cases and HIV prevalence have been increasing due to failure to control HIV infection rates. TB cases are associated with HIV/AIDS and that explains why they are also are on the rise. However, prevalence of other sexually transmitted diseases is on the decline. Incidences of malaria and measles cases have declined dramatically, suggesting that improved primary health care services for children may be effective.

One of the key challenges in the health department continues to be human resource constraints that also cause problems in the delivery of services. In many hospitals there is insufficient medical support staff to handle the workload. Retention of skilled staff has been a major problem. Doctors have been leaving the public service to enter private practice or seek employment abroad. The active recruitment of nurses by foreign countries has also depleted the hospitals of many skilled nursing staff.

The Government has completed its own performance assessment of the ten years that have informed its priorities and set new performance targets for future periods. Improving the economic growth rate so that it can keep up with the quality of life has remained the main government priority. This also goes with the challenge of improving the quality of life for the marginalised people who are unlikely to benefit from improved economic growth rate, or what is commonly referred to as "second economy". Some of the new priorities include to:

- Reduce unemployment by half (of 2004) by 2014;
- Reduce poverty by half (of 2004) by 2014;
- Provide skills required by the economy;
- Improve government services (health, crime, etc.);
- Position South Africa as an effective progressive force in global relations.

To address the challenges, the government has designed policies that focus on microeconomic conditions.

Some mitigating and enhancement measures have been placed to reduce the severity of some of these social ills. On employment, some adjustments are required, that may also involve serious engagement with labour oganisations. Furthermore, the Expanded Public Works Programme has been introduced to provide poverty and income relief through temporary work for the unemployed to carry out socially useful activities. These activities are designed to equip participants with a small degree of training and work experience, which should enhance their ability to earn a living in future.

The Skills Development Programmes have been introduced to improve employability of most of the unemployed individuals. These programs target mainly the majority of the unemployed who are young people, disabled people, women and people living in rural areas. It has been realized that it is increasingly difficult for these groups of people to find jobs partly because there are not enough jobs and also because they do not possess skills that are demanded in the labour market. They face additional obstacles to find employment and also to develop those skills.

The Skills Development Programme allows Government to provide grants to encourage employers to invest in training and development of their staff. The objectives of the programme include:

- Fostering skills development in the formal economy;
- Stimulating and supporting skills development in SMMEs;
- Promoting skills development in social development initiatives; assisting new entrants in the labour market;
- Facilitating access to employment and income generation for the unemployed and under-employed.

To address unemployment challenges, new skills development learnership frameworks have been established. These would serve as useful vehicles for addressing problems and developing the much needed skills. The drive to recruit young, unemployed people into the learnerships has started. These would help them to acquire skills, and some to be economically independent.

However, the programme is facing some challenges. The training is centred on upgrading skills of individuals who are already employed, and therefore contributes very little towards reducing unemployment. It is also reliant on workers levy, and therefore long term financial sustainability remains at risk. Many small businesses in South Africa are informal and fall outside the regulatory and tax arrangements.

Mitigating measures on HIV/AIDS are required to be implemented soon as the pandemic is causing serious damages to mankind both socially and economically. The HIV/AIDS epidemic is exacting an increasing heavy toll on the society. The incidence of AIDS has raised the cost of doing business in South Africa. A concerted action is needed to contain the socio-economic repercussions of the disease.

The major upgrade of personnel, facilities and management are required for the treatment of the disease in future, especially with the ARV roll out. The total spending is even higher for the department given that most of the health expenditure is HIV/AIDS related. Nutrition and income support programmes are also part of the broad response to the disease.

The 2004/05 budget provided for antiretroviral HIV/AIDS drugs which will of mitigate the worst impacts of HIV/AIDS. This will help extend the lives of those already infected.

There is s need to support programmes to reduce the number of new infections in the future. Some of the effective national responses include information, education, communications, voluntary counseling, testing, condom promotion, availability of services, and reduction of stigma and discrimination.

Special programmes can mitigate the impact of AIDS by addressing some of the most severe problems. Reduced school fees or special arrangements can be made for children from poor families and AIDS orphans so that they can stay at school longer and avoid deterioration in the education level and workforce. Benefits or other incentives for training can encourage firms to maintain worker productivity in spite of the loss pf experienced workers.

The impacts of AIDS on households can be reduced to some extent by public funded programmes that address the most severe problems. Such programs can help families' particularly children to survive some of the consequences of an adult AIDS death that occur when families are poor or become poor as a result of AIDS.

On the issue of income distribution, the acute income and wealth inequalities are all sources of social strain. South Africa has embarked on important initiatives that seek to reduce income and wealth disparities. The Black Economic Empowerment and land reform are two such initiatives that are in the forefront of addressing some of the causes of inequality. Land redistribution and BEE are helping in addressing some of the problems and injustices created by the apartheid regimes. The two are important features that should help sustain the support of all groups in the country. The land redistribution programme involves the provision of grants to subsidize land purchases.

The BEE strategy was developed to address patterns of development in South Africa, mainly in black communities particularly women, youth, disabled and people living in rural areas who are largely excluded from the benefits of the mainstream of the economy. The inequality is a result of lack of opportunities, limited ownership opportunities, discrimination in the work place, and through consequences of apartheid geography and spatial development. However South Africa has since independence gone through some major macroeconomic reforms. In the process, the interventionist approached was replaced by neoliberal policy in the form of GEAR. The strategy had an objective of transforming the South African economy. The emphasis of the framework was on implementation of tight fiscal and monetary policies, trade and financial liberation and privatisation.

At the end of the five year period, evaluation of the policy revealed that the main disappointments were in the areas of growth, investment and jobs. However in some areas such as inflation, budget deficit and exports of manufacturing products, performance exceeded expectations of GEAR.

Monetary policy has also undergone a slight shift in focus. Monetary policy is the preserve of the independent South African Reserve Bank. When GEAR was published, SARB's policy was to target inflation through restricting growth in the money supply.

South African interest rates have fallen while developed country rates have risen. This has halted the appreciation of the Rand. Exporters are slowly learning to compete at these adverse price levels. In addition, the accumulation of reserves by the SARB should prevent any further appreciation.

South Africa's budget deficit has been problematic at times. Reducing the deficit was one of the key aims of GEAR. The budget deficit was steadily reduced in order to reduce the public sector borrowing requirement, and hence pay down public debt.

In areas of saving, South Africa has battled to reach even its own targets. The one route that South Africa must take to increase savings is higher economic growth. South Africa would have to significantly improve her economic performance in order to reach the SADC target of annual growth rate.

The budget process has been reformed in ways that markedly increased the degree of transparency and participation. In the South African system the decision on the division of national revenue is firmly located in the national sphere of Government. However the constitution has envisaged a key role for an independent advisory body, the Finance and Fiscal Commission which has failed to gain enough influence to fulfill its function.

South Africa has also introduced MTEF that sets out the policy framework for the coming budget. It describes Government's goals and objectives. It explains the economic environment within which those objectives are being addressed, and projects the total level of resources that will be available. The Policy Statement analyses the trade-offs and choices that the nation confronts in addressing its reconstruction and development priorities.

South Africa has a serious problem of skills shortages. This shortage comes at a time when they are most needed. The cause for the situation is both internal and external because South Africa's the opening up to international competition places a premium on its human resources. South Africa will have to make optimal use of its existent resources.

References

African Development Indicators. (2005). World Bank Database, Global Indicators

BIDPA (2005). BOTSWANA INSTITUTE FOR DEVELOPMENT POLICY ANALYSIS. Deepening Integration In SADC Macroeconomic Policies And Their Impact: Terms Of Reference For Country Study On Country X : Stellenbosch, South Africa.

Brenton P., Flatters F. and Kalenga P. (2004). "Mid-Term Review of the SADC Trade Protocol: Rules of Origin", a report prepared for the SADC Secretariat.

Department of Labour, (2000). Towards a National Skills Development Strategy. Skills, for Productive citizenship for all. Draft consultation document prepared for National Skills Authority.

Flatters F (2002). SADC Rules of origin: Undermining Regional Free Trade. A paper presented at the TIPS Forum, Johannesburg, September 2002

Gaolathe, B. (2002). Reducing Poverty in the SADC Region through Collective Action - the Role of Governments. Paper presented at the 2002 SADC Consultative Conference. Gaborone.

Gelb. S. (1991). South Africa's economic crisis. Cape Town. David Phillips Publishers.

International Monetary Fund (2002). South Africa-selected economic issues. IMF staff Country Report, No 95/21. March 2002.

International Monetary Fund (2002). World Economic Outlook. Washington DC

Medical Research Council. (2002) Health Review. 2002. Pretoria

National Treasury. Estimates of Expenditure. Various

NEDLAC, (2004). National Economic Development and Labour Council. Socio-economic report: Health. Annual Reports.

SADC (2002). Summary of the Desk Background Study to the Regional Indicative Strategic Development Plan (RISDP). SADC Secretariat. Gaborone.

SADC (2002). The Role of Statistics. Paper presented to the 2002 Consultative Conference. SADC Secretariat. Gaborone.

SADC (2003). Regional Indicative Strategic Development Plan. SADC Secretariat. Gaborone.

SADC Trade Data (2004). SADC Trade data collected from Members States

Deepening Integration in SADC

South Africa – SADC's Economic Engine

Part: 2

Perception of Business and Non-State Actors in South Africa

List of Tables

List of Figures

1 Introduction

This report centres on the findings of surveys conducted using structured questionnaires to establish the perceptions of Business and Non State Actors (NSAs) on regional integration in the SADC. The survey is part of a broader research project on 'Deepening Integration in SADC - Macro-Economic Policies and Their Impact'. The survey is supported by the Friedrich Ebert Foundation in close consultation with SADC Secretariat with the aim of enhancing knowledge and policy debate onSADC integration impact.

The report has two components - the business and NSA component, the results of which are analysed concurrently in sections of the questionnaire where questions were common to both businesses and NSAs.

In sections to follow, the methodology used is briefly explained and the limitations also highlighted. This is followed by an overview of the characteristics and behaviour of businesses and NSAs, in this section the focus is mainly on types of businesses or NSAs interviewed and what sectors or organisations they fall under among other issues as highlighted later on. AA review of the perception held by business and NSAs on SADC regional integration is conducted and this is followed by issues focussing on intra-SADC trade. Concluding remarks follow thereafter.

A standard coded questionnaire for businesses and for Non-State Actors (NSA)[3] was used in the survey. 31 NSAs submitted responses of sufficient quality and completeness to warrant inclusion in the analysis. While these responses meet the minimum requirement set out in the terms of reference for this study, it nonetheless represents a low response rate. The survey is estimated to have reached, through a variety of channels, between 20,000-30,000 South African companies while it is estimated that there are actually between 55,000 organisations[4] active within civil society. Considering the business survey, even if 1% of these companies are active in the SADC region (and

[3] NSA included organisations such as Chambers of Commerce and Industry, employers' federations, trade unions and professional / industry associations, as well as relevant civil society organisations (NGO-umbrella organisations and affiliates, human rights organisations, churches, etc.).

[4] see http://www.anc.org.za/ancdocs/pubs/umrabulo/umrabulo13m.html *Last accessed 27/02/2006*

hence care about the issues covered in the survey), the sample still represents only about 10-15% of the potential universe.

In both the Business and NSAs survey, two important caveats should be concidered throughout the analysis. First, with a sample of only 31 (businesses) and 10 (NSA), relative rankings of different categories or response options will always possess an element of arbitrariness. For example just one or two companies or NSA choosing a different response to any given question could substantially alter the results and corresponding interpretation. Second, the sample probably suffers from selection bias, since it is likely that only those firms interested in SADC's future saw the need to respond. This latter concern is not too problematic when analysing specific SADC-related questions, as only firms active in SADC would have the experience required to offer accurate responses. But for the more general questions, such as those addressed in the next section, a more diverse sample would have been useful.

2 Company Characteristics and Behaviour

2.1 Business

30 of the 31 respondents are private sector companies. No public sector entities or public-private partnerships responded. The single firm that is not in the private sector classified itself as 'other'. The companies span a variety of sectors, reflecting South Africa's relatively well diversified economy. More details may be found in Appendix A; suffice it to mention here that more than half the sample is in either manufacturing or agriculture (10 and 7 respectively). Other sectors containing more than one firm are transport and communication (3), and construction (2). A total of 5 companies which classified themselves as "other" are mostly-consultancies.

61% of the firms employ over 100 people, 74% have been in operation for more than 10 years, and 80% reported annual turnovers of more then USD 100,000. In other words, the sample is dominated by large, established companies.[5] This should not be surprising- operating in Africa is difficult and often unrewarding, it requires sophisticated risky strategies and exhaustive market research, as well as access to considerable capital in order to sustain the often unpredictable progress towards long term goals.

The questions on trade and trading partners yielded some interesting insights. South Africa quite clearly exports much more to SADC countries than it imports from them. Only 5 companies import more than USD 100,000 annually from SADC countries, while 16 companies export that much back to them. This contrasts with the respondents' trade with the rest of the world (RoW)-14 companies source annually more than USD 100,000 worth of imports from the RoW and 15 export that much to the RoW (mostly the same companies). These patterns accurately reflect South Africa's external position: a long-standing and growing trade surplus with SADC countries, but deficits or only small surpluses with most other regions.

[5] Although for many South African firms, an annual turnover of more than US$ 100,000 is to be expected. More curious is that 2 companies reported annual turnovers of less than US$ 25,000, 2 more between US$ 25,000 and US$ 50,000, and a further 2 between US$ 50,000 and US$ 100,000. A few simple calculations casts serious doubt over the accuracy of these responses, especially considering some of these firms also claimed they employ more than 100 people.

To which countries do the respondents mostly export? For a long time South Africa's major export destination has been the EU (which accounts for roughly 40% of South Africa's exports). However, the data in this study shows that Angola is competing for the same position with the EU.

Table 1 below contains the results. Countries or regions are ranked according to the total number of times they were named as either first, second or third most important export destination (far right column).

Table 1: Ranking Export Destinations by Importance

	1st	2nd	3rd	Total 'hits'
Angola	5	2	1	8
EU	5	1	2	8
Botswana	4	1	2	7
Namibia	2	1	3	6
Mozambique	1	5	0	6
Others	1	2	2	5
Asia	2	0	2	4
Malawi	1	0	2	3
USA	1	2	0	3
Rest of Africa	0	2	1	3
Mauritius	1	0	1	2
Tanzania	1	0	1	2
Zambia	1	1	0	2
Kenya	0	2	0	2
DRC	0	1	0	1
Swaziland	0	0	1	1
Uganda	0	0	1	1
Zimbabwe	0	1	0	1

Note: '1st' indicates most important export destination, etc.

It is clear that, Angola and the EU hold similar levels of importance for the respondents to this survey. Botswana is slightly less important, and is listed by four companies as their top export destination. Two further observations warrant closer attention. First, the USA and Asia both received fewer 'hits' than Angola, Botswana, Namibia, Mozambique, or 'others'[6]. This may reflect the often repeated sentiment

[6] It is worth being aware of exactly which countries are in the 'others' category. The regions/countries not covered by the options in the questionnaire include Australasia and Oceania/Pacific, Latin America, the CEE and CIS states, North Africa and the Middle East, and Canada.

of many African countries that the African market represents their best opportunities for expansion. But again, sample-selection bias may be distorting the picture.

Second, Zimbabwe is right at the bottom of the list. Not so long ago it would have been near the top, if not in the number one spot. The economic decline and political turmoil in that country has forced many South African firms to either sever completely or significantly scale down long-standing commercial relationships.

The companies (large household names at that are listing Angola as their most important export destinationare in the following sectors: construction; transport and communication; and manufacturing. Interestingly, the EU did not feature as second or third most important for any of these companies.

It is, however, difficult to establish any concrete patterns regarding what types of South African firms are interested in which regions from the data. The only distinct trend is that infrastructure-related companies are interested in Angola. In fact the six companies in this field (comprising construction, transport and communication, and financial services-see Appendix A) are almost exclusively focussed on Africa-only one listed any non-African destinations amongst its top three most important export partners.

Yet the bigger picture must be kept in mind. SADC countries are not important sources of revenue for these companies. On average, respondents generate about 70% of their revenue from their South African operations. Just 2 of the 31 respondents are heavily reliant on revenue derived from SADC economies.[7]

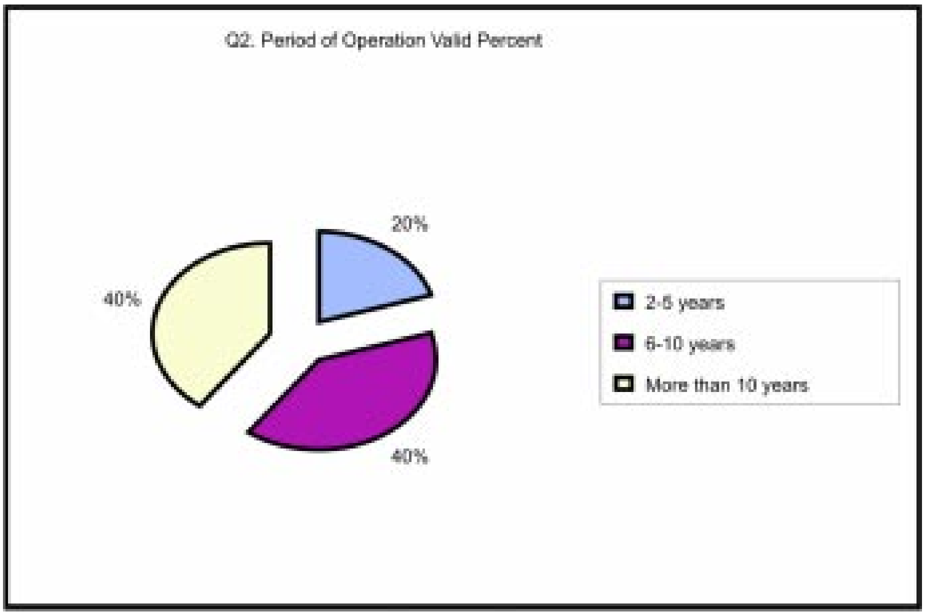
2.2 Non-State Actors

For NSA, the fact that the sample distribution is comprised of industry associations only limits the extent to which different NSA perceive the role and impact of regional integration in the SADC; however, the respondents' views are to a certain extent informed as they are in constant communication with companies they represent. Also important to note is the experience and establishment of the

[7] It could simply be that most of the respondents are not export-oriented companies. If so, exports (to any region) will not comprise a large source of revenue. This makes it difficult to know how much emphasis to place on SADC over other parts of the world.

respondents which is reflected by the number of years the NSA have been in operation as summarised in the pie chart below (see figure 1).). This reflects that 80% of the respondents in the survey have been in operation for at least 6 years.

Figure 1: NSAs' Period of Operation



Only 10% of the respondents have membership to the SADC national committee while only 40% are members of a regional umbrella organisation. These figures are very relevant in terms of understanding the extent to which regional integration is perceived as reflected by the responses outlined in the sections that follow.

3 Perceptions of SADC Regional Integration

The poor response rate of the NSA indicates a degree of apathy regarding SADC. It is thus important to first establish the respondents' general views of SADC before assessing more specific issues. What are their perceptions of the current business climate (both within and outside the SADC region)? Do they care about SADC integration? If so, why?

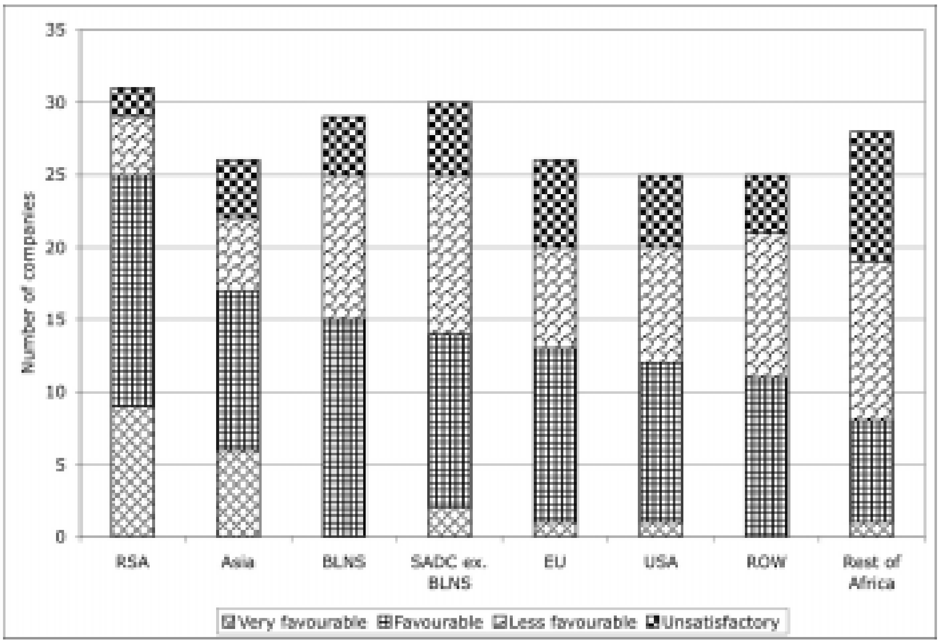
3.1 Business

3.1.1 General Perceptions

The general perception capture the respondents' perceptions about the business climates in the regions specified by the questionnaire. These are ordered left to right based on the sum of 'very favourable' and 'favourable' responses. The total number of responses per region varies because of 'don't know' responses (not included) or no response at all.

South Africa's business climate received the highest rating. This is most likely because the respondents are all South African-as with any situation, knowledge of the domestic market is always the most favoured. However, South Africa's six years of unbroken economic expansion and increasingly good outlook surely play a role. Preference for Asia is most likely to be due to the economic boom in China. And notwithstanding the first concern raised in the introduction, it is interesting to note that both the EU and the USA received fewer 'favourable' and 'very favourable' (combined) ratings than either the BLNS countries or non-BLNS SADC countries.

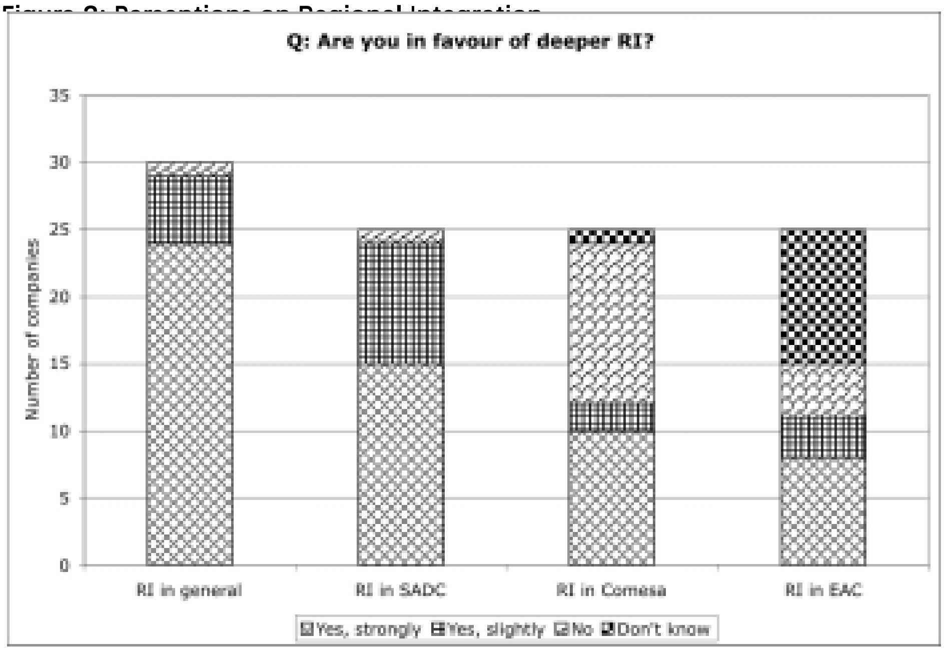
Figure 2: Business Climate Perceptions



Note: RSA = South Africa; BLNS = Botswana, Lesotho, Namibia and Swaziland; ROW ='rest of world'. Note also that the total number of companies differ in different charts across the categories due to non-responses (which, for the sake of clarity, are not the same as 'don't know'-see Figure 2 above).

Having established that many of the respondents (just less than half) feel positive about the outlook of SADC economies, it is useful to find out what their opinions are on regional integration (RI). below shows attitudes to RI 'in general', RI in SADC, RI in the Common Market for Southern and Eastern Africa (COMESA), and RI in the East African Community (EAC).

Figure 3: Perceptions on Regional Integration

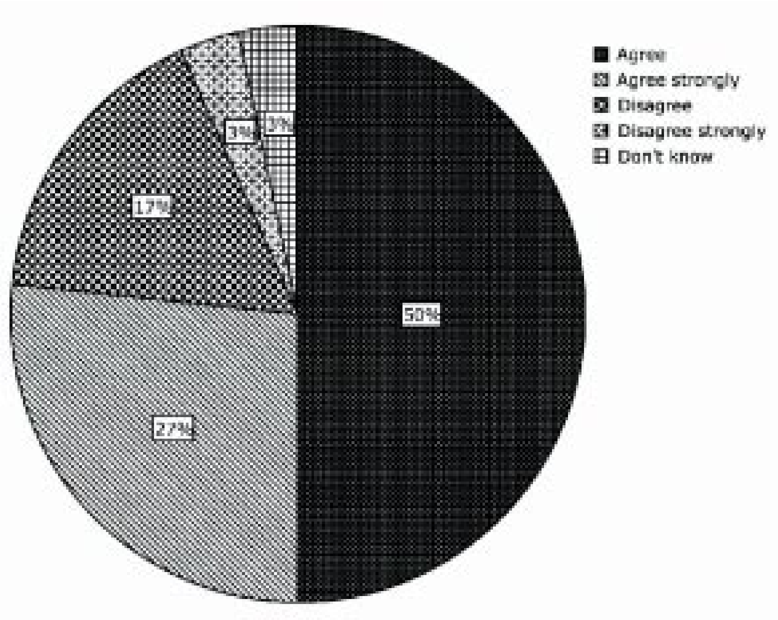


Note: RI = regional integration; COMESA = Common Market for Southern and Eastern Africa; EAC = East African Community (Kenya, Tanzania, Uganda)

Quite clearly South African firms overwhelmingly support deeper RI, although it isn't obvious why some respondents' attitudes to RI 'in general' differ from attitudes to RI in SADC (SADC encompasses every country in South Africa's immediate geographical region). Nevertheless, the majority of South African respondents are much more in favour of deeper RI in SADC than they are of it in COMESA. Finally, not many firms seem to know enough about the EAC to offer an opinion on RI amongst its' constituent countries.

A probable reason for the positive attitudes is that many firms foresee tangible domestic-economy benefits from deeper RI. This is illustrated in Figure 4 below which shows that 77% of the companies either agree or strongly agreed that deeper RI will benefit the local economy (in exactly which ways is discussed later in this report), while only 20% disagree or strongly disagree. 3% claimed they did not know.

Figure 4: Will RI Benefit the Economy 'in General'?



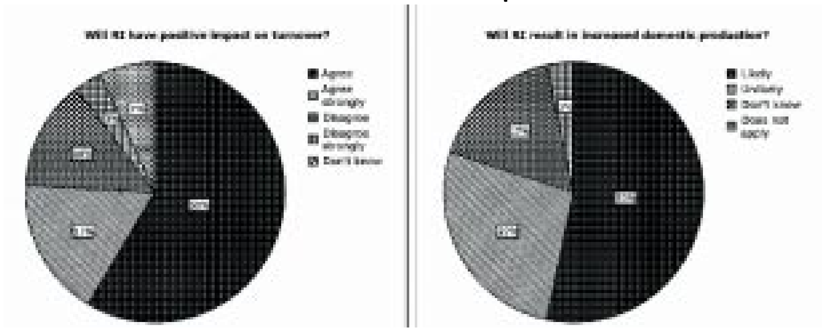
3.1.2 Perceived Impacts of Deeper SADC Integration

The questions on the perceived impacts are dealt in this study under four broad categories: production and employment, competition and prices, trade and investment, and other. Note that all of the questions dealing with perceived impacts referred to integration in the SADC region only.

3.1.2.1 Production, Turnover and Employment

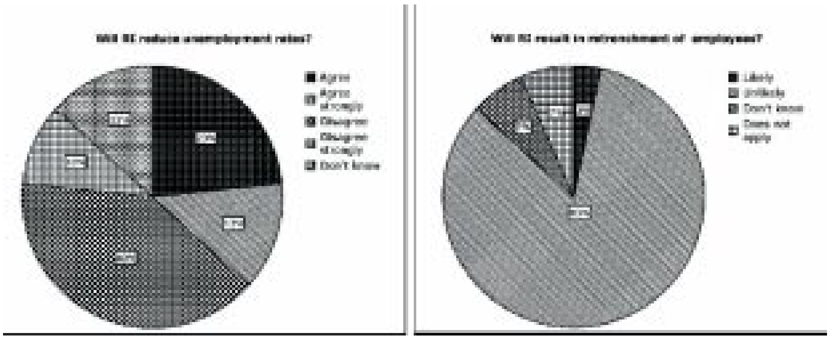
South African firms quite clearly see improvements in turnover and production from deeper RI. As shown in Figure 5 below, more than three quarters either agree or agree strongly that their turnover would rise, and just over half foresee positive domestic production impacts. This reconfirms the earlier observation that the respondents are in favour of deeper SADC integration.

Figure 5: Perceived Turnover and Production Impacts



Views on the employment effects differ markedly, as shown in Figure 6 below. Only 26% agree or agree strongly that deeper SADC integration would reduce unemployment rates in South Africa, while 50% disagree or disagree strongly. Figure 6, however, also shows that the respondents did not see huge job losses resulting either. In short, the expected employment impact is neutral.

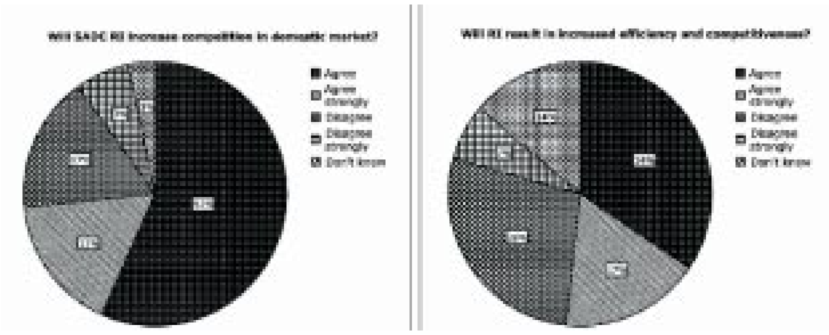
Figure 6: Perceived Employment Impacts



3.1.2.2 Competition and Prices

Respondents are generally confident in their strengths vis-à-vis producers in other SADC countries, a feeling that si boosted by South Africa's substantial trade surplus with them. In this light, the responses to the questions about competition are surprising. 74% believe deeper RI will increase competition in the domestic market, and 51% believe deeper RI will improve efficiency and competitiveness (although on this latter point a significant 35% disagree or disagree strongly-see Figure 7 below).

Figure 7: The Impact on Competition in the SA Market



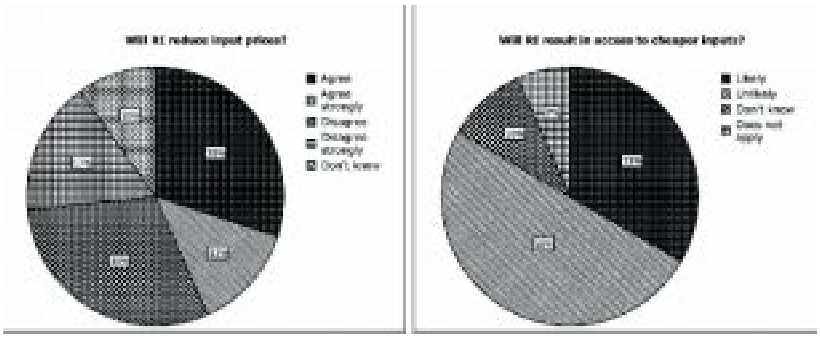
In a business person's mind, 'greater competition in the domestic market' is equivalent to higher import penetration. This implies that, if these firms' outlooks are accurate, deeper RI may help reduce the trade deficit the rest of SADC runs with South Africa. Such a conclusion is, however, a pure conjecture-even if imports from the rest of SADC into South Africa do rise as a result of better RI, South African exports into SADC could just as easily expand by as much or more.

Four questions addressed the likely impact on input costs. Two questions referred to 'inputs' generally and two to labour specifically. The results are shown in Figure 8 below. 44% of the respondents do not believe that deeper RI will reduce the costs of labour; 35% do; 21% do not know. This is inconclusive, but the history of the South African labour market would side with those who disagree. Wages in South Africa are very sticky downward, and have traditionally not been influenced by trade liberalisation. The current focus in South Africa is to increasingly reduce non-wage labour costs by simplifying the regulatory environment. This, however, is entirely a question of domestic labour market regulation, and is unlikely to be influenced by regional economic integration.

When asked if deeper RI would improve access to cheaper foreign labour, 63% believe it is unlikely. This could be due to slight ambiguities in the question- respondents do not know whether labour is cheaper in other parts of SADC or not, and they would clearly answer 'no' if they believe it is more expensive. But assuming that this this is not the case, the majority who responded 'no' could actually reinforce the commonly held view that the movement of labour in SADC is far from free and easy. Visa requirements and other aspects of labour migration will therefore have to form an integral part of any integration plan.. A further possibility is that the kind of labour respondents require is not available in the SADC region, i.e. there are supply constraints.

Opinion is also split on the effect deeper RI will have on domestic input prices (43% agreeing, 47% disagreeing). However this response is in line with the views on the likely impacts on domestic competitiveness. As noted earlier, if half see SADC integration improving the efficiency and competitiveness of their organisations, then the 43% in agreement here are correct in realising that these things can only happen if domestic input prices come down. In other words, the 47% who do not see their input prices dropping are presumably the same as those who do not see their efficiency levels being affected by SADC integration.

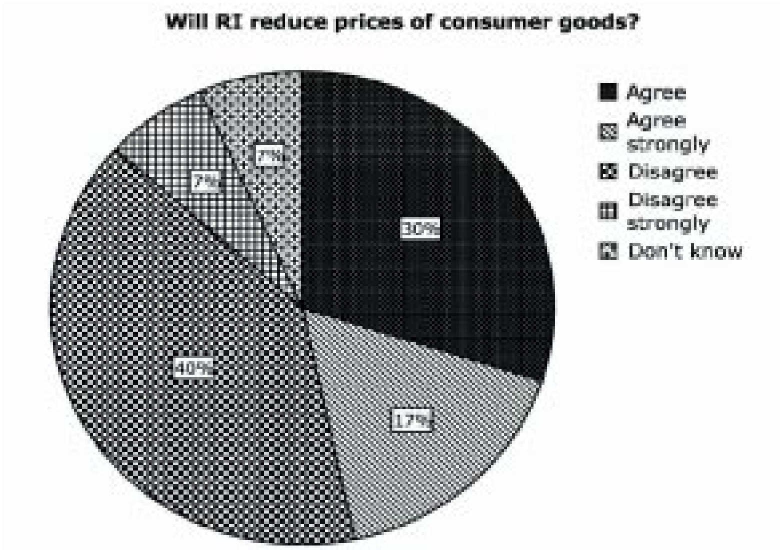
Figure 8: Impacts on Input Prices



The last point to note in Figure 8 is that 50% think that it is unlikely that deeper RI will result in better access to cheaper inputs. The reasons are probably not the same as those underlying the opinions on foreign labour. The most likely explanation relates to the fact that most products (but not services) already enter South Africa more or less duty free under the SADC Trade Protocol, an agreement which was entered into in 2000 and in which South Africa front-loaded its reduction commitments. Thus those firms that do source inputs from SADC countries are not likely to see price decreases due to trade liberalisation. But perhaps, over the long term, improvements in transport and communication (and trade facilitation in general) will engender a decrease in the cost of inputs supplied from the region.

One question referred to product market prices. The responses to the question are shown in Figure 9 , and below. In line with the earlier pattern, opinion is evenly split. 47% agree or agree strongly that consumer prices would come down, but 47% also disagree or disagree strongly. However, the percentages suggest a consistent view of price effects, since the correlation between responses to the question on input price changes and the one on output price changes is 0.66.

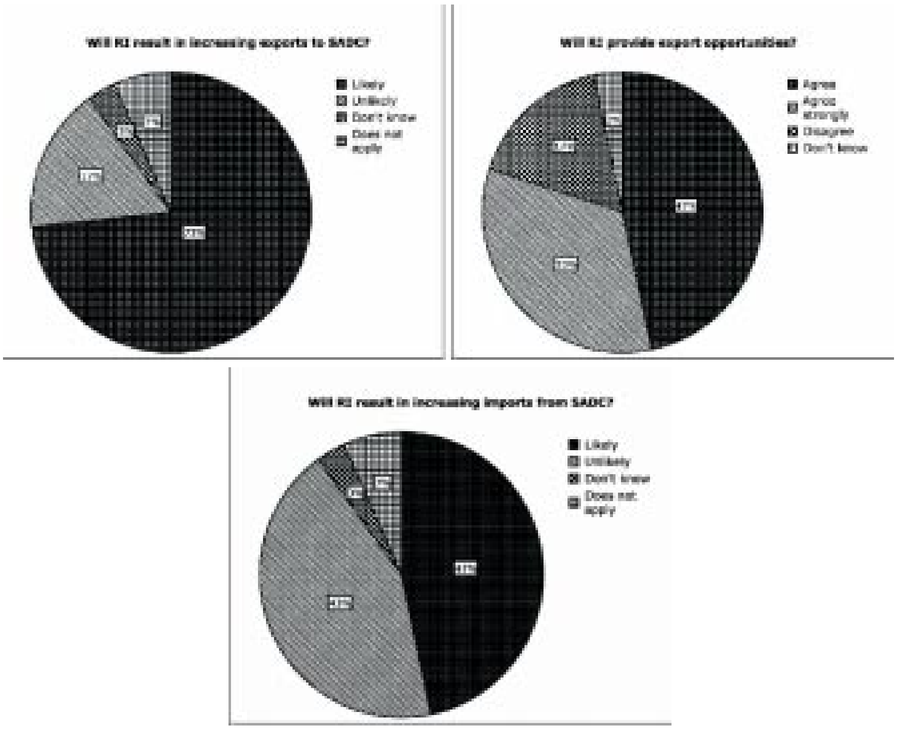
Figure 9: Impact on Output Prices



3.1.2.3 Trade and Investment

Questions that drew the respondents' attention to trade and investment impacts reveal high confidence levels. 73% think that deeper RI would result in them increasing their exports to SADC countries and 80% anticipate new export opportunities. Only 47% see themselves increasing imports from SADC, something that suggests that the current surplus South Africa enjoys with SADC will only increase. But it should be made clear that these questions referred only to what the respondents foresaw their own firms doing, not how they perceived aggregate trade flows evolving a more representative sample might suggest a different inference.

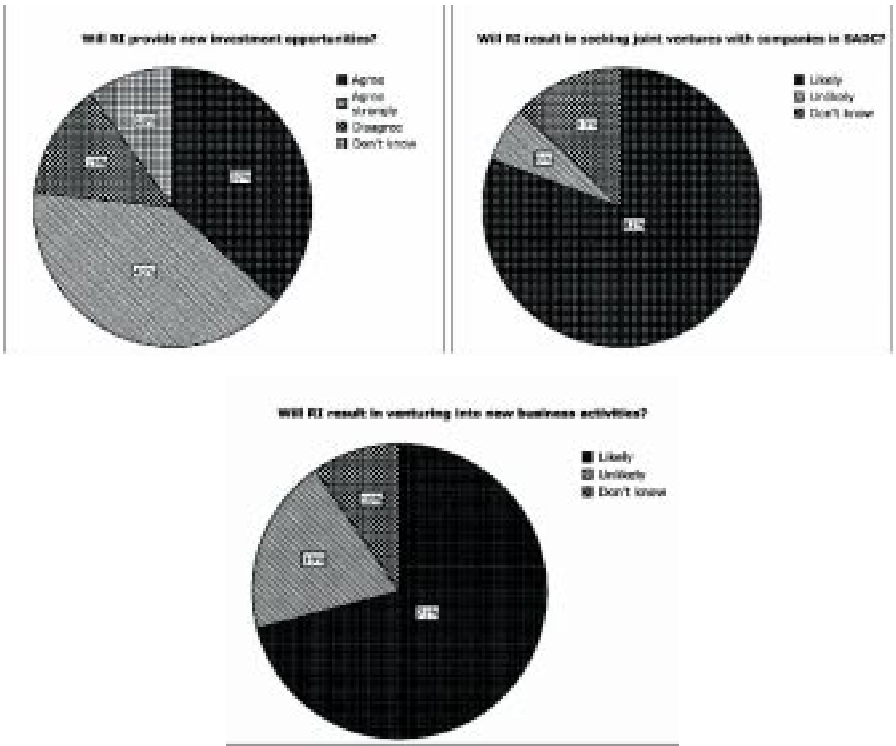
Figure 10: Exports to and Imports from SADC



The respondents are similarly optimistic about investment opportunities. As can be seen in Figure 11 below; 77% foresee a greater number of investment opportunities in SADC and, for other SADC countries, 81% think that it is likely that they would seek joint ventures in the future.

The third chart in Figure 11 has intresting results It shows that 71% think that deeper RI will result in them venturing into new activities. This is the strongest indicator of South African firms' confidence in their regional operations, since in-house diversification has proven to be a risky proposition, in the often unpredictable African business environment.

Figure 11: Increased Investment



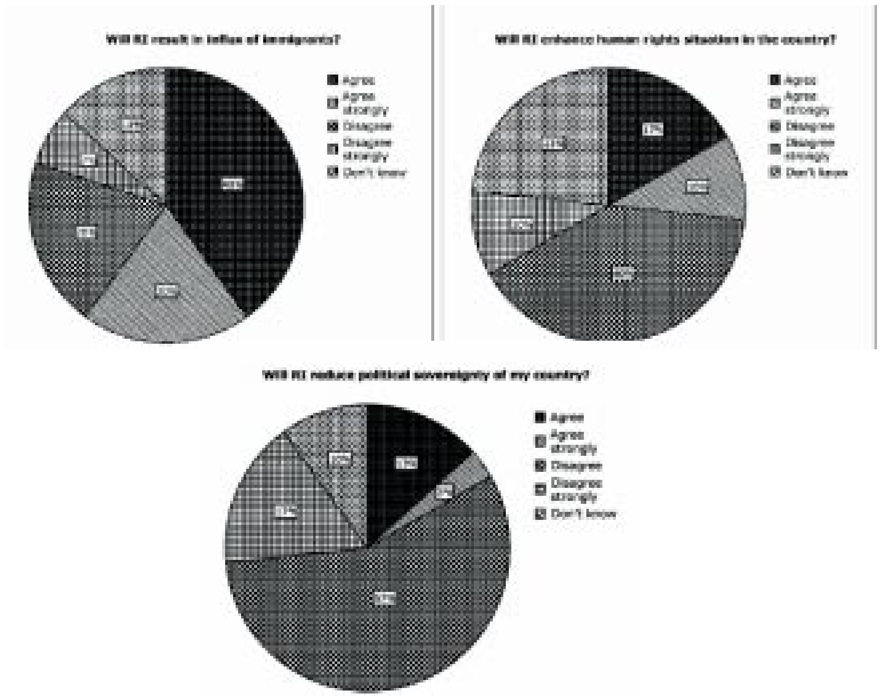
3.1.2.4 Other Impacts

The survey contained one question on each of the following topics: immigration, human rights, and political sovereignty. The responses these questions are given in Figure 12 below.

South African firms don't see RI changing the human rights status of South African citizens or the country's political sovereignty. This response is not surprising since, South Africa already has one of the most liberal and human rights oriented constitutions in the world. It is also the regional economic and political giant, and while closer economic integration necessarily involves the harmonisation of some economic policies, these processes are not likely to severely curtail the South African government's 'policy space'.

The views expressed on immigration are most interesting. 60% of the respondents foresee an increase in the number of migrants to South Africa. This is seemingly at odds with their belief that access to foreign labour will not greatly increase. Respondents must have responded this way because they had in mind illegal immigrants when answering this particular question. Illegal immigrants already represent a substantial problem in South Africa, and are not seen as a viable sources of labour for the conscientious employer.

Figure 12: Immigration, Human Rights and Sovereignty



3.2 Non-State Actors

Table 2 below summarises how organisations perceive the impact of regional integration in SADC. On analysis of the responses reveals that generally, there is a low indication of strong and positive confidence on the impact of regional integration as reflected by the number of responses in which the respondents agreed strongly to the impact of RI. Only 20% are in strong agreement that RI would increase competition on the domestic market and result in an influx of immigrants. Furthermore, there are mixed perceptions reflected in the analysis with a relatively general balance between those in agreement and disagreement.

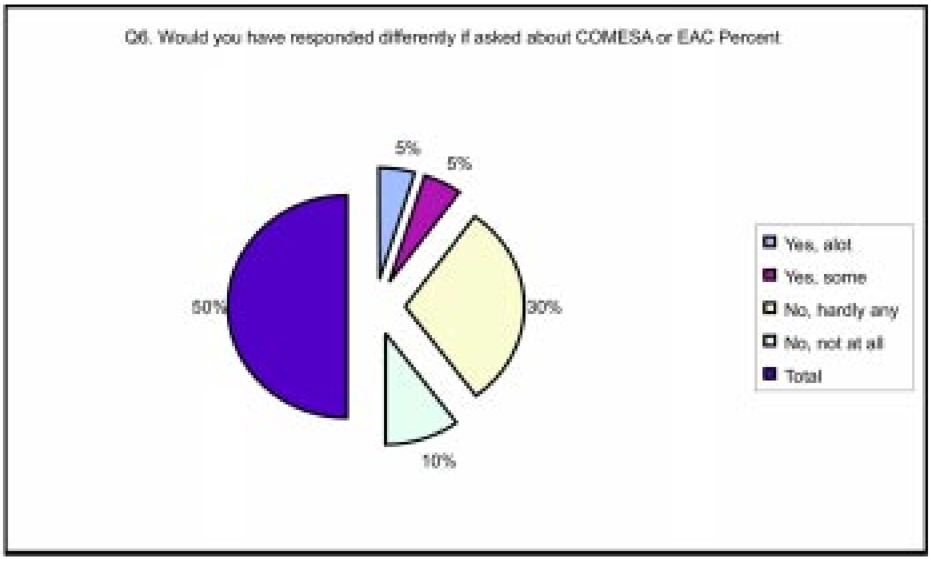
Notable among the positive impacts of RI is the creation of new export opportunities in which the majority of the NSA (70%) are in agreement. Amongst the negatives of RI, 50% disagree on two issues: whether RI would increase efficiency and competitiveness of domestic production and that RI will reduce political sovereignty of the country.

Table 2: Impact on RI

	Agree strongly	Agree (%)	Disagree (%)	Disagree strongly	Don't know (%)	Total (%)
RI will Increase competition on the domestic market	20	30	30	10	10	100
RI will reduce input prices		30	40	20	10	100
RI will reduce consumer good prices		30	30	20	20	100
RI will increase efficiency and competitiveness of domestic production		40	50	10		100
RI will have positive impact on domestic companies' turnover	10	30	40	10	10	100
RI will benefit the economy in general	10	60	20		10	100
RI will provide new export opportunities	10	70	10	10		100
RI will provide new investment opportunities	10	40	30		20	100
RI will reduce unemployment rates		20	40	30	10	100
RI will lower costs of labour		40	40	20		100
RI will result in influx of immigrants	20	50	10		20	100
RI will enhance human rights situation in the country		10	40	30	20	100
RI will reduce political sovereignty of the country		20	50	20	10	100

Asked whether the responses would be different if it were other regional blocks such as COMESA or EAC, 50% of the NSA surveyed indicate that their responses would have been somewhat different, 30% indicate no significant change. The fact that 50% would change their responses can be attributed to the fact that South Africa is not part of any of the other mentioned trading blocks.

Figure 13: NSAs' Opinions on Different Regional Blocks



4 Making Intra-SADC Trade Work

The questions that constitute this section are the most relevant to the policy debate on integration in SADC. The findings presented here should be compared closely with the results of the most recent SADC Regional Business Climate Survey (not yet fully available), as they address similar questions regarding the trading environment in SADC.

4.1 Business

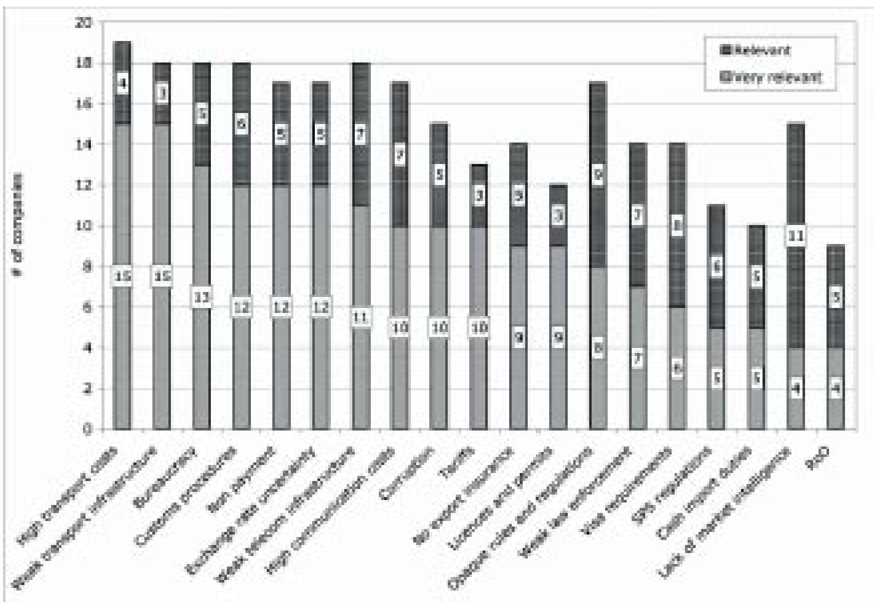
Figure 14 below shows that 60% of the respondents encounter barriers when both importing from and exporting to other SADC countries. An attempt was made to find out if 'yes' or 'no' answers depended on the sectors in which the respondents are operating. This would help prioritise problem industries when formulating policy, and would ensure that the biggest benefits are generated up front. Unfortunately, there were either no discernable sectoral patterns or the sample was too small to tell. And it is impossible to know why, for example, 3 firms in the agriculture sector said 'yes' while the other three in this sector said 'no'. Perhaps the entire SADC-wide dataset needs to be analysed in order to identify any patterns.

Figure 14: Intra-SADC Trade is not Easy

When asked to rate 19 different barriers to trade as problematic or not, 15 companies on average rated each barrier as either 'very relevant' or 'relevant'. In other words, half the sample found every barrier significant. In contrast, the number of companies picking 'hardly' or 'not at all' for each barrier averaged just 3.

Figure 15 below ranks the different barriers to trade from left to right based on the number of 'very relevant' responses received. High transport costs and weak transport infrastructure top the list, each receiving 15 'very relevant' ratings, and 4 and 3 'relevant' ratings respectively. To avert confusion, 'bureaucracy', which ranks third, refers specifically to the option in the survey called 'substantial paper work, bureaucracy'. 'Customs procedures', ranking fourth, refers to time-consuming border processes. Together, these factors they make it quite clear that SADC border posts are inefficient, and that trade facilitation drives must seek to streamline the process substantially.

Figure 15: Ranking the Barriers to Trade in SADC



'Non-payment', 'exchange rate uncertainty', 'weak communications infrastructure' and 'high telecommunications costs' make up the second tier of barriers to trade, with the former two each attracting one more 'very relevant' than the latter two. And interestingly, they all rank higher than the often cited problem of official corruption. This is encouraging, because rectifying infrastructure deficits and simplifying customs procedures is in principle a lot easier than rooting out corruption which by now must be fairly institutionalised.

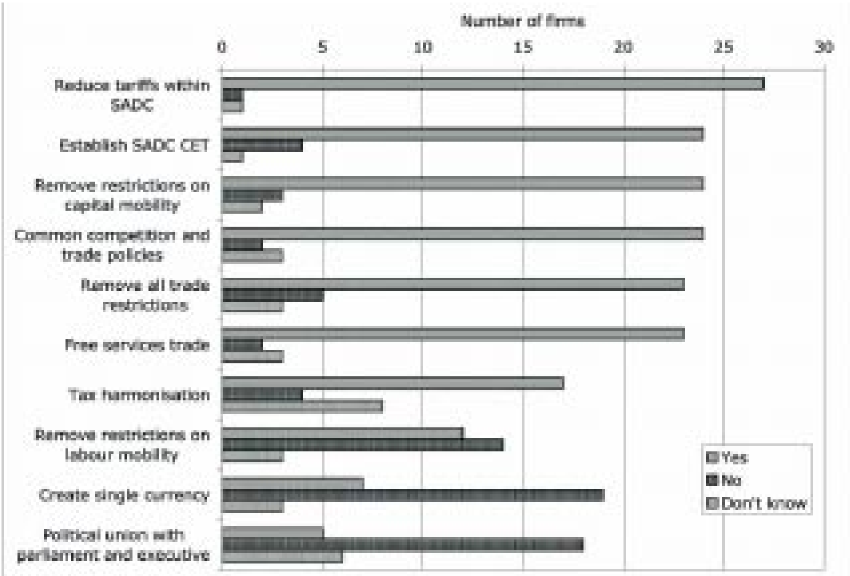
Another indication of South Africa's competitiveness vis-à-vis SADC producers is that tariffs and licenses and permits rank roughly in the middle. And while this is not to say that these barriers are not significant, it should be noted that they are only likely to become less of a problem as the SADC Trade Protocol phase-down begins to take effect for the majority of SADC members.

'Opaque rules and regulations' and 'lack of market intelligence' are two barriers whose importance is possibly understated by the ranking system used here. They received relatively few 'very relevant' responses, but many 'relevant' responses. These factors should be considered at least as problematic as communications or exchange rate risk when considering the total number of times they were flagged.

However the barriers are ranked; the important message to take away from Figure 15 is that too many categories received too many tick marks. Prioritising the policy approach around transport and communications infrastructures is surely a wise decision, but this should not be done at the expense of, say, law enforcement or overly-complicated SPS regulations.

The last element of the analysis involves finding out what the respondents would like to see in terms of the nature and extent of the future of SADC integration.

Figure 16: What Firms in South Africa Want out of Deeper SADC Integration



'Reduce tariffs within SADC' tops the list, this is odd given that it was rated as only a relatively moderate barrier to trade. But this is probably because some of the items listed as more important (such as transport infrastructure) were not options for answering this particular question. And this in turn is because the latter question is focussed specifically on what the architecture of future SADC arrangements should be. However, no matter what course is eventually taken at the SADC level, nothing in Figure 16 should distract policy efforts from improving upon the critical constraints identified.

Respondents view a common external tariff (CET) for SADC, removing restrictions on the flow of capital in the region, and formulating common competition and trade policies as equally important secondary objectives. A CET and freer capital flow may be possible in the medium-term, but many SADC states do not yet have national competition frameworks; the brokering of a region-wide framework is only likely in the distant future.

The next two on the list are 'remove all restrictions on trade in SADC' and 'free services trade.' It is not clear exactly what the first option means, or how it would be achieved. There will always be some barriers to trade, as the same sanitary standard, for example, will always be viewed differently by producers and exporters on the one hand,

and consumers on the other. The focus must be on reducing the official trade barriers in SADC where possible and by as much as possible. These include tariffs and non-tariff barriers. Beyond that an agreement must be reached on issues such as technical and sanitary standards, or Rules of Origin, as these are essential ingredients in any regional arrangement.

Freeing of services trade is not closer to the top of the list, because South African service providers have plenty to offer SADC economies (as well as gain from them). However, the fact that service liberalisation is not a part of the new SACU Agreement or the SADC Trade Protocol suggests that this area will evolve over a far longer period than the liberalisation of trade in goods.

Removing restrictions on labour mobility, creating a single currency, and creating a political union all received strong resistance. The concerns over labour mobility unquestionably reflect the worries many South Africans have about the aforementioned problems with illegal immigrants.

The objection to a single currency is also well-founded. The huge size and strength of the South African economy relative to the rest of SADC creates a highly unsuitable environment for currency harmonisation, mainly because many producers in South Africa already feel that the exchange rate they face is too strong; this problem would only be greater in weaker SADC economies.

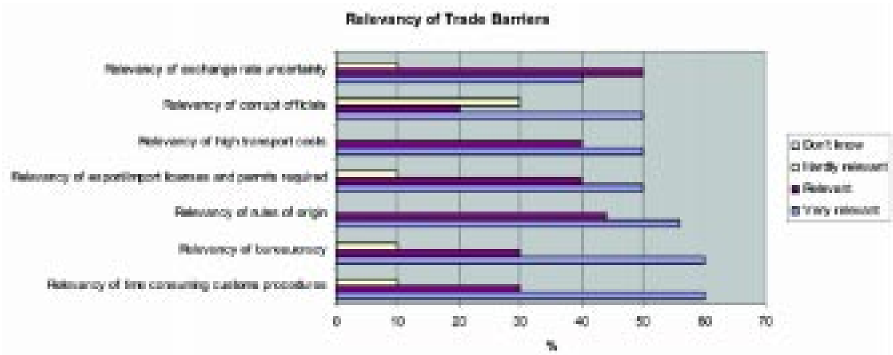
Last, a political union surely cannot come before closer economic integration. This is primarily because closer political ties can and often have been undermined by economic realities that do not suit one or more interested parties. Even the EU, the world's oldest political union, periodically has had to deal with intense internal criticisms that are most often the result of common economic policies unsuitable to all members' needs.

There are two final points worth considering. First, some of the barriers to trade identified here cannot and will never be resolved at the regional level. Examples include 'lack of market intelligence' and 'exchange rate uncertainty.' Second, and perhaps more important, improving intra-SADC trade is but one plank among many in achieving deeper regional integration in SADC. Solving these problems may have no direct influence on the harmonisation of inflation rates, or on ensuring that all SADC governments do not engage in reckless deficit spending, to take just two examples.

4.2 Non-State Actors

Trade barriers still remain a stumbling block in the flow of goods between countries. This survey identified factors that emerged as barriers to trade by NSA. Customs procedures and bureaucracy are identified as very relevant barriers to trade by the majority (or 60%) of there %. Other factors identified as very relevant in order of importance are illustrated in Figure 17 below which contains the top 7 trade barriers.

Figure 17: Relevancy of Trade Barriers to Business



Further to the relevancy issue, respondents were required to indicate the most relevant barriers from the list as outlined above. Amongst the most relevant are exchange rate uncertainty (30%); high transport costs (20%); and Rules of Origin (10%). These three are identified probably because of the discrepancy in the level of development between South Africa and the rest of the SADC countries in the region.

The issues identified are significant to trade in the region. The exchange rate is a critical determinant to export success, thus its uncertainty creates a hurdle for existing and potential trade opportunities and aas I needs to be attended to in order to create a conductive environment for trade as well as investment in the region. Transport in the region, is a basic necessity for sustainable social and economic development and as such there is need to improve the delivery of cross-border regulatory and administrative services as well as the transport networks with the aim to minimise and harmonise the transport costs. Rules of Origin have become the replacement of transparent and declining tariff barriers because of their complex and more restrictive input sourcing requirements. Their impact cannot be ignored since they are an important aspect of any regional agreement.

The purpose of RI in SADC is to improve trade among the SADC countries and facilitate for the smooth flow of goods and services. The importance or impact of RI to the business environment in any SADC country cannot be undermined hence it is imperative to analyse the likely effects of RF on domestic business under a free trade regime.

The outcome of this survey is summarised in Table 3 below. Key to highlight is the RI's impact on employment. According to survey results, 80% of the respondents noted that it was unlikely that RI would increase employment while 70% indicated that RI was unlikely to result in access to cheaper inputs or closure of domestic production.

On the contrary, 70% indicated that there would be creation of new business activities and also increases in foreign investments. Other likely effects included the possibility of more exports to SADC countries, increases in joint ventures in other SADC countries and an increase in domestic production. However, 60% indicated that it was unlikely for RI to result in cheaper access of foreign labour as well as increases in imports from other countries.

Table 3: RI Impact on Business

	Likely (%)	Unlikely (%)	Don't know (%)
Will RI result in new business activities	70	30	
Will RI result in increased investments abroad	70	20	10
Will RI result in more exports to other SADC countries	50	40	10
Will RI result in increased joint ventures with other SADC countries	50	40	
Will RI result in increased domestic production	50	30	20
Will RI result in access to cheaper foreign labour	40	60	
Will RI result in more imports from other SADC countries	30	60	10
Will RI result in closing down of domestic production	20	70	10
Will RI result in access to cheaper inputs	20	70	10
Will RI result in retrenchments	20	60	10
Will RI result in more employment		80	20

A further analysis was conducted to assess how respondents perceive RI's impact on employment, production, investment, exports and imports to SADC as well as input prices. The process required the quantification as a percentage change of the indicators used as mentioned above caused by RI. This set of questions was poorly responded. Table 4 below summarises the results.

An interesting feature reflected by the responses given is the fact that 50% or more of the respondents had no idea how they could quantify the impact of RI when asked to quantify the extent of its impact under the stated indicators. Top of the list is the extent to which changes in investment are affected by RI for which 60% of the respondents indicated that they have no knowledge of RI's impact.

Table 4: Perceptions of RI

Change in employment		Change in production		Change in investment		Change in exports to SADC		Change in imports SADC		Change in input price	
% change (+/-)	% valid percent	% change (+/-)	% valid percent	% change (+/-)	% valid percent	% change (+/-)	% valid percent	% change (+/-)	% valid percent	% change (+/-)	% valid percent
-25	10	-25	10	5	20	0	20	0	30	-1	10
0	10	1	10	10	10	2	10	1	10	0	30
1	10	5	10	Don't know	60	5	10	4	10	3	10
2	10	15	10			26	10	Don't	50	Don't	50
Don't know	50	Don't know	50			Don't know	50	know		know	

Participation in policy formulation and participation of industry Associations in public debate and policy formulation is minimal as reflected by the low statistics of organisations that have membership to a SADC national committee or a regional umbrella body. This raises concerns considering the fact that all respondents are representatives of companies that do business in the country as well as the rest of the world including SADC. Despite the fact that these organisations do not have membership of the former, 40% of the respondents indicated that their inputs in policy making would be strengthened by RI while at least 20% indicated that they expected no change in their involvement.

Table 5: Impact of RI on NSA Involvement in Policy Making Involvement in Design of Domestic Policies Cross-Tabulation

% within Impact of RI on NSA's involvement in policy making			
Impact of RI on NSA's involvement in policy making	**Involvement in design of domestic policies**		
	Yes	**No**	**Total**
Strengthen strongly	75%	25%	100%
Strengthen slightly	100%		100%
Weaken strongly	100%		100%
No changes expected		100%	100%
Don't know		100%	100%
Total	**60%**	**40%**	**100%**

Table 5 above compares NSA involvement in policy formulation and their involvement in domestic policies. From the table, 75% show that they are involved in domestic policy design and indicate that that RI will strengthen their involvement in policy making. An interesting outcome of the comparison is that the 20% of the respondents who indicated no change in their involvement did not participate in design of domestic policies and the 20% who indicated that their involvement would weaken strongly participated 100% in domestic policy design.

Comparing the impact of RI on NSA involvement in policy making and their involvement in the design of SADC policies, demonstrate that the outcomes are in conformity with the fact that few NSA currently have membership to the SADC national committee and as such their participation in designing SADC policies is minimal. Only 25% responded positively compared to the 75% who despite the fact that they felt RI would strongly strengthen their involvement in policy making were currently not involved in the design of SADC policies (see Table 6 below).

Table 6: Impact of RI on NSA Involvement in Policy Making * Involvement in the Design of SADC Policies Cross-tabulation

% within Impact of RI on NSA's involvement in policy making			
Impact of RI on NSA's Involvement in the policy making	**involvement in policy the design of SADC policies**		
	Yes	**No**	**Total**
Strengthen strongly	25%	75%	100%
Strengthen slightly	50%	50%	100%
Weaken strongly	100%		100%
No changes expected		100%	100%
Don't know		100%	100%
Total	**30%**	**70%**	**100%**

When asked about the impact RI on NSA's influence on domestic policies, the outcome of the survey analysis reveals no contradictions to previous questions that respondents had answered. Respondents were consistent in their responses, confirming the notion that "their views are to some extent informed as they are in constant communication with companies they represent."

Information on RI and its importance is vital to the development of SADC economies and thus,thus key access to such information and the extent to which RI is discussed is important to the to the public. This was another issue that was included in the survey. Clarity was sought from the NSAs who participated in the survey on the extent to which RI was publicly debated in South Africa. 50% confirmed about that there werepublic debates on RI, however not surprisingly very few respondents acknowledged public debates on RI within SADC, partly due to factors indicated already in this report.

The same pattern of responses is also observed when the issue of debates on regional integration is examine at organisation level, within the different organisations. Most of the positive confirmations are probably from respondents who participate in public debates at the national as well as the regional level. A total of 40% indicate that they hold discussions within their organisation. The rest of the questions that refers to participation in any form of discussions and organising of workshops or seminars on RI yielding negative responses.

The tables and the graph below give a summary of the responses by respondents.

Table 7: Awareness of Public Debates on RI

	Yes, but not so prominent (%)	No (%)	Don't know (%)	Total (%)
Public debates on Regional Integration in general	50	20	30	100
Public debates on Regional Integration within SADC	10	60	20	90
Public debates on Regional Integration within COMESA	30	40	30	100
Public debates on Regional Integration within EAC	20	50	30	100

Figure 18: Discussion of RI within Organisations

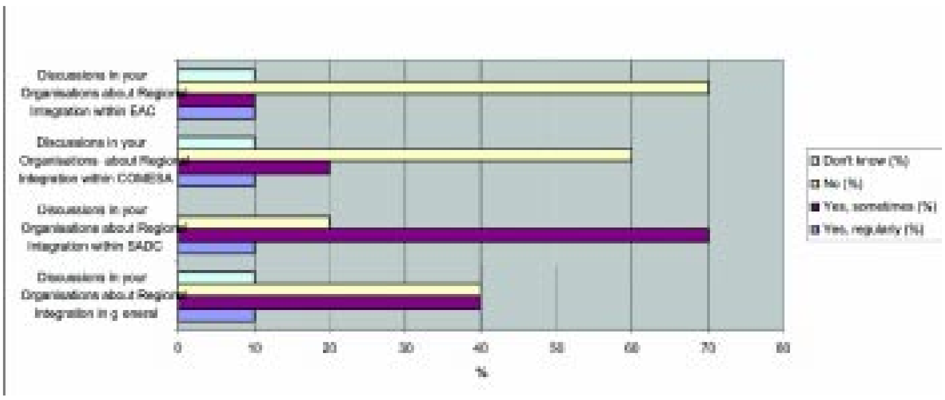


Table 8: Organisation of Workshops or Seminars

	Yes, sometimes (%)	No (%)	Don't know (%)	Total (%)
Organisation of public workshops/seminars on Regional Integration in general	20	80		100
Organisation of public workshops /seminars on Regional Integration within SADC	20	80		100
Organisation of public workshops/ seminars on Regional Integration within COMESA	10	80	10	100
Organisation of public workshops /seminars on				
Regional Integration within EAC	10	80	10	100

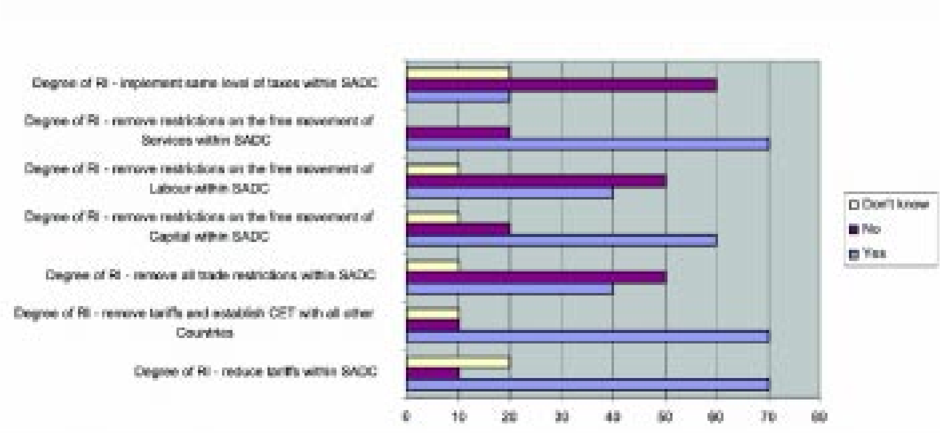
The need for capacity building among NSAs to participate in regional issues is emphasized by 90% of the respondents. This implies that very few NSAs currently participate or are invited to any form of SADC national committee meetings held. This is reflected by the low statistics of positive responses to questions on participation or invitation to SADC national committee meetings.

In terms of capacity building, chief among the priorities is access to information relevant to trade in SADC, support to small scale enterprises, free business linkage associations and technical expertise. 50% of the respondents are concerned about issues capacity building that are highlighted above, while the other half is not sure as to what type of capacity building is necessary or required.

In terms of support or favour of RI, 50% are in favour of RI in general compared to 30% that are indifferent while 20% do not support RI at all. The major factors that can be attributed to the NSAs support for RI include the need for the reduction of tariffs which 70% of the respondents are in favour of, while another 70% also regard removal of tariffs and the creation of a Common External Tariff as a key to exploit the benefits of RI and make it a success for SADC. Chief amongst the unpopular factors regarding the extent or degree of RI included the creation of a single currency for SADC and the creation of a political union with a parliament and executive. These extents of

RI both received 50% negative responses and 20% and 30% indifferent responses respectively. Figure 19 below shows the degree to which NSAs believe certain factors may affect RI.

Figure 19: Important Factors Identified by NSAs for RI



5 Concluding Remarks

This survey has yielded some inconclusive and conflicting results. But the following conclusions can be made:

Business:

- The majority of the South African firms that responded to this survey are active in SADC, but SADC markets represent a very small source of their revenue.
- Most of them would welcome deeper SADC integration because they perceive gains in production, turnover, trade (exports more than imports), and outward investment. The latter point is be encouraging for investment-starved economies in the region.
- Relatively few firms expect a lowering of input prices (including labour) or consumer prices, and even fewer expect see their access to foreign labour and other inputs to increase significantly.
- Most of them, however, do foresee an increase in competition in the South African market.
- Few expect SADC integration to greatly affect (positively or negatively) employment levels in South Africa.
- A fair number of firms 'fear' immigration problems resulting from the (possibly) smoother flow of people across SADC borders. These concerns should be taken seriously, because while immigrants often bring much-needed skills with them, they are sometimes also a source of social instability.
- Merchandise trade in SADC is challenging, with transport infrastructure proving the toughest barrier. Customs and bureaucracy problems come in a close second. All barriers, however, attracted too many negative reactions. Prioritising the policy response is important, but the evidence herein suggests everything needs significant attention.
- Of the available policy choices, the respondents would most like to see a reduction in intra-SADC tariffs and the establishment of a CET. Improved capital mobility and common competition and trade policies are also in demand.

Non-State Actors:

- It is important to note that generally NSAs in South Africa are in favour of SADC RI. This creates a basis for further development and promotion of policies that are in line with the SADC's goals and objectives such as the elimination of tariffs, free movement of goods and persons and the establishment of a CET.
- The analysis also reveals that very few NSAs strongly agree on what the impact of RI is. This clearly indicates the lack of confidence and knowledge of the implications of RI amongst NSA in South Africa thus raising another important issue of capacity building to improve the NSAs knowledge and ability to engage in effective and fruitful debates on RI.

The obvious starting point for deeper integration is freer trade in goods. Efforts to achieve this would have to address all trade facilitation issues, including SADC's poor physical infrastructure. But freer trade in services should also be uppermost in policymakers' minds. As already mentioned, this issue didn't feature prominently in the analysis, because only 5 out of the 31 respondents are recognisable as service providers.

Access to information and support to SMEs were among the important factors that respondents indicated as key to unlocking the benefits of RI in SADC. As such, national organs such as National Economic Development and Labour Council (NEDLAC) which provides a platform debate on trade issues for businesses, civil society and government in South Africa must be encouraged to play a greater role in ensuring involvement of NSAs as well as the private sector (business).

Once the trade liberalisation process is established, attention can be turned to the other aspects of economic integration, including the harmonisation of a wide array of macroeconomic policies and indicators. Once these processes are operating successfully policymakers about a common currency or political union.

About the Authors:

Mmatlou Kalaba is an Economist at Trade and Industrial Policy Strategies, TIPS, in Pretoria, South Africa working on trade and economic research areas. He also specialises in capacity building in the same area as well applied analytical and methodological tools in Southern Africa. Responsibilities and projects include bilateral and multilateral trade analysis, SADC Trade Database, SADC Mid Term Review, tariff and non-tariff analysis, review of the tariff policies and related competitiveness issues.

Owen Willcox is Trade Programme Manager at Trade and Industrial Policy Strategies, TIPS, in Pretoria, South Africa. His research includes trade in services, FTA analysis and determinants of trade in the metals sector. Most of his work involves technical analysis for the Department of Trade and Industry. He is also involved in capacity building in South Africa and in other SACU countries.

Takudzwa Fundira is a Researcher at the Trade Law Centre for Southern Africa, tralac in Stellenbosch, South Africa. He holds an M Sc. Agriculture (Agricultural Economics) degree, from Stellenbosch University. His primary interests are trade and agriculture; trade and industrial policy as well as quantitative trade data analysis. He can be contacted at takufundira@tralac.org.

Brian Williams is a specialist in international labour relations with particular expertise as transformation strategist, especially within the public sector. He is the CEO of a Consultancy which specializes in labour relations, labour law, strategic management and organizational development. He is an accredited CCMA Commissioner in South Africa and has previously worked as a trade unionist. He is also an academic, researcher and a published poet. Brian was also appointed (1995-2000) as the first Provincial Director for the Western Cape province of the newly established Department of Labour in South Africa after the fall of apartheid in 1994. Brian was recently elected in June 2006 as the President of the Convocation of the University of the Western Cape.

Philip Alves is an economist in the "Development Through Trade" project of the South African Institute of International Affairs, SAIIA, based at the University of the Witwatersrand, Braamfontein, Johannesburg in South Africa.

Copies of this publication can be obtained from:

Friedrich Ebert Foundation – Botswana
P.O. Box 18
Gaborone, Botswana
Tel.: +267-3952441
Fax: +267-3930821
e-Mail: fes@fes.org.bw

SAIIA - South African Institute of International Affairs
P.O. Box 31596
Braamfontein, 2017
South Africa
Tel.: +27 11 339-2021
Fax: +27 11 339-2154
e-Mail: alvesp@saiia.wits.ac.za

TIPS - Trade and Industrial Policy Strategies
P.O. Box 11214
Hatfield, 0028
South Africa
Tel.: +27 12 431-7900
Fax: +27 12 431-7910
e-Mail: mmatlou@tips.org.za

TRALAC - Trade Law Centre for Southern Africa
P.O. Box 224
Stellenbosch, 7599
South Africa
Tel.: +27 21 883-2208
Fax: +27 11 339-8292
e-Mail: taku@tralac.org

FRIEDRICH
EBERT
STIFTUNG

“Regional Integration in Southern Africa”
is edited and published by the
Friedrich Ebert Foundation
Botswana Office
www.fes.org.bw