

# SADC Trade, Industry and Investment Review 2003

## THE COMPARATIVE ADVANTAGES OF THE SADC REGION AS AN INVESTMENT DESTINATION



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### An Analysis of Investment Global Trend

Recent developments in Foreign Direct Investment (FDI) trends show that there has been a sharp decrease of investment flows globally due to a combination of two main factors: economic slowdown and reduced investors' confidence. However, such declines have varied significantly between different regions. UNCTAD's World Investment Report 2002 reveals that both investment inflows and outward investment in developed countries declined sharply to 59 percent and 57 percent respectively and more than 12 countries, including the world's three largest economies (United States of America, European Union and Japan) fell into recession in 2001. Developed countries experienced a sharp decline in investment inflows by more than half, from US\$1 trillion in 2000 to US\$503 billion in 2001, whereas FDI inflows to developing countries declined slightly from US\$238 billion in 2000 to US\$205 billion in 2001.

Despite the minimal decline of investment inflow to developing countries, Africa still remains a marginal recipient of FDI compared to other regions. Its performance in attracting investment inflows has been unimpressive for over a period of time. It is estimated that around 80 percent of FDI to developing countries is received by the South-East Asia and Latin American regions whose average global share of FDI is between 10 percent and 17 percent. On the other hand, on average, Africa's share of global FDI inflows has remained between 0.5 percent and 2.5 percent.

FDI flows to Africa rose from US\$9 billion in 2000 to more than US\$17 billion in 2001, making its global share in FDI inflows increase from about 1 percent to 2 percent. However, this increase was attributed to a few large FDI projects in South Africa and in Morocco and for most African countries FDI flows remained at more or less the same level as in the previous year.

### Overview of Investment Flows in SADC Region

The experiences of SADC Member States in attracting long-term investment flows have been uneven with some attracting significant proportions, while others are attracting minuscule proportion. In 2001, South Africa was the main recipient of FDI inflows to the SADC region, which increased from less than US\$900 million in 2000 to US\$6.6 billion.

However, it is important to note that when compared to other countries in Africa and LDCs some SADC countries have received more FDI relative to GDP than other developing countries. For instance, within Africa, three SADC countries were amongst the top ten performers in attracting FDI inflows for 2000 and 2001. These are South Africa, Angola and Mozambique. With regard to FDI inflows to LDCs between 2000 and 2001, four SADC countries namely: Angola, Mozambique, Tanzania and Lesotho featured

amongst the top recipient of investment inflows. In addition to the above, five SADC countries were amongst the top ten performers in respect of FDI flows as a percentage of gross fixed capital formation for 1998-2000. These are Angola, Lesotho (reflecting Highlands water project), Zambia, Seychelles and Malawi (*UNCTAD World Investment Report 2002*).

With regard to domestic savings and investments, only Botswana and Namibia were able to sustain surpluses in their savings and investment balances in the year 2001. Countries such as Malawi, Tanzania, Zambia, Lesotho, Seychelles and Swaziland continued to experience high levels of resource gaps because of the negative balances.

As illustrated in *Table 1*, in 1999, SADC's average investment rate was only 16.25 percent of the GDP. This figure is below the recommended investment average of 25-30 percent of GDP that would stimulate the growth rate of 5-6 percent annually. Consequently, the region is under pressure to find ways of attracting investment flows that would enable it to achieve the requisite rates of investment.

<b>Table 1: GNS and GDI as percentage of GDP</b>						
	Gross National Savings (% of GDP)			Gross Domestic Investment (% of GDP)		
	1990	1998	1999	1990	1998	1999
Angola	5.7	0.6	7.1	7.9	21.1	20.1
Botswana	41.2	43.4	31.2	36.8	29.7	32.7
DRC	0.4	3.6	2.8	9.0	7.2	8.1
Lesotho	24.9	11.0	9.4	52.4	36.3	36.9
Malawi	12.1	5.3	4.7	20.6	16.7	15.2
Mauritius	25.9	24.7	25.1	31.2	26.0	28.2
Mozambique	1.3	1.6	2.4	15.6	24.7	26.7
Namibia	26.6	27.5	25.8	31.2	26.0	28.2
Seychelles	25.9	32.6	28.5	15.6	24.7	26.7
South Africa	17.6	14.0	14.2	24.8	22.2	23.2
Swaziland	28.7	10.9	8.9	24.6	38.3	30.0
Tanzania	21.2	2.3	1.3	17.2	15.7	14.6
Zambia	14.8	6.4	5.9	20.7	25.6	24.2
Zimbabwe	14.2	13.4	14.5	26.1	16.5	17.2
<b>SADC</b>	<b>16.25</b>	<b>12.24</b>	<b>12.60</b>	<b>17.39</b>	<b>16.69</b>	<b>16.25</b>
<i>Africa</i>	<i>19.7</i>	<i>15.6</i>	<i>15.4</i>	<i>22.0</i>	<i>20.5</i>	<i>20.8</i>

Sources: SADC Statistics; African Development Report, 2000; UNDP Human Development Report 2000.

In the light of the preceding, it is clear that Africa as a whole has not played a significant part in attracting investment flows. Within SADC, the investment flows have not been distributed evenly in the region. What then is SADC doing in order to ensure that investment flows into the region are benefiting SADC as a whole? In addition, why would an investor choose SADC as an investment destination; in other words, what comparative advantage does SADC has as a region? In trying to answer these questions, an attempt is made in the subsequent sections to provide the economic, social and political landscape of SADC and the measures taken by SADC Member States individually and collectively to address the issue of investment flows.

## SADC Region's Potential

SADC is richly endowed with abundant agricultural, mineral and human resources. Its combined population is around 208 million. The total landmass of SADC region is estimated to be 906 million hectares of which, 147 million hectares is arable land. Consequently, agriculture plays a major part in the SADC regional economy, contributing 35 percent to its gross domestic product. About 70 percent of its people depend on it for food, income and employment.

In addition, agriculture is a dominant source of exports in many countries, on average contributing about 13 percent to total export earnings and about 66 percent to the value of intra-regional trade. The performance of this sector has, therefore, a strong influence on the rate of socio-economic development, poverty reduction and regional integration. However, given the fact that many SADC economies are agro-based economies, there exist abundant investment opportunities in food processing, agribusiness, and clothing and textile.

With regard to mineral endowment, SADC region possess a vast and highly diversified mineral resource base, including precious and base metals, industrial minerals and precious stones. *Table 2* illustrates the extent of known world mineral reserves and the proportion held in the region. Although this table dates from 1993, the overall distribution has not changed dramatically, and it simply serves to illustrate that the SADC region is a major reservoir of some of the world's most valuable minerals, many of which have not been exploited to their full potential.

MINERAL	UNIT	WORLD	SADC	% SADC
Chromite	Mt	44,446	41,290	92.9
Platinum Group Metals	Tonnes	67,041	58,900	87.9
Manganese	Mt	4,796	3,992	83.2
Gold	Tonnes	46,000	24,500	53.0
Uranium	Kt	2,320	289.7	12.5
Coal	Mt	525,500	60,000	11.5
Nickel	Mt	123.3	12.8	10.4
Phosphate Rock	Mt	33,710	3,440	10.2
Copper	Mt	595	47	7.9
Cobalt	Kt	8,800	555	6.3
Antimony	sKt	4,690	250	5.3
Iron Ore	Mt	101,100	5,900	5.2

Tourism is one of the fastest growing industries in the SADC region with immense untapped potential for further development. Comparative figures indicate that SADC region's tourist market share in global context reached a record of 1.88 percent in 1999 compared to 0.86 percent in 1990, while its share in Africa was 46.5 percent in 2000 (*SADC Tourism Annual Report 2001*). Cognisant of this potential, an integrated Southern African tourism destination based on the region's natural and cultural assets, diversity and uniqueness is being developed.

In order to encourage investors in all the areas mentioned, SADC embarked on a programme aimed at inflation targeting, macro-economic stability and the creation of a wider economic space. This programme is ongoing and it will be observed from *Table 3* that some nine Member States of SADC had inflation rates of one digit. This represents 64 percent of all SADC Member States. Measures are being taken by all Member States in SADC to achieve a one-digit inflation rate by 2008 when the SADC Free Trade Area

(FTA) will be in place. In addition to inflation targeting, SADC Member States continued, both at regional and national levels, to renew efforts aimed at improving economic performance and ensuring higher economic growth in order to reduce poverty and achieve sustainable development. As a result, economic growth rates remained very high in the fast growing economies of Botswana and Mozambique at approximately 10 percent and 14 percent respectively in the year 2001. Similarly, Mauritius, Tanzania and Zambia maintained relatively high rates of economic growth at 7.2 percent, 5.4 percent and 5 percent respectively.

	Growth Rate (%)			Population ('000)			Inflation Rate (%)		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Angola	2.72	3.00	3.30	12,940	13,300	13,668	329.00	268.00	115.00
Botswana	4.10	8.10	9.20	1,611	1,651	1,694	7.20	8.50	6.60
DRC	(5.00)	1.00	(4.00)	50,400	52,100	53,500	243.00	552.60	403.60
Lesotho	2.02	2.10	2.60	2,114	2,169	2,225	12.27	8.60	6.90
Malawi	4.20	2.30	2.80	10,000	12,612	12,921	44.90	29.50	27.50
Mauritius	2.80	8.20	5.40	1,175	1,186	1,208	6.90	4.20	5.40
Mozambique	7.30	1.50	13.90	16,841	17,242	17,656	6.22	12.70	9.10
Namibia	4.30	3.90	1.60	1,769	1,865	1,864	8.60	9.30	9.20
Seychelles	2.91	2.20	(1.90)	80	81	82	5.20	5.30	5.70
South Africa	1.90	3.40	2.20	43,054	43,997	44,876	5.20	6.30	6.00
Swaziland	2.00	2.20	1.50	1,029	1,064	1,101	7.00	6.70	7.50
Tanzania	4.75	5.00	5.10	31,644	32,276	32,222	7.80	5.90	5.10
Zambia	2.44	3.00	3.90	10,423	10,757	11,101	20.60	20.20	21.50
Zimbabwe	(6.80)	(4.10)	(8.40)	13,079	13,485	13,891	58.50	56.00	74.50
<b>SADC</b>	<b>1.47</b>	<b>3.11</b>	<b>1.95</b>	<b>196,159</b>	<b>203,785</b>	<b>208,009</b>	<b>54.46</b>	<b>70.99</b>	<b>50.26</b>
<i>SADC Median</i>							8.20	8.95	8.30

Sources: SADC Member States; SADC Secretariat; UNDP; EIU.

The SADC region constitutes a small market, smaller than that of Turkey and about one-fifth of the United States market. However, within the African context, its aggregate gross domestic product (GDP), amounting to US\$187.7 billion in 2000, is more than double that of ECOWAS and equivalent to more than half of Sub-Saharan Africa aggregate GDP. In addition, SADC's total volume of exports (estimated at US\$66 billion) is more than double that of ECOWAS and COMESA. While Gross National Product (GNP) per capita fell over the last two decades (from US\$1,023 in 1980 to US\$932 in 1999) the region still has the highest level of income per capita compared to other regional arrangements on the continent. As illustrated in the *Table 4* below, SADC region's GNP per capita was US\$932, which is more than double that of ECOWAS.

Source: World Bank, SIMA, Regional Database, 2001.

In comparison to other sub-regions in Sub-Saharan Africa, SADC's performance in attracting investment is greater than others. For instance, although the average for SADC over 1991-1995 was only US\$691 million compared to that of ECOWAS, which was US\$887 million, between 1995-1998 SADC average for FDI was the highest with US\$3,061 million (World Bank and IMF estimates). In the light of this, SADC is therefore, focusing its attentions on increasing its competitive advantage as a Sub-Saharan Africa destination for FDI through deepening cooperation amongst its Member States. In this regard, some 23 protocols have been signed which provide the legal framework for implementation of agreed decisions at the regional level. These protocols cover a wide spectrum of cooperating areas. This paper will however, focus on some key areas of intervention agreed by Member States to make SADC an attractive investment destination. These include macro-economic stability, trade liberalisation, infrastructure developments and regional peace and stability.

## **Macro-economic Stability**

In order to enhance macro-economic stability and increase the credibility of the region, SADC Member States have agreed to cooperate within the framework of certain key MoUs. These MoUs which are aimed at establishing international best practice for investment and creating preconditions for macro-economic convergence will lay the foundation for the development of a protocol of finance and investment which like other protocols will establish the legal basis for deeper cooperation in the area of finance and investment.

So far, two MoUs have been developed and adopted: one on Macro-economic Convergence and another on Cooperation in Taxation and Related Matters. The objective of the MoU on macro-economic convergence is to establish a macro-economic policy coordination framework that seeks to enhance macro-economic stability in the SADC region while the second MoU seeks to harmonise tax regimes, promote the application and treatment of tax incentives, direct taxes and treaties to avoid double taxation, indirect taxation, develop a dispute settlement mechanism and foster cooperation on capacity building in the area of taxation. Work is ongoing to finalise the MoU on Investment, which aims at harmonising key investment policies in the region, presenting a united and coherent regional SADC position on international investment. The other two outstanding MoUs are: MoU on Cooperation and Coordination of Exchange Control Policies in SADC and MoU on Harmonisation of Legal and Operational Frameworks of SADC Central Banks. The objectives of these MoUs are to establish a framework for cooperation and coordination between Member States on exchange control liberalisation in order to ensure exchange control convergence in SADC and to create a coherent and convergent status in the legal and operational framework of SADC Central Banks to work towards the articulation of the primary objective, of maintaining price stability.

To achieve and maintain macro-economic stability, all countries need to converge on stability-oriented economic policies through a sound institutional structure that can monitor and report progress on agreed economic parameters. In this regard a Regional Mutual Stability Mechanism (MSM) has been established to monitor macro-economic convergence to stable levels centred on rates of inflation in each Member State, ratio of the budget deficit to GDP, the ratio of the public debt to GDP and the balance and structure of the external account and will allow for peer reviewing amongst Member States.

It is important to note that while Member States are in the process of establishing the legal framework for convergence, there have been some substantial achievements undertaken by individual Member States. One of the greatest improvements made under market-oriented economic reforms in SADC has been in foreign exchange markets following several rounds of devaluation and the liberalisation of exchange rates. In this process most SADC countries have eliminated *premia* in parallel markets for foreign exchange by the mid-1990s. Adjustment of exchange rates has had a positive impact on the relative prices of tradables, and exchange rates across SADC with only few exceptions are now closer to equilibrium levels than they were before.

## Trade Liberalisation

SADC Member States have since agreed to cooperate in the area of trade (through the implementation of the Protocol of Trade) so that by 2012 all products will be tradable duty-free in the region. However, already by 2008, over 85 percent of SADC Trade will be duty-free. The dependency of some countries on tariffs revenue from SADC imports has resulted in them phasing out their tariffs in the 2004-2008 in order to allow time for alternative sources of revenue to be explored like value added tax. In this regard, Member States have followed the principle of asymmetry, which takes into account the different levels of development in the region.

In this case the Southern African Customs Union (SACU) comprising Botswana, Lesotho, Namibia, South Africa and Swaziland are in the first category, Zimbabwe and Mauritius are in the second group, and Malawi, Mozambique, Tanzania and Zambia, the least developed countries are in the third category. The relatively well-developed SACU group was requested to front load its tariff phase down while Mauritius and Zimbabwe mid-loaded and the least developed countries back-loaded. In other words, the SACU countries are going to phase down their tariffs earlier (by 2006) and faster than the rest of the Member States followed by Mauritius and Zimbabwe and then the least developed countries which in most cases start their phase down in the 5th or 6th year of implementation.

Apart from cooperating through tariff phase down, SADC Member States have also set up a Sub-Committee on Customs Cooperation, which aims at devising measures for facilitating intra-SADC trade flows by ensuring that products comply with the rules of origin. In this regard, the Sub-Committee has been working on the development of a sustainable and effective system for Customs Cooperation and putting in place harmonised and simplified customs procedures that would facilitate the transit of goods within the SADC region.

Intra-SADC trade, which is currently 22 percent of total SADC trade, is projected to increase to 35 percent by 2005. This means that between now and 2005 the productive and supply capacity of SADC as a region will improve as long as appropriate policy measures and channelling of resources to sectors that will contribute to enhancing intra-SADC trade are implemented by Member States.

For investors, SADC Free Trade Area will mean several benefits. Many SADC countries have found that their economies are too small to support a large range of viable productive investments. Therefore, it has become essential to view SADC as a single enlarged domestic market in order to allow investors establish entrenched regional market positions that would give them an access to a market of more than 200 million people. Not only would the 'domestic' market be large, but also investors would find it easier to manoeuvre within the region and gain wider market access and invest in any Member State for the benefit of the whole region.

Trade liberalisation towards the rest of the world is largely determined by the commitment of the region to the WTO. Thirteen of the fourteen countries in SADC are members of the WTO while Seychelles has applied for full membership to upgrade its current observer status. In the year 2002, SADC Member States opted to notify its SADC Trade of Protocol under Article XXIV of GATT 1994 rather than under the Enabling Clause in order to lock-in their commitment to comply with the multilateral trading rules.

Trade is the most prominent form of integration within SADC. The recent progress in negotiating better market access between Member States is expected to encourage intra-regional trade, entailing substantial economic benefits for all member countries. In addition to the focus on removing tariff and non-tariff barriers, attention will be focused on the market-segmenting effects of domestic regulatory policies. This includes such policies as health and safety-related product standard regulations, national competition policies, professional licensing and certification regimes, prudential supervision requirements, and administrative procedures that are associated with the enforcement of regulation (e.g. conformity assessment procedures and customs clearance practices).

## **Peace and Security**

The new structure of SADC, adopted by the Heads of State and Government in March 2001 and currently being implemented has a two-fold approach to the issue of regional cooperation and integration. While the major emphasis is on increasing the effectiveness and efficiency of SADC policies and programmes to implement more coherent and better coordinated strategies for sustainable growth and development and poverty eradication, the issue of peace, security and stability is also given prominence to be dealt by a redefined Organ on Politics, Defence and Security. The success of the new SADC will depend, to a large extent, on how the twin objectives of economic and political governance are addressed in a manner that will provide opportunities to all its people, on the basis of equity and mutual benefits.

There is reason to believe that on the economic front, SADC will continue to implement fundamental economic reforms aimed at enhancing macro-economic stability. As eluded earlier, already a number of protocols have been negotiated, signed and ratified, which indicated the desire of SADC Member States to deepen their cooperation and cement the process of integration.

On the political front a lot of work is being done to consolidate democratic principles, the rule of law, accountability, human rights and participatory governance. Coupled with these, mechanisms for conflict prevention, management and resolution are being strengthened at the regional level to ensure their effectiveness for restoring and maintaining peace. So far, such mechanisms have proved successful in both Angola and the Democratic Republic of Congo where the peace process is being consolidated through a participatory approach.

The SADC Organ on Politics, Defence and Security has now a well-defined structure and reporting lines, which allows SADC to play an enhanced role in regional conflict management and to safeguard peace and security in the region. The Organ can draw on, *inter-alia*, the provisions of the Protocol on Politics, Defence and Security Cooperation, the Protocol Against Corruption and the Protocol on the Control of Firearms to implement its programme of activities.

SADC Member States are now in a better position to adopt more advanced levels of cooperation in the areas of training for peace enforcement operations, policy planning and early warning. This will involve the risk mapping system to analyse social, economic and political situations that can degenerate into conflicts as well as identify coherent, comprehensive and integrated approaches that will address the root causes of conflicts.

## **Infrastructure Development**

Infrastructure constraints are often cited as increasing transaction costs and therefore, contributing to making the region uncompetitive. For instance, it is estimated that transportation cost constitutes about 30-40 percent of the total costs of imports and exports for most of the landlocked countries in the region. Hence, the development of reliable and efficient infrastructure, particularly basic infrastructure such as transport and telecommunication, is a key initiative that has the potential to attract investment in the region. Accordingly, a foundation for developing an integrated transport system under the 1996 Protocol on Transport, Communications and Meteorology has already been laid down. Furthermore, a number of SADC Member States are engaged in massive privatisation programmes of State-Owned Enterprises (SOE) in transportation and telecommunications with a view to increasing the role of the private sector and attracting private investments (both domestic and foreign) in the sectors.

In addition to the above, Development Corridors and Spatial Development Initiatives (SDI) have been used as strategies for promoting regional integration and sustainable development in the region. The successful implementation of the Maputo Development Corridor and South Africa's SDIs served to boost

support within SADC for the concept of multisectoral economic development corridors (as opposed to purely transportation based corridors which existed for a decade), and for the planning and investor mobilisation approach embodied in SDIs. Since then SADC has developed several development corridors and SDIs throughout the region. These include the Beira, Limpopo and Nacala Corridors and the Gariep, Libombos initiatives.

Member States aware of the potential SADC have in multifaceted tourist attractions, have taken measures to develop the tourism industry through strategic spatial planning and the virtual and physical linking of diverse tourism destinations, products and facilities. Okavango/Upper Zambezi International Tourism Spatial Development Initiative (OUZIT) is an example of such spatial planning. OUZIT, a wildlife sanctuary located within the context of the Okavango and Zambezi Wetland Systems initially started with a focus on a Core Development Area comprising 260,000 sq. km incorporating game parks in Angola, Namibia, Botswana, Zambia and Zimbabwe. The expanded OUZIT project is an integrated tourism development strategy aimed at establishing a comprehensive tourism and resource development zone in SADC. There are 22 Transfrontier Conservation Areas involving 12 countries covering an area of 473,652 sq. km. Market research indicates that an investment of US\$230 million to upgrade the infrastructure in the parks and additional US\$250 million to develop additional 2,000 beds at networked coastal resorts would convert the region into one of the world's premier ecotourism destinations.

## **Conclusion**

From the above, it is clear that a number of positive steps have been taken by SADC to capitalise on its immense potential with a view to attracting more investments into the region. However, there are still some challenges to be addressed. These include the maintenance of durable peace and stability in the region, continuation of good economic and political governance with the consolidation of public-private sector partnership and continuation of appropriate reforms at all levels. SADC, undoubtedly, is on the right track. Over the years, it has demonstrated its dynamic nature with readiness to adapt to new conditions and environment. It is now being restructured to better deal with globalisation as well as to fight poverty, diseases and the other ills of underdevelopment. In this process, there is now better coordination at the national level and regional levels with stronger regulatory and legislative frameworks and more appropriate capacity building programmes that will enable the implementation of regional activities. SADC must decide on its priorities within the framework of its Regional Indicative Strategic Development Plan so that regional programmes are demand-driven.