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Regional Trade:
A Catalyst for Growth and Sustainability of Small Businesses in the Southern African Region

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Exchange of goods and services is good for the society. This fact was established by early economists such as Adam Smith (specialisation) and David Ricardo (comparative advantage). It has been firmly established that through international trade a country is able to achieve higher rates of economic growth than would be possible without trade because it can produce for a larger (global) population than the population of its own nationals. It is in this context that trade is seen as the engine of growth. There is no nation that has achieved economic greatness without excelling in the external trade sector. US, Germany, Japan, South Korea, Hong Kong, Taiwan, Japan and China are all countries that have excelled in the external trade sector.

External trade sector performance is based on being able to capture a big chunk of the global market. A successful company is one that is able to sell its product globally. Unfortunately because the modern economy is divided into national states the objective of conquering the global economy by producers is often frustrated by numerous tariff and non tariff barriers erected by individual states for various reasons such as:

- need to achieve national self-sufficiency;
- need to protect domestic producers; and
- national security.

In recognition of the fact that a larger market is better than a smaller market, national governments have over time sought to expand market access through regional economic integration schemes with varying degrees of closeness of integration e.g., through:

- Preferential Trade Areas
- Free Trade Areas
- Customs Unions
- Common Markets
- Economic Community

Various examples of economic integration can be given e.g. SADC, COMESA, EAC, EU etc. From the Economic theory point of view the theory of economic integration falls in what is called "the theory of the second best". The best trade environment is the global market. It is the largest and therefore, represents the best opportunities for any ambitious producer. But in recognition that the achievement of a global market may be difficult to achieve in the short to medium run, nations have been willing to go for a second best solution by creating large markets through integration with neighbouring counties. Policies within an integrating region aim to eliminate non-tariff barriers, establish a common external tariff against non-members and the abolition of tariff between the members. A market is, therefore, created where all producers within the integrating region can compete on a level playing field at the exclusion of non-members.

Increased competition by producers within the integrating region can lead to improved efficiency/productivity which in turn can enable them to compete with producers from outside the integrating region.

From this, it follows that one of the main benefits to be derived from integration is improved efficiency resulting from competition within the integration region. It is efficiency in production which enables countries to compete globally. In this regard, it is important to note that the Asian tigers have managed to conquer global market without the need for economic integration (leading to the tag – Asian Tigers hunt alone). For us in Southern Africa we have argued that integration is the key to success (African Lions hunt in a Pride). It is arguable whether we should start by emphasising efficiency from the very beginning or we should achieve efficiency *via* integration. What is clear, however, is that whoever seeks to conquer the global market must eventually break out of the regional shell and hunt the globe alone. Regional integration in this regard can be seen as a stepping-stone into the global market. It helps small and medium scale producers to start producing for a market beyond their national borders

Integration in the African context

Africa has had a long history of economic integration and some experiences predate the independence era. The Federation of Rhodesia and Nyasaland is an example.

The African integration agenda was promulgated in the 1991 the Abuja Treaty. It aimed at creating a competitive single market and currency for Africa. It came into force in 1994. The process was to be achieved initially through the creation of Regional Economic Communities (RECs). These would serve as building blocks from which the African Single Market would eventually emerge. It was anticipated that each region of Africa would be represented by one REC. The process has been rather slow and in some instances, new developments have tended to slow the pace. For example, instead of having one REC per region and each country belonging to only one REC we have seen the emergence of RECs that transcend more than one region.

COMESA for example includes members from East Africa Community and SADC. Some countries belong to all three schemes. This complicates implementation of programmes. In some cases a lot of time is spent on debates about which scheme should prevail over the others. Progress in implementation of the integration agenda has been slow for other reasons as well such as lack of political will, lack of financial resources etc. The African Economic Outlook 2013 notes that due to the slow pace of development of the integration agenda some countries have started to push for fast tracking of the process. They feel that integration could increase their bargaining power in international bodies such as the World Trade Organisation (WTO) and negotiating Economic Partnership Agreements (EPAs).

Africa and International Trade

African Economic Outlook 2013 report has noted that between 2000 and 2011 Africa's exports had almost quadrupled in value from USD148.6bn a year to USD581.8bn. Within this development, it has been observed that:-

a) The European Union and the US saw their share of African exports fall from 47 per cent in 2000 to 33 per cent in 2011 in the case of Europe and from 17 to 10 per cent in the case of the US.
b) The emerging economies (China, India, Brazil, Russia) have on the other hand increased their share of African exports:

Table 1: Share of Africa Export (%)

	Year 2000	Year 2011
European Union	47	33
US	17	10
China	3.2	13
India	2.8	6
Brazil	2	3
Russia	0.2	0.3

c) Primary exports remain the overwhelming export. Their share in total exports increased from 72 per cent in 2000 to 78 per cent in 2011. The share of manufactured goods in the total declined from 21 per cent to 16 per cent over this period. Oil was the main export and its share rose from 51 per cent in 2000 to 57 per cent in 2011.

Table 2: Breakdown of Africa's Oil Exports (%)

	Year 2000	Year 2011
European Union	44	31
US	25	22
China	4.4	13.6
India	2.9	7.5
Brazil	3	4
Russia	-	0.3

The increasing role of China in Africa's exports is visible in exports of primary commodities as well (excluding fuel and food). In 2000 China accounted for 4.8 per cent of Africa's primary exports and this had risen to 28.8 per cent in 2011.

In a way, Africa's dependence on fuel/primary commodities exports is increasing and the main markets for these exports are outside Africa. Africa trades less with itself. Can integration end this?

Trade and regional integration in Africa

According to the Africa Economic Outlook 2013 report, trade between African countries is currently estimated at 10-12 per cent of the Continent's total exports and this is far below that of other regions of the world. 2009 statistics showed (in per centage):

North America	48
Europe	72
Asia	52

In spite of regional economic integration schemes in Africa, intra- regional trade in Africa has been very low.

Table 3: Regional Trade Flows 2003-2007

	INTRA RECs		OUTSIDE RECs (Africa)		OTHERS (GLOBAL)	
	Exports	Imports	Exports	Imports	Exports	Imports
CEMAC	0.9	5.2	2.7	8.9	96.4	85.9
COMESA	8.7	11.1	8.6	17.2	82.7	71.7
EAC	12.6	18.7	7.2	9.9	80.2	71.4
ECCAS	0.7	3.8	2.2	14	97.1	82.2
ECOWAS	13.9	15.8	5.5	5.2	80.6	79
SADC	19.9	33.1	2.3	2.6	77.8	64.3

Source UNECA (2008) assessing Regional Integration in Africa

CEMAC- Central African Economic and Monetary Community
COMESA – Common Market for Eastern and Southern Africa
EAC – East African Community
ECCAS - Economic Community of Central Africa States
ECOWAS – Economic Community of West Africa States
SADC – Southern African Development Community

Table 3 confirms that Africa trades less with itself. The SADC region exhibits higher levels of intra regional trade. In examining southern Africa trade performance the African Development Bank's Southern Africa Regional Integration Strategy Paper 2011-2015 had made some important observations:-

i. Intra SADC trade between 2000 and 2008 had increased from US$11.6bn to US$29.3bn and this increase was driven by the region's shift in the source of imports from Europe to South Africa following the end of apartheid. (This is very clear, for example in the supply of mining equipment. South Africa is the regional hub for most of the global suppliers of mining equipment).
ii. South Africa exports a lot of manufactured consumer goods. (The recent expansion of South African supermarket chains into the region has increased the bias for South African consumer goods). Thus the increase in Intra regional trade is concentrated in one country.
iii. The pattern of trade within the region and between the region and the rest of the World is different. While South African manufactured products dominate intra regional trade, exports to the rest of the world are mainly primary commodities. The strategic paper further notes that while the region's exports to the rest

of the world are concentrated around a few products, intra regional trade is much more diversified thus suggesting that expanding intra regional trade could yield significant benefits to countries in the region in terms of diversifying their production to non-traditional products, especially manufactures.

The scope for expanding intra regional trade in SADC exists if only South Africa can open up more to the products of other SADC member countries. South Africa still has in place a number of non-tariff barriers. A number of agricultural products from the region cannot enter the South African market for one reason or another (Zambian beans for example cannot enter that market. Recently the Zambia Parliament was told that Zambian grapes cannot be sold in South Africa which alleges that they are associated with a certain disease). South African companies, which are dominant in a number of SADC countries, tend to favour South African products e.g. South African Breweries promotes the sale of Castle Lager all over the region but does not promote other beer brands in South Africa even if it now owns the breweries that produce these beers e.g. the Zambian Lager Mosi.

What can Zambia sell to regional markets?

There seems to be a pervasive feeling amongst most Zambians that there is little that can be exported from Zambia, other than copper, a product of an industry which is mainly dominated by external investor interests. This is not true. A number of export opportunities can be identified.

i. *Grains* – Maize (already being exported), wheat (huge potential) and rice.

ii. *Agro processed products*– with the huge potential for producing almost any agriculture product, a large variety of vegetables and fruit can be produced in Zambia. These can be canned or dried and sold in the region.
iii. *Fruits of the forest* – the range is large, hard wood products, honey, mushrooms, etc. all have a huge market in the region and beyond. Zambia has been importing charcoal from South Africa when the opposite should be the case.
iv. *Processed minerals* – given the wide range of mineral resources, potential list of exports here is also large. Production of copper products like copper cable, copper wire etc. have a huge market all over the region, but very little is being produced for export. Much of current production goes to South Africa while Zambia and other countries have to import inferior cables.
v. *Others* – Cement, sugar, edible oils etc have a huge market in neighbouring countries like DR Congo, but Zambia has failed to capture this market for a variety of reasons including language barriers. Many of the trucks passing through Zambia are ferrying consumer goods that can be/are already being produced in Zambia.

Zambia has the additional advantage of having hosted liberation movements of the region for a very long time. Many of the people from these countries are very familiar with Zambian food crops and long to access these products. A huge market exists for Kapenta fish for example, but there is nobody willing to sell it. Kapenta fish can be sold even in Europe. Currently kapenta fish sold in countries like England, Germany etc comes from South Korea. Europe has a market for local delicacies like Impwa, Cassava, etc. The most successful exporting nations of recent times like South Korea have exported almost unimaginable products. I have seen canned Inswa from South Korea selling in Germany.

Success in exporting to the region is perhaps much easier than exporting far because of similarities in cultures and tastes. Most Southern Africans eat the same basic food – the maize meal based Nshima. This is very different from West Africans whose staple food is rice. It is, therefore, much easier to create sustainable incomes in the region selling traditional staple foods for a start. This can be done by a lot of our budding entrepreneurs. The same applies for a lot of other products. Success in exporting to the regional market will obviously create more incomes and jobs and will most certainly reduce the dependence on the fortunes of the mining industry for growth and prosperity.

Overcoming obstacles: There are clearly a lot of obstacles to success in penetrating the regional market. Economic integration can help the process. It helps to harmonise polices between member countries and sometimes helps in the development of trade infrastructure. Government willingness to undertake the integration agenda is the key to success of this process. At the level of institutions charged with implementing the integration agenda e.g. SADC and COMESA secretariats it is important that they start looking at integration from the grassroots agenda. There is a general feeling that these institutions are concerned more with how the big companies can benefit. For our purpose, we need an integration agenda aimed at benefiting small and medium scale enterprises.

While operating in an economic integration scheme can help, a lot of needs to be done at the individual enterprise level. Products to enter the regional trade market must be of a high quality because they will have to compete against similar products from the whole region. Aggressive marketing and proper branding and packaging are also key ingredients. Zambian business must learn to be outgoing by learning to speak languages of potential customers. The SADC/COMESA region has at least four key languages – English, French, Portuguese and Swahili. Success in regional trade might require capacity to operate in all these languages.

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