Business Parliamentary Office	*An initiative of the South African Chamber of Commerce and Industry (SACCI)* *Representing Business Unity South Africa (BUSA) & Chambers of Commerce and Industry South Africa (CHAMSA)*

Submission to the Portfolio Committee on Finance

Parliament of the Republic of South Africa

"Public Hearings on the Southern African Development Community (SADC) Finance and Investment Protocol"

20th November 2007

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1. INTRODUCTION

The Treaty of the Southern African Development Community (SADC) identifies and acknowledges the involvement of the private sector as a key stakeholder in pursuing the regional integration and development process. Organised business in South Africa has considered the SADC Finance and Investment Protocol and is pleased to provide commentary on the views of our sector through this submission which has been coordinated and presented via the Business Parliamentary Office (BPO).

The BPO is an initiative of the South African Chamber of Commerce and Industry (SACCI) – formerly the South African Chamber of Business (SACOB). It represents Chambers of Commerce and Industry South Africa (CHAMSA) and Business Unity South Africa (BUSA). CHAMSA is the umbrella body comprising SACCI, the Afrikaanse Handels Instituut (AHI), National African Federated Chamber of Commerce (NAFCOC) and the Foundation for African Consumer and Business Services (FABCOS). SACCI is also affiliated to the Association of Southern African Chambers of Commerce and Industry.

This submission has been formulated through the contribution of inputs from CHAMSA. We are informed that BUSA has made individual submission to the hearings.

2. COMMENTARY

African countries have long promoted regionalism as a strategy in the struggle for improved economic development. Regionalism has been extensively promoted as an efficient means of fostering closer economic cooperation and enhancing the participating states' prospects for faster economic development and better living conditions. In the last decade, the regional integration debate has played an important role in alerting leaders of the SADC region on the importance of engaging the region within the broader global economic system.

Within the SADC region, the hope has therefore been that by engaging in regional integration activities and initiatives, countries in the region will be able to tap into the benefits of being part of a regional development community, including its role as a source of enhanced trade, finance, investment and general growth.

The reality of regional integration has however proved to be challenging and requiring a long-term focus to achieve synergy and alignment within the crucial policy nexus that will result in overall cohesive policy integration. Prime among this, is integration within the realm of finance and investment policy.

The objectives of the SADC Financial and Investment Protocol are therefore bold and visionary, and organised business in South Africa firmly pledges its support for the attainment and pursuit of the objectives that are envisaged as a result of the successful implementation of the protocol. This is because we believe its aims if effectively pursued, will contribute to favourably positioning the region within the global market place and unlocking the economic space for doing business within the region. Surely, this can only be good for business and lends further impetus to what the Honorable Minister of Finance referred to as the "*interconnectedness of our world*" when delivering the 2007 Medium Term Budget Policy Statement last month.

It is therefore important to note that given the reality of globalisation and the primacy of the multilateral trading system, no analysis of regionalism (including integration on regional finance and investment) can be complete without a reference to the relationship between regionalism and multilateralism.

It has been argued that African countries have the least to gain from World Trade Organisation's (WTO) multilateral trade liberalisation, because liberalisation has been reduced, and will continue to reduce the preference extended to them by developed countries. However, given the limited intra-regional trade that occurs on the continent, full participation in the multilateral trading system is not just unavoidable, but also highly desirable for Africa itself. This is also due to the reality that the activities of a host of multilateral agencies such as the WTO, the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF) and the World Bank, impact not only on the trade and economic issues of the region, but also finance and investment.

An analysis of African policy regarding regionalism is complicated by the fact that integration is generally multifaceted in nature and extends beyond the traditional liberalisation of trade policy. This means that trade policy is often just one of many factors to be considered when decisions regarding regional integration are made. Another factor is the importance of finance and investment, in underpinning and motivating effective and sustainable regional economic integration.

Within this context, the role of finance and investment policies at national level within the SADC region and more holistically across the entire SADC region, are integral to address the agreed-to economic priorities and challenges within SADC (as outlined in the SADC Regional Indicative Strategic Development Plan) and further contributing to a sustained improvement in the overall quality of life and development in the region. All across Africa, access to finance and investment resources is rightly seen as the key in unlocking growth, improving the lives of the poor and expanding firms. The ratification of the protocol by the Parliament of South Africa therefore represents an important signalling factor by South Africa, as a major economy within the region and the continent as a whole.

Successful implementation of the protocol will need to take into account the heterogeneity of SADC countries and their varying levels of development within the realm of finance and investment. Whilst it is the obvious objectives of the protocol itself to indeed overcome these variances, it also could become an impediment to achieve the harmonisation and alignment envisaged under the protocol. This may particularly be the case if implementation does not allow for insufficient time so as to ensure that all appropriate measures are put in place at a country level and that there are the appropriate levels of capacity for implementation at the regional level. This includes raising the necessary levels of education and awareness within the public and private sector of member states to ensure compliance and full participation.

2.1 The firm-level

The SADC Finance and Investment Protocol will play an important role in the decision of private firms in the SADC region. This is because firm-level responses to various policies determine the success of sustainable and robust regional integration and development patterns.

Firms make decisions to invest, to produce and to market its products or services taking into account:

- tax regimes;
- the standard, quality and efficiency of financial, banking and transaction capability;
- access to financial markets; and
- incentives to trade and investment promotion;

On the one hand, firms' decisions are influenced by these factors within the finance and investment environment. On the other, once the constraints wherein firms have to operate have been identified, the financial and investment market is challenged to respond to these in order to improve prevailing market conditions.

Understanding firm-level responses to policy (such as those enabling finance and investment) provides significant insights for policy makers and analysts. Work developed by institutions such as the Trade Law Centre for Southern Africa (TRALAC) have indicated that by examining how and why firms respond as they do to policies and market signals can assist policy makers to coordinate national policies, and to tackle the even more challenging tasks of coordinating national policies across national boundaries, such as within the SADC regional integration process.

For this reason, the impact of synergies between national and regional policies, and the incentives they promote plays an important role in firms' decisions in the Southern African region. These national and regional policies may influence the transaction cost for firms involved in cross-border trader and other cross-border economic activities.

The interface between national and regional policy is thus important from the firm's perspective as it make decisions within national and regional markets and the impact this may have on investment and trade patterns and the emergence of new financial markets within this context. The links between finance and investment policies and firm level decisions should be carefully analysed within the regional context, if policy initiatives such as the SADC Finance and Investment Protocol are to have the desired impact on regional development and integration.

As the SADC region moves towards greater regional integration, firm-level decisions are critical in integrating the economic space of the region, which is currently fragmented by policy barriers and inconsistent policy incentives, and the high transaction cost of doing business in the region. Intra-regional trade liberalisation can play a role in encouraging and promoting cross-border economic activity, but alone it is insufficient to ensure that the region becomes an integrated economic space. To do that, achieving effective consistency in the national and regional policy coordination underpinning the finance and investment climate in the region, are imperative.

2.2 Foreign Direct Investment

Foreign direct investment (FDI) plays an important role in growth. At the time of 2000 SADC Summit, the SADC region attracted only one percent of global FDI. With the implementation of the SADC Trade Protocol and the formation of a regional economy, it is the hope of organised business that SADC will continue to emerge as a more attractive investment destination.

Recent investment by major developing economies such China into African countries such as Zimbabwe and more recently by the R37 billion investment by the Industrial and Commercial Bank of China (ICBC) into Standard Bank of South Africa, places continued emphasis on the region as a desirable investment destination for doing business. So too has the United States-Africa Business Summit of the Corporate Council on Africa, held in Cape Town this past week (14 – 16 November 2007) – the first time it has been held outside American border, in Africa itself.

South Africa has enjoyed buoyant rising investment and healthy capital inflows on the basis of sound macro-economic and fiscal policy which have enabled high confidence in our economy. Strengthening SADC financial and investment integration can therefore become the basis for strengthening continental-wide integration which will signal changing patterns of finance flows for Africa in the 21st century.

Foreign direct investment may also be an important stimulus to innovation. The cost of producing and exporting new goods, as well as adopting new technologies, may be lowered through FDI, since foreign agents are likely to be more familiar with those techniques in their country of origin. The role of intra-firm transactions and joint projects between these companies and resident firms and/or government's is an important mechanism for technology transfer and knowledge sharing which will contribute to the expansion of value-added production within the region.

Already, the industrial strategies of various SADC countries are geared toward influencing investment patterns through joint ventures. This has a major bearing on the development of infrastructure, which can be seen from mega projects in Mozambique and Tanzania for example.

2.3 Trade and investment promotion

In general, investment promotion policies are informed by the guaranteed provision of efficient infrastructure, business friendly tax regimes, favourable labour market conditions, and affordable input and business costs, to name but a few. It has generally been in the interest of developing countries to adopt domestic policies that encourage FDI and reduction in the cost of doing business.

A number of countries within SADC, and a number of sub-regions (e.g. provincial agencies in provinces of the Republic of South Africa) within various SADC countries have established active trade and investment promotion agencies. The work of these agencies must promote not only the incentive and favourable conditions for investment flows into SADC from abroad. It should also promote intra-SADC investment, making the SADC region a more attractive investment destination for conducting cross-border trade and economic activities from within SADC.

The SADC Trade Protocol which is already in effect should therefore be assisted by the harmonisation of finance and investment policies promoted, by making it more convenient and attractive for firms to make justifiable finance and investment decisions across national boundaries within the region.

Additionally, the SADC Finance and Investment Protocol should be considered within the overall World Trade Organisation (WTO) regulatory framework. The problems at WTO policy level have in some instances and unfortunately so, been replicated at the level of

Regional Trade Agreements. For example, the mode 4 aspects of General Agreements on Trade in Services, deal with liberalisation of movement of natural persons, especially those with highly needed skills, across WTO member countries. Difficulties in the implementation of this provision at multilateral level are replicated in the form of non-tariff barriers at regional level. While the provisions of the SADC Finance and Investment Protocol are noble and need to be promoted and supported by business, it needs to be noted as a concern that liberalisation of movement of natural persons with requisite skills in special sectors in the regional economy, is still lagging behind - it is a critical policy imperative which catalyses the initiatives contained in the protocol. Of course this liberalisation has to be balanced with the need to invest in the development of local skills.

The successful implementation of the provisions of the protocol, cannot occur in isolation from other protocols including, bilateral agreements. The need to find common criteria for integrating or hamonising governance frameworks and to be transparent about limitations, is so vital to the success of regional integration.

2.4 Small, Micro and Medium Enterprises (SMME) development and support

It is fundamental that the implementation of the SADC Finance and Investment Protocol, takes into account and lends itself to advancing development and support for SMMEs across the continent. Successful economic regions such as those in far-east Asia have demonstrated the importance of a strong small business sector as a backbone for more expansive regional economic development. In many of these instances, an enabling regulatory environment and access to financial markets has been the path-breaker for achieving longer-term success.

Firms within the region have to operate increasingly within a globalised economy that presents opportunities for increasing market access. But often it is more difficult for small firms in the region to enter these markets. Increased economic cooperation provides a way of addressing the issue by enabling small firms of SADC countries, both in size and finance power, to be overcome.

There are valuable lessons to be learnt from existing regional structures such as the Southern African Customs Union (SACU) in this regard. Since the 1990's FDI flows have been closely associated with the growth in the number of SMMEs and an increase in their share of economic activity. This has been attributed to joint ventures between transnationals moving into the region and other inter-firm cooperation e.g. networking. Networking is becoming an important link in the supply chain, with large and small firms increasing focusing on core activities, while subcontracting part of the production line to specialist firms to cut costs and to raise quality.

The role of networking and partnering relationships is emerging as instrumental in fostering knowledge diffusion and innovation. There therefore exists a unique relationship between the role of networking, FDI and joint ventures.

There is significant potential for firms to learn and to expand their technological capability through extensive, active networks with foreign technology suppliers and foreign partners. Technical innovation spans diverse areas including skills and adaptability of the workplace, the efficiency with which resources are used and the rapid adaptation to new techniques. Investment in education and training and to improve

labour's efficiency in the production process is therefore as important as fixed capital investment in plants and machinery. Whether local firms, especially SMMEs can harness these learning opportunities offered by foreign connections, is largely dependent on the timing, dynamics and sequencing of policy development embodied in domestic policies and the regional agreements in place.

2.5 Development finance

Africa is currently experiencing major financial transitions that require urgent mechanisms and intervention. In fact, new development finance approaches are required. It is becoming abundantly clear that financial and economic integration is a necessary step for the swift advancement of regional development. Successful economic development will depend on the implementation of African-driven development financial solutions. Development finance and development finance institutions (DFIs) will therefore become critical for supporting the development of the financial sector and regional development.

Development finance and DFIs will continue to play an important role in the SADC region into the foreseeable future. DFIs are especially important players for:

- the long-term capital of development projects, especially for infrastructure;
- stimulating industrial development and value-add;
- promoting entrepreneurship and private sector development;
- trade finance;
- capital market development through facilitation of privatisation of state-owned assets (e.g. in telecommunications, energy and power, water supply, transport and mining);
- technological advancement;
- financing of agricultural development;
- microfinance; and
- gender credit and support.

In this regard, business welcomes the provisions contained in the protocol for the establishment of the SADC development finance institutions Network and measures to strengthen capacity building and collaboration in the DFI sector across the SADC region.

3. CONCLUSION

There can be little argument about the need to harmonise finance and investment policies within the SADC region, within a broader global context. Southern Africa cannot afford to squander its limited resources as a result of duplication and fragmentation. This will not be an easy task. However, unity of purpose at every level, public and private, is required to overcome and resolve the challenges that exist and to share on a sustainable basis the benefits that stand to be realised. This task would undoubtedly be greatly enhanced by the involvement of South Africa and the participation of South African organised business, in providing a perspective to the integration initiative, that is often lacking in the more political proposals, but which can also be mutually reinforcing and supportive.

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