

**DISCUSSION PAPER No. 232**

## **SADC industrialisation: WHERE REGIONAL AGENDAS MEET DOMESTIC INTERESTS**

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October 2018

### **SUMMARY**

This paper looks at the political economy dynamics around regional industrialisation policy in the Southern African Development Community (SADC). It examines what drives regional industrialisation strategies in African Regional Economic Communities (RECs); the key actors and factors shaping regional industrialisation in SADC; and the resulting opportunities, different modalities and potential risks for donors who want to support such strategies.

Despite the apparent logic for regional industrialisation strategies, it is not clear what the actual role and added value of regional organisations and policies are, or should be, in this domain. While SADC member states profess support for a regional industrialisation agenda, their domestic industrial development and other political objectives often lead them to adopt policies that protect national industries, often at the expense of their neighbours.

Those who seek to support this regional agenda need to take account of these dynamics to avoid frustration. By taking an approach informed by political economy analysis, support can align with efforts that have real traction. Secondly, donors must ensure their support is flexible and adaptive to changing circumstances, and based on realistic objectives.



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## Acknowledgements

This paper was produced for the World Bank as part of their reflections on how to support regional industrialisation in the SADC and EAC regions. The authors would like to thank Jakob Engel for guidance and useful comments, as well as Paul Brenton and Kilara Suit, all of the World Bank. The paper was presented to the SADC partners' Trade, Industry, Finance and Investment Thematic Group Meeting which also offered useful questions and comments. Thanks are also due to Kesa Pharatlhatlthe and Inna Perova for inputs and helping finalise the report.

The views and opinions expressed in this paper are those of the authors and do not necessarily reflect the opinions of the World Bank.

## Acronyms

ANC	African National Congress
CAADP	Comprehensive Africa Agriculture Development Programme
CCRED	Centre for Competition, Regulation and Economic Development
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of Southern African Trade Unions
DRC	Democratic Republic of the Congo
DTI	Department of Trade and Industry
EAC	East African Community
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
FDI	Foreign direct investment
FTA	Free trade area
ITC	International Trade Centre
LLPI	Leather and Leather Products Institute
NTB	Non-tariff barrier
MVA	Manufacturing value added
NUM	National Union of Mineworkers
PACT II	Programme for building African Capacity for Trade
PDIA	Problem-driven Iterative Adaptation
RDF	Regional Development Fund
REC	Regional Economic Communities
RoO	Rules of origin
SABF	Southern Africa Business Forum
SACTWU	South African Clothing and Textile Workers Union
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDI	Spatial development initiative
SME	Small and medium-sized enterprise
TMEA	TradeMark East Africa
WACIP	West African Common Industrial Policy
WBCG	Walvis Bay Corridor Group

## Executive Summary

This paper looks at the political economy dynamics around regional industrialisation policy in the Southern African Development Community (SADC) region. It examines what is driving the emergence of regional industrialisation strategies in African Regional Economic Communities (RECs); the key actors and factors shaping regional industrialisation in SADC; and the resulting implications for donors aiming to support such strategies in terms of opportunities, different modalities and potential risks.

The analysis starts from the following assumptions (Vanheukelom et al., 2016): Regional commitments and their implementation are subject to both inter-country bargaining and national-level political dynamics; implementation of regional commitments depends on whether or not these aid or undermine the political survival of political leaders and elites; structural, institutional, sectoral and external factors together shape the way key individuals and coalitions behave around all regional agendas; partner support itself creates incentives that can, but do not necessarily, contribute to the overall goals of the intervention.

The rising prominence of regional industrialisation strategies is due to numerous factors. Among these are the examples from around the world; a change in the narrative towards employment and economic transformation in Africa; the 'normalisation' of industrial policy among international institutions; the emergence of global and regional value chains as drivers of global production and trade; and frustration with traditional market integration approaches to regionalisation.

Despite the logic for regional industrialisation strategies, it is not clear what the actual role and added value of regional organisations and policies are, or should be, in this domain. The nature of industrialisation as a *regional* public good has implications for the level and type of cooperation required.

The SADC Secretariat and member states are currently working towards implementing Phase 1 (2017-2020) of the Regional Industrialisation Action Plan. This involves 22 priority interventions to be initiated by 2020. Although the Strategy highlights the need for 'balance' across the region, how to address economic *imbalances* is not addressed.

While most, if not all, SADC member states profess support for a regional industrialisation agenda, their domestic industrial development (and other) objectives lead them to use policies that protect national industries, often at the expense of their neighbours. An example is Mozambique's sugar rehabilitation programme that relied on a surcharge on imported sugar.

While subscribing to the trade protocol and the industrialisation strategy, SADC member states regularly use a number of non-tariff barriers (NTBs) on agricultural products in particular, hindering intra-regional agricultural trade, as recognised in the SADC Industrialisation Action Plan.

Nonetheless, SADC member states have demonstrated some willingness to cooperate bilaterally with one another on industrial development-related initiatives. Supplier development initiatives have begun, whereby investors from one SADC country are encouraged to invest in developing local suppliers when investing in another SADC country.

Given member state interests and the challenge of identifying the true added value of a regional industrialisation strategy, the envisaged roles of the SADC Secretariat are broad and very demanding.

Challenges might be addressed if the overlap of the Industrialisation Strategy with trade, investment and infrastructure were used to coordinate and focus interventions in the name of industrialisation.

While an Industry Protocol might provide a legal mandate for the SADC Secretariat, experience with SADC Protocols suggests that 'rules-based' approaches are not always effective for cooperation on industrial development and implementation of agreed policies.

'Meaningful participation' by the private sector is seen as key for successful implementation of the SADC Industrialisation Strategy. So far this has been dominated by the South African private sector, especially large South African firms. This is unsurprising, however, as the 'organised SADC private sector' is largely comprised of South African firms.

'Opportunities' and entry points for external support exist in complex environments but the findings on political and economic dynamics emphasise the need for support to be flexible, iterative and adaptive - for example, many of the emerging dynamics on which regional collaboration on industrialisation could build are found beyond the formal agendas of regional organisations.

Nonetheless, regional organisations provide political legitimacy for regional cooperation on industrial development, which could bring about a more enabling environment for such dynamics, while there are cross-cutting issues that are crucial to industrialisation, which are regional in nature (standards, trade barriers, regional infrastructure, etc), and hence which are central to SADC's mandate.

Efforts to support the SADC industrialisation agenda should seek to: exploit the interest created by South Africa's past Chairmanship of SADC; encourage South African collaboration with Namibia (current SADC Chair); explore and build on political traction and private sector agency in cross-country functional cooperation and problem-solving (such as infrastructure and corridor development). Opportunities for supporting domestically-led and sector-specific cross-country dynamics need to be explored to diversify the regional support portfolio beyond institutional strengthening of SADC institutions and also cover functional cross-country cooperation.

Different areas of engagement require different forms of engagement. A portfolio approach seems best suited to supporting regional industrialisation-related efforts at different levels and in adaptive ways, depending on the nature of the issues and the likely coalitions to emerge.

Going forward questions relate to the preparedness of the World Bank and others to continue to invest in regional problem solving in adaptive ways to contribute to economic transformation and industrial development. In order to do so it will have to invest in knowledge generation and in systems so as to embrace complexity and develop adaptive engagement strategies.

## 1. Introduction

The paper is an abridged version of a paper that looks at the political economy of regional industrialisation in the EAC and SADC regions. It provides a high-level review of the literature on political economy dynamics in the two regions to highlight key issues to take account of in supporting regional industrialisation strategies.

The paper is organised around three main themes:

1. An overview of the emergence of regional industrialisation strategies in African Regional Economic Communities (RECs) and what is driving this;
2. Some of the key actors and factors shaping the political economy of regional industrial strategies in SADC (and the EAC in the broader paper);
3. The resulting implications and potential recommendations for donors aiming to support such strategies in terms of opportunities, different modalities and potential risks.

Based on past work on the political economy of regional organisations and the literature on the political economy of industrial policy, the paper starts from the following assumptions (Vanheukelom et al., 2016):

1. Regional commitments and the implementation of these commitments are subject to both inter-country bargaining and national-level political dynamics.
2. Implementation of regional commitments depends on whether or not these aid or undermine the political survival of political leaders and elites, their main overarching concern.
3. Structural, institutional, sectoral and external factors together shape the way key individuals and coalitions behave around regional agendas, industrialisation included. Combined, these will define opportunities and risks for donor support to such programmes.
4. Donor support itself creates incentives that can, but do not necessarily, contribute to the overall goals of the intervention.

The above assumptions reflect a wide literature on the political economy of economic development, most recently captured by Pritchett et al. (2018) in their work on *Deals and Development*. Though their framework aims to explain episodes of economic growth and stagnation at a country level, it is also relevant for analysing national and regional industrialisation strategies. They start from the observation that “the key feature that distinguishes developing countries is the gap between official, formal, legal de jure laws and regulations and what actually happens” (Pritchett et al., 2018). Outcomes ultimately depend on the way regulations are actually applied in markets and the link with political processes, something that chimes with regional strategies and policies more broadly.

The interaction between political and economic actors is also highlighted by Whitfield et al. (2015) in their analysis of industrial policies in developing countries. According to them, “[p]olitics are central to understanding why governments pursue industrial policies, which sectors they target and with what kinds of policies, and how those policies are actually implemented”. Given the interplay between international or regional negotiations and national politics (Putnam, 1988), working regionally adds to the complexities facing those tasked with designing and implementing regional industrial strategies.

This paper draws on these insights to highlight the importance of understanding: i) the type of political settlement shaping policy-making and implementation in broad terms; and ii) the relations between states and different types of businesses according to the characteristics of the markets in which firms operate. These help reveal the logic shaping political decisions and the political economy drivers - or obstacles - affecting national and regional level industrialisation, raising questions about the space for regional organisations to add value.

## 2. Contextual considerations

Cooperation on industrialisation has long been central to political and economic integration policy processes in Africa - the 1980 Lagos Plan of Action was explicit about an “urgent need to implement a plan for the collective industrialisation of Africa”.

Though the idea of cooperating on regional industrialisation in Africa is not in fact new, achieving the objectives of such cooperation has been a challenge, not least in the face of ideological trends that aligned against government intervention and industrial policy from the 1980s to the early 2000s. The recent flurry of regional industrial policies and strategies suggests that a range of external and national-level factors have aligned to generate renewed interest in regional approaches to industrialisation in Africa.<sup>1</sup>

One key driver of regional industrialisation strategies has been the rhetoric of African policymakers on the need to promote structural transformation in their economies, with renewed emphasis on *national* industrialisation. Relatedly, following a period where industrial policy was something of a taboo among international institutions, it has become increasingly accepted as a legitimate and necessary tool to promote economic development, what Rodrik (2008) has called the ‘normalisation’ of industrial policy.

At the regional level, African stakeholders have become increasingly frustrated that regional integration in Africa has so far failed to generate expected benefits in terms of boosting intra-African trade and supporting structural transformation and economic diversification. This has also fed the interest in engaging more proactively in the economy through industrial policy.

The state of market integration is particularly relevant for industrialisation schemes in Africa, as intra-African trade involves a higher proportion of manufactured products and intermediate goods than Africa’s extra-regional exports and is therefore particularly important in terms of supporting Africa’s manufacturing industries (see e.g. Sommer et al., 2017).

A commonly cited reason for limited intra-African trade is that integration has focused largely on removing barriers to trade without the effective development of the productive capabilities on the continent. In their absence, African economies remain relatively undiversified and their trade complementarity low. In other words, having failed to develop diversified industrial sectors that produce the goods demanded by African consumers, African countries are simply not in the position to exploit opportunities provided by eliminating barriers to intra-regional trade.

All these elements - lessons from elsewhere in the world, a change in narrative towards employment and economic transformation in Africa, the ‘normalisation’ of industrial policy (Rodrik, 2008) among international institutions, the emergence of global and regional value chains as drivers of global production and trade, and frustration with traditional regional market integration - have led to the greater prominence of industrialisation strategies in regional discourse.

### **Political settlements and national industrialisation**

While the logic for industrialisation is clear, what is also clear from national industrialisation processes is the importance of political interests and incentives. Research in a number of African countries clearly demonstrates that the “stated ‘rules of the game’ have near-zero predictive power for what will actually

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<sup>1</sup> In 2015, ministers from the Economic Community of West African States (ECOWAS) adopted a Revised West African Common Industrial Policy (WACIP) Strategy (2015-2020) - the WACIP had originally been adopted in 2010. The Southern African Customs Union (SACU), meanwhile is also seeking to develop a regional policy on industrial development.



happen” (Pritchett et al., 2018, p 24).<sup>2</sup> Other work has pointed to similar discrepancies in the context of regional organisations in Africa, whose organisational and institutional *forms* often fail to perform their intended *functions* (Vanheulekom et al., 2016).

Pritchett et al. (2018) rely on *political settlement theory* to characterise the different ways in which the power relations within a country’s ruling coalition affect the nature of deals struck with economic actors and therefore when and how policies are implemented. Political settlement is defined by Khan (2010) as “an institutional structure that creates benefits for different classes and groups in line with their relative power”. The political settlement in a country shapes - and over time is shaped by - the way political elites, bureaucrats and different categories of private sector actors interact and make profits, together determining the ‘rents space’. The analytical framework distinguishes firms by their *target markets* - do they cater for domestic demand or rather do they export - and their *source of profitability* - do they generate profits by rent seeking and therefore through connectivity with politicians and bureaucrats, or through market competition. According to their location in the ‘market and rent matrix’ each of these types of private actors place different demands on the state and will seek to influence industrial or wider economic and regional policies in different ways.

Taking account of these aspects can inject more realism into debates about economic growth and transformation. The associated analytical frameworks help explain what shapes developing country productive sector policies and their implementation, providing pointers for a more realistic appreciation of “what it takes (and, on the other hand, what may not be needed) to effectively raise productivity, capabilities and incomes in a branch of economic activity” (Booth et al. 2014, p. 6).

In contrast to single country cases, regional approaches must take account of the political settlement at the country level but also how these affect power dynamics *between* states.

The way political elites engage with different subgroups of the private sector affects their negotiation positions at the regional level and subsequent implementation of regional commitments (e.g. Putnam, 1989). While certain firms may align with the government to protect certain sectors at the cost of others, those operating in more competitive markets with far less political sway and a need for more rules-based exchanges, may need to find ways to combine forces to ensure commitments are met. Further, firms ostensibly engaged in regional value chains may be operating in regional cartels, for example in cement or construction, thus undermining the competitive effects intended through regional integration (e.g. Roberts, 2017).

The growing attention of regional organisations to industrialisation therefore requires a better understanding of the different natures and political weights of firms within and between countries. A better understanding of the different market orientations of firms, rents, and how these interact with the political settlement will help understand the scope and potential traction for furthering transnational and potentially regional cooperation.

### **Defining a specific regional purpose**

All of these political dimensions then must also deal with the nebulous nature of regional industrialisation as a policy area.

Despite the different arguments for why regional industrialisation strategies have emerged, it is not clear what the actual role and added value of regional organisations or policies are, or should be, in this domain. While there is a growing movement around the need for ‘Problem-Driven Iterative Adaptation’ (PDIA) in

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<sup>2</sup> Southern and East African countries studied include: Kenya, Tanzania, Rwanda and Uganda (in Booth et al., 2014); Tanzania, Uganda and Mozambique (in Whitfield et al., investigates2015); Malawi, Rwanda and Uganda (in Pritchett et al. 2018), Roberts et al. deal with competition and economic development around cement, sugar, poultry, and fertiliser value chains.

building state capacity for development (Andrews et al., 2017), this is difficult to apply to regional industrialisation strategies that operate at a high level. We return to this point in the final section.

While laudable objectives, export diversification or raising manufacturing value added *in a region as a whole* raises different questions to doing so for a country. As we shall see below, regional organisations have difficulty playing the role of arbiter in the same way that a national government can in relation to sub-national distribution of economic gains. This is a significant challenge for those designing, implementing and supporting regional industrialisation strategies.

The nature of the regional public goods in question also has implications for the level and type of cooperation required for regional gains to be made. To illustrate, Vanheukelom et al. (2016) point to the different political economy dynamics between i) agreeing on aspirations for a regional market with *potential* future benefits, though unclear distributional impacts, and ii) minimising the harm to clearly identifiable groups from cross-border conflicts. While uncertainty around future benefits can stymie progress, the very clearly identifiable risks of spillovers from violent conflicts and a need to avoid harm can often provoke quick regional responses and a degree of supranational decision making. Similarly, different elements of a regional industrialisation strategy will entail different political incentives and imperatives depending on the degree to which they require all or most countries to comply in order to be effective, such as regional quality standards, or to which more limited collaboration can nonetheless create this, such as a regional training centre, for example.

Given the range of interdependent, cross-cutting regional initiatives that might be linked to promoting industrialisation via investments in agriculture, mineral linkages, infrastructure, standards and quality assurance, etc., the potential role of a regional industrialisation strategy is vast. Such a strategy needs to be well defined and to take into account regional political economy dynamics. In the context of PDIA, introduced above, low Manufacturing Value Added is not the ‘problem’ as such, but rather the consequence of a chain of problems that must be examined in conjunction with the involved stakeholders, and in a circumscribed policy area.

### 3. Key political economy actors and factors

Building on the broad motivations for developing regional industrialisation strategies and the frameworks for understanding the political economy of industrialisation, this section highlights some of the structural conditions, key actors, interests, and incentives that influence regional trade and industry dynamics in the SADC region that therefore will be key for effective support to a regional industrial strategy. It also points to the issues of regional competition, or the dangers of ignoring the risk of undermining regional competition through cartels of national firms.

Afrobarometer survey data (see Table 1) suggest differing perceptions on the usefulness of regional economic communities between countries. For example, in Namibia and Botswana SADC is seen as ‘helpful’ by a considerably larger share of the respondents than in South Africa and Zimbabwe where, arguably the focus is more national.

Table 1: Perceived helpfulness of regional economic communities by country 2014/2015

Afrobarometer region	Country	REC	Helps a lot	Helps somewhat	Helps a little bit	Does nothing	Don't know
Southern	Namibia	SADC	39%	30%	16%	4%	11%
	Botswana		30%	25%	19%	2%	24%
	Mozambique		28%	19%	21%	7%	25%
	Lesotho		24%	9%	10%	21%	35%
	Zambia		24%	13%	14%	6%	42%
	Malawi		21%	11%	18%	7%	43%
	Swaziland		20%	29%	13%	5%	34%
	Madagascar		15%	24%	29%	19%	13%
	Mauritius		12%	36%	28%	2%	22%
	South Africa		10%	19%	20%	14%	37%
Zimbabwe	9%	19%	26%	18%	29%		
East	Burundi	ECCAS/ EAC*	21%	22%	11%	7%	39%
	Uganda	EAC	20%	21%	15%	7%	37%
	Kenya		16%	28%	27%	8%	20%
	Tanzania		16%	28%	13%	16%	28%

Source: Afrobarometer, 2016<sup>3</sup>

### The SADC industrialisation agenda today

The SADC Secretariat and member states are currently working towards implementing Phase 1 (2017-2020) of the Action Plan. This involves 22 priority interventions to be initiated by 2020, including activities to increase participation in regional value chains - a key objective of the SADC Industrialisation Strategy - and to develop the agro-processing, minerals beneficiation and pharmaceuticals value chains in the region as priority value chains. According to the Action Plan, "emphasis on value chains promotion arises from the desirability of moving development perspectives from a national to a regional focus" (SADC, 2017). The priority sectors, meanwhile, reflect the priorities of SADC member states. The Action Plan priority interventions also include a number of cross-cutting activities to enhance competitiveness, deepen regional integration and improve the policy and business environment for industrial development in the region.<sup>4</sup>

The key objective of the Action Plan is "to facilitate the movement of SADC participation up the value chains where the highest value is derived" (SADC, 2017). While this seems to allow that increasing value added in any SADC country is considered equal, the Action Plan also recognises huge diversity among member states. However, although the Strategy highlights the need for 'balance' across the region, how to address potential *imbalances* in benefits is not addressed. While not necessarily easy to do, whether in terms of compensation mechanisms or geographically targeted interventions, the political implications of not addressing regional imbalances have been referenced as a cause of the failure of the first EAC project, and may generate reluctance among member states to implement.

<sup>3</sup> Respondents were asked: In your opinion, how much does [the regional organisation for your region] do to help your country, or haven't you heard enough to say? (\* Note: In Burundi, the question asked about "ECCAS/International Conference on the Great Lakes Region ICGRL/EAC/COMESA.")

<sup>4</sup> Cross-cutting intervention areas here include: aligning national industrialisation policies and strategies to the SADC Industrialisation Strategy and developing a SADC Protocol on Industry; establishing a conducive investment policy framework and deepening integration of financial and capital markets; developing an SME Development Programme; supporting the development of industrial clusters at national level; developing a regional mechanism for public-private dialogue; strengthening skills to support prioritised value chains; activities to promote research and innovation; developing economic corridors to support industrialisation; and improving the trade environment through implementing the SADC Protocol on Trade and Protocol on Trade in Services and reducing barriers to regional trade (SADC, 2017).

Also illustrative of these challenges is the statement in the Action Plan that it is to be supported by “well-harmonised industrial policies” among member states, “supported by a strong regional integration agenda” (SADC, 2017). The question of whether the regional plan builds on national plans or vice versa seems hard to answer, offering an opportunity for long discussions and studies by bureaucrats and consultants without fully answering how a regional industrialisation strategy could or should complement what is taking place at a national level.

Agriculture remains a key sector in all SADC economies and the source of livelihoods for around two-thirds of the SADC population. The sector is comprised of a small number of modern, competitive industrialised agribusinesses (‘magicians’ in the parlance of Pritchett et al., 2018) and a much larger segment of smallholder or subsistence farmers (the ‘workhorses’). While the former possess the capital to access required inputs and services on open markets, and to invest in their own production, the latter struggle to access finance and make productivity-enhancing investments. Their needs to engage in regional markets are therefore very different.

### **The implications of ‘swing state’ South Africa**

As the region’s “swing state” (McNamee, 2016), South Africa continues to influence and dominate regional dynamics in Southern Africa and is thus central to any regional strategy. Beyond economic dominance, the country’s interests and positions are often crucial in determining whether or not particular regional initiatives are implemented.

In the context of the Southern African Customs Union (SACU), which represents a subset of SADC members, South African policymakers have emphasised the need for ‘cooperation’ on industrial policy among SACU members, while protecting labour-intensive manufacturing industries in South Africa to address chronic high levels of unemployment in the country. Examples include the clothing and textiles industry, which exemplifies the case of ‘rentier’ firms exporting from behind high levels of regulatory protection into highly competitive markets (see for example McCarthy, 2014).

The importance of South African buy-in for regional initiatives suggests that efforts to promote regional value chain development in Southern Africa will need to at least include value chains involving South African firms and industries, especially given the interest in and capacity for expanding into the region demonstrated by South African firms. An approach that builds on the interests of South African firms, would, however, need to also address other SADC member states’ longstanding fears of having their markets flooded by South African products and services (see e.g. Schoeman, 2002).<sup>5</sup> These fears could potentially undermine the implementation of the SADC Industrialisation Strategy.<sup>6</sup>

### **The importance of labour unions in South Africa’s political settlement**

Some of South Africa’s positions in regional processes is at least partly explained by the role of labour unions in the country’s political settlement. For example, backed by other SACU member states, South Africa

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<sup>5</sup> Such concerns inspired the asymmetric nature of tariff reductions under the SADC FTA, and have motivated the use of trade restrictions against South African exports by other SADC member states, and have probably been exacerbated by the South African government’s professed willingness to use trade policy to achieve domestic employment and industrialisation objectives (see Woolfrey and Verhaeghe, 2017).

<sup>6</sup> “South Africa will be “resolute” in using tariffs to defend domestic industry and support development, particularly in light of moves towards greater protectionism in other countries, Trade and Industry Minister Dr Rob Davies said in his contribution to the State of the Nation debate on Wednesday.” See a recent article on <http://www.engineeringnews.co.za/article/south-africa-to-be-resolute-in-using-tariffs-to-protect-domestic-industry-2017-02-15>

insisted that the rules of origin (RoO) under the SADC FTA be revised to make them *less* flexible. This was to address domestic concerns voiced by the country's clothing and textile industry, one of the country's largest manufacturing employers (Lee et al., 2006), and the South African Clothing and Textile Workers Union (SACTWU), in particular. SACTWU is one of the largest affiliates of the Congress of Southern African Trade Unions (COSATU), which participates in the ruling government alliance with the South African Communist Party and the African National Congress (Hentz, 2008).

This episode reflects the political importance of labour unions, and COSATU in particular, in shaping how South Africa engages in regional processes. South Africa's political settlement involves an 'implicit bargain' between big business, big labour and government (Bhorat et al, 2014). The African National Congress (ANC) relies on COSATU's "networks, organisational structures and capacity, members and active involvement in electioneering" during election cycles, giving COSATU significant leverage within the ruling alliance (Bhorat et al., 2014). This has been used to influence, among other things, the development of national economic policy and even the ousting of former President Thabo Mbeki (Bhorat et al., 2014). Many current and former South African cabinet members also have their roots in the labour union movement, including the current Minister for Economic Development (previously the General Secretary of SACTWU), and the new President, Cyril Ramaphosa (a former General Secretary of the National Union of Mineworkers - NUM). One implication of the influence of labour unions is that it is very difficult for the South African Government to support regional initiatives to promote industrial development in other SADC member states if such initiatives create competition for South Africa's own labour-intensive manufacturing industries.

Hirsch and Levy (2017) suggest that the political settlement formed of a stable alliance between government, labour and big business has been 'fraying' over the last two decades, undermining "impersonal institutions" and the credibility of political commitments. The trend towards a 'deals-based' system under the previous president is said to have been driven by:

1. "An agenda of economic reform that was strongly influenced by the concerns of established large-scale incumbents who were eager to expand beyond South Africa's borders... who had less enthusiasm for a more proactive agenda to support productivity-enhancement by newer and smaller firms";
2. "A set of negotiated agreements on labour law that balanced the interests of large-scale business and organised labour", thus entrenching the interests of those businesses;
3. "The limited effectiveness of repeated efforts to provide a framework for black economic empowerment";
4. "A progressive retreat on the part of the most productive firms from proactive engagement with South Africa's broader development concerns".

While there are hopes that the new president will help change these dynamics, the changing political environment and state-business relations have implications for the political appetite for seeking regional cooperation around them where this might create tensions.

### **South African businesses and the region**

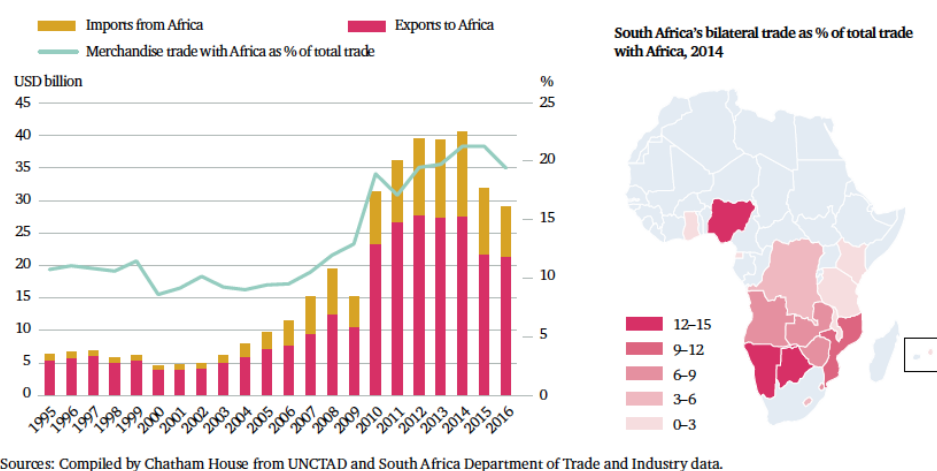
While the South African government has concerns about the impact of increased regional competition on certain labour intensive manufacturing industries, many South African firms have expanded into regional markets in the absence of an enabling regional policy or supporting national strategy.

This has occurred particularly in sectors such as financial services, retail, hospitality, mining and telecommunications. The success and prevalence of South African services firms in the region may offer an entry point for building cross-country coalitions of private sector actors, such as for South African supermarkets and other retailers, who could be incentivised and supported to invest in developing local

supply bases when establishing in other SADC countries. Such possibilities for coalition-building in the context of particular sectors and value chains have increased in light of global trends towards the increasing servicification of manufacturing.

The South African Department of Trade and Industry (DTI) states that South Africa seeks to drive the region's industrialisation agenda and implementation of the SADC Industrialisation Strategy during their term as Chair of SADC.<sup>7</sup> This reflects awareness of the risks of South Africa's large trade surplus with its neighbours, as well as a desire to show an 'openness' to the region and to support economic growth in Africa as a whole, especially given the growing importance of the African market for South African producers (see Figure 1 below).

Figure 1: South Africa's merchandise trade with Africa, 1995–2016



Sources: Compiled by Chatham House from UNCTAD and South Africa Department of Trade and Industry data.

Source: Games, 2017

The Minister of Trade and Industry also views the SADC Industrialisation Strategy as a vehicle to encourage investment in the region by South African companies. While there may be interest from some South African private sector actors in potential opportunities in the region, it remains to be seen what specific constraints will be addressed by implementing such a strategy and how this will help firms, especially in relation to agro-processing and agribusiness. Notably, it would seem to imply a switch in political attention from the more 'deals'-based firms and industries that have bolstered domestic politics, discussed above, to the 'magician' type firms operating according to market rules and constraints.

### Other SADC 'national' interests

The interests of other SADC member states in the regional industrialisation agenda and their engagement vary considerably, reflecting differing levels of prioritisation given to industrial development at the national level - many SADC member states still focus attention on minerals extraction and/or agricultural development - and differing levels of participation in regional processes more broadly, as also reflected in the perceptions data presented table 1. For example, Angola and the Democratic Republic of the Congo (DRC) tend not to participate in many SADC initiatives, and neither country is party to the SADC FTA.

While SADC member states profess support for a regional industrialisation agenda, their domestic industrial development (and other) objectives often lead them to adopt policies to protect national industries, often at the expense of their neighbours. This element of competition between member states and the national imperative to industrialise is illustrated by Mozambique's sugar rehabilitation programme. That involved the imposition and implementation of a surcharge on imported sugar, a deal that was reached with the backing

<sup>7</sup> <https://www.chathamhouse.org/expert/comment/interview-rob-davies-south-african-trade-minister>



of Frelimo elite factions in an effort to attract Mauritian and other investors to politically important sugar-producing regions of the country. Whitfield et al. (2015) highlight this as a case where industrial policy ‘worked’ precisely because of a combination of mutual state-business interests, the creation of an autonomous bureaucratic unit to manage the policy, and underlying political interest and ability to commit to the deal. Though exporting to world markets, Mozambican sugar producers are still ‘rentiers’ in that they are seen as political priority firms, and therefore given protection from those markets.

While subscribing to the trade protocol and the industrialisation strategy, SADC member states regularly use a number of non-tariff barriers (NTBs) on agricultural products in particular, hindering intra-regional agricultural trade, as recognised in the SADC Industrialisation Action Plan.<sup>8</sup> More widely, trade restrictions are common and have been enacted to protect local producers (in times of abundant supply) as well as to ensure sufficient supply on the local market (in times of regional shortages), illustrated in Box 1.

Box 1: SADC trade bans and other barriers

Angola has banned imports of cement from Namibia to address ‘oversupply’ in the domestic market;<sup>9</sup> Botswana has banned imports of pre-packed salt to support the development of its national salt value chain;<sup>10</sup> and Mozambique and Zambia have both taken steps to ban exports of unprocessed timber in order to encourage domestic timber processing.<sup>11</sup>

Other Non-Tariff Barrier (NTB) examples include Botswana banning chicken imports and its requirement that at least 30% of maize and soya must be sourced locally first.<sup>12</sup> Measures such as these have hampered a regional poultry value chain developing. Recent research shows how the sugar-to-confectionery value chain has been affected by Zambia’s ban on sugar imports from neighbouring countries which has led to high prices of sugar in the domestic market.<sup>13</sup> Zambia also periodically bans maize exports to ensure domestic supply, and many other examples.

These result in different views over the use of external tariffs, as well as the temptation to levy ‘surcharges’ on intra-regional imports when government needs revenue (e.g. as Zimbabwe has done recently on goods imported from South Africa).<sup>14</sup>

Many SADC member states have also imposed policies regarding the ownership of firms based in their territories, either to promote ‘indigenisation’ or ‘black economic empowerment’ in Zimbabwe, South Africa as well as Namibia.<sup>15</sup>

Beyond industrialisation strategy objectives, member states are expected to mobilise and allocate resources to drive the strategy: “A fully resourced and operationalised SADC Development Fund will be an important source for long-term financing of the Action Plan” (Action Plan). But given low historical levels of member

<sup>8</sup> Moreover, downstream processing, most relevant in agro-processing, “is constrained by a restrictive trade policy environment that undermines downstream competitiveness in an attempt to protect upstream markets”, apparent in intra-SADC trade restrictions on a range of agricultural commodities (SADC Action Plan) that therefore undermine the RVC objective.

<sup>9</sup> <https://www.namibian.com.na/index.php?id=83508&page=archive-read>

<sup>10</sup> <http://www.sundaystandard.info/gov%E2%80%99t-bans-salt-importation>

<sup>11</sup> [https://macauhub.com.mo/2016/11/24/mozambique-plans-to-ban-export-of-timber-logs/;](https://macauhub.com.mo/2016/11/24/mozambique-plans-to-ban-export-of-timber-logs/)

<https://www.lusakatimes.com/2017/11/24/timber-export-ban-meant-promote-timber-processing-manufacturing-zambia/>

<sup>12</sup> <https://www.wider.unu.edu/publication/southern-african-poultry-value-chain>

<sup>13</sup> <https://theconversation.com/southern-africa-has-an-integration-plan-but-its-short-of-sector-specifics-78006;>

[https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WPS\\_No\\_255\\_Competition\\_and\\_industrial\\_policies\\_relating\\_to\\_food\\_products....pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WPS_No_255_Competition_and_industrial_policies_relating_to_food_products....pdf)

<sup>14</sup> <https://www.fin24.com/Economy/concerned-dti-engaging-with-zim-on-trade-restrictions-20160710>

<sup>15</sup> <https://www.bloomberq.com/news/articles/2017-08-28/namibia-black-ownership-plan-risks-repeating-south-africa-errors>

state contributions to SADC and the priority given to national industrialisation, it is difficult to see them capitalising the Regional Development Fund (RDF).

However, SADC member states have demonstrated some willingness to cooperate bilaterally with one another on industrial development-related initiatives. For instance, the South African and Namibian governments have signed memoranda of understanding in relation to spatial development initiatives (SDIs) in Namibia, including one mandating the Walvis Bay Corridor Group (WBCG), a public-private partnership between transport and logistics stakeholders, to advance SDIs in Namibia and to ensure that the country derives tangible benefits from them. The WBCG reportedly receives financial support from the Development Bank of Southern Africa and the Ministry of Trade & Industry in Namibia to spearhead the SDI Programme and promote value chain investments.<sup>16</sup>

Other potential areas of bilateral or sub-regional collaboration on industrial development include:

- Angola is seeking to increase imports of live cattle from Namibia in order to promote domestic meat processing and reduce the amount of beef imports from other countries, particularly Brazil.<sup>17</sup>
- Botswana Ash is seeking to expand its supply of soda ash to various manufacturing industries in the region.<sup>18</sup>
- South African Philafrica has invested in poultry production in Mozambique (and other agro-processing activities in the region).<sup>19</sup>
- Swaziland produces sugar for the SACU region.<sup>20</sup>
- Zambia is aiming to produce palm oil and potentially export to the region in the future.<sup>21</sup>

Supplier development initiatives have been launched, whereby investors from one SADC country are encouraged to invest in developing local suppliers when investing in another SADC country. These might be built upon, around value chains identified as having potential. This could include the development of regional codes of conduct or national supplier development funds, for example (Ziba & Phiri, 2017).

The above discussions highlight the role of state-business relations in understanding the SADC regional industrialisation agenda, and the drivers behind decisions and positions taken by member states' representatives in the region, as well as the subsequent measures taken at national level - or not - to ensure implementation of regional policies.

### **SADC Secretariat**

Given the complexities of member state interests and the challenge of identifying the true added value of a regional industrialisation strategy, the role of the SADC Secretariat is not an easy one. This is further complicated by the breadth of its envisaged role: to coordinate implementation, mobilise resources for regional projects, facilitate buy-in and policy coherence, and provide a platform to exchange information on projects, obstacles and how to remove them. Human resource capacity declined in recent years with the withdrawal of donor support for positions at the Secretariat, although some steps have been taken more recently to address this. SADC member states, meanwhile, are reluctant to increase their financial support

<sup>16</sup> [http://www.wbcg.com.na/fileadmin/user\\_upload/documents/Expression\\_of\\_Interest-Strategic\\_Investment\\_Projects.pdf](http://www.wbcg.com.na/fileadmin/user_upload/documents/Expression_of_Interest-Strategic_Investment_Projects.pdf)

<sup>17</sup> <https://www.newera.com.na/2017/07/24/angola-promises-to-honour-its-n2-6-billion-debt-to-namibia/>

<sup>18</sup> <http://www.ciner.us.com/soda-ash-mine-targets-p300-million-ebitda-by-2018/>

<sup>19</sup> <http://clubofmozambique.com/news/chicken-production-gets-a-boost-as-mozambiques-novos-horizontes-partners-with-south-africas-philafrica-foods/>

<sup>20</sup> [https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Sugar%20Annual\\_Pretoria\\_Swaziland\\_4-25-2017.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Sugar%20Annual_Pretoria_Swaziland_4-25-2017.pdf)

<sup>21</sup> <https://www.panafricanvisions.com/2017/zambias-domestic-palm-oil-plantation-aims-substitute-imports-new-ppp-initiative/>; <http://www.coastweek.com/4036-Zambian-government-invests-16-million-USD-in-palm-oil-production-project.htm>



to the Secretariat. With such a broad agenda and competing demands of the SADC Secretariat in many other thematic areas of regional integration and cooperation, there is a risk that the Secretariat will struggle to play an effective role. To draw a parallel with the national level, where political contestation undermines bureaucratic capabilities (Whitfield et al., 2015) member state contestation over the wider regional agenda may undermine the investments required for building bureaucratic capability.

Some of these capability challenges might be overcome if the overlap of the Industrialisation Strategy with other regional agendas, including trade, investment and infrastructure, can be used to coordinate and focus interventions in those areas in the name of industrialisation - akin to the New Industrial Policy approach that seeks to identify and overcome specific coordination failures in specific sectors. However, this would require greater clarity in terms of the mandates and responsibilities of different directorates and units in relation to the Industrialisation Strategy, where bureaucratic interests and power relations can also play a blocking role, as well as some effort to address thematic 'silos' within the Secretariat (Woolfrey & Verhaeghe, 2017). In Whitfield et al.'s (2015) language, efforts should be made to create and 'insulate' pockets of efficiency with a clear mandate and focus.

Nonetheless, under the impetus of officials keen to demonstrate progress in the short term, SADC is said to be adopting a flexible approach to the Action Plan. This allows member states to select projects in which they would like to be involved and provides for sharing of experiences between member states.<sup>22</sup> This is meant to allow for more rapid implementation of initiatives based on the interests of member states, their commitment and comparative advantage, without the need to wait for all projects to be adopted by all member states. By being demand-led, in principal initiatives can be adopted as and when member-states sign up, building on where political traction seems to lie. This is also intended to provide the flexibility for two or more member states to propose initiatives and move ahead without needing full consent of all member states with the Secretariat expected to coordinate and monitor implementation while delivering on aspects of the Action Plan where the approval of all member states is required. It remains to be seen precisely where actor interests align sufficiently to trigger these dynamics.

### **A SADC Protocol on Industry**

In addition to this apparently flexible approach, proposals have been made for the development of a SADC Protocol on Industry as a framework for coordinating regional policies on industrial development.<sup>23</sup> This would be a binding instrument giving legal effect to the Industrialisation Strategy, and a legal mandate to the SADC Secretariat to coordinate and provide oversight to regional industrial development initiatives, including the implementation of the Industrialisation Strategy. Signature and ratification of the Protocol by member states would also demonstrate their commitment to agreed interventions on regional industrial cooperation.

However, while an Industry Protocol might fulfil the function of providing a legal mandate for the SADC Secretariat, past experience with SADC Protocols suggests that it would not by itself establish an effective rules space for cooperation on industrial development. This is because SADC Protocols do not bind member states to translate or integrate regional commitments into national legislation, and failure by SADC member states to comply with existing SADC protocols in the past, exemplified by numerous contraventions of the SADC Trade Protocol, has generally had little or no consequences for these states. Historically, SADC member states have not brought disputes against one another in relation to non-compliance with regional commitments, and since the suspension of the SADC Tribunal in 2010, private individuals no longer have recourse to dispute such non-compliance. A new Tribunal will only allow for state-state dispute settlement.

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<sup>22</sup> See SADC Detailed Implementation Plan October 2017 - 2020

<sup>23</sup> The SADC Treaty provides for member states to conclude protocols in each area of cooperation where thought necessary to achieve the objectives of the Treaty (Hartzenberg & Kalenga, 2015)

## Engaging 'the private sector'

Industrial policy implementation might rather be stimulated by increased demand from the private sector. 'Meaningful participation' by the private sector is seen as key for successful implementation of the SADC Industrialisation Strategy.

In 2015, attempts were made to address this situation with the inauguration of the Southern Africa Business Forum (SABF) on the margins of the 36th SADC Summit. This donor-funded, private sector-led platform was set up to engage the SADC Secretariat and SADC Member States on promoting an enabling business environment. The early focus of the SABF has been on the SADC industrialisation agenda, and SABF events, such as the annual SADC Industrialisation Week, have sought to engage the private sector with this agenda.

However, the SABF is located in South Africa and attendance at its events has been dominated by the South African private sector, including large South African firms. This is unsurprising given that the 'organised private sector in SADC' is largely comprised of South African firms, but has nonetheless generated concerns among other SADC member states about the representativity and inclusivity of SABF with respect to non-South African firms and small and medium-sized enterprises (SMEs). In light of such concerns, SADC is in the process of developing a new private sector engagement mechanism, though the wisdom and value of creating a new, parallel structure is not clear. This again reflects the points made in Section 2 about how powerful firms can use their domestic influence to shape regional agendas.

As discussed in Section 2, private sector engagement must also take account of the nature of the firms and the markets they operate in, particularly the role of competition or the lack of it in potentially hindering regional value chain development. That may determine which private sector actors are interested in engaging with organisations like the SABF and in regional agendas more broadly - something that will also depend on the state-business relations that specific firms can rely on to articulate concerns. If 'rentier' firms see an interest in engaging in regional dynamics it may also be to protect their market. For example, the sugar industry in Southern Africa is dominated by Illovo and Tongaat-Hulett in an alleged cartel (see below), with most countries applying sugar surcharges to protect their producers from imports (Roberts, 2017). Because of their dominance they can unilaterally set prices, leading to higher domestic prices compared with international prices.<sup>24</sup> This may be in line with national industrial policies - the Mozambique example was discussed above - but illustrates the point that priority sectors, or private sector actors engaging at a regional level must also be understood in their wider market and political context.

## Attracting foreign investment

Foreign direct investment (FDI) will be crucial role in generating positive results from the industrialisation agenda in Southern Africa, especially given low savings rates in the region. The SADC Industrialisation Strategy and Action Plan note the importance of attracting FDI to fund industrialisation efforts in the region and to ensure technology transfer and the development of value chains. The Industrialisation Strategy calls for SADC countries to improve their business environments to make the regional space more attractive to foreign investors, while the Action Plan highlights the importance of an open investment regime to enhance FDI. However, recent moves in SADC are not necessarily making the region more attractive to FDI, again due to the political economy dynamics at the national level that drive policies in each of the member states.

## Regional competition dynamics and regional industrialisation

As has been discussed, a key element in understanding state-business relations relates to the nature of the market, and how this relates to the political settlement. While this has been discussed in terms of national

<sup>24</sup> <https://theconversation.com/southern-africa-has-an-integration-plan-but-its-short-of-sector-specifics-78006>

politics, recent work points to the presence of regional cartels that therefore also demand attention in understanding the potential for regional industrialisation and value chain support.

Competition policies at national and regional level in SADC have received increasing attention since the mid 2000s, resulting in national and regional competition policies and practices. Investigations of concrete, judicial cases of violations of competition policy and research have added valuable insights in company-level dynamics, as well as pointers for engaging with regional industrialisation dynamics. Competition concerns are central to realising core dimensions and objectives of industrialisation and to economic transformation more broadly.

The work undertaken by among others the Centre for Competition, Regulation and Economic Development (CCRED) and the African Competition Forum looks into a number of concrete cases, with particular attention to the roles that large firms play in terms of investments for productive capacity, routes to markets, linkages with smaller businesses etc. A lack of competition or lack of effective competition policies and institutions create excessive market power and super-competitive profits (rents) which influence political calculations. Depending on the political settlement in host countries, these 'rentier firms' can affect regional agendas in the search for maximising profits, with negative consequences for consumers and employment.

Similar to the way that state-business relations can lead to non-competitive practices and collusion at a national level (cartels, trade barriers, entrants being kept out, etc.), this can also happen regionally. While large firms are crucial to investments, it is important that the power of such firms is disciplined by rivalry, where this is often seen as one benefit of integration regional markets through trade and industrial policies. However, as Roberts et al. (2016; p. 2) reveal, "the same large firms may operate across countries in a given industry to such an extent that trade flows could mean competing with their own subsidiaries, or trade may involve intra-firm transactions regarding inputs."<sup>25</sup> Without a regional perspective, it would be difficult to assess whether competition is working or not.

Examples from the sugar industry illustrate that - as with cement, fertiliser, and poultry - a few major producers across the countries are associated with large multinational sugar milling companies with global reach, exporting to both neighbouring countries and external markets. Each domestic sugar industry in Southern and East Africa is different in terms of economic outcomes and the underlying explanations but regional competition concerns are similar. These are the vertical agreements between growers and millers, the extent of concentration and the impact of regulatory and other barriers, all of which interact with domestic sugar industries.<sup>26</sup> Though we do not go further into the implications of these competition dynamics for industrialisation strategies in SADC, the above points serve to underline the importance of better understanding the relations between firms, their markets and how that affects state-business relations at national and regional levels.

## Summary

Overall, while regional industrialisation appears to have taken on renewed impetus in the SADC region, much continues to depend on the degree to which mutual interests can be found between different states and private sector actors. Even where state-business interests align, this may still be part of regional moves to undermine competition as in the case of sugar. While on one hand much of the recent efforts and engagement around the regional industrialisation strategy seem to have been driven by South African

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<sup>25</sup> The six-country research project coordinated by the CCRED on behalf of the African Competition Forum includes Botswana, Kenya, Namibia, South Africa, Tanzania and Zambia.

<sup>26</sup> Sector characteristics also need to be factored in. These include, for example, the strong rationale behind efficient production. For example, growers in the sugar industry are required to deliver sugar cane to the nearest mill. Rather than competition between mills and sugar growers, this demands vertical coordination to ensure that growers obtain the required volumes and quality of cane.

officials who were keen to use their SADC Chairmanship to advance the agenda, and South African firms who have been entering into and trading with the region over the past decades, regardless of regional policies, the potential blockages remain the political settlement in South Africa which is heavily reliant on 'rentier' and 'power-broker' firms in the labour-intensive and union-dominated sectors, raising challenges for those firms seeking to grow on the basis of productivity in a predictable, rules based environment.

All this makes it more difficult for the SADC Secretariat that is given a wide mandate, with limited capacity, in a policy area that has poorly defined focus or limits. Working 'with the grain' in this context will require institutional and bureaucratic capabilities to work with key public and private interlocutors in order to identify the added value of the SADC Secretariat in an ever-changing 'deals-based' context.

## 4. Implications and opportunities for support

### Key political economy aspects

The previous two sections highlighted why regional industrialisation strategies have emerged in recent years, as well as some of the underlying national level and between-country political economy dynamics affecting or likely to affect progress on the SADC regional industrialisation agenda. These dynamics include the following:

- South Africa dominates the region in economic and industrial terms. It is not only the largest economy in the region by far, it is the only country that has been able to develop and sustain a large, diversified manufacturing sector. It also dominates intra-regional trade, generating fear among other SADC member states that their domestic markets are being - or will be - captured by South African producers.
- South Africa's interests and positions are often crucial in determining whether or not particular regional initiatives are implemented. As such, political economy dynamics within South Africa are pertinent to the SADC industrialisation agenda, including the influence of labour unions on economic policymaking and related protectionist stance of South African policymakers in relation to the country's labour intensive industries; the interests of South African firms in expanding into regional markets; and the desire of the South African government to use its current chairmanship of SADC to achieve early successes on the industrialisation agenda.
- While professing support for the regional industrialisation agenda, SADC member states' domestic industrial development (and other) objectives often lead them to adopt policies, such as trade bans or import surcharges, to protect national industries, often at the expense of their neighbours. Nonetheless, they do also cooperate bilaterally with one another on industrialisation-related issues where domestic objectives align, although this is often done outside the purview of SADC.
- The work of the SADC Secretariat is hindered by human resource capacity constraints, unclear responsibilities and the tendency of divisions and units to work in silos. Given competing demands in other areas of the SADC regional agenda, and the breadth of the regional industrialisation agenda, there is a risk that the Secretariat will struggle to effectively play its mandated role in relation to the Industrialisation Strategy.
- In the absence of credible enforcement mechanisms, failure by SADC member states to comply with, for example, the SADC Protocol on Trade, has had little or no consequences for these states. Furthermore, SADC member states have demonstrated uneven commitment to the notion of a rules-based regime in the region, as evidenced by the suspension of the SADC Tribunal. This suggests that a SADC Protocol on Industry would not by itself establish an effective rules space for cooperation on industrial development, and raises questions about the value of such an instrument.

- Private sector participation in regional processes has been suboptimal. Efforts to address this through the establishment of the SABF has been complicated by concerns that the SABF, which is based in South Africa, does not sufficiently represent non-South African firms and SMEs. Furthermore, engagement by large private sector firms in regional processes may in some cases be motivated by a desire to protect their markets from competition.

External support to implement regional industrialisation strategies and promote industrialisation in both regions must take heed of the dynamics highlighted in the analysis above. It must also adopt a more politically-informed approach that avoids encouraging rigid adherence to strategies and master plans, rather seeking traction where it exists and where it aligns with Member State and private sector needs and ambitions.


## Implications

Based on the above analysis, this subsection draws out key implications for regional industrialisation agendas under three headings, as summarised in the Box below: *Ambitions* must be revised towards politically feasible approaches; approaches must focus on *Brokerage* among actors at different locations and levels across the regions, linking regional and national value chain and public sector actors; and identifying *Champions* to take the work forward is crucial to ensure traction.

Box 2: Policy implications


### A Challenging ABC

At a broader level, three key implications emerge for policy-makers:




**AMBITIONS:** Emerging findings of political economy analyses point to the need to revise ambitions in terms of what is politically feasible, particularly given the importance of structural factors and path dependency. Understanding where political traction actually lies should inform the level of ambition as it helps to distinguish between what are aspirations, and what represents a genuine commitment to implement policies and solve problems.

**Key question:** What is the appropriate level of ambition, given all of the above?



**BROKERAGE** by consequence, a key approach to harness the interests of different stakeholders in achieving these more realistic ambitions. Effective regional cooperation then requires policy-makers to aim at brokering different forms and levels of engagement among different actors within and between different agencies and countries. Brokerage may help overcome information asymmetries, and facilitate collective action and public-private-CSO engagement in coalescing around regional problem-solving.

**Key question:** Who are the key necessary stakeholders to engage at the regional and national levels, and what is needed to ensure their mutual buy-in, according to the interests already identified?



**CHAMPIONS** are likely to be highly influential in reform success. This suggests the need to understand the interests, power and incentives of different state and non-state stakeholders, as well as the potential to form coalitions around particular regional agendas or problem solving, and strengthen regional institutions over time.

**Key question:** Among stakeholders, who are the champions who might be able to help create reform coalitions?

Source: Byiers and Vanheukelom, 2016

As briefly discussed, a growing body of work focuses on the need for development support to focus on 'locally defined problems' and to build in 'iterative adaptation' to programme design.<sup>27</sup> This implies re-examining the

<sup>27</sup> Doing Development Differently: <http://doingdevelopmentdifferently.com/> which is closely related to the work on Problem Driven Iterative Adaptation: reforms should (i) facilitate problem-driven learning and (ii) involve stepwise interventions that allow processes of purposive muddling and action-based learning, and (iii) they engage broad sets of agents providing different functional contributions that ensure reforms are viable and relevant. Similar discussions take place in the Thinking and Working Politically Community of Practice: <https://twpcommunity.org/meetings/london-june-2017>



ambitions of the regional industrialisation agendas being looked at here, but also a need to focus on the policy *process*.

To the degree that the SADC industrialisation strategy was developed by the regional secretariat, albeit in consultation with member states, it is not clear what *local problem* these strategies address, who defines them, or who should be seeking to address them - is it national, regional, sectoral, value-chain specific or spatial around borders? Who is genuinely seeking to resolve their issues through regional frameworks? In SADC, private sector actors have sought to resolve the local problems they face largely through lobbying their national governments, including on national barriers to trade (as highlighted above) - very much going *against* a regional approach to industrial development. The stated objectives of the regional strategies about increasing Manufacturing Value Added (MVA) and economic diversification are not 'problems' in this sense but rather aspirations.

Box 3: Lessons from COMESA's approach to promoting value addition in the leather sector?

The 13th COMESA Summit (2007) urged member states to promote value addition and agro-processing industries and directed the Secretariat to provide support to member states in this endeavour. In collaboration with the International Trade Centre (ITC) a series of multi-stakeholder meetings were undertaken at regional level to map and identify private and public sector actors across several value chains with potential for intraregional trade. Having identified such value chains, and the potential of SMEs in these value chains to contribute to value addition in the region, the Secretariat developed a Cluster Development Programme to build SME capacity. The Programme, which was eventually launched in 2012, aimed to work with SMEs to find solutions to the challenges they faced in attempting to build their businesses, such as geographic isolation, lack of organisation, weak linkages to larger firms and lack of access to finance, technology and other inputs.

The leather and leather products subsector was prioritised as the COMESA Secretariat analytical work and consultations found that: a) the large supply of raw hides and skins (due to the region's large livestock population), coupled with a growing market for leather products in the region, presented opportunities to develop a regional leather and leather products value chain and to integrate SMEs into this value chain; b) there was much interest among COMESA member states in efforts to promote value addition in leather production and processing; and c) there was a need to strengthen existing technical support institutions in the region working on leather, and to better define how such institutes could serve stakeholders in the leather sub-sector. One such institution was the Leather and Leather Products Institute (LLPI), an autonomous institution of COMESA established in 1990 to support the development of the leather subsector in the COMESA region. By the mid-2000s the LLPI was struggling to demonstrate effectiveness and had limited capacity to implement programmes. Engagement in the LLPI by member states had also waned, annual contributions were being paid late and a number of member states were in big arrears with their annual dues.

COMESA decided to champion the development of a regional sector strategy for leather using a stakeholder-led approach and enlisted the support of ITC, through the Canadian International Development Agency-funded Programme for building African Capacity for Trade (PACT II), to develop a strategy for the regional leather value chain as well as an implementation plan. The COMESA Regional Strategy for the Leather Value Chain was finalised in 2011.

At the regional level, the development of the Strategy put in place an overarching framework that provides direction and a governance framework, but which leaves flexibility for member states and leather value chain operators to align or adapt (develop and implement their own strategies). The next steps were to support COMESA member states to develop national leather sector development plans, adequate support policies and inclusive governance frameworks led by industry and facilitated by government, and to pilot the Alliances for Action approach at the national and cluster level.

This approach seems to be having some success and to be finding traction among COMESA member states. The LLPI has been strengthened and its utility increased at the national level through the establishment of focal points and linkages with national institutions, including universities. The support it has provided (with ITC) to strengthening institutions and building the capacity of SMEs at the national level has demonstrated this utility to member states who are now making their annual contributions on time. Initial successes in helping certain member states to develop national strategies has led to other member states requesting similar support.

COMESA/LLPI's approach to promoting value addition in leather suggests that specialised institutions such as LLPI can provide valuable services to member states/value chain actors - through providing a platform for sharing experiences/best practice and acting as a neutral broker to create both public-private and private-private linkages between value chain stakeholders - provided that the institution has the resources and mandate to play this role. LLPI notes that being an official (albeit autonomous) COMESA institutions makes it easier for the institute to work at the national level than would be the case if it was an independent institute or non-governmental organisation.

Sources: Interviews (LLPI and ITC); COMESA Regional Strategy for the Leather Value Chain; COMESA/LLPI Strategy 2016-2025; Manson & Mudungwe, 2016.

The SADC Action Plan identifies 22 priorities for the implementation of the SADC Industrialisation Strategy. In theory this should facilitate greater focus on key constraints in specific areas. However, these priorities are still quite broad, with many involving the development of further strategies, frameworks and programmes. For example, priorities include: "Develop regional programme to improve competitiveness of Member States", "Provide overall coordination and capacity building at Member State level" or "Develop and implement Regional SME Development Programme and Coordinate programme implementation". These objectives quickly come up against the same questions asked in the paper - what does it mean, and what is the regional angle?

This makes it difficult to identify what specific problem(s) these activities are seeking to address, and what value the regional angle will add. As noted above, it is not clear how much value a SADC Industrial Protocol would add in terms of creating a rules-based regime for industrial development. With some exceptions - the proposal on regional value chains provides a somewhat clearer entry point for addressing concrete obstacles - these priorities look less like activities to address key constraints on industrialisation (which probably don't include a lack of regional policy frameworks), and more like a list of politically palatable activities that fall within the mandate of SADC.

This suggests a need to identify and start working on a few relatively pragmatic, concrete initiatives that can demonstrate tangible gains. Otherwise the whole agenda may lead to more frustration and disinterest from member states who often appear dubious about what SADC can actually deliver as an organisation. This would create a 'demonstration effect' to go beyond strategy-writing.

### **Brokering supply and demand**

Related to the above is the importance of engaging with different private sector actors based on an understanding of the nuances of interests and power relations within that group. In an analysis of different historical experiences of regional integration, Mattli (1999) points to the need for sufficiently powerful forms of private sector or other constituency demand for greater regional integration to match 'political supply' of the policies, institutions and organisational structures.<sup>28</sup> That is, it requires non-state economic actors who seek gains that only can be achieved through greater regionalism to match the supply from political leaders engaging to achieve national or narrower political objectives. From the above analysis, demand from non-state actors has yet to match supply in both regions.

If the interaction of demand and supply dynamics drives *de facto* market integration in specific areas or sub-sectors, the challenge for external partners is to ensure that support effectively targets both, while avoiding the risk that support to either demand or supply creates duplicate or empty structures. Given the growing policy attention on using regional value chains as an entry point, lessons might be learned from trade facilitation and firm competitiveness programmes such as USAID's Trade and Investment Hubs in Southern

<sup>28</sup> This is also backed up by Brenton and Hoffman for East Africa (2015), Alter and Steinberg for the European Coal and Steel Community (2007), as well as Byiers and Vanheukelom for the Maputo Development Corridor (2014) and again forms a part of the complex nexus of actors and interests around regional integration dynamics.

and East Africa.<sup>29</sup> Though regional value chains do not appear to be an explicit aim of either initiative, these focus primarily on private sector actors targeting export markets in a way that might offer insights for working more regionally.

Beyond working with individual firms, private sector bodies can also be supported to boost 'demand' for well-functioning regional policies. Southern Africa also has its own regional private sector bodies. With regard to the Southern Africa Business Forum, it appears that larger South African firms have emerged as best placed to take advantage of opportunities to engage with and input into the regional industrialisation agenda (e.g. through SABF events) leading to fears about representativity and a desire to create another new structure. Yet what would be different about this new structure? If intended to represent private sector demands, and the regional private sector is dominated by South African firms, then more thought is needed on how to support private sector engagement at the national level beyond South Africa. Mauritius and perhaps others where such engagement works better may be able to promote some cross-country lesson-sharing on this. With better-functioning national structures for private sector engagement, it becomes easier to link these to a regional mechanism and thereby ensure representivity even if at the end of the day, the 'private sector' in SADC is largely South African.

None of this is to ignore the need to take a nuanced view of the private sector and private sector organisations. The distinctions made in this paper between firms operating in rent-creating sectors for the domestic and export markets, and those operating under competition are important for understanding the different underlying interests at play in specific sectors. Such features must be understood, not least to avoid the kind of regional anti-competitive behaviour cited above.

### Brokering national and regional

Findings from previous work (Vanheukelom et al., 2016) also underline the importance to engage regional organisations for the role they can play in providing political legitimacy, but also the need to link to national actors. This relates to private sector actors but also those in the public sector charged with moving the industrialisation strategy from policy to practice. Opportunities to engage and exchange exist at a technical level, but there is a clear need for well identified focal points at the member state level to ensure continuity.

The link between regional and national levels also means coordinating country-level support from external partners with their regional support in a way that allows adaptation to political interests and incentives. This is the model applied by TradeMark East Africa (TMEA), a donor pooled funding operating in East Africa to promote trade and transport facilitation with offices in each of the EAC countries, coordinated through a central office in Nairobi. Donors provide financial support in a hands-off way, which enables TMEA to operate autonomously and flexibly in areas such as trade facilitation, infrastructure development, regulatory reforms, the business environment, and more recently in promoting investment zones. It operates in an adaptive way and identifies agency and coalitions across stakeholders and levels behind problem-solving and policy reforms. To the degree that it is beginning to link its focus on trade ties and costs to actively encouraging investment, TMEA can itself be considered as a key actor for industrialisation in the EAC region, supporting EAC objectives, while operating autonomously from the EAC Secretariat.

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<sup>29</sup> Southern Africa Trade and Investment Hub covers eight SADC countries and focuses on apparel and textiles, "accessories" and "specialty foods" <http://www.satradehub.org/>. East Africa Trade and Investment Hub works with East African Community countries – Burundi, Kenya, Rwanda, Tanzania and Uganda – and in Ethiopia, Madagascar, and Mauritius; focused on ICT, agribusiness, financial services, and cotton, textile and apparel (<http://www.eatradehub.org/>)



The South African proposal to have seconded member state officials to boost capacity at the SADC Secretariat could be one way to facilitate technical linkages between member state officials. This could also promote member state buy-in to SADC's efforts, something often seen as being stronger in the days of SADC, and provide a step towards strengthening the regional-national link. Such linkages would need to happen across narrowly defined sector or policy intervention areas to be effective.

### **Champions - target champions/coalitions of actors**

In addition to the need for private sector interest and demand, Brenton and Hoffman (2016) suggest that regional integration endeavours are more likely to be effective when: i) at least one government takes the lead on implementation; and ii) the number of countries is small. Whitfield et al. (2015), also point to the need for some bureaucratic autonomy for industrialisation strategies to advance - as in the Mozambican sugar case, where a specific institute was set up separate to the wider Ministry. Beyond the need to understand where private sector interests lie (and among which types of firms and their place in the 'deals space') this points to the need to understand the underlying interests and relative power and commitment of potential lead governments and coalitions to drive implementation. Evidence suggests that states are likely to stray from commitments when not in line with elite-defined national interests, but it is also difficult to identify activities in line with the national interests of multiple countries. The wider implication is the need for a flexible approach that allows for subsets of countries to promote sub-regional (and bilateral) collaboration, particularly if there is a clear champion to drive progress.

The analysis above highlights the fact that the South African government, through its Department of Trade and Industry is currently politically energised to take the lead in driving the SADC industrialisation agenda, especially with regard to working with interested South African firms to identify concrete opportunities to develop regional value chain linkages. The fact that South Africa held the SADC Chair until mid-2018 (now Namibia is chair) and wanted to have some results to show might have offered a short window of opportunity in this regard. The fact that the new South African president Cyril Ramaphosa co-presided over the participatory process of developing the National Development Plan 2030, with a strong emphasis on economic transformation with inclusive growth and a section on regional cooperation is perhaps also an opportunity. At the same time, other 'champions' need to be found in other SADC member states to reduce the perceived threat and the sense that South Africa already dominates the region. This may require looking beyond Ministry staff towards establishing dedicated autonomous units for investment promotion or other specialised regional or bilateral structures. Building on previous engagement around the Walvis Bay Corridor, South African officials could look to engage with officials from Namibia, which is currently holding SADC chair, to ensure some continuity in efforts and approach, as well as to explore the potential for the creation of a coalition of member states interested in promoting concrete action on industrial development. The emergence of such a coalition could help address fears of South African dominance of the agenda.

### **5As - Alter, Adapt, Avoid, Await (or Abandon?)**

Running through the above points is the question of getting 'traction'. State-business relations in specific sectors and (between or within) countries can pose problems for efficiency-seeking policy reforms and projects that lead to their derailment. Though necessarily subjective, continual analysis of the political settlement and wider way of doing business will help detect where there may be resistance or barriers to change and allow adaptation of interventions accordingly. That requires analysis and policy support to identify key actors to work with, but also an approach that either attempts to *alter* current incentive structures in the deal space, explicitly *adapts* to existing structures, or somehow circumvents or *avoids* potential blockers (See Byiers and Vanheukelom, 2016). Timing can also be key, with upcoming elections in numerous countries potentially suggesting to *await* more propitious political opportunities for reform.

Any engagement strategy involving the above five A's needs to consider state-business relations in their (sub)sector specifics, adapt to the domestic power and incentive environment as shaped by the political settlement, be opportunistic in timing as key events can create or undo opportunities (including recurrent ones such as elections, crises, or tipping-points) and build on cross-country or inter-state dynamics.

Furthermore, external actors wishing to support the industrialisation agendas in SADC should be wary of the risk of becoming the de facto drivers of regional industrialisation through their support to these agendas (Vanheukelom et al., 2016). This becomes especially problematic where external support creates incentives for regional actors to undertake activities that superficially address the issues at hand, e.g. by adopting certain institutional *forms*, processes or procedures, but which don't actually fulfil the key *functions* required to achieve the real impact demanded or needed by member states and/or the region's citizens. In the context of regional industrialisation, external support that focuses on the development of e.g. formal protocols and strategies on industrialisation may be less likely to generate positive impact than support which builds on and/or strengthens relevant existing or emerging regional or sub-regional activities and interventions that appear to have political traction, or which seeks to link the industrialisation agenda to ongoing efforts to address key regulatory and infrastructure-related obstacles to doing business in the region.

## Opportunities for support

Based on all of the above, it is important to reiterate that 'opportunities' and entry points for external support exist in complex environments that are subject to changing political and economic dynamics, emphasising the need for support to be flexible, iterative and adaptive. It is also clear that many of the emerging dynamics on which regional collaboration on industrialisation could build are found beyond the formal agendas of regional organisations. Hence, smart support to industrialisation in the region should be diversified to include support at different levels. Drawing on the findings and implications detailed above, this subsection identifies potential opportunities and entry points to smartly support the regional industrialisation agendas of SADC, and groups these into support at the regional level, support at the national level and sectoral or 'bottom up' support.

### Through regional organisations

While real gains in terms of industrial development are likely to result from dynamics outside the purview of formal regional organisations, regional organisations provide political legitimacy for regional cooperation on industrial development, which could in turn bring about a more enabling environment for such dynamics. In order to capitalise on this legitimacy, it is important that regional industrialisation agendas avoid stalling completely, something that would feed cynicism about the added value of regional organisations. In this regard, efforts to support the SADC industrialisation agenda should seek to:

- An approach that builds on the interests of South African firms, would, however, need to also address other SADC member states' longstanding fears of having their markets flooded by South African products and services (see e.g. Schoeman, 2002).
- Encourage South African collaboration with Namibia (as next SADC Chair) around the regional industrialisation agenda in order to ensure some continuity in approach and focus - this may also imply specific donor attention to Namibian opportunities to ensure traction.
- Where SADC can play a useful complementary role, build on on-going corridor and infrastructure political and economic dynamics that clearly show political traction beyond what has so far emerged from the industrial strategy.

Continued assistance is warranted for supporting regional organisations operating in a predominantly inter-governmental environment to develop capabilities and functions for identifying and supporting - rather than

driving - locally led and politically feasible cross-country and regional industrialisation efforts. This may involve support for policy analysis, brokerage, facilitation and monitoring functions, such as:

- Consolidating knowledge on different approaches being used to promote local content or supply (see e.g. UNDP supplier development programme in SA, IFC Copperbelt SME Program in Zambia, COMESA local sourcing project, etc.).<sup>30</sup> Given the prominence of South African and Kenyan retailers throughout the two regions, efforts could be made to learn from their experiences with promoting local suppliers in other SADC countries.
- Identifying synergies between the implementation of the regional industrialisation strategies and the implementation of CAADP Regional Agricultural Investment Plans,<sup>31</sup> which provide a framework for priority investments to improve agricultural productivity in the regions (and hence which are important in terms of improving the base from which to promote regional agro-processing value chains)
- Where feasible, monitoring the impacts of specific instances of cross-country, sub-regional or regional collaboration on industrial development, such as collaboration around a specific regional value chain, in order to better quantify the value of such initiatives and (hopefully) make the case for regional action.
- Providing a platform to establish or strengthen linkages between technical officials from different SADC member states around specific areas of cooperation, such as the development of appropriate regional standards for processed agricultural products.
- Learning from and consolidating and disseminating knowledge in relation to different member states' experiences in organising and structuring public-private engagement (including around industrial development specifically).

Harmonisation of donor approaches in support of core institutional capabilities and governance functions of the SADC Secretariat and key organs may also contribute to shape a regional economic reform agenda with a stronger domestic ownership.

- Such efforts should be directed at shifting a 'top-down', coordinating role to supportive and facilitative functions in carefully targeted sectors or policy areas.
- Given the above discussions, this will imply choices to be made, starting with the 22 priority projects that SADC has identified, for example, and identifying concrete industrialisation 'problems' to be addressed through regional cooperation.
- Support should aim to facilitate better internal functioning within the SADC Secretariat across the divisions responsible for the various thematic issues relevant for promoting industrialisation in the region, including trade, finance, infrastructure and even agriculture.

### At the national level

Given the particulars of each country's political settlement and deals environment, with context and sector specific agency in support of cross-country economic cooperation or reforms, opportunities for supporting such domestically-led dynamics need to be explored at this level. Examples include:

- Engaging member state governments to leverage private sector firms and funds in agribusiness to identify key regional challenges to investing in other SADC member states outside home countries, and design interventions to address these.

<sup>30</sup> See the South African UNDP project here:

[http://www.za.undp.org/content/south\\_africa/en/home/operations/projects/poverty\\_reduction/supplier-development-programme-.html](http://www.za.undp.org/content/south_africa/en/home/operations/projects/poverty_reduction/supplier-development-programme-.html); the Zambian project here: [https://www.commdev.org/userfiles/CSSDP\\_Factsheet.pdf](https://www.commdev.org/userfiles/CSSDP_Factsheet.pdf) and the COMESA local sourcing project here: <http://www.icf africa.org/project/comesa-local-sourcing-project>

<sup>31</sup> These regional plans have been developed in the context of the Comprehensive Africa Agriculture Development Programme (CAADP), Africa's overarching policy framework for agricultural transformation.

- Private sector umbrella organisations may be able to help here. They might learn from the examples given above such as those relating to Namibian cattle to Angola, Zambian palm oil, and other supplier development initiatives in the SADC region.
- Supporting better organisation of the domestic private sector (and other non-state actors) in SADC member states to facilitate more effective engagement between these actors and the regional industrialisation agendas in Southern Africa, and thereby ensure better articulation of private sector demands in relation to this agenda. This can build on the proposed knowledge management and communication efforts of regional organisations in relation to public-private engagement in member states.

### For sectoral or bottom-up activities and processes

The SADC industrial strategy (and others) cite the need to look at regional value chains as a way of focusing regional efforts. At the same time, examples exist of more bottom-up efforts that work outside regional organisations, identifying areas or sectors with large payoffs to regional trade and industrialisation that might be further supported or emulated:

- Though TradeMark Southern Africa was never replaced, lessons might be drawn from its experience and that of TMEA to design a smaller scale, flexible model with a focus on identifying opportunities for supporting economic links with other member states.<sup>32</sup> A key aspect of the TMEA appears to be its autonomy from the EAC Secretariat, raising questions about whether or not such a model could work in the SADC region, given the distinct nature of the countries but also the SADC model of integration.

Clearly, different *areas* of engagement require different *forms* of engagement. Given the above discussions, a portfolio approach seems best suited to supporting regional industrialisation-related efforts at different levels and in adaptive ways, depending on the nature of the issues and the likely coalitions to emerge. But the choice of aid modalities or tools matters too. The World Bank's own experience of supporting comprehensive transport reforms in West Africa offers some guidance on the challenges at the more ambitious side of the support spectrum. Through combined policy dialogue, technical assistance, multi-stakeholder facilitation, research and a first-ever attempt at providing regional budget support the World Bank acted as a convener of cross-country public and private actors. Yet, more often, finding incremental and adaptive ways of engaging with and supporting a range of actors - and being prepared to *work with the grain* - is the order of the day.

### Further questions to deepen a political understanding of actors and interests, agency and incentives

The complexity of the environment for regional industrialisation that emerges from the analysis above suggests that regional industrialisation agendas in Southern Africa would be best served by support that is flexible, adaptive and iterative. This, however, requires a departure from the linear logic of donor programming and the traditional entry point through regional organisations. It raises questions about the future approach to supporting regional industrialisation, and about the authorising environment for such new ways of working.

A first question relates to the preparedness of external partners to continue to invest in the sources of knowledge generation and opportunities for cross-country and regional economic problem solving that may

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<sup>32</sup> Trade Mark Southern Africa evaluation here <https://www.gov.uk/government/publications/evaluation-of-trademark-southern-africa>

- over time - contribute to economic transformation and industrial development. Efforts by think tanks and research institutions to analyse political settlements, deals environments, regional value chains and competition dynamics are particularly useful for uncovering key dynamics and identifying specific problems that need to be addressed. Such more focused analysis at the level of value chains may help to uncover specific 'problems' to be addressed through regional cooperation. As illustrated above, such efforts also help to uncover those specific problems or policy challenges with sufficient buy-in from key public and private stakeholders. Finally, deepening the knowledge base will enable the World Bank to adapt and combine its support channels and aid modalities/tools for multi-stakeholder cooperation, including with SADC institutions.

Given our findings, these are a few promising areas for further diagnostic work:

- One additional question to resolve is under what political conditions ruling elites will support those measures required to support a sector or an industry, whether in terms of investments, regulatory reforms, or coordination of various sectors including those with responsibility for relations with regional organisations.
- In addition to the political settlement theory applied to member states, the mapping and analysis of various categories of private sector actors - especially those with agency to push for reforms - across countries, as well as the changes over time and the market structures in specific value chains would further help identify where the traction may be in terms of transforming economic sectors.
- Such an analysis will also help provide insights into the market behaviour of firms across borders and issues of regional cartels and competition. Resistance to regional integration will grow if only large economies benefit and others remain importers - so there is a need for industrial policies to be complementary to competition policies.
- This kind of work would include further analysis of specific value chains in terms of the 'rents space' and the opportunities for engaging in competitive dynamics, as defined by Pritchett et al. (2018) and introduced above. The organisational strength and collective bargaining capacity of most private sector actors mostly remain weak, reducing the incentives to move beyond collusive rent-seeking and politicised connectivity with political elites.

The remaining question than is whether the authorising environment of external partners is such as to enable the organisation to develop capabilities and grow systems to embrace complexity implied in engaging in the wide range of contributions to economic development, and more narrowly regional industrialisation. This requires a preparedness to right-size the level of ambition, and shift from comprehensive regional industrialisation strategies to adaptive and iterative donor programming. Adaptive programming explores the unsuspected room for manoeuvre (Booth 2016, p. 23) by capitalising on agency that is distributed among private and public actors, across countries and potentially at regional level. Partners will have to reconsider the traditional approach of relying on donor induced solutions and prioritise attention to domestic capacity to analyse problems, experiment with problem solving and coalition building and learn from mistakes in highly contingent regional environments. Such agency and capabilities are being demonstrated and developed by a range of bottom-up organisations such as special purpose vehicles, think tanks, professional umbrella bodies.

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This publication is based on work produced for and financed by the World Bank. It benefits also from the structural support by ECDPM's institutional partners: The Netherlands, Belgium, Estonia, Finland, Ireland, Luxembourg, Sweden, Switzerland, Denmark and Austria.

ISSN1571-7577

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