SADCC
Beyond Transportation
The Challenge of Industrial Cooperation

m Østergaard

the Scandinavian Institute of African Studies, Uppsala
SADCC Beyond Transportation
SADCC Beyond Transportation
The Challenge of Industrial Cooperation

Tom Østergaard
Publications from the Centre for Development Research, Copenhagen


This series contains books written by researchers at the Centre for Development Research, Copenhagen. It is published by the Scandinavian Institute of African Studies, Uppsala, in cooperation with the Centre for Development Research and with support from the Danish International Development Agency (Danida).
SADCC is a product of the political liberation events dating back to the UDI of 1965 and the subsequent attainment of political independence in Mozambique and Angola. The dynamics of the political liberation led to the initiatives to coordinate efforts to support the struggle for political liberation of Zimbabwe and Namibia. In order to enhance the struggle the Frontline States (Angola, Botswana, Mozambique, Tanzania and Zambia) adopted a pattern of coordination among them. As the linkage between political struggle and economic liberation became clearer over time, discussions on economic cooperation began to emerge. The developments which followed culminated in the adoption of the Lusaka Declaration (1980) on economic liberation.

Although right from its formation SADCC adopted a programme of action covering various sectors, the peculiarities and realities of economic dependence in the region influenced the decision to put top priority on transport and communications. Attention to cooperation in production came at a later stage. According to experience of cooperation schemes elsewhere it has been argued that the most difficult area of cooperation is that of joint activities in production. Although the approach of SADCC towards cooperation is in many respects different from conventional approaches as shown by the author, it is clear from the analysis in this book that SADCC has not escaped this difficult terrain of the road towards economic cooperation. Using what the author calls a problem-solving methodology, Tom Østergaard has set out to present evidence of the major constraints to progress in industrial development and intra-regional trade.

The novelty of this book is in two fronts. First, the author carefully identifies and analyses the institutional constraints and the necessary changes required to attain the desired balanced and coordinated development. Second, the author transcends generality by specifically examining the concrete case of the tractor industry in the region. Using the tractor industry as a case study the author demonstrates the difficulties involved and the institutional changes required to coordinate industrial development in the region.

As the major constraints in the region the author has investigated in detail the role of transnational corporations and banks, the inherited structure of national institutions and the donor policies and institutions. These constraints are involved to explain the unsatisfactory progress towards industrial
development with special reference to the tractor industry. Having explained them, the author makes proposals of how the relaxation of the analysed constraints could be approached.

This book contributes admirably to the understanding of the realities of constraints to coordination of industrial development in the region. It provides very useful reading for academics, policy analysts and policy makers in the field of development in general and in regional integration in particular.

S. M. Wangwe
Professor of Economics
University of Dar es Salaam
Over the last nine years the Southern African Development Coordination Conference (SADCC) has added new scope to the prospects of overcoming the economic fragmentation of the region. Until 1986 SADCC concentrated its efforts on the rehabilitation and development of the regional transportation and communication infrastructure. Several projects have been completed, others are still under way. SADCC is now embarking on a new phase of cooperation: production and trade. Failure to achieve results in this area has led to the downfall of several Third World regional cooperation schemes. There is no doubt, therefore, that cooperation in production and trade will present a formidable challenge to SADCC in the years ahead.

The main impetus to writing this book is precisely this challenge. SADCC's efforts to promote industrial development and intra-regional trade are constrained by a range of institutional factors. This book investigates four of them: transnational corporations, banks, national institutions, and donor policies. Hopefully this will help to inject these factors into the discussion of SADCC's strategy and contribute to the formulation of fruitful policies to deal with them.

To avoid vague abstractions the analysis builds on a case study of the tractor industry and SADCC's approach to develop this. Implementation of the proposed tractor projects involves all the key issues likely to arise in any regional industrial project: planning, standardization, industrial location, infant industry protection, and intra-regional trade agreements. A detailed investigation of the tractor case can therefore, contribute to a better understanding of the constraints that may hinder the development of any regional industry.

The bulk of the material in this book is taken from my Master's thesis, written at Clark University, Massachusetts. In SADCC's transition to focus on production and trade, many of the issues taken up in this book, and others not included, will require further scrutiny. At least for a few more years, I will be engaged in this with a research project at the Centre for Development Research (CDR) in Copenhagen.

I have received valuable assistance from many people in writing this book. I am grateful first of all to Ann Seidman who sparked my interest in SADCC, arranged a research fellowship with the University of Zimbabwe, and read
and commented extensively on countless drafts. I have also benefitted from insightful comments and criticism offered by Knud Erik Svendsen and Mai Palmberg. Thanks are due to Richard Peet, Rob Davies, Roger Leys and Gerald Karaska for useful advice.

I would like to thank the SADCC officials who generously granted a number of interviews: Emang Maphanyane at the SADCC Secretariat in Gaborone, A.T. Pallangyo and Mr. Masanja at the SADCC Industry and Trade Co-ordination Division in Dar es Salaam, and Anthony Ndoro at the Ministry of Industry in Harare.

My appreciation also extends to the Centre for Development Research, DANIDA, and Clark University for funding my research and the preparation of the book. I would also like to thank the CDR and its staff for providing a stimulating working environment. Finally, thanks for the early help to my extended family in California, the Goodnights; and to Mor Karen and Hanne for tolerating my absence during five years of study in the United States and Africa.

Tom Østergaard
Copenhagen, July, 1989
Contents

Foreword ................................................................. 5
Preface ................................................................. 7
List of abbreviations .................................................. 11
Map of the SADCC region ............................................ 12

1. The Challenge of Industrial Cooperation ................. 13
   1.1. Introduction .............................................. 13
   1.1.1. Poverty in the Midst of Wealth ..................... 13
   1.1.2. The Impact of Balkanization ......................... 14
   1.1.3. The Focus: Intra-Regional Trade Institutions .... 14
   1.2. The Challenge ............................................ 17
   1.2.1. The Need for a New Approach to Industry and Trade 17
   1.2.2. SADCC’s Trade Pattern ............................... 21
   1.2.3. Static versus Dynamic Trade Potentials ........... 26
   1.2.4. Zimbabwean Domination .............................. 27
   1.3. The Need for Regional Integration ..................... 28
   1.3.1. SADCC Rejects Common Market Integration ...... 29
   1.3.2. Planned Regional Integration ....................... 30
   1.3.3. Political-Economic Differences in the SADCC Group 31
   1.4. A Case Study of SADCC’s Tractor Projects ........... 32
   1.5. Summary ................................................... 33

2. Obstacles to Industrial Cooperation ....................... 35
   2.1. Introduction .............................................. 35
   2.2. Different Degrees of Economic Development and Ideological Differences 36
   2.2.1. Uneven Economic Development ....................... 36
   2.2.2. Different Development Perspectives ................ 37
   2.2.3. The Need for Minimum Threshold Agreements ...... 38
   2.3. Major Obstacles to Regional Industrial Coordination 39
   2.3.1. Transnational Corporations and Banks ............ 39
   2.3.2. The Inherited National Institutions ............... 48
   2.3.3. Donor Policies and Multilateral Institutions ...... 52
   2.4. Implications for Tractor Production in Southern Africa 54
   2.4.1. Transnational Corporations in SADCC’s Tractor Industry 55
   2.4.2. Banks and Finance Policies Misallocate Regional Surpluses 55
   2.4.3. National Institutions ................................. 56
   2.4.4. Donor Policies and Institutions ................... 56

3. Tractors in Southern Africa: High Demands and Low Prospects 57
   3.1. Tractor Use in the SADCC Region ..................... 57
   3.2. Local Assembly and SADC Projects ................... 62
List of Abbreviations

AED  Africa Economic Digest
AFC  Agricultural Finance Corporation
ASEAN Association of Southeast Asian Nations
CARIFTA Caribbean Free Trade Area
CFU  Commercial Farmers Union
CSO  Central Statistical Office
DM   Deutsche Mark
ECASAAMA European Conference on South African Aggression on Mozambique and Angola
ECOWAS Economic Community of West African States
EEC  European Economic Community
FAO  Food and Agricultural Organization, United Nations
GFCF gross fixed capital formation
HP   horse power
IMF  International Monetary Fund
MNR  National Resistance Movement, Mozambique
MVA  Manufacturing value added
OECD Organization for Economic Cooperation and Development
p.a. per annum/per year
PTA  Preferential Trade Area for Eastern and Southern African States
SACU Southern African Customs Union
SADCC Southern African Development Coordination Conference
SDR  special drawing rights
SMC  State Motor Corporation, Tanzania
TNC  transnational corporation
UDI  Unilateral Declaration of Independence, Rhodesia 1965
UNCTAD United Nations Conference on Trade and Development
UNIDO United Nations Industrial Development Organization
UNITA National Union for the Total Independence of Angola
USAID United States Agency for International Development
USD  United States Dollar
ZK   Zambia Kwacha
Z$   Zimbabwe Dollar
Southern African Region

SADCC countries

1. The Challenge of Industrial Cooperation

1.1. Introduction

1.1.1. Poverty in the Midst of Wealth

Southern Africa, as a region, is rich. It comprises an area of nearly five million square kilometers, almost equal in size to the United States (excluding Alaska), and has a total population of 74 million. The region boasts of some of the most valuable mineral resources in the world. The minerals necessary for industrial growth are thus available in great quantity (Thompson, 1985). Southern Africa also has vast energy resources. As a group, the nine countries belonging to the Southern African Development Coordination Conference (SADCC) are a net energy exporter. The SADCC countries produce twice as much oil, and more electricity and coal than they need (SADCC, 1986d). Their fertile agricultural soils and varied climates allow them to grow and export virtually every variety of food and agricultural raw material.

However, despite 20 years of independence for six of the nine SADCC countries, the region is still plagued with seemingly insurmountable problems. A third of the countries in the region are among the world's poorest, and unequal income distribution means poverty-level living standards for the majority of the population. In the 1980s drought hit all the countries of Southern Africa. Almost half of Botswana's peasant population at one time survived only on famine-relief rations. Tanzania, Mozambique and Zambia had to import food grains to feed their growing urban populations. In Mozambique, the problems have been compounded by attacks by South Africa-financed and armed rebels of the National Resistance Movement (MNR) which seeks to destabilize the government. As a result of the crisis in Southern Africa, thousands of families are fleeing their homes and countries, children are malnourished, preventable diseases such as malaria, bilharzia and tuberculosis are widespread, and there is growing unemployment and mounting national debts. Table 1.1 illustrates the debt burden and provides some social indicators that give an indication of the crisis in Southern Africa.

This glaring contradiction begs for an answer. Given the natural wealth, great potential, and the coordinated national efforts led by SADCC, why is Southern Africa engulfed in a crisis of these proportions?
Table 1.1 Debt Burden and Social Indicators, 1986

<table>
<thead>
<tr>
<th>Country</th>
<th>Total external debt (mil. USD)</th>
<th>Debt service in % of exports</th>
<th>Life expectancy</th>
<th>Infant mortality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>2,496</td>
<td>16.1</td>
<td>44</td>
<td>139</td>
</tr>
<tr>
<td>Botswana</td>
<td>358</td>
<td>4.3</td>
<td>59</td>
<td>69</td>
</tr>
<tr>
<td>Lesotho</td>
<td>186</td>
<td>4.2</td>
<td>55</td>
<td>102</td>
</tr>
<tr>
<td>Malawi</td>
<td>1,114</td>
<td>40.0</td>
<td>45</td>
<td>153</td>
</tr>
<tr>
<td>Mozambique</td>
<td>3,900</td>
<td>119.0</td>
<td>48</td>
<td>120</td>
</tr>
<tr>
<td>Swaziland</td>
<td>232</td>
<td>7.1</td>
<td>55</td>
<td>130</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3,955</td>
<td>15.1</td>
<td>53</td>
<td>108</td>
</tr>
<tr>
<td>Zambia</td>
<td>5,300</td>
<td>7.6</td>
<td>53</td>
<td>82</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2,480</td>
<td>19.9</td>
<td>58</td>
<td>74</td>
</tr>
</tbody>
</table>


1.1.2. The Impact of Balkanization

Colonialism balkanized Southern Africa so that the economy of each of the nine states of the SADCC region is too small, individually, to achieve self-reliant industrial development. As Green and Seidman have observed, "there is no point in producing manufactured goods if there are not enough people or they do not have enough cash income to buy them" (Green, 1968, p. 59). Table 1.2 gives a picture of SADCC’s economic size, differences among the member states, and their limited manufacturing growth.

It is clear from Table 1.2 that there is tremendous variation in the size and nature of the national economies of SADCC. Collectively, though representing a value of some USD 22 billion, the total GNP for the SADCC region amounts to only 34 percent of that of Denmark, and 30 percent of South Africa's. In 1985 SADCC's combined manufacturing value added (MVA) of USD 2,954 million was less than one-third of Denmark's MVA and about one-quarter of South Africa's. Another characteristic of the regional economy that should be stressed is that Zimbabwe produces no less than 45 percent of SADCC's total MVA, as can be seen from Table 1.2.

1.1.3. The Focus: Intra-Regional Trade Institutions

Southern Africa is overwhelmingly oriented to foreign markets and suppliers.
Table 1.2 GNP and Manufacturing in the SADCC Countries, 1986

<table>
<thead>
<tr>
<th></th>
<th>GNP</th>
<th>GNP/</th>
<th>Manufacturing</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>mill USD</td>
<td>Capita in USD</td>
<td>mill USD</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Angola</td>
<td>4,444</td>
<td>505</td>
<td>131</td>
<td>4</td>
</tr>
<tr>
<td>Botswana</td>
<td>981</td>
<td>840</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>Lesotho</td>
<td>624</td>
<td>370</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
<td>Malawi</td>
<td>1,245</td>
<td>160</td>
<td>126</td>
<td>12</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2,898</td>
<td>210</td>
<td>317</td>
<td>9</td>
</tr>
<tr>
<td>Swaziland</td>
<td>455</td>
<td>650</td>
<td>85</td>
<td>23</td>
</tr>
<tr>
<td>Tanzania</td>
<td>4,278</td>
<td>250</td>
<td>393</td>
<td>6</td>
</tr>
<tr>
<td>Zambia</td>
<td>1,486</td>
<td>300</td>
<td>513</td>
<td>20</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>5,290</td>
<td>620</td>
<td>1,314</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>21,701</strong></td>
<td><strong>293</strong></td>
<td><strong>2,954</strong></td>
<td><strong>13</strong></td>
</tr>
<tr>
<td>Denmark</td>
<td>64,512</td>
<td>12,600</td>
<td>9,729</td>
<td>20</td>
</tr>
<tr>
<td>South Africa</td>
<td>71,595</td>
<td>1,850</td>
<td>11,096</td>
<td>22</td>
</tr>
</tbody>
</table>


Since its inception in 1980, SADCC has been unsuccessful in increasing the level of intra-regional trade which now amounts to only 4.5 percent of the region's total trade (SADCC, 1986d). Intra-regional trade has not been accorded sufficient importance by the SADCC states until recently. Although they recognized the importance of trade in their founding document (the Lusaka Declaration, 1 April 1980) the SADCC members did not approve an intra-regional trade promotion program until 12 June 1986. SADCC's establishment, at the same time, of an Industry and Trade Sector to be coordinated by Tanzania is testimony to the priority now being attached to finding solutions to this issue (SADCC, 1986c).

This study analyzes one aspect of the constraints on the much needed industrial development of Southern Africa. It focuses on the institutions directly and indirectly involved in intra-regional trade and their central importance to the achievement of industrial development. Specifically, it deals with four categories of institutions: Transnational corporations, banks and financial institutions, national (government) institutions, and donor policies and multilateral institutions.
SADCC’s efforts since 1986 (still ongoing July 1989) to formulate a new industrial strategy indicate that a higher degree of industry and trade planning is essential to achieve complementarity in the productive sectors and increased levels of intra-regional trade. Already in 1987, several statements in the background paper to the annual SADCC conference suggest that the member states recognize the need for a certain degree of institutional change to achieve the desired increases in production and intra-regional trade: (1) "new investments require the guaranteed regional market" (p. 35); (2) "trade can only successfully be developed in a planned manner" (p. 35); (3) "another potential form of regional cooperation is distributed component production" (p. 37); and (4) "the Industry and Trade sector is challenging the region to cast its sight beyond simply the coordination of national initiatives into more integrated forms of cooperation" (p. 36) (all quotes from SADCC, 1987).

SADCC’s new mood was encapsulated in the Conference's opening address by Quett Masire, President of Botswana and Chairman of the SADCC Summit. He stated that the answer to the development of the resources of the region "lies in planned integration...to achieve it we have to be much more organized regionally and internationally" (SADCC, 1987b, P 7).

This study aims to help identify the minimum level of agreements necessary—and achievable—to redirect trade to support regional industrial development.

A brief outline of the main characteristics that limit the development of Southern Africa's colonially shaped economies illuminates the discussion of the importance of intra-regional trade to industrial development.

The SADCC economies are all underdeveloped. Mozambique is a service economy reliant on foreign exchange earnings from port and rail fees, and migrant workers' remittances. Similarly, Lesotho’s major export remains its manpower to the South African mines. Migrant workers account for 50 percent of all formal sector workers in Lesotho (Hanlon, 1986a). Two-thirds of the exports from Angola, Botswana and Zambia are from one commodity (oil, diamonds and copper, respectively), and one commodity accounts for over one-third of total exports for Malawi – tobacco, Swaziland – sugar, Tanzania – coffee (Thompson, 1986). With manufacturing accounting for 30 percent of gross domestic product (GDP) in 1986, Zimbabwe has by far the most developed economy (CSO, March 1988). However, 70 percent of the population is still directly dependent on the land, and tobacco remains the largest export commodity, accounting for no less than 25 percent of total exports in 1986 (CSO, March 1988). Moreover, foreign capital owns roughly 70 percent of the industrial assets in Zimbabwe (Clarke, 1980). The generally
high level of reliance on a few exports renders each country dependent on and vulnerable to the vicissitudes of the world market.

Travel distances and the low population density also limit the development of the SADCC region. For example, the road distance from Dar es Salaam to Gaborone is approximately 3,500 km, equivalent to a journey from Copenhagen to Gibraltar. Owing to the state of infrastructural development in Southern Africa, the travel time, of course, is not comparable. While population densities vary tremendously, the SADCC region is thinly populated overall. The region's total population is equal to that of West Germany and the Netherlands combined. However, these two countries cover an area only half the size of Botswana, or 6 percent of the SADCC region. The small and scattered population of the region is obviously a constraint on intra-regional trade and industrial development.

1.2. The Challenge

1.2.1. The Need for a New Approach to Industry and Trade

The region as a whole is still characterized by extensive foreign dominance in the productive sectors. Enclave economies, structured by colonialism, continue to produce primarily for the local urban residents and extra-regional metropoles. The existing patterns of production and trade therefore contribute only minimally to the development of the Southern African region.

In discussing the constraints on regional industrial development, this study will treat the need for industrialization in the development process as a given. While they emphasize different aspects, most theoreticians agree on the great importance of industrialization as a means toward economic development. The following paragraphs summarize the main issues discussed by theoreticians in favor of industrialization.

The British economist, R.B. Sutcliffe, states that "In the very long run, greater wealth and better living standards under any political system are closely connected with industrialization" (1971, p. 70). He even maintains that "countries will not become rich unless at some stage they industrialize" (1971, p. 103). In a set of propositions which draw on Hirschman, Kuznets, Myrdal, Rosenberg, Seers, etc, Sutcliffe presents the commonly used arguments in favor of industrialization (1971, pp. 82–92):

1. Industrial growth creates demand for agricultural output.
2. Industrial investment is more intercomplementary than agricultural investment.
3. Industrial growth relieves balance of payments problems.
4. Industrial investment expands savings.
5. Industrial growth diminishes fluctuations and encourages stability of incomes, tax receipts, and so on.
6. Industrialization increases economic flexibility.
7. Industrial growth expands employment.

Sutcliffe subjects each of these arguments to criticism and qualifications. Others agree on the need to look beyond the mere correlation of industrialization and a high standard of material living.

In any event, it is important to view the development of industry in connection with the development of the other sectors of the economy. In most of the SADCC countries, a dynamic agricultural sector is a prerequisite for industrialization. It is essential that the industrialization process, and its tempo, is balanced with the rest of the economy.

Clive Thomas focuses on basic industries; that is, those involved in the processing of local resources into the material basis of the satisfaction of local needs (1974). He also emphasizes the importance of capital goods industries to increase the efficiency of basic industries. Two main arguments justify Thomas' focus on basic industries. First, the basic materials sector has backward and forward linkages with other activities. "Their planned production can thus assure dynamically increasing intersectoral linkages and differentiation within the internal economy" (Thomas, 1974, p. 197). Second, Thomas argues that "if these goods [basic materials] are not produced locally, the organic linkages between domestic demand and domestic output will forever lie abroad in the countries from which these imports are derived" (1974, p. 196). Thomas' basic industrial strategy is, therefore, to "plan the convergence of domestic resource use, domestic demand, and needs in such a way as to create the basis of an indigenous technology" (1974, p. 195).

Richard Peet differs from Sutcliffe and Thomas in that he focuses on the primacy of one part of the manufacturing industry in economic development—the production of the means of production (1984). Since they increase the productivity of labor and outputs of agriculture, mining, manufacture, etc, the tool and machine-building industries are the key instruments in economic development. Peet mentions two major disadvantages of relying on imported means of production. First, they are designed primarily for the socio-economic structures of their countries of origin. Second, the original cost of imported machinery and the continuing cost of repairs and spares are usually exorbitant. Peet concludes, therefore, that "the aim of industrialization, as a component of an economic development policy, has to include a primary emphasis on building basic industries, machinery industries, engineering industries and the technologies which surround these sectors" (1984, p. 7).

Regardless of the choice of strategy, the industrialization process has to be financed one way or another. In most cases, this can best be done by promoting the export-oriented sectors of the economy. It is a subject of
considerable debate, however, to what extent the industries targeted for development should be export-oriented.

Like the United Nations and the Organization of African Unity, SADCC, too, stresses the great importance of industrialization for economic development. However, SADCC’s present industrial plan consists of just a few pages. The documents do not go far beyond a statement of general objectives.

To the extent that industrialization has taken place in the SADCC region, however, it encompasses neither basic industries nor the manufacture of means of production. Instead, it has been within the framework of the “import substitution” approach. Stated briefly, that approach has failed in Southern Africa and elsewhere in the Third World for the following reasons: (1) import substitution was usually limited to the replacement of previously imported luxury and semi-luxury consumption goods for the urban elites and settler communities; and spares and equipment for the mines and commercial farms — and these markets remained distinctly limited (Steel, 1984). The new factories seldom manufactured low-priced tools and equipment at appropriate levels of technology to enable peasant farmers to expand their output (Seidman, 1986c); (2) import substitution industries used capital-intensive technologies which provided relatively few jobs for the growing numbers of unemployed; (3) import substitution required importation of expensive intermediate and capital goods and spare parts; sometimes even components; (4) import substitution industries often lacked forward and backward linkages, relying on imports that increased external dependence; (5) the new factories were located mainly in export enclaves in the existing urban centers, aggravating uneven development; and (6) several Southern African governments took measures that imposed the burden of financing these new industries on the peasants. In some cases, holding down prices paid by marketing boards for peasant produce, they extracted surpluses to finance new industry (Seidman, 1986c). In summary, the import substitution approach did not foster dynamic development; instead, it frequently accentuated the structural distortions of the inherited economies.

It is clear that a different approach to industrialization is needed: In the short-term, SADCC’s approach must include a primary emphasis on building basic and machinery industries. In the medium-term, the promotion of engineering industries should be high on the SADCC agenda.

Having concentrated on transportation and communication infrastructure for the first six years after its inception, the SADCC members now recognize the need to change the focus to industrialization. As SADCC's Executive Secretary, Simba Makoni, wrote in an article entitled "SADCC's New Strategy":

19
It became clear that rehabilitating ports, railways and roads, interconnecting power lines, building more power stations, and training people would not necessarily in and of themselves improve the standards of living, nor strengthen the economic capacities of our countries. Therefore, with effect from June 1986, the SADCC council of ministers and thereafter the summit of heads of state and government directed that emphasis should now be placed on the productive sector (Makoni, Africa Report, June 1987, p. 30).

The theme of the 1987 Annual Conference in Gaborone was "Investment in Production," and the conference background paper made it clear that SADCC is embarking on a new phase of cooperation with the goal to increase material production and intra-regional trade (SADCC, 1987). The two subsequent annual conferences also focused on production. The theme of the 1988 conference (Harare) was "Development of Infrastructure and Enterprise," and in 1989 (Luanda) it was "The Productive Sectors: The Engine of Growth and Development" (SADCC, 1989). Clearly, SADCC is attempting to spearhead the regional cooperation beyond transportation.

Since essential raw materials are produced in different member states, intra-regional trade is vital for the success of the industrial development of the SADCC region. If they pursued a regional industrial strategy the SADCC states would also reduce the danger of frittering away scarce resources as a result of unnecessary duplication of industrial ventures. It would also enable the SADCC states, collectively, to bargain more effectively with transnational corporations for additional investment.

Rationally ordered regional trading arrangements, therefore, are essential for two reasons: (1) to realize the necessary — and dynamic — intra-industry specialization, i.e. a situation in which a single final product is produced from components and parts produced by firms located in different parts of the region; and (2) to ensure that goods produced in the region can be sold on the regional market.

The above indicates that industrial development of the SADCC region is interlocked with the achievement of an efficient intra-regional trading system. This was recognized in SADCC’s 1984 Report of the Workshop on Implementation of SADCC Industrial Projects:

"...trade prospects and possibilities should orient industrial development as both programmes are not only interdependent but also give momentum to each other (SADCC, 1984b)."

The present trade patterns of the SADCC region reflect the economic fragmentation and distorted economic development that have thwarted industrialization in the region. Conversely, the undeveloped intra-regional trade infrastructure acts as an obstacle to the realization of full economies of scale
Table 1.3  *Summary Figures for Intra-SADCC Trade, Million US$, 1979–84*

**IMPORTS FROM SADCC COUNTRIES:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>24</td>
<td>28</td>
<td>20</td>
<td>8</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>Botswana</td>
<td>(40)</td>
<td>46</td>
<td>50</td>
<td>43</td>
<td>54</td>
<td>(56)</td>
</tr>
<tr>
<td>Lesotho</td>
<td>(0)</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Malawi</td>
<td>17</td>
<td>28</td>
<td>29</td>
<td>29</td>
<td>(25)</td>
<td>(23)</td>
</tr>
<tr>
<td>Mozambique</td>
<td>14</td>
<td>24</td>
<td>17</td>
<td>25</td>
<td>32</td>
<td>22</td>
</tr>
<tr>
<td>Swaziland</td>
<td>(4)</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>(4)</td>
<td>(2)</td>
</tr>
<tr>
<td>Tanzania</td>
<td>9</td>
<td>7</td>
<td>8</td>
<td>35</td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td>Zambia</td>
<td>11</td>
<td>20</td>
<td>63</td>
<td>63</td>
<td>(40)</td>
<td>(42)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>(26)</td>
<td>49</td>
<td>115</td>
<td>108</td>
<td>86</td>
<td>64</td>
</tr>
<tr>
<td>Total</td>
<td>(145)</td>
<td>204</td>
<td>308</td>
<td>315</td>
<td>(269)</td>
<td>(245)</td>
</tr>
</tbody>
</table>

**EXPORTS FROM SADCC COUNTRIES:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Botswana</td>
<td>(45)</td>
<td>42</td>
<td>36</td>
<td>54</td>
<td>52</td>
<td>(34)</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Malawi</td>
<td>8</td>
<td>23</td>
<td>29</td>
<td>23</td>
<td>(22)</td>
<td>(18)</td>
</tr>
<tr>
<td>Mozambique</td>
<td>7</td>
<td>7</td>
<td>29</td>
<td>27</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Swaziland</td>
<td>(5)</td>
<td>4</td>
<td>8</td>
<td>8</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td>Tanzania</td>
<td>27</td>
<td>20</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Zambia</td>
<td>24</td>
<td>30</td>
<td>51</td>
<td>36</td>
<td>(33)</td>
<td>(35)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>(41)</td>
<td>68</td>
<td>139</td>
<td>123</td>
<td>108</td>
<td>115</td>
</tr>
<tr>
<td>Total</td>
<td>(158)</td>
<td>194</td>
<td>297</td>
<td>276</td>
<td>(231)</td>
<td>(230)</td>
</tr>
</tbody>
</table>

Note: Figures given in brackets represent data not available. Chr. Michelsen Institute estimated missing data mainly by extrapolation of available data.

Source: Chr. Michelsen Institute (1986), Table 12.

within the SADCC cooperation. A summary picture of SADCC’s trade patterns is presented below.

### 1.2.2. SADCC’s Trade Pattern

**Regional trade in perspective**

The trade of the SADCC region focuses overwhelmingly on foreign markets and suppliers. In 1982, the member states purchased over 80 percent of their imports from, and shipped 64 percent of their exports to industrial market economies. Less than five percent of the total trade flow was between SADCC
countries. Trade with the rest of sub-Saharan Africa was even smaller at no more than two percent in either direction (UNIDO, 1985).

In 1982 total exports and imports of the SADCC countries amounted to approximately USD 5,500 million and USD 7,150 million respectively. Total intra-regional trade amounted to only USD 276 million (based on exporters' prices), or USD 316 million (based on importers' prices). In 1983 and 1984 the value of intra-regional trade was reduced to around USD 240–250 million (Chr. Michelsen Institute, 1986, p.4). Trade within SADCC is very uneven. Zimbabwe is partner (as exporter or importer) to as much as 80 percent of the intra-SADCC trade. Botswana, Malawi, Mozambique and Zambia are also important regional traders, while Angola, Lesotho, Swaziland and Tanzania play a much smaller role (Chr. Michelsen Institute, 1986).

Table 1.3 shows summary figures for SADCC intra-regional trade, 1979–84.

Trade Dependence on South Africa

Most of the SADCC countries are dependent on South Africa for their external trade relations. The high levels of dependency on South Africa may well represent the main obstacle to the development of the region. This was recognized by the SADCC states in their founding document, the Lusaka Declaration. In it they stated as their first objective "the reduction of economic dependence, particularly, but not only, on the Republic of South Africa" (SADCC, 1981b).

Table 1.4 shows the salient features of SADCC's trade dependence on South Africa. The SADCC member states sell to South Africa an estimated 7 percent of their exports, and obtain around 30 percent of their imports there (SADCC, 1986d). But they depend on South Africa to different degrees.

It is significant to note from Table 1.4 that South Africa supplies almost half (44%) of all imports of the seven SADCC countries that deal with South Africa, and takes 11 percent of their exports. The figures normally cited in the literature (Hanlon, 1986a; Chr. Michelsen Institute, 1986; SADCC, 1986d, etc.) to show SADCC's trade dependence on South Africa—30 percent imports from and 7 percent exports to South Africa—fail to convey an accurate picture of the degree of dependency for the majority of the SADCC countries. This is so because Angola and Tanzania, which do not trade with South Africa, are included in the figures. In 1982 the combined imports to and exports from Angola and Tanzania accounted for 26 percent of SADCC's total imports and no less than 39 percent of SADCC's total exports (Chr. Michelsen Institute, 1986, p. 41). The aggregate figures usually cited therefore underestimate considerably the degree of trade dependence on South Africa for seven of the nine members of SADCC.
### Table 1.4 Regional Trade Dependence on South Africa, 1982

<table>
<thead>
<tr>
<th>Main Overall Trade Partner</th>
<th>Imports from South Africa</th>
<th>Exports to South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mill. US $</td>
<td>%</td>
</tr>
<tr>
<td>Botswana</td>
<td>586</td>
<td>85</td>
</tr>
<tr>
<td>Lesotho</td>
<td>513</td>
<td>97</td>
</tr>
<tr>
<td>Malawi</td>
<td>104</td>
<td>34</td>
</tr>
<tr>
<td>Mozambique</td>
<td>68</td>
<td>8</td>
</tr>
<tr>
<td>Swaziland</td>
<td>431</td>
<td>83</td>
</tr>
<tr>
<td>Zambia</td>
<td>145</td>
<td>14</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>316</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total/Average for the 7 countries trading with SA</strong></td>
<td>2,163</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Own calculations based on statistical Tables 3-11 in Chr. Michelsen Institute's (1986) SADCC Intra-Regional Trade Study.

Angola and Tanzania appear separately in Table 1.4 since Angola has little trade or other commercial dealings with South Africa, and Tanzania has banned all trade with South Africa. De Beers, a major holding company of the South African mining finance house, Anglo American Corporation, however, dominates the diamond trade in both countries. Other factors, apart from ideology, may explain why Angola and Tanzania have escaped the web of South African trade dependency. Historically, due to the strong colonial ties to Portugal, South Africa has played only a small role in Angola. Moreover, Angola produces a key commodity in high demand on the world market: oil. Angola's crude oil production of 6.8 million tons per year was three times the crude imports of the rest of SADCC in 1984 (Munslow, 1984). Oil production made Angola the single largest exporter in the SADCC group, accounting for no less than 33 percent of total SADCC exports in 1983 (Chr. Michelsen Institute, 1986, p. 30). In 1986, Angola's oil sales earned USD 1,330 million (EIU, 1987). In sum, Angola's oil income means that South Africa has no economic leverage over that country. Tanzania, on the other hand, while lacking a high demand commodity like Angola's oil, more easily averted dependence on South Africa because of its geographical distance from South Africa, direct access to the sea, and its traditional ties with Europe, especially the United Kingdom.

Historically shaped institutions and geographical realities rendered the
other SADCC members much more dependent on South Africa (see Table 1.4). South Africa is a primary export market for Lesotho and Swaziland, while it is also significant for Botswana and Zimbabwe. But South Africa is an even more important source of imports, in particular for Lesotho, Botswana and Swaziland, all of which are members of the Southern African Customs Union (SACU).

As a free trade area heavily dominated by South Africa, SACU has at least three major negative economic consequences on Botswana's, Lesotho's and Swaziland. First, all new industrial investment inevitably flows to the most developed member of the union: South Africa. As a result of their membership in SACU since 1910, Botswana's, Lesotho's and Swaziland's combined trade deficit with South Africa is four times as large as the relatively substantial customs revenues that they derive from the customs union (Hanlon, 1986b). Second, the common external tariff, 100 percent or higher on goods that can be made locally, has contributed to South Africa's industrialization and presently forces Botswana, Lesotho and Swaziland to buy South African goods (Hanlon, 1986b). It also rules out the use of tariffs by Botswana, Lesotho and Swaziland against South African imports in favor of goods from other SADCC countries. Third, by locating plants in Botswana, Lesotho and Swaziland that only produce a minimum of value added, South Africa may use SACU as a means to gain easier access to other SADCC countries for what are in effect South African manufactured goods.4

Table 1.4 also shows that SADCC's trade with South Africa is extremely unbalanced. SADCC's trade deficit with South Africa was no less than USD 1,780 million in 1982 or, to put it differently, SADCC's imports from South Africa were more than five and a half times as great as their exports to that country. An American researcher, Stephen Lewis, has estimated that South Africa's total trade with SADCC produces a surplus for South Africa of between 5 and 6 billion Rands a year, an amount larger than South Africa's total current account surplus for 1985 (The Star [SA], 7/7/86). SADCC thus provides valuable surplus and foreign exchange for South Africa which allows the latter to strengthen minority rule at home and increase dependency in the region.

The SADCC members' trade with South Africa is also unbalanced in terms of the commodities traded. South Africa buys mainly crude materials from, and sells primarily manufactured goods to the SADCC countries. South Africa uses the surplus from this typical colonial trade pattern to finance its trade deficit with the rest of the world. It is interesting to note that South Africa's trade abroad consists mainly of exports of crude materials and imports of manufactures; also a colonial pattern of trade. In short, the above reflects South Africa's role as a dominant regional sub-center.
A comparison of individual SADCC countries’ imports from South Africa (ref. Table 1.4), on the one hand, and the total intra-SADCC trade on the other, provides a different illustration of South Africa’s dominance. Imports from South Africa to Botswana, Lesotho, Swaziland, and Zimbabwe was larger for each country, individually, than the total intra-SADCC trade in 1982, at USD 315 million (ref. Table 1.3). The fact that the trade with South Africa of one small country, like Swaziland, is larger than the total trade between the nine SADCC countries exposes both another characteristic of the South African domination and the extremely low level of intra-regional trade.

While the SADCC countries naturally derive some benefits from the trade with South Africa, the lion’s share clearly goes to the racist regime. The greatest long-term challenge lies in restructuring this relationship so that the SADCC countries and a post-apartheid South Africa can achieve the greatest possible benefits from intra-regional trade.

Finally, as six of the SADCC members are landlocked, a word must be said about the critical importance of physical infrastructure in Southern Africa. Developed primarily to secure political control and to haul cash crops and raw materials from producing areas to ports for shipment to Europe, much of the transportation infrastructure runs through South Africa. Prior to independence, the Portuguese built railroads and ports in Angola (Benguela) and Mozambique (Nacala, Beira and Maputo). As South Africa is determined to keep their neighbors in a state of dependency, however, they are sponsoring a systematic campaign—via UNITA in Angola and the MNR in Mozambique—to destroy these alternative outlets to the sea. Furthermore, it is believed that South African-controlled freight forwarding firms in the region obstruct the movement of cargo through SADCC ports, instead diverting it through South Africa (SADCC, 1986d). As a result, the region has become more dependent on trade through non-SADCC ports since 1980. Total traffic through regional ports actually declined by 31 percent between 1980 and 1984 (SADCC, 1986d, p. 63).

Foreign control of regional trade
The institutional organization of trade in the SADCC region is typified by concentration of influence. UNIDO figures indicate that 42 percent of the SADCC countries’ total trade is in the hands of transnational corporations (1985, p. 98). South African or South African related companies control a major share. In Zimbabwe, for example, South African investments are worth more than USD 380 million, or about 24 percent of the foreign-owned capital in that country (Financial Gazette,’ 15/8/86; Hanlon, 1986a). As some South African companies hide their ownership by registering dummy companies in
Europe to own their subsidiaries in the SADCC region, the South African influence in the region may be more extensive than the available evidence indicates (Hanlon, 1986a). In any event, equity ownership is an insufficient measure of control as it leaves out the possibility to control with only a minority share-holding.

In Zimbabwe, for example, the South African conglomerate, Anglo American, is a minority share-holder in a large number of companies. Since it provides management, marketing and technology, however, it controls the decisionmaking in key sectors of the economy. With its extensive interests in Zimbabwe's financial institutions, Anglo American exerts a substantial degree of control over the so-called "commanding heights" of the economy, i.e. banks and financial institutions, basic industries, domestic wholesale, and foreign trade.

Commodities traded
Given the numerous obstacles to intra-regional trade: foreign exchange difficulties, inadequate transportation networks, limited export credit facilities, tariffs, etc., it is important to examine what kind of commodities are traded despite the difficulties. This may provide a clue as to what type of commodities hold the greatest potential to be traded within the region.

In view of the low levels of industrialization in the region, trade in manufactures accounts for a significant share of intra-regional trade. In the period 1982–84, around 25 percent of the intra-regional trade consisted of food products; approximately 10 percent consisted of other crude materials; and 16–17 percent consisted of fuels and energy products. Manufactured or semi-manufactured goods, however, composed the largest sector, amounting to almost 50 percent of the total intra-regional trade. By comparison, manufactures accounted for only 10 percent of the exports leaving the SADCC region (Chr. Michelsen Institute, 1986). The relatively high level of intra-regional trade in manufactures reflects the similarity of the resource bases of the SADCC countries: all are primarily agricultural economies. More important, this suggests that the major basis for increased intra-regional trade lies in manufactured goods.

An emphasis on intra-regional trade in manufactured goods would have propulsive effects. First, it would expand the markets for manufactured goods, thereby stimulating increased production. Second, insofar as the output of some industries is used as input in others (inter-industry specialization and vertical integration), it would contribute significantly to increase the production of manufactures.
Table 1.5 *Intra-SADCC Exports of Manufactures, 1982*

<table>
<thead>
<tr>
<th>Country</th>
<th>Million USD</th>
<th>Regional Share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Botswana</td>
<td>32.2</td>
<td>27.5</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Malawi</td>
<td>8.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Mozambique</td>
<td>16.4</td>
<td>14.0</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Zambia</td>
<td>6.6</td>
<td>5.6</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>48.7</td>
<td>41.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>116.9</td>
<td>99.9</td>
</tr>
</tbody>
</table>


1.2.3. *Static versus Dynamic Trade Potentials*

To explain why intra-regional trade in manufactured goods would stimulate production, a distinction should be made between static and dynamic trade. Static trade may be said to take place in isolation, i.e. it has no positive ramifications in the economy. Static trade typically involves primary commodities, mineral extraction, and export-enclave production. The colonially developed structures of production in Southern Africa were almost exclusively geared toward static trade with the colonial powers. Most observers agree that the lack of complementarity in the inherited productive structures of the SADCC countries is the principal constraint on increased intra-regional trade (Chr. Michelsen Institute, 1986; SADCC, 1986b; Tostensen, 1982, *et al.*).

Primarily involving manufactured goods, on the other hand, dynamic trade induces backward and forward linkages in the economy. This spill-over, or multiplier effect, makes trade in manufactures dynamic (Puyana, 1981). Commissioned by SADCC to prepare a study on intra-SADCC trade, the Chr. Michelsen Institute therefore concluded:

*....if the SADCC countries wish to develop export markets within the region, they will have to develop new products, and often new industries. There is very little room for trade diversion, and the market for their traditional exports is very limited within the region (Chr. Michelsen Institute, 1986, p. 24).*

1.2.4. *Zimbabwean Domination*

As reflected in the foregoing discussion and tables, another feature of the regional trade pattern is Zimbabwe’s dominant position within SADCC. This
is an issue of considerable concern to the SADCC members. The domination of Zimbabwe is further underscored in Table 1.5, which shows the distribution of intra-SADCC exports of manufactures. Zimbabwe's comparative strength is a reflection of the uneven development that resulted from the Federation of Rhodesia and Nyasaland and the UDI-period. At present, there is a very real risk that Zimbabwe will grow as a regional sub-center in SADCC at the expense of its neighbors. Unless measures are taken to alleviate this possibility, it will imperil the long-term viability of SADCC.

New industrial investments have a tendency to flow to the most developed member of any group of countries. As discussed above, the experience of the Southern African Customs Union is a case in point. Although SADCC, unlike SACU, is not a free trade area, this tends also to be true of the SADCC region. A disproportionate share of the region's new industries prefer to locate in Zimbabwe. While Zimbabwe has the most developed economy in SADCC, the preference to invest there may be due in part to Zimbabwe's 24-year old trade accord with South Africa. Under the accord, Zimbabwe and South Africa charge each other special low customs duties on more than 100 items (Facts and Reports, 9/12/86). As a result, South Africa is Zimbabwe's main market for manufactured goods, taking some 40 percent of its exports of manufactures in 1984 (Financial Gazette, 15/8/86). This is another dimension of Zimbabwean domination in SADCC that is clearly not in the interest of the region as a whole.

1.3. The Need for Regional Integration

Theorists of all persuasions agree that without some form of regional integration, small national economies — like those of the SADCC countries — cannot realize the full economies of scale needed for basic industries and the improved utilization of their own resources (Green, 1968; Maximova, 1983; Saunders, 1983; Sutcliffe, 1971; UNCTAD, 1967, et al.). The evidence from Southern Africa, discussed in the subsequent chapters, substantiates this argument.

Sutcliffe states that "smallness can be an overwhelming handicap to industrialization" and stresses the benefit from integration of increasing returns to scale (1971, pp. 229–230). Arthur Hazlewood emphasizes the same point, "integration becomes of first-rate importance only in the context of a major industrialization programme" (1967, p. 16). Thomas, however, suggests that too much emphasis may be placed on idealized optimum levels of scale (1974). The optimum levels discussed by neoclassical economists may be distorted in the Third World by the following factors:
1. cheap and abundant availability of raw materials (may compensate for higher production costs when the technological production level is below optimum);
2. favorable transportation opportunities (may make it worthwhile to establish industries even when the plant size is below optimum);
3. exchange rate distortions (may make it hard to establish the true prices of labor and capital inputs); and
4. monopoly pricing by transnationals (may make inputs appear more costly than they really are) (Thomas, 1974, pp. 206–212).

Thomas concludes that efficiency considerations cannot be attained in the blind search for the "optimum" scale of operation; social costs "must be measured, not in relation to idealized 'optimum' levels, but to realistic and practical 'critical minimum levels' " (1974, p. 210). He adds that optimum scale may be "outweighed by the structural imperatives of transforming the economic system" (1974, p. 211). SADCC documents recognize that given the small economic size of the Southern African states, some form of regional integration is necessary even for the attainment of "critical minimum levels" of scale.  

An examination of the world-wide experience suggests two quite different categories of possible approaches to integration: common market integration and planned regional integration. Rejecting the former, the SADCC members have experimented with a step-by-step coordination of activities.

1.3.1. SADCC Rejects Common Market Integration

When launching the SADCC in 1980, the member states explicitly rejected common market integration, a laissez-faire approach to the promotion of intra-regional trade. The typical common market has three main goals: (1) abolish barriers and obstacles to the free movement of commodities, capital and manpower; (2) coordinate economic and monetary policies; and (3) a common policy toward non-members (Salvatore, 1983). Particularly in the Third World it is hoped that the establishment of a common market will attract more foreign capital.

SADCC rejected this old pattern of economic integration. According to SADCC’s 1986 Macro-Economic Survey:

Member states were too aware of the numerous failed experiments at regional integration. These were mostly of a trade creating and diverting type like the Federation of Rhodesia and Nyasaland, the Portuguese Community, East African Common Market, the Southern African Customs Union, all of which were or, in the case of SACU, is, a free trade area or common market. They failed because in every case the stronger member tended to benefit at the expense of the weaker members.

The report continues:
The member states collectively rejected models which would lead to growing gaps between stronger and weaker states. Trade should be planned so as to flow from and serve the needs of co-ordinated national and regional development. Our trade arrangements should not be at the mercy of free market forces or foreign companies. Production is the first goal and coordination of production is perhaps what distinguishes SADCC from previous experiments of economic co-operation among African countries (SADCC, 1986d, p. 2).

The above statements clearly demonstrate that the SADCC member states recognize that all the experiments of regional integration mentioned aggravated the uneven development of the countries concerned. The quotations furthermore suggest that the participating members accept the basic institutionalist argument of Gunnar Myrdal, namely that there is no such thing as a "free market". Consequently, it seems clear that SADCC aims to achieve coordination through state interventions.

Nevertheless, the fact that six of the SADCC countries are members of the Preferential Trade Area for Eastern and Southern African States (PTA)—Angola, Botswana and Mozambique are not—suggests several potential conflicts with SADCC’s goals. First, PTA’s free trade approach may be opposed to SADCC’s emphasis on planned trade. "Given the sharply uneven levels of industrialization, non-discriminatory trade liberalization would benefit the stronger members, contradicting SADCC's commitment to balanced development and the reduction of inequalities" (UNIDO, 1985, pp. 100–101). Second, SADCC members also in the PTA are obliged to extend any bilateral concessions made to other SADCC countries to all PTA members (Chr. Michelsen Institute, 1986). This may "limit the development of planned trade and hinder the building of interlinkages and complementarities within the industrial subsectors which is central to SADCC's industrial programme" (UNIDO, 1985, pp. 100–101). Third, as the markets of six of the SADCC states are opened to all PTA members, SADCC-sponsored projects may have to compete with projects in Kenya, for example. Fourth, PTA’s free trade measures could block necessary efforts to protect selected goods to be manufactured in the SADCC region.

1.3.2. Planned Regional Integration

Planned integration differs from the common market approach in that it seeks to coordinate nations’ efforts to achieve more balanced, integrated development. In planned integration, the distribution of any gains from integration are thus determined in advance. Gains are distributed by employment of "corrective" measures, e.g. an industrial location policy, to ensure even distribution of gains and costs. Some schemes in this category also address the condition of extra-regional dependence—often the principal obstacle to in-
integration and development (Axline, 1977). It may go further to plan and implement an overall strategy for complementary allocation of industries and regional trade, possibly backed by national control of the "commanding heights" of the economies, and so forth.

SADCC’s program of cooperation, however, is not geared towards political integration (Brown, 1982). Reginald Green has stated that an overall regional political economic strategy for SADCC is "clearly unattainable" (1984a, p. 17). SADCC instead aims initially to integrate its economies at the level of infrastructure, markets and production. SADCC follows a stepwise, building-block approach—regional coordination—which is well attuned to the difficult realities of Southern Africa. In the process of cooperation, SADCC strives to create the necessary preconditions for a later, and more comprehensive, type of economic integration.

1.3.3. Political-Economic Differences in the SADCC Group
Whereas issues of industry and trade have dominated the discussion thus far, the ideological and political-economic differences among the SADCC members constitute a serious constraint on the coordination of their development goals.

The political economies of the nine SADCC states can be grouped in two broad categories. In the first category, the governments of Angola and Mozambique seek to transform the relations of production in order to develop socialist economies. Tanzania, and to a lesser extent Zambia, have also tried this, but without the Marxist rhetoric used in Angola and Mozambique.

Angola's governing party, the MPLA, is seriously committed to a socialist road of development, conceived in a Marxist-Leninist sense. The government tries to control its national resources, though room is left for some private entrepreneurs. Angola has pervasive state agricultural projects, and banks and large industry companies have been nationalized. In 1982 nationalized industries accounted for 58 percent of total production, the private sector 29 percent and joint ventures 13 percent (Africa South of the Sahara, 1987).

FRELIMO is formally a Marxist-Leninist vanguard party whose long-term goal is a socialist Mozambique. Shortly after independence, when the majority of Portuguese settlers fled, the government nationalized virtually all land, transport and communications, and also private medicine, schools and legal practices.

In Tanzania the governing party, TANU, had an early desire for Africanization. Nyerere's 1967 Arusha Declaration had two main themes: egalitarianism and self-reliance. Rural development were to take place not through large state farms but community (Ujamaa) villages. Commercial banks and
many industries were nationalized. However, Nyerere's vision of African socialism, embodied in the Arusha Declaration, rejected both Western capitalism and the ideology of the extreme left.

Pursuing Kenneth Kaunda's philosophy of "humanism," the government in 1968 invited the major companies in Zambia to accept a 51 percent shareholding interest by the state. At present, Zambia Industrial and Mining Corporation (ZIMCO), a huge parastatal, serves as holding company for numerous Zambian companies. It may be argued that ZIMCO facilitates the operation of the existing "market forces" within the pattern of inherited dualism, rather than contributing to its alteration.

In varying degrees, the remaining SADCC states seek more to limit the excesses of capitalism than to transform radically the relations of production. Although it is SADCC's policy that governments should play a key role in the planning of production activities, at present not all the Southern African states intend to become socialist. It may be, however, that the SADCC states can achieve at least a set of agreements as a foundation for beginning a step-by-step process which may eventually lead to a growing degree of regional cooperation.

1.4. A Case Study of SADCC's Tractor Projects
The core of this book is a detailed case study of the tractor industry in Southern Africa and SADCC's approach to develop this. Implementation of the proposed tractor projects involves all the key issues likely to arise in any regional industrial project: planning, standardization, industrial location, infant industry protection, and intra-regional trade agreements. A detailed investigation of the tractor case should, therefore, contribute to a better understanding of the constraints that may hinder the development of any regional industry.

The importance that the SADCC states attach to the tractor industry is an additional reason to select the tractor projects for a case study. The SADCC members chose tractor projects as an early priority because of their potentially important role in the overall development of the region: (1) tractor production would form a direct link between agriculture and industry; probably increasing productivity in both. On the one hand, increased regional tractor production might help overcome the current low levels of agricultural mechanization in the SADCC countries while on the other, backward linkages could reduce dependence on imports and increase regional employment; (2) factories in several SADCC states already manufacture many of the parts that go into a tractor; (3) the expansion of trade in tractor components leading to a vertically integrated tractor industry, characterized by forward and back-
ward linkages, could create a dynamic trade potential; and (4) local tractor manufacturing could save scarce foreign exchange.

In addition to the propulsive effects of tractor manufacturing on industry, tractors may foster economic development in several ways: (1) bring additional land under cultivation by clearing new areas; by utilizing land unsuited to hand cultivation; and where tsetse flies render oxen-drawn plowing impossible, tractors can open new areas for agricultural use; (2) increase productivity by introduction of more intensive and multiple cropping; (3) improve timing of operations so as to use optimum tillage and planting dates, avoid unfavorable weather conditions, reduce the effects of weeds, and harvest at the optimum time; (4) reduce labor requirements, especially during peak periods; and increase labor employment during slack periods; and (5) reduce drudgery (Kinsey, 1986; SADCC 1983 and 1984a). Above all, as Tanzania's minister for industries, B.P. Mramba stated:

Food security is imperative and in order for it to be achieved, it is necessary that essential inputs such as...tractors are provided by the industrial sector in the region (SADCC, 1984a):

In short, while the case study on SADCC's tractor projects narrows the scope of the investigation, it nevertheless serves to illustrate the key aspects of the larger problem because it involves a basic industry with wide ramifications in industrial development and agriculture. The SADCC states agree on the need to coordinate tractor production but have failed so far to achieve it. The question is why? The case study explores this question in detail to contribute to answering the questions regarding the minimum level of coordination that must be achieved to build vertically integrated basic industries like this.

1.5. Summary
The nine SADCC countries confront a severe crisis of pervasive poverty, growing unemployment and mounting national debts. A long history of colonialism and South African domination have left the SADCC states with distorted, externally oriented and dependent economies. In order to overcome the economic fragmentation and limitations imposed by the economic structures inherited from colonialism, the independent countries of Southern Africa founded the SADCC in 1980. SADCC's two primary aims are to reduce dependency on South Africa and attain regional development. The SADCC countries therefore agree on the need to coordinate their plans to build vertically integrated basic industries to set off a chain of dynamic regional trade leading to balanced, integrated regional development.

Although it goes beyond SADCC's previous approach, the implementation
of regional industries call for the design and implementation of a regional industrial plan with an associated intra-regional trade system to ensure the achievement of intra-industry specialization and the sale of regionally produced goods on the SADCC market.

The problem — and the great challenge — is whether the SADCC countries can agree on and implement the minimum level of institutional changes required to achieve the balanced and coordinated development desired. A detailed investigation of SADCC’s tractor projects should shed some light on the difficulties involved, and lead to proposals designed to overcome them.
2. Obstacles to Industrial Cooperation

2.1. Introduction
This chapter reviews the literature on regional integration. It focuses on the constraints that hinder the realization of integration schemes and emphasizes the impediments to the development of complementary regional industries with associated systems of "dynamic" trade designed to foster development. A review of the literature suggests the following categories of potential obstacles to efforts to implement a regional industrial strategy as required for the tractor industry in Southern Africa: (1) different degrees of economic development and ideological differences; (2) transnational corporations and banks; (3) inherited national institutions; and (4) donor policies and institutions.

The chapter is organized in three parts. The first discusses the potential implications for regional integration of the different degrees of economic development and the ideological differences among the SADCC members. The second discusses the possible consequences for regional integration for each of the remaining three categories of potential obstacles listed above. On this foundation, the third part advances an hypothesis consisting of an interlinked set of propositions to explain the failure of the SADCC member states, despite their stated desire, to build a vertically integrated regional tractor industry. The subsequent chapters will test this hypothesis against evidence relating to the tractor case in Southern Africa.

The bulk of the theoretical literature on regional development deals with economic and political integration. While SADCC's immediate aim is limited to cooperation and not integration, the literature on integration nevertheless serves to draw attention to potential constraints on the achievement of SADCC's objectives. Stressing the gradual evolution of economic integration by stages SADCC's functionalist approach to integration enhances the relevance of the literature on economic integration (Langhammer, 1977).
2.2. Different Degrees of Economic Development and Ideological Differences

The different degrees of economic development and the ideological divergences among the SADCC members pose serious potential constraints on SADCC's success. Despite their importance, however, they must both be taken as given. For this reason they are discussed together in terms of their implications for any successful regional integration scheme.

2.2.1. Uneven Economic Development

Theorists agree that different levels of economic development among the members present a significant potential obstacle for any regional integration scheme (Estevez, 1981; Hoffman, 1984; Miljan, 1981; Okolo, 1985; Palacios, 1982; Puyana, 1981; Robson, 1968; Simai, 1981). Although the different degrees of economic development in a geographical region is a key rationale for the formation of an integration program, it may also constrain its realization. As Estevez has put it in a book on regionalism and the New International Economic Order:

“The possibility of very intensive integration, which might modify investment patterns and contribute to the creation of conditions for an accelerated and self-sustained development, is paradoxically limited by the very condition which makes it indispensable: the differences in levels of development of Third World countries... (1981, pp. 161–162).

Writing on the experience of the Andean Group, Palacios, too, found that “...precisely the same factors that made political integration so necessary also made it less likely: the great differences in economic development...” (1982, p. 164). Palacios claims that when income is low, welfare limited and resources scarce, distribution problems are likely to be more hotly contested. Also, backwash effects and clustering of industry will be more politically apparent and more difficult to resolve in smaller and poorer economies with fewer poles of growth (1982).

Because of the different levels of economic development, the nine member countries may have different objectives for industrial development. This could generate national aspirations with regard to integration that are liable to create conflicts of interest among the SADCC members.

The weaker members of any group may fear that they will be overwhelmed by the more developed members (Chidzero, 1975; Miljan, 1981). Compensatory measures (favorable tariff arrangements and fiscal compensation) do not fundamentally rectify the problem of uneven economic development (Axline, 1977; Penaherrera, 1978; UN, 1986). As Ravenhill (1979, 1986) has demonstrated in his writings on the East African Community, even if the compensa-
tion mechanism works smoothly, monetary compensation is inadequate because recipient countries lose customs revenue and the various employment and multiplier effects associated with the establishment of industries. Adopting an industrial location policy that ensures equitable distribution of benefits is the most promising way to overcome the different levels of industrialization and the apprehensions of the weaker members.

Given member states with dissimilar levels of industrialization, policy makers in previous regional integration programs in Africa and Latin America have been aware of the need to favor less developed countries. In his extensive writings on economic integration in the Third World, Bela Balassa (1961, 1978) has shown that attempts to implement industrial location programs often failed, however, because the more developed countries considered the costs resulting from allocating industries according to equilibrium criteria to be too high. Loss of foreign investment or a single manufacturing concern to a neighboring country has serious consequences for local employment, the balance of payment, and, not least, political support. The 1964–65 Kampala–Mbale Agreements of the East African Community included an agreement on the allocation of certain major industries. Shortly after the agreements were formulated, however, Kenya (already earning disproportionate gains from the Community) unilaterally withdrew its commitment to support the allocation of a vehicle assembly plant to Tanzania. Kenya's decision was prompted by a group of local and foreign investors which offered to build a plant of this type in Kenya (Ravenhill, 1979).

2.2.2. Different Development Perspectives

In addition to potentially conflicting perspectives due to uneven levels of development, scholars of regional integration have found that different ideologies manifested in differing national development strategies may also represent an important constraint on regional integration (Haarlov, 1986; Okolo, 1985; Penaherrera, 1978; Thompson, 1985; UNIDO, 1985).

Differing national development strategies may sharply hamper industrial cooperation in the SADCC region. In Angola, Mozambique, Tanzania and Zambia, a substantial proportion of enterprises are under various forms of government ownership and state institutions undertake extensive economic planning. In the other five SADCC states, production and decision-making take place mostly in the private sector. Differences in powers, approaches and organization may affect possibilities for cooperation between parastatal and private enterprises in separate countries. Further differences may arise from the influence of foreign companies over investment priorities and choice of technology, degree of commitment to small industry development programs,
and in priority given to basic needs over elite consumption goods (Ghai, 1975; UNIDO, 1985).

Competing ideologies may come to the fore over various issues. Especially critical are the decisions that must be made on the allocation of industries sponsored by SADCC. Which will be the paramount consideration, regional equalization or short-term "economic efficiency? Okolo's work (1985) on the Economic Community of West African States has shown that governments, guided by different ideologies, might also clash over questions on foreign trade planning and the role of state- and other oligopolistic trading enterprises. Leys and Tostensen argue that the present political heterogeneity among the SADCC members suggests possibilities of open friction (1982). In her book "Challenge to Imperialism" (1985), Carol Thompson stated outright that the main obstacle to SADCC's cooperation will be the contradictory social relations of production within and among the participating states.

Severely limiting constraints of a political and ideological nature may arise when the participating states see integration (or coordination) primarily as a means to accelerate economic modernization (Palacios, 1982). An overarching emphasis on the economic effects of integration often means that the political difficulties inherent in any integrative scheme are ignored. SADCC's "new phase of cooperation" requires the members' continued attention to the problems that may emerge as a result of their ideological differences.

Finally, authors on regional integration agree that nationalism is a major obstacle to integration (Estevez, 1981; Monetar, 1981; Mytelka, 1979; Okolo, 1985; Saunders, 1983). In a review of several Third World integrative schemes, Mytelka concludes that they have been created to enhance national capacities and not those of the region as a whole (1975). She also points out that there is a tendency to evaluate the benefits from integration strictly in terms of immediate national gains. National economic competition spurred by nationalism obviously colors the possibilities of regional integration.

While they are committed to progress through national action, the SADCC states are aware of the pitfalls of nationalism. As president Masire of Botswana put it:

"We do not allow short-term national interests to interfere with the achievements of regional goals which are essential to our survival... Perhaps the most dangerous [of the forces which make cooperation difficult] is our habit of seeing our development plans in isolation... It is hard for us to think regionally" (Anglin, 1983, p. 709).

2.2.3. The Need for Minimum Threshold Agreements

Precisely because different degrees of economic development and the various ideological divergences must be taken as given, member states in regional
schemes cannot afford to label them as "impossible" and set them aside. Despite their differences, existing similarities among the SADCC states may provide a basis for the implementation of a minimum threshold of institutional changes. For example, (1) in all, the state intervenes to some extent in shaping industrial policies; and in almost all, the state has established some industries; (2) in all, the state exercises foreign exchange control (SADCC, 1987) and in most, the state has introduced import licensing which could be redirected to support regional trade and payments; and (3) in most, the state intervenes to some degree in the foreign trade sector, e.g. through marketing boards, price controls, or state trading agencies.

In short, it is imperative that the SADCC states accord the highest priority to formulating and implementing agreements on the minimum threshold of institutional change required to achieve industrial cooperation. The institutional changes should rest on mutually beneficial criteria and provide a base for step-by-step formulation and implementation of a regional industrial strategy. In this study, this will be explored in regard to the possibility of building an integrated regional tractor industry.

2.3. Major Obstacles to Regional Industrial Coordination
The remainder of this chapter explores the literature relating to the major obstacles most authors identify as hindering regional integration: transnational corporations and banks; national institutions; and donor policies and institutions.

2.3.1. Transnational Corporations and Banks
It is often assumed that regional economic cooperation automatically results in an expansion of the domestic market, and hence production structures, which will benefit the member states. But, as Mutharika has expressed it in "Transnationals in Southern Africa" (1986, p. 59):

...in a regional integration scheme, the state itself usually does not undertake production, marketing and distribution in the agreed joint industries. Rather, it leaves these activities to private entrepreneurs, who are almost invariably transnational corporation affiliates.

The transnational corporations' pervasive domination over trade, production, and finance reduces the ability of individual states to pursue either nationally- or regionally-oriented development policies. Many theorists thus agree that, given their own global perspectives, transnational corporations constitute a potential obstacle to the realization of regional integration.
Whether the literature concerns separate nations or regional cooperation schemes, it suggests that the dominant presence of transnationals has several potentially adverse effects on their Third World host countries. Transnationals may: (1) drain away investable surplus; (2) oppose capital goods industries; (3) promote capital-intensive technologies; (4) oppose corrective types of integration; (5) aggravate uneven development; (6) increase the brain-drain; and (7) divide participants in integration schemes.

Before the discussion of the transnationals' possible adverse effects on their host countries, it would be unfair not to mention that they can also contribute to the development process. However, unless they are directed to meet certain criteria regarding: transfer of technology, appropriate technology, training, education, working conditions and rights of labor to organize, transnationals are unlikely to measure up to the needs on their own initiative. In the view of most transnationals, these requirements, which fall under the heading of human resource development, impose extra costs on production. In a long-term development perspective, however, their importance is critical. Therefore, to ensure that they play a positive development role, governments must insist that transnationals perform according to certain criteria in these respects.

**Domination in trade and production**
Because of the ability and opportunity of the transnationals to think in terms that extend beyond any single country, governments find them hard to control. Unfortunately for the countries and regions that host them, transnationals seek to maximize global profits and not local welfare (Thomas, 1974). As Raymond Mikesell expressed it in 1971 (quoted in Sklar, 1975, p. 187):

> Integrated firms are interested in maximizing after-tax profits of the parent firm and not the before-tax net revenues of individual producing affiliates. Instead they may deliberately sacrifice net earnings in one affiliate in favor of larger earnings for another.

Transnationals may seek to minimize declared profits in SADCC member states in order to shift their tax liabilities to tax havens abroad.

Transnationals throughout the Third World siphon out significant amounts of profits, mainly by means of transfer pricing. Any aspect of intra-corporate interchange can be set up as if it were a transaction. Transfer pricing may thus be done in the following ways: services, general manage-
ment, head office expenditures, meetings, insurance, blue prints, capital goods maintenance, research and development, and loans (Murray, 1981). Transfer pricing is ultimately used to maximize consolidated after-tax global profits, but it can also be applied to maximize government subsidies to transnational corporate ventures, or to minimize local tax payments.\textsuperscript{20}

Writing on transnational corporations, Mytelka (1979) and Barnet and Muller (1974) provide substantial evidence on transfer pricing in Latin America. To get a glimpse of the true profits earned by transnationals, and the importance of transfer pricing, Vaitos studied 15 wholly owned Latin American drug subsidiaries of U.S. and European-based transnationals. His pioneering study found that the effective annual rate of return on declared net worth of the subsidiaries ranged from a low of 38 percent to a high of 962 percent, with an average of 79 percent. Yet the same year these firms' average declared profits submitted to the Colombian tax authorities was a mere 6.7 percent (1972). The findings of these Latin American observers are confirmed by scholars on Africa. Kirkpatrick and Nixon estimate that transfer pricing in Africa may double the real value of declared profits (1981). Stoneman estimates over-invoicing of imports into all developing countries at 7.5 to 12.5 percent, and reckons that exports are under-invoiced by rather more. "If these figures hold for Zimbabwe, the country could be losing as much as USD 100 million annually on both exports and imports" (Stoneman, 1986).

If similar amounts of investable surpluses are drained out of the other SADCC states as a result of transfer pricing, then transnationals rob the Southern African economies of sorely needed investable surpluses generated from production in the region.

The trade policy of transnational subsidiaries is usually determined by marketing considerations of the parent firm or by political conditions imposed upon it by the parent government (Streeten, 1972). It is almost superfluous to state that companies prefer to purchase materials from industrial affiliates within their own groups or from suppliers in which their parent companies have interests (Sklar, 1975).\textsuperscript{21} When transnationals are in control of foreign trade, it is obvious that they reinforce the dependency on imports, rather than encourage and utilize local suppliers. Even when transnationals do invest in manufacturing plants in the Third World, technology transfer contracts frequently forbid transnational subsidiaries from exporting (Kirkpatrick, 1981; Mytelka, 1979).

In their work on industrialization strategy, Friedland (1985) and Seidman (1987) demonstrate that in some Third World countries, transnational corporations oppose development of capital goods production for reasons of competition. Transnationals have, however, invested heavily in capital goods
production in regional sub-centers like South Africa. Therefore, they may oppose capital goods production in the SADCC states. In view of the importance of capital goods in the development of industrial economies, it is obvious that there are growing tensions between the national objectives of nation-states and the profit motives of transnationals (Davies, 1983). Moreover, this perspective of the transnationals clearly undercuts the SADCC states' aims to reduce dependence on South Africa and develop regional capital goods industries.

Owing to their ready access to capital and technology, transnationals tend to employ capital-intensive technology in their production units in the Third World. They not only prefer capital-intensive technology, but also employ labor-saving management techniques and practices. Their interests lie in minimizing industrial relations with a foreign labor force that may give rise to political difficulties (Streeten, 1972). This is clearly at odds with the need to create gainful employment opportunities for the swelling ranks of unemployed in Southern Africa.

**Potential opposition to regional development**

Since they derive disproportionate gains from the existing asymmetry in the Third World, transnationals may resist corrective integration (Mytelka, 1979; Sutcliffe, 1971). Okolo, writing on the experience of ECOWAS, puts this without ambiguity: "They [the transnationals] would be working against their own interests were they to encourage regional groupings that seek economic independence" (1985, p. 132). Palacios points out that if transnationals already have developed local productive capacity they are unlikely to support effective integration, as state imposed preferences for regionally sponsored projects may exclude them from existing markets (1982).

Paul Streeten (1972) long ago argued that, operating on profit maximization criteria, transnational corporations may aggravate regional inequalities. In the name of efficiency, transnational affiliates tend overwhelmingly to locate in the more developed areas (Holland, 1976). To the extent that the SADCC members are serious about "genuine and equitable regional integration," the transnationals' tendency to locate in existing enclaves may conflict with regional claims for fair shares.

As they are in a position to pay higher wages, transnationals may also contribute to the "brain-drain" of qualified people from the public sectors. (Brewster, 1975). This weakens the planning and implementation capacities of the public sector and increases the disparity in income distribution.

Transnational corporations constitute a powerful lobby group in most
countries. Owing to their superior power, they usually have an "ear" with governments. In order to achieve the most favorable investment terms, they frequently exploit their position by playing one government off against another. Further, seeking to broaden the market for their imported manufactures, they push for trade liberalization, as in a common market. This runs counter to SADCC's aims for balanced development.

The potential negative influences of transnational corporations discussed in this section seem considerable. Individual SADCC countries, however, may be reluctant to restrict the operations of transnationals out of fear that a break with them will cause damage and loss, at least in the short term. Unfortunately, as Zorn has put it: "To avoid dependence on transnational corporations requires a degree of regional integration and coordinated political will that may not currently be present in the SADCC region" (1986, p. 74).

The above discussion suggests that, to succeed, members of any regional grouping must reach mutually beneficial minimum threshold agreements (e.g. on requirements concerning human resource development) that will provide a floor under which no individual member state will arrange separate deals to attract transnational investments that may conflict with regional objectives.

**Transnational banks**

To a very large extent the literature on regional integration fails to explore the impact of the activities of foreign banks on the monetary, financial and industrial structures of host countries. Most theorists who do state explicitly that transnational banks pose a problem for regional integration only treat the issue peripherally. For example, Brewster remarked that in the Caribbean Free Trade Area (CARIFTA), official circles generally concluded that, to succeed, they would need to impose a certain degree of domestication of foreign enterprises and banks (1975). Mytelka merely referred to the Andean Group's investment code, Decision 24, which included a prohibition on any new direct foreign investment in the commercial banking and finance sectors (1979). Mutharika stated that transnational banks facilitate the outflow of financial resources, causing a severe lack of capital among integrative schemes in Africa (1981). Seidman maintains that the practices of transnational banks are likely to influence industrial investments in ways that foster uneven regional development (1987).

Perhaps most regional integration theorists fail to address the effects of transnational banks because the issue has received so little attention at the national level, where theorists dealing with transnational corporations pri-
marily limit their focus to the internationalization of trade and production. The omission of the impact of transnational banks is not really surprising for, as Germidis and Michalet have said:

...development theories do not take sufficient account of the importance of monetary and financial factors and concern themselves exclusively with models dealing with tangible elements. This concentration on productive investment means that the ways in which such investment is financed tend to be ignored. The choice of industrial sectors, the differential effects which these different sectors have on growth, employment or the balance of trade, and the priority given to industrialization models tend to result in monetary structures, operation of credit, etc. being overlooked. By implication, it is as if the monetary and financial dimension was expected to follow, automatically, the various phases of development (Germidis, 1984, p. 19).

In their studies on international banking, Khoury (1980) and Odle (1981) also find that because the preponderance of the research concentrates on transnational corporations in general, it neglects the impact on the host countries of transnational banks. Additional reasons for the scanty attention focused on the effects of transnational banks on regional integration may include: (1) the general lack of knowledge about banking institutions, fostered in part by the neoclassical focus on financial "markets" and not institutions; and (2) bank "confidentiality" which makes it essentially a detective job to gather information on the activities of transnational banks.

However, as the discussion below will show, many conclusions concerning the role of transnational corporations in regional schemes seem to have relevance to transnational banks. As in the case of transnational trading and industrial corporations, the direct and indirect problems caused by the transnational banks at the national level will likely operate also at the regional level. The remainder of this section therefore extrapolates to the regional level the discussions — implicit and explicit—in the literature relating to transnational banks’ impact on development in Third World countries.

Conventional economic theory is inadequate to explain the role of existing banks in the Third World. In a 1984 OECD study Germidis and Michalet maintained that, given the characteristics of the developing countries today, neoclassical theories are inapplicable when seeking an explanation of the operation of money and finance mechanisms in the Third World. The OECD study points out that the economic fragmentation of the Third World makes marginal choices between different types of monetary, financial and tangible assets impossible. It also stresses that the existing banking structures in the Third World reflect the theory and practice of the colonial period, namely that the banks functioned primarily to finance trade with the former colonial parent country (Germidis, 1984). The rest of this section seeks to clarify this point.
The financial institutions existing in any country play a vital role in influencing the extent and direction of development by determining the amount and distribution pattern of short- and long-term credit for the productive sectors (Seidman, 1974). However, when banks are under the effective control, not of governments, but of transnational corporations whose policies are orchestrated from overseas headquarters, it may be difficult to mobilize resources for investment in development (Mutharika, 1986). Furthermore, as the commercial banks are responsible to their short-term depositors, they are not well disposed to offer long-term investment finance. Based on a study of 12 developing countries, Germidis and Michalet concluded that the foreign banking sector played a negligible role in the financing of investment by firms in either the private or the public sector (Germidis, 1984). Following a study of transnational banks in 11 different countries, Khoury concluded that the overwhelming reason—at the present time—behind transnational banking remains trade (1980). Wai has shown that banks, in general, were responsible for only 22 percent of investment financing in Africa, compared with 50 percent in developed countries (1976). In Southern Africa the transnational banks have to date not promoted investment in the independent states, far less in regional SADCC industries. This stands in sharp contrast to the role of transnational banks in South Africa (Seidman, 1978).

Since the banks were created to facilitate trade and to siphon surpluses out of the colonies, unless their operations are changed drastically, they cannot serve as instruments to build an integrated region (Mittelman, 1981).

Because of interlocking interests in ownership and management, as well as complementary goals, transnational corporations and transnational banks do not deal with each other as strangers. Transnational firms can thus borrow from transnational banks on better terms than their host country competitors (Mytelka, 1979; Odle, 1981). This may act as a disincentive to bringing capital into the host country and thus reinforce the transnationals' ability to capture the best domestic investment opportunities (Moran, 1976).

As they control the banking sectors in Southern Africa, transnational banks are in a position to help their transnational fellows in several ways: (1) by facilitating remittance, despite exchange controls, of the profits of the corporations to their home countries or tax havens elsewhere; (2) by helping to raise capital locally for transnational corporate investments; and (3) by assisting transnationals in evading local taxes (Seidman, 1986b). The following paragraphs elaborate on these three points.

The governments' lack of effective control of foreign payments enables transnational banks to assist their corporate partners in siphoning profits from the Third World to their home countries. Although they are subject to varying degrees of exchange control and periodic auditings, in most SADCC
countries transnational banks actually implement exchange controls. Bank "confidentiality" makes it difficult to assess compliance with government regulations; however, given the governments' limited monitoring capacity, the banks doubtlessly have the opportunity to circumvent exchange controls to help their transnational fellows. A drain of investable surplus from the SADCC region obviously limits regional self-financing of the investments necessary for structural transformation in Southern Africa.

The foreign banks' tendency to favor transnational corporations has a series of potential implications for regional integration: (1) host countries are steered into the international division of labor. This may deter individual states from strengthening balanced and integrated regional development; (2) inaccessibility of investment capital may prevent local entrepreneurs from investing in government-promoted regional projects; (3) to maximize their competitive advantages, transnational banks and firms may foster dependent economic growth patterns; and (4) foreign banks are interested neither in small and medium-sized businesses nor in the rural sector (Germidis, 1984; Odle, 1981). This has tended to foster industrial concentration in a few urban areas at the national level, and may thus aggravate overall uneven regional development.

Foreign banks in any region may also be used by their parent countries as a powerful arm to wield political influence (Khoury, 1980). If a country within a group is in disfavor with the parent country of one or more of the major transnational banks, the latter may be restricted from making loans. This would complicate efforts to raise funding for regional projects. Palacios indicated that the United States government managed to influence the Central American Investment Bank to prohibit funding of regional industrial projects in the Central American Common Market (1982). As British banks with headquarters in South Africa play a key role in most of the SADCC countries, a certain amount of trouble is to be expected.

Closely related to the above, transnational banks may also be used by parent countries as conduits to strengthen oppressive regimes (Khoury, 1980). The role of transnational banks in strengthening South Africa's capacity to dominate Southern Africa clearly has implications for SADCC's efforts to attain its goals. Over the years U.S. banks have invested heavily in South Africa. U.S. bank loans to South Africa which in 1978 amounted to USD 1,641 million (Khoury, 1980) nearly tripled to reach a total of USD 4,700 million by the end of 1984 (Africa News, 20 May 1985). Until recently, the heavy influx of U.S. dollars has bolstered the South African regime and thus contributed to their capability to suppress Blacks in South Africa as well as undermining development of the SADCC states.

In summary, Third World governments often have very little effective
control over their commercial banking sectors. Transnational banks' control of national banking systems facilitates the draining away of locally generated investable surpluses and tends to thwart national development efforts. Combined, these factors may constrain SADCC's long-term endeavors to develop a balanced and integrated regional economy in Southern Africa.

Possible strategies for dealing with transnational corporations and banks

If the causes are as described, then it follows that the SADCC states must exert more effective national controls. The literature on regional integration contains very limited explicit references to strategies for dealing with transnational corporations. As could be expected in light of the discussion above, it mentions even less on ways to cope with transnational banks.

Several theorists advocate the adoption of common regional foreign investment codes. Without going into greater detail here, it may be argued that this approach has had a negligible influence on the impact of transnationals, mainly because the regional investment codes adopted have been too weak and not properly enforced. This was certainly the case in the Andean Group (Palacios, 1982).

A number of theorists propose agreement on a regional industrial location policy, in part, as a possible means to deal with transnationals (Balassa, 1978; Green, 1968; Palacios, 1982; Penaherrera, 1978). Such policies, when adopted, have faced numerous difficulties: (1) unless dictated by natural resource constraints, it was tough to get countries to agree on the location of an integration project; (2) projects were often planned without taking into account intersectoral integration, thus reducing the viability of, and maximum benefit from regional projects; and (3) the more powerful regional members have been reluctant to accept this policy on the assumption that allocation of industries to inefficient countries meant losses for the regional economy.

The Andean Group advanced a unique commitment to include multinational (joint-state) companies to implement industrial programming as a key instrument in its charter. Nevertheless, over a decade after its formation, no such company had been established by the members in any Andean country (Palacios, 1982; Penaherrera, 1978). The ASEAN group reportedly also encountered problems in their efforts to implement regional industrial projects (Gonzalez, 1981).

All this points to the importance of an overall location plan for basic industries with clearly identified mutual benefits for all participating states.

Seeking to curtail the transnationals' control over production and trade, many Third World governments have nationalized or acquired majority
ownership in previously foreign owned enterprises. However, owing to short-
tages of qualified administrators on the one hand, and the transnationals' 
proven expertise on the other, governments usually grant management con-
tracts to the transnationals. Management contracts, however, may prove to 
be as profitable to the transnationals, if not more so, than actual equity 
ownership (Zorn, 1986).

As long as they get the management contract, transnationals can gain 
much from ceding ownership to Third World states:

1. while local private or state capital finances local production and bears the risk, 
   the transnationals retain control over trade, technology and managerial exper-
tise;
2. management contracts give the transnationals an assured fixed fee without a 
   risky investment commitment;
3. pressures of economic nationalism will be diffused, making supplies from the 
   operation more reliable;
4. the problem of dealing with the labor force becomes a government responsibility;
and
5. projects become eligible for funding from aid agencies (Dinham, 1983; Girvan, 

Finally, as Makgetla succinctly stated:

Local-participation requirements worked to channel local resources into foreign-
dominated projects and to cement the alliance between local entrepreneurs and 
foreign investors. They reduced the domestic funds available for government pro-
jects, while enabling foreign investors to cut their own local expenditures, and so the 

Similarities in the SADCC states' policies may help to reach agreements on 
the minimum threshold institutional changes needed to control transnational 
corporations and banks. The SADCC states could initially take a joint stand 
to ensure that a transnational locating in a member country be required—
within a reasonable time—to increase regional production of inputs for a 
given line of production. This kind of transnational investment might lead to 
greater vertical integration, contributing to regional development. In general, 
however, while some transnationals could benefit from access to a regional 
market, the SADCC states must bargain to ensure that the region also 
benefits.

2.3.2. The Inherited National Institutions

When heads of state decide to launch new regional cooperation schemes, like 
the SADCC, governments must discover ways to ensure that institutions 
conform. For this, law and the state constitute society's principal means of 
influencing the relevant actors (Seidman, R.B., 1978). The state can only be a
useful instrument, however, if the ruling party (or parties) is committed to restructure the economy to meet the needs of the majority of the population. The relation of the state to the class structure cannot be taken as given. The class nature of the state varies with the changing social formations; there is a dynamic interaction. The class bases of the SADCC states vary considerably and most have some degree of "relative autonomy" from the interests of the dominant classes.

Within SADCC the state has a comparatively high degree of relative autonomy in Angola and Mozambique. The substantial incomes generated by the U.S. Gulf Oil Company has permitted Angola to gain relative autonomy because of the split between the U.S. state and Gulf Oil. In Mozambique the state attained some relative autonomy when it nationalized foreign assets after independence. Also contributing to the state's relative autonomy was the support and resources Mozambique received from socialist countries. At the other end of the scale is Botswana, where the relative autonomy is limited because the dominant class—composed of foreign capital, large cattle ranchers, free-hold farmers and petty bourgeoisie—use the state to its advantage. (Thompson, 1985). Overall, as most states have a measure of relative autonomy, the SADCC members may have the capability to forge minimum threshold agreements despite the different characters of the states.

Like state structures everywhere, however, the nation-states of the SADCC group contain contradictory features. Despite the heads of state's declared support for SADCC policies, the implementing institutions—because of their inherited input, conversion and feedback processes—often do not carry out policies to support them. As Allison points out:

The 'maker' of government policy is not one calculating decision-maker but is rather a conglomerate of large organizations and political actors (1971, p. 3).

"Large action" (government policy), he continues, therefore results from:

...innumerable and often conflicting smaller actions by individuals at various levels of bureaucratic organizations in the service of a variety of only partially compatible conceptions of national goals, organizational goals, and policy objectives (1971, p 6).

A government, therefore, cannot be viewed as a monolithic actor; its behavior may have to be understood less as deliberate choices and more as outputs of large organizations functioning according to standard patterns.

In addition to the intra-state contradictions, most scholars on regional integration agree that the institutional bias in favor of national efforts constrain regional coordination (Estevez, 1981; Robson, 1968; Monetar, 1981; Saunders, 1983). As Green and Seidman predicted more than 20 years ago in "Unity or Poverty? The Economics of Pan-Africanism" (1968):
Regional integration theorists generally agree that nationalism is inherent in all nation-states but particularly in recently independent countries as those of the SADCC group. Backed by decision-making structures and criteria geared to national, not regional, goals, nationalism may thus function as a major obstacle to regional integration (Mutharika, 1981; Mytelka, 1979). Within SADCC’s approach to integration—namely coordination of national projects—pressures of nationalism have led to project proposals that are chiefly concerned with national, rather than regional, needs. The institutional bias against the design of truly regional projects constitutes a serious hindrance to the implementation of a regional industrial strategy.

The remainder of this section shows that the tendency to adopt national, rather than regional, perspectives may operate at the levels of: economic planning; controls on foreign investment; trade restrictions; and banking regulations.

The economic planning institutions in most countries focus primarily on the design and implementation of national investment programs. Their internal regulations, procedures, functions and staffing tend to exhibit an inherent bias in favor of national projects. The personnel of a regional scheme may find it difficult to alter these constraints. As Balassa has pointed out:

If a regional bureaucracy exists, it is most often inadequately staffed, lacking both the political power and the financial resources to constitute an effective counterpart to nationally-oriented institutions (1978).

Furthermore, as Schaffer expressed it: "Bureaucracies are designed to look after the machine, not to change it" (cited in Seidman, 1974b, p. 613). The strength and bias in favor of national planning institutions, therefore, make it difficult to plan and implement a regional industrial strategy.

To overcome this problem, the SADCC members should pay particular attention to the inherent national biases in the formulation and implementation of SADCC-sponsored projects. Alternatively, they may need to establish new regional institutions as required for particular projects.

Most integration theorists agree that member states should forge a common regional approach to foreign investment for several reasons: (1) stemming from the difficulties in mobilizing domestic resources to finance development, states resort to cut-throat competition in offering incentives to attract foreign investment (Mutharika, 1986). This competition obviously reduces the benefits that could be gained from foreign investment by the individual countries as well as the region as whole; (2) in the absence of agreements on
the rules of foreign investment, transnational corporations are much better equipped to take advantage of a regional market (Mytelka, 1975); and (3) without a uniform policy on investment, it is difficult for member states to avoid wasteful duplication of new investments, and it is hard to attain the level of increased industrial complementarity necessary to reduce dependence (Thompson, 1985).

Early agreement on a common investment code is therefore vitally necessary. This type of mutually beneficial minimal agreement does not require that member states adopt a broader similarity of ideological commitment. Mytelka argues cogently:

Neither regulation of direct foreign investment nor of technological transfer presupposes the espousal of a socialist development option... the logic of the integration process as it unfolds among countries in the Third World makes the regulation of direct foreign investment and technology transfer a necessity, regardless of ideology (1979).

In the area of trade, the SADCC members have state marketing enterprises and some have state importing firms. But these usually operate according to national, not regional, criteria. The realization of regional industrial potentials will require coordination of these entities and criteria.

Typically, tariffs, preferences and import licenses aim at protecting national enterprises from competition. They perpetuate goals of "self-sufficiency" and hinder specialization on a regional basis. Further, they often lead to inefficiency and contribute to the overvaluation of local exchange rates. Above all, these trade restrictions constitute a serious constraint on intra-regional trade (Chr. Michelsen Institute, 1986; SADCC 1986b; Tostensen, 1982).

This is not to argue that all trade restrictions should be eliminated at once, as this would primarily increase the marketing power of foreign-owned subsidiaries at the expense of locally-owned firms (UNIDO, 1985). Furthermore, it would strengthen industries in the more developed countries within the region (e.g. Zimbabwe) at the expense of those in the less developed countries. The existing differentiated tariff structures, however, are far from appropriate.

The literature suggests the following changes in regional trade institutions in order to facilitate complementary industrial development: (1) agreed tariff protection against external suppliers for strategic regional projects; and raw materials, intermediate goods and fuels used by these; (2) appropriate intra-regional barter or counter-trade arrangements to ensure guaranteed markets, at fixed prices, for the goods produced by strategic regional projects; (3) requirements that the public sector purchase certain designated products from neighboring states, when available; (4) import licenses should be
granted to importers of non-regional goods only when such goods are not available within the region at relatively competitive prices (Green, 1968).

It is obviously extremely difficult to reach an agreement on this kind of new approach to trade regulation. Probably, the best way to achieve a facilitating tariff structure would be to initiate a step-by-step replacement of the existing tariff regime as new regional industries are established and the need is felt.

In the area of banking, most states' central banks focus primarily on national interests. Where transnational corporations are the main actors in the economy, the central banks may cater for their needs in policies regarding foreign exchange allocations, interest rates, profit repatriation, and so forth. The national policies set or implemented by the central banks may be incompatible and even competitive between the members of any regional scheme. This would make difficult cooperation to finance joint regional projects. Finally, the presence of separate national currencies that are non-convertible within a region makes intra-regional trade extremely difficult, especially since central banks typically require that settlements be made in hard currencies (Ezenwe, 1983). The scarcity of hard currency, commonplace in the Third World, often results in limited export credit facilities which further thwarts the possibilities of trade within a region.

2.3.3. Donor Policies and Multilateral Institutions

By and large, donor countries grant aid bilaterally, not to regional units. Foreign donors have their own agendas for their aid programs. The role of foreign aid varies, therefore, depending on the ideology, strategic and economic interests of the donor country.

Aid's contradictory role in SADCC

To date projects presented under the SADCC umbrella have relied extensively on donor funding. In part this may reflect the failure of SADCC countries to agree on how to accumulate and reinvest locally generated surpluses according to a regional plan. However, the heavy reliance in general on external finance has a series of possible implications: (1) the continued financial support from donors might breed a certain degree of complacency with respect to the need to achieve a higher level of integration (Chanda, 1988). In other words, as long as external funding is available, there is little pressure to take the necessary next steps in the coordination process (i.e. to forge essential minimum threshold agreements) to achieve "genuine" regional integration; (2) donor aid packages often compete with present and future manufacturers of capital goods in the SADCC region (UNIDO, 1985); (3) the sectoral
distribution of donor funds does not always agree with SADCC's sectoral priorities. This may complicate SADCC's endeavors to develop certain sectors (Friedland, 1985); (4) donor aid might be divisive. The United States, for example, has stipulated that its grants may not be used for projects in Angola, Mozambique or Tanzania (African Business, April 1, 1986); (5) the tendency to offer tied loans may foreclose opportunities to buy from neighbors as well as force recipient countries to pay more than the minimum international price for goods purchased (Little, 1970); and (6) if the aid is not "tied," donors often insist on least-cost purchasing which unavoidably gives the edge to transnational suppliers, in Southern Africa, especially to companies based in South Africa (UNIDO, 1985).

By providing aid to the SADCC countries, donors can use SADCC as a means to attenuate international criticism of their relationships with South Africa (Leys and Tostensen, 1982). Furthermore, some observers posit that the EEC and the Commonwealth see SADCC as a way to draw Marxist Mozambique and Angola into a pro-Western organization (Hanlon, 1986a, Mbeki, 1987).

It may be argued that the policies toward SADCC of some of the OECD countries, particularly the United States, contradict their professed support for SADCC. The United States openly gives assistance to Angolan UNITA rebels, and indirectly aids the South African-sponsored bandits in Mozambique, thereby thwarting SADCC's development programmes. At another level, the EEC's policies appear to contradict those of the United States; while the EEC gives considerable support to the SADCC initiative, the United States has at best shown meager interest.

**Multilateral agencies**

The policies of multilateral institutions, especially the International Monetary Fund (IMF) and the World Bank, have a significant impact on the SADCC program.

Several SADCC countries are heavily indebted to the IMF, but they have little influence on the policy-making of the IMF. Since votes are distributed in rough proportion to countries’ gross national product, the eight SADCC countries that are members of the IMF (Angola is not) cast less than one percent, combined, of total IMF votes. In contrast, since most IMF decisions require an 85 percent vote, the United States, holding 20 percent of the votes, has effective veto power (Girling, 1985).

The IMF lends member countries funds to offset international payments difficulties. When funds are requested in excess of a country's quota, the IMF usually insists that, as a precondition for further assistance, it make
certain "reforms.". In line with developed country orthodoxy, the so-called structural adjustment programs typically include requirements to:

1. Increase government austerity, i.e. cuts in government employment, elimination of subsidies, and so on.
2. Reduce government intervention in the economy.
3. Freeze wages.
4. Attract foreign investment by reducing taxes and permit greater profit remittances.
5. Raise the bank rate to reduce inflationary pressures.
6. Devalue currency (Kalyalya, 1987).

If a government rejects the IMF's conditions, the IMF may refuse assistance. Furthermore, most international banks follow the IMF's lead.

These conditions may have profound implications for efforts of SADCC member states to achieve regionally coordinated measures. First, especially promoted by the United States, the IMF "reform" measure calling for reduced government intervention could restrain SADCC member governments from agreeing to implement state measures to fundamentally restructure the regional economy.36 Second, in several member states high loan repayments to the IMF significantly reduces the availability of funds for development.

The World Bank, though often perceived as a development agency, is nonetheless a bank. It makes long-term loans to developing countries, mainly for projects in infrastructure and large scale export-oriented agriculture (Ayres, 1983). Although it has always encouraged market-oriented systems, around 198037 the World Bank began to press for structural adjustment programs akin to the IMF's loan conditions. The implications for the attainment of SADCC's goals for regional coordination are therefore likely to be similar to the effects of IMF conditionality.

This discussion indicates that the SADCC members need to critically examine, and agree to accept or reject, aid programs and loans in terms of their consequences for national and regional objectives. Furthermore, the SADCC states might eventually be in a position to bargain collectively with the IMF and the World Bank to lessen the negative impact of their structural adjustment programs.

In summary, the literature suggests that, for regional coordination schemes to succeed, member states need to reach minimal mutually beneficial agreements in the areas of transnational corporate investments, banking, changed national institutional policies, and donor aid.

2.4. Implications for Tractor Production in Southern Africa
The identification of these potential hindrances to efforts to build regionally
coordinated industries suggest several hypotheses to explain SADCC’s failure to implement a vertically integrated tractor industry.

Current tractor manufacturing in Southern Africa remains a far cry from that which SADCC has explicitly sought to create over the last six years. Lacking any significant local production, the SADCC states still depend almost entirely on imports to meet their tractor needs. They spend substantial amounts of scarce foreign exchange importing an extraordinary diversity of tractors, most of which are inappropriate to the needs of the majority of farmers. The tractor graveyards which dot Southern Africa’s landscape testify to the inability of individual states to import or manufacture locally the spare parts needed to maintain a fleet consisting of an excessive number of different tractor makes.

Drawing on the theoretical discussion in the literature reviewed above, the remainder of this chapter presents an hypothesis to explain this situation. Taking as given the different degrees of economic development and different ideologies, it formulates a set of interlinked propositions relating to: (1) transnational corporations; (2) banks and finance; (3) national institutions; and (4) donor policies and institutions. If they adequately identify the causes of the difficulties that have hindered implementation of SADCC’s perspective of building an integrated regional industry, they also suggest the range of possible strategies that SADCC might adopt to overcome them.

2.4.1. Transnational Corporations in SADCC’s Tractor Industry
In the absence of a well-functioning tractor industry in the SADCC region, it seems likely that a range of foreign transnationals are competing to sell their tractors on the SADCC market. This would imply that a wide range of different tractor makes, designed for the farming conditions in Europe and North America, are sold in the region. Local entrepreneurs probably find it hard to compete with the international tractor companies which, in turn, prefer to import tractors and spare parts from their own affiliates overseas.

2.4.2. Banks and Finance Policies Misallocate Regional Surpluses
To the extent that the banking sector in the SADCC region is dominated by transnational banks, one would expect that the available credit goes primarily to trade financing. Transnational banks are also likely to favor their corporate clients vis-a-vis local entrepreneurs. Although funds may be available locally, the inaccessibility of investment capital may prevent local entrepreneurs from investing in government-promoted regional projects like a tractor industry.
2.4.3. National Institutions

The separate national state structures constitute the only instruments through which member countries can enforce measures to implement SADCC policies as those required to build a regional tractor industry. Yet several aspects of the inherited national governmental institutions are likely to inhibit the efforts to realize SADCC's plans for tractor manufacture: (1) as the national economic planning institutions are set up to pursue national goals, they are unlikely to foster a regional approach to tractor manufacture; (2) the differing national investment codes seem inadequate to control trans-national corporations in the tractor business in ways likely to promote balanced regional development; (3) the existing trade restrictions and trade agreements tend to hinder the free movement of tractor components and parts from producers within the SADCC region to designated tractor assembly lines; (4) the uncoordinated policies of the central banks in the SADCC region suggest various difficulties in financing tractor projects and expanding intra-regional trade in tractors and components.

2.4.4. Donor Policies and Institutions

Some aspects of the donors' current practices appear to run counter to the development of regional self-reliance in tractor production: (1) because they add to the diversity of tractor makes, assembly kits obtained via aid arrangements with different countries may block SADCC’s aims to standardize and produce its own tractors; (2) the types of tractors introduced via aid tend to reinforce the use of inappropriately sophisticated tractors; and (3) the donors' practice of granting aid to individual countries as opposed to groups of recipients probably reinforces the tendency to establish national, not regionally oriented tractor projects. Finally, IMF and World Bank "structural adjustment programs" could reduce the prospect for a coherent tractor industry in the SADCC region. Their insistence on reduced government intervention and the further opening of local economies to the international market forces seem to contradict efforts to use national and (possibly) regional state institutions to build a regional tractor industry.

The remaining chapters investigate the evidence relating to this hypothesis. Chapter Three describes the unsatisfactory tractor situation in Southern Africa and the relative ineffectiveness of SADCC's efforts to deal with it. On the basis of this and further evidence, Chapter Four will examine the validity of the above propositions. Based on the findings, Chapter Five will present proposals for solutions in the form of minimum threshold agreements required to overcome the constraints identified.
3. Tractors in Southern Africa: High Demands and Low Prospects

This chapter gives an overview of the present tractor situation in Southern Africa and a description of the SADCC members' attempts to achieve regional self-sufficiency in tractor production. The present status of the regional tractor industry demonstrates that the tractor case is a good example of the general, and widely accepted, proposition; namely that small economies cannot easily build integrated basic industries alone. As this chapter shows, the tractor industry in Southern Africa is characterized by: (1) external dependence; (2) lack of standardization; (3) lack of linkages between the tractor projects and with the industrial sectors in general; and (4) capital intensive operations. In a nutshell, these are precisely the problems that regional coordination should help to overcome.

3.1. Tractor Use in the SADCC Region

As in most developing countries, the level of agricultural mechanization is low in Southern Africa. SADCC documents call the level of tractorization "very low"; FAO and UNIDO have characterized it as "under-investment" and "under-equipment" (SADCC, 1984a). In 1980, the SADCC region obtained from tractors only 6 percent of the total power inputs in agriculture, the bulk coming from human labor (84%) and draught animals (10%). In contrast, in Latin America tractors contribute 19 percent (Kinsey, 1986).

To produce cereals or cash crops in the SADCC region, various types of middle- and large-sized farms use tractors: (1) large private farms; (2) some family farms of more than 20 hectares; (3) private, mixed or state agro-industrial units; and (4) state farms and production cooperatives (SADCC, 1984a). 1982 estimates for Zimbabwe suggest that large-scale commercial farmers owned 76 percent of the tractor fleet, and small-scale commercial farmers and state farms owned 24 percent (Kinsey, 1986). Tractor ownership varies depending on the political economy of the country in question. At prices ranging from approximately USD 3,000 for the "Tinkabi" to nearly USD 100,000 for John Deere's model 4650, costs are prohibitive for the vast
majority of smallholders. However, their capacity to purchase them may in part be increased by augmenting the supply of small tractors.

SADCC estimates the regional stock of tractors to number between 56,000 and 59,500 units (SADCC, 1983). FAO puts the figure for 1982 at 68,440 tractors (FAO, 1986). Table 3.1 shows the relative degree of tractorization as well as the uneven distribution of tractors between countries.

The average number of hectares of arable land per tractor in SADCC was 366; compared to India's 328, Brazil's 180, Peru's 185, South Africa's 71, and Denmark's 14.

Table 3.2 shows SADCC's own estimates of current tractor imports and demand, as well as the regional demand projected for the late 1980s (1987–90).

There are several reasons to believe that SADCC's tractor demand analysis is inadequate. First, if the figures for present imports in SADCC's own demand—supply analysis are added up, the present demand would be less than present imports. When the figures are added correctly, as shown in Table 3.2, the current demand exceeds tractor imports by about 50 percent.99

Second, SADCC's estimates for current demand are based on the so-called "static", or short-term effective demand, i.e. that which is backed by cash. Although SADCC figures for the likely demand by the late 1980s represent an increase over the current demand by 75 to 94 percent, this, too, seems based on the static demand since it is estimated on present import levels, UNIDO/FAO forecasts, tractor life and replacement rates, long lead time associated

### Table 3.1 Tractor Distribution in the SADCC Region, 1982

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of Total Number of Tractors(a)</th>
<th>Hectares of Arable Land/Tractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>17</td>
<td>281</td>
</tr>
<tr>
<td>Botswana</td>
<td>4</td>
<td>604</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2</td>
<td>199</td>
</tr>
<tr>
<td>Malawi</td>
<td>6</td>
<td>1,848</td>
</tr>
<tr>
<td>Mozambique</td>
<td>12</td>
<td>487</td>
</tr>
<tr>
<td>Swaziland</td>
<td>5</td>
<td>46</td>
</tr>
<tr>
<td>Tanzania</td>
<td>12</td>
<td>220</td>
</tr>
<tr>
<td>Zambia</td>
<td>8</td>
<td>1,096</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>34</td>
<td>130</td>
</tr>
</tbody>
</table>

a) Percentage shares are calculated from Table 4.1, page 325, SADCC (1984a). Sources: SADCC (1984a) and FAO (1986).
Table 3.2 SADCC Tractor Demand–Supply Analysis

<table>
<thead>
<tr>
<th>Country</th>
<th>Present Average Imports per annum</th>
<th>Present Estimated Demand per annum</th>
<th>Likely Demand Late 1980s per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>700–800</td>
<td>1,000</td>
<td>2,000–3,000</td>
</tr>
<tr>
<td>Botswana</td>
<td>200</td>
<td>200–250</td>
<td>400–500</td>
</tr>
<tr>
<td>Lesotho</td>
<td>125</td>
<td>100–150</td>
<td>250–300</td>
</tr>
<tr>
<td>Malawi</td>
<td>250–300</td>
<td>300</td>
<td>350–400</td>
</tr>
<tr>
<td>Mozambique</td>
<td>400–500</td>
<td>700–800</td>
<td>1,500</td>
</tr>
<tr>
<td>Swaziland</td>
<td>200</td>
<td>200–300</td>
<td>500</td>
</tr>
<tr>
<td>Tanzania</td>
<td>300–400</td>
<td>800–1,000</td>
<td>1,500–2,000</td>
</tr>
<tr>
<td>Zambia</td>
<td>700–800</td>
<td>1,000</td>
<td>1,500–2,000</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1,200</td>
<td>2,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,075–4,525</strong></td>
<td><strong>6,300–6,800</strong></td>
<td><strong>11,000–13,200</strong></td>
</tr>
</tbody>
</table>

Note: Table 4.1, by SADCC, does not show a total for present average imports. The total range 4,075–4,525 is obtained by adding the present imports for the nine states.

SADCC’s own table shows figures for present estimated demand at 3,300–4,000. When added up, however, current demand totals 6,300–6,800, as shown here; that is, 70 percent more than the SADCC total estimate.

Similarly, when SADCC’s figures in table 4.1 for likely demand in the late 1980s are added up, the upper range should be 13,200, and not 13,700 as stated.

Source: Table 4.1, page 325 (SADCC, 1984a).

Table 3.3 Agricultural Population per Tractor and Income

<table>
<thead>
<tr>
<th>Country or Region</th>
<th>Agricultural Population per Tractor (a)</th>
<th>GNP/Capita USD (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SADCC (c)</td>
<td>1,435</td>
<td>339</td>
</tr>
<tr>
<td>India</td>
<td>938</td>
<td>260</td>
</tr>
<tr>
<td>Peru</td>
<td>405</td>
<td>1,000</td>
</tr>
<tr>
<td>Brazil</td>
<td>105</td>
<td>1,720</td>
</tr>
<tr>
<td>South Africa</td>
<td>28</td>
<td>2,340</td>
</tr>
<tr>
<td>Denmark</td>
<td>2</td>
<td>11,170</td>
</tr>
</tbody>
</table>

a) 1980 figures for population share in agriculture, and 1983 figures for country tractor stocks.
b) 1984 figures.
c) Weighted average; 1980 data.

Sources: FAO (1985); Haarlov, 1986b; SADCC (1986d); World Bank Development Reports.
Table 3.4 Agricultural Population per Tractor and Income, SADCC

<table>
<thead>
<tr>
<th>Country Cluster</th>
<th>Agricultural Population per Tractor</th>
<th>GNP/Capita USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique Malawi Tanzania</td>
<td>2,300–1,457</td>
<td>148–210</td>
</tr>
<tr>
<td>Angola Zambia Lesotho</td>
<td>840–530</td>
<td>440–530</td>
</tr>
<tr>
<td>Zimbabwe Swaziland Botswana</td>
<td>279–174</td>
<td>740–910</td>
</tr>
</tbody>
</table>

Sources: same as Table 3.3

with setting up a tractor manufacturing plant, and agricultural modernization (SADCC, 1984a). Hence, although a measure of structural transformation is inherent in SADCC's Programme of Action, SADCC's demand projections hardly reflect the potential, or "dynamic" demand that this might create. On the assumption that structural economic transformation would lead to increased per capita incomes, Table 3.3 may provide a clue to arrive at a better indication of the long-term demand.

With the exception of India — which has launched a comprehensive tractor program — Table 3.3 shows a clear correlation between per capita incomes and the ratio of agricultural population to tractors. As per capita incomes rise, the number of farmers per tractor fall dramatically. As Table 3.4 shows, even within the SADCC family, when member states are grouped in three clusters according to per capita incomes, the trend is apparent.

It follows that increasing per capita incomes in the SADCC region, brought about by structural economic transformation, are likely to result in higher demands for tractors. Over a 15–20 years period, as materials, engineering and machinery capacities develop—in part induced by the growth of the tractor industry itself—the demand for tractors is likely to multiply.

Finally, SADCC predicts the size-mix of the estimated tractor demand in the late 1980s to be:

Above 50 horse power: 70 percent (7,700–9,600 units p.a.)
Below 50 horse power: 30 percent (3,300–4,100 units p.a.).

SADCC offers this prediction, without further comment, on the basis of
"holding patterns" in Southern Africa (SADCC, 1984a). Yet, in the same document, SADCC foresees a distinct trend towards increased usage of smaller sized tractors, around 30–35 HP. It may be surmised that SADCC’s estimates assume that agricultural modernization will proceed and in some of the member countries, particularly Tanzania and Mozambique, farmers will seek to acquire small tractors to utilize the vast areas of previously unused land. Whatever the rationale, given SADCC’s recognition of the increasing importance of smaller sized tractors, it is striking that their size-mix projections and consequent tractor plans do not reflect this.

SADCC is entirely dependent on imports of tractors, either in semi knock-ed-down condition or fully built up. The foreign exchange cost of importing the annual average of 4,075–4,525 tractors suggests the key argument for local production. Using an average import cost per tractor of USD 10,250 (based on data for Zimbabwe) SADCC member states probably spend around USD 45 million a year in foreign exchange to import tractors. By 1990 the annual cost in scarce foreign exchange of meeting the estimated demand of 13,700 tractors could total USD 140 million, in 1984/85 prices.

The SADCC countries import large numbers of different tractor makes. In Zimbabwe, for example, there are no less than 21 different tractor makes in operation (Interview, Commercial Farmers Union, 15/10/86). It can be gleaned from papers from the 1983 SADCC conference in Maseru (Lesotho) that Tanzania has imported a minimum of 8 different tractor makes, and that Mozambique imports tractors from at least 6 different countries: East Germany, Soviet Union, Romania, Bulgaria, Brazil, and United Kingdom. The Maseru papers also state that it is not uncommon to find over a dozen makes of tractors being imported into many of the SADCC national markets (SADCC, 1983).

The excessive diversity in tractor makes, plus an often unnecessary degree of sophistication in the tractors imported, creates a high level of dependency in the form of continuing imports of spares and replacements. No single make of tractor is present in numbers sufficient to warrant local production of spares and components (Kinsey, 1986). Moreover, the diversity seriously constrains efforts to standardize and develop regional tractor industries.

Although a large number of different tractor models is commonplace in most SADCC countries, several rely heavily on a few. In Zimbabwe, for example, over half the tractors imported from 1981 to 1983 were Ford and Massey Ferguson, the majority of them manufactured in the United Kingdom (Financial Gazette, 26/7/85). From 1980 to 1983, the United Kingdom supplied a total of 44 percent of all tractors imported into Zimbabwe, followed by: India (13%), France (10%), Italy (10%), and the United States (8%).

However, imports from India increasingly challenge the dominant role of
those from the United Kingdom. Tractor imports from India exceeded those from the United Kingdom by 19 percent in 1983 and 60 percent in 1985."

For the majority of the SADCC members, South Africa plays only a minor role as a supplier of tractors. Botswana and Lesotho, however, import all their tractors (about 325 per year combined) from South Africa. Swaziland imports only its heavier tractors (about 200 per year) from the Republic. South Africa has supplied only one percent of Zimbabwe's tractor imports since Independence (See Appendix B). However, as 75 percent of Zimbabwe’s external trade is transported via South Africa (Hanlon, 1986a), South Africa has the ability to disrupt tractor imports into Zimbabwe. As 50 percent and 30 percent respectively of their external trade go through South Africa, South Africa holds the same prerogative for tractors going to Zambia and Malawi (Hanlon, 1986a). Angola, Tanzania and Mozambique do not import tractors from South Africa.

3.2. Local Assembly and SADCC Projects
In response to the high foreign exchange costs and other difficulties associated with meeting the tractor needs through imports, most of the SADCC members have expressed a desire for their own integrated tractor industry. There are existing assembly facilities or projects on the drawing boards in all the SADCC member states, except Lesotho. However, almost all of these are, or would be, limited merely to assembly of imported tractor kits. A review of existing operations and plans for these projects illustrates the general proposition that small economies cannot achieve integrated basic industries, but remain dependent on imported kits of different kinds. It also suggests that SADCC's previous approach to the industry is unlikely to achieve an integrated regional tractor industry.

Table 3.5 gives an overview of all existing and planned tractor projects in the SADCC region. The following section will first discuss the main problems characteristic of all the projects, individually and collectively; and then present profiles of the individual projects in the order they appear in the table.

SADCC's initial proposals for expanding the regional tractor industry exhibit several less-than-optimal characteristics:

First, the existing and proposed projects all remain, or would be, heavily dependent on imported tractor kits. While data are not available on each operation, some are reported to have negative value added. Given the low levels of local content, the high costs of importing kits and the small scale of operations, it is doubtful whether all the projects have a real advantage.

Second, each national project was planned to assemble different tractor kits imported from various countries. Yet, because of the scale of operation
### Table 3.5. Existing and Planned Tractor Projects

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Demand (a) 1990</th>
<th>Average (b) Annual Assembly, 1983–1986</th>
<th>Annual (c) Assembly Potential, 1990</th>
<th>Current (d) Local Content, %</th>
<th>Status (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zimbabwe</td>
<td>3,000</td>
<td>430</td>
<td>9,000</td>
<td>20–50</td>
<td>No SADCC projects. Considerable potential and local initiative.</td>
</tr>
<tr>
<td>Malawi</td>
<td>350–400</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>No SADCC projects. Limited information available.</td>
</tr>
<tr>
<td>Angola</td>
<td>2,000–3,000</td>
<td>0</td>
<td>6,000</td>
<td>n.a.</td>
<td>Pre-SADCC project for above 50 HP tractors. 'Preliminary stage.'</td>
</tr>
<tr>
<td>Mozambique</td>
<td>1,500</td>
<td>0</td>
<td>3,500</td>
<td>n.a.</td>
<td>Pre-SADCC project for above 50 HP tractors. 'Feasibility report being prepared.'</td>
</tr>
<tr>
<td>Zambia</td>
<td>1,500–2,000</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
<td>SADCC-sponsored project. Suspended 1986.</td>
</tr>
<tr>
<td>Swaziland</td>
<td>500</td>
<td>50</td>
<td>1,500</td>
<td>12–14</td>
<td>SADCC-sponsored project. Funding negotiation ongoing.</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1,500–2,000</td>
<td>370</td>
<td>1,500</td>
<td>12–14</td>
<td>SADCC-sponsored project; above 50 HP tractors. Expansion under implementation.</td>
</tr>
<tr>
<td>Botswana</td>
<td>400–500</td>
<td>0</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Lesotho</td>
<td>250–300</td>
<td>0</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>11,000–13,200</strong></td>
<td><strong>850</strong></td>
<td><strong>21,500</strong></td>
<td>n.a.</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

a) SADCC estimates for demand late 1980s.
Swaziland: Based on production figures for 1973–1980.
c) Zimbabwe: Based on production potentials quoted by Willowvale and Turnpan.
Angola and Mozambique: SADCC estimates.
Swaziland and Tanzania: Current estimated maximum capacities; SADCC figures.
d) Zimbabwe: Willowvale and Turnpan’s current levels. See text.
Swaziland and Tanzania: SADCC quotes value added for Swaziland’s "Tinkabi" project to be 12–14%. Since the SMC/Valmet project also is pure assembly, that figure is used for Tanzania as well.
e) See details in text.
Sources: SADCC documents and interviews quoted in this chapter.
required for components production, standardization is a prerequisite to increased local content. As foreign exchange is frequently unavailable to import spare parts, standardization is also required merely to keep the existing tractor fleet in good repair. In short, an improved tractor situation requires standardization. Instead of reducing the diversity, however, the SADCC-sponsored projects contribute to the proliferation of different tractor makes in the region.

Third, the lack of standardization and reliance on imports limit the possible linkages between the national projects. It also means that most of the projects have no linkages with the industrial sectors of the countries in which they operate.

Finally, SADCC's proposed tractor production seems to neglect or ignore existing capacities in Zimbabwe and Malawi. Although Zimbabwe already has two assembly plants and the highest local content of any in the region, SADCC documents merely mention the need to "upgrade assembly facilities in Zimbabwe" (SADCC, 1984a, p. 332). Two companies in Malawi also assemble tractors. Though very little information is available on these, SADCC's Tractor Demand-Supply Analysis does not consider the potential of the capacities in Zimbabwe or Malawi (SADCC, 1984a). While some SADCC members are concerned about Zimbabwe's dominant position, the great potential of the tractor plants in Zimbabwe should not be ignored. Within the context of a regional industrial strategy giving each member a pole of growth, these plants might be part of Zimbabwe's industrial component. The benefits thus accruing to Zimbabwe must be balanced by new investments in other member states.

3.2.1. A Profile of Existing Capacity

Zimbabwe

Two tractor assembly plants operate in Zimbabwe: Willowvale Motor Industries (Pvt) Ltd., and Zambezi Coachworks.

a. Willowvale Motor Industries. Ford Motor Company of Canada established Willowvale Motor Industries in 1961. It was purchased in 1967 by the Industrial Development Corporation of Zimbabwe (government), which continues to control the entire shareholding of the company. The company assembles vehicles on a contract-by-contract basis.


The system was fraught with limitations. During the UDI-period (1965–80), Willowvale assembled only wholly imported tractor kits. Owing to the small scale of operation, costs ran high. Moreover, the 1968 imposition of U.N. sanctions on
Table 3.6  

<table>
<thead>
<tr>
<th>Make</th>
<th>Quantity</th>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massey Ferguson</td>
<td>130</td>
<td>Part of USAID package (a)</td>
</tr>
<tr>
<td>John Deere</td>
<td>14</td>
<td>same</td>
</tr>
<tr>
<td>Ford</td>
<td>193</td>
<td>40 units from USAID. (b)</td>
</tr>
<tr>
<td>Universal</td>
<td>200</td>
<td>Romania, barter deal—(c)</td>
</tr>
<tr>
<td>Fiat</td>
<td>103</td>
<td>Barter deal, 2–3 parties.</td>
</tr>
<tr>
<td>KHD</td>
<td>24</td>
<td>Purchased from foreign exchange allocation.</td>
</tr>
<tr>
<td>Total:</td>
<td>664</td>
<td></td>
</tr>
</tbody>
</table>

a) Plans were launched at Willowvale to assemble MF tractors from completely knocked-down kits, the previous having been assembled only from partially knocked-down kits (The Herald, 11/6/86).

b) The remainder of these were from a U.S.-transnational affiliate in India (Financial Gazette, 9/5/86).

c) This barter deal, which exchanged Zimbabwean asbestos for tractors, is believed to be the first industrial project between Zimbabwe and Romania. It includes an agreement to increase local content (Countertrade Outlook, 6/2/86).

Rhodesia and Mozambique's independence in 1975 reduced the market for Willowvale's tractors and thus curtailed its possibilities for expanding production.

In 1985 Willowvale assembled 56 Massey Ferguson and 12 Ford tractors. In 1986, however, with considerable foreign aid, as Table 3.6 shows, tractor assembly multiplied nearly 10 times.

Although no details are available on the technical constraints imposed by changing from one tractor kit to another, in view of the number and degree of differences among the tractor makes assembled, they are likely to be considerable. These constraints, coupled with low capacity utilization—in part resulting from these, increase the cost of locally assembled tractors to a point where their sales prices barely compete with those of imported tractors. The cheapest tractor assembled at Willowvale, the Universal, in 1986 sold for Z$17,000; equivalent to USD 10,400. By comparison, the average cost of a tractor sold in the SADCC region is USD 11,000 (SADCC, 1983).

Foreign exchange is another main constraint on increased production at Willowvale. With the current production mix about six tractors could be manufactured per day, amounting to 2,100 units per year. This capacity could easily be doubled if foreign exchange were available to purchase kits and sales guaranteed.

The tractors assembled at Willowvale have a local content of around 20 percent, the semi knocked-down kits generally consisting of engine, transmission, gearbox and axles. The following parts are built either in-house or provided by Zimbabwean companies: tyres, batteries, radiators, exhaust pipes, seats, fuel tanks, fenders, hoods, body panels, swing draw bars and mounting brackets. Some of these parts can be used interchangeably while others, such as fenders and hoods, require modifications for use in different tractor makes.

Willowvale has a "Local Content Department," which to the present, has focused on light vehicles. Any significant increase in local content of tractors is, however,
unlikely. For example, an increase in local content of body metal parts for tractors would require an investment in new tools of upwards from one million Zimbabwe dollars. To warrant such an investment, a much larger volume of tractor production would be necessary but, given the diversity of tractor kits and the unpredictable availability of these, the manufacturing division manager did not think such an investment would be made.

In sum, the Willowvale operation illustrates all the problematic characteristics discussed in the preamble to this section.

b. Zambezi Coachworks (*Turnpan*). The Zambezi Engineering Group, a member of the Lonrho conglomerate (UK transnational), includes the Zambezi Coachworks. Zambezi Coachworks assembles the Zambezi A445 and A124 tractors produced by *Turnpan* Zimbabwe Ltd.\[^{51}\]

*Turnpan*'s Zambezi tractors are considered to be Zimbabwe's first with a significant local content, and "...is probably one of the country's most successful industrial developments this decade" (Financial Gazette, 31/1/86). Based on the International 444 and adapted specifically for Zimbabwean conditions, the Zambezi—launched in 1985—marked a shift in focus from the large-scale commercial farmers to the emerging small-scale commercial and communal farmers. The Zambezi A445 has 45 HP and the new A124 has only 24 HP.\[^{52}\]*Turnpan* recognizes the substantial need for low cost tractors in the small farm sector.

*Turnpan* has made 995 Zambezi tractors since 1985. Its present capacity, given enough foreign exchange,\[^{53}\] is around 8 tractors per day, or almost 3,000 a year which, with minor alterations, could increase to 5,000 tractors per year. The company's director nevertheless maintains that, small as it is, the tractor production is already profitable.

*Turnpan* maintains that the Zambezi tractors have a local content of 70 percent, which at first glance seems unrealistically high. The semi knocked-down kits, all imported via barter deals from India,\[^{54}\] consist of: engine, gearbox, hydraulics and instruments. Forty companies in Zimbabwe are said to supply parts for the Zambezi tractors — suggesting a number of backward linkages. Steel from Zimbabwe Iron and Steel Corporation (ZISCO), raw products for the most part, are used for a whole range of components: rods, pedals, all front axle parts and supports, weights, bumper bars, linking system, steering wheel, exhaust system, and some wheel rims. *Turnpan* will soon begin to cast the engine casing box and the flywheel box. Other parts are made in Zimbabwe, as listed in the discussion of Willowale. None of the parts are imported from SADCC neighbors as they cannot make them, claims the managing director.

It thus appears that the local content must be relatively high. Although it is probably not 70 percent by value, this may be valid in terms of materials. Representatives of the Commercial Farmers Union and Willowvale Motor Industries both expressed the view that local content could not possibly be 70 percent (personal interviews). *Turnpan*'s managing director informed the author that the 70 percent is simply the difference in value between the FOB purchase price of the semi knocked-down kit and the final selling price. As this would include shipping of the kit and *Turnpan*'s profit, it is reasonable to estimate the local content, by value of components, to be around 50 percent.

To date, the entire production of Zambezi tractors has been sold in Zimbabwe. But the company is very interested in the SADCC market. The new 24 HP tractor has already generated interest outside Zimbabwe. Negotiations are currently taking place with potential customers in Zaire, Angola and Mozambique; and Botswana has shown definite interest.
By the late 1980s, with a possible production capacity of 5,000 tractors per year, Turnpan has the potential to meet the combined demand of all the SADCC states of 3,000–4,000 tractors in the below 50 HP range. In October 1986 the Zambezi A445 sold for a US dollar equivalent of USD 14,400 and the Zambezi A124, USD 11,250. While these are not below the average tractor price in Southern Africa, Turnpan could play a role in meeting the region's demand for small tractors.

At first glance, as this profile shows, Turnpan seems an exception to the general proposition that small economies cannot build integrated basic industries. However, Turnpan's transnational connection may limit its contribution to Zimbabwe's development. The next chapter, which explores the causes of the general tractor situation, discusses this point.

**Malawi**

Two companies assemble tractors: (1) Farming and Engineering Services assembles partly knocked-down kits of Massey Ferguson imported from the United Kingdom. Also this company is owned by Lonrho subsidiaries in Malawi. Its capacity is 3 units per day; (2) Mandala Tractor Division assembles partly knocked-down kits of Fords imported from the United Kingdom. The company is privately owned by Mandala Ltd (previously known as African Lakes Corporation). Both companies assemble on demand and the staff is used for service work in between assembly. For both of these tractor operations, the extent of local value added is minimal (SADCC, 1983; SADCC, 1984a).

In short, although information on these companies is scanty, they seem to exhibit most of the general problem characteristics discussed in the introduction to this section.

**3.2.2. Pre-SADCC Projects**

Before SADCC was founded, Angola and Mozambique both considered constructing tractor projects with the Socialist Block (Hanlon, 1984).

**Angola and Mozambique**

The project in Angola was planned to have an annual capacity of 6,000 tractors above 50 HP. There is little mention anywhere in SADCC documents about the specifics of this project. The only information available indicates that the project appears to be at a "preliminary stage, with technical parameters to be established" (SADCC, 1984a). Since the mid-1970s, the Mozambican government has been considering various proposals for the establishment of tractor manufacturing facilities. A feasibility report was under preparation by the USSR in 1984 for a project to set up a tractor factory near Beira with Soviet assistance (SADCC, 1984a). The envisioned production capacity is 3,500 p.a. of 60–80 HP tractors, which is to be built up in stages. According to projections (SADCC, 1983), the project is to be commissioned towards the late 1980s. To the extent practicable, the existing engineering industry facilities, including the foundry at Beira, would be utilized for the tractor project.
The lack of any further information on these projects suggests that South African sponsored destabilization in Angola and Mozambique has shattered the likelihood of their materialization.

3.2.3. Rationale for the SADCC-Sponsored Projects and Status

For the attainment of regional self-sufficiency in tractors, SADCC pins its hopes on the viability of the projects in Angola, Mozambique and to a lesser extent, Tanzania (see Table 3.5). As stated in the Harare Industrial Projects Workshop documents, "...this capacity, if materialized, (emphasis added) should suffice for the projected demand of 7,700—9,600 tractors per annum in the range above 50 HP". The report continues, "This would leave an unfulfilled demand of about 3,000—4,000 tractors in the below 50 HP range" (SADCC, 1984a, p. 327). The SADCC-promoted effort for regional self-sufficiency in tractors thus amounts to filling the gap of 3,000—4,000 small tractors. The first SADCC-donor conference devoted to industrial projects (Maseru, 1983) presented for discussion and possible funding three tractor projects in Zambia, Swaziland, and Tanzania to meet this need (SADCC, 1984b).

**Zambia**

Zambia considered tractor assembly plants even before SADCC was launched. The 1983 Maseru conference presented a project for the assembly of medium power tractors from Czechoslovakia. At the January 1985 meeting in Mbabane the project was listed as "under negotiation" (SADCC, 1985). A year later, the Harare conference papers stated that "funds are secured and project under implementation for tractor assembly leading to manufacture" (SADCC, 1986a). The total cost indicated was USD 8.7 million. For reasons to be explored in Chapter Four, SADCC's 1986 Annual Progress Report listed Zambia's tractor project as "suspended" (SADCC, 1986f).

The tractors from Czechoslovakia, presumably a new tractor make, would have increased the diversity of the tractor fleet. This project thus illustrates the general problems of standardization, import dependence and lack of linkages.

**Swaziland**

In the late 1960s, Swaziland pioneered the development of a small, 16 HP, two cylinder tractor, the "Tinkabi". The project was embarked on for the purpose of introducing a low cost mechanized farming system to the smallholders. Since 1972 it has been funded by the Swazi government as a development and prototype production unit. Production capacity is now around 1,500 p.a. The tractor is supplied as a package with implements that are made by the project under agreement with International Harvester.

Engine, transmission system, hydraulics and all other major components are
imported. With local value added around 12–14 percent, the Tinkabi does not go far beyond simple assembly.

Between 1973 and 1980 total deliveries from the Tinkabi project have been only 338 units, about 70 percent thereof to users in Swaziland. In 1983 however, the project was stated to have orders for around 800 tractors, some of which were to go to Tanzania and Zambia.

The SADCC-sponsored project in Swaziland amounts to an expansion and commercialization of the Tinkabi project. The project has a total estimated cost of USD 6.1 million, of which USD 590,000 is foreign cost. Nearly four years after it was first presented, SADCC still lists this project under the heading "funding negotiations on-going" (SADCC, 19860. Funding has been secured in Swaziland for the local share of USD 5.51 million.

In sum, this project is no exception from the general problem characteristics.

Tanzania

The State Motor Corporation, a parastatal, entered into an agreement with Valmet of Finland in September 1980 to form a joint-venture for the assembly and production of tractors in Tanzania. Equity stakes in the enterprise, Tanzania Tractors Manufacturing Company Ltd., are held by the State Motor Corporation (80%), and Valmet (10%) (SADCC, 1984a). The Finnish Fund for Industrial Development Cooperation (Finnfund) initially intended to take 10% of the shares. However, Finnfund withdrew from the venture in 1986 because they considered it no more than a spare parts delivery and tractor service operation (Interview at SMC, Aug 1988). The project was planned with a capacity to assemble 1,500 tractors annually on a single shift basis. It assembles Valmet tractors between 40 and 120 HP, mainly for agriculture and partly for forestry purposes. The company is to meet Tanzania's tractor requirements and also export to neighboring countries (SADCC, 1985).

The SADCC-sponsored project in Tanzania similarly amounts to an expansion of the existing project with Valmet. The company has been operating its assembly activities in temporary premises and plans to start the second phase development with the construction of assembly buildings, increase in production of tractors and increase in local content. Total investment requirements will be T.Sh 32 million, i.e. USD 2.6 million, of which USD 1.6 in foreign currency was sought from outside the company (SADCC, 1985). This is the only tractor project listed as being "under implementation" (SADCC, 1986f). The necessary funding has been secured.

While it has gained a large share of the market in Tanzania, as an addition to the tractor fleet, it may hinder attainment of the regional standardization required to achieve vertical integration in the tractor industry. Moreover, the plant is extremely import-dependent and without links to the other projects in the region.

3.2.4. SADCC's Approach to the Tractor Industry

Any evaluation of SADCC's approach to regional self-sufficiency in tractors would no doubt conclude that their proposals seem to be little more than support for a collection of existing national projects. As the discussion below
emphasizes, this approach suffers from several shortcomings: (1) there are too many projects in the SADCC region to achieve economies of scale; (2) there are no proposals for standardization, which is necessary for the development of a vertically integrated tractor industry; (3) there are no proposals for projects to manufacture tractor components; (4) given South African destabilization, SADCC's tractor program depends too much on the projects in Angola and Mozambique; and (5) without adequate consideration of Zimbabwe's existing capacities, SADCC planners in Tanzania (see below) allocated too much of the production to Tanzania, thus leading to a demand for thorough reconsideration of the entire tractor program.

The planning of at least five tractor projects (Angola, Mozambique, Zambia, Swaziland and Tanzania) in the SADCC region immediately prompts the question of economies of scale. As Kinsey has observed, it is likely to prove uneconomic for any one SADCC country to manufacture tractors purely for its own domestic market (1986). Although the planners of the five projects in question probably hope for access and the ability to sell in the regional market, there are no guarantees for this. Moreover, it is doubtful that the SADCC region's current effective market for tractors can sustain the economic operation of five unconnected tractor projects. As shown in Table 3.5, if by the late 1980s all existing and planned capacity were to materialize, the SADCC countries would produce an over-supply of two times the estimated demand. Equally if not more important, without a greater degree of standardization, regional self-sufficiency in tractor components manufacturing is out of the question.

Based on the current approach, prospects appear dim even for the region to assemble the required tractors. South African-sponsored war and destabilization makes unlikely the materialization of the projects in Angola and Mozambique. Swaziland's Tinkabi project has been more or less in limbo for a decade; will it take off all of a sudden? Hanlon suggests that the viability of the Valmet project in Tanzania is doubtful. Tanzania cannot even find the foreign exchange to import spares for existing tractors—over half the total fleet is said to be out of service (Hanlon, 1984). Will Tanzania have the necessary foreign exchange to import the tractor kits?

At the Mbabane meeting in February 1985, based on recognition of the inadequacy of the previous approach to the tractor industry, SADCC's Industry Division (Tanzania) presented a revised tractor plan. While its concrete project proposals amounted to the first attempt at a regional tractor industry, disagreement arose among SADCC members over the details of the plan.

According to the ministry of industry in Zimbabwe (personal interview), the plan called for production to be allocated to "zones". Tanzania had
allocated itself a share of 2,000 tractors per year to be produced by them, and only 500 each for the remainder of the SADCC states. The Zimbabwean representatives questioned the rationality of spreading the regional production in zones, and considering that Zimbabwe had the highest local content compared with all the previously proposed tractor projects, on what grounds, they asked, were they allocated only 500 units p.a. when Tanzania took the lion's share of 2,000 units? As a result the Permanent Secretary of the Ministry of Industry in Tanzania was called upon to reconsider the whole tractor program.

A year later, however, the Harare conference papers indicated that SADCC was still without an operational plan for regional tractor manufacturing:

In the case of tractors [new] action plans will be designed based on a study whose report is being appraised. In the meanwhile, the implementation of the projects which are already accepted and in the pipeline will continue (SADCC, 1986a, p. 10).

In September 1986, the SADCC Industry and Trade Coordination Division stated that "the SADCC Tractor Sub-Sectoral plan is not yet approved for want of revision as recommended by member states" (Letter to author, 17/9/86). Such was the status of the tractor program as of September, 1986.

Nearly two years later, by August 1988, SADCC had not advanced beyond this state of affairs. The SADCC Industry and Trade Coordination Division is now undertaking a new study with the aim to design a coherent strategy for the tractor industry (Interview, August, 1988). In the meantime, while SADCC officials study and deliberate, a private entrepreneur in Botswana has taken the initiative to introduce yet another tractor project in Southern Africa.

The Botswana government in March 1988 granted a license to a local company, Montenegro, to assemble low cost tractors from Yugoslavia. Montenegro plans to commence operation in 1989 and hopes to assemble 700–800 tractors per year around 1994 (Interview, Montenegro, June 1988). The Botswana government has expressed enthusiastic support for the project but, so far, SADCC has not been involved at all.

The new project in Botswana strengthens the general arguments made above. Moreover, it underscores the need for a coordinated, regional, approach to the tractor industry.

3.3. Summary and Conclusion
The dominant characteristic of the tractor situation in Southern Africa is
import dependence. Each year, around 85 percent of the tractors sold are imported. The remainder are assembled locally, albeit almost exclusively from imported tractor kits. Above all, the existing tractor industry lacks standardization. The initially proposed and partially implemented SADCC-sponsored projects may even exacerbate this problem. Every addition to the number of different tractor makes compounds the difficulties involved in developing an integrated regional tractor industry.

The independent attempts by eight of the nine SADCC states to end dependence on tractor imports underscore the difficulties faced by small economies seeking to build integrated basic industries alone. Although SADCC identified the tractor sector as an early priority and has lent support to various national projects since 1983, the tractor situation and the prospects for a self-reliant regional tractor industry have not improved. The hypotheses advanced at the end of the last chapter suggested several reasons for this failure. The next chapter presents some evidence to support the explanation for the unsatisfactory tractor situation in Southern Africa.
4. Why the Tractor Industry did not Develop

As Chapter Three has illustrated, the tractor case is a good example of the proposition that small economies face serious constraints in their efforts to build integrated basic industries. Using the tractor case as an example, this chapter investigates the validity of the propositions raised in Chapter Two to explain the persistence of the present tractor situation, despite SADCC's efforts to improve it. This chapter presents four major categories of evidence relating to: (1) transnational corporations; (2) banks and finance; (3) national institutions; and (4) donor policies and institutions. Obviously, the general recession and agricultural crisis in the 1980s have had a negative impact on the development of the tractor industry. Nevertheless, the findings in this chapter point to the issues that must be addressed to build a vertically integrated regional tractor industry in Southern Africa. On this foundation, Chapter Five draws more general conclusions as to the kinds of institutional changes required to coordinate regional industrial development.

4.1. Transnational Corporations
Transnational corporations have been the main actors in the shaping of the present tractor industry. Their control of the tractor import business has a series of implications: self-reliant tractor production has not been initiated; the number of different tractor makes in the region is multiplying; local initiative is thwarted; and inappropriate types of tractors are imported.

4.1.1. Control of Imports and Production
Data is not available from all the countries to prove that transnationals control the distribution of tractors. The transnationals' control over tractor imports and production varies between member countries depending on such factors as political economy, market size, numbers of local capitalists and commercial farming operations. Nevertheless, the evidence from Zimbabwe, the most industrialized country in the region, indicates the general situation.

Table 4.1 shows the makes of tractors with the largest market share in Zimbabwe, their local distributors and the affiliations of these.
Table 4.1 *Foreign Control of Tractor Distribution in Zimbabwe*

<table>
<thead>
<tr>
<th>Tractor Make</th>
<th>Market Share (percent)</th>
<th>Distributor</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massey Ferguson</td>
<td>34</td>
<td>Farmec</td>
<td>Anglo American Corporation</td>
</tr>
<tr>
<td>International Harvester</td>
<td>8</td>
<td>Turnpan</td>
<td>Lonrho</td>
</tr>
<tr>
<td>Case</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zambezi</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universal Fiat</td>
<td>3</td>
<td>Bain Farm Equipment</td>
<td>William Bain and Co. Ltd. (UK-TNC)</td>
</tr>
<tr>
<td>Deutz (KHD)</td>
<td>12</td>
<td>Tinto</td>
<td>Rio Tinto</td>
</tr>
<tr>
<td>John Deere</td>
<td>6</td>
<td>Smith &amp; Bennet</td>
<td>no info.</td>
</tr>
<tr>
<td>Ford</td>
<td>19</td>
<td>Djulys</td>
<td>no info.</td>
</tr>
</tbody>
</table>

Source: Personal interviews; Financial Gazette; Clarke (1980); Kinsey (1986).

Table 4.1 illustrates that at least three-quarters of the tractor-distributors in Zimbabwe are controlled by transnationals. Even if the local distributor is not a transnational affiliate, the tractors used in the SADCC region are, in most cases, produced by transnational tractor companies abroad. Whether the sale of foreign-made tractors is administered by transnational affiliates or local capitalists, therefore, may be of minor importance.

Owing to their widespread interests in the tractor import business, transnationals have not invested in local manufacturing of tractors. Rather they used the SADCC region as a market for the sale of tractors and spare parts produced in their home-country factories. As Chapter Three demonstrated, the existing assembly plants also depend heavily on imported tractor kits. Since tractor kits are typically exempt from import tariffs, transnationals engaged in local assembly enjoy protection from competitive imports that remain subject to tariffs.

4.1.2. *Competition Multiplies Diversity of Tractors*

As Chapter Three showed, the number of different tractor models sold
throughout the region has proliferated. The following examples illustrate the role of transnationals, each producing their own makes, in aggravating this diversity as they penetrate the markets of individual SADCC countries.

As Zimbabwe, and the other SADCC members except Angola and Mozambique, was a British colony, companies based in the United Kingdom naturally dominated the import of tractors. After Zimbabwe achieved independence in 1980, other transnational tractor suppliers penetrated its market, reducing the share of tractors from the United Kingdom, largely of the Massey Ferguson make, as the table below shows.

<table>
<thead>
<tr>
<th>Year</th>
<th>UK’s Share of Zimbabwe’s Tractor Imports (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>65</td>
</tr>
<tr>
<td>1981</td>
<td>57</td>
</tr>
<tr>
<td>1982</td>
<td>30</td>
</tr>
<tr>
<td>1983</td>
<td>27</td>
</tr>
<tr>
<td>1984</td>
<td>49</td>
</tr>
<tr>
<td>1985</td>
<td>28</td>
</tr>
</tbody>
</table>

Back in the years of the Central African Federation, transnationals based elsewhere, especially North America, tried to capture the expanded market from the British. Zimbabwe, at the time Southern Rhodesia, was the nucleus of the Federation. In 1961, Ford Motor Company of Canada set up Willowvale Motor Industries in Harare, hoping to break into the large Federation market in competition with British firms.

After the Unilateral Declaration of Independence (UDI) in 1965, the government of Rhodesia halted remittance of all profits, except to South Africa. As Willowvale assembled imported tractor kits, the imposition of UN sanctions made it illegal for Ford to continue its operation. Hence, in 1967, the Canadian company sold the entire stock holding to the Rhodesian government. After the take-over, the government began to assemble all the kits it could import in violation of the UN sanctions. Forced to seek self-sufficiency, the minority-ruled regime put tractor assembly under one roof. That this was the government’s roof illustrated the necessity of state capitalist intervention to sustain the operation.

The fact that tractor assembly at Willowvale slowed down after independence—it actually stopped in 1984—reflects both increased competition from more "modern" imports by transnational affiliates trying to capture the market, and lack of the new government’s awareness of the fate of the
industry. In 1985 Willowvale assembled a few tractors, but only in 1986 did it get really involved in tractor assembling. This can be attributed to the large number of tractor kits received via aid packages. For example, in 1987 a USAID package worth Z$ 1,058,000 bought 240 American tractor kits for assembly. As owner of the Willowvale plant, the Zimbabwean government thus, in effect, joined the U.S. government in funding the penetration of Zimbabwe's market by U.S. transnational tractor suppliers.

4.1.3. Thwarting Local Initiative
Overall data is not available on the role of different transnational tractor suppliers in increasing the numbers of tractor makes in the other SADCC countries. However, the case of Tanzania exemplifies the way a transnational corporation used host government assistance to secure a monopoly of its national tractor market.

As noted in Chapter Three, Valmet of Finland in 1980 formed a joint venture with the Tanzania State Motor Corporation. The government footed the bill for 80 percent of the equity. Between 1983 and 1986 SMC/Valmet assembled 1,483 tractors. However, 96 percent of the value of all the tractor components was imported and eight out of ten of the experts running the project came from Finland.

In the meantime, the Mwanza-based DM Investments emerged to challenge their monopoly over the sector. After three years of research and work by local engineers, DM Investments in January 1987 completed and tested the prototype of a tractor, the "Victoria". More than half of its components were to have been obtained locally, with only the engines, electrical parts and some hydraulics and pumps to be imported. DM Investments maintain that by 1991 they would have reached an annual output of 1,200.

On the grounds that SMC/Valmet is capable of meeting the country's demand for tractors, however, the Tanzania industrial licensing board refused to grant a license allowing DM Investments to manufacture the tractors. The government also claimed that the project would have had a negative value added and would have been import dependent.

Whether these arguments are valid or not, the SMC/Valmet project is also a net foreign exchange spender and import dependent. Tanzania in 1986 was said to lose 200,000 worth of foreign exchange (USD 3,500) for each Valmet kit assembled which, at USD 13,800 was about 30 percent over the cost of a comparable tractor kit. This evidence suggests that Valmet's influence with state officials barred the development of a less costly and less import dependent tractor in Tanzania.
4.1.4. Inappropriate Tractor Imports
Transnational tractor distributors also influence the kinds of tractors imported. The make-up of the current tractor fleet and the size-mix of SADCC’s forecasted demand for 1987—90 (70 percent in the above 50 HP range) reflect the availability of tractors, particularly in the West. Quite simply, as "people's tractors" are not in demand in the West, they are not produced there and hence not availability for export to Southern Africa.

It is not that smaller tractors are unavailable or cannot be produced: India (and now Turnpan Zimbabwe) produces the Eicher tractor (24–35 HP) and Swaziland has assembled, albeit in small numbers, the 16 HP "Tinkabi" tractor. One of the problems is that transnationals control the tractor import business. The availability of transnational-supplied tractors apparently even dictated SADCC’s demand and size estimates. As discussed in Chapter Three, rather than planning for long-term structural economic transformation, the proposed SADCC tractor projects aimed simply to meet short-term static demands as defined in part by existing imports.

Current and potential tractor buyers in the SADCC region have been conditioned to prefer large tractors. The late President of Mozambique, Samora Machel, called the preference for European goods "mental colonization" (The Herald, 6/9/83). A couple of facts suggest the validity of Machel's point in respect of tractors. First, during interviews in Zimbabwe, representatives of the local tractor industry told the author that the African farmers tended to consider the "Tinkabi" tractor too "small". Second, Turnpan's 45 HP (model A445) and its 24 HP (model A124 "Eicher") Zambezi tractors appear to be almost similar in size. The company's director explained that the smaller tractor had to be "large looking" or it would not sell.

An argument could also be made that even large-scale commercial farmers do not need sophisticated tractors like John Deere's model 4650 exhibited at the 1986 Harare Agricultural Show. Turnpan's director stressed that the commercial farmers of Zimbabwe could use smaller tractors much more efficiently than the present use of large ones. They could, for instance, buy at least two (locally made) 45 HP tractors for the price of a large tractor. This would cut idle-time caused by the lack of spare parts for the imported tractors. Moreover, two 45 HP tractors could probably do more work than one large (80–120 HP) tractor. The SADCC countries, all hunting for foreign exchange, can ill afford to spend around TJSD 100,000 a unit for John Deere's 190 HP flagship with cabin air-condition units and other luxuries.

4.1.5. Spare Parts from Abroad
Rather than promoting the development of local manufacturing capacity for
Table 4.2 Source of Tractor and Parts Imports, Zimbabwe, 1984

<table>
<thead>
<tr>
<th>Country</th>
<th>Tractors (percent)</th>
<th>Spare Parts (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>39</td>
<td>27</td>
</tr>
<tr>
<td>France</td>
<td>33</td>
<td>7</td>
</tr>
<tr>
<td>United States</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>Sub-total</td>
<td>85</td>
<td>77</td>
</tr>
</tbody>
</table>

Notes: Britain, France and the United States were the only countries from which more than 10% of tractor imports originated. Only West Germany supplied a higher share of tractor spares than indicated in the table, namely 12 percent.


components, transnational tractor distributors import spare parts from their own affiliates overseas. The number of different tractor makes in operation renders it impossible to achieve a scale-efficient local production of diverse parts. It is not difficult to imagine the futility of manufacturing 21 different types of tractor carburetors, for example, and to train mechanics to proficiency on 21 different tractor makes. In 1984, the cost of importing spare parts for Zimbabwe's tractor fleet amounted to Z$ 1.974 million, or no less than 24 percent of the value of tractor imports (Central Statistical Office, Harare). As Table 4.2 illustrates, the sources of spare parts tend, with one major exception, to match the sources of tractors.

As a group, there is a high correlation between the origin of the three topmost suppliers of tractors and the nations from which tractor parts were imported. Eighty-five percent of all Zimbabwe's tractor imports in 1984 came from only three countries, and that same group of countries supplied also 77 percent of the tractor parts imported. The exceptional disproportionate share of spare parts imported from the United States reflects the inappropriate sophistication of U.S. tractors that require costly import replacements.

While Turnpan Zimbabwe was mentioned in the previous chapter as being a possible exception to the general rule, a few facts suggest that Turnpan's transnational connections may limit its contribution to Zimbabwe's development. First, Turnpan is 100 percent owned by Lonrho. Three of Turnpan's six directors are UK nationals, two are white Zimbabweans and one is Greek. Three of the six hold directorships in at least 44 other companies in Zimbabwe, most of which belong to the Lonrho group (Registrar of Companies, Harare, September, 1986). Thus Turnpan's directors have a first-hand acquaintance with the market conditions and agricultural needs of Zimbabwe. Nevertheless, the most obvious implication of the Lonrho connection is that all Turnpan's profits accrue to the Lonrho group.
Second, there are good reasons to believe that, like other transnationals, Turnpan unnecessarily raise its prices to profit on spare parts. The author has seen a cost calculation breakdown of a consignment of spare parts imported for a Zambezi tractor. Lonrho charged a host of "commissions" and "handling fees" on top of the FOB costs. The person producing the evidence maintained that Turnpan imposed a 125 percent mark-up on spares. As a member of the Lonrho group, Turnpan, like other transnationals, certainly has ample opportunity to engage in transfer pricing to maximize profits and remittances abroad.

Third, although Turnpan assembles tractors with a relatively high local content (around 50 percent), the small market, currently limited to Zimbabwe, constrains the development of local manufacturing of tractor engines and other key components.

In sum, available evidence suggests that the transnational corporations' control of the tractor import and assembly business has hampered local investment in a vertically integrated tractor manufacturing industry. Instead, it has fostered the diversity of the regional tractor fleet and the use of inappropriate tractors, thus thwarting the standardization of parts necessary for increased local manufacture of components. In the process, it has drained away some of the investable surplus generated by the local farming community.

4.2. Banks and Finance

Foreign domination of the commercial banking sectors facilitates transnational corporate policies that siphon out locally generated investable surplus and prevents the accumulation and reinvestment of it in ways that foster integrated regional development. This section illustrates that even where banks have been nationalized and where parastatal financial institutions claim they aim to help small farmers, profit maximization loan criteria prevail. This has hindered direction of funds to expand existing tractor projects and blocked the finance required for an integrated regional tractor industry.

4.2.1. The Crisis of Savings and Investment

In the SADCC region, the rates of savings and investment are far too low to sustain economic growth. In 1986 gross domestic savings were less than 15% of the gross domestic product (GDP) in at least five of the SADCC countries. Thanks to its earnings from diamond exports, Botswana attained a savings
rate of 26%. Overall, the savings rate is clearly insufficient. By comparison, South Africa’s gross domestic savings rate was 30% (World Bank, 1988).

Gross fixed capital formation (GFCF) figures for 1983 suggest that the levels of investment in the productive sectors are inadequate. Only the small economies of Botswana, Lesotho and Swaziland recorded relatively sufficient rates of GFCF to GDP; 31%, 31% and 27% respectively (SADCC, 1987, Table 2). In Zambia and Zimbabwe, however, GFCF-rates were only 15% and 18%. Furthermore, because the figures for fixed capital formation include not only investment in production but also infrastructural and social investments, the aggregate figures are misleading. Investment in productive capital is likely to be substantially less than half the total. In Zimbabwe, for example, investment in the agriculture, mining and manufacturing sectors comprised only 27 percent of gross fixed capital formation in 1983 (SADCC, 1987).

Moreover, the levels of GFCF—low as they are—give an inflated impression of the national saving rates in the SADCC region. A large proportion of the recorded investment is financed by foreign aid and loans. This is especially pronounced in Tanzania, where, in the 1980s, over half of the gross investment has been financed by foreign aid (Skarstein and Wangwe, 1986). In five of the seven SADCC countries for which data are available, the value of gross domestic investment exceeds gross domestic savings (World Bank, 1988, Table 5).

### 4.2.2. Extensive Foreign Control of Commercial Banks

Apart from Angola, Mozambique and Tanzania—where the governments control the banks—the banking sector of the SADCC region is characterized by extensive foreign control. However, except in Lesotho and Botswana where the governments hold no interest in the ownership of the commercial banks, the governments of Swaziland, Malawi, Zambia and Zimbabwe do participate to a varying extent in the commercial banking sector (IC Publications, 1984; Africa South of the Sahara, 1987).

In Lesotho, as there are no other commercial banks, Barclays and Standard (London-based banks that until recently operated throughout Southern Africa from their South African headquarters) have exclusive control of the national banking sector. In 1983, Barclays and Standard controlled between 80 and 90 percent of the deposits in Botswana and Swaziland; their complete control was challenged only by the Bank of Credit and Commerce which is controlled by BCCI of Luxemburg (Africa South of the Sahara, 1987). In Malawi, the company formed by president Banda, Press (Holdings) Ltd., is the largest shareholder in both of the country’s commercial banks. Trans-
national banks retain 20 and 30 percent respectively in these banks (IC Publications, 1984). The Zambian government is a majority shareholder in the country's third largest bank, Zambia National Commercial Bank Ltd., which controls approximately 25 percent of the assets in the commercial banking sector (Africa South of the Sahara, 1987). The remainder of Zambia's commercial banks are foreign-owned. In Zimbabwe, most of the commercial banking sector remains in foreign hands, dominated by Barclays and Standard. The government has acquired 58.54% in Zimbank, a commercial bank with sizable assets: Z$ 774,267,000 (Zimbank Group Interim Report, 31/3/86); the Anglo American group and local shareholders retain the remaining share. Zimbank holds approximately 17 percent of total assets in all deposit receiving institutions.\(^6\)

Whereas Banco Standard Totta de Mozambique is still controlled by Portuguese, British and South African interests, its effect on foreign transactions is likely to be negligible. The reason for this is that all foreign exchange transactions and payments are handled by Banco de Mozambique (government), and all foreign exchange accounts of any description have been transferred to that bank (Economist Intelligence Unit, 1981).

The pervasive foreign control of the commercial banking sectors in most of the SADCC countries reduces local control over locally generated investable surpluses. The transnational banks do not lend to foster industrial projects like local tractor manufacturing. As the next section shows, this is not because their locally-affiliated commercial banks are short of funds.

### 4.2.3. Commercial Banks: No Shortage of Funds

Between 1980 and 1985, despite nominal devaluation of most of the SADCC currencies, bank deposits, measured in Special Drawing Rights,\(^6\) increased in Botswana, Lesotho and Malawi; and fell between 3 and 15 percent in Zim-

---

**Table 4.3 Commercial Bank Deposits (mill SDRs)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>120</td>
<td>189</td>
<td>172</td>
</tr>
<tr>
<td>Lesotho</td>
<td>108</td>
<td>164</td>
<td>125</td>
</tr>
<tr>
<td>Malawi</td>
<td>146</td>
<td>188</td>
<td>181</td>
</tr>
<tr>
<td>Swaziland</td>
<td>118</td>
<td>163</td>
<td>100</td>
</tr>
<tr>
<td>Zambia</td>
<td>727</td>
<td>904</td>
<td>637</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1,256</td>
<td>1,345</td>
<td>1,211</td>
</tr>
</tbody>
</table>

Table 4.4 Commercial Bank Deposits and Gross Fixed Capital Formation

<table>
<thead>
<tr>
<th>Country</th>
<th>Deposits in percent of GFCF:</th>
<th>Change in GFCF 1980–83, mill. USD</th>
<th>Change in Deposits 1980–83, mill. USD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980</td>
<td>1983</td>
<td></td>
</tr>
<tr>
<td>Botswana</td>
<td>49</td>
<td>69</td>
<td>– 28</td>
</tr>
<tr>
<td>Lesotho</td>
<td>109</td>
<td>145</td>
<td>– 8</td>
</tr>
<tr>
<td>Malawi</td>
<td>59</td>
<td>61</td>
<td>+ 12</td>
</tr>
<tr>
<td>Swaziland</td>
<td>81</td>
<td>114</td>
<td>– 37</td>
</tr>
<tr>
<td>Zambia</td>
<td>134</td>
<td>196</td>
<td>–216</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>197</td>
<td>138</td>
<td>+212</td>
</tr>
</tbody>
</table>

Sources: Same as in Tables 4.3 and 4.4.

babwe, Zambia and Swaziland. Table 4.3 illustrates the liquidity of commercial banks in five SADCC countries.

The fact that deposits, in SDR terms, rose in all countries until 1983 supports the argument that there are idle funds in the SADCC countries' commercial banks. As governments turned to commercial banks to finance the increasing burden of debt-service and fuel imports (usually settled in U.S. dollars), the conspicuous fall in deposits in all countries between 1983 and 1985 probably reflects the drastic appreciation of the US dollar over the period.

The relationship between bank deposits and the gross fixed capital formation adds another dimension to the liquidity of the commercial banks. Table 4.4 shows commercial bank deposits in per cent of gross fixed capital formation for 1980 and 1983, and the changes in capital formation and deposits between 1980 and 1983.

Table 4.4 illustrates that between 1980 and 1983, compared to gross fixed capital formation (GFCF), commercial bank deposits were high and increasing in all countries, except Zimbabwe. In 1983 bank deposits were substantially higher than GFCF in Zambia, Lesotho, Zimbabwe, and Swaziland. Furthermore, it is striking that commercial bank deposits increased in all four countries that experienced decreases in GFCF. Combined, these facts strongly indicate that the commercial banks "suffer" from overliquidity.

Although data are not available from all SADCC countries, the evidence from Zimbabwe and Swaziland on commercial bank "liquid asset ratios" corroborates the argument that banks are underloaned (see Table 4.5). Whereas the liquid asset ratios in the United States (20%) and Britain (8%) allow U.S. and British banks to make loans to the tune of 5 times and 12 times their asset reserves respectively, Zimbabwean banks do not even lend 3 times the value of required reserves. The required asset ratios are much lower (6
### Table 4.5 Bank Liquid Asset Reserves, Zimbabwe and Swaziland

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Zimbabwe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Required asset ratio, percent</td>
<td>25</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Actual asset ratio, percent</td>
<td>39</td>
<td>48</td>
<td>42</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Excess assets, Z$ mill.</td>
<td>77</td>
<td>108</td>
<td>71</td>
<td>61</td>
<td>74</td>
</tr>
<tr>
<td><strong>Swaziland</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Required asset ratio, percent</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Actual asset ratio, percent</td>
<td>13</td>
<td>20</td>
<td>21</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>Excess assets, E mill.</td>
<td>6</td>
<td>20</td>
<td>23</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

a) For Swaziland, the data in the first column is for 1976.

Sources: Quarterly Economic and Statistical Review, 4:2, June 1983, CSO Harare; and Quarterly Review, December 1984, Central Bank of Swaziland.

percent) in Swaziland, but its banks consistently maintain reserves at two or three times the required rate.

While it is reasonable for a newly independent Third World country to impose higher liquid reserve ratios, the required ratio of 35 percent in Zimbabwe is high by any standard and does not suggest scarcity of funds in the banking system. Moreover, the persistent practice of keeping liquid asset reserves in excess of the required ratios in both countries leaves little doubt that the commercial banks are underloaned.

Although data are unavailable on liquid asset ratios for Botswana, Makgetla has demonstrated that since the mid-1970s the commercial banks in Botswana have kept excess reserves (1982). The excess liquidity in the banking system was Pula 112 million (USD 60 mill) as of September 1986. As a senior official of one commercial bank has acknowledged, Botswana is "awash with money" (Economist Intelligence Unit, No. 1, p. 26, 1987).

In sum, this section has illustrated that there is idle money in the system and that the commercial banks are underloaned. Why does this paradoxical situation prevail? Why do people put their savings in the banks and not into productive investments? Documents for the 1989 annual SADCC conference (Luanda) suggest the most probable reason: The overall investment climate is not conducive to new investments (SADCC, 1989). On the one hand, this means that private savers opt for the banks. On the other, commercial banks are unwilling to make loans from their short-term deposits to risky, long-term, investment projects. One could argue that it is up to the national governments to provide the right framework for investment, but part of the blame rests also with the banks. They continue to adhere to strict profit-maximization criteria
and they could undoubtedly have been seeking investment opportunities more actively.

**Direction of Bank Credit**

The commercial banks in the region do not lend funds to finance industrialization as that proposed for tractor manufacture. Table 4.6 shows commercial bank lending, in percent and by sector, for selected years between 1980 and 1985. Though further research is required to determine what kinds of investments receive credit within the sectors identified, a few conclusions can be drawn from Table 4.6. First, as the theoretical literature reviewed in Chapter Two suggests, the bulk of commercial bank loans goes to trade financing. Furthermore, commercial banks in all countries (except Swaziland) have, since 1980, increased the share of loans to the trade sector. Second, while Swaziland's manufacturing sector stands out, it engages predominantly in first-stage processing of export crops (UNIDO, 1985) and is heavily dominated by South African interests. Furthermore, as shown in Chapter Three, Swaziland's tractor project still lacks funding. Third, the Zimbabwean government has taken a large and increasing share of commercial bank credit: 32 percent in 1980 and 46 percent in 1985. This reflects Zimbabwe's rapid expansion of social services, post-war reconstruction and continued defense expenditures (Seidman, 1986). Fourth, although Tanzania nationalized banks in 1967, hardly any credit went to capital goods production (Mittelman, 1981). It is also striking that while the share to agriculture is falling, an increasing share of Tanzania's bank credit is going to trade financing.6a

The physical concentration of commercial banking activities points to the continued adherence to profit-maximizing lending criteria. For example, between 1970 and 1985 commercial banks in Zimbabwe invariably made 90—92 percent of their debit entries in Harare, the capital, and Bulawayo, the second largest city (Quarterly Digest of Statistics, CSO, September 1986). This reflects and reinforces the dualistic nature of Zimbabwe's economy (Seidman, 1986b).

Despite the locally generated investable surpluses and the substantial amounts of funds lying idle in the vaults of the commercial banks, neither governments nor local investors have been able to finance the proposed tractor projects. Although Zambia had set tractor production as a priority before SADCC was launched, it could not muster the USD 8.7 million necessary to finance it.69 In Tanzania, where the government controls the banking sector, the SMC/Valmet project is an exception. Here the government has managed to raise USD 1 million to meet the entire “local cost” of the
<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Mining &amp; Quarrying</th>
<th>Agriculture &amp; Forestry</th>
<th>Households</th>
<th>Manufacturing</th>
<th>Trade</th>
<th>Construction</th>
<th>Transport &amp; Communication</th>
<th>Finance Insurance &amp; Real Estate</th>
<th>Marketing of Agric. Produce</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>1980</td>
<td>33</td>
<td>18</td>
<td>15</td>
<td>5</td>
<td>13</td>
<td>4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>1983</td>
<td>13</td>
<td>9</td>
<td>19</td>
<td>7</td>
<td>23</td>
<td>5</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>1984</td>
<td>16</td>
<td>7</td>
<td>15</td>
<td>4</td>
<td>35</td>
<td>5</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>18</td>
</tr>
<tr>
<td>Lesotho</td>
<td>1981</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>53</td>
<td>14</td>
<td>5</td>
<td>5</td>
<td>—</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1983</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>12</td>
<td>59</td>
<td>9</td>
<td>5</td>
<td>4</td>
<td>—</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>1985</td>
<td>—</td>
<td>6</td>
<td>8</td>
<td>5</td>
<td>57</td>
<td>12</td>
<td>5</td>
<td>4</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1980</td>
<td>—</td>
<td>26</td>
<td>1</td>
<td>36</td>
<td>18</td>
<td>6</td>
<td>10</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>1983</td>
<td>3</td>
<td>17</td>
<td>3</td>
<td>47</td>
<td>9</td>
<td>10</td>
<td>4</td>
<td>—</td>
<td>—</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>1986</td>
<td>—</td>
<td>21</td>
<td>—</td>
<td>39</td>
<td>14</td>
<td>6</td>
<td>7</td>
<td>—</td>
<td>—</td>
<td>13</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1980</td>
<td>9</td>
<td>6</td>
<td>—</td>
<td>(d)</td>
<td>10</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>63</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>1983</td>
<td>8</td>
<td>3</td>
<td>—</td>
<td>17</td>
<td>2</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>1985</td>
<td>8</td>
<td>4</td>
<td>—</td>
<td>26</td>
<td>2</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>36</td>
</tr>
<tr>
<td>Zambia</td>
<td>1980</td>
<td>12</td>
<td>7</td>
<td>11</td>
<td>19</td>
<td>16</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>—</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>1983</td>
<td>13</td>
<td>13</td>
<td>4</td>
<td>15</td>
<td>15</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>—</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>1985</td>
<td>5</td>
<td>13</td>
<td>9</td>
<td>14</td>
<td>24</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>—</td>
<td>23</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1980</td>
<td>4</td>
<td>15</td>
<td>7</td>
<td>17</td>
<td>7</td>
<td>1</td>
<td>—</td>
<td>10</td>
<td>—</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>1983</td>
<td>5</td>
<td>12</td>
<td>5</td>
<td>15</td>
<td>10</td>
<td>1</td>
<td>—</td>
<td>8</td>
<td>—</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>1985</td>
<td>2</td>
<td>10</td>
<td>4</td>
<td>9</td>
<td>8</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>5</td>
</tr>
</tbody>
</table>

a) Includes loans to both public and private sectors. No data available for Angola, Mozambique and Malawi. 1985 data was not available for Botswana; 1980 for Lesotho and 1985 for Swaziland.

b) Loans to parastatals are included under "other". They amounted to 2%, 9%, and 8% respectively.

c) "Trade" also includes loans for tourism; not separated in Swazi statistics.

d) "Mining and Quarrying" also includes loans for manufacturing; not separated in Tanzanian statistics.

e) "Other" includes loans to government which, however, between 1980 and 1985 did not exceed 6 percent.

f) "Other" includes loans to government which amounted to 32%, 41%, and 46% respectively.

project (SADCC, 1986).

The lack of implementation of the projects in Angola and Mozambique is probably less a result of inability to raise investment funds — government controls the banking sectors — than the South African-sponsored war activities.

The above has shown that the commercial banks are geared to trade financing. This points to the need for an institutional extension of the financial system. Some countries already have investment banks and rural development banks, others still need them. Once established, it is critical that these institutions be permitted to offer competitive terms to depositors. Otherwise, the scarce domestic savings will continue to pile up in the trade-oriented commercial banks, instead of facilitating productive, long-term, investments.

4.2.4. Parastatal Finance Institutions

An examination of the loans granted by the Agricultural Finance Corporation (AFC) in Zimbabwe lends further support to the argument that financial institutions continue to adhere to profit-maximization lending criteria. Obviously, a certain measure of financial responsibility is required, but the focus on the profit-maximization criteria tends to be too narrow. The AFC is a parastatal that finances both the commercial and communal farming sectors. It was set up before independence for commercial farmers because the banks did not finance them. Despite the objectives of the independent government, the AFC has resisted shifting focus to the African peasants. All its funds come from the government and foreign aid sources. The AFC finances approximately 20 percent of the tractor sales in Zimbabwe.

In 1986, AFC loans financed purchases of 18 tractors by communal and resettlement farmers, and 105 tractors by small- and large-scale commercial farmers. In terms of value of the tractor loans, 13 percent went to the former and 87 percent to the latter group of farmers. The value of loans granted for tractors (Z$ 2,849,246) amounted to two percent of total AFC loans (Z$ 154 million). The above illustrates two points: (1) Though attempts were made after independence to redirect the focus to the African farmers, the AFC has failed to change fundamentally the distribution of loans. (2) Even a parastatal financing corporation of a country that espouses a socialist ideology does not do much to support farmers although they might be potential buyers of small tractors.

The table clearly illustrates that based on their "credit-worthiness" commercial farmers receive the lion's share. Ninety-seven percent of all loans went to communal and resettlement farms, but they amounted to only 42 percent of total value. In contrast, taking only one percent of the loans, the commercial farmers received the largest share (52 percent) of the value. The
Table 4.7 Agricultural Finance Corporation Loans, 1986 (a)

<table>
<thead>
<tr>
<th>Loans/Value</th>
<th>Communal Farms</th>
<th>Resettlement Farms</th>
<th>Large-Scale Commercial</th>
<th>Small-Scale Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of loans</td>
<td>76,627</td>
<td>11,550</td>
<td>779</td>
<td>1,726</td>
</tr>
<tr>
<td>Percent of all loans</td>
<td>85</td>
<td>13</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Value of loans, mill Z$</td>
<td>56.9</td>
<td>8.2</td>
<td>80.2</td>
<td>8.7</td>
</tr>
<tr>
<td>Percent total value</td>
<td>37</td>
<td>5</td>
<td>52</td>
<td>6</td>
</tr>
<tr>
<td>Average loan, Z$</td>
<td>743</td>
<td>710</td>
<td>102,953</td>
<td>5,041</td>
</tr>
</tbody>
</table>

a) The figures cover loans dispersed from April to September 1986 but, in regard of the agricultural season in Zimbabwe, the AFC estimated that the figures cited would include 90% of total loans for 1986.

Source: Personal interview at AFC (31110186); various articles in local newspapers.

average loan to commercial farmers was 139 times larger than the average loan to communal farmers.

The actual lending criteria of the AFC further substantiate the claim that the inherited standards of profit-maximization prevail. The AFC examines the "viability" of a farming operation before granting a loan. Whether to poor communal or wealthy commercial farmers, all loans are charged an annual interest rate of 14 percent. In response to the suggestion that small farmers ought to get better loan terms, an AFC representative said: "Credit is not cheap, it is a scarce resource that must be used efficiently and economically."

In a case study of 10 small-farmer groups in Northeastern Zimbabwe that each purchased a tractor, Kalyalya et al. pointed out that some farmers felt that they were "just working for the AFC" (1987).

4.3. National Institutions

National government institutions constitute societies' only means of reallocation of resources and reshaping markets to meet the needs of the majority — in this case, to implement SADCC policies. Nevertheless, several aspects of the national institutions have, and continue to, inhibit the development of a regional integrated tractor industry: (1) the existing institutions have a national rather than a regional focus; (2) differing national investment codes fritter away potential benefits from foreign investment instead of guiding it into priority areas; (3) a diverse pattern of national trade restrictions and trade agreements limit intra-industrial specialization and trade in tractor...
components; and (4) the uncoordinated policies of the central banks aggravate the difficulties offinancing tractor projects and expanding intra-regional trade in tractors and components. In a nutshell, the inherited sets of national institutions remain inadequate to counter the "market forces" which still shape the poor, and worsening, tractor situation in Southern Africa. In some cases, the existing national institutions actually reinforce the negative effects of transnational corporate domination.

4.3.1. National Bias in Planning
As political independence was granted to individual countries on the basis of the colonial powers' political subdivision of the African continent, national sovereignty rather than regionalism tended to become paramount (Mutharika, 1981). In the anglophone states of Southern Africa, "ministries" were usually substituted for the "departments" of the colonial governments, and in some cases their functions remained much the same (Seidman, 1974; Thomas, 1974). The inherited system was designed to provide infrastructure, leaving the productive sectors, particularly manufacturing, to take care of themselves. Where this remains the basic function of the ministries today, simply appending new policies and programmes onto the old structure appears unlikely to ensure that they will change their role (Cliffe, 1981). Hence, the inherited national institutions, particularly in the "commanding heights" of the economies, encourage autarchic national planning and the strengthening of individual nation-states.

4.3.2. Competition for Investment
The foreign investment codes adopted by the separate SADCC member states do not adequately control transnational corporations to ensure their positive contribution to development of an integrated regional tractor industry.

On the contrary, they reflect the SADCC countries different perceptions of the advantages of foreign investment, and instead of facilitating cooperation to put a floor under investments to foster implementation of a regional industrial strategy, the existing investment codes stimulate competition between the SADCC members. Figure 4.1 provides an overview.

Although it is obvious from the incentives offered by each state, all the SADCC members—including socialist-oriented Angola, Mozambique and Tanzania—state explicitly that they encourage foreign investment. In addition to what is shown in figure 4.1, practically all the states offer attractive depreciation and tax deduction allowances in order to entice investors. Botswana, Malawi and Zimbabwe also have double taxation agreements with several
### SADCC Investment Codes, 1986

<table>
<thead>
<tr>
<th>Guarantee against nationalization and compensation in hard currency</th>
<th>ANG</th>
<th>BOT</th>
<th>LES</th>
<th>MAL</th>
<th>MOZ</th>
<th>SWA</th>
<th>TAN</th>
<th>ZAM</th>
<th>ZIM</th>
</tr>
</thead>
<tbody>
<tr>
<td>yes</td>
<td>—</td>
<td>yes</td>
<td>—</td>
<td>yes</td>
<td>—</td>
<td>yes</td>
<td>—</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit and dividend transfer in % of capital invested per year</th>
<th>25</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>—</th>
<th>—</th>
<th>50</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Access to local loans</th>
<th>yes</th>
<th>some</th>
<th>yes</th>
<th>yes</th>
<th>yes</th>
<th>yes</th>
<th>—</th>
<th>—</th>
<th>—</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Tax holidays, years</th>
<th>yes</th>
<th>up to 2</th>
<th>up to 6</th>
<th>—</th>
<th>2—10</th>
<th>5</th>
<th>—</th>
<th>—</th>
<th>—</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Provisions for exemption of customs duties</th>
<th>yes</th>
<th>—</th>
<th>—</th>
<th>yes</th>
<th>yes</th>
<th>yes</th>
<th>—</th>
<th>yes</th>
<th>yes</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Company tax, %</th>
<th>—</th>
<th>25</th>
<th>—</th>
<th>50</th>
<th>—</th>
<th>38</th>
<th>50</th>
<th>50</th>
<th>52</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Withholding tax on remittances of dividends, %</th>
<th>—</th>
<th>15</th>
<th>none</th>
<th>none</th>
<th>none</th>
<th>15</th>
<th>10</th>
<th>none*</th>
<th>20</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Monopoly licence protection</th>
<th>—</th>
<th>—</th>
<th>5 years</th>
<th>—</th>
<th>—</th>
<th>—</th>
<th>—</th>
<th>—</th>
<th>—</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Training costs reimbursed, %</th>
<th>—</th>
<th>—</th>
<th>75</th>
<th>—</th>
<th>**</th>
<th>some</th>
<th>—</th>
<th>50</th>
<th>—</th>
</tr>
</thead>
</table>

* After the first 5 years: 20 percent.
** 300% of training costs is tax deductible.

Table 4.8 Direct Foreign Investment, (USD mill)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>89</td>
<td>21</td>
<td>25</td>
<td>62</td>
<td>52</td>
<td>91</td>
<td>340</td>
</tr>
<tr>
<td>Zambia</td>
<td>-38</td>
<td>39</td>
<td>26</td>
<td>17</td>
<td>52</td>
<td>-</td>
<td>96</td>
</tr>
<tr>
<td>Swaziland</td>
<td>34</td>
<td>-6</td>
<td>1</td>
<td>-1</td>
<td>11</td>
<td>10</td>
<td>49</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>4</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>3</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Malawi</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Lesotho</td>
<td>-12</td>
<td>-16</td>
<td>-19</td>
<td>12</td>
<td>-9</td>
<td>-5</td>
<td>-49</td>
</tr>
<tr>
<td>South Africa</td>
<td>579</td>
<td>381</td>
<td>-87</td>
<td>251</td>
<td>-497</td>
<td>-116</td>
<td>511</td>
</tr>
</tbody>
</table>


countries. Zambia generously offers tax deductions for a period of 5 years for 50 percent of salaries paid to Zambian manpower, probably in an attempt to Zambianize management.

Even a cursory glance at figure 4.1 leaves no doubt that most of the SADCC countries are desperate for new foreign investment. Lesotho, Swaziland and Botswana all offer "tax holidays." Lesotho, however, tops the list with: guarantee against nationalization; unlimited profit and dividend remittances—without deduction of withholding taxes; access by foreigners to domestic loan sources; up to 6 years tax holiday; 5 years exclusive (monopoly) license protection; and 75 percent of training costs reimbursed indefinitely. Quite attractive indeed!

Although the SADCC states compete to offer the most attractive investment opportunities, the flow of non-concessional resources from the OECD countries to the SADCC region fell 68 percent from $1,183 million in 1981 to $381 in 1984 (UNIDO, 1986b, p. 17). Table 4.8 provides a different measure of the failure to attract foreign investment.

According to the IMF's definition of direct investment, Botswana, Zambia, and Swaziland have received the most investment, but the actual amounts are negligible, and almost none of them in manufacturing. Although the IMF data do not reveal the kinds of investments made, the investments in Botswana mostly went to the mining of diamonds and associated infrastructure. In general, as Aharoni so eloquently expressed it: "Tax exemption is like dessert. It is good to have, but no more. It does not help if the meal is not there" (cited in Makgletla, 1986). In other words, the objective conditions—existing resources, infrastructure, export possibilities, stability, and the political situation—are likely to be more important. Despite the fact that
evidence from elsewhere shows that tax exemptions are not key factors influencing location decisions by foreign investors, the SADCC countries still compete in giving away the potential benefits of transnational corporate investments (Makgetla, 1986).

The investment codes in "Investor's Guide to SADCC Countries" (UNIDO, 1986b) shows that none but Tanzania make an appreciable effort to direct investment to priority areas like the integrated regional tractor industry. Instead, the projects promoted by this kind of competition are those that suit the interests of the foreign investors. Independent Zimbabwe's first foreign investor, for example, was a Danish chewing gum manufacturer, "Dandy" — hardly what Zimbabwe needed most.

As Prime Minister Robert Mugabe commented on transnational corporations in his address to the 1980 SADCC ministerial session in then-Salisbury: "They produce, unless properly controlled by a system of regulatory measures, a mouse's share for us and a lion's share for themselves" (The Herald, 12/9/80).

In recognition of the need for more cooperation in directing foreign investments to priority areas, SADCC's Industry and Trade Division in 1986 began to work toward a common position relating to investments in the region. By the end of 1988, however, the SADCC states still had only managed to list their investment incentives (emphasis added) in a common guide to foreign investors (UNIDO, 1986b).

In summary, the differing national investment codes allow transnationals to play SADCC states off against one another in order for them to obtain the best deal. As a result, investment does not go to priority areas like the tractor industry.

4.3.3. Trade Restrictions and Trade Agreements

The diverse national patterns of trade restrictions, trade agreements, and monetary policies present a significant obstacle to the kind of planned intra-regional trade required to make an integrated regional tractor industry viable.

Botswana, Lesotho, Swaziland and South Africa, all members of the Southern African Customs Union (SACU), have a free trade system between them. SACU also has a common external tariff. This tends to block efforts of the remaining SADCC countries to compete with South Africa in the Botswana—Lesotho—Swaziland market (Chr. Michelsen Institute, 1986; Tostensen, 1982). Furthermore, under the SACU agreement, Botswana, Lesotho and Swaziland must seek South African approval before entering into any other trading arrangement (Anglin, 1983). This naturally has
serious implications for the restructuring of trade in the SADCC region. Because the three countries receive relatively substantial customs revenue from SACU, however, they are reluctant to break away. Lesotho and Swaziland are also members of the Rand Monetary Area and are therefore closely tied to the South African economy. Their membership in the Rand Monetary Area prevent Lesotho and Swaziland from giving equal treatment to regional goods with respect to import licensing and exchange control (Nsekela, 1981).

Malawi has a relatively open import policy with few quantitative restrictions. The country has preferential trade agreements with South Africa and Botswana.

The remaining five SADCC countries regulate imports more strongly. Zimbabwe has import licenses, quotas and other tariff and non-tariff import restrictions. The country also has limited preferential trade agreements with South Africa and Botswana. Angola's import license system effectively reduces imports of lower-priority items. Angola gives no particular trade preferences to other SADCC countries, except Mozambique. Because of the very serious lack of foreign exchange to cover import needs, Mozambique, Tanzania and Zambia allocate foreign exchange only to priority needs. These three countries have the most rigid trade restrictions.

Again, though it cannot be proved, it seems certain that the existing trade restrictions have inhibited the development of regional intra-industrial specialization in tractor components. First, components or tractors manufactured elsewhere in the SADCC region do not have access, on a competitive basis, to the markets of Botswana, Lesotho and Swaziland. Second, Malawi and Zimbabwe are reluctant to forgo their duty-free imports from South Africa, and Mozambique and Tanzania have trade agreements with non-regional partners. Third, apart from trade flows between Botswana—Lesotho—Swaziland; Botswana—Zimbabwe; Botswana—Malawi; and Tanzania—Mozambique”, all intra-regional trade in tractor components and assembled tractors is subject to a host of trade restrictions. In short, the existing regimes of trade restrictions constrain potential regional tractor projects.

4.3.4. Central Banks
As elsewhere, SADCC member states' central banks may regulate commercial banks. However, they have failed to redirect transnational banks' lending policies to help finance assembly plants and factories to manufacture tractor parts that might lead eventually to production of tractors. Instead, three aspects of central bank policies have contributed to defeat SADCC’s desire to build a regional tractor industry: (1) varying and fluctuating interest rates;
(2) differences in credit periods; and (3) the mutual non-convertibility and fluctuation of the national currencies of the SADCC countries.

All the SADCC countries except Lesotho have central banks. They execute monetary policies according to their perceptions of national needs. As Figure 4.2 shows, the discount rates of central banks have fluctuated widely between 1980 and 1986. The variation of interest rates among the SADCC countries complicates the financing of joint-state regional tractor projects and long-term trade arrangements.
Central banks in Botswana, Malawi, Swaziland, Zambia and Zimbabwe allow companies to offer up to 180 days export credit. In Angola, Tanzania and Mozambique, only 60 days are allowed (Chr. Michelsen Institute, 1986). This is considerably shorter than for many of their main competitors in Europe, South Africa and elsewhere, and the interest rates to be paid by the importer (or covered by the exporter) are often higher." No evidence exists to prove that varying interest rates and credit periods have thwarted implementation of regional integrated tractor industries, but they are very likely to have been significant factors. Certainly, the differing and generally short credit periods have constrained intra-regional trade in goods like locally assembled tractors.

The nine SADCC member states each have their own national currencies. The currencies of Malawi, Mozambique, Tanzania, Zambia and Zimbabwe are pegged to a trade-weighted basket of currencies. The Botswana Pula is pegged to the Special Drawing Right (SDR) and the South African Rand. Lesotho's and Swaziland's currencies are pegged to the South African Rand (IFS, 1984). The Angola Kwanza has been fixed at 30 per U.S. dollar since 1976 (Africa South of the Sahara, 1987).

As the national currencies are mutually non-convertible, intra-regional transactions have to be settled in hard currency, most often the U.S. dollar. Fluctuations in national exchange rates vis-a-vis the U.S. dollar therefore complicate intra-regional trade. When the 1980 exchange rates with the U.S. dollar are indexed at 100, certain patterns become apparent between 1980 and 1987. Lesotho's and Swaziland's rates did not fluctuate more than one point vis-a-vis another and stood at 267 per U.S. dollar in February 1987. Lesotho, Swaziland, Botswana, Malawi and Zimbabwe's exchange rates stayed relatively close, fluctuating no more than 62 points vis-a-vis another. By February 1987, the exchange rates reached the following index points: Botswana (221); Malawi (261); and Zimbabwe (255). Tanzania and Zambia, however, both felt the impact of IMF promoted devaluations. Tanzania followed the countries above until 1985. In 1986 its exchange rate reached 399 points, and by February 1987, it was 663 per centage points over its 1980 exchange rate. Having depreciated to 344 points in 1985, the Zambian Kwacha "jumped" to 926 in 1986 and 1,145 points by February 1987. By April 1987, the Kwacha's index rate was 2,376. In other words, whilst the Zambian Kwacha exchanged for 0.79 to the U.S. dollar in 1980, it took 18.75 Kwachas to buy a U.S. dollar in April 1987 (IMF, International Financial Statistics, April 1987; Africa Research Bulletin, April 1987). That represents more than a two thousand percent depreciation of the Zambian Kwacha in terms of the U.S. dollar.

While the official exchange rates of six of the SADCC members were
Table 4.9 *Parallel Exchange Rates, Mid-1986*

<table>
<thead>
<tr>
<th>Country</th>
<th>Official Rate (per USD)</th>
<th>Parallel Rate (per USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>29.91</td>
<td>1,200.00</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2.31</td>
<td>n.a.</td>
</tr>
<tr>
<td>Malawi</td>
<td>1.99</td>
<td>6.00</td>
</tr>
<tr>
<td>Mozambique</td>
<td>40.01</td>
<td>1,700.00</td>
</tr>
<tr>
<td>Tanzania</td>
<td>43.30</td>
<td>120.00</td>
</tr>
<tr>
<td>Zambia</td>
<td>6.89</td>
<td>10.00</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1.68</td>
<td>3.50</td>
</tr>
</tbody>
</table>

Source: Private communication with various researchers in Southern Africa.

relatively stable vis-a-vis each other, a measure of caution must be exercised before any conclusions are drawn. Several of the currencies are grossly overvalued compared with the so-called parallel, or black market, exchange rates on the basis of which a considerable share of transactions are carried out. Table 4.9 indicates the divergence between official and reported parallel exchange rates.

The national currencies generally tend to be overvalued, but it is striking to note from Table 4.9 how much the official exchange rates are overvalued in Angola and Mozambique. In these countries, where the governments have full control of commercial banks, the exchange rates are fixed and not allowed to fluctuate according to market demands. The state also controls commercial banking in Tanzania, but its currency is no more overvalued than the Kwacha in Malawi, where foreign interests in commercial banks are considerable. It is unclear what conclusions to draw from this.

In any event, the general discrepancies between official and parallel exchange rates have serious implications on the prospects for regional tractor projects and increased intraregional trade. Official exchange rate fluctuations render it difficult to plan and share the financial burdens in multi-state tractor projects; the overvaluation of several of the currencies exacerbates the problem. Official devaluations in some countries, often imposed by the IMF (as was the case in Mozambique, Zambia and Zimbabwe), also put enormous pressure on others to do so, since they cannot sell their outputs in neighboring countries if they do not. Above all, the volatile nature of the regional exchange rates deters state or private traders from entering into long-term trading arrangements, which are key to the development of tractor manufacturing industries with regional scope.

In summary, although they represent the member countries' only means of
ensuring implementation of SADCC policies, the inherited national institutions constrain the development of a regional tractor industry in several ways: the planning institutions exhibit national biases; the differing national investment codes stimulate competition among SADCC members, thus reducing potential benefits from foreign investment; the diverse patterns of trade restrictions and agreements constrain implementation of long-term plans for intra-regional trade in tractor components; and the differing policies of the central banks aggravate the difficulties of financing tractor projects and expanding intra-regional trade in tractors and components.

4.4. Donor Policies and Multilateral Institutions

"...We seek to relate with them [donors] on the premise that there is neither help nor charity; there are perceived gains and interests on both sides" (Simba Makoni, SADCC Executive Secretary; The Herald, 8/8/85).

Some aspects of international aid agencies' current practices run counter to the development of projects like the integrated regional tractor industry. Heavily dependent on aid, SADCC states are forced to accept tractor kits that often increase the number of different models, thus making it harder to standardize; the type of tractors introduced via aid reinforces the use of inappropriate tractors; donor preference to give aid to individual nations does not foster regional cooperation; and IMF's insistence that governments reduce intervention hamstring efforts of SADCC member states to restructure national institutions to support regional projects.

4.4.1. Tractor Kits as Foreign Aid

Unable to launch tractor industries of their own as a result of the inability to raise funds, SADCC governments have welcomed tractor imports (and tractor kits) via foreign aid and barter arrangements. Table 4.10 shows the Zimbabwean example.

Individual SADCC governments' acceptance of tractor kits from several donors—including some they had not imported in the past—increases the multitude of different tractor makes. As already noted, when donors grant "new" tractor models, the recipient becomes dependent on import of new types of spare parts. This proliferation tends to thwart SADCC’s aims to standardize and produce its own tractors.

Although information is not available for the region as a whole, Zimbabwean data shows the trend. The foreign exchange available to the Zimbabwean government and hence its allocations to the tractor industry are insuffi-
Table 4.10  *Tractors Imported Via Aid/Barter, Zimbabwe, 1980–85*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent:</td>
<td>12</td>
<td>16</td>
<td>29</td>
<td>65</td>
<td>51</td>
<td>82</td>
</tr>
</tbody>
</table>

a) Data for 1980–84 are from the Ministry; for 1985, from the CFU.

Source: Own calculations based on data from the Ministry of Agriculture and Commercial Farmers Union. See footnotes in Chapter Three.

cient even to meet its present import requirements. In 1985, the Zimbabwean government allocated only USD 1.2 million for all tractor imports. This financed the import of only about 100 tractors (Interview, CFU, 15/10/86). The government allocated only Z$100 (USD 60) per year for spare parts for each tractor! (Financial Gazette, 22/2/85.)

Scarce foreign exchange positions and balance of payment problems force most SADCC countries to accept donors’ offers for fully built up tractors and semi knocked-down kits. Yet, if merely to maintain tractors in functional repair, the need to reduce the diverse range of different tractor makes is recognized by governments and in Zimbabwe, even by the Agricultural Dealers Manufacturing Association (Financial Gazette, 1/11/85). When asked whether rationalization would help, however, the manufacturing division manager of one of Zimbabwe’s tractor assembly plants responded:

"Rationalization only makes sense on paper. Consider this: If you decide to assemble only 3 makes, say MF, Ford and Fiat, what happens if a foreign donor offers you USD 200,000 worth of kits for Romanian or German tractors? Nobody would be foolish enough to turn it down!" (Interview, 3019186)

Aid packages are typically tied to purchase of spare parts from the donor country. For example, rather than encouraging Zimbabwean producers to develop local capacity to manufacture spare parts, a Z$3 million grant from the United Kingdom for rehabilitation of 140 Massey Ferguson tractors (over a two year period) contained a clause stipulating that all the parts were to be imported from Britain (Financial Gazette, 1/8/86).

The kinds of tractors provided by the donors tend to reinforce the introduction of a degree of sophistication that is inappropriate both in terms of need and the possibility of manufacturing spare parts locally. In 1984, a USAID scheme financed the import and sale of "computerized" tractors to Zimbabwean commercial farmers (Fin. Gaz., 23/3/84). In 1986, a USD 5 million grant from USAID’s Commodity Import Program provided tractors and spares from four United States companies to be assembled at Willowvale in Zimbabwe. All the tractors were between 80 and 120 HP in size (Financial Gazette, 14/3/86). These were hardly meant for the small-scale farmers.
4.4.2. *Divisive Bilateral Aid*

Another negative aspect is the donors' conventional practice of granting aid to individual countries as opposed to groups of recipients. In the case of tractors this reinforces the tendency to establish national, not regionally oriented projects. Oliver Saasa of the University of Zambia has stated that many donors find the support and execution of regional programmes too risky, uncertain and often too expensive compared to national-based projects (Herald, 15/10/85). This donor attitude may have discouraged potential SADCC member states' interest in launching an integrated regional tractor project. As a chief economist at the SADCC Secretariat in Gaborone explained: "There are no regional projects, really. They are regional only in the sense that they are coordinated" (Interviews, Oct. 6–8, 1986).

The United States refuses to grant aid to regional projects that benefit either Angola or Mozambique (Africa Report, May 1987). Mr. Simba Makoni, SADCC's Executive Secretary, is reported to have said that either the United States deals with SADCC as a family of nine, or not at all (Africa Report, May 1987). In any event, by 1985 the total contribution by the United States to SADCC projects had been only around USD 50 million (Østergaard, 1988). By comparison, Abdul Minty claims that the total U.S. assistance to the SADCC states is less than their support to the UNITA rebels in Angola (ECASAAMA Conference, Bonn, Dec. 8–10, 1988).

At the first pledging conference, in Maputo 1980, even the EEC's pledge of USD 100 million was restricted to member countries of the Lomé Convention, thus excluding Angola and Mozambique (Meyns, 1984). This obviously ran counter to SADCC's aims. Since then, however, Mozambique has become a member of the Lomé Convention, and Angola has applied to join.

4.4.3. *The Role of the IMF*

Several SADCC member states are so heavily indebted that they have little choice but to accept the IMF's "structural adjustment programs". While these countries mostly had positive annual net flows with the IMF, every year between 1981 and 1985 Tanzania made net negative transfers to the IMF, amounting to a total net outflow of USD 72 million. Zambia had net outflows in 1982 (USD 49 million) and 1985 (USD 19 million); and in 1985 Zimbabwe made net transfers to the IMF of USD 38 million (Africa Research Bulletin, April 1987).

It can be argued that the IMF sucks funds out of Africa. In 1986, the net negative transfer to the IMF from the whole of Africa was USD 923 million (Africa Research Bulletin, April 1987). The loan conditions provided by the
IMF make it extremely difficult for several debtor-nations to service and repay their IMF loans. Furthermore, the IMF-imposed programs have frequently failed to meet their objectives; the economic problems persist, or get worse.

Coupled with the devaluations imposed on Tanzania and Zambia, the loan repayments to the IMF and other creditors have made it extremely difficult to finance projects like the proposed regional tractor industry.

The IMF-promoted devaluations, which began in October 1985, spelled doom for Zambia's tractor project already under implementation. Within a few months, the price for a small tractor soared more than 300 percent to reach ZK 120,000 (USD 17,000) (New African, December 1985). As the weekly currency auctions continuously raised the sales prices of tractors, the government in December 1985 decided to shelve its long-standing plans to open a plant to assemble small tractors (Makgetla, 1986b).

Moreover, the IMF has insisted that SADCC members reduce state activity designed to foster greater industrial growth to develop more balanced integrated economies (Seidman, 1985). As discussed above, the SADCC member states, alone, can intervene to redirect investment, finance and trade to support industrial projects like the regional tractor industry. Considering that funds from the international community tend to dry out if a country is in dispute with the IMF, unless the SADCC states discover an alternative to accepting IMF dictates, prospects for creating a self-reliant tractor industry in Southern Africa appear dim.

In sum, donor practices tend to increase the diversity of the regional tractor fleet and reinforce the use of inappropriate tractors. Aid to overcome the tractor shortage does not promote self-sufficiency, nor true regional projects. The IMF’s policies may thwart essential state efforts to redirect investment and trade to support an integrated regional tractor industry.

4.5. Summary
The evidence supports the propositions advanced in chapter two to explain the unsatisfactory tractor situation in the SADCC region. First, the transnational corporations’ control of the tractor import business has precluded local investment in tractor manufacturing, increased the diversity of tractor makes and reinforced the use of inappropriate tractors. Second, pervasive foreign domination of the commercial banks reduces local control of locally generated investable surpluses. Third, the national institutions are inadequate to counter the role of the transnationals and do not guide foreign investment into priority areas. Fourth, donor policies exacerbate the influences of
transnational corporations and do not foster a regional approach to the tractor industry. Finally, IMF insistence that governments reduce intervention in their own economies hamstrings efforts of SADCC member states to restructure national institutions to support regional projects like the tractor industry.
5. Building a Regional Industry

Covering an area almost the size of the United States without Alaska, the nine states of the Southern African Development Coordination Conference (SADCC) occupy one of the richest land areas in the world. The region is endowed with a diversity of valuable minerals, it is a net exporter of energy, and its varied agricultural conditions could provide more than enough food for the 74 million inhabitants of the region. Furthermore, as this study has shown, the SADCC countries do generate investable surpluses and the commercial banks hold ample funds. Nevertheless, every SADCC country is plagued with poverty, increasing unemployment and rising debts.

After Zimbabwe's independence in 1980, the leaders of the Frontline States addressed this contradiction. In April 1980, the nine independent states of Southern Africa launched the SADCC with the two primary objectives of reducing dependence (particularly on South Africa) and forging links to create a genuine regional integration.

While the SADCC members initially focused on communication and transportation infrastructure, they considered the industrial potential of the region from the outset. At the January 1983 Maseru Conference, the SADCC members presented 88 industrial projects for implementation and feasibility studies. Progress on industrial development, however, has so far not been very successful. Furthermore, intra-regional trade did not increase between 1980 and 1986 and, at less than five percent of the nine countries' total trade, it testifies to the lack of complementarity of the SADCC economies. Hence, in recognition of the mutually supportive roles of industrial development and intra-regional trade, in June 1986 SADCC launched the Industry and Trade Coordination Division in Dar es Salaam.

In line with SADCC’s new emphasis, this study has explored the reasons for the unsatisfactory progress on industrial development and intra-regional trade. To offer insights into concrete problems, it has used a case study on the tractor situation in Southern Africa. Tractor production was one of SADCC’s earliest priorities. As the design and implementation of tractor projects give rise to most of the fundamental questions that must be addressed in any basic industry, the elucidation of the problems confronting the tractor industry may have relevance to other present and future industrial projects.

The literature on regional integration and the problems arising from the
tractor case study point to five areas of constraints which are likely to confront any regional industrial project: (1) ideological differences and different degrees of economic development; (2) national institutions; (3) transnational corporations; (4) banks and financial institutions; and (5) donor policies and institutions. SADCC can alter neither the political ideologies nor, in the short-term, the different degrees of economic development of the member countries, so they must be treated as a given. Nevertheless, the SADCC states may reach agreements to overcome the constraints in the remaining four areas. This study has advanced four sets of propositions to explain the difficulties.

5.1. Overcoming the Constraints

If the reasons discussed in this study for the unsuccessful development of regional industries and intra-regional trade are valid, it follows that the SADCC members must find ways to work together to tackle the constraints identified in the four areas. The background papers to the 1987 Gaborone Annual Conference (see Chapter One) suggest that the members are ready to make a certain degree of institutional change to achieve the goals of SADCC's "new phase of cooperation": increases in production and intra-regional trade. With the new trend in mind, the remainder of this chapter presents a series of proposals that follow logically from the explanatory propositions. The proposals are tentative; further research is required in each area.

5.1.1. National Institutions

The limits of SADCC's industry-by-industry approach to coordinated regional development

The tractor case study suggests that an industry-by-industry approach to regional industrial integration is unlikely to succeed because not all member states can benefit equally. As in other industries, it is not feasible to allocate component manufacturing and assembly plants in the tractor industry to every SADCC country. With SADCC's current industry-by-industry approach, some will benefit more than others from the development of the tractor industry. Unlike infrastructural programs, it is difficult to distribute benefits with isolated industrial projects. Yet the SADCC members will not likely accept the resulting further uneven development. In short, as suggested by others (Haarlov, 1986a; Meyns, 1984; Seidman, 1986d) the analysis of the tractor case reinforces the need for the formulation and implementation of an industrial development strategy. This kind of strategy could allocate to each state an "industrial complex" to ensure mutual benefit (Griffin, 1969) from
involvement in the SADCC endeavor. Additionally, a regional industrial strategy could provide a framework and a regional set of criteria within which the SADCC states could monitor and direct the activities of transnational corporations, banks, and aid institutions. For all these reasons, formulation and implementation of a clearly defined regional industrial strategy would facilitate development of a regional tractor industry.

Planning institutions
Implementation of a regional industrial plan and, within limits, development of an integrated tractor industry, call for changes in the SADCC member states' national planning institutions. They must be restructured to ensure that proposed national projects weave-in with regional needs. As far as possible, national development plans should be drawn up in view of the comprehensive regional plan.

To overcome the national biases, government officials and the populace at large must be educated to "think regional". A broad campaign to foster a regional "ideology" could facilitate popular acceptance and support for the changes needed to implement the SADCC program.

Tractor manufacture: feasibility studies and minimum threshold agreements
In order to develop a self-reliant, integrated, regional tractor industry this study suggests that at a very minimum, the SADCC states must conduct further detailed studies and reach a minimal degree of consensus in four areas. Whether or not the SADCC members adopt a regional industrial plan, these studies and agreements will ultimately be essential to building a regionally integrated tractor industry.

a. Two feasibility studies
1. A study must be undertaken to determine which tractor makes and sizes are most appropriate to the different farming conditions and agricultural operations in the SADCC region. It should be forward-looking, i.e. take account of the dynamic demand over a 10-year period. Based on the findings, a sharply limited number of tractor makes, perhaps three, should be selected. The choice should also take into consideration: (a) possibilities of assembly at existing plants; and (b) technological commonalities, or potential to use components interchangeably.

2. To ensure efficiency and the optimal sharing of benefits from the tractor industry, another study must be done to determine which countries can
produce what tractor components. This, too, should take a long-term view, and consider such factors as: (a) existing and potential capabilities; (b) market size; (c) transport possibilities; and (d) availability of basic input materials.

b. Minimum threshold agreements
1. To foster the development of specialized and scale-efficient tractor component manufacturing plants, the SADCC states must reach agreement to standardize the range of tractor imports. They must only import the tractor makes selected as a result of the first feasibility study. While self-sufficiency obviously cannot be achieved overnight, standardization of tractor imports would promote local component production. Furthermore, the SADCC members must agree not to accept donor-supplied kits for other tractor makes. Instead, they should encourage donor support for the manufacture of components for the tractor types selected.

2. At least in the medium-term, given the limited markets, tractor assembly plants cannot operate at optimal scale in all SADCC countries. SADCC members should agree to use only a few assembly plants, preferably the existing ones. They must also reach agreement on the share of the regional demand for tractors to be assembled at each of the selected plants. The case study has demonstrated that if three conditions are met—if tractor imports are standardized, semi knocked-down kits made available, and purchases guaranteed—then the assembly plants existing in Tanzania and Zimbabwe could assemble enough tractors to meet the estimated demand for 1990 (see Table 3.5). In the short-term, therefore, the SADCC states might allocate the shares of tractors to be assembled for the region as follows:

a) Tanzania (SMC/Valmet): 1,500 of +50 HP p.a.
b) Zimbabwe (Willowvale): 6,500 of +50 HP p.a.
c) Zimbabwe (Turnpan): 3,300 of −50 HP p.a.

At a later stage, as the dynamic demand is realized, Mozambique and Zambia could add increased production.

3. To increase the local content of the tractors assembled, new projects will need to produce tractor components. As far as possible, SADCC member states should agree on the allocation of these new plants to ensure more even regional development. As indicated above, the formulation of a regional industrial strategy would facilitate this process.
4. In order to ensure the viability of component manufacturing units and tractor assembly plants, the SADCC members must agree to implement a system of purchase guarantees.

The implementation of plans for an integrated tractor industry may require changes in several other national institutions.

**New laws to ensure implementation of regional projects**

Since the essential agreements on standardization of production sites, and purchase guarantees necessary for the implementation of a regional tractor industry are likely to be typical of most industrial multi-state projects, new laws may be required to make institutional changes to enforce compliance with such agreements (Seidman, R.B., 1978). Adoption of a regional legislature and court is far beyond SADCC’s current scope of operation. Nevertheless, using national legal systems, the SADCC member states should strive to make the necessary minimum threshold agreements to ensure compliance with mutually beneficial project agreements.

**The need for a regional investment code**

SADCC has been trying to "harmonize" the investment codes since 1986. In the absence of a uniform investment code for the region, member states must seek a high level of harmonization of the national investment codes. Above all, it is important that the investment codes be restructured to go beyond mere prevention of the worst excesses of foreign capital. They must serve to restrain foreign investment in strategic sectors and offer inducements in selected areas in accordance with well-defined national and regional strategies. These kinds of statutes have been termed "investor control codes" (Makgetla, 1986). By seeking to channel investment, both domestic and foreign, to support integrated, self-supporting growth, the investor control codes become a critical vehicle for the implementation of the regional industrial strategy. In a very real sense, those two are mutually indispensable.

**Countertrade**

To succeed, a regional tractor industry will require planned, long-term trade agreements. The Intra-SADCC Trade Promotion Program already calls for trade agreements and countertrade. "Buy-back arrangements" hold great potential, particularly for trade with overseas partners. In the tractor industry, for example, foreign suppliers of tractor component manufacturing tech-
nology might agree to take as payment, in lieu of hard currency, a specified measure of the tractor components manufactured locally using that technology. This would permit a larger scale of operation than the regional market warrants in the short-term. Counterpurchase, which is merely a commitment to buy (from seller to buyer), holds greater potential for intra-regional trade that links regional industrial projects. In the tractor case, sellers of components might commit themselves to purchase a number of tractors from the assembly plants. If a comprehensive industrial strategy is pursued, the possibilities become more numerous: those member states manufacturing tractors, for example, might exchange tractors for the industrial goods produced by other member states.

Both UNCTAD and UNIDO recommend that Third World countries consider the organization and promotion of national or multinational trading companies to facilitate the use of countertrade (UN, 1986; UNIDO, 1985). Angola, Mozambique, Tanzania and soon, perhaps, Zimbabwe, could organize their State Trading Corporations to implement and monitor countertrade: by identifying and pursuing opportunities amongst themselves and, for the SADCC as a whole, abroad; by proposing standardized negotiations and monitoring procedures; and by providing a reference point for resolving institutional and procedural blockages. SADCC countries without state trading corporations should be strongly encouraged to create monitoring units of their own. Eventually, SADCC could launch a “Countertrade Monitoring Unit” composed of officials from the relevant ministries. This would simply require appointment of a few officials who, along with their existing duties, would monitor countertrade opportunities and commitments. They would have to institutionalize a communications network and meet periodically. A SADCC Countertrade Monitoring Unit could play a critical role in implementing a regional industrial plan.

The viability of the tractor industry, like most other regional industrial projects, hinges on the producers' ability to sell their output. Without reasonable assurances of a large market, entrepreneurs are unlikely to invest in component production. Whether SADCC uses a Countertrade Monitoring Unit or the PTA Clearing House (to be discussed below), purchase guarantees must somehow be provided.

Trade restrictions
The tractor case underscores the need to alter the wide range of regimes of tariffs, preferences and import licenses currently permitting competitive imports into the region and constraining intra-regional trade. In general, tariffs, preferences, and import licenses must be restructured in such a way
that they do not obstruct the implementation of SADCC-sponsored regional projects. The viability of a regional tractor industry requires the member states to agree to impose a common regional tariff against all but those tractor makes selected for local manufacturing. The SADCC states may need to impose similar external trade restrictions to safeguard other "infant industries" promoted as regional projects. If the PTA does not allow this kind of intervention, other means of limiting tractor imports must be found. This already applies for Botswana, Lesotho and Swaziland whose membership in SACU prevents them from raising barriers against South Africa. Without limits on competitive imports, however, there can be no self-reliant regional tractor industry.

As they require large markets to succeed, component manufacturers must have free access to the entire SADCC market. In addition to common external tariffs that limit competitive tractor imports, the SADCC states should eliminate all intraregional barriers for tractor components, and other goods encompassed by the regional industrial plan. However, member states will likely agree to eliminate intra-regional tariffs only within the context of a regional industrial plan that ensures benefit for all.

Central bank policies on interest rates, credit periods, currency convertibility, exchange rates, and foreign exchange allocations accentuate the difficulties of intra-regional trade in tractors and components, as well as joint efforts to finance regional projects.

Though fluctuating and nationally different interest rates complicate intra-regional trade and joint efforts to finance tractor projects, it is neither necessary nor feasible that all members harmonize interest rates. It would be sufficient to reach agreement on a regional interest rate for SADCC-sponsored regional projects.

Similarly, member states would have to agree to permit uniformity in credit periods for joint projects. The participating countries may reach such agreements on a case-by-case basis.

While the adoption of a common currency would boost intra-regional trade, several factors militate against it. First, it requires that members surrender national autonomy in the area of monetary policy. Second, it necessitates some coordination of fiscal and tax policies. This degree of monetary cooperation is not in the cards at the moment. Ann Seidman suggests that the SADCC countries could agree to fix the real exchange rates for an agreed period for all intra-regional trade connected with SADCC-sponsored industrial projects (personal communication). This might necessi-
tate partial devaluation of some of the most severely over-valued currencies. Agreement on a basket of the regional and a few hard currencies (U.S. dollars and U.K. pounds, for example), weighted according to an agreed formula, might ensure fewer and less fluctuations in the exchange rates. Whatever the arrangement, this is clearly an area in which a minimum threshold agreement must be reached.88

In some SADCC countries manufacturers receive a fixed annual foreign exchange allocation regardless of their actual foreign exchange earnings. As a result, private entrepreneurs complain that there is no incentive to increase production for export. Hence, to promote manufacturing of tractor components and parts for other SADCC projects the central banks might allow businesses to retain a portion of the foreign exchange they earn from intra-regional sales of such inputs. To obtain maximum benefit for SADCC projects, these "incentive allocations" could be earmarked for the businesses' further expansion.

5.1.2. Transnational Corporations

The case study has shown that the transnational corporations, which control the tractor business in the SADCC region, constrain the development of local tractor manufacturing capacity, increase the diversity of makes, and reinforce the use of inappropriate tractors. As a result of the transnationals' dominant role and the import dependence of the existing assembly plants, the SADCC members have basically two options: limit the negative effects of tractor imports through transnational corporations; or build on existing assembly capacities in cooperation with transnationals, socialist states or other tractor suppliers. While some benefits may be reaped from the first option, in and of itself, it will not lead to self-sufficiency. As the existing assembly plants have the capacity to assemble enough tractors to meet the regional demand at least until 1990, the second option seems preferable.

When the SADCC members have determined which type of tractor makes and sizes are most suitable for current and long-term needs and which have the best potential for local manufacturing, they should invite transnationals, socialist states and other tractor suppliers to compete to offer the best package for SADCC. Thus, by acting as a group, the SADCC countries could turn into their favor the damaging effects hitherto resulting from competition among transnationals. Aiming to secure a cooperative agreement with a sharply limited number of tractor suppliers — perhaps three — the member countries could offer a "near monopoly" market in the SADCC region for a period of between 5 and 10 years. Under those circumstances, transnationals are likely to be more than willing to negotiate an agreement more favorable to SADCC.
To propose near monopoly conditions for a few foreign tractor suppliers may seem inconsistent with conventional wisdom that calls for reliance on "free market" competition. As the tractor case reveals, however, what limited competition exists among transnationals tends to thwart, rather than facilitate, the growth of a regional tractor industry. That experience argues strongly that only with adequate controls, may the SADCC states create an integrated tractor industry that operates at an optimal scale.

The cooperative agreement with the selected supplier(s) should include at least the following:

1. A detailed schedule for a phased transfer of technology from the tractor supplier(s) to the SADCC members in question. This could begin with delivery of semi and completely knocked-down tractor kits, and gradually be limited to delivery of the most advanced engine parts. Eventually, deliveries from the cooperating supplier(s) should be phased out completely;
2. Specific commitments (with time tables) by the cooperating supplier(s) to assist in establishing local production of components;
3. Measures to ensure the requisite training of local personpower. This could include scholarships for Africans to receive training at the cooperating partners' home tractor plants and technical schools;
4. Long-term price and delivery contracts.

In conjunction with the proposed "Countertrade Monitoring Unit", the SADCC states might consider establishing a "TNC Monitoring Section" to facilitate the SADCC members' enforcement of contracts with transnationals participating in regional ventures like the tractor industry. To strengthen member states, individually and collectively, in their negotiations with transnationals, the "TNC Monitoring Section" might also compile information on transnationals operating in Southern Africa. The UN Center on Transnational Corporations and the Corporate Data Exchange in New York are already collecting and making available information on how corporations view various Third World countries. But few developing countries have yet developed the internal machinery needed to compile and utilize the information (Zorn, 1986).

The SADCC Industrial and Trade Coordination Division in Dar es Salaam is already in the process of launching an information exchange system. It will provide computerized trade and industrial data with a regional focus for all member states (Interview, Aug. 1988). The "TNC Monitoring Section" (and the "Countertrade Monitoring Unit") might be established within this planned system to compile, at least, the available information on corporations from the above organizations.
5.1.3. Banks and Financial Institutions

In order to assure the accumulation and reinvestment of regional surpluses in priority areas like the tractor industry, governments must take steps to halt the outflows of investable surpluses and lending that foster external dependence. The easiest way to gain control of the commercial banks may be to nationalize them. In most of the SADCC states, however, such a bold move does not seem to be on the political agenda. Nonetheless, the member states could take joint measures to make government control more effective. Some possibilities might include the following.

All SADCC members have some form of foreign exchange control and all but Lesotho have central banks. The governments should exercise careful supervision over all foreign-controlled commercial banks' dealings with foreign exchange. They could achieve a higher degree of control of international payments merely by making more effective the existing foreign exchange control units at the central banks.

At the national level, the necessary person-power and funds should be allocated to record and categorize information on all major foreign transactions. In combination with the two monitoring units proposed above, the creation of a regional “Transfer-Pricing Commando Unit” would facilitate the acquisition and exchange of data on prices for imports, management fees, royalties, and so on (Rumeliotis, 1981). In Greece, EPETEE successfully engaged the Economist Intelligence Unit (London) and expert consultants in the United States for data on a range of world market prices. While this might be too costly for individual countries, the SADCC members as a group could achieve substantial savings.

The available evidence indicates that transnationals obtain the lion’s share of the advances of commercial banks in most SADCC countries. Since influx of capital is the central argument for foreign investment, however, the governments might simply terminate the ability of foreign investors to raise capital locally.

Alternatively, SADCC member states could influence commercial banks, whether foreign controlled or not, to lend to national or SADCC-sponsored projects. If the SADCC members reach agreement on a regional investment code, individual governments could take the following actions to redirect lending patterns of commercial banks: (1) provide certain tax-breaks for loans granted to national or SADCC-sponsored projects; (2) require that banks make lower or interest-free loans to priority areas; and (3) require that banks make a certain proportion (20 percent, for example) of their advances to priority sectors.

Early SADCC documents also suggested establishment of a Southern
African Development Bank to ease regional financial cooperation (Nsekela, 1981). The bank could be more than a financing vehicle. Over time, it could become a financial planning center for SADCC. It could grant loans not only on the "bankability" of projects but particularly to those that involve several member states and seem likely to make the economies of the SADCC region increasingly complementary. Furthermore, the regional bank could be the sole body for channelling foreign aid to regional projects.

The SADCC Council of Ministers has agreed, in principle, to establish two trade financing mechanisms: an export prefinancing revolving fund and an export credit fund. The former will be established, where required, on a national basis and the latter on a regional basis. SADCC seeks financial resources for both facilities (SADCC, 1986b and 1986e). As they are prime areas for donor funding, SADCC should make detailed proposals for establishment of these. Rather than functioning solely to promote exports leaving the region, both of these facilities should serve to facilitate intra-regional trade.

A medium already exists through which intra-regional payments may be settled, namely the Preferential Trade Area (PTA) Clearing House. The Clearing House became operational in February 1984. SADCC members have agreed to use the PTA Clearing House, rather than launching their own. In fact, it is SADCC’s policy that its trade regime should complement the existing trade arrangements under the PTA (SADCC, 1986e). At present, SADCC leaves general trade matters to the PTA and concentrates its own efforts in the trade field on a set of supplementary measures, which may facilitate the implementation of a regional industrial strategy.

The use of the Clearing House has increased since 1984. In 1984 and 1985 only about 5 percent of the intra-PTA trade went through the Clearing House, and 75–85 percent of this was settled in U.S. dollars. From May to September 1986, the share of intra-PTA trade going through the Clearing House reached 65 percent. Only half of this was settled in U.S. dollars (Enevoldsen et al, 1988, p. 37).

Apart from the obvious advantages involved in partially using local currencies, the Clearing House offers a 75 days interest free credit facility. The relatively low use of the Clearing House is thus surprising. The explanation might be that the central banks, which deal with the Clearing House—commercial banks do not—have permitted the commercial banks to decide whether to channel trade financing via their respective central banks to the Clearing House. To increase the use of the Clearing House, the governments of the SADCC states already in the PTA may simply require—and enforce—that commercial banks route all intra-regional trade financing via the
central banks and the Clearing House. At a very minimum, the central banks should require that all trade financing for SADCC-sponsored regional projects like a tractor industry go through the Clearing House.

In any event, further research is needed to determine the compatibility with SADCC’s endeavors of the PTA Clearing House and its Trade and Development Bank.

5.1.4. Donor Policies and Institutions

First, SADCC countries need to be more critical about the aid they accept. With severe balance of payment problems it is, of course, hard to be picky about foreign aid. However, for the successful implementation of an integrated tractor industry (and equally for a regional industrial strategy) it is crucial that relevant aid proposals be examined in terms of their consequences for regional plans. In other words, SADCC planners must anticipate the long-term implications of accepting aid packages. If they run counter to the regional objectives, they must be rejected.

Obviously, a clearly defined industrial strategy would help to avoid counter-productive aid and to utilize aid in the most constructive manner. Concurrently with the formulation of a detailed industrial strategy, further research needs to be undertaken to devise minimum threshold agreements that ensure the best possible results from foreign aid.

Second, for the reasons suggested below, the SADCC states might agree to funnel all foreign aid for regional projects through the proposed Southern African Development Bank: (1) instead of strengthening national biases, foreign aid would then more directly foster a regional approach; (2) as it would be easier for donors to support projects involving several member states, the region may receive more aid; (3) it would enhance international recognition of SADCC as a regional entity; and (4) it would increase the liquidity of the bank and promote its role as a financial planning center for SADCC.

Finally, owing to the importance of skilled person-power in the building of sustained self-reliance, the SADCC states should—collectively—seek to influence donors to include, and emphasize, training and education programs in their aid packages. In the case of the tractor industry, the cooperating supplier or its home government should provide scholarships for SADCC nationals to train at the home-country factory and technical schools.
5.2. Summary
This chapter first suggests that the formulation and implementation of a regional industrial strategy could provide a useful framework within which the SADCC states could monitor—in the regional interest—transnationals, banks, and foreign aid. The chapter then suggests that in order to develop a regional tractor industry, studies must be done to determine the most appropriate tractor(s) and the regional capability of component manufacturing; and agreements must be reached on: standardization; production sites; and purchase guarantees. The last part of the chapter discusses several proposals suggested by the tractor study to facilitate the implementation of a regional tractor industry, as well as a regional industrial strategy. These proposals suggest fruitful lines of further research.

5.3. Overall Conclusions
Using a problem-solving methodology, this study demonstrates that effective industrialization cannot be achieved by divided economically-small nations like those in Southern Africa. With the literature on planned (as opposed to common market) regional integration as a foundation, the study advances an hypothesis to explain the unsuccessful progress on regional industrial development and intra-regional trade. A detailed case study on SADCC's approach to attaining self-sufficiency in tractor manufacturing reveals that five categories of constraints are responsible: (1) ideological differences; (2) national institutions; (3) transnational corporations; (4) banks and financial institutions; and (5) donor policies and institutions.

SADCC cannot alter the ideological differences of its members; they must be accepted as given. Nevertheless, the SADCC states could agree on mutually beneficial measures to overcome the constraints in the remaining four categories. Based on a set of explanatory hypotheses, validated by evidence collected in the SADCC region, this study offers a series of tentative proposals for a solution. The proposals call for more, not less, government intervention. They would also require that the SADCC states go beyond their previous policy of coordinating national initiatives. In short, they call for a more integrated form of cooperation. Whereas until 1986 these proposals would not have been in line with SADCC's philosophy, SADCC is now embarking on a new phase of cooperation that may make them more appropriate.

The potential value of this case study, however, lies not so much in the proposals, for they must by necessity remain tentative, subject to further research. But the explanations presented, derived from theories on regional integration and the evidence supporting these, make a compelling case for the need for some form of minimum agreements in the identified areas of key
constraints. At the same time, the tractor case underscores the need for further research to fill the wide gap in the literature on regional integration pertaining to the role of banks and financial institutions.
Notes

Chapter 1

3 It is estimated that there are 600,000 Mozambican refugees in Malawi (AED, 2011).
4 South Africa may also use the SACU members of SADCC as a means to evade international sanctions. For example, one year after Denmark imposed sanctions against South Africa, Danish exports to Swaziland more than quadrupled (to USD 3.3 mill., 1987) compared with the foregoing three years. Most of this remarkable increase consisted of dairy products which could easily have been transshipped via Swaziland to South African consumers.
5 The Financial Gazette is a Zimbabwean weekly.
6 In this common market scheme, which lasted from 1953 to 1963, Zimbabwe developed at the expense of Zambia and Malawi (Green, 1968). This was, in fact, a major reason for the break-up of the Federation.
7 With the illegal Unilateral Declaration of Independence, the Smith regime in 1965 withdrew Rhodesia from British rule. The UDI-period lasted until Zimbabwe's independence in 1980.
8 Sutcliffe defines economies of scale as the falling costs of production per unit of output (1971, p. 199).
9 SADCC has to date avoided the discussion of development costs arising from the desired industrial transformation, a process that will not take place without some form of government subsidy.
10 Although Myrdal (1957) did not discuss regional integration, his challenge of the "free market" remains valid. Contrary to orthodox economists who focus on the market forces of supply and demand, institutional economists allow for the role of social and political structure and organization in the determination of economic events.

Chapter 2

13 A valid definition of regional integration does not exist. The term can be used for different types of integration (economic and political), different stages of a process, and different goals and integration forms (free trade area, common market, planned integration, etc).
14 SADCC is ambiguous with respect to "integration". The only explicit concession to the principle of justice in the distribution of gains from integration was the reference in the Lusaka Declaration to "genuine and equitable regional integration" as a goal. In fact, many SADCC members are sceptical of the value of integrative schemes (Anglin, 1983).
15 "In the long run, the social goals of regional development and efficiency of national economy are not contradictory... The short run economic advantages of a concentrated industrial location might be overruled, in the long-term, by environmental, social and even economic disadvantages of urban-industrial overconcentration" (Enyedi, 1984, p. 51).
For this reason, national gains must be designed to become mutually beneficial. This phrase will be used throughout the study. Preliminarily, it may be understood as the minimal level of agreements necessary (and achievable) for the success of the SADCC endeavor. Subsequent chapters will focus on the concrete details of the required minimum threshold agreements. So far, the author has not noticed this phrase in any SADCC documents.

The terms "transnational," "multinational," and "international" are all used interchangeably in the literature. As the UN and others use it, the term "transnational" will be used in this chapter to refer to all foreign-controlled corporations and banks.

Transfer pricing has been defined as "the price assigned to goods, services, and finance as they circulate within a planned system of production" (Murray, 1981, p. 147). The United States Internal Revenue Service (IRS) defines transfer pricing as "the direct transfer of profits by abnormal or unfair pricing practices" (quoted in Murray, 1981, p. 248).

Transnational banks may employ a method called "transfer parking" (i.e. transfer of foreign exchange positions between branches) as a means to reduce local tax liabilities. Bartlett (1981) reports a true case of "transfer parking" as follows: The Nassau branch of Citibank sells 6 million pounds sterling to their Frankfurt branch at an exchange rate of USD 1.6660/pound. Later the same day the Nassau branch buys back the 6 million pounds at USD 1.6525. The Frankfurt branch incurs a loss of DM 200,000, which lowers its tax liability in West Germany. DM 200,000 are transferred later—internally on Citibank's books—to compensate the Frankfurt branch.

21 The following examples provide an indication of the extent of intra-company transfers: a fifth of all U.S. exports and a third of imports involve trade between U.S. TNCs and their majority owned affiliates; in Britain intra-firm trade accounts for about 30 percent of all manufactured exports, while in West Germany 43 percent of the exports of 27 major TNCs (in 1977) went to foreign affiliates (Jenkins, 1987, pp. 115–16).

22 A study of US-owned manufacturing subsidiaries in sub-Saharan Africa found that only 18 out of 91 exported more than 10 percent of sales in 1975 (Kirkpatrick, 1981). Similarly, a Latin American study found that 77 percent of 117 technology contracts between transnationals and subsidiaries or national firms surveyed in Colombia and 89 percent of 83 such agreements examined in Peru contained clauses totally prohibiting exports of products embodying the imported technology (Mytelka, 1979).

23 Transnationals, however, often support integration of the common market type because it expands their markets and even offers protection from extra-regional competitors.

24 Owing to the size and sophistication of the financial markets, decision-makers in the industrialized countries find it profitable to make frequent transfers of assets based on marginal differences in yield.

Barnet and Muller showed that the First National City Bank in some cases actually charged a negative interest rate to its corporate clients in Argentina (1974, p. 141). Charging negative interest rates does not appear to make sense for banks operating on profit maximization criteria. However, a transnational bank could easily favor a corporate client with negative interest rates in one country, as long as its overall relationship with the transnational firm is profitable.

26 When in November 1986 Barclays sold its 40.4 percent stake in the Johannesburg-based Barclays National Bank Ltd, Anglo-American Corporation seized the opportunity to augment its control of the bank (Wall Street Journal, 25–26/11/86). With 25 percent of the shares, however, Anglo had already been the bank's largest shareholder for a decade (Financial Gazette, 16/8/85).  

27 In 1986 the American sanctions package put an end to U.S. bank loans to South Africa. Since then, the value of the South African Rand has tumbled and interest rates have shot up. Hard pressed for credit, South Africa has turned to Swiss banks for help.

28 As the individual countries' investment codes are part of the national institutions governing production, trade and finance, this issue will be discussed in more depth in the section below on the inherited national institutions.

29 Most states offer guarantees against nationalization, permit comparable levels of profit and dividend repatriation, allow transnationals to raise capital locally, and have similar company tax rates. Furthermore, all lack foreign exchange and all want foreign investment.
A state has relative autonomy when it acts against the perceived or actual interests of the dominant class (Thompson, 1985, p. 171).

Robert Seidman uses three processes: input, conversion, and feedback to explain the decision-making process of nation-states. Briefly, by determining who supplies and what counts as inputs, the input and feedback processes construct the reality within which decision-makers function. Together with the conversion processes, which turn inputs into outputs in the form of decisions, they shape the arena of choice to influence the institutions' decision-making behavior (1978).

All the SADCC states, except Lesotho, have central banks which are controlled by the governments and, in most cases, operated according to the traditional functions of central banks. A "tied" loan means that a portion of it must be spent in the lending country. Tied loans sometimes even stipulate that the goods must be shipped by the donor country's carriers. Transnationals benefit enormously from tied aid; as much as 75 percent of USAID assistance funds are actually spent in the United States (Dinham, 1983).


The size of a nation's quota equals the value of gold and currency deposits with the IMF (Girling, 1985). The IMF was instrumental in the downfall of reform-minded governments in e.g. Chile (1974) and Jamaica (1980). For a good discussion of the role of the IMF, see Manley, 1982; and Havnevik, ed., 1987.

In 1981, A.W. Clausen, former chief executive of Bank of America, at the time the world's largest private commercial bank, replaced McNamara as president of the World Bank. World Bank director of policy planning, Mahbub Ul Haq, resigned in 1982 because of the World Bank's new subservience to hardliners in the U.S. administration (Byres, 1983).

It is estimated that 100,000 tractors which might have been repaired are littering farmyards and scrapheaps throughout Africa (Financial Times, 22 Nov. 1988).

Chapter 3

In the SADCC region the number of tractors assembled annually is, at best, 850 units (see Table 3.5 and below). However, as all tractors are assembled from imported kits (which, in the case of Zimbabwe, figure as tractor imports in official statistics), there may be a real shortfall in supply of some 50 percent of current effective demand.

See Appendix A for SADCC country profiles of agricultural patterns and tractors.

Knocked-down refers to a disassembled tractor delivery.


Central Statistical Office, Harare. See Appendix B.

Although CSO statistics indicate a total of 841 tractor imports from India since 1982, the managing director of Turnpan Zimbabwe Ltd, a local tractor distributor, maintains that they had imported a total of 945 semi knocked-down tractor kits from India since 1982 (Interview, 10123186).

The SADCC-sponsored projects discussed here were proposed by individual member states and first presented at the 1983 Maseru Conference. In 1985 the SADCC Industry Division (Tanzania) proposed a revised tractor program. Though few details are available, this proposal will be discussed below.

Unless otherwise stated, the information on WMI is based on a personal interview at WMI, September, 1986.

This was two years after Rhodesia's Unilateral Declaration of Independence which marked the beginning of the illegal Smith regime's 15 years reign, commonly referred to as the UDI-period. The UN imposition of sanctions, followed by the Smith regime's limitation on the repatriation of profits, led several foreign manufacturing firms to sell their assets to local buyers.
Tractors amounted to 15 percent of total production mix in 1985 and 25 percent in 1986. The remainder assembled at Willowvale was light vehicles, 50 percent in 1985 and 60 percent in 1986; and heavy vehicles, 25 percent both years.

In 1986 the absolute output at Willowvale represented only 25 percent of the company’s potential output. The projected capacity utilization for 1987 is only 18 percent!

The Zimbabwe Iron and Steel Corporation (ZISCO) does not produce steel sheets and plates. From 1980 to 1985, about 90 percent of the Z$ 161 million (USD 99 million) worth of steel sheets and plates imported into Zimbabwe came from South Africa (CSO, Harare, Imports Tabulations).

Unless otherwise stated, all information on Turnpan is based on several personal interviews during September and October 1986.

The Zambezi A124 is based on the Eicher tractor which was originally designed in Germany and then introduced in India where it enjoys a major market share, sellingsome 18,000 p.a. (The Herald, 25/8/86).

It is difficult to expand production for the local market because companies get only a set sum of foreign exchange per year (for purchase of tractor kits), regardless of the foreign exchange they bring into the country. At the other end of the scale, increased production is constrained by the small farmers’ limited capacity to buy.

Turnpan sets up the deals itself but goes through the government. The company has received relatively large allocations for Indian tractor kits (ref. above) because of its focus on small farmers which the government acknowledges.

The brevity of this key section and the next is due to the very limited availability of documentation on the SADCC tractor projects. While interviewing the following in 1986: SADCC Contact Point (industry), Zimbabwe; SADCC Secretariat, Botswana; and the SADCC Industry and Trade Co-ordination Division, Tanzania, the author was told by all that they did not have any information on file on the tractor projects.

In Siswati the word "tinkabi" means oxen.

Two studies have been completed; one on manufacturing of tractor components using existing capacities, and one on tractor assembly leading to manufacture. Both were funded by Austria at a total cost of USD 260,000 (SADCC, 1986). These studies were not available to the author while writing this book.

Chapter 4

It is often difficult to discover the affiliations of local tractor distributors. But even where ties cannot be determined, TNCs may be in control. Tractor producers in Europe and North America usually appoint a local "agent" to represent them. This may be another transnational that is established in a given host country, or it may be a local company which, in return for exclusive sales rights, yields key controls to the tractor producer.

Source: Central Statistical Office, Harare. See Appendix B.

The Federation, which lasted 1953–63, also included the present states of Malawi and Zambia.


Although Lonrho is a British-based transnational, the company had its origins in Rhodesia several decades ago. In Zimbabwe, Lonrho has substantial investments in mining, plantations, transport, manufacturing industry and property (Clarke, 1980). While the company has activities worldwide, it is particularly involved in the former British colonies of Southern Africa.

Gross domestic savings is GDP minus total consumption. No data is available for Angola and Swaziland.

Unless otherwise cited, the information on commercial banks is from the sources listed under Table 4.7, below.

The SDR is used instead of the U.S. dollar here because, as a basket of market exchange rates of specified quantities of 5 currencies: DM, Franc, Yen, U.K. pound and U.S. dollar, it better represents the value of local currencies vis-a-vis SADCC members' major trading partners.

The liquid asset ratio is the size of reserves a bank must keep when making loans. For example, a liquid asset ratio of 20 percent means that the bank must keep 20 cents in liquid reserves for every dollar it lends out. In other words, it allows the bank to make loans for five times the value of its reserves.

Ujamaa villages, however, also have access to funds from the Rural Development Bank. But, prior to 1981, over two-thirds of its loans went to inputs for tobacco production (Mittelman, 1981).

In all SADCC countries except Botswana, foreign exchange is a major constraint. However, the ability to raise local currency for local costs is often a prerequisite requirement for a potential foreign investor.

"Local cost" is listed at USD 1 million and "foreign cost" USD 1.6 million. Other SADCC documents, however, indicate that the Tanzania government financed 80 percent of the equity (SADCC, 1985).

The information in this section is based on a personal interview at the AFC (31/10/86) and various local newspaper articles.

Approximately 5,500 large-scale commercial farms occupy almost 80 percent of the best farming land, or 40 percent of the total area of Zimbabwe. The average large commercial farm is 2,200 ha. In contrast, 4.3 million people, or 57 percent of the population, live in communal areas where the average farm is 23 ha (CSO, 1985).

This high interest rate resulted, in part, from IMF pressure to "curb inflation". In contrast, throughout the UDI-period the Reserve Bank maintained a 4.5 percent interest rate to stimulate growth.

A double taxation agreement entitles a foreign investor to deduct from the company's tax liability in the parent country any taxes paid abroad.

As these three countries are heavily dominated by South Africa, perhaps this is no coincidence.

While six of the SADCC states joined the Preferential Trade Area (PTA), Botswana did not. This may be explained in part by the fact that South Africa objected to the Botswana—Lesotho—Swaziland group's membership in the PTA. Botswana reportedly did not join the PTA because it was less confident than Swaziland and Lesotho that South Africa would not retaliate (Anglin, 1983).

Mozambique and Tanzania's Ruvuma Free Trade Agreement aims at tariff reductions (Chr. Michelsen Institute, 1986). The two countries also exchange goods under planned trade and bilateral clearing arrangements (IFS, 1984).

This is also called the "bank rate". It represents the interest rate charged by central banks when they lend to financial institutions, and constitutes one means by which central banks try to control aggregate national money supplies.

Some OECD countries allow maximum repayment periods from 2 years, and up to 8–12 years for capital goods.


This includes road, maintenance and mining tractors. Between 1980 and 1984, non-agricultural tractors accounted for an average of 7 percent share of all tractor imports.

U.S. covert military assistance to UNITA has run at about USD 15 million annually since 1986 (AED, 20/1/89).

See section 2.3.3 above regarding structural adjustment programs.
Chapter 5

Investor control codes typically include a combination of the following measures: “joint ventures; high and effective taxation to ensure reinvestment of profits within the local economy; worker participation in management; national control of marketing and procurement; careful supervision of financial flows through control of bank and credit transactions; and a timetable for phasing out foreign management and ownership” (Makgetla, 1986, p. 156).

There are four basic types of countertrade: barter transactions; counterpurchase; buy-back compensation; and framework agreements (Miramon, 1982). All have in common that they attempt to minimize payment in currency by exchanging, as far as possible, goods for goods. 19 countries in Africa, including Angola, Tanzania, Zambia, and Zimbabwe have engaged in countertrade (Miramon, 1985). Since 1983, Zimbabwe has traded for a total value of USD 137 million in countertrade deals with Eastern Europe and India — Countertrade Conference, Harare, 20–21 October 1986).

In a buy-back arrangement, the supplier of machinery (for example) undertakes to import goods produced by that machinery or goods less directly related to it— to a certain value of the machinery delivered (Miramon, 1982).

Central bank activities may also encompass monitoring of foreign payments, loan allocation and trade financing. However, as commercial banks currently dominate in these areas, they will be discussed separately below.

ECOWAS has reached an agreement of this sort (Ezenwe, 1983). Further research may be done to gain from their experience, as well as those of other regional groupings.

In Greece, EPETEE, a high-level committee of nine administrators from three government ministries investigated transfer pricing. At a cost of about USD 100,000 per annum, it uncovered transfer pricing abuses worth USD 80 million in two years. EPETEE merely confronted the individual firms with their findings, which led to a cessation of transfer pricing abuses without further recourse (Ganiatsos, 1981). Similarly, at a cost of approximately USD 200,000 per year, INCOMEX, a Colombian agency, achieved foreign exchange savings in the mid-1970s of about USD 80 million a year (Stoneman, 1981).

As a low-cost alternative, commercial offices of SADCC members’ embassies abroad could collect a wide range of price lists and quotations on a continuing basis.

An export pre-financing revolving fund provides exporters with a loan in foreign exchange for the imported inputs required to produce goods for export. An export credit fund assists exporting countries in providing export credits. Basically, the latter supplies additional foreign exchange to the central banks to compensate for delayed payments from importers (Chr. Michelsen Institute, 1986).

For the region as a whole, the total cost of these two facilities is estimated at USD 65 million. The PTA's Eastern and Southern African Trade and Development Bank, launched in January 1986, is chartered to finance trading through the Clearing House. Although it includes about USD 95 million for a Trade Financing Fund, the authors of the “SADCC Intra-Regional Trade Study” argue that SADCC’s own trade financing schemes would provide members with an additional advantage, regardless of the progress of PTA’s system (Chr. Michelsen Institute, 1986).

It was expected that all transactions relating to trade in goods and services would go through the Clearing House (Chr. Michelsen Institute, 1986). Net debters pay net creditors the outstanding amounts in hard currency in bimonthly multilateral settlements.

The Intra-SADCC Trade Promotion Programme approved 12 June 1986 encompasses: (1) a system of direct trade measures and bilateral trade agreements; (2) preferences; (3) financing mechanisms for intra-SADCC trade; (4) trade promotion (SADCC, 1986b).
References


ECA. 1984. Sub-Committee on the relations between the PTA, the SADCC, and the Lusaka-based ECA/MULPOC. Mimeo.
Facts and Reports. Press Cuttings on Southern Africa. Amsterdam: Holland Committee on Southern Africa.


# Appendix

## A. SADCC County Profiles: Agricultural Patterns and Tractors

<table>
<thead>
<tr>
<th>Agricultural Pattern</th>
<th>Tractors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Angola:</strong> Principal crops: maize, coffee, sugar. Cereal production per capita is low, at 70 kilos per year.</td>
<td>Present tractor stock: 10,000. The tractor stock is relatively high per capita due to the existence of a significant commercial sector, principally in coffee.</td>
</tr>
<tr>
<td><strong>Botswana:</strong> In 1980 the traditional sector (97% of all farms) produced about 85% of the food crop and 32% of the cash crop. The traditional sector accounts for nearly 94% of the area under crop.</td>
<td>Present tractor stock: 2,500. All tractors are imported from South Africa. 75% of the tractors imported are above 50 HP. Because of the government's policy of aiming for food self-sufficiency within the next five years, the demand for tractors is estimated to grow at 10% annually for the next five years.</td>
</tr>
<tr>
<td><strong>Lesotho:</strong> The agricultural sector is dominated by small-holders. The cropped area declined 30%, from 318,900 ha in 1973/74 to 221,900 ha in 1977/78. Reason: unattractiveness of returns from farming. Average size holding is about 2 ha. Maize, sorghum, wheat, beans and peas. Long-term objective of changing from subsistence farming to cash crops.</td>
<td>Present tractor stock: 1,500. All tractors are imported from South Africa. In view of government policy, high rates of demand are anticipated.</td>
</tr>
<tr>
<td><strong>Malawi:</strong> Both small-holder and estate sectors. Small-holder sector occupies 91% of cultivated area. While the small-holders are fragmented, they produce nearly half the agricultural exports and the majority of the country's basic food requirements.</td>
<td>Present tractor stock: 3,000–3,500.</td>
</tr>
</tbody>
</table>
### Agricultural Pattern

<table>
<thead>
<tr>
<th>Country</th>
<th>Tractors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mozambique:</strong></td>
<td>Present tractor stock: 6,000–7,000. Average size of imports is around 80 HP. Since 1977 there have been no imports of lower sized tractors. Main sources of origin are: GDR, USSR, Romania, Bulgaria, Brazil and Britain. Tractors go essentially to cooperatives and state farms.</td>
</tr>
<tr>
<td></td>
<td>About half the land area of Mozambique is said to be suitable for agriculture. At present, cooperatives account only for about ½% of the marketed agricultural production. Nearly 80% comes from family farms and about 15% from the state farms. The planned expansion of the state farming sector includes aims to establish at least one agro-industrial complex in each province by 1990. Cooperatives are to be boosted as well.</td>
</tr>
<tr>
<td><strong>Swaziland:</strong></td>
<td>Present tractor stock: 3,000. Tractor hire services are provided by the Rural Development Programme (RDA).</td>
</tr>
<tr>
<td></td>
<td>Nearly 60% of the land is held in trust as Swazi Nation Land, and distributed according to traditional arrangements. Subsistence farming, averaging 2.6 ha of crop land per household, contributes about 13% of the GDP. The government seeks to gradually develop the traditional sector to a semi-commercial mode of production. Land purchase, irrigation and settlement schemes are employed.</td>
</tr>
<tr>
<td><strong>Tanzania:</strong></td>
<td>Present tractor stock: 7,000. In the late sixties and early seventies, MF accounted for 54% of tractor imports; Ford 31%; John Deere 12%; and International 3%. But Swaraj, Fiat and Chinese tractors have also been imported. A large proportion of the tractor fleet is out of use because of spares and maintenance difficulties. Average life of a tractor is said to be only 3–4 years, almost half the African average. Majority of tractors are in the 50–80 HP range.</td>
</tr>
<tr>
<td></td>
<td>Nearly two-thirds of the total land area of 883,600 sq. km. is suitable for agriculture. At present, barely 6–7% is used for farming! 50% of the area is used for grazing and 43% is under forest. 70% of the cultivation is by hand; 20% by ox-drawn plow; and 10% by tractor. The government policy to increase irrigation and promotion of parastatals promises increasing mechanization.</td>
</tr>
</tbody>
</table>
Agricultural Pattern Tractors

**Zambia:**
Maize accounts for 55% of production of principal crops; sugar and cassava are also important. Nearly 70% of rural population have small-holdings below 2 ha. Large farm sector (over 20 ha) is confined to 10% of the population. Present tractor stock: 5,000.

**Zimbabwe:**
A high proportion of the output originates from the large-scale commercial sector. Average size holding in the large-scale commercial sector is about 2,200 ha. Zimbabwe has a relatively high usage of tractors compared to the rest of the SADCC countries. The average holding in the non-commercial sector is about 3–4 ha. Present tractor stock: 18,000–20,000.

### B. Zimbabwe, tractor imports, 1980–85.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1,032</td>
<td>65</td>
<td>694</td>
<td>57</td>
<td>333</td>
<td>30</td>
<td>335</td>
<td>27</td>
<td>228</td>
<td>49</td>
<td>211</td>
<td>28</td>
<td>2,833</td>
<td>44</td>
</tr>
<tr>
<td>India</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>104</td>
<td>9</td>
<td>399</td>
<td>32</td>
<td>-</td>
<td>-</td>
<td>338</td>
<td>44</td>
<td>841</td>
<td>13</td>
</tr>
<tr>
<td>France</td>
<td>4</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>230</td>
<td>21</td>
<td>183</td>
<td>15</td>
<td>130</td>
<td>28</td>
<td>65</td>
<td>8</td>
<td>618</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>254</td>
<td>16</td>
<td>203</td>
<td>17</td>
<td>95</td>
<td>8</td>
<td>26</td>
<td>2</td>
<td>29</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>607</td>
<td>10</td>
</tr>
<tr>
<td>United States</td>
<td>33</td>
<td>2</td>
<td>47</td>
<td>4</td>
<td>142</td>
<td>13</td>
<td>189</td>
<td>15</td>
<td>32</td>
<td>7</td>
<td>91</td>
<td>12</td>
<td>534</td>
<td>8</td>
</tr>
<tr>
<td>West Germany</td>
<td>108</td>
<td>7</td>
<td>136</td>
<td>11</td>
<td>102</td>
<td>9</td>
<td>25</td>
<td>2</td>
<td>22</td>
<td>5</td>
<td>11</td>
<td>1</td>
<td>404</td>
<td>6</td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
<td>-</td>
<td>62</td>
<td>5</td>
<td>55</td>
<td>5</td>
<td>38</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>23</td>
<td>3</td>
<td>184</td>
<td>3</td>
</tr>
<tr>
<td>Belgium</td>
<td>13</td>
<td>1</td>
<td>45</td>
<td>4</td>
<td>8</td>
<td>1</td>
<td>26</td>
<td>2</td>
<td>11</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>104</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>60</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>30</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>90</td>
<td>1</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>60</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>10</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>74</td>
<td>1</td>
</tr>
<tr>
<td>South Africa</td>
<td>5</td>
<td>-</td>
<td>16</td>
<td>1</td>
<td>10</td>
<td>1</td>
<td>6</td>
<td>-</td>
<td>5</td>
<td>1</td>
<td>16</td>
<td>2</td>
<td>58</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>6</td>
<td>1</td>
<td>31</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,590</td>
<td>1,212</td>
<td>1,113</td>
<td>1,232</td>
<td>469</td>
<td>762</td>
<td>6,378</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Calculated from import ledgers, Central Statistical Office, Harare.
Index

Allison, G.T. 49
Andean Group, 36, 43, 47
Anglin, D.G. 35, 38, 92
Anglo American Corporation, 23, 46; in Zimbabwe, 26, 74, 81
ASEAN, 47
Axline, A.W. 31, 36
Ayres, R.L. 54

Balassa, B. 37, 47, 50
Banking practice, 44–45, 84
Banks: idle funds, 81–84; lending by sector, 84; regional integration 43–47, 110–111
Barnet, R. 41, 45
Barter trade, 96–97, 105–106
Bartlett, S. 41
Brewster, H. 40, 42, 43
Brown, E. 31

Caribbean Free Trade Area, 43
Central American Common Market, 46
Central Banks, 52, 92–96, 107–108
Chanda, B. 52
Chidzero, B. 36
Clarke, D.C. 16, 78
Cliffe, L. 88
Colonialism, 88; distorted economies, 33; transport infrastructure, 25
Commanding heights, 26, 31, 88
Common Market integration, 29–30

Davies, A. 40, 42
Debt burden, 14
Dinham, B. 48, 53
Donor aid, 76, 80, 86, 112–113

East African Common Market, 29, 37
Economies of scale, 28–29, 70
ECOWAS, 38, 42, 108
EEC, 53, 98
Enevoldsen, T. 111
Enyedi, G. 38
Estevez, J. 36, 38, 49
Export credit, 94, 111
Ezenwe, U. 52, 108

Federation of Rhodesia and Nyasaland, 28–29
Finnfund, 69
Friedland, E. 41, 53

Ganiatsos, T. 110
Germidis, D. 44, 45, 46
Ghai, D. 38
Girling R.H. 53
Girvan, N. 48
Gonzalez, M. 47
Green, R.H. 14, 28, 31, 47, 49, 52

Haarlsv, J. 37, 102
Hanlon, J. 16, 22, 24, 25, 53, 62, 67, 70
Havnevik, K. 54
Hazlewood, A. 28
Hoffman, G. W. 36
Holland, S. 42

IMF, 53–54, 98–99
Industrial location, 37, 47, 102–103
Industrialization: basic industry strategy, 18; import substitution 19; means of production, 18; theoreticians in favor of, 17–19
Investment, 79–80, 83, 90–91; codes, 50–51, 88–91

Jenkins, R. 41
Kalyalya, D. 54, 87
Khoury, S.J. 44, 45, 46
Kinsey, B. 33, 57, 61, 70
Kirkpatrick, C. 41, 48

Langhammer, R.J. 35
Leys, R. 38, 53
Little, I. 53
Lonrho, 66, 67, 74, 78, 79

Makgetla, N.S. 48, 83, 91, 99, 105
Makoni, S. 19–20, 96, 98
Manley, M. 54
Manufacturing, in SADCC region, 14–15
Masire, Q. 16, 38
Maximova, M. 28
Mbeki, M. 53
<table>
<thead>
<tr>
<th>Author</th>
<th>Page Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meyns, P.</td>
<td>98, 102</td>
</tr>
<tr>
<td>Miljan, T.</td>
<td>36</td>
</tr>
<tr>
<td>Minimum threshold agreements</td>
<td>38, 43, 104–5</td>
</tr>
<tr>
<td>Miramon, J.</td>
<td>105</td>
</tr>
<tr>
<td>Mittelman, J.H.</td>
<td>45, 84</td>
</tr>
<tr>
<td>Monetar, C.</td>
<td>38, 49</td>
</tr>
<tr>
<td>Moran, T.H.</td>
<td>45</td>
</tr>
<tr>
<td>Mugabe, R.</td>
<td>91</td>
</tr>
<tr>
<td>Munslow, B.</td>
<td>23</td>
</tr>
<tr>
<td>Murray, R.</td>
<td>41</td>
</tr>
<tr>
<td>Mutharika, B.W.</td>
<td>39, 40, 43, 45, 50, 88</td>
</tr>
<tr>
<td>Myrdal, G.</td>
<td>17, 30</td>
</tr>
<tr>
<td>Mytelka, L.K.</td>
<td>38, 41, 43, 45, 50, 51</td>
</tr>
<tr>
<td>National currencies, 94–95; overvaluation of, 95</td>
<td></td>
</tr>
<tr>
<td>National institutions, and regional integration, 48–52, 87–88</td>
<td></td>
</tr>
<tr>
<td>Nsekela, A.J.</td>
<td>92, 111</td>
</tr>
<tr>
<td>Odle, M.A.</td>
<td>44, 45, 46</td>
</tr>
<tr>
<td>Okolo, J.E.</td>
<td>36, 37, 38, 40, 42</td>
</tr>
<tr>
<td>Palacios, A.P.</td>
<td>36, 38, 42, 46, 47</td>
</tr>
<tr>
<td>Peet, R.</td>
<td>18</td>
</tr>
<tr>
<td>Penaherrera, G.S.</td>
<td>36, 37, 47</td>
</tr>
<tr>
<td>Planned integration, 30–31</td>
<td></td>
</tr>
<tr>
<td>Planning institutions, 50, 103</td>
<td></td>
</tr>
<tr>
<td>Portuguese Community, 29</td>
<td></td>
</tr>
<tr>
<td>PTA: conflicts with SADCC, 30, 92; clearing house, 111–112</td>
<td></td>
</tr>
<tr>
<td>Puyana, A.</td>
<td>27, 36</td>
</tr>
<tr>
<td>Rand Monetary Area, 92</td>
<td></td>
</tr>
<tr>
<td>Ravenhill, J.</td>
<td>36, 37</td>
</tr>
<tr>
<td>Regional integration, 35; compensatory measures, 36; nationalism, 38, 50</td>
<td></td>
</tr>
<tr>
<td>Robson, P.</td>
<td>36, 49</td>
</tr>
<tr>
<td>Rumeliotis, P.</td>
<td>110</td>
</tr>
<tr>
<td>SACU, 24, 29, 91–92</td>
<td></td>
</tr>
<tr>
<td>SADCC: characteristics of economies, 15–17; institutional change, 16, 39; mode of cooperation, 31, 35, 50; political differences, 31–32</td>
<td></td>
</tr>
<tr>
<td>Salvatore, D.</td>
<td>29</td>
</tr>
<tr>
<td>Saunders, C.T.</td>
<td>28, 38, 49</td>
</tr>
<tr>
<td>Seidman, A.</td>
<td>14, 19, 40, 41, 48, 49, 88, 99, 102; and banks, 43, 45, 84, 107</td>
</tr>
<tr>
<td>Seidman, R.B.</td>
<td>48, 105</td>
</tr>
<tr>
<td>Simai, M.</td>
<td>36</td>
</tr>
<tr>
<td>Skarstein, R.</td>
<td>80</td>
</tr>
<tr>
<td>Sklar, R.L.</td>
<td>40, 41</td>
</tr>
</tbody>
</table>
South Africa, regional destabilization, 25, 68
State, 48–49; relative autonomy, 49
Steel, W.F. 19
Stoneman, C. 41, 110
Streeten, P. 40, 42
Structural adjustment, 53–54, 98–99
Sutcliffe, R.B. 17–18, 28, 42

Tariffs, 51, 106–107
Thomas, C. 18, 28, 40, 88
Thompson, C.B. 13, 16, 37, 38, 49, 51
TNCs, 39; domination of trade, 25–26; management contracts, 48; regional integration, 39–43, 108–109
Tostensen, A. 27, 38, 51, 53, 91

Tractor production, SADCC's approach, 69–71, 77
Tractors: Angola and Mozambique, 67–68; Botswana, 71; demand and supply, 59; donor aid, 96–97; excessive diversity, 61–62, 96; import dependence, 61–62, 72; inappropriate technology, 77–78; Malawi, 67; SADCC projects, 68–69; Swaziland, 68–69; Tanzania, 69, 76; Zambia, 68; Zimbabwe, 64–67
Trade: dependence on South Africa, 22–25; intra-regional, 21–22, 26; overseas, 21; static vs. dynamic, 26–27
Trade agreements, 91–92; South Africa–Zimbabwe, 28
Trade institutions, 51
Transfer pricing, 40–41, 79, 110

UDI, 28, 75, 87
United States, and SADCC, 98

Vaitsos, C.V. 41
Wai, Y.T. 45
World Bank, 53–54

Zimbabwe: Agricultural Finance Corporation, 86–87; dominance in SADCC, 14, 22, 27–28; South African investments, 26; transfer pricing, 41. See also Transfer pricing.
ZISCO, 66
Zorn, S. 43, 48, 109

Østergaard, T. 98
"This book contributes admirably to the understanding of the realities of constraints to coordination of industrial development in the region. It provides very useful reading for academics, policy analysts and policy makers...”

Samuel Wangwe, Professor of Economics at Dar es Salaam University.

This is a book on the economic cooperation in southern Africa which looks to the future. The first ten years of the Southern African Development Coordination Conference have been mainly devoted to cooperation in transport and communications, not least to reduce dependence on apartheid South Africa. In order to move to an offensive to combat underdevelopment, SADCC has recognised the need to move into intra-regional trade and industrialization. Tom Østergaard’s study is a rich analysis of the obstacles which have to be overcome, and the minimum of changes that the SADCC countries must agree on to achieve balanced and coordinated development.

The obstacles are many, and Tom Østergaard analyses them lucidly: the uneven economic development, varying ideologies, the fact that Southern Africa is overwhelmingly oriented to foreign markets and suppliers, the lack of coordination which is heightened by the often divisive role of transnational corporations, banks, and donor agencies.

The study does not stop at the general level, but provides and empirical illustration by the study of the tractor industry and SADCC. It serves to illuminate and dramatize the constraints, but also the gains to be made if coordination can be made a reality.

Tom Østergaard has a Master of Arts in International Development from Clark University, Massachusetts, USA. In the early 1980s he worked for a Danish transnational with extensive production and trading activities in Africa and South East Asia. He is currently doing research on SADCC at the Centre for Development Research in Copenhagen.