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Developmental Regionalism and Regional Value Chains: Pitfalls to South Africa’s Vision for the Tripartite Free Trade Area

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Abstract: Regional integration via the Tripartite Free Trade Area (TFTA) received a significant boost when the South African parliament signed the corresponding agreement in October 2018. This article uncoversthe convictions and objectives that drive South Africa’s commitment to the TFTA. It reveals that South Africa sees the TFTA as a means of “developmental regionalism,” which is expected to facilitate region-wide industrialisation based on value addition in regional value chains (RVCs). For this purpose, South Africa seeks to coordinate industrial policies within the TFTA and rehabilitate infrastructure jointly with the regional states. In addition to explaining the logic behind these goals, and analysing how far they have already been achieved, the article also highlights important challenges to South Africa’s vision for the TFTA. It calls the prospects of developmental regionalism into question, being particularly sceptical about the way in which RVCs are conceived.

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Keywords: South Africa, developmental regionalism, regional value chains, Tripartite Free Trade Area

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Introduction

In October 2018, the South African parliament ratified the Tripartite Free Trade Area (TFTA) agreement. Ten years earlier, the 26 member states of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Southern African Development Community (SADC) had declared that they wanted to form this regional economic bloc. They later agreed on a road map, giving priority to the coordination of industrial policies, the facilitation of trade in goods, and to infrastructure development. By now, the TFTA has developed framework agreements on tariff liberalisation and rules of origin as well as common approaches to overcoming non-tariff trade barriers.

Whereas there is an abundance of literature on regional integration in Africa, less has been published specifically on the TFTA itself. Using quantitative models, economists have assessed the potential benefits of this project. Mold and Mukwaya (2016) conclude that regional trade in manufactured goods will receive a major boost if the TFTA becomes reality. Willenbockel (2013) finds that the welfare benefits of overcoming tariff and non-tariff barriers via the TFTA will be tremendous. A similar approach by Grinsted Jensen and Sandrey (2015) shows that subregional integration is not as beneficial as integrating the TFTA as a whole, and particular attention should be paid to time-in-transit costs.

Political scientists, meanwhile, have concentrated on the negotiation process. Erasmus (2015) emphasises its slow progress, and obstacles ahead. Naumann (2015) addresses the harmonisation of rules of origin. Mutai (2016) suggests what a TFTA intellectual property protocol should look like. Viljoen (2011) argues that customs procedures and administrative requirements, technical standards, government participation in trade, and the lack of physical infrastructure are together the critical non-tariff trade barriers that the TFTA ought to address. Erasmus, Hartzenberg, and Kalenga (2016) also elaborate on such key issues. They furthermore assess the principles agreed for the negotiations, concluding that these reflect “a compromise [that] will be difficult to become implemented” (Erasmus, Hartzenberg, and Kalenga 2016: 90). Cheluget and Wright (2017) draw similar conclusions, referring to the experiences made by COMESA.

In a nutshell, previous research makes a strong case for why the TFTA should indeed be pursued. It sheds light on the path towards realising the project, and related challenges. There is, however, almost no research on the convictions that drive individual states and their ideas about the exact purpose(s) of the TFTA, with Ghoneim (2013) as well as Scholvin and Wrana (2015) being notable exceptions. Since many details of the TFTA remain to be developed by its member states, it is im-
important to know more about such convictions and ideas, as they will determine the exact form that the TFTA eventually takes. Not all states that participate in the TFTA are equally relevant. Many of them have very limited diplomatic capacities, and do not even consider regional integration a national priority. South Africa, meanwhile, does appear to be both capable and willing when it comes to shaping the TFTA.

Therefore, I analyse here specifically South Africa’s convictions regarding the TFTA. By convictions, I mean ideas on causal mechanisms – for example, on how trade with African countries facilitates South Africa’s own development. These explain why there is a motivation to pursue policy A rather than policy B. Due to convictions, the implementation of policy A becomes a goal or an objective.\(^1\) My analysis reveals that South Africa seeks to promote “developmental regionalism,” based on region-wide industrialisation and regional value chains (RVCs). In addition to explaining the logic behind these goals, the article presents likely pitfalls relating to South Africa’s vision for the TFTA – drawing a largely pessimistic conclusion on the prospects of developmental regionalism, and especially RVCs as they are conceived by South Africa.

**South African Expectations on the TFTA**

To capture the convictions that drive South Africa with regard to the TFTA, and the particularities of how it seeks to advance regional integration, I have assessed national policy documents, the academic literature, as well as media reports. I refer to eight interviews with government officials and private consultants. Three were conducted in written format in 2013 or 2014, five in person during a research trip to South Africa in 2016. The interviewees have all played a major role in the negotiations on the TFTA or are experts on corresponding matters, having a track record of providing consultancy to or working in leading positions at government ministries. All interviewees agreed to being recorded (or to provide written answers to my questions), but they asked to remain anonymous.

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\(^1\) In other words, convictions are firmly held beliefs or opinions on how things work. This means that I stick to how the term is used in a neutral way in everyday language. My understanding of convictions is hence different from that advanced by Dyson (2009) and Holmes (2010), among others. What they define as “conviction politics” has nothing to do with this article. Conviction politics refers rather to the ideologies driving certain politicians such as Margaret Thatcher and Ronald Reagan, making them unwilling to accept any compromise that contradicts their own personal convictions.
Developmental Regionalism

South Africa’s vision for the TFTA reflects a paradigm that an interviewee from the Department of Trade and Industry (DTI) called developmental regionalism. He defined it as a strategy focused on industrial production. To him, this means that the regional states jointly advance transport infrastructure projects and align them with coordinated industrial policies. In consequence, the regional market becomes broader. RVCs are boosted (more on this later). These thoughts are confirmed by Vickers (2016), who summarises how South Africa has promoted regional trade through market integration, infrastructure rehabilitation, and industrial policy initiatives – in particular, in SADC and the Southern African Customs Union (SACU).

As a policy concept, developmental regionalism first emerged in Latin America in the 1950s and 1960s, when the Economic Commission for Latin America and the Caribbean advocated restrictive import substitution in combination with redistributive measures among the regional countries. Already then, developmental regionalism aimed at providing “the expanded markets and the increasingly efficient use of resources [in RVCs] necessary for the accelerated economic growth of each member” (Sloan 1971: 142). Developmental regionalism was expected to help Third World countries through economies of scale in an integrated market, the specialisation of each country in certain segments of RVCs, and increasing international competitiveness as a result of its intensification also within the region itself. It was also seen as a means to end the dependence on overseas manufactured inputs to production, and should furthermore politically strengthen Third World countries vis-à-vis the Global North (Sloan 1971).

More recently, the term has become associated with the structural policy programmes of the European Union and efforts by the Asian Development Bank to reduce core–periphery disparities through

a capacity-building process targeted at periphery states to help them engage in the regional economic dynamics and draw them closer into core economic zones of the region (Dent 2008: 781; on developmental regionalism in East Asia, see also Nesadurai 2003).

In a nutshell, developmental regionalism is about proactive economic policies advanced and coordinated by the states of the region in question – as opposed to a politically passive approach of mere liberalisation. In Africa, developmental regionalism gained prominence with the publica-
tion of the 2013 *Economic Development in Africa Report* (UN Commission Conference on Trade and Development 2013). The report stresses that the regional countries ought to go beyond trade facilitation, also cooperating on issues such as investment, research and development, as well as policies aimed at regional industrial development and regional infrastructure provision.

As indicated, South Africa’s idea of developmental regionalism through the TFTA rests on two core pillars: the coordination of industrial policies and the rehabilitation of infrastructure. Immediately after the TFTA was launched, the member states took first steps towards easing transport from one country to another by harmonising their administrative procedures (Disenyana 2009). A special programme for monitoring, reporting, and removing non-tariff barriers has been set up.³ Common axle load limits, which are necessary to prevent road damage due to overload, have been agreed for the TFTA. They still remain to be applied, though. Carrier’s licenses are mutually recognised, theoretically permitting a vehicle with a license valid for one country to operate in the entire TFTA; this system is not operational yet, however.

Regional infrastructure projects have also been boosted by so-called presidential initiatives, through which heads of state – including former South African president Jacob Zuma – champion individual projects to give them more prominence. An interviewee from the Department of International Relations and Cooperation (DIRCO) explained that South Africa’s role in this regard is limited to coordination. For instance, each transit country of the North–South Corridor, which stretches from Dar-es Salaam to Durban, has to ensure that roads are functional. This is challenging, as the interviewee emphasised, because of the severe financial constraints that many regional countries face. He added that building new infrastructure is not that difficult. Rather, countries are often unable to guarantee subsequent maintenance.⁴

International donors help to overcome this challenge. The Tripartite Transport and Transit Facilitation Programme – officially launched in 2017, and financed by the EU to the tune of EUR 18 million – aims to facilitate the development of a more competitive, integrated, and liberalised regional road transport market. This objective is to be achieved through harmonised road transport policies, laws, regulations and standards, as well as a transport register for East Africa and Southern Africa. TFTA cooperation ties up with the Programme for Infrastructure De-

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³ The system operates via a website, available online at: <www.tradebarriers.org>.
⁴ Personal interview with a senior official, DIRCO, 29 June 2016.
velopment in Africa (PIDA n.d.), which is run by the African Development Bank. Among the various PIDA projects, which depend on public–private partnerships because of an expected expenditure of USD 360 billion between 2011 and 2040, the Southern Africa Hub Port and Rail Programme takes an outstanding role. It aims at developing a master plan for the regional port capacity of the SADC countries, coordinating expansion plans for Beira, Durban, Luanda, Maputo, Nacala, and Walvis Bay.

Still, the actual implementation of the many sound ideas on how to integrate and rehabilitate the region’s infrastructure remains uncertain. As a whole, Africa suffers from a major “infrastructure gap” in terms of electrification, Internet access, as well as railway and road corridors (African Development Bank 2018). The annual spending on infrastructure lags far behind what experts consider necessary.

Coming back to the TFTA, the question is, then, whether this organisation constitutes the right framework by which to address this insufficient infrastructure. One of the interviewed consultants asked: “Why should South Africa discuss transport corridors with Egypt?” Although there is an apparent need to coordinate infrastructure projects across borders, one may wonder to what extent the TFTA will be able to make visions of hub ports for the region and regionally integrated railway and road corridors a reality. Another consultant criticised the fact that African states, including South Africa, tend to “put things into regional integration that should be done nationally or even at a subnational level.” She continued by arguing that “getting everything onto a wish list and expecting international donors to pay is just nonsense.”

Regional Value Chains

“We see regional integration as an important vehicle for our development,” the aforementioned interviewee from DIRCO pointed out. The New Growth Path – a framework document on economic policy – identifies regional integration as a driver of job creation. It proposes “to widen the market for South African goods and services through a stronger focus on exports to the region” (Economic Development Department 2011: 21). The DTI suggests that economic growth in Africa is “the biggest stimulus to long-term growth in South Africa” (2013: 20). Two DTI officials stressed that the TFTA will broaden South Africa’s privileged market access from presently 15 SADC countries to 26 Afri-

5 Personal interview with a private consultant, 21 June 2016.
6 Personal interview with a private consultant, 30 June 2016.
7 Personal interview with a senior official, DIRCO, 29 June 2016.
can ones, and with it “a total of 600 million people.”\footnote{Written conversation with two officials, DTI, 20 December 2013.} A third DTI interviewee linked regional integration to economic growth. The latter is, as he explained, the path towards poverty reduction. Like his colleagues, he highlighted the size of the TFTA market, which “could launch a sizeable part of the continent onto a new developmental trajectory” by attracting foreign investment and boosting more diversified regional trade.\footnote{Written conversation with a senior official, DTI, 22 January 2014.}

Going into detail, a fourth interviewee from the DTI presented the TFTA as an opportunity to reinforce value addition in the entire region or, in her words, to “work together to boost each other’s [industrial] capacities” in RVCs. She emphasised that manufacturing is the link between regional trade and economic growth.\footnote{Personal interview with an official, DTI, 22 June 2016.} Presently, African countries suffer from unfavourable integration into the world economy, predominantly exporting raw materials while importing manufactured goods – including manufactured inputs to production (Geyer 2019). From the DTI’s (2014) perspective, this explains the lack of backward and forward linkages, also leading to low competitiveness and productivity in value-adding sectors. “Competitive manufacturing […] will have to be the game-changer as far as sustained and inclusive growth is concerned” (DTI 2014: 76), the 2015 Industrial Policy Action Plan points out.

Value chains of global and regional scale have been a cornerstone of research and policy advice on economic development ever since the mid-1990s. As an analytical concept, they reflect the fact that the production of goods and services is fragmented into various segments that are located at different sites around the globe – resource extraction, manufacturing, and marketing take place several thousand kilometres apart. In global value chains (GVCs), powerful corporations from Europe and North America appropriate an increasing share of profits, leaving little for their subsidiaries and suppliers in developing countries (Kaplinsky 2005; Milberg and Winkler 2013). Due to non-tariff trade barriers such as high quality standards, firms from the Global South often fail to upgrade their position within GVCs or to even participate in them at all (Dolan and Humphrey 2004; Gereffi and Lee 2012). Low entry barriers and intense competition in low-technology manufacturing meanwhile enable firms from the Global North to relocate their activities from one developing country to another, additionally squeezing profit margins in the Global South (Kaplinsky and Morris 2001).

RVCs – being a pillar of developmental regionalism – are a means to bypass the disadvantages of GVCs. As one of the DTI interviewees
emphasised, South Africa seeks to facilitate RVCs through the TFTA because “we don’t benefit enough from global value chains.” RVCs moreover promise an advantageous position for South Africa: reflecting the country’s competitive advantages, it could focus on the lucrative upper segments, whereas others would supply basic inputs and purchase South African products. For example, the Industrial Policy Action Plan from 2011 states that there are considerable opportunities for South African firms in the oil and gas sector across the continent. Cape Town and Durban may position themselves as logistics and supply hubs. Manufacturing for the continent in the renewable energies sector is another opportunity mentioned in the plan (DTI 2011; on the prospects of Cape Town, see Scholvin 2017). The DTI (2016) also sees potential for South Africa as a regional rail production hub.

### Challenges to Regional Value Chains

The prospects for RVCs are not as clear as the previous section suggests, however. A consultant rejected the idea of South Africa being or becoming a manufacturing hub. He argued that it imports manufactured goods from overseas and re-exports them to Africa. South Africa rather serves as a hub for logistics and warehousing. The interviewee saw considerable potential to expand this role, but pointed out that “surprisingly, [trade in services] is an issue not advanced by South Africa [in the TFTA negotiations].” Another consultant agreed, saying that South Africa “has basically taken trade in services off the agenda.” Studies published by the World Bank suggest that there is potential for South Africa to act as a hub to its neighbours’ spokes. However, while labour intensity in South African manufacturing is expected to decline as skill intensity increases, jobs could still be created through backward linkages – particularly in services (Farole 2016).

The government’s neglect of trade in services is not the only challenge to realising RVCs. The regional countries cannot be expected to accept a subordinate position vis-à-vis South Africa. Secondary powers – in particular Angola and Kenya – have already begun economic balancing against the hegemon, or are likely to do so in future (Scholvin 2018). A third consultant pointed out that South African bureaucrats – not necessarily politicians – have only recently recognised that regional integration must lead to win-win situations. At least in the past, “South Afri-

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11 Personal interview with a senior official, DTI, 5 September 2016.
12 Personal interview with a private consultant, 22 June 2016.
13 Personal interview with a private consultant, 21 June 2016.
ca was a problem,” because it saw the region as an export market – evoking resentment towards South Africa among governments and people, with this having also negatively affected private investors too.\textsuperscript{14} Acknowledging this pitfall, one DTI official reasoned that “it’s not fair to create a regional market, if all it’s gonna be is a market for South Africa.”\textsuperscript{15}

Despite this changing mindset, effective cooperation on RVCs remains but a vision. The just-quoted DTI interviewee explained that the TFTA has only concluded a corresponding framework agreement.\textsuperscript{16} Even the SADC Industrial Development Implementation Matrix, which is, from the interviewee’s viewpoint, much more advanced, merely outlines interventions necessary for RVCs in a non-binding and unspecified way. Nothing is said about how to make use of country-specific competitive advantages, and the document underlines that the “formulation and implementation of industrial policy is essentially a national prerogative” (SADC n.d.: 4). A consultant added that ideas on how to set up RVCs have become somewhat concrete only in the mining sector. A corresponding study by one of her colleagues has been discussed by bureaucrats from various countries, not by politicians.\textsuperscript{17}

In this regard, another consultant hinted at South Africa’s high unemployment rate and asked: “Why on earth would a [South African] government official try to persuade companies to relocate to other countries [in the TFTA]?”\textsuperscript{18} He added that, based on his own experience as a former executive in the DTI, “it is easy to bring ministers together and have them agree that we want to cooperate on industrialisation somehow.” Yet such vague declarations, which do still serve as a guiding vision, are not implemented because of the aforementioned obstacles.\textsuperscript{19} Already in the 1970s, scholars in favour of RVCs admitted that states would hardly allow supranational institutions to take corresponding decisions. The geographical organisation of RVCs, which is essentially a win-lose situation, was expected to lead to difficult bargaining processes (Sloan 1971).

Being generally opposed to the idea of RVCs in the TFTA, one of the interviewed consultants provided an alternative explanation of South Africa’s commitment to regional integration. He suggested that the DTI

\begin{itemize}
\item \textsuperscript{14} Personal interview with a private consultant, 30 June 2016.
\item \textsuperscript{15} Personal interview with a senior official, DTI, 5 September 2016.
\item \textsuperscript{16} Personal interview with a senior official, DTI, 5 September 2016.
\item \textsuperscript{17} Personal interview with a private consultant, 30 June 2016.
\item \textsuperscript{18} Personal interview with a private consultant, 21 June 2016.
\item \textsuperscript{19} Personal interview with a private consultant, 21 June 2016.
\end{itemize}
is “afraid” of overseas investment in the regional countries and ensuing exports to South Africa, possibly related to the emergence of a liberalised regional hub such as Kenya. South Africa therefore seeks to make all TFTA states adapt its own version of industrialisation through protectionism, so that “what happens domestically is replicated in other parts of the continent […]. This basically means regional protectionism against the outside world.”  

This conviction is exemplified by recent statements by DTI chief director Wamkele Mene, who argued that rules of origin should be a mechanism to prevent non-members flooding the TFTA market through the member country with the most liberal trade regime (Business Day 2018). Against this backdrop, it is not surprising that an ambitious initial proposal by COMESA to liberalise all trade was quickly watered down by South Africa. Now, only 65 per cent of trade within the TFTA is to be liberalised (if negotiations are successful).

Further to this, it appears that South Africa neglects opportunities within GVCs. The fourth DTI interviewee said that “if there are players [in the region], there will be no need for [overseas] investment.” She added that the TFTA was meant to ensure that “the region benefits more than third parties [do],” hinting at the fact that investors from overseas rather repatriate profits instead of re-investing them locally.  

RVCs must not be seen as an alternative to GVCs, though. RVCs are usually tied to GVCs, implying that development at the regional scale may benefit from extra-regional impulses – especially in countries or locations that serve as gateways, and thus connect the global and regional spheres (Ngarachu, Draper, and Owino 2017; Scholvin et al. 2019).

Statements by some of the interviewees come close to this idea: they expect that a sufficient level of regional development and market size will attract overseas investment, with non-African investors themselves setting up RVCs. The Industrial Policy Action Plan from 2016 provides two illustrative examples of RVCs being interlinked with GVCs: Daimler is expected to make South Africa its service base for most of SADC. Volvo’s distribution centre in Gauteng consolidates the firm’s logistics operations for sub-Saharan Africa (DTI 2016). Interestingly, these examples lead back to South Africa absorbing the upper segments of RVCs – possibly to the detriment of other countries.

20 Personal interview with a private consultant, 22 June 2016.
21 Personal interview with an official, DTI, 22 June 2016.
22 Personal interviews with an official, DTI, 22 June 2016, and with a senior official, DIRCO, 29 June 2016.
Conclusion

The objective of this article was to uncover South Africa’s convictions and related goals regarding the TFTA. In this way, the article contributes to closing a significant research gap arising from the lack of research hitherto on the specific convictions that drive South Africa’s commitment to the TFTA. I have shown that South Africa sees the TFTA as a means of developmental regionalism, which is meant to advance region-wide industrialisation. As a policy concept, developmental regionalism is based on the idea that a relatively large and somewhat protected regional market will allow each regional country to specialise in certain segments of RVCs, thus participating in value addition. The coordination of industrial policies – meaning the facilitation of RVCs – and joint infrastructure projects are critical for this purpose.

However, there are important pitfalls in developmental regionalism as it is envisaged by South Africa. In addition to challenges in overcoming Africa’s infrastructure gap through the TFTA, the idea of RVCs being the path towards industrialisation is problem-laden. Corresponding debates are far from actual implementation, and setting up RVCs will lead to win-lose situations – with barely surmountable conflicts over who receives the most lucrative segments of such value chains. South Africa’s focus on trade in goods means that the much greater potential of trade in services is neglected. Taking a very critical perspective, one may even argue that South Africa tries to use the TFTA as a means to make the regional states adopt its own version of protectionist industrial development, which implies that the opportunities for interlinking RVCs with GVCs will be ultimately foregone.

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DTI see Department of Trade and Industry


PIDA see Programme for Infrastructure Development in Africa


SADC see Southern African Development Community


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„Developmental Regionalism“ und regionale Güterketten: Fallstricke für Südafrikas Vision der Tripartite Freihandelszone


Schlagwörter: Südafrika, developmental regionalism, regionale Güterketten, Tripartite Freihandelszone