Regional Integration: SADC
What is the impact on employment?

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Based on joint work with Mesut Saygili and David Vanzetti

Two objectives

- Research on globalization and its impact on employment provides mixed results
- Increasing dynamic for south-south integration
- Employment effects increasing concern

1. Employment effects of SADC regional integration
2. Are effects of regional integration different from mulitlateral liberalization

Southern African Development Community (SADC) integration process

- Starting in 1980
- Objectives of SADC: development and economic growth, alleviating poverty, promoting employment, supporting the socially disadvantaged
- Means: support development of economic, social and cultural ties across the region, and of policies aimed at the progressive elimination of obstacles to the free movement of capital, labor, goods and services
- Establishment of the FTA by 2008, a Customs Union by 2010, a Common Market by 2015, a monetary union by 2016

Tariffs reduced

- More developed countries provide preferential access others only started recently

South Africa tariffs, 1999 - 2010

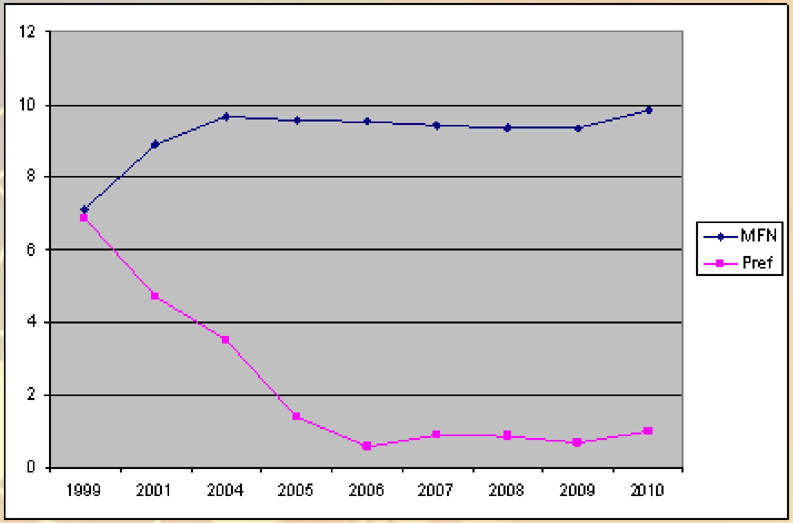

Table 1 SADC tariffs in 2007

	Tariffs on imports from SADC countries %	Tariffs on imports from non-SADC countries %
DRC and Angola	9.8	8.0
Mozambique	5.6	8.1
Tanzania	3.8	9.6
Zambia	6.7	7.8
Zimbabwe	15.2	14.8

Source GTAP v8 database. Trade weighted applied tariffs.

Trade pattern: only slightly increasing intra-SADC trade share

- Within SADC trade slighlty increasing for industrial goods
- SADC export rel. high share in raw materials but within trade is more concentrated on intermediate goods, consumer goods and capital goods than exports to the rest of the world, esp. EU

	1995	2000	2005	2010
World	100	100	100	100
SADC	12.1	15.3	15.0	15.5
other SSA	1.7	2.3	3.3	3.9
EU27	30.3	38.1	39.2	27.1
other HiOECD	18.4	19.2	25.7	25.8
BRIC	3.1	3.2	5.3	15.6
ROW	34.4	21.8	11.5	12.1

Labour intensity: no clear pattern

- Rel. labour intensity of within and outside exports varies
- But « Prody » of within trade is much higher than that of exports to the world
- More sophisticated products traded in region (if indicator of sophistication accepted)

Labour intensity

	Exports to SADC	RoW
Botswana	0.67	0.23
Madagascar	0.22	0.27
Mozambique	0.35	0.22
Mauritius	0.30	0.25
Malawi	0.31	0.26
Tanzania	0.12	0.27
Zambia	0.19	0.07
Zimbabwe	0.18	0.20
South Africa	0.12	0.16
Rest of South African Customs	0.25	0.24
DRC & Ang	0.10	0.14

Source: Calculation based on GTAP 8 data,

Significant impact of integration on trade ?

- Gravity Model is used to measure impact of trade agreements on trade flows
- Cross-country analysis in 2007 using cross-section OLS and Poisson method

Result OLS

	OLS with dummies		OLS with tariffs	
Fixed Effect (exporters)				
SADC-insider	3.23	2.63	2.20	2.32
SADC-outsider	2.13	1.78	1.28	1.41
Non-SADC	4.09	4.19	3.86	3.94
Fixed Effect (importers)				
SADC-insider	3.05	2.55	1.69	1.85
SADC-outsider	1.91	1.36	1.18	1.28
Non-SADC	3.84	3.70	3.61	3.69
SADC dummies				
D10	-0.37			
D11	-1.98**	-0.79*		
D12	-1.25**			
D20	-0.13			
D21	-1.99**	-1.09**		
D22	-0.97			
D01	-0.70**	-0.63**		
Border	1.40**	1.18**	1.12**	1.17**
Lang	0.49		0.26	
Col	0.09		-0.23	
Ltcost(1)	2.95*		2.56	
Ltariff(2)	-1.50		-0.83	
R2	0.80	0.79	0.79	0.79
SBC	3.77	3.69	3.71	3.66

Result Poisson

	With dummies		With tariffs	
Fixed Effect (exporters)				
SADC-insider	4.94	4.65	3.65	3.52
SADC-outsider	4.78	4.10	3.09	2.87
Non-SADC	4.82	4.39	4.81	4.57
Fixed Effect (importers)				
SADC-insider	5.46	4.96	4.00	3.76
SADC-outsider	4.73	4.43	3.43	3.22
Non-SADC	5.42	4.78	5.18	4.90
SADC dummies				
D10	-0.24			
D11	-2.26**	-1.82**		
D12	-1.76**	-1.80**		
D20	-0.67			
D21	-2.91**	-2.47**		
D22	-2.90**	-2.50**		
D01	-0.19			
Border	1.54	1.61**	0.85*	0.95*
Lang	0.73		0.59	
Col	-0.24		-0.46	
Ltcost	-2.59		-3.35	
Ltariff	-1.40		-0.69	
R2	0.96	0.96	0.96	0.96
SBC	165.8	172.7	191.4	197.3

No significant impact of agreement on regional trade

- Estimates indicate SADC agreement did not create trade between the member states (nor to RoW)
- Most of the trade between the member states can be explained by country fixed effects and by having a common border

- Improve by using panel data (time series from 2000 to 2010)
- Assess whether there was on impact on the composition of trade (e.g. labour intensity, sophistication)

And further liberalization ?
A general equilibrium approach

- GTAP analysis using GTAP version 8 (based on year 2007)
- Scenario: full liberalization with different labour market assumptions

Scenario	Closure	Assumption
Fixed	Quantity of labour is exogenous	No change in employment
Flexible	Real wages of unskilled labour is exogenous	Surplus unskilled labour is available. No change in skilled labour.
Rigid	Real wages and employment endogenous	Real wages and employment of unskilled labour can adjust

Welfare. Estimated annual impacts

	Fixed $m	Flexible $m	Rigid $m
Botswana	-12	12	0
Madagascar	-2	-1	-2
Mozambique	156	445	303
Mauritius	-1	4	1
Malawi	-43	-32	-37
Tanzania	-5	8	1
Zambia	-24	34	5
Zimbabwe	425	821	631
South Africa	418	693	555
Rest of South African Customs	31	55	43
DRC & Ang	-74	-4	-38

Real wages. Estimated annual impacts

	Unskilled			Skilled		
	Fixed	Flexible	Rigid	Fixed	Flexible	Rigid
Botswana	0.1	0.0	0.0	0.0	0.3	0.1
Madagascar	0.0	0.0	0.0	0.0	0.1	0.1
Mozambique	5.4	0.0	2.6	6.6	9.9	8.3
Mauritius	0.1	0.0	0.1	0.1	0.2	0.1
Malawi	0.3	0.0	0.2	-0.8	-0.6	-0.7
Tanzania	0.1	0.0	0.1	0.2	0.3	0.3
Zambia	0.8	0.0	0.4	1.2	1.5	1.4
Zimbabwe	18.0	0.0	8.0	24.2	30.6	27.6
South Africa	0.1	0.0	0.1	0.2	0.2	0.2
Rest of South African Customs	0.3	0.0	0.2	0.3	0.4	0.4
DRC & Ang	0.1	0.0	0.1	0.2	0.3	0.3

Employment Effects, per cent

- Employment shifts among sectors
- Overall employment benefits predicted
- Small changes with few exceptions (e.g. Mozambique from low base)
- Limitations apply (no within sector productivity change)

	Rigid
Botswana	0.28
Madagascar	0.01
Mozambique	4.30
Mauritius	0.10
Malawi	0.28
Tanzania	0.09
Zambia	0.63
Zimbabwe	-
South Africa	0.13
Rest of South African Customs	0.25
DRC & Ang	0.13

Conclusion

- Trade within SADC is relatively more concentrated on processed products and industrial goods (and more sophisticated)
- Labour intensity of within trade and external exports vary from country to country

If trade liberalization leads to more intra-regional trade

⇒ positive impact on structural change

⇒ benefits regarding job creation varies among countries

- Little evidence of disproportionately increasing intra-regional trade in SADC (but stable)
- General equilibrium model predicts increase of trade and positive but small effect on employment from eliminating intra-SADC tariffs

⇒ Labour market structure is important

Thank you

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