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Regional Economic Integration concept on South African construction industry: Lessons for other African construction industries

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Abstracts

Purpose: Regional economic integration initiatives have been prospect of enhanced economic growth in South African construction industry. The impact of regional economic integration and globalization on construction industries in South Africa is evidenced by the decreasing market share of the local players in the industry. Developing countries need to institute radical reforms in their development agenda in order to leapfrog, and bridge this difference. That is why increase in foreign participation in construction activities in South Africa, cross border strategic alliances, technology transfer are some impact of Regional economic integration on the industry.

The aim of this paper is to understand the term ' Regional economic integration ' and to study its impact on South African construction industry and the lessons to be learnt by other African construction industries. Its objectives include investigating the positive impacts on the Construction Industry, discussing the Regional economic integration in southern African i.e SACU and SADC; identifying the some lessons from it.

Methodology: These will be briefly discussed mainly by exploring the literature and throwing light on the views of people who investigated and wrote in this field.

Results: Region economic integration creates more profitable industries that demand skilled labour among South African construction industry. Wages are rising up and unemployment is getting less among skilled labour who managed to acquire skills in new technologies in different developing and advanced countries within the region.

Policy recommendations: The paper ends with conclusions and recommendations, stressing the need for improvement on other construction industries in Africa participation in Regional economic integration, in related to lessons South African construction industry.

Keywords: *Construction industry (CI), Regional economic integration (REI), SACU, SADC, South African construction industry (SACI).*

1.0 INTRODUCTION

It is true that African construction industry has witnessed various efforts of economic integration at the continental and regional levels. Regional economic integration (REI) is an integral part of development strategies. It has been viewed as a means to achieve sustained economic growth and development in the industry, and to overcome the region's structural problems such as political fragmentation, low per capital incomes, and small intra-regional markets that really affect the construction industry. Lee (2011) stated that it is against this backdrop that regional integration in Southern Africa has evolved. The Construction Industry (CI) still creates and maintains the built environment, which is the cornerstone for the socio-economic development for any nation and a reflection of a nation's development. Although Regional economic Integration's role in contributing to growth and development was recognized and acknowledged, its importance in Africa has never been properly outlined. Theoretical background, economic assumptions and evidence of REI are examined to bring out REI's importance to Africa. Regional economic integration on South African construction industry has been controlled by two main regional integration entities, the Southern African development community (SADC) and the southern African customs union (SACU). This paper will make it clear the impact of regional economic Integration on South Africa industry, both positive and negative impact. Highlighting some lessons to be learned by other African construction industries.

This paper used literature review to achieve its objectives which are impacts of regional economic integration on construction industry in particular South Africa. That is why Maruping (2005) emphasized that the benefits of regional integration, and indeed globalization, remain a critical part of Africa's workable development strategy. Region economic integration brings about globalization in the South African construction industry. Maruping (2005) continued that the era of isolated tiny national economies has to give way to strategic alliances that harness knowledge and resource based comparative advantages through integration and this however does not come effortlessly and at no cost, a lot of dedicated planning and hard work must be put in first. REI also bring about increased foreign participation in the construction industry in South Africa from most of the countries within the region. May while, regional economic integration in Africa has not been very effective for some years back. According Alemayehu and Haile (2002), these are caused by Overlapping Membership, Poor Private Sector Participation, Implementation Problems of Harmonization Policies, Loss of Sovereignty and Lack of Political Commitment. In spite of past negative experiences with integration in Africa and other developing regions, there are also benefits and new opportunities.

1.1 REGIONAL ECONOMIC INTEGRATION IN PERSPECTIVE

According to Daniels *et al.*, (2004) a good example of how the regional economic integration starts can be seen from the history of the European Union which began in 1951 with the establishment of the European Coal and Steel Community (ECSC) by six countries only, namely; The Netherlands, Britain, Italy, Luxembourg, France and the then West Germany. This was followed by the establishment of the European Economic Community (EEC) in 1957 and European Free Trade Association (EFTA) in 1960. The motivation for regional economic integration arises out of the realization of the limitations imposed by national frontiers and the

expected benefits of trade, investment and economic efficiency. It begins by voluntary mingling or merging the socio-economic and political systems of the Member States. According to Manone (2008), integration means to bring parts of an object into a complete whole, while in economic terms it would imply, in its narrowest sense, the coordination of economic activities within a country for the purpose of enhancing the development of that particular country (Mutharika, 1972). Mutharika further gives the term a wider meaning, and indicates that it implies the process of integration of various economies in a given area or region into a single unit for the purpose of regional economic development. In a more precise way, economic integration occurs when two or more nations undertake policies that result in greater mutual economic interdependence. It follows that if such countries emanating from a single region or Regional Economic Community, as it is referred to in Africa, embark on economic integration activities and or processes, these activities or processes will be termed 'regional economic integration'.

Bisworo (2003) stated that existing regional integration schemes in Africa function in a governmental rather than a supranational mode, and the actual sharing of sovereignty is minimal. Bisworo further pointed out that regional integration is characterized by the establishment of joint institutional mechanisms and a degree of shared sovereignty. Although this may be true in theory, the practicality of this is very difficult, particularly in Africa, as it involves ceding a percentage of the country's power to take decisions. Moreover, Manone (2008) explained that Regional economic integration is pursued for a variety of reasons. The main motivation for all regional integration schemes has been the prospect of enhanced economic growth and development not leaving out area of construction. With regard to the welfare impact of regional economic integration, theory delineate it from two perspectives, i.e. static effects of economic integration, which is in terms of productive efficiency and consumer welfare, and dynamic effects of economic integration, which relates to member states' long-term rates of growth. Balassa (1961) identified and distinguished between five degrees or stages of economic integration, which include: stage 1: free trade area; stage 2: customs union; stage 3: common market; stage 4: economic union; and stage 5: complete regional integration.

1.2 Major problems facing Regional Economic Integration in Africa

Regional economic integration in Africa has not been very effective especially in the area of construction. According to Alemayehu and Haile (2002) these are the problems which can be mentioned for this ineffectiveness and problems facing regional economic integration in Africa include the following:

1.2.1 Overlapping Membership

Matthews, (2003) in ombeni (2008) explained that the institutional weaknesses, including the existence of too many regional communities, a tendency towards top-heavy structures with too many political appointments, failures by governments to meet their financial obligations to regional organizations, poor preparation before meetings, and lack of follow up by Sectoral Ministries on decisions taken at regional meetings by Head of States has contributed to the past failure of the economic integration in Africa. Simultaneous membership of countries in more than one regional group is widespread in Africa. That is why Iyoha (2005) insisted, the overlapping memberships in regional communities can cause complications and inconsistencies

due to conflicting obligations and divided loyalties. Such example is the Eastern and Southern African region, some countries are members of both SACU (Southern African Customs Union) and SADC, and COMESA and SADC at the same time.

1.2.2 Poor Private Sector Participation

According Alemayehu and Haile (2002) explained that the implementation of the treaties requires the understanding, conviction, and confidence of the private sector, an active involvement of this sector in particular and the general public at large are crucial. This aspect of the regional integration process in Africa has been singled out as one of the major weaknesses of the initiative (Aryeetey & Oduro, 1997; Aryeetey 2000). Country level studies in SADC and COMESA show that the participation of the private sector is hampered by lack of government resources to ensure full participation, and when some resource are secured, the participation is limited at the level of the chamber of commerce officials. Moreover, lack of adequate knowledge to use existing information at the level of private sector associations is also noted as major problem.

1.2.3 Revenue Loss

Alemayehu and Haile (2002) stated that reducing trade barriers in economies where tariff revenue is one of the most significant sources of government revenue complicates the inter-temporal trade off between the apparent short-term loss of revenue and the expected long-term benefits emanating from regional integration. Using Kenya as an example, government revenue from its imports from EU constitutes 10% of its total revenue (Ronge2000).

1.2.4 Loss of Sovereignty and Lack of Political Commitment

Regional integration experience in Africa indicates that countries are hesitant to create supra-national bodies and transfer power to them as a sanctioning authority. The secretariats that are formed (such as that of ECOWAS and SADC, for instance) do not have the legal backing to force countries to fulfill their obligations – such as reducing tariff rates and other trade barriers in accordance to their commitments. When such barriers are largely eliminated owing to liberalization, this reluctance to lose sovereignty is taking a form escalating non-tariff barriers⁴, which are becoming major problems in COMESA, for instance. The continent-wide initiative (the Abuja Treaty and others that followed from it) could potentially serve that purpose, but has yet to setup the structure to do so (Alemayehu & Haile, 2002).

1.2.5 Implementation Problems of Harmonization Policies

The importance of harmonizing macroeconomic and trade policies for enhancing economic integration cannot be overstated. Due to the focus of Africa's regional economic integration efforts on trade liberalization policies (tariffs and non-tariff barriers), most analysis mainly focused on the impact of regional integration on trade flows (Alemayehu & Haile, 2002). Such a focus has had a number of problems. Harmonization problems in COMESA, for instance, include: (a) lack of harmonization of tariffs, customs procedures and tax policies as well as incentive package for investment; (b) problems related to donor support. Some donors support SADC while other support COMESA. This usually depends on short-term interest of the donor. Such donor influence creates not only harmonization problems but also unhealthy competition

among RECs; (c) lack of common position on SAPs among COMESA members (partly because of the capacity and desire of the sponsoring institutions to deal with individual members) had also created harmonization problems.

2.0 REGIONAL ECONOMIC INTEGRATION IN SOUTHERN AFRICA

According to Biswaro (2003) the earliest theoretical work on regional economic integration emanated from the theory of comparative advantage in international trade, and the interests of liberal economists in promoting the reduction of tariff and nontariff barriers to trade. Manone (2008) stated that the main ingredients of regional economic integration, as indicated by theory, include the removal of tariff and non-tariff barriers among member states, having a common external trade policy which initiates common external trade restrictions against non-members, initiating free movement of goods and services, as well as free movement of factors of production across national borders, harmonization of policies, unification of national monetary policies, and acceptance of a common currency. These happen in stages which include free trade area, customs union, common market, economic union and complete regional integration.

Manone (2008) emphasized that most regional groupings are using this model in their quest for regional economic integration, even though not all have been successful. For instance, the Southern African Development Community's (SADC) schedule in this regard is to achieve a Free Trade Area by 2008, customs union by 2010, the common market by 2015, the monetary union by 2016, and the single currency by 2018. Regional economic integration on South African construction industry is been control by two main regional integration entities, the Southern African development community (SADC) and the southern African customs union (SACU).

2.1 Southern African development community (SADC)

SADC was created between 1960s and 1970s, when the leaders of majority-ruled countries and national liberation movements coordinated their political, diplomatic and military struggles to bring an end to colonial. Later it was established through the SADC Treaty and the Windhoek Declaration of 1992, which affirmed the organization's intention to establish a framework for co-operation. As its involvement in crisis-prone countries such as Lesotho, Malawi, Zimbabwe and the Democratic Republic of Congo has highlighted, the SADC has also concerned itself with matters of political development and regional security. The SADC integration process has evolved against a backdrop of gross economic inequalities and imbalances among member states. Essentially, the region's economy is located within South Africa. It makes up about 60% of SADC's overall trade and about 70% of SADC's gross domestic product (GDP). It also has the most developed and diversified industrial base. The demise of apartheid in South Africa created conditions conducive to regional political and economic co-operation. The proponents of trade integration including large international and South African building firms, private sector interests in the other SADC countries, donor agencies and mainstream economists have pushed strongly for open regionalism and unrestricted movements of trade, investment and capital flows. Their influence has been evidenced by the significant neo-liberal market reforms that have been

undertaken in the region and the relative rise in regional trade flows which have great impact on South African construction industry.

2.2 SADC Free Trade Area (FTA)

The SADC Free Trade Area original members were Botswana, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe, with Malawi joining later. Of the SADC member states, only Angola, The Democratic Republic of Congo and Seychelles are not yet participating. It was established in August 2008, after the implementation of the SADC Protocol on Trade in 2000 laid the foundation for its formation. SADC joined with the Common Market for Eastern and Southern Africa and the East African Community to form the African Free Trade Zone which introduced South African construction industry to rest of Africa. This African Free Trade Zone agreement bring about ease access to markets within the zone and end problems arising from the fact that several of the member countries belong to multiple groups.

2.3 Southern African Customs Union (SACU)

This is a Customs Union among 5 countries of southern African of Botswana, Lesotho, Namibia, South Africa and Swaziland. SACU is the oldest existing custom union in the world established in 1910. Its aim has been helping South African construction industry to main free interchange of labor and material between the member countries. The erstwhile experience of the SACU shows that the region has not always been treated with respect by South Africa. However, the arrival of democracy in South Africa in 1994 laid the basis for the revision of the SACU agreement and for deeper engagement between South Africa and its SACU counterparts. South Africa was also keen to introduce changes to the existing agreement: the incoming African National Congress government was determined to underscore its regional credentials by backing SACU's democratization and doing away with the 'colonial' tag associated with previous SACU arrangements. The unveiling of the new Southern African Customs Union (SACU) Agreement in 2002, which came into force in July 2004, has been touted as a victory for regional democracy and balanced development. SACU has help South African construction industry to strengthen coherence in policy formulation, expand regional trade, and fulfil integration into the global economy.

3.0 REGIONAL ECONOMIC INTEGRATION AND SOUTH AFRICAN CONSTRUCTION INDUSTRY (SACI).

Globally and in South Africa, the construction industry has the highest workforce and has remained a vital player in the economy. The South African construction industry is crucial as a whole because of its labor-intensive nature, and its role in supporting other economic sectors through the provision of buildings and construction (CETA, 2008). The construction sector in South Africa is recognized as very large, diverse and complex in nature with vast numbers and ranges of employees (CETA, 2008). Yet the total number of liquidations decreased by 39.4% in March 2012 and the employment in construction also declined by 14.3% between 2008 and 2010; 6.7% in 2011, and 4.4% in 2012, with the current total population of 986 000 employees (State of the Construction Industry, 2012). The contribution of the South African construction industry to GDP has also declined from 7% in 1970 to approximately 3% in 2000 (Dlungwana,

Nxumalo, Huysteen, Rwelamila & Noyana, 2002). In 2012, the contribution of the industry to GDP was regarded as insignificant with a relative of 3% of GDP (Statistics South Africa, 2012). Rust & Koen (2011) emphasize that the slowdown in growth is a result of the lack of national planning coordination. South Africa has a sophisticated construction sector with a large number of employers. However, approximately 95% of the firms can be characterized as small and micro-enterprises (CETA, 2008). Incentive issues leading construction firms, representing 75% of the total industry output (BMI, 2013). The main contractors engage in the business strategy of subcontracting with the view to avoiding uncertainties in the construction market (CIDB, 2013). Subcontracting has become predominant in the industry, with over 70% of the building projects and 30% of the civil engineering works being subcontracted out (CIDB, 2013). This allows the subcontractors to play a major role in infrastructure development. The contractual relationship between the main contractors and the subcontractors is on an *ad hoc* basis, where there is no formal contract; this restrains the advocacy for best performance through equity in allocation of risk. Hinze & Tracey (1994) stipulate that subcontractors play a significant role in the project execution; there is a scarcity of publications about the actual process whereby they are initiated or how award arrangements are made. The key challenges faced by subcontractors are identified as lack of security payment, bid price pressure from main contractors, poor management, poor attitudes within subcontracting organizations, and general industry-wide factors including high level of competition, lack of working capital and skills shortages (CIDB, 2013).

3.1 IMPACT ON SOUTH AFRICA'S CONSTRUCTION INDUSTRY AND ITS LESSONS FOR OTHER AFRICAN CONSTRUCTION INDUSTRIES.

The recent formation of construction industry development agencies in the Southern African countries, with a regional initiative to co-ordinate efforts and pool resources where necessary, is encouraging. It is heartening that many of the institutions are industry inspired, or involve the industry's active participation. Such initiatives potentially have greater sustainability and chances of success because the main stakeholder and beneficiary is directly included in the planning and implementation processes. The construction sector has enormous development potential in Africa since it is the main employer behind agriculture, generates foreign currency or earnings, pays better than other sectors and contributes a lot to the Gross Domestic Products and also provides tax. Conversely, incentive ranges from liberalizing investment such as tax holidays, TNC, removal of import duties, 100% foreign ownership, repatriation of profits, removal of the need to employ local contractors and the granting of extensive land, water, and other concessions sometimes reverses the gains made.

3.2 Positive impact on South Africa Construction Industry

These are some of the impact of Southern Africa regional economic integration, SACU & SADC have on construction industry in South Africa;

The impact of regional integration on the growth South Africa Construction Industry has been difficult to assess, using the theory of endogenous growth should give construction industry in Africa hope. This theory suggests that the growth rate of an economy is critically affected by the type of economic policies, the rate of technological progress and knowledge accumulation, as

well as the quality of institution and industries not leaving out construction aspect, that is why ECA (2004) has supported this endogenous growth theory by indicating that regional economic integration can contribute to economic growth.

Collective Employment through regional integration, Construction industries of SADU member states have agreed to a harmonized classification for issuance of entry/work permits aiming at addressing problems of unemployment and poverty in the region through construction. However, there are still development disparities and income inequality in SADU member states which need to be addressed.

Region economic integration brings about globalization in the industry, it is a trend which has occupied the headlines of major popular publications for several decades. There are sharply different arguments on the merits and otherwise of the process of globalization from the perspective of the construction industry in developing countries in Africa. One of the short-term aims of the CIB Task Group 29 (TG29) is to study the implications of globalization for the construction industries of developing countries. As far as these industries are concerned, globalization is an inescapable fact. This is because many of the construction projects in South Africa which the nations require for their socio-economic development are beyond the capability of their industries to undertake, owing to the size, novelty and complexity of those projects (Drewer, 1980). SACU & SADC import some construction activities into traditional method of construction in South Africa.

Another advantage South Africa construction industry gained from Southern African Region economic integration SACU & SADC are the greater extent of private-sector participation in major infrastructure projects within the region and Africa at large (Cox (2013)). This likewise increasing vertical integration in the packaging of construction projects which are growing larger.

It also bring about increased foreign participation in the construction industry in South Africa from most of the countries within the region. This create healthy competition between construction industries, in which most of them form alliance for better services. Ofori (2000) encouraged that the developing countries to form "*cross border strategic alliances*" with each other in order to progress their construction activities and to adopt more developed technology, this will be attributed to the trends of globalization/ economic integration and deregulation of markets necessitated by fiscal technological and managerial constraints.

Regional economic integration in southern Africa serves as motivation for the private construction industry in south Africa, according to Ombeni (2008) regional cooperation through the customs union has play a great role in enabling private construction sector in south Africa and its operators based in the region with cross-border business operations to exploit the comparative and competitive advantages offered by regional business locations, without having to factor in the differences in tariff protection rates, and added business transaction costs arising from customs clearance formalities. The regionally based enterprises will also get better protection, as enforcement of the common external tariff is done at the regional level.

Region economic integration creates more profitable industries that demand skilled labour among South African construction industry. Wages are rising up and unemployment is getting less among skilled labour who managed to acquire skills in new technologies in different

developing and advanced countries within the region. In addition, according to Khan(2004) the advancement in transport and communication within the region has caused a shift of labour towards the service sector. Nevertheless, most construction workers in other countries expect South Africa see regional economic integration as a threat; it impacts on their work conditions by creating insecure uncontrollable work atmospheres. That is why Taylor *et. al* (2002) stated that the restriction on the free movement of low skilled labour across borders adds to the threats; these restrictions minimize chances of improving standards of living, acquiring new useful skills and therefore negatively affect the development of human resources in the host countries.

According to Park and Park (2007) in Ombeni (2008), economic integration can served as incentives for investment and attraction of Foreign Direct Investment (FDI) in South African construction industry. General reforms such as stabilization, market liberalization, and privatization adopted under regional arrangements can raise returns to all factors and are likely to be more than enough to increase private investment. Also as Baldwin and Venables (2004) pointed out, economic integration help to ensure that production is located according to comparative advantage in each member states which in turn will lead to specialization which will further lead to increased output and services thus making the whole region better off as a result of such specialization scheme.

Other benefit South Africa construction industry get from Region economic integration through SACU & SADC are the Involvement of international finance makes possible the implementation of several projects, such as those of major infrastructure. Direct foreign investment in projects leads to increase in construction demand, creating work opportunities for local firms (Van Aardt (1996)). Competition among foreign firms lowers the costs of projects to developing countries. Presence of large numbers of international firms offers scope for technology transfer and the development of local firms and upgrading of the industry. The large number of such firms also means that technology transfer can be a tool for competition.

3.3 Negative impact Regional Economic Integration on South Africa Construction Industry

Despite numerous benefit South Africa construction industry get from Southern African regional economic integration, SACU & SADC. There are some negative effect this bring to the industry, some of them are as follows;

Local construction firms have no funds or expertise to participate in the sponsorship of privatized projects. Furthermore the increase in private sector funded projects reduces the impact of regulatory frameworks which offer margins of preference to local contractors during procurement since these policies are not applicable to the private sector(Alden and Soko (2005)). It is therefore inevitable that foreign contractors within the region shall continue dominating the high value complex project market segment.

Local construction companies lack the technical and managerial capability to undertake most of the foreign-funded projects.

It is possible that local firms will be deprived of the opportunity to grow (Hillebrandt, 1999) .the increase in public and private sector investment in infrastructure projects corresponds to an increase in construction demand, local construction companies are not experiencing a

corresponding increase in their market share of the industry due to lack of the requisite competitive edge over foreign companies within the region

Foreign construction firms may pay lip service to technology transfer (Carillo, 1994) or take measures to avoid it. Moreover, local companies may not be in a position to benefit from technology transfer, or to subsequently utilize the acquired expertise.

4.0 CONCLUSION

Based on the reviewed the following conclusion and recommendations were proposed for policy decision by other African construction industries. The dynamics of regional integration in Southern Africa has brought about great involvement of South Africa's Multinational Corporations especially South African Construction Industry (SACI) on the continent and even beyond. This paper recommends other regional integration unions in Africa like the Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA) should emulate SACU and SADC in the development of their region economically in the area of construction industries in these zones. Likewise Nigeria should learn from South Africa dominant over SACU and SADC.

Formation of construction industry development agencies in the Southern African countries, with a regional initiative to co-ordinate efforts and pool resources where necessary has encourage South African Construction Industry (SACI) and other Southern African countries constructions industries on the continent. It is heartening that many of the institutions are industry inspired, or involve the industry's active participation. West Africa should learn from this development agencies.

This study reviewed the theory of regional economic integration. Emphasizing the fact that regional economic has bring about increased foreign participation in the construction industry in South Africa and most of the countries within the region. They attributed these trends to the globalization and deregulation of markets necessitated by fiscal technological and managerial constraints. Also, the paper looked at SADC and SACU in its totality to construction industry in South Africa, not leaving its positive and negative impact SACI. Evidence showed that both impact have direct relationship with the SACI, the following policy recommendations may be adduced. They include:

Private construction industries in Africa should be actively involved in regional economic integration in region. This aspect of the regional integration process in Africa has been singled out as one of the major weaknesses of the initiative.

Construction industries within a region should put in place a mechanism to ensure the same policy credible to the region. This is because investors and clients need to have confidence that integration measures will not be reversed and that barriers to regional markets will not be reinstated overnight.

Other African Construction industries should cement their economic integration efforts with themselves by ensuring stability, stepping up trade liberalization, opening up economies to

competition and deepening their integration within their region into the world economy, therefore giving a decisive boost to their integration drive. This paper try to investigate some other facts on impact of REI on South African construction industry, may while the findings conducted has little limitations. Some of the limitations include; most of information got are not absolutely reliable and most south Africa construction industries website were not updated.

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