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Free Trade Areas under COMESA and SADC:

What the Literature says about the Current Situation

DPRU Policy Brief No. 01/P15
August 2001

Industrial
Strategy
Project
REGIONAL INTEGRATION,
ECONOMIC COOPERATION
IN SOUTHERN AFRICA
D P R U

INTRODUCTION

This policy brief looks at potential problems of a Southern African Development Community (SADC) Free Trade Area (FTA) being implemented alongside a free-trade agreement that already exists between the member states of the Common Market for Eastern and Southern Africa (COMESA).

WHY A FTA?

Trade integration enhances trade flows, which fosters industrial development and diversification. A FTA implies a larger market thus enabling the exploitation of economies of scale and the building of industrial capacity.

A PLETHORA OF REGIONAL ORGANISATION GROUPINGS

The table below shows the assortment of regional arrangements that exist in the region. All SADC members belong to a variety of other organisations and this further complicates the already complicated process of implementing a FTA. This policy brief looks in particular at the complications provided by the existence of a COMESA FTA.

Table

Country	SADC	COMESA	SACU	CBI	CMA	Lome	SAPs
Angola	x	x				x	
Botswana	x		x			x	
DRC	x						
Lesotho	x	x	x		x	x	x
Malawi	x	x		x		x	x
Mauritius	x	x		x		x	x
Mozambique	x	x				x	x
Namibia	x	x	x	x	x	x	
Seychelles	x			x			
South Africa	x		x		x	x	
Swaziland	x	x	x	x	x	x	
Tanzania	x			x		x	x
Zambia	x	x		x		x	x
Zimbabwe	x	x		x		x	x

Source: Mayer and Thomas (1997: 330).

At the end of 1999, four multilateral economic co-operation schemes were operating in Southern Africa: SADC, COMESA, SACU (Southern African Customs Union) and the CBI (Cross Border Initiative). A brief discussion of SACU and the CBI will follow. In addition, some SADC members are also part of the CMA (Common Monetary Area) or are signatories to the Lome agreement or are in the process of implementing SAPs (Structural Adjustment Programs). Discussion of these arrangements is beyond the scope of this brief - however, their existence serves to highlight the variety of commitments that member countries have to try and adhere to.

SACU: This is the oldest and most integrated grouping in the region - it was formed in 1910 and renegotiated in 1969. The countries have a common external tariff and, bar Botswana, have formed a common monetary area. SACU dominates intra-regional trade.

CBI: The region covered by the initiative includes Eastern and Southern Africa and the Indian Ocean. The CBI emerged at the Maastricht Conference on Africa in 1993, and is sponsored by the African Development Bank, the European Union, the IMF and the World Bank. It aims to stimulate cross-border trade by a reduction in internal tariffs and NTBs as well as the implementation of a moderate external tariff.

The following quote summarises the issue to be explored: 'The existence of overlapping regional (SADC and COMESA) as well as bilateral trade agreements must be dealt with at both the political and administrative levels. As long as numerous SADC members remain involved in conflicting regional arrangements or liberalisation commitments, actual progress may be limited' (Lewis, 2001: 41).

THE COMESA FTA AND THE SADC FTA

The twenty member countries of COMESA are Angola, Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

The fourteen member countries of SADC are Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The following nine countries belong to both COMESA and SADC: Angola, DRC, Malawi, Mauritius, Namibia, Seychelles, Swaziland, Zambia and Zimbabwe. Thus, almost half the members of COMESA belong to SADC, and almost two-thirds of the SADC countries belong to COMESA.

This has significant implications for any policy prescriptions that the two regional groupings make. The aim of this brief is to try and determine what the implications of the existing COMESA FTA will have on the establishment of a SADC FTA.

The brief proceeds as follows:

(1) The situation today
(2) The COMESA FTA
(3) The SADC FTA
(4) An empirical assessment

(1) THE SITUATION TODAY

The situation appears to be unresolved - in March of this year, Jeffry Lewis (from the World Bank) (2001: 23) made the following statement: 'To date, the practical issue of how several countries (Mauritius, Malawi, and Zimbabwe, with Zambia soon to follow) can simultaneously implement a free trade area with both SADC and COMESA partners remains unresolved.' Indeed, it seems strange that no formal solution has been offered by any of the institutional authorities involved.

This issue has been acknowledged since the inception of SADC. In fact, a joint COMESA/SADC study on the harmonisation of the two organisations was undertaken in 1994. The two organisations urged that efforts to promote integration in Southern Africa be rationalised and that there was a need for further study of the potential overlap of activities. This further study has not been forthcoming.

According to the COMESA website, nowhere in the world is trade conducted according to more than one regime. Thus, dual membership of COMESA and SADC means choosing which set of rules to follow. **COMESA advocates that these countries follow its regime because 'WTO procedures require that trade be conducted on the basis of the more advanced trade regime'** (www.comesa.int).

The COMESA and SADC agenda's do have considerable overlap. However, COMESA's position is weakened by the fact that South Africa is not a member of the grouping. SA was invited to join COMESA in May 1994, but refused. It is a widely held view that SA's decision not to join COMESA has 'thwarted its agenda' as well as 'diminished its importance in regional terms' (Mayer and Thomas, 1997: 333).

At a SADC meeting in September 1995, it was decided that membership of both SADC and COMESA was incompatible, and thus SADC states were asked to withdraw from COMESA. These events highlight the tensions between the two groupings, although clearly, SADC members have not all withdrawn from COMESA.

COMESA's current view is that FTA efforts in sister regional groups occurring within its boundaries (SADC as well as the East African Community (EAC), the Intergovernmental Authority on Development (IGAD) and the Indian Ocean Commission (IOC)) must be seen as part of a variable speed approach to regional integration. Progress within them will facilitate the eventual creation of the Common Market for Eastern and Southern Africa (www.comesa.int).

(2) COMESA FTA

COMESA was established in December 1994, when it replaced the PTA (Preferential Trade Area). The original intention of COMESA was to establish a common market with a common external tariff within ten years - the time period for implementation has subsequently changed because of poor progress.

Objectives

The aims (and measures used) of COMESA include the following:

- To liberalise trade (decrease tariffs and non-tariff barriers (NTBs)[1] as well as simplify customs procedures) and thus increase the volume of intra-regional trade.
- To improve transport and communication systems by, for example, establishing inter-state transport systems.
- To foster cross-country links between production and research enterprises.
- To assist with trade and development finance as well as clearing and payments arrangements.

Although COMESA has 'very little influence over trade patterns in the region', the membership of COMESA by member countries trying to implement the SADC trade protocol may frustrate the process because these countries will be attempting to maintain two different trade regimes between the same participating countries (Mayer and Thomas, 1997: 333).

The COMESA **FTA was implemented in October 2000** with the following COMESA countries as members: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe. The other COMESA countries are planning on eliminating tariffs on intra-COMESA trade and becoming a member of the FTA 'later' (www.comesa.int). COMESA countries not part of the FTA have continued to trade on preferential terms (that is, tariff reductions of between 60 and 80%). In addition, a Common External Tariff (CET) is to be introduced by 2004. The CET will be 0% on capital goods, 5% on raw materials, 15% on intermediate goods and 30% on final goods.

All countries were supposed to have reduced tariffs by 80% as at October 1996. However, only 5 countries (Comoros, Eritrea, Sudan, Uganda and Zimbabwe) achieved this level. The main reason why the countries were so slow to comply with the prescriptions was due to the loss of fiscal revenue associated with tariff reduction. This problem is exacerbated for countries with low original tariff rates because reducing rates makes it harder for them to export to countries with higher rates.

The backbone of the COMESA FTA is the planned implementation of the Automated System for Customs Data and Management (**ASYCUD**) and **EuroTrace** Systems. These systems will help to simplify and standardise customs operations in the member countries with the ultimate aim being

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[1] NTBs include: import licensing, foreign exchange restrictions, foreign exchange taxes, import and export quotas, road blocks, customs formalities, border post times etc. Other barriers to trade are poor transport and communications infrastructure, strict visa requirements, lack of information, and red-tape at the border.

increased trade flows. In addition, the **COMESA Customs Document** (CD) was introduced in 1997 to assist in the uniformity of customs administrative procedures.

COMESA Rules of Origin (ROO)

All commodities are eligible for COMESA preferential treatment so long as they satisfy the COMESA ROO.

> Goods must be consigned directly from a member state to another member state, plus satisfy one of the following conditions:
> - be wholly produced
> - import material content of not more than 60% of ex-factory cost
> - value added of at least 25% of ex-factory cost
> - undergone substantial transformation during production

Concerns over the FTA

There are two major concerns over a COMESA FTA besides the conflict with other regional groupings. These are:

- Loss of government revenue: All governments will lose revenue in the form of customs duties/import tariffs on COMESA goods. A possible solution is for governments to use other methods of taxation to recoup the lost revenue (for example, VAT or sales taxes).
- Loss of industries and worsening of development imbalances: some countries will obviously stand to benefit more from the arrangements than other countries.

Current debate

There is talk of splitting COMESA into north and south regions, where the south would constitute SADC and the north would be a revival of the East African Community.

(3) SADC TRADE PROTOCOL

The SADC Trade Protocol was drawn up at the SADC summit meeting in August 1996. It was launched on 1 September 2000, and to date 10 member states have ratified the protocol[2] with five countries (Botswana, Mauritius, Lesotho, SA and Swaziland) starting to implement it. Zambia has signed the protocol but not ratified it.

Objectives

[2] A protocol must be ratified by two thirds of the member states in order for it to be implemented.

In essence, the protocol provides for:

- The formation of a FTA.
- Co-operation in the banking and financial systems.
- Easier access to trade credit.
- Simplified administration (that is, reduce red tape) at the borders.
- Harmonisation of customs procedures.
- Harmonisation of sanitary and phytosanitory measures, and standards and technical regulations on trade.
- Trade in intellectual property, trade-related investment measures and trade in services to fall under WTO regulations.
- Rules of origin are outlined in great detail.

The ultimate aim of the protocol is to facilitate intra-regional trade, with each country producing according to its comparative advantage. This is to be done on the 'basis of fair, mutually equitable and beneficial trade arrangements, complemented by protocols in other areas' (SADC Review online). It is hoped that these efforts will also enhance the investment climate within SADC with a resulting increase in domestic, cross-border and foreign investment.

Among its objectives, it provides for the formation of a FTA within 8 years, and the elimination of tariffs, quantitative restrictions and NTBs to trade within this time. The elimination of these impediments to free trade will be phased in over a period of eight years for 85% of total intra-regional trade, and twelve years for all trade.

The **Committee of Ministers responsible for Trade Matters** (CMT) has been responsible for drawing up the timing of the phased elimination of tariffs and NTBs, 'taking into account existing preferential trade arrangements between and among member States' (SADC Review online). The timetable, as well as the identification of sensitive products, has been negotiated through the Trade Negotiating Forum (TNF). Negotiations took place in eleven rounds (between January 1999 and June 2000) of the TNF, with more than 45 000 tariff lines negotiated.

As mentioned previously, the elimination of tariffs and NTBs results in a loss of government revenue. Thus, it is important that goods either originate or be transformed in the SADC region if the benefit of an FTA is to accrue to the member states. The **upgrading of customs** systems is thus a crucial component in the process. This is discussed briefly in the box below.

The Sub-committee on Customs Co-operation (SCCC) held its inaugural meeting in January 1999.

Most customs departments are in the process of being computerised with the ASCUDA (developed by UNCTAD) system. Note that the advanced systems already in place are compatible with this system. Trade documents and procedures are also to be simplified and harmonised.

Each member state is to set up a central co-ordinating unit within its customs authority, and these units will be linked. The main function of the units will be to facilitate contact between customs authorities, especially in an emergency. In addition, if the relevant customs authority is not competent, the unit will be responsible for forwarding requests for assistance to competent national authorities.

Other provisions:
- Customs authorities may engage in joint operations with respect to law enforcement.
- Where non-compliance with the rules of origin is suspected, customs authorities may inspect the exporter's business.

Thus, the protocol is flexible in terms of enforcing the requirements. In particular, the protocol provides for:

- A grace period can be granted (by the CMT) with respect to eliminating tariffs and NTBs.
- Specific commodity subsidies can be maintained (but new ones cannot be granted).
- Goods in transit are exempt from duty.
- Anti-dumping provisions.
- Temporary protection of infant industry.
- Certain imports can be restricted if the country feels threatened by them.

Problems

The main obstacle to integration is the structure of the SADC economies - they are competitive rather than complementary, with most economies producing very similar products (mainly primary products) and then competing for export markets.

The formation of a FTA is complicated by the heterogeneous membership of SADC. SA plays a dominant role in the region - SA's exports into the region far outweigh its imports from the region. Also, SA's manufacturing value added (MVA) is five times that of the sum of the MVA's of the other member countries, and fifteen times that of Zimbabwe, SADC's second largest manufacturer (Mayer and Thomas, 1997: 330-331).

The presence of SAPs[3] in the region has also frustrated SADC's trade integration strategy. SA's strong position in the region is partially attributed to it not undergoing SAPs - as a result, SA has greater access to regional markets than other countries have to its market.[4] In the past, SA has also had higher tariffs than other SADC countries. Another major problem with the SAPs is that tariff levels may have already been reduced to levels too low for the implementation of a FTA to make economic sense (Mayer and Thomas, 1997: 333).

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[3] SAPs: tariff liberalisation and macroeconomic reform programs sponsored by the IMF and World Bank.

[4] In 1995, the ratio of South Africa's exports to imports was 7.4:1. Is this trade surplus (R9.2 billion in 1995) sustainable?

The region is also characterised by a large number of 'least developed countries' (LDCs) and no special provisions are made for these countries. In effect, the protocol actually erodes some of the progress made during the Uruguay Round of GATT (1994)[5]. During this round, tariffs on agricultural goods, export subsidies, standards with respect to technical regulations, textiles and clothing and the elimination of tariffs were discussed.

Polarisation of development[6] is bound to occur - the more advanced countries will gain from the FTA while the LDCs will suffer. This calls for an asymmetric implementation of the FTA (between SA and the rest of SADC) with respect to timing and product lines. Thus, it is expected that SA will liberalise faster and accept more product lines than the other SADC members. This leads to a discussion on the **rules of origin**. Note that the rules of origin are different under the SADC and COMESA FTAs.

SADC ROO

The following **criteria** need to be met in order for a good to satisfy the rules of origin:
- Goods must be consigned directly from one member state to another member state.
- Goods must be wholly produced in a member state or must contain materials that have undergone sufficient work or process there.
- The value of non-originating materials may not exceed 10% of the price of the product.

With respect to clothing and textiles:
- Imported raw materials must undergo a minimum two-stage production/transformation process.
- Four countries have been exempt from this requirement for 5 years - they are Malawi, Mozambique, Tanzania and Zambia.

Minor operations and processes will not be considered as a basis for maintaining the origin of goods in SADC states. These include:
- Packing and packaging.
- Dilution, blending and mixing.
- Assembly and combining operations.
- Ornamental and finishing operations on textiles.
- Animal slaughter.

The following goods are to be considered originating from member states:
- Minerals extracted from the ground or sea.
- Vegetables grown locally.
- Live animals born and raised locally.

[5] The EU agreement placed strain on the FTA negotiations
[6] 'Economies of agglomeration, the cost benefits offered by increasing returns to scale, as well as transport and other costs of doing business over a distance create an environment that will foster polarised development in the SADC free trade area in favour of South Africa and its metropolitan areas' (McCarthy, 1999: 395).

- Live animal products.
- Meat from hunting.
- Products from the sea.

Problems

- It outlines tariffs as being the major impediment to free trade and does not give enough significance to the removal of NTBs. In fact, effective tariffs are often lower than nominal tariffs because of collection problems at borders. It is important to note that the African Development Bank study of 1993 cited NTBs, as opposed to tariffs, as being the major impediment to trade in the region (Mayer and Thomas, 1997: 346).
- It does not include supply side measures needed to restructure and diversify industry in the region.
- It fails to link trade and investment.
- It fails to link trade integration to industrial development.
- No measures are in place to compensate countries that may be de-industrialised in response to its implementation.

(4) AN EMPIRICAL ASSESSMENT

This section outlines the gravity model approach used by Lyakurwa (1999) to assess trade issues in SADC. This model was used to explore the 'potential for increased intra-SADC trade, given the current wave of unilateral trade liberations among the member states, a domestic South Africa and the changing role of COMESA from a preferential trade area to a common market.'

The gravity model uses the geographical distance between countries, and their economic size and state of development to explain trade flows. It is called a gravity model because it assumes that trade between two countries is inversely proportional to the distance between them.

The model is as follows:

$T_t = ß_0 + ß_1\ (GDP)_{ijt} + ß_2\ (PCI)_{ijt} + ß_3\ (Distance)T + ß_4\ (Adjacent) + ß_5\ (COMESA)_t + ß_6\ (SACU)_t + U_t$

Distance and adjacent together represent geographical distance, GDP represents economic size and the state of development is represented by PCI (per capita income). COMESA and SACU are dummy variables representing membership in the two regional groupings.

A model was estimated for three specific years - 1981 (pre-SADC), 1985 (the formative stage) and in 1990 (when SA was being considered for membership). All parameters have the expected sign (positive for GDP, GDP per capita and border, and negative for distance and membership in COMESA and SACU) except membership in COMESA in 1981 and 1990.

The model was also used to assess whether SADC has been a viable trade bloc - that is, have trade flows between its members increased since its inception. The study concludes that it has, but largely due to qualitative forces - major investments in transport and communications have prompted increased trade flows. The studies punchy final recommendation is that 'given the existence of trade protocols for SACU and COMESA, a trade protocol for the SADC may be superfluous, since all its members belong to one or the other of those groups' (Lyakurwa, 1999: 275). However, it fails to suggest what would happen if SADC did not have its own regional trade agenda.

CONCLUSION

This policy brief has highlighted some of the issues that SADC face when trying to implement a FTA. However, this issue has not been resolved in the literature, in this brief or by the SADC secretariat. Thus, in the absence of any concrete evidence, it may seem that the 'close your eyes and hope for the best' approach is what is happening here.

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