

4. COMESA and SADC— A New Free Trade Area and Another in the Making

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Economic integration in Eastern and Southern Africa made notable progress in 2000, the year ending with the establishment of a new free trade area (FTA) and the first steps towards the ultimate establishment of another. The FTA of the Common Market of Eastern and Southern Africa (COMESA) saw the abolition of tariffs in the broader region for the first time since the dissolution both of the Federation of the Rhodesias and Nyasaland and of the East African Community in the 1960s and 1970s respectively. The FTA came into operation just two months after the Southern African Development Community (SADC) had begun implementing tariff reductions which will lead to its FTA in 2008. This paper discusses the current situation in these two regional groupings, and their approach to forthcoming World Trade Organisation (WTO) negotiations and the proposed Economic Partnership Agreements with the EU.

The Present Position

Common Market of Eastern and Southern Africa

The Treaty establishing COMESA came into force on 8 December 1994, and represented a transformation of the old Preferential Trade Area for Eastern and Southern African States (PTA) which had operated since 1 January 1983. Despite its name, COMESA is not a common market although that is its long-term aim. The PTA, as its name implied, was concerned with establishing preferential trade among member countries. It sought to do so by adopting a systematic programme of tariff reductions of 10 percentage points per annum until zero tariffs had been reached, when the PTA would become a free trade area. In fact, this schedule was adhered to more in the breach than in the observance, and by the early-1990s it was clear that the time frame had been too optimistic and that the obstacles had been underestimated. The PTA members thus decided to work with a revised schedule through COMESA.

In 1983 there were 18 members and this grew, at one stage, to 22. The present membership is 20: some have recently withdrawn (Lesotho, Mozambique, Tanzania), some joined in the 1990s (Egypt, Eritrea, Madagascar, Seychelles, Namibia and DR Congo), and Somalia ceased to exist as a state.

An important change in the new Treaty was the acceptance of the principle of variable geometry: some countries had moved more rapidly than others in reducing their tariffs, and it was felt that they should not be held up by the laggards but rather should be allowed to proceed towards zero tariffs with the laggards eventually catching up at their own pace. One manifestation of variable geometry was the Cross-Border Initiative (CBI), funded by the EU, World Bank, African Development Bank and International Monetary Fund as a fast-track group of 14 countries. The CBI operated from 1992-2000 when it was replaced by the Regional Integration Facilitation Forum with support from COMESA to continue to fast-track integration. The CBI pursued various trade liberalisation objectives, and lent new impetus to the PTA programme of tariff reductions. By the time the CBI was discontinued, four COMESA countries had reduced their tariffs on intra-trade by 90 per cent, six by 80 per cent, one by 70 per cent and three by 60 per cent. The initiative, therefore, helped to pave the way for the commencement of the FTA on 1 November 2000, consisting of only nine of the 20 member countries. The present (July 2001) position is shown in the box.

COMESA FTA – Country Status, July 2001

<p>Members: Djibouti, Egypt, Kenya, Malawi, Madagascar, Mauritius, Sudan, Zambia, Zimbabwe</p> <p>Indicated intention to accede 2001: Burundi, DR Congo, Seychelles</p> <p>Reaffirmed commitment: Comoros, Rwanda</p> <p>Investigating implications: Eritrea, Ethiopia, Uganda</p> <p>Non-reciprocal members: Namibia, Swaziland</p> <p>Conflict ridden: Angola</p>

COMESA has a total area of 11.94 million km² and a population of about 350 million of whom 180 million reside in the present FTA. The GDP of COMESA as a whole in 1998 was estimated at \$160 billion and for the FTA at \$124 billion. Egypt is by far the largest economy with a GDP of \$85 billion, accounting for just over one-half of total COMESA GDP. The next largest economies are Kenya (\$10 billion) and Zimbabwe and Angola (\$8 billion each).

Zimbabwe was the dominant economy in the old Federation of the Rhodesias and Nyasaland, and Kenya in the old East African Community. There is still a residual feeling in Uganda and Tanzania that they could be dominated by Kenya in the resuscitated East African Cooperation, and indeed that is the reason why Tanzania has held back the entry into force of an EAC FTA or customs union. South Africa has usurped Zimbabwe as the major

trading partner of both Malawi and Zambia. Egypt has very little export trade with the COMESA countries of Eastern and Southern Africa, and is probably too geographically distant to become dominant especially since, in Southern Africa where COMESA countries also belong to SADC, it will face competition from South African firms which are already entrenched in SADC markets. Within COMESA, therefore, there is no single, long-term, dominant economy. As is the case in many regional groupings which consist of developing countries only, intra-trade in COMESA as a whole constituted only a small proportion – 6.6 per cent – of the total foreign trade of COMESA countries in 1998. The major exporters within COMESA were Kenya, Zimbabwe, Zambia and Mauritius, while the major importing countries were Uganda, Malawi, Zambia and Egypt. The only countries with intra-COMESA trade above 10 per cent of their total foreign trade were Rwanda (25 per cent), Uganda (20 per cent), Malawi, Zambia, Kenya, Djibouti, Burundi and Comoros.

A common problem in regional integration schemes in Africa is that countries join without having studied the implications. Then, when the time for ratification and implementation approaches, the realisation dawns that there could be important transitional problems to do with the loss of customs revenue and the loss of local markets to regional competition. This is what has happened in COMESA, and was one reason why Tanzania withdrew just before the FTA came into operation. There was some opposition in the private sector to Tanzania's decision, but the country still retains contacts with COMESA and might well rejoin it when the EAC forms a customs union, Ethiopia, Eritrea and Uganda are studying the effects of free trade before agreeing to join the FTA.

Namibia and Swaziland are unable, because of their Southern African Customs Union (SACU) membership, to grant reciprocal tariff reductions, and hence have enjoyed the privilege of being non-reciprocal members. A study has now been completed of the implications for them of FTA membership. In the meantime, their legal status remains unchanged. However, since it is technically not possible for only some members in a customs union to join another free trade area, membership of the two organisations is in conflict for Namibia and Swaziland, and it is difficult to see how they could choose the COMESA FTA given the importance to them of intra-SACU trade.

Those countries which, despite having reduced their tariffs, did not become founder members of the FTA, continue to offer preferential tariffs. Thus, Comoros, Eritrea and Uganda are offering tariff reductions of 80 per cent, and Burundi and Rwanda of 60 per cent. COMESA, then, contains both a free trade area and a preferential trade area. Trade between FTA members is at zero tariffs, while trade between a FTA country and a PTA country takes place at the latter's preferential rate, the principle being that trade should be on a reciprocal basis.

At this stage it seems that the most likely FT A expansion scenario will be that Burundi, Eritrea and Rwanda will join next, with DR Congo, Ethiopia and Uganda to follow. However, the number of war-torn countries poses a problem for the widening of trade integration, and it is possible that neither Burundi nor the DR Congo will be in a position to join the FTA in 2001. Instability has been holding back Angola, Rwanda, Eritrea, Ethiopia and Comoros. Angola has apparently indicated its interest in rejoining trade deliberations within COMESA.

In practice, the FT A seems to be working reasonably well. There have been examples of companies taking advantage of reduced tariffs and moving into new markets but, of course, the Secretariat hears more about the problems than anything else as countries want it to solve their problems. Some of the problems which have been experienced so far are:

- Malawi has been accused of dumping into Zambia.
- Zambia has accused Zimbabwe of using sanitary and phyto-sanitary measures as well as technical barriers to trade to prevent the entry of milk products, strawberries and eggs.

The Secretariat is spending considerable time on these issues, but the mechanism to deal with them is working. Countries which are members both of SADC and COMESA are trading according to the COMESA regime. Apart from overlapping membership between these two organisations, some COMESA members also belong to other regional arrangements. The seven-member Inter-governmental Agency on Development (IGAD) consists of Djibouti, Ethiopia, Eritrea, Sudan, Kenya and Uganda as well as Somalia. IGAD concentrates mainly on conflict resolution and desertification. The EAC is aiming to establish a customs union by 2004 -the same time schedule as COMESA—but progress on trade liberalisation has been slow. However, there has been more progress on a common currency and the movement of people. Mauritius, Madagascar, Comoros and Seychelles are part of the Indian Ocean Commission together with Reunion, and are committed to trade liberalisation within the COMESA framework.

Southern African Development Community

SADC started life as the Southern African Development Coordination Conference (SADCC), formed in 1980 on the initiative of the so-called frontline states concerned with the dependence of Southern Africa on apartheid South Africa, especially in the field of transport. The emphasis, therefore, was on investment in transport and communications infrastructure to reduce this dependence. SADC adopted an inefficient system of allocating to each member state the responsibility for a particular portfolio; often the allocation did not match the competency of the country in the particular field, and this has

continued to plague the organisation. However, it has recently decided to implement a more centralized structure which should improve efficiency.

When it became clear after 1990 that South Africa would move towards universal suffrage, SADCC transformed itself into SADC in 1992 and took on the objective of establishing a FT A. In doing so it moved from the regional cooperation to the regional trade integration model. This confused the regional picture since all its member states belonged either to SACU or the PTA, i.e., they were already in trade integration arrangements.

SADC gained impetus from South Africa's accession in 1994. Starting with nine members in 1980, the organisation today has 14 members. South Africa and the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) are all members of SACU while Angola, DR Congo, Mauritius, Malawi, Namibia, Seychelles, Swaziland, Zambia and Zimbabwe are members of COMESA. Lesotho, Mozambique and Tanzania have left COMESA in the last few years. Like COMESA, SADC suffers from the problem of instability in Angola and the DRC, neither country being able to implement the Trade Protocol for the same reasons that they have not joined the COMESA FTA. Seychelles has thus far also not acceded to the Trade Protocol, and the embryonic FTA therefore consists of 11 of the 14 countries.

SADC covers an area of 9.1 million km² and contains a population of about 195 million of whom about 132 million reside in the Trade Protocol area. Total GDP is about \$184 billion, of which South Africa contributes \$131 billion (or 71 per cent). This is a high degree of domination, unmatched in COMESA. There is a strong feeling of wariness and suspicion in SADC about South Africa; this is most apparent in the field of trade because of the imbalance in the direction of intra-SADC trade which runs at about 5:1 in favour of SACU (mainly South Africa).

Trade integration schemes work best when major macroeconomic indicators in member countries are in convergence. In general there is more convergence today in SADC than at the time of its establishment when countries were following widely diverging economic systems ranging from market-based economies in BLNS and Malawi, through various notions of state socialism in Tanzania and Zambia, to central planning in Angola and Mozambique. All countries now have liberalised their economies, albeit at a different pace, and accepted the market. But there remains a lack of convergence among the non-SACU countries, and this has been exacerbated by continued instability in Angola and the DRC as well as the recent rapid degeneration in Zimbabwe where the inflation and interest rates are now far out of line with those in the rest of SADC.

Intra-SADC trade hovered around 4-5% of the total foreign trade of member countries until the accession of South Africa when the figure was

boosted overnight to about 21%; however, if SACU is excluded, this falls to a miniscule 5% (roughly the same level as in COMESA). By contrast, there is a high degree of intra-trade within SACU, especially for BLNS. The majority of the intra-SADC trade of the SACU countries is in fact intra-SACU trade. Of the non-SACU countries, only Malawi and Zambia obtain more than 50 per cent of their imports from SADC, and that is mainly from South Africa. Mozambique depends most on export markets in SADC, but again this is mostly trade with South Africa.

The Protocol on Trade in SADC was signed in August 1996 but, because of protracted negotiations, only entered into force on 25 January 2000 when it had been ratified by two-thirds of the member states. The amended Trade Protocol, together with the schedules of rules of origin, will be the document which governs the tariff reduction process. The participation of South Africa and the existence of SACU both created complications during the negotiations. South Africa is the dominant economic power of the grouping, while SACU (by definition) already has free trade, and BLNS have always enjoyed duty-free access to the South African market – a competitive edge they were not likely to surrender easily to non-SACU neighbours. In the event, it was decided to phase in free trade on an asymmetric basis as shown in the box.

SADC Tariff Reduction Schedule

SACU – immediate reductions, zero tariffs after 5 years except on sensitive products.

Non-SACU – tariff reductions to start mainly after 4 years, zero tariffs after 8 years except on sensitive products.

Category “A” goods – comprise about 47% of traded goods in SADC. Duty will be reduced to zero upon gazetting in each country.

Category “B” goods – tariffs to be reduced over 8 years on an asymmetric basis. When complete, 85% of goods traded within SADC will be duty free.

Category “C” goods – sensitive goods for which tariffs will not be reduced until 2012.

Sugar – a sensitive product subject to a special agreement; initial access for non-SACU producers to the SACU market based on their share of the total world market; their SACU market share to be gradually increased until 2012 when the SADC market will be fully liberalised.

The implementation of the SADC tariff reductions started in September 2000. At the time of writing Mozambique was the only country which had not yet lodged its Instruments of Implementation with the SADC Secretariat, but should do so in time to begin implementing the agreement on 1 August 2001. The aim is that by the end of eight years 85% of all trade will be at zero tariffs,

and that at the end of 12 years the figure will have reached about 98% so that there will be virtually no exclusions.

This schedule was designed to allow the non-SACU countries quicker access to the South African market than vice versa. However, there was a common offer from SACU in order to preserve the integrity of the customs union. The basic approach was that South Africa would reduce its tariffs more quickly, but SACU has to comply with this. BLNS were in a difficult position as developing countries (Lesotho in fact being a least-developed country) in the same customs union as South Africa. The SACU tariff has in fact been significantly lowered since the offer to the WTO came into operation in 1995. SACU tariffs are generally the lowest in the region, contrary to a widespread perception that they are highly protectionist. On a trade-weighted basis, they are about 5% (excluding clothing, textiles and motor vehicles) against goods from SADC. However, non-SACU countries fear that South Africa will use non-tariff barriers such as technical and health standards to keep out their products.

The non-SACU countries were to make two offers – one to South Africa and one to the rest of SADC including BLNS. This was known as the differentiated offer. When the offers were made, however, the extent of differentiation was lower than expected. Of the BLNS countries, Swaziland and Namibia receive COMESA preferences, and felt that the non-SACU offer to them was not liberal enough: should they lose these COMESA preferences, they did want to revert to most-favoured-nation (MFN) trade in the first few years with those SADC countries which also belong to COMESA. The MMTZ (Malawi, Mozambique, Tanzania and Zambia) group of least-developed countries were granted duty-free quotas and single-transformation of their exports into SACU, and therefore Namibia and Swaziland wanted them in particular to improve their offers. The understanding was that there would be a general improvement in offers to all countries except South Africa. However, some LDCs apparently were under the impression that it would be on the basis of a bilateral offer to BLNS. If it is in fact a general offer, the MMTZ countries will improve their differentiated offers, but only if Zimbabwe and Mauritius follow suit. This should not be problem for Zimbabwe and Mauritius since the only non-SACU countries which are not part of the COMESA FTA are Mozambique and Tanzania. Where countries are also members of the COMESA FTA, they are now trading under that FTA, not under SADC.

So far only the SACU countries and Mauritius have submitted their gazetted schedules to the Secretariat, although apparently Zambia has also gazetted its schedule while Zimbabwe has gazetted its offer to South Africa. All countries need to gazette their schedules.

The products on which there is as yet no agreement are: motor vehicles; wheat, and flour and wheat products; electrical machinery; optical goods; and plastics. An agreement on textiles and clothing has more or less been finalised, although the special quota on textiles and clothing is not in operation yet. This applies to the MMTZ countries (Mozambique, Malawi, Tanzania and Zambia). They have been allocated a quota for textiles and clothing into the SACU market using differentiated rules of origin which allows them a single stage of transformation. The other Member States have to comply with a two-stage transformation process. However, there is an outstanding request for single transformation for man-made fabrics from Mauritius and Zimbabwe.

In the case of the other outstanding products, rules of origin are the issue. On electrical machinery, the problem concerns white goods, the SACU countries wanting to prevent single assembly, while on plastics SACU wants to exclude the use of imported plastic waste. This is seen by the non-SACU countries as a protectionist strategy for the South African polymer industry. All these issues should be resolved by the end of 2001.

SADC and COMESA have adopted different rules of origin. COMESA's is based on value criteria (35 per cent value added or 65 per cent wholly produced). By contrast, SADC has different rules of origin for each chapter head, sometimes allowing single transformation. Being on a product-by-product basis, the rules appear to be overly complicated for easy progress towards free trade, and involve complex customs procedures.

Dealing with the WTO and Cotonou

WTO

Neither COMESA nor SADC have representatives in Geneva, but both believe it is important for them to play a significant role in WTO matters. Both are involved with the Geneva-based Africa Group. South Africa is a member of this group, and is keen to have a new WTO round whereas the rest of Africa is not, arguing that the points agreed in Singapore on agriculture, textiles and technical assistance to LDCs have not yet been implemented. South Africa also wants the abolition of agricultural subsidies whereas food-importing countries in Africa are against this. The OECD countries want environmental and labour issues on the agenda, but Africa does not, arguing that other specialist institutions such as the ILO should deal with those concerns. A problem, though, is that the WTO is the only rules-based institution with an enforcement mechanism. The Africa Group also argues that the WTO is a negotiating forum anyway so that a new round is not required, but it will probably not oppose a new round provided the agenda can be agreed in advance.

Africa as a whole cannot afford the large permanent delegations which the developed countries have in Geneva. In order to optimise the use of trade

officers, COMESA is attempting to coordinate the work of its 15 members who are also members of the WTO. The idea is that each country will select one negotiating committee and report back monthly to COMESA. SADC's view is that it would strengthen the voice of Southern Africa if positions were coordinated since no one SADC country is able to attend all WTO meetings (there could be as many as 12 parallel groups). An exchange of information would be particularly important.

There will not be a coherent COMESA or SADC negotiating position since free trade areas, unlike customs unions such as the EU, do not negotiate on behalf of members. The Secretariats therefore, do not have the mandate to pursue a common negotiating position. While there might be a common position on broad issues, the negotiations on special subjects will be government-led.

The ongoing negotiations in the WTO relate to agriculture, GA TS and public procurement. The developed countries want to include competition policy under the WTO, but COMESA is trying to establish a regional competition policy and would need to know what the developed countries have in mind.

Cotonou

As with the WTO, so too in the case of the negotiations on Economic Partnership Agreements (EPAs) between the ACP countries and the EU, the position of COMESA and SADC is that they need to play an important role. Both organisations have prepared discussion papers and held workshops on the subject.

The Cotonou Agreement runs until 2020. The continuation of Lome preferences on a non-reciprocal basis is for seven years till the end of 2007, but the remaining benefits under Cotonou will continue thereafter. The exception is for LDCs whose preferences are guaranteed beyond 2007. Developing countries, however, could lose their preferences and their commodity protocols. Sugar was not part of Cotonou, but there is an article in the Agreement to the effect that all protocols will be part of a review. Thus, sugar-producing countries in COMESA and SADC have an interest in being part of the negotiations.

It is important that WTO-compatible trade arrangements be instituted between the EU and ACP countries, but at the regional level. At the national level, individual countries lack negotiating capacity, and the proposal, therefore, is to develop EPAs on a regional trade basis. The EPA negotiations are due to start in September 2002, and in the meantime countries and the regional organisations need to consider what approach to adopt.

The everything but arms (EBA) deal has complicated matters for COMESA and SADC. The EBA offers a special deal for the LDCs in that the EU

extends duty-free and quota-free access to all imports from LDCs except arms from March 2001. The only other exceptions are that the EU market for bananas will be opened only in 2006 and for sugar and rice in 2009. Strict rules of origin will be enforced to ensure that only LDCs benefit from the EBA regulations.

Both COMESA and SADC contain LDCs and non-LDCs. The LDCs have to decide whether, with full market access to the EU already being enjoyed under the EBA, they further need to enter into FTAs with the EU through COMESA and SADC. For example, Malawi as an LDC has full access into the EU and feels that it does not need to negotiate further; by contrast, non-LDCs such as Kenya and Zimbabwe will have to be part of an EPA in order to receive full duty preferences.

Supporting COMESA and SADC in Multilateral Negotiations

As mentioned above, no African regional grouping or individual country can afford large permanent delegations in Geneva, and hence they are at a disadvantage in preparing for negotiations. Another problem is that there is a lack of communication between national ministries and their Geneva-based representatives. The result is that there often is insufficient guidance on national trade policy given to these representatives. Throughout COMESA and SADC the trade ministries lack capacity in trade negotiations, and struggle to keep skilled trade economists. Typically, there are insufficient budgetary allocations for skilled personnel in the trade ministry, and the professional staff are over-extended, often having to deal with several different trade negotiations concurrently. Almost all countries need additional human resources, whether they be local or expatriate.

Both COMESA and SADC already receive considerable assistance in the way of information from UNCTAD, the WTO itself, OECD and DFID. For example, SADC has a Trade Negotiating Forum which has received considerable UNCTAD and Commonwealth Secretariat assistance in preparing countries for future GATS negotiations. However, it is clear that unless the member countries of COMESA and SADC are provided with more resources, they will be at a disadvantage in preparing themselves for, and participating in, future WTO rounds as well as in negotiations concerning the EPAs. The Secretariats could do more in the vital role of coordination, but they, too, would require more technical assistance and funding.

COMESA-SADC Relations

Relations between the organisations are better than ever before, and there is clear, if belated, support at the political level to ensure close cooperation and coordination. At the COMESA meetings in Cairo recently, there was a side

meeting between the SADC and COMESA chairmen. It was agreed to set up a joint task force to do a technical audit of all programmes in the two organisations so as to ascertain how to implement them jointly where possible and to increase cooperation and complementarity generally. It was agreed to bring all of Eastern and Southern Africa (including the IOC, EAC and IGAD) into a common regional support strategy and regional indicative programme for EU funding, to be prepared jointly by the two Secretariats. The EU is the biggest donor to the region.

Both organisations, of course, are more than simply trade blocs. They have a wide range of other programmes intended to enhance trade integration and, in the case of SADC, general sectoral cooperation. This paper cannot consider these programmes, but mention must be made of such trade-enhancing initiatives as common customs documentation, common statistical rules, removal of non-tariff barriers, the framing of competition policy, various measures on transport liberalisation and harmonisation, monetary harmonisation, the PT A Bank, regional payments and clearing mechanisms, regional political risk guarantee facilities, and protocols on the free movement of persons. In all these fields there is scope for the two organisations to work together more than they have done in the past, and cooperation certainly is improving.

Future Developments

No article on economic integration in Southern and Eastern Africa can ignore the overlapping memberships of various regional organisations. The most important of these is the Southern African Customs Union (SACU), established in 1910 out of earlier customs unions in the area, and the oldest one in the world. This article cannot describe the main features of SACU in detail. It is the base economic integration scheme in the region, and four of its members also belong to the Common Monetary Area (CMA). This means that there is a free flow not only of goods and services but also of capital; in addition, there is a high degree of de facto labour mobility, so that the four SACU/CMA countries are very close to being a common market akin to the EU. The currency of the fifth SACU country - Botswana - is valued against a basket of currencies in which the rand predominates. The SACU and CMA together impose a strong fiscal, monetary and macroeconomic policy discipline on member countries which has led to consistent, prudent and generally conservative policies as well as the maintenance of reasonable economic growth rates and inflows of foreign direct investment.

SACU is the yardstick against which all other economic integrations schemes in the region have to be measured. The present position is that there is an old customs union and a newly functioning free trade area (COMESA)

in the region. COMESA could develop into a customs union in 2004. If Africa-wide regional integration is to be advanced, the logical way would be to try to harmonise the common external tariffs of these two customs unions and then, provided the COMESA countries are prepared for free trade with South Africa, to merge the two customs unions. This might have to wait until 2008 when the non-SACU members of SADC are due to have eliminated tariffs on South African goods. Included in these countries would be Mozambique and Tanzania; however, they are not part of COMESA, and the remaining function of the SADC free trade area would then be to provide the mechanism for bringing them into a broader customs union.

Theoretically, this is the logical way to proceed in building African economic integration. In practice, however, it is unlikely to be as simple as this. Trade negotiations are the most difficult of all, and vested interests and political factors are likely to assert themselves. An alternative, of course, is for SACU to expand incrementally, absorbing those countries with macroeconomic indicators in convergence with those of SACU, on a variable geometry basis. This would affect the proposed COMESA customs union since a country cannot belong to more than one customs union.