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Intra-Regional Trade in Southern Africa: Structure, Performance and Challenges

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INTRA-REGIONAL TRADE IN SOUTHERN AFRICA: STRUCTURE, PERFORMANCE AND CHALLENGES

Kennedy K. Mbekeani

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This report was prepared by Kennedy K. Mbekeani (Chief Regional Integration Officer, ONRI) as a background paper for the Southern Africa RISP Flagship Report. Under the overall supervision of Moono Mupotola (Division Manager, ONRI.2), the paper benefited from guidance and comments from Ebrima Faal (Director, ORSA) comments from Barbara Ramos, Gerald Ajumbo, and Calvin Manduna and research assistance from Imen Chorfi. The paper was finalized with editorial assistance of Nice Muhanzu and Aerina Kim.

FOREWORD

The promotion of growth through increased intra-trade and deeper regional economic integration hold much promise in Southern Africa. In particular, with the mixed neighbourhoods of low and medium income countries as well as landlocked, coastal and island countries, regional integration offers possibilities to leverage and extend economic comparative advantage at a regional level in ways not accessible through national programs. The region is, therefore, moving with the continent and is adopting a more outward economic orientation and deepening regional integration programs. A number of regional arrangements are already in place and most countries are members in at least one regional grouping with overlapping memberships.

As the region launches a more ambitious program to establish a broader regional grouping that will harmonize and eventually subsume the smaller groupings, the African Development Bank's aim in undertaking this study is to contribute to identifying appropriate policies and programs for the envisaged larger grouping as well as, in the meantime, enhancing the benefits of current regional arrangements. The recommendations are built on a review of the past achievements, analysis of the challenges, including why and why not certain policies and programs were helpful in advancing regional integration, the opportunities and prospects for the future, and suggested assignment of responsibilities for the various partners and stakeholders. The broad success factors identified -- careful design and sustained implementation of the region's RTAs; appropriate policies and conditions that affect the overall environment – are conventional, but the specific recommendations are nonetheless very helpful. Southern African countries have to show commitment and demonstrate it by ensuring alignment of national and regional priorities, both in program planning and budgetary allocations.

The study, however, confirms the significance of capacity and resource constraints and the important role that development partners can play in advancing progress. In this regard, the recommendations formed an important input into the African Development Bank's programming instrument for regional level support, which, in turn, provides a basis of dialogue between the Bank and member countries of the regional groupings. Nevertheless, the publication of the study for public readership reflects the continuing effort of the African Development Bank to encourage research and debate on the issues involved. We hope that it achieves its broader purpose

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PREFACE

This study is undertaken by the Regional Integration and Trade Division as a knowledge product on appropriate policies and programs to broaden and deepen existing cooperation and integration arrangements in Southern Africa. It has also specifically served as an input in the design of the Bank's Regional Integration Strategy Paper (RISP) for Southern Africa. In this regard, the paper's recommendation for the African Development Bank to be more actively involved in the area of trade facilitation, particularly customs administration, was fully taken on board the RISP and accepted by the regional economic groupings and their member countries during dialogue.

The key messages emanating from the study are that:

- Regional integration offers southern African countries substantial potential from competition and scale effects but the gains are not automatic.
- Careful design and sustained implementation of the regional trade arrangements (RTAs) are necessary to enhance their benefits, but the more fundamental determinants of RTA performance seem to be policies and conditions that affect the overall environment for trade.
- Implementation of regional programs requires adequate local capacity, in addition to financial resources.
- The Bank can lend its support to the region to ensure that the region achieves sustainable integration. In this regard, the Bank should be more actively involved in the area of trade facilitation, particularly customs administration.
- Ultimately the countries themselves need to demonstrate strong commitment to regional integration and ensure alignment of national and regional priorities in planning and budget allocation.

The Regional Integration and Trade Division appreciate support extended to the task manager by other colleagues in the Bank, as acknowledged.

The study is published in the interest of broadening the debate and knowledge on regional integration. It is hoped that through the results of such knowledge generation and exchange, development prospects in the continent will continue to be enhanced.

CONTENTS

SUMMARY AND RECOMMENDATIONS

Have regional trading agreements (RTAs) boosted intra-regional trade in southern Africa? How has the direction and composition of intra-regional trade in southern Africa changed during the three decades to 2008? And how can the region improve its trade performance?

African leaders have long recognized the importance of regional integration as a way of supporting economic development. While the speed of their implementation has been inconsistent, the continent's initiatives in regional economic co-operation are showing some progress.

In southern Africa leaders have consistently expressed the desire to deepen regional integration through the creation of a free trade area (FTA) that will lead to a common market for goods and services. Greater integration could remove most of the supply-side constraints on regional and international trade and potentially facilitate the region's participation in the global trading system, they judge.

After all, most of southern Africa's economies are too small and fragmented to achieve economies of scale on their own. Regional integration could pool resources and enlarge markets, stimulating national production, trade and investment.

But effective integration requires removing more than tariffs and quotas. It requires the elimination of all measures that affect the flow of goods, services and investment and the movement of people. This should increase the size of the market and promote competition that would lower production costs. Similarly as investments rise, competitive forces and technical progress should lead to economies of scale and higher productivity.

Regional integration offers possibilities to leverage and extend comparative advantage in ways not accessible through national programs. It offers particularly significant benefits for the region's landlocked and small island economies. As landlocked countries depend on coastal neighbors for transit and access to the sea, they cannot integrate into regional markets unless their neighbors implement policies that will facilitate cross-border trade. For example, Lesotho is entirely dependent on South Africa for transit routes to ports, while Swaziland depends on South Africa and Mozambique.

At the same time, some landlocked countries are also important transit routes. For example, Zimbabwe serves this role for the Democratic Republic of Congo (DRC), Malawi and Zambia while Botswana does so for DRC and Zambia - and could become even more critical after the construction of the Kazungula Bridge linking Botswana and Zambia. Similarly, Malawi is the most direct link between north-east and north-west Mozambique.

For small island nations such as Madagascar, Mauritius and Seychelles, regional integration can alleviate problems of connectivity to the mainland and global markets. They can provide important trans-shipment centers if a regional approach is taken to reduce high costs for shipping goods to and from them.

However, the benefits of integration are not automatic. They require an enabling policy environment as not all countries stand to gain equally. The process involves winners and losers. Relatively industrialized economies are likely to benefit from open borders immediately, while countries that depend on trade taxes from regional imports are likely to lose revenue. Imports may also displace domestically produced goods, leading to job losses and factory closures.

Accordingly, the process could unravel if it is not managed. Countries that feel excluded from benefits may stall, reverse policy or even pull out of regional agreements.

Today the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) are leading regional integration in southern Africa. In addition, some countries belong to smaller groupings. Five members of SADC (Botswana, Lesotho, Namibia, South Africa and Swaziland) also belong to the Southern African Customs Union (SACU), while Tanzania is also a member of the East African Community (EAC). Most other arrangements are cooperation agreements with limited economic impact.

An important development was the launch in June 2011 of negotiations between COMESA, EAC and SADC on the establishment of an FTA.

The paper is organized as follows:

- Section I reviews the main trends in southern Africa's intra and extra-regional trade; it also analyses the direction of total trade and changes in composition
- Section II summaries trade policy developments in the region
- Section III analyses the prospects and challenges for intra-regional trade,
- Section IV provides conclusions and policy recommendations for enhancing intra-regional trade.

I. STRUCTURE AND PERFORMANCE OF INTRA-REGIONAL TRADE

This section examines intra-regional trade flows among southern African countries (Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe) and between them and the rest of the world during the period 2000-2008. Two measures are used to examine regional interdependence: (i) intra-regional trade share and (ii) intra-regional trade intensity.

It also explores the role of non-price competitiveness indicators, as well as assessing the impact of trade costs. Data on these is also collected from comparable countries in Asia and South America.

Due to data constraints the analysis is limited to trade in goods, while Angola is not included.

1.1. TRADE PERFORMANCE

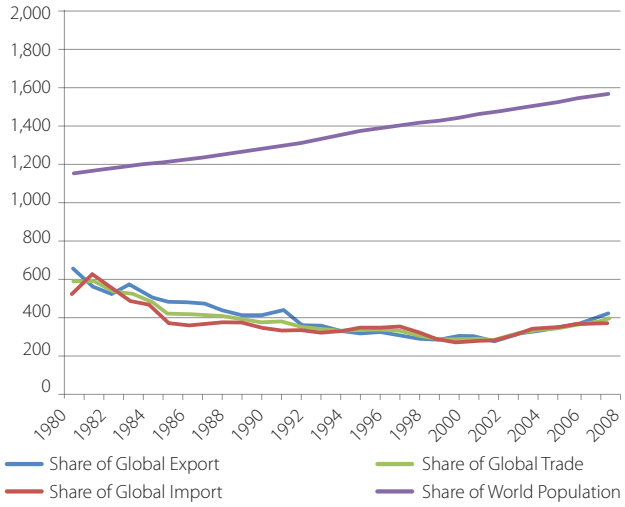
Total Trade

The total value of the region's trade increased from US$55bn in 1980 to US$322bn in 2008, an annual average growth of 10%. However, growth was erratic over the period, often showing no obvious trend. The increase was mainly due to South Africa, which contributes over 70% of the region's trade.

Moreover, the region's trade growth has not translated into an increased share of global trade. While southern African represented nearly 4% of world population in 2008 (up from 2.7% in 1980), it contributed less than 1% of global trade (Figure 1). The region's global share declined over much of the period 1980-2002 before it started recovering in 2003, dropping from 1.5% in 1980 to a low of 0.7% in 2002 before starting to slowly increase to less than 1% in 2008. This share remains very low and is yet to recover to its 1980 levels.

The region's share of global exports and imports both follow a similar trend (Figure 1).

Figure 1 : Intra-Regional Trade as a Proportion of Total Trade

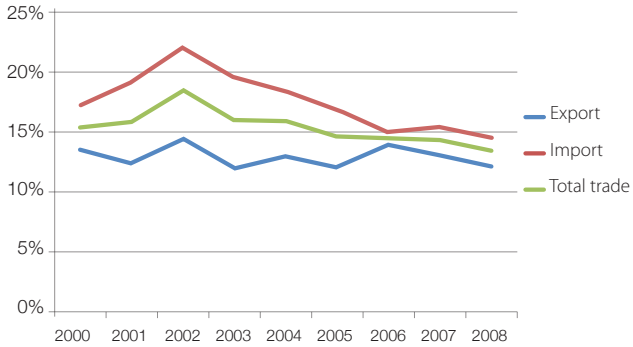


Source: COMTRADE

Intra-Regional Trade

Intra-regional trade increased from US$11.6bn in 2000 to US$29bn in 2008. This was driven mainly by the region's shift in sourcing imports from Europe to South Africa following the end of apartheid and the launching of the SADC FTA. However, intra-regional trade has been declining since 2003. It contracted from 22% of total trade in 2002 to less than 15% in 2008 (Figure 2). Even so, this is still above intra-Africa trade, which has stagnated at around 10% of total African trade.

Figure 2 : Intra-Regional Trade as a Proportion of Total Trade



Source: COMTRADE

The share of intra-regional trade in the region's total trade has gone through three distinct phases over the period 2000-2008. The proportion increased between 2000 and 2002, peaking in 2002. It then declined from 2003, while the share of exports has also been declining since 2007.

The intensity of the region's local trading is declining. Between 2000 and 2008 it declined from 0.2581 to 0.2[1] as its trade with the rest of the world increased much faster (driven by mineral exports). The decline is in line with the gradually increases Figures 1 and 2 where the region's share in global exports, imports and total trade has been since 2001 while the share of intra-regional imports and total trade has been declining.

1.2. Exports

Total Exports

The value of the region's exports grew at an annual average of 7% during the period 1980-2008, increasing from US$30bn in 1980 to US$48bn in 2000 and a record high of US$167bn in 2008. Again, this growth was mainly driven by South Africa. The country's exports soared from US$16.3bn in 2000 to US$40.3bn in 2004 before reaching a high of US$74bn in 2008. A far distant second is Zambia, where exports increased from US$892.4m in 2000 to US$5.1bn in 2008. This performance underscores notable variations in individual countries' trade. Zambia's share of exports increased to 5.1% in 2008 from 2.4% in 2000, overtaking Botswana and Zimbabwe to become the region's second largest exporter (Table 1). This was mainly driven by increased demand for copper.

Conversely, Botswana's contribution to the region's exports dropped from 7.4% in 2000 to 4.9% in 2008, mainly due to the slowdown in global demand for diamonds. Zimbabwe's near-total collapse in exports reflects a hostile macroeconomic and political situation, which has damaged productivity. Meanwhile, Namibia's share increased from 3.5% in 2000 to 4.8% in 2008, making it the region's fourth largest export contributor.

While Zimbabwe's decline is easily explained, the consistent underperformance of Malawi and Swaziland's recent poor export performance are significant concerns. Malawi's share of exports was recorded at less than 1% in 2008 while Swaziland's share declined from 2.4% in 2000 to 1.3% in 2008.

The island nations of Madagascar and Mauritius have also seen their share of regional exports slow in recent years. Madagascar's contribution declined to 1.7% in 2008 from 2.6% in 2001 while Mauritius declined from 4.1% in 2001 to 2.4% in 2008.

Table 1: National Contributions to Regional Exports (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	7.4	6.9	7.7	8.6	6.1	7.0	5.7	5.7	4.9
Lesotho	0.9	0.8	1.0	1.1	1.7	0.0	0.0	0.0	0.0
Madagascar	2.3	2.6	1.9	2.2	1.7	1.3	1.3	1.5	1.7
Malawi	1.0	1.2	1.1	1.1	0.8	0.8	0.8	1.0	0.9
Mauritius	4.0	4.1	5.0	4.2	3.5	3.4	3.0	2.5	2.5
Mozambique	1.0	1.9	2.3	2.4	2.6	2.7	3.0	2.7	2.7
Namibia	3.5	3.8	3.6	2.9	4.2	3.9	4.3	4.5	4.8
South Africa	70.1	70.6	65.1	71.5	69.7	73.9	67.0	71.9	75.5
Swaziland	2.4	2.1	3.1	3.7	3.7	2.0	1.9	1.3	1.3
Zambia	2.4	2.7	2.7	2.2	2.7	2.8	4.8	5.2	5.2
Zimbabwe	5.1	3.3	6.6	5.3	3.3	2.2	8.2	3.7	1.7

Source: COMTRADE

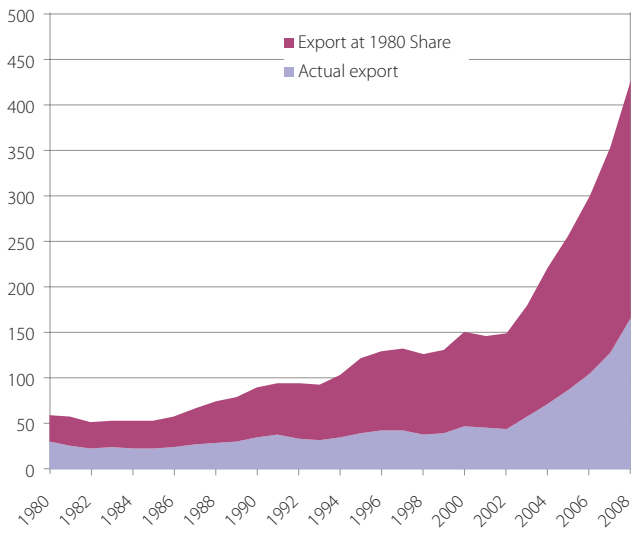
1. The trade intensity index is based on Drysdale and Garnaut (1982): I = [TI/TA]/[TA/TW], where I is the trade intensity index, Ti is intraregional trade, TA is the region's total (global) trade, and TW is world trade. If the index is lower (higher) than unity intra-regional trade is less (more) intense than extra-regional trade.

Although the value of the region's exports increased in absolute terms, its share of world exports declined to 1% in 2008 from 1.6% in 1980. In the same period other developing regions increased their share of global exports, with ASEAN rising from 3.9% to 6.3% and MERCOSUR from 1.6% to 1.8%. This signals the region's failure to take advantage of the market access opportunities created by various preferential trade agreements.

Between 1980 and 2002 the region's contribution to global exports declined at an annual average of 0.04%, an overall decline from 1.65% to 0.7%. However, the share started a gradual recovery from 2003, rising from 0.8% in 2003 to 1% by 2008.

The relative decline has pressured the region's balance of payments and its development financing. It has resulted in a cumulative loss of US$689bn for the region (Figure 3)[2], equivalent to one and a half times the region's GDP.

Figure 3 : Region's Total Exports and Exports at 1980 Share (US$bn)



Source: COMTRADE

Ideally, the region's share of global exports should at least match its share of global population.

This increased from 2.9% in 1980 to 3.9% in 2008.

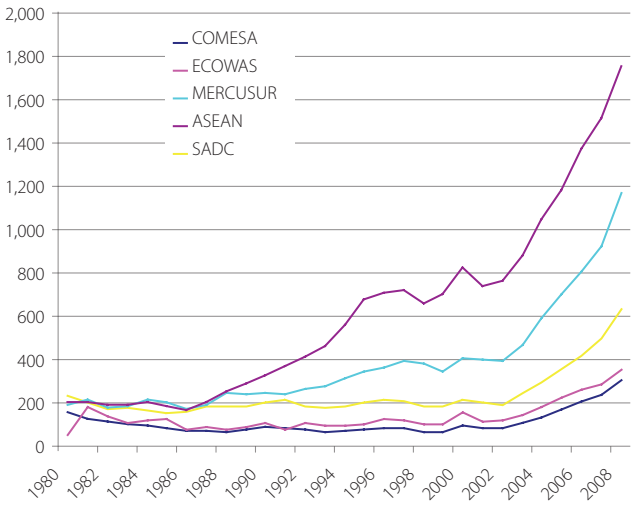
As recently as 1980 the region export value per capita was higher than those of ASEAN and MERCOSUR (Figure 4)[3]. It stood at US$236, US$34 above ASEAN and US$47 above MERCOSUR. But by 1995 ASEAN had reached US$679 and MERCOSUR US$342, while southern Africa had dropped to US$205; by 2008 ASEAN had reached US$1,752 and MERCOSUR $1,168, while southern Africa was now at US$532.

It took the region until 2003 to start recovering from the free fall it experienced around the time ASEAN started increasing its export value per capita in 1998.

MERCOSUR's growth was initially slower than ASEAN's but accelerated from 2003.

The export per capita figures follow the same trend as the composition of exports. Regions with a higher share of primary goods tend to have lower per capita export figures than regions with higher proportions of manufactured goods. This has important policy implications for the region to ensure value addition to its primary commodities.

Figure 4 : Exports per Capita (US$m)



Source: COMTRADE

2. Loss in value of exports = total exports for the period 1980-2008 minus total exports for the period 2000-2008 if the region retained 1.65% share of global exports

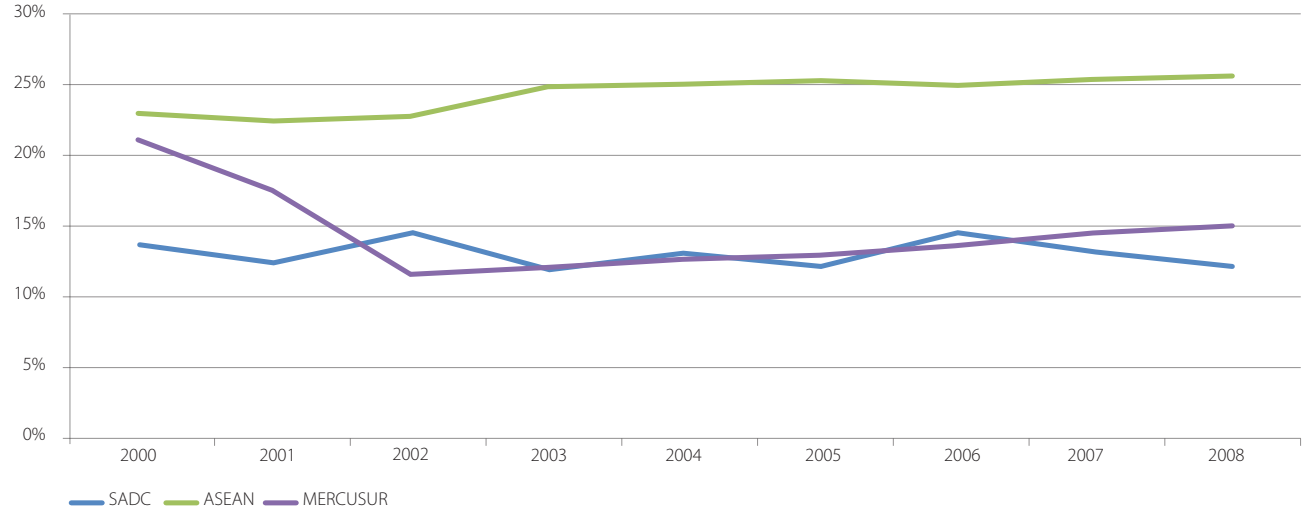
3.Export per capita figures are a crude reflection of the quality of exports. The value of exports per capita is calculated as total value of exports/ population.

Intra-regional Exports

Intra-regional exports averaged 13% of the region's total exports during the period 2000-2008. However, the proportion has been declining in recent years, falling from 14% in 2006 to 12% in 2008 (Figure 5). The region's share of intra-regional exports remains below that of ASEAN, which averaged 24% per year during the period and 25% since 2003. MERCOSUR's performance is more comparable with southern Africa's, however. Its intra-regional exports average 14% of total exports over the period.

The value of intra-regional exports increased to US$11.8bn in 2008 from US$5bn in 2000, driven mainly by South African exports (Table 2). These increased from US$2.6bn in 2000 to US$6.3bn in 2008. Botswana, Namibia and Zimbabwe also significantly increased their exports to the region. Namibia rose to US$1.6bn from US$351m and Botswana to nearly US$1.3bn from US$310m. Zimbabwe drove its regional exports all the way from US$546m in 2000 to US$3.48bn in 2006, but this fell back to US$1.1bn in 2008.

Figure 5 : Intra-regional exports (ASEAN/MERCOSUR/SADC)



Source: COMTRADE

Table 2 : Intra-Regional Exports (US$m)									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	310	240	335	389	470	604	575	908	1,261
Lesotho	93	149	152	93	175	..	..	..	..
Madagascar	25	50	34	63	37	21	25	47	45
Malawi	62	83	71	105	106	130	202	303	159
Mauritius	95	115	99	153	135	146	155	194	205
Mozambique	130	157	227	253	302	383	475	526	410
Namibia	351	447	335	424	664	813	878	1,230	1,592
South Africa	2,612	2,403	2,339	2,735	3,053	3,681	3,731	4,622	6,360
Swaziland	640	487	328	789	1,212	602	1,120	946	...
Zambia	215	252	259	265	538	528	557	733	698
Zimbabwe	546	173	942	...	772	764	3,482	2,086	1,072
Total	5,079	4,558	5,119	5,269	7,465	7,672	11,201	11,595	11,803

Source: COMTRADE

Predictably, South Africa drives intra-regional exports, with a share of some 54% by which in 2008 (Table 3). The other significant contributors are Botswana, Namibia and Zimbabwe, while Swaziland's export share has declined – having been above 16% as recently as 2004.

The island states of Madagascar and Mauritius do not export much to the region. This largely reflects the high costs of shipping small volumes of cargo. Few shipping lines operate between them and the ports of either Maputo or Durban.

The low level of exports from Malawi and Mozambique and Swaziland's declining value should be of great concern. These reflect very limited manufacturing capacity to take advantage of market access opportunities in the region.

The most important linkage within the group consists of exports from the SACU member countries and Zimbabwe to South Africa. This is closely followed by South Africa's exports to Zimbabwe, Zambia and Mozambique.

Table 3 : National Contributions to Intra-Regional Exports (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	6.10	5.28	6.54	7.38	6.30	7.87	5.13	7.83	10.69
Lesotho	1.83	3.26	2.96	1.76	2.35	..	..	..	..
Madagascar	0.50	1.09	0.66	1.20	0.49	0.27	0.22	0.41	0.38
Malawi	1.21	1.82	1.38	1.99	1.43	1.70	1.80	2.61	1.34
Mauritius	1.86	2.53	1.94	2.91	1.81	1.91	1.39	1.68	1.74
Mozambique	2.55	3.45	4.43	4.80	4.05	4.99	4.24	4.54	3.48
Namibia	6.92	9.82	6.54	8.04	8.90	10.60	7.84	10.61	13.49
South Africa	51.43	52.73	45.68	51.92	40.90	47.98	33.31	39.86	53.89
Swaziland	12.60	10.70	6.41	14.97	16.24	7.85	10.00	8.16	..
Zambia	4.23	5.54	5.05	5.03	7.21	6.88	4.98	6.32	5.92
Zimbabwe	10.76	3.79	18.40	..	10.34	9.96	31.09	17.99	9.08

Source: COMTRADE

Export Destinations

Excluding members of SACU, most of the region's countries have diversified their export destinations (Table 4). A number are increasingly exporting within the region, while Europe (the United Kingdom in particular) is no longer the main export market for most. Instead South Africa has become the most important export destination for manufactured exports, though Madagascar and Mauritius still trade mainly with Europe.

Flows can be summarized as follows:

- **Botswana** – mineral exports go mainly to the UK (65% of exports), while South Africa is the main market for beef and manufactured goods. Other important export destinations in the region are Zambia and Zimbabwe, though the value of these exports is much lower
- **Lesotho** – the main exports (clothing and textiles) mostly go to the USA, taking advantage of AGOA. An average 73% went there during the period 2003-2005
- **Malawi** – diversified export markets include South Africa (some 16% of exports) and the UK (nearly 10%). Within the region, Malawi also exports to Mozambique and Zimbabwe
- **Mozambique** – main export markets are South Africa and neighboring Malawi and Zimbabwe
- **Namibia** - South Africa (26% of exports) and the UK

(19%) are the main destinations, though exports to the UK have been declining. A significant proportion (7%) also goes to the country's s northern neighbor Angola

- **South Africa** – main markets are USA (11.4%), Japan (11.3%), Germany (7.8%) and the UK 7.7%), while it is also increasing exports to China. Within the region, the main markets are Angola, Mozambique, Zambia and Zimbabwe. Elsewhere in Africa the country also exports to the DRC and Nigeria
- **Swaziland** – main market is South Africa (taking 55% of exports), followed by Zimbabwe (25%)
- **Zambia** – Switzerland (which takes up 44% of the exports) is the main export destination, followed by South Africa (11%). Other significant markets are its northern neighbor DRC and Egypt (a COMESA member). Exports to China are increasing, but those to the UK have collapsed
- **Zimbabwe** - South Africa (32%) is the main destination, followed by Zambia (11%), the Netherlands (10%), Mozambique (7%) and Botswana (6%). The landlocked country's strategy seems to be expanding exports to its neighbors, which helps reduce trade costs - especially transport costs

Table 4: National Exports by Destination (%)

	Destination	2000-02	2003-05	2006-08
Botswana	UK	79.06	76.42	64.72
	South Africa	7.32	8.53	12.29
	China	0.00	0.01	2.32
	Zimbabwe	3.06	3.45	5.79
	Norway	2.41	6.34	6.29
	Zambia	0.36	0.17	0.46
Madagascar	France	41.62	37.35	42.87
	USA	19.65	26.73	18.17
	South Africa	0.91	0.89	1.03
Mozambique	Netherlands	0.79	40.27	18.98
	South Africa	42.79	23.64	47.24
	Zimbabwe	15.21	15.46	14.33
	China	9.96	2.56	3.10
	Malawi	0.53	1.30	1.72
		3.23	3.09	1.17
South Africa	Japan	6.83	10.37	11.27
	USA	11.56	11.03	11.36
	Germany	8.15	7.61	7.75
	UK	10.18	10.41	7.70
	China	1.67	2.78	5.45
	Zambia	2.32	1.78	2.35
	Zimbabwe	2.68	2.50	2.06
	Mozambique	2.63	2.14	1.96
	DRC	0.52	0.54	1.06
	Nigeria	0.76	1.09	1.16
	Angola	1.11	1.26	1.24
Swaziland	South Africa	44.50	37.14	55.16
	Zimbabwe	1.35	2.39	25.23
	Mozambique	7.31	7.45	9.37
	Lesotho	..	0.57	0.93
	Botswana	..	0.17	0.59
	Namibia	0.01	0.32	1.79
	Zambia	0.59	0.07	0.12

	Destination	2000-02	2003-05	2006-08
Zambia	Switzerland	7.96	17.58	43.96
	South Africa	21.40	21.54	11.13
	Egypt	0.04	0.05	5.60
	DRC	3.91	5.45	4.84
	China	0.14	1.99	5.51
Mauritius	UK	29.95	30.83	30.31
	France	21.44	18.80	14.74
	Madagascar	5.08	5.49	5.05
	South Africa	0.83	1.39	2.68
Namibia	South Africa	27.21	29.26	28.47
	UK	30.84	17.54	19.18
	Angola	9.14	13.93	6.92
	USA	..	8.58	3.49
	China	0.27	1.18	3.25
Lesotho	USA		73.04	
	South Africa	40.91	18.50	
Areas nes Malawi	Belgium	1.35	2.38	8.63
	South Africa	10.81	16.09	15.69
	UK	9.74	9.85	9.56
	USA	14.16	12.03	6.02
	Germany	11.48	7.54	6.83
	Tanzania	1.40	0.66	1.59
	Egypt	6.78	4.08	3.44
	Mozambique	3.37	2.87	2.34
	Zimbabwe	1.75	1.83	6.98
	China	0.30	0.39	1.15
Zimbabwe	South Africa	14.56	35.42	32.23
	Zambia	4.84	4.64	11.19
	Netherlands	3.08	2.18	9.55
	Mozambique	1.74	1.91	7.06
	Botswana	2.40	2.32	6.62
	Malawi	2.85	2.16	2.24
	China	4.80	5.40	1.67

Source: WITS

Export Products

The composition of the region's exports has changed only marginally during the period 2000-2008 (Table 5). In all countries it is still dominated by non-fuel primary commodities and resource-based and labor-intensive manufacturing. The share of primary goods compares favorably with MERCOSUR's (62% versus 56%), but ASEAN's is much lower (28%). The share of manufacturing is lower than other developing regions' at 36% versus 68% in ASEAN and 41% in MERCOSUR.

Inter-country variation is wide. In small economies with limited natural resources like Lesotho, Mauritius and Swaziland the share of primary goods is negligible and exports are dominated by one or two manufactured goods benefiting from preferential trade arrangements. At the other end of the spectrum, some small and medium sized countries concentrate exports in one or two primary products. Examples include Botswana (diamonds), Malawi (tobacco), Mozambique (aluminum) and Zambia (copper).

South Africa, Swaziland and Zimbabwe's export concentration is more moderate.

Table 5 : Regional Exports by Product (% of total)

	Product	2000-02	2003-05	2006-08
Botswana	Pearls, precious stones, metals, coins, etc	83.0	76.6	68.2
	Nickel and articles thereof	0.0	0.0	9.9
Mozambique	Aluminum and articles thereof	38.6	58.0	58.9
	Mineral fuels, oils, distillation products, etc	14.2	13.5	13.7
	Tobacco and manufactured tobacco substitutes	2.2	2.4	4.7
	Fish, crustaceans, mollusks, aquatic invertebrates nes	18.9	6.9	3.3
Lesotho	Articles of apparel, accessories, not knit or crochet	42.9	61.0	..
	Articles of apparel, accessories, knit or crochet	22.5	16.8	..
	Pearls, precious stones, metals, coins, etc	0.0	6.8	..
Namibia	Pearls, precious stones, metals, coins, etc	36.6	24.7	24.0
	Ores, slag and ash	8.3	2.1	11.4
	Printed books, newspapers, pictures, etc	7.2	8.1	11.5
	Fish, crustaceans, mollusks, aquatic invertebrates	20.0	16.8	11.5
	Zinc and articles thereof	0.1	3.4	11.1
Madagascar	Articles of apparel, accessories, not knit or crochet	13.5	17.1	23.5
	Articles of apparel, accessories, knit or crochet	13.5	17.0	17.8
	Fish, crustaceans, molluscs, aquatic invertebrates	14.8	13.1	10.7
	Coffee, tea, mate and spices	22.7	17.1	8.1
	Mineral fuels, oils, distillation products, etc	6.7	4.3	5.9
South Africa	Pearls, precious stones, metals, coins, etc	12.0	17.5	19.4
	Iron and steel	9.5	12.7	11.5
	Vehicles other than railway, tramway	8.2	9.0	8.9
	Ores, slag and ash	4.3	4.2	7.7
	Mineral fuels, oils, distillation products, etc	11.5	9.8	9.9
	Nuclear reactors, boilers, machinery, etc	7.8	7.7	8.8
	Aluminum and articles thereof	3.6	3.5	3.6
	Inorganic chemicals, precious metal compounds, isotopes	2.5	2.2	2.1
Malawi	Tobacco and manufactured tobacco substitutes	59.7	49.0	59.1
	Sugars and sugar confectionery	11.1	15.7	6.8
	Coffee, tea, mate and spices	11.1	10.0	6.8

Swaziland	Essential oils, perfumes, cosmetics, toiletries	29.1	31.8	26.5
	Miscellaneous chemical products	0.2	2.7	16.0
	Sugars and sugar confectionery	11.3	10.6	18.4
Mauritius	Articles of apparel, accessories, knit or crochet	31.5	29.7	24.8
	Sugars and sugar confectionery	16.4	16.9	13.7
	Articles of apparel, accessories, not knit or crochet	26.6	14.9	10.9
	Meat, fish and seafood preparations	3.5	4.3	8.3
Zambia	Copper and articles thereof	52.5	50.1	68.2
	Ores, slag and ash	1.0	3.4	11.0
	Other base metals, cermets, articles thereof	16.1	13.0	5.1
Zimbabwe	Live trees, plants, bulbs, roots, cut flowers etc	1.4	1.8	9.7
	Nickel and articles thereof	8.4	6.7	8.5
	Cotton	8.9	9.0	4.5
	Ores, slag and ash	2.6	11.3	5.7
	Tobacco and manufactured tobacco substitutes	30.2	19.4	6.8
	Vehicles other than railway, tramway	0.9	0.4	3.9
	Optical, photo, technical, medical, etc apparatus	0.1	0.0	1.9
	Electrical, electronic equipment	0.6	0.5	1.6
	Printed books, newspapers, pictures etc	0.1	5.4	5.5
	Iron and steel	9.5	12.2	7.2

Source: WITS

The data reveals three main changes: (1) aluminum now dominates Mozambique's exports; (2) increased global demand has increased Zambia's copper exports significantly from an average of 52.5% during the period 2000-2002 to 68% during the period 2006-2008, and (3) increased export of cut flowers from Zimbabwe alongside a sharp decline in exports of cotton and tobacco.

Six countries stand out as least diversified in their total exports. Botswana's exports[4] are dominated by diamonds, which contribute 66.3% of value on average; clothing and textiles make up 73.1% of Lesotho's exports and 53.1% of Madagascar's; tobacco accounts for 67.1% of Malawi's exports; copper dominates Zambia's exports at 64.3%; and aluminum contributes 54.7% of Mozambique's exports.

The composition of intra-regional exports is fairly evenly distributed between non-fuel primary products and manufactured goods. However, the data reveals that manufactured products represent a larger share of most countries' exports within the region than in their total exports. Clearly, agricultural goods are traded much less intensively within the region than manufactured goods. This may be due to the greater complementarity between manufactured sectors than between agricultural sectors. Another interpretation is that potential for increasing intra-regional trade in agricultural goods remains largely untapped. If so, one implication is that investment in agro-industries could generate important benefits for the region's economies.

Its more diversified nature compared with external exports also suggests that expanding intra-regional trade could yield significant benefits to southern African countries. This would be in terms of diversifying production to non-traditional products, especially manufactured goods.

1.3. Imports

Total Imports

The value of the region's imports increased at an annual average of 7.7% per year during the period 1980-2008, giving a six-fold increase to US$155bn

4. The degree of export diversification is measured more formally by the Herfindahl index.

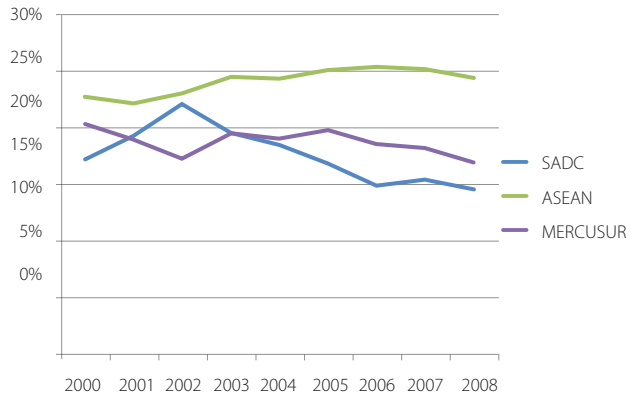
from US$25bn. As with exports, South Africa drives the region's imports. Over 70% go to the country. The value of its imports increased from US$26.8bn in 2000 to US$87.6bn in 2008. Botswana is a distant second, followed closely by Zambia where imports have been increasing fast since 2004.

Intra-Regional Imports

During the period 2000-2008 intra-regional imports contributed an average 17.6% of the region's total annual imports. This share has been declining since 2003; from a peak of 22% in 2002, it fell to 17% in 2008 (Figure 6). Nonetheless, it remains higher than the share of intra-regional exports.

Still, it is much lower than ASEAN's average of 24% over the period, though again comparable with MERCOSUR (18.7%). Note that both ASEAN and MERCOSUR's intra-regional exports are higher than their intra-regional imports, while the opposite is the case for SADC.

Figure 6 : Intra-Regional imports (ASEAN/MERCOSUR/ SADC)



Source: WTO and COMTRADE

Even though intra-regional imports have been declining as a proportion of total imports, their value nearly doubled over the period, rising to US$14.8bn in 2008 from US$7.5bn in 2000 (Table 6). The main consumers of intra-regional imports are Botswana, Namibia, Zambia and Zimbabwe.

Table 6: Intra-SADC Imports (US$m)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	1,607.2	1,471.5	2,807.8	3,410.3	2,764.1	2,737.1	2,709.9	3,421.4	4,096.4
Lesotho	487.2	580.4	619.4	917.0	1,095.5	..	..	..	..
Madagascar	96.8	95.1	57.7	145.8	154.6	242.6	179.8	238.0	344.9
Malawi	277.3	315.9	395.7	439.7	509.9	686.9	677.8	658.2	1,153.9
Mauritius	359.3	324.3	320.7	360.4	376.2	320.7	312.5	337.8	436.1
Mozambique	474.3	401.4	480.7	628.5	743.8	1,065.1	1,028.1	1,028.8	1,244.6
Namibia	1,246.9	1,344.0	1,018.7	1,158.3	2,093.4	2,123.4	2,339.2	3,189.0	3,251.7
South Africa	321.1	312.8	372.1	534.0	702.6	1,252.5	1,522.9	2,029.7	1,905.4
Swaziland	1,029.9	756.9	869.5	1,246.3	1,585.8	1,430.9	1,029.0	1,074.8	..
Zambia	589.7	723.8	728.8	1,006.3	1,151.8	1,374.7	1,686.4	2,134.5	2,394.5
Zimbabwe	969.5	1,443.7	..	1,397.5	1,475.7	1,661.4	2,368.5	2,156.7	-
Total	7,459.3	7,769.8	7,671.1	11,244.1	12,653.5	12,895.5	13,854.1	16,269.1	14,827.4

Source: COMTRADE

Intra-regional trade features high levels of imports from South Africa. While the country contributed an average annual 46% of intra-regional exports during the period 2000-2008, it consumed an average 7.7% of total intra-regional imports, signifying huge trade deficits with the rest of the region. However, its import share has increased in recent years, increasing nearly four-fold between 2003 (4.8%) and 2008 (a record high 13.1%; Table 7) and averaging 12.1% during the period 2006-2008.

Table 7 : Intra-SADC Import Shares									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	21.5	18.9	36.6	30.3	21.8	21.2	19.6	21.0	27.6
Lesotho	6.5	7.5	8.1	8.2	8.7	..	..	..	..
Madagascar	1.3	1.2	0.8	1.3	1.2	1.9	1.3	1.5	2.3
Malawi	3.7	4.1	5.2	3.9	4.0	5.3	4.9	4.0	7.8
Mauritius	4.8	4.2	4.2	3.2	3.0	2.5	2.3	2.1	2.9
Mozambique	6.4	5.2	6.3	5.6	5.9	8.3	7.4	6.3	8.4
Namibia	16.7	17.3	13.3	10.3	16.5	16.5	16.9	19.6	21.9
South Africa	4.3	4.0	4.9	4.7	5.6	9.7	11.0	12.5	12.9
Swaziland	13.8	9.7	11.3	11.1	12.5	11.1	7.4	6.6	..
Zambia	7.9	9.3	9.5	9.0	9.1	10.7	12.2	13.1	16.1
Zimbabwe	13.0	18.6	..	12.4	11.7	12.9	17.1	13.3	-

Source: COMTRADE

Countries with higher shares of intra-regional imports mainly source from South Africa. Botswana has the highest share, followed by Namibia, Zimbabwe and Zambia. During the period 2006-2008 Botswana consumed on average 27.5% of imports within the region each year while Namibia, Zimbabwe and Zambia accounted for 19.5%, 15.2% and 13.8%, respectively.

The island states Madagascar and Mauritius have notably low import shares.

Imports by Product

The composition of the region's imports is more concentrated. This reflects countries' differing levels of economic development and productive structure. As is typical for developing countries, machinery, mineral fuels and oil, electrical equipment and vehicles account for over 50% of the region's total imports (Table 8).

In view of food security concerns the increasing share of imports of cereals in all countries except Namibia, South Africa and Zambia is notable. Zimbabwe's share of cereal imports increased from 0.7% on 2001 to 7.1% in 2008.

Table 8 : Imports by Product (percentage of total)				
	Product	2000-02	2003-05	2006-08
Botswana	Mineral fuels, oils, distillation products, etc	5.9	10.0	16.7
	Nuclear reactors, boilers, machinery, etc	12.1	10.8	11.1
	Vehicles other than railway, tramway	11.9	12.0	10.1
	Pearls, precious stones, metals, coins, etc	2.0	0.7	4.5
	Electrical, electronic equipment	7.9	7.4	6.5
	Articles of iron or steel	4.5	4.8	4.7
	Cereals	2.3	2.0	2.2
Mozambique	Mineral fuels, oils, distillation products, etc	9.0	12.9	17.8
	Vehicles other than railway, tramway	9.3	9.1	9.9
	Nuclear reactors, boilers, machinery, etc	9.6	7.6	8.3
	Cereals	6.4	7.0	6.1
	Electrical, electronic equipment	5.7	7.8	5.4
	Animal, vegetable fats and oils, cleavage products, etc	1.0	1.5	2.0
	Articles of iron or steel	3.3	2.5	2.5
	Plastics and articles thereof	3.3	1.5	1.8
	Iron and steel	1.5	1.6	1.9
	Fertilizers	0.4	0.9	1.0
Lesotho	Mineral fuels, oils, distillation products, etc	11.2	6.4	..
	Knitted or crocheted fabric	1.5	4.6	..
	Vehicles other than railway, tramway	3.8	4.6	..
	Plastics and articles thereof	3.2	4.3	..
	Nuclear reactors, boilers, machinery, etc	3.5	3.8	..
	Cotton	3.7	3.9	..
	Cereals	3.6	2.6	..

	Product	2000-02	2003-05	2006-08
South Africa	Mineral fuels, oils, distillation products, etc	13.8	13.5	19.7
	Nuclear reactors, boilers, machinery, etc	16.1	16.5	16.0
	Electrical, electronic equipment	11.9	10.1	9.8
	Vehicles other than railway, tramway	6.3	8.7	9.1
	Optical, photo, technical, medical, etc apparatus	3.6	3.3	2.7
	Plastics and articles thereof	2.8	2.5	2.3
	Cereals	1.0	1.0	1.1
Madagascar	Nuclear reactors, boilers, machinery, etc	7.7	9.1	10.6
	Mineral fuels, oils, distillation products, etc	26.4	15.2	16.2
	Electrical, electronic equipment	5.0	5.6	7.3
	Articles of iron or steel	1.7	1.9	4.4
	Vehicles other than railway, tramway	5.7	6.7	5.7
	Cotton	3.7	5.0	4.4
	Cereals	3.7	4.4	3.2
Swaziland	Mineral fuels, oils, distillation products, etc	11.1	9.5	..
	Nuclear reactors, boilers, machinery, etc	9.8	9.2	..
	Vehicles other than railway, tramway	9.2	7.8	..
	Cereals	2.3	2.4	..
	Electrical, electronic equipment	4.5	4.0	..
	Plastics and articles thereof	3.2	3.1	..
Malawi	Fertilizers	3.6	7.6	12.1
	Vehicles other than railway, tramway	13.1	9.6	14.3
	Mineral fuels, oils, distillation products, etc	14.6	11.3	11.7
	Nuclear reactors, boilers, machinery, etc	9.2	8.8	6.6
	Printed books, newspapers, pictures etc	2.5	2.9	4.1
	Electrical, electronic equipment	5.8	4.8	4.9
	Pharmaceutical products	3.3	4.3	5.1
	Cereals	4.6	2.7	3.5
	Tobacco and manufactured tobacco substitutes	2.5	6.7	3.5
Namibia	Mineral fuels, oils, distillation products, etc	8.5	5.4	..
	Vehicles other than railway, tramway	12.1	13.9	..
	Nuclear reactors, boilers, machinery, etc	12.2	11.7	..
	Electrical, electronic equipment	7.7	7.4	..
	Articles of iron or steel	4.2	4.0	..
	Pearls, precious stones, metals, coins, etc	0.8	0.6	..
	Inorganic chemicals, precious metal compound, isotopes	0.4	0.6	..
	Pharmaceutical products	2.4	3.3	..
	Plastics and articles thereof	2.4	2.5	..
Mauritius	Mineral fuels, oils, distillation products, etc	11.1	13.5	18.9
	Nuclear reactors, boilers, machinery, etc	10.2	9.6	8.6
	Electrical, electronic equipment	5.5	9.3	8.5
	Fish, crustaceans, molluscs, aquatic invertebrates nes	3.3	3.9	5.7
	Vehicles other than railway, tramway	4.8	4.9	4.4
	Cotton	11.7	7.5	4.8
	Cereals	2.5	2.5	2.6
Zambia	Nuclear reactors, boilers, machinery, etc	13.9	15.5	..
	Mineral fuels, oils, distillation products, etc	8.6	10.1	..
	Vehicles other than railway, tramway	9.6	8.0	..
	Ores, slag and ash	0.5	0.5	..
	Electrical, electronic equipment	8.1	7.5	..
	Fertilizers	4.2	4.7	..
	Articles of iron or steel	2.7	3.0	..
	Pharmaceutical products	1.6	2.3	..
	Cereals	2.9	3.9	..
Zimbabwe	Vehicles other than railway, tramway	9.2	6.7	12.5
	Mineral fuels, oils, distillation products, etc	25.4	14.5	16.9
	Nuclear reactors, boilers, machinery, etc	12.0	9.0	10.9
	Cereals	1.4	5.5	5.8
	Fertilizers	1.2	1.4	4.3
	Electrical, electronic equipment	5.5	4.6	4.4
	Nickel and articles thereof	0.0	0.0	1.7
	Articles of iron or steel	1.3	1.3	2.3
	Plastics and articles thereof	4.4	2.6	2.6

Source: WITS

Source of Imports

Unlike exports, imports are mainly sourced from the region (Table 9). Only South Africa and the island countries of Mauritius and Madagascar import more from Europe. SACU member countries' imports from South Africa account for between 68% and 81% of total imports. For the rest of the mainland countries, imports from South Africa account for between 27% and 66% of the total.

Even though South Africa is not the main source of imports for Mauritius and Madagascar (probably due to transport costs), the two countries are increasing their imports from the country. In 2008 it supplied 8% and 6%, respectively.

Trade is also growing among the other countries in the region. For example, Mozambique is the second largest supplier of Malawi's imports after South Africa. Mozambique's share from an annual average of 3.6% during the period 2000-2003 to 15% per year during the period 2005-2008. Mozambique is also an important source of Zimbabwe's imports.

Similarly, Zambia is an important source of imports for Malawi and Zimbabwe, while Botswana is the second largest source of imports for Zimbabwe. Angola is increasing its share in South Africa's import basket.

Table 9 : National Imports by Source

	Origin	2000-02	2003-05	2006-08
Botswana	South Africa	77.0	84.0	82.6
	UK	4.0	1.9	2.7
	China	0.4	0.8	1.9
	Israel	1.4	0.3	1.1
	Belgium	0.2	0.3	1.2
	Zimbabwe	2.9	1.2	1.2
	Germany	0.6	0.6	0.8
	Japan	0.3	0.5	0.6
	Italy	2.3	0.1	0.3
	Namibia	0.3	0.4	0.6
Madagascar	China	8.8	15.2	19.3
	France	14.3	14.3	10.9
	Bahrain	8.9	7.0	13.2
	South Africa	5.2	6.2	5.7
	USA	3.9	4.3	4.0
	India	2.4	4.5	3.5
	Germany	3.1	2.8	3.0
	Japan	3.1	2.6	2.8
	Mauritius	4.5	4.5	2.8
Zambia	South Africa	55.6	47.5	45.7
	DRC	0.5	0.8	4.9
	Kuwait	0.0	0.0	3.4
	China	2.4	2.7	4.4
	India	2.5	2.6	3.6
	UK	8.9	11.1	3.6
	UAE	1.3	4.9	6.4
	Zimbabwe	8.5	7.7	3.5
South Africa	Germany	14.5	14.3	11.8
	China	4.4	7.6	10.7
	USA	11.9	8.3	7.8
	Saudi Arabia	6.4	5.6	5.4
	Japan	7.2	6.9	6.2
	UK	8.6	7.0	4.6
	Iran	4.0	4.2	3.8
	Angola	0.0	0.4	1.9

	Origin	2000-02	2003-05	2006-08
Namibia	South Africa	83.2	83.0	76.1
	UK	1.9	1.6	3.3
Mozambique	South Africa	34.6	35.7	31.3
	Netherlands	0.6	4.5	15.0
	Bahrain	..	0.0	2.8
	USA	3.1	2.9	3.4
	China	2.0	2.4	3.4
	India	3.0	3.7	4.2
Lesotho	South Africa	84.3	80.2	..
	Other Asia	4.2	6.2	..
	Hong Kong	2.0	6.0	..
	China	2.0	3.3	..
Swaziland	South Africa	83.6	83.9	40.1
	China	0.7	2.2	1.0
	Japan	1.7	0.5	1.0
Mauritius	India	0.0	5.3	19.6
	China	7.7	9.1	10.5
	South Africa	13.7	10.6	7.6
	France	10.1	9.6	10.9
	Japan	3.8	3.7	3.5
Zimbabwe	South Africa	49.7	33.8	50.7
	Botswana	1.9	4.5	9.2
	China	1.5	2.5	5.1
	USA	..	..	5.6
	Mozambique	3.6	6.1	4.7
	UK	4.0	2.7	3.0
	Zambia	0.8	22.1	2.4
Malawi	South Africa	42.1	34.8	30.5
	Mozambique	3.6	10.5	15.0
	Tanzania	0.9	2.2	5.1
	Switzerland	1.3	0.2	1.9
	UAE	1.5	2.0	6.0
	India	4.7	5.3	4.7
	UK	8.1	5.0	4.7
	China	2.3	2.8	2.8
	Zambia	1.8	4.0	3.0
	Kenya	0.9	1.7	2.3

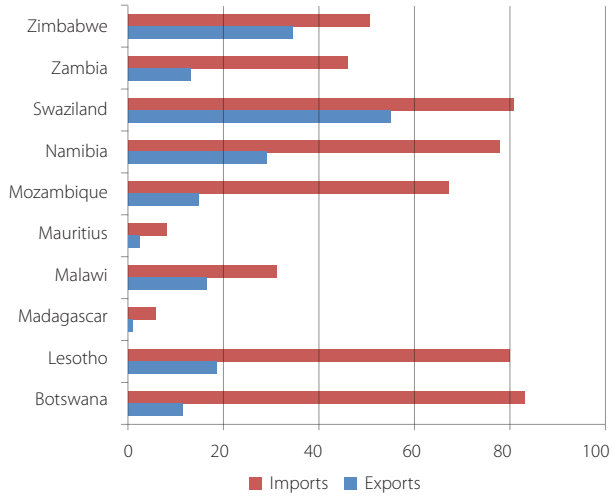
Source: WITS

Unlike exports, most countries (except South Africa) mainly source their imports from the region, with South Africa as the main supplier (Figure 7). The trade patterns of the region's main exporters and importers give insight into the most influe ntial countries and where the major trade poles could eventually be located.

Overall, the list of the region's top exporters to the rest of the world strongly underscores the importance of minerals. The prominence of South Africa in intra-regional trade is also very clear. It participates in major trade relations in all the countries in the region.

More generally, a clustering of these relations is evident, with the SACU countries trading intensely with South Africa, followed by Zimbabwe.

Figure 7 : Country Exports to and Imports from South Africa as Percentage of Total



Source: COMTRADE

Even though intra-regional trade centers on South Africa, trade is also growing among the other countries in the region. For example, Mozambique is the second largest supplier of Malawi's imports and Zimbabwe is increasing the value of its imports from Botswana and Zambia.

II. TRADE POLICY DEVELOPMENTS

2.1. Background

A significant part of the reform agenda of most southern African governments since the early 1990s has been directed at removing regulatory impediments to the efficient cross-border operation of their economies. Much of this has been in response to pressure to improve the competitiveness of their exports and grow intra-regional trade. The emergence of major new players in international commerce (especially Brazil, India and China) has increased the globalization and integration of the world's economies. While this has provided important new opportunities for southern African countries, it has also heightened competitive pressures - both in regional and the global markets. For example, Chinese imports are already competing with domestic products in southern Africa.

With increased competition forcing business to adapt to just-in-time production and management systems, flexibility, speed and reliability in delivery of goods have assumed greater importance. However, in most countries in the region inadequate infrastructure, poor transport networks and cross-border bureaucracy make it difficult for manufacturers to participate in new global outsourcing and production. This is because they cannot guarantee timely delivery of goods or ensure reliable or flexible supply of materials. Countries unable to respond efficiently and innovatively to changing patterns of demand, technological change, increasing mobility of capital and labor and shifts in underlying comparative advantage risk losing export competitiveness.

Some delays are due to poor infrastructure in both transit countries and local economies. Increasingly, however, most of the barriers are due to non-tariff measures (NTMs) along transit corridors. The fact that delays can occur outside the territorial boundaries of one country underlines the point that countries acting alone are not in a position to overcome the real obstacles. The future of southern African countries' participation in regional and international trade will be shaped by how well the region responds to cross border non-tariff barriers (NTBs).

In response, southern Africa has shown renewed energy to deepen its regional integration with a number of initiatives. SADC and COMESA, the two most prominent regional arrangements, are implementing trade agreements aimed at facilitating the flow of goods and services. They are also coordinating regional infrastructure projects to improve connectivity.

An important recent development is the launch of trade negotiations by the COMESA, EAC and SADC heads of state and governments. These will lead to the establishment of a COMESA-EAC-SADC free trade area (FTA).

As members of the World Trade Organization (WTO) the region's countries must comply with their obligations under the WTO Agreement. Members are required to notify regional trade arrangements (RTAs) to WTO once concluded, but before the preferences are applied. The SADC FTA was notified in 2006 under General Agreement on Trade and Tariff (GATT) Article XXIV, while the COMESA FTA was notified in 2001 under the Enabling Clause. Notification under Article XXIV appears to show greater commitment as the preferences will lead to a customs union[5]. However, in practice COMESA has moved faster than SADC.

The sections below examine the SADC Trade Protocol and the COMESA agreement. They also summarize the key features of the proposed Tripartite FTA and other smaller regional trade arrangements (SACU and EAC).

5. Article XXIV requires that an RTA must (i) not "on the whole" raise protection against non-members; (ii) reduce internal tariffs to zero and remove "other restrictive regulations of commerce" other than those justified by other GATT articles; and (iii) cover "substantially all trade." The Enabling Clause relaxes the conditions for RTAs among developing countries. For example, it drops conditions on the coverage of trade and allows developing countries to reduce tariffs on mutual trade in any way they wish. However, no WTO member has requested examination of any RTAs for consistency with WTO rules.

2.2. Southern African Development Community

SADC has 15 members: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. It originated as a loose alliance of nine majority-ruled states in southern Africa (Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe) known as the Southern Africa Development Co-ordination Conference (SADCC) with the aim of coordinating development projects to reduce economic dependence on the-then apartheid South Africa. SADCC was transformed into a development community in August 1992 with the signing of the Treaty of Windhoek (SADC, 1992). Following the collapse of apartheid, South Africa became a member in 1994.

SADC has a market size of nearly US$471.5bn and a population estimated at 263.5m (Table 10). Even though the countries in the region are connected geographically, they are diverse in terms of production structures and population. The region is mainly composed of very small countries, both economically and demographically. Economically, it is dominated by South Africa, which contributes to nearly 60% of the region's GDP - followed by Angola, which contributes just over 18%. Remaining countries contribute between 0.2% and 4.4%.

GDP ranges from lows of US$0.83bn (Seychelles) and US$1.6bn (Lesotho) to highs of US$85bn and US$276.4bn (Angola and South Africa, respectively). Apart from South Africa, Angola and Tanzania (which has a GDP of US$20.5bn), the remaining 12 countries have GDPs of less than US$15bn – and only three (Botswana, DRC and Zambia) have GDPs above US$10bn. Gross national income per capita ranges from US$150 (DRC), US$280 (Malawi) and US$380 (Mozambique) to US$10, 220 (Seychelles), US$6,700 (Mauritius), US$6,640 (Botswana) and US$5,820 (South Africa).

Population ranges from 0.09m people (Seychelles) to 64.3m (DRC). Only three countries (DRC, South Africa and Tanzania) have populations exceeding 40m people. Six (Botswana, Lesotho, Mauritius, Namibia, Seychelles and Swaziland) have populations below 3m.

Table 10: SADC GDP and Population (2008)

	GDP (US$bn)	GDP (% share)	Population (million)	Population (% share)
Angola	84.9	18.2	18	6.5
Botswana	13.4	2.9	1.9	0.7
DRC	11.7	2.5	64.3	23.2
Lesotho	1.6	0.3	2.0	0.7
Madagascar	9.5	2.0	19.1	6.9
Malawi	4.3	0.9	14.8	5.3
Mauritius	4.3	0.9	14.8	5.3
Mozambique	9.8	2.1	22.4	8.1
Namibia	8.8	1.9	2.1	0.8
Seychelles	0.8	0.2	0.1	0.0
South Africa	276.4	59.2	48.7	17.6
Swaziland	2.8	0.6	1.2	0.4
Tanzania	20.5	4.4	42.5	15.3
Zambia	14.3	3.1	12.6	4.5
Zimbabwe	3.4	0.7	12.5	4.5
Total	466.5	-	277	-

Source: World Bank

The region is struggling to diversify its production base (see Table 11). Progressive industrialization remains elusive for most countries. While the service sector is becoming increasingly important, the manufacturing sector's contribution to GDP is still small. Overall, economies in the region are largely undiversified. The resulting lack of complementarity limits scope for trade in goods. This is also reflected in the composition of countries' exports.

Table 11: Sectoral Contribution to GDP (%, 2008)				
	Agriculture	Industry		Service
			of which manufacturing	
Angola	6.6	67.8	4.8	25.7
Botswana	1.9	52.9	3.5	45.2
DRC	40.2	28.0	5.5	31.8
Lesotho	7.2	34.8	16.0	58.0
Madagascar	25.2	17.3	15.3	57.5
Malawi	34.2	20.6	14.2	45.1
Mauritius	4.4	29.1	20.0	66.5
Mozambique	28.6	24.3	13.9	47.1
Namibia	9.1	37.5	13.5	53.4
Seychelles	2.3	22.4	13.4	75.3
South Africa	3.3	33.7	18.8	63.0
Swaziland	7.3	49.4	44.4	43.3
Tanzania	..	..	..	..
Zambia	21.2	46.3	11.6	32.5
Zimbabwe	..	..	..	..

Source: World Bank

Regional integration is SADC's main objective. Its Protocol on Trade, signed in 1996, is one of the key mechanisms for achieving this. It commits members to phase out tariffs, harmonize trade procedures and documentation, define rules of origin (ROOs) and reduce other barriers to trade. Implementation started in 2000 with the gradual elimination of customs duties on 85% of tariff lines by 2008 and the elimination of tariffs on the remaining 'sensitive products' eliminated by 2012.

The SADC FTA was formally launched in August 2008. Currently all members except Angola, DRC and Seychelles participate

The Trade Protocol's provisions include:

- Trade facilitation and harmonization, and co-operation over customs documents and procedures
- Elimination of NTBs - national authorities are co-operating to harmonize and develop common regional standards and technical regulations, liberalization of trade in services, and an industrialization strategy to improve the competitiveness of member state
- Anti-dumping and safeguard measures, and protection for infant industries
- Product-specific ROOs based on levels of value addition and complexity of processing.

SADC member states have taken measures to simplify and harmonize trade documentation and procedures to facilitate trade in the region. However, tariff reductions were back-loaded and the pace of liberalization has been slow. Implementation of liberalization commitments on merchandise trade has been uneven, with some countries lagging behind. For example, Malawi has requested a derogation to extend the implementation of its tariff phase-down to deal with revenue losses due to reduced trade taxes.

Implementation has been hampered by other obstacles too:

- Stringent ROOs have prevented low-income countries from benefiting from the FTA
- Countries still impose many NTMs, which frustrates intra-regional trade
- Countries with weak productive capacities are unable to take full advantage of the FTA
- A lack of progress in liberalizing trade in services, which is a major curb to foreign investment. Yet liberalization could stimulate production (especially outsourcing) and facilitate movement of goods and services to exploit the market access opportunities created by the FTA.

While SADC's trade liberalization appears slow, the community has been successful in addressing supply constraints through sectoral co-operation. Areas of progress include harmonizing the regulatory environment for telecommunications, energy and transport.

A major omission, however, is the protocol's lack of an institutional mechanism for dispute settlement. It provides for the settlement of disputes through diplomatic consultation, failing which the matter could be referred to a panel of trade experts appointed by the council of ministers responsible for trade matters.

In addition to establishing the FTA, the SADC regional integration program includes the establishment of a Customs Union by 2010, a Common Market by 2015, a Monetary Union by 2016 and a single currency by 2018. However, SADC failed to meet the 2010 deadline for adopting a Customs Union.

2.3.Common Market for East and Southern Africa

COMESA originated as a preferential trade area (PTA) for East and Southern Africa in 1982. It has 19 members, of which seven (DRC, Madagascar, Malawi, Mauritius, Seychelles, Swaziland, Zambia, and Zimbabwe) are also members of SADC. The remaining members are: Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Rwanda, Sudan and Uganda. COMESA has a combined GDP of $447bn (of which 36% is from Egypt and 21% from Libya) and a population estimated at 430m (Table 12).

Table 12 : COMESA GDP and Population (2008)

	GDP (US$bn)	GDP share (percent)	Population (million)	Population share (percent)
Burundi	1.2	0.3	8.1	1.9
Comoros	0.5	0.1	0.6	0.1
DRC	11.7	2.6	64.3	14.9
Djibouti	0.87	0.2	0.85	0.2
Egypt	62.3	36.3	81.5	18.9
Eritrea	1.7	0.4	4.9	1.1
Ethiopia	25.6	5.7	80.7	18.8
Kenya	30.4	6.8	38.8	9.0
Libya	93.2	20.9	6.3	1.5
Madagascar	9.5	2.1	19.1	4.4
Malawi	4.3	1.0	14.8	3.4
Mauritius	9.3	2.1	1.3	0.3
Rwanda	4.5	1.0	9.7	2.3
Seychelles	0.8	0.2	0.1	0.0
Sudan	55.9	12.5	41.3	9.6
Swaziland	2.8	0.6	1.2	0.3
Uganda	14.3	3.2	31.7	7.4
Zambia	14.3	3.2	12.6	2.9
Zimbabwe	3.4	0.8	12.5	2.9
Total	446.57		430.35	

Source: World Bank

The COMESA trade liberalization program started in July 1984. In 1992 the PTA was transformed into an FTA and it adopted a new program. The COMESA FTA was formed in 2000. Only 14 member states (Burundi, Comoros, Djibouti, Egypt, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Zambia and Zimbabwe) participate currently.

Five of these (Madagascar, Malawi, Mauritius, Zambia and Zimbabwe) also participate in the SADC FTA. The COMESA FTA allowed non-participant members to join when they were ready to reciprocate the terms of the arrangement. It did not provide for asymmetry of treatment between the least developed member states and relatively more developed members.

COMESA has fairly liberal rules of origin compared to SADC. The rules are not product-specific: goods qualify for preferential treatment if they undergo substantial transformation such that they contain a minimum of 35% regional value-added, or include non-COMESA imported materials worth no more than 60% of the value of total inputs used, or undergo a single change of tariff heading. For goods classified as of economic importance, the value-added requirement is relaxed to 25%. The agreement also provides for the monitoring of NTBs.

The COMESA Customs Union (CU) was launched in June 2009. A transitional period of three years (which could be extended to a period not exceeding five years was provided. During this time member states should align their national tariffs with COMESA's Common Tariff Nomenclature (CTN) and common external tariff (CET).

The transitional period may also be used to identify and submit sensitive products and tariff alignment schedules. The CU also provides for simplifying and harmonizing customs procedures, trade formalities and documentation, as well as disseminating information, harmonized standards and sanitary/phytosanitary measures.

The COMESA CET is harmonized with the East African Community CET so that member states belonging to both CUs do not have to choose which one to remain in. As a result, COMESA and EAC have in effect moved closer to becoming a single CU. Several other trade instruments and programs are also harmonized or co-ordinated; COMESA and EAC's ROOs are similar, for example. These rules will continue to apply until there is free circulation of goods within the CU.

A COMESA Fund has been put in place to deal with revenue losses from lower trade taxes as a result of applying the CET. The fund has two windows: (i) an 'Adjustment Facility' which caters for revenue loss arising from implementing the trade liberalization programs and (ii) an 'Infrastructure Fund' which finances infrastructure projects in the region.

COMESA's objectives include the establishment of a monetary union by 2025, harmonizing taxation and business legislation such as company laws, intellectual property rights and investment and competition policies.

2.4. COMESA-EAC-SADC FTA

In June 2011 the Heads of State and Government of COMESA, EAC and SADC launched negotiations that will lead to the establishment of a COMESA-EAC-SADC FTA. 26 countries will be involved in establishing this tripartite FTA.

The negotiations will be in two phases:

- The first will include negotiations on priority and critical areas for the FTA (tariff liberalisation, rules of origin, dispute resolution, customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers, trade remedies, and technical standards and sanitary and phyto-sanitary measures) will take 24-36 months.
- The second, which will cover trade in services, intellectual property rights, competition policy, and trade development and competitiveness, will start once the first is completed.

2.5. Other Arrangements

Southern Africa Customs Union

The Southern African Customs Union (SACU) was established in 1910 and is composed of five SADC member states: Botswana, Lesotho, Namibia, South Africa and Swaziland. Its aim is to maintain the free interchange of goods between member countries. It provides for a CET and a common excise tariff. All customs and excise revenues collected in the common customs area are paid into South Africa's national Revenue Fund. Revenue is shared among members according to a revenue-sharing formula. In addition to having a common external tariff, all of the members (with the exception of Botswana) belong to a common monetary area (CMA).[6]

Box 1: Common Monetary Area

Lesotho, South Africa and Swaziland established the Common Monetary Area (CMA) in April 1986. The CMA links the three in a currency union in which the South Africa rand is the common currency. Under the terms of the CMA Agreement, Lesotho and Swaziland also have the right to issue their own national currencies. Swaziland issued its national currency (the lilangeni) in 1974, followed by Lesotho introducing the loti in 1980. Namibia, which became independent in 1990, joined the CMA in 1992 and issued its own national currency (the Namibian dollar) in 1993. All three national currencies have been pegged to the rand at par since their introduction.

When the three countries issued their own currencies, they became responsible - albeit to a very limited extent - for their own monetary policy and assumed control of their own financial institutions. Bilateral agreements govern their access to the South African foreign exchange market.

6. The South African rand is also a widely used regional currency in southern Africa.

SACU'S defining characteristic is the economic dominance of South Africa, in contrast to the size of the other four members. Out of total SACU GDP of $303bn, 91.2% is from South Africa, which has 87% of the union's population. Botswana, Lesotho, Namibia and Swaziland depend heavily on South Africa for a significant proportion of their trade and investment, as well as migrant employment in Lesotho's case. South African companies dominate the business landscape in each of the four SACU countries. The revenue sharing arrangement reinforces their substantial dependence on South Africa.

SACU dates back to 1910, when South Africa, Bechuanaland (now Botswana), Basutoland (now Lesotho) and Swaziland signed the agreement. Only the UK and South Africa were involved in the 1910 negotiations. The Governor of the Union of South Africa and High Commissioner for the three protectorates had only to agree with himself and then sign the Agreement four times.[7]

The agreement lasted until Bechuanaland and Basutoland attained independence in 1966. It was then renegotiated with the South African apartheid government, culminating in the 1969 Agreement. This provided for South Africa alone to determine the CU's external tariff policy. The South African Minister of Trade effected all changes to customs tariffs, rebates, anti-dumping and countervailing duties on the recommendation of the South African Board of Tariffs and Trade. The South African Minister of Finance determined excise policy (Guma, 1990).

The agreement also included a revenue sharing formula for the division of customs and excise revenue collected in the CU. Botswana, Lesotho and Swaziland received a significant proportion of their government revenue through this formula. When Namibia became independent in 1990 it became a SACU member in its own right. South Africa had previously treated Namibia (then South West Africa) as a de facto member.

After eight years of negotiations a new agreement was signed in October 2002 to take account of the new political environment in South Africa following the end of apartheid. The revenue share accruing to each member is now calculated from three basic components:

- Customs revenue is distributed on the basis of intra-SACU imports. Countries that import most from within the union receive the largest share of the pool, which provides implicit compensation for the CU's 'cost-raising' and 'polarization' effects.
- A development fund has been created from 15% of total excise collections and is distributed equally among member states, with a small proportion adjusted according to the inverse of each country's GDP per capita. As each member gets approximately 20% of the fund, the BLNS (Botswana, Lesotho, Namibia and Swaziland) states get far more per capita than much more populous South Africa.
- The remaining excise revenue is distributed proportionate to members' GDPs.

The net effect is that South Africa retains about 50% of total customs and excise revenues collected, with BLNS sharing the remainder (Kirk and Stern, 2003). But while South Africa receives about 80% of its SACU revenue through the excise component, BLNS receive about 80% of theirs from the customs component. This leaves them extremely vulnerable to fluctuations in customs collections and their share of intra-SACU trade. Difficulties in obtaining reliable and mutually agreed data on this trade pose serious implementation problems and have already caused significant conflicts among members.

The first SACU Heads of State and Government Summit was held in July 2010. Its objective was to review the revenue sharing agreement and the 2002 SACU Agreement, to broaden it to include areas such as Trade in Services, Finance and Investment, Government Procurement, the Environment, Market and Monetary Integration. It was also meant to reduce tension among the members over the Economic Partnership Agreement (EPA) negotiations with the European Union (EU). Botswana, Lesotho and Swaziland signed an interim EPA agreement with the EU to South Africa's displeasure. The summit also discussed the establishment of outstanding institutions such as Tariff Boards and Tribunal and positioning the customs union within the regional context, as well as the provision for new members.

7. See Ettinger (1974) for a detailed discussion.

This is a clear signal that SACU is consolidating itself into an influential regional integration arrangement that will go beyond revenue sharing given that SACU has been mostly a revenue-sharing mechanism rather than a customs union in the general sense. This may have implications on regional integration in southern Africa. If other SADC member states join SACU, such an expansion of SACU may complicate the implementation of the SADC customs union. Actually, it may make the SADC Trade Protocol irrelevant.

The recent developments in SACU have implications for regional integration. It raises a number of policy questions: What is SACU's agenda for the region? Is SACU's agenda going to complement or undermine the SADC regional integration process? The urgency to address these issues arises due to South Africa's dominant role in the region (both as a major export market for manufactured goods for countries in the region and as the main source of imports).

East Africa Community

Tanzania is the only SADC member state that is also a member of the East Africa Community (EAC). Other members are Burundi, Kenya, Rwanda and Uganda. The EAC has an estimated combined population of 130.8m and GDP of $71bn. Kenya is its economic hub, contributing just over 30% of combined GDP.

The Community has liberalized all aspects of trade (movement of goods, capital and services, including movement of people). Through its collapse in 1977 and subsequent revival as a common market, the EAC offers important lessons for regional integration in southern Africa.

The EAC (then comprising Kenya, Tanzania and Uganda) was originally established in 1967 but collapsed in 1977. Tanzania and Uganda complained about the income transfers that were created by the CET on manufactured goods. They also feared increasing agglomeration of manufacturing in Nairobi, which had a head start on industrialization compared with their smaller industrial centers (Goldstein and Ndung'u, 2001)[8]. Arguments about compensation for income transfers contributed to the collapse of the common market, the closing of borders and the confiscation of Community assets in 1978. This atmosphere of hostility contributed in turn to conflict between Tanzania and Uganda in 1979.

The EAC was officially revived in July 7, 2000. The CU involving Kenya, Tanzania and Uganda came into force on 1 January 2005. Rwanda and Burundi joined the community in 2007. In 2010 the EAC launched a common market for goods, labor and capital, with the goal of a common currency by 2012 and full political federation in 2015.

With the start of the common market, member states agreed to open their borders to each other and allow goods and services to move between countries without fees or restrictions. The protocol has also removed barriers to movement of people, allowing citizens in the region to live and work anywhere in East Africa without work permits. This allows exploitation of comparative advantage as richer countries move production to poorer countries while labor moves from poorer countries to richer countries. This should give all members mutual benefits from the common market.

2.6. Key Features of RTAs in Southern Africa

The RTAs form part of deeper regional integration schemes. SADC and COMESA's goals include promoting economic prosperity through regional integration and enhancing growth by achieving economies of scale, as well as enlarging local markets and encouraging investment, facilitating trade liberalization, harmonizing economic policies, enhancing economic convergence and accelerating economic diversification.

Some common features of the RTAs in southern Africa stand out. These include unrealistic goals, focus on intra-regional tariff reduction and restrictive ROOs.

Desired Level of Regional Integration

The two main RTAs (SADC and COMESA) aim to establish a customs/economic union and a common market. By

8. This is the case in SADC where South Africa has a head start in industrialization and is able to immediately start exploiting market access opportunities from the FTA as a result.

aiming for deep integration, the countries are seeking to maximize the benefits of regional integration. But they are also imposing on themselves a substantial demand for administrative capacity and a high degree of economic convergence.

The prospect of surrendering trade policy to CU authorities and accepting the resulting redistribution of customs revenue has often aroused concerns and tensions. Although the push for a high degree of integration is not entirely responsible for the poor record of RTA implementation, it may have exceeded the limit of regional capacity and political will, leading to delays in implementation. Diverse national interests have led to overlapping membership and conflicting commitments, which further complicates implementation.

The RTAs' goals are legitimate and reflect the region's aspirations. Nonetheless, they are long-term development objectives and can only be achieved through sustained effort at both the regional and national levels.

Focus on Intra-Regional Tariff Reduction

Even though SADC has devoted considerable resources since its inception to regional sectoral projects (in energy and infrastructure, for example) the RTAs' primary focus is to gradually reduce intra-regional tariffs while preserving their individual tariffs for non-member countries. However, while tariff reduction targets have been implemented to various degrees, most are behind schedule. None of the RTAs has managed to make all regional trade tariff-free. Tariffs on sensitive commodities are not usually reduced.

COMESA and SADC also stipulate the elimination of NTBs, but have made only limited progress. Quantitative restrictions, import bans, roadblocks and administrative charges are still in place. There is also evidence that new NTBs are being erected. These include unofficial fees at border crossings, administrative delays at ports, cumbersome customs formalities and multiple interstate checkpoints and roadblocks.

The narrow focus on intra-regional tariff reduction and failure to eliminate NTBs has limited RTAs' economic benefits.

Rules of Origin

Internal trade within the RTAs is subject to ROOs. In the case of SADC, those proposed initially were relatively simple and uniform across products: they involved a change of tariff heading, a minimum of 35% of value added within the region, or a maximum import content of 60% of the value of total inputs. However, these rules were subsequently revised and became more restrictive - not only did they become product-specific, but they also required detailed technical processes (see Flatters and Kirk, 2004). ROOs can be costly to enforce because they require documents to prove origin and verification procedures at border crossings.

III. PROSPECTS AND CHALLENGES FOR INTRA-REGIONAL TRADE

If well designed, regional arrangements can contribute to deeper regional integration and to regions' entry into the global economy. Enlarging markets through integration of small economies supports achieving economies of scale and improves efficiencies, leading to lower prices and expanded supply. The competition, scale, and consequent efficiency effects are likely to be important sources of economic benefit. Regional agreements also act as effective commitment mechanisms, while facilitating cross-border project co-operation as well.

While some economies will face opportunities for expansion, others will contract. Similarly, some sources of income will be boosted while others will decline. If not well designed, regional integration arrangements can lead to tension if some members judge that the benefits are not equally distributed.

This section examines the opportunities and challenges for regional integration in southern Africa. It also discusses the issue of multiple memberships.

3.1. Opportunities

Scale and Competition Effects

Many southern African countries are too small to support on their own activities that offer large economies of scale. This may be because of insufficient specialized inputs, for example, or because local markets are too small to generate the sales necessary to cover costs. Just two countries (Angola and South Africa) contribute 77% of the region's GDP (see Table 1).

An integrated regional market offers the only route for countries to overcome the disadvantages of small size by pooling resources or combining markets. A combined and growing SADC market of 263.5m people and $471.23bn in GDP permits economies of scale to be achieved and brings producers in member countries into closer contact - and competition - with each other. Entrenched monopoly positions are eroded, promoting efficiency gains in firms. Suppliers from non-member countries will also experience the change in market size and competition, inducing changes in their imports' pricing and in their attitude to foreign direct investment (FDI).

Large markets are attractive to FDI. Regional integration gives small countries the opportunity to compete for FDI with larger peers. Raising the level of FDI or domestic investment requires making a country relatively attractive versus others. Increasing market size helps in this regard.

Most southern African countries' small sizes limits their scope to exploit economies of scale more fully and to remove local monopoly power. Market enlargement will allow firms to exploit economies of scale more fully. In a small market with few large firms there is a trade-off between scale economies and competition. Enlarging the market shifts this trade-off, as it becomes possible to have both larger firms and more competition. Deeper integration will increase the intensity of competition, inducing firms to eliminate internal inefficiencies and raise productivity levels - perhaps leaving only the most efficient. Surviving firms will be larger and more efficient, and could better exploit economies of scale.

Combined markets will make it possible to reduce monopoly power as firms from different countries are brought into more intense competition. Inevitably in a region dominated by South Africa, the number of local firms that can compete with South African companies is limited. But in a large integrated regional market South African firms will be competing with each other rather than operating in a number of segmented small economies. Firms are induced to cut prices and to expand sales, benefiting consumers as the monopolistic distortion is reduced.

Most southern African countries are unable to exploit market access opportunities because they cannot produce goods and services demanded by other countries in the region. FDI can also play a role in stimulating local production in related industries, in transferring technology,

and in raising productivity in neighboring firms. It will encourage local firms to imitate and improve quality of their products.

By creating a large market, regional integration should assist in attracting FDI. Most countries in the region are at a disadvantage in seeking FDI because of market size. Foreign firms that want to supply their products to a country face a choice between serving the market through imports or by building a local plant. The trade-off is between the costs of tariffs and other trade barriers incurred on imports, and the production costs of the local plant. If the investment is substantial, necessitating a minimum level of sales to be viable, the scale effect of joining markets into a regional market may well tip the decision towards FDI. The decision will be tipped further in its favor if regional integration also leads to removal of cross-border and transit barriers and a reduction of other trade costs, especially transport.

For example, Philips Electronics has established a compact fluorescent light bulb manufacturing facility in Lesotho, creating over 400 direct jobs. The plant will produce some 15m CFLi bulbs per year, taking advantage of SACU to export to the larger South African market duty-free. The company previously manufactured the bulbs in China.

Project Co-operation

Empirical evidence generally supports the finding that cross-border infrastructure spurs trade (Ndulu, 2006). Stronger and better-connected infrastructure platforms can help unlock economies of scale and sharpen competitiveness in the region. Regional infrastructure will facilitate more intra-regional trade and exports. Large infrastructure projects are intrinsically costly for individual countries to undertake.

Regional pooling of resources is the only solution. In many parts of southern Africa, severe bottlenecks in road transportation, telecommunications, ports and energy increase the cost of doing business and are holding back trade expansion. Cross-border infrastructure requires regional co-operation. One example of mutually beneficial regional pooling of resources is the SADC Power Pool. Similarly, the Chirundu Bridge one-stop border post is an example of co-operation between two countries (Zambia and Zimbabwe).

An example of the consequences when regional co-operation is absent is the Kazungula Bridge that links Botswana and Zambia and is an important trading link between DRC, South Africa and Zambia. Shifting the site of the bridge because Zimbabwe, for which there was no direct benefit, was not in agreement resulted in additional costs.

Regional agreements can also solve some trade facilitation issues. Countries recognize that NTMs, such as border controls, phytosanitary restrictions, weak transport systems and regulatory differences, hinder trade. As southern Africa becomes more integrated it is increasingly covering these issues, which are more suitably addressed at the regional level.

Commitment Mechanisms

Attempts at reform are often undermined by expectations of reversal. Regional integration agreements are effective commitment mechanisms, whose effectiveness depends on the interests and degree of involvement of all the countries concerned. Reform plans can often be thwarted by the possibility that they will be reversed. Confidence in them enduring may be low, particularly if the country has no track record of reform or, worse, a history of reversing reform.

COMESA and SADC agreements have provided commitment mechanisms for trade and other policy reform measures in southern Africa. For trade liberalization, their agreements have been effective self-enforcing mechanisms that have reduced the likelihood of countries reversing their reform programs.

However, delays in fully implementing the SADC FTA and launching the SADC CU, and the limited number of member states participating in the COMESA FTA and CU, may impact business decisions negatively. Investments could have to be delayed until there is a clear implementation roadmap and political commitment.

3.2. Challenges

Regional integration involves winners and losers. If the process is not well designed and implemented it risks alienating a significant number of members, leading to a loss of confidence if benefits are not realized immediately. So the major challenge is to ensure a welfare-enhancing outcome for all members. Poor design could lead to industry concentration in one country and loss of government revenue (lower trade taxes from tariff reductions and lower income and corporate tax through firm closures). Equally, failure to implement agreed rules and NTBs is likely to reduce the benefits.

Design

Removing trade barriers is a form of market enlargement, as separate national markets integrate into a single regional market. This allows firms to benefit from greater scale and may attract investment projects for which market size is important. Removing barriers also forces firms from different member countries into closer competition, potentially inducing efficiency improvements. Although these would be significant benefits, their outcome depends on the agreement's design and implementation and may not always be achieved.

A close examination of the two most prominent agreements in southern Africa reveals risks and weaknesses in their design. COMESA has launched a CU while SADC is implementing an FTA and plans to launch a CU. Several of the proposed features of the COMESA CU will require maintaining border controls for intra-regional trade. Members' dependence on trade taxes and the decision to avoid a genuine revenue sharing arrangement have led to an agreement that the country of final consumption keeps revenues. While this will allow countries to retain their import revenues it will require enormous effort and co-operation by customs administrations to track the country of final consumption. The proposed exceptions for a limited number of goods will require member countries to maintain border controls within the CU. This has the potential to completely overwhelm regional customs administrations and erode efficiency gains.

The challenge for both COMESA and SADC is to design trade agreements with the potential to improve welfare in member states while implementing a sustainable revenue collection mechanism and sharing formula. The experiences of EAC and SACU show that revenue distribution can lead to tensions among members.

Industry Concentration

The tariff preferences that help shape regional trade can create powerful income transfers within A region and concentrate industry in a single location. Countries that lose income and industry as a result may be resentful. Regional integration could lead to relocation of economic activity as industries expand in some countries and contract in others.

For example, South Africa enjoys a head start in manufacturing due to its supportive production environment. As a result, it has benefited from regional trade liberalization much faster than the rest of the region.

Evidence shows complementarity between South Africa's exports and the imports of the rest of the region, but not vice versa. This asymmetry implies that more developed South Africa is in a much better position to market its exports in the region while the less developed countries are unable to find significant markets locally. The asymmetric product complementarity in favor of one country raises a concern over possible polarization as investment may be attracted towards the larger and more industrially diversified country.

Examples of regional integration being blamed for divergent economic performance include the EAC. Uganda and Tanzania contended that all the gains of the first east African common market were going to Kenya, which was steadily enhancing its position as the market's industrial center, producing 70% of the manufactured and exporting a growing percentage of them to its two relatively less industrialized partners (Goldstein and Ndung'u, 2001). The community collapsed in 1977, because it failed to convince the poorer members that they were getting a fair share of the gains.

South Africa's comparative advantage in manufacturing has drawn some production out of other countries in the region, while local consumers are supplied with more of its manufactured goods. South Africa - able to supply the region, protected from competition from the rest of the world - gains from the relocation, while the others suffer trade diversion. Some manufactured goods that they imported from the rest of the world previously now come from South Africa.

Regional flows (Figure 3) illustrate its growing trade surplus. The imports are either direct from South Africa or through South African shops (like Game, Pick and Pay, and Shoprite) that have opened in most countries in the region. Local shops are stocked with mostly South African products. In countries such as Botswana, the import penetration ratio of South African-manufactured products is as high as 95% (BIDPA, 2004).

Southern African countries' exports tend to be concentrated in a few commodities, reducing their scope for intra-regional trade. As a result, it will be hard for South Africa to serve as an important export outlet for the rest of the region. These countries (perhaps with the exceptions of Mauritius, Seychelles and Swaziland) have similar disadvantages in manufactured goods and similar advantages in primary goods. Their manufacturing sectors are very small (see Table 11). After the collapse of Zimbabwean manufacturing South Africa appears to be the main source of manufactured goods, though the range of products is limited.

The major finding is that although intra-regional and total trade have been growing in recent years, opportunities for further expansion through greater regional integration may be limited since product complementarities are low.

Revenue Loss

The challenge of maintaining fiscal sustainability in the face of trade liberalization is huge. Countries have very limited options for replacing lost trade taxes. Trade liberalization has created significant fiscal gaps through the lowering of import duties in some countries. The fiscal after-effects of CU may dominate negotiations. The CU's design requires either special treatments and exemptions or, alternatively, an explicit compensation formula for more equitable sharing of the fiscal burden (in the case of tariff reductions) or benefits (in the case of revenue from a CET).

Most governments in the region are heavily dependent on trade taxes. In countries where trade taxes are an important source of government revenue and the region is the main source of imports, establishing an FTA or CU may lead to loss of tariff revenue. This will arise directly as tariffs on intra-regional trade are reduced and indirectly when trade diversion occurs, such as when importers switch away from external imports subject to tariffs. If the government is constrained in its alternative sources, a loss of tariff revenue can be particularly damaging.

In addition, regional integration may lead to changes in the structure of individual economies that could lead previously import-substituting industries - and important sources of revenue - to contract. Naturally, discussing trade liberalization also provokes a discussion of its potential consequences for government revenue.

In southern Africa, where most of the countries are heavily dependent on trade with South Africa, substantial revenues are involved. The dependence on trade taxes constitutes a major hurdle for tariff liberalization in the region. Apart from South Africa, all of the countries in the region depend on trade taxes, which account for over 10% of total fiscal revenue. Lesotho, Namibia and Swaziland are the most dependent on trade taxes. The resulting revenue losses from deeper integration are substantial.

Wide disparities among SADC members' trade regimes make it difficult for them to harmonize and agree on CETs that are beneficial for all. One based on categorizing goods into raw materials, capital goods, intermediate goods and finished goods (as in COMESA) will require substantial changes in tariffs on individual lines.

Weak National Capacity

Economic preparedness also poses challenges as RTA members are not always as close economically as they are geographically. The idea of regionalism has also to be marketed at home, which is easier in some countries than others.

Regional integration requires significant public management and implementation at the national level. Without national commitment, there can be little progress at the regional level. If member states proclaim a strong political commitment to integration, they should demonstrate it through national measures and actions and be seen to implement decisions aimed at deepening regional integration. Member states are expected to ensure efficient co-ordination between the objectives and instruments of regional integration and national economic policy, and speedily implement decisions and instruments. However, owing to a variety of problems that include capacity deficits and resource constraints they have not always fulfilled these responsibilities. Governments have not been able to sell the benefits of regional integration.

The success of regional integration in southern Africa will depend on strengthening national capacities. Weak national institutions are hampering integration significantly. Accordingly, it is important to strengthen national mechanisms for economic co-operation and integration and structure them to ensure that integration measures are implemented effectively.

Trade Costs

Although price competitiveness is a key factor in trade performance, non-price competitiveness factors also play a large role. These include product quality, business environment, technology and infrastructure.

For exporters, competitive advantage at the factory and farm-gate can be eroded along the miles from production to market. Distance aside, factors like transport and communications infrastructure, border processes and local logistics markets play critical roles. Their impact on cost, time, and supply chain reliability shapes competitiveness.

As Southern African countries are mostly poorly positioned in their business environment and competitiveness, the region faces challenges in improving trade performance. The most obvious deficiency is in trade facilitation, for which the World Bank's 'Trading Across Borders' report ranks it 149th out of 183.

On average it takes 35 days for cargo leaving the region to be exported and 42 days for it to be imported (Table 13). In addition, it costs an average of US$1,899 to export a 20-foot container of non-sensitive goods and US$2,410 to import one, with an average of eight documents being required for export and nine for import.

Except for Mauritius, all of the region's countries rank lower than 100th out of 183 countries in cross-border trading. The worst performance is in number of days to import and export. While it takes Mauritius 14 days, the remaining countries' exports take between 21 and 65 days and their imports between 24 and 73 days. The worst performers are Angola, Zambia and Zimbabwe.

Another category where the region is doing poorly is import and export costs. While it costs Mauritius US$689 to import a container and US$737 to export one, the other countries the cost per container to export is between US$1,100 and US$3,280 and the cost to import is between US$1,475 and US$5,102 per container.

Comparable countries in Asia are ranked highly in trading across borders. Export cost per container is between US$456 and US$704, while their import cost is between US$439 and US$660. Among MERCOSUR countries, Chile compares favorably with Asian peers.Brazil and Argentina are ranked 100th and lower on trading across borders.

Table 13 : Selected Indicators of Border Administration Efficiency

	Trading across borders	Documents to export (number)	Time to export (days)	Cost to export (US$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US$ per container)
Angola	171	11	65	2,250	8	59	3,240
Botswana	150	6	30	2,810	9	41	3.264
Lesotho	143	6	44	1,549	8	49	1,715
Madagascar	111	4	21	1,279	9	26	1,660
Malawi	172	11	41	1,713	10	51	2,570
Mauritius	19	5	14	737	6	14	689
Mozambique	136	7	23	1,100	10	30	1,475
Namibia	151	11	29	1,686	9	24	1,813
South Africa	148	8	30	1,531	9	35	1,807
Swaziland	158	9	21	2,184	11	33	2,249
Zambia	157	6	53	2,664	9	64	3,335
Zimbabwe	167	7	53	3,280	9	73	5,102
Southern Africa (weighted average)	149	8	35	1,899	9	42	2,410
Singapore	1	4	5	456	4	3	439
Malaysia	35	7	18	450	7	14	450
Indonesia	45	5	21	704	6	27	660
China	44	7	21	500	5	24	545
Brazil	100	8	12	1,540	7	16	1,440
Argentina	110	9	13	1,480	7	16	1,810
Chile	56	6	21	745	7	21	795

Source: World Bank, Doing Business 2010

Globalization requires a functioning international transport system. Beyond its feeble industrial base, the region's marginalization is aggravated by problems with access to adequate international transport and support services. For manufactured goods, reliability and speed of transport can be more important than transport cost. Consequently, access to and provision of international transport services must be addressed - and must form an integral part of the international support enabling more effective participation in globalization.

The efficiency of a country or region's ports determines whether it is part of or isolated from global transport and trade developments. If customs clearance can be speeded up or carried out at final destination, goods may quickly pass through port rather than waiting for control. The benefit for the shipper is reduced transit times and transport costs. For transport operators, this would mean more productive use of their equipment, increased profitability and the ability to lower tariffs.

The greater the efficiency at port level, the lower the transport costs. If overall levels of infrastructure are positively correlated with seaport infrastructure, we can expect that better infrastructure gives a higher probability of an efficient port.

The region has better global rankings for infrastructure than cross-border trading (Table 14). These place it close to most Asian and South American countries and above both Brazil and China for overall infrastructure and quality of roads.

Table 14 : Quality of Infrastructure								
	Quality of overall infrastructure	Quality of roads	Quality of railroad infrastructure	Quality of port infrastructure	Quality of air transport infrastructure	Quality of electricity supply	Telephone lines	Internet users (hard data)
Angola	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Botswana	46	45	34	79	95	81	95	112
Lesotho	104	113	n/a	114	132	94	104	114
Madagascar	105	92	83	111	93	123	119	121
Malawi	106	90	75	88	121	120	112	118
Mauritius	53	51	n/a	60	57	59	46	57
Mozambique	117	120	73	108	98	92	125	120
Namibia	25	20	25	24	55	54	97	110
South Africa	43	40	40	49	23	100	91	98
Swaziland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Zambia	107	110	90	81	117	108	120	108
Zimbabwe	95	86	59	55	102	127	108	89
Southern Africa (weighted average)	51	48	44	55	38	98	93	100
Singapore	2	1	9	1	1	12	27	15
Malaysia	27	24	19	19	27	39	72	26
Indonesia	96	94	60	95	68	96	79	87
China	66	50	27	61	80	61	49	72
Brazil	81	106	86	127	89	55	61	47
Argentina	94	84	78	85	113	97	52	60
Chile	23	15	76	27	19	37	62	53

Source: World Economic Forum, Global Competitiveness Report 2010

The fact that the region holds up against comparable countries on infrastructure but ranks poorly in cross-border trading indicates clearly that the heaviest constraint on its trade expansion is not infrastructure but trade facilitation. The importance of border procedures in international trade has increased in recent years as volumes have risen with lower tariffs and quotas. This highlights the need for additional resources to reduce waiting times in customs.

Modern supply chain management and the spread of e-commerce have increased the use of just-in-time techniques by manufacturing industry and encouraged the growth of integrated global supply, production and distribution systems. Regional and international competition and the need to reduce production costs have led companies to use a variety of locations for sourcing components and manufacturing products.

Long delays due to inefficient border procedures result in significant added costs through lost business opportunities, unsatisfactory revenue collection and smuggling. These inefficiencies also reduce countries' ability to participate fully in regional and global trade. Action to improve border procedures has been shown to produce results.

Multiple Memberships

With the exception of Mozambique, all countries in the region belong to more than one RTA. Overlapping memberships come with costs, such as administering often complex ROOs. They may also create contradictory

obligations, while their potential complexity can hinder private-sector decision-making.

However, gains can be derived from being in more than one regional trading arrangement. The best example is the access to the COMESA market, which has less stringent ROOs, for exports from Malawi, Swaziland and Zambia. The value of this opportunity outweighs the costs of belonging to two RTAs.

While there is no quantifiable evidence of the cost of belonging to multiple RTAs and the net effect is more likely to be positive, free flow of goods in the area covered by the agreements must be ensured. The proposed COMESA-EAC-SADC tripartite FTA could be a solution.

However, the tripartite FTA should proceed with caution. Regional integration implies many countries coordinating policy actions. The larger the number of participants, the more complex the co-ordination – and, in turn, the greater the likelihood of failure. Most successful regional integration arrangements to date highlight this principle.

Experiences in both Africa and Latin America demonstrate that adopting very ambitious, comprehensive agreements at an early stage of integration may ultimately result in poor implementation. In contrast, modest, specific agreements based on areas of mutual interest can incrementally build the agreement by providing a platform for mutual trust and further institution building. Specific co-operation initiatives in both trade and non-trade areas can slowly build a stronger region.

IV. CONCLUSIONS AND POLICY RECOMMENDATIONS

4.1. Conclusions

Patterns of trade within southern Africa and between the region and the rest of the world show large variations. While manufactured products dominate intra-regional exports, external exports are mainly primary commodities. Moreover, where external exports are highly concentrated around a few products, intra-regional trade is much more diversified.

This last point suggests that expanding intra-regional trade could yield significant benefits. It offers the region's countries scope to diversify their production into non-traditional products, especially manufactured goods.

The nearer-term outlook for intra-regional trade depends on developments both within and outside the region. The global economic crisis makes it likely that the region's export revenue will drop as its export markets shrink. Accordingly, it is even more urgent that southern African countries develop intra-regional trade to offset this. In addition, while China is slowly emerging as the region's major trading partner, its countries will have to aggressively promote trade relations with other emerging powerhouses, such as Brazil and India. These could have a notable effect on the future of the region's trade.

Low intra-regional trade reflects limited progress towards implementing the SADC Trade Protocol, eliminating transport bottlenecks and improving trade facilitation, including customs administration. It also indicates limited trade potential among countries in the region, particularly because the poorer states trade similar goods.

However, similar endowments do not have to mean that countries have no scope to trade. Rather, trade among them will be intra-industry. But its potential will depend on the stage of development. Intra-industry trade is dominant among industrialized countries with technology and skill-intensive manufacturing closely integrated through production networks, or consumer goods for niche markets.

Given the region's preponderance of primary goods, its potential for intra-industry trade seems to be limited. Its trade deficit with South Africa is unsurprising. The region has also failed to participate in fast growing global production chains, in which several countries complete different stages of a manufactured good.

The region has set ambitious goals for its RTAs, but the results have so far fallen short of expectations. Their potential to exploit economies of scale and enhance competition has been limited by a lack of trade complementarity among partners, as well as a small market, poor transport infrastructure and high trading costs at the border.

Still, since they start with a low level of intra-regional trade the impact on the region's overall trade would have been small even if the RTAs had been implemented more successfully - unless they had created a more favorable trade environment.,

When potential trade among neighboring countries is limited, alternative approaches may be needed. The region should consider focusing more on regional co-operation on joint infrastructure, trade facilitation projects and policy harmonization. Creating an economic space where investors can produce for regional as well as global markets and dismantling restrictive trade practices that inhibit poor countries from diversifying their exports may provide the region's small economies with better growth opportunities

The region's low levels of FDI seem to indicate that RTAs have not improved the region's competitiveness significantly. One rationale for the idea that they would was that enlarged regional markets would generate higher returns on capital and, as a result, attract more

FDI. This would then increase the region's ability to export. FDI inflows are heavily skewed toward mining industries (including petroleum) and highly concentrated in just two countries (Angola and South Africa). FDI from South Africa to other countries in the region is, however, more diversified across industries.

Overall, the low level of intra-regional trade warrants examining some underlying assumptions. Is the record disappointing because no preconditions were established to make the RTAs of benefit, dooming them to failure before they even began? Or is this record the result of poor design and/or implementation? What can we learn from the successes of regional trade integration in other parts of the world, as well as from Africa's failures?

The structure of the region's exports may simply reflect its comparative advantages, determined largely by the combination of abundant natural resources and a low level of technology. This has not changed much over the past 10 years and will probably not change radically over the next 10 years either. This implies that while some countries may manage to increase their proportion of manufactured exports by improving infrastructure and policies natural resources will continue to dominate the exports of most.

Accordingly, the long-term model for the region's development should follow the direction of resource-abundant Latin America rather than that of resource-scarce Asia. Because land is abundant Africa will always have a larger primary sector and a smaller manufacturing sector than the land-scarce regions of Asia.

4.2. Policy Recommendations

This paper suggests that the region's RTAs were not set up for success, given limited intra-regional trade, weak complementarity in resource endowments, and inadequate transport infrastructure and local capacity. Moreover, their design is generally poor, particularly in external tariffs, NTBs and trade facilitation, while implementation has been weak and often delayed - partly due to overlapping memberships.

Improving performance will require a broad approach. This must tackle a whole range of design and implementation problems, as well as to create the conditions for successful regional trade integration.

Regional integration still offers southern African countries substantial potential from competition and scale effects. However, the gains are not automatic and not all members will benefit equally. Careful design and sustained implementation are necessary, but the more fundamental determinants of RTA performance seem to be policies and conditions that shape the overall trade environment. This makes reductions in trading costs at the border critical.

These are all conventional development issues but nonetheless pose difficult challenges for the region's policymakers. Countries need to protect their revenue base in undertaking tariff reductions. When cuts are implemented they need to address the loss in government revenue. Efforts to improve infrastructure (especially energy and ports) and reduce trading costs will require adequate local capacity, in addition to financial resources.

In all these areas, the Bank can support the region to ensure that it achieves sustainable integration. The Bank should be more actively involved in the area of trade facilitation, particularly customs administration. Ultimately, however, the countries themselves need to demonstrate strong commitment to regional integration.

Transport Costs and Trade Facilitation

To exploit economies of scale and enhance domestic competition through RTAs, countries need to reduce transport costs within the region. It is difficult to take advantage of economies of scale when shipping costs are very high (Table 13). High transport costs and other barriers to intra-regional trade are reflected in

the fact that such trade is often cross-border and that geographically distant countries trade very little with each other despite extensive RTAs.

For historical reasons, infrastructure in the region (like most parts of Africa) is oriented toward facilitating trade with former colonial powers in Europe. To facilitate regional integration, southern Africa needs to commit resources to regional infrastructure. Investment is also necessary to enhance domestic competition.

Trade facilitation is a more serious problem in southern Africa than infrastructure (Table 14). Attempts to improve it have been a major focus of COMESA and SADC. Possibly the most demanding part of creating a CU are the substantial administrative changes needed to improve trade facilitation and deepen regional integration. These would be enhanced substantially by the eradication of ROOs that would be no longer be necessary in a common SADC customs area.

In addition, a concerted program of action to simplify and harmonize border rules and procedures across the region is key. Without this, many economic gains from the CU will not materialize. For example, a major obstacle to trade facilitation in the region is the Beit Bridge border post (between South Africa and Zimbabwe). This is an important entry point into South Africa for Angola, DRC, Malawi, Tanzania, Zambia and Zimbabwe. Improvements in border facilities should significantly reduce waiting time for transit goods and lower transport costs. A one-stop border post would be ideal, but this would require co-operation between the governments of South Africa and Zimbabwe.

RTA Design

Harvesting RTAs' benefits depends on the integration arrangement's design and scope. Obstacles to agreeing a low and uniform common external tariff will delay southern African countries from implementing an SADC CU. One of the most critical issues is agreement over tariff harmonization. Transition and coverage are usually contentious too. The basic choice is whether to adopt a CET schedule to simplify customs administration.

CUs typically require greater political commitment. This is because countries have to agree a common external policy and set up mechanisms to distribute tariff revenue between themselves. A CU's advantage is that, because members have a common external tariff, it is possible to have much simpler internal border formalities. In contrast, an FTA faces a problem of outside countries exploit tariff differentials by redirecting imports through the FTA member with the lowest external tariff.

ROOs are the usual solution. But the costs of implementing these are high. They mean that controls on goods crossing internal frontiers have to be retained to ensure compliance and to collect customs duties. ROOs are particularly complex because they have to take into account tariffs on imported intermediate goods used in products manufactured within the FTA.

Tariff revenues generated by the CET have to be distributed between member countries. This too can be divisive. For example, the revenues could provide the central budget and spent on agreed programs.

Integrating countries at different stages of development is likely to lead to winners and losers. So establishing a credible mechanism to compensate losers is critical to make integration deeper and sustainable. Having decided that SADC should move to a CU the region must identify the options and for revenue collection and sharing. Whatever the CET adopted, members will have to decide on how revenue is to be collected and shared.

Most CUs (including COMESA) adopt the 'destination principle': tariff revenue accrues to the country where the import is finally consumed. This has significant attractions since members retain control over the revenue they collect and the need for a revenue sharing arrangement disappears. The alternative is collection at the point where the good first enters the CU and distribution between members under a pre-determined formula.

Box 2 below provides some options.

Box 2: Option for Collecting and Distributing Customs Revenue

Option 1: Collection and distribution at destination

Customs processing and collection of import duties at final destination requires strict administration of bond processes and ROOs to distinguish between goods that originated from within the CU and those from elsewhere. Furthermore, a large share of revenues that ought to accrue to other members under the destination principle would be collected and retained by receiving countries. Under this system, either a disproportionate share of revenue accrues to dominant trading countries, particularly South Africa, or very costly administrative procedures would need to be put into place. Both would significantly negate the advantages of moving to a CU.

Option 2: Collection at entry and distribution by formula

Imports are collected at the point of first entry into the CU. This minimizes the destination principle's administrative and compliance costs and would enable much freer movement of goods between member states. But it would only work if members of the union trusted the capabilities and integrity of each other's customs services. It also requires an arrangement to redistribute revenue. The formula to achieve this should replicate, at least roughly, what would accrue under the destination principle. SACU's problems are a classic illustration of how that the formula approach remains problematic.

Option 3: Collection at entry and distribution using formula + development fund

In addition to a revenue sharing formula, mechanisms to achieve regional development goals are likely to be necessary. Since countries in the region are at different levels of economic development, a fund should be established alongside revenue sharing to promote development in the low-income economies. This would provide domestic political support to perceived losers, as well as ensuring that they do not reverse policy. This would require new institutional structures to facilitate co-operation and might involve establishing a fund to which all members would contribute and that would also be eligible to receive grants for development projects. Fund contributions should relate to member states' size and level of development and should be independent from customs collections. The fund's major objectives might include supporting cross-border projects, promoting mutual development and assisting low-income countries. Use of fund resources would require close monitoring to reduce leakages.

The SADC Secretariat and member states will require technical assistance to design a credible roadmap for negotiating and implementing a CU and revenue sharing. This is necessary to ensure a sustainable union and a welfare-enhancing outcome. The countries will need to move beyond market access and aim to reach an integration agreement that will lead to economic growth in the region. Accordingly, the main objective should be economic development and not market access.

A roadmap for implementing the SADC CU should involve:

- Assessment of the SADC Secretariat's technical capacity and requirements
- Analysis of revenue collection and sharing options, and establishment of a development fund
- Analytical studies to assess the impact of implementing a CU and possible measures to mitigate revenue losses
- Assessment of members states' capacity to implement the agreement leading to the CU
- Design of an implementation monitoring mechanism.

If the objective of regional integration shifts from market access to development, the way in which RTAs are negotiated and implemented will have to change. One reason is that many of the region's less developed countries do not benefit much from traditional RTAs. They already have good access to major markets due to non-reciprocal preference schemes and face potential welfare losses if they pursue liberalization that only favors regional partners. Another reason is that their priority needs are not in trade policy but instead better trade capacity and investment appeal.

South Africa's leadership, as the region's dominant economy and the main beneficiary of its trade liberalization, will be key to successful and sustainable regional integration. It and other relatively more developed economies (Botswana and Namibia) must

contribute more financially to a regional development fund to speed up economic convergence.

Services Liberalization

In the absence of services liberalization, even successful negotiations to liberalize trade in goods could still result in no effective protection. What use is opening up borders for trade when goods cannot be transported from one country to another or traders are unable to communicate with each other to initiate transactions? For liberalization to have any impact in the region, services trade must keep pace with goods trade.

Unlike goods, however, services liberalization is not just a matter of removing trade barriers, but also requires instituting an appropriate domestic regulatory framework. It also usually entails movement of factors of production. A country that liberalizes its services sector is likely to attract FDI. The efforts of SADC countries to develop services as a major export area and contributor to development have faced considerable barriers. This is largely due to the large fixed costs of entering these sectors. But lack of progress in liberalizing the sector has contributed too.

The region can gain substantially from liberalizing financial services and key infrastructure services like energy, telecommunications and transport. Success will require introducing competition and effective regulation to correct market failure and, in some sectors, ensure social goals such as universal access. Appropriately designed regulations could help domestic reform and provide access to both regional and international market.

SADC's liberalization of services trade will be more complex than liberalizing the goods trade. Supply of services mostly requires proximity between producers and consumers. This demands movement of either service producers or consumers, or movement of investment capital into services. Moreover, barriers to services trade are mostly embedded in national laws and regulations.

This is a more challenging task than simply reducing tariffs. It requires careful design. The first step is to strengthen and harmonize regulation of a priority list of services. Access to the regional market and a regional institutional structure can provide a framework for reshaping the sector into an export-oriented one.

Box 3 provides strategies for liberalizing the region's trade in services.

Box 3: Strategies for SADC Services Liberalization

In most SADC countries the first problem to be addressed in services strategies is to correct regulatory and fiscal disincentives to services exports. As the sector has traditionally not been viewed as an exporter, there are no mechanisms to promote it. Service producers suffer from high levels of tariff protection on imports of the capital goods and other inputs they require for efficient production.

Liberalizing trade in services, notably commercial presence, can make a major contribution to achieving development and social goals. However, certain conditions must usually be met for a positive impact. Liberalizing the financial services sector should be preceded by implementing sound prudential legislation. Foreign suppliers can make positive contributions to environmental protection if technically adequate, enforceable legislation is in place and funds are available to pay for the imported services. Foreign suppliers can strengthen or weaken health care systems, depending on their structure.

Ensuring positive impacts requires clear recognition of the specificities of the national services sectors concerned and of the relationship between sectors. The expected benefits of trade liberalization in the services sectors may be frustrated by the inadequacy of domestic policies and by the lack of a well-articulated domestic regulatory framework. An appropriate legal framework is required to prevent abuses in deregulated markets and protect domestic consumers, while ensuring transfer of technology and the development of domestic competitive supply capacities.

The most appropriate level at which to liberalize services is not obvious. But in a regional grouping with different levels of economic development determining the optimal level is critical. A superior solution would be to group services according to structure and mode of delivery. For some the regional level may well be the most appropriate and realistic level and the one that makes sense in terms of negotiating effort.

Productivity Constraints

For most countries in the region, market access is not the most important constraint. The low level of complementarity reflects productivity. Countries are unable to produce goods that other regional markets may demand. Farmers are unable to reach major market centers at reasonable cost and firms cannot access reliable and efficient power supply. In the least developed member states logistics and transaction costs are often a multiple of any tariffs exporters confront. This helps explain most southern African countries' limited success in specializing.

It is important to understand constraints on productivity. This can be done through firm surveys and value chain analysis. The results could inform policy recommendations. These in turn could support productivity, packaging, marketing and advertising to take advantage of market access in the region.

Aligning Regional and Country Programs

National and regional programs must be aligned. National development plans and budgets are important instruments for realizing regional integration goals locally, but this is an area where most countries in the region face significant challenges. Decisions taken at SADC level scarcely feed into national policy and plans. In many instances, domestication is done ad hoc, depending on resources. National priorities often take precedence over regional ones in both program planning and budgetary allocations.

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