ACHIEVEMENTS, CHALLENGES, AND CONSTRAINTS OF TRADE INTEGRATION IN SADC

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ACHIEVEMENTS, CHALLENGES, AND CONSTRAINTS OF TRADE INTEGRATION IN SADC

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ABSTRACT

Significant steps towards trade integration have been taken by the Southern African Development Community and a comprehensive approach has been adopted to address challenges related to regional production networks, infrastructure and competitiveness. The recent conclusion of the Economic Partnership Agreement is also an encouraging sign of efforts made to improve its trade with a major trading partner. Despite the increased openness of SADC economies and the commitments to harmonize standards and rules between Member States, barriers to regional trade and investment remain high. In this regard, the costs generated by non-tariff barriers, the embryonic state of trade in services, the weak enforcement of the existing agreements, the lack of coherence of the numerous overlapping regional trade agreements in force, and the limited involvement of the private sector have, amongst other, contributed to the relatively low level of intra-SADC trade.

HIGH DEGREE OF TRADE DEPENDENCE…

SADC countries have significantly improved their levels of labour productivity and narrowed the gap in competitiveness with other comparable developing regions such as Latin America and the Caribbean[3]. External trade and inward investment have been dynamic and SADC countries have become increasingly integrated into the international economy. This process has been supported by regional agreements and cooperation, especially the SADC Protocol on Trade (STP) as well as the advantage of trade preferences granted by the United States (US) and the European Union (EU) for certain SADC exports. As shown in Figure 1, all SADC countries are now dependent on exports and imports for a sizeable share of their overall GDP, emphasising the importance of global trade developments and international demand in their economies.

…BUT LOW LEVELS OF INTRA-REGIONAL TRADE IN SADC

Despite substantial liberalization of intra-SADC trade, in line with the aspirations embodied in the SADC Protocol on Trade and the SADC Free Trade Agreement (FTA), the level of trade remains quite low, with intra-SADC trade only representing around one tenth of Member States' total trade in 2012. Most imports are sourced from outside of the region and exports remain concentrated in commodity goods and continue to flow to traditional export markets, resulting in intra-SADC trade being relatively low compared to other regional integration initiatives. It appears that the elimination of almost all tariffs on trade between SADC countries under the STP has not

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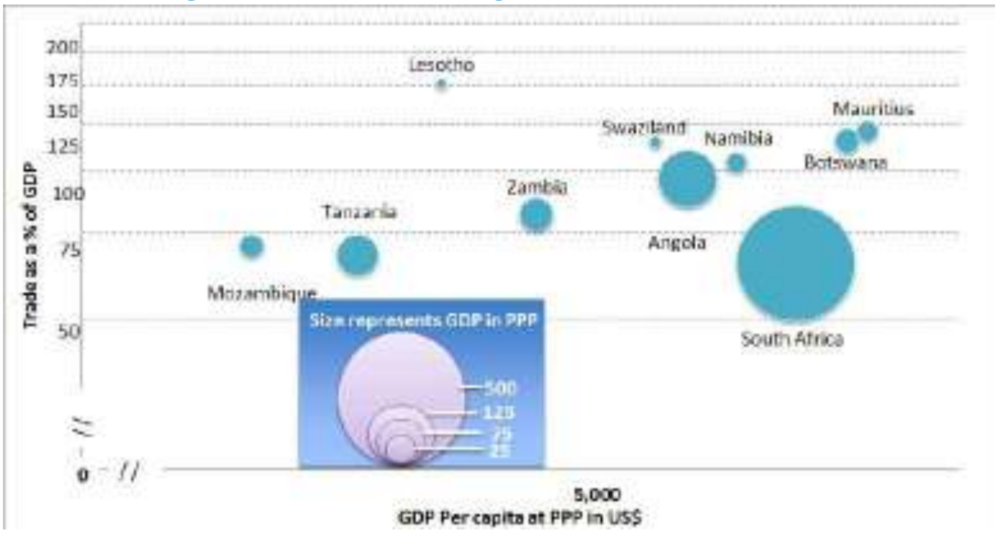
3 World Economic Forum (2013) Africa Competitiveness Report, WEF: Davos.

compensated for stringent rules of origin. While The establishment of a tripartite FTA among the eastern and southern economic blocs (COMESA, EAC, and SADC) may provide a long-term solution to these problems. However, to ensure that these various agreements are consistent and do not contribute to new and more complex barriers to regional integration, it will require a high degree of coordination between the different organisations.

Figure 1. Trade as a Percentage of GDP in SADC, 2013



Source: International Economics based on WITS-COMTRADE WDI

THREE OTHER KEY REASONS CAN BE EVOKED FOR THE LOW LEVELS OF INTRA-SADC TRADE

Firstly, tariff liberalisation under the STP was back-loaded for many Member States and the level of implementation of the Protocol's provisions varies considerably between member states. Improved commitment to apply non-tariffs measures and to enforce STP provisions is needed to ensure that the potential gains from this agreement are realised. Also, SADC rules of origin (RoO) are relatively complicated to administer and reach, by following a line-by-line approach with rules devised for a specific product or sector[4].

Secondly, there is a low level of trade complementarity between SADC Members both in terms of exports (70% of which are products with little value added) and imports (about two-thirds of SADC's imports are intermediate and capital goods purchased mainly from industrialised countries). This makes it difficult to develop regional value chains, especially in the narrow range of sectors which are deemed sensitive to SADC Member States.

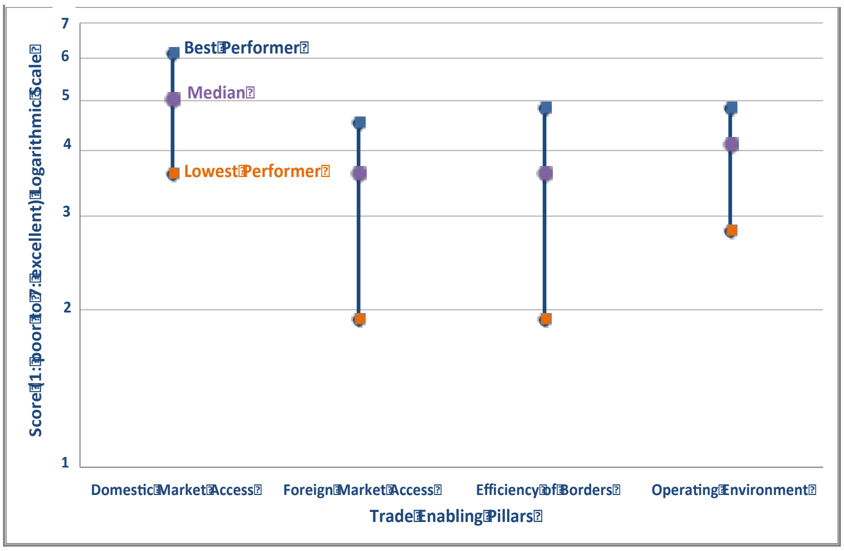
Finally, there are numerous non-tariff barriers that make it costly to trade across regional borders, including cumbersome customs procedures, inefficient transport services and infrastructure, the inappropriate or discriminatory use of norms and standards, and other behind the border measures. Trade facilitation bottlenecks remain a key challenge to the realization of gains from the SADC Free Trade Area (FTA).

[4] Naumann E (2011) Rules of origin in the tripartite FTA: reflection on the status quo and the challenges ahead, in *T Hartzenberg et al.* (eds) *Cape to Cairo: Making the Tripartite Free Trade Area Work.* TRALAC: Stellenbosch.

It has been demonstrated for example that non-tariff measures reduce intra-regional trade amongst SADC Member States, yet increase exports of third parties (non-SADC Member States) into SADC. For example, standards applied by some countries, which respect international norms, have the effect of favouring imports from EU or US markets which already have these standards, highlighting the need for all SADC countries to apply international standards and norms, e.g. through regional standardization or Mutual Recognition Agreement (MRA). According to the World Bank, the cost of non-tariff measures in SADC is equivalent to a 40% ad valorem tariff, representing an additional 'tax' on trade of $1.3 billion a year to Member States[5]. This is supported by evidence from most independent surveys of international trade and logistics costs. Though, with reference to Figure 2, it is to be noted that there are large disparities in the performance of enabling environment across SADC Member States.

SADC has initiated multiple attempts to harmonise border (and behind the border) procedures and invest in regional infrastructure. Recently, a Regional Infrastructure Development Master Plan (RIDMP) and SADC Industrial Development Policy Framework were adopted to address constraints to productive capacity and competitiveness in the region. Yet, many SADC Member States lack the capacity to implement regional commitments in key areas like metrology, conformity assessment, accreditation and testing at the national level[6]. Moreover, there is no appropriate framework for undertaking regulatory and economic impact assessments of specific regulations and standards at the regional level.

Figure 2. Trade Enabling Environment in SADC, 2014



Source: International Economics based on WEF (2014)

DEFICITS IN TRADE IN SERVICES

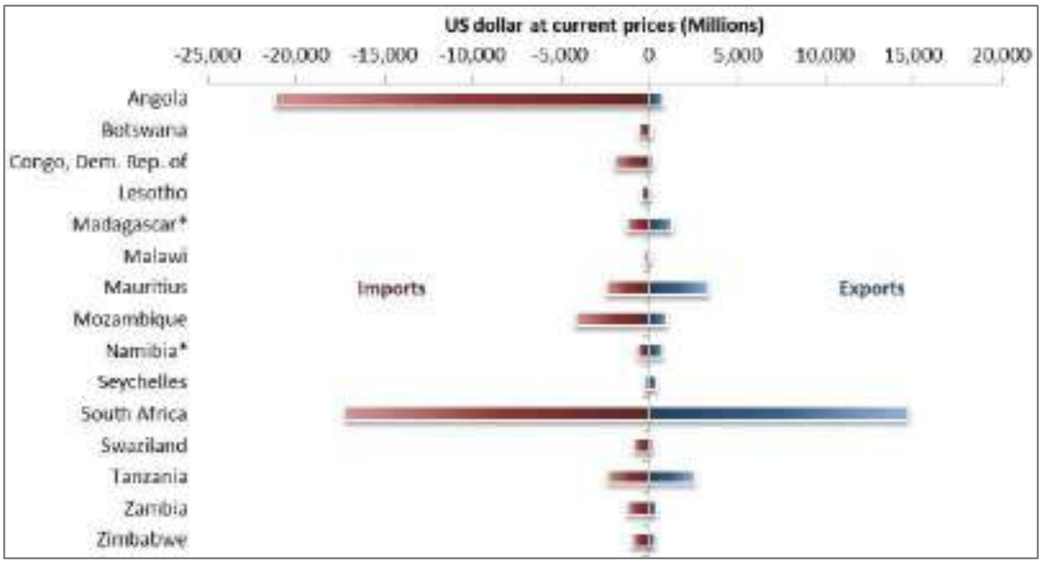
Outside of goods, SADC has also made significant strides in promoting trade in services. Most countries have recorded increased service exports and across a diverse range of industries, yet

[5] World Bank (2012) De-Fragmenting Africa: Deepening Regional Integration in Goods and Services, World Bank: Washington DC.

[6] Some capacity building activities are provided under EC funding through the Project Management Unit on Technical Barriers to Trade. International Economics Ltd is currently implementing one such activity in Botswana to support the Botswana Bureau of Standards to adopt a National Quality Policy.

according to the available data, service imports have grown even faster for almost all SADC Member States (see Figure 3).

Figure 3:.SADC Trade in Services, 2012



Source: WTO * Estimates

In August 2012, the SADC Protocol of Trade in Services was adopted with a view to promoting cross-border trade and investment in services in six priority sub-sectors. Moreover, all SADC Member States, with the exception of the Seychelles[7], have made binding commitments in the WTO GATS. Together, these agreements are expected to contribute to improved transparency and efficiency in regional services markets. However, the specific interests of SADC Member States in these negotiations are uneven, e.g. important sectors like business services that Botswana, Lesotho, Mozambique and Swaziland would like to include in SADC services liberalization, are not even on the agenda. In addition, the capacity and commitment to implement region-wide regulatory reforms that are so important for services trade, is weak.

SADC MEMBER STATES AND THE ECONOMIC PARTNERSHIP AGREEMENTS (EPA)

SADC Member States are negotiating an Economic Partnership Agreements (EPA) with the EU in four different configurations, with just seven countries negotiating an EPA with the EU as the SADC EPA Group, comprising Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland and Angola. The EU is the largest trading partner of this SADC EPA group with a value of total imports from the EU of EUR 31 billion in 2013 (9.3% agriculture; 1.5% fish; and 89.3% industry). Total EU exports to the region in 2013 represented EUR 33 billion.

[77] WTO members adopted Seychelles' WTO terms of entry at the General Council meeting on 10 December 2014. Seychelles will have until 1 June 2015 to ratify the deal to formally become a WTO member. Source: WTO.

After ten years of preparations and negotiations, the EU-SADC EPA[8] was 'initialled' by the EU and the SADC EPA States[9], on 15 July 2014. The initialling of the Agreement signals that the negotiations are concluded and ensures that the current market access will continue until the agreement enters into force. This Agreement will replace the interim EPA signed - but not ratified - by the EU and by Botswana, Lesotho, Mozambique and Swaziland in June 2009.

The Agreement allows for improved opportunities for trade in goods. The EPA guarantees duty-free, quota-free access to the EU market for the SADC group with the exception of South Africa, the latter benefitting from new market access[10] including better trading terms for wine, sugar, fisheries products, flowers and canned fruits.

On the other hand, the EU will obtain new market access into Southern African Customs Union[11] (SACU) for products including, but not limited to, wheat, barley, cheese, meat products and butter. The EU will also have the security of a bilateral agreement with Mozambique, the only non-SACU member of the six SADC EPA States. We note that SADC Group signatories can shield sensitive products from full liberalisation and safeguards can be deployed when imports are growing unexpectedly and cause injury to its industries.

Under the EPA negotiations on trade in services, only four of the seven SADC EPA States are participating in the negotiations with the EU. The Participating SADC EPA (PSE) States are: Botswana, Lesotho, Mozambique and Swaziland. Angola, Namibia and South Africa participate as observers. These negotiations were expected to be concluded in December 2014 to pave way for the request-offer process, including the development of the schedules of specific commitments by PSE States[12].

THE ROLE OF THE PRIVATE SECTOR IN POLICY MAKING REMAINS WEAK

Whereas the critical contribution of the private sector to trade and investment is uncontested, the involvement of private sector actors and associations in the SADC trade integration process has been generally limited. This is not for a lack of effort by SADC and Member States; numerous fora and networks have been established specifically for this purpose. Effective implementation of the SADC STP and EPA will require private sector involvement for them to have a real impact on trade and investment. Both the negotiations and implementation of the resulting trade agreements should be informed by the specific offensive and defensive interests of private sector stakeholders. This in turn will require increased and more informative interactions between business groups and government negotiators. Moreover, a robust implementation framework is not possible without active involvement of the economic operators.

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[8] Officially referred to as "the Economic Partnership Agreement between the European Union and its Member States, of the one part, and the SADC EPA States, of the other part".

[9] Comprising of: Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa. Angola has an option to join the agreement in future.

[10] Additional to the Trade, Development and Cooperation Agreement (TDCA), that currently governs the trade relations with the EU.

[11] Five SADC EPA States out of the six signatories of the EU-SADC EPA together form the Southern African Customs Union (SACU), namely: Botswana, Lesotho, Namibia, South Africa, and Swaziland.

[12] International Economics is currently conducting, under the SADC Regional Economic Integration Support Programme (REIS), a regulatory audit for Participating SADC EPA States in the Business, Communication, Financial, Tourism and Transport services sectors.

THE WAY FORWARD

Overall, the competitiveness and export potential of the SADC region has greatly improved over recent years. However, despite commitments to remove tariffs and harmonise procedures between Member States, intra-SADC trade remains relatively low. Clearly, further and significant interventions are needed to monitor and enforce existing agreements, lower the cost of non-tariff barriers, and identify and remedy other barriers to regional trade and investment. This should include efforts to reduce and where possible eliminate impediments to trade in services. Likewise, the potential contribution of the EU-SADC EPA and the Tripartite negotiations to regional trade and development needs to be better articulated, and the region's interests in all negotiations needs to be clearly identified. This will likely require much deeper engagement between government and private sector representatives.

ABBREVIATIONS

COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EPA	Association of South-East Asian Nations
EU	European Union
FTA	Bilateral Trade Agreement
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
MRA	Mutual Recognition Agreement
PSE	Participating SADC EPA States
RoO	Rules of Origin
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SPS	Sanitary and Phyto-sanitary measures
STP	SADC Protocol on Trade
TBT	Technical Barriers to Trade
US	United States
WTO	World Trade Organisation

HOW CAN WE HELP?

Support C-level executives and boards to prepare for different challenges

International Economics can help facilitate internal discussions on strategy by providing technical insights, developing dashboards of key performance measurements, and giving advice to executive boards on building resilience to possible disruptions related to exogenous trade shocks, such as Brexit or Donald Trump's Presidency. We work closely with our clients to brainstorm and identify challenges and opportunities based on our professional experience.

Map market access

In order to quantify the potential costs to your business in engaging in trade, including tariffs, standards, and customs procedures, among many others, we (i) undertake a mapping of which terms are most at risk of changing and by how much, depending on the type of agreements; and (ii) quantify and forecast the potential effect on your business using predictive analytics to generate insights into future outcomes.

Navigate through trade and investment agreements

With more than 400 trade agreements and 2,400 investment agreements already in place, *International Economics'* team is able to navigate through them, guiding and identifying which specific agreement will better suit the interests of our client. Additionally, we have developed optimization techniques, through the use of sophisticated rules and algorithms, to analyse the Free Trade Agreements (FTAs), which are growing in space, depth and complexity, in order to offer insights into investment and trade decisions. With increasing fragmentation of global production networks and the need for careful evaluation of supply chain risks, the tools developed by *International Economics* offer a solid foundation for the adoption of critical decisions by businesses.

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Our clients need to prepare strategic position papers to assess the issues and prepare responses, whether it be internal restructuring, supply chain re-engineering or addressing policy risks. We assist our clients with short, impactful, and relevant position papers, including setting out the possible impacts of risks at different business levels (policy, financial, structural, etc.) and provide the latest thinking on the issues to date, based on a holistic economic framework.

Undertake a full economic and legal review of the trade and investment exposures to worldwide events

We conduct independent and objective reviews of the impact of different worldwide events on your business and industry. We use deep learning tools, large multi-country macro models and the latest unstructured data to offer insights into the risks, exposure assessments and likelihood of disruptions to supply chain. These provide our clients with a competitive advantage as they prepare mitigation strategies and leverage identified opportunities. We work with our clients to develop the right strategies and make breakthrough decisions.

Brexit: Help the private sector position itself during the UK's trade negotiations

Brexit will affect our clients' business strategies, supply chains, funding, tax positions, regulations, growth and opportunities. *International Economics* works with public affairs companies and specialized firms to offer the full range of trade-related technical support and advice to help companies position themselves and ensure that their interests are addressed in the negotiations.

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