

ECONOMIC AND SOCIAL RESEARCH FOUNDATION (ESRF)



**TRADE POLICIES AND AGRICULTURAL TRADE IN THE
SADC REGION: CHALLENGES AND IMPLICATIONS**

REGIONAL SYNTHESIS REPORT

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1.0 INTRODUCTION

1.1 Background Information

Regional trade initiatives have proliferated around the world, including Southern Africa. In the last two decades, the Southern Africa region has witnessed a growing number of regional co-operation and regional integration initiatives. These are: Common Market for Eastern and Southern Africa (COMESA), Southern Africa Development Community (SADC), Southern African Customs Union (SACU), East Africa Co-operation (EAC), Indian Ocean Commission (IOC), Indian Ocean Rim (IOR) and Common Monetary Area (CMA). These seven regional institutions are involved in economic and regional co-operation. The current array of members of regional institutions in Southern Africa is listed in Table 1.

Table 1: Membership of Regional Organizations in Southern Africa

Country	SACU	CMA	SADC	COMESA	CBI
Angola			X	X	
Botswana	X		X		
DRC			X	X	
Lesotho	X	X	X		
Malawi			X	X	X
Mauritius ¹			X	X	X
Mozambique			X		X
Namibia	X	X	X	X	
Seychelles ¹			X	X	X
South Africa	X	X	X		
Swaziland	X	X	X	X	X
Tanzania			X		X
Zambia			X	X	X
Zimbabwe			X	X	X

Notes:¹ Mauritius and Seychelles are members of IOC and IOR

SADC, which superseded the former SADCC, was formed in 1992 and currently consists of 14 member countries, representing a total population of approximately 200 million people, and covering an area of 9.1 square kilometres (World Bank, 2001). Three countries (the Democratic Republic of Congo, South Africa and Tanzania) account for almost two thirds of the total population (64,4%), while the six smallest members (Seychelles, Swaziland, Mauritius, Botswana, Namibia and Lesotho) comprise only 4% of the total population. The total SADC Gross Domestic Product (GDP) was around US\$182bn in 2000, while average GDP *per capita* was US\$1,761. However, there are wide variances in aggregate and *per capita* GDP, and

countries are at highly divergent levels of development. Seven SADC countries are classified as least-developed economies (Angola, the Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Tanzania and Zambia). The poor countries of SADC have larger agricultural sectors. In 1999, the agricultural sector contributed 38 % in the case Malawi, 32% in Mozambique and 48% in the case of Tanzania (World Bank, 2000). Table 2 reports some basic economic indicators for SADC member countries.

Table 2: Basic Indicators of SADC Economies, 1999

Country	Population (Millions)	Area (000 Sq Km)	GDP at Market Prices (Current US \$m)	Average Annual Real GDP Growth. % p.a		
				1980-89	1990-94	1995-99
Angola	12.4	1247	5861	2.6	-5.9	6.8
Botswana	1.6	567	5996	10.6	4.6	4.8
DRC	49.8	2267	7752	1.8	-8.6	0.9
Lesotho	2.1	30	874	3.6	4.4	3.9
Malawi	10.8	94	1820	1.7	1.0	7.3
Mauritius	1.2	2	4233	4.2	5.4	5.2
Mozambique	17.3	784	4166	0.1	2.6	8.7
Namibia	1.7	823	3075	1.1	4.3	2.8
Seychelles	0.1	0.45	545	2.1	4.8	2.4
South Africa	42.1	1221	1311127	2.2	0.2	2.3
Swaziland	1.0	17	1223	6.7	3.8	2.9
Tanzania	32.9	884	8777	3.9	2.7	3.7
Zambia	9.9	743	3325	1.4	0.2	1.3
Zimbabwe	11.9	387	5716	5.1	2.1	3.1
SADC Total	194.7	9067	184494	3.4	1.5	4.0
S. Africa Share of SADC (%)	21.6	13.5	71.1			

Source: Lewis 2001.

South Africa is the prominent economy in the region, accounting for 71% of SADC's GDP and approximately 22% of its population. Hence, South Africa plays an import role in the region with its geographical location and the size of its economy, particularly for trade and transport. Almost all the continental SADC countries depend on South Africa's railways, port (airports and seaports), highway and other transit facilities.

A new economic environment has emerged within SADC with the adoption of the "Protocol on Trade" in 1996 and its implementation, which started in 2000. Article 2 of the "Protocol on Trade", among others, commits to further liberalization of intra-regional trade and establishment

of free trade in the SADC region. Theoretically, the aim of the “Protocol on Trade” is to increase trade without any impediment, by eliminating import duties (Article 4), eliminating export duties (Article 5) and eliminating non-tariff barriers (article 6) to mention a few.

In other words, the “Protocol on Trade” has intensified bilateral as well as regional initiatives to promote regional economic integration, cooperation to liberalize trade and fair competition in agricultural commodity trade. In general, the ultimate goal of the on-going efforts of SADC is to extend the current preferential trade arrangements so as to establish a regional trading block and a common market for SADC.

The “Protocol on Trade” is expected to lead to significant changes in domestic economic policies and trade regimes, which in turn will have significant implications for the regional economy, especially in the production and exchange of agricultural commodities with influence on national and regional food security. Coupled with the worldwide drive for freer trade, this regional initiative is expected to reduce existing trade protection by eliminating tariff, non-tariff and technical barriers to trade in order to facilitate cross-border movement of goods and services.

While substantial steps towards more liberal trade have been taken, nonetheless, current policy falls short of this free trade ideal. Many countries within SADC still impose some type of tariff, quantitative (non-tariff) restrictions and other technical barriers with agricultural trade. The “Protocol on Trade” implies policy reforms within the SADC member countries to dismantle existing protectionist measures. It is expected that implementation of the “Protocol on Trade” will increase economic growth in the region by directing scarce productive resources to their best uses. It is crucial for every SADC country to understand the intra-SADC agricultural trade pattern, trade policies, its challenges and implications. The development of trade in the SADC region faces many challenges including:

- Freer movement of good and services across border
- Improve competitiveness and quality of standards
- Strive towards harmonizing trade policies
- Ensure that trade policies in SADC would conform to a global economy as per WTO regulations.
- Diversify in tradable commodities according to each country’s comparative advantage.
- SADC countries are members of other trading block, such as COMESA, IOC, ACP, SACU and EU-FTA, which overlaps each other in trade policies

Since most SADC economies are pre-dominantly agricultural based and food dominates agricultural trade among SADC countries, enhanced trade in agricultural products potentially provides a tool for fighting poverty in the region, promoting regional integration, and increasing economic growth and welfare.

The demand for better estimates of the impact of barriers to intra-SADC trade matches the preoccupation of many policy makers. Domestic regulations may constitute major trade impediments. It may be also that both tariffs and non-tariffs barriers are simply becoming more visible due to the proposed reduction in tariff and non-tariff barriers by SADC. Thus, country studies were commissioned in SADC countries. Each country's research team carried out their respective country-level analysis. One important aspect of each country-level study was to adopt a unified approach and method in order to ensure consistency so that a synergy can be extracted from each country report for this final regional report, which will facilitate the implementation of "Protocol on Trade". This final synthesis report presents the combined findings of these FANRPARN funded country studies for the major trading countries in the region. This synthesis is based on five country studies, which are; South Africa, Tanzania, Zambia, Malawi and Namibia.

1.2 Study Objectives

As listed in the "Technical Proposal", the main objectives of this regional project were to conduct a comprehensive analysis of trade policies, and to identify impediments to intra-SADC trade. The objectives of the proposed study as stated in the "Technical Proposal" are as follows:

- Review the performance of trade policies in the region, both policies of individual member states and SADC policies.
- Analyze the flow of agricultural trade in the SADC region
- Investigate sector specific trade policies, such as tariff and non-tariff policies, and assess shortfalls and impacts of tariff, non-tariff and technical barriers to trade in the region, with particular focus on trade in agriculture.
- Identify other barriers in the region apart from tariff, non-tariff and technical barriers that hinder the development of trade in the region and taking advantage of AGOA proviso and those of WTO.
- Examine the roles of the government, private sector, financial institutions, cooperative societies and marketing boards in facilitating development of trade in agriculture.

- Observe and analyze other supply constraints in the SADC region as far as agricultural trade is concerned and offer policy recommendations
- Assess Potential Trade Patterns

1.3 Methodology

To achieve the objectives of the study and to ensure consistency so that a synergy is extracted from each country level report, each country level study adopted a unified approach and methodology. The study involved both desk and fieldwork using three methodologies and various data sets.

First each country took an inventory of the existing agricultural trade policies in their countries, the level, composition and trend-profile of intra-SADC trade in agricultural products. This addressed the questions of what SADC members were trading with each other, the importance of agricultural trade and what the nature of this exchange implies for the success or failure of efforts in promoting SADC intra-trade in agriculture.

Secondly, each country level study conducted survey interviews of both agricultural trading enterprises and institutions. Survey-based methods provided the inventory of what the member countries are experiencing with regional trade such as tariff, non-tariff, and technical barriers, geography and logistical problems, administrative problems, transport, communications, financial and other constraints, which work against trade.

Thirdly, the studies undertook empirical analysis by estimating various competitiveness indices and Gravity models using various data sets. Gravity models were employed to analyse trade flows between SADC member countries. In some countries, indices of Revealed Comparative Advantage (RCA) were computed to show the range of agricultural products SADC members could export competitively. The indices provide some indication of comparative advantage. A Regional Orientation Index (ROI) indicated whether regional trade is growing in relative importance. This provided information about the effect of regional arrangements on the direction of trade. Other indices of the intra-agricultural trade provided useful insights into the extent of intra-agricultural trade taking place and its implication for regional initiatives as well as complementarities of potential partner's imports and exports. These include Diversification and Hirschman Indices.

The main findings from the individual country studies are summarized in the next section followed with a section providing a synthesis of regional issues, and the final sections provide policy recommendations and suggestions on areas for further research.

2.0 MAIN FINDINGS FROM COUNTRY STUDIES

2.1 South Africa

South Africa exports far more to the SADC region than it imports from SADC. South Africa imports a narrow range of products from SADC countries, with no more than 5 product categories responsible for more than 90% of imports in each case. Imports into South Africa from SADC countries has fluctuated considerably, for example cotton imports from Mozambique have declined by more than 33% per year, while soybean imports from Malawi grew by 88%. Other imports such as dried vegetables from Mozambique, seeds and peppers from Zambia and nuts and dried legumes from Malawi have increased slightly. South Africa's agricultural exports to SADC have been growing rapidly over the past decade, though slower than total exports in general. While total agricultural imports have increased, the growth rate has been lower than that of exports, hence the agricultural trade balance is in favour of South Africa.

South Africa dominates trade in the region. Geographic proximity allows South Africa to compete with third suppliers. South Africa's imports constitute an opportunity for SADC suppliers to South Africa's agribusiness sector. South Africa's exports of processed foods have been expanding rapidly. Furthermore, South Africa's imports of agricultural goods include an increasingly large component of goods that were not imported in any significant degree in the past. It can be concluded that South Africa has become a base for foods that are re-exported to the Southern African region.

South Africa's food and agricultural sector are, by most measures of RTCA more competitive than their SADC counterparts with a few exceptions. The competitiveness of the processing sector has improved substantially in the past decade. But the question that arises is if this is a sufficient condition for South Africa to be a major supplier of food and agricultural products in the region. SADC countries enjoy preferential trade privilege with South Africa. Most of the products have no tariff, and where it exists, it is the lowest. This implies that South Africa has opened its market to SADC countries. South Africa has increased its valued exports dramatically since 1994. However, transport has not reflected this strategy. The three areas of transport, which need attentions by the relevant authorities, are: rail freight service, port cost and ocean freight rate.

South Africa's exports of processed foods have been expanding rapidly. Furthermore, South Africa's imports of agricultural goods include an increasingly large component of 'non-traditional' imports, i.e., goods that were not imported in any significant degree in the past. South Africa has become a base in which agricultural goods are processed into food products that are re-exported into Southern Africa, and this has become an increasingly important part of the

South Africa's agricultural trade. Due to the market penetration of South African retail chains into the SADC, many opportunities exist for countries in Southern Africa to supply raw materials for these manufacturing processes.

2.2 Malawi

Malawi's trade is relatively concentrated, especially in commodities. Primary products, overwhelmingly tobacco, account for most exports. Minimal export diversification has occurred; non-traditional exports accounted for only 13% of exports in 1999. Most manufactured products, including fuels, machinery, transport equipment, chemicals, and other intermediate inputs, are imported. Malawi's regional trade, including with other COMESA and SADC members, is relatively minor. Malawi is a net importer of services, especially in transport and insurance. The share of developing countries in Malawi's trade has decreased. Over two thirds of exports are sold to developed countries. South Africa has been surpassed by Germany and the United States as Malawi's main export market (its share fell to 12% in 1999). Imports are increasingly being sourced from industrialized countries, which accounted for 42% of Malawi's imports in 1999. South Africa remains the main source of Malawi's imports although its share fell from 44% in 1995 to 32% in 1999. Zimbabwe's share also declined, to 10% in 1999, ranking it third behind the United Kingdom, whose share rose to 16% (up from 4% in 1995).

Supply-side constraints have been identified as Malawi's major obstacles to trade expansion. These include: land-lockedness, heavy dependence on agricultural production for export, smallness of the domestic market, inappropriate technology, limited trade and industry financing, inadequate skilled manpower, lack of adequate network of trade representation abroad, limited knowledge of export opportunities, weak infrastructure, weak human and institutional capacity of support institutions, and investment inadequacy. Each of the bottlenecks adds to the costs of trading in Malawi; one trader estimated that taxes, transport, and additional costs added 80% to the original cost of imports.

As an original Member of the WTO, Malawi grants at least MFN treatment to other WTO Members, to non-WTO ACP states, and to independent Commonwealth countries or UN-administered protectorates. The authorities are of the opinion that implementing Malawi's multilateral commitments will assist Malawi's ongoing reforms and economic recovery. However, without technical assistance from the international community, it will be virtually impossible for Malawi to implement WTO-consistent policies in areas such as intellectual property protection and contingency trade remedies. Therefore, Malawi looks to bilateral and multilateral donors for technical assistance and support in meeting its WTO commitments.

At the regional level, Malawi is a member of the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC). It is a signatory to bilateral trade agreements with Zimbabwe and South Africa, and it is negotiating such agreements with Mozambique, Tanzania, and Zambia.

Malawi receives non-reciprocal preferential treatment from the European Union under the Cotonou Agreement and the "Everything But Arms" scheme; from the United States under the African Growth and Opportunity Act; from other developed countries under the Generalized System of Preferences (GSP); and under a separate agreement with South Africa. Malawi's cross membership of overlapping regional and bilateral arrangements with different trade liberalization agendas and trading rules makes its trade regime more complex. It may distort Malawi's trade and incentive patterns and may entail undertaking inconsistent obligations.

Despite having undertaken a number of policy reforms the Malawi economy still has extremely high activity concentration, which results in a high concentration among few products. This invariably leads to a high concentration in export products, and in turn to highly concentrated export destinations. Malawi is thus extremely prone to instabilities emanating from fluctuations in world prices in the few goods it trades in, and, the social-political instabilities that emerge from time to time in its trading partners. Malawi's vulnerability to external shocks has far reaching consequences on the macroeconomic environment, and consequently, on the poverty situation in the country.

2.3 Tanzania

Recent trends and pattern of trade show a significant contribution of non-traditional exports and dominance of South Africa as one of new trade partner for Tanzania. It is found that the growth of Tanzania's agricultural export to other SADC counties is constrained more by domestic (supply-side) factors than international trade barriers. The trade policy environment has significantly improved, and a comprehensive trade policy exists for Tanzania. Thus, factors that limit growth of Tanzania's export trade are broadly categorized into production and non-tariff barriers. Lack of adequate infrastructure has resulted into high energy and transportation cost, thus rendering Tanzania's commodities uncompetitive. Low level of domestic entrepreneurship coupled with poor quality products have resulted into loss of market share. Limited financial capital, and unfavorable land and labour laws deter the growth of medium and large-scale agricultural production leading to export sector dependency on poor quality high cost products from small-scale production sector.

The study identifies a number of non-tariff barriers to trade in addition to the above production constraints. These include: unclear export procedures (especially requirements for permits) and

associated bureaucracy, multiplicity of local government taxes (which discount the incentive of removing export taxes) and cross border trade restrictions. Other barriers include pre-shipment inspection, import restrictions and health requirements. Estimates of trade indices show that despite slow growth in Tanzania's export, the competitiveness of Tanzania's commodity in the regional market is improving albeit the increasing competition, and the rate of protection is declining. This is partly a result of the trade liberalization and regional integration processes. Most products with high comparative advantage are not necessarily more regionally oriented. This finding is also supported by the Gravity model results, which revealed that Tanzania is trading below its potential with SADC countries particularly Botswana, Namibia and Mozambique.

2.4 Zambia

In Zambia, trade policy formulation and implementation takes place within a complex institutional framework, involving five stages (policy inception and formulation, stakeholder consultations, inter-ministry consultations, cabinet memorandum review, and policy implementation) and a variety of government ministries and agencies. This overly long policy process is sometimes viewed as a major constraint, especially if policy changes need to be effected. Other constraints related to agricultural trade policy formulation and implementation include inadequate of coordination among institutions, conflict of views, overlapping responsibilities, inadequate operational resources, and corruption

The current agricultural policy seeks to promote development of an efficient, competitive and sustainable agricultural sector, which ensures food security and increased income. The agricultural trade policy objective is in line and always defined as part of the agricultural sector objectives. However, the strategies required to attain these objectives may need, in accordance with the prevailing international order, to be reoriented to foster the need to emphasize efficient operation of local, regional and international markets, with the private sector playing a leading role. Some of Zambia's trade-related laws are the Control of Goods Act, the Trades Licensing Act, the Companies Act, the Patents Act, the Standardization Act, the Export Development Act, the competition and Fair Trade Act, the Food and Drug Act, the Customs and Excise Act, the Investment Act, and the Weights and Measures Act.

Due to persistent drought, Zambia's maize production, food security and nutritional status have been waning the past decade. As long as production remains low, Zambia may continue to rely on imports for domestic maize needs. This will be a lot easier to attain if trade barriers can be minimized, especially within the region. However, the agricultural sector has also seen some growth in some of the non-maize sub-sectors (mainly the non-traditional export crops) during some years. By 2001, the value of non-traditional exports was USD 230 million. Agricultural

export earnings average about USD 140 million per year, of which 30-50 percent are earned from within the SADC region. There seems to be potential for Zambia's increased involvement in the export side of intra-SADC agricultural trade, especially with full implementation of the SADC Trade Protocol.

The gravity models indicate that trade flow between Zambia and other SADC member states follows the expected gravitational forces, leading to trade increase with income of the trading partners and a decrease with respect to distance between them. The common border factor is a statistically significant determinant of exports but not of imports. It seems Zambia is taking advantage of other regional groupings such as COMESA and CBI, although the effect of the latter is not significant even 10 percent level. COMESA has the effect of increasing Zambia's agricultural exports but with the exact opposite effect on Zambia's imports. The impact of AGOA is, however, the exact opposite – increasing imports and reducing exports, though the latter effect is not statistically significant.

Overall, Zambia's exports seem to have a lot bigger home bias ratios than imports for most of her major trading partners. In fact, it appears that Zambia operating far below and above potential for exports and imports, respectively. This means that there is still a lot of potential for the agricultural exports, especially the upcoming non-traditional agricultural exports (horticultural and floricultural products). Zambia needs to identify those sub-sectors that still have a lot of export potential and facilitate their development. Interventions that reduce the cost of doing business might be some of the immediate strategies. It also appears that the export bias ratio is increasing whereas the import bias ratios are decreasing with time, which implies that Zambia is increasingly falling short of potential trade and increasingly importing above potential.

2.5 Namibia

Namibia became a member of trading blocs such as SADC and COMESA, in addition to being a member of SACU. Moreover, in 1994, Namibia became a member of the WTO, and successfully liberalized her trade policies in line with the commitments of the WTO regime. In spite of these attempts, Namibia's trade is still predominantly with South Africa under the auspices of SACU, and the advantages of other Free Trade Agreements are not utilized to their perceived full benefit by the private sector in Namibia.

Namibia exports mostly primary products such as agricultural products and minerals, whilst importing most of her manufactured goods' requirements. She shares this trade pattern with many other sub-Saharan African countries. South Africa is the only major exporter of manufactured goods in the region, and therefore dominates all trade in this sector. Through this trade imbalance, South Africa creates negative balances of trade with her trading partners. In this

environment, Namibia has to address trade - especially her agricultural trade policies – in order to create a broader and more beneficial trade basis. It should be understood that at present a wide disparity exists between the political will to expand Namibia's trade in the sub-Saharan African region and the realities of Namibia's situation, whereby she depends largely on one or two countries world-wide. Information and trade facilitation must be addressed to promote Namibia's regional trade, especially in the SADC region. An obvious precondition to the implementation of these actions is that trade with these countries must be beneficial to Namibia, and also sustainable.

The latest available trade flow figures, from the year 2000, show that only 7% of all agricultural and food trade of Namibia is with non-SACU SADC countries, while 83% of Namibia's is with SACU member countries and 10% with the rest of the world. Given this, diversification of Namibia's intra-SADC trade will be difficult to achieve in the short to medium term.

Recent development of Namibia's trade with one of the SADC member countries – Angola - shows that trade could develop, and increase dramatically, in spite of all existing constraints if an economic need for trade exists, and if the private sector is not unduly constrained by tariff and non-tariff barriers. It remains to be seen whether the recent formal accession of Angola to SADC will promote trade with Namibia, or have a dampening effect on the current highly beneficial trade between the two countries.

3.0 SYNTHESIS OF REGIONAL ISSUES

3.1 Trade Policy Issues in the SADC Region

Most of the SADC countries have undertaken substantial trade policy reforms since the mid-1980s in line with market liberalization policies and regional integration initiatives. Before that, most of the countries, including South Africa, had adopted inward development strategies and interventionist/protectionist trade policies. In Namibia, for example, the government has privatized support services such as tractor and seed provision and agricultural boards no longer set prices nor procure agricultural products. Tanzania, Zambia and Malawi have liberalized their exchange rates, decontrolled pricing systems and abolished setting of pan territorial and uniform prices by agricultural boards. Quantitative restrictions, specific duties, import and export permits, surcharges and other regulations have been eliminated. Many of the major government parastatals, including crop and marketing boards, have been privatized and other market reforms have been implemented. Most governments have reduced trade-restricting practices in both tariff and non-tariff areas as part of comprehensive economic reform programs. The trend has been for governments to withdraw from direct involvement in agriculture production, marketing and distribution activities.

Current trade policies envisage transforming economies of the SADC countries into more competitive economies with export-led growth. They aim to harmonize their trade policies in line with the SADC protocol on trade and other regional and international trade agreements. Regional and multi-lateral trade agreements have also brought up new trade partners. SADC countries enjoy preferential trade privilege with South Africa with most of the products having no tariff, or preferentially low tariffs. Trade policies of these countries are also affected as a result of being members of the World Trade Organisation (WTO), signatories to the Cotonou Agreement, Generalized System of Preferences (GSP) and Global System of Trade Preferences (GSTP), members to other regional blocks like COMESA and SACU as well as engaging in a number of bilateral trade agreements among themselves (e.g. Malawi-Zimbabwe or Namibia-South Africa). Table 3 summarizes issues on policy evolution from the country studies. Not all current policies are consistent with the vision set forth in the SADC Trade Protocol. Examples of these inconsistencies drawn from country reports are also set forth in the table.

Table 3: Policy Evolution

Country	Key Points
South Africa	<ul style="list-style-type: none"> • “Substantial liberalization of the economy through reform of the import regime and deregulation of the agricultural sector.”
Namibia	<ul style="list-style-type: none"> • “Namibia has an open economy ... with a liberalized trade policy in line with WTO commitments.”
Zambia	<ul style="list-style-type: none"> • Zambia has, over the 1990s, implemented a structural adjustment program containing many of the standard elements including removal of quantitative trade restrictions and reduction of tariff and non-tariff trade barriers. • But, in 2002, Zambia implemented a six month ban on imports for 14 Zimbabwean products (most of them agricultural).
Malawi	<ul style="list-style-type: none"> • Malawi has reduced tariff rates to a maximum 25%, eliminated some discriminatory taxes, and broadened the tax base. In addition, import and export licensing has been abolished for most products. • But, import licenses are still required for meat, poultry, salt and sugar. Export licenses are required for maize, maize meal, unmanufactured tobacco and tea.
Tanzania	<ul style="list-style-type: none"> • Deep economic reforms over the past 15 years with an explicit export oriented development strategy. • But, export licenses are still required for staple food products such as maize, and government policy is to ban staple food exports when supplies are considered limited.

3.2 Flow of Agricultural Trade in the Region

Most economies in the region are agricultural based, depending on exports of traditional or primary agricultural products. They import most of their manufactured goods including agricultural inputs such as machinery and fertilizer. These countries differ geographically, economically and in their levels of development. Some such as Tanzania, Mozambique, DRC, Angola, Namibia and South Africa have sea outlets, while others like Malawi, Zambia, Zimbabwe and Botswana are landlocked. Weather/climatic conditions are not uniform resulting in production of different crops and differences in cropping patterns; and also indicate different vulnerability to food crisis. Some countries like Namibia, Botswana, Zimbabwe and Zambia are persistently prone to drought and famine. Levels of manufacturing also differ from one country to another.

Countries like Botswana and Namibia have relatively limited arable land and have correctly placed emphasis on the livestock sector, implying that they could have huge demand for crop products. The two are rich in minerals, livestock and petroleum. Supply rich countries (in terms of agro-products) include Tanzania and South Africa. The two are endowed with different weather conditions and abundant arable land hence farming of different crops, and are also well positioned to facilitate trade (i.e. have sea ports and borders with many other countries). Other countries such as Malawi, Zimbabwe and Zambia, though have good climatic condition to produce adequate food, they have recently been hit by drought that precipitated food crisis. This is an opportune moment for supply rich countries such as Tanzania to ameliorate the situation through export of food crops to the food crisis countries in the region. All these differences, among others, determine and indicate potentiality for trade in agriculture and food products in the region.

As of recently, trade between SADC member countries has been rising. The levels of imports and exports differ from country to country. For example, Tanzania imports more than what it exports to SADC countries. While imports from SADC countries accounted for 13% of total market share in the year 2000 and 2001, exports accounted for 4% only. To Malawi, SADC represents a very important market in both imports and exports however, regional trade with other SADC members remains relatively minor. For the case of Namibia, its main trading partner South Africa (under the auspices of SACU) dominates trade, which accounts for 99.84% of imports and 99.38% of exports of Namibia. Zambia's agricultural exports have been varying from year to year. In 1997 and 1998, agricultural exports to SADC countries grew by 21% and 33%, respectively. These gains were reversed by declines in agriculture exports of 23% and 26% in 1999 and 2000, respectively. Zambia imports various agricultural products from SADC-member countries.

South Africa dominates trade in the region. It exports far more to the SADC region than it imports from SADC. Geographic proximity allows South Africa to compete with third suppliers. It imports a narrow range of products from SADC countries and these imports have fluctuated considerably over time. South Africa's imports constitute an opportunity for SADC suppliers to South Africa's agribusiness sector. South Africa's agricultural exports to SADC (particularly high value products) have been growing rapidly over the past decade, though slower than total exports in general. While total agricultural imports have increased, the growth rate has been lower than that of exports, hence the agricultural trade balance is in favour of South Africa. Furthermore, South Africa's imports of agricultural goods include an increasingly large component of goods that were not imported in any significant degree in the past from SADC countries.

Table 4: Selected Recent Trends in Intra-SADC Trade.

Country	Key Points
South Africa	<ul style="list-style-type: none"> • Rapid growth of agricultural exports to SADC member states primarily of high value products. • Imports of agricultural products from SADC countries are typically confined to a small number of products with substantial variability in flow from year to year. Much slower growth in imports than exports.
Namibia	<ul style="list-style-type: none"> • Trade remains dominated by SACU • Angola represents an important potential market.
Zambia	<ul style="list-style-type: none"> • Erratic but upward trend in non-traditional agricultural exports. • Increased imports especially of primary and high value products primarily from South Africa.
Malawi	<ul style="list-style-type: none"> • <i>Declining</i> trade with SADC for both exports and imports.
Tanzania	<ul style="list-style-type: none"> • Share of exports to SADC in total increased from 3.3% in 1990 to 3.9% in 2000. • Share of imports from SADC (with this flow dominated by South Africa) increased from 1.2% in 1990 to 12.4% in 2000.

Gravity Models.

In physics, Newton's law asserts that the gravitational pull between two bodies is positively related to the size of each body and negatively related to the distance between them. In economics, the gravity model postulate that trade between two economies should be positively correlated with their respective sizes and negatively related to the distance between them. This parsimonious framework has been in use for nearly 40 years. Empirical experience indicates that, despite its simplicity, the model is remarkably powerful in explaining trade patterns. Various measures of size and distance can be used. In the analysis, measures of size included total GDP, per capita GDP, and population. Measures of distance include kilometer.

The Gravity model findings from different country studies showed remarkably consistent results. Intra SADC trade obeys the laws of gravity. Larger economies tend to trade more with one another and trade declines (usually rapidly) with various measures of distance (kilometer distance, and sharing a common border). The results typically hold for both exports and imports.

3.3 Barriers to Intra-SADC Agricultural Trade

3.3.1 Transportation Costs

Transport is a key sector in creating a dynamic imports-exports nexus for intra SADC trade, but capacity and efficiency of transport system in the region are weakened by lack of investment and poor performance of the transport sector, which is adversely affecting export performance and market development. High transport costs reduces trade volumes as indicated by the gravity models.

There are also a number of important indirect channels through which high transport costs affect export performance and competitiveness. Two significant effects are firstly, the influence of poor local rural transport system on specialization and market development; and secondly, the effect of poor national transport system on the international tradability of basic food staples and their costs. In the predominantly agricultural economies of SADC countries where production are dominated by smallholders, the degree of market development depends critically on the extent to which farm households are integrated into the wider market economy. The effect of the weakness of local rural transport systems is not only reduced agricultural exports, but also higher food prices.

Transport costs depend on physical distance and the capacity and efficiency of the transport system. The latter include fixed physical facilities, mobile transport equipment, human resources and institutions, which supply and operate transport services. As indicated earlier, physical distances are large. They are also clearly immutable. High transport costs tend to favor trade in high value goods where the transport cost per unit is low. This is consistent with the growth in high value product trade experienced over the past decade.

Technically, exporters pay transport cost when goods are sold on CIF basis and by the importer when purchases are FOB. The exporter can be regarded as bearing the costs if the delivered price in the importing country is not affected by changes in transport costs. Conversely the importer bears the cost of transport if the commodities prices in the exports remain the same irrespective of changes in shipping costs.

The cost of transporting a ton of maize from/to numerous SADC countries to/from South Africa is shown below. The cost is computed on the basis of a load size of 32 tons. Road transport cost includes toll road costs, cross boarder charges, as well as security costs where applicable.

Table 5: Transport Cost: 1999/2000

Port of Origin	Gauteng Road US\$/ Per ton
Luanda	165.5
Gaborone	15.2
Maseru	23.0
Lilongwe	97.7
Maputo	24.2
Windhoek	50.6
Lusaka	73.2
Harare	55.6
Swaziland	35.1
Dar-Es-Salaam	155.3
Cape Town	53.4
Durban	23.6
	Durban Sea Freight (US \$ /ton)
US Gulf Port*	25.49
Argentina*	33.01

Source: Vink *et al*, 2002

Note: Includes freight costs, insurance and discharging costs. Insurance is 0.3% while discharge costs were estimated at 7.5% of the product value.

For a Gauteng-based manufacturer it is cheaper to transport maize from the US Gulf Port via Durban than it is from some selected countries within the SADC region, including Angola (Luanda), Malawi (Lilongwe), Zambia (Lusaka), Namibia (Windhoek), Zimbabwe (Harare) and Tanzania (Dar es Salaam). The relatively low costs of sea freight for bulk products, even over long distances highlight the importance of international trade linkages.

3.3.2 Tariff, Non-Tariff and Technical Barriers

Besides reforming their trade policies for more than a decade now and achieving substantial progress, tariff, non-tariff and technical barriers, which impede intra-regional trade still remain. In Tanzania, non-tariff barriers have been identified to include, issuance of export permit, import restrictions, cumbersome administrative procedures, local government taxation, inefficient bureaucracy (e.g. delays in obtaining licenses and utilities). The degree of red tape and corruption at borders also prevents smooth intra-trade in the SADC. Border delays as shown in some of the country studies are a major non-tariff barrier to cross-border trade. The complex and confusing tariff structure of SACU countries against other non SACU SADC counties, also impedes intra SADC trade.

In South Africa, demand for quality, standards and a consistent flow of fresh produce are regarded as a constraint to trade. South African importers require quality and consistent flow of products. Phytosanitary and Veterinary protocols need to be put in place so that intra-regional trade in meat and other animal product could increase.

3.3.3 Supply Response Constraints

In Zambia, Malawi and Tanzania, it was found through the surveys that were conducted that primary limiting factors to growth of intra-regional trade are on the supply side rather than demand side. This corresponds with the limited export supply response of these countries despite expanded regional trade opportunities. Some of these production constraints are:

- Poor quality products caused by low level of technology and lack of quality control for standards. Clearly, the problem of quality of agricultural products begins at the farm level, where much intervention is required ranging from selection of seed variety to farming methods/management. Quality should start right at the basic stage of production (where there are many structural problems) not at the marketing stage. However, traders are also not used to trading on standards as mostly sell in the domestic market. Therefore, quality issues should also be addressed at that stage.
- Production capacity is also limited by high production costs. These costs are as a result of the following factors:
 - High-energy cost.
 - Poor (especially rural) infrastructure leading to high transportation and transaction (i.e. port, storage and marketing) costs.
 - High cost of borrowing where loans are accessible.
 - Other transportation hurdles including inefficient cargo handling at airports, seaports, railways, and customs border posts in addition to limited airfreight capacity.
- Production and supply capacity is also constrained by limited and variable quantities available for trade. Several factors explain this problem including unfavorable weather conditions coupled with lack of irrigation systems, lack of commercial farming (as most farming is primarily for subsistence), and ad hoc surplus.
- Low level of marketability of agro-products arise from lack of advanced preservation and storage equipments/technology, low level of processing and packaging skills. These factors are important requirements for trade in agriculture and food products. Availability of storage and preservation equipments can stabilize supply of goods, hence prices – thereby benefiting

both farmers and traders. It is important to observe that most of these factors are interwoven with the critical problem of lack of finance or capital.

While supply-side constraints are many, the Tanzania study found that structural and long-term trade performance is also crippled by lack of entrepreneurship. Most enterprises are not acquainted with foreign trade issues. This also explains the lack of confidence to participate in international/regional trade and the pessimism towards competitiveness. Generally, the trade chain features various middlemen roles. Only a few commercial farmers export directly and most of them are foreign farmers. One wonders why is it so difficult to sell directly into export markets? The answer lies partly in the lack of entrepreneurship. Even local traders who collect crops for exporters mostly do not aspire to venture into export market. With a long chain of middlemen, international market prices are only partially transmitted to domestic farmers. Table 6 summarizes some key constraints to regional trade determined in the surveys of regional trade actors.

Table 6: Selected Results from Surveys.

Country	Respondents	Key Findings
South Africa	-Exporters -Importers -Transport providers	<ul style="list-style-type: none"> • Uneven quality, lack of standards, and inconsistent availability limit imports from SADC. • Reliability of cross border flow and transport time critical to both exporters and importers.
Namibia	-Policy-makers -Exporters -Importers -Financial inst.	<ul style="list-style-type: none"> • Rules of origin issues hinder implementation of the SADC trade protocol. • Border delays are a constraint to expanded trade. • Currency exchange and payment issues also constrain trade.
Zambia	-Various	<ul style="list-style-type: none"> • Overly long policy formation and implementation process.
Malawi	-Exporters -Importers	<ul style="list-style-type: none"> • High transport costs a primary constraint to exports. • Lack of working capital constrains capacity utilization.
Tanzania	-Public and private trade supporting institutions -Firms	<ul style="list-style-type: none"> • Domestic constraints limit exports more than constraints imposed by other countries. • Lack of finance is viewed as a particularly severe constraint.

3.5 International, Regional, & Bilateral Trade Agreements

The reforms that SADC member countries have implemented to improve trade regimes have been supported by the implementation of multilateral, regional and bilateral trade agreements. The drive for these countries engagement in trade agreements has been to secure an improvement in market access for exports and attain efficiency in sourcing of imports.

- ***Multilateral Trade Agreements***

Most SADC member countries are also members of the World Trade Organization (WTO) having adopted in their entirety the results of the Uruguay Round. They benefit from the special and differential treatments afforded to developing countries in the form of exemptions or delayed implementation of certain provisions. Under the Lomé Convention, countries receive the full range of aid made available to ACP countries by the European Union. Under Lomé IV, exports to the EU enjoy non-reciprocal preferential treatment in the form of exemption from import duties. Likewise, their goods enjoy non-reciprocal preferential access to the markets of other developed countries through the Generalized System of Preferences (GSP).

- ***Economic Partnership Agreements***

The ACP-EU partnership Agreement was signed in Cotonou on 23 June 2000. SADC member countries as members of the ACP bloc of countries were obliged to participate in the ACP-EU negotiations for the Economic Partnership Agreements (EPA) that started in November 2002. The EPA is a new proposed framework for cooperation between the European Union and ACP countries on Trade provisions and Development. The EU considers it a more comprehensive framework that will help transform the ACP economies so that they can effectively and beneficially integrate into the global economy. The Agreement emphasizes the economic, social, political, cultural and environmental dimensions of sustainable development. Equitable growth, the role of the private sector, issues related to access to productive resources, social development, the importance of regional integration and cooperation processes, gender equality, environmental sustainability, institutional reforms and capacity building are all emphasized in by this agreement. The EPA emphasizes the role of regional integration bodies for the ACP countries to effectively undertake the negotiations. Phase 1 preparation for the negotiation and the EPA framework insist that each ACP country is flexible to choose to negotiate the agreement individually or in the preferred regional integration body.

International trade agreements, like the WTO agreement, provide for the setting-up, in the long term, of a new trade arrangement characterized by the progressive abolition of obstacles to trade in accordance with WTO rules. By relying on and promoting the speeding-up of regional integration initiatives currently in progress in the ACP countries, the new trade arrangement aims to assist those countries with their gradual, harmonious integration into the world economy, to

increase production, supply and the competitive nature of their products, and to attract inward investment. In addition to the provision of the Cotonou Agreement, in the 4th ministerial meeting in Doha, Qatar, the new round was launched but also a waiver for ACP countries to enjoy the preferential arrangements with EU countries was granted. With the waiver, ACP countries (including SADC countries) are to improve their supply capacities including agricultural based goods in order to take advantage of the preferential market.

- ***Regional & Bilateral Trade Agreements***

In the last two decades the Southern Africa region has witnessed a growing interest in regional co-operation and regional integration initiatives. These initiatives include Common Market for Eastern and Southern Africa (COMESA), Southern Africa Development Community (SADC), Southern African Customs Union (SACU), East Africa Co-operation (EAC), Indian Ocean Commission (IOC), Indian Ocean Rim (IOR) and Common Monetary Area (CMA). These regional institutions are involved in economic and regional co-operation. However, out of these seven regional groupings, three, have initiated trade liberalization, that is, SACU, which exhibits the highest level of integration, SADC which had pursued sectoral co-operation until 1992 to counter their dependency on apartheid South Africa, and COMESA.

Many countries are members to more than one of these organisations (see Table 1). Botswana and South Africa are the only countries within SADC that were never members of COMESA. Lesotho, Mozambique and Tanzania have recently withdrawn from COMESA. Tanzania is a SADC member who is also a member to EAC. At the same time, most of the SADC member countries are signatory to bilateral trade agreements with other members and non-members countries. For example, the Malawi-Zimbabwe or the Malawi- South Africa bilateral trade agreements. Furthermore, many of the SADC countries also enjoy access to the American market through the African Growth Opportunity Act (AGOA), a unilateral measure by the USA which gives enhanced trade access to African countries on certain conditions.

While all well-meaning, the complexity inherent in overlapping memberships to regional and bilateral trade agreements is a cause for concern. As mentioned in several country reports, the possibility exists for countries to agree to undertake conflicting policy stances under the auspices of separate agreements. In addition, the proliferation potentially complicates the vexing question of rules of origin requirements. There is a need to critically review these trade agreements and ensure reciprocity by all trading partners and remove inconsistent obligations under different arrangements. In the absence of such a comprehensive review, SADC runs the risk of instituting exceedingly complex rules of origin requirements. These requirements would run precisely contrary to the call for simplicity and efficiency in border procedures made in all country reports and echoed in this synthesis document.

4.0 RECOMMENDATIONS

As it has been observed from the findings of this study, trade has improved substantially and it will grow more when the SADC “Trade Protocol” becomes fully implemented. Prospects for increased intra-SADC trade lie in trade on agriculture and food sectors, for which each SADC country has (unexploited) comparative advantage on a wide range of products. However, there is much more to be done in order to achieve a fully integrated regional trade zone in agricultural and food products in the SADC region. The following recommendations are put forward:

1. Cease Policy Backsliding

- Eliminate and renounce temporary import and export bans or increases in tariffs.
- Eliminate licensing.
- Publish applicable tariffs well in advance.

2. Capitalize on Regional Economies of Scale

- Adopt common and *mutually recognized* standards and grading.
- Harmonize regulations
- Coordinate market information services to make information available region-wide.

THE CASE OF SEED POLICIES AND REGISTRATION

Current status in the region requires that for a new variety to be marketed commercially in any of the countries in SADC, it needs to be tested in that country by a national authority and listed on the national variety register. This test can take up to 3 years depending on the country after which a Variety Release Committee (VRC) will consider the variety for release. This is regardless of whether the variety is already released in another country. The rules of variety testing and release differ between countries. Sometimes a variety never gets released because the VCRs do not meet regularly and in addition, the general lack of funds to conduct this “independent” testing can severely slow down the release of new varieties. Sometimes it may be that the national research system looks at the new variety from other sources as a competitor. Thus, the current release system in the region has delayed the release of new varieties. This denies farmers access to new varieties and at the same time limiting choices of new varieties. This system has allowed few varieties to be released, and has also turned out to be costly and duplicative as the same variety must be tested in all countries where it is being targeted for marketing. To seed companies, or originators of varieties, a return on investment is delayed as they have to wait for a long period before they can enter the seed market while their varieties are being tested. Seed certification standards like variety release systems, import and export procedures differ among countries in the region and they too pose an impediment to seed trade. Already a number of discussions and debate on the subject of harmonization of seed regulation and policies have taken place in the region. There has not been much progress made. The three areas, which need immediate attention, are;

- Formulation of regionalized variety release system for SADC.
- Collaboration in seed quality assurance and certification and
- Simplification of phytosanitary, quarantine regulations and tariffs.

3. Make the Border Less Wide

- Simplify customs procedures
- Adopt as simple a rate structure as possible
- Address the Agreement Proliferation Issue

4. Clarify The Role And Scope Of Existing Regional And International Agreements.

- Eliminate differences between intra-SADC bilateral agreements and regional policies.

5.0 AREAS THAT NEED FURTHER STUDY

Even though the country studies gave a comprehensive analysis of agricultural trade related issues in the SADC region, recommendations on some critical specific issues can only be made upon undertaking further detailed studies/analysis. The following areas are recommended for further study:

1. Financial Sector Issues

- Cross border payment systems
- Financing of storage and its implications for trade
- Intra-SADC capital flows and controls

2. The Relationship Between Retail FDI and Agricultural Trade Flows

- Is the spread of South African retailers (Shop Rite etc.) responsible (directly and indirectly) for a significant share of the growth in South African agricultural exports to the region?
- Are these relatively newly installed retailers making efforts to source supplies locally?
- Have these retailers and their suppliers served as vehicles for technology transfer?
- What are the implications for future trade?

3. The Feasibility of Adopting a Common External Tariff So That Rules of Origin Issues Can be Avoided (Note that agreement proliferation likely complicates the applications of a common external tariff).

4. Making Seed Trade an Example of Regional Cooperation

- Policy harmonization
- Cooperation among regional research institutions
- Mutual recognition of standards
- Common policy on GMOs