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COMESA Regional Trade Agreements –The Zambian Experience

Introduction

In October 2000, the Common Market for Eastern and Southern Africa (COMESA) launched a Free Trade Area (FTA). Nine out of the 20 COMESA countries took part. Now they are 11. Since then, COMESA members have been working to establish a common external tariff, a customs union, a common monetary union with a common currency, a common visa arrangement leading to the free movement of people, and achieving free movement of capital and investment supported by the adoption of common investment practices.

COMESA aims to pool collective resources to support the economic development efforts of member countries. This approach is aimed at achieving full economic co-operation through a gradual process starting with the creation of the FTA, then a Customs Union, followed by a Common Market and ending with an Economic Community. This is in line with its common vision of a fully integrated, internationally competitive regional economic community with high standards of living for its entire people; a community ready to amalgamate with six other regional economic groupings that constitute the building blocks of the African Economic Community.

Rationale for Regional Trade Agreements (RTAs)

Regional trade agreements (RTAs) go hand in hand with regional integration. Integration theory suggests that there are potential gains that may arise from market enlargement by bringing together smaller countries, especially where economies of scale exist. Smaller markets lead to fragmentation of firms performing duplicated functions. This increases the likelihood of monopolistic tendencies through a smaller number of firms operating in the marketplace.

On the other hand, market enlargement through RTAs can create attractiveness for FDI in the region. In the presence of economies of scale and capacity, member countries may also benefit from technological and knowledge spillovers, coupled with linkages between buyers and sellers (backward and forward linkages) that are made more efficient by physical proximity.

The anticipated negative result of this may be a worsening of regional disparities. Promotion of intra-area trade through preferential treatments may bring about substantial income and wealth transfers between members and can lead to a concentration of industry in a single location. If this happens, the incentive for each member country to a free ride - for example, by competing for scarce foreign capital on the basis of tax and regulatory incentives - may easily offset any possible benefit from negotiating as a bloc.

Genesis of COMESA

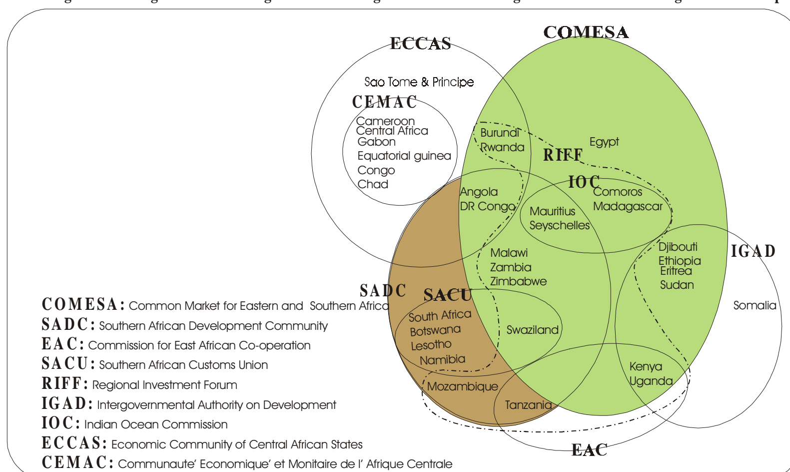
COMESA was established as part of the spirit of the Pan African Vision of the total economic integration of Africa as a Continent. Therefore, during the first and second conferences of independent African states held in Accra, Ghana, in April 1958 and in Addis Ababa, Ethiopia, in June 1960, respectively, it was agreed that African countries, which had gained political independence, should promote economic cooperation among themselves. The inspiration for such an initiative came from the example of cooperation and integration in Europe.

Thus, Article 12 of the Preferential Trade Agreement (PTA) treaty (that preceded COMESA) involved a programme of progressive reduction of tariffs among member states within 10 years after entry into force of the PTA treaty on 30th September 1982. This process was supposed to be completed by 30th September 1992, which it did not. Member states were very concerned with the loss of government revenue. Thus, the progressive reduction of tariffs programme, which started in October 1988, consisted of a 10 percent tariff reduction every two years until 1996, a reduction of 20 percent in 1998 and a final reduction of 30 percent in 2000.

The PTA treaty had envisaged a transformation into a Common Market. By 1994 it became necessary to replace the Preferential Trade Area for eastern and southern Africa, which had been in existence since 1981, within the framework of the Organisation of the African Unity's (OAU) Plan of Action. In conformity with this transformation, COMESA Treaty was signed on 5th November 1993 in Kampala, Uganda. It was finally ratified a year later in Lilongwe, Malawi, on 8th December 1994. Six years later the COMESA Free Trade Area (FTA) was launched on October 31, 2000. Eleven countries participated in the FTA: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Burundi, Rwanda, Zambia and Zimbabwe.

Ethiopia, Uganda, Swaziland, Comoros, Seychelles, DR Congo, Eritrea and Angola did not sign the FTA status citing insufficient economic development to compete openly with the stronger and more developed states. However, they made a conscious effort to stimulate, support, encourage and finance their local manufacturing industries before taking the FTA plunge.

Figure 1.1 Regional Trade Agreements: Regional and Sub-regional Economic Integration Groupings



COMESA versus SADC

Zambia is a founding member of both COMESA and the Southern African Development Community (SADC) and is currently hosting the COMESA Secretariat. These two regional groupings have been pursuing economic cooperation and integration programmes in many areas including trade, investment, transportation, employment, standards, etc. The two memberships are not mutually exclusive, as eight countries, including Zambia, are members of both COMESA and SADC.

COMESA is currently moving from a partial to a full free trade agreement (FTA) with plans to establish a customs union (CU) with a common external tariff. SADC is moving from a partial to a full free trade area. However, the planned establishment of a customs union by COMESA on 8th December 2004 may present problems for the creation of a similar instrument by SADC. SADC's objective is to become a full-fledged free trade area by 2008, before moving to a customs union and ultimately the common market – a more advanced system of trade in the region. But COMESA's move to establish a customs union by 2004 is a bigger threat to SADC because some members belong to both

Present Status

COMESA has made good progress in the following areas:

Action	Progress
Common Statistical Rules and Regulations (CSRR)	The standardisation of codes, rules, definitions and methods of compilation, which is essential for production of comparable foreign trade statistics at the national and regional levels, was adopted in 1997.
Removal of Tariff Barriers	As on 1st April 1999, two countries had announced 90% tariff reduction, eight countries 80%, one country 70%, and three countries 60% reduction.
Installation of Efficient Customs Management Systems	The Automated System of Customs Data (ASYCUDA) installed in 12 countries.
Elimination of Non-tariff Barriers	The classic non-tariff barriers (quantitative restrictions, licensing, import permits and restrictive foreign exchange controls) have been largely eliminated.
Simplification of Rules of Origin (RoO)	With more scope for import content, by the adoption of a 35 percent local value added criterion, with the rules undergoing further changes to take into account developments at the World Trade Organisation (WTO).
A Single COMESA Customs Document (COMESA CD)	This replaced the previous multiplicity of documents (up to 32 in some countries) and also served for clearance of customs warehousing, re-export and transit purposes.
Customs Bond Guarantee Scheme	To facilitate transit traffic and reduce the cost of financing transit goods.
Establishing the Trade Information Network (TINET)	This innovation has some 47 computerized focal points set up in 20 member states. These focal points provide information on all export and import opportunities available in each country, including trade flow analyses, company registers, comparative COMESA tariffs, non-tariff barriers, and macro economic profiles of member states
Facilitating the Movement of Goods and Services	COMESA has, among other measures, introduced the following: • Harmonised road transit charges introduced in 1991 and currently being implemented by 10 member states. • COMESA Carrier's License, introduced in 1991, to replace national road permits, is currently in operation in 9 mainland countries; • Maximum Vehicle Dimensions currently being implemented by 5 member states; • Advance Cargo Information System that allows railway, port and road authorities and users to track cargo through their distribution systems, thereby improving efficiency and reducing costs; • Introduction of a COMESA Carrier License to replace the need for individual national permits; • Adoption of common regulations for axle load limits to facilitate movement by road; and • A COMESA Third Party Motor Vehicle Insurance Scheme (the Yellow Card) to allow vehicles to move freely, at present operational in 12 member states, with private insurance companies in more states, including South Africa, Botswana, Lesotho and Mozambique, expressing their wish to join the scheme.

organisations. No country can belong to two customs unions, as it cannot have two external trade policies and tariffs. SADC member states, with overlapping membership, could choose which customs union to belong to.

The alternative could be for SADC member states to amend the SADC Treaty to allow their members to participate in other forms of economic co-operation in a customs union. This issue has been acknowledged since the inception of SADC. In fact, a joint COMESA/SADC study on the harmonisation of the two organisations was undertaken in 1994. At a SADC meeting in September 1995, it was decided that membership of both SADC and COMESA was incompatible, and thus SADC states were asked to withdraw from COMESA. These events highlight the tensions between the two groupings, although clearly, SADC members have not all withdrawn from COMESA.

According to COMESA, nowhere in the world is trade conducted according to more than one customs regime. Thus, dual membership of COMESA and SADC means choosing which set of rules to follow. COMESA advocates that these countries follow its regime because *'WTO procedures require that trade be conducted on the basis of the more advanced trade regime'*. Some countries have already opted out of COMESA in favour of SADC (Tanzania and Namibia) but Zambia and seven other countries are still members of both as shown in figure 1.1. Indeed, overlapping membership is a common feature for African countries.

From figure 1.1 it is clear that the COMESA and SADC agendas do have considerable overlap. However, COMESA's position is weakened by the fact that South Africa-a dominant SADC member, investor and trader- is not a member of the grouping. This is a pull factor that cannot easily be ignored in the decisions of Namibia, Tanzania and subsequent pressure on Swaziland to opt for SADC.

Table 1.1 Zambia's Trade with SADC and COMESA countries In the year 2003

COMESA	
Imports from (cif)	US$260mn
Exports to (fob)	US$91mn
SADC	
Imports from(cif)	US$1.001bn
Exports(fob)	US$424mn
Source: CSO, March 2004	

South Africa was invited to join COMESA in May 1994, but it refused. It is a widely held view that South Africa's decision not to join COMESA has 'thwarted its agenda' as well as 'diminished its importance in regional terms'. Most Zambian imports and exports are with South Africa, the largest member of the SADC. This explains the high values of exports and imports from the SADC as seen in table 1.1.

Though SADC countries have larger trade values, trade is increasingly shifting to SADC from COMESA countries. For example, since the launch of the FTA in October 2000, Zambia has managed to increase its tobacco exports from US$7.6mn in 2000 to US$11.7mn in 2002. Industries are importing more from COMESA countries and exporting to SADC countries. According to the Export Board of Zambia, exports to South Africa have continued growing (at the rate of 30.5 percent) as the single largest market for Zambia's non-traditional exports (NTEs), owing to the SADC Trade Protocol, which allowed a number of Zambian products to enter the market duty free. The suspension of duty on imported industrial inputs is certainly an incentive for increased investment into the country.

COMESA figures show that in 2003, trade among FTA members accounted for 85 percent of intra-COMESA trade and was growing much faster than trade among non-FTA member states. However, the Zambia's trade strategies regarding SADC and COMESA dual memberships are not very clear. The 2004 budget shows that Zambia will, by 1st July 2004, commence implementing tariff reduction on items in category B (mostly intermediate products) in compliance with the SADC Protocol on Trade towards a FTA by 2012 – a move that is set to cost Zambia about US$4.5mn. This shows that Zambia may want to continue its dual membership of COMESA and SADC.

Tariffs and Products

The rates of preference applied on COMESA originating goods following the launch of the FTA are as follows:

Country	Rate of duty applied on COMESA originating goods
Djibouti, Egypt, Kenya, Madagascar, Malawi, Zambia and Zimbabwe	Duty-free trade. No duties or charges of equivalent effect on all goods originating from these countries
Comoros, Eritrea & Uganda	20% of general Most Favoured Nation (MFN) duty rates
Congo, D R	30% of general (MFN) duty rates
Burundi and Rwanda	40% of general (MFN) duty rates
Seychelles	Full MFN rates until June 2001 when the Seychelles plans to join the FTA
Namibia and Swaziland	Full MFN rates until the derogation lapses
Angola and Ethiopia	Full MFN rates

Source: www.comesa.int

Current Debate

There is talk of splitting COMESA into north and south regions, where the south would constitute SADC and the north would be a revival of the East African Community. There is debate about a possible merger of the two. Talks also exist about collaboration on non-tariff barriers, harmonisation of customs procedures and trade policy, sharing of trade statistics, developing a common programme on trading standards etc. Some countries, e.g. Tanzania, withdrew from COMESA in October 2000, citing near zero tariffs requirement of COMESA member states as disadvantageous to growth of their infant industry and a serious loss of government revenue. Namibia also pulled out of COMESA with effect from May 2004, citing double customs membership with the Southern African Customs Union (SACU) and the COMESA FTA could lead to losses of up to US$2mn in membership fees to COMESA.

The Politics of COMESA and SADC

COMESA took the lead to negotiate the Economic Partnership Agreements (EPAs) with the European Union (EU) as early as August 2001.16 Eastern and Southern African (ESA) countries including Zambia have chosen to negotiate EPAs under the programmatic and logistical support of COMESA in a non-legal, informal decision making set-up. The logical configuration of this group however, is lost as some countries belong to other regional bodies other than COMESA. Excluded from the negotiations are COMESA's own members Angola, Egypt and Swaziland. Tanzania and Namibia having pulled out COMESA are negotiating under the SADC group, but the "new SADC" has been deprived of four of its original members namely, Zimbabwe, Zambia, Mauritius and Malawi. Tanzania is a member of the East African Community (EAC) and would best fit the Eastern and Southern Africa (ESA) configuration but has chosen to have its interests served within SADC. South Africa has done its negotiation with the EU and sits in as a learned silent observer. The group COMESA-SADC EPA negotiations could have worked as the external driving force that should have pushed the two regional organisations to rationalize and harmonize their regional trade arrangements. Yet each of the countries under the two negotiating groups are inherently opitimistic that their group will deliver a better deal otherwise it would seem beneficial to go it alone.

Zambia and COMESA

Economic Relevance of COMESA

Zambia has a lot to benefit from regional trade agreements under COMESA. Apart from the resulting efficiency in the allocation of regional resources, the large market promotes competition leading to better quality, fair-priced goods, and accelerates the process of technological change. The larger market has potential to encourage longer production runs, better cost-effective utilisation of production capacity, while the single market with harmonised policies improves market access and reduces, for instance, transport and communication costs. The Zambian consumer also benefits from greater product diversity.

Integration under COMESA, with a common external tariff, can act as a learning and adjustment period for 'infant' firms as they prepare to compete globally, while the large market acts as a stimulus for investment, as a device for binding and committing member states to certain economic reforms, thus increasing their credibility, as a signal to partners that member countries are willing to play by collective rules while increasing member states' bargaining power with third parties. This was the case with the launch of the EPA between the EU and the ESA states on 7th February 2004. The grouping also acts as a co-ordination mechanism for taking up collective positions, and provides a forum for co-operation in matters of peace and security.

COMESA provides added relevance in the potential benefits that Zambia can reap under the free trade area – mainly in four ways:

1) The FTA offers producers and manufacturers of exportable products an enlarged market for their goods.

2) The FTA enhances the efficient allocation of resources and fosters overall economic efficiency by promoting competition.

3) The FTA promotes cross-border investment, franchise and agency arrangements, and joint venture operations. This in turn promotes the transfer of technology and skills and contributes directly to economic development in the region.

4) The FTA also boosts consumer welfare by offering consumers a wider choice of products at competitive prices, as competition between producers is entrenched.

Agreements

In the agreement dated 14th February 2003, Zambia continues to host the COMESA secretariat. This may inherently present image problems for the country. Zambia takes great pride in being in the forefront of signing agreements or protocols without digesting the contents and its impact on the economy. The result is a multiple and overlapping membership, complex structures, and eventually conflicting and confusing commitments. Of course, this puts Zambia in an embarrassing position to back out of a regional or imposed trade arrangement because she may appear to look petty and un-

sophisticated. Zambia became a member of the COMESA FTA on 1st November 2000 and removed all external tariffs (on a reciprocal basis) under statutory instrument number 78 (SI 78) of the year 2000. Zambia's rationale for joining the FTA results from the potential benefits offered by the region's 180mn FTA population accounting for 80% of the total COMESA GNP. Furthermore, since the launch of the COMESA FTA in the year 2000, intra-COMESA trade has been growing by over 30percent per annum, and, at the beginning of 2004, stood well above US$4bn a year.

Problems

Zambia's membership in the FTA has not been without problems. The manufacturing sector is the most affected. The following are the most cited problems:

- Non-compliance with rules of origin: An example of this is the importation of edible oils. It is estimated that over 18,000 tonnes of edible oils imported into the country annually, that are normally supposed to attract a 25percent tax, go untaxed as they pass on assumption that they are coming from COMESA countries.

- Loss of industries and worsening of development imbalances: some countries stand to benefit more from the arrangements than other countries. For example, it is estimated that Zambia might lose up to US$99,000 per year in Insulated and Copper Wire trade in trade diversion as an impact on COMESA countries of the EU-RSA Free Trade Agreement. It is also a pertinent concern that some industries have disappeared as a result of increased competition and relocation to more cost effective regions.

- Loss of government revenue: All governments lose revenue in the form of customs duties/import tariffs on COMESA goods.

Trade

According to the 2002 Zambian Economic Report, only a few companies in the manufacturing sector have taken advantage of the expanded market in the COMESA region. These include Chilanga Cement exporting to the Democratic Republic of Congo, and Zambia Sugar Company to the Rwandan market. Most of the inputs used by Zambian manufacturers come from countries outside the COMESA-FTA, thus making the cost of production hardly competitive. By 1997, Zambia's intra-COMESA trade stood at 15.7 percent of all COMESA trade.

Thus Zambia has increased exports, especially in petroleum products, from US$24.5mn in 2002 to US$35.2mn in 2003 to Congo DR. In the same vein, Zambia increased tobacco and copper wire exports to Malawi such that total exports are growing at 18.45 percent. The 2003/2004 export figures show that total exports to Malawi increased from US$12.1mn to US$14.4mn.

However, intra-COMESA trade among the 20 countries in 2001 was only 5.4 percent and 3.8 percent of exports and imports respectively. The reality is that most countries in the region may not be natural trading partners because they have similar factor endowments, and consequently tend to export and import similar goods.

Concerns of Stakeholders

Manufacturers are uneasy with the common market. Recent press statements have been carrying headlines like '*COMESA not beneficial to Zambian manufacturers',* and *Customs Union no good for Zambia.* These articles cited dumping of cheaper goods and smuggling from COMESA countries as real threats to the manufacturing industry. The Zambia Freight Forwarders Association (ZAFFA) called the Customs union an 'ill intentioned scheme' that would not benefit the industry and the country. The landlocked position of the country, the heavily import-based economy and weak manufacturing base are critically set to kill the country's revenue if the customs union is introduced in haste. This move to hold on before joining the COMESA CU is fully supported by the Zambia Association of Manufacturers (ZAM)-the main stakeholders. However, Zambian consumers still need some form of persuasion to convince them that 'buying Zambian' in a foreign owned chain store is always beneficial to them.

Challenges

Zambia faces the challenge to support the manufacturing sector beyond lip service. Current manufacturing companies are faced with bankruptcy, liquidations, under capitalization, unwarranted government regulations, and price wars against imports. These conditions make it difficult for the country to act as a regional base for industries wishing to take advantatge of RTAs to export to countries in the region. The Zambia Revenue Authority is perceived to be proud of its ability to close down companies because of tax problems, rather than to facilitate a route for keeping companies alive and offering plans to encourage tax compliance. These problems must be dealt with by forging a partnership between the private sector and the government with a focus on enhanced production, support and facilitation. An example of such support is enshrined in the 'Buy Zambian' Campaign, which, according to official sources is still an idea that has not yet received the required logistics to take off.

Proliferation of RTAs also makes problems of co-ordination unmanageable. Despite recognising these problems that have resulted from multiplicity of the country's RTAs, some organisations have not been closed down, and overlapping

institutions have not been combined. At the same time, regional institutions intrisic to the sustainable growth of the private sector in critical fields such as agricultural research, river basin planning, higher education and training (including centres of excellence), transportation (airlines and shipping), and pest control have yet to be strengthened, or, in some cases, created.

Conclusion

The high cost of production due to the country's geographical position has created an unattractive import based economy where RTAs work to relocate manufacturing industries to countries with relatively lower costs of production. For example companies on the copperbelt region especially Ndola have folded leaving their former manufacturing plants as warehouses for consumer goods. Since trade accounts for 75percent of the country's gross domestic product, means that it remains at the heart of the Zambian economy. Zambia is certain to explore all RTAs that facilitate this trade, even if it means overlapping memberships. Again this is bound to attract 'free rider' goods from opportunistic industries, e.g., the recent increase in edible oil imports that generated an outcry from local manufacturing industries in Zambia. It is against such activities that local manufacturing industries in Zambia desire import tariff protection. Some landlocked countries - Zambia inclusive face problems of cheaper imports or outrightly smuggled goods competing with locally produced goods. They should therefore receive special and differential treatment. But, if the COMESA fund which includes a component of an adjustment mechanism to compensate the short-term negative effects of strengthening integration is applied for by all, it is not going to be sufficient. Therefore, when and if it comes to choosing between COMESA and SADC membership, Zambia is certain to choose both.

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An FTA is a form of economic integration in which members agree to reduce or eliminate intra-area trade barriers, while maintaining trade barriers *vis-à-vis* non-member countries.

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