THE IMPACT OF INFORMAL CROSS BORDER TRADE ON REGIONAL INTEGRATION IN SADC AND IMPLICATIONS FOR WEALTH CREATION.

By: John Mwaniki – IRED-ESA (The CORN Thematic Coordinator for Cross Border Trade)

1.0 INTRODUCTION

The African countries are facing a lot of challenges due to the impact of globalisation. Though it brings opportunities and challenges, the African countries are on the receiving side rather than being proactive in the global arena. Globalisation is driven by information technology and free flow of capital around the world. Africa is disadvantaged due to low levels of technological investments and capital accumulation. The telephone penetration is 2% in Sub-Sahara Africa and 1% internet while the savings ratio to Gross Domestic Product (GDP) average 16% when compared to Latin America with 24% and South East Asia with 37.5%. The low domestic savings ratio hinders rapid growth of domestic investment and a high level of export growth of African commodities. This has precipitated declining terms of trade, reduced GDP, triggering debt problems and poverty several communities are experiencing today.

In an effort to deal with the issues of debts, economic reform dubbed the Economic Structural Adjustment Programme (ESAP) were introduced by the World Bank/International Monetary Fund to reverse the problems of poverty in Africa. Unfortunately, the studies done in this area indicate these economic reform measures created more poverty related problems, eroding all the post independence gains.

Unemployment has been swelling in the region. In South Africa it has reached to at least 35%, while in Zimbabwe 50%, in Malawi and Zambia hovering between 40-50%. Thus compounding the social economic concerns of the countries in the region. The dependence levels are high thus impacting on the savings and investment opportunities in the region. Several people are beginning to shift to the informal sector where they hope to earn a living. Among such groups are the cross border traders who travel frequently to the neighbouring countries to sell their products and return home with more goods for re-sale and some foreign currency. This trade has been ongoing for several years but under very difficult circumstances.

1.1 Regional Integration

The African countries having sought ways of enhancing their domestic economies came up with the Lagos Plan of Action in 1980 and in 1991 the Abuja

Treaty of Declaration. The two policy documents underscored the need for regional integration, by 2020 for Africa but also recognised the regional initiatives already undertaken.

The United Nations Economic Commission emphasized regional Integration in Africa for Africa UNECA in the 1960s. This was also enshrined in both the OAU Treaty of 1963 and as pointed above, the Abuja Treaty of 1991. Efforts towards regional integration include the ECOWAS (1975), Mano River Union (1973), West Africa Monetary Union (1994), COMESA (1981), SADC (1980) and Arab Maghreb Union (1989) with the ultimate goal of linking to Africa Union.

The main purpose of regional integration is to increase Africa's visibility in the global market. By 2000, Africa's share of global trade was only 2% while accessed to the global credit cost 1% (UNCTAD). Regional trade within the continent is marginal. Owing to the linkages established through colonial history trade with Northern countries stands at 90% whilst within SADC and COMESA inter-regional trade is 10%. Several studies conducted indicate that informal contacts strengthen regional integration networks and relationships. Some aspects of integration are taking place especially in Southern Africa through official efforts aimed at strengthening of institutions to keep records on informal trade and implementing policies. Nonetheless there are several other areas that need institutional reform to accommodate informal cross border trade which still remains invisible despite the contribution it makes in the economy. Studies done in the sector indicate that the informal cross border trade is contributing immensely to the process of regional integration. It is building on the informal networks that have been developed by people over years, even if they were not initially meant for trade.

2.0 Levels of Economic Integration

Regional integration encompasses five levels of economic integration:

(i) The Most Favoured Nation (MFN) arrangement, under which any reduction in tariffs in products granted to other countries on the basis of the most favoured status will also automatically apply to a new most favoured country (Article I of WTO).

(ii) The Free Trade Area such as the European Free Trade Area (EFTA) or North America Free Trade Area (NAFTA) which means trading in goods and services among the members states of the group at zero tariffs.

(iii) The Customs Union supercedes the free area and involves the adoption of a Common External Tariffs (CEF) vis-à-vis third countries.

(iv) The Common Market, which is implicitly a higher form of economic integration and which in addition to being a customs union, permits both the free movement of goods and services among member states and the free movement of the factors of production and entrepreneurs.

(v) The economic union, which is regarded as the ultimate goal of regional integration goes beyond the elimination of real and perceived barriers of factors mobility and the movement of goods and services and is usually accompanied by a monetary union arrangement among the participating states. In this arrangement they yield control over monetary or even fiscal-policies to a supra national institution.

The regional integration process is implemented within Articles I of MFN and XXIV on integration under World Trade Organisation. It encourages integration at theformal and informal levels.

3.0 <u>Informal Cross Border Trade (ICBT)</u>

The ICBT refers to registered or unregistered business activities undertaken across the borders based mainly on popular economy. One of the main characteristics of this trade is that it is not mandatory to submit tax returns at the end of each financial year hence not entered in national accounts. Generally cross border trade is conducted by small-scale quasi-professional traders including women, who use various means to move small quantities of goods across national frontiers, conduct trade.

The SADC Trade Protocol Article 2, highlights that trade protocol shall contribute towards the improvement of the climate for domestic, cross border and foreign investment. For this to happen effectively and efficiently, policy and institutional reforms should be undertaken to create an enabling environment for trade.

The main challenge is dealing with the infrastructural development which includes road and railway network, lack of warehousing, no internet facilities for market intelligence, the cross border traders are restricted in accessing market information, finding out what is needed, where, in what quantities and packaging standards etc.

3.1 Obstacles Faced by ICBTs

The ICBTs experience several obstacles linked with infrastructure, which then result in market distortion. The cost of goods entering neighbouring countries becomes expensive and returns to investment are reduced significantly. Profit margins remain small leaving limited funds for reinvestment, hence trader tend to remain poor.

The ICBT also complain of lack of standardization of their products. It is clear that they need support from institutions responsible for standards and quality control. Such services would make their products competitive in the region and global market where competition is stiff.

The demand for design studios for instance for furniture, crafts, textile materials and jewellery is very important for standardization and the traders do not have access to such facilities which would help add value to their products.

The traders face challenges in the access to finance to initiate and even expand their businesses. The stringent measures demanded by banks and the shortage of foreign currency experienced in some countries in the region compound the situation for this partially developed sector. Concern is that even in countries with adequate foreign currency supply, the many demanding processes of trading particularly penalise women, which negatively impacts on the growth of their businesses.

The ICBT often complain about the visa restrictions, which almost stifles their businesses. In some countries like Botswana even when a visa is given, the authorities allow entry for 90 days only. Studies done on ICBT indicate that traders enter Botswana or other countries for three to four days and they exit shortly after that. They stay in their home country for two to three weeks and then return for business. For that reason they need a policy framework that allows for multiple entry and to spread the 90 days or 180 days over the year. In that way they would not be seen as breaking legal requirements of entry.

The traders have complained of excessive harassment especially the women traders. Generally at the port of entry men do the body search for any hidden goods. Women traders have complained of embarrassment and discomfort and would prefer any inspection to be done by women colleagues at the border post.

3.2 Commodities Traded

Commodities traded in the region, include cereals, beans, peas, groundnuts (food items) crafts, furniture, jewellery, doilies, electrical goods, perfumes etc. Some goods have to undergo sanitary and phyto-sanitary (SPS) conditions. Hence traders need technical support in this area to improve the quality of their products and the packaging to suite required standards.

The majority of the ICBTs involved in trading food products are engaged in small-scale agricultural production. However they did not receive a lot of technical support from their governments. Due to ESAP and ESAP policies, many governments have withdrawn agricultural subsidies thereby making export commodities uncompetitive. Technical support is needed especially for out-growers scheme for farmers, access to information, agro-processing. This is encouraged even within WTO Agreement on Agriculture. The governments should therefore demand credits from WTO as subsidies in agriculture and several other sectors were withdrawn. This refund in credits could be ploughed back into capacity building of the Informal Cross Border Trade.

The ICBTs have also complained of their inability to access to finance from banks as they are considered to be high risk. The countries in SADC other than South Africa, Lesotho, Swaziland and Namibia that have a common monetary union, the rest do not have local currency exchange facilities. Monetary policies that could enable the traders to convert their currencies into the currency of the country in which they would be trading are required. That would facilitate trade and create less demand for hard currencies. Several countries have no policies to attract money earned from ICBTs hence encouraging the parallel market. With effective monetary and macro economic policies this could be contained.

Literacy among the ICBTs is important, as it would facilitate easier completing of CD 1 forms. This would better enable them to promote trade and the make strategic decisions for investments with the finances generated from their trade. The traders require information about how the capital markets operate, alternative investments and the working capital of markets.

When the issues outlined in this paper, are addressed, the region would be on an effective path towards integration.

4.0 <u>Conclusion</u>

In conclusion, regional integration processes demands participation of all sectors of the economy as well as governments. The business community in the mainstream and informal sectors, the civil society organizations, (including labour, CBOs/NGOs, Faith institutions, cultural groups etc.) must be actively involved.

The economic policy initiatives such as the New Partnership for Africa Development (NEPAD) must be demystified to encourage more participation and input from the ordinary people, particularly ICBTs. It is an initiative that could provide opportunity to rebuild the continent but conversely it could easily be used to marginalize the very people who are to benefit from its implementation.