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RECs in Eastern and Southern Africa: Attractive Aspects for Zimbabwe

by Dr M Masiiwa

Introduction

There are four Regional Economic Communities (RECs) in Eastern and Southern Africa — the East African Economic Community (EAC), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Customs Union (SACU). Multiple membership to these RECs is one of the hindering factors in the smooth process of economic integration in the region (see figure 1).

Although multiple membership is not an overwhelming problem so far, serious implementation problems will arise with the advancement of regional trade towards COMESA and SADC Customs Unions in 2008 and 2010, respectively. No country can be a member of more than one customs union (CU) and therefore Zimbabwe must choose which one it wants to join. The objectives of this briefing are to:

- Establish the extent to which the four RECs in Eastern and Southern Africa are attractive to Zimbabwe; and
- Identify the dynamics shaping Zimbabwe's decisions.

SADC

SADC evolved out of the Southern African Development Coordination conference. It is currently implementing the SADC Trade Protocol (STP), which aims to achieve a Free Trade Agreement (FTA) by 2008 and a Customs Union (CU) by 2010. SADC attractive aspects for Zimbabwe include:

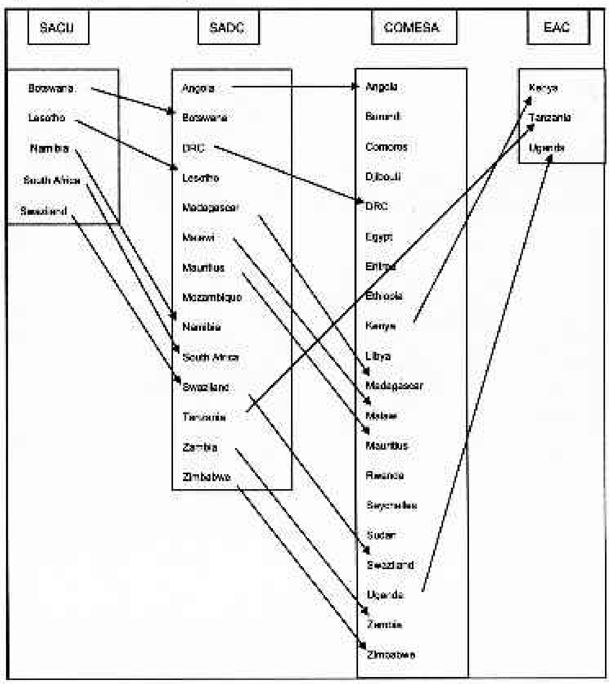
- Zimbabwe's key trading partners are found in SADC
- Zimbabwe's trade with SADC member states is high
- SADC is a relatively developed market
- Zimbabwe shares common history and political solidarity with SADC member states
- The socio-cultural background in SADC is relatively homogeneous

Zimbabwe's key trading partners in the world are concentrated in SADC as shown in table 1 below. Out of its top ten export destinations in the world, six are located in SADC. These include South Africa, which imported goods worth over $US 145 million in 2005, Zambia (US$54.9 million), Botswana (US$33.6 million) and Malawi (US$26.6 million). Trading links with these countries were cultivated over a very long period, a factor which may positively affect Zimbabwe's decision to join a proposed SADC customs union.

The importance of SADC for Zimbabwe is further illustrated by its high trade volumes with SADC member states as shown in figure 2 below. During the period 2001 – 2005, Zimbabwe's annual total trade with SADC regional partners averaged about US$1.6 billion, reaching a peak of US$2.4 billion in 2004. Trade with COMESA during the same period, on the other hand was moderate, averaging only about US$200 million per year. In other words, Zimbabwe's trade with SADC is about eight times more than that with COMESA. These figures alone may strongly influence Zimbabwe's decision to join a proposed SADC Customs Union.

Zimbabwe attaches great value to political support and solidarity given to it by SADC countries during and after its struggle for independence. After it became independent, Zimbabwe joined other SADC countries to resist the Apartheid regime in South Africa. Though not as strong as before, the solidarity still continues and can have considerable influence on Zimbabwe's decisions to join the proposed SADC Customs Union.

Figure 1: Multiple Membership to RECs in Southern Africa



In comparison to COMESA, the market in SADC is better developed. Generally, the infrastructure in SADC (road network, railways, ports, handling/storage facilities) is more developed than in COMESA. This is supported by an enabling environment, composed of efficient support services (banks, insurance, health, education) and reliable legal framework. A combination of these factors reduces transaction costs and makes trade much easier and more profitable for Zimbabwean business.

Further, the population in SADC is relatively homogeneous, compared to that of COMESA. This contributes to a better understanding of the market by Zimbabwean exporters. COMESA, on the other hand, is widely regarded as lacking both geographic and structural coherence, with membership stretching from Islamic states (Sudan, Libya, Egypt) in the north and African traditional kingdoms of Swaziland and Lesotho in the south. The different religious/cultural beliefs and practices generally act as hindrances to trade.

COMESA

COMESA was established in December 1994 as successor of the Preferential Trade Area for Eastern and Southern Africa. It achieved FTA status in October 2000 when eight of the member states – Djibouti, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe – eliminated their tariffs on COMESA originating products. It is expected to launch a Customs Union in 2008.

COMESA attractive aspects for Zimbabwe are:

- COMESA is a geographically larger and rapidly developing market.
- COMESA member states' economies and trade capacities are more balanced.
- Zimbabwe has a potential competitive advantage over its COMESA regional partners.
- The pace of regional integration is faster in COMESA than in SADC.

COMESA has a much larger market than SADC. With a population of over 374 million, distributed in 20 member states, COMESA provides an attractive market for Zimbabwe, particularly its agricultural and manufacturing sectors which are relatively developed in comparison to those of its regional partners in COMESA. Also, the COMESA market is growing at a much faster rate than that of SADC. For instance, the construction industry in countries emerging from war (DRC, Angola, Rwanda, Burundi) is bound to expand rapidly in the near future and Zimbabwe is likely to benefit from such expansion.

According to ZimTrade[a], Zimbabwe is attracted to COMESA because economies and trade capacities in the RECs are more balanced and exporters compete on a level playing field. This is not the case in SADC where South Africa is by far the dominating member. For instance, South Africa accounts for more than 73 % of Zimbabwe's trade. In Zimbabwe's view, such a situation is not sustainable since the country and the region are vulnerable to the performance of the South African economy[b].

South Africa's dominating role in SADC is more worrying for Zimbabwe considering that in trade terms, South Africa is regarded as a developed country. Therefore, its needs and interests cannot be exactly the same as those of Zimbabwe. For instance, supply and demand side constraints, which are prevalent in Zimbabwe, are minimal in South Africa. South Africa enjoys relatively developed and efficient transport and communication systems, which give it competitive advantages over Zimbabwe. Therefore, if companies in South Africa and those in Zimbabwe are allowed to compete on equal terms, Zimbabwean companies will lose out, leading to possible closures and job loses[c].

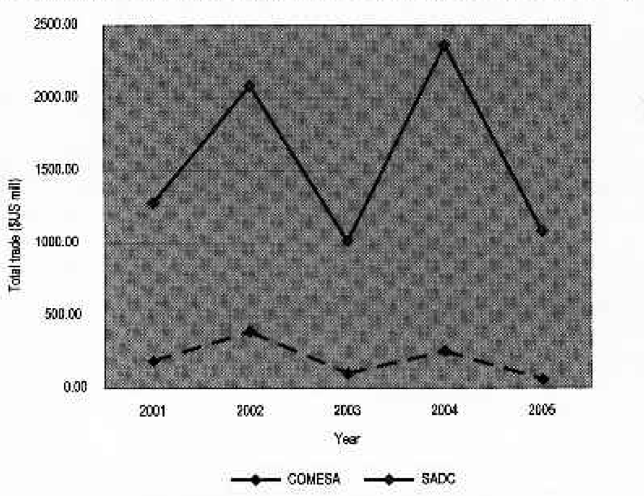
Zimbabwe would also prefer a COMESA Customs Union to that of SADC because it feels that it has better chances of attracting Foreign Direct Investment (FDI) in COMESA. This is not the case with SADC, where South Africa is likely to attract most FDI due to its developed infrastructure and sophisticated support services.

Table 1: Zimbabwe's Top Ten Export Destinations in 2005

	Product	Export Earning (US$ million)
1	South Africa	145,556,392
2	Zambia	53,991,167
3	Botswana	33,572,346
4	Malawi	26,504,763
5	Mozambique	21,635,406
6	United States of America	16,198,230
7	Namibia	15,567,026
8	Italy	13,034,637
9	United Kingdom	12,312,058
10	Netherlands	12,136,685

Source: ZimTrade, 2006

Figure 2: Zimbabwe's annual trade with SADC and COMESA during 2001-2005 ($US mill.)



Source: ZimTrade, 2006

Although Zimbabwe lost significant competitiveness in the last seven years, it has the prerequisites to regain equal or higher competitiveness than its regional partners in COMESA if the economic situation improves. The prerequisites include relatively developed infrastructure (roads, railways, communication systems, trade finance, insurance etc.), highly educated and skilled manpower and a diversified economy. These factors also make Zimbabwe an attractive area for both domestic investment and FDI if the economy improves. Further, there is likelihood of trade creation in favour of Zimbabwe if it joins the COMESA Customs Union.

Whilst Zimbabwe hopes to have a competitive advantage over its regional partners in COMESA, this is not the case in SADC. The country will certainly face stiff competition from South Africa, the dominating economy in the REC.

Another factor that makes COMESA attractive to Zimbabwe is that regional integration progress in COMESA is faster than in SADC. In the past decade, COMESA managed to achieve its key targets (with some problems though), including establishing an FTA in 2000. The planned customs union in 2008 is also on schedule and there are realistic chances that it will be achieved as planned. Zimbabwe is actually enthusiastically spearheading progress in COMESA. For instance, it is one of the first nine member states to implement a FTA in October 2000 when it agreed to eliminate tariffs on COMESA originating products. Zimbabwe is also part of the COMESA Common Tariff Nomenclature and movement to establish a Common External Tariff by the member States. Further, Zimbabwe has also adopted the single form for use as a customs declaration in COMESA (the COMESA Customs Document). It is also part of the COMESA Regional Bond Guarantee and ASYCUDA – the Automated System for Customs Data.

Progress in SADC on the other hand is slow, with planned targets being missed or postponed. Although member states signed the SADC Trade Protocol, which aims to establish a Free Trade Area by 2008, implementation of the protocol is still dogged by numerous problems. These include various non-tariff barriers with Zimbabwe being one of the member states having such barriers.

There is a sense in Zimbabwe that SADC does not provide the best competency for Regional Economic Integration because this was not its original objective. In Zimbabwe's view, SADC's mandate and competency lie in development co-operation. Regional Economic Integration should be left to COMESA, which has a clearer mandate and is more competent to do so. As if to support this argument, Zimbabwe chose to negotiate Economic Partnership Agreements (EPAs) with the EU under the configuration of Eastern and Southern Africa (ESA). ESA is an institution created by COMESA for the sole purpose of negotiating an EPA with the EU. This decision carries significant weight and provides the clearest indication by Zimbabwe that it prefers the proposed COMESA Customs Union to that of SADC.

SACU

Southern African Customs Union (SACU) is the oldest customs union in Africa formed back in 1910. Although SACU is widely regarded as the most effectively functioning regional trading arrange-ment in Africa, it is regarded by Zimbabwe as an apartheid relic.

Alleged differences among SACU member states regarding how each member benefits from the current revenue sharing formula have made Zimbabwe skeptical about SACU. Whilst BLNS countries feel they are not getting enough customs revenue, according to their developmental needs, South Africa bears the heaviest burden in the revenue distribution. However, the revenue sharing formula is under review and a much-improved one, meeting the expectations of BLNS countries may act as an incentive for Zimbabwe to consider joining SACU.

EAC

The East African Community is composed of Kenya, Uganda and Tanzania. It was formed in 1967 but collapsed in 1977 due to political differences. But in 1998 the countries' heads of state signed a treaty re-establishing it by the end of July 1999. Zimbabwe's membership to the EAC can be safely ruled out because its geographical coverage is far away and there was never a discussion to join.

The dynamics shaping Zimbabwe's decisions

Zimbabwe's final decision on choosing the appropriate Customs Union does not only depend on the attractiveness of the various RECs, but also on current dynamics on the ground. These include:

- South Africa's attitude and role in SADC regional integration
- Nature of South Africa's bilateral trade agreements with third parties, including review of SA-EU TDCA
- Decisions by Zimbabwe's key trading partners in COMESA
- The outcome of EPA negotiations between the EU and SADC/ESA

Zimbabwe is very sensitive to South Africa's decisions and moves, considering that South Africa is the most significant trading partner for Zimbabwe in the world. Therefore, whatever South Africa does, will have major bearing on Zimbabwe's final decision to choose the appropriate Customs Union. The overriding feeling in Zimbabwe is that its economic and regional interests should not be undermined or marginalized by those of South Africa. Zimbabwe hopes to see a South Africa, which complements its development efforts rather than one which threatens them.

Zimbabwe expects that South Africa, within the context of SADC regional integration, will take an active role to address problems of unbalanced trade and polarised development. If these problems are not addressed now, they will be exacerbated in a potential SADC Customs Union. It is expected that a "development formula" should be agreed in SADC whereby pitfalls caused by the market approach, should be addressed by complementary and targeted regional policies. For instance, a special fund should be set to compensate revenue losses, flight of FDI or trade diversion suffered by less developed SADC members. The fund can also be used to develop infrastructure in marginalised areas so that these areas would be able to attract investment in future. South Africa, as the most developed economy in the region and which is likely to benefit most from the Customs Union, is expected to show more commitment towards this fund. Similar arrangements have been successfully applied in the EU.

Another area where South Africa is expected to play a constructive role is its bilateral agreements with third parties, including the review of its Trade and Development Co-operation Agreement (TDCA) with the EU. Zimbabwe and other SADC countries are worried that, despite being part of the SADC Trade Protocol, South Africa signed a FTA with the EU. This was done without adequate consultation with regional partners. Yet they are likely to suffer negative effects of the implementation of such an FTA. For instance, due to its weak customs institutions, Zimbabwe is concerned that goods from the EU and destined for South Africa, may find their way into Zimbabwe, undermining local production in the process. The review process of the EU-SA TDCA naturally provides a chance for South Africa to accommodate its regional partners' concerns. But such consultations seem limited at the SACU level. SADC concerns are left unattended.

South Africa has gone further to negotiate bilateral trade Agreements with other partners, including China, India and Brazil. Again Zimbabwe and other SADC partners feel they were not adequately consulted and they feel very insecure about the implications of such agreements. More will now depend on whether South Africa is willing to involve or consult other SADC member states such as Zimbabwe in order to allay any fears of marginalization and create an atmosphere of confidence among SADC member states.

Zimbabwe's choice of a Customs Union will also largely depend on the decisions made by its key trading partners in COMESA. Zambia and Malawi are Zimbabwe's two most significant export destinations in COMESA accounting for more than US$54 million and US$34 million, respectively in 2005. More importantly, Zimbabwe maintains a positive trading balance with the two countries. Like Zimbabwe, these two countries belong to both SADC and COMESA and are still to make their final decisions regarding the Customs Union to join. Their decisions will certainly influence Zimbabwe's decisions since Zimbabwe would not be prepared to lose such important trading partners.

To a lesser extent, Zimbabwe's final decision will also depend on decisions made by Kenya and Uganda, which are Zimbabwe's important trading partners in COMESA, outside SADC. The two countries belong to EAC Customs Union, but there are chances that they may join the COMESA Customs Union in 2008. If this is the case, Zimbabwe maybe persuaded to join COMESA since these two countries are potentially big markets for Zimbabwe. If the two opt to remain in the EAC Customs Union, then the chances of Zimbabwe joining the SADC Customs union are increased.

Zimbabwe is currently negotiating Economic Partnership Agreements (EPAs) with the EU under the ESA configuration. Other SADC member states negotiating under this configuration are Zambia, Malawi and Mauritius. Among others, Zimbabwe's position in the EPA negotiations is that EPAs should support regional integration initiatives as well as protect sensitive sectors (agriculture, textiles, agro-processing) from unfair competition by EU companies. Zimbabwe also opposes negotiating some of the new issues which were rejected at the WTO (government procurement, competition policy and investment). More importantly, Zimbabwe wants trade issues to be coupled with development.

Zimbabwe's final decision on the choice of Customs Union will thus depend on the concessions it (and other ESA member states) get from the EU[d] in the final EPA vis-à-vis those obtained by the SADC EPA group. If Zimbabwe finds the EU-ESA EPA negotiations satisfactory, then it is likely to join the COMESA Customs Union. However, if Zimbabwe feels that the EU-SADC EPA is significantly better than that of ESA, it may certainly consider joining the SADC Customs Union.

Conclusions

Although Zimbabwe's main trading partners are found in SADC and trade in this bloc is much higher that in COMESA, Zimbabwe is likely to join the COMESA Customs Union. A strong indication towards this is its decisions to negotiate EPAs under ESA. The overriding factors attracting Zimbabwe to COMESA are the larger market and the balanced nature of the economies in this region. However, chances of joining the SADC Customs Union should not be ruled out. More will depend on South Africa's approach to SADC regional integration, its bilateral trade relations, decisions by Zimbabwe's major trading partners in COMESA and the final outcome of EPA negotiations.

Endnotes

[a] ZimTrade is a trade promotional body in Zimbabwe.

[b] Opting out of a potential SADC Customs Union, however, is rather shortsighted considering that South Africa is a major source of imports of important raw materials crucial for Zimbabwe's industries.

[c] Yet competition from South Africa will not be avoided, especially if the South Africa aligned potential Customs Union secures trade preferences with the proposed COMESA Customs Union.

[d] The EU is the second most significant trading partner for Zimbabwe. Therefore a decision it makes in EPA negotiation is fundamental in influencing Zimbabwe's final decisions.