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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 OAU's Plan of Action. In conformity with this transformation, COMESA 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.

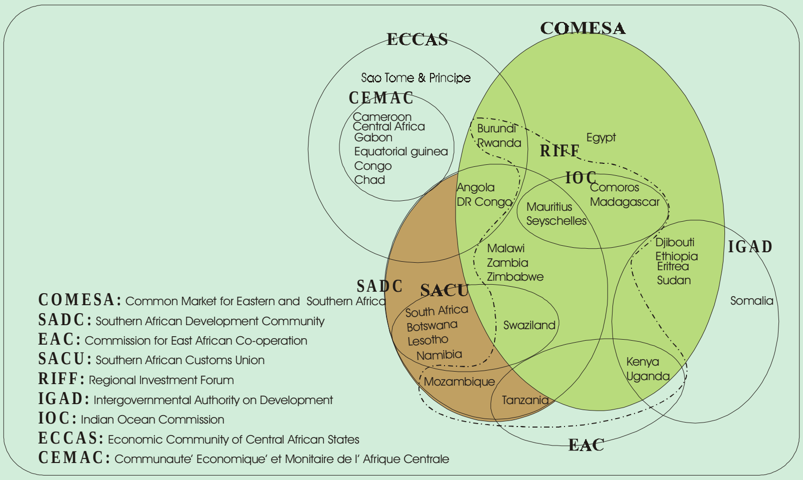
Ethiopia, Uganda, Swaziland, Comoros, Seychelles, DR Congo, Eritrea and Angola did not sign the FTA status citing insufficient economic development to compete openly with the stronger and more developed states. However, they made a conscious effort to stimulate, support, encourage and finance their local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

## 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 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.

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




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 below. 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 is not a member of the grouping. 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

**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:<br>• Harmonised road transit charges introduced in 1991 and currently being implemented by 10 member states.<br>• COMESA Carrier's License, introduced in 1991, to replace national road permits, is currently in operation in 9 mainland countries;<br>• Maximum Vehicle Dimensions currently being implemented by 5 member states;<br>• 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;<br>• Introduction of a COMESA Carrier License to replace the need for individual national permits;<br>• Adoption of common regulations for axle load limits to facilitate movement by road; and<br>• 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. |

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 country'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.

## 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.

## 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 Economic Partnership Agreement (EPA) between the European Union and Eastern and Southern African States (ESA) in Mauritius 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.

**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 |

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 presents 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 embarrassed 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.

**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 |

- 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.

## Main Concerns of Zambia' Stakeholders

Zambia faces the challenge to support the manufacturing sector beyond lip service. Current manufacturing companies are faced with bankruptcy, unwarranted government bans, liquidations, under capitalization, unwarranted government regulations, and price wars against imports. 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 officials at the Zambian Ministry of Commerce and Industry, is still an idea that has not yet received the required logistics to take off.

In some cases, the regional institutions' budgets are too small for the tasks assigned to them. Most institutions are mandated to hold several high-level conferences annually, and regional conferences cost governments money that cannot be justified by the benefits gained from them. Proliferation of RTAs also makes problems of co-ordination unmanageable. Despite recognising these problems, some organisations have not been closed down, and overlapping institutions have not been combined. At the same time, regional institutions 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

Generally speaking, Zambia can be described as a country that produces what it does not consume and consumes what it does not produce. Trade accounts for 75percent of the country's gross domestic product. This means that trade remains at the heart of Zambian economy and that Zambia is certain to explore all RTAs that facilitate this trade, even if it means overlapping memberships. 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 and Malawi. It is against such activities that local manufacturing industries in Zambia desire import tariff protection. Some landlocked countries like Zambia have higher production cost implications and therefore should 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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