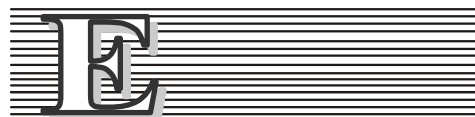




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FEATURE ARTICLE

***Achieving Free Trade Area and Customs Union: Emerging Challenges and
Opportunities for Southern Africa***

ACHIEVING A FREE TRADE AREA AND CUSTOMS UNION: EMERGING CHALLENGES AND OPPORTUNITIES FOR SOUTHERN AFRICA

By Mzwanele G. Mfunwa*

Southern African countries are poised to enter a new era of deeper regional integration with the impending establishment of a free trade area embracing 14 countries, and an even more ambitious customs union covering 19 countries stretching all the way to Egypt.

The free trade area is scheduled to come into force by August this year as agreed by countries belonging to the Southern Africa Development Community (SADC)¹. The 14 countries in SADC had a combined gross domestic product (GDP) of US\$ 333 billion in 2005 with a population of 241 million people. Members of the Common Market for Eastern and Southern Africa (COMESA)² have agreed to establish the customs union by December 2008 that will embrace a total population of 389 million people with a combined GDP of US\$ 275 billion.

A free trade area means all countries signatory to the agreement will gradually eliminate tariffs on goods and services originating from other member countries, but maintain their own tariffs and protection against third countries. COMESA has operated a free trade area since 31 October 2000 and some figures suggest that this has led to an increase in overall trade of 18% for its member States. Establishing a customs union will lead to deeper cooperation.

The whole process is meant to culminate in the African Economic Community, where all countries in the continent will be able to trade freely with each other. The African Union has designated the regional economic communities (RECSs) such as COMESA and SADC as the building blocks for the African Economic Community, and other regions of the continent are also engaged in similar steps to bring about a single economic space.

Although there are huge potential benefits, there are also many challenges to be addressed along the way, and the United Nations Economic Commission for Africa Southern African Office (UNECA-SA) has convened a meeting of experts and policy-makers this week to resolve some of these issues³.

Box One:

Progress towards the African Economic Community will be made gradually to allow all countries to successfully absorb the costs of adjustment. The process will proceed as follows:

1. Preferential Trade Area: Member countries of the preferential trade area will give each other lower tariff rates as compared to goods from outside the area. Each country will still set its own tariff rates *vis a vis* third countries.

2. Free Trade Area: Members will remove all tariffs and non-tariff barriers for trade within the free trade area, but each country will still set its own tariffs *vis a vis* third countries. This is the stage where COMESA has already achieved and SADC will launch in August.

3. Customs Union: In addition to the free trade area rules, member countries will now set a common external tariff on goods and services from third countries and share the customs revenue according to the destination of the imports.

4. Common Market: There will be a complete freedom of movement for goods, services, labour and capital between the countries. This means any citizen from member countries of the common market can settle in any other country and have the right to work there. For example, Zambians will now be able to settle anywhere from Cape Town to Cairo without the need for a visa or work permit.

5. African Economic Community: The same conditions as the common market with the addition of a single currency and a common fiscal and monetary policy for the whole continent.

Major challenges:

A major challenge remains in ensuring that countries implement all the agreements signed, therefore both SADC and COMESA must strengthen enforcement mechanisms to compel countries to comply with agreed positions such as on tariff phase-down schedules.

Second, multiple country memberships of the RECs pose problems in the implementation of agreements. For example, Madagascar, Malawi, Mauritius, Swaziland, Zambia and Zimbabwe are members of both SADC and COMESA. SADC is moving to a free trade area while COMESA is moving to a customs union. These countries will therefore have to find mechanisms for managing their obligations to both RECs.

Third, many countries depend on trade taxes for a large share of their revenues and trade liberalization will deprive them of this source of income. Thus, as regional integration gains momentum the development of compensatory mechanisms for those countries that will lose from trade liberalization in the short term should be prioritised.

Fourth, the harmonization of customs procedures should also deal with non-tariff barriers, which remain a big obstacle to increased intra-regional trade. Eliminating tariffs is a necessary but insufficient condition. The region needs to address issues of trade facilitation such as industrial competitiveness, human and institutional capacity constraints, poor transport links and environmental concerns.

Fifth, the signing of SADC Draft Protocol on Facilitation of Movement of Persons, meant to enable citizens of the community “*to enjoy freedom of movement of persons, namely visa-free entry, residence and establishment in the territories of Member States*” is yet to be implemented. Similarly COMESA has developed the Protocol on Free Movement of Persons, Labour, Services, the Right of Establishment and Residence whose implementation remains a challenge.

Finally, there are inadequate resources to support regional integration. The region’s ability to raise resources for sustainability of the region’s integration process remains a challenge.

Way forward

The Member States will have to come up with creative ways to overcome impediments towards an accelerated regional integration and the following recommendations may help guide their decisions:

- Member states must consider new ways of raising revenue to compensate for lost taxes. International development partners could assist in meeting some of the temporary resource gaps, particularly for small (e.g. Lesotho and Swaziland) and island (Mauritius, Madagascar and Seychelles) economies in the sub-region.
- The RECs must seek partnerships to tackle capacity issues such as technology, finance and human resources. Inadequate capacity limits the ability to innovate, diversify and to produce non-traditional goods in order to access new markets in the region and beyond.
- SADC and COMESA must enhance their cooperation and harmonization activities to enable regional member States to make choices that do not result in them losing ties with other regional countries.
- Countries must have the political will to accept ceding of national sovereignty to RECs as the need arises; and adopt a holistic approach in dealing with trade development and transport issues. Furthermore, SADC and COMESA should enhance the powers of the SADC Tribunal and the COMESA Court of Justice to enable them to perform enforcer roles for their respective protocols and agreements.
- Strengthening the SADC and COMESA Secretariats with adequate human and financial resources and streamlining of decision-making are critical components in deepening the regional integration and ought to be carried out expeditiously.

Should member States address the above issues, the sub-region will be on its way to emulating or exceeding the successes of similar bodies in the continent (e.g. Economic Community of West African States or ECOWAS) or outside (e.g. Association of Southeast Asian Nations or ASEAN)

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¹ The following 14 countries are members of the Southern African Development Community. The ones marked in bold are also members of COMESA: Angola, Botswana, The Democratic Republic of Congo, Lesotho, **Madagascar, Malawi, Mauritius**, Mozambique, Namibia, South Africa, **Kingdom of Swaziland**, Tanzania, **Zambia, and Zimbabwe**.

² The following 19 countries are members of the COMESA: Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

³ The United Nations Economic Commission for Africa (UNECA) was established in 1958 with its head office in Addis Ababa, Ethiopia. The Southern Africa office is based in Lusaka, Zambia and is holding its intergovernmental committee of experts meeting from 2-4 June 2008 on the theme: "Achieving free trade area and customs union: Emerging challenges and opportunities for Southern Africa."