

Policy Brief (June 2008)

Achieving Free Trade Area (FTA) and Customs Union (CU): Emerging Challenges and Opportunities for Southern Africa



Background

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- How to Simplify and Harmonize Customs and Immigration Procedures?
- How to improve information needs for trade facilitation?
- How to mobilize financial resources for regional integration?
- How to promote Public Private Partnership (PPP) in regional integration agenda?
- How to put in place monitoring mechanisms for tracking the implementation of Free Trade Area and Customs Union?
- Knowledge Management

Conclusion



Background

Southern African countries are vigorously pursuing regional co-operation and integration to leverage their collective resources towards achieving sustainable economic growth and development as they seek to become effective players in the global marketplace. The benefits of regional integration come from two main sources: economies of scale and competition. Regional integration expands domestic markets, thus increasing their competitiveness and efficiencies, which in turn raises domestic productivity.

Based on the provisions of the treaty of the Common Market for Eastern and Southern Africa (COMESA), plans are in place to transform the Free Trade Area (FTA) to a Customs Union by December 2008 (revised from the previous target of 2004). The creation of the Customs Union will be a step further in COMESA's quest to achieve economic growth and prosperity through dismantling trade barriers and opening up markets, hopefully leading to increased trade and welfare gains for the region's citizens.

The Southern Africa Development Community (SADC) Regional Indicative Strategic Development Plan (RISDP) and the Strategic Indicative Plan for the Organ (SIPO) provide the basis for the SADC Regional Integration Strategy and Programme. In this regard, RISDP calls for the establishment of the SADC Free Trade Area (FTA) by 2008; a Customs Union by 2010; a Common Market by 2015; a Monetary Union by 2016; and a Single Currency by 2018.

Both COMESA and SADC have been actively pursuing policies and trade facilitation measures for the implementation of their respective Customs Union and FTA. While COMESA and SADC have made much progress in this process, they still face major challenges that need to be addressed in order to successfully launch and operationalize these milestones.

This Policy Brief outlines the main challenges as COMESA moves to the Customs Union in October 2008, and SADC towards launching the Free Trade Area in August 2008 and Customs Union in 2010. The Policy Brief also provides recommendations to address key challenges, which might constrain the attainment of these milestones.

What are the key challenges?

The implementation of the SADC FTA and COMESA Customs Union will be a gradual development process supported by measures to deal with outstanding and lingering issues to ensure that member States benefit from the FTA and Customs Union.

The Custom Union's road map, derived from the COMESA treaty, sets out the parameters member States must implement jointly and severally for the attainment of the 2008 milestone. The main elements include the common external tariff, customs legislation and procedures, as well as supportive institutional (legal and administrative) structures.

This road map has many facets that place enormous strain on the COMESA Secretariat human resources, who must manage the process successfully in addition to managing the many other programmes that define the regional economic community. It is equally difficult for member states to keep up with the multiplicity of demands on limited human resources.

SADC plans for its Customs Union are included as part of the integration road map enunciated in the RISDP. The regional body's road map for the establishment of FTA, completion of negotiations for a Customs Union, a Common Market and establishment of a Monetary Union and a regional Central Bank with a common currency requires that negotiations leading to the creation of a Customs Union by 2010 starts now. While a ministerial Task Force on regional economic integration has been created and charged with the responsibility of driving the Customs Union process, some key issues remain to be addressed. These specific issues relate to: negotiations for the adoption of Common External Tariff; Legal, Administrative and Institutional Arrangements; Revenue Collection, Sharing/ Distribution Mechanism including a Compensatory Fund; and Harmonization of Customs related Policies

Based on the issues that need to be addressed as COMESA and SADC move towards achieving their important milestones, these challenges can be grouped into six key areas: simplification and harmonization of customs and immigration procedures; monitoring mechanisms for tracking the

implementation of protocols; information needs for trade facilitation; financing regional integration; promotion of the Public Private Partnership (PPP) in regional integration agenda; and Knowledge Management (KM).

On the basis of these challenges, the 14th Intergovernmental Committee of Experts (ICE) for Southern Africa at its meeting on 2-4 June 2008 in Lusaka, Zambia made the following recommendations for action by both member States and the Regional Economic Communities (RECs).

Recommendations

1. How to Simplify and Harmonize Customs and Immigration Procedures?

Currently, customs and immigration procedures are not only complex and time consuming but they do not reflect efficiency measures needed to enhance implementation of the milestones. In this regard, harmonization of customs and immigration procedures like most of the issues in regional integration steps being a shared responsibility by all member States and stakeholders in each REC, demands the pooling of financial and human resources. In doing so, a primary consideration is on ensuring that no country is left behind in realizing the benefits of the FTA and Customs Union. This will require concerted efforts by countries taking action to address challenges relating to customs and immigration by reinforcing technological, human and financial capacities of border management for information sharing and sharing of resources etc.

2. How to improve information needs for trade facilitation?

Establishment of an efficient information management system should be a cornerstone in the trade facilitation process to ensure experience sharing among member countries and the respective secretariats of the two RECs. Member States should embrace the use of technology for facilitating domestic and international trade as well as integrating markets. Use of information technology has demonstrated its value in reducing the cost of doing business and integrating markets. Therefore, trade facilitation should encourage increased use of information technology. The integrated border management committees should be strengthened and empowered through

developing ICT infrastructure needs of border operations, incorporating these in regional ICT policies and providing resources for implementation and resources management systems. The indispensable role of statistics in comparing progress requires member States to harmonize trade and regional integration statistics.

3. How to mobilize financial resources for regional integration?

Both COMESA and SADC integration is impeded by a lack of financial resources and they depend on international donors and partners to survive. To improve financing of regional integration the two RECs need to: create a Project Preparation and Development Unit within SADC, and strengthen the same within COMESA; prepare the Business Plan for programme implementation with identified deliverables, responsibilities, budgets and time frames; and develop mechanisms to operationalize the Development Fund for COMESA and SADC.

4. How to promote Public Private Partnership (PPP) in regional integration agenda?

The launch of the COMESA Customs Union as well as the SADC Free Trade Area and Customs Union will be a new progressive development of significant importance to the private sector in particular as well as all other stakeholders in the respective groupings. A well organized private sector is seen as key to the success of regional integration efforts. It can play an important role in conceptualizing, designing and adopting integration programmes, providing human and financial resources for regional projects, thus generating wealth to stimulate growth and finance regional projects. In this respect, public private partnerships (PPP) can be strengthened or supported in the following ways: (i) facilitating the formalization of cross border trade; (ii) enhancing the role of the private sector and regional business organizations in regional integration and in particular, trade development; and (iii) developing a system of accreditation of enterprises (transport companies and clearing agents) by national authorities within the region in order to facilitate cross border trade. With the shortage of investment capital, the role of the private sector should be encouraged as an avenue for mobilizing investment capital across Southern Africa to meet the region's growing capital needs,

especially for infrastructure development and energy. This would require the strengthening of mechanisms to attract private capital including capital markets and private regional equity funds for channeling national and regional capital to productive sectors. The mobilization of investment capital should also be supported by an improved corporate governance regime.

5. How to put in place monitoring mechanisms for tracking the implementation of Free Trade Area and Customs Union?

Currently monitoring mechanisms are inadequate in both RECs to enhance forward planning and implementation of the various integration milestones. There is therefore need to develop mechanisms for disseminating information for tracking progress on the implementation of the FTA and Customs Union and their related protocols. Furthermore, compliance enforcement procedures such as peer review mechanism should be developed. Member States should also establish inter-state facilitation committees comprising trade, transport, customs, immigration and the private sectors to monitor progress in the FTA and customs union processes.

6. How Knowledge Management can enhance access to information?

For regional integration efforts to succeed, all stakeholders need to have access to information, and share best practices. Accordingly, the application of ECA's Knowledge Management (KM) programme has relevance to all, including the private sector, civil society organizations, research institutions, as it facilitates linkage for information sharing. Considering the multi-sector nature of regional integration, and therefore the need to involve all sector ministries in the implementation of the regional integration programme, the value of KM in linking various government departments and agencies should be explored by member States. This will encourage harmonized policy making process that, take into account all the concerns of all government stakeholders, thus ensuring a coherent and sustainable approach to regional integration.

Conclusion

The achievement of the above recommendations requires strong political commitment supported by strengthened and well resourced institutional mechanisms.

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For further reading

- Report of the Fourteenth Intergovernmental Committee of Experts (ICE) for Southern Africa. E/ECA/SA/ICE.XIV/2008/6 (June 2008)
- Report on the Economic and social conditions in Southern Africa. E/ECA/SA/ICE.XIV/2008/3 (June 2008)
- Report on Prospects and challenges towards the attainment of a free trade area and customs union. E/ECA/SA/ICE.XIV/2008/4 (June 2008)
- Technical publication: Progress And Prospects in The Implementation of Protocols in Southern Africa. ECA/SA/TPub/PROTOCOLS/2008/01 (July 2008)

Text on further reading can be obtained from our website: www.uneca.org

Where to contact us?

United Nations Economic Commission for Africa,
Southern Africa Office
2392 Longolongo Road,
P.O. Box 30647, Lusaka Zambia
Tel: +260-211-228502-5
Fax: +260-211-236949
Email: srdcsa.uneca@un.org
Website: www.uneca.org