Liberalisation of SADC trade towards 2012 and beyond

August 2008, a SADC FTA was launched in Johannesburg, South Africa, 12 years after it was signed in Maseru. It was momentous milestones to be reached by the SADC Secretariat and a giant stride towards deeper regional economic integrations
Key strategies were designed to drive the implementation of the Protocol in the region to achieve liberalisation of SADC trade. Its objectives were clearly defined to be the liberalization of intra-regional trade in goods and services. There were also specific strategies which were designed and adopted to achieve these objectives. Those were:

- Elimination of tariffs;
- Adoption of common rules of origin;
- Harmonization of customs rules and procedures;
- Attainment of internationally acceptable standards, quality, accreditation and metrology;
- Harmonization of sanitary and phyto-sanitary (SPS) measures;
- Elimination of non-tariff barriers (NTBs); and
- Liberalization of trade in services.

Challenges during an FTA implementation

Not every target was achieved and not all strategies were implemented during the eight year process towards the launch of an FTA. The SADC FTA is constituted mainly through 85% of trade in goods produced in the region trade free of any customs duties. So, this “great achievement” comes short of achieving the whole objective of “liberalisation of intra-regional trade in goods and services”. When one considers that services contribution to SADC GDP is in the range of 35% to 70%, it becomes clear that what was left out of the FTA is quite significant.
Services liberalization represents one of several lagging areas that are covered by the FTA. For example, customs rules and procedures as well as SPS measures were supposed to be harmonized, NTB’s eliminated and standards, quality, accreditation and metrology measures attained.
At the same time, since the Trade protocol was implemented in 2000, some member states have been adding administrative procedures, certain levies for environmental conservation, as well imposing new duties on a variety of goods (e.g. Household furniture and other household items). Regional transporters are also facing proliferation of taxes that being levied on trucks traveling from one SADC country to another. There is also a move towards private standards on food safety and quality. Some of these private standards exist due to the absence of national standards, while in other cases they do so parallel to the national drafts. These will eventually provide other means to discriminate against imported products and add additional cost to the importer.

Another challenge relates to tariff harmonization. It was expected that by the launch of an FTA, tariff schedules would have been updated to the latest HS version (HS2007) and harmonised up to 8-digits by member states. Unfortunately this was not achieved, with some member states reporting trade data at different Harmonized System (HS) versions while others are still using older and nearly outdated HS version. This means that at times, members are not necessarily discussing the same products. For example, some countries in SADC classify motor vehicle parts in HS 98 while other categorise them in the general machinery group of HS 84.

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Fiscal challenges ahead

With regards to tariff reduction, SADC has achieved a satisfactory level of tariff liberalization. Apart from Angola, DRC and Seychelles (which rejoined SADC recently), 85% of tariffs are at zero. This is a necessary condition for an FTA, but not sufficient for full liberalisation and deeper levels of integration aspired in the trade protocol and RISDP documents. The remaining duties of 15% will have to be removed as SADC move towards full liberalisation and deeper levels of integration such as Customs Union, which is envisaged in 2010 and Common Markets by 2015. But for two reasons, the challenges will not only affect trade, but will go towards issues of fiscal policies

Firstly, trade revenue (mostly from tariffs) contributes significantly to the total government revenue of most SADC countries. As it is clear in Table 1, in 2004, trade revenue contributed more half of Swaziland and Lesotho's total revenue, more than one quarter of Madagascar and Namibia and about a third of Mauritius and Zambia. That contribution is also more than 10% of GDP for countries like Lesotho, Swaziland and Namibia. These three are SACU countries, and therefore derive this revenue from the SACU Revenue pool, which is not entirely based on trade. Still, there will be a fiscal gap once SADC moves to a complete liberalisation phase.

Table 1: Contribution of trade tax revenue to GDPs and total revenue of SADC countries, 2004

Country	Share of GDP (%)	Share of total revenue (%)
Botswana	7.70	18.10
Lesotho	18.00	58.00
Madagascar	2.80	25.60
Malawi	2.50	12.40
Mauritius	5.40	31.50
Mozambique	2.20	18.90
Namibia	12.10	38.00
South Africa	0.80	3.00
Swaziland	15.30	55.20
Tanzania	1.30	11.60
Zambia	5.90	30.90

Zimbabwe	2.60	10.40

Source: Kalaba, 2008

Secondly, reliance of some SACU members on the Revenue Pool funds will pose serious problems as those countries are dependent on revenue from duties levied on sensitive products. As mentioned earlier, the future of SACU is not clearly articulated in the context of the SADC Customs, which is set to be achieved before full liberalisation in 2010. The same uncertain future is anticipated with relation to the revenue pool, which will be enormously affected by both SADC Customs union and full liberalisation in 2012.

Progress to date

Customs rules and procedures in the region have been getting attention from the Secretariat. This will make a significant contribution towards reducing some of the administrative NTBs and to the general trade facilitation role of the FTA. It will reduce the time needed to clear goods at regional border posts, which is currently estimated to average over three days. There are some actions in the pipeline to fast track this customs procedures which includes, Regulations on SADC Rules of Origin, SADC Transit Regulations, SADC Model Customs Act, SADC Transit Customs bond guarantee scheme, the Single Customs administrative document (SADC-SAD), the SADC Certificate of origin, Transit documentation, the Voucher of correction of SADC-SAD.

In the area of Rules of Origin, it is apparent that substantial progress has been made, and areas of differences have been identified. Furthermore, there seem to be clear communications and reporting from the Secretariat about those activities, something that cannot be said about other problem areas like NTBs, SPS, customs rules and procedures as well as trade in services. By the launch of an FTA in August 2008, there were only few outstanding tariff lines in the area of textiles, clothing and motor vehicles. This represents significant progress considering the challenges which were encountered about three years back. Some of those earlier problems were related to wheat, flour and their products. There were others involving tea, spices and coffee, which have since been resolved.

Recommendations and suggestions

As for other strategies and commitments which were to be achieved and addressed by the launch of FTA, there are still other steps that can be considered before the launch of Customs union and prior to the full liberalisation in 2012.

- **On NTBs, TBTs, food safety and others** - there is a need to be watchful of possible proliferation of these measures by member states. The SADC Trade Monitoring and Compliance Mechanism which deals with monitoring of the implementation of the trade protocol will need to be very proactive on NTBs as some of these issues can not be entirely eliminated. The key challenge in these cases is compliance, and therefore some measures or requirements will need to be met rather than eliminate the NTB concerned.

- **Trade in Services agreement** – The starting point will clearly be the guidelines provided by the WTO, to make sure that there is compliance with those requirements. There will be different views on this sensitive subject given diversity of member states ‘economies, however the ball can get rolling with a draft that is fairly representative and reflect the challenges and needs of the region from both skills shortages to the need to access better, affordable and applicable services in the regional context.

- **Tariff line harmonisation** – Member states' customs offices would need to report their latest trade data in the latest HS Version, HS 2007. For any other tariff line that is not within that version, then the individual member would need to find the closest description within the HS 2007 version to classify it. Alternatively, if SADC Secretariat and member states see the need for a unique regional classification, then that classification must be designed from the HS 2007 version plus a host of products from all members which do not match the current classification.

- **SADC and SACU or EAC and COMESA** – This may be an old argument, but one that doesn't go away. Not even the EPA negotiations could put an end to the debate. Whichever way, clarity is really required from higher political levels as to what happens around and beyond 2010 when some countries would be eligible to memberships of at least two customs union, even though they can only belong to one. The longer the uncertainty continues the more frustrating the situation appears. Indirectly, this uncertainty is blocking the forward-thinking of some countries as they spend resources and time hedging their bets.

- **Loss of revenue due to tariff –** in the medium to long term, it is critical that trade reforms are accompanied by complementary polices as well as institutional developments. SADC Secretariat and member states are aware that achieving milestones such as an FTA is not an end, but means towards regional development and improving the livelihoods of all people in the region. If realisation of full trade liberalisation comes with the consequences of higher property and sales taxes to already over-burden and poverty stricken citizens of the region, then the goal of development and improvement of living standards will not have been done any favours.