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Chapter XIII: Addressing Market Access and Entry Barriers Through Regional Integration: COMESA Experience

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Chapter XIII

ADDRESSING MARKET ACCESS AND ENTRY BARRIERS THROUGH REGIONAL INTEGRATION: COMESA EXPERIENCE

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Background on COMESA

The Common Market for Eastern and Southern Africa (COMESA) is a regional integration grouping of 19 African states which have agreed to promote regional integration through trade development and to develop their natural and human resources for the mutual benefit of all their peoples.

The Member States of COMESA are Angola, Burundi, Comoros, DR Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

COMESA was established in 1994 as a successor to the Preferential Trade Area for Eastern and Southern Africa (PTA), which had been in existence since 1981 within the framework of the Organization of African Unity's Lagos Plan of Action and Final Act of Lagos.

The COMESA Treaty, which sets the agenda for COMESA, covers a large number of sectors and activities. However, the fulfillment of the complete COMESA mandate is regarded as a long-term objective and, for COMESA to become more effective as an institution, it has defined its priorities within its mandate, over the medium term, as the "Promotion of Regional Integration through Trade and Investment". The role of the COMESA Secretariat is to take the lead in assisting its member States to make the necessary adjustments for them to become part of the global economy within the framework of WTO and other international agreements. This is to be done by promoting "outward-orientated" regional integration. The aims and objectives of COMESA as defined in the Treaty and its Protocols is, therefore, to facilitate the removal of

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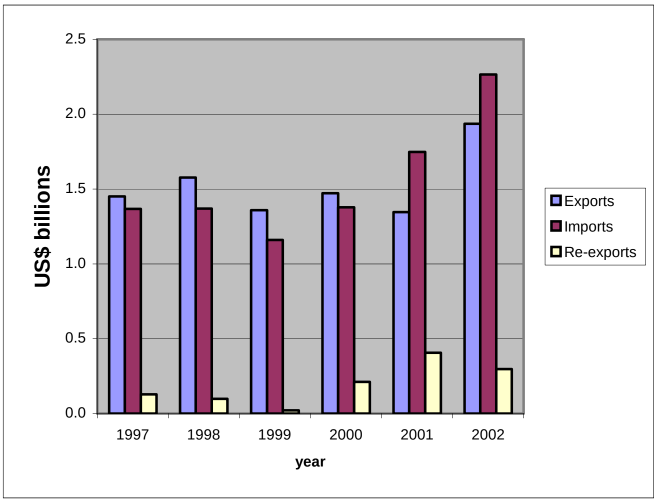
the structural and institutional weaknesses of member States to enable them to attain collective and sustained development.

Intraregional Trade – Lessons Learned

Eleven COMESA member States (Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Zambia and Zimbabwe) deepened their trade relations when they began to trade on duty-free and quota-free terms as from 31st October 2000 (except for Burundi and Rwanda, which joined the FTA in January 2004). They have, however, maintained their national external tariffs for goods originating from outside COMESA. Trade between the FTA and non-FTA COMESA countries is being conducted on preferential terms determined by the level of tariff reduction given by the non-FTA country.

Figure 2: Trends In Intra-COMESA Trade 1997-2002



With the advent of the COMESA Free Trade Area, there has been a significant increase in intra-COMESA trade and it is calculated that this is growing at an annual rate of about 20 per cent, as Figure 2 shows.

The COMESA FTA has highlighted the need for a number of instruments, or factors, to be in place to ensure that free trade becomes a useful stepping stone to deeper regional integration and promotes economic growth, such as:

- simple but development-orientated Rules of Origin;
- a rules-based trading system;
- a level playing field, including the region moving towards a common external tariff and a customs union;
- an effective and efficient regional regulatory environment, which includes fair competition, harmonized standards, NTB observatory;
- open investment policies and national treatment; and
- the existence of a high level of advocacy and "champions".

The COMESA programme of activities addresses a number of these issues. The COMESA Rules of Origin are relatively simple and seek to promote and enhance industrial development, employment and general economic activity in COMESA while recognizing that the region is not able to manufacture all its needs and that it requires production inputs that are not readily available within the region.

With its Court of Justice, COMESA can be said to be a rules-based institution and is moving towards a level playing field through the gradual movement towards a customs union, supported by programmes on the free movement of persons, labour, services, right of establishment and residence; regional competition policy; a regional programme on public procurement; the implementation of various instruments to facilitate regional trade (including an NTB observatory, transport facilitation, programme on telecommunications, etc); and the introduction of a COMESA Common Investment Area.

An area requiring more attention, in the COMESA context, is a more comprehensive advocacy programme, and the profiling of the benefits free trade is bringing, and has brought, to the region. In this regard, there needs to be greater publicity given to the significant increase which has taken place in intra-COMESA trade in manufactured products, including cooking oil; chocolate and chocolate powder; wheat flour and flour products; tyres; milk and fruit juice cartons; buses and pick-up trucks; refined copper; and steel and steel products. There has also been a significant increase in the level of small-scale cross-border trade, which is often either under-recorded or not recorded.

The region's business community is also fast developing alliances and close business ties. Mauritian textile and sugar producers are finding Madagascar to be a lower cost production centre so they are investing in Madagascar to take advantage of both the COMESA market and the US market under AGOA, as well as the EU market under the Cotonou Agreement and the Everything-but-Arms initiative. Other linkages include Egyptian investments in the region, alliances between Zambian freight forwarders and sugar importers of Kenya; Malawian and Zambian insurers and exporters and importers in Kenya and Egypt. The potential for investment and trade is much larger than is currently being exploited, partly to due limited funds available for investment.

The FTA has also improved the understanding of trade policy and operational issues such as the implementation of trade remedies and safeguards in a very practical way. As the result of the opening up of national economies and the leveling of the playing field through the elimination of customs duties, competition has become more intense on the COMESA market and weaker producers are facing the possibility of going out of business. To address this eventuality, COMESA has trade remedy and safeguard provisions in its Treaty, which have been invoked and successfully applied following the launch of the FTA.

Economic operators and trade officials have learned more about dumping, subsidies, general safeguards and the application of reciprocal preferential rules of origin in a "hands-on" manner. The FTA experience has also enhanced trade negotiations among member States not only for the regional trade regime, but for multilateral trade arrangements as well.

Market Access, Entry Barriers, WTO and Regionalism

African Union Trade Ministers held a meeting in Kigali, Rwanda, on 26-27 May 2004, to discuss, among other things, their respective positions on the WTO trade talks. They came up with the "Kigali Consensus" and the "Kigali Declaration" which outlines in essence, what African Ministers would like to see WTO achieve a fairer global trading system. They are not, *per se*, fighting against the implementation of a multilateral trading system, and they are not afraid to take part in the process of negotiation. The collapse of the Doha Development Agenda talks has ensured that the *status quo* in the WTO remains intact and this has not benefited African countries. The problem for Africa is not the multilateral trading system proposed in WTO; the problem for Africa is that this multilateral trading system is not implemented, and the worst culprits, in terms of non-implementation, are the richest countries in the world.

What Africa Ministers decided in Kigali was, unsurprisingly, not very different to what they asked for in Doha and what they asked for in Cancun. The African Ministers' main demands could be seen to be in agriculture, as agriculture is the mainstay of the economy of Africa. In agriculture, broadly speaking, African Ministers want to see the removal of all forms of agricultural subsidies and the granting, or maintenance, of preferential access into the markets of the rich countries, with a concomitant removal of barriers to entry into these markets, whether these be tariff or non-tariff barriers.

Subsidies on agriculture make African producers uncompetitive in two ways. Export subsidies are where governments subsidize agricultural exports, meaning that these subsidized commodities can be sold to the rest of the world at a cheaper price than un-subsidized goods from the rest of the world can be produced. This means that African producers become uncompetitive, despite possibly having more efficient production systems, and so cannot export their agricultural produce to the rest of the world and cannot supply to domestic or regional markets because of unfair competition from subsidized cheap exports from the developed world. African governments cannot themselves subsidize production because they cannot afford to do so. In addition, if African governments pay subsidies they are in contravention of IMF and World Bank supported structural adjustment programmes, the conditions of which are far more stringent that those agreed under the WTO.

The other form of subsidy is that of domestic support whereby a government pays, through various methods, more to its domestic producers of a particular crop than the world market price. Currently, the most iniquitous example of this, as far as Africa is concerned, is domestic support on cotton. The US government subsidizes US cotton producers, which has resulted in the US increasing its cotton production (the only country to do so over the last few years), despite falling world prices, thereby increasing supply and further reducing the world market price of cotton which puts the more efficient African producers out of business.

Therefore, although African farmers may be efficient producers of agricultural commodities, they are not able to produce, owing to a combination of externally and internally generated price distortions. Africa has great potential, but potential does automatically equate to market access and removal of entry barriers.

It may, therefore, seem that if the richest countries implemented what has been agreed in the WTO, this would solve the problems of the poorest nations and the world would be a more equitable place. But, the paradox is that, if the developed world were to stop paying agricultural subsidies immediately, many African countries would find themselves worse off than they are at the moment. This is because the system of subsidized agriculture has been in existence for so long that a number of African countries are now heavily dependent on the system. These countries have either now not got the infrastructure to produce the food they require for themselves, and rely on cheap subsidized imported food, or have production systems which rely on subsidies, paid mainly by the EU. The EU, under a series of Conventions, have paid, on a quota basis, subsidies on commodities such as beef and veal, sugar, bananas and rum, to producers in her ex-colonies (the African-Caribbean-Pacific group of countries). Although these subsidies have assisted some economies, mainly those of the small island states, to develop, the immediate removal of these subsidies would result in economic collapse of some economies.

To summarize the Kigali Consensus, as it relates to agriculture, African Ministers are effectively asking for a removal of subsidies, but a phased removal, and the introduction of measures which will allow African countries to make the necessary economic adjustments to production systems. However, if one where to assume that, in July, at the next General Council meeting, the rest of the world agreed to all the demands contained in the Kigali Consensus, this would still not solve the problems of the poorest countries in Africa.

In the process of elevating the WTO to an organization that goes beyond the boundaries of just trade issues, mainly because it has an enforcement mechanism that other international bodies do not have, the expectations of what the WTO can achieve have been built up to levels which are very difficult, if not impossible, to achieve. There also seems to be a belief that a fairer multilateral trading system is an end in itself rather than being just one part of the process of attaining a higher quality of life for all world citizens. The WTO addresses what can be termed demand-side constraints in the world economy, and aims at creating a conducive environment for production to take place, meaning that a system with a transparent and rules-based regulatory environment, an equitable taxation system, a good supply of productive labour, among other things, is put in place.

However, by concentrating on WTO and the demand side of the equation, the importance of the supply side in African economies seems to have got lost. The supply side involves ensuring that there is an infrastructure to support competitive production in place. It is not enough to create a world where there is a freer movement of goods, labour, capital and people if there are large parts of the world where production is not taking place. An economist may argue that once the demand side is taken care of, and economic distortions are removed, each country will have a competitive advantage in something and will be able to supply this to the rest of the world. The killer assumption here is the “all things being equal” assumption. In the real world all things are never equal. Let us take, for example, the production of sugar cane. Many African countries are amongst the world’s most efficient producers of sugar. One could assume that when a trading system with fewer market distortions is finally in place, Africa would be able to compete favourably in the production of sugar for the world market. But, this may not be so. Brazil is also a major, highly efficient, grower of sugar cane and uses its cane to produce both sugar and ethanol. Brazil has the capacity to supply the whole world with sugar and can, if it so desires, adjust supply by shifting how much of its cane is used to produce sugar and how much goes to the production of ethanol. Brazil could, in theory, shift entirely out of ethanol production and saturate the entire world market with sugar, drive other major world producers out of business, and thus create a monopolistic, or at least a significantly dominant position, in sugar, which she could then manipulate to her advantage.

Another example may be in coffee. Germany grows no coffee but, partly as a result of various tariff and non-tariff barriers, which would be removed in a fairer multilateral trading system, it is the world’s largest exporter of instant coffee. So, one may assume that once the EU removes tariff and non-tariff barriers on coffee, production of instant coffee may shift closer to the source of the raw material. But this is unlikely to happen unless attention is paid to the supply side in the countries that actually grow the coffee.

The supply side is where Africa’s dilemma lies. The capacity building, or infrastructural, component of the New Economic Partnership for Africa’s Development (NEPAD) programme is the latest attempt to address the problems of Africa’s supply-side constraints but, for various reasons, the infrastructure component of NEPAD will have difficulty in living up to its expectations and will, in the minds of many, further confirm Africa’s “lost cause” status. NEPAD is, in many ways, a conventional investment programme and seeks funding for projects or programmes with a positive economic rate of return, which will attract private investment, and, with this public-private partnership approach, aims to remove supply side constraints. However, there are a number of countries in Africa that, owing to a combination of their physical sizes, relatively small populations and low Gross National Product, could be regarded as not being currently economically viable as economic entities. If these countries are to be a part of the multilateral trading system they must have an infrastructure, which allows imports and exports by road and/or rail. However, in these countries it is often the case that, neither the national budget nor the income that can be generated from the use of the infrastructure itself, is enough to ensure even its maintenance, let alone its capital replacement. So, by any economic measurement, this infrastructure is economically unviable and, in the immediate future, the rate of return is probably negative. But, at the same time, this infrastructure is essential if a country is to provide an environment conducive to investors and essential if trade is to take place.

If Africa is to be brought into the world trading system as much attention must be given to the supply side as has been given to the demand side. However, if this is to be done, there needs to be a major paradigm shift in approach. It is not enough to address only infrastructural investments with a positive economic rate of return in the short term. What is required for Africa is a targeted injection of capital combined with a public-private partnership. A way forward could be for a country to work with a major international company to identify an area of competitive advantage and for the government to work with the targeted international company to agree on what would be required, in terms of infrastructural development and changes in the regulatory environment, for the company to make a major investment in the country which would have an effect on GDP and on employment levels. Once this is done, the role of government would be to address the regulatory environment. The role of the international community would be to finance the infrastructural investment necessary to attract the targeted investment. This could be, for example, an upgrade in a rail or road link to the sea, or an upgrade to a port to make it more efficient and so lower costs on a regional basis. These infrastructural upgrades would need to be done whether or not they have a positive economic rate of return over the immediate future.

If this targeted approach to addressing supply-side constraints was taken on a regional basis, a number of multipliers would come into effect and other investors would be attracted. In this way Africa could be brought into a viable and sustainable multilateral trading environment, which would be for the benefit of all. This, in turn would strengthen the multilateral trading system and address the market access and entry barriers currently faced by African countries.