

The Private Sector's Perspective, Priorities and Role in Regional Integration and Implications for Regional Trade Arrangements

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Acronyms

CIF	Cost-Insurance-Freight
COMESA	Common Market for Eastern and Southern Africa
CTI	Confederation of Tanzanian Industry
EAC	East African Community
EEA	European Economic Area
EFTA	European Free Trade Association
EPAs	Economic Partnership Agreements
ESRF	Economic and Social Research Foundation
EU	European Union
f.o.b.	Free on board
FOB	Freight-on-Board
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HACCP	Hazard Analysis Critical Control Point
JCCI	Johannesburg Chamber of Commerce and Industry
NAFCOC	National African Federated Chamber of Commerce and Industry
NEPAD	New Partnership for Africa's Development
PTY	Proprietary
R	Rand (currency of South Africa)
SACOB	South African Chamber of Business
SACU	Southern African Customs Union
SADC	Southern African Development Community
SPS	Sanitary and phytosanitary
S ^{us} C ^{om}	Sustainable Commerce Consulting
UHT	Ultra Heat Treatment
US	United States
USAID	United States Agency for International Development
WTO	World Trade Organization

Executive Summary

Introduction

Regional trade arrangements in Southern and Eastern Africa have been characterised by countries' multiple and overlapping membership in different regional integration initiatives. With COMESA, EAC and SADC each being mandated by their member states to become customs unions, the pattern of overlapping memberships becomes impossible to maintain – unless COMESA, EAC, SACU and SADC effectively adopt the same common external tariff. Overlapping multiple agreements would not be such a problem if an overall plan was in place to synchronise the common external tariff of the groups so that in the end they would form one large trading bloc. However, no such long-term plan appears to be in place, other than the stated ultimate goal of establishing the African Economic Community (EAC) by 2025.¹ Therefore as each of these regional groupings moves along the path towards deeper integration, their members will have to decide which best serves their interests. The negotiation of economic partnership agreements with the European Union has catalysed this decision-making process.

Several studies have addressed the issue of regional trade arrangements and overlapping memberships. However, the question has yet to be looked at from the private-sector perspective. Given that companies, not countries, trade and invest and that the objective of trade policy is to shape companies' incentives so as to engender growth and development, their perspective is central to any attempt to assess regional integration. Hence the private sector, in terms of their perspectives and priorities for regional integration, is the main focus of this study.

Private-sector perspectives and priorities for regional integration

Insights were provided through consultations with companies operating at the regional level and interviews with private-sector representatives in several countries of Southern and Eastern Africa, as well as a survey of South African small and medium-sized enterprises exporting to the region. Though tariffs were held to be important for companies outside of South Africa, the trade barriers most often mentioned as concerns were customs procedures, red tape and corruption, divergence of standards and requirements across markets in the region, high transport costs due to both regulation and infrastructure problems and non-tariff barriers in the form of import bans, suspended duties and the like.

Several companies considered harmonisation of requirements – in other words, establishment of “one set of rules” for entering markets in the region – to be the single most beneficial change that regional integration could deliver.

Other constraints to operating in the region relate to the business environment, priorities being non-payment or late payments and lack of financial services. For companies in landlocked countries, transport costs are often the single largest factor in the lack of competitiveness.

Regarding overlapping membership, main problems relate to the proper administration of tariffs, enforcement of rules of origin at borders (which may also breed corruption) and confusion due to

¹ A number of initiatives are under way to try to avoid a clash in the future at the regional level. COMESA, as a secretariat and through the member states of EAC, has for example been involved in setting the EAC common external tariff. With future plans for SADC, dialogue on the customs union will remain difficult until SADC moves towards defining the possible parameter for its own common external tariff.

the lack of coordination amongst different regional integration initiatives. Poor articulation of tariff liberalisation under the different agreements and the possible infiltration of duty-free EU goods, for instance, from SACU into SADC and via Tanzania into the EAC, are also concerns.

Regional integration policy: priorities and overlapping membership

We look at the policy process for regional integration, assessing what is most important and where overlapping membership is a key issue. Our concern is with overlapping membership initiatives have with overlapping mandates to achieve economic integration.

Measures to address the business priorities of the private sector are not necessarily constrained by overlapping membership or by the absence of a common trade policy: many of the of the barriers mentioned were cited for intra-SACU trade and several of the companies consulted found it easier to trade with countries with which there are no regional or bilateral trade agreements than with those belonging to the same regional integration initiative. Rather, regional free trade is held back by problems of implementation and a seemingly equivocal commitment to achieving regional integration as evidenced by the proliferation of non-tariff barriers to take the place of tariffs, with governments often unwilling or unable to face down the lobbying of a particular national interest group.

Opinion differs widely on the implications for deep integration of overlapping membership in regional economic integration initiatives. Over the longer term, countries which make up the membership of a regional organisation could assign specific responsibilities to a specific regional organisation so that overlap would be in membership only and not in functions, enabling both deep and broad integration.² However, this currently remains an option, rather than the stated policy of the integration initiatives in the region. On balance it seems that overlapping membership serves to undermine regional institutions. In the words of one Rwandan official, ‘The problem of belonging to several regional organisations is that you are not serious enough.’

Where there is shared jurisdiction between different regional integration initiatives, where responsibility for enforcement is not precisely demarcated, where there is no transfer of sovereignty to regional institutions and where the political commitment to a particular regional integration initiative is unclear, the leverage of regional institutions and member states to enforce implementation will be limited.³ To address the non-tariff barriers and the uncertain implementation that are key concerns of the private sector, some transfer of sovereignty to regional institutions is required.

Sovereignty cannot be effectively transferred, for instance, to both SADC and COMESA, while they each retain a mandate in economic integration, unless there is convergence in arrangements and implementation.

² Countries are members of different regional organisations for different purposes. One such organisation may offer regional cooperation instruments, such as a common watershed management policy, common power-pool etc., while another offers economic cooperation instruments such as a free trade area, regional competition policy, harmonisation of external tariffs leading to a common external tariff, etc.

³ The issue here is one of achieving free trade within the regional grouping rather than of completing a bureaucratic exercise. In *The Mid-Term Review of the SADC Trade Protocol* (2004), the Trade Specialist Group of USAID (www.satradehub.org) revealed the importance of the distinction: while most countries had implemented commitments on tariff liberalisation in many instances discriminatory taxes permitted restrictions and even bans that nullified the impact of reductions.

1 Private-sector perspectives and priorities in regional integration

Several of the main companies operating at the regional level were consulted in the course of this study, as well as leading national firms and private-sector representatives in Tanzania, Kenya and South Africa. The study also draws on research carried out in Namibia and Rwanda and during the mid-term review of the SADC Trade Protocol. Companies operating at the regional level provided a particularly useful perspective, as they enabled a direct comparison of experiences across different countries.⁴

Tariffs are an important concern of companies outside of South Africa, as is underlined by the 20% per annum increase in intra-COMESA trade since the introduction of the free trade area. However, according to many companies agreements exist “on paper” only in the sense that their implementation is often poor and their provisions cannot be enforced. Also, in some cases non-tariff barriers have taken the place of tariffs. This was confirmed by several companies, which reported finding it easier to trade with countries with which there are no regional or bilateral trade agreements than with countries belonging to the same regional integration initiative.

Companies also indicated the extent to which constraints to competitiveness relate primarily to the domestic situation. In a survey of Tanzanian businesses carried out by the Confederation of Tanzanian Industry (CTI), 36% of respondents indicated that high taxes made them uncompetitive in the East African market, and 29% cited high energy costs as a key problem; no companies included trade policy measures among their major concerns (CTI 2002).

1.1 Problems of overlapping membership

Businesses and private-sector representatives mention as the main problems of overlapping membership the proper administration of tariffs, enforcement of rules of origin at borders (which may also breed corruption) and confusion due to lack of coordination amongst regional integration initiatives. The poor articulation of tariff liberalisation under the different agreements, where for instance Kenya under the EAC transition arrangements may face higher tariff barriers in Uganda and Tanzania than COMESA and SADC members, respectively, was also raised as a concern, as was the possible infiltration of duty-free EU goods from SACU into SADC and via Tanzania into the EAC.

1.2 Barriers to regional trade

For firms outside of South Africa, tariffs are a significant issue. Businesses in Namibia report having been hard hit in regional markets by the withdrawal from COMESA while SADC partner tariff reduction schedules are being phased in. Particularly affected have been low-value high-volume goods such as salt. In Tanzania discussions with the private sector revealed a strong preference to rejoin COMESA to regain preferential access, a position which is now supported by the East Africa Business Council. This view was also noted by researchers at Tanzania’s Economic and Social Research Foundation:

⁴ The analysis was only able to capture formal trade. While recognising the importance of informal trade, the direct impact of most trade policy is largely on the formal sector.

Tanzanian business community strongly opposed Tanzania's withdrawal from COMESA [...] the feeling we got from the interview with the private sector umbrella organizations is that the private sector benefited much more from COMESA than is the case with SADC (Kweka and Leyaro 2004).

Many companies throughout the region, excluding South Africa, cited protection from tariffs in domestic markets and tariff preferences in regional markets as mitigating domestic constraints to competitiveness. However, the importance of domestic factors was underscored during consultations. For example, a leading Kenyan business representative cited the reduced cost and improved reliability of electricity supply as the single change in the business and trade environment that would most improve the day-to-day operations of his company – a view shared by many in East Africa, including in Rwanda.

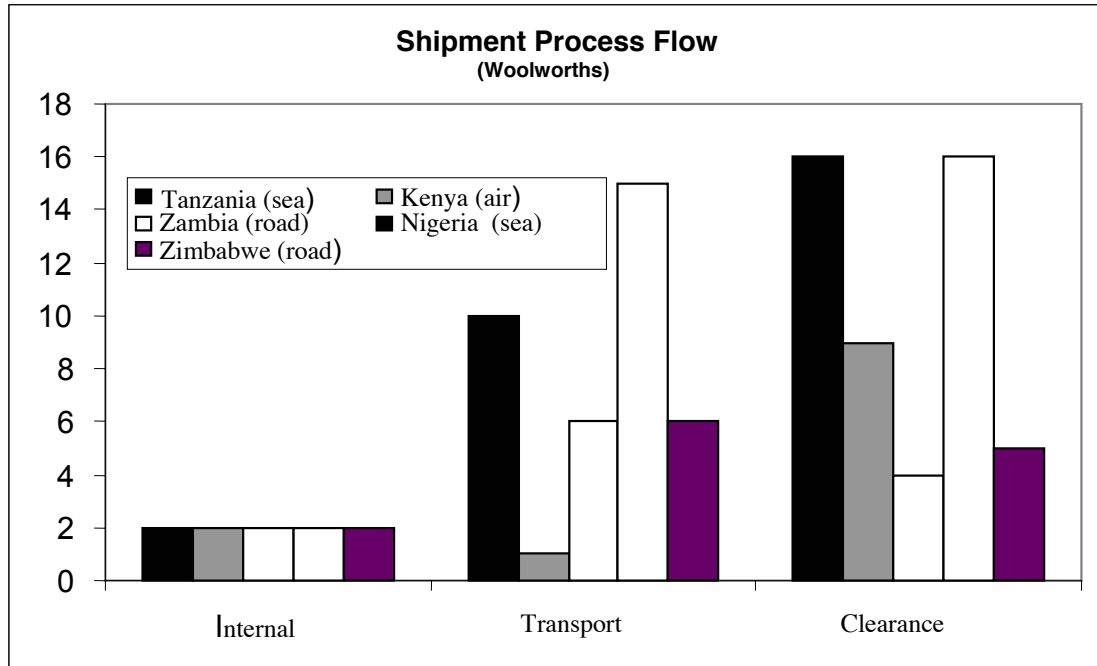
The main barriers mentioned to regional trade are customs procedures, red tape and corruption, differences in standards and requirements in the various markets of the region, high transport costs and non-tariff barriers in the form of import bans, suspended duties and the like. According to several companies, the harmonisation of requirements, or “one set of rules” for entering markets in the region, was the single most beneficial change that regional integration could deliver, both in terms of documentation and of technical requirements and standards. Other barriers related to the business environment, difficulties in resolving late or non-payments and availability of finance.

Customs procedures

The experience of Woolworths in moving goods throughout sub-Saharan Africa offers a perspective. Figure 1 indicates the shipping process flow. Here, two points are worth noting. First, experiences differ widely across SADC. For example, the clearing process normally takes two to four days in Zambia, while in Tanzania it takes an average of two weeks, though goods are often held there for more than a month. The delay in Tanzania is mainly due to the country's pre-shipment inspection requirement.

Second, the existence of trade agreements does not seem to have a noticeable impact on the shipping flow. Clearance times for Tanzania and Nigeria from South Africa are the same. The fact that the easiest countries, logistically speaking, for Woolworths to operate in are Ghana and Uganda underscores this point.

Figure 1. Shipment process flow (number of days taken)



The form of transport also matters a great deal. For example, the clearance process for airfreight in Kenya takes between six and eight days, including pre-shipment inspection, while the clearing time for sea freight is the same as for Tanzania. Reasons given for this disparity are differences in customs infrastructure, procedures and quality of personnel. This offers some indication of the performance improvements that could be gained by upgrading customs capacity.

Box 1: Pre-shipment inspection in Tanzania

Companies mention Tanzania’s pre-shipment inspection requirement as a significant barrier to trade. The experience of a major South African retailer operating in Tanzania reveals the following:

- For sea freight shipments requiring pre-shipment inspection, the clearing process takes an average of two weeks, a minimum of four days and a maximum of 30 days.
- For airfreight shipments requiring pre-shipment inspection, the clearing process takes seven to ten days, and for shipments not requiring inspection (those under US \$5,000) a minimum of three days is needed.
- Pre-shipment inspection adds 1.2% to the f.o.b. price.

Other problems relate more to the performance of customs than to the regulations as such. Many companies mentioned the inconsistent application of customs legislation and procedures, including within SACU. Also, personnel changes are often accompanied by border problems. An example is the misapplication of immigration laws. In one instance a Namibian driver in Zambia was informed that he required a new permit, but after significant delay and further inspection, the driver’s permit proved valid for another 27 days.

Several traders in Namibia said that even the tariff rates applied can vary, though it is impossible to ascertain whether this is simply a classification problem (for example, computer equipment is subject to a different tariff rate if it is classified for use in telecommunications).

Red tape, technical regulations and corruption

As mentioned, several companies consider the harmonisation of requirements or “one set of rules” for entering markets in the region to be the single most beneficial change that regional integration could deliver. Table 1 indicates the divergence of requirements, even within SACU.

Table 1. Documentation requirements

	Namibia	Botswana	Swaziland	Mozambique	Zimbabwe
Tax invoice			X		
SDN		X	X		
CCA1	X	X	X	X	X
Commercial invoice	X				
BW 500		X			
Health certificates	X	X	X	X	X
Permits	X	X	X	X	X
BOE				X	X
SARS export certificate	X	X	X		

All require bank clearance F178 if the value of the invoice is more than R50,000.

Source: Information provided by Woolworths Ltd. Cited in Trade Specialist Group/USAID (2004) at www.satradehub.org.

In the consultations no company indicated that standards or technical regulations were being used deliberately as a protectionist tool. But they did consistently point to differences in regulations and slow procedures as barriers to trade. To deal with the different requirements, some companies operating across the region employed specialists for each country. Examples of problems encountered are a shipment of condensed milk being accepted in some countries but rejected in others, differences in the quality of imports permitted, with Kenya refusing “Tiger Head”-brand batteries and Uganda accepting them and light bulbs being accepted in Uganda and Tanzania but rejected by Kenya due to their standards legislation being out of print and unavailable.

However, the potential cost of not harmonising and expediting regulation is most clearly illustrated by seed policies and registration requirements, in this case related to SPS regulations.⁵ The current situation requires every new seed variety to be tested by a national authority and listed on a national variety register before it can be marketed commercially in any SADC country. The testing can take up to three years after which a variety release committee considers the results. This is irrespective of whether the variety has already been released in another country, as the rules on variety testing and release differ between countries. This unnecessarily duplicates activities and slows the release of new varieties to farmers.

⁵ This example is taken from ESRF (2003).

Consultations also confirmed the role of corruption. Some companies estimate that corruption adds 3% to 7% to operating costs; and not paying bribes could delay a shipment for weeks.⁶

Transport costs

For landlocked countries in particular, transport costs are a main constraint to competitiveness. Table 2 provides estimates of the cost of importing a key input, indicating the landed price of inputs is between 25% and 43% higher relative to regional competitors. This is in line with several earlier studies in Southern and Eastern Africa which suggest that companies in landlocked countries face 50% higher transport costs than their water-accessible counterparts.

Table 2. Import of raw materials, palm oil (in bulk), cost comparisons per tonne

	Rwanda (US\$)	Uganda (US\$)	Kenya (US\$)
FOB	440	440	440
Sea freight to Mombasa	45	45	45
Clearing, storage charges (Mombasa)	29	29	9
Road/rail transport	180	90	35
Insurance	3	3	2
CIF	697	607	531
Import duty	35 (5%)	0 (0%)	0 (0%)
Clearing, storage charges (Kigali)	28		
Bank charges	3.5	3	2.7
Landed cost per ton	764	610	534
<i>Increase vis Uganda</i>	25%		
<i>Increase vis Kenya</i>	43%		

Source: SULFO Rwanda Industries.

As Table 2 shows, a large part of the higher cost results from physical infrastructure constraints coupled with the need to travel longer distances. However, the breakdown also indicates a significant direct cost of a “second round” of customs clearance, between 5% and 10% of the f.o.b. price.

In addition, companies bear the cost of delays at borders. For one Kenyan company it was not uncommon to pay up to US \$3,000 demurrage/waiting fees on a lorry-borne container worth an average of US \$35,000; that is, 5% to 10% of the value of the shipment.

Transport costs are being driven higher by laws restricting the operations of transport companies in the region. Cabotage laws segment and distort the market for transport services by preventing transporters from operating outside the country in which they are registered. Hence, a Namibian registered truck with a shipment for Gaborone (Botswana) cannot pick up a load in Gaborone to take to Durban (South Africa), for instance. Similarly, a South African truck delivering goods to Oshkati (Namibia), for instance, cannot accept a consignment for delivery in Windhoek (Namibia).⁷ However, COMESA has a common carriers license which registers transporters in all

⁶ The private sector shares some responsibility for this problem, as it is often the case that the private sector circumvents procedures by either lobbying the government or paying officials to fast-track an import. This undermines national capacity and sets a precedent which others in the private sector must then follow.

⁷ See TSG/USAID (2004).

COMESA countries, allowing carriers to carry backloads and thus significantly reducing the costs of transport.

The form of transport and the ratio of value to volume plus weight of cargo also matters. Table 3 sets out the different costing, provided once again by Woolworths, for shipping required stock from Cape Town to Nairobi. The conclusion that airfreight is cheaper than shipping by sea or by road is initially hard to believe, but it is the consequence of the specific goods moved. Airfreight becomes viable for high-value goods that are low in weight and volume. To illustrate, \$700 will buy up to a ton of airfreight with a fixed unit space. This allows a lot of, for example, shirts to be transported. US \$750 will buy around 27 tons in a sea container, which is beyond the requirement for high value, low weight and volume products. Another example is the cost of moving a car from Durban to Nairobi, which is \$800 dollars by air, while by sea Durban to Mombasa alone would cost \$700.

Table 3. Freight (high value-added products): Cape Town to Nairobi

Options	Rates	Frequency/transit times
Airfreight: Cape Town to Nairobi	R 15,055	day 1, 3, 5 & 7
Road: Jhb & airfreight to Nairobi	R 10,633	Monday and Friday
Rail: Jhb & airfreight to Nairobi	R 17,143	daily ex Jhb.
Sea: Cpt to Mombasa and road to Nairobi	R 27,279	weekly 12–13 days
Sea: Cpt to Mombasa and rail to Nairobi + Mombasa to Nairobi	R 21,413	weekly 12–13 days 20 days

Source: Woolworth Plc. See text for explanation.

This illustrates the extent to which transport costs are higher for low value-added, high-volume goods, exactly the type of goods most likely to be produced by the agricultural sector and the poor.

Non-tariff barriers

Non-tariff barriers take various forms within Southern and Eastern Africa. For example, in Zambia, though tariff and quota restrictions have been removed, import licences are required for agricultural imports and these licenses are often not granted. In addition, as tariffs fall under COMESA, Zambia has implemented temporary bans on Zimbabwean products (most of them agricultural).⁸ Import licences for meat, poultry, salt and sugar are still required for Malawi. In Tanzania there are several cases in which excise duties are highly discriminatory. To illustrate, if the tobacco used in cigarettes is 75% or more Tanzanian, the excise duty is 3,500 Tanzanian shillings per 1,000 sticks; if cigarettes are imported or use less than 75% Tanzanian tobacco, the excise duty is 17,000 shillings per 1,000 sticks. Exporters to Tanzania also face an increasing use of suspended duties to protect local industry. Suspended duties on batteries are between 25% and 35%.

⁸ According to the ESRF (2003), 14 six-month bans were imposed in 2002 alone.

The proliferation of non-tariff barriers⁹ risks nullifying any increases in regional trade resulting from the phasing out of tariffs and quota reductions. To make this point, one business representative in Kenya remarked that the implementation of the EAC customs union would have little impact on export opportunities in Tanzania since exports are ‘always being hit by suspended duties’.

Intra-SACU trade in agricultural products appears as affected by these non-tariff barriers, despite the customs union agreement which precludes such measures.¹⁰ Botswana imposes periodic bread bans. Swaziland imposes levies of between 4% and 25% on selected agricultural products ranging from maize and wheat to fruits and vegetables to poultry (table 4). Namibia controls maize imports and effectively bans wheat imports for human consumption through licensing permits, while Lesotho controls imports of bread, fruits and vegetables, pulses and dairy and meat products through the use of an import permit system.

Table 4. Swaziland scheduled agricultural products and levies

Product	Levy (%)
Whole white maize grain	1–4.5
Maize meal and other products	7.5
Rice	3.5
Fresh fruits, excluding apples, pears, peaches, grapes and bananas	7
Apples, pears, peaches and grapes	4.5
Bananas	6.5–25
Fresh vegetables, excluding cabbages, tomatoes, potatoes and sweet potatoes	1–10
Cabbages, tomatoes, potatoes and sweet potatoes	
Poultry and poultry products (excluding turkey)	13.5
Turkey and turkey products	20–25
Whole wheat	3–5
Wheat products	7–18.5
Frozen vegetables	7.5

Source: Namboard Annual Report (2002), National Agricultural Marketing Board Act (1985) and Amendment Notice (2002), WTO Trade Policy Review (2003), *A Comprehensive Agricultural Sector Policy for Swaziland* (2004), Ministry of Agriculture and Cooperatives, Trade Specialist Group/USAID (2004).

1.3 Perspective of formal sector SMEs (South Africa)

In general, it is the larger companies that operate at a regional level. Small and medium-sized enterprises in the region tend not to export, at least not directly. Most of their products are sold on local markets, and if they are traded across borders it is generally done through the informal sector. The informal sector is not included in this study, not because it is unimportant, but because the decision to remain in the informal sector and the sector’s operations are generally unrelated to trade policy (except in the case of smuggling, which is touched upon later in this paper).

The only small and medium-sized enterprises that are significant exporters in the region and operate within the regulation of regional agreements are in South Africa.

⁹ See Trade Specialist Group/USAID (2004).

¹⁰ SACU has an infant industry clause which legitimately allows members to shelter an industry from competition with other SACU partners for a period of up to eight years. The only measures currently covered by this clause relate to three products in Namibia – pasta, broilers and UHT milk.

To gain a perspective on the challenges and opportunities facing small and medium-sized enterprises a survey was carried out in Johannesburg in cooperation with the NAFCO/JCCI.¹¹ The survey included formal-sector enterprises that were already exporting, aware of the importance of representation and able to articulate their requirements. In other words, it was not a random sample of the sector as a whole but rather an attempt to gain a glimpse of the relative importance of different barriers to different markets, often for the same firm (many of the companies exported to more than one destination). Some 79 firms, ranging in size from sole proprietors to 30 employees, responded to a questionnaire by the NAFCO/JCCI to their members on regional trade and support to small and medium-sized enterprises.¹² Manufacturing was the main activity amongst respondents (46%). Twenty percent of the firms were service providers (e.g. crane hire and media) and 20% included in their activities wholesaling, retailing and agency work. Eighteen percent of firms were engaged in more than one activity.

Of the responding firms, 73 do business outside of South Africa, 57 firms (80%) trade within Southern Africa, 45 firms trade with the European Union, 33 with the Far East and 32 with Central Africa. Respondents clearly indicated the EU as the easiest region to do business with. The picture for Southern Africa is less clear, but more firms see it as the easiest region (47%) than see it as the most difficult (39%). Within Southern Africa, 11 firms listed SACU countries as the easiest to do business with. Views on Zimbabwe and Mozambique were mixed, though on balance more firms placed them amongst the most difficult than amongst the easiest countries. Angola, Tanzania, Democratic Republic of Congo, Ethiopia and Kenya are all unambiguously “difficult” countries.

What makes a region or country easy to do business with?

Firms were asked to explain their choice of easiest region to do business with.¹³ Figure 2 summarises the responses. The most important factors are strong business ethics and culture (27 firms), followed by language and proximity (16). A strong business framework, in terms of financial and legal systems and political stability is key, as are good customs procedures, transport logistics and communications, minimal red tape and low trade barriers (primarily low tariffs).

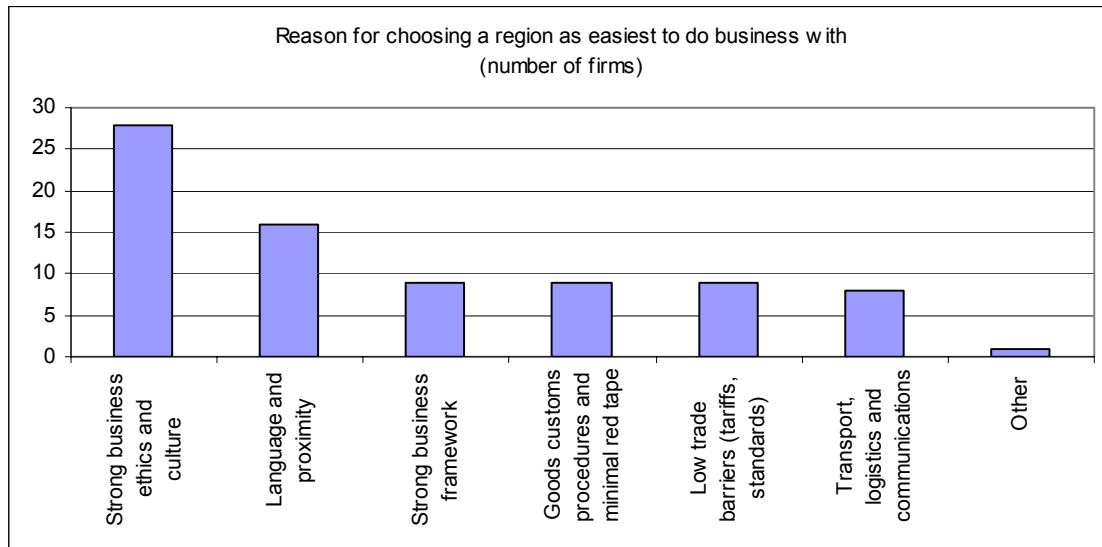
Proximity and strong business practice are the most important reasons for respondents that included Sub Saharan Africa and North Africa amongst the easiest regions to do business with.

¹¹ Special thanks to Nada Reyneka and Tisch Schute.

¹² Eight-hundred firms were invited to respond to a faxed questionnaire.

¹³ Firms were not presented with a checklist but allowed to identify key issues themselves. For details of the classification of responses in different categories contact nada@nafcocjcci.co.za or nickcharalambides@yahoo.com.

Figure 2. Reason for choosing a region as easiest to do business with



Barriers to doing business in sub-Saharan Africa

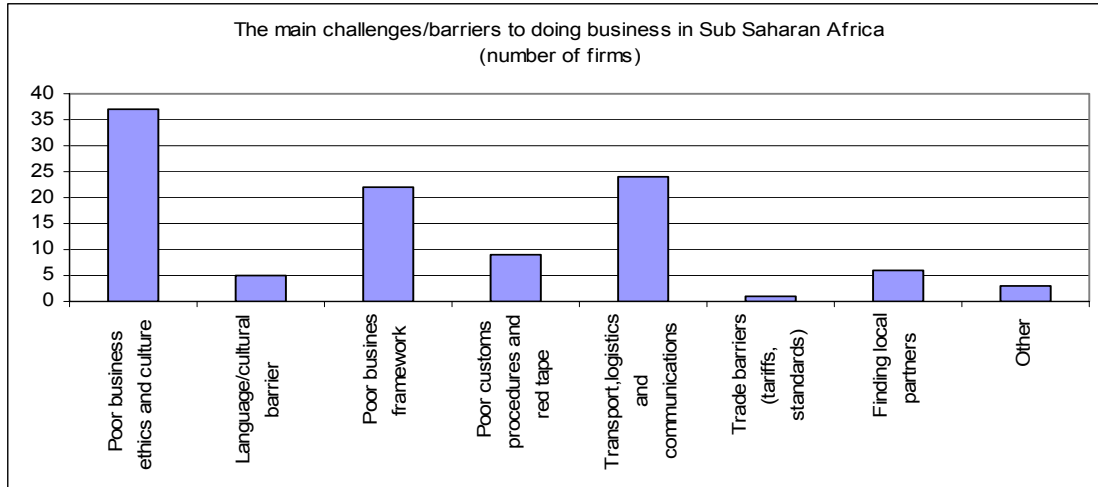
Firms were asked to list the three main barriers they faced in doing business in sub-Saharan Africa. Figure 3 summarises their responses. Half of the firms (37) cite poor business ethics and culture as a key constraint. Non-payment and corruption are the most prevalent problems in this category. However, the failure of suppliers to meet requirements in terms of quality, price and volume were also significant issues. Twenty-four firms cited transport, logistics and communications as important barriers, particularly the high cost and infrequency of shipping, poor communications and the high cost of airfares. High airfares and poor communications can be very damaging to small and medium-sized enterprises’ efforts to develop new markets, which, in the words of one respondent, requires local knowledge and ‘a lot of travel’.

A poor business framework, mainly with regard to foreign exchange controls and constraints on finance, but also resulting from economic instability and the strength and volatility of the South African rand, was an important constraint for 22 firms. Poor customs procedures, in particular the heterogeneity of procedures and required documentation and red tape, were considered a main barrier by nine respondents. Finding a reliable local partner in sub-Saharan Africa is also a challenge (6 firms). One firm pointed out the difficulty of finding local partners to provide after-sale service.

Only one firm cited tariffs as a major barrier to trade.¹⁴

¹⁴ However, this may reflect an approach to business whereby small and medium-sized enterprises take tariffs as given.

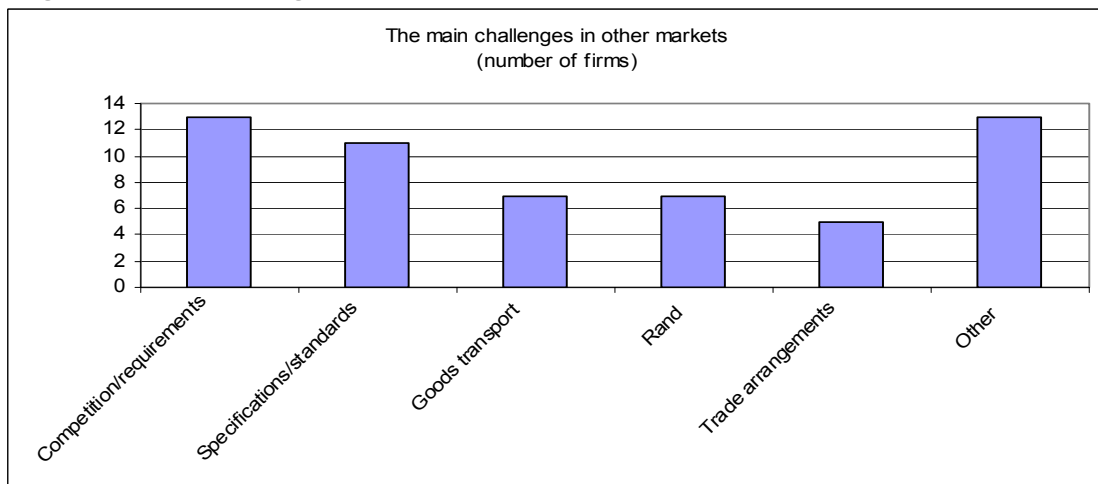
Figure 3. Main challenges/barriers to doing business in sub-Saharan Africa



Challenges in other markets

Thirteen firms cited strong competition and strict requirements as major challenges in other markets (figure 4). Specifications and standards are barriers for 11 firms, while the high cost of goods transport and the rand’s strength and volatility were problems for seven firms. Five firms considered trade arrangements to be a barrier, with some pointing to tariff barriers and others citing preferences enjoyed by third countries as a problem when competing in these markets.

Figure 4. Main challenges in other markets



1.4 Potential role of the private sector

The last decade has witnessed rapid growth in companies, mainly South African, operating at the regional level. Indeed, the growth of South African retail chains throughout Southern and Eastern Africa is the most visible sign of regional integration. This expansion of South African industry and commerce is politically sensitive. As one executive put it, ‘We do not want to become South Africa’s car park.’

However, the ability of these larger companies to absorb risks, their distribution network and their technical capacity offer real opportunities for countries in the region to enhance production for local, regional and international markets.

In a few cases we have seen companies exporting to regional partner countries, building markets that have since become *competitively* supplied locally. In 1995 Unilever South Africa began exporting to Mozambique, building the local market and developing brand awareness. In 2001/02 it invested in local production, with a turnover of 130–140 million rand, creating 65 jobs. Zambia has also witnessed regional exporters developing local markets which were then exploited by local companies (e.g. producing pannettes for horticultural exports).

Sourcing locally is the most direct way that retail chains can benefit local producers, though this is counterbalanced by the need to ensure no adverse effects on the price and quality of goods available to consumers. While there has been no overall evaluation of the extent of local sourcing, information from Shoprite (PTY) Ltd provides some indications (table 5). Information is also available from Metcash, which reports local sourcing at 95% in Zimbabwe, 75% in Malawi and 10% in Angola. The degree to which local producers supply local stores thus varies widely. Country size, natural resources and climate drive the differences to some extent, but are unlikely to explain the large range in outcomes (between 5% and 95%). This suggests significant opportunities for expansion.

Table 5. Local sourcing: Shoprite (PTY)

	Number of stores (incl. Shoprite, Checkers, OK, OK Furniture, Megasave, U- Save and Hungry Lion)	Percentage of goods sourced locally
Zimbabwe	1	95%
Namibia	15	90%
Ghana	3 (U-Save only)	90%
Zambia	25	70%
Mauritius	1	70%
Mozambique	3	60%
Madagascar	6	60%
Average		52%
Uganda	3	50%
Tanzania	7	50%
Swaziland	2	35%
Malawi	8	35%
Botswana	6	10%
Lesotho	4	5%
Angola	3	5%

Source: Shoprite PTY.

Several companies indicated strong incentives for them to source locally, as a result of high transport costs and political sensitivity. As mentioned, the main constraints they face relate to quality and reliability of supply. One premium brand company reported that its ability to source outside of South Africa in some instances is constrained by the ability of producers to get higher prices in EU markets to which they also have duty-free access.

Note that the degree of local sourcing is largely unrelated to preferential trade agreements – at least as they are currently implemented. SACU members appear both at the top and at the bottom of table 5. The same is true for countries with no formal trade arrangements with South Africa – witness Ghana and Uganda’s positions.

There are also opportunities for upgrading standards. In Zambia, Freshmark, the fresh produce buying arm of Shoprite, is working integrally with growers, offering them technical assistance in the application of chemicals and providing chemical spraying equipment. Nandos sources some 60% of its products locally, the categories being poultry, bakery goods and vegetables.¹⁵ Nandos assists local producers such as chicken farmers and bakeries to raise their skill level and added-value processes to meet their specifications. A compliance director provides training to help suppliers meet requirements, and suppliers are assisted in becoming HACCP compliant, which is a pre-requisite for supplying poultry to the brand. HACCP compliance opens more opportunities, enabling producers to overcome SPS and technical barriers in some key markets.

Market opportunities also exist in South Africa for certain niche products. For example, some fresh produce is seasonal in South Africa, whereas the climate in Zambia allows year-round production. To ease the burden of transportation costs, retail chains could potentially provide what is effectively subsidised transport for exporters to South Africa. Many trucks return empty, implying low marginal costs for return shipments.

¹⁵ On establishment in a country, it initially imports 80% of products.

2 Regional integration policy: priorities and impact of overlap

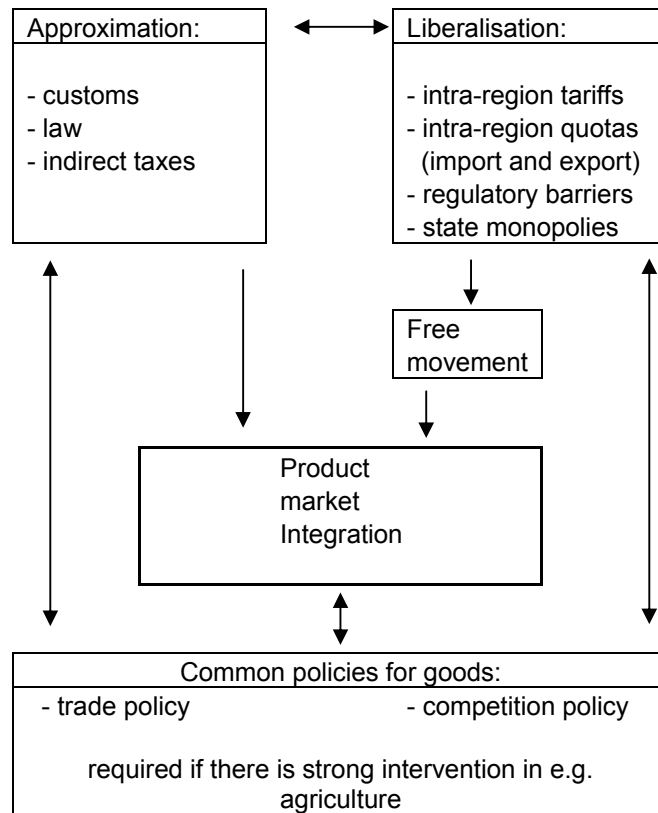
Having gained some insight into the perspectives of the private sector with regard to trade in goods, we can now assess the potential impact of regional integration policies and the extent to which overlapping membership constrains the necessary policy measures. We draw on the experience of the EU to shed light on what is, and what is not, achievable, at different levels of integration.

Integration can be characterised in four stages:

- (1) *Free-trade agreements* involve reciprocal opening of markets for “substantially” all trade, generally going beyond tariffs and quotas and increasingly covering standards (including mutual recognition agreements) and regulation, trade facilitation, services, investment and competition and in some instances public procurement. Countries maintain sovereignty over their tariff and trade policy with regard to third parties. Fiscal frontiers and rules of origin also remain.
- (2) *Tariff unions* imply a free-trade agreement plus a common external tariff, though with no common trade policy beyond the common external tariff and no customs pool.
- (3) A *customs union* implies a common external tariff, a customs pool and generally a common trade policy. If all trade arrangements with third parties are harmonised then rules of origin no longer apply. Fiscal borders remain, as well as border controls, for instance, for goods for which safety standards differ.
- (4) A *single market* allows for the free circulation of goods. It requires a common trade policy, harmonisation of standards and common policies on competition, as well as on trade and in areas where there is substantial intervention in the market (figure 5).

Overlapping membership prevents the establishment of a common external tariff unless all of the concerned integration initiatives harmonise their common external tariffs. However, it is important to note that the stages as described above are simplified. Advances, for instance, in harmonisation of standards can be achieved with a free-trade agreement independent of the establishment of a common external tariff.

Figure 5. Framework for single market in goods



2.1 Customs unions and border transaction costs

An important reason for forming a customs union is to do away with the transaction costs involved in border formalities, including rules of origin. Addressing customs procedures and red tape have also been identified as a priority.

However, in terms of reducing red tape at borders, the impact of a common external tariff may be limited unless a customs pool system is developed, fiscal frontiers removed, technical regulations harmonised and individual customs authorities given sufficient confidence in the institutional capacity of other member states to implement. Here, the European Union's experience is informative:

Despite the absence of customs duties in trade between member states, in fact, there was little difference in administrative burden or appearances between intra-Community trade and trade with non-member countries... Customs clearance at the Community's internal frontiers was elaborate and time consuming (European Commission 1999).

Only with the establishment of the single market did free circulation of goods within the Community become a reality.

Doing away with the need for rules of origin may have the largest potential impact. However, even this requires not only a common external tariff, but also a raft of measures harmonising non-tariff barriers. This is a demanding process that took the European Union 30 years to achieve. In the initial stages member states were allowed to maintain their own quotas on certain third-country imports and use border controls to prevent their circulation (Winters 1993). The EU-Turkey customs union (for industrial products only) allows either party to impose anti-dumping duties on the other, automatically requiring rules of origin in order to define partner goods.

Therefore, while establishing a customs union can be an important step towards reducing transaction costs, in the short run transaction costs may be addressed by focusing on trade facilitation and infrastructure development under NEPAD or with spatial development initiatives and transport corridors. Furthermore, the experience of the European Free Trade Association (EFTA) reveals that, in principle and given sufficient resources, the free movement of goods can be achieved within a free trade area and does not require a customs union. Similarly, according to the EFTA secretariat, Norway is considering applying the same technology that has accommodated the differences in excise and value-added taxes within the European Economic Area (EEA) to take account of different tariffs applied by parties to the EEA (i.e. the EU and most of the members of EFTA).¹⁶ However, the resources involved are significant.

2.2 Bans, suspended duties, discriminatory taxes and the like

Bans, restrictive import permits, discriminatory taxes and suspended duties are major challenges to the private sector. These problems, however, are unrelated to the absence of a common external tariff. Indeed, many of the barriers mentioned in the consultations were intra-SACU.

In view of the concern expressed by several companies about these measures, it seems likely that addressing these barriers would have a bigger impact on regional trade than the establishment of a common external tariff as such. Addressing these issues effectively and efficiently, however, requires a well-financed and well-resourced regional organisation or regional structure, working under a rules-based system and backed by an enforcement system and a dispute resolution mechanism.

2.3 Technical regulation, standards and overlapping membership

With regard to technical barriers to trade and SPS measures, overlapping membership becomes important when different regions develop divergent regulations and standards. Company interviews revealed some instances of divergences in standards, particularly between Kenya and South Africa which may have implications for Tanzania if EAC standards converge with those of Kenya. However, there was little evidence to suggest technical regulations and standards are being used as a trade protection measure.

¹⁶ For more information visit www.efta.int.

More importantly, given that the main markets for countries in Southern and Eastern Africa lie outside of the region, the focus for the development of regulations, standards and compliance should be to access those markets by adopting international standards as opposed to establishing regional ones. This, however, is not always easy given that standards applicable in, for example, the European Union and the United States sometimes differ. Indeed, the problems of overlapping membership could potentially be most significant where regional integration initiatives are negotiating agreements with trading partners that strongly diverge in their approach, as in the case of EU and US food safety standards.

Interviews with European Commission experts suggest that while in the short term the divergence between American and European food safety standards may present a dilemma for some countries, over the longer term, for each country to maintain access to the EU market in certain agricultural products for instance, they will have to develop an institutional framework and capacity to manage both systems. This is inevitable given the presence of genetically modified crops in the region, the fact that countries share the same rivers and the knowledge that winds carrying seeds do not respect national boundaries.¹⁷

2.4 Transport costs

Transport costs are driven largely by poor and fragmented infrastructure in the region. The map in figure 6 taken from the *SADC Barometer 2003* provides an indication of the discontinuities of the transport system and also the potential of some of the NEPAD supported infrastructure projects.

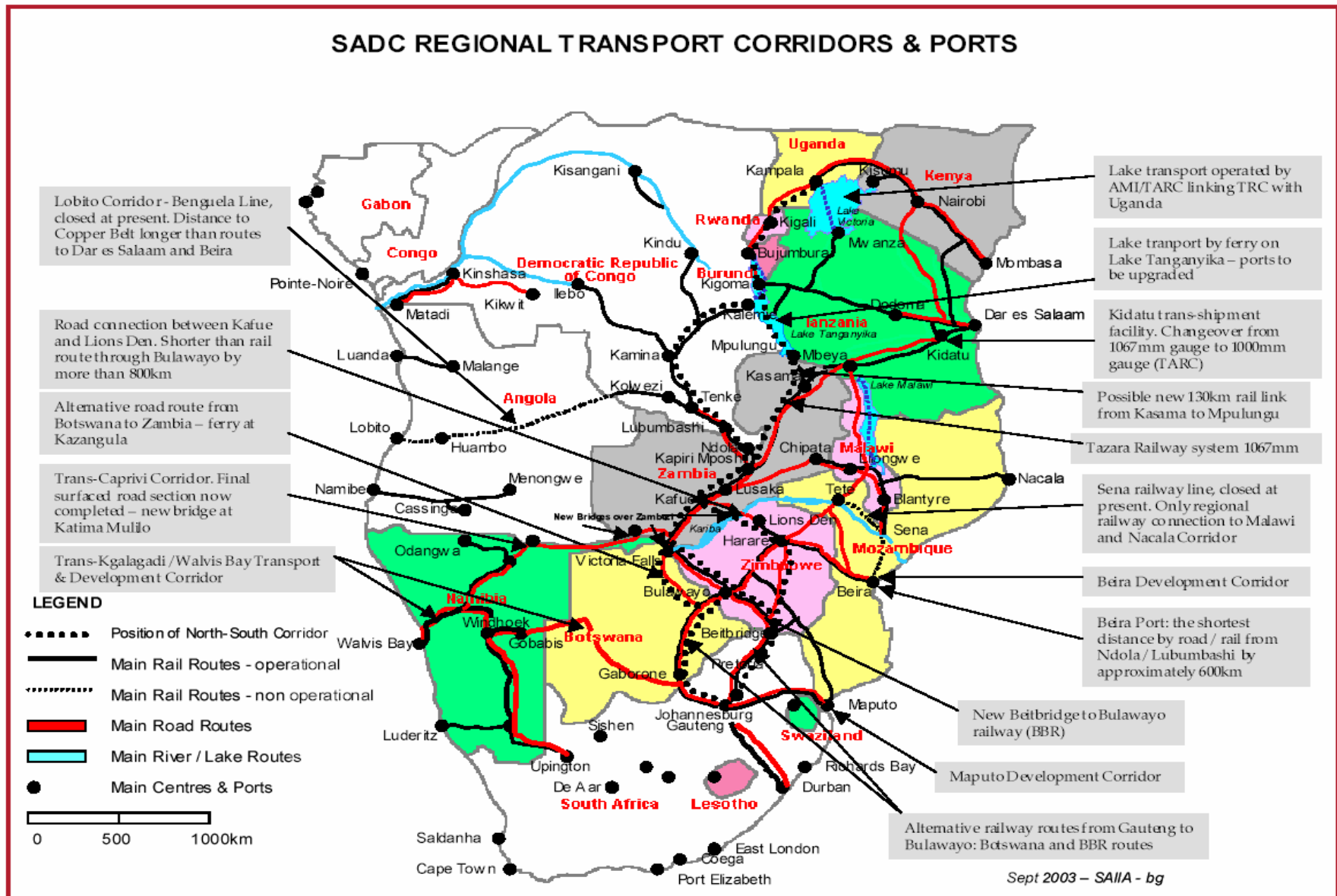
Cooperation on transport corridors can be developed independent of a common trade policy, and unilateral liberalisation can address some of the factors keeping transport costs high – such as cabotage laws. But the impact will be far greater if the liberalisation of such laws can be negotiated at the regional level.

2.5 Other measures

Given the extent to which late or non-payment can constrain particularly small and medium-sized formal-sector enterprises, establishing credit bureaus and enabling information sharing on credit histories across the region could enhance intra-regional trade. This would serve to compliment the development of a regional payments and settlement system and a trade insurance system.

¹⁷ These issues are being addressed. The EU-East and Southern Africa (ESA) EPA negotiations are to include an audit of SPS requirements and design a programme to address deficiencies. According to the COMESA secretariat, good progress is being made in harmonising standards. The process followed is the same as that used by other international bodies such as CODEX.

Figure 6. SADC regional transport corridors and ports



3 Conclusions

Consultations and interviews with Southern and Eastern African companies and private-sector representatives underline three main concerns related to the overlapping membership of countries in regional integration initiatives: confusion over which regime and rules of origin apply at borders, limited coordination between COMESA and SADC, and the potential for infiltration of duty-free goods through partner countries with differing trade arrangements with third parties. These concerns are in part information problems, reflecting the poor state of awareness on trade arrangements and poor implementation of rules of origin.

Priorities expressed by the private sector relate mostly to customs procedures and red tape, bans and non-tariff duties, transport infrastructure and the business environment. Many of these issues can be addressed by measures that do not require the establishment of a customs union. Indeed, many of the barriers were cited for intra-SACU trade. Moreover, several of the companies interviewed found it easier to trade with countries with which there are no regional or bilateral trade agreements than with countries belonging to the same regional integration initiative.

Regional free trade seems to be held back by problems in implementation and an apparently equivocal government commitment to achieving regional integration, as evidenced by the proliferation of non-tariff barriers to take the place of tariffs. Less ambitious but properly implemented plans for regional integration would therefore better serve the needs of the private sector.

The problem of overlapping membership which so occupies policy circles need not prevent resolving many of the priority needs of the private sector. That said, strong implementation mechanisms are needed to address non-tariff barriers and other trade restrictions within the region. This will generally involve some transfer of sovereignty to regional institutions. Sovereignty cannot be effectively transferred to, for instance, both SADC and COMESA, while each retains a mandate in economic integration, unless there is convergence in arrangements and implementation. It may be that the biggest impact of overlapping membership, in terms of addressing the needs of the private sector, is the extent to which it impedes this transfer of sovereignty in some areas of trade policy to regional institutions.

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