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Acronyms

AASA  Airlines Association of Southern Africa
ACP  African Caribbean Pacific Countries
AfDB  African Development Bank
AIDS  Acquired Immune Deficiency Syndrome
AMPRIP  Agricultural Marketing Promotion and Regional Integration Programme
ASANRA  Association of Southern African National Road Agencies
COMESA  Common Market for Eastern and Southern Africa
COMESA CD  COMESA Customs Declaration
CSO  Central Statistical Office
CSOs  Civil Society Organizations
CET  Common External Tariff
CM  Common Market
CU  Customs Union
DANIDA  Danish International Development Agency
DeSCC  Dar es Salaam Corridor Committee
DRC  Democratic Republic of Congo
EAC  East African Community
EAC SAD  EAC Single Administrative Document
ECA-SA  Economic Commission for Africa – Southern Africa Office
EPA  Economic Partnership Agreement
ESA  Eastern and Southern Africa
EU  European Union
FESARTA  Federation of East and Southern African Road Transport Association
FCFASA  Federation of Clearing and Forwarding Associations of Southern Africa
FTA  Free Trade Area
GATT  General Agreement on Trade and Tariffs
GDP  Gross domestic Product
GRZ  Government of the Republic of Zambia
GTZ  Deutsche Gesellschaft für Technische Zusammenarbeit
HIV  Human Immuno Deficiency Virus
HS  Harmonized System
ITWU  International Transport Workers Union
MCTI  Ministry of Commerce, Trade and Industry, Zambia
MOU  Memorandum of Understanding
NEPAD  New Partnership for Africa’s Development
NTBs  Non-Tariff Barriers
OECD  Organization for Economic Cooperation and Development
ODI  Overseas Development Institute
PMAESA  Ports Management Association of Eastern and Southern Africa
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<tr>
<td>RCGS</td>
<td>Regional Customs Guarantee Scheme</td>
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<td>REC</td>
<td>Regional Economic Community</td>
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<td>REI</td>
<td>Regional Economic Integration</td>
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<td>RISDP</td>
<td>Regional Indicative Strategic Development Programme</td>
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<td>SAD</td>
<td>Single Administrative Document</td>
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<td>SADC</td>
<td>Southern African Development Community</td>
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<td>SADC CD</td>
<td>SADC Customs Documentation</td>
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<td>SADC SAD</td>
<td>SADC Single Customs Administrative Document</td>
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<td>SADCC</td>
<td>Southern African Development and Coordination Conference</td>
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<td>SACU</td>
<td>Southern African Customs Union</td>
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<td>SAPOA</td>
<td>Southern Africa Postal Operators Association</td>
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<td>SDIs</td>
<td>Spatial Development Initiatives</td>
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<td>SIPO</td>
<td>Strategic Indicative Plan for the Organ on Protocol on Politics, Defence and Security Cooperation</td>
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<td>SPM</td>
<td>Sanitary and Phytosanitary Measures</td>
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<tr>
<td>SQAM</td>
<td>Standards, Quality, Accreditation and Metrology</td>
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<td>SQMT</td>
<td>Standards, Quality, Metrology and Testing</td>
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<td>SSA</td>
<td>Sub Saharan Africa</td>
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<td>TCC</td>
<td>Trans Caprivi Corridor</td>
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<td>TIU</td>
<td>Trade Implementation Unit</td>
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<td>TKC</td>
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<td>TNF</td>
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<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>USAID</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Foreword

This publication presents the findings of a study on the challenges and opportunities in coordinating trade development and transport in Southern Africa taking into consideration the progress towards the attainment of a Free Trade Area in the Southern African Development Community (SADC) and a Customs Union in the Common Market for Eastern and Southern Africa (COMESA). The report reviews the policy and institutional environment for trade development and transport, assesses the level of inter-country trade, intra-regional trade and the extent to which the transport infrastructure meets the requirements for trade in the subregion and reviews progress in the harmonization of COMESA and SADC programmes. Recommendations to enhance the pace of regional integration focus on improved harmonization of the programmes of the regional economic communities and the participation of all stakeholders.

The report consists of five Chapters. Chapter 1 provides an introduction to regional integration focusing on the benefits of economic integration, trade development and transport and outlines the context within which the study was commissioned. The discussion in Chapter 2 is an overview of trade development in SADC and COMESA. It outlines the levels of trade and identifies challenges in coordinating trade in the subregion. Chapter 3 outlines the challenges and opportunities in regional transport in Southern Africa. The progress and challenges in the harmonization of COMESA and SADC trade development and regional transport issues are presented in Chapter 4. The main conclusions and recommendations emerging from the study are the focus of Chapter 5.

It is my sincere hope that the recommendations in this report will be useful to member States, SADC, COMESA and development partners.

Jennifer Kargbo
Director, ECA-SA
Acknowledgement

The United Nations Economic Commission for Africa, Southern Africa Office gratefully acknowledges the inputs of Stephen Likando Muyakwa and Munorweyi Dhliwayo for preparation of this report. The study was completed under the general supervision of Munorweyi Dhliwayo, Oliver Maponga and Jean Luc Mastaki Nemagabe. The final report benefited immensely from comments by ECA-SA professional staff.

The support of the Director of ECA-SA, Jennifer Kargbo, in the overall supervision and completion of the study is acknowledged.
Executive Summary

The publication presents the findings of a desk study on the challenges of trade development and transport integration in Southern Africa focusing on the Free Trade Area (FTA) in SADC and the Customs Union (CU) in COMESA in 2008. The review of the implementation of the SADC Protocol on Trade and the COMESA Treaty showed that despite efforts to improve trade in Southern Africa, the volume of trade between the two regional economic communities remains low due to many challenges. These include: the non-complementary trade structure; low purchasing power; supply-side constraints; high dependence on taxes; trade imbalances; non-tariff barriers; complex rules of origin and trade development and coordination. Although potential for intra-regional trade exists, the low levels of industrial development and the lack of product complementarities imply only limited potential for expanded intra-regional trade.

The study has shown that integration in the transport sector is key for regional integration. It permits the development of integrated, seamless transport infrastructure and services to support the smooth functioning of a SADC FTA characterized by free movement of goods, services and people. The important roles of transport development corridors and Spatial Development Initiatives (SDIs) are also recognized including the challenges to these initiatives. These include: high transaction costs; inadequate support in the implementation of regional transport policies; vehicle overloading problems; inadequate transit facilities for long distance transport operators; inefficient and antiquated border posts; institutional constraints at national and corridor levels; slow restructuring and concessioning process; limited private sector participation in road infrastructure development; low levels of computerization (databases); neglected border posts; and poor implementation of regional initiatives. Despite these challenges, the study shows that considerable progress has been made in harmonization of policies in the transport sector. Further, effort has also been made in financing and managing of the transport infrastructure through public/private partnerships, most notably in the road sector.

To overcome these challenges and enhance trade development and transport integration, the study recommends: adoption of a harmonized system of legislation, development and implementation of a coordinated framework for transit facilitation, matching of ratification of instruments with implementation of provisions, setting up of a pool of resources to spearhead projects to avoid dependence on donors, creation of a decision-making organ to minimize delays in implementation; and addressing the human, financial and institutional constraints to the smooth progress of regional integration. A holistic approach to trade development and transport integration issues is required for progress towards FTA and CU to move faster.

The study also recommends that Southern African countries set up a regional integration management system: to coordinate regional integration requirements; sign, accede, ratify protocols and agreements; domesticate protocols and agreements and ensure their implementation; create conditions for the development of an all-inclusive regional integration constituency that
participate, monitor, evaluate and lobby for the integration process; provide adequate resources, both financial and human to ensure that the regional integration process proceeds as planned; and create political will to accept ceding of national sovereignty as need arises. The study recommends that the Regional Economic Communities (RECs) establish a committee on trade and transport which will meet regularly and be responsible for ensuring the implementation of the joint decisions agreed upon.

In conclusion, the study observes that the implementation of the SADC Regional Indicative Strategic Development Plan and the COMESA Priority Investment Programme will be critical for the acceleration of regional integration called for in the African Union Vision.
1. Introduction

Trade, both within Africa and with the rest of the world, is key for tackling the continent’s economic and social challenges, including poverty and underdevelopment. Poverty reduction requires long-term, broad-based economic growth so as to increase incomes. Regional integration and trade can be potent strategies in this regard. Regional integration is thus an important framework for addressing obstacles to intra-African and international trade. Increased regional integration and intra-African trade can create larger regional markets that can realize economies of scale and sustain the use of modern production systems and markets. Regional markets and more efficient production systems will enhance Africa’s competitiveness, enabling it to attract a larger share of the global market. Although regional integration in Africa has mainly economic goals, it also enables the continent to pursue regional, continental social and political objectives.

For sub-Saharan Africa (SSA), one of the most compelling arguments for regional integration is usually made on the basis of the fragmentation of the region, which has 47 small economies, with an average Gross Domestic Product (GDP) of $ US4 billion, and a combined GDP equal to that of Belgium or 50 per cent of the GDP of Spain (Kritzinger-Van Niekerk, L., 2006). In an integrated environment, countries can produce for an expanded market allowing each regional member to focus on commodities in which it possesses a competitive advantage, and trading to obtain the other goods.

There is a strong conviction that the creation of African FTAs will generate economies of scale and therefore overcome the problem of small national markets, allowing them to reap the benefits of stronger competition, and more domestic and foreign investment. Such benefits can raise productivity and diversify production and exports. If well designed, regional trade arrangements can contribute to Africa’s integration into the global economy and reduce its marginalization in world trade (IMF, 2004). It will also strengthen Africa’s bargaining power in the multilateral negotiations.

Other gains from regional integration include locking in domestic reforms to respond to the demands of an expanded market, signaling element, and insurance against hazards of macroeconomic instability, terms of trade shocks, trade wars, resurgence of protectionism, coordination and insecurity through building trust between countries.

Three broad models of regional integration can be discerned from the literature (Lee, 2003). These are market integration, regional cooperation, and development integration. Whereas market (or economic) integration occurs when two or more countries come together and abolish various forms of discrimination between their economic spaces, regional or economic integration (REI) occurs when countries come together to form a FTA or CU. According to Masiwa (2006),
REI progresses linearly from a FTA to a CU to a common market, then an economic union and finally total economic integration. Each stage has peculiar characteristics and preconditions.

Development integration is a form of cooperation that seeks to eliminate the costs to smaller economies of regional integration and includes economic and social development dimensions in the cooperation. It identifies capacity constraints in small economies and addresses them and requires higher levels of state intervention. In this model, mechanisms for the distribution of integration benefits, especially customs revenue, among the participating countries, have to be developed. The Southern African Customs Union (SACU), made up of Botswana, Lesotho, Namibia, South Africa and Swaziland as members, is an example of such integration.

Two forms of regional integration approaches can be identified from the process on the African continent. The first forms were motivated partly by the political vision of African unity and were used as a means for providing sufficient scale to import substitution industrialization policies on the continent. The current approaches are characterized by open and market-based regional arrangements. SADC and COMESA fit into this current form.

The provision of transport impacts on the overall development prospects and quality of life of any country or region and its peoples. Thus, a highly developed, well-integrated and well-functioning transport system will in turn stimulate economic growth, foster economic competitiveness and lead to an improved quality of life for the population generally.

In contrast, a transport system that is underdeveloped, fragmented and performs poorly will stifle rather than stimulate economic growth. It will lead to poor economic performance and generally to lower overall quality of life. It must be noted that the negative impact of a poor transport system is not just the short-term effect of inefficiencies and high transport costs, but the long-term opportunity costs imposed on the affected country or subregion through lost economic and welfare benefits.

The demand for transport is derived. This means that transport is not an end in itself but a means to an end. The level and development of transport depends on the level and development of other sectors in the economy – agriculture, mining, industry, trade, tourism and socio-economic services. The level and development of passenger transport, for example, will depend on people’s income, cross-border transport services, the ease with which people can cross borders and related considerations. The fundamental question has always been, which should come first, the supply of or the demand for transport? In other words, does the availability of transport infrastructure stimulate economic growth or does growth come first so as to stimulate the provision of transport infrastructure and services? The answer is that the two are interdependent and mutually reinforcing.

It is logical to put up transport infrastructure where there is “potential” for economic exploitation of a resource or where evidence would suggest that putting up such infrastructure in a particular
location would lead to wide economic or social benefits. Historical evidence seems to suggest that putting transport first tends to stimulate economic growth. During the colonial period in Africa, transport systems were put in place to exploit potential benefits from mineral and agricultural resources.

Goods and services must be moved from origin to destination or from areas where they are produced to areas where they are required/consumed. A transport activity must start and end somewhere, or in technical terms, must have an origin and a destination.

SADC and COMESA have both pursued development agendas focused on deepening and broadening integration through trade development, albeit at different paces. Whereas COMESA attained an FTA in 2000 and is moving towards a CU in 2008, SADC is to become an FTA in 2008 and a CU in 2010. As integration in the two RECs has progressed, both SADC and COMESA have realized the benefits of harmonization of programmes given the nature of trade among the member States.

1.1 Justification and Objectives

As the subregion moves closer towards the first and second stages of regional integration, an FTA in the case of SADC, and a CU in the case of COMESA in 2008, it is important to review some of the constraints and challenges faced by member States in this process and to develop strategies to ensure smooth transition towards the regional integration objective. This study on challenges and opportunities in coordinating trade development and transport in Southern Africa was commissioned by ECA-SA as part of its technical assistance to SADC to review facilitation and developmental issues impacting on trade development and transport in the subregion.

The overall objective of the study was to analyse the challenges and opportunities in coordinating trade development and transport in Southern Africa taking into consideration the regional integration milestones, propose recommendations and develop strategies to facilitate the acceleration of the regional integration process. The study has reviewed the policy and institutional environment for trade development and transport and assessed the level of inter-country trade, intra-regional trade and the extent to which the transport infrastructure meets the requirements for trade in the subregion.

Specifically, the study sought to:

- Identify and outline the challenges and opportunities in trade development and regional integration in Southern Africa;
- Outline modalities for adopting and implementing a regional approach to trade development and transport;
- Review the adequacy of the transport infrastructure for trade and propose innovative ways for financing and managing transport infrastructure and services;
• Outline the progress achieved and the challenges in the ongoing harmonization of the SADC/COMESA Programmes; and
• Provide recommendations to enhance trade development and transport in the subregion.

1.2 Scope of the Report

The rest of the report is structured as follows: Chapters 2 reviews trade in Southern Africa, outlines the levels of trade and the challenges in trade development. The discussion in Chapter 3 focuses on the regional transport sector, includes a review of the SADC and COMESA protocols and agreements and cites the challenges to regional transport operations and financing. Chapter 4 outlines progress achieved in the harmonization of trade and transport in SADC, COMESA and the East African Community (EAC). Conclusions and recommendations from the study are provided in Chapter 5.

The study has covered the SADC and COMESA programmes to take into account the overlapping membership of the Southern African countries in the two RECs. The analysis is based on a desk study with very limited fieldwork and there is therefore an absence of primary data analysis, resulting in overdependence on the existing literature.
2. Trade Development in Southern Africa

2.1 Background

This Chapter reviews levels of trade and trade development in Southern Africa focusing on progress in the implementation of the SADC Protocol on Trade and of the COMESA Treaty. The review outlines constraints to trade development and provides possible strategies to overcome these challenges.

2.2 The Southern African Development Community

2.2.1 Overview

The Southern African Development and Coordination Conference (SADCC) was formed in 1980 as a political and economic platform to counter the political and military destabilization policies of apartheid South Africa. Following the attainment of independence in Namibia and South Africa and the end of the war in Mozambique, the subregion recognized the opportunity to evolve from coordination/cooperation to a Regional Community. SADCC was thus transformed into SADC. The treaty that ushered in SADC was signed in August 1992 in Windhoek, Namibia. The objectives of SADC are outlined in Article 5 of the Treaty and are focused on regional cooperation and integration.

The Regional Indicative Strategic Development Plan (RISDP) and the Strategic Indicative Plan for the Organ on Protocol on Politics, Defence and Security Cooperation (SIPO), approved by Council and endorsed by Summit in August 2003, provide the subregion’s long-term development strategies. As the guiding documents in the development initiatives, underpinned by the SADC vision, they chart the direction for the development of the subregion. The SADC vision of a common future, a future in a regional community that will ensure economic well-being, improvement of the standards of living and quality of life, freedom and social justice and peace and security for the peoples of Southern Africa is at the core of RISDP.

RISDP is a 15-year regional integration development framework, which outlines priorities, policies and strategies for achieving the long-term goals of SADC. It is intended to guide member States, SADC institutions, regional stakeholders and international cooperating partners in the process of deepening integration to turn the SADC’s vision into reality. RISDP is designed to address the challenges and opportunities facing the cooperation and integration prospects of the subregion. SIPO is an enabling instrument for the implementation of the developmental agenda embodied in the RISDP. The core objective of SIPO is to create a peaceful and stable political and security environment through which the region will endeavour to realize its socio-economic objectives.
According to RISDP, the overall goal on trade is to facilitate trade and financial liberalization, competitive and diversified industrial development and increased investment for deeper regional integration and poverty eradication through the establishment of a SADC FTA, a SADC CU and a SADC Common Market (CM). The strategies towards these objectives will include fast tracking the implementation of the Protocol on Trade to achieve the FTA, negotiations on the establishment of a SADC CU and carrying out studies on the impact of such a customs union, and then commence negotiations for a common external tariff. These activities will be complimented by the harmonization of policies, legal and regulatory frameworks that address the business environment and the free movement of all factors of production. The focus is on diversifying the industrial structure and exports with more emphasis on value addition across all economic sectors increasing non-traditional exports, and sustaining export growth rate of at least 5 per cent annually. According to RISDP, intra-regional trade should increase to at least 35 per cent by 2008.

The key regional integration milestones for SADC include the creation of a SADC FTA by 2008, a CU by 2010 and a CM by 2015. The ultimate objective is the creation of a wider economic space for the movement of goods and services without tariff and non-tariff barriers.

An indication of progress made in Southern Africa in developing and improving intra-regional trade as the FTA and CU milestones approach can be provided by an analysis of trade development and transport in the subregion.

2.2.2 The SADC Protocol on Trade

The SADC Protocol on Trade came into force on January 25, 2000 and the tariff phase down commenced on 1 September, the same year. The Protocol is currently being implemented by Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Angola formally acceded to the Protocol in March 2003 and is expected to submit a tariff offer in 2007. Madagascar acceded to the Protocol in 2006 and submitted a tariff offer which was accepted in 2007 and is ready to commence implementation. The Democratic Republic of Congo is not yet party to the Protocol on Trade. Each country has an agreed schedule for the reduction of tariffs facing SADC partners.

The overall objective is to have 85 per cent of all intra-SADC trade at zero tariffs by August 2008, thus effectively achieving a World Trade Organization (WTO) compliant FTA. The remaining 15 per cent, consisting mainly of sensitive products, is to be liberalized by 2012. The elimination of customs tariffs and non-tariff measures on substantial intra-SADC trade is the main instrument of liberalization. Although the intention is also to extend trade liberalization to services, this has not been the subject of negotiations. The focus has been on trade in goods, especially on the rules of origin for sensitive products.
In addition, the Protocol calls for other trade and investment facilitation measures including harmonization of customs rules and procedures, attainment of internationally acceptable standards, quality, accreditation and metrology (SQAM) and harmonization of sanitary and phyto-sanitary (SPS) measures.

In terms of the implementation of the Protocol, some progress has been made in the areas of customs cooperation, SQAM and related measures. The SADC Trade Negotiation Forum (TNF) has focused on reduction of customs duties on intra-SADC trade and adoption of common rules of origin.

Under the Protocol, the tariff reduction programme reflects asymmetrical development in the subregion and groups SADC countries into three categories: developed (SACU), developing (Zimbabwe and Mauritius) and least developed (rest of SADC). According to this classification, SACU countries were expected to front-load their tariff reductions, Zimbabwe and Mauritius are to mid-load their tariff reductions and achieve zero tariffs by 2008 and least developed countries were permitted to back-load their tariff reductions in order to eliminate tariffs on 85 per cent of products by 2008 and on virtually all products by 2012.

Tariff reduction is being done based on four categories. Category A required the immediate reduction of duty to zero at the beginning of the implementation period in 2000. Commodities in this category already attracted low or zero tariffs. Category B deals with goods whose tariffs were to be removed over 8 years and be completed by 2008 by which time goods in categories A and B should account for 85 per cent of intra-SADC trade.

Category C deals with products sensitive to domestic industrial and agricultural activities, whose tariffs should be eliminated between 2008 and 2012. Category C is limited to a maximum of 15 per cent of each member’s intra-SADC merchandise trade. Category E includes goods that can be exempted from preferential treatment under Articles 9 and 10 of the Trade Protocol such as firearms and munitions comprising of a small fraction of intra-SADC trade. However, two special agreements exist, one is on trade in sugar and the other is on trade in clothing and textiles. These are classified as highly sensitive products in the subregion.

Sugar is highly sensitive and is susceptible to the influence of domestic interest groups in the world’s sugar-producing countries including SADC. Finding common ground within the Trade Protocol negotiation process on sugar has been a problem and thus a special agreement on trade in sugar was adopted. This allows the SADC sugar producers to have a non-reciprocal access to SACU. A market growth share has been agreed upon ensuring a steady increase in sugar tonnage exports into the SACU market until 2012. Market access is based on a country’s exposure to the world market on trade in sugar and not to preferential markets. This arrangement will be reviewed after 2012 depending on a positive assessment of conditions prevailing in the world sugar market.
The special agreement on trade in clothing and textiles is based on a two-stage substantial transformation rule of origin. Malawi, Mozambique, Tanzania and Zambia are allowed access to the SACU market under a one-stage transformation rule subject to quotas. The quotas are based on current production capacity. This dispensation has been put in place for a period of five years during which these countries are expected to graduate to the two-stage transformation rule of origin where there are no limits on market access.

According to arrangements under the SADC Protocol on Trade, the Instruments of Implementation of the Protocol are supposed to be deposited with the Secretariat to implement their tariff offers and to receive concessions from other members States.

### 2.2.3 Trade in SADC

Trading in goods and services among SADC member States occurs either through the provisions of the Protocol on Trade or through bilateral trading arrangements. Some of these bilateral intra-SADC trade agreements predate the SADC Protocol on Trade and others were revised after 1996. Table 1 shows that the bilateral arrangements between South Africa and Malawi and between Mozambique and Zimbabwe were negotiated prior to 1996. These bilateral trading arrangements allow the participating countries to trade duty free or at reduced rates, under more simple and liberal rules of origin than the SADC Protocol (Southern Africa Competitive Hub, 2007). Since the Protocol on Trade has not overridden the existing bilateral arrangements, most trade takes place under the latter due to simpler rules of origin. Table 2 shows the levels of intra-SADC imports covered by bilateral arrangements.
Table 1: Trading Arrangements in SADC

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<th>SADC Member States</th>
<th>Name/Type of Agreement</th>
<th>Third Countries</th>
<th>Existence Since</th>
<th>Amended</th>
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<tbody>
<tr>
<td><strong>PLURILATERAL AGREEMENTS</strong></td>
<td></td>
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<tr>
<td>Botswana, Lesotho, Namibia, South Africa, Swaziland</td>
<td>SACU</td>
<td></td>
<td>1910</td>
<td>2003</td>
</tr>
<tr>
<td>Malawi, Mauritius, Swaziland, Zambia, Zimbabwe</td>
<td>COMESA</td>
<td>Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Rwanda, Seychelles, Sudan, Uganda</td>
<td>1994</td>
<td></td>
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<tr>
<td>Tanzania</td>
<td>EAC</td>
<td>Kenya, Uganda</td>
<td>2000</td>
<td>2005¹</td>
</tr>
<tr>
<td><strong>BILATERAL INTRA-SADC AGREEMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Botswana - Malawi</td>
<td></td>
<td></td>
<td>1956</td>
<td>1988</td>
</tr>
<tr>
<td>Malawi-Mozambique</td>
<td></td>
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<td>1959</td>
<td>2005</td>
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<td>Malawi-South Africa</td>
<td></td>
<td></td>
<td>1967</td>
<td>1990/1999</td>
</tr>
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<td>Malawi-Zimbabwe</td>
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<td></td>
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<td></td>
<td>1959</td>
<td>2005</td>
</tr>
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<td></td>
<td></td>
<td>1990</td>
<td></td>
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<td>South Africa-Zimbabwe</td>
<td></td>
<td></td>
<td>1964</td>
<td>2000</td>
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<td><strong>BILATERAL EXTRA-SADC AGREEMENTS</strong></td>
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<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>Trade and Development Cooperation Agreement</td>
<td>EC and its member States</td>
<td>2000</td>
<td></td>
</tr>
<tr>
<td>SACU – EFTA FTA</td>
<td></td>
<td>EFTA members</td>
<td>2007</td>
<td></td>
</tr>
</tbody>
</table>

*Source:* Southern Africa Competitive Hub, 2007

¹ A Common External Tariff was introduced.

Table 2: Intra-SADC Imports Covered by Pre-Existing Preferential Arrangements

<table>
<thead>
<tr>
<th>Member State</th>
<th>Proportion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SACU</td>
<td>97.4</td>
</tr>
<tr>
<td>Malawi</td>
<td>28.0</td>
</tr>
<tr>
<td>Mauritius</td>
<td>2.3</td>
</tr>
<tr>
<td>Mozambique</td>
<td>0.0</td>
</tr>
<tr>
<td>Tanzania</td>
<td>0.0</td>
</tr>
<tr>
<td>Zambia</td>
<td>17.9</td>
</tr>
<tr>
<td>Zimbabwwe</td>
<td>9.6</td>
</tr>
<tr>
<td>SADC Total</td>
<td>70.8</td>
</tr>
</tbody>
</table>

*Source:* Flatters (2000)
Trade with non-SACU SADC member States is more beneficial under the Trade Protocol. As noted in a recent audit on the implementation of the Trade Protocol\(^1\), that SACU countries have recently concluded bilateral extra-SADC FTA agreements with European Free Trade Area members (EFTA)\(^2\) which entered into force in 2007, complicates trading arrangements even further.

The lack of data on trade flows between member States makes it difficult to draw conclusions on the actual levels of trade in the subregion. However, the levels of trade and its composition are reflective of the level of development of the countries and the respective economic status. Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe depend heavily upon SADC, particularly for imports. The remaining member States have much stronger trading relationships with the rest of the world. South Africa dominates subregional trade and accounts for about 70 per cent of intra-SADC exports. Manufactured goods, mainly machinery, vehicles and electrical equipment constitute the top exports to SADC by South Africa.

Figure 1 shows the development of intra-SADC trade between 1980 and 2003 to illustrate the effects of trade liberalization and the accompanying tariff reduction in SADC. Intra-SADC trade has grown significantly since the 1980s, more dramatically since 1995. The proportion of intra-SADC trade as a share of imports grew from 1.6 per cent in 1980 to 10.6 per cent in 2003. A similar trend is reflected in the share of intra-SADC exports which grew from 0.9 per cent to 10.6 per cent during the same period. Despite this growth, trade flows between SADC members outside SACU remain low.

A review of the levels of exports/imports between SACU and non-SACU SADC countries illustrates the development of trade in the subregion. The data for the last ten years show that South African imports from SADC have grown by 17 per cent and exports to SADC from South Africa by 9 per cent over the same period. Whereas SADC member States imports from South Africa are dominated by manufactured goods, exports from SADC to South Africa consist of raw materials and semi-manufactured goods. The data in table 3 show SADC trade flows between SACU and non-SACU countries in 1998 and table 4 shows the groups of major exports to South Africa by non-SACU SADC countries. These data demonstrate the varying dependence of member States on SACU.

---

2 The EFTA members are Iceland, Liechtenstein, Norway and Switzerland.
Figure 1: Intra-SADC Trade Developments as a Proportion of Total Trade in the subregion

Source: Adapted from Development Network Africa (2007)

Table 3: SADC Trade Flows, 1998

<table>
<thead>
<tr>
<th>Source of Imports</th>
<th>SACU</th>
<th>Non-SACU SADC</th>
<th>Total SADC</th>
<th>Rest of the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports into</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SACU</td>
<td>17.1</td>
<td>1.8</td>
<td>18.9</td>
<td>81.8</td>
</tr>
<tr>
<td>Malawi</td>
<td>40.4</td>
<td>13.6</td>
<td>54.0</td>
<td>46.0</td>
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<tr>
<td>Mauritius</td>
<td>13.5</td>
<td>0.4</td>
<td>13.9</td>
<td>86.1</td>
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<tr>
<td>Mozambique</td>
<td>36.4</td>
<td>4.6</td>
<td>41.0</td>
<td>59.0</td>
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<tr>
<td>Tanzania</td>
<td>8.9</td>
<td>2.3</td>
<td>11.2</td>
<td>88.8</td>
</tr>
<tr>
<td>Zambia</td>
<td>39.1</td>
<td>17.7</td>
<td>56.8</td>
<td>43.2</td>
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<tr>
<td>Zimbabwe</td>
<td>36.2</td>
<td>2.6</td>
<td>38.8</td>
<td>61.2</td>
</tr>
<tr>
<td>Total</td>
<td>18.1</td>
<td>2.2</td>
<td>20.2</td>
<td>79.8</td>
</tr>
</tbody>
</table>

Source: Flatters (2000)
To reduce trading costs and facilitate the movement of goods within the subregion, SADC member States have developed trade facilitation instruments and implementation programmes. The key trade facilitation instruments to be implemented by member States include regulations on rules of origin, transit regulations, customs bond guarantee schemes, the application of a common tariff nomenclature, legislation, procedures and practices, exchange of information and customs cooperation, and the use of ICT and other modern technologies in customs processes and capacity-building.

Table 5 shows that although progress has been made in many areas, critical trade facilitation instruments such as transit regulations, guidelines on completion of customs documentation and rules of origin manuals for traders have not yet been implemented, and transit documentation and transit customs bond guarantee have not yet been adopted for implementation.
Trade Development and Transport in Southern Africa

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Bot</th>
<th>Les</th>
<th>Mal</th>
<th>Mau</th>
<th>Moz</th>
<th>Nam</th>
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<td>HS Coding System Schedule of concessions Migration to 2007</td>
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<td>Y*</td>
<td>Y</td>
<td>Y</td>
<td>Y*</td>
<td>Y*</td>
<td>Y*</td>
<td>Y</td>
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<td>Y</td>
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<td>Y</td>
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<td>Y</td>
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<td>Regulations on SADC RoOs</td>
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<td>Y</td>
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<td>Y</td>
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<td>RoOs Manual for customs</td>
<td>Y</td>
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<td>Y</td>
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<td>SADC Integrity Plan to fight corruption</td>
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<td>Y</td>
<td>Y</td>
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<td>MOU for SADC Customs Administration</td>
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<td>Y</td>
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<td>Y</td>
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<td>Y</td>
</tr>
</tbody>
</table>

Source: Southern Africa Global Competitiveness Hub (2007)

Notes
N/a Not yet adopted for implementation
Y* Reviewed and now based on HS 2007
SAD 500 Single Administrative Document 500 being implemented by SACU

Despite these initiatives and the development of a Protocol on Trade Implementation Unit (TIU) to oversee the implementation of the Protocol on Trade, progress towards the SADC FTA faces several challenges. These include protection of national interests by member States, problems between SACU and the non-SACU countries within SADC, especially the relationship with South Africa, trade diversion, the trade imbalance with South Africa, economic instability in some countries in the subregion and the complex rules of origin.

The protection of the interests of national industries has always been a challenge in regional integration issues, especially in most SADC countries where the industrial base is small. Even countries such as South Africa have been careful to ensure that most of the products in which the other SADC countries could even remotely offer some competition to their producers have been placed on the list of ‘sensitive products’ to be dealt with at some future date, or subject to
quota limitations. Labour-intensive products, such as textiles, clothing, and footwear have been placed in this category.

Given this scenario, non-SACU SADC countries will have limited access to the South African market even in sectors where they have competitive advantages, under a SADC FTA. This will further increase the trade imbalance between South Africa and these countries under a SADC FTA and may further deepen the regional hostility toward South Africa. The solution to the problem of the deteriorating trade imbalance between South Africa and the other SADC member States lies in changing the production structures in the subregion in order to enhance the ability of the non-SACU SADC countries to produce for the South African market. This type of structural transformation can only occur over a long period of time given the industrial base in SADC countries.

The potential for trade diversion, where cheaper and more efficiently produced goods from a non-member country are replaced by more expensive and less efficient products from a SADC FTA member country, exist in some sectors such as clothing and textiles. This potential is reinforced because the only way that a SADC FTA could be a welfare-enhancing proposition for the region is if South Africa enhances its efficiency. At present, South Africa is an inefficient supplier in relationship to third countries.

There is tremendous competition among the SADC member States due to economic instability and high unemployment in some countries. Under such conditions, it is very difficult to open vulnerable markets to external competition, which is what trade liberalization inevitably does. For example, in 2001, Zimbabwe abrogated on commitments under the Trade Protocol by increasing import tariffs on a variety of items, including selected clothing, fruit juices, tobacco, clear beer, blankets and many other products. These increases, though in direct contradiction to Zimbabwe’s commitment under the new SADC tariff regime, were designed to increase government revenues and decrease the amount of foreign exchange being exported from the country.

From a theoretical perspective, for economies to benefit from liberalized trade, they need to be strong internally. This is a challenge in the subregion. Most SADC countries are concerned about giving South Africa, the regional giant, greater access to their markets for fear of economic decline in their respective economies. Under the current environment, increased trade from liberalization will probably be as a result of increased exports from South Africa to the other SADC member States. Other SADC States fear that this would neither spearhead economic structural transformation, nor strengthen regional economies, nor result in a decrease in the economic disparity in the subregion. If anything, it would further strengthen the dominant role of South Africa.

The other challenge relates to compensation for customs revenue losses as a result of integration. Tariff reductions have to have inbuilt compensatory mechanisms to help those countries that stand to lose from the free movement of goods. Data show that Malawi, Mauritius, Zambia,
and Zimbabwe stand to lose from a SADC FTA and would need to be compensated. A detailed discussion of this issue is provided later in this report.

Although progress has been made during the last three years in revising the complex SADC rules of origin, they remain a constraint to implementation of the Trade Protocol and intra-SADC trade. Simplification of these rules will ensure that all trade takes place under the Protocol not the current situation where preferential trade between SADC members and SACU takes place under the Protocol and intra-SADC trade outside SACU uses either COMESA or bilateral arrangements.

2.3 The Common Market for Eastern and Southern Africa

2.3.1 Overview

The Common Market for Eastern and Southern Africa, launched on 5th November 1993 in Kampala, Uganda, replaced the Preferential Trade Area (PTA) which had existed since 1981. Five SADC member States, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe are members of COMESA and Tanzania is a member of the EAC. The aims and objectives of COMESA are:

- To attain sustainable growth and development of the member States by promoting a more balanced and harmonious development of its production and marketing structures;
- To promote joint development in all fields of economic activity and the joint adoption of macroeconomic policies and programmes; to raise the standard of living of its peoples, and to foster closer relations among its member States;
- To cooperate in the creation of an enabling environment for foreign, cross-border and domestic investment, including the joint promotion of research and adaptation of science and technology for development;
- To cooperate in the promotion of peace, security and stability among the member States in order to enhance economic development in the subregion;
- To cooperate in strengthening the relations between the Common Market and the rest of the world and the adoption of common positions in international forums; and
- To contribute towards the establishment, progress and the realization of the objectives of the EAC.

COMESA’s agenda is to deepen and broaden the integration process among member States through many measures including: the adoption of trade liberation measures such as the complete elimination of tariff and non-tariff barriers to trade and elimination of customs duties; the free movement of capital, labour, and goods; the standardization of taxation rates; the promotion of the adoption of a single currency and the establishment of a Monetary Union; and the adoption of a Common External Tariff (CET).
The COMESA economic integration instruments and targets include the attainment of a Free trade Area in 2000, a Customs Union in 2008 and a Monetary Union in 2020. In line with its target, the subregion attained the Free Trade Area status in 2000 and will introduce a CET structure to deal with all Third Party trade in 2008. The CET will lead to simplified trade procedures within the subregion and hence facilitate more trade.

2.3.2 Trade in COMESA

Article 45 of the COMESA Treaty signed in December 1994 focuses on cooperation in trade liberalization and development. Growth in the levels of intra-regional trade can be a good indicator of progress in regional integration.

Figure 2 shows the levels of intra-COMESA trade between 1999 (a year before the FTA) and 2005. Intra-COMESA exports grew by 92 per cent and imports by 176 per cent during the same 1999 to 2005 period. Total trade increased from about $US2.7 billion in 2000 to $US6.3 billion in 2005, an increase of over 110 per cent during this period. Huge increases in trade were experienced between 2004 and 2005 during which trade grew from $US4.5 billion in 2004 to $US6.3 billion in 2005. The sectors driving growth in trade in the subregion are agricultural raw materials, which increased by 87 per cent and manufactures and fuels which registered 40 per cent and 37 per cent gains, respectively (COMESA, 2006). Petroleum continued to be the top export product, and tea was second with other traded products being chocolate products, alginic acid and vegetable products.

Figure 2: Intra-COMESA Trade 1999 to 2005

Source: COMESA (2006)
Since the establishment of the FTA in 2000, trade is now 48 per cent of total intra-COMESA trade having increased from about $2,700 million in 2000 to $3,7 million in 2004. As can be seen in figure 3, trade within the FTA registered a 27 per cent increase in 2005 and exports in manufactures accounted for 50 per cent of intra-FTA exports, while the food sector accounted for 40 per cent of intra-FTA trade. At the commodity level, intra-COMESA trade is dominated by tea, followed by petroleum, tobacco, alginic acid, cotton and cement.

Figure 3: Value of Intra-COMESA Trade 2000 to 2004

Source: National Statistical Offices, Intra-COMESA Data for Angola, Congo DR, Djibouti and Eritrea are derived from partner country statistics

At country level, Congo, Egypt, Kenya, the Sudan, Uganda, Zambia and Zimbabwe dominate trade within COMESA. As can be seen figure 4, in 2004, Kenya accounted for 18 per cent of intra-COMESA trade with Burundi, Djibouti and Seychelles accounting for the least trade.
Figure 4: Share of Intra-COMESA Trade in 2004 by Country

Source: National Statistical Offices, Intra COMESA Data for Angola, Congo DR, Djibouti and Eritrea are derived from partner country statistics
Intra COMESA trade in 2006 was dominated by agricultural goods, especially coffee, tea, tobacco and sugar which together accounted for about 37 per cent of this trade.

To help create markets for subregional products and hence increase trade, COMESA is seeking to establish trading houses in the subregion, especially for small-scale entrepreneurs generally made up of women. The trading house model will follow the successful promotion of trading houses in countries such as Canada, Israel, India and the Philippines where small-scale traders have benefited immensely (COMESA, 2006).

This review has shown that although the levels of intra-COMESA trade have increased since the FTA, they remain rather low and are still dominated by primary products, of mainly an agricultural nature. There is need for the REC to diversify its export base through further
processing in the areas in which it has a comparative advantage to create downstream industries in the agricultural sector in the global context of sustainable agricultural transformation.

2.4 Intra-SADC-COMESA Trade

The COMESA trade databank shows that the subregion’s exports to South Africa\(^3\) now constitute 21 per cent of total trade, a decline of 70 per cent between 2004 and 2005. The major exports during this period were copper, nickel ores, cotton, tea and tobacco. Zambia and Zimbabwe, between them, accounted for about 80 per cent of the exports. Imports by COMESA countries from South Africa showed a similar trend and declined by 24 per cent between 2004 and 2005. The major imports in 2005 were petroleum products, helicopters, steel, motor vehicles and maize. Zambia, Kenya, Zimbabwe, Malawi and Mauritius in that order accounted for over 90 per cent of these imports.

Figure 6: COMESA Exports to and Imports from South Africa in 2006

![Figure 6: COMESA Exports to and Imports from South Africa in 2006](image)

Figure 8 shows Swaziland, Zambia and Zimbabwe as South Africa’s major trading partners in terms of both imports and exports. Kenya, Malawi and Mauritius are significant importers of South African goods. Of these countries, only Kenya is a COMESA but non-SADC country.

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\(^3\) South Africa can be used as a proxy for SADC due to its dominant role in the REC.
The current levels of intra-COMESA and intra-SADC trade demonstrate that Southern Africa still has a long way to go before regional integration takes root. Mulat (1991) alluded to the low levels of intra-Africa trade and argued for more effort towards the development of trade amongst African countries as part of the process of deepening regional integration. The trade levels still remain low despite the FTA in COMESA in 2000 and the SADC strides towards an FTA in 2008. Using IMF data, Meyn (2005) showed that in 2003, neither SADC nor COMESA was able to reach the level of intra-regional trade flows that existed in 1970 prior to the existence of these regional bodies. Since 1990, intra-regional trade has stagnated at around 6 per cent of SADC’s total trade. COMESA increased its intra-regional trade level slightly from 7 per cent in 1990 to 7.5 per cent in 2003 after the creation of the FTA in 2000.

The same data show that intra-regional growth rates in the period 2001 to 2003 of 9 per cent for SADC and 11.5 per cent for COMESA. A continuation of this trend will lead to expansion of intra-regional trade in Southern Africa. However, success along this path depends on the ability to overcome the existing challenges to intra-regional trade and deeper economic integration.

2.5 Challenges to Trade Development in Southern Africa

The low levels of intra-RECs trade can be attributed to many factors including: the non-complementary trade structure; low purchasing power; supply-side constraints; high dependence on trade-related taxes; trade imbalances; non-tariff barriers; complex rules of origin and trade development and coordination (Meyn 2005). Below, we discuss these challenges in some detail.

2.5.1 Non-Complementary Trade Structure

The low levels of industrial development and the lack of product complementarities imply only limited potential for expanded intra-regional trade, mainly in semi-finished products. The main products traded in COMESA and SADC are primary or simple manufactured products such as tea, textiles, cotton yarn, tobacco, sugar, refined motor spirit, cement, fertiliser, copper, rice, iron and steel. Using a share of 20 per cent of manufacturing sector to GDP as indicator for an industrial base, only Egypt, South Africa, Mauritius and Swaziland fulfilled this condition constantly in the period 1992-1999. Only South Africa (SADC/ SACU) and Egypt (COMESA) have a diversified export base. Improvements in industrial policy frameworks and technology transfer can lead to more trade in high-value manufactured goods in COMESA.

While there is scope for Egypt, Kenya and South Africa to export to the subregion, there is not much scope currently for other countries to do the same since there are few complementarities for their exports. This asymmetric complementarity is a major characteristic as these countries, which can be viewed as the relatively more developed member countries, do not import many of the products being exported by the other countries.
2.5.2 Low Purchasing Power

Both SADC and COMESA are small in international terms with a real GDP of $219 billion and $148.6 billion respectively. One country, namely South Africa in SADC and Egypt in COMESA, accounts for 77 per cent of SADC’s and 53 per cent of COMESA’s GDP respectively. Since almost all SADC and COMESA countries can be classified as small, low-income countries, the potential for expanding the size of trade among partners is regarded as low.

The importance of higher purchasing power in trade is demonstrated by the skewed nature of intra-regional trade, which is limited and is in favour of the more developed members, South Africa and Egypt. High transfer costs and numerous trade barriers impact on trade flows and characterize markets within the rest of the grouping. Another characteristic of intra-regional trade in Southern Africa is the high prevalence of inter-sectoral trade, that is, trade between different sectors. This correlates positively with differences in per capita income and results in high adjustment costs for the weaker member countries of a regional integration scheme. Employment creation and poverty reduction efforts being undertaken in these countries through national development programmes and as part of the United Nations Millennium Development Goals (MDGs) can positively impact on trade development.

2.5.3 Supply-side Constraints

Constraints related to economic, political and social conditions in the subregion hamper the ability of countries to derive potential benefits from accessing intra-regional and international markets. For most SADC and COMESA countries, limited access to capital and the non-convertibility of currencies are major constraints. Infrastructural constraints such as poor roads, unreliable electricity and water supply, low labour productivity, lack of export market information, limited access to technological services, and poor backward and forward linkages are constraints to production for the export market. The NEPAD, COMESA and SADC programmes on infrastructure development are critical for enhancing trade development.

2.5.4 High Dependency on Trade Taxes

The major problem with establishing FTAs and CUs is that most African countries depend on foreign trade taxes as revenue to finance public expenditure and thus are reluctant to remove barriers to intra-community trade because of fears of significant revenue losses. SADC and COMESA countries have established trade policies with high import tariffs, not only to protect their domestic industries but also to secure income, as import duties constitute a major source of state revenues.

For almost all member countries in COMESA and SADC, revenue from trade taxes is at least 10 per cent of total government revenue. In addition, past experience suggests that African countries have had very limited success in replacing lost trade taxes with revenue from other sources. In 8 out of 24 countries, trade taxes are over 20 per cent of revenue. In only 4 of the 24
countries, namely Rwanda, South Africa, Tanzania, and Uganda, are trade taxes less than 2 per cent of GDP. Lesotho, Namibia, and Swaziland are the most dependent on trade taxes.

Recent empirical evidence suggests that while tax revenues have continued to increase after trade liberalization in rich countries and have only been modestly affected in middle-income countries, they have significantly declined in low-income countries as the poorer countries have only managed to recover 30 per cent of the trade tax revenue lost as a result of trade liberalization through other taxes (Bilal and Roza, 2006). Figure 8 shows the dependence of some selected countries on import taxes for the period 2000 and 2002. Given such a scenario, countries would indeed be reluctant to pursue elimination of duties unless guarantees to revenue compensation are provided. As a result of this import-substitution strategy, and in the absence of transparent revenue-sharing arrangements, countries are often unwilling to fully commit to FTA and CU obligations for fear of revenue losses.

Lee (2003) estimates that with a SADC FTA, there will be significant customs revenue losses in Malawi, Mauritius, Zambia, and Zimbabwe. The estimated revenue losses are shown in figure 8. The analysis shows that with an FTA, SACU countries will experience the lowest revenue losses followed by Tanzania. Therefore, policies to restructure and expand the tax bases of these countries are needed or alternatively mechanisms to adequately compensate countries for such losses should be developed. The challenge in maintaining fiscal sustainability in the face of trade liberalization should not be minimized.

Figure 7: Estimated Customs Revenue Losses as a Result of a SADC FTA
2.5.5  Non-Tariff Barriers (NTBs)

Non-Tariff Barriers still remain a major hindrance to trade in Southern Africa. Barriers such as cumbersome customs procedures and documentation of import and export quotas, and bans and roadblocks are frequent phenomenon in Southern Africa. Customs procedures have not been harmonized, banning of the import of certain goods and roadblocks still exist and transport corridors, such as the Durban-Lubumbashi Corridor, have not successfully tackled administrative delays. Although COMESA has made progress in reducing NTBs such as foreign exchange restrictions and export and import quotas, transport costs remain a hindrance to trade in Southern Africa. Inefficient customs practices, bureaucracy and corruption contribute to high business costs in the subregion and create an impediment to trade. The elimination of these non-tariff barriers through well coordinated and harmonized trade facilitation programmes can lead to improvements in the trading environment and thus to trade development.

2.5.6  SADC Rules of Origin

The SADC Rules of origin, meant to help determine whether goods are eligible for preferential treatment in the importing country and to prevent trade deflection, are a NTB. These rules are both complex and restrictive and will impede regional trade in the region, even when tariff barriers on intra-SADC trade disappear. The regional industry will benefit from simplification and relaxation of these rules (Flatters, 2002). They serve authentication and protection purposes in a free trading arrangement. Through the authentication function, non-members are unable to benefit from the market access privileges meant for members.

Authentication is a necessity in a free trading arrangement as it helps prevent ‘tariff jumping’ or ‘trade diversion’. Without authentication, goods could enter the subregion through a low-tariff member State and then pass tariff free to a high tariff member country. Through the protect (intentional and unintentional) function, the rules of origin encourage certain regional activities and shields them from potential competition arising from free trading arrangements. Protection is intended to enhance economic development, diversification and encourage industrialization leading to a two-stage transformation process which demands more added value.

To benefit from the preferential tariff rates under the SADC Protocol on Trade, goods must meet specified rules of origin requirements. Initially these rules were simple and less restrictive and products could qualify if they underwent a single change of tariff heading or if they contained a minimum of 35 per cent regional value-added of if they included not more than 60 per cent of non-SADC imported materials of the value of inputs used but these rules were modified later to introduce product-specific criteria that non-SADC originating materials must satisfy for the final product to acquire SADC originating status. Rules of Origin are seen as a major constraint to the successful implementation of the FTA and to intra-regional trade in general due to their complexity.
Prior to their amendment, the SADC Rules of Origin were less complex and were closer to those of COMESA which foresee that goods are granted originating status when a minimum of 35 per cent (in exceptions 25 per cent) of the value to the final product was added in the subregion or if no more than 60 per cent of the value of total inputs comes from non-COMESA countries. However, Egypt has insisted on a 45 per cent value added criteria for its COMESA imports. For textiles and garments, the condition of double transformation has been applied (with exception for least developed SADC members), aimed to protect the South African market. South Africa has restrictions on wheat flour, mineral fuels, motor vehicles, machinery and electric products where member countries have not agreed on common rules of origin to date.

In their current form, the SADC Rules of Origin are considered restrictive, cumbersome and costly for exporters to meet in most member States and thus constitute an impediment to trade development. They impose both production and administrative costs that can in turn introduce a protectionist bias and discourage intra-SADC trade. There is need for clear, transparent and predictable rules of origin to facilitate trade. Further, the existence of bilateral arrangements between SADC member States complicates matters as these arrangements have their own rules of origin which are often simpler.

2.5.7 Trade-Imbalances and Disparities in the Restrictiveness of Trade Regimes

The trade imbalances of South Africa and Egypt in SADC and COMESA respectively are enormous. In 2004, South Africa, the economic and political giant of SADC, exported R 261 million to the SADC region (excluding SACU) but imported only R 65 million. Egypt’s exports to COMESA accounted for R 57 million and its imports for R 27 million. For South Africa, the SADC subregion is a middle-level trading partner, accounting for 10 per cent of its exports and 1.4 per cent of its imports in 2004.

In addition, several countries in SADC/COMESA such as Djibouti, Malawi, Rwanda, Uganda, and Zambia rank among the most open in the world, while others such as Burundi, the Comoros and Seychelles rank among the most restrictive trade regimes in the world. Only about 9 of the countries have open trade regimes and these do not include the relatively developed countries in the region (Egypt, Kenya, and South Africa), which have not played a leadership role in trade liberalization in the region. In these circumstances, harmonizing a common external tariff is involving significant adjustments and carries the risk that some countries will end up closing rather than opening their economies.

2.5.8 Stakeholder Involvement and Progress Tracking mechanisms

The regional integration process in both COMESA and SADC has tended to be driven by the governments with very limited participation from civil society and the private sector. This has
curtailed the potential for developing a constituency that is interested and desirous of regional integration. There are many possible reasons for this situation. One possible explanation could be the lack of skills within civil society and the private sector to fully appreciate the potential benefits of regional integration. The other reason could be lack of targeted marketing of the regional integration agenda to these stakeholders by the concerned parties i.e. Governments and the regional integration secretariats. There are currently moves underway in both SADC and COMESA to create space for increased involvement of civil society, private sector and Members of Parliament in regional integration efforts.

The private sector involvement should be given more impetus in the identification, formulation, and implementation of trade policies and programmes. Elsewhere it has been demonstrated that the private sector can be an important partner in integration by providing finance and human resources to support regional projects. And through its representatives and organization, the private sector can influence policymaking and push governments to ratify and implement protocols, stabilize macroeconomic conditions, establish high institutional quality, and maintain an efficient and reliable bureaucracy and the rule of law. There is a clear need for strong dialogue among private sector, civil society and government representatives on trade policy issues in Southern Africa. Mainstreaming trade into the Poverty Reduction Strategy Papers (PRSPs) will constitute a strong achievement of such a holistic dialogue process (DFID, 2006).

In the same vein, the trade policies in SADC and COMESA need to pay more attention to the growing activities of small entrepreneurs involved in the informal cross-border trade and who are also part of the movement of goods and capital through the sub-region. Analysis has shown that at some border posts, such as Kasumbalesa, the informal cross-border traders contribute overall 50 per cent of the total trade sector (Peberdy, 2000, 2002). Some national immigration policies do not appear to have kept pace with initiatives to free the movement of trade and capital in the subregion (Peberdy, 2002).

While the agreement calls for elimination of NTBs and the liberalization of services trade, there is need to strengthen the institutional mechanism for reporting on NTBs. Furthermore, it is necessary to develop effective mechanism to evaluate and monitor trade programmes, policies and projects and assess their effectiveness.

2.5.9 Human Capacity and Institutional Constraints

In many countries in Southern Africa, there is a serious shortage of skilled personnel. The limited skills of staff at national and even at the secretariats of regional bodies impact on regional integration issues. This requires the continuous building of human resources to run the regional integration agenda.

Inadequate institutional frameworks to coordinate and implement regional integration programmes are further compounded by the limited skills base. In many countries in the
subregion, regional integration issues are dealt with by several Ministries and this impacts on coordination. Further, the departments tasked with the implementation of regional integration programmes at national level are often understaffed and underresourced. To move the regional agenda forward and ensure that the subregion meets the FTA and CU objectives on time, there is need to improve the institutional framework and provide adequate resources for the process.

At the regional level, there is a coordinating mechanism put in place to ensure that COMESA, SADC and EAC move in tandem. This mechanism lacks legal footing as the protocols and treaties regulating these organizations do not recognize them. Therefore, these treaties and protocols should be revisited to ensure that the coordinating mechanisms are legitimized so that decisions of the coordinating committees are binding.

2.5.10 ICT and Trade

Most countries in Eastern and Southern Africa use ASYCUDA++ as their computerized customs management system, with the exception of Angola, Kenya, Lesotho, Mauritius, Mozambique, South Africa and Swaziland. However, although most countries are on the same system, for both legal and technological reasons, countries do not share customs information. Data are entered into one national system on departure from a customs territory and the same data are then entered into the other national system upon entry into that customs territory.

Furthermore, because the border posts are not usually networked, the same information is entered onto the ASYCUDA system on entry and on exit from a customs territory. Time would be saved if data could be entered once and then shared electronically among national border posts and could be made available to the customs officials of the territory the goods are entering. Other services at border posts (such as Immigration, Health and Security) are often not computerized and, if they were, this would also speed up the border-clearance process.

2.5.11 The Challenges of Economic Partnership Agreements in Southern Africa

The European Union (EU) is an important trading partner for all SADC and COMESA countries and is the most important trading partner for South Africa, Egypt, Burundi, the Comoros, DR Congo, Mauritius, Madagascar and Seychelles. On average, the EU accounts for around 30 per cent of total SADC and COMESA imports and absorbs around 40 per cent of their exports (Meyn, 2005).

The subregion is currently negotiating an Economic Partnership Agreement (EPA) with EU under the configuration of Eastern and Southern Africa (ESA) on one hand and SADC EPA on the other. The potential costs arising from EPAs are expected to be considerable for many African countries and have resulted in a strong opposition against EPAs from all stakeholders. It is anticipated, that with EPAs, there would be severe revenue losses due to liberalization of
the import regime leading to a flooding of the local market with foreign goods. These revenue losses are expected to range between 1 per cent for Uganda and Tanzania to 10-12 per cent for Mauritius and Rwanda.

Negotiations with the European Commission (EC) put considerable strain on the unity of the Southern African Subregion (MCTI 2007), with a divide between countries that needed to sign in order not to fall into the GSP (Kenya, Mauritius, Seychelles and Zimbabwe). Less developed countries (LDCs) who were interested in negotiating some genuinely additional benefits knew they could fall back into the “Everything but Arms” offer from EU. This, together with other factors, led to the decision of Kenya, Uganda, Rwanda and Burundi to sign a separate Interim Agreement under the EAC group. The attempts by island States to sign as a group were not as successful but kept them apart from the rest of the LDCs.

In light of this, some LDCs worked towards a common EPA position. Whilst submitting national lists, all the LDCs in the subregional configurations negotiated together for recognition by EU of the principle of Special and Differential Treatment for LDCs. In Brussels, the negotiations with EU did not meet the level of success desired by LDCs with regard to commitment on development, sugar quota allocation and reform of the rules of origin.

As of December 2007, the Eastern and Southern Africa group (ESA), the East African Community (EAC) members (Burundi, Kenya, Rwanda, Tanzania and Uganda) decided to form a separate EPA subregion and initialled an interim agreement in 2007. The remaining ESA countries opted for a framework agreement with a common text but separate market access schedules. The ESA-EC Interim Agreement has so far been initialled by the Comoros, Madagascar, Mauritius, Seychelles, Zimbabwe and Zambia.

In the SADC EPA, an interim agreement has been initialled by Botswana, Namibia, Lesotho, Swaziland and Mozambique. South Africa, despite formation of the customs union, SACU, with Botswana, Namibia, Lesotho and Swaziland, is not part of the interim agreement so far. Without joining the agreement, South Africa can export to EU under its TDCA agreement with EU.

2.6 Beyond the FTAs and CUs: Deepening Trade in Southern Africa

Although intra-regional and total trade have been growing at a healthy pace in recent years, opportunities for expansion of trade and greater integration in COMESA and SADC might be somewhat limited since product complementarities are low and there is a risk of polarization.

The dynamic changes that may result from the FTAs and CUs in terms of economies of scale, increased efficiency through competition and reinvested gains realized, could, in the medium term, be much higher than the static gains. However, these gains may not be evenly distributed.
If scale effects are dominant, capital production may shift to countries which are relatively capital abundant and thus change the investment patterns.

However, should relocation of factories to other regional bloc countries become noticeable, this may not only create extreme political tensions and divergence of economic structures, but may create absolute losers if fiscal transfer and clear mechanisms for sharing the costs and the benefits of the FTAs and CUs are not put in place.

FTAs and CUs arrangements cannot automatically guarantee in improvement in trade and growth. A wider number of domestic policy actions must be addressed before gains can be realized. The most overarching policies for Southern Africa comprise macroeconomic policies (including the appropriate exchange rate policies and the government deficit reduction), taxation and fiscal adjustment, a positive enabling environment for FDI, export promotion, harmonization of rules of origin and clear compensatory mechanisms.

The issue of intra-regional trade data accuracy and availability is still a challenge within the subregion and should be addressed by the RECs. There is a need for clear policy mechanisms for distributing fiscal revenues from wealthier to poorer members of the FTAs and CUs and to promote the economic development of the poorer members in order to prevent trade polarization within the subregion.

The RECs can be the means to achieve deeper integration, including harmonization of national policies and investment rules. Deep integration is viewed as having the potential to create an open and credible policy environment that encourages FDI and export-oriented growth. To go forward, it is important that COMESA and SADC become effective vehicles for non-discriminatory tariff liberalization as well as for addressing weaknesses in infrastructure, harmonization of standards and customs procedures (IMF, 2004).
3. Regional Transport in Southern Africa

3.1 Overview

According to studies undertaken for the United Nations Conference on Trade and Development (UNCTAD, 2001), the adverse impact of transport costs on trade efficiency are real and of serious concern. In Africa, 11.5 per cent of the total value of imports relates to transport costs. In North America, the equivalent percentage is 6.7 per cent and in Asia 7.2 per cent. Within Africa, the percentage for Eastern Africa is 23.6 per cent, while for Southern Africa the figure is 12.7 per cent. On the export side, many of the countries of Southern Africa spend 20 per cent of their earnings on transportation and related expenses with Malawi spending as much as 55.5 per cent.

It is clear that reductions in transport costs can significantly improve the region’s competitiveness. This is emphasized by the increasing trend towards globalization, enabling buyers to electronically seek the lowest prices internationally. Over time, this puts downward pressure on commodity prices and forces competitors to look at ways to reduce the costs in their value chains.

Many factors contribute to the cost of trading. These include long transit times, poorly coordinated logistics, lack of competition between transport systems and operators, use of outdated technologies, and poor maintenance standards for both equipment and infrastructure. Improvement of transport infrastructure needs to be linked better with other trade facilitation measures. This entails bringing the activities under one implementation framework, as it will enhance coordination and sequencing. Thus, while the work on one-stop border posts will reduce border-crossing delays, if no intervention is made on customs operations, the slow transit times that result in the high transport costs experienced by traders will continue to prevail.

This chapter reviews some elements pertaining to regional transport integration, facilitation and development. It reviews the implementation of the SADC-Transport Protocols, the SADC Regional Indicative Strategic Development Plan, the Provisions of the COMESA Treaty on Transport and the COMESA Priority Investment Plan. This is followed by a review of the corridors development programme, the progress made and the constraints being encountered. Modalities for financing transport infrastructure and services are discussed, taking the NEPAD framework into account.

3.2 Transport Integration

This section reviews the principles of transport integration by examining the main issues, challenges and success stories. Some of the issues and challenges raised will assist in the assessment of transport integration in Southern Africa. Based on this assessment, recommendations can
be made to policymakers and key development partners committed to moving the Southern African transport integration agenda forward, with sufficient impetus to meet the requirements for the forthcoming SADC FTA and COMESA CU in 2008.

Transport integration can take several forms. It can take the form of physical links among countries, as is the case for road and railway infrastructure. It can also take the form of integration of service delivery by creating economic space where providers of transport services operate within a single market space. This is the case where road and air transport are liberalized within or across subregions. Given existing inefficiencies, which translate into high transport costs, the benefits of integrating Africa’s transport systems far outweigh the costs. This would be beneficial not just to consumers but to governments through reduced fiscal burden and to transport companies themselves through more profitable operations. Some forms of transport integration are given below.

**Policy convergence on integration:** The first step towards transport integration is normally policy convergence, that is, agreement on common objectives and aspirations. Once policy convergence has been achieved, other steps follow, such as agreement on physical transport links for connection, or to operate joint services. While all the RECs have reached some form of policy convergence, the biggest challenge is implementation. There is often a large gap between policy intentions and actual implementation on the ground. Policy convergence, which presupposes political goodwill and commitment, is a critical prerequisite to transport integration.

**Physical integration:** The most obvious form of transport integration is physical connectivity of road and rail links between and amongst countries and across subregions. SADC aims to achieve this type of transport integration and has developed a manual for design standards for both the regional trunk road network and the low volume sealed roads. Once common design standards and specifications are agreed subject to availability of funding to put up the requisite links, integration of road transport networks across the subregion should not pose a major difficulty.

**Operational integration:** Transport integration can also take the form of integrated operations. Examples include ports that serve hinterland countries and whose operations must be integrated with surface transport systems to and from these countries. Thus, port-surface transport interface is a form of transport integration. Airline connectivity and joint airline operations through strategic alliances code sharing and mergers are also a form of transport integration. The Tanzania-Zambia Railway Authority (TAZARA) owned and operated jointly by the Governments of Tanzania and Zambia is also a good example of joint operations.

**User-service provider interface:** The interface between users and providers of transport services is a form of transport integration as it is intended to improve joint utilisation of a particular transport service or corridor. Good examples of interface are the Corridor Planning Committees
(CPCs) and Route Management Groups (RMGs) envisaged in SADC, which are intended to
improve the operational efficiency of transport corridors serving more than one country.

**Joint planning and development:** Transport integration can also be achieved through joint
planning and development of common resources. Examples are Development Corridors and
Spatial Development Initiatives (SDIs) in SADC where one or two countries agree to plan and
develop economic potential jointly, in a manner that would not be feasible if one country did
it on their own. The Construction of the Kazungula Bridge is an example of joint planning
and development. As is the case with airlines and even road or railway transport, this form of
integration can also involve route network planning to ensure integrated and complementary
services.

**Harmonization of standards:** Transport integration may not involve operation of joint services
or joint ownership, but may entail harmonization of technical, equipment and operational as
well as personnel certification standards to facilitate smooth cross-border transport operations.
An example of this type of integration is the use of trans-shipment centres and ownership of
storage at the ports by landlocked countries.

**Cross-border operations:** Cross-border freight or passenger movements are another form of
transport integration. This is made possible by instruments such as the COMESA Carriers
licence, which enables markets that were formerly segmented along national boundaries to
function as larger single integrated markets.

**Cross-border investments:** Cross-border investments and concessions can also lead to improved
connectivity and integrated transport operations. For example, transport investments such as
a toll road or railway link, which may not be viable by looking at just one country, can be
made more attractive to potential investors through cross-border concessions. Cross-border
investments and concessions can therefore serve a dual purpose, making potentially less viable
investments more viable as well as enhancing transport integration.

**Pooling of facilities and personnel:** Yet another form of transport integration can be the
pooling or joint use of facilities such as workshop repair facilities, training facilities, exchange of
personnel and related measures.

**Common international standards:** Accession to similar International Conventions can bring
about transport integration through applying uniform standards thus facilitating integrated
operations. The airline industry is a good example of this. Its operations are made possible
through common Conventions under ICAO. Common standards ensure predictability of
operations, ease of facilitation and more integrated operations. This has been achieved for air
transport and there is no reason why the same cannot be done for other modes of transport
across Africa. There are several international conventions that provide a basis for harmonization
of standards in ports, roads and railway transport and most African countries are parties to
these conventions. The problem has been lack of harmonization of positions in international negotiating forums and poor implementation on the ground.

Some of the elements of transport integration are given above. These will now be applied to the protocol implementation to be assessed below, to measure the progress achieved.

3.3 Review of the SADC Transport Protocol and the COMESA Treaty Provisions for Transport

The section reviews the progress achieved in the implementation of the SADC Protocol on Transport and the COMESA Treaty Provisions for Transport. The review updates the findings of the report on “Assessing Regional Integration in Africa” Transport Sectoral Report prepared by ECA in 2004 (ARIA, 2004) and of various reports from SADC and COMESA.

3.3.1 Review of the SADC Transport Protocol

The rationale for transport integration in SADC was to develop integrated, seamless transport and communications systems and services to support the smooth functioning of the SADC FTA, characterized by free movement of goods, services and people (SADC, 1998; SATCC, 2003).

SADC has a legally binding multilateral cooperation framework in transport – the Protocol on Transport, Communications and Meteorology (PTCM) signed in August 1996 and ratified by the majority of member States in July 1998. The Protocol seeks to integrate all aspects of transport – policy, legal, regulatory, institutional, operational, logistical, technical, commercial, administrative, financial, and human resource development. The multilateral framework for cooperation in transport, communications, meteorology and postal services was expected to replace national laws and practices, which may not be compatible with the Protocol. The scope of this Protocol comprises the entirety of the transport, communications and meteorology sectors in each member State and the region, including, but not limited to:

(a) All policy, legal, regulatory, institutional, operational, logistical, technical, commercial, administrative, financial, human resource and other issues;
(b) International, continental, regional and national dimensions; and 
(c) The public and private sectors in each member State, as well as collectively in the region, to the degree that their activities overlap with the subject-matter of this Protocol.

The Protocol has Chapters dealing with Integrated Transport, Road Infrastructure, Road Transport, Road Traffic, Railways, Civil Aviation Maritime Inland Waterway Transport, Telecommunications, Postal Services and Meteorology.

Initially, the emphasis in Southern Africa by the then SADCC was on transport cooperation and not integration, mainly to reduce dependence on then apartheid South Africa by developing
alternative transport routes away from South Africa. The thrust was to mobilize funding largely through donor support, to re-build infrastructure destroyed during the wars of liberation. After the birth of SADC, emphasis shifted towards deeper integration of transport infrastructure and operations for all members including South Africa. The harmonization of policies, standards, operating practices and certification were the core activities.

Prior to its restructuring, SADC had a fully-fledged autonomous commission – the then Southern Africa Transport and Communications Commission (SATCC) whose role was to spearhead implementation of the Protocol. An extensive cooperation framework involving regional technical committees (sub-sectoral Committees) in roads and road transport, railways, maritime transport, multi-modal transport, as well as transport corridor committees was instituted.

SADC has the largest stock of inter-road and rail networks among the six RECs covering the continent. Although the actual percentage of the paved road network at 15.9 per cent is lower than for COMESA, 19.46 per cent, and ECOWAS 17.12 per cent, the actual stock of paved roads is the highest at 152,694.2 kilometres. SADC also has the highest level of inter-connected rail network with the same 1.067m gauge at 45,321.6 kilometres. SADC is thus the most interconnected and integrated in terms of road and rail connectivity.

However, the impact of South Africa on SADC’s road and rail network should be borne in mind. Of SADC’s total road network estimated at 960,431 kilometers, almost twice that of ECOWAS and three-times that of ECCAS, 38 per cent is in South Africa. Equally, almost half of the subregion’s rail network of 45,321.6 kilometers is in South Africa. SADC has designated both a Regional Trunk Road Network (RTRN) and an Inter-connected Regional Rail Network (IRRN). There are, however, some critical missing links such as bridge connections between Zambia and Botswana and Zambia and Namibia. Feasibility studies are underway to construct bridges to replace the ferry services.

With 15 major airports and 15 major maritime ports, SADC is also relatively well integrated in terms of maritime and air transport. The issues are port utilization and costs, and the extent of airline connectivity. Through the adoption of the Yamoussukro Decision on liberalization of air transport, SADC seeks to liberalize its air transport market so as to improve air connectivity.

SADC can also be said to have very high level of policy convergence as shown in the table below. The cooperation framework under the SADC Protocol on Transport, Communications and Meteorology legally binds member States to harmonizing all their policies, institutions, standards, and practices in transport. The issue, however, remains the extent of implementation by SADC member States. Table 6 shows progress in policy convergence in SADC and table 7 shows the status of implementation of policy reforms.
Table 6: SADC Transport Policy Convergence

<table>
<thead>
<tr>
<th>Extent of Policy Convergence</th>
<th>Ports</th>
<th>Coastal Shipping</th>
<th>Inland Waterways</th>
<th>Roads and Road Transport</th>
<th>Railways and Railway Transport</th>
<th>Civil Aviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
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<tr>
<td>Medium</td>
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<tr>
<td>Low</td>
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</tbody>
</table>

Source: ARIA, 2004

Table 7: Status of Implementation of SADC Transport Policy Reforms

<table>
<thead>
<tr>
<th>Country</th>
<th>Ports</th>
<th>Roads</th>
<th>Railways</th>
<th>Civil Aviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Autonomous Port Authorities</td>
<td>Concessions in Place</td>
<td>Road Boards</td>
<td>Autonomous Road Agencies</td>
</tr>
<tr>
<td>Angola</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Botswana</td>
<td>-</td>
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<tr>
<td>DRC</td>
<td>-</td>
<td>-</td>
<td>No</td>
<td>No</td>
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<td>Lesotho</td>
<td>-</td>
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<td>Malawi</td>
<td>-</td>
<td>-</td>
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<td>Yes</td>
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<td>Mauritius</td>
<td>Yes</td>
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<td>Mozambique</td>
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<td>Namibia</td>
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</table>

Source: SATCC, 2002

SADC has sought to improve transit transport facilitation through such innovative approaches as “One-Stop Border Posts”, Corridor Planning Committees and Route Management Groups. However, implementation of these initiatives has been slow and it has faced many hurdles including lack of sustainable funding. For instance, only one border post, hat between South Africa and Mozambique on the Maputo Corridor, is currently functioning as a One-Stop Border Post. Despite these problems, these are integration models that can be replicated in other subregions of Africa. One such example is the Chirundu one-stop border, for which a Memorandum of Understanding has been signed by Zambia and Zimbabwe and construction of the related border facilities are underway.
Corridor Planning Committees, tasked to monitor the smooth movement of traffic along corridors, are active only on some transport corridors such as the Trans-Kalahari Corridor (involving South Africa, Botswana and Namibia). As will be discussed in greater detail later in this report, the development of these corridors has important implications on trade within the subregion.

Table 8: SADC Facilitation along International Transport Corridors

<table>
<thead>
<tr>
<th>Policy and Implementation</th>
<th>Streamlined Border Opening Hours</th>
<th>One-Stop Border Posts</th>
<th>Harmonized Transit Insurance</th>
<th>Harmonized Transit Charges</th>
<th>Harmonized Axle Load Limits</th>
<th>Harmonized Transit Bonds</th>
<th>Harmonized Customs Documents and Procedures</th>
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<tr>
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</tbody>
</table>

*Source*: SATCC, 2002

SADC has set up elaborate institutional structures and mechanisms to monitor implementation of the Protocol on Transport. The targeted institutional framework and mechanisms set up include:

- National Protocol Implementation Teams (N-PICTs) comprising national and sub-sectoral coordinators and their deputies;
- Core (sub-sectoral) groups, which bring together the national public and private sector stakeholders from government, regulators, service providers, users/consumers and labour led or driven by the sub-sectoral coordinators;
- National Protocol Implementation workshops (NIPWs) or coordination meetings combining key stakeholders from all sub-sectors;
- Micro Action Plans (MICAPs) establishment, implementation, monitoring and progress reporting; and
- National legal reform teams and other mechanisms.

Most countries in the subregion have accomplished initial establishment of the above frameworks and mechanisms. However, they still needed strengthening and sustaining. In most countries, the private sector has yet to become an effective partner, as it is not organized in strong national associations to enable it to participate effectively. The public sector has also suffered from lack of capacity to carry out the necessary reforms on its own, to enable establishment of a conducive environment for enhanced private sector development and involvement in the transport sector.

At the subregional level, the institutional frameworks and mechanisms for Protocol Implementation include:
• Sub-sectoral Committees (SCOMs) comprising public and private sector partners from government, regulators, service providers, users and labour. The core-voting members are from official national delegations, led by a designated senior official in charge of policy matters in the sub-sector concerned. The other participants are regional associations or regional federations of national associations;
• Corridor Planning Committees (CPCs), Route Management Groups (RMGs) and Airport Facilitation Committees (AFCs) also emphasizing a strong public-private partnership; and
• SATCC-TU reorganized or streamlined and strengthened to cope with the new Protocol mandate and challenges.

Whereas the Railways SCOM was established in April 2001, the Integrated Transport SCOM is yet to be established. The main problem is that the input of the consultative members remained weak. The SCOMs were to be driven by industry professionals and service providers. SADC established the Southern African Railways Association (SARA), the Airlines Association of Southern Africa (AASA), the Federation of East and Southern African Road Transport Association (FESARTA), the Ports Management Association of Eastern and Southern Africa (PMAESA), the Federation of Clearing and Forwarding Associations of Southern Africa (FCFASA) and the Association of Southern African National Road Agencies (ASANRA). Many of the established associations needed strengthening and more needed to be established particularly for representation of users or consumers.

Effective implementation of these strategic frameworks stalled at the end of the USAID-funded STEP project, indicating the need for funding of protocol implementation on a sustainable basis. That notwithstanding, some progress has been achieved. Yet the issue of domestic resource mobilization remains paramount, if these initiatives are to work sustainably.

3.3.1.1 Regional Indicative Strategic Development Plan for Transport

In order to proceed on the path stipulated in the SADC Protocol on Transport, SADC adopted the Regional Indicative Development Programme for transport. In the transport sector, RISDP identified the following strategic goals:
• Ensuring better planning, policy formulation and regulation of transport operations and delivery;
• Ensuring adequate funding of infrastructure maintenance to achieve cost effective and timeous delivery of services;
• Liberalizing market entry by separating operating and regulatory functions;
• Ensuring public safety and protection of the environment; and
• Widening access to infrastructure services to meet the objective of poverty alleviation.

Addressing the above mentioned goals requires that the following vehicle for actions be undertaken:
• Increasing efficiency thereby reducing operational costs;
• Promoting Private-Public Partnerships in the provision of infrastructure and services; and
• Liberalizing markets to ensure competitiveness and efficiency.

The related transport targets entail (a) liberalization of transport markets by 2008, (b) harmonization of transport rules, standards and policies, (c) recovery of all maintenance costs for infrastructure by 2008 and full infrastructure investment costs by 2013, and (d) removal of avoidable hindrances to cross-border movement of persons, goods and services by 2015.

The preceding discussion has provided a detailed account of the critical components of the SADC Protocol on Transport and the various support initiatives to realize its aspirations. The re-emphasis on transport integration in the RISDP was also dealt with in the different programmes of the transport sector.

3.3.2 Review of the COMESA Treaty Provisions for Transport

The COMESA Treaty provisions for transport integration entail the evolution of coordinated and complimentary transport policies to improve and expand the existing links and to establish new ones. These will further the physical cohesion of member States and facilitate movement of inter-state traffic to promote greater movement of persons, goods and services within the Common Market.

The COMESA Treaty has extensive provisions on roads and road transport, railways and railway transport, air transport, maritime transport and ports, inland waterway transport, pipeline transport, and multi-modal transport.

The stated objectives include the following aspects:
• Foster such cooperation among themselves as would facilitate the production of goods and facilitate trade in goods and services and the movement of persons;
• Make regulations for facilitating transit trade within the Common Market; and
• Adopt a Third Party Motor Vehicle Insurance Scheme.

More detailed provisions are contained in Chapter Eleven of the Treaty which deals with cooperation in the development of transport and communications. According to Article 84, member States shall undertake the necessary steps to:
• Maintain, upgrade, and rehabilitate roads, railways, airports and harbours in their territories;
• Review and re-design their intermodal transport systems and develop new inter-territorial routes of the Common Market to link and to cater for the types of goods and services produced in the member States;
• Maintain, expand and upgrade communications and meteorological facilities that would enhance and improve contacts between persons and businessmen in the member States and promote the full exploitation of the market investment opportunities created by the common market;
• Grant special treatment to landlocked and island member States in respect of the application of the provisions of this Chapter; and
• Provide security and protection to transport systems to ensure the smooth movement of goods and persons within the Common Market.

Specific provisions then follow on the various sub-sectors, namely, Roads and Road Transport, Railways and Rail Transport, Air Transport, Maritime Transport and Ports, Inland Waterway Transport, Pipeline Transport, Multimodal Transport, Freight Booking Centres, Freight Forwarders, Customs Clearing Agents and Shipping Agents.

COMESA has made significant progress in physical integration. As can be seen in table 9, physical integration within COMESA is highest in inland waterways and aviation and lowest in shipping.

Table 9: COMESA Physical Integration of Transport Networks

<table>
<thead>
<tr>
<th>Level of Integration</th>
<th>Ports</th>
<th>Shipping</th>
<th>Inland Waterways</th>
<th>Roads</th>
<th>Railways</th>
<th>Aviation</th>
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</thead>
<tbody>
<tr>
<td>High</td>
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</tbody>
</table>

*Source: COMESA, 2006*

On the road sector, when compared with other RECs, COMESA has the second largest kilometers of paved roads (140,527km). Yet connectivity varies among the various segments within COMESA. For example, the EAC and SADC members of COMESA are more integrated than other members of COMESA.

On rail connectivity, the COMESA subregion has the second highest kilometres of rail at 32,558 kilometres. This is second only to SADC, which has 45,321.6 kilometres of rail. The COMESA subregion has two rail gauges, the 1.067 standard gauge and the 1.000m narrow gauge.

On ports and airports, the nineteen COMESA countries are served by 15 main maritime ports and 28 main airports. The 15 ports are well integrated within COMESA because they serve not only the needs on the countries in which they are located, but also the needs of the landlocked countries. The COMESA Air Transport Liberalization programme has improved air connectivity across COMESA countries as shown in table 10.
Table 10: COMESA Air Transport Frequencies between Paired Cities

<table>
<thead>
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<th>From / To</th>
<th>Addis Ababa</th>
<th>Antananarivo</th>
<th>Asmara</th>
<th>Bujumbura</th>
<th>Cairo</th>
<th>Comoros</th>
<th>Djibouti</th>
<th>Entebbe</th>
<th>Harare</th>
<th>Khartoum</th>
<th>Kigali</th>
<th>Kinshasa</th>
<th>Lilongwe</th>
<th>Luanda</th>
<th>Lusaka</th>
<th>Manzini</th>
<th>Mauritius</th>
<th>Nairobi</th>
<th>Seychelles</th>
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</tbody>
</table>

Source: COMESA, 2006

Notes
Burundi, Egypt, Eritrea, Kenya, Malawi, Rwanda, Sudan, Uganda, Zambia and Zimbabwe are implementing Legal Notice No 2

Burundi, Egypt, Rwanda, Sudan and Uganda are granting Fifth Freedom Rights. This has given them increased connectivity and service frequencies

As shown in table 11, COMESA countries seem to have high utilization of ports, road transport, airports and airlines. In order to improve multi-modal transport, the constraints being faced by shipping, rail and inland waterways should be addressed.
Table 11: COMESA Transport Network Utilization

<table>
<thead>
<tr>
<th>Extent of Network Utilization</th>
<th>Ports</th>
<th>Shipping</th>
<th>Inland Waterways</th>
<th>Road Transport</th>
<th>Railway Transport</th>
<th>Airports</th>
<th>Airlines</th>
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</tbody>
</table>

*Source: ARIA, 2004*

Table 12 gives the level of policy convergence in COMESA. As can be seen, the extent of policy convergence is high in Civil Aviation and low in the Shipping Railways sectors. Proposals are underway to establish a COMESA shipping line and a study to review the progress made in railway concessioning is ongoing.

Table 12: COMESA Policy Convergence

<table>
<thead>
<tr>
<th>Extent of Policy Convergence</th>
<th>Ports</th>
<th>Shipping</th>
<th>Inland Waterways</th>
<th>Roads and Road Transport</th>
<th>Railways and Railway Transport</th>
<th>Civil Aviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
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</tbody>
</table>

*Source: ARIA, 2004*

Other attempts to realize regional integration in the transport sector have been in the areas of policy reforms. The status of implementation of these policy reforms is given in table 13.
### Table 13: COMESA Status of Implementation of Policy Reforms

<table>
<thead>
<tr>
<th>Country</th>
<th>Ports</th>
<th>Roads</th>
<th>Railways</th>
<th>Civil Aviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Autonomous Port Authorities</td>
<td>Concessions in Place</td>
<td>Road Boards Road Funds</td>
<td>Autonomous Road Agencies</td>
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<td>Burundi</td>
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**Source:** COMESA, 2007

Compared with other common markets in Africa, COMESA has the highest number of instruments aimed at improving transit transport facilitation. These include the Yellow Card, Uniform System of Transit Charges, Harmonized Axle Load Limits, ASYCUDA and the COMESA Customs Bond Guarantee Scheme. While there is policy convergence among the COMESA countries in terms of acceptance of these instruments, the problem has been the level of implementation. For example, only eight of the twenty COMESA countries (Burundi, Ethiopia, Kenya, Malawi, Rwanda, Sudan, Uganda, Zambia and Zimbabwe) are applying the Uniform System of Transit Charges. These will be further elaborated in the section on harmonization of the SADC and COMESA programmes.

#### 3.3.2.1 COMESA Transport and Communications Strategy/Priority Investment Programme

Although a number of initiatives at the regional level has been put in place in the last 10-15 years, a comprehensive regional transport policy has not yet been formulated in support of regional integration. It has been deemed necessary to harmonize policy and regulatory issues
with contiguous Regional Integration Organizations (RIOs) such as SADC, EAC, IGAD and other African integration groupings, and to apply the framework of the NEPAD Initiative. The policy and regulatory prescriptions are foremostly intended to offer solutions to regional and institutional bottlenecks in infrastructure development and maintenance management and to boost regional development and integration, economic viability and environmental sustainability.

The need to develop sustainable multi-modal transport systems that constitute an essential element for regional trade and integration has been realized. In recognition of this requirement, COMESA established a Transport and Communications Strategy/Priority Investment Programme whose overall objective is to increase competitiveness, economic growth and poverty reduction through enhanced regional integration for Eastern and Southern Africa.

The expected results of the TCS/PIP are:
(a) Development of a Priority Investment Plan (PIP) containing individual projects and an appraisal and decision making process, including criteria and methodologies for project selection and prioritization;
(b) Proposals on a structure for a Programme Finance Facility (PFF) and its functions to cater for the funding of the implementation of all individual proposals of the Priority Investment Plan (PIP) including identification of financing sources, mechanisms, and instruments; development of methodologies for project appraisal, selection and prioritization and operationalization of (short term rolling) Priority Investment Plan (PIP);
(c) A management information monitoring system (MIS) designed to ensure that relevant RIO management continuously is informed about the adequate progress of the implementation process; and
(d) Adequate capacity building conducted to have all relevant staff in the appraisal, monitoring and evaluation process of the PIP implementation professionally performing their duties.

This strategy is expected to facilitate the acceleration of regional integration among the various regional integration organizations as anticipated in the AU Vision.

3.4 Corridor Development and Spatial Development Initiatives

Development Corridors and Spatial Development Initiatives are taking root in Southern Africa. The corridors place transport in general and transit transport in particular, in the broader socio-economic context. In corridor development, economic activities, including transport are viewed in a holistic manner through a recognition of the interdependence of the sectors. For example, tourism or agriculture or mining cannot flourish without an adequate infrastructure system and in turn, an infrastructure system is not a means to an end, but is there to serve the needs of other economic sectors, activities or projects.
Thus far, 16 Development Corridors and SDIs have been designated in Southern Africa (figure 14). The most successful is the Maputo Development Corridor, which could be used as an integration model for the rest of the subregion. Priority corridor infrastructure projects have been identified and are included in the NEPAD Short Term Action Plan. These include the Lobito, Trans-Cunene, Trans-Caprivi, Shire Zambezi Waterway, Mtwara and Nacala Development Corridors (Lebesa, 2007).

**Figure 8: Development Corridors and SDIs in Southern Africa**

![Map of Southern Africa showing development corridors and SDIs](image)

*Source: Punungwe NEPAD SDI Report, 2007*

The concept of development corridors is not new. They have developed over a long period of time and currently provide the backbone for intra-regional and international trade for African countries. The Southern African corridors have been identified because of their inherent, but currently under-utilized potential for sustainable development. As an extension of their traditional function of a transit nature, their coverage takes cognizance of the characteristics of the economy in their hinterland to support economic development on a sustainable basis.
3.5 Challenges in Regional Transport Development

The corridors identified above are at different levels of development. The major operational and developmental challenges faced are elaborated below.

3.5.1 High transaction costs

In recent years, the volume of goods has increased exponentially due to, inter alia, changes in the international market. However, African countries have not yet benefited from the global increase in international trade. According to several reports, Africa delivered 10 per cent of world exports in 1950, but by the year 2000, this share had declined to only 3 per cent. This dismal performance is partly due to high transaction costs, which contribute to the cost of tradable goods and consequently determine the degree of integration of a country into the world economy. The costs fall into two categories: direct costs which include transportation costs and the cost of compliance associated with collection and processing of information and, the indirect costs accrued due to administrative and customs procedures, which delay the import/export of goods. These significantly contribute to the cost of tradable goods and, in turn, determine the degree of integration of a country into the world economy.

Most operators in Southern Africa are small to medium enterprises and are highly affected by these high transaction costs. Further, a number of factors deter their expansion into international markets. For example, compliance costs hardly have any relationship with goods traded and make the export of small value consignments by SMEs bear disproportionately high cost burdens (Lisinghe, et al, 2004). Transaction costs have to be reduced in order to develop international trade in Africa in general and Southern Africa in particular. Furthermore, as mentioned earlier, various studies have demonstrated that Africa experiences the highest transport costs in the world. Cost reduction strategies are being developed through efforts to provide simple, predictable and efficient customs procedures, supported by the development of one-stop border posts, regional customs bond guarantee schemes, and increased use of ICT for example.

3.5.2 Vehicle overloading

The issue of vehicle overloading and the need for its effective control has been recognized in Africa since the First United Nations Transport and Communications Decade for Africa. Attempts to control overloading through for instance the issuance of the COMESA axle load compliance certificate, have been generally ineffective due to, inter alia, lack of capacity to ensure enforcement of the legal loads. Available statistics show that in Eastern and Southern Africa, the incidence of overloading ranges from 10 to 50 per cent. Overloading not only significantly accelerates the rate of road deterioration but, when coupled with inadequate funding for road maintenance, it contributes significantly to poor road conditions which result in higher transport costs. These transport costs are estimated to be typically four to five times higher than in developed countries.
In an effort to address the overloading problem holistically, the SSATP Regional Integration and Transport Coordinating Committee proposed the preparation of guidelines for overload control in Eastern and Southern Africa based on best practices within the subregion and elsewhere. The guidelines have been prepared and were scheduled to be disseminated to Eastern and Southern African countries through a workshop held in early 2008.

3.5.3 Inadequate Transit Facilities

Although efforts have been made to provide transit facilities such as rest rooms, restaurants, clinics, and maintenance facilities, among others, for such users as long-distance truck operators, there is a need to approach the establishment of facilities in a holistic and integrated manner. Programmes such as the ‘Corridors of Hope’ funded by USAID and efforts by the Federation of Eastern and Southern Africa Transport Association have gone some way in addressing this challenge. It is hoped that future studies such as the North-South Corridor study funded by SSATP will include this aspect in their scope.

3.5.4 Inefficiency at Border Posts

It has been observed that busy border posts such as Chirundu and Beitbridge are characterized by congestion, duplicated efforts and delays in processing of goods and people. They are generally inefficient. Average transit times for trucks at Chirundu for northbound traffic range from 26 to 46 hours. A key cause for the lengthy transit times are the inordinately long procedures involved in passing through two sets of identical controls in each respective territory. The introduction of a one-stop border post at Chirundu, which will reduce the duplication identified above by having juxtaposed facilities for authorities on either side with each facility handling traffic going only in one direction on either side of the border. Thus, officials from both authorities will handle northbound traffic on either the Zambian or Zimbabwean side, and the same will apply to southbound traffic.

This project is in progress with the two countries having signed a Memorandum of Understanding. However, despite the progress achieved so far, there still remain some challenges including: the granting of extra-territorial authority to border agencies, which requires backing by law in both countries; existence of many agencies involved in the operations at the border; harmonization of documentation, forms, etc.; finding an appropriate information and communications technology package to address interface issues across the border; and changing the mindset of border staff and the business community to adapt to the new procedures. Once operational, the one-stop border post will reduce transit times significantly.

3.5.5 Policy and Institutional Development Constraints

Inadequate support in the implementation of transport policies results in reduced enforcement of transport industry regulations that ensure adherence to the required standards. There is very
little visibility of transport regulations due to this lack of capacity. Robust capacity-building programmes covering the requirements for policy support are needed.

In order to accelerate infrastructure development, a comprehensive institutional development and capacity-building programme is required at the level of member States and implementing agencies. This will improve the enabling environment for investment. Once developed, the SADC Regional Infrastructure Development Master Plan and the COMESA Transport and Communications Strategy/Priority Investment Plan can provide a regional, priority-based road map and blue print for development of infrastructure, based on the SDI model and the corridor-based approach.

3.5.6 All-inclusive Stakeholder Involvement

There is need to establish forums where policymakers, practitioners, inter-governmental organizations, private sector and civil society can discuss issues on equal footing. Efforts have been made to establish such forums through such associations as the Federation of Road Transport Hauliers (FERSATA) which participate in the various meetings that address transit transport issues. However, agreement is needed on the role for each stakeholder in the implementation of specific action programmes, especially aspects such as the setting up of corridor management committees.

3.5.7 Slow restructuring and concessioning process

Although private sector road concessioning has increased significantly in South Africa over the last 10 years, this has been limited to high-volume, main road corridors (CSIR, 2001). This has not been the case in other Southern African countries due to the absence of sufficient traffic volumes on most corridors to ensure the financial viability of privately funded road concessions. Unless the volumes are high, the required return on capital would demand high toll fees. The concessioning of railways in Southern Africa has also not been very successful due to under-performance of the concessioned entities. In an effort to redress the situation, SADC, COMESA and EAC have agreed to revise the Terms of Reference for railway concessioning.

3.5.8 Lack of Databases

COMESA and SADC are at different levels in the development of databases through implementation of the COMESA Scoping Study and the SADC Infrastructure Master Plan respectively. Linkage of the databases will go a long way towards better information sharing by all stakeholders.
3.5.9 Information Technology Constraints

Insufficient use of automated processes and information technology is a source of delays, high costs and inefficiencies since documents are usually presented at the time of border crossing and verification of the submitted information takes place then. Experience in other parts of the world in customs administrations shows that border-crossing time is reduced considerably and revenue collection functions improved with increased use of IT. Most Southern African countries have adopted Automated Systems for Customs Data, developed under UNCTAD’s Special Programme for Trade Efficiency, to assist in the clearance of goods. The system has brought substantial improvement to the customs, administration and transit transport programmes in most parts of Africa.

3.5.10 Weak Institutional Framework

As mentioned earlier, institutionalization of national transit transport and trade facilitation committees is needed, to monitor and oversee the movement of goods within the country. The committees should be composed of government agencies dealing with trade, transport, customs, immigration, security, and health and stakeholders from the private sector (transporters, freight forwarders and cross-border traders, among others). At the corridor level, Corridor Management Committees should also be established along the same lines with representatives from all member States along the corridor. It is critical to strengthen the institutional framework at both national and corridor levels in line with the instruments developed.

3.5.11 Strengthening Regional Initiatives

Most countries have recognized the importance of adopting all regional approaches to facilitate trade and the need to refrain from reinventing the wheel. This has always not been the case in practice. For example, the proven success of the COMESA 3rd Party Vehicle Insurance Scheme should be adopted by all RECs operating in Southern Africa. There is need to strengthen successful regional initiatives as integration progresses.

3.5.12 Financing of Regional Transport Infrastructure and Services

The significance of the potential of transport infrastructure for investment, trade, growth and poverty alleviation has long been known. Efforts to build new transport infrastructure, maintain and/or rehabilitate the existing have been constrained by the lack of adequate financial resources and other factors. The amounts needed for such interventions are much larger than governments and donors put together can provide thus requiring both domestic and external private sector financing. However, the inherent risks combined with the limited size of domestic markets make these projects unattractive to foreign private investors, while local investors may be in their infancy and technically unskilled to undertake major infrastructure investments. The absence
of long-term bond markets also increases the difficulty in raising the required funds and user charges are often not adequate to finance maintenance costs fully.

According to the latest report on infrastructure presented to the SADC Summit in August 2007 (Makumbe, 2007), the Southern African countries face major challenges relating to infrastructure availability and development, including:

- Inadequate financial resources for investment in infrastructure and minimal domestic resource mobilization;
- Lack of availability of bankable projects that can be marketed for investment;
- Lack of multilateral agreements amongst States to jointly implement and finance trans-boundary projects;
- Deferred maintenance in infrastructure, due to varying resource capacity;
- High cost of infrastructure development against a backdrop of inadequate resources, poor cost recovery from users and low infrastructure utilization thresholds;
- Competing demands for resources from socio-economic services and imperatives such as health (HIV/AIDS and others), food security; and
- Inefficient use of existing infrastructure due to poor logistics and other bottlenecks (e.g. border post delays).

As an example, the inadequacy of the resources allocated to road network management and maintenance is often lacking whereas. Furthermore, the resource coverage of road maintenance needs is 31 per cent for COMESA and 40 per cent for SADC Vehicle overloading further erodes the inadequate resources (Brushett, 2005).

Identification of other sources of funding and development of innovative ways of funding transport projects are needed. Alternative methods of financing of transport projects have been used in the United States of America (AASHTO, 2003). These include new or non-traditional sources of revenue, new financing designed to leverage resources and new fund management techniques coupled with new institutional arrangements. So far, the types of funding mentioned above have not yet been adapted to the African situation but they provide a good basis for future implementation when the size of the projects increases and public-private-partnerships are developed.

Despite these challenges, some progress has been achieved in improving the modalities for financing projects. The NEPAD framework has considered a number of regional projects with a view to providing financing support. The African Development Bank (AfDB) is responsible for administering funding for NEPAD Projects. To this end, AU, the RECs, NEPAD and the Africa Infrastructure Consortium constituted the NEPAD Infrastructure Project Preparation Facility (IPPF) special fund, to facilitate the development and packaging of regional infrastructure projects up to the stage of feasibility studies, in order to provide a pipeline of bankable projects for investors (Salawou, Rugamba, 2007). In Southern Africa, one of the projects that has
attracted such funding is the Kazungula Bridge on the Zambezi River, which connects Zambia, Zimbabwe and Botswana.

In recent years, most of the Southern African countries have undertaken extensive road sector reforms (implemented through the World Bank/European Union/ECA Sub-Sahara Transport Policy Programme) involving commercialization of roads by applying the “user-pays” principle (Brushett, 2005). This has assisted member States in strengthening the sustainability of road sector development by establishing stable and regular financing systems through the collection of road user charges mostly in the form of fuel levies.

Taking cognizance of the fact that financing was not the only measure to support the road sector development, the reforms also addressed the need to improve management capacity. This was done through the creation of autonomous road agencies operating as business entities. The capacity of the domestic road construction industries has been enhanced through such programmes. Road maintenance activities are now being contracted to small- and medium-scale indigenous contractors.

As mentioned earlier, unlike other regions of the world, private sector financing of transport infrastructure in Africa has not developed. This has been largely due to the very high risk and low returns on investment. A recent assessment by Ljung (2007) at the NEPAD Roundtable on “Accelerating the Implementation of Multi-country Infrastructure Projects and Programmes” held in Lusaka, Zambia, has given investment on transport infrastructure a very low rating compared to fast-growing sectors with high returns, such as ICT. Private sector financing in transport may therefore be limited structures such as the Kazungula Bridge and operations such as the weighbridge management in Kwa Zulu Natal.

Private-Public Partnerships are, however, gathering momentum in regional transport. The Maputo and Trans-Kalahari corridors demonstrate how effective this type of partnership can be in mobilizing investments and technical capacity to develop and maintain road, rail and port infrastructure.

Realizing the need for domestic resource mobilization, COMESA and SADC have set up funds made up from contributions from member States and funds leveraged from cooperating partners. The COMESA Fund has two features, namely, finance for infrastructure projects and an adjustment facility for the implementation of the trade liberalization programme. So far, 12 out of 19 countries have signed, eight have ratified and only Kenya and Mauritius have contributed to the fund. The EU has contributed 78 million Euros. For the fund to meet it objectives, the remaining COMESA member States have to show their commitment through contribution.
4. Harmonization and Cooperation for Trade Development among COMESA, SADC and EAC Countries

4.1 Overview

COMESA, SADC and EAC established a Task Force in 2001 to work on ensuring harmonization of the programmes of the two RECs. Specifically, the Task Force is to develop an implementation mechanism for the harmonization of trade arrangements between the two regional organizations. The Task Force was restructured in 2004 into three levels; technical, strategic and policy. In 2006, the Task Force was expanded to include EAC. Deliberations of the Task Force have so far focused on trade facilitation, trade policy and infrastructure.

COMESA, SADC and EAC have worked towards the harmonization of trade and transport facilitation instruments viz, harmonization of road user charges, a regional third party vehicle insurance scheme, harmonized axle loads and vehicle dimensions, vehicle overload control, transportation of abnormal and hazardous substances, a single customs document, harmonized customs procedures, and a regional and a carrier’s license as part of regional cooperation and regional customs bond guarantee systems.

However, to strengthen the pace of regional integration, further cooperation and coordination are required in the areas of rules of origin, customs valuation, customs declaration documents, customs best practices, FTA tariff elimination timeframes, common tariff nomenclature, non-tariff barriers, sanitary and phytosanitary measures, standards, competition policy safeguards and trade remedies, customs union timeframes and harmonization of CETs, sensitive products, and trade in services. Such cooperation will result in the development of common trade tools for all the three RECs so that by 2010 when the subregion achieves Customs Unions status, the same instruments will be in place.

4.2 Trade Development

4.2.1 Rules of Origin

As noted earlier, though the Rules of Origin are similar between COMESA and EAC, SADC uses different criteria. However, progress has been made in streamlining the Rules of Origin. To facilitate the process, the RECs have agreed to:

- Commission a joint study on the rules of origin focusing on the origin-conferring criteria and the objectives of the criteria to facilitate harmonization of the rules;
• Harmonize documentation and procedures related to the administration of rules of origin;
• Review erodes cumulation provisions to enable sourcing of materials among the three RECs and utilize the EPA process to harmonize rules of origin; and
• Urge the ESA and SADC EPA groups to meet and discuss common rules of origin in their negotiations with EC.

4.2.2 Customs Valuation

The three RECs are implementing the WTO Agreement on Customs Valuation and are planning and undertaking joint capacity-building initiatives in the implementation of the WTO Agreement on Customs Valuation.

4.2.3 Customs Best Practices

On Customs Best Practices, nearly all member States of EAC, COMESA and SADC are applying the provisions of the Kyoto Convention. Efforts at national level have targeted reform and modernization of customs operations and procedures. However, to smoothen trade, the three RECs need to develop guidelines on establishing customs databases, procedure manuals, customs valuation procedures and other customs best practices.

4.2.4 Customs Declaration Documents

Differences still exist in the customs declaration documents used by the three RECs, the COMESA CD, the SADC CD and the EAC SAD. COMESA is currently revising the CD under the ASYCUDA project taking into account the SADC CD. The SADC CD was being rolled out as most SADC member States have now adopted ASYCUDA++. EAC has harmonized all customs documentation under the Customs Management Act, although Uganda and Tanzania were using ASYCUDA++ and Kenya was using SIMBA. There is agreement for the development of a common document system incorporating the individual REC’s single customs documents. This will enable traders to obtain one document irrespective of whether they are trading within COMESA, SADC or EAC.

4.2.5 FTA Tariff Elimination Timeframes

The three RECs are exchanging information on the intra-regional tariff elimination processes and timeframes. COMESA has 13 of its member States in FTA, two have reduced tariffs by 80 per cent, one by 10 per cent, one under derogation, and two have not effected any tariff reductions. The SADC tariff phase-down entails 85 per cent of tariffs to be eliminated by 2008, and the remainder by 2010 and most member States are on schedule.
In the case of EAC, the intra-regional tariff elimination is based on a 5-year programme. The programme is now in its third year and will be completed in December 2009. The programme cover a selected number of tariff lines for imports from Kenya to Tanzania and Uganda. Goods imported from Uganda to Tanzania and vice versa are duty free. Rwanda and Burundi have not yet negotiated their tariff elimination schedules. To accelerate regional integration, the RECs should individually and severally continue to urge their member States to respect agreed tariff elimination timeframes.

4.2.6 Common Tariff Nomenclature

All the RECs have adopted the HS2007 classification at 8-digit for the nomenclature. Some COMESA member States have migrated to HS2007. Further, COMESA is revising its categorization to take account of the Broad Economic Categorization but will maintain the 4-band structure of the CET. Some SADC States have migrated to HS2007 and a blueprint for categorization was made ready for consideration by member States. EAC adopted HS2002 at 8-digit level and migrated to HS2007 in July 2007. Clearly, there is need for the three organizations to harmonize their nomenclatures and use the same templates for product categorization. This will smoothen trade in the subregion.

4.2.7 Non-Tariff Barriers

As noted earlier in the report, NTBs remain an impediment to smooth trade. COMESA is establishing a web-based NTB reporting and monitoring mechanism and has a dedicated NTB Focal Point at the Secretariat. COMESA has adopted a recommendation of the Business Forum on the introduction of a COMESA NTB Penalty to act as a deterrent for member States imposing NTBs to block regional trade. SADC has completed the NTB update and developed a draft action plan for the elimination of NTBs. EAC Article 13 of the Customs Union Protocol prohibits the imposition of NTBs. The EAC Secretariat and the private sector have developed a NTB monitoring mechanism that includes the establishment of one regional and several national monitoring committees. There is need for collaboration in developing mechanisms to eliminate NTBs in subregional trade.

4.2.8 Sanitary and Phytosanitary Measures (SPS)

Each of the three RECs has initiatives on SPS. COMESA has an AfDB - funded project known as the Agricultural Marketing Promotion and Regional Integration (AMPRIP) which is providing training for SPS experts, assisting the setting up of regional reference laboratories and of an SPS Protocol. SADC has developed a draft annex on SPS to the Trade Protocol. EAC has developed harmonized SPS procedures for key agricultural products and is working with the United Nations Industrial Development Organization (UNIDO) in helping to raise the capacity of EAC exporters to enter major export markets of interest.
Given that all these initiatives all targeted towards addressing challenges in SPS, there is need for collaboration in setting up reference laboratories, developing a common database on diseases, pests and other SPS issues and developing an early warning system as part of a pest and disease monitoring and control mechanism. Collaboration would optimize resources and result in gains from economies of scale.

4.2.9 Standards

The three RECs are working separately in developing standards. COMESA has 300 harmonized standards and is working on technical regulations. COMESA member States are also working on developing a regional certification scheme which will lead to mutual recognition of national standards. SADC has 63 regionally harmonized standards while EAC has 670 regionally harmonized standards. EAC enacted a Standards, Quality, Metrology and Testing (SQMT) Act in 2006. It is in the process of developing regulations and setting up an institutional framework for implementation of the Act.

To avoid duplication and optimize used of resources, the three RECs should work with the National Standards Bodies of member States to develop a regional framework for cooperation, and should convene a joint meeting of SQAM/SQMT experts to develop harmonization programmes.

4.2.10 Competition Policy

The need for a competition policy was alluded to earlier in the report and as is the case with the other areas, efforts to develop such policies are uncoordinated. COMESA has a regional competition law and policy which covers unfair business practices, mergers and acquisitions, and consumer protection. COMESA is in the process of setting up the regional competition commission. SADC has completed a study and is developing a regional framework for cooperation in competition policy. EAC has a regional competition law, which was enacted in 2006 and is in the process of drafting regulations and developing institutional framework for the implementation of the law. There are no fundamental differences in the provisions of the COMESA Competition Regulations and the EAC Competition Act.

There is an initiative that includes the South African Competition Commission that is seeking to develop a framework and forum for cooperation, similar to the Organization for Economic Cooperation and Development (OECD) Global Competition Forum. The RECs should exchange information on competition law and policy, attend each others’ meetings and hearings, support staff exchanges among national competition authorities as well as collaborate in investigations and joint capacity-building activities.
4.2.11 Safeguards and Trade Remedies

All the RECs recognize the need for safeguards and trade remedies. EAC safeguards and trade remedies as well as institutional arrangements are provided for in the Customs Union Protocol. EAC safeguards and trade remedies provisions are WTO-based. The SADC Trade Protocol provides for safeguards and trade remedies. These provisions are also WTO-based. However, for effective implementation, member States need to have national legislation which unfortunately, most do not have. COMESA has a safeguard and trade remedy provision in the Treaty and in the Safeguards and Trade Remedies Regulations. Treaty provisions are most suited to emergency safeguards while provisions in the Regulations are WTO-based.

Since safeguard and trade remedy provisions of the three RECs are WTO-based, RECs should harmonize their trade defence instruments and dispute settlement procedures, undertake joint capacity-building activities in the application of trade defence instruments and exchange of information on the application of these instruments.

4.2.12 Customs Union Timeframes and Harmonization of CETs

EAC launched its Customs Union in 2005 with a 3-band CET of 0 per cent, 10 per cent and 25 per cent. The Customs Union is operational although internal tariffs apply on a few products from Kenya to Tanzania and to Uganda. There are no tariffs on trade between Uganda and Tanzania. The SADC Customs Union will be launched in 2010. COMESA will launch its Customs Union in 2008 with a 4-band CET of 0 per cent, 10 per cent and 25 per cent. To cement the regional integration process, it is expected that the SADC Customs Union process will therefore take account of the CETs of EAC and COMESA.

4.2.13 Sensitive Products under Customs Unions

The COMESA CET has now been adopted. The subregion will identify a definitive list of sensitive products and time-bound exclusions. EAC has 58 tariff lines (8-digit) which are treated as sensitive products with tariff rates of between 35 per cent and 100 per cent. The SADC sensitive products will be developed at a later stage of the integration process. The three RECs should develop common criteria and guidelines for identifying sensitive products. Here again, the EPAs negotiations could help in facilitating such a process.

4.2.14 Trade in Services

COMESA has developed a draft Regional Framework in Trade in Services. The COMESA work on Trade in Services, namely national assessments, development of General Agreement in Trade in Services (GATS) templates and drafting a regional framework agreement for Trade in Services, has been finalized and a draft final report on these activities submitted. EAC has developed plans for a framework on trade in services and actual work will be undertaken in the context
of the Common Market negotiations. SADC has developed plans for a framework for Trade in Services and work will also be undertaken in the context of Common Market negotiations starting in 2007. The RECs should exchange information on Trade in Services and undertake joint capacity building in the same.

4.3 Regional Transport

The task force was also mandated to address transport-related issues. The progress achieved in the implementation of these issues is given below. The progress reports are derived from the reports of the five meetings held by the task force, the last of which was held in Victoria Falls, Zimbabwe in October, 2007.

4.3.1 Harmonization of road user charges

In adopting the “user pays” principle, the RECs have to work towards a harmonized road user charges framework based on the existing practices and the recently concluded SADC study. SADC was mandated to take the lead in developing this collaboration framework. To facilitate the harmonization, SADC, COMESA and EAC would have to deliberate on and undertake the following:

- Consolidation of levels of charges;
- Finalization of the MOU for signature by the Ministers;
- Development of a constitution for a Regional Cross-Border Road User Charges Collection Association;
- Development of detailed implementation plans per country;
- Depositing of the Instrument of Ratification;
- Transmission of copies of the Instrument of Ratification; and
- Commencement of the implementation of rationalized charges.

4.3.2 Regional third party vehicle insurance scheme (Yellow Card)

Noting that three different systems of payment for third party motor vehicle insurance, namely fuel levy, cash payment and the yellow card in Southern Africa, SADC is finalizing, terms of reference (TOR) with EU for a study in 2008 to help come up with an interfaced third party insurance scheme taking into account the COMESA Yellow Card Scheme. Angola, Botswana, DR Congo, Lesotho, Mozambique, Namibia, South Africa, and Swaziland would benefit from this scheme. Given the success in COMESA’s yellow card which had extra-territorial provisions, the task force nominated the REC to take the lead in the harmonization of the schemes.

4.3.3 Harmonized axle loads and vehicle dimensions

Discrepancies existed in the RECs axle load limits and vehicle dimensions at both national and subregional levels partly due to different design pavement standards. Initiatives are already
underway in SADC to address this issue. The findings of this initiative will be deliberated on and consensus reached to define common standards during the next meeting.

4.3.4 Vehicle overload control

The three RECs have realized the need to accelerate the implementation of the overload control programme along the corridors through an intensive investigation of the underlying issues, analysis of best practices world wide and the prevailing best practices in the Eastern and Southern African subregion, through the production of guidelines. In this regard, a synthesis report has been prepared under the World Bank, EU and ECA sub-Sahara Africa Transport Policy Programme covering Eastern and Southern Africa. Guidelines drawn from the findings and recommendations of the report on procurement, installation, operation and management of weighbridges, have also been developed. It is anticipated that training programmes at both national and subregional levels will be organized to ensure effective dissemination of the guidelines. SADC, COMESA and UNECA have formed the lead committee for the execution of this programme.

4.3.5 Transportation of abnormal and hazardous substances

Given the non-existence of regional standards, there is a need to develop and harmonize intra-regional standards. In the meantime, member States are using different standards including the United Nations Economic Commission for Europe (UNECE) instrument on ‘Transportation of dangerous and hazardous goods’.

4.3.6 Multilateral road transport agreements

Development of a harmonized model multilateral road transport agreement to replace the existing bilateral agreements is needed. SADC is taking the lead in this effort.

4.3.7 One-Stop Border Posts

Progress has been made with regard to the Chirundu and Malaba Border Posts where efforts are being made to review and update enabling legislation. A task force has been set up to develop mechanisms to ensure consistency in the operationalization of the one-stop border post concept. The strategy adopted is to develop one border post as a model for replication at other border posts in the subregion.

4.3.8 Air transport liberalization

SADC and COMESA have been working jointly in the liberalization of air transport. As part of the liberalization, the airlines for Malawi, Zimbabwe and the privately owned Zambia Skyways have jointly instituted a partnership (code sharing) on some of the routes. The flight frequencies
for paired cities (Lilongwe-Lusaka and Lilongwe-Harare) have also increased. Progress achieved in this subprogramme also includes adoption of joint air transport competition rules. Furthermore, during the Joint COMESA, EAC, SADC meeting of Ministers responsible for transport held in Harare, Zimbabwe in November 2006, it was agreed to set up a Joint Competition Authority (JCA) which will exercise the oversight on the implementation of the regulations in Eastern and Southern Africa.

In 2007 the COMESA, EAC and SADC Councils of Ministers adopted the Guideline, Provisions and Procedures for the implementation of the Regulations for the Competition of Air Transport Services. It has been proposed that the JCA be composed of seven members – two members from each REC’s regional air transport competition authorities with one additional member from the REC, which assumes the Chairmanship. It has been proposed that the seven members be appointed during the next joint COMESA, EAC and SADC meeting of Ministers responsible for air transport in May 2008. COMESA would assume the Chairmanship of the JCA while SADC hosts the Secretariat.

The RECs task force has made a lot of progress in the harmonization and coordination of trade and transport programmes, which address the AU agenda on regional integration. However, in order to ensure that the decisions made are endorsed and implemented by the member States, development of modalities is needed for institutionalizing the trade and transport programmes through the establishment of a joint COMESA, SADC and EAC Committee of Ministers. It is hoped that this will be one of the issues discussed during the proposed joint COMESA, SADC, and EAC Summit of Heads of State.
5. Conclusions and Recommendations

5.1 Conclusions

The study has outlined the challenges in trade development and transport integration in Southern Africa focusing on COMESA and SADC and the Free Trade Area in SADC and the Customs Union in COMESA in 2008 through a review of the implementation of the SADC Protocol on Trade and the COMESA Treaty. On trade, the study showed that despite efforts to improve trade in Southern Africa, the volume of trade between the two RECs remains low due to many challenges. These include: NTBs (including rules of origin); the non-complementary trade structure; low purchasing power; supply-side constraints; trade imbalances; non-tariff barriers; complex rules of origin and trade development and coordination. The high dependency on tariffs for tax revenues, multiplicity of regional integration arrangements, differences in economic strength of participating countries and uncoordinated economic development frameworks remain major challenges to REI.

The low levels of industrial development and the lack of product complementarities imply only limited potential for expanded intra-regional trade. To overcome the non-complimentary nature of the production structures, there is need to design and sequence trade liberalization aspects with the integration of production, taking into account the regional complementarities.

As regional integration proceeds, another factor that requires close examination relates to the development of compensatory mechanisms for those countries that will lose from trade liberalization in the short term. In the long term, however, and coupled with fair transparent and rule-based compensatory mechanisms, regional integration benefits all. The lack of compensation mechanisms for the losers contributes to the slow progress in regional integration.

The study has shown the importance of the transport sector for regional integration. The sector supports the smooth functioning of a SADC FTA characterized by free movement of goods, services and people. Further, development corridors and SDIs in transport in general and transit transport in particular are critical for trade development in the subregion despite the human and financial constraints they currently face. Effort in financing and managing of the transport infrastructure through public/private partnerships, most notably in the road sector, is also highlighted.

The major challenges in the regional transport sector include: high transaction costs; inadequate support in the implementation of regional transport policies; vehicle overloading problems; inefficient and antiquated border posts; institutional constraints at national and corridor levels; slow restructuring and concessioning process; limited private sector participation in road infrastructure development; poor levels of computerization (databases) at border posts.
and poor implementation of regional initiatives. Nonetheless, the study has shown that despite these challenges, considerable progress has been made in the harmonization of policies in the transport sector.

To overcome the challenges and enhance trade development and transport integration, the study recommends: adoption of a harmonized system of legislation; development and implementation of a coordinated framework for transit facilitation; matching of ratification of instruments with implementation of provisions; setting up of a pool of resources to spearhead projects to avoid dependence on donors; creation of decision-making organs to minimize delays in implementation; and ensuring that provisions of protocols offer better options for member States than do bilateral arrangements. The harmonization of technical, equipment and operational as well as personnel certification standards will facilitate smooth cross-border transport operations and overcome the current challenges. The use of trans-shipment centres and ownership of storage at the ports by landlocked countries is an example of this type of integration.

A holistic approach in which trade development and transport integration issues are jointly dealt with is required in the subregion if progress in regional integration is to be achieved. The effort being made by SADC and COMESA provides an approach for fast-tracking regional integration.

The creation of a multi-stakeholder constituency for regional integration in member countries is important for the process to proceed. The study alluded to absence of an active private sector participation in the subregion to bridge the resources gap which the public sector faces. Further, government has also suffered from lack of capacity to carry out the necessary reforms on its own, to establish a conducive environment for enhanced private sector development and involvement in the transport sector. Thus, a business constituency for regional integration has to be nurtured and developed to facilitate the evolution of private-public-partnerships in the integration process.

Despite progress in both trade development and transport, the study has identified gaps in the human and institutional framework for implementing the regional integration agenda at both national and secretariat levels. To accelerate the regional integration process, these gaps need to be addressed as a matter of urgency.

Further, the need for increasing domestic resource mobilization in light of the delays experienced in the implementation of existing instruments is a critical component. This will in turn reduce the gap between signing and implementation of these instruments. Furthermore, government can create an enabling environment for private sector development to facilitate the sector’s participation in transport infrastructure and services provision. This will in turn facilitate regional integration, as the sector will be able to play an active role in the provision of infrastructure. Financial constraints, especially the lack of sustainable funding, have been at the core of slow progress in ‘one-stop border posts’ and have to be resolved. Similarly, Corridor
Planning Committees, tasked to monitor the smooth movement of traffic along corridors, are active only on some transport corridors such as the Trans-Kalahari Corridor (involving South Africa, Botswana and Namibia) due mainly to lack of resources.

Notwithstanding the challenges in both trade development and transport, Southern Africa has made considerable progress in its pursuit of regional integration as it moves towards the FTA and CU milestones. The existence of functioning regional integration Secretariats with mechanisms to coordinate regional integration programmes and a good measure of political will indicate the commitment to regional integration. The modest increases in intra-regional trade are a demonstration of deepening regional integration in Southern Africa.

Further, the efforts to ensure that the different regional integration initiatives are coordinated demonstrate the commitment to regional integration. The RECs are streamlining trade agendas, harmonizing trade policies including developing common documents for cross-border clearance of cargo, vehicles, and business people and investment codes, and removing unnecessary programme duplication. Implementation of the SADC RISDP and the COMESA priority investment programme will be critical for the acceleration of regional integration as envisaged in the AU Vision.

5.2 Recommendations

In addition to the specific recommendations already contained in the various sections of this report, the following overall recommendations can be made from this desk study:

At national level, countries should:
- Set up a regional integration management system to coordinate all matters related to regional integration, including requirements to sign, accede and ratify protocols and agreements;
- Domesticate protocols and agreements and ensure their implementation;
- Nurture all-inclusive regional integration constituencies that participate in integration debates, monitor, evaluate and lobby for the integration process; and
- Provide adequate resources, both financial and human resources, to ensure that the regional integration process proceeds as planned.

The RECs should:
- Encourage countries to create the political will to accept ceding of national sovereignty as need arises; and
- Adopt a holistic approach in dealing with trade development and transport and establish a committee on trade and transport which will meet regularly to review progress. The Committee would be tasked with ensuring the implementation of the joint decisions.
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I Introduction

As part of its mandate, ECA-SA intends to: undertake a detailed study of the challenges and opportunities in coordinating trade development and transport in Southern Africa, taking into consideration the forthcoming COMESA Customs Union (CU) and the SADC Free Trade Area (FTA) in 2008; and propose recommendations and strategies for transforming the challenges into opportunities for trade development and transport. A technical publication to be produced from this study will review both facilitation and developmental issues, including the impact on the implementation of the protocols on trade and transport on the establishment of the FTA and CU, as well as the free movement of persons within the COMESA/SADC area.

II Objective

The overall objective is to analyse the challenges and opportunities in coordinating trade development and transport in Southern Africa taking into consideration the forthcoming COMESA Customs Union and SADC Free Trade Area in 2008. Based on these findings, propose recommendations and develop strategies to facilitate the acceleration of the regional integration process in the subregion.

III Scope

The consultant will undertake the following tasks:

(a) Identify the challenges and opportunities in the implementation of the SADC protocols and COMESA Treaty on trade and transport and free movement of persons as part of the regional integration process:
   - Review challenges faced in coordinating trade development and transport facilitation;
   - Identify, analyse and develop the linkages between their focus areas and the existing instruments used; and
   - Cite case studies to the demonstrate challenges and opportunities.

(b) Undertake the following investigations for trade development and transport as an integral part of the broader regional integration aspects:
   - Review the policy and institutional environment for trade development and transport in the subregion;
• Assess the level of inter-country trade in the Subregion;
• Assess the extent to which the transport infrastructure meets the requirements for trade in the subregion taking into consideration the requirements for harmonizing standards and their implications on trade;
• Review EPA negotiations, and assess its impact on ongoing regional integration programmes;
• Review the ongoing New Economic Partnership for Africa’s Development (NEPAD) transport, infrastructure and services initiatives;
• Identify modalities for adopting and implementing a regional approach to trade development and transport in light of the forthcoming COMESA CU and SADC FTA; and
• Propose alternative ways for financing and managing transport infrastructure and services in the subregion (PPPs, SDIs, Development Corridors).

(c) Identify the progress achieved and the challenges in the ongoing harmonization of the SADC/COMESA Programmes in light of the forthcoming COMESA CU and SADC FTA in 2008:
• Review bilateral/multilateral trade issues in the subregion;
• Review harmonization strategies and instruments used; and
• Identify the inherent challenges and possible prospects.

(d) Propose recommendations and the way forward; and

(e) Present the findings to a Special Event to be organized in October 2007.