Malawi’s Dual Membership in COMESA and SADC

ABRIDGED VERSION
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Acknowledgment

This report was prepared by ECA team of experts under the general guidance of Ms. Jennifer Kargbo, Director, ECA Sub-Regional Office for Southern Africa, (SRO-SA), Mr. Robert Okello, Director of NEPAD and Regional Integration (NRID) and Mr. Hakim Ben Hammouda, Director of Trade, Finance and Economic Development (TFED).

The team was led by Mr. Joseph Atta-Mensah, Chief, Regional Integration, (NRID) and Mr. Alfred Latigo, Senior Economic Affairs Officer, (SRO-SA). The team included, Mr. Munorweyi Dhliwayo, Senior Economic Affairs Officer, (SRO-SA); Mr. Cornelius Mwalwanda, Principal Adviser ECA Geneva Office; Mr. Stephen Karingi, Chief, Trade and International Negotiations Section; Mr. Remi Lang, Economic Affairs Officer, Trade and International Negotiations Section; and Mr. Mfunwa Mzwanele, Economic Affairs Officer, (SRO-SA).

The report also benefited from inputs from the following colleagues from different divisions: Stephen Maxwell Donkor, Regional Advisor, Water Sector; Mr. Pancrace Niyimbona, Economic affairs Officer, Energy Sector; and Mr. Makane Faye, Regional Advisor ICT.

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Introduction

1. This report was prepared by the United Nations Economic Commission for Africa (UNECA) based on a request received by the UN Under Secretary General and Executive Secretary of ECA, Mr. Abdoulie Janneh, from the Malawi Minister of Industry, Trade and Private Sector Development, Dr. Ken Lipenga, for the UNECA to conduct a study that would assist the Malawi Government in its decision on its membership in the Common Market for Eastern and Southern Africa (COMESA) or the Southern Africa Development Community (SADC).

Statement of Problem

2. Malawi has to make this decision because both COMESA and SADC are moving towards the formation of independent custom unions in 2008 and 2010, respectively. The country needs to make a choice between SADC and COMESA because it is not practical for a country to belong to two customs unions. In addition, the EU-ACP Economic Partnership Agreements (EPAs) requires that the sub-Saharan African regional blocs negotiating with the EU establish custom unions and Malawi is not sure under which negotiating bloc it would fare well.

3. The eventual decision that Malawi makes would have to be based on similar considerations, which gave rise to its membership, i.e. political, economic, financial, social, cultural and geographical proximity. Thus, while a decision to terminate membership in either COMESA or SADC would largely have to be based on economic and financial reasons, nonetheless cultural and historical factors would need to be factored into the final decision. It is also of utmost importance that the decision made by the government and people of Malawi should be one that supports and advances its development agenda, particularly the “Growth and Development Strategy: from Poverty to Prosperity 2006-2011.”

Methodology

4. The quantitative and qualitative analysis of the study was carried out based on the outcome of extensive consultations with stakeholders, a review of previous studies as well as an assessment of Malawi’s performance in both COMESA and SADC on the following key aspects of regional integration:
   - Objectives and programmes of the two RECs;
   - Trade flows between Malawi and COMESA and SADC;
   - Malawi’s trade negotiations;
   - Financial and monetary integration, and macroeconomic convergence;
   - Infrastructure; and
   - Political and Cultural issues.
2.0 The Continental Integration Agenda

5. African countries are vigorously pursuing regional co-operation and integration as a strategy to achieve sustainable economic growth and development as well as to be an effective and major player in the global marketplace. However the pace of integration has been slow and progress is very mixed.

6. Cognisant of the slow pace of a continent-wide integration, the African leadership has provided a framework under which the integration agenda would be carried out. This framework is enshrined in the 1991 Abuja Treaty establishing the African Economic Community (AEC). Under the framework of the Treaty, Africa would become an economic union by 2027, with a common currency, full mobility of the factors of production and free trade among the 53 countries that make up the continent. In order to achieve this vision, the Treaty suggests that the process of integration or the creation of Africa Economic Community (AEC) be carried out over a period of 34 years (1994-2027), in six different stages of varying duration.

7. At the African Union Summit in Banjul, the Gambia, in July 2006, the leadership observed that there are plethora regional economic groupings on the continent. The similar mandates and objectives of these regional groupings and the multiplicity of membership by African countries into different RECs appear to be thwarting the integration agenda of the continent. The Banjul Summit therefore decided to recognize only eight groupings as RECs. These are: Southern Africa Development Community (SADC), East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), Inter-Governmental Authority on Development (IGAD), Arab Maghreb Union (AMU), Community Sahelo Saharian (CEN-SAD), Economic Community for West African States (ECOWAS), and Economic Community of Central African States (ECCAS).

The current thinking of the leadership of the African Union is that the timetable of the Abuja Treaty is too long and the process of continental integration has to be accelerated. That is why the Constitutive Act that transformed the Organization of African Unity into the African Union and the Sirte Declaration 9.9.99 call for the acceleration of continental integration. Furthermore, the July, 2007 Summit of the African Union would be devoted solely to the debate on the “Union Government of Africa.”
3.0 Consultations with key Stakeholders in Malawi

3.1 Initial Consultations with Stakeholders in Malawi in February 2007

8. In February 2007, the UNECA technical team held consultations with stakeholders including both government officials and the private sector in Lilongwe and Blantyre. The main outcome of the consultations is:

- **Trade.** Some of the stakeholders were of the view that Malawi could leave SADC for COMESA, but remain a signatory to selected protocols of SADC that of interest to the country, such as infrastructure. This view, which is not backed by hard evidence, has been reached because of the belief that the large market of COMESA offers Malawi a greater potential for the future in terms of expansion of trade. However, this view is at the variance with recent data that shows that Malawi’s trade in COMESA is on the decline, while its trade in SADC is on the rise. A broader view held by most stakeholders in Malawi is for COMESA and SADC to agree to some form of “Free Trade Area (FTA) Agreement, under which they would synchronise their trade and financial reforms, assuming that a merger between the two organizations is not possible. This would allow countries like Malawi to continue to benefit from both COMESA and SADC programmes.

- **Infrastructure.** Most of the officials consulted feel that Malawi is better off in SADC, which has better programmes than COMESA. They argued that the corridors used by Malawi are generally in SADC. Once the Shire-Zambezi Waterways Project is completed, transport costs are expected to drop by 60 per cent, which would make Malawi very competitive. Through the Southern Africa Power Pool (SAPP) programmes, Malawi stands to gain the most in SADC, as it offers potential avenues for the export of its electricity supply.

- **Historical, cultural and ethnic reasons.** It was also indicated that for geographical, historical and cultural reasons, Malawi has greater affiliations to SADC and COMESA. This is due to the fact that there are large populations of Malawi origin living in the neighbouring countries, particularly in Mozambique, Tanzania, South Africa, Zambia and Zimbabwe. These neighbouring countries share common languages and culture, which ties them together much more than in COMESA.

- **Political.** It was noted that it would be extremely difficult for Malawi to pull out of SADC, given that it was a founding member and has stronger ties with most of the member states of SADC than COMESA. In addition, from the foreign policy point of view, opting out of SADC could prove extremely difficult.

- **Investment.** The Mission was informed that South Africa is main source of foreign direct investment (FDI) to Malawi. Malawi’s investment potential, therefore, lies in the SADC region. However, there are concerns about South Africa’s dominance in
the region and therefore other FDIs were needed from other countries to balance out South Africa’s influence.

- **Macroeconomic and Financial Consideration.** It was argued that this would not have a significant bearing on where Malawi ends up. However, it was pointed out that COMESA has macroeconomic convergence criteria for its member states, which SADC is currently also developing. It was also noted that there are South African Banks in the country, which are supporting businesses. The officials pointed out that Malawi needs a stable and sustainable macroeconomic environment to deepen its integration agenda as well as attract sound investment.

### 3.2 Follow-up Consultations with Stakeholders in Malawi in April 2007

9. In collaboration with the Ministry of Industry, Trade and Private Sector Development of Malawi, the UNECA team held a follow-up stakeholders workshop to present the outcome of the study. In attendance were senior government officials, the private sector and civil society organizations. A lively and an exhaustive discussion followed. The main outcomes of the workshop are:

- Malawi should continue to pursue its trade and developmental agenda in SADC and COMESA. Both RECs offer Malawi a potential large market size for its products.
- Malawi, together with the countries that have dual membership in both COMESA and SADC (Democratic Republic of Congo, Mauritius, Swaziland, Zambia and Zimbabwe), should strongly encourage the leadership of both RECs to sign an FTA with the view of establishing a joint custom union.
- In the long run, Malawi, together with the countries that have dual membership in both COMESA and SADC should strongly encourage the leadership of both RECs to merge the two RECs.

### 3.3 Review of a recent study on the issue (the TRALAC Report)

10. In February 2006, at the request of Malawi’s Ministry of Trade and Private Sector Development (MTPSD), the Trade Law Centre for Southern Africa (TRALAC) prepared a study whose main objective was to foster an understanding of the advantages and disadvantages of Malawi’s membership in COMESA and SADC and assist Malawi in selecting the regional economic community, which would serve Malawi’s national, interests should SADC and COMESA independently enter into a customs union.¹

¹ Prior to the one undertaken by TRALAC there have been other studies, notably: field interviews with relevant stakeholders undertaken in Malawi in November 2005, the Malawi Poverty Reduction Strategy (MRPS) and the Malawi Economic Growth Strategy (MEGS), the Imani-Capricorn Study (which reviewed the strengths and weaknesses of Malawi’s regional trade agreements), and the Diagnostic Trade Integration Study.
11. The study indicates that Malawi’s choice of a customs union should take into consideration the industrial development agenda of the country. From this perspective, the study recommends to Malawi to choose from three options.

12. The first option is the *Limited Status Quo*. Under this option, Malawi would limit its regional trade integration agenda to both COMESA and SADC FTAs. Malawi would therefore not join either the SADC or COMESA customs unions. However, Malawi would have to aggressively follow a trade facilitation agenda with a view of liberalising and harmonising rules of origin regimes and eliminating other non-tariff barriers (NTBs) to trade.

13. The second option the study proposes is the *Differentiated Tracks*. This option suggests that Malawi follows only the COMESA trade agenda and opts out of the SADC Trade Protocol. Malawi would however continue to participate in other complementary non-trade SADC programmes and protocols such as infrastructure development, macro-economic convergence programme, and matters related to geo-political and security interests, among others. In addition, Malawi could choose to establish a bilateral trade agenda with strategic SADC partners, in line with the relevant articles under COMESA Treaty.

14. The third option is the *Status Quo*. This option suggests that Malawi continues to belong to both COMESA and SADC FTAs and participate in processes leading to the custom union negotiations, knowing fully it would in the end choose only one customs union. The authors of the study argue that the advantage of this option is that it allows Malawi to choose either the COMESA or SADC customs union at a future date to ratify.

15. An assessment of the report findings shows that the study focused on the trade aspects of Malawi’s involvement in the continent’s regional integration agenda. However, regional integration is more than trade agreements. It is therefore important that for one to assist Malawi to make a decision to belong to COMESA or SADC the analysis needs to look beyond trade and assess the net benefits Malawi gains in other non-trade programmes of either COMESA or SADC.

16. Even if Malawi has to make a decision based on its trade flows the recommended options proposed by TRALAC may not be appropriate. The first option or *Limited Status Quo* would not contribute to the acceleration of the continental regional integration agenda, particularly the creation of the African Economic Community (AEC). This is because the option calls for Malawi to remain at the FTA status in both RECs and not join either the customs union of SADC or COMESA. It also does not solve Malawi’s dilemma of choosing between the two RECs so as to remove the inefficiencies and duplications associated with multiple membership of regional integration groupings.

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2 Note that a country can belong to more than one free trade area but only to one customs union.
The second option or the Differentiated Tracks requires Malawi to continue its membership in both RECs but pursue its trade agenda in COMESA and non-trade agenda in SADC. It therefore does not address the resource costs, inefficiencies and duplication of efforts attendant with dual membership in the two RECs. Also it is not certain if this arrangement would be agreeable to the two RECs.

The third option, the Status Quo, is not an option since it does not address Malawi’s challenge of belonging to two RECs. Overall, the options proposed by TRALAC may not assist Malawi in deciding on their future path, particularly in the pursuit of a broader continental regional integration vision. Ultimately, the final decision Malawi makes should rest on its developmental interest taking into account the net gains that would accrue to it from SADC or COMESA as well as the advancement to African Union’s commitment to the creation of the African Economic Community.

4.0 The implications of Malawi’s membership in COMESA and SADC

18. Malawi, like many other African countries, is participating in regional economic communities in order to achieve sustainable economic development. It is a founding member of COMESA and SADC. Malawi is not the only country that holds membership in the two RECs. Democratic Republic of Congo, Mauritius, Swaziland, Zambia and Zimbabwe also belong to both RECs and would have to make the decision Malawi is attempting to make now at a future date.

4.1. Malawi’s trade patterns

19. From 2000 to 2005, Malawi’s exports to the world have increased by 30%, an average rise of 7% a year. In the same period, Malawi exports were valued at an average of US$ 443.8 million. The European Union continues to remain the main destination for Malawi’s exports, accounting for about 35 per cent of total exports. South Africa (13.7 percent) and the USA (13 per cent) rank second and third, respectively, as the destination points.

20. Since 1999, Malawi’s trade deficit has been deteriorating. While exports have stagnated at around US$ 500 million per year, total imports, in 2005, increased sharply to US$ 1.1 billion, roughly twice the level of exports. While a sharp increase in imports need not necessarily be a bad thing per-se, especially if the imports composition are driven by developments in the economy contributing to the country’s modernization, it is worrying to observe that exports

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3 The trade analysis section uses recent six years (2000-2006) trade data from the COMTRADE. COMTRADE is a database run by the United Nations Secretariat. It is available from the WITS SMART website, http://wits.worldbank.org/.
have stagnated throughout the period and are not catching-up. This is because it could also be a reflection of deteriorating terms of trade or due to lack of diversification among other things.

21. Overall, analysis of Malawi’s trade shows that the structure and composition of exports fall under 3 broad categories:

- **Non-dynamic agricultural export products**: tobacco, tea, dried leguminous, and coffee. All of these products account for almost two-third of exports to the world, with tobacco accounting for 53.9% of total exports. However, these products are unprocessed, and therefore incorporate little value-added.

- **Dynamic agricultural export products**: the group includes sugar, cotton, other nuts, maize and rubber. Exports of these products grew strongly in the past (how many?) years (33.8% for sugar and 48.2% for cotton). However, the growth performance has been erratic across years, possibly owing to weather vagaries (cotton, sugar) and to the domestic food supply situation (maize).

- **Textile products**: The textile industry has benefited from preferential schemes and in particular AGOA and the non-reciprocal trade agreement with South Africa. Exports of textile products, though marginal in comparison to traditional exports (less than 5% of total exports), have been much more dynamic than the average over recent years. However their performance has also been erratic and probably marred by fears of erosion of preference margins. There is certainly a concern on how the small textile sector will adapt to the long-term effects of the elimination of the Multi-fibre arrangements.

22. In light of the above and taking into consideration the country’s objective of spurring its exports, attention should be given to strengthening traditional exports as well as pursuing the support of non-traditional exports such as textile. Regional integration can contribute to these objectives through the creation or development of alternative markets.

23. Beyond regional integration it is also interesting to consider some of the current trends that may affect Malawi’s export interest. The current rise in the interest for bio-fuels has led to a sharp rise in the prices of the underlying commodities such as sugar and maize for bio-ethanol, and vegetable oil and oil seeds for bio-diesel. Malawi could gain from the potential future export of its maize and sugar into markets where bio-fuels are produced.

### 4.2 Malawi’s export performance to SADC and COMESA

24. Exports to SADC have increased sharply since 2000. At the same time, there is more variability of exports to COMESA than towards SADC, perhaps largely due to the high levels of exports of tobacco to Egypt in 2001. Likewise, export of raw sugar to Kenya did well in 2001 and even more so in 2003 and 2004 before tumbling in 2005. While this may highlight the great vulnerability of Malawi’s exports to COMESA, it is also important to bear in mind that with respect to sugar exports to Kenya, the latter applies safeguards of quotas whose derogation
within COMESA FTA is expected to expire in January 2008. This then means that there is scope for more sugar exports if Kenya loses the benefits of the sugar quotas.

25. Examining the distribution of Malawi’s exports to SADC, one observes that 75 per cent of exports go to South Africa, followed distantly by Mozambique (17 per cent) and Tanzania (5 per cent). In the case of COMESA, two countries, Egypt (42 per cent) and Kenya (31 per cent), account for nearly three quarters of export into COMESA. This is followed by Zimbabwe (13%) and Zambia (11%), both member States of SADC, which received quarter of the exports.

4.3 Malawi’s imports flow

26. Imports have grown steadily over the period, leading to a widening of its trade deficit. In just six years, imports grew by 119% or on average by 17.2% annually.

27. As with exports, there is also a high degree of geographical concentration of imports. Almost 74 per cent of imports originate from SADC (48.2 per cent), the EU (14.5 per cent) and COMESA (11.5 per cent). High geographical concentration of imports tends to lead to dependence towards the import source. Although, given the global specialisation in the value chain, import source concentration is not entirely a negative thing. But it can be a source of external shock through currency movements, which can easily expose a small economy such as that of Malawi.

28. The country imports a large mix of products, the degree of concentration of imports being much lower than that of exports. Petroleum products (oil) account for the largest imported product category, with an average of US$ 91 million. The data also shows that Malawi has become a regional hub for unprocessed tobacco, rising by about 943 per cent in recent years. Most of the unprocessed tobacco imports come from the neighbouring countries (Mozambique, Zambia and Zimbabwe).

29. Maize imports have also exploded over the period under review, 2000 to 2005, (almost +1000%). Looking at the yearly breakdown, it appears that maize imports shot from US$ 1.2 to US$85.2 million between 2002 and 2003, which could be explained by poor weather and a severe deterioration in food security situation. Since 2003 the levels of imports of maize have reduced but still remain at a high level (between US$ 10 to 20 million, 10 to 20 times the level of 2000).

30. However, in recent years due to the adoption of appropriate policies aimed at achieving food security, the country is no longer importing maize, but has become an important supplier of maize to regional markets. The country is expected to export nearly 400,000 tonnes of maize in 2007 to neighbouring Zimbabwe. Malawi had a surplus of 500,000 tonnes last year and is set for a bumper harvest in 2007, which is expected to yield a surplus of 1.1 million tonnes this year.
4.4 Imports from SADC and COMESA by product


32. The largest imports from SADC are petroleum products. This category has risen significantly during the period, with South Africa being overtaken by Mozambique as of 2004. Imports of tobacco, particularly from Mozambique have also exploded during the period (multiplied by 36). Unlike the case of COMESA, maize imports originating in South Africa rose sharply in 2005. South Africa generally dominates in the imports from SADC.

4.5 Tariff revenue composition

33. Malawi is member of the COMESA FTA and hence does not raise duties on imports from these countries. Malawi and some SADC countries, particularly Mozambique, Zimbabwe, Zambia and Botswana, have preferential trade agreements. It also has signed a non-reciprocal trade agreement with South Africa, whereby South Africa eliminated most of its tariff to imports from Malawi, while Malawi maintains its tariff structure for imports from South Africa.

34. Data in 2001 shows that Malawi derived a very large share of its tariff revenue from South Africa (US$ 25 million or 43% of the total). As the import share of South Africa has increased between 2001 and 2005, it is likely that the share of revenue collected from South Africa is even higher in 2007.

35. According to the IMF, in 2004 approximately 11.9% of Malawi’s government total revenue (excluding grants) came from tariff revenue. Should Malawi eliminate all its customs duty to imports from South Africa, it would lose approximately 6.7% of its budget revenues. This is not an insignificant amount and clearly calls for a progressive elimination of the tariffs and the introduction of specific adjustment measures.

4.6 Trade with South Africa

36. Given the overwhelming economic importance of South Africa in SADC, and by virtue of the trade agreement between Malawi and South Africa, the study assessed the trade flows between the two countries.
As highlighted earlier and depicted in the graph above, about 75% of Malawi’s exports to SADC go to South Africa. However, Malawi imports far more from South Africa than it exports to it. Both imports and exports have grown significantly between 2000 and 2005, reaching respectively US$ 380.6 million and US$ 92.4 million in 2005. Between 2000 and 2005, Malawi exported on average US$ 60 million to South Africa (13.7% of total exports). South Africa ranked as the second most important destination for exports, behind the EU-27 (US$ 156 million). The export mix to South Africa has been relatively more diversified, in comparison to export to the World or COMESA. Whereas more than half of exports to the EU, USA or COMESA was just one product (tobacco), the top half of Malawi’s exports to South Africa included five product categories, which are tea, tobacco, sugar, shirts, and cotton. Other significant exports to South Africa also included textiles, maize, cotton seeds, natural rubber and plywood.

Between 2000 and 2005 an average of 37% of Malawi’s total imports originated in South Africa, ranked as the first country of imports at US$ 290 million on average per year, far ahead of the EU (US$ 113 million). Between 2000 and 2005 the import mix from South Africa was even more diversified. The most imported product category has been petroleum products. Motor vehicles, fertilizers, maize, insecticides, flat rolled iron sheets, tyres, flour also count in the most imported products from South Africa.

South Africa therefore appears to be a crucial export destination for Malawi. The diversity and level of exports makes it an indispensable partner of its trade strategy. In addition, South
Africa is the main imports provider and also a major transit corridor. In this context, it appears that Malawi’s regional integration strategy should not retain an option that puts these trade ties in question. Preserving and even extending the market share in South Africa should be a top priority.

40. It must be noted that Malawi’s trade within SADC, excluding South Africa is also very strong. The graph above clearly demonstrates that nearly half of Malawi’s imports come from other SADC countries than South Africa. About quarter of the exports also go to other SADC countries than South Africa. This clearly indicates that Malawi’s trade flows cannot be attributable to the asymmetric trade agreement it has with South Africa.

4.7. Theoretical evaluation of Malawi’s options in terms of regional integration

41. The technical team used the latest edition of GTAP Computable General Equilibrium Model to assess the economic impacts of Malawi’s integration agenda in the sub-region.

42. The analysis was conducted under the following scenarios:
   - **Scenario 1:** Malawi joins SADC customs union while SADC and COMESA sign an FTA (Malawi therefore keeps preferential market access to COMESA countries).
   - **Scenario 2:** As above, Malawi joins SADC customs union and all trade ties with COMESA are broken, hence COMESA re-imposes its applied tariff to Malawi.
   - **Scenario 3:** Malawi joins COMESA customs union and COMESA and SADC sign an FTA.
   - **Scenario 4:** Malawi joins COMESA and leaves SADC. SADC countries therefore reapply tariffs on Malawi’s export and Malawi reapplies tariffs on goods from SADC.

43. The simulation results from the GTAP model show that Malawi’s trade agenda should include SADC. In terms of GDP growth, the results clearly demonstrate that scenario 4 is not a good option for Malawi, as it would lead to a fall in its GDP. Scenario 1 is the best option followed by scenario 3. However, if Malawi has to choose between the 2 RECs without any preferential trade access in the other, then Scenario 2 would be the preferred option for Malawi.

44. In terms of income and welfare changes, the results indicate that household incomes would increase under Scenario 1, 2 and 3. On the other hand, Malawi’s household’s income would decline if the country loses preferential market access to SADC (scenario 4). Malawi’s welfare increases significantly (around 30 million US$), if the country preserves its preferential market access to SADC.

45. On the whole, from the trade analysis, using the empirical evidence deduced in this study, from a trade perspective, Malawi stands to gain more from being a member of SADC than COMESA. The diversity of exports to SADC holds a more sustainable development potential.
than the less dynamic products that the country is currently exporting within COMESA. Yet, the exports to COMESA, though less dynamic and their characteristic of being on the lower end of the value-chain, still would require it to consider bilateral arrangements with countries such as Kenya and Egypt, as the concerned sectors tend also to be major employers within the agricultural sector.

4.8. Monetary and Financial Integration and Macroeconomic Convergence in COMESA and SADC

Monetary and Financial Integration

46. Article 44 of the Abuja Treaty calls for the harmonisation of economic policies across the African continent. In the main, this involves establishing a single monetary area, encompassing a common currency and a common central bank for Africa by the year 2021. The process includes financial integration, which involves linking a country’s financial markets or integrating them with those in other countries or with those in the rest of the world. Financial integration has benefits of more opportunities for risk sharing and risk diversification, better allocation of capital among investment opportunities, and potential for higher economic growth. Overall, a single monetary area contributes to the strengthening of regional integration and is a necessary condition to the formation of a common market and economic performance and increased output per-capita in participating countries.

47. In this regard, both COMESA and SADC adopted the “gradualist” strategy in the process towards the creation of a monetary union, involving a relatively long transition during which prospective member states engage in a process of macroeconomic convergence and development of institutions. A typical example is the European Monetary Union. The process entails developments in the areas of fiscal policy, monetary policy, exchange-rate policy, foreign payments, and domestic payments.

48. Monetary and financial integration of the two RECs is in line with the second step of the Abuja Treaty covering the period 1999-2007 that requires that member states would have to strengthen sectoral integration at the regional and continental levels in areas such as trade, agriculture, transport, money and finance. In terms of monetary and financial integration in COMESA and SADC the study reveals the following:

- There are more monetary and banking integration and cooperation activities with countries in SADC than those in COMESA.
- SADC and COMESA have independently created chambers of commerce to promote investment opportunities in their respective zones.
- Currently, South Africa, a member of SADC, provides substantial FDI to Malawi. Other countries, from both COMESA and SADC, are beginning to make investments into Malawi.
The SADC Central Banks’ Information Technology Forum (IT Forum) was set up to improve the financial system in SADC through the use of information technology, building IT capability in SADC central banks; enabling effective business processes in the SADC central banking and in the financial system as a whole; and assisting the improvement of the global competitiveness and credibility of the SADC financial system.

COMESA on the other hand has established ZEP-RE (PTA Reinsurance Company), a specialized institution charged with the responsibility of promoting regional trade in the insurance and reinsurance sector.

49. In the short-term, given the above analysis in terms of monetary and financial integration services, Malawi appears to benefit more in SADC than in COMESA. However, in the medium to long-term, the degree of monetary and financial integration in the two RECs could be similar, such that this aspect of integration should not be a decisive factor for Malawi’s membership to COMESA or SADC.

Macroeconomic convergence

50. A significant amount of macroeconomic convergence (MEC) is necessary to achieve policy objectives for regional integration. Macroeconomic policy stance is an aggregate indicator that broadly reflects developments in the areas of fiscal policy, monetary policy, exchange-rate policy, foreign payments, and domestic payments. To implement and monitor convergence in these policies, each region is expected to develop benchmarks, milestones and criteria. Convergence criteria are variables that serve to express the degree of homogeneity of the economies belonging to a regional integration arrangement. To foster rapid and sustainable economic growth, macroeconomic stability and macroeconomic competitiveness should be secured and maintained on a sustained basis. Based on the aforementioned factors, the analysis of macroeconomic convergence (MEC) in the two RECS reveals the following:

- Although COMESA has put in place convergence criteria, a report presented at the COMESA Annual Summit in Djibouti in 2006 show among other deficiencies lack of standard computations and definitions of the criteria and lack of a clear roadmap (milestones) to the single currency, namely the work plan and timeframe for the Monetary Union.

- Unlike COMESA, SADC has already put in place clear benchmarks, criteria and milestones (2008, 20012 and 2018) for a monetary union in 2016 as well as an institutional mechanism through the Committee of Central Bank Governors (CCGB) Macroeconomic Subcommittee and the SADC Macroeconomic Subcommittee to implement monitor and review the MEC programme. SADC is also at an advanced stage of establishing Monitoring, Surveillance and Performance Unit (MSPU).

- By 2006, in respect of inflation, the majority of the SADC countries had achieved the convergence criteria for 2008.
SADC countries also show the largest degree of macroeconomic convergence in respect of containing budget deficits and overall, SADC countries are more convergent in terms of macroeconomic policies than those in COMESA.

To Malawi, MEC in the two RECS should be seen as providing an enabling environment to improve its macroeconomic stability including price stability and fiscal discipline.

Going by a majority of the key convergence indicators for COMESA and SADC, Malawi’s recent performance has been satisfactory and medium term projections for these indicators are also satisfactory.

Overall Malawi’s inflation is expected to decline continuously up to 2008 towards single digit, fiscal performance for 2005/06 financial year was satisfactory, and domestic revenues were substantially higher than projected reflecting a rebound in economic activity and continued improvements in tax administration.

Malawi’s economic growth is projected at 5.7 percent and 5.5 percent in 2007 and 2008 respectively, though below the 7% target for the two RECs to achieve the MDGs.

51. In the short-term, the relatively more advanced institutional structure for monitoring and reviewing implementation programme for MEC in SADC and the fact that SADC countries are more convergent than those in COMESA, serve as plausible indicators that SADC has a better enabling environment than COMESA in terms of improving its financial, macroeconomic and price stability. However, in the medium to long-term, both RECs are expected to attain comparable levels of macroeconomic convergence for an enabling macroeconomic environment. Therefore, it should really not matter whether Malawi belongs to COMESA or SADC.

4.9 Infrastructure and services

52. Effective regional infrastructure and services constitute one of the major prerequisites for fostering regional integration. Regional infrastructure and services comprising transport, water resources, communications, and energy are required to support the widening and integration of markets, achieve economies of scale in production, encourage the participation of the private sector, and attract foreign direct investment and technology. Recognizing the significant role of infrastructure in development, treaties establishing the RECs have included infrastructure and services as major components. Member States and the RECs are therefore currently undertaking collaborative programmes to harmonize infrastructure programmes.

53. Most African countries have realised the need to adopt a regional approach to coordinate cross-border infrastructure and services investment and development as envisaged in the initiatives of the New Partnership for Africa’s Development (NEPAD) and the successors to the global programmes of the United Nations Transport and Communications Decade for Africa. Infrastructure projects including the Shire-Zambezi Waterway, is central to Malawi’s decision to transform its economy from a consuming to a producing and exporting country and thereby enable it to compete effectively in sub-regional and international markets.
54. It should be noted from the onset that the assessment is limited to a qualitative nature due to the unavailability of data to enable the analysis to assess, for instance, the impact of the sectors on the overall economy of Malawi and the added value accrued to being a member of either COMESA or SADC. The sectors under consideration in this section include regional transport, ICT, water resources and energy. The recommendations arising from the assessment of their impact on COMESA and SADC programmes are given below.

- **Regional Transport:** The implementation of the regional transport in COMESA and SADC has been guided by a joint policy organ decision to consult and harmonize the implementation of their common programmes. Facilitation instruments such as the road transit transport facilitation programmes, the regional customs bond guarantee system, one-stop border posts, the Yamoussoukro Decision and, of late, the Shire-Zambezi Waterway, are being implemented as joint COMESA/SADC programmes. The collaboration in this sector is at an advanced stage with Malawi actively participating in the programmes. Furthermore the harmonization has resulted in introduction of cost reduction measures and, *inter-alia*, reduction in transport costs.

- **Information and Communications Technology:** Malawi is member of most of the COMESA/SADC ICT projects. The main objective of these projects is to provide reliable and cost effective connectivity for wealth creation and poverty reduction for signatory countries. The various ICT projects have been established in different times according to different political and technical conditions hence are in different stages of development. They can be grouped in two categories: (i) projects dealing with ICT policy issues and (ii) projects dealing with ICT infrastructure. The assessment demonstrates that the various ICT policies enabled Malawi to liberalize the ICT sector, expand its usage, increase the tele-density and strengthen regulation. The need to harmonize the SADC Regional Information Infrastructure (SRII) and the COMTEL infrastructure projects as proposed in the programme for the NEPAD Broadband Infrastructure Network.

- **Water Resources Sector:** From a hydrological point of view, Malawi’s regional cooperation partners are Mozambique, Tanzania and Zambia. Malawi is a signatory of the SADC Protocol on Shared Watercourses and participates in almost all projects in the SADC Shared Water Vision. COMESA and SADC are jointly assisting Malawi with the implementation of the Shire Zambezi Waterway. The assessment shows that Malawi is more involved in the SADC programmes.

- **Energy Sector:** Malawi is a member of the Southern African Power Pool but is not connected to the grid. The Zambia-Malawi inter-connection has been adopted as a NEPAD Priority Project and Malawi needs to investigate the feasibility of developing a pipeline on the Nacala Corridor for petroleum imports. The analysis shows that so far there are no COMESA projects in Malawi. Thus, Malawi stands to gain more in SADC.
4.10 Political and Cultural Aspects of Malawi’s Regional Integration Agenda

55. Political, social and cultural considerations will also need to inform the decision regarding terminating membership of SADC or COMESA in the EPA negotiations. Malawi has close links with other countries in Southern Africa, such as Mozambique, South Africa, Zambia and Zimbabwe as well as Botswana. Many Malawians have at one time or another worked in the neighbouring countries and many nationals of these countries are of Malawian decent. Furthermore, labour migration between countries of Southern Africa often predates independence.

56. Malawi remains economically and culturally linked to its richer neighbours in the South, such as South Africa, Botswana, and Zimbabwe as well as Zambia. Deciding to leave either SADC or COMESA is therefore more than an economic issue; it is political, social as well as cultural.

5.0 Conclusions and Recommendations

57. The ECA technical team has rigorously examined the performance of Malawi in SADC and COMESA, particularly in the areas of trade, financial and monetary integration and macroeconomic convergence, infrastructure, and political and cultural issues. It should be noted that the study has not analysed in detail the complexity of the trade regime in SADC, given the existence of the Southern African Customs Union (SACU) involving Botswana, Lesotho, Namibia, Swaziland and South Africa, the use of bilateral trade agreements between (Malawi/Zimbabwe) and use of COMESA Agreements-Malawi/Zambia.

58. However, based on the current available data used in the paper for the analysis, the main results of the study indicate that Malawi economic development potential is better in SADC than COMESA, particularly in the area of trade, infrastructure, monetary and financial integration, macroeconomic convergence as well as political and cultural issues. If Malawi should make a choice between SADC and COMESA then the ECA technical team recommends that Malawi should pursue its integration and economic development agenda in SADC than in COMESA taking into consideration the long-term welfare benefits, security and stability. In addition, the choice should not preclude continuation with selected bilateral trade agreements as deemed necessary.

59. Furthermore, Malawi might want to delay its decision whether to leave COMESA, until the current negotiations on the Economic Partnership Agreements (EPAs) are concluded with the European Union since Malawi is currently negotiating the EPAs within the framework of Eastern and Southern Africa (ESA) groupings. Malawi could also delay its decision until the
current discussions between East African Community (EAC), COMESA and SADC on the harmonization of their regional integration programmes have been finalized.

60. Malawi may consider consulting with countries like Mauritius and Zambia with dual membership who have also undertaken similar studies on dual membership before taking the final decision. Malawi should also consider the coordination of choice with the other countries that are in a similar situation, rather than take a unilateral leap. A coordinated choice among the seven countries is more likely to influence the cooperation arrangements.