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UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA

MISSION REPORT

TO EASTERN AND SOUTHERN AFRICA ON DATA COLLECTION FOR PREPARATION OF A STUDY ON LIBERALIZATION ON TRADE AND FACTOR MOBILITY WITHIN AFRICA AND THE PROMOTION OF EMERGENCE OF COMPLEMENTARITIES AS A BASIS FOR THE EXPANSION OF INTRA-AFRICAN TRADE: CASE STUDY FOR EASTERN AND SOUTHERN AFRICAN SUBREGION

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I. INTRODUCTION

In accordance with the implementation of the approved programme of work and priorities of the Regional Cooperation and Integration Division (RCID) for the 1998-1999 biennium, a mission was conducted to two regional economic community, namely: the Common Market for the Eastern and Southern Africa (COMESA) from 16-25 May 1998 and the Southern African Development Community (SADC) from 26-30 May 1998. The mission also covered one country, Kenya which was visited between 31 May – 6 June 1998. The mission took the opportunity to attend the Third COMESA Trade and Customs Committee Meeting during the mission to COMESA.

The purpose of the mission was to conduct a structured interview with the relevant officials in the two regional institutions and the Kenya government for the collection of data and information regional for the preparation of a study on: <u>Liberalization of Trade and Factor mobility within Africa and the Promotion of Emergence of Complementarities as a Basis for the Expansion of Intra-African Trade</u>. The liberalization and globalization process had put the African economies under great pressure and had exposed them to very intensive competition. The need to devise new methods to cope with globalization and liberalization was therefore necessary. The terms of reference of the study, a list of persons interviewed as well as a list of documents collected during the mission are attached as annexes to this report.

II. OBJECTIVE OF THE STUDY

While the theoretical underpinning of regional economic integration schemes which is based on the theory of the second best of Jacob Viner, shows that a move to free trade between two countries that maintain their respective external tariffs toward the rest of the world would leave them worse off. The argument relies on showing a partial consequence of liberalizing trade. The explotion of regional trade arrangements within the context of globalization has brought new parameters into the picture. The debate on regional trading arrangements remains lively but unresolved. As a result of the conclusion of the Uruguay rounds of negotiations, all parties appeared to be swayed toward accepting regional groupings a useful accompaniment to the World Trade Organization (WTO).

The study therefore aims to bring out how trade liberalization and factor mobility can be harnessed to promote complementarities as a basis for the expansion of intra-African trade. The study will therefore within this framework:

- review the existing institutional structures which have been set up to enhance intra African trade expansion;
- analyse the production structures – manufacturing and agricultural sectors;
- examine the structure of trade pattern in terms of imports or export;
- review the status of labour and capital mobility within the subregion/region;
- labour composition in each country, focusing on skill differentiation in each productive sector;
- labour mobility within the subregion and employment of other national in each country, including their areas of specialization;
- investment flow into African countries and the nature of this investment;
- cross-border investment and its nature and areas of operation – capital mobility;
- identification of potential areas in which individual country can develop competitive advantage; and
- proposals on what measures need to be undertaken to derive positive benefits from liberalization of trade and factor mobility.

III. COMESA SECRETARIAT

Exhaustive discussions were held with members of the COMESA Secretariat on the issues to be undertaken in the study. The key main issues which were examined amongst others, include:

- benefits of economic integration in terms of quantifiable and non-quantifiable;

- equalization of benefits, which will be assisted with factor mobility;
- level of complementation and competition;
- trade liberalization and de-industrialization;
- tariff rates and non-tariff barriers;
- the role of a common agricultural policy;
- cross-border investment and the role of south African TNCs;
- the creation of COMESA as an investment region or area; and
- the role of physical infrastructure, transport, telecommunication and information in liberalization.

During the discussions it was underlined that there was need to encourage labour mobility within the region as means to enhance the flow of skills in order to boost production. The process itself would also assist in the transfer of skills – technology. On the issue of transport and communications, it was emphasized that there was need to bring down the unit cost of transportation and communication, in order to facilitate intra-regional trade. It was equally felt that there was need to strengthen legal and regulatory frameworks for the implementation of agreed programme. The discussion also underlined the need to promote regional companies for the purposes of enhancing factor mobility a cross-borders.

In conclusion, it was observed that although the COMESA Treaty has a provision for multinational industrial development, there was need for some industrial policy instruments to be put in place to deal with the effects of the de-industrialization precipitated by the process of trade liberalization.

IV. SADC SECRETARIAT

At the SADC Secretariat, the mission held discussion with the professional staff, including the chief economist. Apart from discussing the issues of costs and benefits of economic integration, the mission also examined the issues relating to the study on: Liberalization of Trade and Factor Mobility

<u>and the Promotion of Complementarities as a Basis for the Expansion of Intra-African Trade within the Context of SADC</u>.

The Secretariat indicated that the study on liberalization of trade and factor mobility should have been done on a country by country basis in order to determine the short-and long-term effects of the liberalization scheme. The secretariat nonetheless pointed out that on the basis of the available information, the short-term effects of the liberalization scheme had resulted in unemployment as the public enterprises became privatized; de-industrialization as the non-performing industries were closed; and social upheaval as civil service underwent retrenchment. Even though in the long term the countries were expected to adjust and rebuild their industries, the real bottlenecks were in the lack of adequate infrastructural facilities both in terms of human resources and physical facilities that would facilitate the liberalization process to occur with minimum disruptions.

It was for these reasons that a number of protocols were being put in place within SADC to assist in overcoming these problems. The problem in the implementation of the protocols had been identified as deriving from the incompatibilities of national laws and the absence of mechanisms to ensure that decisions taken at the SADC Secretariat level were incorporated within the national legal frameworks.

With respect to the implementation of Trade Protocol which had been signed since 1994, many countries had adopted a wait-and-see attitude due to South Africa's policy stance. First, South Africa and other SACU members were engaged in the process of renegotiating the SACU agreement, and secondly, South Africa was also involved in negotiating its affiliation arrangement with the European Union, whose outcomes were likely to affect the future of the SADC Trade Protocol. The SADC Trade Protocol had been ratified by three countries. Botswana, Tanzania and Mauritius.

In the areas of macro-economic performance, the SADC countries had registered some significant progress. The average economic growth rate for the SADC countries for 1997 was about 6.6 percent as compared to 5% for the whole of Africa. Investment also started to flow into the region, although most of that inflow was crowding into the Republic of South Africa. It was therefore important that South Africa should assist its poorer partners by undertaking the type of investments that would lead to industrialization in the other SADC member States. It was in this regard pointed out that the Development Bank of Southern Africa was being restructured to mobilize resources for the revitalization of investment activities in the SADC region. Once these steps had been put in place and appropriate policy measures instituted, the SADC as a region would be poised to spearhead development renaissance in Africa during the next millennium.

Kenya

The Ministry of Foreign Affairs coordinated the mission to Kenya. Discussions were held with officials from the Ministries of: East Africa and Regional Cooperation, Industrial Development, Trade and Commerce, Agriculture and Economic Development. In addition, the Investment Promotion Centre and the Central Bureau of Statistics were also consulted.

Discussions were centered on Kenya's participation in the defunct East African Community, COMESA and the emerging East African Cooperation. All officials were unanimous in deploring the disintegration of the East African Community which they described as having bestowed considerable gains to Kenya as well as the other two partners, Tanzania and Uganda. The on-going current integration schemes of COMESA and East African Cooperation were also seen as beneficial to the countries involved. In pursuance of the COMESA trade liberalization programme, whose objective is the elimination all tariff barriers by year 2000, Kenya had in this regard achieved a tariff reduction rate of 80 per cent. Discussions also revealed that non-tariff barriers were also being addressed-through policy harmonization, while steps were underway to establish an East African Trade Promotion Centre. The thrust of economic policy in the East African Cooperation was to make the region a single investment area, by undertaking the inauguration of an East African stock exchange and ultimately establish a single currency amongst the other measures. The mission was also informed that East African Cooperation would be people-entered while the private sector would be stated to play the galvanizing role of leading the process of practical integration forward, while the government will be left to provide an enabling environment, the requisite infrastructure and policy guidelines.

The mission was also informed that, unlike during the era of the East African Community, there would be no common ownership of assets, but that investments would be channeled into regional projects. In this connection, the World Bank and the EU had already pledged US$1 billion for the improvement of regional roads. The other area for common investment promotion were the tourism and industry sectors.

The mission was informed that the collapse of the East African Community in 1977 had adverse effects on Kenya, whose industrial growth had fallen from 9.9% to between 3% and 1%, while its trade with its two neighbours had fallen from 29% to nearly 7% between 1978 and 1990s. The closure of borders led to massive loss of revenue from tourism. On the cost on non-integration, the officials quoted Julius Nyerere who recently stated that "he and the other leaders had been very foolish for allowing the East African Community to break up in 1977". The statement is an eloquent testimony on the virtue of regional cooperation, and should underscore the need for political leadership to show manifest commitment to regional economic integration as an instrument for promoting economic development.

The mission was informed that deeper integration in East Africa would require that the three East African countries move on a faster-track, this would call for regular meetings of sectoral committees, harmonization of laws and macro-economic policies. In a move toward implementing this policy. National budgets would be read to the three parliaments on the same day to enhance coordination and to avoid creating speculative tendencies. Ultimately moves would be put in place to create a common East Africa Assembly, Common Court of Appeal and eventually a Political Federation with supranational authority.

The mission observed that the external trading environment for the three countries had improved substantially during the period 1996/97 particularly due to the increases in the price of coffee and cotton which are the major foreign export earners. Higher commodity prices had boosted export earnings and provided an important stimulus to growth as the capacity to import had improved.

The impact of policy reform, such as exchange rate devaluation had resulted in pushing the inflation pressure up in Kenya. Major macro-economic imbalances especially those arising out of government fiscal policies coupled with lack of credibility and consistency had tended to deter private sector investment – a vital ingredient for sustainable growth within the country. Civil unrest had had an adverse effect on tourism, while the IMF credit squeeze had exacerbated the overall economic performance. Thus, the macro-economic imbalances had impacted negatively on the economic integration rhythm in East Africa.

In conclusion, it was noted that Tanzania was a slow horse and had had the tendency to backtrack on the decisions agreed upon to effect the implementation. The mission was therefore requested to hold similar consultations with officials of the Tanzanian government with a view to clarifying and elucidating on the reasons why Tanzania found it difficult to implement the decisions agreed upon and why it renegated on the agreements.

TERMS OF REFERENCE

OF

STUDY ON LIBERALIZATION OF TRADE AND FACTOR MOBILITY WITHIN AFRICA AND THE PROMOTION OF COMPLEMENTARITIES AS A BASIS FOR THE EXPANSION OF INTRA-AFRICAN TRADE

1. **REFERENCE:** Liberalization of Trade and Factor Mobility within Africa and the promotion of Emergence of complementarities as a basis for the expansion of Intra-African Trade.

2. **CATEGORY:** Technical Publication

3. **PERIOD:** 1998

4. **BACKGROUND:**

The pace of globalization in the world economy has gathered considerable momentum since the mid-1980s. World trade has nearly doubled, financial markets have liberalized ad capital flows to many developing countries have accelerated. Indeed, while some economies have benefited from globalization, others have been disadvantaged if not completely marginalized by the global liberalization process. It is therefore important to undertake an assessment of the impact of globalization on the African economies as the world economies become more integrated in terms of trade, capital flow and labour mobility, in other words, as factors of production become more mobile.

While liberalization of trade, exchange regimes, removal of tariff and non-tariff barriers, and the abandonment of restrictive inward-looking policies in favour of outward-looking and open policies in many developing countries have generated the expansion, diversification and deepening of trade; in Africa, the process has been accompanied by the deterioration in trade, notwithstanding the establishment of regional trading arrangements, which themselves are supposed to lead to trade creation.

The theoretical justification for forming regional economic integration scheme is that it would lead to increased trade expansion, and factor mobility. The whole process entails the improvement of efficiency of resource use in both labour supplying and labour receiving countries by removing relative scarcities, and the maximization of output through equalization of factor pricing. The assumption is that in such an arrangement, labour and capital movement will proceed from "poor" to "rich" countries or regions.

Empirical evidence suggests that countries which have integrated themselves into the global economy, and which have attained higher degree of regional economic integration have experienced: the opening up of production bottlenecks through labour mobility; skill specialization of labour, as highly skilled workers shift towards tradable goods sector production (value added production), while unskilled workers move towards nontradable sectors; increased productivity through mobility of factors of production; and equalization in income growth and general economic development. In the African context however, the theoretical assumptions behind the formation of economic blocs cannot be achieved due to a number of factors. These include, inter alia: the underdeveloped nature of the African economies which encourages underemployment of resources; the traditional rigidities which thwart labour mobility – worsened by entrepreneurial scarcity; and the lack of coordination of investment and macro-economic policies.

The net result is that, liberalization and globalisation has put the African economies under great pressure as the relatively weak manufacturing structures become exposed to intensive competition. The cheap imports of manufactured goods continue to flood markets, as investment into Africa continue to decline. African countries have consequently experienced dramatic decline in their per capita income and in their general standard of living condition. African countries will therefore have to devise new methods to strengthen their own economic groupings as well as their own individual economies in order to cope with the globalisation and liberalisation process.

5. OBJECTIVE

The broad objective of this study is to find out how best to accelerate the process of regional economic integration in Africa as a mechanism for increasing and expanding intra-African trade. Specifically the study aims to bring out how trade liberalisation and factor mobility can be exploited to promote the emergence of complementarities amongst the African economies and used as a mechanism for the expansion of intra-African trade.

6. SCOPE OF THE STUDY

The study aims at formulating measures for enhancing the emergence of complementarities and their use thereof, as a basis for the expansion of intra-African trade; and how liberalization of trade and factor mobility within African can be harnessed to bring this about. The study will therefore within this framework undertake the following:

- review the existing institutional structures which have been set up to enhance intra African trade expansion;
- analyse the production structures – manufacturing and agricultural sectors;
- examine the structure of trade pattern in terms of imports of export;
- review the status of labour and capital mobility within the subregion/region;
- labour composition in each country, focusing on skill differentiation in each productive sector;
- labour mobility within the subregion and employment of other national in each country, including their areas of specialization;
- investment flow into African countries and the nature of this investment;
- cross-border investment and its nature and areas of operation – capital mobility;
- identification of potential areas in which individual country can develop competitive advantage;
- proposals on what measures need to be undertaken to derive positive benefits from liberalization of trade and factor mobility.

LIST OF PERSONS WITH WHOM CONSULTATIONS WERE HELD

COMESA

1. Mr. Stephen Karangizi, Ag. Director Legal Division.
2. Mr. A. B. Mwakijungu, Ag. Director, Customs and Trade.
3. Mr. B. B. Giday, Ag. Director, Transport and Communications.
4. Mr. J. A. Opio, Ag. Director, Industry and Energy.
5. Mr. Rabson Matipa, Fisheries Expert.
6. Mr. S. B. Tembo, Senior Customs Expert.
7. Mr. A. S. Machanga, Statistician.
8. Mr. Etienne Twagirumukiza, Senior Statistician.
9. Mr. E. A. Mohammed, Ag. Director of Agriculture.
10. Ms. Eloi M. Kwete, OIC – ACIS project.
11. Mr. G. Lilungwe Mutti, Telecommunications Coordinator.
12. Mr. Berhane Gilay, OIC, Transport and Communications Division.

SRDC/Lusaka

Mr. Robert Okello, Officer-in-Charge.

SADC

1. Dr. P. Ramsamy, Principal Economist.
2. Dr. Stephen Kokerai, Legal Adviser.
3. Dr. Chungu Mwila, Principal Economist.
4. Dr. Stephen Sianga, Senior Economist.

UNDP – *Botswana*

Mr. G. K. Kayira, Resident Representative, a.i.

KENYA

1. Mr. Samuel Z. Ambuka, Permanent Secretary, Ministry of East African and Regional Cooperation.

2. Mr. Zachary Mwaura, Principal Economist, Ministry of East African and Regional Cooperation.

3. Mr. M. M. Nzomo, Deputy Director, Ministry of Industrial Development.

4. Mr. Lawrence Maina Nderi, Director, Department of External Trade, Ministry of Trade and Commerce.

5. Ms. Rachel A. Arungah, S.S., Deputy Secretary, Ministry of Agriculture, Livestock Development and Marketing.

6. Mr. James Getei, Ministry of Agriculture, Livestock Development and Marketing.

7. Mr. F. Owuor, Ag. Head of Development and Planning, Ministry of Agriculture.

8. Mr. Muturi N. Mirie, Ministry of Trade and Commerce.

9. Ms. J. B. Makori, Ministry of Foreign Affairs.

10. Mr. B. Mbaya, Director of Political Affairs, Ministry of Foreign Affairs.

11. Dr. Joseph Arap Ng'ok, Executive Chairman, Investment Promotion Centre.

12. Mr. C. Waweru, Statistician, Central Bureau of Statistics.

LIST OF DOCUMENTS OBTAINED DURING THE MISSION

COMESA

1. Report of the Study Team on the Equitable Distribution of Costs and Benefits in the PTA.

2. Report of the Team of Experts to consider the Costs and Benefits Study of the PTA subregional Economic Cooperation Arrangement.

3. COMESA Network Interconnectivity and Tariff Harmonization.

4. COMESA Selected Indicators.

5. Trade Policy Issues and Recommendations on Agricultural Integration and Development in Eastern and Southern Africa: Consultancy Report.

6. COMESA Yellow Card: Special Issue 1987-1997.

7. Quarantine Measures to Facilitate Trade in Agricultural Products in COMESA.

8. Towards Free Trade in Agricultural Products by the Year 1999.

9. COMESA and Regular Duty Rates for Some Agricultural Products.

10. Food Crop Belts of Eastern and Southern Africa: Agro-Ecological Suitability Analysis.

SADC

1. Protocol on Mining in SADC.
2. Protocol on Trade in SADC.
3. Protocol on Energy in SADC.
4. Protocol on Shared Watercourse Systems in SADC.
5. Protocol on Transport and Communications and Meteorology in SADC.
6. Charter of the Regional Tourism Organization of Southern Africa.
7. Protocol on Education and Training in SADC.

8. Protocol on Movement of Persons in SADC.

9. The Southern African Development Community (SADC): A Socio-Economic Profile - Research Report.

10. The Costs of Non-Integration in SADC: Perspectives from the European Union Experience; prepared by Peter Holmes, Sussex European Institute, 1997.

11. Official SADC Trade, Industry and Investment Review, 1998.

12. Southern African Development Community, Annual Report 1996/97.

13. The Research Bulletin: Inflation in Southern Africa, Bank of Botswana, 1998.

KENYA

1. Economic Survey, 1998.
2. Kenya: A Guide for Investors.
3. Draft Treaty for the Establishment of the East African Community.