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SADC REGION

- There are 14 SADC members states: Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.
- Regional co-operation and integration in SADC is based on historical, economic, political, social and cultural factors
- The SADC Regional Indicative Strategic Development Plan (RISDP) provides a basis for regional integration.

SADC'S Regional Integration Agenda

- SADC'S Protocol on Trade envisages a SADC FTA by 2008
- The Lusaka Summit, November 2007 affirmed an FTA by August 2008
- The SADC Regional Indicative Strategic Development Plan (RISDP) stipulates a SADC Customs Union, 2010
- This was confirmed at a SADC Extra-Ordinary Summit in October 2006 which reaffirmed the Customs Union objective
- Debate on the appropriate model for the SADC Customs Union takes place in the SADC Task Force on Regional Economic Integration

-Implementing a common external tariff (CET)

-A common trade policy/this implies a loss of national trade policy space or loss of independent trade policy-making

-No anti-dumping or safeguard measures against other parties in the customs union

-Overcoming the CET challenge largely depends on the rationale or motivation of forming the CU

SADC Customs Union (Cont'd)

- SADC follows the linear textbook model of economic integration and European regional integration experience
- The agenda for regional integration is contained in the RISDP
- However, the RISDP is not a legally binding agreement, but a strategic plan that enjoys political legitimacy
- Key Challenge: the rationale for this ambitious regional integration agenda is not clear, specifically it is not clear why SADC wants to become a customs union

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SADC Customs Union Key Milestones

- SADC FTA (2008)
- SADC Customs Union (2010)
- SADC Common Market (2015)
- SADC Monetary Union (2016)
- SADC Economic Union (2018)

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SADC Customs Union

- In SADC, enhancing intra-regional trade remains a rather weak basis for a customs union
- Intra-regional trade patterns indicate low levels of intra-regional trade flows
- The exception is bilateral trade flows with South Africa (BLNS, Malawi, Mozambique, Zambia and Zimbabwe)
- Industrial structure suggests that there is little scope for increasing intra-regional trade

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SADC Customs Union (Cont'd)

- Therefore, the rationale for a SADC Customs Union has to be sought elsewhere as evidence suggest rather that regional integration is inward looking
- Is the rationale gradual integration into world economy?
- Establishment of a Common External Tariff (CET) will entail converging what is currently 11 individual policies into a single and uniform MFN tariff regime
- There is a vast difference in the MFN tariff structures, levels and complexity
- This implies that for convergence to a CET, some SADC economies will be required to make considerable changes to their external tariff rate.

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SADC Customs Union (Cont'd)

- Currently, the SADC countries' current – weighted average tariff rates range from 3% to 21%
- Simple average tariffs for Mauritius (3.1%), Angola (7.1%) and SACU (8.2%) are substantially lower than the rest
- Distribution of tariff rates varies widely with Madagascar having 0 to 20% and SACU ranging from 0 to 108%
- The number of tariff bands are between 4 and 100, where Zambia, Malawi and DRC have the lowest number of tariff bands and SACU the highest

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SADC Customs Union (Cont'd)

- Large variation in the number of tariff peaks: with a majority of members having significant proportion of tariff peaks
- The percentage of zero rated tariff range from 0 to 84%
- WTO tariff bindings also exhibit variations
- The levels and coverage of these tariff bindings would to some extent determine the maximum levels at which CET tariff can be set
- Products bound at a zero rate for example could not be increased beyond that level

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SADC Customs Union (Cont'd)

- Countries with higher bound rates would lose flexibility to increase applied tariffs up to their maximum bound levels.
- Exceeding WTO binding levels would require renegotiations of the schedules with WTO partners.
- Wide differences exist on objectives and rationale behind tariff structures: protection of sensitive sectors, industrial policy goals or revenue generation
- For example: South Africa and Mauritius emphasize industrial policy motivations for lower tariff regimes, while Lesotho and others are concerned about revenue implications

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SADC Customs Union (Cont'd)

- Can a common agreement be reached on the principles of establishing a CET?
- Agreement on the underlying motivation for tariff setting needs to be achieved and this is no small challenge
- For a large number of countries, customs revenue constitutes a significant part of government revenue
- The level and extent of dependency on customs revenue in SADC varies, e.g. South Africa (2.9%), Angola (5.9%) Madagascar (4.1%), Lesotho (42.9%) based on 2005 data
- For example, applying Mauritius tariff as a basis for the CET, there will be large revenue adjustments in Tanzania, Zimbabwe, Malawi, Lesotho and Madagascar.

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SADC Customs Union (Cont'd)

- Revenue collection will also be a problem whether based on collection at the point of entry or at destination. Consider landlocked countries!
- Designing and appropriate revenue sharing mechanism such as in SACU is problematic too.
- An assessment of the tariff structure shows the wide differences that exist among SADC members
- Formation of the customs union would require significant preparatory work for SADC members to reach a significant level of readiness
- A significant part of it would entail convergence of tariff schedules, rationale and motivation for tariff policy to overcome the vast difference that currently exists

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Challenges for Trade Negotiations in SADC

- Policy option: focus towards the effective implementation of the FTA, including reducing NTBs while working on convergence on external trade policies
- The value addition for SADC CU will be largely determined by its rationale – global integration strategy than trade effects
- Weak Trade Policy Making: lack of institutional infrastructure; Mandate for negotiations; Technical capacity is weak; Trade policy is reactive
- Asymmetry of power within the region: within SACU and SADC – e.g. SADC EPA process
- Lack of coherence within SA on trade policy matters (intra-governmental discord; private sector – government perspective e.g. on services in EPAs
- Role of South Africa as a member of SACU, SADC
  - policy making challenges (e.g. Industrial policy)
- Emergence of the new trade agenda (from trade in goods to new issues) – how to negotiate comprehensive FTA?

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Recommendations

- Need to increase institutional capacity
  - Institutions require human resources: technical capacity and management capacity
- Rules-based systems of governance in the region. There is need for recourse to a supra-national body in the event of non-compliance
- Assessing the trade agenda – where will benefits come from (demise of preference and new issues) – the new trade agenda is behind the border
- When preparing for negotiations there is need for allocation of roles and responsibilities among member states

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