An analysis of the SADC tariff phasedown on Agriculture trade in Zimbabwe

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INTRODUCTION

Regional integration has emerged as one effective way of promoting international trade. It is estimated that since 1990, over 250 regional trading agreements have come into effect and a lot more await ratification by the World Trade Organization (Stefan de Vylder, 2007). Africa has not been left either, but has positioned itself through such agreements. One such organization is the Southern African Development Community (SADC[1]). This institute first came into being in July 2002, taking over from the Southern African Development Coordination Committee (SADCC). The objectives of SADC include regional economic integration, poverty alleviation, harmonization and rationalization of policies, and strategies for sustainable development in all areas. (SADC Secretariat, July 2005).

As part of the integration process, SADC member states adopted a trade resolution in August 1996 to establish a Free Trade Area by 2008. The Free Trade Area, which finally came into existence on 18 August 2008, was to be established in phases, as a way of giving policy space to the member states. Zimbabwe was one of the countries that acceded to this arrangement and was given yearly schedules for the phase down.

It was expected that Zimbabwe would use the phase down period, to strategize and align herself for the Free Trade Area. Thus the country crafted a number of policy initiatives to encourage and accelerate growth in its several sectors including agriculture. Notable among these were the formulation of the National Export Strategy a plan on how Zimbabwe will access various export markets over a five-year period, the Small and Medium Enterprises (SME) Development Policy a policy that aims to integrate and accelerate growth of small and medium scale enterprises and the National Industrial Policy, a policy that aims at fostering the birth of new industries and growth of existing industries in the country (Zimbabwe country profile, 2000).These initiatives were aimed at addressing the issue of revenue losses implications, non tariff barrier removal and real growth through integration. Whether Zimbabwe achieved these goals, remains to be revealed by this study. This paper therefore seeks to analyze the major agricultural exports and imports of Zimbabwe to the SADC region during the phase down period, i.e. 2000 to 2007 and probably observe any meaningful benefits achieved by these tariff reductions. Specifically, the study seeks to:

a) Examine how tariff phase down impacted on the countries imports and exports
b) Whether the country has effectively utilized the phase down period to position itself for ultimate liberalization within the FTA.[2]

[1] SADC comprise of Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar (membership pending), Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

[2] The FTA is being implemented by eleven countries, which excludes Angola and the Democratic Republic of Congo.

LITERATURE REVIEW

Tariffs are the oldest form of trade policy and have been used as a source of government revenue (P.R Krugman, 2006). A tariff is a tax on goods imposed upon when they cross a national border. Tariffs are usually imposed on imported goods but may also be imposed on exports. In the past, tariffs formed much larger part of government revenue than they do today. Modern governments usually prefer other forms of revenue collection like income and value added taxes (M. Suranovic, 2000).

Governments levy trade tariffs for two main objectives namely protecting the domestic industries and raising revenue. The effect of a trade tariff is usually to increase the price within the importing country and so stimulate import competing industry and depressing demand of the reducing import (Sordersten and Reed, 1980). When a country is small, a tariff a country imposes cannot lower the foreign prices of the good it imports. As a result, the price of the import rises and imports fall in the country imposing the tariff (Paul krugman, 2006). Similarly, a phase (reduction) in tariff results in increased imports into the importing country.

Critics of free trade have argued that tariffs are (especially to developing countries) important as a source of revenue. Thus the trend of lifting tariffs and promoting free trade has been argued to have had disproportionately negative effects on the government of developing nations who have greater difficulty than developed nations in replacing revenue loss (M. Suranovic, 2000). Furthermore, developing nations do not have the institutional capacity to effectively levy income and sales tax. In comparison with other forms of taxation, tariffs are relatively easy to collect.

Proponents of liberalisation argue that reduction in tariffs can lead to welfare improvement (E.K Hunt, 1981). However, the theory of second best cautions that by arguing that in the presence of multiple distortions (such as domestic taxes or monopoly), welfare is not necessarily improved by removing a single distortion (such as a tariff) (J.R Markinson, 1995).

ANALYSIS

Structure of the SADC FTA trading arrangement

SADC member states admitted that countries were at different levels of development. There was therefore need to approach the phase down at variable scales of speed. South Africa and its SACU members (developed members) were to reduce their tariffs to zero within five years of implementation. Middle income countries such as Mauritius and Zimbabwe were to gradually reduce their tariffs each year from 2000 to 2008 while the rest were given up to 2012. However, for category A and B products (Table 1), tariffs were to reach the zero percent level by 2008 in line with the World Trade Organization requirement which stipulates that substantially all trade should be free in an FTA. Under this trading arrangement, 85% of goods manufactured within a member country, meeting the rules of origin of the agreement, would be traded within the region free of duty. The other 15% would be regarded as sensitive[3] and therefore would attract duty. The products were categorized into four as given in the table 1 below:

Table 1: Tariff Phase Down Product Categories.

Product /Category	**Description**
A	Products whose tariffs would move to 0% (or were already 0%) at start of the phase-down process, i.e. in 2000
B	Products subject to tariff phase-down to 0% over an eight-year period to 2008
C	Sensitive products, phase-down over 12-year period to 2012
D	Excluded from preferential trade

Exports to SADC

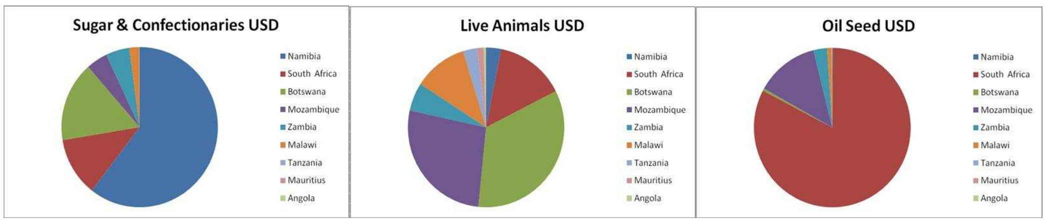
Total exports for all products to the region now accounts for 30% of Zimbabwe's total exports. Zimbabwe's agricultural exports include tobacco, sugar and its confectionaries, cotton, oil seed and Soya beans, maize and live bovine animals. For the purpose of this analysis, live bovine animals, oil seed and sugars and its confectionaries have been chosen. This is because most of these products' market is in the SADC region. The table below shows the destination for the four products into the SADC member's states for the combined period 2000 to 2007.

Table 2. Zimbabwe's Agricultural Export into SADC *(Source, WITS)*

	Live Animals USD	**Oil Seed USD**	**Sugar & Confectionaries USD**	**Total USD**
Namibia	135,388.00	24,199.00	61,858,636.00	**62,018,223.00**
South Africa	635,879.00	14,741,576.00	12,191,758.00	**27,569,213.00**
Botswana	1,502,880.00	86,840.00	16,515,455.00	**18,105,175.00**
Mozambique	1,184,148.00	2,315,545.00	4,530,831.00	**8,030,524.00**
Zambia	251,058.00	507,032.00	5,009,475.00	**5,767,565.00**
Malawi	490,322.00	166,441.00	2,082,435.00	**2,739,198.00**
Tanzania	129,040.00	7,162.00	66,342.00	**202,544.00**
Mauritius	57,268.00	-	12,358.00	**69,626.00**
Angola	22,785.00	14,163.00	10,902.00	**47,850.00**

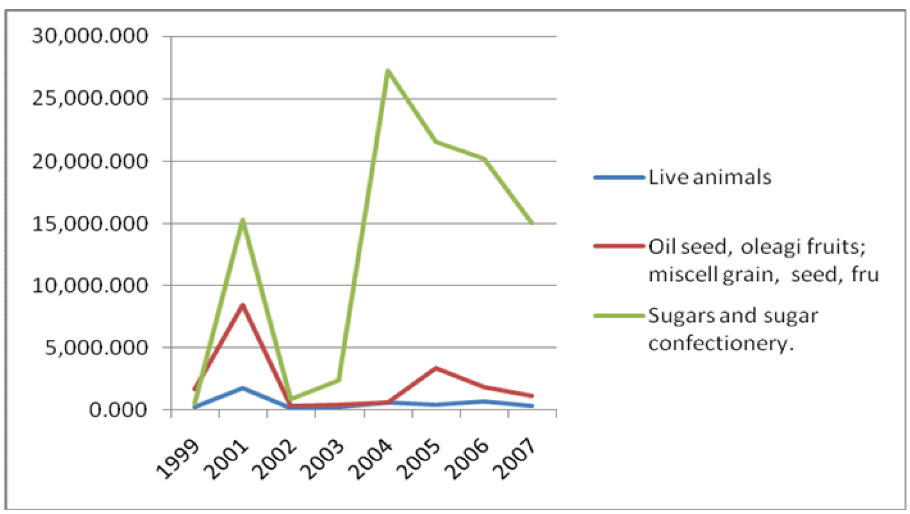
[3] These refer to goods of economic importance to member states, tariff goods on such goods starts tariff reductions after 8 years.

Namibia is the largest market if the total of the three products are considered, accounting for 49% of total exports. This is mainly because of sugar and confectionaries which constitute 60% of the exports. South Africa is the biggest importer of Zimbabwe's oil seed in the SADC region (83%) while Botswana and Mozambique respectively imports 34% and 29% of the live bovine animals. It is worthwhile to note also that out of a total SADC membership of thirteen partner countries, nine of the countries trade substantially with Zimbabwe in these three product categories. The three pie charts below illustrate the share of trade in each of the three product categories for the period under study.



Diag. 1 (*Source; WITS*)

One would expect to see a persistent increase in exports of each of the three products as a response to tariff reductions by partner countries especially for products into the SACU region. This expectation is however not fulfilled as is shown in the diagram below.



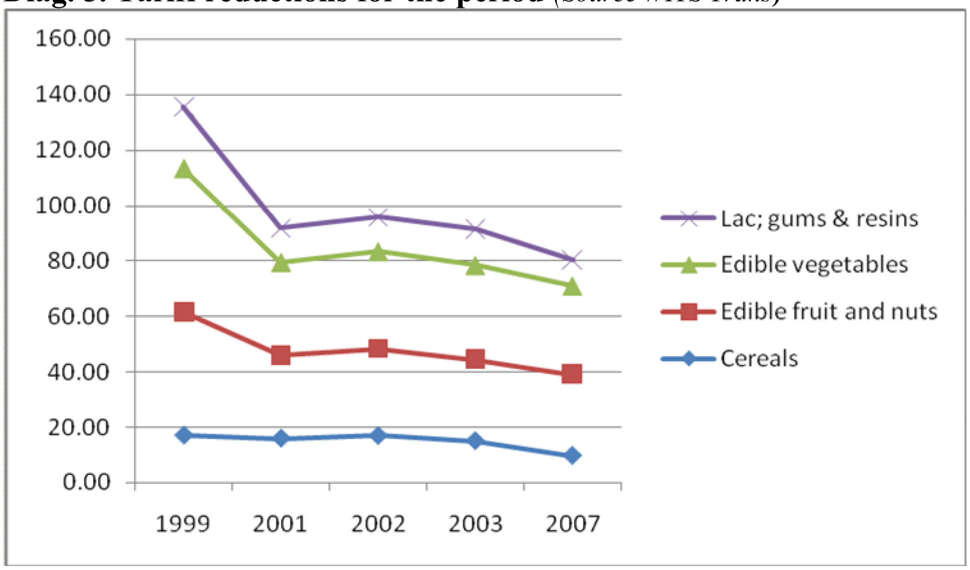
Diag 2. *(Source; WITS*)

Exports of live animals remain rather subdued for the whole period under review. Both oil seed and sugar and its confectioneries follow a similar pattern, where exports show relatively high increases in years 2001 and 2005 respectively, whilst fluctuating in the years between. From a tariff reduction view point, one may presume that since tariff phase downs came into effect in September 2000 and so were effectively felt in 2001. In the same vein, a SADC review process was carried out in 2004, leading to such effects being felt in 2005. The fall in exports however cannot be directly linked to tariff reductions and may be explained by other external factors such as declining production by Zimbabwean industries, exchange rates fluctuations and fluctuations in market demand in the importing countries. For example, in 2002, Zambia announced a temporarily ban on Zimbabwean exports sighting dumping by Zimbabwean exporters.

Imports

Imports from the SADC region account for more than 40% of the total import bill. Cereals, Edible fruits, gums and resins are among major agricultural imports from the SADC region.

Diag. 3. Tariff reductions for the period *(Source WITS Trans)*



The diagram above shows how Zimbabwe has reduced its tariffs under the SADC phase down period for the four products, namely Cereals, edible fruits, edible vegetables and gums and resins. Using simple averages, it is evidently noticeable that the country has overall fulfilled its obligations to reduce tariffs on a yearly basis. However, there could have been some violations of the obligation in 2002, where all the products recorded a slight increase in tariffs before resuming the downward trend.It should be noted however that by 2007, none of the four broad categories' tariffs had been reduced to zero, signifying the presence of sensitive products within each product category. On the overall however, a remarkable reduction in duties was achieved.

Table 3. Imports from SADC region

	Cereals	Edible fruit and nuts	Edible vegetables	Lac; gums &resins
1999	49,834.172	2,585.469	3,969.021	128.329
2001	1,474.581	1,458.612	1,098.002	254.544
2002	75,903.116	4,943.188	9,204.741	167.595
2003	110,728.130	2,370.880	10,487.068	371.223
2007	31,867.434	257.469	4,525.047	75.169

As indicated in the table above, the pattern of import values for all the four product categories does not depict the same pattern as that of tariff reductions. Given that tariffs were being reduced in each subsequent year, it was expected that imports would also increase in the same pattern. A number of reasons can be suggested for this scenario. Firstly, more trade could have occurred in specific product lines where no tariffs were reduced, resulting in the simple average tariff of each product category changing but without any change in actual products imported. Secondly, trade might not have responded to the changes in tariff due to varied reason which this paper will not look at. Last but not exhaustively, there could be some other non tariff barriers which are hampering tariff reform responses.

Strategy implementation

As earlier mentioned, Zimbabwe's export strategy was to express itself in increased access to new markets within the SADC region within a period of five years, while the National Industrial policy would result in birth of new industries and growth of the existing ones. This would ultimately result in increased revenue generation in the form of income taxes, thus offsetting revenue losses brought about by the tariff reductions. An analysis of Zimbabwe's revenue patterns does not however reflect such a view (World Development Indicators, 2008). Export data also indicates that there was no conspicuous growth in exports. Industries have not only been operating way below capacity (average of 20%), but a number of industries have closed shop. This has been exacerbated by persistent droughts[4] and economic sanctions, resulting in the country diverting its energies from policy and strategy to mere survival.

CONCLUSION

Contrary to the general view that, a reduction in tariffs should lead to increased imports, Zimbabwe's tariff phase down period does not show significant responses to the tariff phase downs implemented from the year 2000 to 2007. The volumes of both exports and imports have not been largely determined by the tariff reductions, rather in some cases trade have responded negatively. National strategy in preparation for the fully fledged Free Trade Area appear to have also missed the targets, leaving the country very much vulnerable to member states competing for the same market.

[4] Zimbabwe's industry is agro based and thus responds sensitively to any agricultural disturbances.

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