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albagoury, samar and Anber, Mahmoud

Fuculty of african post graduate studies, Cairo university, Egypt

2018

COMESA-SADC-EAC Tripartite Free Trade Area: Challenges and Prospects

Dr. Samar H. Albagoury
Institute of African Research and Studies-Cairo University
Dr. Mahmoud Anber
Faculty of Commerce – Aswan University

Abstract:

In Sharm ElShiekh, Egypt, 2015 the member states of three major African regional economic blocks: COMESA, SADC and EAC, agreed on establishing a common free trade area called COMESA-EAC-SADC TFTA. Establishing this FTA is considered as a major step towards Africa's Continental trade integration which is one of the main objectives of Africa 2063 Agenda.

This paper aims to identify the potential impacts of the integration among those three RECs on various aspects of economic growth including welfare, trade, price effects, and government's revenues and to identify the main obstacles and challenges that may hinder achieving these potentials.

Key Words: Tripartite Free Trade Area, TAFTA, COMESA, SADC, EAC, Economic Integration.

Introduction:

Over the last few decades the world trade has more than tripled. Developing countries share of this trade is about 45%. Despite this growth the share of African trade is still low at 3.4%. Since Abuja Treaty in 1991, Regional integration is seen as the main tool to promote African intra and world trade and so promote the economic growth in the continent. This agreement aims to gradually establish the Continental free trade area as well as custom union by 2028. Currently, there are eight recognized Regional Economic Communities (RECs): the Arab Maghreb Union AMU, the Community of Sahel and Sahara, the Common Market for Eastern and Southern Africa COMESA, the East African Community EAC, the Economic Community of Central African States, the Economic Community of West African States ECOWAS, the Southern African Development Community SADC. The moving towards the establishment of African free trade area takes a huge step forward when the biggest three African RECs: COMESA, EAC and SADC recently agreed to establish a tripartite free trade area in 2015.

The negotiations for the establishment of the Tripartite Free Trade Area (TFTA) between three (RECs) started since the first TFTA summit held in Kampala, Uganda in 2008. In 2015 the member states of the three RECs met in Sharm El-Sheikh, Egypt and agreed to move forward to the establishment of a TFTA.

The TFTA involves almost half of the African Countries (26 members), covering the whole eastern side of the continent from the Cape to North African coast. It would create one of the largest Free Trade Areas worldwide, with 683 million people and gross domestic product of 1.2 trillion USD represents more than half of the African population and GDP.

The Establishment of TFTA:

The negotiations for the establishment of TFTA started in the tripartite Summit of head of states and government of COMESA, EAC and SADC in 22nd October 2008 in Kampala, Uganda under the umbrella of *Cape to Cairo initiative*. The main objective of this summit was to identify how the three RECs can move towards deeper cooperation in their efforts towards trade and economic liberalization, including joint programmes targeting free movement of persons and infrastructure development. One of the main recommendations in this summit was for the establishment of the TFTA within a 5 year period as well as for the adoption of a roadmap for its achievement, and designs a coordination mechanism between the three RECs.

The second summit was held in 2011. A three pillar development approach was adopted at this summit: market integration, infrastructure development, and industrial development. Three key steps were achieved in this summit; a declaration launching the negotiations for the establishment of COMESA-EAC-SADC tripartite FTA was signed and the roadmap for the establishment of the TFTA and its negotiating principles, processes, and institutional framework were adopted.(Angwenyi, 2016)

The negotiations are set to be done in two phases. The first is concerning the trade of goods issues as tariff cuts, rules of origin, dispute resolution, custom procedures and simplification of customs documentation, non tariff barriers, and other trade issues in addition to the negotiations on movement of and . The second phase is concerning trade of services, cooperation in trade and development, competition policy, intellectual property rights and cross border investment.

The tripartite FTA was finally launched on the 10^{th} of June, 2015 at the third tripartite summit in Egypt. The agreement was opened for signing a post signature implementation plan was adopted.

According to *Article 3* of the tripartite agreement, the main objectives of the establishment of the TFTA are(Oloruntoba, 2017):

1) To promote social economic development of the people of the region through job and wealth creation and the elimination of poverty, hunger and disease, through building skills, innovativeness and infrastructure.
2) To create a larger single internal market with free movement of goods and services and business persons and eventually to establish a customs union and a common market.
3) To mitigate the problem of multiple membership and expedite the regional and continental integration process.
4) To build a strong people-based tripartite community.
5) To promote close cooperation in all sectors of economic and social activities.

The TFTA aims to foster the intra-trade between its members through number of complementary programs in the following areas(Petros, 2011):

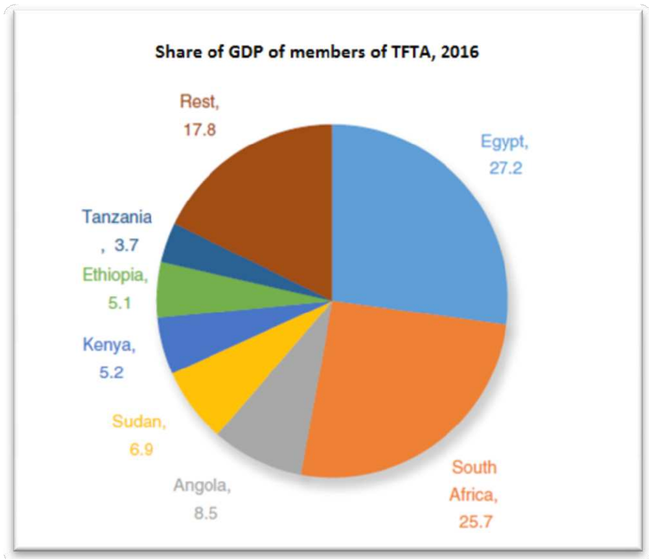
1) Enhancing customs cooperation and trade facilitation.
2) Harmonisation and coordination of industrial and health standards.
3) Preventing unfair trade practices and import surges.
4) Creating useful and agreed dispute settlement mechanisms.
5) Harmonizing trade policies and rules of origins.
6) Promoting the value addition and transformation of the region into an information and knowledge based economy.
7) Consolidating regional market through the improvements in infrastructure and promote the competitiveness through adequate supplies of vital resources.

Main Macro-Economic Performance Indicators in the Three RECs:

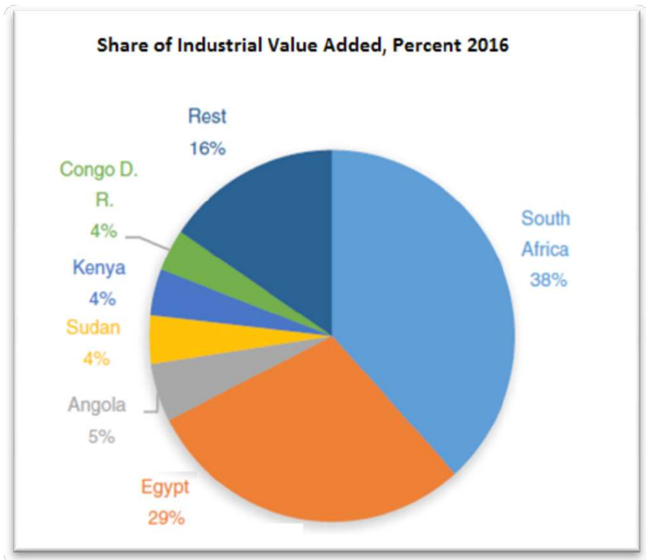
To assess to potential impacts of the TFTA it need first to analyze the existence macro-economic conditions and the level of intra trade within and between the three African RECs.

a) Macro-economic indicators of TAFTA member states:

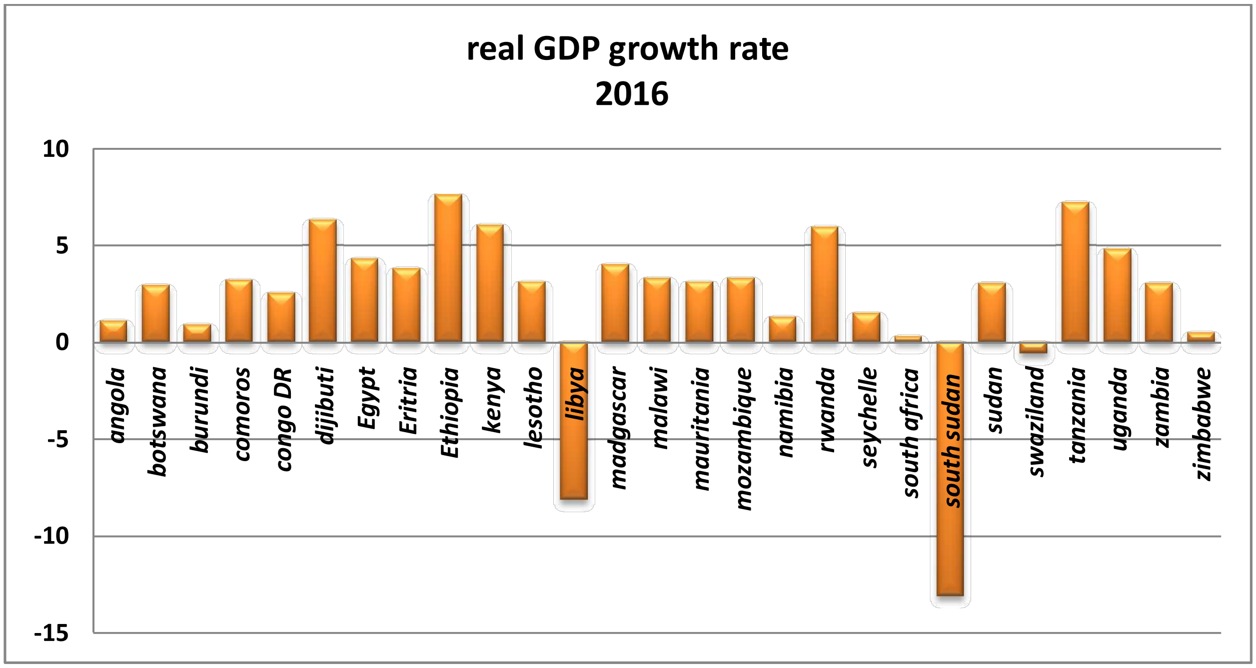
The economic indicators of the TFTA member states and for the three RECs as whole are very divergent. The two largest economies: Egypt and South Africa produce more the half of the TFTA GDP. The seven largest economies: South Africa, Egypt, Angola, Sudan, Ethiopia, Kenya and Tanzania account for more than of 80% of the TFTA GDP.



The GDP per capita gives a clearer picture of the economic differences between member countries: the average GDP per capita of Seychelles for example is 56 times that of Burundi. The member countries have also different economic structures, two third of the manufacturing value added produced in Egypt and South Africa.

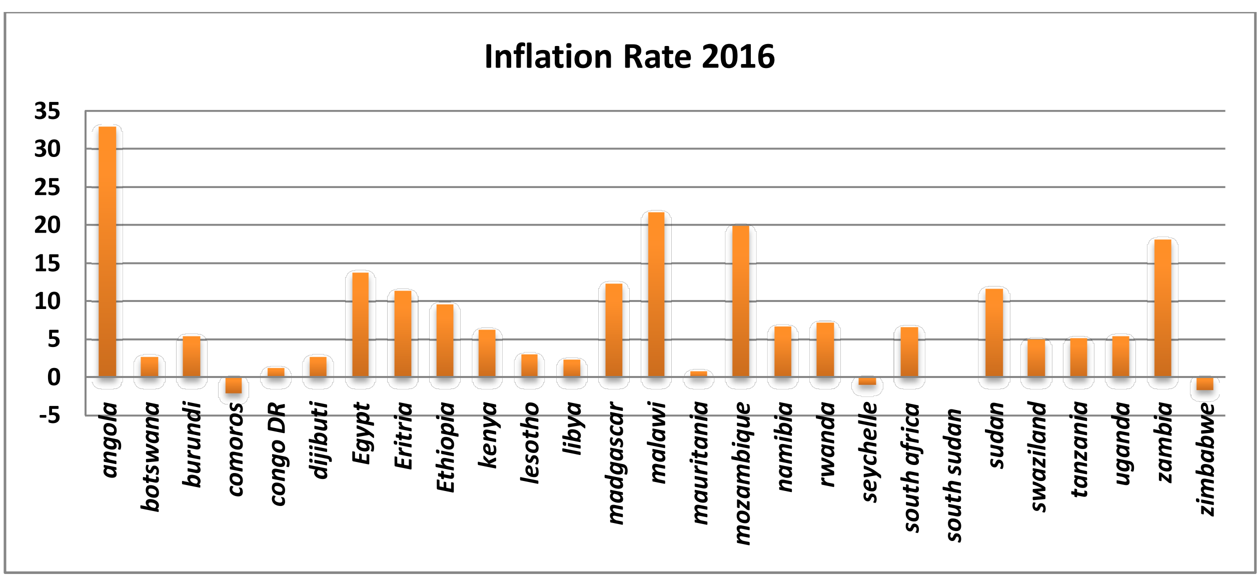


About the economic performance measured by the real GDP growth rate, there is a huge variation in the growth rate between these countries. The highest growth rate is record in Ethiopia and Tanzania with more than 7% growth rate, Followed by Djibouti, Kenya and Rwanda with about 6% real GDP growth rates. On the other hand Libya and South Sudan witnessed a sharp reduction in its GDP with a real growth rate of -8.1% and -13.1% respectively.



Source: based on Data from: AFDB, OECD and UNECA: African Statistical Year Book 2017 (Addis Ababa: AFDB, 2017.

There is also a wide variation in inflation rates with two extreme cases: Comoros, Seychelles and Zimbabwe have negative inflation rates (-2%, -0.9% and -1.6% respectively) and South Sudan with a huge inflation rate of 165%. Between these extremes, the inflation rates in other TFTA countries vary from 0.9% in Mauritania to 33% in Angola.



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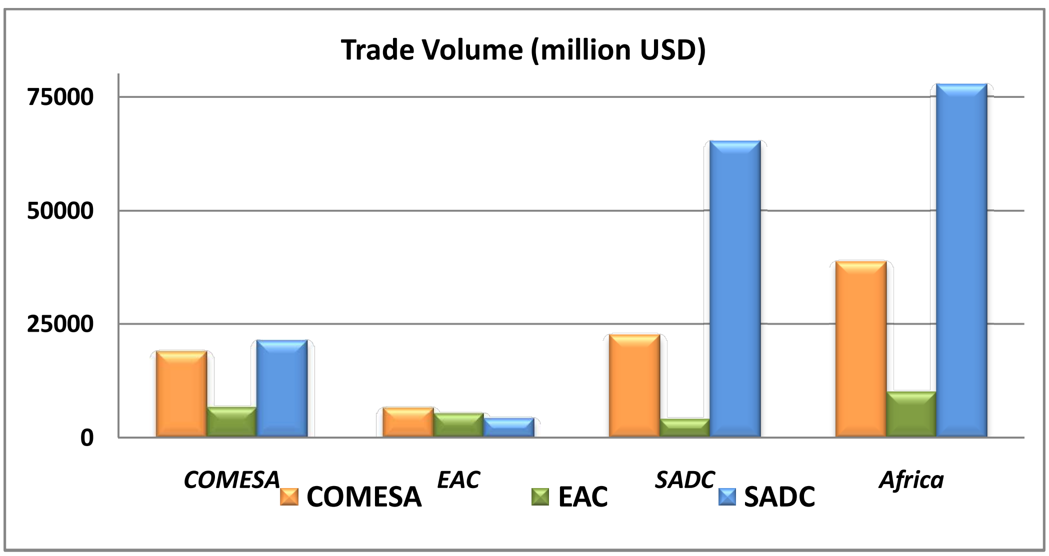
b) Trade and Intra-Trade Indicators:

Comparing the total trade volume of COMESA, EAC and SADC shows a significance differences between the three RECs where EAC has the smallest trade volume that is about 20% and 25% of COMESA and SADC total trade volume respectively.

The regional trade performance of the three RECs included in the TFTA also varies from one block to another. The shares of African trade of the COMESA, EAC and SADC as a percentage of their total trade in 2016 were: 16%, 20% and 25% respectively. The intra trade performance within each REC also varies: the shares of intra trade total trade are: 8% in COMESA, 11% in EAC and reaches the highest value in SADC with 21%.



c) Economic Regional Performance:

The economic regional performance of COMESA, EAC and SADC could be also analyzed using African Regional Integration Index ARII [1] developed by African Development Bank to evaluate the economic regional performance of the African eight RECs. According to ARII report (AFDB, 2016), EAC is the best performer in the economic integration process followed by SADC and COMESA

[1] The index is made up of five dimensions, which are the key socio-economic categories that are fundamental to Africa's integration. These five dimensions consist in turn of sixteen indicators. The index value ranges from zero to one where higher values indicate better regional economic performance.

with ARII 0.540, 0.531 and 0.415 respectively. EAC and SADC ARII are higher than African average which stands at 0.470. In fact, EAC has higher than African average scores across each dimension of regional integration except for financial and macroeconomic integration. SADC has higher than African average across the dimensions of regional infrastructure, free movement of people and financial and macroeconomic integration.

The Potential Impacts of TFTA:

The economic implications of the potential TFTA on the member countries are enormous. The agreement provides a greater opportunity to gain benefit of returns to scale, greater completion, more attractive market for domestic and foreign investment, and accelerating intra-trade in the way that will stimulate the economic growth and improve people live in the entire region.

Many efforts are made to evaluate the potential impact of TFTA. But the most important studies in this field was those used Equilibrium models to identify the projected potentials of trade policies.

The Computable general equilibrium CGE model is a system of equations that describes economic linkage between several global regions and sectors. CGE models allow for capturing the complex interactions that happens within the different economic actors.

CGE models are often used to create projections of the economic effects of policy changes that will be associated with new regional integration agreement. This simulation reveals the effect of new trade policies (changing tariff rate for example) on both demand and supply sides(Hallren, 2017). CGE models consider all sectors in the economy simultaneously and takes into account the resource constrains in the economy and spill over effects across markets for individual goods and services.

On the other hand, Partial equilibrium models analyse the impact of the changes in trade policies on individual markets ignoring intra sectoral linkages, macroeconomic constraints and feedback effects.

In (Willenbockel, 2014) the total potential impact of TFTA is a positive net real income gains for the area as a whole. TFTA is projected to generate an annual welfare gain of 578 million USD and an improvement of terms of trade will be achieved. South Africa enjoys the largest real income gain, while Zimbabwe, Malawi, Zambia, Rwanda, Angola, Congo DR and Botswana will suffer moderate welfare loses as a result of the projected decreases in their terms of trade. Concerning to the government revenues the study simulations shows that government revenues will decrease within a range from 553 million USD if partial tariff cut is conducted to 1.1 billion USD if full tariff removal is conducted. This loses in government revenues is account for only 0.6% of total TFTA tax revenues. The total volume of intra – TFTA trade is projected to increase by 7.7 billion USD with about 20% increasing rate.

In (Mold, 2016), the results suggest highly significance benefits from implementing the TFTA. The agreement will boost intra-trade for about 29.2%. Total intra-trade would rise by 8.5 billion USD. This increase would be concentrated in heavy manufacturing, light manufacturing and processed foods, which will increase by 3.3, 2.6 and 1.8 billion USD respectively. The cost of tariffs removal will be minor due to the relatively low tariffs already exists in the region because of the gradual implementation of trade liberation within EAC, COMESA and SADC. For the labour market, the significance increases in the trade of manufacturing and food good will bush the demand for labour in these sectors up. The employment in these sectors estimated to grow by 1.1% and 1% respectively. Although the analysis shows there will be gains from TFTA, these gains will not equally distributed among member countries. The distribution of gain is correlated to the countries with the most efficient manufacturing sector mainly: South Africa and Egypt.

There is also the study of (Jensen, 2011) the results shows that there are significant gains to SADC, but only for South Africa and Mozambique. South Africa welfare projected increase is 1.321 billion USD and a 0.22% increase in GDP. According to this paper, those gains are derived from a better mobilization of land, labour and capital, increasing net investment and improvement in terms of trade. For agriculture, the TFTA is only beneficial in sugar and then only for South Africa and Mozambique. While for manufacturing sector the biggest gains are for South Africa, Egypt and Kenya. Revenues for the SACU members increase by 49 million USD as a result of South African manufacturing imports from non-African countries to replace increased exports to rest of east Africa.

Obstacles and Challenges facing TFTA:

Although there are noticeable potential of the new TFTA, there are also numbers of obstacles or challenges need to be faced in order to achieve these potentials. Those obstacles could be summarized as follow:

First: the three RECs are at different stages of integration in the way that may influence the negotiation process. COMESA launched a free trade area in 2000 and a custom union in 2009. And parallel to negotiation of TFTA, there is still an ongoing negotiations process within the COMESA in joining the free trade area and the custom union[2]. The members of COMESA agreed on a list of sensitive products where current tariff rates are determined as common external tariff within a transition period of three years can be extended with additional two years. EAC was established in 2000. In 2005 EAC members Tanzania, Kenya, and Uganda formed a custom union transformed in 2010 to a common market. Rwanda and Burundi who joined EAC in 2007 are also parts of the custom union and common market since 2009. SADC was formed in 1992. In 2008 a free trade area was established including the southern African Custom Union SACU members who allow tariff free imports from other SADC members. The agreement is based on minimum conditions where full trade liberalization is only provided on 85% of intra trade within SADC.(Riedel, 2014)

Second: the existence of trade barriers, especially non-tariff barriers, as a consequence of inadequate implementation of agreed commitments within the three RECs. This could undermine the gain that could be delivered from existing and future intraregional trade areas. Beside those barriers there are also the restrictive rules of origin which are applied in each REC that hinder cross border trade. Such rules have been manipulated to achieve protectionist objectives and promote rent seeking behaviour rather than those of preventing trade deflection. Restrictive rules of origin discourage competitiveness investment in regional value added activities such as textile and clothing and agro processing sectors. The rules of origin for COMESA and EAC are almost the same as they are based on the general value added rule of 35% for local contents (with some exceptions in the

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[2] Uganda and Ethiopia agreed to join COMESA free trade area only in December 2014.

case of COMESA)[3] or cost, insurance and freight (c.i.f) value rule of 60% of costs of imported production material. Some member countries applied different rules of origin, for example Egypt applies high rate of 45% value added rue on local materials. SADC rules of origin are significantly different and more complicated than those applied in the other two RECs. SADC adopted “made-to-measure” product-specific rules of origin which uses a variety of methods for determining eligibility(Kalenga, 2013). According to (Brenton, 2004), SADC rules of origin are complex and not supportive to enhance intra-regional trade and competitiveness.

The rules of origin are not the only non-tariff barriers in those RECs. Kenya for example imposes stringent technical regulations on sugar imports affecting sugar exports from Mauritius; Zimbabwe facing difficulties in exporting milk products to Zambia due to difficulties in obtaining import permits; and milk trade between Kenya and Zambia being affected by non-tariff barriers prevalence. In a study conducted by (World Bank, 2011), the non tariff barriers reduce SADC intra trade by about 3.3 billion USD.

Third: there is also the problem of high transportation cost and inadequate infrastructure that limited the potential gains of this agreement. This is beside the inefficient administrative procedures at border crossing, and other costs incurred within domestic policy and regulatory environments that are considered as the most important constraint to Intra-African trade.

Forth: the problem of dual membership that affecting the potentials of trade agreements within and between the three RECs. Such overlapping membership is considered as one of the main factors that inhibited the full potential of their ability to stimulate intra-regional trade. The region of TFTA has the most regional integration initiatives in Africa, including the East African Community (EAC), the intergovernmental Authority on Development (IGAD), the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the Southern African Custom Union (SACU) and the Indian Ocean Commission (IOC). The legal and institutional situation became more complicated knowing that COMESA, EAC and SADC’s integration goals and strategies are similar, and in particular, they are all operating under different rules

[3] COMESA has an exception for goods of particular importance, requiring only a minimum of 25% of imported manufacturing materials.

of origin and trade instruments, countering the objectives of facilitating and simplifying trade(Kalenga, 2013).

Conclusion:

In 2015 the member states of the three major African RECs: COMESA, EAC and SADC agreed on establishing a common TFTA which is considered as an important milestone towards Africa Continental trade integration. This paper analyzes the impact of regional integration among TFTA countries and evaluates the economic potentials of this agreement.

Although there are great potentials associated with TFTA for the whole region. The gains from such agreement are not equally distributed. South Africa and Egypt appears to be the bigger winners of this agreement due to the structural characteristics of their economy that makes them able to achieve welfare gains from African trade agreement within their region or outside.

But to achieve such gains, the obstacles and challenges facing the application of TFTA agreement need to be faced. There are still huge efforts and negotiations needed to be done to harmonize the trade and economic policies in the three regions.

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