

## REPORT

### tralac Annual Conference 2008

Cape Town, 12 – 13 June 2008



The conference focused on the trading arrangements of southern Africa – not only the regional and intra-regional activities, but also on the relationship with the other prominent emerging economies of China and India.

**Intra-regional SADC:** The region is facing a significant number of developmental and other challenges with the planned implementation of the SADC regional integration agenda. The agenda is highly politically charged with the vision of regional integration which is repeatedly affirmed at the highest political level. SADC is following a linear textbook approach to regional integration and reiterated its vision to establish a FTA in 2008, a SADC customs union by 2010, a SADC common market by 2015, a SADC Monetary Union by 2016 and a SADC Economic Union by 2018. Despite these aspirations, there is a lack of coherence on the regional integration process. Common policies and a common external tariff must be determined – how is the region going to find common ground to determine this? Regional integration inevitable implies the giving up of policy space – the vision of a customs union therefore requires significant compromise. There are also a number of other integration challenges in Africa that are well known; the problem is how to address them. SADC has an ambitious agenda, it is too dependant on donor funding, it has a limited institutional capacity, there is a lack of compliance and implementation, the institutional set-up is ineffective to enforce the regional integration agenda and there is a lack of clear policies and strategies at the national level. SADC is not making any real progress – the cooperation and dynamics between the Member States must be examined to identify the underlying problems.

The SADC FTA is going ahead as planned; this will be formally implemented in August 2008. SADC Member States must, however, reflect on the remainder of its ambitious agenda – it is not too late to reassess their political commitments. Countries would still be able to pursue deeper integration and cooperation without establishing a customs union.

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**Intra-regional SACU:** The greater SADC vision must also consider other and existing regional configurations. At the moment there is no coherent approach on how SACU is going to deal with regional integration. The formation of a customs union will have serious consequences for SACU; in practice it is nearly impossible to accommodate more than one customs union in a regional configuration. A study on SACU tariff policies was disseminated dealing with the characteristics and rationales for the current SACU tariff structure, the evaluation of alternatives for a tariff policy rule, in addition to presenting a number of options for regional trade arrangements. It was found that SACU has a complex tariff system with high nominal and effective protection on certain sectors. There does not seem to be a rationale when deciding the applicable tariffs, while in some cases protectionist tariffs exceed 40%. The study further revealed that the tariffs are inefficient and costly to consumers for the purpose of preserving employment. Tariffs are protecting jobs in the textile, clothing, footwear and motor industries, but at the cost of job losses in the primary and services sectors. The final conclusion of the study was that protection cannot be justified on infant-industry grounds. Sectors that are being given protection are not those which are likely to enhance competitive capabilities in the future. Therefore a better alternative structure should instead preserve key labor-intensive activities, stimulate non-commodity export orientation, facilitate regional integration, enhances the value of industrial policy and assist the consumption of the poor.

**Extra-regional:** The current EPA introduced additional complications in an already complex environment. Four Member States (Botswana, Lesotho, Swaziland and Mozambique) are involved in the second stage of the negotiations, while the other three SADC EPA Member States (Angola, Namibia and South Africa) are disputing certain provision in the initialled text. A new list of concerns have been drawn up by these three concerned Member States of which some would almost certainly require more negotiations in order to arrive at a agreement. The implementation process is another important issue that Member States need to deal with urgently. According to the EC and the SADC IEPA text, implementation should happen from 1 July at the latest.

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It is unclear how far the Member States are with this process, or what will happen to Namibia if she does not implement the agreement. The five SACU Member States are also in the process of revising their tariff offer to include South Africa. Hopefully the tariff offer will be tabled before the next round of negotiations which are scheduled for 2 July 2008. The current approach of South Africa is rather inward looking and protectionist and the role it will play in the ongoing negotiations is not known. According to the South African representatives, there was no political and legal mandate to initial the text in its current format. Contentious issues such as the MFN clause were deal-breakers. Additionally there was no time for proper consultations on the controversial issues. South Africa is willing to continue with the process of negotiations and might even negotiate on services; however, the current terms on the table are not agreeable. South Africa enjoys no services preferences in the region, therefore a political decision was made to initially opt out of the second phase of negotiations.

**Looking east:** New dynamics between coalitions of developing countries are starting to emerge in global economics. Particularly China and India, which are already an important source of foreign direct investment in the region, play a crucial role in the development of Africa. Economic activity between sub Saharan Africa is growing – in contrast to trade with the EU, which are declining. Considering that the estimated yearly GDP growth rate of these countries are way ahead of the United States and the European Union, the figures indicates that China and India will most likely be the competitive economics of the future. Currently there is a preference for cooperation arrangements in goods only – countries are afraid to commit to deeper regional integration with these powerful emerging nations. China and has however been pushing ahead in the trade arena, concluding trade arrangements which has far reaching provisions on services and investment. Therefore the region needs to look at comprehensive arrangements with China and India, which would include foreign direct investment, services as well as non-tariff barriers. It is in these areas where the bigger benefits are more likely to be.

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**The way forward:** The conference reflected on what is happening amongst ourselves in the context of regional and intra-regional activities, and also looking ahead at future negotiations with the emerging powers of China and India. It was suggested that the regional and other challenges be addressed in the following ways:

- Concentrated focus – The debate on regional integration must gain momentum; but who will take the initiative and who will participate? The enabling frameworks will not be self-executing; a more original and focussed approach is necessary.
- Improved Secretariats – The Secretariats do not function properly; drastic measures must be taken to enhance their role and mandate.
- Regional policies – There is a serious need for regional policies to deal with the needs of the region in a comprehensive manner.
- Address institutional inefficiencies – In the United States, the private sector is entitled to remedies in respect of international trade through the mechanism provided in Section 301 of the Trade Act of 1974. The region needs a similar mechanism to engage with government to protect their interests. It was further suggested that a toolkit be devised for the private sector to better engage with government.
- Better understanding – Studies should be commissioned to examine the potential of relationships with China and India, particularly the prospects of small and medium size firms.

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