Can Trade Arrangements Reduce Poverty in Southern Africa?

By Moses Tekere

Closer regional trade and economic co-operation is a launching pad toward regional economic 'take off' and international competititiveness. Its creates conditions for addressing critical problems facing the region such as employment, income generation, and human development and poverty elimination if it is designed in a manner that benefits the majority, the informal sector, rural population and women.

Extra-territorial trade liberalisation arrangements can be effective and important tools for addressing poverty if:

- they provide better market access for goods that are produced and exported by the poor and protect the products they produce for basic needs when access to imports is problematic;
- trade distortions such as subsidies are minimal on export products in which the poor have a comparative advantage;
- the composition of traded goods shifts from low-rent to high-rent goods, i.e. from immiserising growth to prosperity; and
- there are safety nets to cushion poor communities who face adjustment costs.

The central goal should be to enhance the direct participation of the poor in regional trade rather than reliance on trickle down effects.

The positive impact of trade liberalisation within the Southern African Development Community on poverty is limited because the poor continue to produce and export goods whose terms of trade are continually worsening and where rent is minimum or export prices hardly cover production costs.

Poverty in the Southern African Development Community

The litany of poverty statistics for SADC countries[1] according to the 1999 UNDP Human Development Report is inexhaustible. First, average gross domestic product per capita in the region is among the lowest in the world and the national poverty head count as a percentage of population for 1984-95 is above 50 percent for half of SADC countries. Their human development indexes also low and, according to the human poverty index, the poorest countries are Mozambique and Malawi, followed by Tanzania, Zambia, Namibia, Botswana and Lesotho. South Africa and Zimbabwe have a lower human poverty index, but they also have the highest level of income inequality. Mauritius, followed by South Africa, has the least poverty problem in the region. The bulk of the people who suffer from higher incidences of poverty and food insecurity are in the rural areas. Food insecurity and famine are inseparable from poverty that in turn is inseparable from the deficiencies in public policy as well as environmental shocks.

Overview of Regional Trade Issues

The SADC trade protocol, whose implementation started in September 2000, provides *inter alia* a framework for reform measures aimed at liberalising intra-SADC trade through a phased removal of tariff and non-tariff barriers. The main objectives of the trade protocol are to secure expanded regional markets, exploitation of economies of scale, provide attractive opportunities for foreign and domestic investment, improve value adding process, stimulate efficient operation of commodity and service markets, promote expansion of exports and incomes, reverse the historical trend for SADC states to depend on primary exports to the OECD, and minimise the deterioration of terms of trade and eventually enhance the welfare of the region.

There is evidence of growth in intra-SADC trade even before the start of the SADC trade protocol's implementation last year. First, for all countries except Mauritius, the share of imports coming from SADC was higher in 1997 than in 1995. While this shift is not a direct response to the adoption of the protocol, it is a clear indication that potential for trade expansion exists if the tariff dismantlement process sets in. Intra-SADC trade is heavily skewed in favour of South Africa, whose exports to all SADC countries increased significantly between 1995 to 1997. Growth of imports into SADC countries from the rest of SADC between 1995 and 1997 varied. On one hand, Mozambique's imports from other SADC countries declined drastically while for Mauritius, the South African Customs Union and Tanzania there were no changes. Zimbabwe, Zambia and Malawi recorded marginal gains in imports from SADC. Further, although on an upward trend, intra-regional trade is still a small fraction of each country's total trade, and increasing trade flows within SADC are considered as an indicator of success of regional integration.

Can the SADC Trade Protocol Deliver for the Poor?

Rather than posing poverty reduction as an explicit objective from the outset, the SADC trade protocol relies on trickle down effects arising from regional trade expansion. Currently, the dominant intra-SADC commodity imports of most member countries are fuel and fuel products, machinery and medicines. Intra-SADC trade is also common in vehicles, textiles and clothing. Agricultural products, which are more relevant for first stage poverty reduction, do not feature prominently in regional trade and small producers are mostly involved only in informal cross border trade.

Five main conclusions can be drawn regarding the SADC trade protocol's effectiveness for poverty reduction:

- Market access for agricultural goods produced and exported by the poor will remain unfavourable since most countries either back-loaded liberalisation or heavily protected these sectors.
- The rules of origin applied in some sectors such as textiles and clothing, which are major employers in manufacturing in SADC, are too stringent and act as trade barriers.
- Some countries use trade-distorting subsidies.
- The positive impact of trade liberalisation within SADC on poverty is limited because, due to historical, traditional and production rigidities, the poor continue to produce and export goods whose terms of trade are continually worsening and where rent is minimum or export prices hardly cover production costs.
- Finally, while poor communities are supposed to benefit from regional trade, so far SADC has left them out of the trade debate.

The Spaghetti Impact of the SA-EU Free Trade Agreement

Early last year, SADC's major trading partners South Africa and the European Union signed an Agreement on Trade and Co-operation whose primary objective was to establish a free trade area in conformity with WTO provisions over a ten-year transitional period for the EU and twelve years maximum for South

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Africa. The free trade area covers free movement of goods in all sectors, as well as liberalisation of trade in services. This agreement will have both negative and positive effects on SADC. The likely negative effects include displacement of some SADC exports on the South African market by those from the EU. Displacement is also likely to occur in other SADC countries as subsidised EU goods 'sneak in' via South Africa duty-free and cause SADC states a loss of revenue. SADC customs services will face a high burden in administering rules of origin, and investment is likely to be diverted from the region into South Africa. Preferential market access for SADC goods in both SA and the EU is likely to erode.

The positive effects include the opportunity provided by the cumulation provisions, increased competition and other trickle down dynamic effects. A number of products of export interest to SADC are excluded from the general tariff liberalisation within the EU-SA agreement, which at least preserves SADC preferential access in SA for these products vis-à-vis the EU.

New ACP-EU Relations Likely to Miss Poverty Reduction Goals

Compared to other North-South trade arrangements, the Lomé Convention between developing countries in Africa, the Caribbean and the Pacific (ACP) and the European Union has served as an important poverty alleviating instrument for SADC through its preferential tariffs, commodity protocols, the Stabex and Sysmin packages, as well as financial co-operation. Last year, the agreement was replaced by a transitional arrangement (the Cotonou Agreement) and negotiations for a new trade arrangement between the SADC/ACP and the EU – based on reciprocity and leading to the establishment of a free trade area – are scheduled to start in September 2002. Preliminary studies indicate that opening SADC markets to EU products within the proposed free trade area will pose serious problems due to the enormous difference in levels of economic transformation between the EU and SADC countries.

Specific problems of a Southern Africa-EU free trade agreement include: trade-distortive effects of EU subsidies that undermine areas where SADC has potential to develop a competitive advantage; serious adjustment problems for infant industries in SADC; lack of guarantee for the continuation of commodity protocols that are very important for SADC; silence on the issue of current rules of origin which have tended to restrict expansion of trade within the Lomé Convection; and narrowing of margins of Lomé preferences due to the unilateral extension of market preferences to other regions and countries by the EU.

Why the WTO Has Failed to Reduce Poverty

Trade liberalisation measures within the WTO (tariff binding, reductions, etc.) were seen by SADC states both as 'locking in' trade liberalisation and as *complementary and supportive international instruments to buttress national efforts*, i.e. economic structural adjustment programmes. However, more than six years after the conclusion of the Uruguay Round Agreements, the WTO's promise to Sub-Saharan Africa has not materialised. Instead, at least so far, the WTO has imposed stricter disciplines in terms of notifications compliance with no substantive benefits. Reasons why developing countries and the poor fail derive benefits lie within the design and implementation of the WTO Agreements. Trade with the WTO has failed to address poverty due to:

- *Reduced market access.* Sectors of particular importance to the members of the Southern African Development Community (SADC), such as tropical products and agriculture which employ the majority of the poor, remain un-liberalised. Northern protectionism is costing developing countries up to US$700 billion in annual export earnings.[2]
- *Agricultural Subsidies.* Subsidised cheaper agricultural imports from developed countries are pushing small-scale producers out from the market. Further trade effects can be expected if industrialised countries offset their losses from reduced export subsidies by increasing support elsewhere, for instance for organic or sustainable agriculture.
- *Tariff peaks* remain fundamental constrains for developing countries exports. Export products of interest to SADC countries, such as clothing, textiles or leather goods, continue to face exceptionally high tariff peaks in most industrialised markets.
- *Tariff escalation.* Tariffs on developing country exports to industrialised countries tend to escalate depending on the level of processing of the products. For example, tariffs on cotton exports are lower than those on textiles and clothing.
- *Sanitary and phytosanitary measures.* SADC exports suffer from sanitary and phytosanitary measures and standards being used as instruments to restrict exports into industrialised markets. For example, procedures to prove that some areas are pest- and disease-free or low risk are usually long and burdensome.
- *Trade defences.* Finally, SADC countries face difficulties in defending their trade interests in both domestic and international markets when trade remedy instruments such as anti-dumping, subsidies, countervailing or safeguard measures are brought against their exports. It would require considerable resources from SADC members to establish the requisite institutional, information, financial and human resources that would enable them to make use of similar instruments against subsidised exports from developed countries.

Conclusion

Those working on regional trade and poverty face a number of challenges. Among the most important are:

- Defining poverty: who are the poor and why are they poor?
- Defining the relationship between trade and liberalisation nationally, regionally and extra-regionally.
- How can we design trade agreements that address poverty effectively and directly?
- A holistic approach to regional trade integration, i.e. ensuring effective linkages between micro and macroeconomic policies.
- How does regional trade address the crisis of production facing the poor so as to allow them to actively participate in regional integration via trade?
- How to ensure equitable distribution of benefits from regional integration in favour of the poor?
- How to ensure that extra-regional trade relationships do not undermine regional trade integration or, alternatively, how to ensure that the poor benefit from these agreements?
- How to ensure a fair playing field in trade within and between classes, SADC states and with big powers?

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ENDNOTES

[1] Angola, Botswana, the Dem. Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

[2] UNCTAD. 1999. Trade and Development Report.