

Harnessing Regional Integration for Trade & Growth in Southern Africa

How can regional integration be made to work for trade in goods & services?



MAY/JUNE 2011



Motivation



- **New research on making trade integration in Southern Africa work better**

- Examples on obstacles faced by firms that trade regionally (e.g. Shoprite) & surveys services suppliers

- **Premise:**

- RI offers opportunities for more trade that currently remain unexploited due to high costs

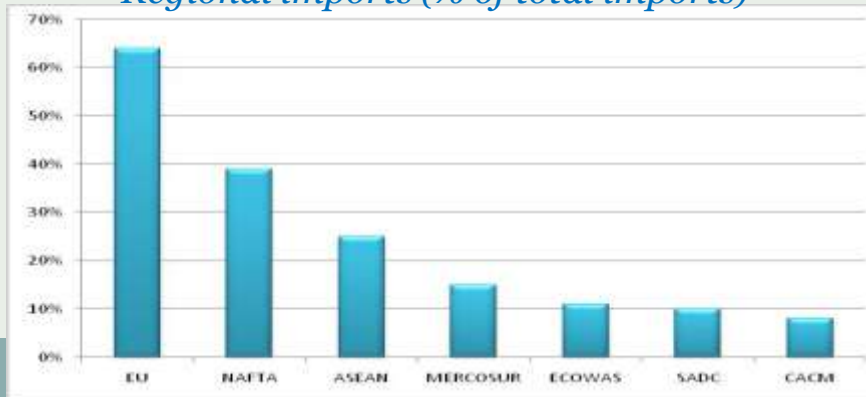
- **Objectives:**

- To get your feedback on our findings
- To hear your views on how RI can be made to work better
- To discuss ways the Bank can help

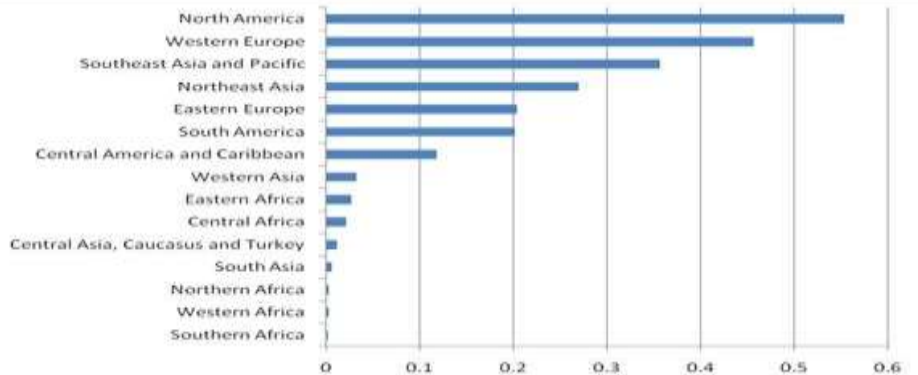
For goods, there are opportunities for firms to increase regional trade – but ‘factory Southern Africa’ has yet to appear

- RI can boost trade through market access & integrated production
- Large Asian countries are using RI to increase production in lower-cost neighboring countries – could South Africa do the same?
- For smaller countries, prospect of market access & regional FDI
- But Southern African regional trade is lagging behind;
- barriers are constraining the emergence of newly traded goods; and,
- intra-industry trade remains the lowest (regional supply chains are absent)

Regional imports (% of total imports)



Intra-industry trade by region



Why? NTBs are critically hindering regional trade



- Tariffs have fallen significantly...
 - >85% of intra-SADC and intra-COMESA trade is duty-free; 98% for SACU
- ... but NTBs reported in Southern Africa affect at least 1/5 of recorded regional trade
 - \$3 billion of trade potentially impacted

Barrier	Examples of products affected	Southern Africa regional trade potentially affected (% of total)
Import bans, quotas & levies	Wheat, poultry, flour, meat, maize, UHT milk, sugar	6.1%
Import permits & levies	UHT milk, bread, eggs, sugar, cooking oils, maize, oysters	5.4%
Single marketing channels	Wheat, meat, dairy, maize, tea, tobacco	5.3%
Rules of origin	Textiles & clothing; palm oil; soap; cake decorations; curry powder; wheat flour	3.0%
Export taxes	Dried beans, sheep, wood	4.8%

What are the barriers and how much do they cost?

1. Inefficiencies in transport, customs & logistics



- 85-90% of regional trade is carried out by road
- Main issues:
 - Cost of delays: \$500/day for a Shoprite truck
 - Costs associated with the various corridors (road fees; weighbridges; roadblocks)
- Despite regional measures to facilitate road transport more needs to be done
 - Allowing third party operators
 - Harmonizing road user fees



What are the barriers and how much do they cost?

2. *Cumbersome fiscal arrangements widen borders*



- Even SACU, a customs union, maintains internal border posts
 - To capture data on regional trade (for revenue sharing purposes)
 - To impose other NTBs e.g. infant industry protection
 - To administer domestic sales taxes
- Costs associated with these procedures reduce regional trade
 - Procedural differences in VAT alone cost up to 2% per transaction

What are the barriers and how much do they cost?

3. Restrictive rules of origin limit preferential trade



- Expiration of simplified ROOs (e.g. SACU-MMTZ agreement) has led producers to relocate or close, e.g. Bidserv; Giant Clothing in Malawi
- Where ROOs have not been agreed, preferential trade is effectively prohibited e.g. wheat flour
- *Administering* ROOs is also costly
 - Half the tariff preference can be lost to red tape alone!
 - Paper copies of origin certificates must accompany every load crossing a SADC border: 150 per truck



What are the barriers and how much do they cost?

4. Poorly designed standards limit competitiveness



- Standards can discriminate against imports if they specify *characteristics* (colour, quality etc.)
 - E.g. Mauritian sandals
- Impact assessment remains weak
 - E.g. RSA levy on plastic bags
- Harmonized regional standards remain underdeveloped
 - ≈ 80 agreed so far under SADCSTAN; ≈ 200 for COMESA
 - But largely unimplemented (just Swaziland & Namibia have adopted all)...
 - ...and lack prioritization (frozen peas?)

What are the barriers and how much do they cost?

5. Other NTBs restrict opportunities for regional sourcing



- **Seasonal import bans**
 - E.g. maize & wheat flour
- **Infant industry protection**
 - E.g. Namibia pasta; Botswana tomatoes
- **Export taxes & bans**
 - E.g. Namibia small stock; Malawi maize
- **Import permits and licensing**
 - Shoprite spends \$20,000/week on permits to distribute meat, milk and vegetables to its stores in Zambia alone!
 - Implementation: Regularity needed to lower costs e.g. Swaziland wheat flour; Tanzania maize

Mechanisms are in place to deal with NTBs...



- Art. 6 of SADC Trade Protocol & Art. 49 of the COMESA Treaty call for elimination of NTBs
- SACU infant industry provisions/restrictions
- SADC Ministers of Trade identified “core” NTBs for immediate action
 - E.g. import & export quotas; unnecessary bans & prohibitions
- Some countries have made significant improvements
 - E.g. Mauritius in streamlining customs; Zambia NTB committee (reduced 500 NTBs to 300)
- Tripartite NTB Monitoring Mechanism (NTBMM) established
 - Online ‘post box’ where complaints can be made against NTBs
- SADCSTAN & COMESA Standardization and Quality Assurance
 - Develop harmonized regional standards and/or mutual recognition

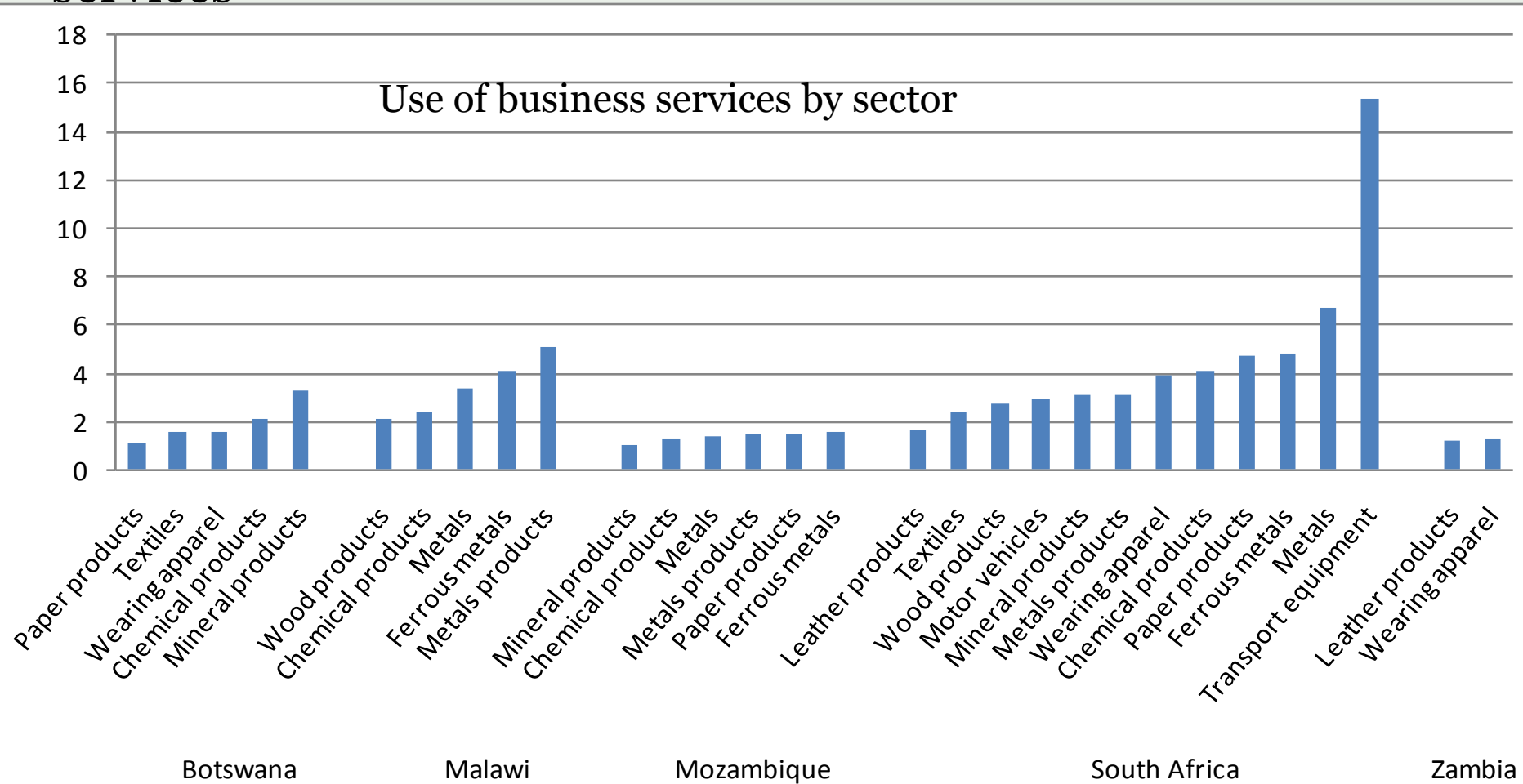
...but more needs to be done to remove them



- Need to ensure countries better justify NTMs or reform them
 - Emphasis has been on identifying & monitoring NTBs with ‘moral suasion’
 - 61% of complaints in SADC & 20% in COMESA have been resolved under the NTBMM
- Categories of NTBs should be prioritized for reform
 - Simplify ROOs which restrict trade in manufactures & agro-processing
 - Discipline import bans, quotas & permits which disproportionately affect agricultural trade
 - Streamline border management procedures (30% of NTB complaints) – although concern over revenues risks impeding reform e.g. SACU

Services are crucial for growth and competitiveness

- Many services are inputs into production and trade
- Lowering costs for firms requires better and cheaper services



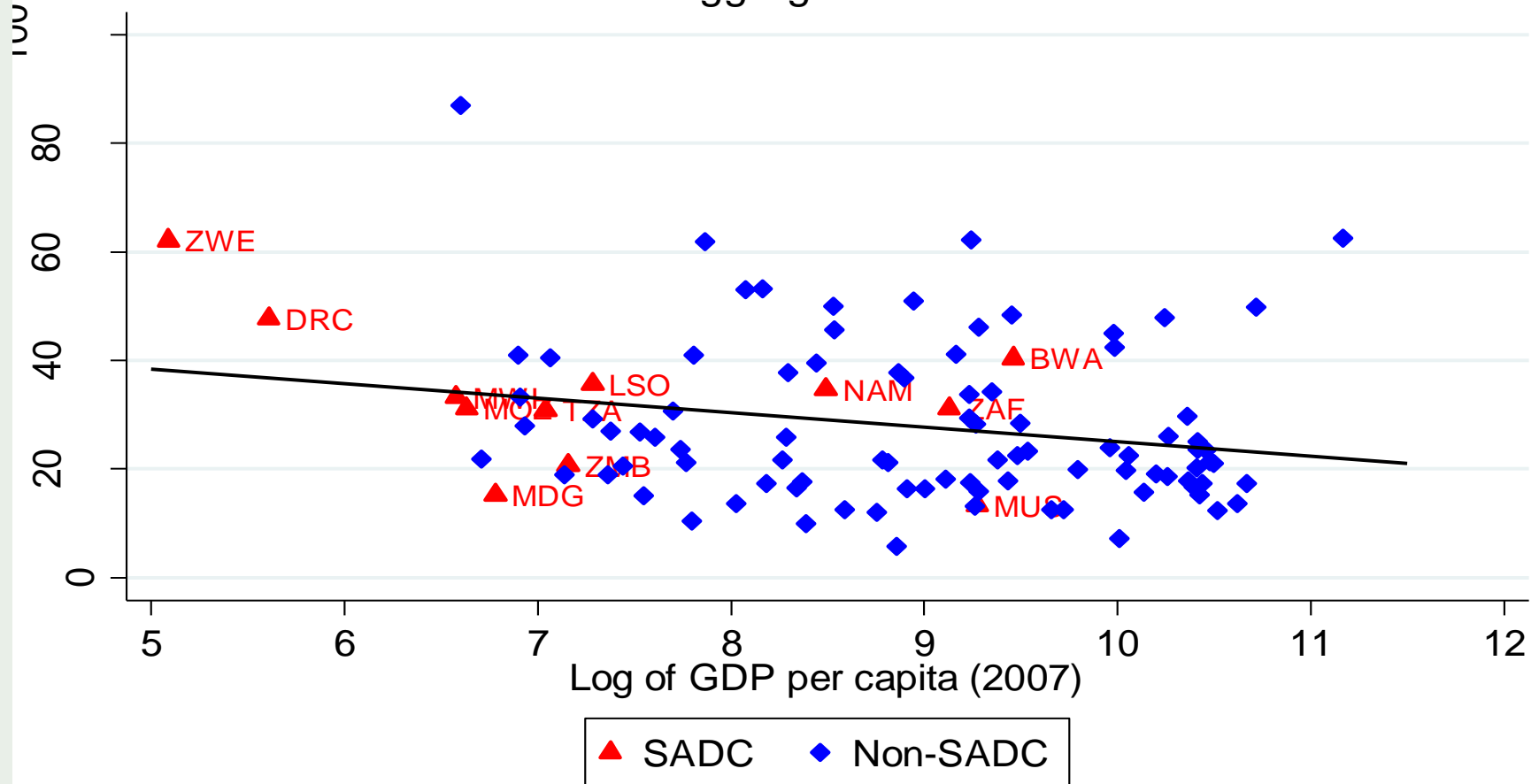
Services reform and liberalization – main challenges



- Need to address information gaps on applied trade policies
 - Example of telecommunication, transport, financial and professional services
- Need to address knowledge gaps regarding the coordination of services trade liberalization with regulatory reform
 - Example of accounting, engineering and legal services
- Need to address the role of regional regulatory cooperation in reforming services sectors
 - Example of mutual recognition of professional qualifications

Restrictiveness of services trade policy: Substantial diversity across SADC

Services trade restrictiveness
Aggregate STRI

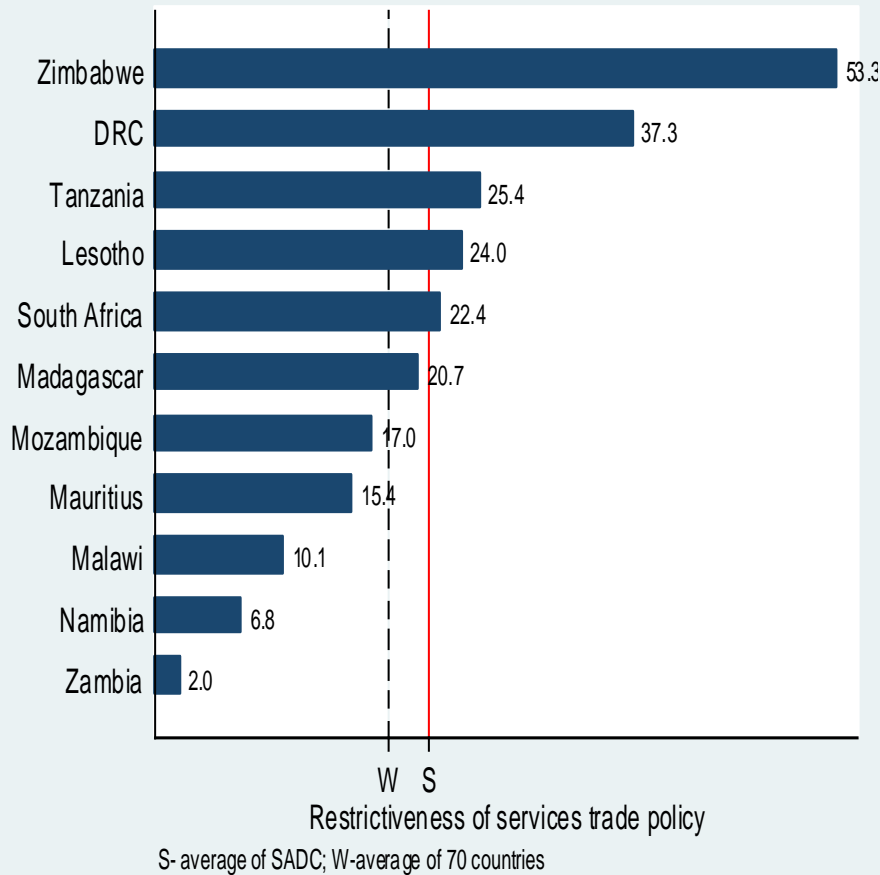


Source: Borchert, Gootiiz, Lee, Mattoo and Rocha (2009),
"Services Trade Policies in Southern Africa", World Bank mimeo.

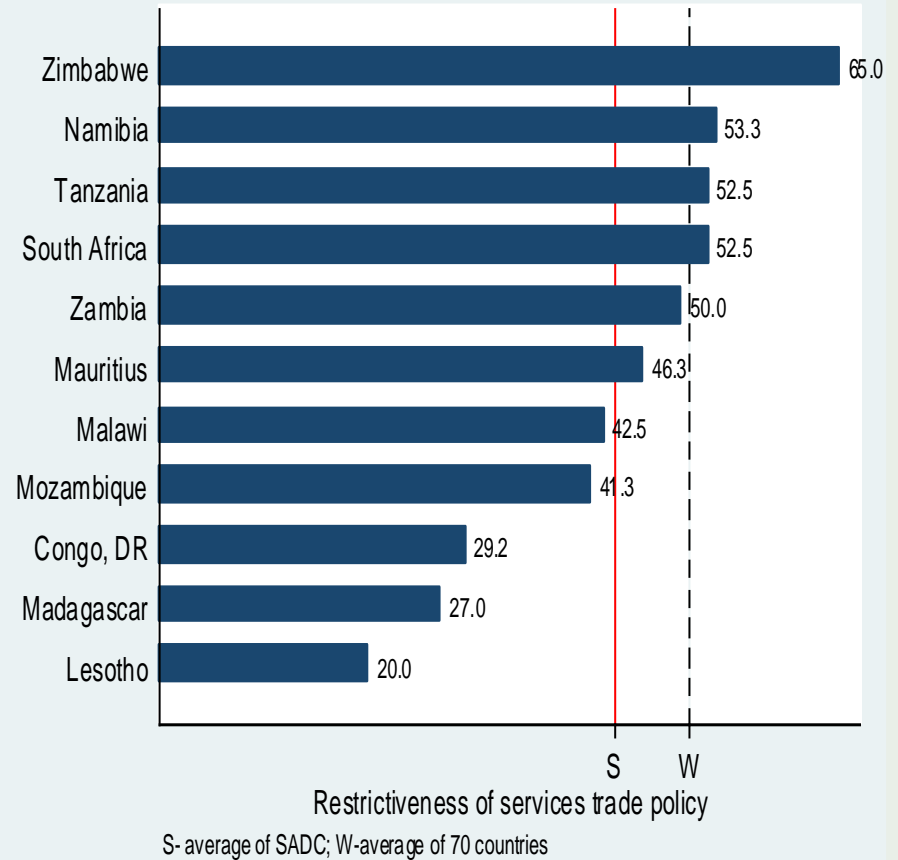
NB: 102 countries

Restrictiveness of services trade policy: Sector-specific restrictiveness indices

Financial Services



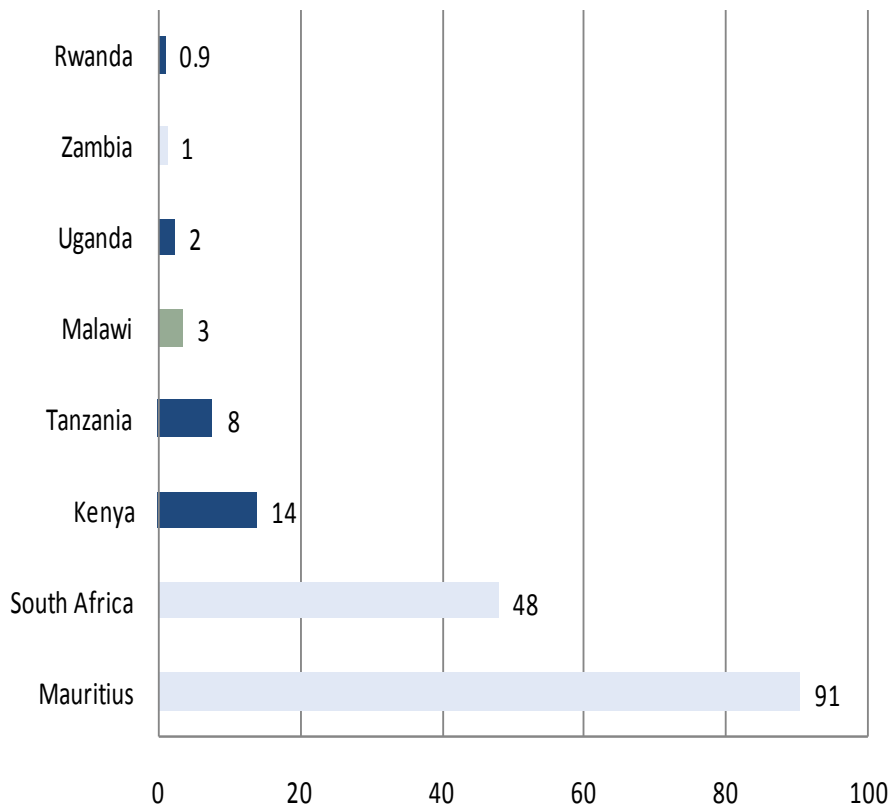
Professional Services



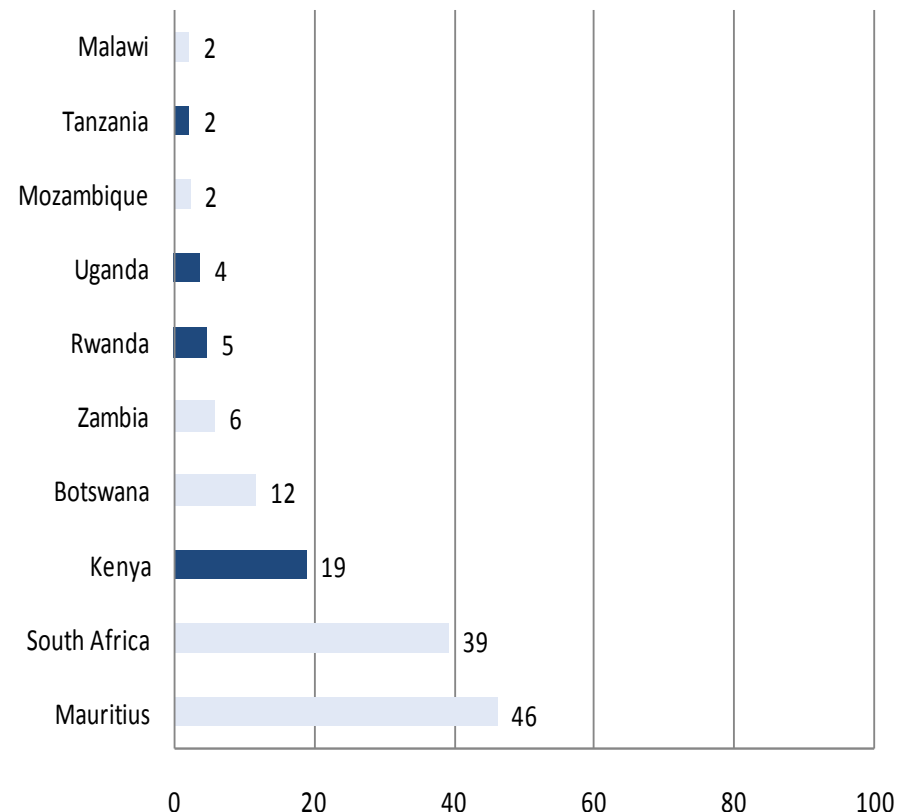
Potential for regional services trade is significant...

Example of professional services (law, accountancy, engineering)

Panel A: Number of Accountants per 100,000 inhabitants



Panel B: Number of Lawyers per 100,000 inhabitants



...but fragmented regional markets for professional services in Southern Africa

- In Malawi and Zambia foreign professionals represent less than 3 percent of the total number of professionals in accounting
- In Malawi and Mozambique foreign professionals represent less than 5 percent of the total number of professionals in engineering
- Limited presence of foreign engineering and law firms in Southern Africa

Skills shortages, skills mismatches and underdevelopment of professional services in Southern Africa

- **Skills shortages**
 - Most severe shortages of engineering and accounting professionals
 - Shortages of middle-level professionals (such as technicians or paralegals) and shortages of experienced professionals
- **Skills mismatches**
 - Jobless professionals despite scarcity
- **Underdevelopment of professional services markets**
 - Professional services are less efficient, more costly and less widely available than in many other comparable countries (for example, poor quality of auditing and reporting systems, poor enforcement of property rights)

Liberalizing services trade would facilitate access...



e.g. explicit barriers on trade in legal services in South Africa

Cross-border trade

- Not permitted for advice on domestic law

Commercial presence

- Establishment prohibited for advice on domestic law
- Restrictions on activities that can be performed by foreign legal professionals

Movement of professionals

- Nationality and residency requirements for advice on domestic law
- Discretionary limits (labor market tests & econ. needs tests) for foreign-licensed lawyers

... but must be complemented by improving the efficiency of domestic regulation to enhance competition

e.g. regulation of legal services in Botswana

Entry Regulation

University degree and professional training required

National qualification examination required

Compulsory membership in the professional association

Scope of exclusive rights: 4 out of 10 activities

Conduct Regulation

Prices are regulated

Advertising is prohibited

Restrictions on business structure

Restrictions on multidisciplinary practices

- An agenda for regional cooperation

National reform and regional cooperation could better integrate the market for professional services

National level reforms could include:

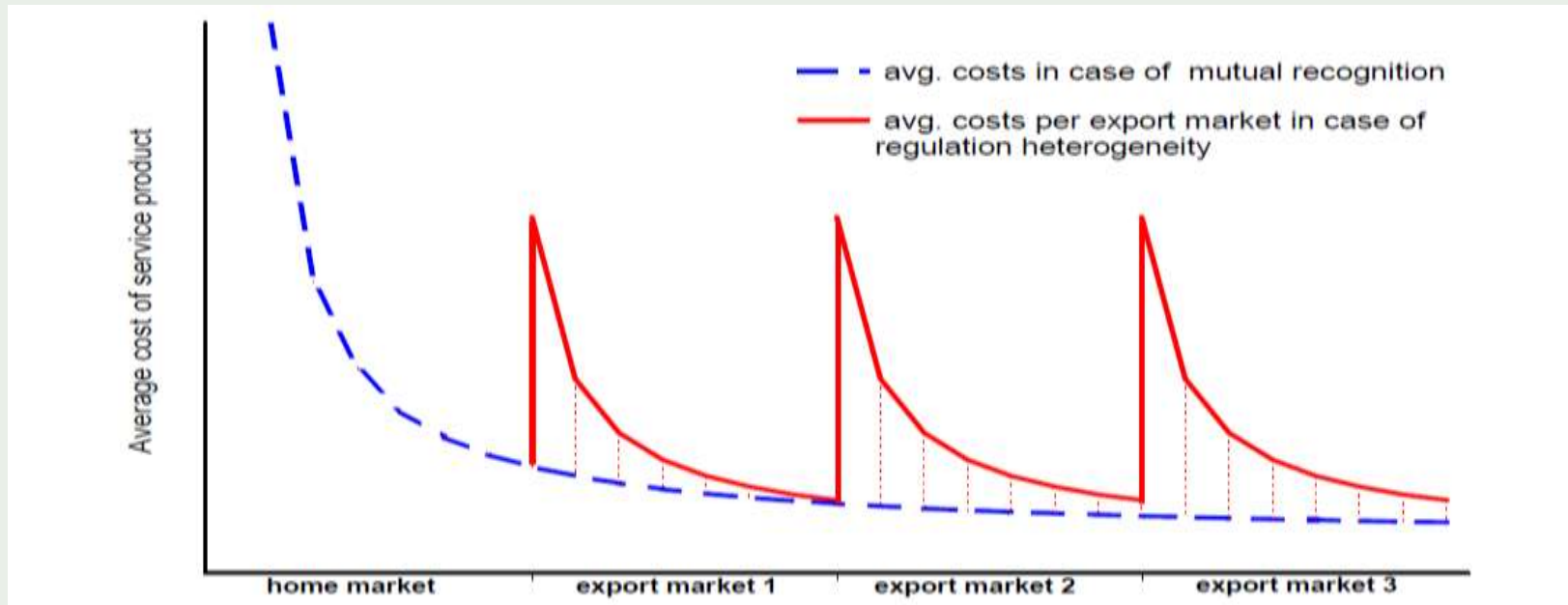
- Relaxing entry requirements, e.g. by narrowing the scope of exclusive tasks
- Eliminating restrictions on competition, e.g. price regulation; advertising prohibitions
- Reduce costs of access to & improve quality of education

And at the regional level:

- Removing trade barriers, e.g. allowing commercial presence, movement of natural persons
- Increased regulatory cooperation, e.g. mutual recognition of qualifications; development of appropriate regional standards
- Creation of regional education and training hubs

Mutual Recognition Agreements: strong conceptual and empirical support

MRA of education, professional qualifications and licensing would eliminate heterogeneity in education and qualification requirements and licensing procedures that is costly and hurts entry of small providers



Kox et al. (2004) estimate that EU stock of FDI could increase by 20-35% if regulatory Heterogeneity was reduced as a result of a common services regulation directive

Working towards an MRA in accountancy services in Africa: the EAC draft MRA – a model to be followed by other countries/regions?



Moving forward to integrate African services markets: A ‘platform’ on regulation and services reform

- Challenge: integrating markets (expanding trade) while achieving regulatory objectives efficiently
 - Knowledge on regulation is sector-specific – focus of regulators often is not on international trade/investment or on competition
- A knowledge “platform/forum” can help identify key bottlenecks and alternation policy options
 - Fill information gaps on trade in services, current regulations and regulatory barriers – identify priority sectors
 - A focal point for impact analysis
 - A consultative mechanism to collect, analyze, and diffuse knowledge on services regulation and reform
 - A mechanism to identify alternative options based on experiences of other countries (neighbors; BRICS, high-income countries/OECD, etc.)
 - A vehicle to support development of national and regional services trade strategies and to monitor implementation
 - Pilot – Professional Services Knowledge Platform

Summary



- Regional market for both goods & services remains too fragmented to compete globally
- First step is to address barriers domestically & complement with regional cooperation...
 - Domestic reform may bring resistance from bureaucracies & interest groups
 - Regulatory cooperation with neighboring partners with similar preferences would bring gains
- Second step is to prevent new barriers arising
 - Regulatory impact assessment? Transparency? Consultation?