

The majority of CBTs involved in trading food products are engaged in small-scale agricultural production. However, they do not receive adequate technical support from their governments. Due to economic structural adjustment programmes and the policies that came with them, many governments have withdrawn agricultural subsidies, thereby making export commodities uncompetitive. Technical support is needed, especially in terms of out-grower schemes for farmers, access to information and agro-processing.

Literacy among CBTs is important as it would facilitate easier completion of customs declaration forms. More generally, it would enable them to increase their trade and make strategic decisions for investment with the finances generated from it. The traders need to be able to take advantage of information about how capital markets operate and alternative investments.

When the issues outlined above are addressed, the region will be on an effective path towards integration.

### The Way Forward

Regional integration processes demand participation of all sectors of the economy as well as governments.

The active involvement of the business community in the mainstream and informal sectors, civil society organisations, (including labour, community based organisations, non-governmental organisations, faith institutions, cultural groups, etc) is necessary.

Economic policy initiatives, such as the New Partnership for Africa's Development (NEPAD), must be demystified to encourage more participation and input from ordinary people, particularly CBTs. It is an initiative that could provide opportunities to rebuild the continent but, conversely, it could easily be used to marginalise the very people who it set out to benefit by its implementation.

## The Common Market for Eastern and Southern Africa (COMESA)

In December 1994, the Common Market for Eastern and Southern Africa (COMESA) was formed to replace the former Preferential Trade Area (PTA), which had existed from early 1981. COMESA (as defined by its Treaty) was established as an organisation of free and independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people.

COMESA recognises that peace, security and stability are basic factors in providing investment, development, trade and regional economic integration. Without peace, security and stability, there cannot be a satisfactory level of investment, even by local entrepreneurs such as cross border traders. Civil strife, political instability and cross border disputes in the region have seriously affected the ability of the countries to develop their individual economies, as well as their capacity to participate and take full advantage of the regional integration arrangement under COMESA. Among the objectives of COMESA is one that is pertinent to cross border traders:

- To co-operate in the creation of an enabling environment for foreign, cross border and domestic investment, including the joint promotion of research and adaptation of science and technology for development.

## COMESA Strategies that Can Benefit Cross Border Trade

### A Free Trade Area

The COMESA states, in implementing a free trade area, are well on their way to achieving their target of removing all internal trade tariffs and barriers. The removal of trade barriers will see cross border trade emerge as a successful sector.

### Trade Promotion

COMESA also hopes to promote trade through:

- Trade liberalisation and customs co-operation
- Introduction of a unified computerised customs network across the region
- Improving the administration of transport and communications to ease the movement of goods and services, and people between the countries. This will provide immense benefits to cross border traders
- Creating an enabling environment and

legal framework which will encourage the growth of the private sector

- The establishment of a secure investment environment and the adoption of common sets of standards
- Harmonisation of macro-economic and monetary policies throughout the region.

### What Does COMESA Offer to Cross Border Traders?

- A wider, harmonised and more competitive market
- Greater industrial productivity and competitiveness
- More harmonised monetary, banking and financial policies
- More reliable communications and transport infrastructure
- A major market place for both internal and external trading.

## CONTACT DETAILS

Should you wish to make comments or suggestions for inclusion in future publications, or to order copies of this information pack, please contact:

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We would greatly appreciate your responses.



## Sustainable Livelihoods & Economic Development Through Trade

Make trade work for people & the environment - Let the poor set the agenda

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This fact sheet discusses the economic role of cross border trade in SADC and COMESA.

- The Southern African Development Community (SADC).
- Cross border trade in the SADC region.
- The impact of cross border trade on regional integration in SADC and implications for wealth creation.
- The Common Market for Eastern and Southern Africa (COMESA).

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## The Southern African Development Community (SADC)

### The Background

The Declaration and Treaty establishing the Southern African Development Community (SADC) was signed at the Summit of Heads of State or Government on July 17, 1992, in Windhoek, Namibia. SADC replaced the Southern African Development Co-ordination Conference (SADCC), which had been in existence since 1980. South Africa joined SADC in 1994, followed by Mauritius (1995), the Democratic Republic of Congo (1997) and Madagascar (2004).

### SADC STATES

Angola  
Botswana  
Democratic Republic of Congo  
Lesotho  
Madagascar  
Malawi  
Mauritius  
Mozambique  
Namibia  
South Africa  
Swaziland  
Tanzania  
Zambia and Zimbabwe.



### How the Protocol will Benefit Traders

The SADC Trade Protocol will ensure that:

All existing forms of non-tariff barriers (NTB), like import licensing requirements and quantitative restrictions, are removed  
All trade documents and procedures in the member states of SADC are harmonised  
Freedom of transit is guaranteed  
New quantitative import restrictions are forbidden.

### The SADC Free Trade Protocol

The SADC Trade Co-operation Protocol was signed in 1996 in a move to further regional integration between the SADC countries, especially the integration of their economies. However, it was ratified by less than two-thirds of the countries so that it did not come into force immediately. The Protocol, which calls for an 85% reduction of internal trade barriers, came into effect on 1 September 2000. The full implementation of the Protocol is still on track.

### The SADC Free Trade Protocol and Cross Border Trade

Aspects of the SADC Free Trade Protocol which have a direct bearing on cross border traders include tariff liberalisation, rules of origin, establishment of a free trade area and the general procedures of internal harmonisation.

### Tariff Liberalisation

Tariff liberalisation means that SADC states will have 12 years within which to reduce their tariffs to zero. It is estimated that, by the end of the period, 90% of SADC products will be at zero duty. This will benefit the ordinary cross border trader.

### Rules of Origin

These rules are required to avoid importers taking advantage of the lower tariff of a partner in the free trade area. They also ensure that SADC states do not become conduits for goods made elsewhere in the world to enter Southern Africa. For example, only the meat of an animal which is born, raised and slaughtered in a SADC state would qualify for duty-free privileges into the Southern African market.

### Free Trade

Trade in goods and services and the enhancement of cross border investments are major areas of co-operation among SADC members. The Trade Protocol shall establish a free trade area (FTA) within eight years in order to create new opportunities for the dynamic business sector. SADC members are working to eliminate exchange controls in preparation for an eventual single currency in the region. This initiative will eliminate some of the problems currently being faced by informal cross border traders.

### General Procedures of International Harmonisation

For the benefit of the ordinary cross border trader, each member state shall simplify and harmonise trade documents, customs laws and procedures by adoption of common measures. This will include, for instance, the harmonisation of customs formalities, transits and outright exportation. Import and export trade statistics shall also be made available for each SADC member. The number of necessary trade procedures and documents shall be reduced to a minimum. The reconciliation of all these procedures shall be effected in accordance with internationally accepted standards.

These fact sheets are part of a series by Community Organisations Regional Network (CORN) and American Friends Service Committee (AFSC) targeting regional trade and development partners and practitioners. They focus on the challenges facing cross border traders, as well as exploring possible solutions.

## Cross Border Trade in the SADC Region

The potential for cross border trade to enhance the economies of the Southern African Development Community (SADC) region is huge. The combined value of export and import earnings within SADC represents a significant portion of national GDP for the member countries. This averages 86% throughout the region. Studies also show that more than 30% of these earnings are from the informal sector. The multiplier effect of this trade on other sectors, particularly transport, is very high because, collectively, cross border traders move goods in very large quantities.

Cross border trade also has a multiplier effect on manufacturing, as many traders distribute finished goods, such as textiles and agricultural produce, which are bought from high supply countries such as South Africa and Zimbabwe to deficit countries like Zambia or Malawi. Additionally, a country such as Zambia could use its comparative advantage to export crops that are needed in countries that include the Democratic Republic of Congo (DRC).

The contribution of cross border trade in the SADC economic equation should not be underestimated. The majority of the population depends on the trade to some extent, either as suppliers or consumers. Research records indicate that 86% of GDP is from this trade, with an additional 15-50% coming from cross border trade. However, this is not accounted for in official statistics.

### Product Range

Within the Common Market for Eastern and Southern Africa (COMESA) and SADC trading zones, the range of products covers agricultural products (potatoes, vegetables, fruit, spices, rice, beans, etc), groceries (milk powder, sugar, cooking oil, biscuits, toiletries, etc), beverages (beer, soft drinks, spirits, etc), textiles (chitenge, shirts, denim, baby clothes, second-hand clothes, etc), and miscellaneous items, such as hardware products, building materials, electrical products, and so on.

### Reasons for the Flourishing of Cross Border Trade

The current cross border trade is, in part, a continuance of the earlier existence of a traditional barter system. Differentials in the prices of products between countries, which leave room for a substantial profit margin, have also encouraged this trade. Differences in customs duties between countries for the same products and varied economic performance indicators between countries have stimulated the emergence of different product ranges, income levels and consumer tastes. Means of employment and income generation have also been a key factor. The wealth created ensures that many social and financial needs are met.

### Contribution of Cross Border Trade

Cross border trade has contributed to the distribution of food and other goods to remote areas, previously not serviced by the formal sector, thus assisting in the provision of nutrition and food security, enhancing the quality of lives of the marginalised. It has also contributed to the export of goods that include electronic appliances, clothes, shoes, household goods, and foodstuffs - commodities which are being promoted through SADC export policy.

Cross border trade also assists in poverty reduction, creation of employment for school-leavers and, very critically, in the generation of foreign currency. In Botswana, it is estimated that there are 56 300 small and medium scale informal cross border trading enterprises currently operating, employing about 125 000 people. In a 1996 study on the role of SMEs in Botswana, the SME contribution to GDP was estimated at 30-40%, while that of the formal sector was 48% of the GDP. It is a proven fact that job creation is one of the most compelling contributions made by the informal sector to the general economy.

Practically, cross border trade provides employment, generates income and augments sustainable livelihoods. Not only are cross border traders able to support their families through this business, they can also create employment for other people.

Within the context of the HIV and AIDS pandemic, cross border trade is viewed in some cases as a safety net for widows, following the premature deaths of male providers, because it helps them to support their families.

## The Impact of Cross Border Trade on Regional Integration in SADC and Implications for Wealth Creation

African countries are facing many challenges due to the impact of globalisation. Although globalisation introduces both opportunities and challenges, the African countries are on the receiving side, rather than being proactive in the global arena.

Globalisation is driven by information technology and the free flow of capital around the world. Africa remains disadvantaged due to low levels of technological investment and capital accumulation. The telephone penetration is 2% in sub-Saharan Africa and for the Internet it is 1%. The savings ratio to Gross Domestic Product (GDP) averages 16%, compared to Latin America with 24% and Southeast Asia with 37.5%. The low domestic savings ratio hinders the rapid growth of domestic investment and a high level of export growth in African commodities. This has precipitated declining terms of trade and reduced GDP, triggering the debt problems and poverty that several communities are experiencing today.

Specifically in Southern Africa, unemployment has been swelling. In South Africa, it has reached to at least 35%, while in Zimbabwe it is 75%, and in Malawi and Zambia it hovers between 40 and 50%. This scenario has compounded the social and economic concerns of the countries in the region. High dependency levels impact negatively upon savings and investment opportunities in the region. As a consequence, many people are beginning to shift to the informal sector where they hope to earn a living. Among such groups are the cross border traders who travel frequently to neighbouring countries to sell their products and return home with more goods for resale and some foreign currency. This trade has been going on for several years but under very difficult circumstances.

### Regional Integration

In a bid to enhance their domestic economies, African countries initiated the Lagos Plan of Action in 1980 and the Abuja Treaty in 1994. The two policy documents underscore the need for African regional integration by 2020, and also recognise the regional initiatives already undertaken.

The main purpose of regional integration is to increase Africa's visibility in the global market. By 2000, Africa's share of global trade was only 2%, while access to global credit was 1% (United Nations Conference on Trade and Development). Trade within the continent is marginal. Owing to the linkages established through colonial history, trade with Northern countries stands at 90%, while within SADC and COMESA regional trade stands at 10%. Several studies indicate that informal contacts strengthen regional integration networks and relationships. Some aspects of integration are taking place, particularly in Southern Africa, through official efforts to strengthen institutional capacity to keep records on informal trade and to implement relevant policies. Nonetheless, there are several other areas that need institutional reform to accommodate informal cross border trade, which remains invisible despite the contribution it makes to the economy.

### Cross Border Trade (CBT)

One of the main characteristics of this trade is that it is not mandatory to submit tax returns at the end of each financial year. Hence the earnings are not entered into national accounts. Generally, cross border trade is conducted by small-scale quasi-professional traders, mainly women, who use various means to move small quantities of goods across national frontiers.

'CBT' refers to registered or unregistered business activities undertaken across borders, based mainly on popular economy.

The SADC Trade Protocol, Article 2 highlights that the Protocol shall contribute towards the improvement of the climate for domestic, cross border and foreign investment. For this to happen effectively and efficiently, policy and institutional reforms should be undertaken to create an enabling environment for trade.

The main challenge is dealing with the infrastructural development concerns which include the road and railway network, lack of warehousing, no Internet facilities for market intelligence, and constraints in accessing market information on what is needed, where, in what quantities and packaging standards, etc.



### Obstacles Faced by CBTs

CBTs experience several obstacles linked to infrastructure, which then result in market distortion. Because the cost of goods entering neighbouring countries is high, returns on investment are reduced significantly. Profit margins remain small, leaving limited funds for re-investment, so that traders tend to remain poor.



The traders also complain of lack of standardisation of their products. It is clear that they need support from institutions responsible for standards and quality control. Such services would make their products competitive in the region and on the global market where competition is stiff.

The input of design studios, for instance for furniture, crafts, textiles and jewellery, is very important for standardisation but the traders do not have access to such facilities which would help add value to their products.

The traders face challenges in gaining access to finance to initiate and even expand their businesses. The stringent measures demanded by banks and the shortage of foreign currency experienced in some countries in the region compound the situation for this partially developed sector. The concern is that, even in countries with adequate foreign currency supply, the many demanding processes of trading particularly penalise women, negatively affecting the growth of their businesses.

Cross border traders often complain about visa restrictions, which almost stifle their businesses. In some countries, like Botswana, even when a visa is given, the authorities allow entry for 90 days only. Studies done on CBT indicate that traders enter Botswana or other countries for only three to four days at a time. They stay in their home country for two to three weeks and then return for business. For this reason, they need a policy framework that allows for multiple entry and to spread the 90 days or 180 days over a longer period, such as one year. In this way they would not be seen as breaking the legal entry requirements.

The traders have complained of excessive harassment, especially among women traders. Generally, at the port of entry men do the body search for any hidden goods.