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REVIEW OF INTERNATIONAL SUPPORT TO ECDC: EXPERIENCES OF DEVELOPED AND DEVELOPING COUNTRIES, THEIR PROBLEMS AND PROSPECTS

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COMESA: NEW TRADE AND DEVELOPMENT OPPORTUNITIES

A Presentation

by

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INTRODUCTION

Regional economic integration in Eastern and Southern Africa has now been firmly established as the basis for attaining sustainable growth and development of our countries. Since 1960s, individual country efforts at development yielded minimal results. This is because the fragmentation of Africa into small countries rendered them economically non-viable entities which cannot support the socio-economic demands of the modern civil society.

Following global trends towards the creation of regional trading and investment blocs, the process towards regional economic cooperation and integration in our region has acquired a new significance. The issue whether Southern Africa should develop as a separate bloc from Eastern Africa requires serious and unemotional consideration. This is because in making investment decisions, it is important that the trading, banking and financial community use business and professional judgement to look for wider investment opportunities and economies of scale. The Common Market for Eastern and Southern Africa (COMESA) has been established specifically for that purpose.

Let us start by examining regional integration during the past twelve years. The Treaty establishing the Preferential Trade Area for Eastern and Southern African States (PTA) was signed on 21 December 1981 as the first step towards higher forms of regional economic cooperation and integration. To that end, it was provided in the Treaty that ten years after the entry into force of the PTA Treaty, measures should be taken to transform PTA into a Common Market and eventually an economic community for Eastern and Southern Africa. The Treaty came into force in September 1992. The following 22 countries comprise the PTA membership: Angola, Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Swaziland, Sudan, Tanzania, Uganda, Zambia and Zimbabwe.

The transformation of the Preferential Trade Area (PTA) into COMESA, is a step-by-step approach which follows historical patterns in areas such as Europe. There are at least five stages of regional integration: a preferential trade area; a free trade area; a customs union; and an economic community. Countries may also opt to form a political federation. Geographical or "cultural affinity" were not the major considerations determining relations in Eastern and Southern Africa.

The COMESA formula does not subscribe to the view that trade should be confined only to those countries with "cultural affinities". To that end, COMESA encompasses diverse cultural backgrounds which form the basis for product differentiation and hence trade. It is in cognizance of the fact that business ventures would need to view the future of Southern Africa within the widest perspective if they are to remain viable and competitive.

In this brief note, we have examined the emerging environment for trade, development and finance in the COMESA. Historical precepts for the past seventy-five years show that some groups of countries in Eastern and Southern Africa were linked together in terms of trade and investments, especially under the British Commonwealth of Nations, the French and Portuguese administrations, and our regional co-operation framework builds upon these experiences.

ACHIEVEMENTS UNDER THE PTA

a) Trade Performance

The PTA has been in existence for only twelve years, but as an institution, it has achieved a great deal more than is generally known. In the area of trade, we have reduced tariffs in some cases by as much as 70%. According to 1992 figures, the combined import bill of the PTA Member States stood at US$18 billion. Furthermore, a number of studies have revealed that, contrary to a misconception that there is no potential to increase intra-PTA trade, there is greater opportunities now to increase intra-PTA trade. A study undertaken by the PTA and ITC revealed that there is an existing potential to increase intra-PTA trade by about US$1.8 billion. This figure is arrived at by taking the value of goods which are exported by some of the PTA Member States to third countries and at the same time imported by other Member States from third countries. The Member States could have traded with each other in those products.

These transactions do not involve additional foreign exchange since the Member States are paying for the products involved in hard currency anyway by importing them from third countries. It is assumed that quality also will not be a problem since these products are competing effectively in third countries markets. Furthermore, Member States do not have to divert these products from third countries to the PTA market, but increase the production of the goods through more capacity utilization and more investment. Therefore, the U.S.$500 million represents net addition to the foreign exchange of the member States.

As can be seen from Annex I, PTA has been very successful in organizing trade fairs. Significant intra-PTA trade potential has also been revealed through the four general and two specialized trade fairs held in Kenya, Zambia, Mauritius and Tanzania, and in Ethiopia and Sudan in 1986, 1988, 1990 and 1992 respectively. These fairs have demonstrated the high prospects for increasing intra-PTA trade. It can be seen that at the four PTA general trade fairs, export-import business negotiated by businessmen of the Member States was about US$ 530.5 million. It should be noted that this figure represents only a fraction of the potential of trade since those who participated at the fairs were only a fraction of the business community in the region. Various participants at these four fairs exhibited a wide range of products of quite high quality and reasonable prices. The notion that Member States produce similar products of low quality and that, therefore, there is no complementarity cannot be supported by empirical evidence shown at the fairs.

The two PTA Specialized Trade Fairs on leather and leather products and on textiles, held in Addis Ababa and Khartoum respectively, also showed a good trade potential. Business negotiated totalled US$ 28.6 million. In addition, business worth US$$90.9 million was negotiated during the nine buyers/sellers meetings that have been held during 1987 - 1991. In this regard, it is important to note that intra-PTA trade has been increasing at annual average growth rate of 8.8% compared to an annual average growth rate of 7.1% with non-PTA countries.

b) Capacity Building

An equally impressive aspect of PTA's performance has been in capacity building for regional integration. To that end, measures taken to promote trade and development included the gradual reduction and eventual elimination of tariffs, the removal of non-tariff barriers, the PTA-wide computerized trade information network, supply and demand surveys, buyers/sellers contact promotion meetings and follow-up missions. Specifically, the following institutions have been created to strengthen the capacity of Member States to respond to and maximize advantages from regional integration:

(i) The Road Customs Transit Declaration Document (RCTD) which facilitates cross-border transit by road truckers as well as the business community. The issuing of "PTA Carriers Licences" has also facilitated the commercial trucking industry through liberalized access of haulers to any Member State;

(ii) The PTA Regional Customs Bond Guarantee Scheme which eliminates the need to fill up so many declarations for intra-PTA trade and harmonizes transit charges;

(iii) The Trade Information Network (TINET) under which intra-PTA trade information has been fully computerized through the provision of computer networking with all the Member States so as to enable traders and investors to know the PTA market better;

(iv) The Automated System of Customs Data (ASYCUDA) which provides electronic data processing for customs administration in the PTA Member States;

(v) The PTA Clearing House which provides settlement facilities and services in intra-PTA transactions, thereby reducing the amount of hard currency required to off-set or settle trade among the Member States.

(vi) The UAPTA Travellers Cheques which is a unique system providing means of intra-PTA travel without using foreign exchange;

(vii) The Eastern and Southern Africa Trade and Development Bank (The PTA Bank) which provides financing for trade and development projects and private sector ventures;

(viii) The PTA Federation of Chambers of Commerce and Industry (PTA/FCCI) which promotes cross-border cooperation among national chambers of commerce and industry;

(ix) The PTA Association of Commercial Banks which encourages cooperation among these institutions, including the creation of correspondence arrangements and facilitates the role of commercial banking in regional integration;

(x) The Federation of National Associations of Women in Business which promotes joint ventures and entrepreneurs development among business women in the PTA region (FEMCOM);

(xi) The PTA Third Party Motor Vehicle Insurance Scheme (the Yellow Card) which facilitates the movement of vehicles and persons within the PTA;

(xii) The PTA Re-Insurance Company (ZEP-RE) which provides new opportunities for insurance companies in the region to obtain re-insurance services without diverting foreign exchange to European companies;

(xiii) The PTA Leather and Leather Products Institute (LLPI) to promote more advanced technology and marketing techniques in the industry;

(xiv) The Charter for Multinational Industrial Enterprises (MIE) has been adopted to promote the establishment of multinational corporations in the region.

These institutions have greatly strengthened the capacities of governments and the private sector to take advantage of the opportunities offered in the PTA for expanding production and trade. In fact, countries with a broader industrial and manufacturing base have been able to significantly expand their exports to the PTA. At the same time, other countries have been able to import goods from cheaper PTA sources. These are some of the concrete benefits from regional integration.

WHAT IS COMESA?

COMESA is a new vision for growth and development. It is an arrangement that fully recognizes the need to exploit the resources of the region through a co-operative effort. COMESA binds free independent sovereign states to co-operate in all fields of economic endeavour for the common benefit of their peoples. This is achieved through the adoption of common policies and mechanisms that facilitate free movement of goods, persons, labour, capital and services and joint action in production, distribution and exchange.

COMESA is not created from a vacuum. It is based on a solid track record of achievements in trade development during the past twelve years described in the previous sections. The PTA Heads of State and Government of the region have firmly decided to move to a higher level of economic cooperation and integration. This has been achieved by transforming the Preferential Trade Area (PTA) into a Common Market. The Treaty establishing the Common Market for Eastern and Southern Africa (COMESA) was signed in November 1993 by the following sixteen countries: Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Provisions were made for the Treaty to be signed by the six other countries: Angola, Burundi, Comoros, Djibouti, Seychelles and Somalia. The PTA Authority also unanimously decided that two other countries, namely, post-Apartheid South Africa and Botswana, will be welcome to join COMESA later. The Treaty will come into force upon ratification by eleven Member States. Thereafter, the PTA will cease to exist as an institution.

The aims and objectives of COMESA have been designed to remove the structural and institutional weaknesses inherent in the PTA, and to respond to growth requirements of the Member States in the coming years. These are as follows:

(a) to attain sustainable growth of the Member States by promoting a more balanced and harmonious development of its production and marketing structures;

(b) to promote joint development in all fields of economic activity and the joint adoption of macro-economic policies and programmes to raise the standard of living of its peoples, and to foster closer relations among its Member States;

(c) 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;

(d) to co-operate in the promotion of peace, security and stability among the Member States in order to enhance economic development in the region;

(e) to co-operate in strengthening the relations between the Common Market and the rest of the world and the adoption of common positions in international fora; and

(f) to contribute towards the establishment, progress and the realisation of the objectives of the African Economic Community.

COMESA also aims at assisting the economies of its individual Member States to overcome the following development constraints:

- structural weaknesses in industry and manufacturing, slow rate of accumulation of capital, insufficient availability of goods and services produced locally and under-development nature of agriculture, especially food security;

- the inability to adjust and diversify economies from primary commodity dependence due to non-viability of national markets as investment entities, which has resulted in inadequate capital inflows and even capital flight;

- lack of complementarity between production, trade and consumption, both at the national and regional levels, thereby making our economies extroverted in orientation;

- secular decline in real terms of export earnings from principal primary commodity exports and the resulting monitoring external debt burdens;

- rapid increases in the prices of imported manufactured goods which has contributed to chronic balance of payments deficits; and

- restricted access of each nation to markets of industrialized countries, especially for manufactured and semi-finished products.

In order to address these structural weaknesses, COMESA embodies the following principal elements which were not present in the PTA: (a) A **full free trade area** involving trade liberalisation under which there is free movement of goods and services produced within the Common Market and the removal of all non-tariff barriers; (b) A **Customs Union** involving zero tariff on all products originating in the Common Market, and the adoption of a common external tariff on imports from non-COMESA countries; (c) **Free movement of capital and finance** and a common investment procedure so as to create a more favourable investment climate for foreign direct investment, cross-border investment and domestic investment; (d) A **Payments Union** and eventual establishment of a COMESA Monetary Union; and (e) **Free movement of persons**; common visa arrangements, including the right of establishment and eventually the right of settlement.

A MEGA TRADE AND INVESTMENT BLOC

COMESA has been designed so as to become a **mega trading investment bloc** in Africa. We believe in the imperative of creating a reliable market as a basis for investment because we realize that no investor can be attracted to produce any goods without an idea of where to sell them. This is common business sense. Therefore, the basic purpose of COMESA is to use the common market to reach "the age of mass consumption" as quickly as possible. That will enable economies of scale to be realised. One of the main thrusts of COMESA is to create a new and enabling environment for greater private sector participation in economic and social progress of the region.

But what are these new trade and investment opportunities in COMESA? To assist in answering this question, we give an overview of COMESA's natural, energy and mineral resources. The combined population of the countries of COMESA, including South Africa and Botswana, is some 300 million people. The region occupies an area of about 8.3 million square kilometres, of which nearly 60 percent is endowed with rivers and lakes, which could be jointly exploited for irrigation, hydro-power, fisheries development and water transport development. Less than 9 percent of arable land is under cultivation, and only four percent of available water is used for irrigation purposes. The hydroelectric potential of the region is estimated at well over 700 billion kwh per year, while only 4 percent of this potential is exploited.

In addition, the COMESA region produces most of the world's gold, diamonds, platinum, chrome and manganese. It is estimated that the region contains over 300 billion metric tons of phosphate; over 105 billion tons of iron ore deposits; over 60 billion tons of coal; over 170 billion cubic metres of natural gas; over 200 billion metric tons of petroleum; and large quantities of uranium, nickel, copper and cobalt.

These resources provide a unique and huge opportunity for foreign direct investment, cross-border investment and domestic investment. Therefore, putting oneself in the shoes of a foreign investor looking for an ideal location for investment, we have provided several ingredients that are crucial in arriving at a decision. These are: a wider and secure market; high yielding investment; a stable investment climate; capacity to repatriate earnings; disciplined but cheaper labour force; availability of cheap raw materials, natural resources and energy; and, of course, government regulations that favour investment. To these should be added the provision of cheap and reliable transport and communications.

We can also make the point that in addition to efforts being made at the national level to improve the investment climate, Member States have collectively adopted a charter for facilitating cross-border investments among nationals of PTA states in order to enhance the promotion of industries that would, amongst other factors, require: (a) a combined market which would require large quantities of natural resources; and (b) for their establishment and operation, large sums of capital investment.

In the new environment being created, all categories of investors are assured that COMESA Member States have also undertaken to provide and exchange information on production and marketing of goods to enable the business community to know the market well. In this regard, we have developed a trade and information network that can provide the necessary information on products manufactured and traded in the region. This will be expanded under the new **COMESA Information Network (COMNET)**, which will provide computerized data covering all economic sectors of COMESA.

There are programmes on standardization and quality control in order to ensure that goods and services being traded are of high quality and conform to international standards for safety and health. The development of human resources to provide the necessary capacity for managing integration is also high on our agenda. COMESA is also promoting the joint development of Research and Development through designated centres of excellence.

In order to encourage investment in productive ventures, the "Rules of Origin" have been simplified to provide new investment opportunities in manufacturing industries as well as in agriculture, building, construction and transport. In the sector of agriculture, experience shows that agro-based industries are extremely high yielding. In this sub-sector, the immediate priority is to ensure greater value added to our agricultural produce such as grain, sugar cane, fruits, vegetables, hides and skins by transforming raw materials into finished products. For instance, COMESA can develop a competitive textile industry. Similarly, we have forestry resources which occupy over two million square kilometers. The Eastern and Southern African region has the largest number of livestock in Africa. The list goes on and on.

WHAT IS NEW ABOUT COMESA?

Drawing upon lessons from experiences of the PTA and the European Community, the COMESA Treaty has introduced a new perception to regional integration not envisaged in the PTA Treaty. The new aspects of COMESA that were not in the PTA are as follows:

(a) PTA was conceptualized and designed as an intergovernmental organisation (IGO), placing emphasis on government-to-government co-operation. The role of the business community was marginalised. COMESA is envisioned on new principles which fully recognise that without the full participation of the private sector, no integration can really take place. Therefore, COMESA is designed specifically to facilitate the business community to take maximum advantage of regional integration. The role of the governments will be to create an enabling environment for the business community to invest and produce more efficiently.

(b) COMESA combines the concepts of "production-led" and "market-led" integration, and the two aspects are two sides of the same coin. The PTA was founded on the assumption that high quality and competitive goods were available in the region but could not be exchanged due to high tariffs and non-tariff barriers. COMESA goes further to recognise that in many countries, competitive goods of high international quality and standards do not exist. Therefore, these have to be produced and, hence, emphasis is on industrialization, manufacturing and agro-processing to increase the value added. Another important aspect is that for purposes of investment in production, the entire COMESA is now considered as a "domestic market". This provides extensive economies of scale in production and manufacturing.

(c) COMESA is based on the concept of **multi-speed** development by which two or more Member States can agree to accelerate the implementation of specific COMESA Treaty provisions or other common agreements, while allowing others to join in later on a reciprocal basis. Previously, the PTA emphasised decisions by consensus and as such, the programmes were pegged on the "slowest moving Member States". COMESA now emphasizes the need to move forward and that, where consensus cannot be reached, two-thirds majority decision will prevail. Hence, future programmes are pegged on the "fastest moving Member States".

(d) The COMESA Treaty provides for both "enforceability" and "sanctions". PTA Treaty did not provide for obligatory implementation of Treaty provisions, leaving it to the whims of each Member State. This in many instances slowed down the rate of implementation of agreed decisions. In other words, the COMESA Treaty places clear obligations for each signatory Member State to abide by common decisions and to undertake its obligations. To that end, a **Court of Justice** has been established not only to arbitrate but also to provide interpretation of the Treaty. At the same time, the Treaty provides for sanctions to be imposed against any Member State that deliberately and persistently refuses to comply with or to implement agreed decisions, including the possibility of suspension or eventual expulsion from membership.

WHAT DOES COMESA OFFER?

Because of its focus on full private sector participation in integration, COMESA offers new opportunities for industrial, production, investment, development and trade opportunities not hitherto available under the PTA arrangements. These advantages are briefly enumerated in the next several paragraphs.

a) A wider, harmonized and more competitive market

The first advantage which COMESA offers to governments, investors and producers is the very large market. The national markets will be integrated into one large single "domestic market" to support new and expanded production and manufacturing. This is perhaps the largest single market in the developing world, aside from South East Asia. COMESA, with South Africa, has an estimated population of over 300 million.

Under COMESA, the business community will increasingly depend on the new "domestic market" for making major investment decisions. It is also expected that foreign direct investment flows into COMESA will significantly increase. The combined elements of a free trade area, a customs union and a common external tariff, will result in tremendous advantages to the business community, particularly those engaged in manufacturing and trade. It is estimated that when the Common Market is fully realised and trade is more accurately recorded, the share in intra-COMESA trade in its total global trade will rise to between 30 and 50 per cent by the year 2020.

(b) Greater Industrial productivity and competitiveness

Under COMESA, the business community is offered greater chances to make more high quality goods available to consumers at prices the people can afford. Eastern and Southern Africa comprises largely of **nations which produce what they do not consume and consume what they do not produce**. However, this will change under COMESA. Industrial development, production efficiency and competitiveness will reverse this by transforming the production structures to the "age of mass consumption". The level of development in the manufacturing sector which varies considerably among individual countries, will be exploited to promote more intra-COMESA trade.

COMESA will change the production and manufacturing structures of countries in Eastern and Southern Africa presently characterized by weak or non-existent linkages between agriculture, mining and the manufacturing sector. Hence, COMESA will introduce a new industrial consumer psychology where people will consume what they produce.

The major advantages in industry and manufacturing which COMESA will bring are :

- Countries with small and weak economies will be assisted to explore new opportunities for the expansion of industry and manufacturing through co-ordinated development of agro-industries to produce semi finished and finished goods;

- The more industrialized COMESA nations will advance towards more rationalization of industries with inter-sectoral and intra-sectoral linkages. This will create dynamic effects that are a pre-requisite for sustainable growth and development;

- By linking "production-led" and "market-led" forces, the region will attain a more effective utilization of existing and new capacities in plants and machinery backed by a more predictable market and new technology in production. Similarly, there will be more harmonization of industrial policies and investment codes which will facilitate capital movements from within and from outside the Common Market; and

- Countries will adopt common technical standards for manufactured goods and greater opportunities for sub-contracting and other relations between larger and smaller industrial units among entities in COMESA and outside the region.

(c) Increased agricultural production and food security

COMESA recognizes that agro-industry and agro-business is the cornerstone of the sustained growth and development. Without food security, nations cannot readily establish viable economic institutions. The Member States of COMESA will now have better opportunities to transform their agricultural raw materials into finished goods with much higher "value added". There will also be full realization, within the shortest possible time, of increased food production and food security at both the national and regional levels. Self sufficiency in agricultural production and food security will be achieved through:

- a regional food security programme to provide adequate food supplies even in times of drought;

- increased processing of food crops so as to increase their values and shelf-life and reduction of post harvest food losses through proper transport and storage;

- rationalization and harmonization of agricultural policies to enhance the bargaining power of its members through the co-ordination of commodities and bulk importation of essential agricultural inputs;

- improved inter-state food marketing and trade in non traditional commodities; and

- research in agricultural extension and technology transfer to end-users, especially in the rural areas.

(d) A more rational exploitation of natural resources, energy and the environment

In the energy sector, Member States will have the advantages of joint development and management of both renewable and non-renewable sources of energy. The objective is to ensure availability of energy to industry, agriculture and transport sectors at competitive prices. Among others, COMESA will promote joint exploration and exploitation of hydro and fossil fuel; joint utilization of training and research utilities; and research programmes on renewable energy systems.

It is also important to stress that COMESA is fully cognizant of the fact that large scale mineral resources exploitation often results in serious environmental degradation, ecological imbalances, as well as excessive depletion of natural resources. COMESA shall promote co-operation in the following areas : adoption of common strategies for the preservation of the environment against industrial, agricultural and mining effluents that pollute rivers, dams, the atmosphere and the ecology; development of common policies and collaboration in the management of shared natural resources; adoption of common standards in industrial production and co-operation in limiting the dumping of toxic waste in the subregion; co-operation in the management and preservation of ecosystems and biological diversity.

(e) More Harmonized, Monetary, Banking and Financial Policies

The COMESA framework fully recognizes that financial and monetary constraints have always inhibited co-operation and integration. Under COMESA, Member States will benefit from co-operation in the monetary and financial areas by creating a zone of monetary stability. To that end, the new unit of account will be the Eastern and Southern Africa Currency Unit (ESACU) to replace the UAPTA. The establishment of a monetary and financial infrastructure will create the necessary macro-economic environment that facilitates the economic integration process.

More specifically, a Payments Union will be established and the ESACU (UAPTA) Travellers cheques will be significantly improved. Furthermore, the adoption of market exchange rates and monetary and fiscal policy coordination will facilitate the economic integration process through the merging of the markets for goods, services, capital and labour; elimination of illegal foreign exchange markets and currency smuggling. The overall advantage will be to improve domestic monetary management, thereby promoting increasec external capital inflows.

(f) More reliable transport and communication infrastructures

One of the biggest obstacles to regional economic co-operation and integration in this region is the inadequacy of cheap and reliable transport and communications facilities. Therefore, in the transport and communications sector, COMESA will provide the business community with a more efficient and transport and communications systems, so as to facilitate the free movement of goods, persons, labour, capital and services. The envisaged expanded volume of COMESA trade will fully justify new and increased investments in infrastructures, including railways.

The goals of COMESA in the transport and communications sector will be to provide better services through, *inter alia*, the following policy options: the elimination of conditions which obstruct the operations of the common transit arrangements; the elimination of conditions which could obstruct efficient delivery of telecommunications, satellites, postal, radio and television services; the integration of the Common Market transport services; and the elimination of factors likely to distort competition in the sectors of transport and communications.

Advanced Large Information System (ACIS) will enable the integrated operations of transport and communications systems so as to increase accessibility to points of production and consumption; lower unit costs for the services will enhance the competitiveness of goods and services and stimulate economic activities; and the harmonization of transport and communications equipment and accessories will facilitate the establishment of viable manufacturing, maintenance and repairs enterprises.

FINANCING REGIONAL INTEGRATION

Member States are aware that the advantages enumerated above can only be realized if there is adequate financing of regional integration. New and aggressive programmes will have to be put in place to attract greater volumes of investment into COMESA. Therefore, the biggest challenge facing COMESA business entrepreneurs, especially indigenous ones, is to have access to adequate capital and financing. In order to finance trade and regional integration, we envisage, in addition to expected large inflows of foreign direct investment, establishing (a) the PTA/COMESA Investment Fund; (b) the Reserve Fund of the Clearing House and (c) the Revolving Fund for supporting Women in Business.

(a) The PTA/COMESA Investment Fund

The **PTA/COMESA Investment Fund** is an equity Fund designed to be subscribed by international investors for purposes of investment in businesses in the PTA Member States. The establishment of the Fund is in response to the needs of the private sector for long term finance for expanding small to medium size companies. Most of these companies are unlisted on formal equity markets and, hence, are unable to raise equity easily. Many of these companies are under-capitalised, have very high gearing and have not been able to expand. The **PTA/COMESA Investment Fund** will not only attract foreign capital to the region, but will also enhance the credibility of the region as an attractive location for local and cross-border private investment, particularly portfolio investment. It is planned that the Fund be structured in a way that would allow it to make portfolio investments in listed companies as well as provide venture capital for new projects. Thus, the fund will have capacity to invest in the less developed economies of the PTA sub-region which cannot afford formal equity markets where opportunities exist for profitable investments.

The initial capitalisation of the Fund is expected to be about US 60 million dollars. The Fund will be wholly subscribed by institutional investors from developed countries. PTA Member States or citizens are not themselves expected to invest in the Fund at the initial stages but can join in later. As a wholly internationally sourced Fund, an established and reputable international management company would be appointed as commercial sponsor and would also manage the Fund.

(b) The Reserve Fund

In order to strengthen the Clearing House mechanism and transform the current payments arrangement into a payment union, the Policy Organs of the PTA have decided to establish a **Reserve Fund** with an initial capital of UAPTA 100 million (US$130 million). Half of this capital will be subscribed by the PTA Monetary Authorities, and the balance from other sources.

The objectives of the **Reserve Fund** are to support the Clearing House operations and member countries' balance of payments by extending credit or guaranteeing loans from third parties; to harmonise the foreign exchange, monetary and fiscal policies of the member countries by helping to meet liabilities acquired within the framework of the COMESA Treaty; and to improve the terms under which international reserves of its member countries are invested.

The **Reserve Fund** will not be limited to supporting debtor monetary authorities which are unable to honour their obligations on due dates, but will extend to providing some general balance of payments support. In this sense, it will be used to supplement the IMF's support. For example, in the case of a temporary shortfall in exports (say due to crop failure) or a sudden increase in grain imports (say due to drought), when the required support is more than the limit provided under the quota-based rule of the IMF, the **Reserve Fund** will be a useful supplement. Moreover, a member country may not wish to approach the IMF for smaller amounts of temporary balance of payments support in view of the time consuming nature of the negotiations and the stringency of the attached conditions. In some ways, this will be a mini-IMF type facility at the regional level which is oriented towards a well designed mutual trade expansion programme and has a better chance to ensure savings of foreign exchange for external payments and, therefore, help to reverse the need for short-term balance of payments support.

(c) The Revolving Fund for Women in Business

COMESA is the only region to fully acknowledge that access of women in business to credit and other forms of financing is crucial if trade and investment opportunities are to be exploited in the PTA subregion. We have also recognized that the policies and attitudes of most financial institutions do not create a favourable climate for women to enter into business. Many of the existing financial institutions require collateral for their loans. In most cases, women do not have adequate and commercially valuable assets to offer as securities. Even those financial institutions which are a bit liberal on the collateral issue would still require a loan guarantor.

In order to overcome this obstacle, a **Revolving Fund for Women in Business** is being established by the Federation of National Associations of Women in Business (FEMCOM) which was established by a charter in July 1993 and is an institution of COMESA. The target for the Revolving Fund has been set at US$360 million, and this will be managed by any reputable financial institution. Financial assistance from the Fund will be purely on merit and will depend upon the soundness of the projects submitted. The aim of the Fund is to provide women in business with loan support for investment capital, working capital and expansion expenditure for technological diversification or energy saving measures. Research findings from the baseline data collected in the pilot scheme countries reveal that the business women need to invest in capital goods such as machinery or/and technology, as new and commercially viable ventures. In other cases, most business women in the informal sector may only need small amounts of working capital to start or expand their business.

A NEW DIALOGUE WITH THE BUSINESS COMMUNITY

Another biggest challenge for COMESA is to convince the business, banking and financial communities to regard this region as attractive for investment. We need to find new modalities to make them more dynamic and responsive to changing development finance needs in Eastern and Southern Africa. We believe the funds described above open new avenues for investment for the banking and financing institutions. In establishing these funds, we are aware that factors that frustrate all investors whether local, cross-border or foreign are the bureaucratic bottlenecks in investment administration of host countries. Conflicting decision making, characterized by a multiplicity of institutional regulation of banking and investments in the pta Member States, have for a long time contributed towards chasing away potential investors. We are now seriously focussing our attention on simplifying the decision making process so as to expedite consideration and approval of investment proposals as well as enhance transparency.

In COMESA , we are determined to do away with the attitude of "come tomorrow" or "next week", as well as lessen incidences of corruption in investment administration. It is a matter of satisfaction that a number of the Member States have established "one-stop" investment centres for promoting, receiving, appraising and licensing so that investment proposals are not delayed. These single window facilities also provide information on investment opportunities available in Member States. This will be vigorously promoted under COMESA.

In order to enable the business community to intervene effectively in the development process, the region as a whole is now adequately geared to granting competitive investment incentives in the form of exemption from customs duties and sales tax for machinery, equipment as well as raw materials, exemption from corporate taxes, externalization of dividends, foreign exchange retention schemes and the like. The proposed funds will be useful in this regard. Foreign exchange regulations have been put in place in a number of countries, paving the way for free movement of capital and cross-border investments. The countries of the region are committed to guarantee against nationalization. Due to perennial problems of investment and financial risks, most countries in the region have joined the World Bank's multilateral investment guarantee agency (MIGA). The countries have also concluded agreements with the American based Overseas Private Investment Corporation (OPIC).

There is yet another aspect of COMESA which would promote the growth of the private sector. This is that in order to facilitate investment, the COMESA Treaty embodies a Charter on Investment Promotion and Protection. The charter commits Member States to, *inter alia*: accord a fair and equitable treatment to investors; create and maintain a predictable, transparent and secure investment climate; remove administrative, fiscal and legal restrictions to intra-common market investments, and accelerate the process of deregulation of investment controls. Guarantees are also provided for investor protection and attractive benefits are stipulated. The Member States have also undertaken to conclude between themselves double taxation agreements.

The new incentives are not only confined to the banking and financial institutions but to the entire private sector. As stated earlier, perhaps the most important element of COMESA is that, regional integration has been designed to foster the role and the participation of the private sector in shaping the destiny of the common market. To this end, the Treaty commits member states to, *inter alia*:

> "promote a continuous dialogue with the private sector at the national and regional level, to help create an improved business environment for the implementation of agreed decisions in all economic sectors"; and
>
> "provide an opportunity for entrepreneurs to participate actively in improving the policies, regulations and institutions that affect them so as to increase confidence in policy reforms, raise productivity and lower costs at enterprise levels".

This commitment is testimony to the determination and seriousness of Governments in COMESA to ensure active involvement of the business community in formulating and implementing common market programmes. The business and banking community, local, cross-border and foreign, will no longer sit helplessly at the receiving end of bureaucratic decisions, but will participate in shaping and implementing them.

Another equally relevant aspect supporting the business community is that the common market Treaty establishes a **Court of Justice** to which persons resident in the common market may contest the legality of acts of the common market institutions as well as that of Member States. This points, among other things, to the "legal community" being established whereby entrepreneurs will be guaranteed that business decisions and transactions are not unduly frustrated by unnecessary bureaucratic interventions.

THE WAY TO THE FUTURE

The COMESA Treaty is an all-embracing and "holistic" approach to regional co-operation and integration. This is both justifiable and desirable. However, due to resource constraints, realism demands that all provisions of the Treaty cannot be implemented at the same time. There is, therefore, the imperative of deciding on the highest priorities which will provide tangible benefits to each and every Member State. The following selected priorities, which are considered likely to make maximum impacts on all Member States, are agreed upon for focus during the next five to ten years:

(a) Restructuring and increasing industrialization and manufacturing, especially agro-industries, using locally available materials to increase the availability of high quality competitive goods not only for the COMESA market, but also for export overseas.

(b) Significantly increasing agricultural development and regional food security through new programmes to produce sufficient food to be able to feed ourselves as a region; this is the *sine qua non* for sustained growth and development.

(c) Provision of more efficient and cheaper means of transport, communications and postal services to support industrial development and trade. It has also been agreed that railways will be the principal means for regional transport linkages, especially for bulky and heavy goods such as timber and wood, cement, iron and steel, maize and other cereals, chemicals and fertilizers.

(d) Developing a comprehensive **COMESA Information Network** (COMNET), to provide adequate, up-to-date and reliable information in all economic sectors through data bases and information modules designed to respond to specific needs of the business community. COMNET will be the new basis for implementation of more intensive programmes for regional trade liberalisation, trade promotion and trade facilitation by making our "domestic market" more readily accessible to our producers and manufacturers. We will also introduce new campaigns to enable our indigenous business community to know the COMESA opportunities better.

The development and strengthening of national and regional capacities will be critical in implementing these priorities.The other important sectors, such as the monetary harmonisation programmes, are critical for growth and development. It is also recognised that co-operation in energy, mining, natural resources, environment, tourism and many others, will need to be designed in such a way as to complement and support the four major priority sectors enumerated above. In this way, instead of spreading resources too thinly on the ground, COMESA will be able to provide advantages for each Member State.

CONTRIBUTION TO WORLD DEVELOPMENT

COMESA is not an inward-looking organization. The Member States fully recognize that they live in an interdependent world. We have also realized that COMESA must give something toward world development. Therefore, while realizing that donor support to regional economic cooperation and integration is a critical element of sustained growth and development member States are determined to find new avenues in which COMESA can contribute to international trade. Consequently, COMESA has as one of its aims and objectives to become a better trading partnership with the trading blocs such as the European Union and the North American Free Trade Association. It will also ensure greater co-operation with our development partners. Existing co-operation with bilateral donors, multilateral financing institutions, United Nations Agencies and African continental institutions, will be expanded and strengthened through the principle of mutuality.

As part of this interdependence, COMESA will also forge greater co-operation with other intergovernmental and non-governmental organizations within and outside the common market area in those areas that will facilitate and enhance the realization of COMESA objectives.

CONCLUSIONS

This brief publication has provided, in a nutshell, the basic elements, institutions, objectives and advantages of COMESA. COMESA is an institution for social and economic restructuring of the economies of Eastern and Southern Africa. Small and fragmented national markets, almost wholly dependent on primary commodity exports, will now have the option to solve major constraints experienced in the process of attaining sustainable growth and development through market integration. The diversification of the economies of countries in Eastern and Southern Africa will be facilitated through co-ordinated development and unification of national markets and wider economies of scale.

COMESA is truly a **new vision for sustainable growth and development**. COMESA is building a future based on the concept that the prosperity of the region will be achieved and sustained through complementarities between investment, production, job creation, increasing demand and purchasing power and trade. Its aim is to strengthen the national economies both individually and severally so as to become better trading partners not only within COMESA, but also with the rest of the world.

COMESA a step-by-step approach to integration which enjoys an unequivocal commitment by the Heads of State and Government to create a better environment for growth and development. There has also emerged a consensus that the Governments, the political leadership, the business community and the ordinary man in the street look forward to a new institution that can help alleviate mass poverty through market integration and greater investment opportunities. It is also encouraging that the donor communities, the United Nations, multilateral organizations, the Organisation of African Unity, the Economic Commission for Africa and the African Development Bank are all fully committed to see COMESA succeed. The future is, therefore, hopeful and bright.

COMESA is built upon political and economic convergence towards the creation of an enabling environment for the business community. The stage is now set for the emerging COMESA to become a significant **mega investment bloc for Africa.** We have created an investment region that can compete more favourably with South East Asia, Latin America or Eastern Europe. There is an unequivocal assurance to the bankers, financiers and entrepreneurs in Europe, America and Japan as well as those in Eastern and Southern Africa, that under

COMESA, Member States are committed to make COMESA a new haven for investment. Governments have committed themselves to create a new framework for dialogue with the private sector. The business community and investors in particular, have now been provided with an infrastructure through which they can contribute to the realisation of COMESA as a new vision for growth and development. Together, we are now ready to march forward to the future with confidence.

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ANNEX I

Intra-PTA Trade revealed through Trade Fairs and Buyers/Sellers Contact Promotion Meetings

Events	Business Negotiated in million U.S.$
General Trade Fairs	
First PTA Trade Fair, Sept. 1986, Nairobi	160.0
Second PTA Trade Fair, July/Aug. 1988, Lusaka	100.0
Third PTA Trade Fair, July 1990, Mauritius	114.0
Fourth PTA Trade Fair, July 1992, Dar es Salaam	156.5
Sub-total	**530.5**
Specialised Trade Fairs	
Leather and Leather Products, Specialized Fair, Sept 1990, Addis Ababa,	10.0
Textiles Specialized Trade Fair Feb 1992, Khartoum	18.6
Sub-total	**28.6**
Buyers/Sellers Meetings	
Chemical Fertilizers, Jan. 1987, Mauritius	2.3
Agricultural Tools and Implements, May 1987, Blantyre	3.0
Pharmaceuticals and Medicaments, Nov. 1987, Nairobi	2.1
Intermediate Goods and Raw Materials, March 1988, Harare	70.0
Cement, Feb. 1989, Dar es Salaam	5.5
Salt, March 1989, Mombasa	4.5
Agricultural Chemicals, Oct. 1989, Harare	3.5
Sub-total	**90.9**
TOTAL	**660.0**

ANNEX II

INTRA-PTA EXPORTS (FOB Value in USD Millions)

COUNTRY	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
ANGOLA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10
BURUNDI	0.99	2.57	6.15	8.02	8.49	6.52	7.55	5.89	6.10	6.70	8.30
COMOROS	0.06	0.30	0.40	0.41	0.50	1.40	0.40	0.02	0.06	0.06	0.07
DJIBOUTI	19.11	11.30	13.51	15.86	14.50	19.40	21.00	21.10	23.80	25.90	27.80
ETHIOPIA	38.72	33.28	35.64	20.54	26.23	22.57	24.35	27.59	26.60	29.25	32.22
KENYA	245.96	240.23	230.62	204.38	249.86	236.10	239.60	216.90	233.30	253.60	269.70
LESOTHO	0.30	0.67	0.00	0.00	0.10	0.10	0.10	0.30	0.32	0.32	0.93
MADAGASCAR	0.90	2.45	1.79	1.35	2.96	15.64	5.39	15.11	84.67	92.73	101.86
MALAWI	18.42	26.50	27.57	26.63	23.43	27.36	32.25	28.25	29.10	34.37	30.09
MAURITIUS	3.25	3.77	4.60	3.49	3.82	4.97	6.08	9.32	19.24	21.17	27.28
MOZAMBIQUE	42.47	19.38	6.08	1.30	5.44	6.07	4.91	5.03	6.04	7.55	11.04
NAMIBIA	0.20	0.10	0.00	0.00	0.00	0.10	0.10	0.80	0.60	0.71	0.90
RWANDA	2.12	0.68	3.23	3.71	4.37	9.01	10.57	11.36	12.36	14.13	0.25
SEYCHELLES	0.20	0.20	0.10	0.10	0.12	0.04	0.07	0.10	0.10	0.10	0.20
SOMALIA	3.47	0.44	5.14	0.42	1.07	2.01	0.53	0.53	0.60	0.67	0.69
SUDAN	0.94	1.14	0.80	0.30	0.36	0.41	0.30	0.30	0.70	0.70	0.70
SWAZILAND	9.84	5.14	3.21	6.36	5.46	9.32	16.29	24.07	24.57	27.13	31.38
TANZANIA	22.97	20.22	23.53	12.50	7.91	7.95	16.59	14.65	16.40	19.90	51.10
UGANDA	2.96	6.02	13.49	3.91	1.49	1.10	1.57	1.85	1.94	2.14	3.02
ZAMBIA	47.73	41.53	25.21	26.93	18.61	19.48	39.51	43.20	32.70	41.03	38.13
ZIMBABWE	105.71	73.22	76.90	89.10	97.40	132.00	185.80	183.90	182.20	199.00	189.86
TOTAL	566.32	489.14	477.97	425.31	472.12	521.55	612.96	610.27	701.40	777.16	825.62

INTRA-PTA IMPORTS (FOB Value in USD Millions)

COUNTRY	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
ANGOLA	4.04	1.14	10.69	7.70	2.80	9.20	5.20	5.48	5.79	7.30	10.31
BURUNDI	34.53	27.08	25.43	33.51	28.44	21.49	26.16	22.53	18.94	24.09	32.78
COMOROS	4.66	2.66	5.28	3.58	4.14	3.16	2.49	3.88	4.49	4.99	5.42
DJIBOUTI	46.45	35.48	36.38	14.71	20.11	1[illegible].05	17.36	22.25	20.42	22.35	23.63
ETHIOPIA	9.88	9.99	10.87	9.23	11.65	17.17	12.13	8.53	8.82	9.83	10.93
KENYA	25.53	8.73	17.95	14.22	23.48	42.32	50.87	56.97	60.76	66.92	48.97
LESOTHO	0.30	0.90	0.30	0.30	0.20	3.30	1.60	1.70	2.02	2.24	1.54
MADAGASCAR	1.52	1.59	6.75	3.19	5.18	2.96	3.30	4.91	10.63	12.02	13.03
MALAWI	36.74	31.39	18.44	16.84	15.6[illegible]	19.51	48.87	31.52	33.33	36.76	62.29
MAURITIUS	10.30	7.18	9.08	8.72	9.66	18.28	9.36	11.84	24.95	28.64	28.31
MOZAMBIQUE	28.08	32.59	20.58	23.56	47.99	67.03	64.80	71.91	83.04	91.36	76.57
NAMIBIA	1.90	1.00	1.60	0.80	0.70	1.20	0.50	0.80	0.80	0.80	3.30
RWANDA	41.69	39.13	42.61	39.64	50.98	36.76	35.11	30.15	30.80	33.78	50.47
SEYCHELLES	8.53	5.61	9.68	8.31	2.58	3.36	2.49	3.16	4.92	5.36	6.25
SOMALIA	21.73	11.67	10.82	7.89	16.76	24.56	28.41	29.04	33.68	37.12	36.38
SUDAN	40.26	44.82	41.78	36.58	43.61	36.55	36.14	31.40	35.15	38.61	39.24
SWAZILAND	2.40	1.70	0.50	0.71	0.20	4.20	3.92	4.12	4.74	5.26	2.76
TANZANIA	42.37	23.42	37.65	28.05	24.43	33.35	39.68	33.42	36.02	39.46	45.95
UGANDA	102.49	105.53	98.19	86.59	109.49	86.09	95.84	66.72	90.92	100.08	109.44
ZAMBIA	48.23	42.89	47.05	59.80	40.69	46.33	82.77	102.48	144.99	159.43	161.01
ZIMBABWE	55.69	54.64	26.34	21.38	13.35	26.68	45.96	47.46	46.19	50.76	57.04
TOTAL	566.32	489.14	477.97	425.31	472.12	521.55	612.96	610.27	701.40	777.16	825.62

TOTAL INTRA-PTA TRADE (Value in USD Millions)

COUNTRY	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
ANGOLA	4.04	1.14	10.69	7.70	2.80	9.20	5.20	5.48	5.79	7.30	10.41
BURUNDI	35.52	29.65	31.58	41.53	36.93	28.01	33.71	28.42	25.04	30.79	41.08
COMOROS	4.72	2.96	5.68	3.99	4.64	4.56	2.89	3.90	4.55	5.05	5.49
DJIBOUTI	65.56	46.78	49.89	30.57	34.61	37.45	38.36	43.35	44.22	48.25	51.43
ETHIOPIA	47.60	43.27	46.51	29.77	37.88	39.74	36.48	36.12	35.42	39.08	43.15
KENYA	271.49	248.96	248.57	218.60	273.34	278.42	290.47	273.87	294.06	320.52	318.67
LESOTHO	0.60	1.57	0.30	0.30	0.30	3.40	1.70	2.00	2.34	2.56	2.47
MADAGASCAR	2.42	4.04	8.54	4.54	8.14	18.60	8.69	20.02	95.30	104.75	114.89
MALAWI	55.16	57.89	46.01	43.47	39.11	46.87	81.12	59.77	62.43	71.13	92.38
MAURITIUS	13.55	10.95	13.68	12.21	13.48	23.25	15.44	21.16	44.19	49.81	55.59
MOZAMBIQUE	70.55	51.97	26.66	24.86	53.43	73.10	69.71	76.94	89.08	98.91	87.61
NAMIBIA	2.10	1.10	1.60	0.80	0.70	1.30	0.60	1.60	1.40	1.51	4.20
RWANDA	43.81	39.81	45.84	43.35	55.35	45.77	45.68	41.51	43.16	47.91	50.72
SEYCHELLES	8.73	5.81	9.78	8.41	2.70	3.40	2.56	3.26	5.02	5.46	6.45
SOMALIA	25.20	12.11	15.96	8.31	17.83	26.57	28.94	29.57	34.28	37.79	37.07
SUDAN	41.20	45.96	42.58	36.88	43.97	36.96	36.44	31.70	35.85	39.31	39.94
SWAZILAND	12.24	6.84	3.71	7.07	5.66	13.52	20.21	28.19	29.31	32.39	34.14
TANZANIA	65.34	43.64	61.18	40.55	32.34	41.30	56.27	48.07	52.42	59.36	97.05
UGANDA	105.45	111.55	111.68	90.50	110.98	87.19	97.41	88.57	92.86	102.22	112.46
ZAMBIA	95.96	84.42	72.26	86.73	59.30	65.81	122.28	145.68	177.69	200.46	199.14
ZIMBABWE	161.40	127.86	103.24	110.48	110.75	158.68	231.76	231.36	228.39	249.76	246.90
TOTAL	1,132.64	978.28	955.94	850.62	944.24	1,043.10	1,225.92	1,220.54	1,402.80	1,554.32	1,651.24

ANNEX III

GROSS DOMESTIC INVESTMENT
(In Millions US Dollars)

COUNTRY	1983	1984	1985	1986	1987	1988	1989	1990	1991	FORECASTS 1992	1993
ANGOLA	1,064	958	996	930	1,264	1,145	1,219	1,188	1,326	1,375	1,449
BURUNDI	247	182	160	139	256	163	183	213	178	179	187
COMOROS	32	49	34	38	46	33	28	32	30	30	29
DJIBOUTI	52	49	42	62	52	43	54	56	37	37	36
ETHIOPIA	599	760	743	753	870	905	804	742	685	701	696
KENYA	1,246	1,284	1,571	1,579	1,937	2,129	2,059	2,072	1,710	1,792	1,882
LESOTHO	118	128	122	127	168	222	316	450	494	597	731
MADAGASCAR	295	253	243	293	259	325	335	524	219	224	234
MALAWI	279	156	210	145	182	249	321	355	438	485	569
MAURITIUS	191	229	253	320	463	633	650	777	806	971	1,171
MOZAMBIQUE	228	269	234	400	349	419	460	534	193	204	212
NAMIBIA	301	247	172	179	267	383	324	391	312	325	348
RWANDA	203	251	297	309	338	365	331	276	209	212	209
SEYCHELLES	31	33	38	51	49	72	83	91	89	102	119
SOMALIA	164	191	260	234	337	249	331	144	140	146	150
SUDAN	1,214	1,205	463	1,770	1,676	926	1,054	793	2,667	3,986	6,207
SWAZILAND	182	146	108	103	84	97	153	179	186	192	203
TANZANIA	861	889	1,084	952	1,069	1,021	771	712	528	503	475
UGANDA	178	209	211	425	469	416	315	369	359	408	462
ZAMBIA	458	400	336	396	289	414	430	446	426	430	443
ZIMBABWE	990	968	895	925	1,032	1,030	1,122	1,300	1,186	1,217	1,256
PTA AS A WHOLE	8,933	8,853	8,474	10,131	11,459	11,240	11,344	11,643	12,217	14,117	17,069