

## COMESA Summary

Last Updated October 2005



Map source: <http://www.itcilo.it/actrav/actravenglish/telearn/global/ilo/blokit/comesa.htm>

### COMESA (Common Market of Eastern and Southern Africa) Member States:

Angola, Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, the Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

*Note: Tanzania, Namibia and Mozambique have withdrawn membership; Libya joined in 2005. Map does not reflect these changes.*

### Economic History of the COMESA Region

Since the nations of Southern and Eastern Africa won political independence from their European colonizers in the 1960s, the slow rate of economic development throughout the region has been their greatest common struggle. In nearly all cases, these countries have lost ground over the last fifty years – many have smaller GDPs and lower health and development indicators than they did at the time of gaining independence.

Their common trajectory into economic modernity began in the late 1950s and 1960s, grounded in strongly centralized, statist ideologies influenced by socialism, and by the theory of import substitution

industrialization (ISI) that was also being pursued in many Latin American countries.<sup>1</sup> The ISI model prescribed that the state nurture specific “infant industries” through subsidies, public investment, and high tariff barriers to imports from these sectors. It predicted that growth in these industries would raise demand for inputs and related industries, as well as employment, wages, and domestic demand for all goods, raising the entire economy to a higher, industrialized level of production and consumption. Domestic firms were also supposed to become large and productive enough to compete with foreign firms. This strategy met with more measured success in Latin America than it did in Africa, where domestic markets never achieved a high enough level of demand to spur industrialization, and the lack of competition among firms eliminated incentives to increase quality or productivity. The active discouragement of foreign direct investment (FDI) was also a fatal blow to the capital accumulation process necessary for economic growth, and lost opportunities to transfer technological know-how and skilled human capital into the young national economies.

As domestic revenues, which came primarily from the sale of agriculture and natural resources, decreased due to declining terms of trade and productivity, African countries began to increase borrowing from international sources to finance these large-scale public economic policies. The economic health of the region deteriorated drastically throughout the 1970s as policies intended to ameliorate the situation, like further restricting imports and foreign capital flows, using public industry revenue for public spending rather than re-investment, and subsidizing agriculture all continued to increase the size of public spending, debt accumulation, and slowed investment and productivity rather than spurring growth. The amount of external debt owed by the COMESA region itself in 2003 was twenty two times larger than the amount owed in 1970. These countries jointly owed \$114.8 billion in external debt 2003; countries such as Burundi and Malawi owed more in 2003 than their total gross national income. In the same year, COMESA countries paid out \$5.9 billion in debt payments, 46% of the total official aid they received from all international donors that year.<sup>2</sup>

The debt burden can now be considered the largest obstacle to domestic investment and economic growth. Between 1998 and 2000, Sub-Saharan Africa repaid nearly 16 billion dollars more than it received in new loans. African countries, on average, spend more than four times as much on debt repayments than they do on health and education programs, an unwise arrangement for a region that is home to 2/3 of the world's HIV/AIDS patients.

Rather than achieving hoped-for growth, by the 1990s most COMESA states were in a state of economic decline. The African continent's domestic investment rates averages 17%, less than the rough minimum of 20% needed to even cover capital depreciation costs, which means that the capital endowment is shrinking, rather than growing. Capital is not being replaced by foreign investment either, as FDI accounts for only 1% of African GDP, and only 2% of FDI in all developing countries goes to Africa. In 2003, the total GDP of the entire COMESA region (excluding Egypt) was \$320 billion, and fifteen of its twenty-three states are classified as Least Developed Countries (LDCs) by the United Nations.

## History of COMESA

The need to promote regional trade was recognized in the early years of African statehood. It was discussed at the first and second conferences of independent African States, in Ghana in April 1958, and in Addis Ababa, Ethiopia in 1960, where the continent was divided into four sub-regions: Eastern and Southern, Central, West and North Africa. In the 1970s, the breakdown of the political confederations between Central African states, as well as the desire to create a strong enough counterweight to the economic power of apartheid South Africa, inspired new a commitment to this goal, which was spelled out in the March 1978 “Lusaka Declaration of Intent and Commitment to the Establishment of a Preferential

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<sup>1</sup> For more about the import substitution model of development in the 1960s and ‘70s and the neo-liberal shift back towards free markets in the ‘80s and ‘90s, see [The Commanding Heights: the Battle for the World Economy](#) by Daniel Yergin and Joseph Stanislaw, Simon & Schuster 2002.

<sup>2</sup> All calculations of economic statistics from the World Development Indicators, compiled by the World Bank, <http://devdata.worldbank.org>.

Trade Area for Eastern and Southern Africa.” The PTA was signed in September 1982. The treaty establishing COMESA in its current form, which replaced the PTA, was signed in November 1993 in Kampala, Uganda, and ratified a year later in December 1994 in Lilongwe, Malawi.<sup>3</sup>

At the time of signing in 1994, COMESA’s five priorities were: to promote productivity in industrial production, manufacturing, and agriculture; to increase agricultural production, especially non-dependence on rainwater; to develop transportation and communications infrastructure, especially those linking rural and urban areas; to increase trade facilitation and expand intra-regional trade, especially for the private sectors of each country; and to develop comprehensive databases of business and trade information. The specific policies included the reduction of tariffs by 80% by October 1996, the establishment of a barrier-free Free Trade Area by 2000, and the implementation of a Common External Tariff of 0%, 5%, 15% and 30% on capital goods, raw materials, intermediate goods and final goods respectively, by 2004.

COMESA’s decision-making structure is based on annual meetings of the Heads of State of the 21 member countries, who are advised by a Council of Ministers, 12 technical committees and other advisory bodies. The Secretariat is based in Lusaka, Zambia.

Many of the economic improvements and successes achieved by COMESA have been through the regional institutions it created to accomplish particular goals. These include the COMESA Trade and Development Bank in Nairobi, Kenya; the COMESA Clearing House in Harare, Zimbabwe; the COMESA Association of Commercial Banks in Harare, Zimbabwe; the COMESA Leather Institute in Ethiopia; the COMESA Re-Insurance Company (ZEP-RE) in Nairobi, Kenya; and a Court of Justice that became formally operational in 1998.

Tanzania’s withdrawal from COMESA in 2000 was met with disappointment from both other member countries and some Tanzanian businesses that lost export opportunities. The official justification for withdrawal was that Tanzania needed to focus on its membership in the East African Community, (EAC) a regional trading bloc which has not reached as high levels of free trade as COMESA, and the South African Development Community, (SADC) a group which is focused on comprehensive integration of development strategies, not specifically on trade barriers. It is widely believed that the true reason for the withdrawal was that the Tanzanian government did not believe its economy was ready to endure the repercussions of completely tariff-free trade, as the other COMESA countries that joined the FTA did. In the last five years, Namibia and Mozambique have also left COMESA with similar concerns, though there have also been media reports that Tanzania and Mozambique have considered re-joining.

Libya joined as the 20th member country of COMESA, at the 10th COMESA heads of state summit in Rwanda in June 2005.

### **Achievements to Date**

COMESA’s goal of establishing a Free Trade Area (FTA) was achieved on October 31, 2000, when nine member countries: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe, eliminated all tariffs on products from fellow COMESA countries. Rwanda and Burundi joined the FTA in 2004, bringing the total number of countries to 11. Trade in the top 30 products between FTA countries reached \$2.6 billion in 2003. A program to dismantle non-tariff trade barriers (NTBs) is also in the works. Total intra-COMESA trade was \$4.8 billion in 2003. Key tradables include sugar, tea, and steel.

The planned COMESA Customs Union (CU) was scheduled to launch in December 2004; however, it did not happen due to inability to agree on common external tariff rates. Members agreed that a new CU roadmap to replace the first, prepared in 1997, would be agreed upon by the 2005 COMESA Summit. There are also plans to achieve a Monetary Union by 2025. Movement has also been made in securing

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<sup>3</sup> For more on the history and structure of COMESA, see COMESA’s website at <http://www.comesa.int>.

funding for the COMESA Telecommunications Network Project (COMTEL) to create a high-level regional telecommunications network, estimated to cost \$270 million.

In 2000, COMESA signed a Trade and Investment Framework Agreement (TIFA) with the United States, establishing a TIFA Council for dialogue on trade and investment issues. This followed the promising precedent set by the African Opportunities and Growth Act (AGOA) passed by the US Congress in May 2000, which is in effect a trade agreement between sub-Saharan Africa and the US. It allows many African goods barrier-free access to the US market, which is sub-Saharan Africa's largest export market. After the signing of AGOA, African exports to the US increased by 61% by 2002, reaching \$18 billion. Thirteen of the COMESA member states are eligible for AGOA trading status.

The COMESA Re-Insurance Company, ZEP-RE, is now operating in forty-five countries and has obtained an "AA" rating from the Global Credit Rating Company of South Africa. The PTA Bank has strengthened the private sector through a cumulative lending portfolio of nearly \$1.5 billion dollars.

In December 2004, COMESA launched a public procurement website. This has high potential for increasing competition among government contractors, which could help improve budget efficiency, given that approximately 70% of public expenditures in COMESA countries go towards public procurement.

September 2004 saw the first meeting of COMESA Ministers responsible for Gender/Women's Affairs, where the COMESA Gender Policy Implementation Action Plan was discussed.

### **Current Goals**

16 countries in the Eastern and Southern Africa (ESA) group, a majority of COMESA members, are currently in negotiation for an economic partnership agreement with the EU. This was formally launched in February 2004 in Mauritius, where a Roadmap for negotiations through 2007 was crafted.

COMESA Heads of State decided in 1998 to pursue a COMESA Common Investment Area, (CCIA) to spur the development of domestic businesses and attract foreign investment in the region. They later agreed to establish a Regional Investment Agency (RIA) to pursue this goal. In 2000, it was decided that negotiations on the Investment Framework Agreement for the CCIA would start in February 2005.

A primary, shared concern is agriculture. Agriculture accounts for roughly a third of COMESA's GDP, and employs roughly three quarters of its labor force, as well as 65% of exchange earnings. However, since the 1970s, agricultural production has been decreasing about 1% per year, compared to population growth of roughly 3% per year. COMESA ministers of agriculture have continually discussed a regional agricultural policy, though no official COMESA plan has yet to be agreed upon. COMESA agriculture ministers did endorse the NEPAD Comprehensive African Agricultural Development Programme (CAADP) in 2003, as well as the African Union (AU) resolution calling for 10% of state budgets to go towards agriculture.

A primary focus of agricultural reform is external, towards the US's high levels of agricultural subsidies for its farmers, which are widely regarded as a major limitation to the expansion of African agricultural exports. Agriculture ministers have agreed to work together to pursue their Cotton Initiative, which is focused on persuading the US to reduce its cotton subsidies. COMESA policymakers are also advocating to the United States for some reforms of AGOA, including the addition of cotton, peanuts and sugar to the list of agricultural products eligible for duty-free import; and modifying the current treaty when it expires in 2008 to make it more permanent and adherent to WTO rules. There are also significant non-tariff barriers to trade with the US, despite AGOA, particularly demanding sanitary and phytosanitary (SPS) requirements.

## Future Challenges

GDP growth in the COMESA region has averaged 3-4% over the last several years. Although higher than one may believe from the general international perception of Africa, it is not enough to meet the 7% growth rate target set to meet the Millennium Development Goals (MDGs) by 2015, and achievement indicators for nearly all of these goals in the COMESA region are behind schedule.

The ascension of China to the WTO, and the proliferation of export processing zones (EPZs) in many developing countries aiming to increase participation in global trade, also poses competition challenges to COMESA exports, as well as African countries generally.

At a ceremony commemorating COMESA's 10th anniversary in Lusaka, Zambia in September 2004, Ugandan president Yoweri Museveni, also the Chairman of the COMESA Authority, called for increased commitment to regional trade and for involving more citizens and small businesses in trade. He also called for a move away from "the scourge of exporting unprocessed raw materials" towards manufacturing and service sector production, as well as "a Marshall Plan for tourism in the region." Zambian president Levy Mwanawasa highlighted the obstacle that high transportation costs pose to trade promotion, as well as the high cost of imported HIV/AIDS drugs, and advocated for the development of domestic pharmaceutical industries to produce drugs more cheaply.<sup>4</sup>

The nearly insurmountable burdens of poverty, disease and illiteracy among the population of the COMESA countries remain the largest challenge to economic development. In 1996, it was estimated that 69.5 % of the people in the COMESA region, or 240 million out of a total population of 345 million, were living on less than \$1 per day. According to 1998 UN reports, the average African today consumes 20% less than she did 25 years ago. The COMESA region also has the highest rates of HIV infection of any other region in the world. Rates are as high as 30% in several countries, and approaching more than 50% in the neighboring countries of Botswana and South Africa. The economic impact of HIV/AIDS, a disease that kills young adults, the most economically productive sector of a population, is just beginning to be fathomed.

Human capital flight (brain drain) is another dilemma for COMESA countries. Africa lost 60,000 professionals (doctors, engineers, intellectuals, etc.) between 1985 and 1990, and has been losing an average of 20,000 each year since.

Since the onset of the debt crisis in the 1980s, spending on healthcare in many COMESA countries, which are among the world's poorest countries, has fallen dramatically. Paralleling this fall is an increase in the number of children who die before the age of five, and before the age of one, reversing the trend towards better infant mortality indicators from earlier decades. Diseases thought to be eradicated--polio, tuberculosis, yellow fever--are making a comeback in some countries as vaccination coverage declines and treatment options are less accessible.

Thus, though their genuine commitment to promoting trade is laudable, the countries of COMESA must prioritize finding ways to address their domestic health crises and foreign debt crises before any sustainable economic development can be achieved. Trade agreements can help to improve their investment environments, and promote exports of the agricultural and other primary goods that are currently being produced, but in the absence of a concerted international and domestic effort to overhaul the financial situations of the COMESA countries, they are not a strong enough tool to address the many obstacles to developing industrial sectors and raising the standard of living. ■

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<sup>4</sup> See COMESA's Annual Report 2004, available at <http://www.comesa.int>.

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**Sources:**

COMESA website: <http://www.comesa.int>

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