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Wednesday, 12 September 2007 close window

Posted to the web on: 06 August 2007

GEEKONOMICS

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SOUTHERN African Development
Community (SADC) heads of state have committed themselves to establishing a regional customs union by 2010. This is an ambitious task, well beyond the scope of this article. But discussions on regional integration bring into focus problems with the existing Southern African Customs Union (Sacu), and this is something we Geeks do know something about. Importing motor vehicles from Botswana is just not as much fun as it used to be.

Sacu dates back to June 29 1910 when SA, Basutoland, Swaziland and Bechuanaland signed at Potchefstroom. Only Britain and SA were involved in the negotiations and Lord Gladstone, as governor of the Union of SA and high commissioner for the three protectorates, had to agree only with himself and then sign the agreement four times.

This agreement was renegotiated with the apartheid government in 1969.

The advent of democracy in SA gave rise to a new Sacu — although the negotiations, which commenced with great urgency in 1994, were concluded only in 2002.

The main weakness of the old Sacu agreement was the absence of joint decision-making. Import tariffs and excise taxes were set by SA. Not much has changed.

Although the new agreement provides for joint tariff-setting bodies and for increased consultation over excise rates, these have not been implemented and SA still calls the shots.

But in Sacu, trade policy issues receive little attention compared with discussions over the sharing of customs and excise revenues. This is not surprising. The governments of Swaziland, Lesotho and Namibia depend on Sacu for an extremely high proportion of total revenue and most of this revenue comes from customs duties on imports.

The recent splurge in South African consumption has contributed to a dramatic increase in imports. Payments to the BLNS (Sacu-speak for our four Sacu partners) have almost doubled over a space of four years.

The South African government believes that the four BLNS countries are getting too much money for doing too little. It would like to see a large proportion of this revenue reclassified as "development assistance" and managed accordingly.

The BLNS, however, maintain that the size of these payments is fair compensation for the "cost-raising" and "polarisation" effects of Sacu membership.

The cost-raising argument is based on the premise that the Sacu tariff protects South African industries at the expense of Sacu consumers.

Discussions about polarisation are based on the substantial differences in per capita incomes, growth rates and other development indicators among the Sacu member states.

Our own analysis suggests that in the absence of Sacu, the BLNS would have to raise their own tariff duties substantially to collect the same amount in customs duties and that the "cost-raising" impact is in fact cost-reducing for consumers in these countries.

We can also find no clear pattern of increasing or decreasing polarisation among Sacu member states. Without doubt, the current revenue sharing distribution provides excessive compensation from SA to the BLNS.

That said, Sacu payments are highly sensitive to changes in imports and tariffs; and the current size of the customs pool is abnormally high.

Consider that about a third of all customs duties are collected on imports of motor vehicles. So any slowdown in imports of cars (which is already happening) or any reduction in duties on these imports (which is likely under future World Trade Organisation negotiations) could have a dramatic and adverse revenue impact on the smaller Sacu member states.

This takes us to some of the more fundamental economic problems with Sacu.

Tariff-setting decisions generally involve trade-offs among the interests of consumers and users of protected products; producers of these products; and the treasury. The new revenue-sharing formula changes this calculus in peculiar and different ways in SA and in the BLNS.

The BLNS, with few producer interests in traditionally protected industries, have generally argued against most Sacu tariffs. From their perspective, it is the consumer/user interest that has quite naturally dominated.

The new formula turns this traditional BLNS calculus on its head. The BLNS now have a strong economic and financial interest in maintaining and maybe even increasing the import tariffs that they traditionally had opposed. So the new revenue-sharing formula will make it difficult to engage in further tariff reform in Sacu.

A more fundamental question about the revenue-sharing formula is whether it is appropriate or sustainable in an expanded Sacu structure, or as a model for an SADC customs union.

This formula was designed to achieve some particular political purposes in a particular historical context. It is difficult to imagine that South African taxpayers would be willing to make financial transfers of similar orders of magnitude to the rest of the SADC.

While BLNS governments have benefited from this system recently, they must soon realise that it is dangerous to rest long-term development co-operation strategies on bloated budgets and the fickleness of changes in the Sacu customs revenue pool.

The Geeks suggest it's time for all parties to give serious thought to alternative revenue-sharing strategies.

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