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An analysis of the Tripartite Free Trade Area between COMESA, SADC, and EAC and its effects on Swaziland's Economy

Dlamini, Nothando A. – University of Swaziland, Department of Economics, Kwaluseni Campu, Swaziland,
E-mail: adorabledlamini@yahoo.com

Kongolo, Mukole – University of Swaziland, Department of Economics, Kwaluseni Campus, Swaziland
E-mail: mkongolo@uniswa.sz

Abstract

This paper examines the effects of the tripartite free trade area (TFTA) between COMESA, SADC and EAC on Swaziland's economy. The study is based on document methods where both primary and secondary sources of information were used. Primary sources were obtained through direct interviews while secondary sources were obtained from various published documents. Given that the most critical issue facing the country is the need for government revenue, the country needs to identify and remove structural impediments to economic growth through trade, by harmonising trade arrangements and facilitating joint implementation of infrastructure projects. The results suggest that the country's economy has underperformed most than any other SADC and SACU member countries. The results also suggest that both COMESA and SADC members will continue to loose revenues as a result of TFTA. At the same time EAC and SACU organisations will operate as regional integration within the framework of the TFTA.

Key words: TFTA analysis, COMESA, SADC, EAC, Swaziland's economy.

Introduction

The problem

The establishment of the tripartite free trade area between Southern African Development Community (SADC), Common Market of Eastern and Southern Africa (COMESA) and East African Community (EAC) was approved at the 2008 tripartite summit held in Uganda **(Biene, 2010).** The tripartite framework was built under the realization that the regional integration processes of the three Regional Economic Communities (REC's) were similar and in some cases identical. The driving factor for this trade agreement was the issue of overlapping membership among the Regional Economic Communities. As stated in the second EAC-COMESA-SADC tripartite summit, the FTA will bolster intra-regional trade by creating a wider market, increase investment flows, enhance competiveness and develop cross regional infrastructure. Since the decision was made, some preparatory work has been and continues to be done under the joint framework in the combined region. Initially, the target date for the launch of the TFTA was 2012 but it has been shifted to January 2013. The FTA will be established with an ultimate goal of establishing a Custom Union (Mlangeni, 2008). The classical stages of integration begin with a Preferential Trading Arrangement, Free Trade Area, Customs Union, Common Market, Economic and Monetary Union culminating to a Political Federation. A free trade is a system of trade policy that allows traders to trade across national borders without interference from the respective Governments (Kalaba, 2009). An FTA is established when two or more countries agree to eliminate duties and other restrictive regulations on commerce on substantially all trade in goods originating within these countries. Preferential rules must be formulated in order to identify the originating goods. Members in the FTA retain the right to apply their individual trade policies with non-member states (Shayanowako, 2011).

The TFTA will join 26 countries (Figure 1) with a combined population of 527 people and a combined gross domestic product of US $624 million, as stated in the first COMESA-EAC-SADC tripartite summit held in 2008. The 26 countries make up half of the AU in terms of membership. According to the UN economic commission for Africa final report, the TFTA will be established on a tariff- free, quota-free, exemption-free basis by simply combining the existing FTA's. The main objective of the FTA is to expand trade, alleviate poverty and improve the quality of life of the people of the Eastern and Southern African Region (Biene, 2010). One of the main objectives of the TFTA is to deal with the problem of multiple membership. Overlapping membership creates problems both for member Governments business and regional integration at macro level. 5 of SADC members belong to SACU. The EAC is already a Customs Union but shares 4 member states with COMESA and one with SADC. SADC shares 8 member states with COMESA. Of the 26 countries, almost two thirds are either in a Customs Union or and participating in negotiating an alternative customs Union to the one they belong to or are in the process of negotiating two separate customs union. With overlaps in the memberships of these three REC's, it was seen prudent for the three REC's to co-operate and harmonise their trade infrastructure and other regional integration programmes **(Disenyana, 2009).**

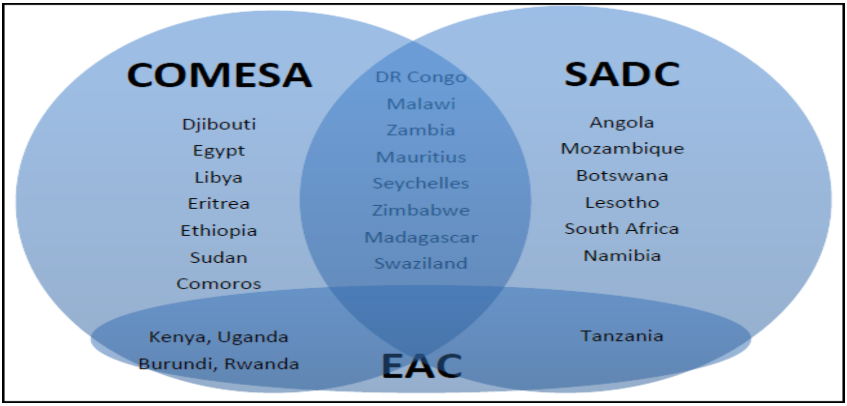


Figure 1 - The three RECS and countries in the Tripartite FTA (source: Imani Development, Draft Final Report).

COMESA was established in 1994 and consists of 19 member states, nine of which are classified as LDC's and six classified as developing countries. It constitute of a population of 126 million people and a gross domestic product of US $60 million. As a key mechanism for liberalizing intra-COMESA trade, COMESA established an FTA in 31 October 2000 and launched its Customs Union in June 2009 (Swanepoel, 2011). The success of this trade agreement can be measured by the remarkable increase in volume of intra trade from US 43.2 billion in 2000 to US $15.2 billion in 2008. This REC plans to establish a CM by 2015 and a MU by 2025. SADC was formed in 1980 in the form of SADCC and it was transformed into SADC on the 17th of April 1992. It has 15 member states. It established an FTA in august 2008 with a plan to eliminate all tariffs in 2012. Only 11 member states are participating in the FTA. Of the 15 member states, 8 countries are least developed countries. As stated in the first tripartite summit held in 2008, SADC has a total population of 270 million and a combined potential market income of USD 430 billion. The FTA is seen as a first step towards creating a CU and a CM in 2015. The EAC was revived in 2000 and has 5 member states. Of the five member states, 3 are classified as LDC's and the other two are classified as developing countries. It launched its Custom Union in January 2005. The member states of the EAC consist of a total population of approximately 133.5 million with a GDP of US $75.5 billion. The EAC launched its common market for goods, labour and capital within the re is important to note that the three REC's are at different levels of Regional i gion in 2010, with a goal of a common currency by 2012 and full political federation in 2015**.** It ntegration and have different objectives outlined as part of their regional integration agendas (Cheong, 2010). SADC is focusing on a broad agenda of cooperation, COMESA is concentrating on trade liberalization methods and lastly the EAC is pursuing a political union. This research exercise has been carried out with an aim of highlighting the likely effects of the TFTA on the Swazi economy. The study will assess the effects based on the flow of Foreign Direct Investment, Customs Revenue loss and trade creation and/or diversion (Swanepoel, 2011).

Swaziland is the only SACU member that has access to the COMESA market. The kingdom derives considerable benefits from the derogations granted to her from COMESA whereby her exports are accepted into the COMESA market without having to reciprocate. COMESA has reached the stage of forming a Customs Union. Countries in a Customs union remove all trade barriers and only apply a CET on imports from non-members. A country cannot be a member of more than one CU as it cannot apply more than one CET **(Biene, 2010).** Swaziland sees the TFTA as a means to avoid having to request further derogations from COMESA. Had it not been for the proposed TFTA, the country would have been forced to choose between COMESA and SACU. However, the TFTA will come with a cost to the country. She will no longer be the only SACU member with access to the COMESA market. Due to the elimination of trade barriers, the TFTA will grant countries like South Africa access to the COMESA market, as a result some countries in COMESA will stop importing from the kingdom and start importing from South Africa (COMESA, 2011). This will be mainly due to reduced transportation costs when importing from South Africa than from Swaziland. Countries like Zambia will prefer importing citrus fruits from South Africa than Swaziland as it will be cost efficient. This will not be the only cost to the kingdom. Since the TFTA will bring together countries that are at different levels of development, Swaziland will compete with the more developed economies in terms of attracting Foreign Direct Investors. Investors may move to the more developed economies. This will not be good for the Economy as the country is currently facing challenges in attracting FDI (Kalaba, 2009). The country may face customs revenue loss as the import duties on imported goods are reduced or removed. Also there could be an influx of cheap imports resulting from TFTA agreement into the country which will impact negatively on some local industries (Disenyana, 2009). Given the above introduction, the main purpose of this study was to investigate the TFTA between COMESA-SADC-EAC and its effects on the economy of Swaziland.

Objectives of the study

The main objective of the study was to analyse the possible impact of the TFTA on the economy of Swaziland; specifically:

(i) to assesses the anticipated benefits and costs of forming the TFTA;

(ii) to assess the impact on trade creation and diversion

(iii) to assess the impact on revenue effects

(iv) to assess the impact on FDI flow, and

(v) to recommend policies that are likely to impact positively on the economy.

Literature review

Trade related issues

The Hecksher-Ohlin theory explains why countries trade with one another. One condition for trade between two countries is that countries differ with respect and availability with the factors of production. The theory of comparative advantage was developed by David Ricardo (Sodersten and Reed, 1994). This theory states that trade with a given amount of labour resources each country can consume more by trading than isolation and this possibility is referred to as the gains from trade. The principle of comparative advantage emphasizes the benefits of all countries in the realm of trade. The concept reflects a country specialization to export its abundant factor of production and import the scarce (Mahdi, 2009). Countries gain from trade by realizing their economies of scale in production, as more of one good a country produces, the lower the cost of production. In short, countries trade because they have different natural, human and capital resources and different ways of combining these resources; they are not equally efficient at producing the goods and services that their residents demand. A decision to produce any good or service has an opportunity cost. When given a choice, it is more efficient to produce the good with the lower opportunity cost using the increased production of that good to trade for the good with the higher opportunity cost (natural council on economic education, New York, internet). A country is said to have absolute advantage in the production of a good, if it can produce more of a good with the same resources than another country can. The theory of absolute advantage was developed by Adam Smith. It states that two countries could have more of both goods with a given effort, by trading (Sodersten and Reed, 1994).

In recent years, new trade agreements have often been promoted on the basis of their potential benefit to developing countries (Weisbrot and Baker, 2001). Many studies suggest that developing countries will reap most of the benefits of trade liberalization and that gains for them would be considerable if an agreement brought about by freer trade. Developing countries' comparative advantage is seen to lie in agriculture. The protectionist agricultural policies in OECD countries are often criticized for preventing developing countries from benefiting from world trade (Burea et al., 2005). Trade liberalization leads to the development and re-orientation of the industrial sector in accordance with the static comparative advantage. He further argues that no doubt trade liberalization is essential when an industry reaches a certain level of maturity provided it is undertaken selectively and gradually (Shafaeddin, 2005).

For most middle-income developing countries confronted with high protection in their main markets, liberalization can be a source of substantial growth in prospects and prices for a relatively high-performing export sector (Burea et al. 2005). Weisbrot and Baker (2001), notes that there are costs associated with trade liberalization in developing countries and with the changes required by such agreements as the WTO's TRIPS (Trade-Related Aspects of Intellectual property Rights). The gains to developing countries from removing their own barriers are much greater than gains from increased access to the markets of rich countries.

Policies that make an economy open to trade and investment with the rest of the world are needed for sustained growth. Opening up their economies to the global economy has been essential in enabling many developing countries to develop competitive advantage in the manufacture of certain products, that freeing trade benefits the poor (IMF, 2001). The increased growth that results from freer trade tends to increase the incomes of the poor in roughly that same proportion as those of the population as a whole. The IMF also notes that protection remains significant in both industrialized and developing countries in areas such as agricultural products or labor intensive manufactures. Furthermore, trade liberalisation by both developed and developing countries is needed to realize trade's potential as a driving force to economic growth and development (Kalaba, 2009). It is because of these reasons that developing countries have to find ways export products find good markets. A country liberalizes its trade with other countries by removing policies and barriers to trade (IMF, 2001). Examples of barriers to trade include tariffs and subsidies.

Tariffs

Spruiel (2006), argues that tariffs are high taxes on imported goods that make them less competitive with domestic products and subsidies are paid to domestic producers that allow them to sell goods more cheaply than foreign competitors. There are three forms of subsidies, namely:

1) Prohibited: these are subsidies contingent upon exports performance (i.e. exports subsidies). This type of subsidy is specifically designed to distort international trade.

2) Actionable: it is a specific subsidy that causes adverse effects to the interest.

3) Non actionable: these are subsidies that are not allowed in any circumstance.

When a country exports its products at a lower price than its normal value, the exporting company is said to be dumping. Dumping is a form of price discrimination or a pricing practice in which a firm charges a lower price for exported goods than it does for the same goods sold domestically. The practice of dumping is traditionally regarded as an unfair trade practice. Therefore authorities of the importing country should be entitled to adopt measures in order to protect their industry from such unfair competitions. Countries may impose anti-dumping duties equal to the margin of dumping if it is determined (Krugman and Obstfeld, 2009). The WTO Article VI of GATT (the anti- dumping agreement) of 1994 provides for the right of contraction parties to apply anti-dumping measures (that is measures against imports of a product at an export price below its normal value, if such dumped imports cause injury to a domestic industry in the territory of the importing country (Joubert, 2011). WTO anti-dumping agreement sets out rules for the conduct of dumping margins at application of remedial measure, injury determinants, enforcement, and review duration of the measure and dispute settlement. Prior to WTO anti-dumping agreement, the use of anti-dumping measures was mainly the domain of a few largely developed economies, For example, Australia, Canada, EU, Mexico and USA. With increase in number of countries using anti-dumping measures, different interpretations of the anti-dumping agreement have developed, resulting to divergence of anti-dumping practices throughout the world. This has led to concerns over consisting transparency and predictability in the application of anti-dumping actions.

Trade creation occurs when preferential liberalization enables a partner country to export more to the home country at the expense of inefficient enterprises in that country. Trade diversion takes place when imports from a country which were previously subject to tariffs are displaced by higher costs imports which now enter tariff-free from partners. While trade creation contributes positively to welfare in the home country, trade diversion results in a welfare loss. The selective application of free trade agreements to some countries and tariffs on others can sometimes lead to economic inefficiency through the process of trade diversion (Lunogelo, 2009).

Despite the various trade-promoting initiatives of SADC, COMESA, EAC and SACU, intra-regional trade still remains limited and asymmetrical. The dominant issue in determining the extent of regional trade flows is South Africa. South Africa exports a large portion of exports into the region and imports a narrow set of commodity goods from the REC's. This is because most of the countries in the region maintain their traditional roles of being exporters of primary goods to the industrialized countries (Gibb, 2006). The challenges that face the individual REC's will be magnified in the TFTA if not dealt with effectively. These relate to possible polarization, forces of external parties' agreements, fiscal challenges, institutional weakness and the political and stability (Diseyana (2009). The United Nations Economic Commission for Africa argues that some feeling of nostalgia exists in some states. This feeling can be interpreted as the natural inertia that greets any process of change. Some states still want more time to assess the full implication of involvement while others strive to get more information on impacts of FTA on their economies and welfare. There are some states which nurse the fear of being dominated by the wealthier states (UNECA, 2011).

Economic implications of the TFTA

Following the United Nations Economic Commission for Africa Final Report, when joining the TFTA, member countries will be compelled to abandon their own set of rules and submit to that of the regional body (Mlangeni, 2008). A country joining the FTA will sign a Memorandum of Understanding. If the country fails to abide to the terms of the agreement, this will lead to the expulsion of the country from the group. The report also states that countries will automatically concede power on trade matters to the supra-national body (Kalaba, 2009). The FTA arrangements of each participating REC will be replaced by the single FTA arrangement (UNECA, 2011). The Developing countries in the three REC's that rely on trade taxes for fiscal revenue will face a huge challenge in trade Liberalization. The proposed trade arrangement may lead to changes in the structure of individual economies that could lead to a contraction of previously import-substituting industries that were important sources of revenue (Disenyana, 2009). In all three RECs, there is no prohibition on member states entering into trade agreements with third parties. Each country has the choice to enter into further trading agreements with third parties if it wishes, except in the case of SACU and the EAC which have CETs, which would affect the whole REC (Imani development limited, 2011).

Economic background of Swaziland

Swaziland is a lower middle-income country with a GDP per capita of US$3,32.125 in 2011 up from US$2,500.028 in 2009. The kingdom of Swaziland is the smallest country in Southern Africa with an area of 17 364 km² with a population of just over a million inhabitants. The Kingdom is landlocked by South Africa and Mozambique which makes her heavily dependent on its neighbours for access to the sea and to the world markets for supplies (World Bank, 2012). The Country has an open trade policy. The Kingdom's trade is to a large extent, region-centred because of its close proximity to South Africa and her membership to SACU. The Kingdom has a diversified, but heavily dualistic economy based on its varried terrain and land tenure systems and on manufacturing and services development. The Swazi economy is export led and depends on agriculture (sugar, forestry, citrus and mining). The country's main trading partners are the EU, SACU and the USA.she has received trade preferences for her textiles and sugar products from the US under AGOA and from the EU under EPA (CBS, 2011). .

The small size of the country has meant that it has to take up membership in a number of regional economic and Monetary groupings to have access to larger and more lucrative markets and get cushioned from external shocks. She is also an active member of COMESA and SADC which serve as lucrative markets for local producers (Musonda, 2008). The kingdom's currensy is at par with the South African Rand through the CMA (COMESA-EAC-SADC,2008). Swaziland regards trade policy as an impotant aspect of its Macro-economic policy environment, as well as being in line with growth, investment, employment, balance of payments and enhancement of Government Revenue through tariffs (Annex 5). Trade is also seen as a major pillar of poverty reduction.

Hypothesis

(i) TFTA will not enhance trade flows among Swaziland and other member states.

(ii) TFTA will cause Swaziland to lose revenue in the form of customs duties or import tariffs on COMESA-SACU-SADC goods.

(iii) TFTA will cause Swaziland to face strong competition from other countries in attracting foreign direct investment.

Methology

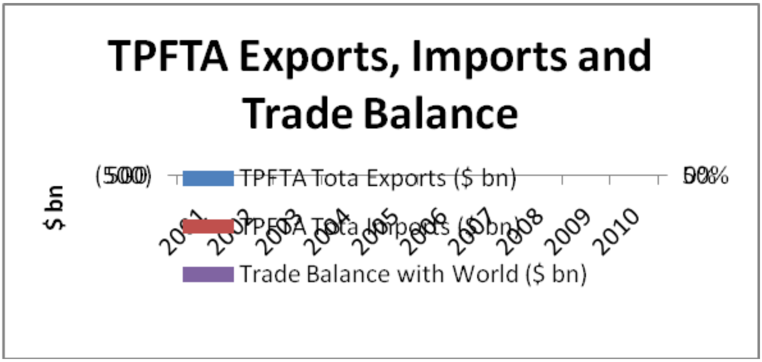
This study is based on document methods where both primary and secondary sources of data were used. The primary-secondary distinction is clear in so far as primary sources are the original written materials of the author's own experiences and observations (Bailey, 1994). Secondary sources are materials derived from someone else as the original source. Therefore, this paper investigates cultural practices that harm women and girls by analysing both primary and secondary sources. Secondary sources include data from official documents (e.g. statistical reports, annual reports, inter-office memos, and financial reports), mass media (printed and audio-visual, newspapers, magazines, journals and newsletters), and personal documents, bibliographies, memoirs and personal letters to the press (Baker, 1998). Primary information was obtained using a simplified questionnaire designed by the researcher and cross-validated by colleagues. The examination of these various sources assisted in looking holistically at the TFTA between COMESA/SADC/EAC and its effects on Swaziland's economy. The results of the analysis are provided in section results and discussion.

Results and discussion

TFTA trade pattern

Imports and trade balance of the TFTA with the world and the export share with the world are shown in Figure 2. The graph shows the analysis of intra TFTA trade.it shows the mutual total trade of the 3 RECs. The trade of individual countries in the 3 RECs, were joined together in order to come up with trade of the TFTA. The intra-export share is a percentage of bloc members' exports to one another compared to their total exports. It is read from the right side of the graph.

Fig 2: TPFTA Trade and Export Share from 2001 to 2010



Source: Comtrade and Imani development Centre

The value of exports and imports and the trade balance is read on the left side and it is in billion US Dollars. Imports into the region started at a very low level in 2001, but grew at a steady rate until they reached the highest level in

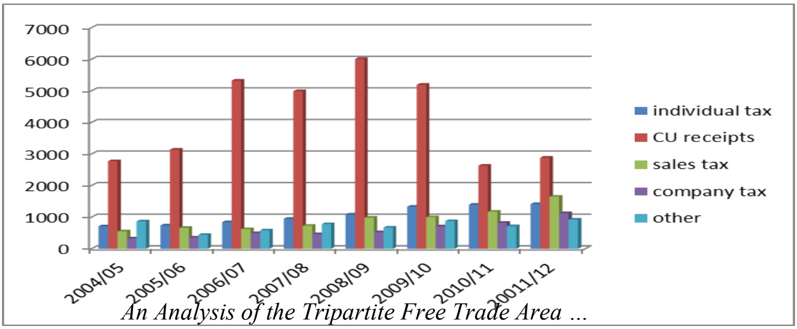
2008 with a value slightly above US$200 billion. As it can be seen in the graph, the TFTA recorded the highest deficit in 2008. Exports from the region started from a level of about US$10 and showed an increasing pattern but remained lower than imports throughout the decade. They recorded a very low level in 2001 but grew considerably until reaching a maximum of about US$150 billion in 2008. Even though exports were higher in 2008, total imports growth offset the growth of exports leaving the highest deficit in the region. Export share remained relatively steady, fluctuating between 15% and 20% of total exports.

Effects on the Swazi economy

a) Customs revenue loss

Whenever the idea of a free trade area (FTA) is proposed, particularly in the developing world and more so, in the African continent, what quickly comes into minds of most African governments is how that arrangement will have an effect on customs revenue. This is so, given that customs duties contribute as high as 50 percent towards government's revenue in some African countries. The loss in government revenue that arises when the reduction or removal of import duties causes loss or reduction in customs revenue collected on imported goods. This loss implies a loss in money going to the government's budget. The extent of loss of customs revenue from imports depends on the extent of trade between the T-FTA countries (Figure 3).

Figure 3: Major components of government revenue



Source: Central bank of Swaziland annual report.

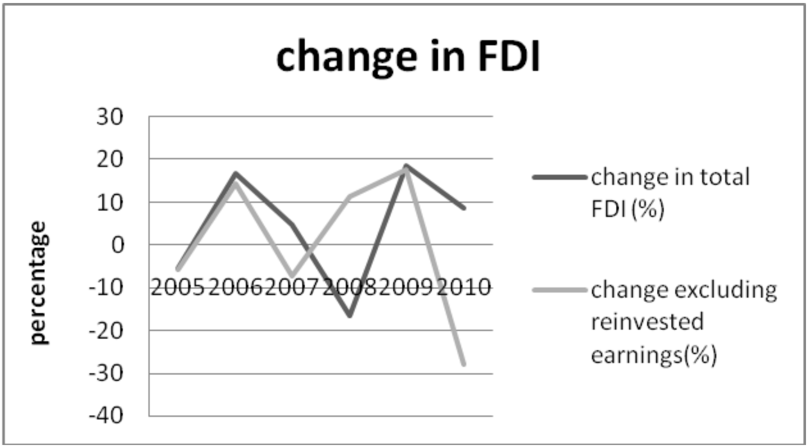
Figure 3 shows the major components of Central Government revenue. Since the establishment of SACU, Swaziland obtained more than half of her revenue from SACU receipts. In 2011/12, SACU receipts accounted for 36% of total revenue which is almost half of the amount recorded in the previous years. Sales tax account for 21% while personal tax contributes about 18%. Company tax contributed 14% while the other sources accounted for about 8% of total revenue.

This reliance on SACU receipts depends on the implementation of the CET. IF agreements in the TFTA tend to reduce SACU tariffs, the country will lose some of its revenue from the receipts. The country, therefore, realises the need to diversify her sources of revenue in order to reduce reliance on the volatile SACU receipts. This is in view of the general decline in import duties as SACU countries conclude Free Trade agreements with their major trading partners.

Impact on foreign direct investment

One of the main benefits of the TFTA is the access to the expanded market. Countries in the TFTA will have to establish a domestic climate conducive to investment. The importance of foreign direct investment in developing countries like Swaziland has been viewed as a significant factor to economic growth through capital accumulation and or facilitating the use of new inputs and technologies in the production process **(Masuku and Dlamini, 2009).** The challenge for small countries such as Swaziland will be to ensure that they are able to match incentives for investors/investors might move to the more developed economies in the enlarged market (Fig 4).

Figure 4: Percentage change in FDI



Source: Central Bank of Swaziland Annual report

Total FDI into Swaziland consists of four types namely; Equity, Reinvestment of Earnings, Long term capital and Short term capital. Figure 4 compares the change in total FDI and the change excluding reinvested earnings. An analysis of the change in FDI reveals that reinvestment of earnings is the main driver of FDI. The change in FDI is greatly influenced by change in reinvested earnings. This can be seen by the difference between the lines in the chart above. In 2010, the stock of FDI excluding reinvestment of earnings indicated a 28% fall yet when including reinvested earnings it shows a growth of 8.6%.this shows that the economy lacks fresh inflows of FDI. Future aspects of FDI are uncertain in Swaziland. The type of new investment inflows to the country places the kingdom in an unstable position because new investments are dominated by textile industry which is a very volatile industry. The absence of new investments in the country still remains a challenge for the economy. The problem of the difficulty of attracting FDI will be magnified in the TFTA as the economy will face competition from the more developed economies like Kenya, SA and Egypt. Investors will be more likely to move to these economies. Efforts will have to be made by the country to attract FDI.

Trade creation/diversion

Figure 5 shows total exports from swaziland to the TFTA and the rest of the world. From the graph, it can be observed that swaziland exports mostly to

SADC. Her exports to the SADC region remain higher than her exports to the other REC's and the rest of the world. In 2005 her exports to the SADC region were at a level slightly below E8000 million.The country enjoys a trade surplus with the SADC region. Swaziland prefers trading with SADC than the rest of the world. This is because her major trading partner,South Africa, is also part of the region. Swaziland exports mainly food products to South Africa. The main products that the kingdom exports to the rest of SADC are manufactured products which include confectinary items like choclairs and chappies from Cadbury Swaziland, processed beef from Swaziland meat industries and food and beverages. Exports to the SADC region grew from 2005 until they reached a level of E10,000 million. Trade with the rest of the world also remained high. Some of the world markets include the EU which imports the kingdom's beef exports and sugar. 90% of sugar export sales were sold to the EU. Beef exports were also destined to Norway. From the analysis of the exports of the kingdom, we can deduce that Swaziland will experience insignificant trade diversion, meaning that no trade will be diverted from low cost producers in non-TFTA countries towards less efficient producers in T-FTA countries.

Figure 5: Swaziland exports to TFTA and the Rest of the world

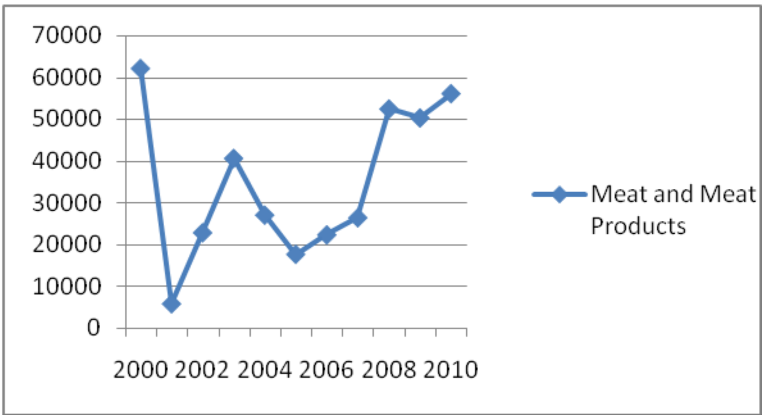
This is possible given that the kingdom imports bulk of her imports from T-FTA countries, especially South Africa with which it has a Customs Union arrangement. However, the country may face some competition from other TFTA members in some exports. The kingdom's citrus exports enjoy advantages in Zambia which is a good market because of the COMESA derogations. If the TFTA allowed South African exporters duty-free access into Zambia for citrus, Swaziland would not be able to compete with producers in South Africa. The reason for this is the high transport costs from Swaziland. Trade creation will also be insignificant as the country is already liberalized under SACU customs union and SADC FTA.

Dumping

As explained earlier dumping occurs when countries sell products abroad at less than normal price. The foreign price of the goods is less than the home price of the same good. In the TFTA Swaziland will face a number of challenges with countries dumping their products into the kingdom and into the TFTA (Figure 6). The industries that are likely to be affected include:

The beef industry

Figure 6: Trend in beef export earnings



The figure 6 bove shows the pattern of earnings from beef exports. The beef exports include meat and meat products. Export earnings from beef were above E60 000 in 2000. The earnings depict a fluctuating trend throughout the period. The lowest earnings were recorded in 2001. As can be seen from the graph, the beef earnings look promising as the trend shows an increase from E 17 000 recorded in 2005 to earnings above E50 000 in 2010.

It is important to note that Swaziland's beef exports are mainly to the EU. The EU requires that the kingdom maintain high standards in the beef market in order to qualify for beef exports into the EU. The Rules of Origin specify that the beef exported by Swaziland will only be accepted by the EU, if the cattle was born and bred in Swaziland. The beef will not be accepted if it does not meet the required conditions. Since Swaziland enjoys preferential access into the EU for her beef exports, other TFTA producers might see market opportunities in Swaziland. This could lead to the weakening of the kingdom's import requirements which would be picked up in EU audits and could lead to the country being suspended as an exporter. The country will have to label beef as a sensitive product in order to ensure that only the highest quality beef is imported. Prospect from the beef industry are not promising as Swazis are reluctant to raise cattle for commercial purposes (Figure 7).

Figure 7: The Swaziland's sugar industry

Source: central bank of Swaziland company surveys

The figure 7 above shows the value of exports of sugar. It shows the amount that is received by the country from sugar exports. The value of exports started at very low values in 2002 to 2004. Even though the value of exports was increasing during that time, the amount was very low when compared to the era from 2005 to 2010. According to the Central bank of Swaziland Annual report released in 2011, the EU market accounted for 90% of export sales while the remaining 10% was sold to the COMESA market in 2010. The report further states that the SACU market which includes Swaziland remained a vital market for the Swazi sugar consuming about 57% of total sales. There are only two producers of sugar in SACU, which are RSA and Swaziland which face competition from Brazil and India in the TFTA. SADC is a net surplus producer of sugar whereas the rest of the TFTA is a net deficit region that imports from countries such as Brazil and India. Rules of Origin will be required to ensure that non-SACU sugar is not brought into SACU as some countries have access to the cheap world markets. South Africa, Swaziland, Malawi and Zimbabwe are among the 15 lowest-cost producers in the world, and should be able to supply the TFTA market at competitive prices. Swaziland will have to label sugar as a sensitive product in the TFTA.

In summary, the TFTA will make the kingdom vulnerable to cheaper imports that will affect a number of industries in the country. The poultry industry is vulnerable to cheaper imports. The beef industry may also face the challenge of cheaper imports if not dealt with accordingly. The manufacturer in Swaziland faces an increasingly competitive market in SACU because of the inflow of cheap Chinese refrigerators. The study tends to accept all the hypotheses to be all justified on the grounds of the critical analysis of the study.

- There is a high probability of loss of Government revenue from SACU receipts as SACU countries sign free trade agreements with their major trading partners.
- If efforts to attract FDI into the kingdom continue to fail, the country will face tough competition in the TFTA in terms of attracting investors as they may move to the more developed economies in the TFTA.
- Cheaper imports may end up in the country if the kingdom fails to apply the necessary actions. Industries that are likely to face this challenge include the poultry industry and the beef industry.

- The country may lose some of its exports markets as countries that were previously supplied by the kingdom will gain access to the South African exports.

Conclusion

The study investigated the impact of TFTA on Swaziland economy using both primary and secondary data. The data was consolidated with the Central Bank of Swaziland information on TFTA in order to provide policy recommendations. The findings of the study suggest that Swaziland can benefit from the TFTA only in terms of the increased market access. However, the country would have to designate some of its export products as sensitive products. One important issue is that the country will face strong challenges in terms of foreign direct investment as some of its industries will be negatively affected. In this regard, the Kingdom is expected to prepare its self for this situation in order to compete with the more advanced economies in the region in attracting investors into the country. The findings suggest also that revenue losses will accrue if the tariffs in SACU are negatively affected. Being a small economy, the TFTA will enable Swaziland to enjoy membership in a number of trade agreements without any complications. The country will be able to access COMESA market without having to request further derogations because of its membership to SACU. Swaziland's economy has underperformed most than any other SADC countries in the past years. The country needs to identify and remove structural impediments to economic growth through trade to promote growth and development. A study by Imani Development limited (2011) found that the TFTA is the right step for the three RECs as all countries will benefit but the benefits will not be equal. The TFTA, COMESA, EAC and SADC therefore need a strategy for harmonisation. This will have to address legal, policy, economic and institutional issues. The future roles of the communities and their institutions under the new TFTA framework need to be defined in such a way as to avoid duplication of responsibilities and inefficient use of resources (Biene, 2010).

Recommendations

1. There is a need for the country to develop and implement policies to attract Foreign Direct Investment into the country. The country should also retain Foreign Direct investors who are already operating in the country through the development of conducive investment climate. The country should address measures that will reduce the cost of doing business in the country.

2. The country should reduce her reliance on the volatile SACU receipts by diversifying her source of Revenue. The decline in SACU receipts in 2010 forced Government to improve non SACU revenues by implementing a series of measures as part of the IMF staff Monitored Programme. The tax net was broadened by bringing in items such as airtime and electricity. The newly operationalized Swaziland Revenue Authority will improve the efficiency of tax collections and increase compliance. Should the SACU receipts fall any further due to the TFTA, the country will need to tighten her measures.

3. The country will have to designate agricultural products that are vulnerable to cheap imports (dumping) as sensitive in the TFTA.

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