

ANALYSIS OF AVAILABLE CAPACITY AND PROGRESS MADE WITHIN SADC IN RESPECT TO LIBERALISING MARKET ACCESS IN ROAD FREIGHT INDUSTRY

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ABSTRACT

From a border orientation various industries have been liberalised and the most significant market liberalisation industry initiatives which have been made thus far are in relation to trade and transport, which is key to economic growth and development especially for developing countries and regions. In order to grow and improve transport within the Southern African region, Member States in 1998 under the leadership of South Africa developed the SADC protocol on Transport, Communications and Meteorology which amongst other things seeks to liberalize market access and allow for increased trade and competitiveness of the SADC market as a region.

This paper analyses and assesses the capacity and progress being made to liberalise market access with specific regard to road freight in the SADC region. In delivering the study, qualitative method was used focusing on relevant literature in regard to benefits and experiences of market liberalisation. The paper concludes that phased deregulation and gradual liberalisation would yield tangible results for SADC and such an approach requires binding commitment from Member States in order to achieve full liberalisation. To achieve market liberalisation, this paper recommends that SADC can consider quality regulation as an option for the realisation of market liberalisation in regard to road freight based on the example of the EU trading bloc.

Key Words: Market Liberalisation, SADC, Member States

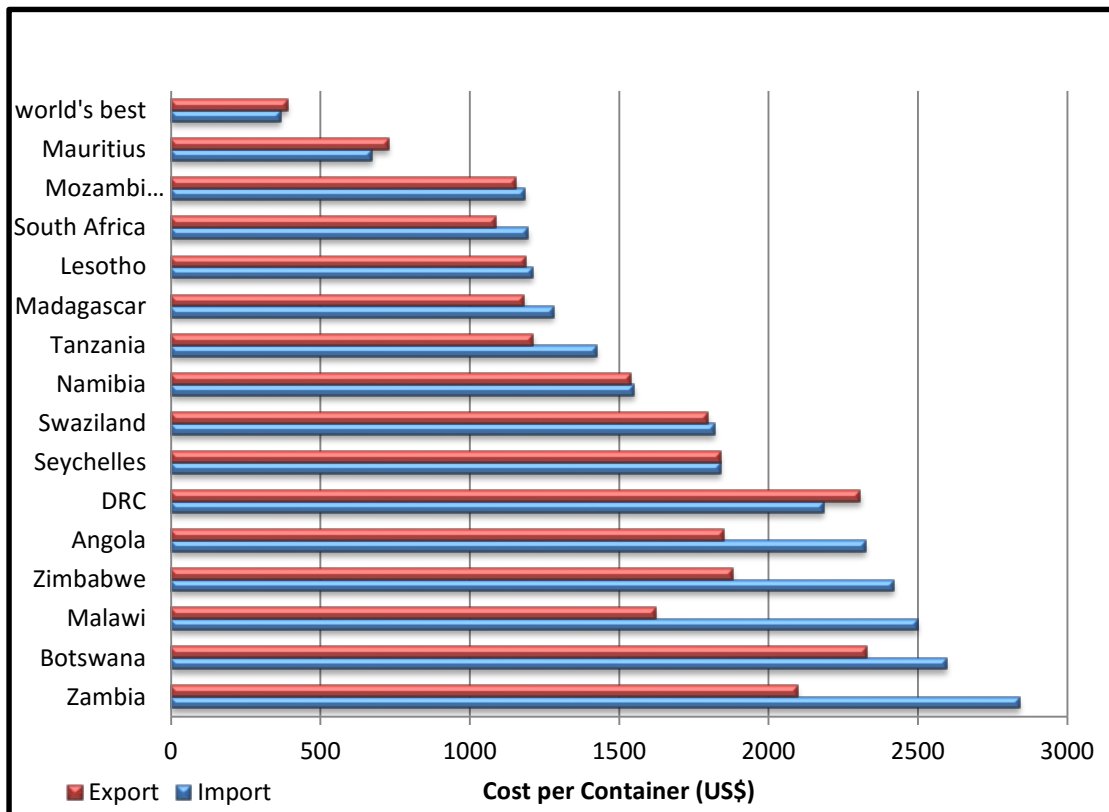
1. Background

Lee (2005) highlights that market liberalisation can be defined as the act of removing restrictions that act as barriers to entry into markets to encourage competition. He further argues that a proliferation in the movement of flows across borders has been the most evident aspect that various industries have been liberalized such as the financial sector, which increased the flexibility of banking and financial institutions in the developed countries. However, the OECD (1997) provides context to the proceeding by accentuating that the most significant market liberalisation industry reform has been made in regard to transportation, mainly in aviation and rail. Whilst, there is enough evidence to affirm the fact that, the said modes of transport have been a paragon of success in relation to liberalisation and have also attracted a vast number of research studies in the past (ibid, 1997). The focus of this particular paper will be limited towards analysing and assessing the progress being made to liberalise market access with specific regard to only road freight in the SADC region. The justification for road is premised on the fact that road transport industry plays a significant role, especially for developing regions that are landlocked, in that it facilitates the rapid movement of goods across borders (Kiek ,2007). Whilst road transport is important in general, it should be noted that in the context of a developing region like SADC, road transport is important for the following reasons:

- ❖ Road Transport improves access to trade and markets especially since 40% of SADC member states are landlocked; by virtue of that reality road transport is vital for trade and economic growth particularly for the hinterland countries (Ranganathan & Foster, 2011)
- ❖ Carries the most regional traffic and enhances regional trade and regional integration among member states in the region;
- ❖ Given the SADC geographical landscape, road transport is vital for trade and economic growth particularly for the hinterland countries;
- ❖ It links key economic hubs and production nodes in the SADC region, thus linking the cross border value chain;
- ❖ It is vital for tourism facilitation and growth ; and
- ❖ It is an instrument to broader strategic imperatives of SADC economic development, through creation of employment encouraging reduction in poverty and providing access to basic services;

In light of the above, it can be affirmed that the need for market liberalisation of road transport in the context of SADC is also premised on the need to respond to the high costs of importing and exporting within the SADC region in comparison with the world markets based on data from the World Bank's cost of doing business dataset (World Bank, 2010).

Figure 1: Imports and Exports Container Costs



Cost of trade in SADC countries. (Source: World Bank, 2008)

With the cost of imports and exports at approximately three times the world's cheapest markets, efforts will have to be made within the region to lower the cost of trade and lower the barriers of trading within the region. It is apparent that there is a need to consider interventions that can respond to the unfavorable status cost that perpetuate to increase the cost of doing business for the region.

2. THE PURPOSE OF THE STUDY

The purpose of this paper is to analyse and assess the capacity and progress being made to liberalise market access with specific regard to road freight in the SADC region. The paper seeks to show that a liberalised market access can be beneficial to both South Africa and the SADC region especially because it remains the largest economy in the region as accounting for 62% of regional GDP.

The objectives of the study include;

- ❖ To review market liberalisation as a policy tool for improved trade and economic development based on literature;
- ❖ To assess and compare case studies and international experiences with respect to the path towards liberalisation;
- ❖ To review and assess the extent of the SADC protocol implementation; and

- ❖ To derive stakeholder input on options for market liberalisation based on literature and SADC protocol.

3. METHODOLOGY

The paper made use of relevant literature in regard to benefits, challenges and experiences of market liberalisation in trading blocs and markets that have progressed with respect to liberalisation. To complement the desktop assessment, the paper also incorporated a pragmatic approach which was embedded on interviews sessions with stakeholders in order to derive inputs for market liberalisation options. During interviews, the instrument that was used to gather information and input provided by the operators was a questionnaire (see Appendix A).

There were three overarching questions (namely the use of permits, market access and quality regulation) that were covered by the questionnaire which also had sub questions that were aimed at responding to options of market liberalisation. Since the questions were aimed at deriving views on statements that allude to market liberalisation condition, projects and processes.

The questionnaire responses were evaluated using a Likert scaling method which ranges from 1 to 5, where 1 represents strongly agree and 5 represents strongly disagree with 3 representing –neutral/ I don't know response. The questionnaire respondents were anonymous in order to allow them to answer honestly without fear of bias.

The participants included stakeholders that would be affected by liberalisation from an orientation such as African Revenue Service (SARS), Cross border freight operators, Route Management structures amongst others

4. REGULATORY REFORM: INTERNATIONAL EXPERIENCES

This section is aimed at firstly outlining the options for regulatory reform many regions have undertaken to achieve liberalisation. The second part of the section assesses the various trading blocs that have made steps towards liberalisation. Furthermore this chapter also analyses the steps taken and the challenges met by each of the trading blocs. The trading blocs assessed include the European Union, Asia-Pacific Cooperation Forum and North American Free Trade Agreement.

4.1 Liberalisation in the European Union

According to Woodburn, et al., (2008) The European Union provides an example of the liberalisation of international road freight transport movements between member states. The origin of the liberalisation of trade and freight transport movements in the European Union was in the Treaty of Rome and the formation of the European Economic Community. This treaty provided for the establishment of a common transport policy, based on principles of free market economics, which was intended to remove quantitative restrictions to market access, such as bilateral quotas of permits could not be simply abolished (Heritier, 1997). Ultimately liberalisation of international road freight

was completed by 1998. Woodburn, et al., (2008) highlights that liberalisation in the EU was supported by a change in the regulatory framework, from quantity regulation (which can be defined as regulating based on permit issuance and quotas) towards quality regulation (which can be defined as regulating based on a set of minimum standards such as licensing requirements in order to enter the market, driver training, vehicle fitness and driver wellness amongst other things.) According to European Commission (2009) this change in regulation ultimately resulted in the growth of road freight, such that in 2006, the EU road freight transport showed the fastest growth in performance and increased by 25% compared with 2000 on the basis of continuous annual increase over the period 2000-2006.

4.1.1 Path towards Liberalisation in EU

A decision of the European Court of Justice initiated a period of fast liberalisation, which focused on the road haulage market. It permitted the free movement of people, goods and services in the EU were declared a guiding principle. According to the OECD (1997), there were key decisions taken moving forward in an attempt to further liberalise markets, however the move towards harmonisation lagged behind, some of the most important steps towards liberalisation included;

- ❖ Harmonisation of maximum weight (40 t) and axle loads / 11.5)
- ❖ Agreement on upper and lower limits for fuel taxation;
- ❖ Abolishment of obligatory tariffs for national transport;
- ❖ An increase in EU road haulage licenses;
- ❖ Easier access to the road freight transport market through an increase in the number of licenses awarded and less severe qualifications for entrepreneurs; and
- ❖ An agreement on extending quotas for the permission of cabotage in road freight transport, and free cabotage in the year 1998.

4.2 Liberalisation in NAFTA

According to Lakshmanan and Anderson (1999) liberalisation was underpinned by the Canada - U.S. Free Trade Agreement (CUSFTA), which went into effect in 1988 and served as precursor for the North American Free Trade Agreement (NAFTA) which is made up of the U.S.A, Canada and Mexico.

Liberalisation is unique in NAFTA given the fact that the partners are few and are a diverse group in terms of size, level of development, and the role of trade in their economies. This is reflected their Gross Domestic Product (GDP) levels with the United States ranked 1st in the world with a DGP of 17,419,000 trillion, Canada ranked 11th with a GDP of \$ 1,785,387 trillion and Mexico ranked 15th with a GDP of \$ 1,294,690 trillion (World Bank 2014). While, there is evidence that the economies vary in their level of development amongst themselves and the rest of world. It should be noted that the U.S and Canada have established policies that seek to support the removal of barriers and restriction between each other while relations with Mexican

relations are based on shaky historical foundations (Lakshmanan and Anderson, 1999). Sommer, (2008) adds that Liberalisation of freight between the two member States with Mexico has been delayed, ostensibly due to safety concerns, but more likely for political reasons. Because over half of percentage of trade with Mexico travels by truck, the need to resolve the situation is of utmost importance. The situation between Mexico and Canada is very ambiguous given the fact that not much trade takes place as compared with the U.S

4.2.1 Path towards Liberalisation in NAFTA

NAFTA provides a definite but slow path for liberalising of trans-border trucking. This view is underpinned by the view that additional work needs to be done on the Mexican side where the pace of removal of economic restrictions is a function of how economic benefits are balanced by political and social considerations. Although NAFTA is configured of only three countries, the situation is still hampered by the level of growth of these partners, which limits the realisation of a total liberalised market within the trading bloc. However it should be noted that the creation of a free trade area, which facilitated the opening up of borders separating the countries basis for has been instrumental in the realisation of minimal liberalisation within the trading bloc.

4.3 Comparison

The table below attempts to summarise some of the steps that have been taken by each of these countries, the benefits and the challenges.

Figure 2: Regional comparison

REC	Step taken to liberalize	Benefits	Challenges
EU	<ul style="list-style-type: none"> • Phased approach to deregulation • Minimum harmonization of conditions, standards, and mutual recognition of country differences etc. • Foreign operator quotas were removed and replaced with qualification criteria of drivers to be granted a license and granted approval by government regulator. 	<ul style="list-style-type: none"> • Road transport became competitive and thus cheaper • Quality of service improved immensely • Road freight grew by 25% from 200-2006 	<ul style="list-style-type: none"> • Uncertainty as to the common European approach versus country approach • The more sensitive areas of harmonisation such as taxation remain an area of discord • Issue of cabotage remains a point of debate: temporary cabotage versus permanent cabotage.
REC	Step taken to liberalise	Benefits	Challenges
NAFTA	<ul style="list-style-type: none"> • The creation of a free trade area in 1994 established a solid foundation for minimal 	<ul style="list-style-type: none"> • Production and transport firms rationalised 	<ul style="list-style-type: none"> • Uneven barriers of Trans-border traffic between Border States US-Canada

	liberalisation within the trading bloc. <ul style="list-style-type: none"> • Tariffs and non-tariff barriers were aborted for a 10 year period. • Consonant and complementary policies in transport deregulation 	logistical systems for a single North American market.	versus US-Mexico. <ul style="list-style-type: none"> • Cabotage rules remain and hinder Trans-border operations, • Harmonization is probably an unrealistic goal, but inconsistencies can be eliminated.
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4.4 THE SOUTHERN AFRICAN CONTEXT- Current Scenario

This section aims to analyse the steps which were undertaken in the past to liberalise market access in SADC. Secondly, unravel the current approach to liberalise market for improved trade and economic development as set out in the SADC Protocol. Interventions relating to market liberalisation are contained in the SADC protocol under article 5.1.

The region, adopted an approach which is similar to that of NAFTA. The approach is called a linear or conventional approach, as it starts with a free trade area (FTA) then migrates to a customs union, then a common market and ultimately a monetary union. However, while the region agreed on the approach to achieve liberalisation, implementation has lagged behind. According to SADC (2010) some of the challenges identified have been the; lack of political buy –in, the issue of national interest versus regional benefits, and fear of unfair competition in the region, thus hampering the progress of improving the competitiveness of the region. While, it can be said that the region has undertaken some steps in terms of agreeing on the approach towards liberalising however, this minimal progress has been overshadowed by lack of implementation.

In light of the above, the region through engagements and consulting has agreed in principle to adopt the same approach that the EU adopted called quality regulation. According to SADC (2013) the basis for this approach is that regulatory authorities along with government should define measurable, practical standards for the operation of transports. In essence the operators should comply with specific licensing requirements in order to enter the market which is different from the current biased regulatory framework which requires operators to have a permit to operate. Any operators that can meet these standards will be able to enter the market, in that way the market will be liberalised since entry will be based on complying with minimum standards and regulations in order to enter the market.

In light of the considered literature and the above, it can therefore be deduced that the envisaged approach by SADC has the potential to yield tangible results based on the example of the EU. The basis for this argument is anchored on the fact that the linear approach has not had the same impact and progress even in the case of NAFTA compared to the quality regulation approach adopted by the EU. Of importance to note is that the proposed quality regulatory framework will be able to address the following.

- Through quality regulation, a climate will be created that facilitates trade by allowing compliant operators to trade across border if they meet the set minimum standards of operations;
- Through quality regulation the onus lies with the operator to enter and trade freely within the market, they will not have to wait for the relaxation of certain barriers to operate; and
- Improved trade within the region will be realised through optimisation of trips, since compliant operators will enjoy benefits through accredited schemes thus meaning less stops for them along corridors. In essence this approach will also respond to corridor constraints and delays which ultimately increase the cost of doing business in the industry.

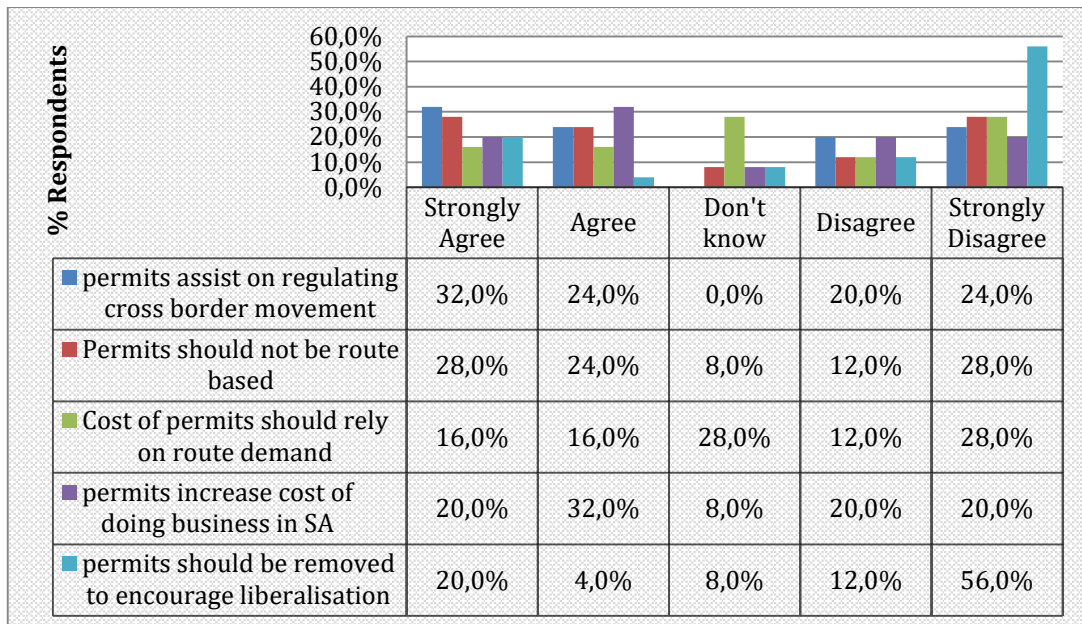
5. Analysis of Stakeholder Input, Findings and Discussions

This section will deal with the analysis based on the responses from the stakeholder on various aspects of market liberalisation that were provided in the questionnaire. In total, there were 50 operators who responded to the questionnaire. 80% of the questionnaires were distributed manually when the operators had attended a C-BRTA workshop. The other 20% responded to the questionnaire that had been distributed via email. Three of the survey forms were disqualified because the questionnaires were partially filled and this left the study with 47 questionnaires for analysis. The potential sample representatives error arising from the input of only 47 respondents is unclear as the current numbers of operators that sit within the C-BRTA database at any one time are unpredictable as many of them are small operators whose businesses tend to be unsustainable. Therefore, in terms of measuring the sample against the required database and projecting it as the representative input of all the operators at the C-BRTA, the sample size is too small and therefore the value of what the input they provide was analysed in a qualitative rather than quantitative manner.

5.1 Permit use analysis

The section analyses the various aspect of the use of permits in regulating, control and monitoring of the cross border movement. Figure 4 provides the analysis of the results given by the respondents with respect to the various questions and statements alluding to the use of permits when the intention and end goal is market liberalisation.

Figure 3: Use of permits in cross-border regulation



- **68%** of the respondents disagree that permits should be removed to encourage liberalisation because the operators understand the value of monitoring the goods and passenger flow into the country. Furthermore, there is an understanding from stakeholders responses, that there is need to filter access in terms of who can be allowed to transport goods across borders.
- **A total of 56%** of the respondents agreed or strongly agreed that the role of permits is to regulate the movement across borders which is in line with the original founding principles of the agency's mandate whereas 44% of the respondent disagree. This implies that the role of permits to operators as a value add maybe unclear and would need further clarification based on the Agency's mandate.

5.2 Open Market Access

One of the major underlying principles of market liberalisation is to enable free market access to the region through the removal of country boundaries, trade barriers and to encourage the free movement of people across borders within the region. The major shortcomings of allowing open market access are the fear of competition and the risks associated with contraband and illegal as well as inferior goods penetrating the market. Open market access therefore appears not to be practical due to such consequences.

a. Domestic market access

The question alluding to cabotage is meant to assess whether South African operators are ready to embrace competition from foreign operators, penetrating the market. Some of the risks were identified in the workshop. Once more the respondents are split with 28% of the respondents agreeing to allow cabotage and 48% disagreeing to the practice. 28% of the respondents do not know and are neutral and the finding shows that the operators have a much greater understanding of the need to respond to changing market conditions, which the organisation should be able to respond to appropriately.

b. Regional Market Access

In an attempt to assess the understanding of the operators in terms of what it means to open South African borders to a common SADC market, a question was asked as to whether SADC is ready to liberalise road freight market. Based on the responses, 28% of the respondents disagreed to remove market restrictions, with an astounding 40% of the operators not knowing what the implication of market liberalisation. This is a major hindrance to political lobbying, with regards to achieving liberalisation through the SADC protocol implementation.

5.3 Quality Regulation as tool to liberalise market in road freight

With literature demonstrating that quality regulation can be used as a tool to drive the process of liberalising market within a trading bloc. It was important to establish from operators, if they viewed quality regulation as an ideal tool for SADC to achieve market liberalisation in regard to road freight market. Of interest to note is that 42% of respondents agreed that quality regulation can be the instruments that can drive market liberalisation within the freight industry in SADC. While, 30% of the respondents do not know the implication that quality regulation will have on market liberalisation of road freight in the SADC region. .

6. MAJOR CONCLUSIONS

The purpose of this paper was to analyze and assess the capacity and progress being made to liberalise market access with specific regard to road freight in the SADC region. The study aimed to show that a liberalised market access can be beneficial to both South Africa (SA) and the SADC region because SA remains the largest economy in the region accounting for 62% of regional GDP.

Some of the progressive or gradual liberalisation options that have been implemented internationally in trading blocs like EU, NAFTA, APEC, etc that have improved trade and economic development and can be beneficial for SADC are the following: removal of barriers in free market which include price, frequency and entry. It was also evident that progressive liberalisation can be advocated within the SADC environment through adopting regulatory reform, to remove the barriers that inhibit a country's ability to develop and grow in the trade sector in the case across border

With regard to the stakeholder inputs on the options for liberalisation within the SADC, the section was aimed at collating the stakeholder input from an operator perspective on various liberalisation and market access options within the SADC market. The questions were all aimed at deriving opinion on statements that allude to market liberalisation condition, projects and processes. In total there were 50 operators who responded to the questionnaire.

The major findings of the study are that the stakeholders (operators) are aware of the advantages of liberalisation at generic a level, its impact on the ease of doing business and the steps taken to expand and improve market

access. Secondly, there is a limited understanding of what quality regulation is all about and what it seeks to achieve in relation to achieving a liberalised road freight market. There is also a limited appreciation of the benefits that can be derived by operators and the economy through the realisation of a liberalised road freight market. Lastly, respondents unfortunately displayed a lack of understanding of the strategic intent of progressive liberalisation and its benefits. From a perspective that operators didn't foresee liberalisation enhancing the current state of affairs such that the movement of goods across borders becomes seamless and less expensive.

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Appendix A: Questionnaire

Q n	To what extent do you agree to the following options for liberalisation and/or harmonisation	Response (1 -5)	Response
1	Permits assist the country to monitor movement of good and passengers across borders		Strongly Agree
2	Permits should not be routes based		Agree
3	The cost of permits should rely solely on demand for that route		Neutral/Don't know
4	Permits increase the cost and time of doing business across borders		Disagree
5	Permits should be done away with and encourage free movement of goods and people from SA		Strongly Disagree
6	South Africa should allow foreign operators to do business in south Africa (cabotage)		
7	Quality regulation will work in the context of SADC		