



Regional Integration in Southern Africa - Vol. 1

South Africa's International Trade Diplomacy Implications for Regional Integration



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Vol 1

South Africa's International Trade Diplomacy:

Implications for Regional Integration

A study conducted for the
Friederich Ebert Foundation

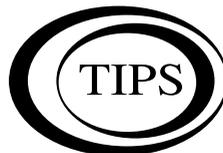
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Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community, SADC is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation through its office in Botswana and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on “Deepening Integration in SADC – Macroeconomic Policies and their Impact”.

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries followed the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana and in April 2005 in Stellenbosch, South Africa the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study on the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis a vis SADC. A study on South Africa’s international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. I commend all of them for their great commitment as well as their

great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled "Regional Integration in Southern Africa".

The first volume, presented here, contains the findings of the contextual study by the South African Institute of International Affairs, SAIIA and Trade and Industrial Policy Strategies, TIPS, both from South Africa. My special thanks go to the authors of the book, to Peter Draper, Phil Alves and Mmatlou Kalaba for writing and revising the document as well as to Andreas Korn for designing the cover as well editing the layout.

Gaborone, July 2006

Dr. Marc Meinardus

Resident Representative

Friedrich Ebert Foundation -

Botswana Office

Executive Summary

Deepening processes of economic integration requires a willingness on the part of member states involved in such processes to pool sovereignty. Yet in the SADC context it is not clear whether member states are willing to cede real sovereignty, or at least a sufficient quantum to construct a real customs union by 2008 as proposed under the RISDP. Furthermore, it is well-known that the region is divided on this question with a number of member states “hedging their bets” through membership of other regional bodies.

In the South African case much political and institutional capacity has been expended in re-establishing the Southern African Customs Union (SACU) as the core platform from which to integrate into the global economy. So the extent of the South African government’s political commitment to the SADC Customs Union project (a key RISDP goal) is not clear.

If South Africa were an “ordinary” SADC member state this need not necessarily constitute a problem. But it is not. It dominates the region economically (accounting for about 60% of SADC total trade and about 70% of SADC GDP)¹, rendering it indispensable for any economic integration process. In the Southern African region only South Africa has the requisite economic capability and levels of diversification to drive economic integration in a mutually beneficial manner.

Yet at the same time as South Africa is integrating with the region, it is also conducting an active trade diplomacy agenda across the world. Agreements currently under negotiation at various levels and in different forums have the potential to substantially alter the playing field: in South Africa, regionally, and internationally. These potential agreements, discussed in Section 4, will have major implications for the conduct of business in the region.

This agenda holds the following strategic implications for SADC’s plans:

- a. First, SACU, and not just South Africa, is negotiating these arrangements. This process should strengthen SACU’s institutions and separate it further from the region in terms of its global connectedness.
- b. Flowing from this, as SACU’s negotiated concessions start to bite they will have implications for regional businesses concerned with accessing the South African market.
- c. This will intensify regional competition, hopefully generating positive spillovers in terms of competitiveness, consumer benefits, and regional industrial relocation.
- d. However, depending on how regional producers respond it may undermine the

1 African Development Indicators. World Bank Database, Global Indicators (2005)

process of regional economic integration by foreclosing economic opportunities opened up through the SADC FTA.

Therefore, in order to better understand the trajectory of regional economic integration it is necessary to get to grips with South Africa's trade diplomacy, and for the purposes of the broader FES project relate this to its implications for the goals put forward in terms of the RISDP. This assessment begins with an analysis of African development priorities, particularly with respect to foreign direct investment (FDI) needs and trade. That sets the scene for a focused analysis of South Africa's African expansion via FDI and trade, and the implications this holds for African development.

1. Introduction

This report is part of a project sponsored by the Friederich-Ebert-Stiftung (FES), the purpose of which is to assist the Southern African Development Community (SADC) Secretariat in understanding member states progress towards implementing their commitments under the Regional Indicative Strategic Development Plan (RISDP) and the respective protocols and other legal instruments, especially those concerning economic issues, such as macroeconomic convergence and regional trade. Given South Africa's size, strategic importance in the region and centrality to deepening economic integration, an assessment of its trade negotiations agenda is required to inform the broader research process.

Why? That depends on how one views processes of integration amongst developing countries.² Proponents of the "New Economic Geography" advance strong arguments against promoting south-south economic integration schemes amongst poor developing countries.³ The theory predicts that whilst all countries in such schemes have a comparative disadvantage in manufacturing relative to the global economy, there will be one with less of a disadvantage than the others. Hence industrial activity will tend to relocate to the relatively advantaged country at the expense of the others.

This effect will be aggravated by agglomeration economies, which promote industrial concentration in the relatively advantaged country. Furthermore, as tariff levels decline overall within the RIA so those countries suffering from industrial relocation will also experience trade diversion effects - importing relatively expensive goods from the growing industrial centre rather than more efficient global producers, thereby lowering their overall welfare. Meanwhile, the favoured country will gain as regional industry relocates to its soil and real wages rise as a result. Clearly these effects would generate substantial political tensions over time which in turn would undermine economic integration processes.

But it is debatable whether this is the appropriate way to characterise integration in Southern Africa. To be sure, South Africa is amongst the easier places to do business, not least because of its stronger links with the world economy. But in the regional context, South Africa represents far more than simply the country with 'less of an advantage in manufacturing.' Compared to much of the SADC region, South Africa is

2 This discussion is taken from Peter Draper and Nkululeko Khumalo (2005) "Friend or Foe: South Africa and Sub-Saharan Africa in the Global Trading System", in Draper P. (ed.) *Reconfiguring the Compass: South Africa's African Trade Diplomacy*. Johannesburg: South African Institute of International Affairs.

3 For an exposition of this logic see World Bank (2000), *Trade Blocs*, Policy Research Report, Oxford University Press, pp. 51-61

a highly developed, well-diversified, “northern” partner. This brings into play the logic of north-south economic integration, which is much more compelling: it reinforces comparative advantages, promotes income convergence, and over time should also promote knowledge transfers from developed to developing countries. Arguably this describes well the pattern of South Africa’s commercial engagement with the region and Africa more broadly. Thus, in a strictly economic sense, South Africa’s relations with the region should be characterized as north-south, and therefore on balance mutually beneficial. In the region only South Africa has the requisite economic capability to drive economic integration in a mutually beneficial manner.

Broadly, the report is structured as follows:

- a. A discussion of regional development priorities, particularly relating to trade and foreign direct investment (FDI);
- b. An associated assessment of whether South Africa’s expanding African footprint is in consonance with those priorities;
- c. A qualitative overview and assessment of South Africa’s trade diplomacy and its regional implications, notably its potential impact on the goals set by the RISDP;
- d. A quantitative assessment of the same focused on key products exported from the region into South Africa.

2. African Development Priorities: FDI and Trade

2.1 Issues in African Development

Conventional wisdom has it that poor countries suffer from a development “vicious circle”: predominant subsistence production inhibits accumulation of savings; low savings means low investment; low consumption further inhibits investment; and because investment is low economic growth is stagnant⁴. This scenario is applied to Africa, where economies are typically small and subsistence-based. In this view the problem is exacerbated by market access barriers in developed country markets, further inhibiting the incentive to invest, particularly for export. Exports, in turn, are characterised by commodity-dependence, whilst commodities have suffered from a long-term decline in their terms of trade. And chronic supply-side deficiencies, principally poor physical and financial infrastructure and low levels of human resource development further inhibit market integration and investment prospects. This circle is compounded by chronic balance of payments difficulties, characterised by large current account deficits⁵. This inhibits afflicted countries’ ability to import goods critical to domestic production and consumption, further entrenching the circle⁶.

There is an intellectual inconsistency with the notion of a “vicious circle”. As Peter Bauer reminds us⁷, if there was such a thing no developed country would be developed today given that their starting points were similar to those contemporary African states face. He goes further in asserting that capital is the product of development, rather than its prerequisite. Hence in his view development can take place in the presence of seemingly overwhelming obstacles provided the people and society want it, pursue the appropriate means for it, and the international economic environment is conducive to it. Central to his perspective is the role that trade plays in linking poor societies into the global economy.

Furthermore, perhaps too much is made of the apparent unsustainability of

4 UNCTAD (2004) The Least Developed Countries Report, Overview, May, Geneva. See especially PP 2-3.

5 Out of 51 African countries for which data were available 14 had current account surpluses and 37 had deficits, of which 25 had deficits exceeding 5 percent of GDP, in 2003. Nnadozie E and A Elhiraika (2005) “Capital Flows to Africa: Recent Evidence and Implications for Current Account Sustainability” in United Nations Economic Commission for Africa: Capital Flows and Current Account Sustainability in Africa, Economic and Social Policy Division, December. P8.

6 Ibid, P5.

7 Bauer P (2000) From Subsistence to Exchange and Other Essays. Princeton: Princeton University Press. See especially chapter 1.

current account deficits. Max Corden elegantly points out that, in principle, it is not the absolute level of the current account deficit that matters, rather the factors that drive it and, as a separate but related concern, the stability of the real exchange rate⁸. Concerning the former, he argues that it is the mix between public and private sources, and within each the balance between investment and savings, that matters. The issue in the African context is whether chronic current account deficits are caused by productive private sector investment or consumption expenditures (either government or private). If it were the latter then presumably debt financing is likely to be more sustainable to the extent that such productive investment enhances export capacities and production diversification. However, Fosu argues that it is the latter⁹. This being the case the risk is that a build-up of external debt used to finance domestic consumption will precipitate a currency crisis. So clearly deficits have to be monitored from the standpoint that they may increase country risk but they are not inherently problematic provided they can be financed.

In the conventional view external financing alleviates balance of payments constraints by supporting the current account. It is also critical to boosting domestic savings and investment thereby inserting the economy into a higher growth plane. This is the essence of the Jeffrey Sach's-led Millennium project's recommendations¹⁰. The problem in the African context is that the dominant source of external financing has historically been official development assistance (ODA)¹¹. Hence the millennium project, the UK's Africa Commission and the G8 have all emphasised boosting ODA flows to developing countries, especially Africa.

However, this situation is reflective of generally weak capital markets and shallow financial systems as there is no shortage of capital for emerging markets globally. Furthermore, Bauer argues that aid inflows, presently the dominant source of external financing for many African countries, are not without problems¹². He identifies four: first, in his view the assumption that poor countries cannot develop in the absence of Western largesse is condescending and undermines domestic initiative. Second,

8 W. Max Corden (1997) *The Road to Reform: Essays on Australian Economic Policy*. Melbourne: Addison Wesley. See Chapters 17 and 18.

9 Fosu A (2005) "Main Policy Recommendations" in United Nations Economic Commission for Africa, op.cit. P26.

10 Sachs et. al. advance the argument that the primary cause of Africa's underdevelopment is chronically low savings, and therefore massive infusions of external capital via development assistance are required to break out of what they describe as a "poverty trap". See "Ending Africa's Poverty Trap", Brookings Papers on Economic Activity, 2004, vol.1. See also Peter Draper, column in *The Exporter*, a Business Day supplement, February 2005 for an analysis of the UK's Africa Commission, the Sachs Report, and the Sutherland report on the Future of the WTO for their implications for Africa's development.

11 Nnadozie E and A Elhiraika op.cit P6.

12 Op.cit. Ch 5.

he argues that aid can create a vicious circle of dependence (on Western largesse), thereby defeating its own objectives. Third, he points out that large inflows of aid can generate a “Dutch disease” effect of exchange rate appreciation thereby undermining domestic (and most likely nascent) industrial development. Fourth, he is concerned that channelling aid through governments’ accords rulers extended powers of patronage. Central to this is his concern that in many poor countries governance is part of the development problem; hence aid might only reinforce this problem.

In light of Bauer’s critique attracting FDI is an attractive alternative. Most economists are agreed on this point. However, sustained FDI inflows are elusive, especially for poor countries, where they are often destined for commodity export production potentially of an enclave nature. A range of disincentives to FDI have been identified, and need not detain us here as they are well documented. These problems are manifest in the African context and provide the crucial backdrop for understanding the generally positive economic impact of South African FDI on the continent, and Southern Africa in particular. That is explored in Section 3.

Notwithstanding the caveats noted here, the challenges facing African economic policy makers are formidable. And to these economic problems we must add a political dimension. Developmental conditions in Africa stand in stark contrast to those experienced elsewhere. Two features stand out: large geographic states with small, dispersed populations¹³. These features, taken together, inhibit the establishment of strong (developmental) states capable of controlling their borders and delivering development across their geographic expanses. They also ensure continued political instability in countries where populations are widely dispersed and ethnically diverse. And small populations mean small markets, which in turn limits domestic investment and the prospects for either market-seeking or efficiency-seeking FDI. Hence Africa stands in stark contrast to the developmental states of East Asia.

Altogether it is not surprising that many commentators on Africa suffer from what UNCTAD terms “development pessimism”. In this view policy options are severely constrained¹⁴:

Development pessimism is shared by those who would argue that the state should play a minimal role in guiding economic activity in developing countries, and also those who argue that it should play an important role but cannot do so because international rules reduce “policy space” and thus prevent countries from doing what they need to do. Within an LDC (African) context, weak State capabilities are added as a further ingredient reinforcing the view that development promotion simply cannot

13 See Herbst, J. (2000) *States and Power in Africa: Comparative Lessons in Authority and Control*. Princeton: Princeton University Press.

14 UNCTAD (2004) *The Least Developed Countries Report, Overview*, May, P34.

be done. Development pessimism has led to the view that the best way to reduce poverty in the LDCs and other developing countries is not through development but rather through closer integration with the world economy.

It is apparent from the exposition above that we partly share the development pessimists' view; subject to Peter Bauer's injunctions that development does not depend on external forces but on domestic initiative and aptitudes. On this front he is not sanguine about Africa's development prospects, and nor are we.

Whilst such concerns are a critical backdrop to this report, they are not the focus. Rather, this report is concerned with Southern Africa's relationship with the global economy through the prism of its economic relations with South Africa. We are primarily concerned with the question of whether South Africa's re-emergence onto the global stage is of economic benefit to the region, and if so whether it's global trade diplomacy is inhibiting those benefits through undermining regional economic integration. In pursuance of this question the challenges for African development identified in the discussion above are explicitly related to South Africa's African thrust in Section 3. First we elaborate on Africa's broader insertion into global trade and FDI relations to set the scene for the analysis in Section 3.

2.2 Developing Countries in World Trade and FDI: Concentration and Dispersion

Clearly no society exists in a vacuum. Today's global economy is dynamic and increasingly intertwined. International trade and investment flows are on an absolute order of magnitude never seen before; even if in relative terms the global economy is not as integrated as it was by the end of the nineteenth century. This integration affords those countries plugged into mobile flows of trade and investment the opportunity to leverage external resources for domestic development. The issue is how to access external resources on a sustainable basis, in a manner that complements domestic development strategies. For as Joseph Stiglitz soberly reminded us in the aftermath of the 1997-1998 Asian financial crisis, opening up to these flows, especially on the financial front, is fraught with dangers and needs to be carefully managed¹⁵.

Crucially, this requires strong states capable of managing markets prone to failure, collecting and directing resources to areas where it is most needed. Unfortunately this is a circumstance mostly lacking in the African context where governance problems and incapacities abound. Worse still, globalization has largely passed Africa by. Far from having experienced too much of this complex process, the continent is marginalised

15 Stiglitz J. (2002) *Globalization and its Discontents*. London: Penguin.

from it. Nowhere is this more evident than in trade and FDI flows.

In the 1990s developing country economies, whilst showing regional variations became considerably more open to trade than their developed country counterparts based on trade to GDP ratios¹⁶. LDCs, in particular, were more open than their developed country counterparts¹⁷. Furthermore, developing country participation in world trade flows rose substantially. Certainly, a single decade is not enough to judge by, yet we can note that despite these aggregate increases in participation in world trade, developing countries generally remain under-developed.

However, we should not hastily conclude that more trade is associated with low levels of development either. Dollar and Kraay note that countries that have become more open to trade have tended to grow faster than relatively more closed economies¹⁸. Furthermore, much of the negative critique of globalisation is grounded in the obvious and growing gap between those countries that have dramatically succeeded in their economic development and the bulk that haven't. As Henderson notes¹⁹, focusing on this gap is problematic for two reasons: it ignores the fact that many countries are actually growing and developing albeit not as fast as their successful peers; and it obscures the fact that trade integration per se is not to blame for the laggard's relative underperformance – rather a host of domestic factors are equally if not more to blame.

Developing countries as a group continue to rely on exports of commodities to developed country markets in order to generate the requisite foreign exchange for importing advanced manufactures from the developed world. But the WTO secretariat notes that the contribution of commodities to the aggregate basket of exports from developing countries has declined 'dramatically' since 1955, when they accounted for more than 90%, to below 30% at the end of the 1990s. They note further that this decline accelerated 'sharply' from the mid-1980s, roughly coinciding with the onset of extensive trade liberalisation in the developing world. They attribute this positive story to the decline of the contribution of fuels on the one hand, but more importantly to the rise of office and telecoms equipment exports.

16 WTO Committee on Trade and Development, (2002), 'Participation of the Developing Countries in the Global Trading System', June 19. However, there is the apparent exception of the Arab states. This could possibly be explained by their reliance on exports of fuels and associated variations in the oil price. 1990 was the year Iraq invaded Kuwait, causing a spike in the oil price. If this is the case, it also entreats us to be cautious about relying on data comparisons drawn from only two observations (i.e. 1990 and 2000).

17 UNCTAD (2004) The Least Developed Countries Report, Overview, May, P5.

18 Dollar, D., and Kraay, A., 2001, 'Trade, Growth and Poverty', Development Research Group, World Bank, www.worldbank.org,

19 David Henderson (2004) "Globalisation, Economic Progress and New Millennium Collectivism", *World Economics*, 5(3), July-September.

This positive picture is qualified by regional variations: Africa and the Middle East continue to rely on commodity exports for more than two-thirds of their total exports; Latin America has substantially reduced its reliance although at 40% it is still high; whilst developing Asia's share stands at approximately 15%. And the WTO Secretariat notes that a handful of countries drove this overall transformation within each region²⁰. Hence developing country success in world trade is concentrated in a few, principally East Asian, high performers. This is a salient manifestation of the agglomeration dynamic outlined above.

Furthermore, UNCTAD argues that whilst it is true that developing countries' share of world trade in manufactures has increased, their share of manufacturing value-added has not. They assert that²¹:

... few of the countries which pursued rapid growth in manufacturing exports over the past two decades achieved a significant increase in their shares in world manufacturing income ... for many developing countries, getting the most out of the international trading system is no longer just a matter of shifting away from commodity exports.

They argue that much of the increase in manufacturing exports in developing countries is resource-based, rather than technology-intensive. In this regard, they confirm that the growing share of 'dynamic' exports from developing countries is driven by a small group, principally the East Asian newly industrialized countries (NICs). Furthermore, they assert that 'none of the countries which have rapidly liberalised trade and investment in the past two decades is in this group²². Importantly for our purposes, no African country is found in this group, including South Africa.

In UNCTAD's view a large part of the explanation for these concentration patterns is to be found in the fact that global flows of productive investment and trade are contained within multinational corporation (MNC) networks. Those networks are centred on the developed countries of the OECD, incorporating selected developing countries into international production and associated services networks. In this regard, UNCTAD²³ notes that, notwithstanding the fact that global FDI flows are reaching more countries over time, notably China, India, and Brazil, the world's top 30 host countries account for 95 percent of total world FDI inflows and 90 percent of stocks.

Furthermore, control over the generation and diffusion of information technology, increasingly central to corporate processes, is located predominantly within MNC networks. The pace of innovation, notwithstanding the recent collapse of the 'tech

20 WTO (2002) Annual Report, Ch 2.

21 UNCTAD (2002) Trade and Development Report, Overview, PVII.

22 Ibid, PVII.

23 UNCTAD (2001) World Investment Report – Promoting Linkages, Overview, Geneva: p5.

bubble', is rapidly advancing, leaving many developing countries behind. These technologies enable MNCs to retain high-technology processes at home, whilst hiving off lower-end assembly and processing to developing countries that have cost or location advantages.

Yet the bulk of global FDI flows are now in services, not manufacturing. Services account for approximately two thirds of the global FDI stock²⁴. This FDI is primarily market-seeking, increasingly disconnected from FDI in manufacturing from home countries, and concentrated in backbone services such as finance, electricity, telecommunications, and business services. Consequently it follows the general pattern of FDI flows in being sourced from and concentrated in developed country markets. Even the recent offshoring phenomenon is concentrated, in four countries: Canada, India, Ireland, and Israel.

So the tendency towards concentration of participation in world trade flows is matched on the foreign direct investment front. An essential caveat, however, is that a selected few countries, mostly in East Asia, have been incorporated into an expanding international division of labour. The charmed circle has widened to include China, Brazil and Mexico, with India starting to catch up now.

Yet from a developing country perspective some positive trends are discernible. First, MNCs are increasingly relocating research and development resources into selected regions and countries. And their role in such countries' R&D effort is generally increasing²⁵. The bad news is that Africa, again barring the South African exception, does not feature in this trend at all²⁶. More worryingly, whilst this concentrated dispersion of R&D activity is set to increase UNCTAD do not identify the requisite attractors, notably a sophisticated "national innovation system" in African countries. Hence Africa seems set to remain locked into commodity-dependent production patterns for the foreseeable future; again with the possible South African exception.

Second, developing country MNCs are increasingly getting in on the action. They now account for about 10 percent of global outward FDI stock. This trend has prompted some observers to argue that a new economic geography is emerging. Partly this reflects increasing participation of developing countries within global trade flows, as noted above. Furthermore, a substantial portion of developing country FDI outflows are destined for other developing countries, and such flows are growing faster than flows between developed and developing countries²⁷. Apparently this has

24 UNCTAD (2004) World Investment Report – The Shift Towards Services, Overview, Geneva, P15.

25 UNCTAD (2005) World Investment Report – Transnational Corporations and the Internationalization of R&D, Overview, Geneva, P22.

26 Ibid, P27.

27 UNCTAD (2004) World Investment Report – The Shift Towards Services, Overview, Geneva, PP5-6.

largely been driven by China and India's energy acquisition, including into Africa, but manufacturing and services are becoming more important²⁸. Developing country MNCs have a competitive advantage in operating in developing country markets based on their experiences at home. Their expansion is also being fuelled by high domestic growth rates, relative to those experienced in most developed country markets²⁹. And these MNCs are increasingly developing their own production networks independently of developed country MNC networks - South Africa's relations with Africa being a case in point. However, a major drag on this thrust is capital controls at home³⁰.

2.3 Implications for Africa

On the trade front Africa (including North Africa) is by and large incorporated into the global economy as an exporter of commodities, primarily to the European Union, and importer of manufactures and services. This reflects comparative advantages. Domestic markets remain small, dispersed, and primarily subsistence-based, and this will likely change relatively slowly over time. And as noted earlier, it is not clear that regional integration by itself will favourably change this picture for most countries. Of course this aggregate picture requires some nuancing. For example, Kenya is emerging as a regional manufacturing hub for East Africa, exporting increasingly substantial quantities of manufactures to its neighbours. South Africa, the focus of this report, clearly does not fit this bill either. But by and large the picture holds true for much of the continent.

Therefore global swings in commodity prices are particularly important for economic growth in Africa³¹ and for all countries in SADC in particular. The experience of resource-rich developed countries such as Australia and Sweden suggests that provided resource-rents are appropriately managed and invested a resource-curse need not necessarily obtain³². Unfortunately this is proving challenging in Africa given weak state capacities and, in some cases, poor governance.

The picture is similar on the FDI front. Again Africa attracts marginal FDI flows compared to the rest of the developing world, consistently in the region of 2 to 3

28 Quentin Peel (2005) "South's rise hindered at home", Financial Times, November 18th.

29 Jonathan Katzenellenbogen (2005) "A new breed of giants is born", Business Day, November 17th.

30 Peel, op.cit.

31 Nkurunziza JD. (2005) "The 'right' growth for Africa", Project Syndicate, available at www.project-syndicate.org.

32 See Bonaglio F. and K. Fukasaku (2003) "Export Diversification in Low-income Countries: An International Challenge After Doha", OECD Development Centre, Working Paper No. 209.

percent of total outward flows³³. These flows are proportionate to Africa's relative economic weight in the global economy. And they are concentrated in the top ten recipients which consistently account for more than three quarters of FDI flows into the continent³⁴. Concentration in FDI destinations is matched on the source-end as only three countries (France, the UK and the US) accounted for 70 percent of FDI inflows in the period 1980-2000³⁵. This pattern is very different to the one that has taken shape in East Asia, especially China, for which the bulk of developing country FDI flows are destined. That investment is both market-seeking and efficiency-seeking, and more broadly spread thereby entrenching the region's emergence as a twenty-first century economic powerhouse.

FDI inflows into Africa are predominantly resource-seeking, reinforcing commodity-dependent export profiles. UNCTAD notes that this lends FDI into Africa a peculiarly enclave character, whereby predominantly greenfields and capital-intensive investment is delinked from the domestic economy and profits are not reinvested³⁶. They argue that this holds a further danger of state capture by powerful MNC interests geared towards resource-extraction at the possible expense of manufacturing interests, thereby undermining diversification strategies. There is also the danger of Dutch disease to guard against. Furthermore, there is also the possibility that large-scale profit repatriation could undermine the balance of payments. Altogether UNCTAD is rather gloomy about the prospects for FDI to generate development in Africa³⁷:

The failure of capital formation to make a strong recovery since the debt crisis, the limited evidence of crowding in from FDI, the incidence of capital flight, and the fact that the ratio of FDI to gross fixed capital formation in Africa is close to the developing country average all suggest that (positive) cumulative interactions have not taken hold across most of the region during the last 20 years. Under such circumstances, the tendency of FDI to reinforce enclave-type development appears to be a real danger, with external integration privileged over the internal integration of the local economy.

However, it is worth asking whether it is primarily MNCs that are to blame for this stark perspective, or whether the onus of development lies rather on host governments. Southern Africa is unlikely to attract much market-seeking FDI whilst domestic markets remain small and constrained through inappropriate regulation

33 UNCTAD (2005) World Investment Report – Transnational Corporations and the Internationalization of R&D, Overview, Geneva, P13.

34 UNCTAD (2005) "Economic Development in Africa: Rethinking the Role of Foreign Direct Investment", Geneva, P7.

35 Ibid. P9.

36 Ibid. P11.

37 Ibid, P35.

or enforcement of regulations. And, to reiterate, provided resource rents are well-managed (and the rents themselves properly negotiated with powerful corporate interests) resource extraction and export should be a blessing. This raises complex questions about the interplay between MNC interests and national regulation – which are unfortunately beyond the scope of this paper.

Taking account of the patterns of Africa's insertion into global trade and FDI flows identified here, what implications does this hold for our analysis of South Africa's economic engagement with Southern Africa?

3. Implications of South Africa's evolving Southern African Footprint

The origins of South Africa's corporate expansion into Africa lie primarily in the conjuncture of two simultaneous and related processes: the demise of Apartheid, and the end of the Cold War and associated triumph of the "Washington Consensus" development paradigm pursued by the Bretton Woods institutions (BWIs) globally. For decades Apartheid had constrained South African economic involvement with the continent, resulting in surplus domestic capital and unexploited regional markets. Inevitably once Apartheid was replaced by a democratic dispensation, South African companies were always going to be free to head north. The African foray coincided with the ascendancy of the Washington Consensus, especially in Africa, where the BWIs have historically dominated capital inflows and influenced economic policy via structural adjustment programmes. As Daniel et. al. put it³⁸:

...it was the character of the South African transition and its relations to the ascendancy of the neoliberal economic paradigm which enabled South African business to capture, and in some cases, monopolise, the opportunities presented by a global economic regime that prompted and encouraged market penetration.

This process has afforded unprecedented opportunities to select African countries, especially in Southern Africa, although it is not without problems. The impact is dealt with below. First we consider some patterns of the outward thrust.

It is primarily in Southern Africa that the pattern of FDI and trade concentration, noted in Section 2, is beginning to diverge through South African FDI into and trade with the region. The potential scale of this expansion is impressive³⁹:

...South Africa had over 900 TNCs by the end of the 1990s. Seven of those were among the top 50 non-financial developing country TNCs in 2002. A further 2044 foreign affiliates were based in South Africa by the end of 2002, indicating South Africa's position as a launching pad for foreign investment into the rest of Africa... only eight of those companies and their subsidiaries did not have an Africa focus.

Daniel et. al. note that in the 1994-2000 period the stock of South African FDI in SADC exceeded UK and US stocks combined. And, according to a report by the erstwhile South Africa Foundation⁴⁰ (which represents the top South African

38 Daniel J, Naidoo V and Naidu S (2003) "The South Africans Have Arrived: Post-apartheid corporate expansion into Africa", in Daniel J, Habib A, and Southall R State of the Nation: South Africa 2003-2004. Cape Town: HSRC Press. P374.

39 Grobbelaar N (2004) "Can South African Business Drive Regional Integration on the Continent?" South African Journal of International Affairs, 11(2), Winter/Spring, P93.

40 South Africa Foundation (2004) "South Africa's Business Presence in Africa", Occasional Paper no.3, P9. The organization was re-branded Business Leadership South Africa in December 2005.

corporates) outward FDI flows accelerated in the 2000-2004 period without peaking. Daniel and Lutchman, however, note that in 2004 outward flows did in fact peak and in some sectors (aviation, banking and road construction) declined for the first time⁴¹. This seems to have been linked to stagnant export sales into Africa⁴²; although it is not clear whether this was a consequence of the strong rand or evidence of market saturation. Meanwhile new competitors, particularly for energy resources, in the form of China, India and Brazil have emerged on the African scene.

Resources still feature prominently in aggregate South African FDI into the continent. The Business Map Foundation finds that, taking a value-of-investment measure, the resources sector still dominates South Africa's FDI stock in SADC⁴³. Grobbelaar concurs, noting that whilst a mix of motivations behind FDI outflows is discernible resource-seeking and strategic asset or capability-seeking are dominant motivations⁴⁴. The latter is reflected in participation in privatisation processes, but reflects a diversification of FDI flows beyond commodities and into a range of backbone infrastructure sectors. And recent South African FDI flows into the continent are more diversified than those sourced from the three dominant developed countries. UNCTAD argues that these are driven more by merger and acquisition activity than greenfields investment, implying that on aggregate they are more market or asset rather than resource-seeking⁴⁵. According to the South Africa Foundation report⁴⁶ market-seeking FDI, measured on the basis of number of projects, is concentrated on SADC markets, whereas FDI into non-traditional markets is targeted primarily at the mining and energy sectors⁴⁷. The latter gathered pace in 2004 in response to South Africa's looming energy shortages and the rapidly growing energy acquisition trail blazed by China and the US, with India and Brazil following in their wake⁴⁸.

While concerns about deindustrialisation or crowding out of domestic companies must be carefully addressed and are considered below, the so-called "new scramble for Africa" by South African companies is, according to recent studies based on interviews with South African companies operating on the continent, yielding substantial

41 Daniel J and Lutchman J (2005) "South Africa in Africa: Scrambling for Energy", in Buhlungu S, Daniel J, Southall R and Lutchman J (eds) *State of the Nation: South Africa 2005-2006*. Cape Town: HSRC Press. P485.

42 Ibid. P486.

43 Rumney R and Pingo M "Mapping South Africa's Trade and Investment in the Region", mimeo.

44 Grobbelaar op.cit, P92.

45 UNCTAD (2005) "Economic Development in Africa: Rethinking the Role of Foreign Direct Investment", Geneva, P11.

46 Op.cit. P16.

47 Ibid., P17.

48 Daniel and Lutchman, op.cit.

benefits for the continent. These include job creation⁴⁹; upgrading of existing and building of new infrastructure including investment in backbone services⁵⁰; technology transfer through human resource development⁵¹; increased tax revenues; increased consumer choice; and boosting general investor confidence in host countries⁵². These benefits are reportedly linked to a general view amongst the South African corporate community that they are in Africa for the long-term and hence need to play their part in sustainable investment. This view has helped them to unseat European competitors who, according to McGregors' survey⁵³, have a reputation for dumping inferior technology and quality at premium prices. South African companies are quite prepared to adapt products to local market conditions, and in many cases already do so in the domestic market⁵⁴.

What then are the costs involved for countries hosting South African FDI? There is a growing literature, largely NGO-based, that is increasingly critical of the behaviour of South African firms on the continent. Concrete examples include the citing of twelve South African companies for looting mineral resources in the Democratic Republic of

49 24 355 jobs are said to have been created in Mozambique by SA companies from 1998-2002. See Grobbelaar N, "Every Continent needs an America: The Experience of South African Firms doing business in Mozambique", Business in Africa Report 2, SAIIA, 2004. Similarly, in a survey of 40 top South African companies invested on the continent McGregor's found that a total of 71874 people were employed across 232 investments outside of South Africa. Of these, 2257 were South African expatriates, mostly in managerial and technical positions. See McGregor's (2004) Africa Inc.: Who Owns Whom database of South African business in Africa, November, P2, available at <http://www.whoownswhom.co.za>. It is not clear whether M&A's associated with these investments have led to retrenchments. If so, such job losses would have to be offset against the employment numbers cited here.

50 For example MTN, the South African telecommunications MNC, has had to build roads to service rural coverage requirements stipulated by telecommunications licensing conditions in several countries. See McGregor's, Ibid. P2. The South Africa Foundation report notes that 27 percent of projects covered in their survey are in the infrastructure sector, especially power, whilst telecommunications accounted for 5 percent. Op.cit. P12. South African banks have also expanded rapidly into the continent, in the process upgrading often antiquated financial systems – see Sizwekazi Jekwa (2005) "SA's Big Four Head for the Hinterland", Financial Mail, May 6th. Otherwise, South African parastatals dominate fixed infrastructure investments.

51 McGregors, op.cit. notes that most South African investors have a policy of transferring skills to local employees over a period of three to five years from the initial investment. South African companies are particularly sensitive to such concerns given the centrality of black economic empowerment policies to their bottom line in South Africa.

52 See Games, D. (2003), "The Experience of South African Firms Doing Business in Africa: A Preliminary Survey and Analysis", South African Institute of International Affairs - Business in Africa Research Project, Report no.1; and Grobbelaar N, "Every Continent needs an America: The Experience of South African Firms doing business in Mozambique", Business in Africa Report 2, SAIIA, 2004.

53 Op.cit. P2.

54 Ibid. P3.

the Congo⁵⁵, and alleged violations of labour rights on the part of some companies⁵⁶. There is also largely anecdotal evidence of alleged corporate malfeasance and arrogant behaviour reminiscent of Apartheid attitudes. This seems to be linked to concerns within the South African government based on evidence sourced through its missions across the continent that the South African corporate community in general is not behaving like good corporate citizens in host markets⁵⁷. It is not clear though whether these concerns respond primarily to the political signals coming from some actors in some countries and the critical literature referred to above; or are based on rigorous research. Nor has the South African government published any official findings in this respect.

Then there is the risk of domestic market dominance: in McGregors' survey some 17 percent of South African investments in Africa enjoy a market share of greater than 75 percent. However, this is offset by the finding that 67 percent of investments held less than 25 percent market share⁵⁸. So whilst host governments must be vigilant, it appears from this evidence that the risk is overstated. And it is worth bearing in mind that the total stock of South African FDI in Africa accounts for no more than 7 percent, and no less than 3 percent, of its global FDI stock⁵⁹. Furthermore, the majority of South African investments are small – it is generally the large-scale projects that capture the headlines⁶⁰.

And there is the problem of enclave investment associated with resource-extractive FDI. However, as noted above South African FDI is increasingly more diversified than that traditionally sourced from developed countries. And the Business Map Foundation notes that in the case of the Mozal aluminium smelter in Mozambique for the first time on the continent a serious, and successful, attempt was made to build linkages to the local economy thereby minimising the potential for enclave development⁶¹. This reflects the South African state's sensitivity to regional concerns, a matter we return to in Section 4. Furthermore, the pattern of greater market-seeking FDI is building host country markets, thereby enhancing the long-term prospects for economic diversification. Crucially, this process is driven substantially by economic

55 United Nations (2002) Final Report of the panel of experts on the illegal exploitation of national resources and other forms of wealth of the Democratic Republic of Congo. New York: UN. Cited in Daniel et. al., op.cit. P386.

56 Pillay, D. (ed.) African Social Observatory.

57 Discussions with government officials.

58 Op.cit. P2.

59 Grobbelaar N (2004) "Can South African Business Drive Regional Integration on the Continent?" South African Journal of International Affairs, 11(2), Winter/Spring, P94.

60 Ibid.

61 Rumney, op.cit. P6.

reforms in host countries⁶², thus qualifying (although not necessarily nullifying) the conventional wisdom that structural adjustment packages have caused the continent's deindustrialization.

Turning to trade, the South Africa Foundation notes with respect to South Africa's exports to the continent that⁶³:

There is a high proportion of value-added exports to the rest of Africa, with machinery, mechanical appliances, iron and steel articles, transport goods, chemicals, and plastics and rubber goods accounting for close to 70 percent of the total. This is an important consideration, as it ties in with South Africa's domestic economic structure, based traditionally on mining, agriculture, engineering and chemical products, and their allied industries. These are also the areas that are attracting the most (investment) interest in other African countries.

Clearly South Africa's outward FDI thrust is linked to its exports to the region. This also explains the chronic trade imbalances, weighted in South Africa's favour. However, on the assumption that the goods exported are not available locally in recipient markets, this is not a problem per se. Rather, African economies benefit from the division of labour associated with South Africa's growing commercial presence. It is clear that South African companies do not source much from the region, with the majority of companies surveyed by SAIIA indicating they source less than 10 percent of their goods in regional markets⁶⁴. Again, this needs to be viewed in perspective. During the sanctions period many countries in the region sought to prevent trade with South Africa for political reasons. Hence the current wave of FDI is more appropriately seen as an unleashing of pent up demand. Furthermore, the bulk of the region's commodity exports are destined for developed country markets, whereas South Africa possesses many of those commodities and hence does not need to import them from the region. Therefore, whilst the balance of trade is significantly biased in South Africa's favour it reflects a natural structure associated with comparative advantage and historical trade relationships.

Clearly this does not negate political concerns associated with rising trade imbalances and perceptions of "recolonisation". There is a long history behind these fears, most notably the Apartheid state's destructive destabilization of its neighbours from the late 1970s. However, we are focused here on the economics of this set of contemporary relationships. To blame South Africa for this economic structural dynamic amounts to political grandstanding and does not make economic sense.

62 South Africa Foundation, op.cit, P20.

63 Ibid, P 9.

64 Grobbelaar N (2004) "Can South African Business Drive Regional Integration on the Continent?" South African Journal of International Affairs, 11(2), Winter/Spring, P98.

Even the charge that this trade imbalance worsens current account imbalances must be seen within the context of the economic logic outlined in Section 2: what matters are the drivers of these imbalances, rather than the fact of their existence. In the region's case, many useful and essential products that aren't domestically produced are sourced from South Africa. Whilst it is not possible to generalise here about the product mix with respect to individual countries, it is our contention that critics need to prove their case on the grounds of economic, not political, logic.

Therefore, in our view South African corporate expansion is a necessary process for building viable regional economic integration. However, given South Africa's domestic growth problems and the relatively small size of its economy there are limits to this process. Most significantly, South African trade and FDI is concentrated on countries in SADC, with only Kenya featuring in the top ten destinations for both⁶⁵. Consequently South Africa's expansion into the continent in the long-run is unlikely to result in the same dramatic development benefits which Japanese FDI wrought in Southeast Asia.

Nevertheless, South Africa is described as an engine of growth in Africa in the sense that its economic growth is believed to have substantial impact on growth in other African countries.⁶⁶ The impact is due to reasons mentioned earlier including South Africa's relatively large economic size and its growing linkages with other African economies. And in some quarters there is a view that South Africa's role on the continent has not reached its potential because it is a relative newcomer owing to its economic and political isolation in the pre-1994 apartheid period; and because South Africa does not dominate the trade of most African countries.

Furthermore, the South African government's pursuit of strategic partnerships through FTA negotiations with other countries around the world, discussed in more detail in Section 4, necessarily entails stretching the South African government's scarce diplomatic and negotiating resources, which distracts its attention from Southern Africa. And as the South African/SACU market opens up to imports from these partners, so Southern African countries will find it increasingly difficult to compete there. The scant prospects they currently have for developing manufacturing industry could be undermined by these processes. And it is likely that the little manufacturing FDI destined for our region will continue to concentrate in South Africa given its market size and emerging network of market access arrangements.

65 South Africa Foundation, *op.cit.*, P10 and P15.

66 Arora V. and A. Vamvakidis. International Monetary Fund Working Paper: African and European Departments. The implications of South African Economic Growth for the Rest of Africa. WP 05/58 (2005).

4. South Africa's African Agenda: Implications for SADC

The focus in this report is on the economics of South Africa's Southern African engagement. Here we focus on how the government plays its hand in the diplomatic sphere, notably with respect to trade diplomacy. The purpose is to establish whether the South African government's thrust is in support of the economic imperatives outlined in Sections 2 and 3, or at odds, and more specifically whether its trade agenda supports regional economic integration in Southern Africa.

It is clear that South Africa's economic interests extend far beyond Africa, hence Section 4.1 dissects the government's global trade agenda as the crucial backdrop to a discussion of its African and Southern African agendas in Section 4.2.

4.1 South Africa's Global Trade Agenda

In the Uruguay Round South Africa committed to a major overhaul (simplification and liberalization) of its complex tariff regime, and signed up to the Single Undertaking. Special and differential treatment (SDT) did not play a role during this period owing to the fact that the Apartheid government considered South Africa a developed country in the GATT context and more generally. Under-girding South Africa's commitments and participation in the Uruguay Round was the strong need to overcome the isolation of the 1980s and the need to promote economic competitiveness in a context of economic stagnation. International competitiveness and reintegration into the global economy became crucial pillars of the ANC government's policy as it turned its back on more statist forms of economic policy in the wake of the first rand crisis in 1996. This culminated in more rapid liberalization of tariffs than required in terms of South Africa's GATT bindings⁶⁷. This is a source of considerable tension in the tripartite alliance, as COSATU argues that this rapid liberalization was a direct cause of today's high levels of unemployment. This domestic political dynamic also constrains prospects for further liberalization.

Given that the Uruguay Round was complete when the ANC came to power in 1994, the trade liberalization trajectory turned to bilateral and regional tracks. Unilateral trade liberalization, on the other hand, has not been seriously on the agenda since. Rather, adjustments to the Most Favoured Nation (MFN) tariff regime have been left to the Doha Round of multilateral trade negotiations. South Africa's most important objective in the Doha round is to solve the agricultural subsidies puzzle

⁶⁷ However, it was accompanied by a dramatic increase in the use of anti-dumping as an instrument of protection, although countervailing duties and safeguards have hardly been employed.

first, before moving onto other areas. Therefore the Brazil-India led G20 alliance was a natural one, with South Africa straddling the two poles these countries represent (offensive in Brazil's case, defensive in India's). Largely at the instigation of South Africa's commercial farmers South Africa is also a member of the Australia-led Cairns group, with its market access focus. That is important, but hardly critical, to South Africa's export trajectory, accounting for a small proportion (approximately 10 percent) of the overall export basket, whilst agriculture constitutes a small proportion of GDP. The land reform process and associated class of emerging black farmers ensure a partly defensive posture currently and in the future.

Of far greater importance is securing access to markets for South Africa's intermediate manufacturing exports and liberalization of services sectors in African markets in particular. These interests are opposed to those of the G90 (a grouping representing the poorest developing countries)⁶⁸ which favours continued preferential access to developed country markets with minimal or no reciprocation. SDT and the implementation agenda – priorities for the G90 – have received differing levels of support, with the emphasis being on the former rather than the latter.

Well-established South African service sectors, employing substantial numbers of skilled and unskilled workers, could face significant threats from foreign providers if negotiations—in all fora and at all levels—are not handled very carefully. The most obvious example in this instance is the FTA with the United States, currently under negotiation. On the negative side of the balance sheet social services liberalization will have to be carefully weighed owing to potential domestic opposition. On the positive side, further openings in South Africa's services sector, notably in core infrastructure services⁶⁹, could go a long way towards introducing competition and efficiencies into quasi-monopoly sectors. If correctly managed this would have the major benefit of lowering cost structures, thereby promoting competitiveness across the board and supporting government's 6 percent GDP growth objective.

Regionally the picture is rather different. South Africa would do well to seek liberalization of service sectors in SADC markets, again in core infrastructure. Yet to date there has been no movement on services trade liberalization in any of the official SADC or SACU structures. This is clearly as important a policy priority as any defensive concerns vis-à-vis the US (or the WTO).

South Africa's relatively low activity levels in the WTO GATS negotiations and in bilateral services trade negotiations—at least compared to much more developed policy positions on trade in goods—represent a key area in need of greater focus

68 In which the Africa group is a critical constituency.

69 Telecommunications, energy (although arguably this sector is well-managed), transport, and financial.

and effort. The Department of Trade and Industry (DTI) has recognised this need and now seems to be building some capacity to service it. Furthermore, there is some movement within organized business to develop their capacity to engage on these issues that should be supported.

South Africa supported efforts at the Cancun Ministerial to significantly delay or even cancel entirely negotiations on two of the four issues raised at the 1996 Singapore Ministerial⁷⁰. South Africa argued publicly that because the USA and the EU could not guarantee meaningful reform in agriculture, developing countries should rightly oppose negotiations on these issues⁷¹. South Africa also argued that there was little evidence that industrialised countries would be committed to ensuring that any agreements on the new issues that might be reached would be developmental in nature.

The South African government is not opposed to the principle of greater transparency in government procurement. Transparency in the tender process does in fact receive a large amount of attention in the Prevention and Combating of Corrupt Activities Act (no. 12 of 2004). Rather, there are concerns over what multilateral negotiations on this issue might mean for the government's freedom to use its considerable spending power as it sees fit. The state, it is argued, should be allowed to discriminate on development grounds in the awarding of contracts to private enterprise. This is a cornerstone of government's black economic empowerment policy – a policy with widespread public support. Given the extent of poverty and inequality in South Africa, apartheid's legacy, and the large contribution government expenditure makes to GDP, these concerns are not likely to fade.

Concerning investment South Africa sought to balance its substantial outward investment position with the need for developing country solidarity. Furthermore, the government has an existing network of bilateral investment treaties, rendering a multilateral approach of questionable benefit. However, given the uncertain political transition now under way in South Africa a key policy priority should be to reassure nervous investors, particularly in light of the continually unfolding catastrophe in Zimbabwe. And attracting foreign direct investment to South Africa remains a central economic policy goal.

On the bilateral front, after the first democratic elections in 1994 relations with the EU were high on the agenda given the preponderance of EU markets in South Africa's export basket. When the new government realized that the EU was not

70 The four are: trade facilitation; transparency in government procurement; trade and competition policy; trade and investment policy. Of these South Africa opposed government procurement and competition policy, adopted a neutral position on investment, and supported trade facilitation.

71 'Agriculture for Singapore Issues' was the informal 'deal' designed to reduce developing country resistance to the latter.

going to grant it full access to Lomé preferences it opted instead to negotiate a comprehensive agreement covering trade, aid and political cooperation⁷². After six years of difficult negotiations the final agreement covered “substantially all trade” and was asymmetrical in two respects: EU markets were opened first, and to approximately 95 percent of South African exports versus 86 percent in return⁷³. This experience, and the new government’s policy trajectory in support of developing countries, constituted a substantive shift from the previous government’s general approach to trade negotiations. The process of negotiations⁷⁴ turned out to be divisive, notably the EU’s decision not to include South Africa’s customs union partners in its negotiating mandate. Furthermore, many ACP states were concerned about the precedent this agreement set for the future of their relations with the EU – correctly as it turns out given the unfolding Economic Partnership Agreements (EPAs) negotiations taking place under the Cotonou Convention.

Trade negotiations in South Africa, as in many countries, have become intertwined with foreign policy. In the multilateral system, for example, the foreign policy imperative revolves around how to mesh South Africa’s economic interests with the positions taken by the Africa group in the WTO given that resolving Africa’s problems is the central foreign policy terrain⁷⁵. And in keeping with global trends, a new wave of bilateralism has broken out. This is broadly guided by the Department of Trade and Industry’s (DTI) “Global Economic Strategy”, and is divided into three tracks: first the US, the European Free Trade Area (EFTA) and Mercosur; second India and China; third Singapore/ASEAN; Japan; South Korea; Nigeria and Kenya. Track one is currently underway with EFTA recently completed and Mercosur close to completion. But negotiations with the US have run into serious difficulties. This reflects major differences between South Africa and the US concerning trade liberalization in general and the US’s “WTO-plus” approach to bilateral negotiations. To some extent it also reflects the South African government’s desire, in common with Brazil, to pursue strong alliances with key developing countries in order to balance US power. Track two has yet to commence, although it is anticipated that negotiations will get underway next year, whilst track three is likely to be considerably delayed owing to DTI capacity constraints.

72 Signed in October 1999, this was known as the Trade, Development and Cooperation Agreement.

73 For details and analysis see Talitha Bertelsman-Scott, Greg Mills and Elizabeth Sidiropoulos, *The EU-SA Agreement: South Africa, Southern Africa, and the European Union*, South African Institute of International Affairs, January 2000.

74 For a detailed analysis of the structures and institutions associated with the negotiations process see San Bilal and Geert Laporte (2004) “How Did David Prepare to Talk to Goliath? South Africa’s experience of trade negotiations with the EU”, ECDPM, available at <http://www.ecdpm.org>.

75 See Draper, P. and N. Khumalo (2005), op.cit.

4.2 South Africa's African Strategy

Officially, South Africa's broad vision for Africa is embodied in the African Union (AU) initiative and the New Partnership for Africa's Development (Nepad), which forms one of the AU's most important pillars. Nepad is an attempt to embody, in a coherent programmatic framework, a collective action by African states to address development on the continent in the context of challenges globalisation presents.

The underlying philosophy of South Africa's vision for Africa—the idea that South Africa's destiny is inextricably linked to that of the region and the rest of Africa—has remained unchanged since 1994. As such, the South African government has always had a developmental, rather than narrowly mercantilist, approach to the region and Africa more generally. As much is confirmed by remarks made by the DTI's Acting Director General last year⁷⁶:

South Africa's economic strategy in Africa was guided by asymmetry and the country needed to make bigger concessions in trade and economic dealings with African partners. This strategy needed to be multi-faceted by promoting trade and supply-capacity as well as being conducive to promoting investment and infrastructure development. Finally this strategy had to be located within the Nepad framework and should emphasise the importance of partnerships on the continent.

The South African government has a range of institutions at its disposal to support this vision⁷⁷. As noted in Section 3 these institutions are actively involved in a range of projects across the continent. This approach is supported on the diplomatic front by the DFA which has sought to establish structured bilateral relations with almost all countries on the continent⁷⁸ and has a longstanding goal of establishing diplomatic missions in all countries on the continent. In a manner reminiscent of Japan's "flying geese" expansion into Southeast Asia in the 1980s⁷⁹ corporate and government interests are increasingly moving in harmony. The organizing principle for this expansion is a "project-based" approach, based on harnessing South African finance and expertise to African development problems. This enlightened self-interest approach is a win-win proposition.

Yet as noted in Section 3 there are increasingly vocal critics of this expansion,

76 Parliamentary Monitoring Group (2005), "SA Policy Towards African Countries: Department Briefings", Foreign Affairs Portfolio Committee and Trade and Industry Portfolio Committee, 24th August.

77 Inter alia: the Industrial Development Corporation; the Development Bank of Southern Africa; and various "core infrastructure" parastatal corporations such as Eskom and Transnet.

78 Parliamentary Monitoring Group, op.cit.

79 See Draper P, 'The impact of Japanese investment on South Africa as viewed through an Asian lens', in Alden C & K Hirano (eds), *Japan and South Africa in a Globalising World — A Distant Mirror*. Aldershot: Ashgate, 2003.

alleging that South African companies are exploitative and are engaging in a re-colonisation of the continent. Evidence in support of this view is primarily anecdotal. Nonetheless the critics are being taken seriously by the South African government to the extent that it is considering regulating the behaviour of South African corporations on the continent.

This may be because problems with private sector engagement help fuel political differences. There is certainly a sense in which African states and opinion leaders are resentful of South Africa's growing economic clout on the continent. This undermines political engagement between South Africa and its neighbours, in turn limiting potential for cooperation to solve the continent's problems. This is particularly apparent when it comes to regional integration in Southern Africa and South Africa's African trade diplomacy in general.

In order to properly understand this it is necessary to draw together the thread of discussion on the multilateral trading system outlined above⁸⁰. It is apparent that South Africa stands to gain more from the Doha Round than Southern Africa does. And given the structure of South Africa's trade with the continent, it is in South Africa's interests to persuade Southern African partners to commit to multilateral liberalisation. So the argument developed here may seem self-serving, and the South African government should thus remain sensitive to Southern Africa's overall strategic position in the Doha Round (a position reinforced by bilateral sensitivities owing to trade imbalances).

Nonetheless, in our view if Southern Africa is to develop it is in its own interests to pursue further (managed) liberalisation even if, on the surface, this seems to primarily benefit South African interests. Clearly this will have to be sensitively managed, but ultimately it should be a mutually beneficial relationship.

On trade integration in particular, the DTI is considering a number of inter-linked strategic options vis-à-vis Africa. These have been on the table for some time⁸¹:

1. Unilateral extension of bilateral preferences; possibly linked to import promotion schemes supported by tailored financial assistance packages. As noted above, this should be a top priority for the South African government.
2. Based on (a) an understanding that recipients would reciprocate after a given transitional period, thus creating a network of bilateral FTAs.
3. Individual country accessions to existing regional arrangements.
4. Reciprocal exchanges of preferences on a trade bloc-to-bloc basis. Such a process

80 For a more detailed treatment of South Africa's trade strategy, including a section on South Africa's Africa strategy, see Draper, P. (2003) "To Liberalise or Not to Liberalise? A Review of the South African Government's Trade Policy", SAIIA Trade Policy Report, no. 1.

81 See Carim X "Trade Policy Development in a Coherent Macroeconomic Framework", trade and industry monitor, vol. 25, 2003, available online at <http://www.tips.org.za>.

could be led by regional leaders, and could form the building blocks for (5).

5. An all-Africa free trade area, as envisaged in the Abuja Treaty⁸² and carried over into the African Union.

Capacity constraints in the DTI have prevented the department from actively prosecuting this agenda. And there has been little public debate about its merits. So it remains to be seen how far it will be taken.

Nevertheless, these ideas build on what has already been achieved in SADC and SACU. According to Davies (now South Africa's Deputy Minister of Trade) the original vision for SADC was not confined narrowly to trade per se⁸³:

...what is needed in the Southern African region is not a programme of trade integration alone, but one combining trade integration, sectoral cooperation and policy coordination in ways that address the major challenges of developing production structures and infrastructure as well as promoting mutually beneficial trade.

This outlines neatly the broad regional integration imperative that we know is high on the political agenda in Sub-Saharan Africa. Partly this seems to be rooted in the notion that integration will promote economies of scale amongst tiny markets and as such could be considered an extension of the infant industry argument. Ultimately, the DTI wishes to see the establishment of integrated regional manufacturing platforms capable of competing globally.⁸⁴

Thus the question is not whether to construct RIAs, but rather how to make them effective and minimise political complications arising from the inevitable polarisation effects likely to ensue.

Integration in Africa beset with a range of problems. Most obviously, African countries produce a small range of export commodities which are almost entirely traded with developed countries. Thus the basis for meaningful exchange so crucial to constructing RIAs is not there⁸⁵.

Considerable benefits may however be derived from economic integration in as far as it promotes the building or upgrading of trade-supporting infrastructure across the region. As already mentioned above, this is an area where Africa lags behind

82 Signed in 1991 at the OAU meeting in Abuja, it envisaged the creation of an African Economic Community by 2025.

83 Davies R (2002) "Regional Integration" in Clapham C, Mills G, Morner A and E Sidiropoulos (eds) *Regional Integration in Southern Africa: Comparative International Perspectives*. Johannesburg: South African Institute of International Affairs.

84 And, to get there, it is clear that building institutional strength in order to effectively negotiate with external actors, and effectively implement and maintain any ensuing regional plans, is a crucial first step

85 A caveat is necessary here. Nobody knows how much informal and unrecorded trade takes place across national borders. Partly this is because borders are not firmly under control, whilst there is also an undeniable element of corruption at play.

and it is heartening to note that both SADC and Nepad have put the development of infrastructure high on the agenda. Thus, on the trade facilitation front, deepened regional integration is critical for a highly fragmented continent like Africa which has more landlocked countries than any other continent. External actors and South Africa have a critical role to play here in supporting development of supporting institutions such as customs authorities, and infrastructure systems. Such support could be cast as adjustment assistance, designed to enable sub-Saharan African states to liberalize their economies. These initiatives may have the added benefit of promoting regional value-chains and integrated production, thereby developing economies of scale to compete globally. The downside, however, will be the agglomeration forces noted above.

Either way, there remain significant obstacles in the way of such a path. There is a proliferation of regional economic arrangements on the continent, at different stages of integration. Many countries, notably in our region, are members of several arrangements. Furthermore, these schemes are typically supported through donor-funded secretariats, raising questions about their long-term viability. Lastly, security issues throughout the continent militate against the more ambitious schemes, and threaten to divide region-specific arrangements. Of course this could also constitute an argument in favour of greater regional integration, given the political roots of such arrangements worldwide.

Nonetheless, the point is that it is difficult to see how the more ambitious schemes could be realised except perhaps within a very long time horizon. In our view, to the extent that RIAs are actually likely to work in Sub-Saharan Africa, it is likely that over a period of time a small set of regional leaders will emerge around which regional economies will increasingly concentrate. The key question then is how those regional leaders can be supported and boosted, with a long-term view to pulling their regions up with them⁸⁶.

In Southern Africa, integration is arguably already evolving along these lines. As mentioned, the uppermost priority in South Africa's global bilateral trade strategy after 1994 was the FTA with the EU. The second pillar was negotiations with the countries of the Southern African Development Community (SADC) to form an FTA. Approximately one-third of South Africa's manufacturing exports go to SADC countries—locking in market access was a key motivation, Davies' comments notwithstanding. Once again, these negotiations proved divisive, given the presence in the region of the

86 Here the UN's recently released Millennium Development Report proffers some interesting, if controversial, proposals, notably doubling official development assistance and targeting it on a core group of states most likely to use the funds effectively and by extension most likely to succeed. See Millennium Project (2005) *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*. New York: United Nations.

Community of Southern and Eastern African States (COMESA) and associated overlap in memberships. South Africa's decision to opt for SADC over COMESA was widely resented by many countries in the region, which came to the view that the South African government simply wanted to work with a grouping it could dominate⁸⁷. This experience, coupled with the South African government's subsequent support for launching the new round of multilateral negotiations at Doha - in spite of generalised resistance in the Africa Group – and the estrangement of our Customs Union partners in the EU negotiations has bequeathed a legacy of mistrust of the South African government's intentions in the region⁸⁸. This mistrust feeds perceptions that the South African government is pursuing a hegemonic regional agenda, within which its MNCs are seen as a powerful instrument.

But since July 2004, when the new SACU Agreement came into force, South Africa's trade strategy has had to pay much more serious attention to its customs union partners⁸⁹. This agreement is of historic significance in that it commits South Africa to effectively ceding sovereignty over trade policy formulation and implementation to new inter-governmental institutions (that have yet to be established). The agreement democratises SACU; all decisions over tariffs and trade remedies will be taken at the SACU level by a Council of Ministers⁹⁰, advised in turn by a new SACU tariff body and a commission of senior officials. National institutions (in South Africa's case the International Trade Administration Commission - ITAC) will merely provide recommendations to the supranational structures on the basis of investigations the former conduct.

So SACU will be fully involved in all current and future negotiations, as required by Article 31 of the new SACU Agreement. This will serve to integrate SACU—at least as a trading, negotiating and institutional entity—much more rapidly than SADC. Furthermore, section 8 of the agreement outlines a range of areas on which the partners are required to coordinate policy. If this gathers momentum, SACU will integrate more rapidly than SADC in more areas than just trade. Interestingly, South Africa's free trade area (FTA) negotiations with the US have brought home the need to coordinate internally prior to entering into demanding negotiations with the likes

87 The DTI points out that there is more to this choice than meets the eye, notably the plethora of regional integration arrangements in Eastern and Southern Africa and the need to promote regional coherence. Critics retort that South Africa's choice to join SADC and not COMESA compounded this problem.

88 In research SAIIA has conducted into regional preparations for Economic Partnership Agreement negotiations with the EU these sentiments were clearly in evidence.

89 The partners are Botswana, Lesotho, Namibia and Swaziland (the BLNS).

90 Historically Finance ministers constituted the Council given the dominance of revenue issues in SACU. Now both trade and finance ministers participate in the council and trade ministers schedule additional focused meetings on broader economic and trade issues.

of the US. Notwithstanding these dynamics it remains to be seen to what extent South Africa's customs union partners (the BLNS) will embrace this new framework, but it does point to a need for the partners to integrate their planning processes more coherently over time.

Further complications arise from the role played by external partners in the region, especially the EU⁹¹ and US. In recent years this has coincided to some extent with South Africa's trade strategy, resulting in South Africa being first choice for these external powers in separate bilateral FTA negotiations. However, the EU's EPAs are causing angst amongst regional policy-makers as many countries are members of several regional groupings and are being forced to make hard choices about their regional alignments through the process⁹². Furthermore, the US may wish to extend its FTA with SACU – if it ever concludes⁹³ - to other partners in the region. But which partners should they choose? Given the confusing overlap of regional integration schemes this is not an easy choice to make⁹⁴.

Partly in response to these external initiatives, the South African government is interested in expanding SACU. This is an indication of its thinking regarding how best to move the regional integration agenda forward. Currently Mozambique and Zambia are considering their options in this respect. An expanded SACU could absorb SADC if it works well, or at least SADC's trade integration mechanisms.

The SACU bargain is made possible through a substantial revenue transfer from South Africa to the BLNS countries. Whilst the amount is relatively small from the South African viewpoint, it is huge from the BLNS standpoint. Thus SACU contains a built-in adjustment mechanism that, with some tinkering and political manoeuvrings, could be extended to other countries in the SADC region. This approach is inspired by

91 With regards to the EU, the outcomes of EPA negotiations seem poised to fundamentally change the pace and nature of regional integration processes in Africa. See Szepesi, S "Coercion or Engagement? Economics and Institutions in ACP-EU Trade Negotiations", ECDPM Discussion Paper no. 56, June 2004; and Bertelsman-Scott T (2005) "The Impact of Economic Partnership Agreement Negotiations on Southern Africa", in Draper P. (ed.) *Reconfiguring the Compass: South Africa's African Trade Diplomacy*. Johannesburg: South African Institute of International Affairs.

92 For useful overview of this problem and potential scenarios around its resolution, see Richard Hess and Simon Hess "A Pending Crisis of Overlap", *eAfrica*, Vol. 2, October 2004. See also Jakobeit C, Hartzenberg T and N Charalambides (2005) "Overlapping Membership in COMESA, EAC, SACU and SADC: Trade Policy Options for the Region and for EPA Negotiations", GTZ and German Federal Ministry for Economic Cooperation and Development. They proffer three scenarios for future institutional arrangements, preferring the "variable geometry option" whereby SACU and the East African Community cohere as two regional poles and expand over time to absorb other states. In this scenario those states left out could still form their own grouping(s) on the rump of SADC and COMESA.

93 There are good reasons to believe that it won't. For a brief assessment see Peter Draper "The SACU-US Free Trade Agreement: In Search of a Contract Zone", *The Exporter* (Business Day Supplement), June 2004.

94

the EU's experience with structural funds.

However, as Alden and Soko note, if the South African government is going to play this sort of benign hegemonic role in Africa, then it has to have the political will and wherewithal to underwrite the costs such hegemony would require⁹⁵. SACU is the obvious institutional vehicle for such a design, but political differences within the region are likely to delay this agenda. It is nevertheless an arena deserving closer attention, and the manner in which SACU's internal dynamics unfold will be closely watched in the region and will have important consequences for South Africa's regional trade diplomacy.⁹⁶

Negotiating agreements with external players as part of SACU constrains South Africa more than would be the case if it were negotiating alone. As such, South Africa may be forced to settle for negotiating positions that are not in its best interest. So there is a much narrower space to develop consensus around an offensive agenda, making it likely that defensive concerns will dominate. This is in line with South Africa's own imbalances in that regard—its defensive agenda is far more sophisticated than its offensive counterpart.

In light of this, and although certain initiatives are provided for in the new SACU Agreement, it is not surprising that the SACU has not taken substantial steps forward regarding further internal liberalisation of trade and deeper economic integration. Notably, the new SACU Agreement only covers trade in goods, excluding trade in services⁹⁷. Furthermore, the BLNS have an interest in retaining high tariffs because of their dependence on customs revenues. This could potentially provide a convenient smokescreen behind which South African negotiators could hide should the South African government wish to prevent further liberalisation⁹⁸. That may have negative

95 Alden J and M Soko (2005) "South Africa's economic relations with Africa: Hegemony and its discontents", *Journal of Modern African Studies*, 43(3), PP367-392.

96 For an analysis of these issues see Draper P (2005) "Bigger SACU could lead the way", *Business Day*, 22nd August.

97 See Kirk R & M Stern, 'The New Southern African Customs Union Agreement', mimeo, 12 May 2003. However this is being addressed, a process accelerated by SACU's packed trade negotiations agenda in which developed countries – particularly the US – have trade agendas extending well beyond border measures such as tariffs. See Draper P and M Soko "US Trade Strategy After Cancun: Prospects and Implications for the SACU-US FTA", SAIIA Trade Policy Report no. 4, February 2004.

98 Such a scenario may indeed be unfolding through the dti's decision to base formulation of its negotiating positions on use of the National Economic Development and Labour Council (NEDLAC) forum. Essentially, this forum groups organised business and labour together with government, in this case to formulate negotiating positions. The risk of the former two groups colluding to protect their markets is high particularly where government, specifically the dti which is responsible for trade policy, has insufficient capacity to interrogate outcomes generated through NEDLAC. See Draper, P. (2004) "South African Business and Trade Negotiations: Findings from a Survey of South Africa Foundation Members", South Africa Foundation, Occasional Paper No 1, May, available at <http://www.safoundation.org.za>.

implications for other Sub-Saharan African countries seeking greater access to the South African market, and may reduce South Africa's leverage in continental trade negotiations.

Worse, it would undermine regional economic integration in Southern Africa. The economics of regional integration amongst south-south partners depend fundamentally on intra-industry trade. This is severely lacking in Southern African trade patterns given their dependence on external markets and narrow export bases. In the region, only South Africa has the necessary complementarities with Sub-Saharan African countries - fitting into a north-south configuration with associated inter-industry trade profile - and the capability to build such a project.

For this vision to succeed, and taking the DTI's Acting Director General's word, South Africa has to lead by example. First and foremost, this entails opening its market to exports from the region. Secondly, in order to give its poor neighbours an advantage in the South African market, the South African government should put in place a generous preferential access scheme along the lines of the EU's "Everything But Arms" initiative. Unlike the EU, though, this should be accompanied by liberal, easy to administer, rules of origin, complemented with substantial investment in South Africa's Customs Administration to ensure implementation, compliance, and to minimise transshipment. A substantially better-resourced and focused Customs Administration should also invest in regional capacity building initiatives in partnership with multilateral institutions such as the World Bank. Such carefully calibrated moves would allay some of the protectionists' fears in South Africa.

As things currently stand South Africa has offered improved and asymmetrical access to its market through the Southern African Development Community (SADC) FTA. This has led to a substantial tariff phase-down. There have also been attempts to commence negotiations on services trade, although these have yet to get off the ground. However, liberalisation through the FTA has been offset by strict rules of origin in particular sectors in South Africa⁹⁹. We should also note that much work remains to be done in the area of trade facilitation, and institutional capacity in the region is very weak. So it remains to be seen whether SADC member states will be able to take full advantage of the tariff concessions obtained to date.

But taking the view, as we do, that what South Africa does with external partners has important implications for regional integration initiatives, perhaps the most important issue is that this additional market access is potentially threatened by South Africa's broader FTA agenda outlined above. This is the focus of Sections 5 through 11, to which we now turn.

99 Flatters F, 'SADC rules of origin: Undermining regional free trade', TIPS Annual Forum, September 2002.

5. SADC member state exports to South Africa

This section analyses South Africa's imports from SADC member states as a first step towards examining the extent of South Africa's integration with the region. It forms the backdrop to that conducted in Section 6, where we consider imports into South Africa from its current and prospective (non-SADC) FTA partners. These two analyses are brought together in Section 7 where competition and complementarities in key SADC exports into the South African market are considered.

5.1 Methods

Commodities are analysed at HS4 level. The tables in each country assessment have the same format and represent the top 20 HS4 exports ranked by the average share in South Africa's imports from the respective country for the year 2000 to 2004¹⁰⁰, where data is available (column 4). In cases where member states have data up to 2003, a series from 1999 to 2003 is considered. Also shown is the value of the products traded in the latest year (column 5), South Africa's share in a specific product's exports by the respective country in the latest year (column 6) and the annual average growth rate for the period (column 7). Values are in nominal US dollars.

5.2 SADC member state export flows

Botswana

Botswana is one of the member states missing data in 2004. Therefore the growth rates as well as the average values are computed from two years – 1999 and 2003. South Africa's share of total imports for the relevant product group is computed on the latest year available.

In 2003 Botswana's exports to South Africa amounted to US\$ 145 million. Botswana's export mix at HS4 level is dominated by transport, mining and meat products, with tractors being the country's largest export to South Africa—these products have experienced an average growth rate of more than 50 percent. In contrast the second and fourth largest products, also in the vehicles group (passenger vehicles: HS 8703) declined by more than 35 percent. This has been said to be a result of relocation of firms to South Africa¹⁰¹.

The share analysis shows that only seven percent of Botswana's total exports are

100 Average values are used, as this smoothes out any outliers for a particular year.

101 See the "Botswana Country Survey", also conducted under this series of FES publications.

destined for South Africa. However, South Africa represents almost all of the products that are exported there (see column 5 of Table 1). The only products with less than a quarter of their total exports going to South Africa are HS 7213: hot rolled bars (3.1 percent), and HS 0202: meat of bovine animals, frozen (2 percent). The low export share of South Africa in Botswana's total is due to the dominance of mineral products, mainly diamonds which are mainly exported to the EU.

Table 1: Botswana's top HS4 export values in 2003, average share and export growth (1999-03) and share of 2003 South African imports

	HS code	HS4 description	Average share of SA imports for 1999-03	Value of trade with SA 2003 (US\$)	SA share in Botswana's total exports 2003	Growth 1999-03 (%)
			100.0%	145,410,573	7.2%	-9.6%
1	H8701	Tractors (other than works, warehouse equipment)	18.1%	40,169,921	99.7%	54.3%
2	H8703	Motor vehicles for transport of persons (except buses)	12.4%	2,976,928	90.0%	-48.7%
3	H2836	Carbonates	7.4%	10,244,020	94.8%	-58.0%
4	H8704	Motor vehicles for the transport of goods	4.6%	3,650,759	95.4%	-37.8%
5	H1704	Sugar confectionery, non-cocoa, white chocolate	2.7%	5,138,491	97.5%	5.0%
6	H6302	Bed, table, toilet and kitchen linens	2.4%	3,354,487	100.0%	-12.8%
7	H6203	Mens or boys suits, jackets, trousers etc not knit	1.9%	3,863,181	90.6%	5.0%
8	H8429	Self-propelled earth moving, road making, etc machines	1.9%	4,077,028	98.4%	-7.4%
9	H8702	Public-transport type passenger motor vehicles	1.9%	5,342,771	85.0%	46.2%
10	H1902	Pasta, couscous, etc.	1.7%	3,294,397	97.9%	-6.1%
11	H0202	Meat of bovine animals, frozen	1.5%	796,924	2.0%	-45.2%
12	H6110	Jerseys, pullovers, cardigans, etc, knit or crochet	1.5%	4,865,267	26.2%	76.6%
13	H1905	Baked bread, pastry, wafers, rice paper, biscuits, etc	1.4%	1,916,524	88.8%	-25.4%
14	H8528	Television receivers, video monitors, projectors	1.2%	49,214	75.9%	-72.3%
15	H8527	Radio, radio-telephony receivers	1.2%	61,817	87.2%	-67.6%
16	H4819	Paper, board containers, packing items, box files, etc	1.2%	1,512,648	93.5%	5.6%
17	H6109	T-shirts, singlets and other vests, knit or crochet	1.2%	2,172,049	41.8%	-13.3%
18	H7213	Hot rolled bar, rod of iron/ steel, in irregular coils	1.2%	132,147	3.1%	-88.6%
19	H2501	Salt (sodium chloride) including solution, salt water	1.1%	1,455,847	70.0%	-40.0%
20	H6104	Womens, girls suit, dress, skirt, etc, knit or crochet	1.0%	1,698,288	97.5%	197.4%

Source: SADC member state data and own calculations

On average, exports to South Africa declined by ten percent per annum over the period. Products that displayed positive growth rate include products clothing items,

HS 6104: women's, girls' suits, dress, skirt, etc, knit or crochet and HS 6110: jerseys, pullovers, cardigans, etc, knit or crochet with a 197.4 and 76.6 percent growth rate, respectively. They are followed by vehicles product group, HS 8701: tractors (other than works, warehouse equipment) and HS 8702: public-transport type passenger motor vehicles with growth rates of 54.4 and 46.6 percent, respectively. There are three more products that showed growth rates of around five percent, while the rest had declined. The biggest loser was HS 7213: hot rolled bars, with a growth rate of -88.6 percent.

Lesotho

Lesotho's exports to South Africa in 2003 were about US\$ 150m, which was equivalent to one fifth of its total exports. Unsurprisingly, the dominant group is clothing, which is usually destined for the US. However, in 2003, all products were exported to the South African market with the exception of HS 6203: men's or boys' suits, jackets, trousers etc not knit. Less than one percent of these exports were sold in the South African market.

Table 2: Lesotho's top HS4 export values in 2003, average share and export growth (1999-03) and share of South Africa in 2003 exports

	HS code	HS4 description	Average share of SA imports for 1999-03	Value of trade with SA 2003 (US\$)	SA share in Lesotho's total exports 2003	Growth 1999-03 (%)
			100.00%	150,299,060	19.40%	8.10%
1	H8528	Television receivers, video monitors, projectors	15.60%	13,712,101	100.00%	-7.10%
2	H6404	Footwear with uppers of textile materials	14.40%	16,934,720	100.00%	0%
3	H2201	Unsweetened beverage waters, ice and snow	13.10%	59	100.00%	-64.50%
4	H6203	Mens or boys suits, jackets, trousers etc not knit	5.70%	857,420	0.40%	-46.20%
5	H6110	Jerseys, pullovers, cardigans, etc, knit or crochet	3.90%	17,892,431	100.00%	-6.30%
6	H6403	Footwear with uppers of leather	3.70%	273,414	100.00%	-89.70%
7	H6104	Womens, girls suit, dress, skirt, etc, knit	2.80%	10,955,053	100.00%	288.70%
8	H2202	Waters, non-alcoholic sweetened or flavoured beverages	2.80%	15,596,349	100.00%	0%
9	H6406	Parts of footwear, in-soles, heel cushion, gaiter	2.70%	1,190,944	100.00%	-40.30%
10	H4101	Raw hides and skins of bovine, equine animals	2.70%	14,309,873	100.00%	0%
11	H6904	Ceramic building bricks, flooring blocks and tiles	2.40%	8,490,562	100.00%	28.00%
12	H5101	Wool, not carded or combed	2.20%	3,622,136	100.00%	51.30%
13	H1102	Cereal flours other than of wheat or meslin	2.10%	3,956,255	100.00%	52.80%
14	H6109	T-shirts, singlets and other vests, knit or crochet	1.90%	6,881,807	100.00%	21.90%
15	H1005	Maize (corn)	1.80%	2,084,217	100.00%	38.90%
16	H6402	Footwear nes, with outer sole, upper rubber	1.70%	1,357,600	100.00%	0%
17	H6601	Umbrellas and sun umbrellas	1.60%	4,691,064	100.00%	34.80%
18	H6117	Clothing accessories or parts nes, knit or crochet	1.60%	2,441,785	100.00%	81.20%
19	H1505	Wool grease and fatty derivatives	1.20%	50,899	100.00%	0%
20	H5211	Woven fabric, <85% cotton	1.00%	1,873,690	100.00%	242.50%

Source: SADC member state data and own calculations

The growth rate of exports was about eight percent. Most of the products in the top half of the tables had negative growth rates. This implies that those products with low

values at the beginning of the period are gaining market share, while those already established are not. The fastest-growing in the top 20 HS4 product groups over the period was HS 6104: women's, girls' suit, dress, skirt, etc, knit, at 288.7 percent per year. They were followed by HS 5211: woven fabric, <85% cotton with growth rates 242.5 percent.

Malawi

Malawi's total exports to South Africa seem to be low (US\$ 74 m) compared to Botswana and Lesotho, despite representing 15 percent of total exports in 2004. Tea, sugarcane and tobacco, as well as their processed products accounted for one third of the weighted average share between 2000 and 2004. Clothing and cotton exports to South Africa accounted for a substantial proportion of trade in these products, probably reflecting South African sourcing via retailers located there.

Table 3 : Malawi's top HS4 export values in 2004, average share and export growth (2000-04) and share of South Africa in 2004 exports

	HS code	HS4 description	Average share of SA imports for 2000-04	Value of trade with SA 2004 (US\$)	SA share in Malawi's total exports 2004	Growth 2000-04 (%)
			100.0%	74,365,261	14.8%	31.1%
1	H0902	Tea	13.2%	6,784,329	20.9%	17.2%
2	H1701	Solid cane or beet sugar and chemically pure sucrose	11.3%	16,896,169	11.3%	156.6%
3	H2401	Tobacco unmanufactured, tobacco refuse	10.8%	7,320,290	2.7%	8.2%
4	H6203	Mens or boys suits, jackets, trousers etc not knit	9.3%	4,132,312	44.3%	8.5%
5	H5201	Cotton, not carded or combed	8.2%	4,311,874	43.6%	69.4%
6	H6205	Men's or boys' shirts	4.9%	2,911,213	65.4%	27.2%
7	H1005	Maize (corn)	4.3%	11,429,357	2.9%	170.5%
8	H6109	T-shirts, singlets and other vests, knit or crochet	3.6%	1,470,826	46.3%	-0.2%
9	H6105	Mens, boys shirts, knit or crochet	2.2%	848,853	32.5%	26.8%
10	H1207	Oil seeds and oleaginous fruits nes	2.2%	2,464,561	99.7%	222.2%
11	H6211	Track suits, ski suits and swimwear, other garments	2.1%	2,138,385	100.0%	0%
12	H4001	Natural rubber and gums, in primary form, plates, etc	2.0%	1,627,535	51.8%	0%
13	H1202	Ground-nuts, not roasted or otherwise cooked	2.0%	1,875,738	80.2%	191.3%
14	H0904	Pepper (Piper), crushed or ground Capsicum, Pimenta	1.3%	488,899	39.0%	-11.5%
15	H6103	Mens, boys suits, jackets, trousers etc knit or crochet	1.2%	43,299	22.2%	-29.7%
16	H6106	Womens, girls blouses & shirts, knit or crochet	1.2%	960,294	76.9%	684.8%
17	H6204	Womens, girls suits, jacket, dress, skirt, etc, woven	1.2%	466,179	21.6%	15.2%
18	H4412	Plywood, veneered panels and similar laminated wood	1.1%	1,097,258	76.7%	139.5%
19	H0802	Nuts except coconut, brazil & cashew, fresh or dried	1.1%	1,299,341	9.3%	53.4%
20	H6206	Womens or girls' blouses, shirts and shirt-blouses	1.1%	178,477	77.4%	-49.4%

Source: SADC member state data and own calculations

Over the period, Malawi exports displayed a growth rate of more than 30 percent per year. Most products are on an upward trend, with just one fifth showing negative growth. The fastest growing exports product is HS6106: women's, girls' blouses & shirts, knit or crochet, which increased by more than 680 percent.

Mauritius

South Africa accounts for only one and half percent of total Mauritian exports, reflecting the dominance in Mauritius's export basket of sugar (for EU markets) and clothing (for the US market). Exports from Mauritius to South Africa consisted mainly of diamonds, woven cotton products, t-shirts and equipment for physical and chemical analysis. These products had positive growth rates. Total exports to South Africa increased by 20 percent. The fastest-growing exports were HS 0303: fish, frozen, whole followed by HS 3923: containers, bobbins and packages, of plastics and HS 2202: waters, non-alcoholic sweetened or flavoured beverages with growth rates higher than 200 percent. It should be borne in mind, however, that these growth rates are off a relatively low base.

Table 4: Mauritius's top HS4 export values in 2004, average share and export growth (2000-04) and share of South Africa in 2004 exports

	HS code	HS4 description	Average share of SA imports for 2000-04	Value of trade with SA 2004 (US \$)	SA share in total Mauritian exports 2004	Growth 2000-04 (%)
			100.0%	28,871,264	1.5%	19.9%
1	H7102	Diamonds, not mounted or set	23.8%	10,977,716	13.7%	85.0%
2	H5208	Woven cotton fabric, >85% cotton, < 200g/m2	8.6%	2,830	1.8%	-81.6%
3	H5209	Woven cotton nes, >85% cotton, >200g/m2	7.8%	2,192,830	6.9%	-0.8%
4	H6109	T-shirts, singlets and other vests, knit or crochet	6.2%	1,953,854	0.8%	151.3%
5	H5205	Cotton yarn not sewing thread >85% cotton, not retail	4.4%	823,654	44.8%	69.3%
6	H6110	Jerseys, pullovers, cardigans, etc, knit or crochet	2.2%	226,100	1.5%	117.8%
7	H7311	Containers for compressed, liquefied gas, iron, steel	1.9%	450,047	61.0%	-24.7%
8	H6203	Mens or boys suits, jackets, trousers etc not knit	1.7%	575,919	0.9%	53.9%
9	H6001	Pile fabric, knit or crochet	1.3%	114,599	9.9%	44.3%
10	H6205	Men's or boys' shirts	1.3%	368,834	0.6%	169.3%
11	H9027	Equipment for physical and chemical analysis	1.2%	0	0.4%	0%
12	H0303	Fish, frozen, whole	1.1%	261,395	0.7%	335.9%
13	H3204	Synthetic organic colouring matter	1.1%	231,227	52.5%	11.7%
14	H2202	Waters, non-alcoholic sweetened or flavoured beverages	1.1%	1,004,220	6.3%	223.0%
15	H4818	Household, sanitary, hospital paper articles, clothing	1.0%	195,338	19.5%	49.6%
16	H3401	Soaps	1.0%	449,090	16.9%	125.2%
17	H4901	Printed reading books, brochures, leaflets etc	0.9%	306,089	2.2%	17.0%
18	H3923	Containers, bobbins and packages, of plastics	0.9%	239,181	17.3%	242.5%
19	H8480	Moulds for metals (except ingot), plastic, rubber, etc	0.8%	292	89.1%	19.8%
20	H9606	Buttons, press and snap fasteners, etc	0.8%	229,716	24.3%	38.4%

Source: SADC member state data and own calculations

Mauritius is one of the few countries that are not dependent on South Africa as the main export market for its commodities. However, the total average growth rate of 20 percent per year is significant, indicating that SADC integration is gradually gaining momentum.

Mozambique

South Africa is clearly an important export destination for Mozambique products. Mozambique has shown high growth in exports to South Africa of over 50 percent, and its total value was around US\$ 170 million. This was about 14 percent of Mozambique's total exports in 2004. Electricity, fisheries, aluminium and the clothing product group are particularly important. The average growth rates seem to suggest that Mozambique's exports are performing well, but not many of the top export products have grown in the five years under observation (for example crustaceans and oil-cake).

Table 5: Mozambique's top HS4 export values in 2004, average share and export growth (2000-04) and share of South Africa in 2004 exports

	HS code	HS4 description	Average share of SA imports for 2000-04	Value of trade with SA 2004 (US \$'000)	SA share in total Mozambican exports 2004	Growth 2000-04
			100.0%	169,797	14.0%	54.8%
1	H2716	Electrical energy	34.0%	88,076	80.8%	119.7%
2	H0306	Crustaceans	9.5%	11,568	8.9%	-17.2%
3	H8429	Self-propelled earth moving, road making, etc machines	7.7%	6,813	95.1%	296.9%
4	H2306	Oil-cake other than soya-bean or groundnut	5.5%	686	97.1%	-52.0%
5	H2711	Petroleum gases and other gaseous hydrocarbons	4.7%	72	99.8%	0%
6	H7601	Unwrought aluminium	3.1%	0	0.0%	0%
7	H6205	Men's or boys' shirts	2.5%	996	64.4%	-59.3%
8	H4011	New pneumatic tyres, of rubber	2.3%	6,796	99.9%	-1.0%
9	H1513	Coconut, palm kernel, babassu oil, fractions, refined	2.3%	1,864	29.8%	-20.3%
10	H6103	Mens, boys suits,jackets,trousers etc knit or crochet	2.1%	0	0.0%	0%
11	H0801	Coconuts, Brazil nuts and cashew nuts, fresh or dried	2.0%	199	1.4%	-51.3%
12	H2302	Bran, sharps etc, from working of cereals or legumes	1.3%	1,841	43.9%	33.3%
13	H0302	Fish, fresh or chilled, whole	1.3%	836	54.2%	-5.3%
14	H4407	Wood sawn, chipped lengthwise, sliced or peeled	1.2%	1,667	61.9%	69.2%
15	H5201	Cotton, not carded or combed	1.1%	3,842	9.9%	0%
16	H6001	Pile fabric, knit or crochet	1.0%	0	0.0%	0%
17	H7311	Containers for compressed, liquefied gas, iron, steel	0.9%	20	28.9%	-5.6%
18	H8802	Aircraft, spacecraft, satellites	0.8%	3,501	62.0%	5.7%
19	H5203	Cotton, carded, combed	0.8%	1,266	6.8%	128.6%
20	H8704	Motor vehicles for the transport of goods	0.7%	1,883	38.5%	-8.7%

Source: SADC member state data and own calculations

The highest growth rates are shown by three products, at opposite ends of Table 5. These are HS 5203: cotton, carded, combed at the bottom, and HS 2716: electrical energy and HS 8429: self-propelled earth moving, road making, and etc machines at the top. All these products had growth rates higher than 100 percent.

Namibia

South Africa accounts for over 30 percent of Namibia's total exports. These exports are concentrated in the top five products, which counted for more than half of the average share over five years. These products include printed materials, mineral products (diamonds and gold), beer and live animals. At least 50 percent of these commodities find their market in South Africa with the exception of mounted precious or semi-precious stones, which had less than one percent of those destined to South Africa.

Table 6: Namibia's top HS4 export values in 2003, average share and export growth (2000-03) and share of South Africa in 2003 exports

	HS code	HS4 description	Average share of SA imports for 1999-03	Value of trade with SA 2003 (US \$)	SA share in total Namibian exports 2003	Growth 1999-03 (%)
			100.0%	322,258,372	31.6%	0.9%
1	H4907	Documents of title (bonds etc), unused stamps etc	19.5%	28,886,523	100.0%	9.0%
2	H7102	Diamonds, not mounted or set	16.6%	99,716,581	0.1%	-72.2%
3	H7108	Gold, unwrought, semi-manufactured, powder form	6.2%	22,876,932	100.0%	17.2%
4	H2203	Beer made from malt	5.3%	16,407,742	48.2%	19.0%
5	H0104	Live sheep and goats	5.1%	22,106,703	98.6%	36.5%
6	H0202	Meat of bovine animals, frozen	4.4%	11,673,654	99.8%	2.0%
7	H0303	Fish, frozen, whole	4.1%	13,189,492	7.1%	7.6%
8	H0102	Live bovine animals	2.8%	8,956,214	86.7%	25.8%
9	H0201	Meat of bovine animals, fresh or chilled	2.3%	3,873,245	93.8%	9.8%
10	H0304	Fish fillets, fish meat, mince except liver, roe	1.9%	1,373,819	1.9%	-45.3%
11	H1604	Prepared or preserved fish, fish eggs, caviar	1.7%	2,789,445	77.0%	-10.0%
12	H2301	Flour etc of meat, fish or offal for animal feed	1.7%	3,495,837	21.4%	-15.0%
13	H0302	Fish, fresh or chilled, whole	1.4%	3,941,995	32.6%	-8.1%
14	H0106	Animals, live, except farm animals	1.4%	2,810,121	99.3%	22.0%
15	H0806	Grapes, fresh or dried	1.2%	5,446,393	93.8%	41.6%
16	H8703	Motor vehicles for transport of persons (except buses)	1.2%	3,510,895	30.2%	18.5%
17	H0204	Meat of sheep or goats, fresh, chilled or frozen	1.1%	4,328,411	89.1%	47.4%
18	H2501	Salt (sodium chloride) including solution, salt water	1.1%	3,328,897	51.6%	8.2%
19	H9999	Commodities not elsewhere specified	1.1%	3,860,876	61.3%	-4.8%
20	H2710	Oils petroleum, bituminous, distillates, except crude	0.9%	159,271	4.2%	-31.1%

Source: SADC member state data and own calculations

The highest growth rates are displayed by HS 0204: Meat of sheep or goats, fresh, chilled or frozen (47 percent) followed by HS 0806: Grapes, fresh or died (42 percent), HS 0102: Live bovine animals (26 percent) and HS 0106: Animals live, except farm animals (22 percent). These growth rates show the significance and good performances of Namibia's agricultural sectors.

Swaziland

Swaziland is the most dependent member state on South African market, based on the latter's share of the former's exports: nearly three quarters of its total exports are destined to the South African market. About one third of those exports are classified here as 'essential oils'. They are also partly the reason for the location of the Coca-Cola concentrate plant in Swaziland and the abundant supply of sugar and associated processed food. South Africa is a major market for other exports from Swaziland, including wood and paper, clothing and printed materials.

Table 7: Swaziland's top HS4 export values in 2004, average share and export growth (2000-04) and share of South Africa in 2004 exports

	HS code	HS4 description	Average share of SA imports for 2000-04	Value of trade with SA 2004 (US\$)	SA share in total Swazi exports 2004	Growth 2000-04 (%)
			100.0%	1,466,215,943	72.1%	40.1%
1	H3302	Mixed odoriferous substances for industrial use	33.1%	525,271,238	75.0%	149.5%
2	H1701	Solid cane or beet sugar and chemically pure sucrose	8.3%	107,833,496	76.9%	30.9%
3	H4703	Chemical wood pulp, soda or sulphate, not dissolving	6.8%	62,440,739	68.4%	6.1%
4	H6105	Mens, boys shirts, knit or crochet	6.5%	277,938,807	62.9%	-27.2%
5	H2106	Food preparations, nes	5.2%	36,272	7.2%	-93.2%
6	H6109	T-shirts, singlets and other vests, knit or crochet	4.9%	67,937,255	57.0%	33.0%
7	H1704	Sugar confectionery, non-cocoa, white chocolate	2.4%	31,466,283	94.9%	33.3%
8	H1702	Sugars nes, lactose, fructose, glucose, maple syrup	2.4%	10,890,986	98.0%	-5.8%
9	H6204	Womens, girls suits, jacket, dress, skirt, etc, woven	1.5%	24,456,920	58.7%	621.4%
10	H4911	Printed matter nes, catalogues, pictures and photos	1.4%	15,830,191	99.7%	31.5%
11	H9607	Slide fasteners and parts thereof	1.2%	15,275,023	74.6%	28.6%
12	H8418	Refrigerators, freezers and heat pumps nes	1.1%	8,472,013	58.7%	-18.1%
13	H6104	Womens, girls suit, dress, skirt, etc, knit or crochet	1.1%	30,320,390	62.0%	125.2%
14	H6110	Jerseys, pullovers, cardigans, etc, knit or crochet	1.0%	17,332,984	66.8%	140.0%
15	H6203	Mens or boys suits, jackets, trousers etc not knit	1.0%	16,086,982	59.3%	262.8%
16	H2701	Coal, briquettes, ovoids etc, made from coal	1.0%	11,912,408	99.9%	36.0%
17	H8415	Air conditioning equipment, machinery	0.9%	6,149,156	99.8%	-6.4%
18	H6103	Mens, boys suits, jackets, trousers etc knit or crochet	0.8%	14,796,759	57.6%	134.6%
19	H2008	Fruit, nut, edible plant parts nes, prepared/preserved	0.8%	14,214,590	51.4%	168.1%
20	H6106	Womens, girls blouses & shirts, knit or crochet	0.8%	4,974,862	64.8%	-40.1%

Source: SADC member state data and own calculations

The reason for clothing exports to South Africa may lie with AGOA preferences, as additional capacity may have been installed, in turn making Swaziland clothing producers more competitive in the South African market. Additional capacity may also

have been installed in essential oils (laboratories) as the top products reflected growth rate of 150 per annum over the last five years. Other products, clothing in particular, have also shown high growth rates. Nevertheless, overall, the export basket remains relatively concentrated.

Tanzania

Tanzania's exports of US\$ 34 m to South Africa represent about 12 percent of that country's total exports. About 90 percent of Tanzania's exports to South Africa are concentrated in two semi-processed mineral products: HS 7108: gold, unwrought, semi-manufactured, powder form and HS 7103: mounted precious or semi-precious stones, not diamonds. With an 18 percent share in 2004, South Africa was not the largest market for Tanzania's gold exports, but South Africa did represent over 60 percent 2004 diamond exports. Other Tanzanian exports to South Africa are mainly agricultural and agro-processed products and simple manufactured goods.

Table 8: Tanzania's top HS4 export values in 2004, average share and export growth (2000-04) and share of South Africa in 2004 exports

	HS code	HS4 description	Average share of SA im-ports for 2000-04	Value of trade with SA 2004 (US \$)	SA share in total Tanzanian exports 2004	Growth 2000-04 (%)
			100.0%	34,397,068	11.6%	170.5%
1	H7108	Gold, unwrought, semi-manufactured, powder form	77.5%	23,476,230	18.1%	225.1%
2	H7103	Mounted precious or semi-precious stones, not diamonds	8.7%	2,200,636	61.4%	181.9%
3	H0801	Coconuts, Brazil nuts and cashew nuts, fresh or dried	2.1%	1,696,873	1.5%	546.7%
4	H2306	Oil-cake other than soya-bean or groundnut	1.7%	813,337	28.3%	0%
5	H1202	Ground-nuts, not roasted or otherwise cooked	1.0%	1,305,906	20.5%	0%
6	H5205	Cotton yarn not sewing thread >85% cotton, not retail	1.0%	602,954	12.8%	155.0%
7	H0306	Crustaceans	0.7%	82,365	2.1%	-20.0%
8	H6002	Knit or crochet fabric, nes	0.6%	1,005,496	1.8%	0%
9	H5202	Cotton waste, including yarn waste and garnetted stock	0.5%	81,454	26.7%	0%
10	H0902	Tea	0.5%	222,478	1.4%	103.2%
11	H5201	Cotton, not carded or combed	0.4%	404,677	0.4%	0%
12	H5203	Cotton, carded, combed	0.3%	33,084	0.0%	0%
13	H6109	T-shirts, singlets and other vests, knit or crochet	0.3%	274,268	2.8%	0%
14	H0813	Fruit, dried, nes, dried fruit and nut mixtures	0.3%	186,646	77.4%	0%
15	H8517	Electric apparatus for line telephony, telegraphy	0.3%	257	0.0%	0%
16	H0511	Animal products nes, dead animals (non-food)	0.3%	101,678	5.0%	3.4%
17	H6304	Furnishing articles nes, except mattresses, etc	0.2%	226,182	1.6%	0%
18	H7102	Diamonds, not mounted or set	0.2%	256,303	0.0%	23.2%
19	H0304	Fish fillets, fish meat, mince except liver, roe	0.2%	237,707	0.0%	0%
20	H4403	Wood in the rough or roughly squared	0.2%	0	0.0%	0%

Source: SADC member state data and own calculations

Tanzania is the fastest growing supplier of all member states with an annual average growth of 170 percent. However, more than half of the products in Table 8 have zero growth rates, indicating erratic supply.

Zambia

Zambia's exports to South Africa comprise minerals and mineral products, cotton products and electrical energy. All except cobalt products experienced positive growth rates. South Africa accounted for over 26 percent of Zambia's total exports in 2004; growth of Zambia's total exports to South Africa over three years averaged about 27 percent per year.

Table 9: Zambia's top HS4 export values in 2004, average share and export growth (2000-04) and share of South Africa in 2004 exports

	HS code	HS4 description	Average share of SA im-ports for 2000-04	Value of trade with SA 2004 (US \$)	SA Share in total Zambian exports 2004	Growth 2000-04 (%)
			100.0%	204,641,703	25.6%	27.0%
1	H7403	Refined copper and copper alloys, unwrought	37.9%	91,581,416	26.3%	29.7%
2	H8105	Cobalt mattes, etc, articles, waste or scrap	13.8%	19,397,899	14.5%	-10.5%
3	H5201	Cotton, not carded or combed	10.9%	15,023,074	77.4%	327.3%
4	H7408	Copper wire	6.2%	9,967,988	65.4%	37.2%
5	H7404	Copper, copper alloy, waste or scrap	3.1%	15,028,770	99.0%	-3.1%
6	H1207	Oil seeds and oleaginous fruits nes	3.1%	1,438,406	99.0%	155.5%
7	H8544	Insulated wire and cable, optical fibre cable	2.4%	4,124,697	86.7%	18.0%
8	H7108	Gold, unwrought, semi-manufactured, powder form	2.0%	26,269	0.0%	0%
9	H5205	Cotton yarn not sewing thread >85% cotton, not retail	2.0%	6,629,355	18.6%	34.6%
10	H2716	Electrical energy	1.5%	3,023,468	36.5%	-22.2%
11	H4407	Wood sawn, chipped lengthwise, sliced or peeled	1.3%	1,913,179	98.2%	133.1%
12	H2603	Copper ores and concentrates	1.2%	4,182,597	23.9%	70.4%
13	H7103	Mounted precious or semi-precious stones, not diamonds	1.1%	2,251,687	1.1%	-52.0%
14	H1701	Solid cane or beet sugar and chemically pure sucrose	1.1%	6,097,511	11.5%	484.1%
15	H4907	Documents of title (bonds etc), unused stamps etc	1.1%	1,722,094	66.8%	72.8%
16	H0901	Coffee, coffee husks and skins and coffee substitutes	0.9%	1,192,550	18.1%	-21.3%
17	H5202	Cotton waste, including yarn waste and garnetted stock	0.8%	101,319	54.0%	-69.5%
18	H7602	Aluminium waste or scrap	0.8%	2,177,442	100.0%	47.6%
19	H2401	Tobacco unmanufactured, tobacco refuse	0.8%	1,040,080	1.0%	-1.7%
20	H0904	Pepper (Piper), crushed or ground Capsicum, Pimenta	0.4%	1,311,584	77.4%	6.1%

Source: SADC member state data and own calculations

The fastest growing product group was in HS 1701: solid cane or beet sugar and chemically pure sucrose (485 percent per annum). It is followed by HS 5201: cotton not carded or combed, HS 1207: oil seeds and oleaginous fruits nes, and HS 4407: wood sawn, chipped lengthwise, sliced or peeled. All these products have growth rates higher than 100 percent.

Zimbabwe

Exports at this HS4 level are dominated by two commodities, HS 2604: nickel ores and concentrates and HS 7205: granules and powders, of pig iron, iron or steel. They represent more than 40 percent of the average share between 2000 and 2004. About 30 percent of Zimbabwean exports were destined to South Africa in 2004. Growth rates were mostly positive and also high in most of the products, which is perhaps surprising given the documented troubles facing the Zimbabwean economy.

Table 10: Zimbabwe's top HS4 export values in 2004, average share and export growth (2000-04) and share of South Africa in 2004 exports

	HS code	HS4 description	Average share of SA im-ports for 2000-04	Value of trade with SA 2004 (US \$)	SA Share in total Zimba-bwean exports 2004	Growth 2000-04 (%)
			100.0%	1,664,874,697	29.6%	63.5%
1	H2604	Nickel ores and concentrates	21.5%	345,373,168	92.0%	166.8%
2	H7205	Granules and powders, of pig iron, iron or steel	20.8%	603,222,900	39.9%	0%
3	H5201	Cotton, not carded or combed	6.6%	77,914,071	15.4%	28.9%
4	H2401	Tobacco unmanufactured, tobacco refuse	5.7%	33,445,390	4.9%	-23.4%
5	H4907	Documents of title (bonds etc), unused stamps etc	5.1%	103,278,382	60.9%	0%
6	H7502	Unwrought nickel	4.9%	55,325,600	50.9%	442.5%
7	H2524	Asbestos	3.1%	63,039,053	64.7%	104.0%
8	H2704	Retort carbon, coke or semi-coke of coal, lignite,peat	2.9%	36,664,678	89.0%	54.1%
9	H9403	Other furniture and parts thereof	1.8%	24,284,373	56.4%	58.4%
10	H4407	Wood sawn, chipped lengthwise, sliced or peeled	1.6%	21,266,419	74.5%	58.2%
11	H7108	Gold, unwrought, semi-manufactured, powder form	1.5%	36,120,576	21.1%	0%
12	H5205	Cotton yarn not sewing thread >85% cotton, not retail	1.2%	8,893,853	81.1%	108.4%
13	H0902	Tea	1.1%	10,520,873	30.2%	-11.8%
14	H7208	Hot-rolled products, iron/steel, width>600mm, not clad	0.9%	9,139,309	16.2%	4.2%
15	H7314	Iron or steel cloth, grill, fencing and expanded metal	0.7%	9,505,234	65.2%	25.6%
16	H7323	Table, kitchen, household items of iron or steel nes	0.6%	8,934,354	78.5%	49.0%
17	H2402	Cigars, cigarettes etc, tobacco or tobacco substitute	0.5%	5,963,207	9.9%	30.5%
18	H1602	Prepared or preserved meat, meat offal and blood, nes	0.5%	11,327,681	81.7%	0%
19	H8516	Electric equipment with heating element, domestic etc	0.5%	11,473,673	71.3%	213.1%
20	H6811	Articles of asbestos-cement & cellulose fibre cement	0.5%	8,906,901	72.9%	7.9%

Source: SADC member state data and own calculations

5.3 Conclusions

The aim of this section was to provide a summary of the structure and patterns of SADC member states' exports to South Africa. This was done by generating tables

for as many SADC member states as possible, covering the period 2000 to 2002. The broad picture that emerges from this trade data can be summarised as follows:

- a. Botswana's exports to South Africa consist of vehicles, bovine meat and clothing. The overall exports to South Africa in 2002 show a declining trend.
- b. Lesotho trades heavily with South Africa, but further analysis is required to ascertain whether Lesotho has any trade links with other SADC countries.
- c. As is the case with many SADC countries' exports to South Africa, Malawi's are made up of a range of primary products. The most important are by unprocessed tobacco, tea, and textiles and clothing products.
- d. Mauritius seems to be the least dependent member on South Africa for export earnings, with only one percent of exports going to South Africa.
- e. Mozambique's exports to South Africa are growing rapidly, but off very low base values. This indicates, however, that the recovery process is well underway.
- f. Namibian exports to South Africa are dominated by products from agriculture, fishery and agro-processing sectors.
- g. Swaziland's major exports are made up of processed foods, beverages, and clothing and machinery groups.
- h. Tanzania is less dependent on South Africa, with only 2% of its total exports destined to that country. There are mostly concentrated in precious stones and tobacco.
- i. Zambia's exports to South Africa are dominated by copper, but South Africa only accounts for one-fifth of such exports. The export basket to South Africa is relatively concentrated, with copper, other base metals, cotton and sugar accounting for two-thirds.
- j. Zimbabwe's exports are mainly primary commodities – either agricultural or mineral.

In general, there have been some improvements the growth rates of exports to South Africa. But the products exported to South Africa remain concentrated in the primary and basic processing sectors. This is in line with Africa's overall pattern of engagement with the global economy, as outlined in Section 2, and is consequently not surprising.

6. South Africa's trade with Non-SADC FTA Negotiation Partners

Here we focus on South Africa's current and prospective FTA partners: China, Mercosur¹⁰², India, the United States and the European Free Trade Area (EFTA)¹⁰³. The aim of this analysis is to observe the patterns and structure of exports from these partners to South Africa, with a view to informing the analysis in Section 7.

6.1 Methods

We adopt a disaggregated commodity-level analysis at the HS4-digit level, similar to that used in the previous section. The tables for each country assessment have the same format used above—representing the top 20 HS4 exports. The tables display three things: the average share in total South African imports for the period 2000-2004; the average value of the products imported over the same period; and the growth rate for the period. All values are in nominal South African Rands. The data used here are taken from South African Customs and Excise.

6.2 Partner export flows

China

Between 1980 and 2001, China achieved an annual average economic growth rate of 10 percent per annum¹⁰⁴. This led to a seven-fold increase in income. Growth has slowed slightly since then and will probably average around 8 percent for the foreseeable future¹⁰⁵. In an attempt to secure continued market access and raw materials to feed this expansion, China wants to negotiate an FTA with South Africa. Trade between South Africa and China is reported to be in China's favour with the trade imbalance in 2004 calculated to be over R17 billion. However, over the last 5 years, South Africa's exports to China have improved in growth indicating that the gap may be narrowing. This section, however, is restricted to examining South Africa's imports from China.

As can be seen in Table 11 below, Chinese exports to South Africa were growing

102 Brazil, Argentina, Uruguay and Paraguay

103 Iceland, Liechtenstein, Norway and Switzerland.

104 Willcox, O and van Seventer, D.E (2004). Trade Between South Africa and China: Current and Future Potential" Trade and Industrial Policy Strategies.

105 Ibid.

at an average rate of about 60 percent per annum between 2000- 2004. The average value of exports was about R2.2 billion.

Table 11: China's top HS4 exports to South Africa by share, value and growth (2000-04)

	HS code	HS4 description	Average share of SA imports for 2000-04	Average Value of exports for 2000-04 (Rands)	Growth 2000-04
		Total	100.0%	2,222,982,856	58.2%
1	H8471	Automatic data processing machines (computers)	7.3%	184,162,226	99.7%
2	H6402	Footwear nes, with outer sole, upper rubber or plastic	4.5%	96,531,634	58.8%
3	H8473	Parts, accessories, except covers, for office machines	2.7%	66,822,059	90.7%
4	H2704	Retort carbon, coke or semi-coke of coal, lignite,peat	2.6%	66,209,337	71.3%
5	H8527	Radio, radio-telephony receivers	2.4%	48,272,048	55.6%
6	H9009	Photo-copying apparatus	2.3%	56,615,753	53.3%
7	H8525	Radio and TV transmitters, television cameras	2.1%	46,672,522	251.1%
8	H6403	Footwear with uppers of leather	2.1%	39,810,532	46.9%
9	H9503	Other toys, scale models, puzzles, etc	1.8%	34,197,823	27.3%
10	H6404	Footwear with uppers of textile materials	1.8%	47,203,046	64.5%
11	H6203	Mens or boys suits, jackets, trousers etc not knit	1.7%	34,897,199	68.1%
12	H6204	Womens, girls suits, jacket, dress, skirt, etc, woven	1.6%	39,677,841	140.1%
13	H8516	Electric equipment with heating element, domestic etc	1.6%	30,806,526	57.8%
14	H4202	Trunks, suit-cases, camera cases, handbags, etc	1.5%	31,230,935	39.9%
15	H5407	Woven synthetic filament yarn, monofilament >67dtex	1.2%	30,585,114	103.2%
16	H8517	Electric apparatus for line telephony, telegraphy	1.2%	24,877,423	13.9%
17	H8528	Television receivers, video monitors, projectors	1.1%	22,722,464	71.6%
18	H8521	Video recording and reproducing apparatus	1.0%	26,186,668	172.3%
19	H8518	Audio-electronic equipment, except recording devices	1.0%	19,522,648	66.4%
20	H9506	Equipment for gymnastics, sports, outdoor games nes	0.8%	19,723,445	39.1%

Source: Custom and Excise and own calculations

The prominent products are computers, footwear and clothing, electronics and other machinery. Of lesser importance are toys and sports equipment, furniture and lighting. All of the top 20 commodities recorded positive growth rates.

Mercosur

Mercosur was launched in 1991 with the purpose of creating a free trade area and a customs union among Brazil, Argentina, Uruguay and Paraguay. It comprises 220 million people and generated aggregate GDP of US\$ 800 billion (current prices) in 2001. This represents a large market that from South Africa's perspective warranted an opportunity for trade negotiations. The SACU-Mercosur trade negotiations were concluded in 2004; a preferential trade agreement (PTA) resulted.

Mercosur's average exports to South Africa between 2000 and 2004 amounted to R1 billion. These have been growing at a rate of just under 50 percent on average over the same period. This high growth rate is partly due to very little bilateral trade prior to the period in question.

Table 12: Mercosur's top HS4 exports to South Africa by share, value and growth (2000-04)

	HS code	HS4 description	Average share of SA imports for 2000-04	Average Value of exports for 2000-04 (Rands)	Growth 2000-04
		Total	100.0%	1,010,054,664	47.2%
1	H9801	Original equipment components	16.3%	218,455,353	80.8%
2	H2304	Soya-bean oil-cake and other solid residues	10.9%	86,455,834	30.5%
3	H1507	Soya-bean oil, fractions, not chemically modified	5.3%	64,035,919	144.1%
4	H1512	Safflower, sunflower and cotton-seed oil, fractions	4.4%	27,306,207	12.1%
5	H0207	Meat, edible offal of domestic poultry	4.0%	39,017,167	120.9%
6	H1001	Wheat and meslin	3.0%	6,648,274	27.8%
7	H1005	Maize (corn)	3.0%	25,532,892	119.8%
8	H8802	Aircraft, spacecraft, satellites	2.2%	0	0%
9	H2401	Tobacco unmanufactured, tobacco refuse	2.2%	16,992,747	90.4%
10	H7203	Ferrous products from reduction of iron ore, pure iron	2.2%	22,176,014	17.1%
11	H8704	Motor vehicles for the transport of goods	1.7%	23,453,864	0%
12	H8702	Public-transport type passenger motor vehicles	1.7%	20,402,969	125.8%
13	H8409	Parts for internal combustion spark ignition engines	1.4%	13,777,764	6.3%
14	H4104	Bovine or equine leather, no hair, not chamois, patent	1.3%	10,199,160	10.4%
15	H8701	Tractors (other than works, warehouse equipment)	1.3%	17,037,441	97.2%
16	H8414	Air, vacuum pumps, compressors, ventilating fans, etc	1.3%	11,579,082	16.5%
17	H8429	Self-propelled earth moving, road making, etc machines	1.2%	12,087,843	18.9%
18	H6908	Glazed ceramic flags and paving, hearth, wall tiles	1.2%	11,379,721	55.9%
19	H8501	Electric motors and generators, except generating sets	1.0%	8,821,443	14.2%
20	H8708	Parts and accessories for motor vehicles	0.9%	9,345,449	36.0%

Source: *Custom and Excise and own calculations*

Besides auto parts, the most important product groups are all from the agricultural sector. Also noteworthy in the top half of the table is HS 8802: aircraft, spacecraft, satellites, comprising 2.2% of South Africa's imports from Mercosur. However, there were no imports in this category in 2004, suggesting a once-off government purchase in an earlier year. The fastest growing commodity groups are soybean oil, meat, maize, tobacco, public-transport passenger vehicles, and tractors.

India

South African trade policy makers have for some time been keen to understand the trade relationships between India and South Africa. The two countries started negotiations on trade arrangement in 2001, but were delayed by the inclusion of other SACU members after 2002. Since then, SACU and India engaged in trade negotiations that are likely to be completed in two stages¹⁰⁶. The first will comprise of a PTA covering mainly trade in goods. If it comes about, the second stage will cover a broader agenda (such as services).

Table 13: India's top HS4 exports to South Africa by share, value and growth (2000-04)

106 Alves, P. (2004). Understanding Indian trade policy: implications for the Indo- SACU Agreement. SAIIA Trade Policy Report: Report number 5.

	HS code	HS4 description	Average share of SA imports for 2000-04	Average value of exports for 2000-04 (Rands)	Growth 2000-04
		Total	100.0%	418,647,476	44.8%
1	H1006	Rice	8.7%	52,690,768	28.3%
2	H3004	Medicaments, therapeutic, prophylactic use, in dosage	4.6%	19,519,911	50.0%
3	H2710	Oils petroleum, bituminous, distillates, except crude	4.3%	9,300	1376.1%
4	H7210	Flat-rolled iron/steel, >600mm, clad, plated or coated	3.5%	13,391,152	174.6%
5	H4104	Bovine or equine leather, no hair, not chamois, patent	2.0%	4,100,766	-37.4%
6	H9801	Original equipment components	1.9%	7,870,118	56.7%
7	H7102	Diamonds, not mounted or set	1.9%	7,275,883	47.2%
8	H3204	Synthetic organic colouring matter	1.6%	7,144,122	25.3%
9	H0306	Crustaceans	1.5%	3,908,160	72.8%
10	H6302	Bed, table, toilet and kitchen linens	1.4%	7,418,483	48.7%
11	H5205	Cotton yarn not sewing thread >85% cotton, not retail	1.4%	8,183,058	105.4%
12	H6205	Men's or boys' shirts	1.3%	4,611,610	-3.4%
13	H4107	Leather of other animals, no hair, not chamois, patent	1.2%	6,761,255	3290.5%
14	H6403	Footwear with uppers of leather	1.1%	4,380,299	-3.2%
15	H8708	Parts and accessories for motor vehicles	1.0%	4,877,864	57.7%
16	H4010	Conveyor and similar belts or belting of rubber	1.0%	5,776,311	101.2%
17	H5509	Yarn (not sewing), synthetic staple fibre, not retail	1.0%	5,181,668	33.2%
18	H3808	Insecticides, fungicides, herbicides etc (retail)	0.9%	2,524,891	-2.9%
19	H6206	Womens or girls' blouses, shirts and shirt-blouses	0.9%	4,019,162	34.3%
20	H8706	Motor vehicle chassis fitted with engine	0.8%	3,779,828	

Source: Custom and Excise and own calculations

Indian exports to South Africa have grown at an annual average of about 45 percent between 2000 and 2004. Average exports were valued at R418 million. India's major exports are rice, pharmaceuticals, petroleum products, (non-crude) steel, and leather. Overall growth performance has been relatively strong at 45 percent, with most of the major products mentioned having grown strongly.

United States

US exports to South Africa grew at nine percent between 2000 and 2004, averaging about R3.2 billion annually. The export basket is diverse, with transport equipment (aircrafts, motor vehicles, vehicle components, etc) and machinery topping the list.

Table 14: United States' top HS4 exports to South Africa by share, value and growth (2000-04)

	HS code	HS4 description	Average share of SA imports for 2000-04	Average Value of exports for 2000-04 (Rands)	Growth 2000-04
		Total	100.0%	3,336,824,217	9.0%
1	H8802	Aircraft, spacecraft, satellites	12.2%	385,335,172	-1.0%
2	H8703	Motor vehicles for transport of persons (except buses)	4.1%	170,831,885	61.9%
3	H8411	Turbo-jets, turbo-propellers/other gas turbine engines	3.3%	96,481,846	1.8%
4	H9018	Instruments etc for medical, surgical, dental, etc use	2.6%	88,394,187	16.8%
5	H8803	Parts of aircraft, spacecraft, etc	2.3%	97,274,253	15.3%
6	H8471	Automatic data processing machines (computers)	2.3%	80,098,632	15.6%
7	H8517	Electric apparatus for line telephony, telegraphy	2.1%	47,605,796	-23.3%
8	H2713	Petroleum coke, bitumen & other oil industry residues	1.4%	55,163,079	5.4%
9	H3004	Medicaments, therapeutic, prophylactic use, in dosage	1.4%	50,525,544	26.6%
10	H9801	Original equipment components	1.4%	61,978,342	23.3%
11	H8473	Parts, accessories, except covers, for office machines	1.3%	43,048,499	15.1%
12	H8429	Self-propelled earth moving, road making, etc machines	1.3%	59,097,244	29.2%
13	H8524	Sound recordings other than photographic equipment	1.1%	35,948,702	-7.4%
14	H8483	Shafts, cranks, gears, clutches, flywheel, pulleys etc	1.0%	40,621,720	14.3%
15	H8701	Tractors (other than works, warehouse equipment)	1.0%	34,230,527	17.9%
16	H8708	Parts and accessories for motor vehicles	1.0%	44,844,414	20.8%
17	H3811	Gasoline and oil additives	0.9%	36,481,738	0.5%
18	H8431	Parts for use with lifting, moving machinery	0.9%	31,499,486	10.8%
19	H2710	Oils petroleum, bituminous, distillates, except crude	0.9%	31,903,917	6.8%
20	H4901	Printed reading books, brochures, leaflets etc	0.8%	25,680,895	11.3%

Source: Custom and Excise and own calculations

As would be expected, the majority of South African imports from the United States are highly sophisticated manufactured goods. The five fastest growing sectors were motor cars and other motor vehicles; instruments for medical, surgical and dental use; turbo-jets, turbo-propellers/other gas turbine engines; and self-propelled earth moving, road making, etc machines (row 12). Growth in these five products ranged between 20 percent and 62 percent per annum. Only three products in the top 20 have shown declining rates over the period. These are aircrafts, spacecrafts and satellites; electric apparatus for line telephony, telegraphy; records, tapes and other recorded media.

EFTA

The European Free Trade Area (EFTA) has just concluded trade negotiations with South Africa. It should be noted that the EFTA countries possess small populations (totalling just over 12 million), but are amongst the richest in the world. This level of development suggests that their exports will comprise mainly advanced manufactured goods.

Average exports between 2000 and 2004 by these four countries to South Africa totalled about R0.5 billion; the average annual growth rate was a negative 6 percent. The largest commodity group was printing and ancillary machinery (printers) which accounted for 13 percent of EFTA exports to South Africa. However, exports of this product group decreased at about 50 percent per annum.

Table 15: EFTA's top HS4 HS4 exports to South Africa by share, value and growth (2000-04)

	HS code	HS4 description	Average share of SA imports for 2000-04	Average Value of exports for 2000-04 (Rands)	Growth 2000-04
		Total	100.0%	514,195,515	-5.9%
1	H8443	Printing and ancillary machinery	13.0%	23,955,512	-49.7%
2	H3004	Medicaments, therapeutic, prophylactic use, in dosage	9.5%	60,706,848	10.5%
3	H7102	Diamonds, not mounted or set	5.1%	16,914,329	
4	H3302	Mixed odoriferous substances for industrial use	4.5%	25,525,565	19.7%
5	H8802	Aircraft, spacecraft, satellites	3.7%	8,020,722	-20.1%
6	H8471	Automatic data processing machines (computers)	3.6%	20,021,955	-52.8%
7	H9021	Orthopaedic appliances	2.1%	12,967,073	36.1%
8	H3204	Synthetic organic colouring matter	1.7%	10,097,785	5.6%
9	H9102	Watches with case of, or clad with, of base metal	1.6%	6,920,723	-1.2%
10	H2936	Provitamins and vitamins, their derivatives	1.4%	8,713,263	27.0%
11	H2924	Carboxyamid-function compounds	1.3%	9,211,682	43.2%
12	H9018	Instruments etc for medical, surgical, dental, etc use	1.1%	5,725,659	21.6%
13	H8536	Electrical switches, connectors, etc, for < 1kV	1.1%	6,702,466	14.1%
14	H8537	Electrical power, etc, control and distribution boards	1.0%	7,746,824	41.8%
15	H8479	Machines nes having individual functions	0.9%	3,531,789	14.3%
16	H8473	Parts, accessories, except covers, for office machines	0.9%	5,610,975	-4.9%
17	H8419	Machinery, non-domestic, involving heating or cooling	0.9%	15,093,991	9.7%
18	H3808	Insecticides, fungicides, herbicides etc (retail)	0.8%	4,680,191	-16.8%
19	H8448	Auxiliary machinery and parts for textile machinery	0.8%	5,328,409	5.7%
20	H7502	Unwrought nickel	0.8%	1,290	

Source: Custom and Excise and own calculations

As expected, most of the products in the table above are from the manufacturing sector. Pharmaceuticals, machinery and electronic equipment dominate, but diamonds are also important. EFTA exports no agricultural commodities to South Africa.

6.3 Conclusions

With the exception of EFTA, all of SACU's prospective FTA partners have shown relatively strong growth in their exports to South Africa. China's growth has been exceptional.

Chinese exports to South Africa are dominated by electronic equipment and machinery, as well as footwear and textiles. The fastest growing commodity groups are office machinery and parts, women's clothing, and radio and TV transmission equipment.

India's major exports are rice, pharmaceuticals, and textiles and clothing. Commodities such as leather products, non-crude petroleum oil products, motor vehicles parts, and medicines have displayed high growth rates.

The US is by far the largest exporter among the five to South Africa, with average trade value of more than three times the next highest, China. Its export basket is highly diversified, particularly within high-technology manufactured goods.

EFTA's exports to South Africa also comprise mainly high technology manufactured goods, including machinery and electronic equipment, chemicals, watches, and so on.

Initial indications are that, broadly speaking, the two sets of trade partners—SADC countries and these potential FTA partners—should complement each other. The possible exception is Mercosur, which is very competitive in agriculture; and China and India, which export clothing and textiles. The following section explores these dynamics in more detail.

7. Complementary and competing products

This section identifies possible threats and opportunities that may arise for SADC member states if South Africa concludes preferential trade arrangements with the non-SADC countries mentioned above. Complementary products refer to the top products (by share and growth) exported by SADC member states to the rest of the world (RoW), but which South Africa currently imports from non-SADC sources. In these products, South Africa could switch its imports from RoW to imports from SADC countries. In identifying potential complementarities, each SADC member state's top 20 exports to the RoW are compared with South Africa's top 50 imports from non-SADC countries. This limitation therefore makes it possible that some potential complementary products are not identified.

Competing products refer to prominent SADC exports to South Africa that are also exported to South Africa by the five non-SADC FTA countries or country groupings. Identifying these is simple, as one is just comparing SADC exports to South Africa with those of the five countries or country groupings discussed above. Again, however, the number of products is limited; some less important items may be missed.

7.1 Complementary products

Table 16 reflects South Africa's top 50 total imports, ranked by average share of imports (2000-2004) from the RoW, i.e. total imports minus SADC imports. The RoW contributed 98 percent of South Africa's 2004 imports. If SADC members export any of the same items to RoW, there may be unexploited complementarity in South Africa's trade with SADC.

Table 16: South Africa's top 50 HS4 imports in 2004, average share and import growth (2000-04) and share of RoW in 2004 imports

	HS code	HS4 description	Average share in total imports for 2000-04	Value of trade with RoW 2004 (US\$)	RoW share in imports 2004	Growth 2000-04
		Total		46,593,427,609	97.5%	42.4%
1	H2709	Petroleum oils, oils from bituminous	11.9%	5,716,885,218	95.5%	41.2%
2	H9801	Original equipment components	8.9%	4,054,775,279	100.0%	43.3%
3	H8703	Motor vehicles for transport of persons	4.3%	2,587,753,185	99.8%	48.5%
4	H8802	Aircraft, spacecraft, satellites	2.7%	1,472,280,768	98.8%	48.1%
5	H8525	Radio and TV transmitters, television	2.7%	1,273,917,403	99.6%	42.2%
6	H8471	data processing machines (computers)	2.7%	1,244,434,987	99.7%	42.1%
7	H3004	Medicaments, therapeutic, prophylactic	1.9%	779,574,663	99.9%	40.8%
8	H7102	Diamonds, not mounted or set	1.6%	640,178,069	97.6%	40.6%
9	H8517	Electric apparatus for line telephony,	1.6%	494,812,288	99.9%	33.5%
10	H8473	Parts, accessories, except covers, for office	1.4%	839,348,374	99.9%	47.2%
11	H8708	Parts and accessories for motor vehicles	1.4%	608,385,974	99.7%	43.6%
12	H2710	Oils petroleum, , distillates, except crude	1.0%	616,523,959	99.1%	45.8%
13	H2818	Aluminium oxide, and artificial corundum	1.0%	434,810,877	100.0%	39.4%
14	H8429	Self-propelled earth moving, road making, etc machines	0.9%	413,317,198	97.8%	46.5%
15	H8411	Turbo-jets,turbo-propellers/turbine engines	0.8%	378,895,758	99.9%	45.6%
16	H9018	Instruments etc for medical, surgical, dental, etc use	0.7%	321,666,061	99.7%	42.6%
17	H8443	Printing and ancillary machinery	0.7%	221,407,002	99.8%	36.0%
18	H8704	Motor vehicles for the transport of goods	0.6%	307,078,389	97.7%	46.8%
19	H8536	Electrical switches, connectors, etc, for < 1kV	0.6%	236,116,083	99.6%	40.5%
20	H8542	Electronic integrated circuits and microassemblies	0.5%	158,619,066	99.8%	33.3%
21	H8803	Parts of aircraft, spacecraft, etc	0.5%	324,722,633	99.6%	47.3%
22	H8701	Tractors (other than works, warehouse equipment)	0.5%	231,282,692	99.2%	45.2%
23	H8414	Air, vacuum pumps, compressors, ventilating fans, etc	0.5%	220,503,883	99.4%	42.2%
24	H8483	Shafts, cranks, gears, clutches, flywheel, pulleys etc	0.5%	208,139,831	99.8%	41.9%
25	H8479	Machines nes having individual functions	0.5%	225,637,020	99.8%	41.6%
26	H8524	Sound recordings other than photographic equipment	0.5%	177,692,024	100.0%	37.9%

	HS code	HS4 description	Average share in total imports for 2000-04	Value of trade with RoW 2004 (US\$)	RoW share in imports 2004	Growth 2000-04
27	H8481	Taps, cocks, valves for pipes, tanks, boilers, etc	0.5%	192,960,644	99.9%	41.9%
28	H1006	Rice	0.5%	207,469,188	99.9%	41.5%
29	H4011	New pneumatic tyres, of rubber	0.5%	214,224,509	98.0%	43.6%
30	H8431	Parts for use with lifting, moving machinery	0.4%	176,924,969	98.9%	41.8%
31	H8413	Pumps for liquids	0.4%	183,245,536	99.2%	41.8%
32	H8527	Radio, radio-telephony receivers	0.4%	230,744,492	99.8%	44.5%
33	H9009	Photo-copying apparatus	0.4%	178,124,676	99.9%	40.4%
34	H4810	Paper, board, clay, inorganic coated at least one side	0.4%	163,723,844	100.0%	41.2%
35	H8421	Liquid, gas centrifuges, filtering, purifying machines	0.4%	178,243,080	98.5%	43.7%
36	H8419	Machinery, non-domestic, involving heating or cooling	0.4%	149,745,346	99.9%	50.7%
37	H8906	Warships, lifeboats, hospital ships, vessels nes	0.4%	464,539,976	100.0%	411.9%
38	H8482	Ball or roller bearings	0.4%	148,829,903	99.9%	39.9%
39	H8409	Parts for internal ignition engines	0.4%	159,127,441	99.6%	42.6%
40	H8529	Parts for radio, tv transmission, receive equipment	0.4%	165,184,433	98.3%	39.3%
41	H4901	Printed reading books, brochures, leaflets etc	0.4%	166,457,957	99.9%	41.7%
42	H3808	Insecticides, fungicides, herbicides etc (retail)	0.4%	154,072,229	99.7%	41.4%
43	H3811	Gasoline and oil additives	0.4%	128,880,712	99.8%	39.3%
44	H1001	Wheat and meslin	0.3%	196,785,867	99.9%	48.7%
45	H5407	Woven synthetic filament yarn, monofilament >67dtex	0.3%	126,741,012	99.7%	37.9%
46	H6402	Footwear nes, with outer sole, upper rubber or plastic	0.3%	166,843,507	100.0%	44.3%
47	H9401	Seats (except dentist, barber, etc chairs)	0.3%	157,095,001	97.4%	45.4%
48	H2701	Coal, briquettes, ovoids etc, made from coal	0.3%	107,065,564	100.0%	40.3%
49	H3901	Polymers of ethylene, in primary forms	0.3%	220,374,668	99.9%	49.8%
50	H8504	Electric transformers, static converters and rectifiers	0.3%	144,961,367	99.6%	41.7%

South African Custom and Excise and own calculations

Botswana

Most of Botswana's exports are destined to the RoW (i.e., not South Africa), of which 90 percent is comprised of diamonds. Turning to Table 16, South Africa's imports of diamonds from the RoW made about 1.6 percent of total imports. Of these, SADC supplied about 2 percent, while 98 percent came from the RoW. The South African government's initiative to improve diamond beneficiation may result in greater demand for Botswana diamonds. However, De Beers controls all regional diamond trade, so its decisions would be decisive.

Other products that South Africa is importing from the RoW that could be sourced from Botswana include, according to the data, some medicaments, some motor vehicle products, and parts of aircrafts. However, and ignoring possible data irregularities, the main concern is whether Botswana could meet South African demand in a sustainable fashion.

Lesotho

Products that Lesotho is exporting to the RoW are limited to textiles and clothing. Most of these products are destined to the US under AGOA. However, as shown earlier, South Africa does import a range of clothing products from Lesotho, implying some scope for complementarity. The obvious problem here is competition from Asia. Adding to this is the possibility that in the longer term AGOA may be significantly altered or dismantled altogether, Lesotho manufacturers may in future be in great need of South African buyers.

Malawi

Of the products in Table 16, Malawi exports only rice to the RoW; these account for less than half a percent of its total (0.3 percent) exports. South Africa's demand for rice that is met by RoW equate to half a percent of its total imports. Potential for imports is very low given the supply capacity of Malawi, plus the fact that most of that could be re-exports. Under SADC rules of origin, those re-exports will not benefit from SADC preferential rate.

Mauritius

Mauritius is in a similar position to Botswana in terms of exports of diamonds to the rest of world. Exports to the RoW comprise about 1.9 percent of total exports and about 80 percent of total diamond exports. There is thus scope for increased diamond imports from Mauritius by South Africa.

Mozambique

Mozambique supplies the rest of world with some petroleum oil products (most likely to be natural-gas based products). South Africa meets 99.6% of its import requirements from the RoW, implying scope for substitution with Mozambican exports. However, there are question marks over the stability of Mozambique's supply.

Namibia

Namibia supplies the RoW with motor vehicles, printed materials and precious metals. The first two are amongst South Africa's top imports from the RoW, implying scope for greater imports from Namibia.

Swaziland

There are no products that appear both in the top 50 imports by South Africa and the top 20 exported by Swaziland.

Tanzania

Tanzania is in a similar position to Mauritius and Botswana as it supplies the rest of world with diamonds, which make up about 4% of its total exports. About 99% of these diamonds are destined to the RoW. However, its supply to the RoW declined by 48% between 2000 and 2004. The trend in demand for diamonds has been downward globally. Nevertheless, as with Botswana and Mauritius, this provides potential for more trade with South Africa.

Zambia and Zimbabwe

Zambia's exports to the world are in primary commodities. These include copper and copper products; cobalt, gold, as well as raw and semi-processed agricultural products. None of these are in South Africa's top 50 imports from non-SADC countries, so greatly increased demand is likely to be low.

Zimbabwe's exports to the RoW are concentrated mainly in base metals and agricultural products such as tea, tobacco and cotton. As with Zambia, South Africa does not import these in great quantities from non-SADC countries, if at all. This implies existing imports from Zimbabwe or significant domestic production in South Africa. Either way, greatly increased import growth from Zimbabwe into South Africa is unlikely.

7.2 Competing products

The focus in this subsection is on those product markets that are highly contested. That is, we are identifying here SADC countries' defensive concerns in the South African market that may result from more trade with non-SADC partners. There is also a focus on intra-SADC competition that exists as a result of members exporting similar products to the South Africa market.

Botswana

With the exception of meat products, whose main destination is the EU, South Africa imports over 80 percent of Botswana's exports of vehicles (mainly tractors and tractor parts), sugar confectionaries and some electronic parts and products. In vehicles, Botswana could face competition in the South African market from Mercosur, China and the US. This will depend on the outcome of the negotiations and the preference that those countries secure. However, in the short to medium term, Botswana will remain protected by the MIDP due to its SACU membership.

Meat products will be challenged by Mercosur. Botswana's electronic components are likely to face stiff competition from the US, China and India, if all these FTAs are concluded.

Lesotho

More than 80 percent of the top 20 exports by Lesotho to South Africa are products from the textiles and textiles articles chapter. These products will find Chinese and Indian products very difficult to compete against. However, the South African industry itself is already struggling to compete with imports from China, implying that should FTAs with these countries be sought, some clothing and textiles products may not be included. This would mitigate the potential negative effects on Lesotho's exports.

Malawi

Malawi is in a similar situation as Lesotho when it comes to exports of textiles and clothing articles to South Africa. However, Malawi, along with Mozambique, Tanzania and Zimbabwe, has been granted derogation from the two-stage substantial transformation rule of origin in the SADC Trade Protocol. The MMTZ are allowed access to the SACU market under a one-stage transformation rule, subject to quotas. This dispensation was put in place for a period of five years during which the MMTZ countries were expected to graduate to the two-stage transformation rule of origin where there are no limits on market access¹⁰⁷.

Therefore, depending on preferences and rules of origin in other agreements sought by South Africa, China and India will be the two main threats to their market shares in South Africa. However, Malawi also exports tea, tobacco and sugar products. The tobacco market will be contested with Zimbabwe and Mercosur. The sugar market is highly distorted in the globally, but South Africa is a competitive producer and exporter of many sugar products. As for tea, none of the FTA negotiating partners emerged as a competitor, but China and India can not be ruled out. This may be because they have not started exporting to South Africa; these countries certainly do export tea to other parts of the world.

Mauritius

Any competition to Mauritius in the South African market will not harm their domestic industry significantly as only one percent of Mauritius exports in 2002 were destined to South Africa. Given that most of those exports are clothing, that brings China and India into the picture. To the extent that Mauritius has targeted the South African market (they have been growing those exports fourfold and more in recent years) this could pose a competitive threat.

107 Paul Kalenga, (2002) "Implementation of the SADC Trade Protocol: Some Reflections." Trade Law Center

Mozambique

Mozambique's top exports to South Africa consist of electrical energy, clothing, oil cake, aluminium and fish products. The situation on clothing is similar to Malawi, with regards to special agreement on clothing and textiles coming to an end soon. A very small portion (6 percent) of Mozambique's unwrought aluminium exports is exported to South Africa, and it is not clear whether stronger competition from any of the non-SADC potential FTA partners would be forthcoming. Further, Mozambique's only aluminium smelter, Mozal, has a strong South African interest in it.

In fish products Mozambique already competes with Namibian exports, with the latter having an advantage due to its membership in SACU. As for oil cake products, South American competitors, mainly Brazil and Argentina, will contest that market strongly.

Namibia

Namibia's top exports include precious stones, grape wines, base metals, fish products and meat of poultry and swine. In most of these products, Namibia will contest the market with fellow SADC members such as Mozambique (fish products), Botswana, Tanzania and Zambia (precious stones) as well as Tanzania and Zambia (base metals). There doesn't seem to be much threat for grape wines. Meat products will be challenged strongly by Mercosur.

Swaziland

The top products for Swaziland include chemical products for industrial use, food preparations, wood products, sugar and sugar products as well as clothing. Except in the case of clothing, most of the competition will be from SADC member states. As for chemical products for industrial use and food preparations, no serious competitor emerged in the analysis.

Tanzania

Tanzania exports tobacco, precious metals, pharmaceutical products, oilcake, oilseeds and fish products to South Africa. Competition in pharmaceutical products will involve the US, EFTA, and India. Mercosur will compete in oilseeds and oilcake. On the regional front, Tanzania competes with Malawi and Zimbabwe for tobacco; Botswana, Namibia and Zambia in precious metals; and Mozambique and Namibia in fish products. However, given that Tanzania exports a marginal share of its total exports to South Africa such competition is not likely to have significant negative impacts on Tanzanian business.

Zambia

Copper and cobalt products, precious metals and electric energy are the top products that Zambia exports in larger shares to South Africa. Zambia has undisputed comparative advantage in copper production, and related products. Precious stones are also imported from Namibia and Botswana by South Africa.

Zimbabwe

Tobacco, nickel and cotton contributed on average 45 percent of Zimbabwe's exports to South Africa over the period 2000—2004. Competition in tobacco comes primarily from the region. Nickel exports are not highly contested in the South African market with the exception of a small amount of exports from Zambia. South Africa's other sources of cotton imports include Malawi, Mauritius, Tanzania and Zambia. India is the only other source outside the region that competes with regional members in the cotton market.

7.3 Conclusions

The main highlights of the preceding discussion and are shown in Table 17 below. Recall that potential in complementary products should result in greater intra-SADC trade, driven by South Africa sourcing more from the region in products it currently sources elsewhere. Potential competing products could result in the opposite, with South Africa sourcing less than it currently does in the region.

Table 17: Summary of SADC member states' complementary and competing products plus competitors

MS	Complementary products	Competing Products	Competitor
Botswana	Medicines, precious stones and vehicles	Vehicles, meat, confectionaries and electronics	India, US, Mercosur, Namibia and China
Lesotho	None	Textiles and clothing	India, China and other SADC members
Malawi	None	Textiles and clothing, tea, cotton and tobacco	India, China and other SADC members
Mauritius	Diamonds	Textiles and clothing	India, China and other SADC members
Mozambique	Petroleum oil	Textiles and clothing, fish and oilseeds,	India, China and other SADC members
Namibia	Vehicles, printed materials and precious metals	Meat products	Mercosur and Botswana
Swaziland	Furniture and machinery	Textiles and clothing	India, China and other SADC members
Tanzania	Diamonds	Precious metals, medicines, tobacco and oilseeds	Mercosur, India and SADC members
Zimbabwe	None	Tobacco, tea and cotton	India and other SADC members

Note: In the case of Zambia no product fitted any of the definitions above.

Overall, the five FTA negotiating members threaten SADC exports differently. In competing products, the case for China and India is mainly in the textiles and textiles articles as well as machinery and mechanical appliances chapters. India is also competitive in medicaments, which is also a territory for the US and EFTA. The latter two also provide South Africa with high tech products and none of the SADC members have shown any strength in supplying those. Mercosur is a threat to the region by virtue of its strong agricultural sector.

8. Preferential Market Access: Linking Tariff Liberalisation to Trade Flows¹⁰⁸

One of the objectives of the SADC Trade Protocol is to promote intra-SADC trade by means of intra-SADC tariff liberalization. This process is designed in such a way that South Africa, and therefore SACU, will spearhead the reduction of tariffs while other SADC members are proceeding on slower tracks and “backloading” reduction commitments on imports from South Africa.

Consequently, it is at this stage too early to execute a comprehensive analysis of possible links between intra-SADC tariff liberalization and changes in intra-SADC trade flows for the whole of SADC. Moreover considerable technical obstacles are encountered in matching tariff phase down schedules with trade flows to data bases collected from member countries.

In this report we limit ourselves to an attempt to analyse the link between intra-SADC tariff liberalization and intra-SADC trade flows to South Africa’s tariff liberalization and its imports from SADC (excluding SACU). By way of background, in 2001 South Africa’s share in intra-SADC total imports (i.e., imports from the region (but excluding imports from SADC by Mozambique, Lesotho, Angola and the DRC, due to lack of representation in the UN COMTRADE data base) is low at just under 5 percent. We first discuss our approach and the related data issues. This is followed by a presentation of some results and we end with concluding remarks.

8.1 Methodology and Data Issues

A descriptive analysis approach of the link between South Africa’s tariff reduction and imports from SADC (excluding SACU) is adopted. Aggregate HS 2 digit data is used to introduce all sectors and provide an overview of any trends or pattern. Product specific analysis is then undertaken at the highly disaggregated HS 8 digit level. Due to space constraints, only selected products of interest can be presented and discussed.

The report considers current (2003) tariff levels and their reductions since 2000 (the inception year for South Africa of the SADC Trade Protocol), value of imports and its change (in current Rand terms) as well as a comparison of the change in the value of imports with the period prior to 2000, and with changes in the value of imports from the RoW.

Whether changes in the relative value of imports, i.e., compared over time or with

108 This is taken from a report by Kalaba and van Seventer prepared for the SADC Secretariat, for the SADC midterm Review, 2004.

other suppliers can be attributed to changes in tariffs remains uncertain. In order to do that, there will be a need to control for other events and variables, such as external shocks, and growth in GDP. This would require econometric analysis which in turn, requires significantly more observations than what is currently available.

It should be mentioned that South African tariff data are not as easily available as trade data at the HS8 level. The tariff schedule is obtained on an ad-hoc basis from the Department of Trade and Industry in unpublished form. There has never been a perfect match between Customs and Excise (C&E) trade data bases and the tariff schedules.

The South African tariffs regime has undergone significant liberalization during the late 1990s but since then further development has been minimal. The only significant liberalization that has taken place is with regard to imports from SADC. The figure below highlights the point. For illustrative purposes, a comparison between 2001 and 2003 is presented. In the three graphs below it can be seen on the left hand side that the MFN schedule has not changed much between 2001 and 2003. About 40 percent of the number of tariff lines identified in the schedule of about 7900 product lines are zero rated. More than 20 percent have a non-ad valorem tariff and about 8 percent of lines occupy the 15-20 percent, the 10-15 percent and 5-10 percent ranges. 4 percent of the lines are associated with tariffs in the 0-5 percent nuisance range as well as in the 20-30 percent range. Less than 1 percent of the product groups face a tariff over 20 percent)

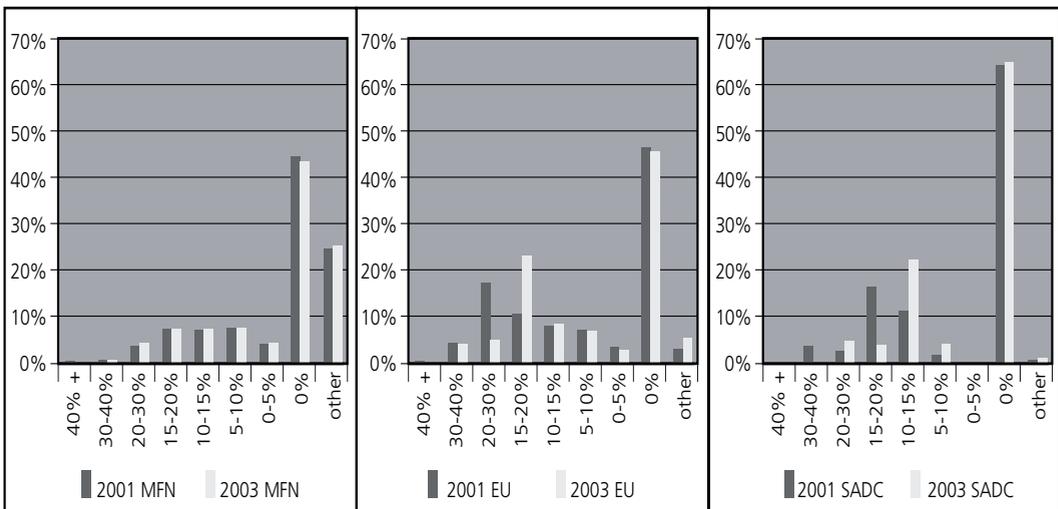


Figure 1: Comparison of South Africa's tariff schedules for imports from the EU, SADC and the RoW for 2001 and 2003.

Source: Customs & Excise

The EU schedule presented in the middle graph shows a similar proportion of HS8 product groups with zero tariffs. The main difference is that the non-ad valorem tariffs seem to have undergone considerable reform. This has also meant that the overall number of ad valorem tariffs has increased. In the case of the EU schedule this appears to be the case in the 20-30 percent range and the 15-20 percent range. Interestingly, the phase down that is meant to take place as part of the EU—SA FTA has not resulted in more zero rated product groups yet, due to backloading on South Africa’s side. The main shift can be seen to have occurred from the 20-30 percent range down to the 15%-20 percent range and can be attributed to the phase down in textiles fabrics (HS55).

The SADC schedule, which is shown in the graph on the right hand side, clearly is the most generous in that the proportion of product groups that is zero rated is more than 60 percent. Non-ad valorem and nuisance tariffs (0-5 percent) have almost been eliminated. The shift between 2001 and 2003 seems to have taken place from the 15-20 percent range to the 10-15 percent range (again, this is mainly because of textiles and clothing as will be seen later). There is also a small but perceptible increase in the 5-10 percent range.

8.2 Results

The starting point of this exposition is at the 23 sector level of aggregation. In the next table the value of South African imports for the year 2003 are presented in the first column. It can be seen that total South African imports from SADC (excluding SACU) amounts to just over R4 billion. The main contributions are made by mineral products, textiles and clothing, prepared foods and vegetable products and base metals and some machinery.

In the second column it can be seen that except for textiles and clothing, and a lesser degree prepared foods, these main imports do not face much tariff distortion in the South African market. Footwear records the highest unweighted average tariff in 2003 and this has not come down as much as textiles and clothing, as can be seen in the next column. The bottom part of the table shows unweighted average across the whole schedule has more than halved in the matter of three years.

Table 18: South African imports, unweighted average tariffs, and their changes over the period 2000-2003 for 23 product chapters.

	Imports from SADC 2003	1	2	3	4	5	6	7	8
C01	Live animals & products	63,051,971	5.2%	-7.5%	-23.4%	27.4%		72.6%	
C02	Vegetable products	279,640,193	1.6%	-5.7%	7.4%	36.4%		37.0%	
C03	Animal or veg fats & oils	8,275,096	0.5%	-4.6%	26.5%	-16.7%	yes	132.7%	
C04	Prep foods, bevs & tobac	437,611,702	6.9%	-7.9%	75.1%	47.9%	yes	63.5%	yes
C05	Mineral products	1,152,660,565	0.3%	-1.7%	426.0%	14.4%	yes	-19.9%	yes
C06	Chemicals	41,330,602	0.4%	-1.9%	29.4%	20.4%	yes	211.1%	
C07	Plastics & rubber prods	44,148,521	1.4%	-7.4%	35.4%	27.1%	yes	86.0%	
C08	Leather prods	35,869,979	6.3%	-4.7%	52.7%	-38.6%	yes	7.8%	yes
C09	Wood prods	169,703,857	2.5%	-5.2%	62.3%	16.0%	yes	46.9%	yes
C11	Textiles & articles	848,805,549	11.3%	-10.5%	74.8%	-8.3%	yes	109.4%	
C12	Footwear, headg etc	20,373,679	17.1%	-5.1%	-11.2%	42.9%		-38.0%	yes
C13	Non-met mins	48,871,225	1.8%	-5.2%	48.9%	22.5%	yes	454.3%	
C14	Precious mins & mets	68,975,982	2.6%	-2.7%	614.5%	21.2%	yes	22.4%	yes
C15	Base metals & articles	480,351,617	1.5%	-4.2%	36.6%	42.0%		200.0%	
C16	Machinery & electr mach	206,109,521	1.2%	-2.8%	-17.0%	32.1%		332.3%	
C17	Transport equipment	51,233,953	6.0%	-4.0%	-9.9%	95.8%		87.4%	
C18	Prof & precision equipm	16,517,331	0.1%	-0.2%	21.6%	26.2%		97.7%	
C20	Misc manuf articles	0	0.0%	-14.1%	0.0%	0.0%		0.0%	
C21	Works of art etc	72,810,474	4.4%	-3.9%	13.5%	17.9%		-5.5%	yes
C22	Other unclass	0	30.0%	-5.0%	0.0%	62.0%		0.0%	
	Total	4,046,341,817	4.8%	-5.9%	76.2%	32.9%	yes	63.4%	yes

Source: Customs & Excise, DTI and own calculations

Has this significant tariff reduction had an impact on trade flows? Some answers are shown in the rest of the table. A number of product groups show negative growth (in nominal Rand terms, column 4); amongst others live animals and products, machinery and footwear. The latter, as was noted earlier, has not undergone significant liberalisation in South Africa. SADC textiles and clothing exports to South Africa on the other hand show a considerable increase, which must in part be due to the halving of a relatively high tariff. South African textiles and clothing imports from other sources have declined over the same period, pointing towards the possibility of trade diversion—with the obvious exception of imports from China.

The machinery chapter (16) possessed low tariffs in 2000, which were further reduced over the period. Nevertheless, SADC exports to South Africa have declined considerably. To a lesser degree this trend is also evident in transport equipment. It is clear that for these groups, tariffs do not help to explain the trade flows and it would appear that other events are perhaps more important, including increased competition from the RoW, as is shown in column 5.

Column 6 answers the following question: is the % change in imports from SADC larger than the % change in imports from the RoW since 2000? If so, this was indicated by the word “yes”. Low base year values aside, it can be seen that for about half of the product groups identified, the SADC-specific tariff reduction has indeed resulted in import growth from SADC that has been higher than import growth from the RoW, including textiles and footwear and processed foods. The biggest gains have been in more basic products such as minerals, non-metallic minerals, precious metals, and wood products. The sectors that appear to be excluded from these gains are vegetable products and higher value groups such as footwear, articles of base metals, machinery and transport equipment.

Columns 7 and 8 ask a similar question. It shows the growth rates for the period 1996-1999, i.e., the four years preceding the inception of the SADC Trade Protocol. Have SADC exports to South Africa accelerated in the post-implementation period relative to the pre-implementation period? With regard to process food this is the case, as well as for minerals and precious minerals and metals. However, textiles and clothing have now dropped out as they used to grow at a much higher pace during the 4 years prior to the SADC Trade Protocol. Third-country competition (China and others) could be the dominant factor here. Higher value products such as base metals and articles, machinery and transport equipment also have not improved their performance since 2000.

But, on the whole, total South African imports from SADC have increased at a higher pace compared to imports from the RoW and have also recorded an acceleration

compared to the previous 4 years, as can be seen in the last row of the table.¹⁰⁹

Table 19 presents the same information as above, but at a slightly more disaggregated level of detail. The HS 2 digit classification identifies just under 100 commodity groups. Commodity groups with imports of less than R1 million in 2003 have been excluded. This leaves about 70 percent of the total number of HS2 commodity groups to report on. The highest contributor to SADC (excluding SACU) exports to South Africa remains minerals and ores with about 25 percent, followed by cotton and yarns (15 percent).

Tobacco, coffee and tea, oilseeds, fish and sugar are relatively important agriculture-related commodity groups. Further down we can see wood products, basic iron and steel, copper and nickel products featuring as well as machinery and electrical machinery and furniture. The structure of protection varies amongst these relatively important groups. Sugar and tobacco are faced with relatively high but declining protection.

Tariffs are also declining on oilseeds, fish and coffee and tea, and were by 2003 relatively low. Protection on cotton and yarn has been reduced but still remains high, while the protection on minerals and machinery is low. Furniture and transport equipment in South Africa are, however, relatively protected from SADC imports, although wood products are less protected, which suggest the presence of tariff escalation. The latter can also be observed in textiles and clothing where higher tariffs on the latter remain.

Table 19: Imports, unweighted average tariffs, and their changes over the period 2000-2003 for HS2 product groups.

109 Unweighted average tariffs tend to understate actual reductions. Weighting the tariff by the value of imports is one way to deal with this shortcoming. In some sectors this made a small difference to the observable tariff reductions. But, on the whole, using weighted averages did not add any new information to that given above.

HS2 code	HS2 Description	Imports from SADC 2003	Unweighted average tariff on imports from SADC	% point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000	Is % change in imports from SADC > from RoW since 2000?	% change in imports from SADC 96-99	Is % change in imports from SADC since 00 > from 96-99
		1	2	3	4	5	6	7	8
02	Meat and edible meat offal	3,572,733	6.6%	-11.9%	-92.3%	42.3%		33.1%	
03	Fish, crustaceans & aquatic invertebrates	55,726,174	3.5%	-7.4%	93.4%	16.0%	1	87.7%	1
04	Dairy prod; birds eggs; honey; animal pr NESOI	3,141,433	16.9%	-9.7%	-28.7%	3.9%		196.9%	
06	Live trees, plants, bulbs etc.; cut flowers etc.	6,759,897	2.9%	-5.4%	38.5%	24.4%	1	28.4%	1
07	Edible vegetables & certain roots & tubers	14,329,164	2.6%	-7.5%	-8.0%	124.8%		188.3%	
08	Edible fruit & nuts; citrus fruit or melon peel	28,291,497	1.2%	-6.8%	56.4%	24.1%	1	160.7%	
09	Coffee, tea, mate & spices	121,097,932	1.8%	-1.9%	25.2%	-5.2%	1	72.7%	
10	Cereals	7,120,330	2.8%	-6.6%	-45.6%	41.8%		-16.9%	
12	Oil seeds etc.; misc grain, seed, fruit, plant etc	100,686,042	1.0%	-5.5%	-9.5%	16.8%		-13.3%	1
13	Lac; gums, resins & other vegetable sap & extract	1,155,008	1.1%	-4.6%	249.1%	-0.4%	1	-89.0%	1
15	Animal or vegetable fats, oils etc. & waxes	8,275,096	0.5%	-4.6%	26.5%	-16.7%	1	132.7%	
16	Edible preparations of meat, fish, crustaceans etc	21,640,459	6.8%	-5.2%	269.1%	48.6%	1	798.8%	
17	Sugars and sugar confectionary	97,712,071	13.9%	-4.6%	1265.7%	98.1%	1	42.9%	1
19	Prep cereal, flour, starch or milk; bakers wares	10,589,073	10.7%	-7.1%	229.8%	60.9%	1	194.9%	1

HS2 code	HS2 Description	Imports from SADC 2003	Unweighted average tariff in 2003 on imports from SADC	%point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	Is % change in imports from SADC > from RoW since 2000?	% change in imports from SADC 96-99	Is % change in imports from SADC since 00 > from 96-99
20	Prep vegetables, fruit, nuts or other plant parts	4,208,479	7.5%	-8.0%	41.5%	1	83.0%	
21	Miscellaneous edible preparations	5,787,779	6.5%	-5.9%	118.9%	1	97.2%	1
22	Beverages, spirits and vinegar	7,732,199	3.1%	-20.0%	1111.8%	1	365.9%	1
23	Food industry residues & waste; prep animal feed	37,927,823	0.8%	-3.0%	-12.3%		-3.0%	
24	Tobacco and manufactured tobacco substitutes	251,990,913	15.2%	-13.5%	37.1%		84.7%	
25	Salt; sulphur; earth & stone; lime & cement plaster	25,864,806	0.0%	-0.9%	-43.8%		37.8%	
26	Ores, slag and ash	1,056,488,363	0.0%	0.0%	8015.5%		-69.8%	
27	Mineral fuel, oil etc.; bitumen subst; mineral wax	70,307,396	0.8%	-3.3%	-56.1%		-20.5%	
28	Inorg chem; prec & rare-earth met & radioact compd	14,122,673	0.1%	-0.8%	267.0%	1	176.4%	1
29	Organic chemicals	7,441,712	0.1%	-1.2%	21.6%	1	679.3%	
30	Pharmaceutical products	5,287,891	0.3%	-1.3%	-58.9%		161.5%	
32	Tanning & dye ext etc; dye, paint, putty etc; inks	2,029,700	0.0%	-2.6%	96.4%	1	226.3%	
33	Essential oils etc; perfumery, cosmetic etc preps	1,922,776	5.4%	-4.4%	-12.8%		4302.2%	
34	Soap etc; waxes, polish etc; candles; dental preps	3,942,271	3.2%	-10.6%	536.0%	1	83783.9%	
35	Albuninoial subst; modified starch; glue; enzymes	1,209,195	0.8%	-2.0%	59.9%	1	40.2%	1
38	Miscellaneous chemical products	5,010,206	0.0%	-3.3%	114.2%	1	22.8%	1

39	Plastics and articles thereof	5,167,410	1.4%	-6.9%	-42.2%	24.7%		62.9%
40	Rubber and articles thereof	38,981,111	1.3%	-8.8%	64.7%	32.5%	1	96.1%
41	Raw hides and skins (no furskins) and leather	14,645,516	0.0%	-2.9%	6.0%	-75.0%	1	35.2%
42	Leather art; saddlery etc; handbags etc; gut art	21,224,005	18.1%	-7.1%	119.4%	35.0%	1	-17.6%
44	Wood and articles of wood; wood charcoal	169,437,818	2.0%	-5.5%	64.1%	13.0%	1	46.8%
47	Wood pulp etc; recovd (waste & scrap) ppr & pprbd	986,544	0.0%	0.0%	1316.2%	-16.9%		5184.5%
48	Paper & paperboard & articles (inc paper pulp artl)	27,262,780	0.0%	-8.1%	71.7%	-22.8%	1	-7.3%
49	Printed books, newspapers etc; manuscripts etc	1,540,731	0.0%	-4.3%	-45.3%	20.3%		1105.4%
51	Wool & animal hair, including yarn & woven fabric	5,532,251	5.1%	-5.6%	2322.8%	-35.9%	1	-29.3%
52	Cotton, including yarn and woven fabric thereof	627,037,443	11.2%	-10.2%	140.0%	-52.5%	1	106.5%
53	Veg text fib NESOI; veg fib & paper yns & wov fab	1,875,003	0.0%	-2.1%	-0.4%	108.2%		178.9%
54	Manmade filaments, including yarns & woven fabrics	2,136,567	11.1%	-9.6%	1057.2%	-51.6%	1	-75.8%
56	Wadding, felt etc; sp yarn; twine, ropes etc.	6,105,827	3.7%	-11.8%	18.7%	30.3%		349.1%
61	Apparel articles and accessories, knit or crochet	52,351,918	23.6%	-15.0%	-29.3%	78.0%		28.3%
62	Apparel articles and accessories, not knit etc.	115,166,920	22.1%	-15.0%	22.6%	68.6%		260.0%
63	Textile art NESOI; needlecraft sets; worn text art	7,483,165	13.0%	-17.2%	-68.8%	17.4%		274.7%
64	Footwear, gaiters etc. and parts thereof	20,226,841	18.8%	-4.2%	-11.3%	46.1%		-46.0%
68	Art of stone, plaster, cement, asbestos, mica etc.	33,933,252	0.0%	-5.1%	65.1%	53.3%	1	2157.5%

HS2 code	HS2 Description	Imports from SADC 2003	Unweighted average tariff in 2003 on imports from SADC	%point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	Is % change in imports > from RoW since 2000?	% change in imports from SADC 96-99	Is % change in imports from SADC since 00 > from 96-99
69	Ceramic products	1,933,577	6.2%	-2.4%	1.0%		12.1%	
70	Glass and glassware	13,004,396	1.6%	-6.0%	52.9%		233.1%	
71	Nat etc pearls, prec etc stones, prmet etc; coin	68,975,982	2.6%	-2.7%	614.5%	1	22.4%	1
72	Iron and steel	44,405,483	0.0%	-3.2%	47.3%		118.7%	
73	Articles of iron or steel	85,536,819	0.1%	-6.6%	62.0%		225.7%	
74	Copper and articles thereof	97,888,552	1.0%	-3.7%	13.9%		262.3%	
75	Nickel and articles thereof	189,588,186	0.0%	0.0%	52.9%		140314.2%	
76	Aluminum and articles thereof	24,638,526	0.9%	-4.9%	-6.3%	1	45.9%	
79	Zinc and articles thereof	30,882,811	0.0%	0.0%	-17.5%		165.6%	
81	Base metals (NFSO); cermets; articles thereof	3,316,269	0.0%	0.0%	40.2%		299.8%	
82	Tools, cutlery etc. of base metal & parts thereof	2,539,110	5.9%	-4.1%	33.5%		155.9%	
84	Nuclear reactors, boilers, machinery etc.; parts	105,559,689	0.7%	-2.0%	51.1%		304.4%	
85	Electric machinery etc; sound equip; tv equip; pts	100,549,832	2.0%	-4.1%	8.3%	1	393.3%	
86	Railway or tramway stock etc; traffic signal equip	5,674,944	0.0%	0.0%	68.3%		-74.3%	
87	Vehicles, except railway or tramway, and parts etc	33,802,228	8.1%	-5.3%	83.2%		95.8%	
88	Aircraft, spacecraft, and parts thereof	11,644,634	0.0%	0.0%	103.5%		302.4%	
90	Optic, photo etc, medic or surgical instrnts etc	15,726,253	0.1%	-0.3%	28.1%	1	96.1%	

94	Furniture; bedding etc; lamps NESOI etc; prefab bd	67,954,744	9.2%	-4.7%	14.8%	57.6%		111.5%	
96	Miscellaneous manufactured articles	2,455,171	3.1%	-6.3%	78.0%	19.6%	1	-43.0%	1
97	Works of art, collectors' pieces and antiques	2,143,740	0.0%	0.0%	-29.8%	-64.4%		-80.5%	
	Total	4,046,341,817	4.8%	-5.9%	76.2%	32.9%	35	63.4%	23

Source: Customs & Excise, DTI and own calculations

How does this match with values of imports and their changes? South African imports of coffee and tea from SADC have increased while imports from the RoW have declined. The increase was, however, less than during the pre-inception period. With lower tariffs, import growth in fish products from SADC have been outstripping imports from the RoW and past import growth. Sugar imports have seen a phenomenal increase, presumably off a low base, but tobacco imports from SADC, in spite of the lower tariff and although growing at a reasonable rate, have lagged imports from the RoW as well as previous growth performance.

Wood products from SADC have seen relatively high increases in the South African market, perhaps benefiting from lower tariffs. Tariffs on furniture are much higher, albeit also declining, and imports have not grown as fast as compared to imports from the RoW, or compared to the pre-inception period. A similar escalation pattern, albeit to a less degree, can be observed regarding cotton & yarn and finished clothing articles. Although both groups have seen considerable tariff reductions, the absolute level of the tariff for the raw material is lower. At the same time, imports in the finished products do not power ahead to the same extent as cotton and yarn.

SADC exports to South Africa in basic metal products report varied growth rates, in absolute terms as well as relative to the RoW and the past, even though protection is very low. There is protection on some metal products of note, such as tools and equipment but the absolute values are too low as to make a sound inference. The picture regarding machinery and electrical machinery is also mixed with the former showing a decline in imports from SADC while tariffs came down. Unlike the higher level of aggregation reported on above, the number of HS2 product groups that recorded a tariff reduction as well as higher growth in South African imports from SADC compared to imports from the RoW, is relatively lower at 34 out of 98. Similarly, the number of product groups with accelerated growth in imports is now only a quarter (23 out of 98).

It is impossible to present results for each individual HS8 tariff line. The table below shows the top 50 products in terms of value of imports as recorded in 2003. Although mineral products dominate the picture they are of less interest to the SADC Trade Protocol as their tariffs in South Africa are typically very low.

A number of other large imports that feature in the top 50 have a more interesting story to tell. Firstly, tea imports from SADC have grown at a reasonably high rate, while imports from the RoW have declined. At the same time tariffs have dropped considerably. Note here that the 2000 tariff was calculated as an ad valorem equivalent from a specific rate. Similarly, sugar imports from SADC are significant and have grown considerably although their tariffs remain high. Cotton imports from

SADC recorded the second highest values, their tariffs have come down and growth is robust. However, there does not appear to be a case of trade diversion for this detailed product as South African imports of cotton from the RoW have recorded higher growth. A similar story line applies for some cotton yarn products (rows 14-15 and 43).

A couple of interesting products in the machinery complex are recorded in rows 18 and 21. The picture is, however, mixed. In the case of insulated wire, the tariff dropped to zero but growth was negative, while South African imports from the RoW increased. Electrical water heater components recorded a lesser decline in tariffs on imports from SADC but a considerable shift towards regional suppliers. A number of clothing groups appear in the table but again the picture is mixed in that although the tariff phase down is considerable, from 40 percent to 25 percent, this has not resulted in faster growth for all products, nor in significant switching to regional suppliers. One metal product that shows considerable switching is recorded in row 40. Household articles of metal has seen a zero rating from an initial tariff of 20 percent. At the same time the value of imports increased at a robust rate, while South African imports from the RoW have declined.

Similar success stories can also be observed in the processed food complex. Take for example, row 29 the report on one of the prepared meat products (swine). A relatively high value of imports from SADC is recorded for 2003 as a result of a significant growth rate while imports from the RoW have declined. The same applies to dried nuts in row 41. However, some spices, while growing fast, still face competition from the RoW (see row 48)

Table 20: Top imports, tariffs, and their changes over the period 2000-2003 for selected HS8 product groups.

HS8 code	HS8 Description	Imports from SADC 2003	Unweighted average tariff in 2003 on imports from SADC	%point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
		1	2	3	4	5
26040000	Nickel ores and concentrates: nickel ores and concentrates. [KG]	987,381,662	0%	0%	17820.9%	-99.9%
52010020	Cotton, not carded or combed: ginned but not further processed [KG]	500,071,385	11%	-8%	144.1%	364.7%
24012000	Unmanufactured tobacco; tobacco refuse: tobacco, partly or wholly stemmed o	218,895,581	0%	-15%	206.8%	214.5%
75021000	Unwrought nickel: nickel, not alloyed [KG]	162,732,799	0%	0%	433.8%	120.0%
09024000	Tea, whether or not flavoured: other black tea (fermented) and other partly	99,514,857	24%	-35%	16.0%	-43.0%
44071000	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, s	73,260,429	0%	0%	74.2%	46.8%
27040000	Coke and semi-coke of coal, of lignite or of peat, whether or not agglomera	66,324,803	0%	0%	-25.9%	217.2%
26030000	Copper ores and concentrates: copper ores and concentrates. [KG]	61,051,261	0%	0%	68059.6%	610884.0%
17011100	Cane or beet sugar and chemically pure sucrose, in solid form - raw sugar n	58,312,915	57%	-31%	2745.3%	114.7%
74081100	Copper wire - of refined copper: of which the maximum cross-sectional dimen	58,148,262	0%	0%	-4.9%	1134.9%
12022000	Ground-nuts, not roasted or otherwise cooked, whether or not shelled or bro	51,145,047	0%	0%	595.5%	69.0%
03061300	Crustaceans, whether in shell or not, live, fresh, chilled frozen, dried, s	46,211,999	0%	0%	88.6%	-28.9%
12072000	Other oil seeds and oleaginous fruits, whether or not broken: cotton seeds	39,534,630	0%	-10%	-4.0%	354.2%

52051100	Cotton yarn (excluding sewing thread), containing 85 % or more by mass of c	39,190,366	7%	-15%	571.0%	29479.7%
52051200	Cotton yarn (excluding sewing thread), containing 85 % or more by mass of c	34,605,567	7%	-15%	254.2%	558.0%
17019900	Cane or beet sugar and chemically pure sucrose, in solid form - other: othe	32,823,264	48%	-9%	1279.8%	-56.5%
94016100	Seats (excluding those of heading no.94.02), whether or not convertible int	32,528,211	13%	-7%	26.8%	16.6%
85445900	Insulated (including enamelled or anodised) wire, cable (including co-axial	30,392,363	0%	-15%	-11.2%	13.2%
71023900	Diamonds, whether or not worked, but not mounted or set - non-industrial: o	30,005,311	0%	0%	3027.8%	31.2%
71031000	Precious stones (excluding diamonds) and semi-precious stones, whether or n	29,674,289	0%	0%	449.8%	82.1%
85166000	Electric instantaneous or storage water heaters and immersion heaters; elec	26,307,192	15%	-5%	239448.3%	8.8%
75062000	Nickel plates, sheets, strip and foil: of nickel alloys [KG]	26,012,466	0%	0%	0.0%	-65.9%
24011000	Unmanufactured tobacco; tobacco refuse: tobacco, not stemmed or stripped [K	24,837,731	0%	-15%	-77.2%	120.8%
62034200	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace	24,511,061	25%	-15%	-17.8%	46.0%
62059000	Men's or boys' shirts: of other textile materials [NO]	23,437,582	25%	-15%	53.3%	14.7%
79031000	Zinc dust, powders and flakes: zinc dust [KG]	22,577,836	0%	0%	1123.0%	-50.1%
44129900	Plywood, veneered panels and similar laminated wood - other: other [KG]	21,875,469	0%	-10%	51.0%	127.0%
42021200	Trunks, suitcases, vanity-cases, executive-cases, brief-cases, school satch	21,176,272	24%	-6%	121.9%	6.4%
16024990	Other prepared or preserved meat, offal or blood - of swine: other [KG]	19,471,364	15%	-25%	808.2%	-79.7%
62052000	Men's or boys' shirts: of cotton [NO]	19,241,659	25%	-15%	57.0%	10.2%

HS8 code	HS8 Description	Imports from SADC 2003	Unweighted average tariff in 2003 on imports from SADC	%point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
48055000	Other uncoated paper and paperboard, in rolls or sheets; not further worked	19,070,636	0%	-9%	0.0%	132.8%
44111900	Fibreboard of wood or other ligneous materials, whether or not bonded with	17,900,581	0%	-10%	154.5%	206.4%
84171000	Industrial or laboratory furnaces and ovens, including incinerators, non- e	17,101,520	0%	0%	0.0%	-67.9%
HS8 code	HS8 Description	Imports from SADC 2003	Unweighted average tariff in 2003 on imports from SADC	%point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
74040000	Copper waste and scrap: copper waste and scrap. [KG]	16,272,115	0%	0%	-35.6%	12.4%
76020000	Aluminium waste and scrap: aluminium waste and scrap. [KG]	16,177,682	0%	0%	68.7%	819.7%
85372090	Boards, panels (incl. numerical control panels), consoles, desks, cabinets	16,083,908	0%	-5%	12817.0%	38.1%
23023000	Bran, sharps and other residues, whether or not in the form of pellets, der	16,016,476	0%	0%	79.3%	690.6%
23061000	Oil-cake and other solid residues, whether or not ground or in the form of	15,595,886	0%	-7%	33.4%	50.6%
73142000	Cloth (including endless bands), grill, netting and fencing, of iron or ste	15,380,266	0%	-5%	-11.3%	11.5%
73239400	Table, kitchen or other household articles and parts thereof, of iron or st	15,146,820	0%	-20%	145.7%	-32.2%
08029000	Other nuts, fresh or dried, whether or not shelled or peeled: other [100KG]	14,637,758	0%	0%	376.0%	-42.4%

61099000	T-shirts, singlets and other vests, knitted or crocheted: of other textile	14,464,734	25%	-15%	36.9%	210.9%
52052200	Cotton yarn (excluding sewing thread), containing 85 % or more by mass of c	14,209,612	7%	-15%	544.2%	306.0%
72042900	Ferrous waste and scrap; remelting scrap ingots of iron or steel - waste an	14,078,301	0%	0%	-26.7%	40988.6%
62113390	Track suits, ski suits and swimwear; other garments - other garments, men's	13,501,262	25%	-15%	0.0%	28.9%
44079900	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, s	12,905,292	0%	0%	19.4%	3.0%
40012900	Natural rubber, balata, gutta-percha, guayule, chicle and similar natural g	12,664,696	0%	0%	42.5%	185.1%
09042030	Pepper of the genus piper; dried or crushed or ground fruits of the genus c	12,635,876	8%	-17%	158.2%	287.2%
68111000	Articles of asbestos-cement, of cellulose fibre-cement or the like: corruga	12,111,924	0%	0%	186.0%	0.0%
28092000	Diphosphorus pentaoxide; phosphoric acid and polyphosphoric acids: phosphor	11,972,230	0%	0%	0.0%	349.8%

Source: Customs & Excise, DTI and own calculations

In the wood complex, at least three products with a high value of imports are identified, but again the picture is mixed. Unprocessed wood is a big export item to South Africa for SADC countries but tariffs have been zero ever since 2000 while growth has outstripped South African imports from the RoW (see row 6 and 46). Semi processed products such as plywood (row 27) has seen a complete phase down over the period of observation while South African imports increased but not as much as imports from the RoW. The furniture part of the story falls just outside the table hinting again at the tariff escalation mentioned earlier. Tariffs have come down but remain high. Nevertheless imports have increased relative to those from the RoW.

Has the tariff phase down contributed to more South African imports from SADC? In Table 21 the HS8 level data is sorted according to the highest decline in tariffs over the period of observation. The highest declines are due to ad valorem equivalent computations based on very low unit values. This is a problem with the trade data that we cannot rectify without making manual and subjective changes. Nonetheless, results are shown in order to demonstrate possible problem areas that need further attention. The table is sorted according to the entries in column 3.

Unlike the previous table, here, at the top of the phase down not much can be inferred in terms of increased trade flows. Most products with the biggest phase down are not traded at all. The products that stand out were already mentioned in the previous table, including tea, sugar cane and meat. New products appearing in the table are found in the motor vehicle complex and processed food of wheat (bread etc). In both cases there is a switch from the RoW to regional suppliers, while tariffs are reduced significantly.

Table 21: Top tariff reductions, imports, and their changes over the period 2000-2003 for selected HS8 product groups.

HS8 code	HS8 Description	Imports from SADC 2003	Unweighted ave tariff on imports from SADC	%point change in unweighted ave tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
		1	2	3	4	5
04029900	Milk and cream, concentrated or containing added sugar or other sweetening	2,259	29%	-576%	0.0%	-11.2%
22071000	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or	0	29%	-271%	-100.0%	136783.90%
04029100	Milk and cream, concentrated or containing added sugar or other sweetening	0	7%	-122%	0.0%	509.1%
04041000	Whey, whether or not concentrated or containing added sugar or other sweete	0	38%	-63%	0.0%	33.0%
07032000	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or c	0	50%	-53%	-100.0%	68.3%
22082090	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 8	0	16%	-52%	-100.0%	-30.9%
04051000	Butter and other fats and oils derived from milk, dairy spread: butter [100	0	28%	-49%	0.0%	-10.0%
04059000	Butter and other fats and oils derived from milk, dairy spread: other [100K	0	11%	-47%	0.0%	-96.9%
10059000	Maize (corn): other	126,193	10%	-43%	92689.0%	234.7%
40121120	Retread or used pneu tires, solid tires etc, rubbr	0	0%	-43%	0.0%	-100.0%
40121190	Retread or used pneu tires, solid tires etc, rubbr	0	0%	-43%	-100.0%	-100.0%
02109100	Meat and edible meat offal, salted, in brine dried or smoked, edible flours	0	0%	-40%	-100.0%	-100.0%
61101120	Sweaters, pullovers, vests etc, knit or crocheted	0	0%	-40%	-100.0%	-100.0%
61101190	Sweaters, pullovers, vests etc, knit or crocheted	0	0%	-40%	0.0%	-100.0%
62132000	Handkerchiefs: of cotton [KG]	0	0%	-40%	-100.0%	-100.0%
62139000	Handkerchiefs: of other textile materials [KG]	0	0%	-40%	0.0%	-100.0%
63049100	Other furnishing articles (excluding those of heading no. 94.04) - other: k	0	0%	-40%	-100.0%	-100.0%

HS8 code	HS8 Description	Imports from SADC 2003	Unweighted average tariff in 2003 on imports from SADC	%point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
02071490	Meat and edible offal, of the poultry of heading no. 01.05, fresh, chilled	0	30%	-38%	0.0%	125.3%
16023290	Other prepared or preserved meat, offal or blood - of poultry of heading no	0	16%	-37%	0.0%	-66.1%
40121130	Retread or used pneu tires, solid tires etc, rubber	0	0%	-36%	0.0%	0.0%
93063010	Bombs, grenades etc; cartridges etc and parts	0	0%	-35%	0.0%	0.0%
09024000	Tea, whether or not flavoured: other black tea (fermented) and other party	99,514,857	24%	-35%	16.0%	-43.0%
10019000	Wheat and meslin: other [KG]	0	14%	-34%	0.0%	44.0%
20021090	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid - t	0	0%	-32%	0.0%	611.3%
63090025	Worn clothing and other worn articles: worn travelling rugs and blankets [K	0	12%	-32%	0.0%	112.0%
17011100	Cane or beet sugar and chemically pure sucrose, in solid form - raw sugar n	58,312,915	57%	-31%	2745.3%	114.7%
11010000	Wheat or meslin flour: wheat or meslin flour. [KG]	10	10%	-30%	0.0%	1222.9%
16022090	Other prepared or preserved meat, offal or blood - of liver of any animal:	0	20%	-30%	0.0%	-75.8%
59111010	Textile products and articles, for technical uses, specified in note 7 to t	0	0%	-30%	0.0%	-1.3%
60062120	Knitted or crocheted fabrics	0	0%	-30%	0.0%	-100.0%
93062100	Bombs, grenades etc; cartridges etc and parts	0	0%	-30%	0.0%	0.0%
93062910	Bombs, grenades etc; cartridges etc and parts	0	0%	-30%	0.0%	0.0%
17011200	Cane or beet sugar and chemically pure sucrose, in solid form - raw sugar n	0	29%	-28%	0.0%	6.7%
87032190	Motor cars and other motor vehicles principally designed for the transport	420,667	20%	-27%	-23.4%	72.0%

87032290	Motor cars and other motor vehicles principally designed for the transport	1,266,919	20%	-27%	833.0%	4.0%
87032390	Motor cars and other motor vehicles principally designed for the transport	8,517,575	20%	-27%	151.1%	65.7%
87042180	Motor vehicles for the transport of goods - other, with compression-ignition	263,467	20%	-27%	-74.3%	86.0%
04021000	Milk and cream, concentrated or containing added sugar or other sweetening	975	21%	-26%	0.0%	-7.7%
15119020	Palm oil and its fractions, whether or not refined, but not chemically modi	0	0%	-25%	0.0%	-100.0%
02101100	Meat and edible meat offal, salted, in brine dried or smoked; edible flours	71	15%	-25%	-99.4%	-20.6%
02101200	Meat and edible meat offal, salted, in brine dried or smoked; edible flours	0	15%	-25%	0.0%	32157.6%
02101900	Meat and edible meat offal, salted, in brine dried or smoked; edible flours	2,989,490	15%	-25%	1039.8%	166.9%
10082000	Buckwheat, millet and _canary seed; other cereals: millet	584,361	0%	-25%	0.0%	1035.0%
16024100	Other prepared or preserved meat, offal or blood - of swine: hams and cuts	1,064,225	15%	-25%	0.0%	502.6%
16024200	Other prepared or preserved meat, offal or blood - of swine: shoulders and	0	15%	-25%	-100.0%	-99.6%
16024990	Other prepared or preserved meat, offal or blood - of swine: other [KG]	19,471,364	15%	-25%	808.2%	-79.7%
19053100	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not cont	8,556,463	0%	-25%	641.4%	48.3%
20019010	Vegetables, fruit, nuts and other edible parts of plants, prepared or prese	0	17%	-25%	0.0%	21.6%
20091100	Fruit juices (including grape must) and vegetable juices, unfermented and n	0	0%	-25%	0.0%	-28.1%
20091200	Fruit juice nt frtfd w vit/mnl veg juice no spirit	0	0%	-25%	-100.0%	-100.0%

Source: Customs & Excise, DTI and own calculations

The following table reports those product groups that have seen their imports into South Africa from SADC decline in absolute value (see column 1). In some cases, reclassification of the products during the conversion from the HS1996 to HS2002 format may also contribute to seemingly volatile patterns. This may especially be case where the proportional decline is 100 percent. In that case the product has disappeared altogether as in import from SADC. Individual tracking is the only way to double check the possibility of such occurrence.

Table 22: Declining imports, tariffs, and their changes over the period 2000-2003 for selected HS8 product groups.

HS8 code	HS8 Description	Absolute change in imports from SADC 2003	Unweighted ave tariff in 2003 on imports from SADC	%point change in unweighted ave tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
		1	2	3	4	5
24011000	Unmanufactured tobacco; tobacco refuse: tobacco, not stemmed or stripped [K	-83,862,075	0%	-15%	-77.2%	120.8%
27090000	Petroleum oils and oils obtained from bituminous minerals, crude: petroleum	-58,207,243	0%	0%	-100.0%	11.2%
12010000	Soya beans, whether or not broken: soya beans, whether or not broken. [100K	-49,750,085	0%	0%	-90.4%	-49.8%
84262000	Ships' derricks; cranes, including cable cranes; mobile lifting frames, str	-36,326,421	0%	0%	-100.0%	1870.4%
02023000	Meat of bovine animals, frozen: boneless [KG]	-33,819,249	16%	-24%	-100.0%	113.8%
75022000	Unwrought nickel: nickel alloys [KG]	-25,463,203	0%	0%	-99.4%	-21.6%
25240000	Asbestos: asbestos.	-24,573,444	0%	-10%	-85.6%	-99.4%
27040000	Coke and semi-coke of coal, of lignite or of peat, whether or not agglomera	-23,166,567	0%	0%	-25.9%	217.2%
74031100	Refined copper and copper alloys, unwrought - refined copper: cathodes and	-15,433,142	0%	0%	-56.8%	-83.7%
23040000	Oil-cake and other solid residues, whether or not ground or in the form of	-13,697,205	0%	-7%	-100.0%	46.2%
61031900	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace	-12,849,736	25%	-15%	-100.0%	1228.5%
72142000	Other bars and rods of iron or non-alloy steel, not further worked than for	-12,136,322	0%	-5%	-99.5%	97.2%
84295190	Self-propelled bulldozers, angledozers, graders, levellers, scrapers, mecha	-10,705,149	0%	0%	-90.1%	159.9%

HS8 code	HS8 Description	Absolute change in imports from SADC 2003	Unweighted ave tariff in 2003 on imports from SADC	%point change in unweighted ave tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
62069000	Women's or girls' blouses, shirts and shirt-blouses: of other textile mater	-10,663,133	25%	-15%	-80.8%	64.2%
02032990	Meat of swine, fresh, chilled or frozen - frozen: other [KG]	-10,541,896	0%	-15%	-100.0%	462.1%
64031900	Footwear with outer soles of rubber, plastics, leather or composition leath	-9,633,231	26%	-4%	-90.6%	60.6%
74040000	Copper waste and scrap: copper waste and scrap. [KG]	-8,984,398	0%	0%	-35.6%	12.4%
48052500	Other uncoated paper and paperboard, in rolls or sheets; not further worked	-8,944,352	0%	-9%	-100.0%	-2.2%
63022100	Bed linen, table linen, toilet linen and kitchen linen - other bed linen, p	-8,772,102	18%	-22%	-92.5%	-83.2%
87042190	Motor vehicles for the transport of goods - other, with compression-ignitio	-8,408,227	15%	-5%	-95.7%	59.3%
84261200	Ships' derricks; cranes, including cable cranes; mobile lifting frames, str	-8,162,640	0%	0%	-98.2%	517.7%
75089000	Other articles of nickel: other [KG]	-7,838,529	0%	0%	-100.0%	-23.3%
84295200	Self-propelled bulldozers, angledozers, graders, levellers, scrapers, mecha	-7,807,880	0%	0%	-82.6%	262.9%
72287000	Other bars and rods of other alloy steel; angles, shapes and sections, of o	-7,609,476	0%	-5%	-92.5%	3.0%
63023900	Bed linen, table linen, toilet linen and kitchen linen - other bed linen: o	-7,165,232	18%	-22%	-100.0%	306.9%
10051000	Maize (corn): seed	-6,789,481	3%	1%	-55.2%	-58.8%
68029300	Worked monumental or building stone (excl. slate) and articles thereof (exc	-6,783,052	0%	0%	-100.0%	-49.6%

84314990	Parts suitable for use solely or principally with the machinery of headings	-6,452,169	0%	0%	0%	-86.5%	62.3%
27160000	Electrical energy: electrical energy. [MW]	-6,243,820	0%	0%	0%	-100.0%	0.0%
94060000	Prefabricated buildings: prefabricated buildings. [KG]	-6,166,668	0%	0%	0%	-90.8%	-11.7%
87051000	Special purpose motor vehicles (excluding those principally designed for th	-6,116,579	0%	0%	0%	-100.0%	131.0%
52051400	Cotton yarn (excluding sewing thread), containing 85 % or more by mass of c	-5,588,793	7%	-15%	-100.0%	-100.0%	-100.0%
61142000	Other garments, knitted or crocheted: of cotton [KG]	-5,560,191	25%	-15%	-100.0%	-100.0%	230.8%
72011000	Pig iron and spiegeleisen in pigs, blocks or other primary forms: non-alloy	-5,420,187	0%	0%	-100.0%	-100.0%	3.1%
12099910	Seeds, fruit and spores, of a kind used for sowing - other: seeds [100KG]	-5,353,916	0%	0%	-98.5%	-98.5%	74.4%
62034200	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace	-5,309,986	25%	-15%	-17.8%	-17.8%	46.0%
84304900	Other moving, grading, levelling, scraping, excavating, tamping, compacting	-5,301,798	0%	0%	-83.7%	-83.7%	98.6%
72042900	Ferrous waste and scrap: remelting scrap ingots of iron or steel - waste an	-5,132,035	0%	0%	-26.7%	-26.7%	40988.6%
61059000	Men's or boys' shirts, knitted or crocheted: of other textile materials [NO	-5,092,780	25%	-15%	-42.9%	-42.9%	19.8%
30042000	Medicaments (excluding goods of heading no.30.02, 30.05 or 30.06) consistin	-4,675,721	0%	0%	-57.0%	-57.0%	-41.9%
72159000	Other bars and rods of iron or non-alloy steel: other [KG]	-4,672,595	0%	-5%	-99.7%	-99.7%	-36.9%
72155000	Other bars and rods of iron or non-alloy steel: other, not further worked t	-4,588,796	0%	-5%	-100.0%	-100.0%	99.9%
39123100	Cellulose and its chemical derivatives, not elsewhere specified or included	-4,538,456	0%	-10%	-100.0%	-100.0%	-13.9%
61034900	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace	-4,518,778	25%	-15%	-97.1%	-97.1%	95.2%

HS8 code	HS8 Description	Absolute change in imports from SADC 2003	Unweighted average tariff in 2003 on imports from SADC	%point change in unweighted average tariff on imports from SADC since 2000	% change in imports from SADC since 2000	% change in imports from RoW since 2000
84798990	Machines and mechanical appliances having individual functions, not specific	-4,496,835	0%	0%	-96.0%	27.3%
85152100	Electric (incl. electrically heated gas), laser or other light or photon be	-4,457,335	0%	0%	-99.7%	-4.9%
85444900	Insulated (including enamelled or anodised) wire, cable (including co-axial)	-4,233,823	0%	-15%	-98.7%	-34.5%
81052000	Cobalt mattes and other intermediate products of cobalt metallurgy; cobalt	-4,079,458	0%	0%	-97.8%	167.4%
62092020	Babies' garments and clothing accessories - of cotton: napkins [KG]	-4,005,450	25%	-15%	-100.0%	-100.0%
84261900	Ships' derricks; cranes, including cable cranes; mobile lifting frames, str	-3,905,859	0%	0%	-75.6%	-78.6%

Source: Customs & Excise, DTI and own calculations

It is sufficient to note at this stage that most of the products reported in the table above face no tariff in South Africa, a number were already zero rated in 2000, while others were granted free access over the period of observation. In spite of zero rating at the start or during the period of observation these products have seen a decline in their exports to South Africa. The source of imports often appears to switch to the RoW. It is clear, therefore, that tariffs do not explain this decline and one probably has to look for supply side considerations. In particular, this may be the case for some of the minerals and other resource-based commodities.

A number of clothing products can be observed in the table. Here, continued high tariffs may be an explanation for the decline in SADC exports to South Africa. On the other hand, it may also be that suppliers are switching to other markets where better market access has become available over the period of observation such as the USA. One footwear product (row 16) also remains very highly taxed and has seen its exports decline further.

8.3 Conclusions

Our analysis in this section should be considered as a first attempt at discerning any links between South Africa's tariff liberalisation vis-à-vis SADC and imports from SADC. The main observations are as follows:

- a. The main imports by South Africa from SADC are minerals and ores; they do not face a high tariff.
- b. Tariffs in processed foods have come down since 2003 and are by now relatively low. This has resulted in an increase in imports by South Africa, notably in tea and fish. Tariffs in tobacco and sugar remain high but trade flows have nevertheless increased, although in the case of the former not as much as from the RoW.
- c. Tariffs on textiles and clothing have also been reduced but remain at a relatively high level. South Africa has in some instances switched to regional suppliers in spite of this. And, overall growth in trade flows has decelerated compared to the period prior to the inception of the Trade Protocol. In footwear the reduction in tariffs over the period 2000-2003 has been less, and the current levels remain relatively high. Imports from SADC have declined.
- d. SADC exports to South Africa in basic metal products report varied growth rates, in absolute terms as well as relatively to the RoW and the past, even though protection is very low.
- e. The picture regarding machinery and electrical machinery is also mixed with the former showing a decline in imports from SADC despite tariffs coming down.

- f. There is some evidence of tariff escalation in wood products where tariffs remain relatively high for furniture, while SADC's unprocessed and semi processed wood products have seen tariffs in South Africa reduce and trade flows increase.
- g. On the whole total South African imports from SADC have increased at a higher pace compared to imports from the RoW and have also recorded an acceleration compared to the previous 4 years.
- h. The number of HS2 product groups that recorded a tariff reduction as well as higher growth in South African imports from SADC compared to imports from the RoW, is relatively low at 34 out of 98. Similarly, the number of product groups with accelerated growth in imports is now only a quarter (23 out of 98).
- i. As it is impossible to present results for each individual HS8 tariff line, the report focused on selected aspects. In one table we report the top 50 products in terms of value of imports as recorded in 2003. The patterns described above are more or less confirmed.
- j. The HS8 level data was sorted according to the highest decline in tariffs over the period of observation. Here, at the top of the phase down not much can be inferred in terms of increased trade flows. Most products with the highest phase down are not traded at all. The products that stand out were already mentioned in the previous table, including tea, sugar cane and meat. New products appearing in the picture relate to the motor vehicle complex and processed food of wheat (bread etc). In both cases there is a positive development with a switch from the RoW to regional suppliers, while tariffs are reduced significantly.
- k. The last section reported on those product groups that have seen their imports from SADC decline in absolute value. It is sufficient to note at this stage that most of the products reported in the table face no tariff in South Africa. In spite of zero rating at the start or during the period of observation these products have seen a decline in their exports to South Africa. The source of imports often appears to switch to the RoW. It is clear, therefore, that tariffs do not explain this decline.

9. Rules of origin considerations

Rules of origin are an essential element of regional trading arrangements. They aim to prevent trade deflection, i.e., importing from outside the preferential trade area and re-exporting under preference to another member. That is to ensure that non-members do not benefit from market access privileges intended only for members. Rules of origin also have a protective effect, intentionally or unintentionally.

In the SADC Trade Protocol, rules of origin have been contentious. Resolution of outstanding differences has been incorporated into the midterm review, which is now underway. However for some sectors, rules of origin are yet to be determined. We are now five years into the implementation period of the Protocol.

9.1 SADC rules of origin

The rules of origin in SADC are considered relatively complex and prohibitive.¹¹⁰ In some instances these rules may account for the lack of or entirely negative trade response to tariff reductions in SACU countries. Initial suggestions and proposals were considered simple, unrestrictive and consistent with those of developing countries in a preferential trade agreement. However, they were opposed by some on the grounds that they were insufficient to confer origin, and specific rules setting out minimum levels of economic activity in the region were developed. The current specific rules stipulate that goods would qualify for SADC tariff preference if they:

- Underwent a single change of tariff heading, or
- Contained a minimum of 35 percent regional added value, or
- Included non-SADC imported materials worth no more than 60 percent of value of total inputs used

For agricultural and primary products to be eligible for preferences they need to be wholly produced or obtained in the region.¹¹¹ This is a more general rule and common in many regional arrangements. If this rule is properly enforced, it can sufficiently prevent trade deflection in agricultural products. And, as was indicated earlier, most of South Africa's imports from the region are made of this category.

Some exceptions were considered on some of the initially agreed sector-and

110 Brenton, P., Flatters, F and Kalenga, P (2004). Mid Term Review of the SADC: Rules of Origin. Draft Report 2004.

111 Ibid

product-specific rules. In most sectors and products agreement was reached. The only products for which rule has not been agreed are wheat flour and products of wheat flour. The main issue is whether use of regionally grown wheat should be a condition to qualify for SADC tariff preferences.

9.2 Rules of origin on selected commodities

The focus now switches to those commodities that dominate SADC exports to South Africa. Even though the rule on primary and agricultural products appears less complex, there are still contentious issues, especially in areas of wheat, wheat flour and their products; coffee, tea and spices; and textiles and garments.

Wheat, wheat flour and their products

Rules of origin have not yet been agreed for wheat and flour or for the products of wheat and flour. The latter include tapioca, pasta and biscuits.

The fault line runs between wheat producing and non-wheat producing member states. The main differences among the proposed rules for flour hinge on the amount of local or regional wheat that is required. One proposal is that 70% of wheat used (by weight) be sourced from the region. An opposing proposal suggest that no reference be made to the source of wheat and just require that the flour be milled in the region. The latter proposal is a simple form of change in tariff heading requirement. The main differences in the proposed rules for downstream flour products also related to the requirement on local wheat content of flour used.

Proponents of onerous rules argue that there is need to protect regional grain growers and downstream millers and producers of other wheat products against unfair, subsidized international competition. Yet it is interesting to note that all SADC member states are net wheat importers. Few members actually produce significant amounts of wheat, casting doubt over the need for complex precautions against trade deflection. Furthermore, until rules are agreed no tariff preferences will be offered. This must be remedied swiftly if intra-SADC wheat trade is to grow.

Adoption of a simple rule requiring change of tariff heading, e.g. from wheat to flour, can help verify that flour originates from the region. It would also indicate that the product results from economic activity in the region and thus should qualify for SADC trade preference. The same rule can be applied for wheat flour products.

Coffee, tea and spices

The member states that are significant producers of these products generally prefer high external tariffs, and thus seek protective rules of origin in the form of high regional content requirements. The agreed rules on these products state that:

- For tea, coffee and spices at least 60% by weight of raw materials must be wholly originating from the region, and
- For curry and mixtures of spices, there must be a change of tariff of tariff heading and all cloves used in such mixtures must be wholly originating in the region

The problem with these rules, as applied to the spice trade, is that many relevant spices are not available in the region.¹¹² The rules are therefore unlikely to achieve the intended goals. If any thing, they are likely to have unintended consequences of preventing potential intra-SADC trade. Furthermore, they will impede rather than encourage development of downstream processing activities.

Arbitrary and restrictive rules of origin have the potential to limit flexibility in raw materials sourcing. This will not only reduce the competitiveness of existing producers, but will also harm the regional consumers. Member states that might have comparative advantage in tea, coffee or spice blending by virtue of local availability of some necessary ingredients would be deprived of preferential access to SADC markets under the current rules. The ultimate cost is borne by the regional consumer.

Textiles and garments

Negotiations on textiles and garments were prolonged, and on the insistence by SACU (South Africa mainly) and a directive from the Committee of Ministers responsible for Trade, Member States agreed on product specific rules of origin on some goods whilst general rules apply to others.

The most important textiles and clothing products proved to be in the categories HS50 to HS63, which were of great offensive interest to the less developed members, i.e., the MMTZ countries. The agreed general rule is the two-stage transformation or double tariff change. Member states finally agreed that the two-tariff change rule should only apply to Mauritius, SACU and Zimbabwe since they are more developed in this area or have the capacity to achieve this.

MMTZ countries were granted the one-stage tariff change for a period of five years

112 Flatters, F. (2002). "SADC Rules of Origin: Undermining Regional Free Trade."

subject to quotas for their exports into SACU. These quotas are based on current production capacity. After the five years, which end at the end of 2005, the MMTZ countries are expected to graduate to the two-stage transformation rule of origin where there are no limits on market access. A Textile and Clothing subcommittee is monitoring this agreement on textiles and clothing.

Textiles and garments are of particular interest in SADC due to the fact that it is one of the manufacturing sectors in which there is significant production in a number of countries. Differences in labour intensity at various stages of textile and garment value chain mean that there are potential complementarities among member states which might enhance regional competitiveness in the world. Opportunities opened by Africa Growth Opportunities Act (AGOA) make it crucial that both domestic and regional policy weaknesses and business environments are strengthened, so as to enhance international competitiveness.

The movement towards free trade in textiles and garments in SADC is slow. Most non-SACU member states have postponed significant trade reductions until very late in the transition process. Even SACU has postponed full liberalization in the case of certain clothing products. Garments must be produced from regionally produced textiles; fabric must be made from regionally produced yarn; yarn must be made from uncarded, uncombed fibre or from chemical products.

Strict rules of origin and the backloading of tariff reduction schedules for textiles and garments will prevent SADC from taking full advantage of AGOA and international markets in general. To take advantage of international export opportunities, producers would benefit from flexibility in sourcing raw materials and intermediate inputs.

9.3 Conclusions

Restrictive rules of origin are not only a barrier to international competitiveness but also costly in terms of ensuring conformity. Traders will have to incur costs of complying with the certification requirements, which are often complex in the case of restrictive rules of origin. Customs authorities will have to satisfy themselves as to proof of origin of goods often requiring costly administrative systems.

The situation is likely to be worse in the case of membership to multiple and varied trade agreements, as is the case with many SADC member states, especially when such rules are not harmonized.

The Trade Protocol is burdened with restrictive rules of origin that are, in some instances, contrary to long term developmental interests. As such, they may partially undermine the Protocol's effectiveness as a vehicle for promoting development in the

region. Some of the rules seem to offset gains offered by declining tariff barriers, and are bound to increase cost, reduce flexibility of producers, reduce the potential for increased intra-SADC trade, and make international competitiveness more difficult to achieve.

10. Trade creation and trade diversion

Trade economists always argue that the first best scenario for all concerned is free trade as it benefits both consumers and producers. Barriers to trade protect inefficient local producers and hence take resources away from firms that should be exporting. Reducing trade barriers will mean that these inefficient producers will not be able to compete with imports and the resources that they use will transfer more efficient activities. Consumers will gain from the reduction in price due to the lowering of tariffs and the increases in efficiency and productivity. This implies that any move towards freer trade would be welfare-enhancing. Unfortunately, this is not the case. Multilateral liberalisation, involving all countries at the same time, is welfare-enhancing. Entering into a free trade agreement (FTA) with selected partners may, on the other hand, reduce a country's welfare.

Trade creation occurs when liberalising tariffs results in more efficient foreign producers replacing an inefficient local ones. This is viewed as positive for the reasons outlined above. Trade diversion, on the other hand, does not result in any new trade. Instead, imports from the new FTA partner—trading under preferential conditions—take the place of imports from other trade partners (not privy to the preferences). Trade diversion is generally considered welfare-reducing, although this is not always the case. The welfare loss occurs in two ways. First, government loses tariff revenue. More important, because South Africa is switching its sources of imports from more to less efficient producers, resource allocation becomes more, not less inefficient. However, consumers in the liberalising market will gain due to the lower price of the good imported from the newly 'competitive' preference-receiving country (setting aside for now possible differences in quality). And, obviously, producers within the FTA will gain at the expense of outside producers.

The purpose of this section is to provide a first cut analysis of the likely welfare effects on South Africa from deeper SADC integration, using the two concepts described above. The analysis uses a partial equilibrium framework, which means that the dynamic effects of trade liberalisation are not taken into account.

However, when trade is liberalised this way (i.e. preferentially), many markets and multiple countries are affected, not just one. Thus to analyze the aggregate effects of such liberalisation, one would need to sum up the effects across markets and across countries. Unfortunately, the overall aggregate effects are also not considered here (due primarily to resource constraints).

10.1 Methodology and data

Appendix 1 holds the full details on the trade diversion and trade creation methodology. Suffice it to say here that the methodology employed is comparatively simple, without onerous data requirements, and makes possible an evaluation of the possible impacts of changing tariff levels on trade patterns at a disaggregated commodity level. Calculations rest on the assumption of fully-blown free trade, i.e., tariffs on all items going to zero.

The amount of trade creation (the calculations yield a net figure, which, if negative, indicates trade diversion) depends in part on estimates of the price elasticity of import demand. Gumede has estimated a single value of 1.56 for the import price elasticity and Jachia and Teljeur use 1.50 for the substitution elasticity across all commodities.¹¹³ The same elasticities have been used in other studies, and therefore used in this case as well. The calculation assumes that import supply is perfectly elastic.

Products with zero SADC and MFN tariffs were excluded from the analysis as there are no possibilities of welfare gains that would result from tariff adjustments.

For South Africa, we make use of Customs and Excise data at the HS2 digit level for South Africa imports from SADC and from the RoW for 2003. Tariff duties were obtained from the DTI.

10.2 Trade creation and diversion results

Products are ranked from low or negative net trade creation (high trade diversion) to high net trade creation. There are 99 HS2 commodity groups of which 17 were excluded as all items in them had zero tariffs for both SADC and MFN. We report only on the bottom and top 20 (the former being those with the highest trade diversion, or negative net trade creation).

Table 23 shows the results of net trade creation calculations (column 2). The 'total' figure is the overall net trade creation figure for all products, not just those listed in the two tables. Column 3 shows imports from SADC. SADC and MFN (applied) tariffs are indicated in columns 4 and 5, respectively.

Table 23: Bottom 20 products: Net Trade Creation in South Africa with SADC using a uniform import price and substitution elasticities of 1.50 and 1.56, respectively (2003).

113 See Gumede, V. 2000: Import Performance and Import Demand Functions For South Africa, TIPS Working Paper no 9; and Jachia, L and Teljeur E. 1998: Free Trade with Europe – the Winners and Losers, Results of the SMART Simulation, TIPS Working Paper no 11, July.

	1	2	3	4	5
		Net Trade Creation (R)	SADC Imports (R)	SADC Tariff	MFN Tariff
	Total	-370,439,454			
HS24	Tobacco and substitutes	-58,545,935	290,481,394	20.3%	35.6%
HS52	Cotton, inc yarn and woven fabric	-41,468,892	668,227,161	8.4%	15.4%
HS62	Apparel articles and accessories,	-35,453,804	133,673,280	9.8%	21.0%
HS87	Vehicles, except railway or tramway,	-29,150,687	161,092,690	8.0%	12.4%
HS84	Nuclear reactors, boilers, machinery	-17,897,187	473,918,668	0.8%	2.7%
HS85	Electric machinery sound & tv equip; pts	-17,484,487	203,617,102	2.0%	6.0%
HS94	Furniture; bedding etc; lamps NESOI etc; prefab bd	-16,023,789	84,101,707	9.2%	13.9%
HS44	Wood and articles of wood; wood charcoal	-15,928,243	181,474,871	1.8%	8.0%
HS71	Nat etc pearls, prec etc stones, pr met etc; coin	-13,279,688	218,658,627	2.7%	4.4%
HS61	Apparel articles and accessories, knit or crochet	-12,352,446	56,996,898	7.6%	16.5%
HS73	Articles of iron or steel	-11,204,709	127,133,176	0.1%	6.7%
HS03	Fish, crustaceans & aquatic invertebrates	-7,973,249	62,501,494	4.4%	12.7%
HS42	Leather art; saddlery etc; handbags etc; gut art	-7,650,418	21,687,939	18.1%	25.2%
HS64	Footwear, gaiters etc. and parts thereof	-7,073,117	22,980,392	17.2%	21.0%
HS40	Rubber and articles thereof	-6,243,758	47,630,107	1.8%	9.4%
HS12	Oil seeds etc.; misc grain, seed, fruit, plant etc	-4,930,104	103,815,647	1.6%	6.2%
HS17	Sugars and sugar confectionary	-4,140,234	98,369,809	3.7%	4.2%
HS27	Mineral fuel, oil etc.; bitumen subst; mineral wax	-4,106,621	72,066,753	1.0%	4.0%
HS22	Beverages, spirits and vinegar	-4,091,190	13,924,609	0.0%	21.1%
HS63	Textile art NESOI; needlecraft sets; worn text art	-3,921,306	12,989,063	8.0%	21.8%

Source: Customs & Excise, DTI and own calculations

Note: The figure for 'Total' refers to overall net trade creation for all products

Table 23 shows the bottom 20 products ranked by net trade creation, from lowest (most diversion) to highest. Net trade creation is negative for all the products in the table. The following commodities show the highest trade diversion: tobacco, cotton, apparel articles and vehicles. It is no surprise that in all these product groups, the SADC tariff is often much lower than the MFN rate. This implies high MFN tariffs in South Africa protect SADC producers from possibly more efficient third country exporters. Ultimately, the South African consumer bears the costs of such an arrangement.

Table 24: Bottom 20 products: Net Trade Creation in South Africa with SADC using uniform import price and substitution elasticities of 1.50 and 1.56, respectively (2003).

	1	2	3	4	5
	Top 20 Products	Net Trade Creation (R)	SADC Imports (R)	SADC Tariff	MFN Tariff
HS30	Pharmaceutical products	-123,742	14,326,328	0.4%	0.6%
HS32	Tanning & dye ext etc; dye, paint, putty etc; inks	-118,287	3,574,601	0.0%	2.4%
HS02	Meat and edible meat offal	-93,557	5,679,728	0.6%	1.1%
HS13	Lac; gums, resins & other vegetable sap & extract	-91,363	1,155,862	1.1%	5.6%
HS46	Mfr of straw, esparto etc.; basketware & wickerwrk	-86,177	355,547	10.8%	16.7%
HS65	Headgear and parts thereof	-74,945	255,262	12.6%	20.0%
HS67	Prep feathers, down etc; artif flowers; h hair art	-72,242	282,473	11.4%	17.5%
HS53	Veg text fib NESOI; veg fib & paper yns & wov fab	-69,315	1,973,186	0.0%	2.6%
HS35	Albuminoidal subst; modified starch; glue; enzymes	-60,318	1,702,045	0.8%	2.5%
HS89	Ships, boats and floating structures	-48,207	1,516,385	0.6%	2.2%
HS86	Railway or tramway stock etc; traffic signal equip	-45,242	9,020,557	0.0%	0.4%
HS36	Explosives; pyrotechnics; matches; pyro alloys etc	-30,499	699,850	0.0%	3.1%
HS37	Photographic or cinematographic goods	-21,312	279,199	0.0%	5.4%
HS95	Toys, games & sport equipment; parts & accessories	-18,795	560,164	1.7%	2.3%
HS11	Milling products; malt; starch; inulin; wht gluten	-16,978	142,157	1.3%	8.4%
HS43	Furskins and artificial fur; manufactures thereof	-15,131	114,148	5.1%	10.7%
HS18	Cocoa and cocoa preparations	-8,629	62,479	7.1%	9.3%
HS66	Umbrellas, walking-sticks, riding-crops etc, parts	-4,363	11,794	18.3%	25.0%
HS14	Vegetable plaiting materials & products NESOI	-1,886	107,916	0.0%	1.3%
HS98	Special classification of parts for motor vehicles	-503	1,118	30.0%	30.0%

Source: Customs & Excise, DTI and own calculations

The 'top 20' products in terms of net trade creation are shown in Table 24. As can be seen, however, there is no net trade creation, only lower trade diversion. This implies

that there is in fact no new trade created by South Africa's deeper integration into SADC, and no significant displacement of South African producers. Nevertheless, the products showing least trade diversion in the table above include pharmaceuticals, tanning, dye and paint products, meat products and vegetable products.

The total trade creation amounts to approximately R300m and total trade diversion is about R670m. Thus the resulting net trade diversion in South Africa is over R370m. To reiterate, this represents a rough estimate of the amount of imports from other, non-SADC countries that would be displaced under free trade in SADC. No new trade (in global terms) is created.

An interesting follow-up would be to replicate this for all SADC members. It is impossible to know whether or not there would be positive or negative net trade creation in other SADC economies, but it is almost certain that, relative to the size of these economies, the effects would be much larger than they are in South Africa.

11. Conclusion: Implications for Regional Development

The purpose of the report was to gain an understanding of the implications of South Africa's global trade strategy for the regional integration process envisaged under the RISDP. South Africa dominates economically, making it indispensable for any economic integration process.

The comparative structure of the South African economy relative to the region is characterized as north-south. Given the nature of Africa's developmental needs, South Africa's role in the region is therefore crucial, and commercial relationships between South Africa and regional economies should, on balance, deliver mutually beneficial outcomes. South Africa's expansion through FDI is particularly important, as it has tended to be more diverse in both type and activity than the traditional resource-seeking investment, whose developmental impact is likely to be more constrained.

However, owing to the small size of recipient markets foreign investment can result in the establishment of strongly dominant firms in key sectors in SADC countries. Where this occurs, and in the absence of appropriate competition and regulatory policy frameworks (which is currently the case in most countries), the positives associated with the creation of new or more efficient economic activities may be offset by efficiency or welfare losses owing to quasi- or complete monopoly effects. South Africa's role in the region could thus be expanded by helping other countries strengthen their regulatory frameworks, which would presumably aid them in more effectively regulating all MNCs, not just those from South Africa.

It was argued that South Africa's role in regional trade is mainly positive, but that there is substantial scope for improving South Africa's policy-stance vis-à-vis regional trade partners. Since the SADC Trade Protocol's implementation, South Africa has increased its regional sourcing. Furthermore, growth of SADC imports has outpaced imports from RoW. Such improvements in intra-SADC trade contribute significantly towards attaining some of the RISDP goals.

On the downside, the current account deficits that SADC members have with South Africa indicate that more still needs to be done to balance trade. These deficits need to be monitored from the standpoint that they may increase country risk. Yet it is questionable whether South Africa's policies are to blame for this state of affairs; rather it reflects a structural economic relationship that many African countries have with the entire world, and will most likely change slowly.

It is also important to reiterate that the source of the deficit is of primary consideration in considering its likely economic impact. In the case of South SADC

member states' imports from South Africa, we observe a wide range of essential intermediates and capital equipment items mixed in with more finished consumer products. Nonetheless, South Africa could open up more effectively to SADC member states under the SADC Trade Protocol. An initiative similar to the EU's Everything but Arms—coupled with simpler, more liberal rules of origin for certain products—is arguably both an appropriate and possible approach for South Africa to adopt. Equally important, however, is the need for SADC members to raise domestic savings and investment.

South Africa's extra-regional trade presents both threats and opportunities for member states. Threats arise in the form of successful FTA negotiations with some of the non SADC partners. Most of the threats are associated with the big labour-intensive developing countries as they export a similar range of products to South Africa as SADC member states do. However, our relatively aggregated analysis (at the HS4 level) was unable to reveal whether specific products are in direct competition, or whether intra-industry trade is occurring. And in the cases where the former is taking place, these threats can be turned into opportunities if regional producers view them as an opportunity to become more competitive.

Intra-SADC imports have not clearly responded to the tariff liberalisation under the Trade Protocol. It seems tariff reductions alone are insufficient to enhance intra-SADC trade. Other policy-induced trade barriers exist, notably restrictive rules of origin. This defeats the objective of tariff reductions. In some products there is no agreement on rules, and therefore no preferences have been offered. That enables member states to maintain high tariffs on SADC imports. SADC trade could also be constrained by non tariff barriers ranging from health issues to weak customs administrations. Even though Article 6 of the Trade Protocol provides for the elimination of all existing non-tariff barriers, progress on these commitments is glacial.

Supply side issues are also a possible explanation for the low inflow of SADC imports into South Africa. Business infrastructure is limited, and where it exists, it is often poorly maintained and inefficient. Therefore, first steps towards developing regional industry should be to address infrastructure bottlenecks. This should be complemented with a concerted effort to open regional services trade, especially in core infrastructure services (finance; telecommunications; energy; transport). As indicated earlier, South Africa's continued FDI on the continent can assist in areas such transport, telecommunications, finance, energy, skills development and other services. However, for that to make a difference, it needs to be expanded and also be aligned to both the regional agenda and domestic conditions of the recipient member state.

The fact that almost all SADC members specialize in primary products and a limited range of basic manufactures is inimical to meaningful regional trade expansion and economic integration. Overlapping memberships is another complex challenge. Finally, the evolving external trade agenda of the region's biggest economy is continually opening and closing opportunities for SADC producers in the South African market. As such, it must be recognised that ambitious integration schemes such as that envisaged under the RISDP will necessarily take a very long time.

In the meantime, smaller, more manageable arrangements such as the SACU may bear more fruit. If so, however, they may also detract from the legitimate need to focus on broader regional goals. So while they should therefore be encouraged and supported, their development should be managed with a view to complementing rather than undermining broader SADC processes.

Appendix 1: Trade Creation and Trade Diversion Methodology

Following a hypothetical free trade arrangement between South Africa and SADC, the following changes in trade flows between the two countries and third countries can amongst others be distinguished:

- Trade creation (TC), which measures the increase in imports from SADC due to a decrease in the relative price of these imports vis-à-vis domestically produced goods, resulting in a net increase in South Africa's total imports and a net decrease in South Africa's domestic production; and
- Trade diversion (TD), which measures the increase in South Africa imports from SADC due to a decrease in the relative price of these imports vis-à-vis imports from other countries resulting in a different geographical composition of imports, whereby imports from SADC increase at the expense of imports from other sources, with no change in total South African imports.

Trade creation is considered to be welfare enhancing since relatively high-costs domestic production is replaced with lower-cost imports from SADC. Nevertheless South Africa has to face the decline of local, albeit less efficient, production. Trade diversion is considered to be welfare lowering in that South Africa switches its source of imports from a more efficiently producing country to a less efficiently producing country, leading to a less efficient allocation of resources, although the total import bill remains unchanged.

A 2.1 Trade Creation

Trade creation follows directly from the formulation of the import price elasticity:

$$(A2.1a) \quad Em_j = \frac{\Delta M_j / M_j}{\Delta P_j / P_j}$$

in which Em_j is the percentage change in the demand for imports of good j ($\Delta M_j / M_j$) when the price of the imports (P_j) on the domestic market increases by 1% ($\Delta P_j / P_j$), M_j is the current value of imports of good j and ΔM_j its change, i.e., the trade creation. Equation (A2.1a) can be rewritten as:

$$(A2.1b) \quad TC_j = \Delta M_j = Em_j * M_j * \frac{\Delta P_j}{P_j}$$

If $T_{j,0}$ and $T_{j,1}$, are the tariff of good j before and after the free trade agreement comes in effect respectively we can define the relative price increase as:

$$(A3.1c) \quad \frac{\Delta P_j}{P_i} = \frac{(1+T_{1,j}) - (1+T_{0,j})}{(1+T_{0,i})}$$

If we assume that $T_{1,j}=0$, i.e., the new tariff under the free trade area is set to zero, then, eqn (2.1c) changes into:

$$(A2.1d) \quad TC_j = Em_j * M_j * \frac{-T_{0,j}}{(1+T_{0,i})}$$

A number of issues remain unresolved in this formulation. Firstly, are products from SADC and the RoW perfect substitutes? If so, one is assuming that elasticity of import demands are equivalent. Secondly, the problem is that if this is the case then we would see zero imports from SADC initially as all imports of the product would be sourced from the cheapest country somewhere else in the RoW.

A 2.2 Trade Diversion

Continuing with trade diversion, this is a more complicated matter in that it involves the imports from sources other than SADC. As a starting point, it is useful to first consider the change in price of imports from SADC relative to that of other sources. This relative price change follows a preferential liberalisation (such as a South Africa – SADC Free Trade Area), which brings the tariffs on imports from SADC down to zero whilst retaining an unchanged positive tariff on imports from other sources. The relative price change between imports from SADC and other sources can be written as follows:

$$(A2.2a) \quad \frac{\Delta \left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)}{\left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)} = \frac{\frac{(1 + T_{1,j}^{SADC})}{(1 + T_{1,j}^{RoW})}}{\frac{(1 + T_{0,j}^{SADC})}{(1 + T_{0,j}^{RoW})}} - 1$$

This formulation can be simplified by assuming no change in the tariffs applicable to imports from other sources, i.e.:

$$(A2.2b) \quad T_{1,j}^{RoW} = T_{0,j}^{RoW}$$

Moreover, as before we assume full liberalisation in which the tariff after the free trade arrangement is set to zero,

$$(A2.2c) \quad T_{1,j}^{India} = 0$$

Substituting eqn (2.2b) and (2.2c) into eqn (2.2a) yields:

$$(A2.2d) \quad \frac{\Delta \left(\frac{P_j^{SADCa}}{P_j^{RoW}} \right)}{\left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)} = \frac{T_{0,j}^{SADC}}{(1 + T_{0,j}^{SADC})}$$

Trade diversion follows from the formulation of the elasticity of substitution. The elasticity of substitution tells us how import demand will shift from the RoW to SADC as the price of SADC imports changes relative to RoW imports.

$$(A2.2e) \quad Es_j = \frac{\Delta \left(\frac{M_j^{SADC}}{M_j^{RoW}} \right) / \left(\frac{M_j^{SADC}}{M_j^{RoW}} \right)}{\Delta \left(\frac{P_j^{SADC}}{P_j^{RoW}} \right) / \left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)}$$

For example if $Es_j = -3$, then a 1 % fall in the relative price of SADCn imports would result in a 3 % increase in the relative demand for SADCn imports. We generally ignore the negative sign of Es_j , i.e. redefine elasticity to be $-Es_j$. For purposes of calculating trade diversion we want to find ΔM_j^{SADC} . Similar to the trade creation formulation, we can rewrite the elasticity of substitution as follows

$$(A2.2f) \quad \Delta \left(\frac{M_j^{SADC}}{M_j^{RoW}} \right) = Es_j * \frac{\Delta \left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)}{\left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)} * \left(\frac{M_j^{SADC}}{M_j^{RoW}} \right)$$

Applying the quotient rule of differentiation to the left hand side of (A2.2f) we can proceed with:

$$(A2.2g) \quad \Delta \left(\frac{M_j^{SADC}}{M_j^{RoW}} \right) = \frac{(M_j^{RoW} * \Delta M_j^{SADC} - M_j^{SADC} * \Delta M_j^{RoW})}{M_j^{RoW^2}}$$

If net trade is assumed not to be effected, i.e.:

$$(A2.2h) \quad \Delta M_j^{SADC} = -\Delta M_j^{RoW}$$

substituting eqn (A2.2h) and (A2.2g) into (A2.2f) results in:

$$(A2.2i) \quad TD_j = \Delta M_j^{SADC} = Es_j * \frac{\Delta \left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)}{\left(\frac{P_j^{SADC}}{P_j^{RoW}} \right)} * \frac{(M_j^{SADC} * M_j^{RoW})}{(M_j^{SADC} + M_j^{RoW})}$$

Finally, given our formulation of relative price changes in (A2.2d) we can rewrite (A2.2i) as follows:

$$(A2.2j) \quad TD_j = \Delta M_j^{SADC} = \frac{M_j^{SADC} * M_j^{RoW} * \left[\frac{T_{o,j}^{SADC}}{(1 + T_{o,j}^{SADC})} \right] * Es}{M_j^{SADC} + M_j^{RoW}}$$

Note that the UNCTAD formulation, reported by Jachia and Teljeur (1998) adds an additional term to the denominator that is equal to:

$$M_j^{SADC} \left[\frac{T_{o,j}^{SADC}}{(1 + T_{o,j}^{SADC})} \right] * Es$$

While Tsikata (1999: 42) employs the following formulation to calculate trade diversion

$$(A2.3) \quad TD_j = TC_j * Es$$

Clearly, with an elasticity of substitution of unity, the amount of trade diversion is equal to trade creation. In order to evaluate the impact of the FTA, it is useful to analyse the import and export sides separately. The formulation for the export side is analogue to eqns (2.1) and (2.2) above except that the symbol M refers to SADC imports and the superscript SADC changes to South Africa indicating South African exports to SADC.

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