

# **Examining South Africa's trade with the Southern African Development Community (SADC) with the SADC Free Trade Area initiative in place**

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## **Abstract**

*This paper examines South Africa's trade with SADC given that the SADC FTA is now in place. Trade intensity indexes were calculated and evidence shows that while South Africa trades intensively with all selected regional groupings in Africa, SADC is its most important trading partner as evidenced by the very high values of trade intensity indexes. In examining South Africa's imports, it was found out that significant increases were in years which coincided with the years it zero rated large numbers of products in various product categories in various phases. In examining the factor intensities of products trade, evidence shows that South Africa's basket of top ten imports from SADC is dominated by mineral fuels, non-primary commodities, and resource-intensive manufactures, while its export basket of top ten products to SADC is dominated by manufactures which are medium skill- and technology intensive, high skill- and technology intensive and low skill- and technology intensive. This reflects the disparities in levels of industrial development between South Africa and the rest of SADC. In examining whether other regional groupings in Africa have been able to displace SADC as South Africa's major trading partner in some product categories, evidence shows that while the groupings have made efforts to gain some ground over SADC, these efforts have not been sustained, with South Africa relying mostly on SADC.*

Keywords: trade intensity index, factor intensity of products, Southern African Development Community (SADC), Southern Africa Customs Union (SACU), East African Community (EAC), and Economic Community for West African States (ECOWAS)

JEL classifications: F15 (Economic Integration)

## **Introduction**

The Southern African Development Community (SADC) aims to facilitate and attain deeper economic integration and industrial development among its members. To achieve these objectives, the grouping developed the SADC Protocol on Trade which they signed in 1996. The SADC Trade Protocol came into force in September 2000 to liberalise intra-SADC trade and thus bring into effect the SADC Free Trade Area (SADC FTA). Part Two Article 3 of the Protocol indicates a phased down elimination of tariffs and non-tariff barriers to be achieved within eight years from entry into force of the Protocol. To implement the SADC Trade Protocol, progressive reduction and removal of tariffs to trade was effected through implementing an asymmetric tariff reduction schedule which was adopted by SADC member states, with each country implementing its proposed tariff

reduction offer to SADC. Table 1 shows the proposed asymmetric tariff reduction schedule for gradual reduction of tariffs with products put into four categories, each with different tariff reduction deadlines.

**Table 1: The proposed product categories and liberalisation procedures**

Category	Type of goods	Treatment
A Immediate liberalisation	Capital goods, raw materials	This is the immediate liberalisation list for which tariffs have to zero rated immediately upon entry into force of the SADC Trade Protocol.
B Gradual liberalisation	Majority of other goods apart from the sensitive products, e.g. the intermediate goods	This is the gradual liberalisation list with goods having their tariffs reduced gradually, starting immediately upon entry into force of the SADC Trade Protocol.
C Sensitive products	Nationally sensitive goods to be defined by each country, e.g. finished products	This is the sensitive products list with products sensitive to immediate tariff liberalisation for a variety of reasons. Liberalisation would start within the agreed phase out period, i.e. five years after entry into force of the Trade Protocol, but can continue beyond the eight years.
E Products necessary for the protection of security and to maintain peace	Firearms, ammunitions, swords, bayonets and similar arms and parts thereof.	Could be exempted from preferential treatment under Part Two Articles 9 and 10 of the SADC Trade Protocol. These products comprise a very small fraction of intra-SADC trade.

**Source: Mutambara (2010:48)**

The Southern African Customs Union<sup>1</sup> (SACU) is a relatively well-developed region and it was agreed that it front loads its tariff phase down programme beginning as soon as the trade agreement came into force, and attain 97% coverage by 2008. The developing countries, viz. Mauritius and Zimbabwe, effected their tariff phase down programme, implementing a tariff phase down programme which started in the middle of the eight-year process. The rest of SADC is categorised as least developed and began their phase down schedule in the 5<sup>th</sup> or 6<sup>th</sup> year of implementation, which was towards the end of the process, and were expected to achieve tariff reduction coverage of 60-80% by 2008. This asymmetric tariff reduction only applied to goods in Categories B and C, as those in Category A were for immediate liberalisation. Through implementing the SADC Trade Protocol, the SADC FTA came into effect in January 2008 to enable free trade to at least 85% of intra-SADC trade, with provisions given for extending the full implementation of the SADC FTA to 2012. The subsequent four years after 2008 in which a few sensitive products may still call for duty, were deemed beneficial to countries as that gave more time for very sensitive domestic industries to adjust and become more focussed, in anticipation of the stiff competition that would result with the full implementation of the SADC FTA.

South Africa is the biggest member of SACU, and like the other members of SACU is bound by the SACU tariff phase down offer to SADC which they

<sup>1</sup> This customs union is made up of South Africa, Botswana, Lesotho, Namibia and Swaziland.

submitted to the SADC Secretariat in 2006. The analysis of this offer is given in Table A-1 (Appendices), and as expected, Category A products were zero rated immediately upon entry into force of the SADC Trade Protocol. Category B products were gradually liberalised immediately upon entry into force of the SADC Trade Protocol with the first group of products zero rated in 2002, followed by a very large number of products zero rated in 2004. Full liberalisation of Category B products to the region was attained in 2007 after having zero rated all the remaining Category B products in 2006. While tariffs on Category C products were gradually reduced, only few products were zero rated in 2001. While gradual reduction of tariffs for Category C products continued, no additional product items were zero rated until 2008 where all the remaining products in this category were zero rated. Tariffs for Category E products were never reduced in line with Part Two Articles 9 and 10 of the SADC Protocol on Trade.

Table A-2 (Appendices) shows the analysis of SACU products in the various product categories as per the tariff reduction offer to SADC. Most of the SACU products are in Category A and they are of various levels of technological complexity, including high technology products. While Category B products are fewer than those in Category A, they are also of various levels of technological complexity. Only 31 product lines are in Category C and all these are from HS87 (Vehicles other than railway, tramway). Category E products are made up of HS98 (Road tractors, motor vehicles for transporting passengers, motor cars, motor vehicles for transporting goods, and construction vehicles), as well as, seventeen product lines from HS17 (Sugars & sugar confectionary).

This research adds value to existing work on South Africa-SADC trade in that it gives insight into: (i) how intensively South Africa trades with other regional groupings in Africa by using trade intensity indexes. Trade intensity indexes give more information on bilateral trade and show the importance of each trading partner compared to merely examining values of trade flows between countries; (ii) the tariff phase down offer by SACU to SADC and where non-SACU SADC responded in terms of import flows into South Africa; (iii) factor intensities of major products trade and thus help to reveal and compare levels of industrial development more accurately in the absence of production data; and (iv) efforts which other regional groupings in Africa have made to gain ground over the SADC region as trading partners for South Africa, and thus outweigh the significance of SADC to South Africa. This is done by examining the performance of major products which South Africa trades with SADC and other regional groupings and show where SADC has been displaced.

This research is organised as follows: Section 2 explores theoretical justifications for trade integration arrangements; Section 3 examines how intensively South Africa trades with selected regions in Africa; Sections 4 and 5 explore South Africa's import and export trade, respectively, while Section 6 concludes.

### **Theoretical Justification for Trade Integration Arrangements**

It is widely noted that, as countries participate in economic integration arrangements, effects of such arrangements arise from their impact on allocation of resources and international specialisation, exploitation of scale economies, terms of trade, productivity of factors, rate of economic growth, economic stability and the distribution of income. Thus,

both the static and dynamic effects of economic integration are often examined so as to establish how member states could benefit.

### **Static effects of economic integration**

These are referred to as the "trade creation effects" and the "trade diversion effects". These are gains or losses from a marginal reallocation of production and consumption patterns, and include the production effect, consumption effect and the terms of trade effect (Jaber, 1970:254).

#### **Trade creation effects**

Trade creation occurs when, upon getting into a trade integration arrangement, the production of a particular good in the home country which does not have a comparative advantage in that area is replaced by the purchase of cheaper goods from a partner country which has a comparative advantage (Davies *et al*, 1993). The home country's expensive domestic production is replaced by cheaper imports from a partner country, thus, a movement to a cheaper source of supply as noted by Corden (1972:467).

The home country's trade creation gains are production effect (gains from specialisation) and consumption effect (gain from exchange). In production effect, the home country experiences a saving in the real cost of goods previously produced domestically, as these are now being imported from the partner country more cheaply. In the consumption effect, there is a gain in consumer surplus from the substitution of lower-cost for higher-cost goods. Thus, domestic consumers now experience increased consumption of cheaper partner country substitutes, since at a lower price; they can purchase an extra amount (Robson, 1987:15; Corden, 1972:467-471; Jaber, 1970:254).

Economies of scale could arise in a trade integration arrangement, and Corden (1972) notes that these result in the cost reduction effect. The more efficient partner country captures the entire union market leading to a fall in the union price. The less efficient country experiences a trade creation gain (the production effect + the consumption effect), and thus benefit even though it loses its domestic industry. The efficient partner country that emerges obtains its domestic supplies at a lower cost of production, thus, enjoying a cost-reduction gain as a result of the trade created with the less efficient partner countries. Furthermore, the more efficient country benefits from an income gain due to increased sales to member countries (Corden, 1972:467-468; Robson, 1987:38).

#### **Trade diversion effects**

These occur when a trade integration arrangement causes the home country to turn from lower-cost suppliers in the rest of the world to what are, in reality, higher-cost suppliers who are its trade partners in the trade integration arrangement. The preferential tariff arrangement enables these suppliers to enjoy an "artificial" advantage which enables a shift in product origin from a non-member whose resources costs are lower to a member country producer whose resources costs are higher (Corden, 1972:468; Davies, 1994:12; Davies *et al*, 1993:35). As Robson (1987:15) notes, this causes the home country to face a higher import bill as it now experiences an increase in the cost of goods previously imported from a cheaper foreign source which is not a member. Furthermore, there is a loss in government revenue which the home country used to raise through tariffs on external trade.

In the context of economies of scale, Corden (1972) notes that trade integration arrangements can also lead to a trade suppression effect. The higher-cost country will cease production and the cheaper-cost partner country that emerges begins to produce for the whole union market, i.e. production reversal. The higher-cost country experiences the trade creation benefits (the production effect + the consumption effect), while the new cheaper-cost producer experiences a trade suppression effect. The imports which it used to obtain from the rest of the world (a much cheaper source) are replaced by domestic production. Since the new producer is dearer than sources outside the trade integration arrangement, this is similar to trade diversion, although the dearer source is the newly-established domestic producer in the home country and not another union member (Corden, 1972:468-469; Robson, 1987:39). Where trade suppression is a cost to consumers in the new producing country, this can be offset by the gain to the producers in this country as they will now be producing for both the domestic market and the union market.

While the orthodox trade diversion effects as well as Corden's (1972) trade suppression effect are a cost to consumers within the trade integration arrangements, they will be beneficial to the producers in the member countries that will emerge as low-cost producers in specific products. Capacity utilisation of industries will be improved as such producers seek to produce and serve both their domestic markets as well as the regional market.

#### **Dynamic effects of economic integration**

Jaber (1970:254) notes that dynamic effects refer to the various possible ways in which economic integration can affect the rate of growth of income as a result of increased market size. Dynamic effects include: (i) reduced barriers to trade create a more competitive environment which makes production more efficient, with increased pressure for higher productivity; (ii) economies of scale may be realised in some export goods as firms experience increased and easier access to a larger union market; (iii) a larger market and easier access to partner countries may serve as a training ground for infant industries for exporting outside the region; (iv) trade may increasingly become intra-industry with specialisation resulting from economies of scale in particular product varieties; (v) economic planning is enhanced as uncertainty about trade policies is reduced; (vi) the large economic and geographic market open to producers often attracts investment into member states from both foreign and internal sources; and (vii) the possible polarisation effect (Jaber, 1970; Schweickert, 1996; Carim, 1997; Maasdorp, 1982; Balassa and Stoutjesdyk, 1975; Holden, 1996; McCarthy, 1999).

While dynamic effects supposedly outweigh the static effects, they are often difficult to quantify. However, Carim (1997:338) notes that the reduction in income and welfare that result from trade diversion may be outweighed if the long-term dynamic influences on regional production, consumption and investment are taken into account. Furthermore, the dynamic gains may motivate members to increase intra-regional trade, thus placing them on a higher growth path. Also to note is that even though the dynamic effects may not be experienced equally among member states, the region will benefit as a whole.

## An Overview of South Africa's Trade in Africa

It will be interesting to examine how intensively South Africa traded with other African regions before and after the implementation of the SADC FTA. One will be able to see whether or not the formation of the SADC FTA has in any way influenced South Africa's trade with other regions in Africa. To achieve this, the trade intensity index is used.

The trade intensity index measures and analyses bilateral trade flows and resistances. The level of intensity shows the proportion of exports of country  $i$  that goes to country  $j$  weighted by the world share of imports for country  $j$ . The trade intensity index (i.e.  $I_{ij}$ ) is expressed as shown in equation (1).

$$I_{ij} = \frac{(X_{ij}) / (X_i)}{M_j / (M_w - M_i)} \text{-----} (1)$$

where

$X_{ij}$  is country  $i$ 's exports to country  $j$ ;

$X_i$  is country  $i$ 's total exports;

$M_j$  is country  $j$ 's total imports;

$M_i$  is country  $i$ 's total imports; and

$M_w$  is total world imports (Weldemicael, 2010:7, 8; Edmonds and Li, 2010:5; Drysdale and Garnaut, 1982:68; Foroutan, 1998:11).

$I_{ij}$  has values ranging from zero to an infinite positive number, and higher values indicate greater importance of the selected partner region/or country. If  $I_{ij} = 1$ , this means that the proportion of exports of country  $i$  that goes to country  $j$  is in exact proportion to country  $j$ 's world share of imports. In this case therefore, the trade partners are trading without geographic bias. If  $I_{ij} > 1$ , this means that the trade between two countries is more intensive than expected; and if  $I_{ij} < 1$ , this means that the trade between two countries is less intensive than expected, thus indicative of a small flow of trade between countries  $i$  and  $j$  relative to country  $j$ 's trade with the rest of the world (Weldemicael, 2010:7, 8; Foroutan, 1998:11; Edmonds and Li, 2010:5; Gilbert, 2010:18).

The trade intensity index will not be decomposed into two indexes that separate the effects of the commodity composition (complementarity) from other factors influencing the intensity of trade because all we are interested in is the **general** insight into how intensively South Africa trades with three major trade integration regions in Africa outside SACU, viz. non-SACU SADC, the East African Community (EAC), and the Economic Community of West African States (ECOWAS). The Common Market for Eastern and Southern Africa (COMESA) is not included because its membership is predominantly made up of SADC and the EAC countries. The BLNS countries (Botswana, Lesotho, Namibia, and Swaziland) are fellow members with South Africa in SACU, and there has always been free trade amongst them due to the customs union. As such trade intensity indexes will not be calculated. Table 2 below shows the results of the trade intensity indexes.

**Table 2: Trade intensity indexes (2001-2011\*)**

Proportion of exports of South Africa that goes to Africa weighted by the world share of imports by Africa											
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
( $I_{ij}$ )	12.36	12.41	10.30	10.53	10.53	9.012	8.257	7.156	7.094	6.559	6.573
Proportion of exports of South Africa that goes to non-SACU SADC weighted by the world share of imports by non-SACU SADC											
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
( $I_{ij}$ )	53.96	58.52	46.12	41.91	39.84	38.59	34.63	35.20	31.76	37.05	31.05
Proportion of exports of South Africa that goes to the EAC weighted by the world share of imports by the EAC											
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
( $I_{ij}$ )	16.543	21.647	19.382	22.075	18.080	15.189	13.909	12.900	15.500	12.657	9.857
Proportion of exports of South Africa that goes to ECOWAS weighted by the world share of imports by ECOWAS											
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
( $I_{ij}$ )	4.141	6.875	6.478	6.192	5.296	4.969	4.274	4.659	4.900	3.843	3.263

Notes: Non-SACU SADC = Angola, the Democratic Republic of Congo, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe.

EAC = East African Community made of Burundi, Kenya, Rwanda, Tanzania and Uganda.

ECOWAS = Economic Community of West African States made up of Benin, Burkina Faso, Cabo Verde, Cote D'ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togolese

\* = 2011 was the most recent year for which statistical data were available for all regions.

**Sources:** Own calculations using trade data from the ITC database available on <http://www.trademap.org>

The trade intensity indexes in Table 2 show that South Africa trades very intensively with all the regional groupings, since for all regions  $I_{ij} > 1$ . ECOWAS is an economic regional grouping located at a very long geographical distance away from South Africa and one would have expected a trade intensity index of  $I_{ij} < 1$ . Thus, the geographical location of this regional grouping has not negatively affected trade intensity, although with regards to the importance of ECOWAS as a trading partner, it is the least important to South Africa as, in comparison with the other regional groupings, it has the least values of trade intensity indexes, i.e.  $3 < I_{ij} < 7$  for the period 2001-2011. Higher  $I_{ij}$  values indicate greater importance of the selected partner region, and in this case, it is non-SACU SADC which is of much greater importance to South Africa, with  $31 < I_{ij} < 59$  in the period 2001-2011. However, there is no indication that the intensity with which South Africa traded with other regional groupings fell with the SADC FTA initiative.

As trade liberalisation progressed, South Africa's trade with the non-SACU SADC region grew significantly as shown in Table 3. Trade growth rate rose from a mere 2.5% in 2002 after the immediate zero rating of all Category A products in 2001, to peak at a growth rate of 45% in 2007 when

most Category B products had been zero rated and the liberalisation of Category C products had gathered momentum having been initiated in 2005, with some such products already zero rated (see Table A-1, Appendices). In 2008, when the SADC FTA came into effect to enable free trade to at least 85% of intra-SADC trade, South Africa's trade with non-SACU SADC grew by 35.6%.

**Table 3: South Africa's total trade (US\$m) by economic region (2001-2012)**

Economic regions	Period of years, value of imports (US\$m) and trade growth rate (%)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SADC <sup>1</sup>	3355	3438	4192	5127	6178	6794	9849	13353	9601	12219	14591	17074
<i>Growth %</i>		2.5	21.9	22.3	20.5	10.0	45.0	35.6	-28	27.3	19.4	17.0
EAC	499	507	651	986	1059	1067	1303	1541	1574	1686	1789	1720
<i>Growth %</i>		1.4	22.2	34.0	6.9	0.8	18.1	15.4	2.1	6.6	-4.0	15.4
ECOWAS	673	868	1137	1729	1727	2702	3181	3797	3487	3882	5083	5991
<i>Growth %</i>		29.0	31.0	52.1	-0.1	56.5	17.7	19.4	-8.2	11.3	30.9	17.9

**Notes:** <sup>1</sup> = non-SACU SADC

*Italics = trade growth rate*

**COMESA was not included because it is made up of SADC, EAC and 7 other Africa countries**

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

### South Africa's Import Trade

Table 4 below shows that within the non-SACU SADC region, South Africa's major import sources were mainly Zimbabwe, Zambia Mozambique, and Angola. Changes in dynamics of imports sources were experienced in 2004-2012 where (i) Zambia lost ground to Angola in 2004-2006 as the second major import source; (ii) Zimbabwe lost ground to Angola as the major import source in 2007-2012; and (iii) Mozambique became the second major import source after Angola in 2007-2012. Due to severe political and economic challenges which Zimbabwe has been experiencing, it lost a lot of ground as an import source for South Africa, falling from being the major import source in 2001-2006 to being the fourth import source in 2009-2012.

For its major import sources, particularly Zimbabwe, Zambia and Angola, significant increases in imports by South Africa began in 2004, which coincided with when South Africa zero rated a significantly large number of its Category B products, in addition to those already zero rated in 2002. Another huge increase in imports from its major import sources, Zimbabwe, Zambia, Angola, and Mozambique was experienced in 2006 and 2007 which coincided with when South Africa zero rated all the remaining Category B products in 2006, while gradual reduction of tariffs for Category C products continued. In 2008 when South Africa zero rated all the remaining Category C products (see Table A-1, Appendices), there was another huge increase in imports coming from its major sources Angola and Mozambique and minor sources like Madagascar, Malawi, and Tanzania.



**Table 4: South Africa's import trade (US\$mn) with individual SADC<sup>1</sup> countries**

SADC countries	Period of years and value of imports (US\$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Angola	1.5	12.2	3.8	262.2	297.0	366.0	1646	2686	1371	1998	1585	2777
DRC	2.4	1.7	4.0	6.9	4.2	7.2	7.8	6.1	10.2	14.2	14.9	9.0
Madagascar	2.0	3.4	2.0	1.6	1.8	2.0	6.0	14.9	18.6	22.0	44.1	71.6
Malawi	38.5	45.7	50.5	67.3	70.8	78.0	91.5	117	65.4	64.3	66.8	68.7
Mauritius	18.4	8.8	16.4	16.5	26.0	38.2	62.3	65.0	65.3	96.9	157	209
Mozambique	35.4	38.2	37.2	31.2	30.3	47.6	340	399	420	528	1052	1279
Seychelles	4.0	1.1	3.5	4.3	2.8	2.2	6.4	0.5	1.5	1.1	0.7	0.7
Tanzania	4.5	9.0	17.9	32.0	39.1	45.0	52.8	73.1	28.0	63.5	76.5	59.2
Zambia	49.3	73.5	75.5	155	204	271	325	287	195	289	370	406
Zimbabwe	169	202	348	430	488	686	854	759	188	192	433	382

**Notes:** <sup>1</sup> = non-SACU SADC.

DRC = Democratic Republic of Congo.

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

Table 5 below shows South Africa's top ten imports from the non-SACU SADC region over the years with rankings at commodity level. South Africa's basket of its top ten imports has been changing constantly containing a different combination of imports each year. HS52 is the only product which always appeared in South Africa's import basket. While commodity rankings tended to change frequently, with some changing yearly, HS27 emerged as South Africa's top import after 2007, with HS71 becoming the second major import.

According to factor intensity, South Africa's import basket in Table 5 is dominated by mineral fuels, non-primary commodities, and resource-intensive manufactures, of which HS27, HS71, HS74, HS26, HS52, tended to rank more favourably. The non-SACU SADC region is well endowed with these resources and thus is a significant import source for South Africa. Even though South Africa is also well endowed with similar resources, these imports which it can easily access from the non-SACU SADC region help to augment its own resources and thus help to facilitate its own economic development. HS61 and HS62 are resource-intensive manufactures which do not rank favourably despite South Africa fully liberalising all Category B products (in which HS61 and HS62 are) by 2007 (see Tables A-1 and A-2 in Appendices). Compared to the non-SACU SADC region, South Africa has a much stronger industry for HS61 and HS62 products and as such imports from non-SACU SADC region face challenges in competing favourably.

Product categories which contain manufactures which are high skill-and technology intensive, medium skill-and technology intensive and low skill-and technology intensive, in that order, rank very lowly in South Africa's import

**Table 5: South Africa's top ten SADC import lines (2001-2012)**

Product categories: HS2 Classification	Period of years and rank in order of value of imports											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
27:Mineral fuels oils,	3 <sup>rd</sup>	4 <sup>th</sup>	15 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>

distil pro												
74: Copper and articles thereof	4 <sup>th</sup>	7 <sup>th</sup>	11 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>	18 <sup>th</sup>	5 <sup>th</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>
71: Pearls and precious stones,	34 <sup>th</sup>	10 <sup>th</sup>	13 <sup>th</sup>	9 <sup>th</sup>	1 <sup>st</sup>	1 <sup>st</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
52: Cotton	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	5 <sup>th</sup>	6 <sup>th</sup>	5 <sup>th</sup>	9 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>	5 <sup>th</sup>	9 <sup>th</sup>
HS24: Tobacco & manf tobacco	2 <sup>nd</sup>	5 <sup>th</sup>	3 <sup>rd</sup>	6 <sup>th</sup>	8 <sup>th</sup>	12 <sup>th</sup>	10 <sup>th</sup>	11 <sup>th</sup>	9 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	12 <sup>th</sup>
26: Ores, slag, and ash	28 <sup>th</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>rd</sup>	4 <sup>th</sup>	4 <sup>th</sup>	13 <sup>th</sup>	24 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>
HS44: Wood & its articles, charc	5 <sup>th</sup>	9 <sup>th</sup>	5 <sup>th</sup>	5 <sup>th</sup>	7 <sup>th</sup>	9 <sup>th</sup>	9 <sup>th</sup>	16 <sup>th</sup>	14 <sup>th</sup>	21 <sup>st</sup>	22 <sup>nd</sup>	22 <sup>nd</sup>
84: Machinery, nuclear react,	7 <sup>th</sup>	3 <sup>rd</sup>	6 <sup>th</sup>	16 <sup>th</sup>	13 <sup>th</sup>	7 <sup>th</sup>	17 <sup>th</sup>	7 <sup>th</sup>	10 <sup>th</sup>	4 <sup>th</sup>	6 <sup>th</sup>	5 <sup>th</sup>
HS09: Coffee, tea, mate, & spices	8 <sup>th</sup>	11 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	11 <sup>th</sup>	11 <sup>th</sup>	14 <sup>th</sup>	8 <sup>th</sup>	10 <sup>th</sup>	11 <sup>th</sup>	13 <sup>th</sup>
61: Articles of apparel, knit	13 <sup>th</sup>	15 <sup>th</sup>	18 <sup>th</sup>	17 <sup>th</sup>	12 <sup>th</sup>	15 <sup>th</sup>	8 <sup>th</sup>	12 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>	6 <sup>th</sup>
62: Articles of apparel not knit	6 <sup>th</sup>	8 <sup>th</sup>	8 <sup>th</sup>	10 <sup>th</sup>	11 <sup>th</sup>	14 <sup>th</sup>	7 <sup>th</sup>	10 <sup>th</sup>	6 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>	7 <sup>th</sup>
85 Electrical, electronic equip	10 <sup>th</sup>	6 <sup>th</sup>	9 <sup>th</sup>	11 <sup>th</sup>	10 <sup>th</sup>	8 <sup>th</sup>	6 <sup>th</sup>	8 <sup>th</sup>	11 <sup>th</sup>	6 <sup>th</sup>	8 <sup>th</sup>	8 <sup>th</sup>
HS75: Nickel and articles thereof	28 <sup>th</sup>	28 <sup>th</sup>	4 <sup>th</sup>	7 <sup>th</sup>	6 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	5 <sup>th</sup>	14 <sup>th</sup>	15 <sup>th</sup>	23 <sup>rd</sup>

**Notes:** HS12 ranked 9<sup>th</sup> in 2001 and 10<sup>th</sup> in 2003; HS99 ranked 10<sup>th</sup> in 2006; HS88 ranked 6<sup>th</sup> in 2008 and 10<sup>th</sup> in 2012.

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

basket from non-SACU SADC. These are products from HS88, HS85, and HS84 categories. These products tend not to rank favourably even though by 2007 South Africa had fully liberalised Category B in which HS84 and HS85 are, and HS88 products had been zero rated immediately upon entry into force of the SADC Trade Protocol (see Tables A-1 and A-2 in Appendices). This reflects the low levels of industrial development in the non-SACU SADC region and its limited ability to supply South Africa with such imports. Also to note is that South Africa has a much more developed industrial base capable of producing HS84, HS85 and HS88 products, thus posing tough competition to similar products from the non-SACU SADC region.

The performance of products which form South Africa's basket of its top ten import lines from non-SACU SADC was compared with the value of the same imports originating from the EAC and ECOWAS. The idea was to see if traditional South Africa's imports from non-SACU SADC were being displaced by imports from the EAC and ECOWAS, irrespective of the SADC FTA. The results show that, except for HS27, South Africa's imports in its basket of its top ten imports were not being replaced by the EAC or ECOWAS. As can be seen in Table 6, SADC was South Africa's the main import source for HS27 in only four years, i.e. 2007-2008, 2010 and 2012, leaving South Africa to rely heavily on ECOWAS as its main import source for this product.

**Table 6: Where SADC lost ground to other regional groupings (2001-2012)**

Economic regions	Period of years and value of HS27 imports (US\$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SADC	19.7	39.0	9.4	273.1	307.3	424.9	192.6	302.5	172.5	247.9	254.9	394.9
EAC	38	0	0	9	50	95	7.4	27.3	3.1	41.5	50.7	22.1
ECOWAS	232.0	348.3	399.2	794.3	642.3	1520	175.2	186.5	199.1	229.5	313.7	393.9

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

As shown in Table 2 (see Section 3), South Africa trades intensively with other regional groupings in Africa, and thus it is normal for these groupings to try and gain ground as import sources for South Africa, even though non-SACU SADC may still be the major import source. Thus, while the EAC and ECOWAS have been making efforts to gain ground as import sources for South Africa's import basket of the top ten products from non-SACU SADC, such efforts have not been sustained. Table 7 shows product areas HS71, HS24,

**Table 7: Where other regional groups are making efforts to gain ground**

Economic regions	Period of years and value of imports (US\$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>HS71: Pearls, precious stones, metals, coins, etc</b>												
SADC	0.90	14.4	13.0	17.4	462	611	383	511	171	355	342	222
EAC	0.42	0.95	3.90	15.0	30.1	28.8	28.4	24.2	3.18	0.15	0.28	0.65
ECOWAS	0.01	1.03	1.95	1.34	2.25	3.81	3.08	6.15	1.23	5.20	2.07	1.91
<b>HS24: Tobacco and manufactured tobacco substitutes</b>												
SADC	32.0	35.0	33.7	26.0	26.1	31.1	27.4	42.6	35.9	46.5	69.5	46.6
EAC	2.21	5.43	4.62	10.0	3.41	6.72	11.2	13.3	16.1	7.91	1.89	3.28
<b>HS44: Wood and articles of wood, wood charcoal</b>												
SADC	14.9	15.5	22.7	27.5	30.2	34.3	28.2	22.5	13.7	12.4	13.0	17.2
ECOWAS	2.91	4.23	4.79	6.54	6.75	7.10	8.44	9.14	4.61	6.02	5.53	4.39
<b>HS84: Machinery, nuclear reactors, boilers, etc</b>												
SADC	13.1	41.6	17.4	12.3	14.0	47.2	14.6	80.5	33.7	73.5	94.4	128
EAC	1.13	1.06	2.20	1.62	1.80	3.04	4.50	6.15	11.5	5.86	3.34	11.5
ECOWAS	0.94	0.92	1.24	2.90	2.19	1.88	5.12	3.37	10.3	2.43	2.65	2.92
<b>HS09: Coffee, tea, mate and spices</b>												
SADC	12.4	14.4	16.5	22.0	25.3	31.3	27.1	27.7	37.2	41.8	41.1	42.6
EAC	1.28	2.14	1.54	2.02	4.48	7.45	6.20	9.49	10.6	12.4	15.1	16.6
<b>HS61: Articles of apparel, accessories, knit or crochet</b>												
SADC	8.47	8.82	7.10	11.4	17.0	25.1	28.9	36.9	38.5	52.9	85.6	124
EAC	0.01	0.00	0.15	0.26	0.17	0.41	0.48	0.54	1.34	2.33	3.03	2.29
<b>HS85: Electrical, electronic equipment</b>												
SADC	9.97	24.1	13.6	14.5	24.4	46.3	55.5	67.4	32.5	53.9	79.3	87.1
EAC	0.72	0.66	0.32	0.83	1.60	0.60	1.43	0.69	2.39	1.77	1.09	1.00
ECOWAS	0.33	0.39	0.24	0.66	0.60	0.63	1.38	1.36	1.01	1.94	2.93	1.41

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

HS44, HS84, HS09, HS61 and HS85, in which ECOWAS and the EAC have each made efforts to gain ground as import sources for South Africa. The efforts by the regional groupings have not been sustainable, e.g. for the EAC it made efforts to consistently gain some ground as an import source for (i) HS71 in 2001-2006; (ii) HS24 in 2006-2009; (iii) HS84 in 2005-

2009; (iv) HS09 in 2004-2006 and 2008-2012; and (v) HS61 in 2006-2011. ECOWAS made efforts to consistently gain some ground as an import source for (i) HS71 in 2004-2006; (ii) HS44 in 2001-2008; (iii) HS84 in 2003-2004, 2008-2009, and 2011-2012; and (iv) HS85 in 2001-2001 and 2006-2007.

The performance of products which are not in the import basket of South Africa's top ten import lines from non-SACU SADC was compared with the value of the same imports originating from the EAC and ECOWAS. The objective was to see if, irrespective of the SADC FTA, South Africa relies on these other groupings for those products which are not its top ten imports from the non-SACU SADC. Due to the huge volume of trade data, import products with a value of US\$1mn and above in each year were considered in this exercise. The results show that South Africa relies on ECOWAS for some of its major imports which are not in its top ten import lines from non-SACU SADC. As Table 8 shows, with regards to HS18 (Cocoa and cocoa preparations) and HS78 (Lead and articles thereof), South Africa relied heavily on ECOWAS throughout the period 2001-2012. ECOWAS was the major import source for HS40 (Rubber and articles thereof) in 2004-2010; for HS25 (Salt, sulphur, earth, stone, plaster, lime and cement) in 2008-2011; and for HS55 (Manmade staple fibres) in 2006-2011. This shows that South Africa continues to rely mostly on SADC for most of its major imports even though they may not be in its basket for its top ten imports from the SADC region.

**Table 8: Where South Africa relies on other regional groups and not SADC for imports (2001-2012)**

Economic regions	Period of years and value of imports (US\$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>HS18 (Cocoa and cocoa preparations)</b>												
SADC	0.01	0.01	0.01	0.02	0.03	0.66	0.66	0.29	0.30	0.19	0.36	0.49
ECOWAS	11.1	12.8	14.9	14.0	15.3	13.3	16.8	18.7	19.9	27.9	18.3	16.6
<b>HS40 (Rubber and articles thereof)</b>												
SADC	3.18	3.39	6.02	5.66	3.26	5.47	7.42	8.72	5.16	10.0	12.7	19.7
ECOWAS	1.79	2.59	3.20	6.13	4.59	9.94	18.3	21.0	11.8	14.1	10.2	13.7
<b>HS78 (Lead and articles thereof)</b>												
SADC	0.14	0.15	0.10	0.24	0.39	0.77	1.90	1.80	0.27	3.57	3.46	4.96
ECOWAS	0.59	8.94	1.68	3.07	4.66	3.67	8.71	6.13	5.32	7.82	5.66	11.4
<b>HS25 (Salt, sulphur, earth, stone, plaster, lime and cement),</b>												
SADC	5.47	7.31	3.46	4.26	5.04	9.76	10.9	16.3	5.16	5.73	6.20	10.2
ECOWAS	6.48	3.69	5.01	4.72	0	7.24	4.49	76.8	9.35	16.3	15.8	0.02
<b>HS55 (Manmade staple fibres)</b>												
SADC	0.08	0.55	1.19	1.90	0.33	1.18	1.26	0.57	0.12	0.21	0.02	0.10
ECOWAS	0.01	0	0.12	0.06	0.98	2.31	2.31	1.48	2.52	2.43	1.49	0.01

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

## South Africa's Export Trade

Table 9 shows that, within the non-SACU SADC region, South Africa's major export destinations were mainly Zimbabwe, Mozambique, Zambia, Angola and the Democratic Republic of Congo. Changes in the dynamics of export destination have been experienced, where for example (i) in 2006-2008 and 2012 Zimbabwe lost ground to Zambia as the major export destination; (ii) in 2008 and 2010-2012 Angola lost ground to the Democratic Republic of Congo as the 4<sup>th</sup> major export destination; and (iii) in 2009-2011 Mozambique gained ground over Zambia as the second major export destination (after Zimbabwe). Also to note is that, despite the economic and political challenges which Zimbabwe has been experiencing, it has continued to be a significant export destination for South Africa's exports.

**Table 9: South Africa's export trade (US\$mn) with individual SADC<sup>1</sup> countries**

SADC countries	Period of years and value of imports (US\$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Angola	309	323	447	482	545	687	772	898	682	700	898	1145
DRC	109	154	164	208	276	364	622	1125	574	866	1107	1486
Madagascar	53.9	39.2	99.2	89.4	85.0	73.3	162	229	122	181	165	174.1
Malawi	222	222	224	244	256	247	307	466	429	442	401	440.7
Mauritius	247	255	271	270	337	286	269	402	300	345	236	321.9
Mozambique	671	601	746	788	992	909	1267	1609	1607	1894	2435	2400
Seychelles	26.4	33.7	38.6	34.5	93.3	70.9	57.7	57.4	58.4	56.4	51.2	47.0
Tanzania	182	192	249	343	419	399	383	505	443	559	577	686.2
Zambia	576	526	537	733	849	1151	1421	1965	1416	1751	238	2678
Zimbabwe	633	692	859	929	1162	1065	1195	1689	1608	2156	2448	2432

**Notes:** <sup>1</sup> = non-SACU SADC.

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

Table 10 below examines any changes at commodity level of South Africa's top ten exports to the non-SACU SADC region and shows that HS84, HS27 and HS87 have consistently been the top three major exports. Whilst the rankings for HS85, HS73, HS72, HS39, and HS48 have tended to fluctuate, these products have always been in South Africa's basket of top ten exports to non-SACU SADC, while HS10, HS22, HS31 and HS38 have been in and out of the export basket. However, at an aggregate level, the contents of South Africa's basket of its top ten exports to non-SACU SADC has not changed much over the years.

When one considers the factor intensity of the products in Table 10, one notes the dominance of manufactures which are medium skill- and technology intensive, high skill- and technology intensive, and low skill- and technology intensive, i.e. products in categories HS84, HS87, and HS85; as well as HS27 which is mainly mineral fuels. This composition of the most dominant exports in the basket reflects a more developed industrial base and South Africa's ability to meet some of the import demand for such products by the non-SACU SADC region. HS72 and HS73 rank 5<sup>th</sup> and 6<sup>th</sup>, respectively, and these contain low skills-and technology intensive manufactures and very few non-fuel primary commodities. HS39 ranks 7<sup>th</sup> and contains mainly high skill-and technology intensive manufactures and some medium skill-and technology intensive manufactures with very few resource-intensive manufactures. The non-SACU SADC region is already well endowed with non-fuel primary commodities, resource-

intensive manufactures, and low skill-and technology intensive manufactures, and as such, these do not rank highly as South Africa's exports to the region.

**Table 10: South Africa's top ten SADC<sup>1</sup> export lines (2001-2012)**

Product categories: HS2 Classification	Period of years and rank in order of value of imports											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
84:Machines nucl reactors boilers	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
27:Mineral fuels oils, distil	1 <sup>st</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>
87:Vehicles than railway, tramway	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>
85:Electric, electronic equip	4 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>	5 <sup>th</sup>	5 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>
73: Articles of iron or steel	7 <sup>th</sup>	8 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	6 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>	3 <sup>rd</sup>	5 <sup>th</sup>	5 <sup>th</sup>
72: Iron & steel	6 <sup>th</sup>	6 <sup>th</sup>	5 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	6 <sup>th</sup>	6 <sup>th</sup>	6 <sup>th</sup>	6 <sup>th</sup>
39: Plastics & articles thereof	5 <sup>th</sup>	7 <sup>th</sup>	6 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>
48:Paper, articl of pulp, paper	8 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	8 <sup>th</sup>	10 <sup>th</sup>	10 <sup>th</sup>	8 <sup>th</sup>	8 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>
10: Cereals	17 <sup>th</sup>	5 <sup>th</sup>	8 <sup>th</sup>	11 <sup>th</sup>	8 <sup>th</sup>	11 <sup>th</sup>	30 <sup>th</sup>	7 <sup>th</sup>	10 <sup>th</sup>	25 <sup>th</sup>	27 <sup>th</sup>	29 <sup>th</sup>
22: Beverages, spirit & vinegar	11 <sup>th</sup>	10 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>	18 <sup>th</sup>	19 <sup>th</sup>	14 <sup>th</sup>	12 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>	13 <sup>th</sup>	14 <sup>th</sup>
31 Fertilizers	14 <sup>th</sup>	11 <sup>th</sup>	13 <sup>th</sup>	12 <sup>th</sup>	10 <sup>th</sup>	10 <sup>th</sup>	9 <sup>th</sup>	9 <sup>th</sup>	11 <sup>th</sup>	13 <sup>th</sup>	15 <sup>th</sup>	8 <sup>th</sup>
38:Misc chemical products	9 <sup>th</sup>	12 <sup>th</sup>	12 <sup>th</sup>	9 <sup>th</sup>	11 <sup>th</sup>	9 <sup>th</sup>	8 <sup>th</sup>	11 <sup>th</sup>	13 <sup>th</sup>	12 <sup>th</sup>	10 <sup>th</sup>	13 <sup>th</sup>

**Notes:** <sup>1</sup> = non-SACU SADC

HS17 ranked 10<sup>th</sup> in 2001; HS34 ranked 9<sup>th</sup> in both 2010 and 2011; HS15 ranked 10<sup>th</sup> in 2012

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

The performance of products which form South Africa's basket of the top ten export lines to non-SACU SADC was compared with the value of the same exports destined for the EAC and ECOWAS. The idea was to see if, irrespective of the SADC FTA, non-SACU SADC was losing ground or being displaced by the EAC or ECOWAS as South Africa's export destinations. The results show that, except for HS10 (Cereals) in 2009, South Africa's exports in its basket of its top ten exports were not being diverted to EAC or ECOWAS. In 2009, South Africa's exported US\$289.075mn worth of HS10 to the EAC whilst exporting US\$172.598mn to non-SACU SADC.

The performance of products which are not in the basket of South Africa's top ten export lines was compared with the value of the same exports destined to the EAC and ECOWAS. The objective was to see if, irrespective of the SADC FTA, South Africa relies on these groupings as export destinations for those products which are not its top ten exports to the non-SACU SADC region. The huge volume of trade data led to only consider export products with a value of US\$1mn and above in each year. The results in Table 11 show that in a few cases, South Africa relied more on ECOWAS and the EAC as export destinations instead of non-SACU SADC for some of its exports which are not in its top ten export lines with non-SACU SADC. As Table 11 shows, South Africa relied more on the EAC than non-SACU SADC as an export destination for (i) HS88 in 2003, 2009 and 2012; and (ii) HS76 in 2001, 2003-2009 and 2011. Also to note is that South Africa relied more on ECOWAS than non-SACU SADC as an export destination for (i) HS24 in 2005, 2007 and 2011; and (ii) HS76 in 2004 and 2007-2008.

**Table 11: Where SADC lost ground to other regional groupings on South Africa's export lines**

Economic groupings	Period of years and value of exports (US\$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>HS88: Aircraft, spacecraft, and parts thereof</b>												
SADC	12.2	6.48	3.40	13.7	103	116	67.8	70.6	14.3	21.4	22.5	14.4
EAC	3.23	4.75	5.06	9.63	8.98	17.8	29.0	18.8	17.2	6.80	16.6	15.4
<b>HS79: Zinc and articles thereof</b>												
SADC	5.05	6.06	6.39	5.31	5.82	7.49	9.32	4.96	4.65	18.4	7.03	1.89
EAC	9.52	5.81	7.24	11.6	14.7	18.0	21.0	7.03	11.3	12.9	10.6	0.01
<b>HS24: Tobacco and manufactured tobacco substitutes</b>												
SADC	68.5	22.8	25.6	22.5	21.6	45.0	20.4	25.3	22.3	34.9	25.4	38.5
ECOWAS	13.9	25.6	16.8	21.2	31.5	37.5	29.4	10.1	18.5	24.3	28.6	28.1
<b>HS76: Aluminium and articles thereof</b>												
SADC	22.1	28.9	36.9	45.4	78.0	58.4	27.5	30.7	32.5	41.0	55.5	63.4
ECOWAS	7.26	6.47	37.1	61.7	62.5	58.0	81.59	36.82	15.04	20.39	29.78	5.40

**Sources:** Own Table using trade data from the ITC database available on <http://www.trademap.org>

Given that South Africa relies on other regional groupings as export destinations in very few product lines and in only a few selected years, shows that non-SACU SADC continues to be South Africa major exports destination even for those product lines which may not be its top ten exports to the non-SACU SADC region. This is understandable given that South Africa has much easier access to non-SACU SADC markets due to trade liberalisation as a result of the SADC FTA, unlike in the other regional groupings where products from South Africa continue to face high tariff barriers.

## Discussion of Policy Implications

### (i) Nature of economic integration in Africa

While the effects of economic integration arrangements can be felt through both static and dynamic effects (see Section 2), and thus help to establish how member states could benefit, these in themselves are not the key determinants of economic integration arrangements in Africa. Close geographical proximity continues to be a significant factor in membership in economic integration arrangements given continued transport network challenges the continent faces. While infrastructure connectivity provides the backbone for economic integration and sustained economic growth, infrastructure investment in Africa has not kept pace with growth and the infrastructure gap is huge. Thus, while some existing infrastructure in Africa is world class, most of it remains below average. Geographical location has also been a factor in inter-regional grouping trade, as shown in trade intensity indexes in Table 2 (see Section 3). While the geographical location of ECOWAS and the EAC has not prevented South Africa from trading with these two groupings, they are less important as trading partners to South Africa, compared to the non-SACU SADC region.

Also to note is that, in Africa, closer historical linkages, culture and social networks, as well as more similar political or philosophical understandings continue to be underlying significant factors upon which further and deeper trade and economic integration is built. Therefore, countries which share these tend to form stronger and more cohesive economic integration arrangements, as in most cases their development issues and problems are remarkably similar, and thus development priorities. Therefore, with the different unique historical backgrounds that shapes each region in Africa, different integration arrangements have formed and progressed to deepen at different paces as a result of the strength of cohesion between the member countries on the fundamental issues in those regions, some of which are not necessarily trade or economic issues. Furthermore, the countries' ability, willingness and commitment to strengthen their grouping's soft infrastructure (i.e. policy, legal, regulatory and institutional frameworks along with systems and procedures) have been key to the progress and depth of each integration arrangement.

Therefore, no one form/level of economic integration can be recommended for African countries as countries should be allowed to form and enter into arrangements that suit them best given their levels of industrial development, development issues and priorities, political pursuits, as well as their willingness to give up unfettered sovereignty over certain areas of state governance. For example, ECOWAS aspires for both economic and monetary union, while COMESA aspires for economic union only, while for SADC, even though it aspires to move onto a higher level of economic integration, circumstances have forced it to currently remain as a Free Trade Area, while some of its member states have not even ascended into the FTA. Thus, the current priority is to consolidate the SADC free trade agreement and to facilitate the accession of member states that are not yet participating in the SADC FTA and to fully implement the FTA.

However, what should be recommended as key to any form of economic integration in Africa should be (i) to prioritise trade facilitation and regulatory cooperation in areas related primarily to conducting of



business underpinned by a security regime which emphasises good governance at the domestic level; and (ii) regional provision of public goods and network services infrastructure (e.g. energy, finance, telecommunications, transport) as these are important in addressing development challenges irrespective of the level/depth of the integration arrangement. African markets are very small individually, whereas pooling them through regional economic integration affords greater economies of scale and the potential for regional production sharing, albeit the risks of diverting trade and agglomeration. Small markets are vulnerable to monopoly/monopsony capture which may discourage investment, and widening the market may minimise this.

**(ii) Opportunities for industrial development**

South Africa trades most intensively with SADC (see Table 2 in Section 3) and over the years, other regional groupings in Africa have not been able to displace non-SACU SADC as the major trading partner for South Africa (see Sections 4 and 5). This has the potential for stronger and more beneficial backward and forward linkages between industries in South Africa and those in the non-SACU SADC region. Thus, downstream industries in the non-SACU SADC region would benefit from inputs from South Africa; while upstream industries in non-SACU SADC countries would benefit from import demand from South Africa. This would help to build up industries and both South Africa and the non-SACU SADC region would benefit as each identifies niche markets and utilise these more fully as access into markets improves.

As South Africa continued to reduce its tariffs on products originating from non-SACU SADC as well as zero rating products in its various product categories, this was accompanied by significant increases in its imports from non-SACU SADC (see Section 4). The free entry of products from non-SACU SADC into South Africa the biggest market in the region, provides the lower-cost producers in non-SACU SADC with opportunities to develop their own industries as they seek to meet import demand by South Africa as well as to be able to compete with local industries in South Africa which produce similar products. Low-cost producers in non-SACU SADC need not be overly concerned with any competition in South Africa from producers from other regional groupings because, as shown in Section 4, the other regional groupings are not significant import sources for South Africa and any efforts they have made to gain ground as import sources for South Africa have not been sustainable. Therefore, it will be prudent for low-cost producers in non-SACU SADC to fully utilise existing opportunities which South Africa offers. With increased entry of non-SACU SADC products into South Africa, product quality in South Africa is forced to go up as local industries strive to maintain their existing local market share and not to lose this to lower-cost producers in rest of SADC who now have free access into the South African market.

South Africa's exports to non-SACU SADC are dominated by manufactures which are medium skill- and technology intensive, high skill- and technology intensive, and low skill- and technology intensive (see Table 10 in Section 5). This entails technology transfer from South Africa into the rest of SADC, and this will have spillover effects in upgrading, modernising and strengthening their local production industries as the countries absorb new technologies. Thus, through the importation of capital equipment from South Africa, non-SACU SADC countries are able to gain through embodied technology progress. Technology transfer from South Africa would help to facilitate resource beneficiation in non-SACU SADC,

as it has been established in Section 4 that, according to factor intensity, non-SACU SADC exports to South Africa are dominated by mineral fuels, non-primary commodities, and resource-intensive manufactures. Thus, with their resource endowments together with technology transfer from South Africa, non-SACU SADC countries would be able to develop new areas of comparative advantage and build diversified production capacities instead of continuing to remain mainly as a cheap import source for raw materials. Thus, trade integration complemented with more determined efforts to build diversified production capacity in the region is essential if the opportunities that arise from more open regional markets are to be shared more equitably. Thus, it is recommended that the poorer countries ensure they have the adequate institutions to take advantage of technological innovations in South Africa.

As markets become more open with the SADC FTA in place and competition intensifies, there is increased incentives by all member states to absorb new technology so as to have exports which are competitive. The process of exporting combined with easy availability of imported inputs and machinery accelerates technological advancement in all countries, while freer markets force exporting firms to become more efficient as they face greater competition. With an expanded market, countries will have to not only increase investment but also to have efficient investment. Externalities associated with exporting cause open economies to grow more rapidly over a period of time.

As economies open up more, industrial location would be due to differences in comparative advantages, thus industries trickle down from one country to another, thus the region benefits from industry dispersion. So it is important for SADC countries to identify their areas of comparative advantages and bring these to the fore and utilise resources more fully so as to develop industries in these areas through both local and cross border investment.

Where scale economies of production are significant, South Africa is to benefit from industrial location as industries seek to exploit scale benefits. However, with the SADC initiatives to improve connectivity of countries through transport infrastructure investment and the SADC regional cross border transport network projects, agglomeration of industries may not be inevitable as some industries may locate in other SADC countries which are low cost producers and access the large market in South Africa through improved infrastructure networks.

There are some inevitable negative effects of increased opening up of regional markets with the SADC FTA in place. Therefore, countries need to have in place policy measures to deal with these issues, i.e. some industries or types of economic activity may not be able to compete with imports, thus leading to labour displacement, economic dislocation, and unemployment. These are costs of economic integration and so will be enterprise and industry restructuring costs.

With the industrial development benefits that could accrue with the implementation of the SADC FTA, there is a need to remove the often cited lack of political will among SADC member states towards practically unlocking the benefits that accompany regional economic integration. Governments should provide the necessary incentives and conducive environment to crowd in private sector investment, which would facilitate addressing challenges such as supply-side constraints and infrastructure bottlenecks. While some agricultural products appear among the top ten

import lines (see Table 5 in Section 4), there is a need for more effort to be directed towards facilitating trade in agriculture, since this is a key export sector and provider of employment for many of the poorer SADC member states.

**(iii) Any role of exchange rate arrangements**

According to the theory of optimum currency areas, the existence of separate currencies reduces the volume and welfare gains of international trade through costs like, costs of currency conversion, exchange rate risk /or costs of hedging against it, and the reduction in informational value of price signals (Arora and Jeanne, 2001:5). Thus, adopting a common currency could have a larger impact on trade flows as it eliminates these costs and is a more definitive commitment to monetary integration than a fixed exchange regime. However, it is important to note that this induces deeper integration in other policy areas for which countries are not yet ready for, e.g. harmonisation of standards and regulation, loss of monetary policy independence, etc.

Frankel (2007:2, 5) and Arora and Jeanne (2001:6) note that Rose (2000) argues that the effect of monetary union on trade among members is statistically significant and economically important, noting that, *ceteris paribus*, two countries that share the same currency trade three times as much as they would with different currencies. Carrere (2004) concurs noting that the use of a common currency was found to increase trade between member countries of the two regional groupings by more than double the initial level. Frieden (2001:347) observes that both theory and evidence suggest that fixing the exchange rate to the currency of a low-inflation country both promotes international trade and investment and disciplines monetary policy by providing an observable nominal anchor. Volatile exchange rates create uncertainty about international transactions, adding a risk premium to the costs of goods and assets traded across borders. Thus, by stabilizing the currency, a government can encourage greater trade and investment.

South Africa trade most intensively with non-SACU SADC (see Section 3) and over the years the other regional groupings have not been able to displace non-SACU SADC as significant trade partners for South Africa (see Sections 4 and 5). Given this, one could be tempted to suggest that South Africa and non-SACU SADC should form or commit to a monetary integration arrangement so that, as per the theory of optimum currency areas, their trade could grow even more. Making such a blanket suggestion for a monetary integration arrangement between South Africa and all the non-SACU SADC countries, would be erroneous because a common finding of studies carried out on the SADC countries is that, at present, a region-wide monetary union is not feasible. It is clear that most of the member countries do not appear to have convergence (pertaining to the monetary union objectives) and chances were quite low that the SADC member countries could satisfy some form of Maastricht-type convergence criteria. Thus, failure to meet the other OCA criteria implies that the member states will respond asymmetrically to shocks. Thus, forming a monetary integration arrangement with all the countries would entail that the costs of such a union far exceeded the benefits.

However most studies conducted on forming or committing to a monetary integration arrangement, recommend approaching monetary integration

through an extension of the CMA arrangement<sup>2</sup>. However, there is no consensus in the recommendations as to which non-CMA SADC countries are the most suitable candidates to join the CMA arrangement. Be as it may, in most research findings, the countries which have been found as most suitable come mainly from the group of countries which in Sections 4 and 5 of this paper have emerged as the most significant trading partners for South Africa (i.e. Zimbabwe, Zambia Mozambique, Angola and the Democratic Republic of Congo).

Some of the studies and their recommendations are as follows: (i) Buiguit and Valev (2006) suggest that Botswana, Mozambique and Zambia could be the first countries to join the CMA; (ii) Jefferis' (2007) study concludes that there is a core 'convergence' group<sup>3</sup> comprising the CMA countries plus Botswana, Mauritius, Mozambique and Tanzania whose macroeconomic performance satisfies some of the criteria for monetary union. The remaining non-SACU SADC countries make up a 'non-converging' group that cannot yet be considered potential candidates for monetary union; (iii) Asonuma, Debrun, and Masson (2012) note that the greatest winners among potential new entrants would be Botswana, Zambia and Zimbabwe. These three countries would benefit significantly from a lower inflation rate mainly owing to reduced fiscal pressures on monetary policy; (iv) Aziakpono *et al* (2007) concluded that a few non-CMA SADC countries (viz. Seychelles, Zambia and Botswana) were potential first candidates for a CMA enlargement. However, an expansion required more policy coordination and nominal convergence, as well as addressing financial market imperfections. The rest of the countries were considered to be still far from consideration for the eligibility for monetary integration from a pure financial integration point of view; (v) Khamfula and Huizinga (2004) suggest that non-CMA SADC countries Botswana, Malawi, Mauritius, and Zimbabwe could be the initial members of the monetary union with the CMA countries. Tanzania and Zambia were seen to have extraordinarily high RER variability, which could potentially expose the union to much higher variation of relative prices, thus destabilising the union. Thus, the two countries had to achieve a manageable degree of RER variability before their ascension to the union; (vi) Johns (2009) concluded that a convergence group consisting of CMA countries, Botswana, Malawi, and, to some extent, Zambia existed, and these countries could form an intermediate monetary union, which would be an extension of the CMA arrangement; and (vii) Nindi's (2012) study found that Botswana and Mozambique were the most suitable countries to first ascend to the CMA arrangement, followed by Malawi and Zambia once they stabilise their exchange rates and inflation *vis-a-vis* the prevailing average rates in the CMA. Zimbabwe could also be a suitable candidate given that the country ceased official use of its national currency in 2009, opting for

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<sup>2</sup> The Common Monetary Area (CMA) links South Africa, Lesotho and Swaziland into a monetary union. Namibia automatically became a member upon independence, but withdrew with the introduction of the Namibia Dollar in 1993. Namibia has chosen not to pursue its own flexible exchange rate policy, and the Namibian dollar is at par with the South African Rand and there is no immediate prospect of change. The same is true with the Lilangeni of Swaziland and the Loti of Lesotho. The rand continues to circulate freely in these countries. Foreign exchange regulations and monetary policy throughout the CMA continue to reflect the influence of the South African Reserve Bank. Of the SACU members, only Botswana is currently out of the CMA, having replaced the rand with the Pula in 1976.

<sup>3</sup> Even within the convergence group, Jefferis (2007) notes those countries remain far from satisfying the other prerequisites for monetary union, including significant intra-regional trade, and full capital and labour mobility.

the use of multiple currencies. CMA membership would ease the problems of transacting in multiple currencies, as well as gains in credibility in the determination of monetary policy for the country.

An extension of the CMA arrangement as suggested by findings from the various studies implies the loss of sovereignty over monetary policy, which may discourage non-CMA SADC states from joining the CMA arrangement. However, if the selected SADC states opt to approach monetary integration through the enlargement of the CMA arrangement, Nindi (2012:249) suggests that the current agreement may have to be modified to one that gives the member countries a degree of authority in the determination of policy in the region, instead of this being solely in the hands of South Africa.

## **Conclusion**

While South Africa trades intensively with other groupings in Africa, non-SACU SADC is its most important trade partner as evidenced by the very high values of the trade intensity indexes. South Africa's major trading partners within the non-SACU SADC region have been Zimbabwe, Zambia, Mozambique, Angola and the DRC. South Africa has experienced changes in dynamics of its trade partners within the non-SACU SADC region, the main one being Zimbabwe losing ground as the major import source.

Significant increases in imports by South Africa were in 2004, 2006, 2007 and 2008 which coincided with zero rating a significantly large number of its Category B products in addition to those already zero rated in 2002, zero rating all the remaining Category B products in 2006 while gradual reduction of tariffs for Category C products continued, and zero rating all the remaining Category C products, respectively.

According to factor intensity, South Africa's top ten imports from the non-SACU SADC are dominated by mineral fuels, non-primary commodities, and resource-intensive manufactures. The non-SACU SADC region is well endowed with these resources and would help to augment South Africa's resources to facilitate its economic development. Products which are high skill- and technology intensive, medium skill- and technology intensive and low skill- and technology intensive, rank very lowly in South Africa's major imports from non-SACU SADC. This reflects the low level of industrial development in the non-SACU SADC region and the stiffer competition which such products are most likely to face in South Africa which is capable of producing such products more efficiently given its stronger industrial base. South Africa's top ten exports to non-SACU SADC are dominated by products which are medium skill- and technology intensive, high skill- and technology intensive and low skill- and technology intensive, reflecting a more developed industrial base.

Other regional groupings in Africa have not been able to displace non-SACU SADC as the major trading partner for South Africa. While the EAC and ECOWAS have made efforts to gain ground as import sources for South Africa, such efforts have not been sustained, with South Africa relying mostly on non-SACU SADC for most of its major imports even for those not in the basket for top ten imports from the SADC region. Similarly, exports in the basket of top ten exports to non-SACU SADC have not been diverted to the EAC or ECOWAS, except for a few and for a few selected

years with regards to those exports which are not among the top ten exports to non-SACU SADC.

The research findings have implications for industrial development within the non-SACU SADC region. The current trade patterns offer an opportunity for growth in non-SACU SADC countries provided they are able to take advantage of the technological progress in South Africa and therefore "catch up" with their richer trading partner. Thus, the poorer countries should ensure they have the adequate institutions to take advantage of technological innovations in South Africa. South Africa is by far the largest and most industrialised economy in the SADC bloc and for now intra-regional trade is one-sided with South Africa serving as a major source of manufactured products in the region without a reciprocal flow of imports from the other countries.

There is no financial integration between South Africa and non-SACU SADC such that it can be said that capital mobility can be taken more or less as given and thus facilitate increased trade between South Africa and non-SACU SADC. Be as it may, this has not dampened increased trade between the two. So it is not a necessary feature of economic integration for now although a deepening of economic integration could over time change the nature of the trade-offs between fixed and floating exchange rates. As the SADC countries deepen regional economic integration, they are likely to meet some of the OCA criteria, such that all countries could be eligible for membership in an extended CMA instead of the current few. Therefore, there is a need to continuously monitor the nature of the response to shocks in the SADC countries, as well as, to continuously monitor the extent of economic convergence in the SADC countries as the countries become more integrated.

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## Appendices

**Table A-1: Analysis of SACU's tariff reduction offer to SADC**

Product categories	MFN Tariff phase down (implemented January each year) indicating when products were zero rated, i.e. all tariffs removed									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	
A Immediate liberalisation	By January 2000, all the products in this category were zero rated. Thus full liberalisation of this product category as per the SADC Protocol on Trade.									
B Gradual liberalisation	Gradual reduction of tariffs but <u>no product items</u> have been zero rated		A lot of products were zero rated	Gradual reduction of tariffs but <u>no additional product items</u> have been zero rated	A very large number of products was added to those zero rated, except some fabrics.	Fabrics, articles of wool, animals hair, man-made textiles materials were zero rated.	Carpets, floor coverings of various kinds, fabrics of various types, clothing item various types, etc zero rated.	Full liberalisation of this product category		
C Sensitive products	Gradual reduction of tariffs but <u>no product items</u> have been zero rated	Assembled chassis frames & parts thereof, heaters & ventilating units & other unmachined cast metal were zero rated	Gradual reduction of tariffs but <u>no additional product items</u> were zero rated					All remaining products are zero rated. Eg tractors, vehicles with motorcycle-type steering mechanism, off-the-road logging trucks, other concrete mixer lorries		
E Products necessary for protection of security to maintain peace	The tariffs for all product items in this category were <b>never reduced</b> . All product items will still be attracting a tariff rate. These products are HS17011100 - HS17026010; HS029010 - HS17029050. For these products the tariff rate ranged from 0.99c/kg to 75.6c/kg. The other products are HS98 products, e.g. items include parts for road tractors; motor vehicles for transporting more than 10 passengers, motor cars, motor vehicles for transporting goods, construction vehicles. For these products the tariff rate remained at 40%.									

**Source:** Own Table derived from analysing the Tariff reduction offer (Final) by SACU to SADC.

**Table A-2: Analysis of SACU's product categories as per its tariff reduction offer to SADC**

Product (HS code)	Category A	Category B	Category C	Category E
HS02 - HS03; HS16; HS35; HS51; HS56; HS59; HS82; HS93	X	X		
HS04; HS18 - HS22; HS94; HS24; HS42; HS52, HS54, HS55, HS58; HS61 - HS65; HS69	X	X (mostly)		
HS17026020; HS17029090 - HS17049000; HS05; HS25; HS26; HS30 - HS32; HS37; HS38; HS41, HS45; HS47; HS49; HS50; HS68; HS70; HS72; HS75; HS78; HS79; HS80; HS81; HS86; HS88; HS89; HS91; HS92; HS97	X			
HS06 - HS15; HS23; HS27 - HS29; HS33; HS34; HS39; HS40; HS44; HS48; HS71; HS73; HS74; HS76; HS83 - HS85; HS90; HS95; HS96	X (mostly)	X		
HS17041000; HS17049000; HS46; HS57; HS60; HS66; HS67		X		
HS87 (Vehicles other than railway, tramway)	X (83 product lines)	X (42 product lines)	X (31 product lines)	
HS17011100 - HS17026010; HS029010 - HS17029050 HS98 (Commodities specified at chapter level only)				X

**Source:** Own Table derived from analysing the Tariff reduction offer (Final) by SACU to SADC.

**Notes:** HS98 = products are HS98010010, HS98010015, HS98010020, HS98010025, HS98010030, HS98010040, HS98010045, HS010050, and HS98010055.