



# Foreword

The Southern African Trade Development project is an initiative of Trade & Industrial Policy Strategies (TIPS), a non-profit economic research organisation based in Pretoria, which is active in the trade and industrial policy arenas in South and Southern Africa. The project was made possible with the generous support of the Australian Agency for International Development (AusAID). AusAID manages the Australian Government's official overseas aid programme, which endeavours to advance Australia's national interest by helping developing countries to reduce poverty and achieve sustainable development.

This is the second year of the project, which first arose as a result of a number of interactions with the policy and research community in Southern Africa. The project was partially developed as a response to the data gap that exists with regard to trade statistics available for the region that are not of a mirror nature. The idea has been to provide a database of trade statistics with regional-wide coverage that can be used by academics, policy-makers and other interested stakeholders to move clearly towards the Southern African Development Community (SADC) goal of improved evidence-base policy-making.

Under the auspices of the project, two sequenced sets of activities have taken place in an effort to bridge this data gap. First, TIPS researchers have undertaken numerous country missions to a number of SADC member states to collect individual country trade data. These data have been cleaned, checked for reliability and structured in a consistent and comprehensive manner so as to allow for the creation of the first Southern African Trade Database ever.

The database, which is accessible online at [www.sadctrade.org](http://www.sadctrade.org), is continuously updated as new trade data become available.

The Southern African Trade Database also contains a downloadable analytical tool developed by TIPS which can be used to generate key trade ratios and indicators, thus simplifying trade analysis.

Another facet of this project has been the publication of an annual intra-SADC Trade Performance Review. The Review involves the analysis of the trade performance of SADC member states. An important innovation of the Programme has been that the introduction of a SADC-wide trade database has enable the analysis of SADC countries' trade with one another.

Previously this has been difficult to do as the trade data have simply not been available. Using the Southern African Trade Database we are now able to track intra-SADC trade flows. Crucially, this is a first step to being able to assess reliably the impact of the SADC Trade Protocol (STP).

More recently, TIPS, through its network of in-country researchers from throughout the region, has increasingly complemented the analysis of data from the Southern African Trade Database with more country-based policy insights.

The country reviews in this Trade Performance Review are not intended to be definitive assessments of Southern African countries' trade performance. The reviews are intended to increase the sophistication of the trade analysis presented progressively, and via our use of researchers based in member states themselves, also to improve the capacity and expertise of trade analysts in Southern Africa.

I am therefore pleased to present the second volume of the intra-SADC Trade Performance Review and to acknowledge the outstanding effort of all researchers who contributed to the publication. I also wish to acknowledge the trade officials who provided the raw trade data without which the project would not have been possible.

Finally, TIPS thanks the members of its research and support team who were all instrumental in implementing the project, and we gratefully acknowledge the generous support of AusAID in ensuring that this important project became a reality.



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# Introduction

The intra-SADC Trade Performance Review 2005 maps the trade flows and assesses the performance of key SADC member states' trade, with particular reference to intra-regional trade.

In chapter one Sydney Mogapi of Standard Bank, South Africa, analyses Botswana's trade patterns. He notes that the country is experiencing quite a number of economic difficulties. Macroeconomic data suggest that inflation is high and that the rate of employment creation, particularly in the private sector, has been very low. On the trade front, the economy is dominated by a couple of commodities – diamonds and beef.

Though the data analysed for Botswana suggest that some diversification and specialisation have occurred over time in other products (as indicated at least by the presence of some amount of intra-industry trade), the country relied heavily on demand from one particular partner, the UK. Nevertheless, relations with the SADC region in general, and with South Africa in particular, are important for the economy. About 14% of exports are to SADC and the region absorbs some primary commodities processed in Botswana – sugar, meat and products from the copper and nickel industry. In turn, South Africa is the trade partner with whom Botswana has experienced relatively rapidly growing exports and imports.

In chapter 2, Lawrence Mapemba finds that Malawi's trade balance has been worsening in recent years. Even though the value of its exports has increased over time, Malawi's imports have been increasing in value much more sizeably than have its exports. The impact of globalisation and the advent of FTAs have not been even for the participating countries. For those countries that were prepared and which had started developing their economies, the FTAs have enhanced their economic performance. But for those countries which have been economically stagnant, as Malawi has been, the FTAs have been economically punitive. The Malawian economy has not been innovative enough to move away from a specialisation in the production and exportation of primary agricultural products. Since the colonial era, and more than thirty years after independence, Malawi has relied on agriculture and the exportation of primary agricultural products, like tobacco and tea, for the bulk of its export revenue earnings. Like any other country, the Malawian economy's demand for processed products, machinery, vehicles and other manufactured products has resulted in the country's imports surpassing the value of its exports.

Even as a primarily agricultural economy, Malawi has regularly failed to produce enough food for its own population and has been forced to import food. The level of investment in agriculture in Malawi is still very low. The irrigation schemes that were set up by the Banda administration collapsed because of a lack of commitment from the government. Farmers were supposed to learn about all aspects of irrigation and, with the assistance of governmental expertise, set up their own irriga-

tion equipment but that did not happen. Malawi has continued to rely on rain-fed agriculture for years. If, and only if, Malawi promotes water harvesting through dams and irrigation systems, in addition to slowing down soil erosion and land degradation, its agricultural development and food security will continue to be very vulnerable and tenuous.

Agriculture is still perceived by the Malawian government as the engine of its economic growth, consequently, the economy will not move sufficiently quickly to compete on the export market if the current issues in the agriculture sector remain unaddressed. As stated earlier, the levels of education in a country may contribute to its comparative advantage and its ability to compete on the world market but that is not sustainable. Asia's growing economies may not be endowed with valuable natural resources, neither are they agricultural economies, but their approach to human resource development has helped them to import, add value and export very effectively and efficiently.

As a land-locked country, coupled with its low levels of education and a lack of endowments of large quantities of valuable natural resources, Malawi may look at the agricultural sector as a source of economic growth in the medium term. In the long term, Malawi needs to diversify in order to survive in the global economy. The current government must move quickly to develop the Shire-Zambezi waterway, as this may reduce transportation costs and ease its access to seaports through which its imports and exports travel. The success of the Shire-Zambezi waterway project will be a major achievement for a land-locked country such as Malawi. Promoting the development of high-quality export products and diversifying its exports will allow Malawi to take full advantage of the waterway project.

In chapter 3, Sawkut Rojid of the University of Mauritius observes that this economy continued to diversify its exports during the period under review. Significantly, though, the fastest growing exports to the world were not its major export products. Of concern was the fact that out of the top five fastest growing exports to the world, Mauritius had a revealed comparative disadvantage in three categories, namely the H39, H34 and H42 categories. The clothing sector, which was traditionally one of its leading export revenue earners, was not among its list of 20 fastest growing export commodities even though, up until the late 1990s, it was Mauritius's boom sector. The decline of this sector was attributable to the phasing out of the MFA.

Mauritius has long depended on the preferential status granted to it by developed nations for it to export certain products to developed countries' markets, particularly those in the EU and the US. With the phasing out of the MFA, the Mauritian government was pushed into adopting a more proactive and aggressive trade policy.

In 2005, real GDP grew by 2.5% compared to 4.7% in 2004. The decline was attributable largely to the decline in the manufacturing and agricultural sectors, in particular the Export Processing Zone (or EPZ), which declined by 13%, and the sugar industry, which contracted by 9.1%. In the review period, the unemployment rate was at its highest in 2005. This was explained by the closure of several firms within the tex-

tile sector because of the MFA phase out process. In the same period, inflation stagnated to 5%.

Mauritius's overall trade balance was negative for the period 2001-2005, with the highest trade deficit being recorded in 2005. On a regional basis, on the exports side, Mauritius traded mainly with the EU region because of the Lomé Convention-Cotonou Agreement. Mauritius exported to that regional market almost all of its sugar production, at a guaranteed price, and its clothing products on duty free terms.

With regard to imports, Mauritius sourced products mainly from Asia and the EU. Within the SADC region, South Africa is an important source of Mauritian imports. China, South Africa, France and India are the four main markets from which imports were sourced. Except for South Africa, no other SADC country appeared to be a major source of imports for Mauritius even though a SADC FTA was in place. The main reason for this trend was that those products in which Mauritius had a comparative disadvantage in production, and which it consequently normally imported, were not produced in the SADC region.

Sugar and wearing apparels were, for the period under review, Mauritius's two main exports.

Mauritius had a high revealed comparative advantage for sugar, apparels, and meat and seafood preparations. The country's comparative advantage in clothing accessories, textile fabrics and articles or apparels, and textile articles manufactured from materials other than textile fabrics was, however, in decline.

In conclusion, Rojid notes that the future looks good for the Mauritian economy, not least because the government has been able to proactively respond to the threat posed by the loss of the MFA but also because diligent efforts have been made to further diversify the economy. For instance, whilst the economy is known to be driven by mainly tourism, as well as exports of sugar and textiles, the inflows experienced in the services sector in particular the banking and ICT sub-sectors is evidence that Mauritius is able to successfully diversify the types of investment attracted into the country.

In chapter 4, Adriano Ubisse of Mozambique's Ministry of Planning and Development notes that for most of the past three decades, Mozambique was engulfed in a civil war that not only left millions of people dead but its economy in tatters. During the years of the war a significant number of skilled labour emigrated and foreign direct investment was scarce. However in the early 1990s things changed. The civil war ended and foreign investors saw an opportunity to invest in the country. Mozambique's trade with the rest of the world started to increase. Economic growth for the last decade has averaged more than 5% per annum. However, like most of the SADC countries, the structure of trade in Mozambique has not changed, owing in part to the supply-side constraints that are ever present in developing African countries. One constraint is the shortage of skilled labour and the lack of free market institutions to support economic growth; another is the lack of infrastructure including a well-maintained telecommunications system.

Trade with the rest of the world has soared. Exports rose from Mts15,330bn in 2001 to Mts40,240bn in 2005. On the other hand imports grew from Mts21,351bn in 2001 to Mts55,510bn in 2005. Electricity is a large component of the country's intra-industry trade. Mozambique both exports and imports electricity from South Africa.

Mozambique's trade deficit is very large and is a result of the economy's low productive base and existing pattern of exports (mostly primary products) and imports (mostly manufactured goods). The country's main export commodities include traditional crops such as cashew nuts, cotton, tobacco, marine products and sugar, and significantly, new commodities such as natural gas, electricity, and aluminium. Gas and electricity are exported to South Africa and aluminium is exported to the EU. Imports are more diversified than exports, both in terms of commodity composition and sources, and imports are comprised predominantly by consumer and capital goods, especially those needed by the country's mega-projects. Mozambique's high dependence on export revenue from a few export products poses serious concerns for the government, especially in terms of its economic growth and poverty reduction goals. South Africa and the EU are Mozambique's two major trading partners. Almost 70% of the export revenues, according to 2005 data, were from aluminium exports to the EU; exports to South Africa accounted for approximately 15% of total. Trade between Mozambique and other SADC countries is minimal yet there is evidence of the growing importance of the trade flows with Malawi.

Ubisse finally notes that although Mozambique is implementing the SADC Trade Protocol, which will boost trade in the region, it is unlikely that a high level of integration with South Africa will be secured by the Free Trade Area.

Mmatlou Kalaba, senior trade economist at TIPS, in chapter 5 notes the Namibian government's commitment to trade liberalisation as one of the prime stimuli necessary for rapid development of the local economy, particularly given the country's small size and necessary openness.

His analysis shows that Namibia's recent economic performance has been strong and based on prudent policies. Most of its economic indicators, with the exception of one, for the period under review were within the targeted range; unemployment, though, remained high and affected one third of the economically active population.

Namibia's trade balance showed some signs of recovery, likely in response to investment in the mining and fishing industries which, consequently, led to high exports growth. Mining extraction and agriculture and fisheries remained the primary drivers of Namibian exports. The country's principal export destinations were the EU and South Africa. Namibia's main exports included ores, minerals, copper and refined zinc, all of which accounted for half of the value of its total exports, followed by processed and preserved fish, equivalent to one fifth of the total value, and live animals with a share of less than one eighth of the total. With regard to imports, most Namibian imports were sourced

from South Africa. Transport equipment, food products and beverages, refined petroleum products, chemical products, fabricated and other machinery and equipment, and rubber and plastic products constituted the main commodities imported into the country.

With regard to the issue of regional economic integration, whilst it is clear that Namibia is closely linked to South Africa, there was some evidence of deeper integration underway with both the SADC and SACU. Angola and Swaziland have, in the recent past, showed stronger trade relations with Namibia. Harmonisation of policies at the regional level may result in stronger trade and economic relations between various member states, including Namibia.

In chapter 6, TIPS economist Landon McMillan, reiterates South Africa's status as economic powerhouse in the region. Not only is South Africa's economy big in terms of size but it also the most sophisticated in the region. Its financial services sector compares well with that of the advanced economies of the world. Because of its size, sophistication and level of infrastructure development South Africa is a major source of goods flowing to neighbouring SADC countries.

He shows that the country's supplies to the region range from agricultural products to manufactured machinery. It also exports a whole range of services. A number of firms have invested in these countries which has further spurred trade with the rest of SADC.

McMillan's analysis indicates South Africa enjoyed a trade surplus with the rest of SADC under the review period, with trade peaking at R24.1bn in 2002. The region, though, made up slightly more than 10% of South Africa's total trade. Imports from the SADC were 2.5% of South Africa's total imports while exports had a 8.5% share of total. South Africa's leading trade partner was the EU, with more than 70% of the country's total trade occurring with that market. From the SADC region, South Africa imported mainly mineral products and from the rest of the world, it imported predominantly machinery.

The national structure of production is shaping the pattern of trade in the region though the level of development prevailing in countries surrounding SA and the state of infrastructure in these countries curtail exports. There are mixed effects of the characteristics and changes thereof for the future pattern/direction of trade: on the one hand, a lowering of the miscellaneous barriers against the movement of goods and against trade will increase trade. In contrast, increasing FDI could lower trade as capacity develops outside SA thus increasing product variety. However, the latter could be associated with an increase in trade if FDI (and trade) allows these economies to diversify their production base i.e. import-substitution FDI. Second, the data analysed in this chapter suggests a declining export focus to the SADC region over the study period. In parallel South Africa is displaying growing import orientation towards its SADC partners. The data also suggest that retailers might have played a key role in SA developing RCA around its exports to the region; in other words, we can identify through the data, the importance of services in driving expansion of trade in goods.

In chapter 7, Vusi Khumalo notes Swaziland's small, strongly export-oriented economy. Since 2000, Swaziland's overall export performance has been robust in general. Trade has virtually doubled over this period, in value terms. Over the years, Swaziland's economy's openness has clearly increased dramatically, and so too as a result has its susceptibility to external shocks. The growth of the country's economy is highly dependent on the performance of the world economy, particularly of world prices, as well as the exchange rates and the potential for growth in Swaziland's major trade markets, particularly South Africa. This has been reflected in the down-turn in export activity that has been evident since 2003. The export sector suffered due to volatility in the world market and a loss in competitiveness as China and Taiwan were able to acquire a greater share in the global textile industry, and the South African Rand strengthened. That resulted in the closure of some of Swaziland's textile firms and a loss of jobs in the sector. Considering these developments, it is, therefore, imperative for the Swazi government to analyse trends in international and regional economic development so that it can foster growth in its economy precisely because it is wholly dependent on outside markets.

Whilst South Africa continues to be the country's primary source of imports, there has been some diversification with trade, for example, with Taiwan growing rapidly. South Africa is also the primary destination for Swazi exports, though growing markets include the US, Mozambique, New Zealand and China. The proximity of Mozambique would account for the increasing trade with this SADC member, and the potential for greater trade is apparent considering developments in the country's roads and shipping facilities. Besides Mozambique, Swaziland trades little with the rest of SADC excluding South Africa. The elimination of barriers to trade within the SADC would possibly assist Swaziland in trading more with other SADC member states.

Dale Mudenda of the University of Zambia in chapter 8 shows how the country, from the 1990s onwards, has experienced improved macroeconomic conditions. Since 1974, the country's economy has registered positive economic growth rates and, in the period 2000-2005, those rates averaged at 4%. Overall, Zambia's inflation rates declined and its exchange rates stabilised, while its external debt dropped from US\$7.1bn in 2002 to less than US\$500m in 2006. That massive decline was the result of debt forgiveness associated with the country's qualification under the HIPC initiative.

Despite the country's successes, two-thirds (68%) of the populace continue to live on less than a dollar a day.

Zambia faces a number of export market access problems linked to technical barriers to entry. This is the case for Zambian sugar exports to the SADC and the EU regions, which are limited by quotas, and for other goods, such as cotton, which need to be processed only up to a specified level to enter in these markets.

Unless otherwise specified, all data used in this review have been collected from SADC member countries and collated in the TIPS/AusAID Southern African Trade Database ([www.sadctrade.org](http://www.sadctrade.org)).