South Africa

1. Introduction

Independent from 1961, apartheid South Africa was essentially a pariah state for most of the latter half of the 20th century. The combined effects of international economic sanctions and the armed struggle for liberation resulted in the collapse of apartheid. A political settlement was negotiated between the Nationalist Party and the liberation movement's African National Congress (ANC) in the early 1990s. In April 1994, after centuries of racial and economic oppression, the country held its first democratic elections and millions of adult South Africans voted for the government of their choice. Nelson Mandela, the Nobel Peace Prize laureate and the most famous of the former Robben Island political prisoners, became the country's president. Today, the ANC remains the majority party in South Africa's bicameral parliament.

Isolated from the rest of the continent for most of the 20th century, South Africa has relatively recently emerged as an African powerhouse, largely because of its industrialised economy. It has, consequently, became a magnet not only for foreign capital and firms but it has also attracted millions of migrants and refugees, both skilled and unskilled, from across the world, though mostly from sub-Saharan Africa.

South Africa's GDP recorded US$150.7bn in 2004 (World Bank); this is more than half the US$219.3bn recorded by all the SADC member states. Although there is very little intra-SADC trade taking place, most countries trade more with South Africa than they do with the other member states. This is because South Africa is a source of virtually all products demanded by consumers in SADC. The country supplies the SADC region with products ranging from agriculture to domestically manufactured/assembled products. The country also imports significant amounts from the region.

There are other factors that make South Africa the epicentre of economic activity in the region. South African firms have a heavy presence, in the form of foreign direct investment, in most SADC countries. There is also the trade arrangement that exists between South Africa and the world's oldest customs union, SACU, whose members are Botswana, Lesotho, Namibia and Swaziland. Of the latter, all but Botswana are members of the Common Monetary Area (CMA) and the South African currency, the Rand, is used as legal tender in these countries. Also, because of its relatively advanced infrastructure, roads, ports, and communication networks, South Africa presents a convenient link for the land-locked countries in the region with the rest of the world. South Africa is therefore an important hub for trade in the region.

2. Structure and patterns of trade[1]

2.1 Trade balance

South Africa's trade balance declined from its quite healthy positive levels of 1999-2000 to a negative balance in 2001, before returning, one year later, into positive territory with a value of R3.5bn. In 2003-2004, the trade balance declined significantly, with the surplus becoming a deficit of R2.8bn in 2003, and then worsening to R15.2bn in 2004. The movements in the rand exchange rate were central to South Africa's general trade performance for 2001-2003. A depreciating rand made South African exports relatively cheaper and consequently, more competitive in 2001-2002, hence, the country had greater levels of exports towards the end of 2001 and during 2002.

On the other hand, exports may have responded positively to the decline in tariffs which made it easier for local firms to source imports of raw materials for the production of their export commodities. With the currency's appreciation towards the end of 2002, a trend which continued the following year, many of the price competitive gains experienced by those exporters were reversed.

As the currency stabilised again in 2003-2004, exports expanded, peaking at R291bn. The strength of the rand also stimulated imports, and that was partly responsible for 2004's increased trade.

Generally, the boom in the South African economy, chiefly driven by positive growth in consumption, accounted for the rapid increase in the levels of imports. Not only was there a consumption boom, the economy also experienced a housing boom and an expansion of its consumption base as a rapidly emerging, black middle class, with its increasing domestic demand, drove that consumption.

Consequently, the economy experienced growth of over 4% per annum. In 2004, South Africans, generally, had more money to spend relative to previous years and, as such, imports grew at a faster rate (of 12% per annum) than exports (at 8.78% per annum) did over the review period.

[1] Due to data limitations, where imports and exports from South Africa are described, and where indices are calculated from these data, imports and exports reflect trade between SACU and the world, and between SACU and non-SACU SADC member states, rather than for South Africa exclusively. Nevertheless, South African trade is a significant proportion of the SACU trade and inferences drawn from the data included here are likely to be relatively robust for South Africa.

Table 1: South Africa's trade balance with the world and with SADC: 2000-2004 (Rm)

	2000	2001	2002	2003	2004	Growth %
Exports	208,285	215,248	277,993	255,560	291,129	8.7
Imports	188,064	215,441	274,458	258,431	306,368	13.0
Trade balance	20,220	(193)	3,535	(2,871)	(15,239)	
Exports to SADC	20,477	23,543	29,734	25,583	24,911	5.0
Imports from SADC	2,530	4,477	5,568	5,584	7,554	31.4
Trade balance with SADC	17,946	19,066	24,166	19,999	17,357	

As with other member countries in SADC, South Africa has, historically, run a trade surplus. Even though the country's total exports to the SADC countries represented a relatively small proportion of total exports, SADC was one of the few regions with which South Africa had a trade surplus. In fact, much of South Africa's large trade surplus of 1999-2000 appeared to be due to its trade with SADC. Trade with SADC grew marginally quicker than did South Africa's trade with the rest of the world. South African trade with SADC also mirrored its world trade: imports grew faster than exports, but South African exports to the region were still almost five times as large as its imports from SADC.

Exports to the region constituted 10% of South Africa's total exports but only 2% of its total imports. Trade with the region, therefore, was unbalanced. This explains why South Africa has undertaken asymmetrical liberalisation as a signatory to the SADC Trade Protocol. That unbalanced trade may also reflect the fact that South Africa has relatively good infrastructure for getting products to markets, while the SADC countries' relatively weaker infrastructures inhibit that process within their respective economies. It may also be a consequence of the terms of trade between South Africa and the other SADC countries. South Africa, as discussed below, exported mainly higher value-added manufactured goods to the SADC region and imported, in turn, largely lower value, primary commodities.

The only formal statement on trade policy from the South African government during the period was contained within its macroeconomic strategy or the plan for Growth, Employment and Redistribution (GEAR), issued in 1996. GEAR was similar in many respects to a structural adjustment programme. As part of the GEAR policy, South Africa sought to liberalise trade. One of the side-effects of sanctions and disinvestment in the apartheid era was the presence in the economy of very high tariffs. GEAR sought to reduce tariffs to make the South African economy more competitive and export-focused. South Africa acceded to the WTO in 1995 and the initial offer involved significant cuts in its levels of protection. Tariffs were reduced from the mid-1990s onwards at a rate far quicker than that specified in the WTO offer. This process ended at the start of the millennium and from then on, South Africa pursued liberalisation through bilateral trade agreements.

2.2 Top 10 sources of imports and destinations for exports

South Africa's main sources of imports were largely from developed countries, oil producing countries and China. Table 2 reveals that the top five sources of imports into South Africa in 2004 were from Germany, with a trade value of R43bn, the US, with a value of R26bn, China, with a value of R23bn, the UK, with a value of R21bn, and Japan, with a value of R20bn.

As an emerging economy, South Africa demands manufactured goods, which it imports from developed countries, and increasingly from China, because it does not produce those items itself. Even though South Africa is far more developed than many other developing countries, there were numerous goods that it either did not produce at all or that others produced more cheaply. The latter was the case for technological consumer items such as televisions, DVD players and microwaves. Many of these items were imported from Japan and China, amongst others.

The patterns of South Africa's import sources also illustrated the fact that South Africa's economy was either growing or industrialising relatively quickly. Due to the rapid development within certain sectors and industries, South Africa had to import many capital goods and machinery, which explained the large import bill from countries such as Germany and the US.

An example of a developing industry which must continually re-equip itself and upgrade its machinery is the motor and motor parts industry. The need for imports of capital goods by that industry was therefore not a short-term phenomenon because most of the capital goods required were not produced in South Africa. Thus, even as the industry developed and became increasingly export-orientated, as it matured and benefited from economies of scale and scope, it continued to import capital machinery and other capital goods, especially those items that embodied increasing levels of complexity and technology.

Another particularly important commodity that South Africa imported in large quantities was oil. Consequently, a large share of trade occurred between South Africa, Saudi Arabia, Iran and to a lesser extent Nigeria.

The general pattern of trade reflected the comparative advantage that South Africa has in the production of certain commodities, especially primary commodities such as minerals and metals, and the disadvantage it has in the production of manufactured goods. While some debate may occur about why South Africa has a so-called comparative disadvantage in manufactured goods, or whether it has a disadvantage at all, the revealed comparative advantage, or the mix of goods which

the trade data suggest is produced and exported proportionally more by South Africa than by its trade partners is certainly biased towards primary commodities at the expense of manufactured goods. This point is expanded on in Section 6 of this chapter.

South Africa's main export partners were also primarily developed countries, as is shown in Table 3. Again, this pattern of trade resulted largely from South Africa's comparative advantage in the production of primary commodities, especially in the agricultural and mining sectors, which developed countries required either for their own manufacturing industries or as inputs for the production of higher value-added goods. The top destinations for South Africa's exports were thus the US (with trade valued at R29bn), the UK (with R27.6bn), Japan (with R26.5bn), Germany (with R20bn) and the Netherlands (with R11.9bn).

Significantly, none of the SADC countries were among South Africa's top 15 most significant import partners; only Zimbabwe, at position 13 on the list of 15, was among its top export partners. Multiple reasons exist for the apparent dearth of intra-SADC trade between South Africa and the other SADC members. First, the SADC economies are small relative to the rest of the world and are therefore not significant sources for those goods or commodities that South Africa imports. Although most of the SADC countries produce certain items that South Africa demands, they produce those goods in a small range and in quantities that may not be sufficiently large enough for South Africa's needs. Second, the size of their economies restricts their market size for exports.

Although many of the SADC members source significant proportions (and in many cases the majority) of their imports from South Africa, as export destinations for South African exports they do not match the market potential that exists for South Africa in some of the developed country markets with which it trades. The small range of commodities produced in the SADC countries is unlikely to replace those that South Africa currently sources from either developed countries or China. At the same time, many of the SADC countries export the same (or very similar) commodities, such as minerals, metals and agricultural commodities, that South Africa exports. Thus the export baskets of the other SADC members are too similar to South Africa's, and consequently there is often little complementarity in trade. Nevertheless, as the other SADC countries develop, as their income and earnings rise, and as the general size and state of their economies expand and become more diversified, a greater scope for trade can be expected.

One would hope that intra-industry trade would exist between the various SADC members, but because of the difference in the size of the South African economy relative to its neighbours, this is currently unlikely to happen, although it may become more prevalent as time passes. Trade flows were therefore unbalanced: higher value com-

modities were exported from South Africa and what was imported from the rest of SADC was constituted principally of primary commodities. However, this will not always be the case, especially if South Africa and other foreign firms continue to invest in these economies.

Barriers to trade between South Africa and the other SADC countries still seemed to be in existence during the review period. Some of those barriers were substantial while others were preventative. In terms of tariffs, South Africa liberalised its trade regime with the other SADC countries far more quickly than those countries did. Geographic and infrastructural barriers can also have a significant and deleterious impact on trade. Several of the SADC countries are landlocked or have poor transport infrastructure, which had a negative impact on their trading activities. Fortunately, as these SADC economies grow, one would expect that infrastructure would develop accordingly and that their respective trade regimes would be liberalised.

Table 2: Top 15 sources of imports (Rm), 2000-2004

Rank	Country	Years					Share of total	Annual growth
		2000	2001	2002	2003	2004	(%)	(%)
1	Germany	24,880	32,228	42,866	38,403	43,465	14.2	15.0
2	United States	22,150	25,832	31,959	25,065	25,956	8.5	4.0
3	China	6,935	9,087	14,240	16,582	23,011	7.5	35.0
4	United Kingdom	16,104	18,197	24,981	22,550	21,084	6.9	7.0
5	Japan	14,839	14,686	19,062	18,228	20,942	6.8	9.0
6	France	7,896	8,152	11,279	15,457	18,597	6.1	23.9
7	Saudi Arabia	14,136	14,977	12,497	15,050	17,086	5.6	4.9
8	Iran	8,133	8,842	9,667	9,286	15,223	5.0	17.0
9	Italy	6,247	8,068	9,912	8,412	9,249	3.0	10.3
10	Australia	4,651	6,049	7,790	6,112	7,247	2.4	11.7
11	Republic of Korea	3,527	3,984	4,490	4,184	6,493	2.1	16.5
12	Brazil	2,053	3,344	4,913	5,341	6,411	2.1	32.9
13	Nigeria	1,281	1,658	3,619	2,764	5,195	1.7	41.9
14	Taiwan	4,223	4,521	5,401	4,637	5,059	1.7	4.6
15	India	1,765	2,113	2,941	3,126	4,547	1.5	26.7

Table 3: Top 15 destinations for exports (Rm), 2000-2004

Rank	Country	Years					Share of total	Annual growth
		2000	2001	2002	2003	2004	(%)	(%)
1	United States	25,021	19,265	24,934	23,418	29,258	10.0	4.0
2	United Kingdom	18,573	20,936	25,418	22,572	27,611	9.5	10.4
3	Japan	16,786	10,811	15,523	19,724	26,518	9.1	12.1
4	Germany	16,214	15,732	18,629	16,039	20,054	6.9	5.5
5	The Netherlands	6,910	9,388	12,430	11,331	11,992	4.1	14.8
6	Taiwan	3,666	3,821	5,077	5,017	8,805	3.0	24.5
7	Italy	5,845	6,519	7,965	6,932	7,734	2.7	7.3
8	Belgium	6,370	6,657	9,135	7,317	7,155	2.5	2.9
9	Switzerland	3,647	1,719	2,420	3,806	7,139	2.5	18.3
10	Spain	3,478	4,586	6,432	6,149	7,128	2.4	19.6
11	Australia	3,528	3,737	5,101	5,693	7,014	2.4	18.7
12	China	4,087	3,786	4,694	6,570	6,459	2.2	12.1
13	Zimbabwe	4,544	4,966	6,901	6,213	5,850	2.0	6.5
14	France	3,888	4,370	6,465	5,175	5,512	1.9	9.1
15	Republic of Korea	4,062	3,804	4,970	3,958	4,518	1.6	2.7

2.3 Exports and imports by region

The regional flow of exports and imports reflected the same trends as those discussed in the previous section of this chapter: South Africa traded predominantly with the more developed countries of Europe, North America and Asia. As shown in Table 4, the EU was by far South Africa's largest regional source of imports, accounting for roughly 41% of all imports in 2004, and three European countries were among the list of South Africa's top six trade partners. In total, some R124.7bn worth of goods were imported from Europe in 2004, which was a substantial increase from R75bn in 2000. Thus, annually, the value of imports originating from the EU grew at an average rate of 13.4%.

Eastern Asia, with values recorded at R58bn, was the second most important region for imports because of the large amounts of Chinese and Japanese goods imported into the country. Imports from the NAFTA were valued at R28.6bn and consisted overwhelmingly of goods from the US (with a 91% share of total). Western Asia was the fourth most important region for South African imports, mainly due to oil imports. South central Asia accounted for R20bn worth of imports and was the fifth most important source of imports in 2004.

Machinery and mechanical appliances, valued at R38bn; vehicles and other transport equipment, valued at R26bn; parts for vehicles equivalent to R13bn; chemical products, with a total value of R13bn, of which R4bn was spent on pharmaceutical products; and plastics,

rubber and base metal articles, such as screws, bolts, railway sleepers and pipe fittings, were all part of the imports South Africa sourced from the EU.

Imports from the US were in similar categories to those from the EU. For example, South African imported R3bn worth of aircraft and parts thereof, R1.5bn worth of transport vehicles, R1bn worth of organic chemicals, and more than R1bn worth of medical equipment.

Machinery and electrical equipment, unsurprisingly, made up most of South Africa's East Asian imports, including computers, office equipment, refrigerators, air conditioners and a range of other machinery. Over R1bn was spent on 'road making and earth moving equipment' in 2004 to purchase bulldozers, mechanical shovels, excavators and parts thereof, and a further R1bn on 'portable digital data products' such as flash-disks.

South-east Asian imports were predominantly made up of computers, refrigerators and air conditioning equipment, which was similar to but of a smaller quantity than those imports from East Asia. Imports from western Asia were almost entirely made up of petroleum products, valued at R16.8bn, although almost R2bn worth of imports were in the form of various chemicals; half of that was for purchases of fertilisers.

Commodity-based economies in the rest of Africa and the Americas, by comparison, accounted for a relatively small proportion of South Africa's imports. Imports from SADC made up a mere 2.5% of all South African imports in 2004. Most of those imports fell into two categories: textiles, including cotton, from Zambia and Zimbabwe, and Malawian apparel articles in the one, and mineral products such as petroleum products from Angola, nickel ores from Zimbabwe and Zambian copper in the second category. South American imports mainly comprised prepared foodstuffs and vegetable oils, such as soya cake and soya oil for animal feeds, some machinery, and more recently, components for motor vehicles.

Table 4: Imports by region, 2000-2004

Region	Year					Share of total	Annual growth
	2000	2001	2002	2003	2004	(%)	(%)
World	188,064	215,441	274,458	258,431	306,368	100.0	13.0
European Union	75,561	89,553	116,717	112,011	124,781	40.7	13.4
Eastern Asia	31,497	34,351	45,567	45,928	58,233	19.0	16.6
NAFTA	24,340	27,889	35,162	27,728	28,684	9.4	4.2
Western Asia	18,177	19,576	17,578	19,196	22,536	7.4	5.5
South-central Asia	10,317	11,420	13,311	13,013	20,450	6.7	18.7
South-eastern Asia	7,290	8,010	11,480	10,955	13,528	4.4	16.7
South America	3,791	5,593	7,836	8,144	10,554	3.4	29.2
Oceania	5,038	6,511	8,420	6,767	8,174	2.7	12.9
SADC	2,530	4,477	5,568	5,584	7,554	2.5	31.4
Rest of Africa	1,833	2,873	5,762	3,949	6,504	2.1	37.3
Central America	38	86	140	169	317	0.1	69.5
Caribbean	239	244	367	391	591	0.2	25.4

As shown in Table 5, most South African exports, to the value of R93.4bn, was destined for the EU. The size of that trade was equivalent to a 32% share of all South African exports in 2004. Second on the list was East Asia; South African exports to this region in 2004 amounted to R49.7bn. The third, fourth and fifth most important regional export destinations for South African exporters were NAFTA, SADC and the rest of Africa. Even though the EU, East Asia and NAFTA were the largest markets for South African exports, in contrast to its imports flows, South Africa traded to a significant extent with other African countries – 12.8% of all South African exports were destined for other African countries.

Exports destined for the EU included diamonds, platinum and gold; coal products; iron and steel products; machinery, of which most were gas filters, vehicles and parts thereof; fruit and nuts; leather car seats and wines. The export patterns to the US were similar to those for the EU, while South African exports to East Asia consisted of base metals, wood products, iron ores and platinum. Exports to the SADC, and indeed to the rest of Africa, were generally much more widely distributed across various categories. Goods exported included machinery, base metals, mineral products, chemical products, wood pulp and paper, vehicles, prepared foodstuffs and vegetable products (cereals). South Africa therefore exported a wide variety of commodities to the SADC and the rest of Africa, demonstrating both how much it dominated trade with its partners and how large a proportion of total imports to the various SADC countries South African goods represent.

South Africa's export patterns, however, were not as comprehensively all-inclusive as they could have been and the country had less of an influence than it could have had. Importantly, though, it seemed that

imports from SADC grew much faster than exports to SADC, recorded at 31% and 5%, respectively. Imports and exports to the rest of Africa grew even more rapidly, at 37% and 20%, respectively. Compared to other regions, South African trade with SADC and with Africa grew faster than its trade with every other region except for central America, but the latter occurred off a very small base.

Table 5: Exports by region, 2000-2004

Exports	Year					Share of total	Annual growth
Region	2000	2001	2002	2003	2004	(%)	(%)
World	208,285	215,248	277,993	255,560	291,129	100.0	8.7
European Union	64,946	72,569	92,061	80,906	93,445	32.1	9.5
Eastern Asia	30,982	24,629	33,594	38,331	49,724	17.1	12.6
NAFTA	27,432	21,524	27,519	25,613	32,379	11.1	4.2
SADC	20,477	23,543	29,734	25,583	24,911	8.6	5.0
Rest of Africa	5,859	8,590	11,852	11,520	12,209	4.2	20.1
Western Asia	7,245	7,937	10,062	8,945	9,400	3.2	6.7
Rest of Europe	4,276	2,563	3,581	5,156	8,534	2.9	18.9
South-eastern Asia	4,756	5,812	7,200	7,145	8,191	2.8	14.6
South-central Asia	3,975	4,355	4,954	4,198	4,864	1.7	5.2
South America	2,566	3,448	3,288	2,469	2,854	1.0	2.7
Caribbean	258	253	686	253	258	0.1	(0.0)
Central America	39	74	141	152	160	0.1	41.9

2.4 Fastest growing import and export partners

Table 6 shows the fastest growing sources of, and markets for, South African imports and exports. Only those countries with which South Africa traded goods in excess of R100m in 2004 are included in that table.

Yemen was South Africa's top fastest growing source of imports, which growth averaging a staggering 790% per annum.

Over the same period, Vietnam was the fastest growing export destination for South African products, with exports sent there growing at over 104% per annum.

The change in trade, in terms of growth patterns, exhibited a different picture from that of the absolute size of trade between South Africa and its partners. Many of those countries which experienced rapid growth in trade with South Africa over the period were not traditionally its trade partners; they also did not feature prominently on the list of the top export destinations or import sources. Consider, for example, the number of central and eastern European countries that appear in Table 6. Imports to Slovakia, Czech Republic, Hungary and Ukraine

grew quickly but those countries were not South Africa's traditional trade partners. The same was true of many African countries listed in the export section of Table 6; they are, though, rapidly becoming major destinations for South African exports. The latter trend appears to be a reflection of the success of the expansion of South African firms into other African markets. In contrast, the increase in trade with central and eastern Europe reflected South African importers' decisions to source cheaper machinery and components from large, European corporations that had recently invested in that region. Importantly, the eastern European countries represented in Table 6, with the exception of Ukraine, are all new members to the EU and have recently received massive investment from large, western European firms while also enjoying preferential market access into South Africa. From Poland and Czech Republic, substantial growth in trade occurred in the categories of machinery (specifically earth moving or paper making machinery), electrical equipment (specifically switches and cable), paper products, Polish automobiles and Czech auto components. From Hungary, electrical equipment (specifically radio and TV transmitters), computer components and auto components were imported in larger volumes. From Slovakia, motor vehicles and auto components showed the fastest growth.

Most of the countries that appear in Table 6's list of South Africa's fastest growing trade partners were relatively small countries, and trade has occurred off a small base. This can make the growth in trade appear far more impressive than it actually is. China, on the contrary, is an example of a country from which South Africa imported significantly more goods, so much so that Chinese imports grew by an incredible 35%. It is also worth noting that South Africa had a trade deficit with Yemen and with a number of the developing countries, such as Nigeria, on Table 6's list. Growth in Chinese imports, in absolute terms, was greater than with any other country and equivalent to R16bn over the four-year period under review.

Table 6: Fastest growing export and import partners: 2004

Imports				Exports			
Rank	Country	2004 (Rm)	CAGR* 00-04 (%)	Rank	Country	2004 (Rm)	CAGR* 00-04 (%)
1	Yemen	552	791.5	1	Vietnam	510	104.6
2	New Caledonia	307	379.0	2	Ukraine	110	99.7
3	Angola	1,684	123.2	3	Sierra Leone	113	72.2
4	Colombia	210	90.7	4	Yemen	107	67.8
5	Costa Rica	232	82.4	5	Panama	119	64.3
6	Cameroon	190	80.4	6	Czech Republic	451	63.4
7	Tanzania	207	70.4	7	Guinea	283	56.6
8	Kenya	329	65.3	8	Sudan	284	56.1
9	Poland	755	55.1	9	Nigeria	2,895	44.1
10	Puerto Rico	485	54.0	10	Iraq	106	36.4
11	Czech Republic	959	50.0	11	Cyprus	104	35.7
12	Slovakia	375	49.9	12	Ethiopia	231	35.4
13	Gabon	165	49.8	13	Oman	164	33.8
14	Hungary	1,831	42.7	14	Russian Federation	625	32.4
15	Nigeria	5,195	41.9	15	New Zealand	643	29.9
16	Bahrain	154	39.9	16	Taiwan Province of China	8,805	24.5
17	Ukraine	299	37.3	17	Senegal	199	23.1
18	China	23,011	35.0	18	Angola	2,932	22.8
19	Qatar	684	34.9	19	Sweden	1,194	20.9
20	Turkey	1,265	34.8	20	Ghana	1,200	20.8

* CAGR is the compounded annual growth rate of exports or imports for the period 2000-2004

Significantly, only two SADC countries, Angola and Tanzania, appeared on the list of either South Africa's fastest growing export or fastest growing import partners. Imports from Angola, which surged in recent times from R68m in 2000 to R1.68bn in 2004, consisted almost entirely of petroleum products. Imports from Tanzania were more diverse than those from Angola; while tanzanite dominated, tobacco, various textile products, nuts, tea, crustaceans and certain other food commodities were also imported from that northern trading partner. One may have expected greater increases in imports from the SADC countries into South Africa over the period, especially with the substantial liberalisation of tariffs offered under the SADC agreement, but slower than expected growth in trade could be attributed to the sluggish economic growth of the other SADC economies over the period. Having said that, Zambia, Mauritius and Zimbabwe, although absent from the top 20 list of trade partners, did increase their exports to South Africa significantly and growth rates in excess of 20% were recorded. Imports from Zambia soared by R690m between 2000-2004, with copper and copper products and to a lesser extent cotton driving that growth. The fact that these three countries were not on the list of South Africa's 20 fastest growing import or export partners served to highlight both the

South African economy's rapid liberalisation process and the country's efforts to diversifyits trading partners from beyond the portfolio of its traditional trade partners. This was especially true for South Africa's import partners. The fact that most SADC countries were not among the fastest growing destinations for South African exports was largely due to the relatively small size of their respective markets in absolute terms.

2.5 Commodity composition of trade

South Africa's profile of trade with the world differed significantly from that of its trade with SADC. As is evident in Table 7, South Africa imported predominantly manufactured goods from the rest of the world and mostly primary goods from SADC. This pattern reflected South Africa's relative comparative advantage in producing manufactured goods compared to the rest of the SADC, and its comparative advantage in producing primary goods with respect to the world. That pattern is typical of a middle-income country's economy.

Table 7: Commodity composition of imports from the world and SADC: 2004

Imports	Share of total imports from world (%)	Share of total imports from SADC (%)
C01: Live animals, animal products	0.7	0.8
C02: Vegetable products	1.6	4.0
C03: Animal or vegetable fats	0.8	0.1
C04: Prepared foodstuffs	2.0	4.9
C05: Mineral products	15.2	41.8
C06: Chemicals	9.1	0.9
C07: Plastics	3.7	0.8
C08: Leather	0.5	0.5
C09: Wood	0.6	2.4
C10: Wood Pulp and Paper	1.6	0.3
C11: Textiles	3.3	15.0
C12: Footwear	0.9	0.3
C13: Stone, Ceramics & Glass	1.2	0.4
C14: Precious metals	1.7	3.6
C15: Base metals	4.2	11.0
C16: Machinery	26.0	6.7
C17: Vehicles	13.4	3.7
C18: Scientific equipment	3.3	1.0
C19: Arms & ammunition	-	-
C20: Miscellaneous manufactures	1.4	1.0
C21: Art & Antiques	0.1	0.1
C22: Unclassified	0.1	0.7
C23: Special classification: Motor Parts	8.5	0.0
H0: Total: all commodities (Rm)	**306,368**	**7,554**

Approximately half of all of South Africa's imports from SADC were mineral products, including the following items: Angolan (and to a lesser extent Mozambican) petroleum products, nickel ores and products from Zimbabwe and Zambian copper products. Textiles were sourced mainly from Zimbabwe, Zambia, Malawi and Mauritius. Most of those were cotton textiles originating from Zimbabwe and Zambia and cotton articles of apparel from Malawi and Mauritius. With regard to the base metals chapter, about 11% of South Africa's imports were sourced from the SADC region. Most of those imports originated from Zimbabwe (nickel) and Zambia (copper). Imports from the rest of the world were concentrated on minerals and petroleum products, which amounted to 15.2% of total imports.

South Africa's relative comparative advantage compared to SADC in the production of manufactured goods was evident in the difference between South Africa's export profile with SADC and with the world. Table 8 captures that difference. Historically, South African exports to the rest of the SADC countries were dominated by manufactured goods, while South African exports to the world were predominantly commodity-based ones. For the most part, that configuration remained true for this review period.

Machinery exports to SADC, for example, represented a much higher proportion (16.9%) of total exports to the region than to the world (8.2%). At the same time, precious metals like platinum, diamonds and gold barely featured as part of South Africa's exports to SADC, yet were the largest export category from South Africa to the rest of the world. Base metals featured much more prominently as exports to the world than they did as exports to the SADC countries. South Africa did, however, export quite a large proportion of minerals and base metals to other SADC countries. The mineral exports were almost entirely made up of refined fuel for aeroplanes and other vehicles, with a value of R3.3bn, and coal exports valued at approximately R350m. South Africa's base metal exports chiefly included iron and steel materials and products.

Most of the growth rates associated with the large export categories were rather muted. Interestingly, although vegetable products were still a relatively small component of the trade between South Africa and the rest of SADC, the category was one of the fastest growing, increasing from R695m to R1.2bn over the period. Nevertheless, caution is required when making such conclusions because growth depends critically upon specific products and should therefore be analysed at a more detailed level.

Table 8: Commodity composition of exports to the world and SADC: 2004

Exports	Share of total exports to the world (%)	Share of total exports to SADC (%)
C01: Live animals, animal products	1.2	1.5
C02: Vegetable products	3.4	4.7
C03: Animal or vegetable fats	0.1	0.7
C04: Prepared foodstuffs	3.5	7.9
C05: Mineral products	11.8	16.5
C06: Chemicals	6.0	12.9
C07: Plastics	1.8	6.8
C08: Leather	0.5	0.1
C09: Wood	1.1	0.6
C10: Wood Pulp and Paper	2.2	4.1
C11: Textiles	1.7	2.1
C12: Footwear	0.1	0.2
C13: Stone, Ceramics & Glass	0.7	1.2
C14: Precious metals	27.4	0.2
C15: Base metals	19.6	14.0
C16: Machinery	8.2	16.9
C17: Vehicles	8.7	6.9
C18: Scientific equipment	0.5	1.4
C19: Arms & ammunition	-	-
C20: Miscellaneous manufactures	1.6	1.5
C21: Art & Antiques	0.0	0.0
C22: Unclassified	0.1	0.0
C23: Special classification: Motor parts	0.0	0.0
H0: Total: all commodities (Rm)	**291,129**	**24,911**

2.5.1 Fastest growing export commodities

South Africa's fastest growing export commodities were predominantly manufactured goods, including textiles, clothing and motor vehicles, as is evident in Table 9. The real depreciation of the rand between 1999-2001 saw South Africa's manufactured exports greowstrongly. More recently, this trend reversed itself, and the manufacturing sector generally and manufactured exports in particular came under significant pressure[2]. Recovery in the clothing and textiles sector was expected to take longer in view of the end of the Multi-Fibre Agreement (MFA), scheduled for December 2006. The MFA allowed countries to protect their clothing and textiles industries through the imposition of quotas in

[2] See, for example, Reserve Bank Quarterly Bulletin no. 236, June 2005, http:www.reservebank.co.za [Last accessed 12/10/07]. More recent Monetary Policy Committee Statements show that manufacturing recovered somewhat in the second quarter of 2005.

the absence of substantial intervention by government[3]. The South African clothing and textiles industry remained highly vulnerable to greater imports from China and other east and southern Asian competitors.

Motor industry exports faired better , largely due to the Motor Industry Development Plan's (MIDP)'s system of import credits for motor industry exports. There are concerns about the legality of this programme in terms of the WTO rules and some uncertainty about the extension of the programme beyond 2012. Consequently, further investment in the sector could be capped and growth in exports could be limited.

Table 9: Fastest growing exports to SADC and the world by HS2 classification: 2000-2004

Fastest growing exports to the world 2000-2004 (HS2)	Annual growth '00-'04 (%)	Value 2004 (R'000)	Fastest growing exports to SADC 2000-2004 (HS2)	Annual growth '00-'04 (%)	Value 2004 (R'000)
H53: Vegetable textile fibres nes, paper yarn, woven fabric	222.5	61	H53: Vegetable textile fibres nes, paper yarn, woven fabric	98.5	2,574
H75: Nickel and articles thereof	59.5	4,629	H10: Cereals	44.8	550,282
H78: Lead and articles thereof	37.2	27	H78: Lead and articles thereof	39.8	22,549
H56: Wadding, felt, nonwovens, yarns, twine, cordage, etc	31.9	175	H66: Umbrellas, walking-sticks, seat-sticks, whips, etc	26.5	5,608
H92: Musical instruments, parts and accessories	31.9	24	H71: Pearls, precious stones, metals, coins, etc	26.4	41,768
H23: Residues, wastes of food industry, animal fodder	22.0	134	H49: Printed books, newspapers, pictures etc	25.7	227,439
H46: Manufactures of plaiting material, basketwork, etc.	21.4	20	H08: Edible fruit, nuts, peel of citrus fruit, melons	19.8	247,842
H49: Printed books, newspapers, pictures etc	19.5	485	H76: Aluminium and articles thereof	18.6	292,238
H69: Ceramic products	19.3	292	H74: Copper and articles thereof	18.0	58,707
H33: Essential oils, perfumes, cosmetics, toileteries	19.1	982	H41: Raw hides and skins (other than furskins) and leather	17.8	2,826
H87: Vehicles other than railway, tramway	18.7	23,326	H88: Aircraft, spacecraft, and parts thereof	17.6	66,854
H07: Edible vegetables and certain roots and tubers	18.4	280	H22: Beverages, spirits and vinegar	16.4	664,538
H37: Photographic or cinematographic goods	18.1	100	H80: Tin and articles thereof	15.5	15,171
H72: Iron and steel	17.7	35,931	H05: Products of animal origin, nes	15.1	10,264
H59: Impregnated, coated or laminated textile fabric	16.3	141	H72: Iron and steel	14.4	1,599,951
H71: Pearls, precious stones, metals, coins, etc	16.0	79,857	H90: Optical, photo, technical, medical, etc apparatus	13.1	332,974
H08: Edible fruit, nuts, peel of citrus fruit, melons	15.9	7,613	H18: Cocoa and cocoa preparations	12.5	54,132
H68: Stone, plaster, cement, asbestos, mica, etc articles	15.9	1,016	H01: Live animals	12.2	49,817
H40: Rubber and articles thereof	15.8	2,054	H07: Edible vegetables and certain roots and tubers	11.9	127,806
H43: Furskins and artificial fur, manufactures thereof	15.7	11	H40: Rubber and articles thereof	11.8	498,487

South Africa's fastest growing exports to the SADC were quite diverse. There were some advanced manufactured goods exported by South Africa but most of the products on the list were commodities or linked to the primary sector and a few processed goods. Potentially, this may indicate that South Africa could be losing its edge in manufacturing advanced goods for the SADC region.

[3] See, for example, Barnes, J. (2005). A strategic assessment of the South African wearing apparel sector., TIPS, Pretoria: http://www.tips.org.za/events/satpp-july2005.asp [Last accessed 12/10/07].

2.5.2 Fastest growing import commodities

Table 10 lists the 20 fastest growing imports into South Africa from the world and from the SADC region at the HS2 level.

Unlike in previous years and contrary to the typical trends, trade in manufactured items did not dominate the top 20 fastest growing categories as it had before. Rather, the remaining 19 fastest growing categories were spread across both primary and secondary industries, with those in the primary sectors spanning both agricultural and mining commodities.

For example, imports of various ores (including nickel and copper ores within the HS26 category) grew by 68.3% per annum over the period. Imports of sugar in the H17 category grew at 41% per annum. Interestingly, a number of agricultural commodities were also included in the list of rapidly growing imports and incorporated live animals, tobacco, cereal, flour, starch and milk preparations and products. Various metals and mining commodities also grew quickly.

Lead and articles thereof (in the H78 category), the H81 products such as other base metals, cement and articles thereof, and H74's products of copper and articles thereof all grew at more than 20% per annum.

A number of semi-processed products also appeared in the list; those articles lent themselves to further processing or were value-added items such as cotton or vegetable textile fibres.

These trends reinforced the idea that the South African manufacturing sector was growing and inputs into this sector were often listed in the fastest growing import categories. However, there was still significant growth in the importation of end-user, final goods, such as vehicles (or HS87 products), which grew by over 25% per annum. Given the size of the HS87 category, at over R25bn, a growth rate in excess of 25% was very significant in terms of the absolute size of the import bill.

The trend of increasing imports was reinforced by a strengthening rand and more recently a growing consumer demand which resulted in greater imports of final goods and greater imports of intermediate goods where the final product is bound for the domestic market.

Table 10: Fastest growing imports and exports to and from the world by HS2 classification, 2000-2004

Fastest growing exports from the world 2000-2004 (HS2)	Annual growth '00-'04 (%)	Value 2004 (R'000)	Fastest growing exports to the world 2000-2004 (HS2)	Annual growth '00-'04 (%)	Value 2004 (R'000)
H89: Ships, boats and other floating structures	134.3	3,228	H53: Vegetable textile fibres nes, woven fabric	222.5	61
H26: Ores, slag and ash	68.3	1,812	H75: Nickel and articles thereof	59.5	4,629
H17: Sugars and sugar confectionery	41.3	518	H78: Lead and articles thereof	37.2	27
H61: Articles of apparel, accessories, knit or crochet	30.6	1,491	H56: Wadding, felt, yarns, twine, cordage, etc	31.9	175
H78: Lead and articles thereof	30.0	128	H92: Musical instruments, parts and accessories	31.9	24
H99: Commodities not elsewhere specified	28.3	365	H23: Residues, wastes, animal fodder	22.0	134
H24: Tobacco and manufactured substitutes	26.8	868	H46: Manufactures of plaiting material, basketwork	21.4	20
H81: Other base metals, cermets, articles thereof	26.7	373	H49: Printed books, newspapers, pictures etc	19.5	485
H62: Articles of apparel, not knit or crochet	26.6	2,133	H69: Ceramic products	19.3	292
H52: Cotton	26.1	1,583	H33: Essential oils, perfumes, cosmetics, toileteries	19.1	982
H88: Aircraft, spacecraft, and parts thereof	25.9	11,919	H87: Vehicles other than railway, tramway	18.7	23,326
H53: Vegetable textile fibres nes, woven fabric	25.1	138	H07: Edible vegetables and certain roots and tubers	18.4	280
H87: Vehicles other than railway, tramway	24.8	25,645	H37: Photographic or cinematographic goods	18.1	100
H74: Copper and articles thereof	23.9	777	H72: Iron and steel	17.7	35,931
H01: Live animals	21.5	95	H59: Impregnated, coated or laminated textile fabric	16.3	141
H15: Animal,vegetable fats and oils	21.4	2,410	H71: Pearls, precious stones, metals, coins, etc	16.0	79,857
H67: Bird skin, feathers, artificial flowers	20.6	85	H08: Edible fruit, nuts, peel of citrus fruit, melons	15.9	7,613
H86: Railway, locomotives, rolling stock, equipment	19.4	212	H68: Stone, plaster, cement, articles	15.9	1,016
H94: Furniture, lighting, signs, prefabricated buildings	18.3	1,994	H40: Rubber and articles thereof	15.8	2,054
H19: Cereal, flour, starch, milk prep and products	18.2	317	H43: Furskins and artificial fur, manufactures thereof	15.7	11

The fastest growing imports from SADC, as listed in Table 11a, was a diverse range of products, but mainly comprised basic processed goods with some agricultural commodities included. The value of imports was too low for any inference to be made about the direction of a dynamic comparative advantage. Therefore, when compared to SADC, South Africa's relative comparative advantage in the production of manufactured goods seemed likely to continue for some time.

As indicated earlier in Table 4, growth in imports from SADC was found to be slightly higher than growth in imports from the world.

Table 11a: Fastest growing imports and exports to and from SADC, 2000-2004

Fastest growing exports from SADC 2000-2004 (HS2)	Annual growth '00-'04 (%)	Value 2004 (R'000)	Fastest growing exports to SADC 2000-2004 (HS2)	Annual growth '00-'04 (%)	Value 2004 (R'000)
H26: Ores, slag and ash	218.1	1,346.4	H10: Cereals	46.3	598
H17: Sugars and sugar confectionery	88.3	85.0	H78: Lead and articles thereof	39.8	23
H71: Natural or cultured pearls	82.2	111.6	H49: Printed books, newspapers, pictures	26.1	237
H27: Mineral fuels, oils and products	82.0	1,756.4	H41: Raw hides and skins and leather	21.8	3
H79: Zinc and articles thereof	60.6	17.7	H66: Umbrellas, sun umbrellas, walking sticks and parts thereof	21.7	6
H60: Knitted or crocheted fabrics	50.3	10.0	H71: Natural or cultured pearls	20.7	38
H16: Preparations of meat. fish, molluscs	44.0	27.2	H08: Edible fruit and nuts; peel of citrus fruit or melons	19.9	243
H52: Cotton	36.2	894.0	H74: Copper and articles thereof	19.3	61
H55: Man-made staple fibres	35.0	12.2	H76: Aluminium and articles thereof	17.9	290
H34: Soap, organic surface-active agents, washing preparations, lubricating preparations	33.7	2.3	H93: Arms and ammunition	16.9	1
H74: Copper and articles thereof	32.1	397.8	H05: Products of animal origin n.e.s.	16.0	12
H19: Preparations of cereals, flour, starch	29.5	9.0	H22: Beverages, spirits and vinegar	15.4	670
H88: Aircraft, spacecraft and parts theeof	28.9	8.7	H80: Tin and articles thereof	15.3	15
H75: Nickel and articles thereof	27.1	166.7	H90: Optical photographic instruments	14.7	381
H89: Ships, boats and floating structures	23.6	1.2	H72: Iron and steel	14.4	1,660
H22: Beverages, spirits and vinegar	23.1	1.5	H18: Cocoa and cocoa preparations	12.7	54
H78: Lead and articles thereof	20.3	1.5	H01: Live animals	11.9	50
H96: Miscellaneous manufactured articles	19.8	3.2	H83: Miscellaneous articles of base metal	10.9	130
H38: Miscellaneous chemical products	17.4	5.5	H33: Essential oils and resinoids	10.7	299
H33: Essential oils and resinoids	16.9	4.2	H16: Preparations of meat, fish	10.2	53

3. Trade intensity with the SADC region

The index of trade intensity measures how large a proportion of a country's trade is with respect to another country and relative to its trade with the rest of the world. An export intensity index with a value greater than one means that the home country exports relatively more to that particular partner (or country or region), as a proportion of its total exports, than other countries (from the rest of the world) do, when compared against world exports to that partner. Similarly, an import intensity index with a value greater than one suggests that the partner country imports more from the home country, as a proportion of its total imports, than it does from the rest of the world.

The South Africa-SADC export intensity and import intensity indices were consistently greater than one. That implied that South Africa and SADC traded more intensively with each other than they did with the rest of the world. This result was not surprising, given, among other things, the geographic proximity of South Africa to the SADC region, the position of South Africa as an economic power house in the region

and South Africa's historical relationship with a number of those countries. It is reasonable to assume that some of this trade may have been brought about by the SADC Trade Protocol's encouragement to lower tariffs and eradicate barriers. To this end, it is important to consider the trade intensity ratio over time to determine if greater trade has been facilitated by the agreement.

Table 11b shows the South Africa-SADC trade intensity ratio along with ratios for a few selected regions for the purpose of comparison.

First, the South Africa-SADC export intensity ratios were particularly significant for all three years under review. An export intensity of 60 for the year 2002, for example, suggested that South Africa exported 60 times more proportionally to the region than it did proportionally to the world for that same year. In other words, if South Africa exported 10.7% of its total exports to the SADC region in 2002, of its total exports to the world only 0.17% (10.7% divided by 60) were destined for the SADC region.

Clearly, therefore, the SADC region, as a destination for South Africa's exports, was important, much more so than compared to most other countries in the world. Most importantly and interestingly, that same ratio declined over the past few years. Despite the implementation of the SADC trade agreement, South Africa exported less and less as a proportion of its total exports to the SADC over time when compared with its exports to the rest of the world. By implication, either other countries had significantly increased their exports to the rest of the SADC, or South Africa had increased its exports to the rest of the world.

Secondly, South Africa had relatively high import intensity with the SADC region. The relationship with the SADC expanded and suggested that South Africa was a growing destination for exports from other SADC countries. This could, potentially, indicate the increasing importance of the SADC Trade Agreement and its effect of providing SADC suppliers with preferential access into South African markets. It could, too, highlight the growing integration between South Africa and the rest of the region's countries, especially as South African companies move into the region, invest and start sourcing their commodities from those countries.

Table 11b: Trade intensity by region, 2002-2004

Intensity by region	2002	2003	2004
SA - SADC import intensity	3.70	4.37	5.35
SA - SADC export intensity	60.0	44.7	40.0
SA - EU import intensity	1.17	1.19	1.15
SA - EU export intensity	0.73	0.65	0.67
SA - East Asia import intensity	1.01	1.08	1.03
SA - East Asia export intensity	0.83	1.05	0.96
SA - NAFTA import intensity	0.79	0.77	0.72
SA - NAFTA export intensity	0.39	0.50	0.52

Generally, the other ratios included in Table 11b show that South Africa imports relatively more from the EU than one might expect, given its total proportion of world trade and total EU exports. South Africa tended to import less from the US, perhaps because it concentrated instead on other markets such as East Asia because of growing trade links there. Its relatively high proportion of total imports from the EU remained stable. Regarding exports, South Africa exported far less to NAFTA, and specifically the US, relative to the size of that region as an importer and NAFTA's significance within the global trade arena.

4. Intra-industry trade

As a middle-income country, South Africa is likely to trade a much larger variety of merchandise, including components and different brands, than other SADC countries. For some of that trade, intra-industry trade would not necessarily occur. Measurements of intra-industry trade depend a great deal on the classification level used and whether commodities are being routed through one country, perhaps repackaged (with some value-added), before being exported to their ultimate consumption point.

South Africa's intra-industry trade with the rest of the world reflected largely the impact of the incentives provided by the MIDP within the economy (Table 12). Although a number of the 15 categories of products at the HS4 level in which South Africa had the highest degree of intra-industry trade were not necessarily related to the motor industry, three categories on that list were linked to that industry and experienced significant trade flows and a high level of intra-industry trade – motor vehicles for the transport of persons (H8703), parts and accessories for motor vehicles (H8708) and new pneumatic tyres (H4011). The MIDP is a government sponsored-programme that aims to encourage local automobile manufacturers to specialise in one or two high-volume models, thus obtaining economies of scale to export competitively. It provides credits for companies exporting motor vehicles and motor vehicle parts towards the importation of motor vehicles and parts. Thus a significant degree of exports and imports of like products occurred, which was relatively beneficial for South Africa.

Among the commodities in Table 12 not related to the MIDP, insecticides and fungicides (H3808) had the largest traded volume recorded at just under R1bn. Most items from this category were imported from the EU and East Asia, whereas most of these exports were destined for SADC, South America and the Caribbean. It is therefore a good example of intra-industry trade, with trade occurring in differentiated products and in different sub-categories. The category 'men's and boys' suits, jackets and trousers' (HS6203) received much attention recently because of the sector's employment creating opportunities, the preferential access given to it by the US under AGOA and the recent increase in imports from China and other Asian economies where labour costs are low. The majority of items in this category were destined for the US.

Table 12: Intra-industry trade with the world: top 20 commodities (HS4)

Rank	HS4 code and description	Imports Rm	Exports Rm	Grubel-Lloyd Index
1	H5402: Synthetic filament yarn(not sewing thread) not retail	419	418	1.00
2	H4408: Veneers and sheets for plywood etc <6mm thick	132	132	1.00
3	H4002: Synthetic rubber	243	242	1.00
4	H3808: Insecticides, fungicides, herbicides etc (retail)	988	976	0.99
5	H8708: Parts and accessories for motor vehicles	3,919	3,858	0.99
6	H3801: Artificial, graphite and preparations	115	113	0.99
7	H6203: Mens or boys suits, jackets, trousers etc not knit	572	561	0.99
8	H4011: New pneumatic tyres, of rubber	1,399	1,372	0.99
9	H6810: Articles of cement, concrete or artificial stone	23	22	0.98
10	H8703: Motor vehicles for transport of persons (except buses)	16,502	17,302	0.98
11	H7228: Bar, rod, angle etc nes, hollow steel drill bars	119	113	0.98
12	H6306: Textile tarpaulin, sail, awning, tent, camping goods	68	65	0.98
13	H0511: Animal products nes, dead animals (non-food)	27	25	0.97
15	H9029: Revolution counters, taximeters, speedometers, etc	70	65	0.96
16	H5806: Narrow woven fabric, except labels, etc, bolducs	38	35	0.96
17	H8454: Converters, ladles, ingot moulds etc, for metallurgy	67	61	0.96
18	H7325: Cast articles, of iron or steel nes	39	35	0.95
19	H7304: Tube or hollow profile, seamless iron/steel not cast	322	354	0.95
20	H8309: Stoppers, caps, lids, crown corks, etc off base metal	67	74	0.95
#	Average weighted trade intensity over all commodities			0.29

South Africa's intra-industry trade with the SADC differed markedly from its IIT with the rest of the world, as is evident in Table 13. While IIT within South Africa largely reflected the impact and influence of the MIDP, and a few cases of possibly imperfectly competitive markets, trade with other SADC countries reflected brand competition – the standard rationale for IIT[4]. Intra-industry trade with the SADC was largely in manufactured commodities where branding competition is strong.

Intra-industry trade with other SADC countries was far smaller in scale relative to the amount of IIT between South Africa and the world[5]. The weighted average of intra-industry trade was also much higher between South Africa and the world (measured at 0.29) than it was

[4] It must be remembered that although a large amount of intra-industry trade between South Africa and the rest of the world in the automotive sector might initially be stimulated by the MIDP, it is, nevertheless, typical of intra-industry trade: different components within the same categories are produced in different countries (with economies of scale being experienced and integration into global value chains occurring) and some form of brand competition is evident.

[5] In the intra-industry trade between South Africa and the world table, only those HS4 commodity groups where more than R50m in value of goods had been traded (in both exports and imports) are shown. In the table that shows South Africa's intra-industry trade with SADC, the cut-off is only R5m due to the fact that very few HS4 commodity groups showed trade in both exports and imports exceeding R50m – or even R10m for that matter.

between South Africa and the SADC (measured at 0.12). That suggested that in most of the more traded categories, there was little in the way of intra-industry trade between South Africa and SADC. That was consistent with the finding that most imports from the SADC region were commodities, often especially those commodities that were specific to that particular country. Nevertheless, in recent years, the IIT index for South Africa and SADC increased as the respective industries started to develop and despite the fact that the index for the world was higher because of the magnitude of the MIDP-affected commodity categories.

These trends, on balance, suggest that there are fewer gains to expanding trade with SADC countries than there are gains to increasing trade with the rest of the world, as it is less likely that South Africa will benefit from economies of scale in the specialisation of the production of fewer brands, and is more likely to see a decline in industries in which it does not have a comparative advantage, with the concomitant greater impact on unemployment.

Finally, moving workers between industries was significantly more difficult than moving workers within industries, hence the costs of trade liberalisation are likely to be higher where there are lower levels of intra-industry trade between two countries.

Table 13: Intra-industry trade with the RoSADC: top 15 commodities (HS4)

Rank	HS4 code and description	Imports Rm	Exports Rm	Grubel-Lloyd Index
1	H7113: Jewellery and parts	6	6	0.98
2	H4001: Natural rubber and gums	13	14	0.98
3	H9401: Seats (except dentist, barber, etc chairs)	31	27	0.92
4	H5209: Woven cotton (>85% cotton >200g/m2)	31	26	0.92
5	H8803: Parts of aircraft, spacecraft, etc	11	8	0.87
6	H7310: Tank, cask, box, container, iron/steel	20	16	0.87
7	H8426: Derricks, cranes	40	30	0.86
8	H9015: Survey, oceanographic, meteorological instruments	13	17	0.85
9	H7314: Iron or steel cloth, grill, fencing and expanded metal	38	27	0.83
10	H4411: Fibreboard of wood or other ligneous materials	11	16	0.82
11	H8480: Moulds for metals, plastic, rubber	16	10	0.81
12	H6403: Footwear with uppers of leather	11	17	0.80
13	H6204: Womens, girls suits, dress, skirt, etc, woven	5	8	0.80
14	H7007: Safety glass (toughened, tempered, laminated)	15	10	0.77
15	H8528: Television receivers, video monitors, projectors	49	30	0.75
16	H6103: Mens, boys suits,jackets,trousers, knit or crochet	9	5	0.71
17	H0901: Coffee, coffee husks	12	23	0.70
18	H7323: Kitchen, household items of iron or steel nes	14	27	0.70
19	H6203: Mens or boys suits, jackets, trousers etc not knit	21	40	0.69
20	H8802: Aircraft, spacecraft, satellites	56	108	0.68
#	Average weighted trade intensity over all commodities			0.12

5. Tariff analysis

South Africa mostly did not levy tariffs on imports from the SADC, as can be seen in both Table 14 and Figure 1. Imports from the world are also included in Table 14 but it must be remembered that imports from the rest of the world have significantly different tariffs levied on them.

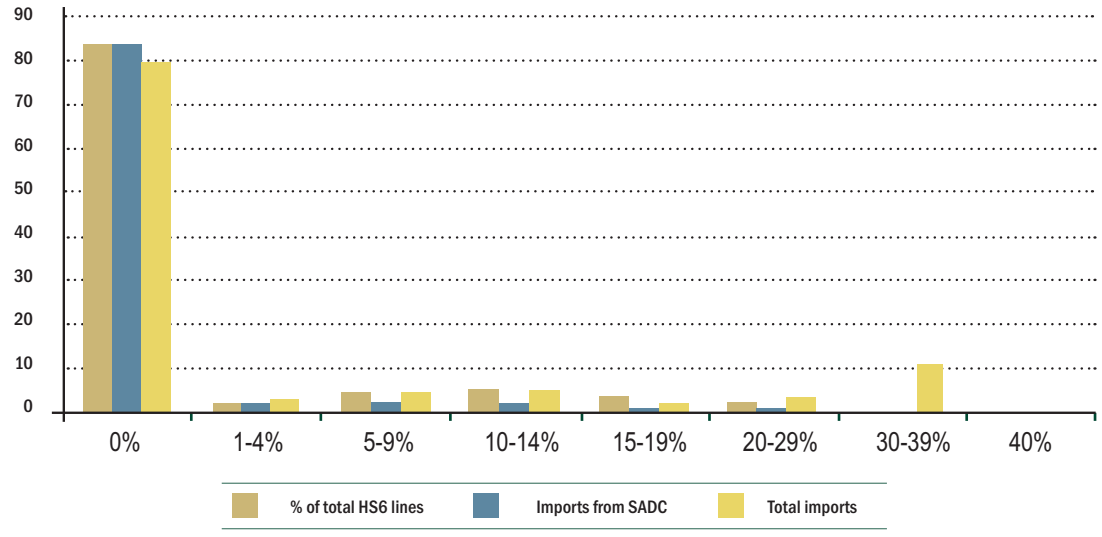
The tariff schedule with the SADC was significantly liberalised over the period. The maximum tariff was 44% but this applied only to one tariff line out of a total of 4,514. In fact, it was the only tariff above 30%.

Table 14: Tariff analysis

Tariff (%)	% of total HS 6 lines	Imports from SADC (%)	Total imports (%)
0	83.6	83.5	79.9
1-4	1.5	1.5	2.8
5-9	4.6	1.3	4.4
10-14	5.6	1.9	5.3
15-19	3.1	0.6	1.3
20-29	1.7	1.1	3.4
30-39	0.0	0.0	10.6
40	0.0	0.0	0.0

Figure 1 illustrates the information from Table 14 in graphical form. Tariffs on SADC imports were low. Imports from the SADC were generally directed towards the cheaper tariff lines. One anomaly was for imports from the rest of the world in the 30%-39% range. These were imports of motor vehicle parts; South Africa imported none of those parts from the SADC.

Figure 1: South African tariffs on imports from SADC



Certain industries had higher tariffs levied against them than others and in Table 15, those industries with the highest tariffs are listed. As one would expect, given the SADC's trading profile with South Africa, basic processed goods had the highest tariffs. The major exception to this rule was the chapter for motor vehicle parts.

Table 15: 10 highest HS2 average tariffs (R), 2003

HS2 code	Description	Average tariff	Imports from SADC	Total imports
98	Special classification of parts for motor vehicles	30.0%	959,825	24,325,026,124
64	Footwear	21.0%	20,649,034	2,041,221,550
24	Tobacco	19.4%	166,107,567	633,715,536
66	Umbrellas, walking-sticks, riding-crops	18.3%	749,447	23,828,565
42	Leather art; saddlery	18.1%	19,633,905	488,693,833
57	Carpets	18.0%	1,334,408	137,033,563
60	Knitted or crocheted fabrics	15.4%	10,029,739	350,079,035
65	Headgear and parts thereof	13.4%	151,600	116,065,366
19	Prep cereal, flour	12.4%	9,304,893	293,298,086
46	Basket ware and wickerwork	11.7%	161,669	37,012,112

It was mainly the labour-intensive, low-technology industries of the SADC that were protected.

6. Summary of trade agreements planned and currently in force

South Africa has a trade agreement with the EU, called the EU-South Africa Trade and Development Co-operation Agreement, and is in the process of negotiating free trade agreements with the European Free Trade Association (EFTA), the US, China, India and Mercosur. South Africa is also a member of the Southern African Customs Union and SADC. South Africa is a beneficiary of the US's AGOA and the Generalised System of Preferences. The country has been a member of the WTO since 1995.

7. Revealed comparative advantage

Revealed comparative advantage 'reveals' those commodity groups in which a country seems to have some sort of comparative advantage by comparing its share in a basket of exports to that of the commodity's world trade in total. Tables 16 and 17 show South Africa's top 15 exports with the highest RCA for trade to the world and to the SADC region, respectively.

Traditionally, South Africa's revealed comparative advantage has always been in primary goods and commodities, both agricultural and mineral. In general, that still seemed to be the case, yet, as is evident in Table 16, a number of those commodities may be considered to be manufactured goods, such as explosives (H36), inorganic chemicals (H28), and railway, locomotives and equipment (H86). Many of the commodity groups at the HS2 level incorporate primary goods, with little value-added, goods that required some additional processing and final

goods. Thus analysis at this level can sometimes be misleading. For example, in the pearls and precious stones (HS71) commodity group, which has the highest RCA, some of the gold and platinum that South Africa exported was actually in a semi-manufactured form. Thus, even though HS71 includes primary commodities, much of the exports in this group had undergone some value-addition. Similarly, nickel articles were exported mostly as plates, sheets and foil, while iron and steel were mostly shipped as either hot-rolled or flat-rolled, or as an alloy.

Nevertheless, the majority of exports in the categories represented in Table 16 had little value-addition.

Table 16: Revealed comparative advantage with respect to the world: top 20 commodities (HS2)

Top 15 exports to the world by RCA				Bottom 15 exports to the world by RCA			
Rank	**Commodity: HS2 chapter**	**US$m**	**RCA**	**Rank**	**Commodity: HS2 chapter**	**US$m**	**RCA**
1	H71: Pearls, precious stones	12,409	12.85	1	H91: Clocks and watches	2	0.01
2	H75: Nickel and articles thereof	784	7.53	2	H50: Silk	0	0.03
3	H36: Explosives, pyrotechnics	81	6.63	3	H95: Toys, games, sports	15	0.04
4	H72: Iron and steel	5,614	4.43	4	H64: Footwear	16	0.05
5	H26: Ores, slag and ash	1,447	4.25	5	H43: Furskins and artificial fur	2	0.08
6	H08: Edible fruite & nuts	1,177	4.24	6	H30: Pharmaceutical products	107	0.09
7	H76: Aluminium and articles thereof	1,522	3.16	7	H42: Articles of leather, travel goods	19	0.10
8	H51: Wool, animal hair, yarn and fabric	200	3.01	8	H67: Bird skin, feathers, artificial flowers	2	0.12
9	H28: Inorganic chemicals	903	2.84	9	H23: Residues, wastes, animal fodder	21	0.12
10	H22: Beverages, spirits	738	2.75	10	H96: Miscellaneous manufactured articles	12	0.13
11	H47: Pulp of wood	391	2.64	11	H90: Optical, technical, medical apparatus	206	0.13
12	H17: Sugars and confectionery	249	2.60	12	H92: Musical instruments	4	0.14
13	H20: Vegetable, fruit & nut preparations	305	2.06	13	H85: Electrical, electronic equipment	946	0.14
14	H86: Railway, locomotives & equipments	142	1.92	14	H60: Knitted or crocheted fabric	10	0.15
15	H41: Raw hides and leather	191	1.51	15	H80: Tin and articles thereof	3	0.16

In Table 17, advanced manufactured goods fell within the second half of the table because these were the commodities in which South Africa had a comparative disadvantage.

The revealed comparative advantage of South African exports to the SADC region is influenced by the nature of the comparison being undertaken. Hence, Table 17 shows the RCA as calculated in comparison to South Africa's total exports plus the RCA as calculated in comparison to the total SADC imports.

Table 17: Revealed comparative advantage with SADC (HS2))

Top 15 exports to SADC by RCA (compared to SADC imports)				Top 15 exports to SADC by RCA (compared to SA exports)			
Rank	**Commodity: HS2 chapter**	**US$m**	**RCA**	**Rank**	**Commodity: HS2 chapter**	**US$m**	**RCA**
1	H80: Tin and articles thereof	2,370	189.06	1	H78: Lead and articles thereof	3,604	9.70
2	H38: Miscellaneous chemical products	97,619	86.80	2	H80: Tin and articles thereof	2,370	9.63
3	H29: Organic chemicals	31,513	66.55	3	H50: Silk	279	9.57
4	H35: Modified starches, glues, enzymes	6,589	49.22	4	H34: Soaps, lubricants, waxes, candles	63,923	8.95
5	H59: Impregnated, coated textile fabric	7,936	34.02	5	H15: Animal, vegetable fats and oils	26,720	8.77
6	H40: Rubber and articles thereof	77,744	31.07	6	H04: Dairy products, eggs, honey	29,586	8.40
7	H79: Zinc and articles thereof	5,267	29.46	7	H10: Cereals	86,859	8.24
8	H45 Cork and articles of cork	166	24.24	8	H19 Cereal, flour, starch, milk products	17,060	7.80
9	H72: Iron and steel	249,440	22.65	9	H31: Fertilizers	92,233	7.39
10	H82: Tools, implements of base metal	23,067	21.68	10	H11: Milling products, malt	16,483	6.67
11	H36: Explosives, pyrotechnics, matches	29,305	20.38	11	H21 Miscellaneous edible preparations	39,638	6.15
12	H73: Articles of iron or steel	185,123	19.64	12	H01: Live animals	7,704	5.69
13	H83: Misc articles of base metal	19,814	18.71	13	H49: Printed books, newspapers etc	36,688	5.50
14	H13, Lac, gums, resins and extracts nes	1,154	18.08	14	H07: Edible vegetables, roots and tubers	19,774	5.34
15	H66: Umbrellas, walking-sticks, whips etc	886	17.65	15	H96: Miscellaneous manufactured articles	5,457	5.29
Bottom 10 exports to SADC by RCA (compared to SADC imports)				**Bottom 10 exports to SADC by RCA (compared to SA exports)**			
1	H81: Other base metals, articles thereof	188	0.00	1	H75: Nickel and articles thereof	134	0.00
2	H71: Pearls, precious stones	6,650	0.1	2	H71: Pearls, precious stones	6,650	0.01
3	H61: Articles of apparel, knit or crochet	7,299	0.02	3	H26: Ores, slag and ash	2,072	0.02
4	H74: Copper and articles thereof	9,123	0.03	4	H41: Raw hides and skins and leather	449	0.03
5	H62: Articles of apparel, not knit or crochet	9,823	0.04	5	H81: Other base metals, articles thereof	188	0.03
6	H41: Raw hides and skins and leather	449	0.06	6	H97: Works of art and antiques	201	0.12
7	H01: Clocks and watches	609	0.10	7	H47 Pulp of wood, fibrous cellulosic	4,616	0.14
8	H52: Cotton	13,117	0.10	8	H51: Wool animal hair and fabric thereof	2,719	0.16
9	H47: Pulp of wood, fibrous cellulosic	4,616	0.12	9	H03: Fish, crustaceans, aquatic invertebra	11,124	0.33
10	H26: Ores, slag and ash	2,072	0.13	10	H43: Furskins and artificial fur	53	0.34

Compared to imports from the rest of SADC, those South African exports to the SADC region with a 'revealed' comparative advantage included tin and articles thereof, miscellaneous chemical products, treated fabric, rubber articles, zinc articles, cork articles, and iron and steel.

In terms of South African exports to SADC, the mix was quite different but did not include many commodities above basic manufactures. Many of the commodities exported there were related to food items. That trend was shaped by either the presence of South African food retailers in the area or by the distribution networks organised with other non-South African retailers for South African branded products. For example, South African products with revealed comparative advantage

that appeared on the shelves of supermarkets in the SADC region were silk, soaps, animal and vegetable fats and oils (sunflower oil and margarine), dairy products and eggs, cereals and bakery products, printed books, and edible preparations such as condiments, sauces and yeasts. Even manufactures in the H96 category, comprised of miscellaneous manufactures such as brooms, mops and pens, may have more to do with the strong presence of retailers than with anything else.

8. Revealed trade barriers

Revelaed trade barriers refers to the question of which commodity groups a country would export if there were no tariff barriers. RTBs also ask the question whether the imports of a particular commodity from, say, country A, are more or less important compared to total imports of country B of that commodity from all sources. There appeared to be relatively low trade barriers in South Africa for agricultural commodities and certain kinds of manufactured goods produced by other SADC countries. As shown in Table 18, South African imports of these commodities from SADC, as a proportion of total imports from SADC, was significantly higher than for South African imports of the same commodities from the world, as a proportion of total imports from the world. Comparative advantage therefore existed for those SADC countries producing primary goods, a trend that was in line with trade patterns seen in economies with lower levels of development.

Table 18: Revealed trade barriers with respect to the SADC: top 20 commodities (HS2)

Rank	HS2 Commodity	US$'000	RTB
1	H01: Live animals	51,371	5.017586
2	H20: Vegetable, fruit & nut preparations	126,354	4.264296
3	H36: Explosives, pyrotechnics, matches, pyrophorics, etc	53,573	4.178623
4	H04: Dairy products, eggs, honey, edible animal product nes	210,995	3.899194
5	H79: Zinc and articles thereof	16,345	3.500162
6	H07: Edible vegetables and certain roots and tubers	120,766	3.381736
7	H17: Sugars and sugar confectionery	202,574	3.296273
8	H08: Edible fruit, nuts, peel of citrus fruit, melons	94,020	3.227385
9	H34: Soaps, lubricants, waxes, candles, modelling pastes	234,851	3.121122
10	H19: Cereal, flour, starch, milk preparations and products	118,189	2.945526
11	H25: Salt, sulphur, earth, stone, plaster, lime and cement	314,257	2.720467
12	H73: Articles of iron or steel	1,023,656	2.636674
13	H11: Milling products, malt, starches, inulin, wheat gluten	154,597	2.581214
14	H21: Miscellaneous edible preparations	212,996	2.537335
15	H72: Iron and steel	841,324	2.416204
16	H06: Live trees, plants, bulbs, roots, cut flowers etc	11,742	2.410673
17	H16: Meat, fish and seafood food preparations nes	79,111	2.164416
18	H31: Fertilizers	495,539	2.129379
19	H86: Railway, tramway locomotives, rolling stock, equipment	56,349	2.089077
20	H33: Essential oils, perfumes, cosmetics, toileteries	399,559	2.083065

A substantial number of goods, however, were relatively under-traded. Many of these goods reflect the fact that the other SADC countries simply had no or relatively few firms producing the commodities concerned. Examples include inorganic chemicals and aluminium.

In other cases, the low levels of trade suggested that South Africa had significant trade barriers in place for those products from SADC. Evident in the tariff analysis offered earlier was the fact that a substantial proportion of imports from the SADC faced tariffs in excess of 20% in the South African market. These tariff bands were imposed mostly on motor vehicles, clothing and textiles. It was expected that other SADC countries would have a comparative advantage in the production of labour-intensive goods, at least relative to South Africa, and hence in the clothing and textiles sector. It could well be the case that these revealed tariff barriers highlight that South Africa has not done enough to give other SADC countries differential treatment by liberalising the tariffs on these products.

9. Conclusion

South Africa is an economic power house, not only in SADC but in the whole of Africa. Not only is South Africa's economy large in terms of size, 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.

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.

The picture for South Africa's trade balance in the period 2000-2004 was mixed. At the beginning of the review period, the country recorded a trade surplus of more than R20bn. However, over the last two years

under review, the trade deficit widened from R2.8bn in 2003 to R15.2bn in 2004. A number of factors could account for this large and growing deficit, including a general expansion in South Africa's economic activities. At the same time, an aggressive approach to liberalising trade was undertaken by the South African government. Monetary policy, too, contributed to spurring the demand for imports, as interest rates were kept relatively low for much of the review period.

South Africa enjoyed a trade surplus with the rest of SADC during the review period, with trade peaking at R24.1bn in 2002. The region, though, made up slightly more that 10% of South Africa's total trade. Imports from the SADC were 2.5% of South Africa's total imports while exports had an 8.5% share of total exports. 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.

In terms of South Africa and the rest of SADC the following should be noted. First, the national structure of production is shaping the pattern of trade in the region though the level of development prevailing in countries surrounding South Africa and the state of infrastructure in these countries curtail exports. Mixed effects in terms of the future pattern/direction of trade can be expected on the one hand, a lowering of the miscellaneous barriers against the movement of goods and against trade will increase trade. On the other, increasing FDI could lower trade as capacity develops outside of South Africa, 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 (import-substitution FDI).

Second, the data analysed in this report suggest 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 South Africa developing RCA around its exports to the region; in other words, we can identify through the data the importance of services in driving the expansion of trade in goods.

Going forward, it would seem that South Africa will continue to import more than it exports. The country's supply-side constraints, which include the inability to produce capital goods, are likely to maintain this status quo. Furthermore, as household income rises and barriers to trade continue to be lifted, it is anticipated that South Africa will continue to register successive trade deficits. With the lifting of barriers to trade, producers will benefit and South Africa will become an attractive destination for foreign direct investments.

10. References

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