Swaziland

1. Introduction

Swaziland, a landlocked country of 17,000 square kilometres (or approximately 10,000 square miles), has a population of just over a million people. The Republic of South Africa spans its northern, western and southern borders while Mozambique lies to its northeast. Swaziland is the smallest country in the southern hemisphere yet it has altitudes ranging from 120 metres above sea level in the east to almost 2,000 metres above sea level in the mountainous regions of the northwest.

In 1903, Swaziland was declared a Crown Protectorate by the British yet its status changed, a few years later, when it became a High Commission Territory under British colonial administration. That dispensation was inherited by King Sobhuza II when he ascended to the Swazi royal throne in 1921.

The year 1968 was a turning point because Swaziland gained full independence then and hoisted its own flag for the first time. King Sobhuza II, whose 61-year monarchical reign became one of the longest in history, ruled the country until 1982. Presently, King Mswati III is the reigning monarch. In Swaziland, executive power is vested in the King, who rules in consultation with the Cabinet, the bicameral parliament and the Swazi National Council of traditional leaders. The legal system operates on two parallel tracks: constitutional courts interpret and administer modified Roman-Dutch Law, while national courts administer Swazi Law and Custom.

In 1997, the country developed a key developmental document, the National Development Strategy, which stated that by the year 2022, the Kingdom of Swaziland would be in the top 10% of the group of medium human development countries (UNHDI, 2007/2008), and would have sustainable economic development, social justice and political stability.

Of great significance to Swaziland is the relationship with South Africa, its biggest trading partner. Swaziland's membership of the Southern African Customs Union (SACU) and the Common Monetary Area (CMA) are also important determinants of Swazi trade patterns. At least half of the country's total revenue is generated from SACU receipts. Although this association has its advantages, such membership prevents Swaziland from developing its own monetary and trade policies, thus making it virtually impossible for the country to either protect potential domestic industries or follow an independent exchange rate policy. Swaziland is also a member of a number of other trade agreements, such as COMESA and SADC, which provide Swazi products

with preferential access to a market consisting of more than 320 million people. Furthermore, Swaziland's products enjoy preferential access to European Union (EU) markets while the African Growth and Opportunity Act (AGOA) has opened up free duty access for certain of its products to the United States (US) market. Under the Generalized System of Preferences (GSP), Swaziland's exports have access to markets in countries such as the US, Australia, Japan and Canada.

Swaziland's key export is sugar, while machinery is its main import. Some of the main commodities exported by Swaziland's exporters include edible concentrates, wood pulp and textiles and apparel. With limited domestic markets available to its producers, exports play a key role in determining Swaziland's economic situation. Approximately 70% of imports are sourced from South Africa and more than 90% of exports are destined for that market.

Since 1996, Swaziland has, with one exception, had a single digit rate of inflation. The exception was in 2002 when inflationary increases were out of all proportion because of a sharp downward movement in the value of the rand-lilangeni exchange rate. The international price of crude oil also increased on average compared to the previous year. Given that the country has no monetary policy independence, due to her membership to the Common Monetary Area (CMA), the single digit inflation rate witnessed over the years could be attributable to the tight monetary policy stance of the South African Reserve Bank. Although Swaziland's interest rates are kept below those prevailing in South Africa, the Central Bank of Swaziland maintains a policy of aligning its own rates with those of South Africa.

2. Economy

Swaziland, because it is a small, open economy, has been vulnerable to external shocks, as was the case in 2004 when such shocks affected adversely its investment and development projects. As is shown in Table 1, GDP growth declined from 2.9% in 2003 to 2.1% in 2004 and was attributable to the continued decline in investment and development projects experienced in previous years.

In spite of an improvement in total foreign direct investment (FDI), in 2004, there was a noticeable slowdown in the FDI which both Tibiyo TakaNgwane and the Swaziland Investment Promotion Authority (SIPA) were able to attract. Those organisations were created to support government's efforts to attract and foster viable investment projects. In 2004, only three companies set up shop in the country through SIPA. Employment opportunities created by these new investments were estimated at almost 1,000 jobs. In the same year, nine firms shut down, representing a disinvestment of around E130m and a loss of 3,600

Table 1: Macroeconomic indicators: 2000-2004

	2000	2001	2002	2003	2004
Gross domestic product	2.0	1.8	3.6	2.9	2.1
GDP per capita growth	11.5	9.7	11.9	12.3	-0.07
Unemployment	31.3	31.3	30.0	29.0	-
Inflation	7.3	7.5	11.7	7.4	3.4
Savings to GDP ratio	14.5	24.4	17.1	10.5	16.8
Budget deficit to GDP ratio	1.3	6.8	4.6	2.9	4.5
Current account deficit to GDP ratio	-5.4	-4.5	4.9	6.2	4.6
Net FDI flows	74,154,720	46,017,272	88,556,536	-71,370,248	64,860,208
US$ exchange rate	6.9	8.6	10.5	7.6	6.5

Source: Central Statistical Office and the Central Bank of Swaziland

jobs. However this disinvestment was outweighed by the FDI[1] inflows, including inflows from the three companies mentioned earlier. The micro-economy seems to have the potential to stimulate the revitalisation and development of the Swazi economy. Consequently, development of small and medium enterprises (SMEs) remains vital to Swaziland's economic growth and employment creation. However, the performance of SMEs has, in recent years, been hindered by several challenges including licensing, access to finance and the competition posed by the importation of locally available products.

Employment data for 2004 indicated a contraction in formal employment. The Swazi labour market continues to be characterised by excess supply because current economic activities have failed to generate the necessary job opportunities. Private sector employment is estimated to have contracted by 3%, falling from 64,700 jobs in 2003 to 62,600 jobs in 2004. The decline in job opportunities was a consequence of the loss of competitiveness of Swazi products in world markets and was linked to the stronger performance of the lilangeni against the currencies of the country's major trading partners, and in particular the United States dollar (US$). That resulted in the closure of a number of Asian textile companies in the review period. Employment opportunities were further undermined by limited investment in other labour-intensive industries. In addition, existing companies continued to shed some workers or to outsource non-core activities to other firms as part of their efforts to remain competitive and profitable.

Price developments, as measured by the consumer price index (CPI), reveal that inflationary pressures eased in 2004. Inflation averaged at 3.4% over the year, denoting a decrease of 4 % from the 7.4% average rate in 2003. The appreciation of the lilangeni against major

1 It should be noted that the stock of FDI consists of four components: equity capital; reinvested earnings; long-term capital; and, short-term capital.

trading currencies, coupled with lower imported inflation, emanating mainly from South Africa, contributed to the slowdown in the prices of goods and services. A notable decrease in the price index for food also contributed to the downward trend in inflation during 2004.

Consumer inflation, in tandem with falling headline inflation rates in South Africa, declined throughout 2004.

A year-on-year comparison reveals that gross official reserves decelerated by 14.5% in rand-lilangeni terms and by 5.2% in Special Drawing Rights (SDR's). The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries (IMF, 2008). Reserves have declined consistently from SDR260.1m in 2001 to SDR167.9m by December 2004. The average exchange rate of the rand-lilangeni strengthened from R7.56 in 2003 to R6.45 in 2004.

Within the CMA, inflationary pressures remained subdued while monetary policy was stable for the better part of the review period and provided the necessary stimulus to sluggish domestic economic activity. Despite the persistent strength of the exchange value of the lilangeni-rand, the country's net foreign assets picked up from the lows experienced in 2004. The notable recovery in the net foreign assets was underpinned by an improvement in customs revenue inflows and an implementation of corrective strategies to mitigate depletion of the reserves.

While globally most central banks tightened their monetary policies, through rapid increases in their policy indication rates during 2004 and early 2005, the opposite occurred within the CMA region and in Swaziland in particular. The local policy (discount) rate remained steady at 8% from December 2003 onwards then decelerated, by 50 basis points, to 7.5% in August 2004 and was maintained at that level up until the end of March 2005. Swaziland's monetary policy stance was supported largely by a persistently lower inflation environment and efforts geared at stimulating the current lacklustre nature of domestic economic growth. Average savings deposit rates, for example, fell by a considerably higher margin of 73 basis points to reach 3.03% over the same period.

This said, Swaziland's 2004/05 budget was drawn under immensely difficult circumstances. At the time, major challenges to the country's economic growth and development were posed by the HIV/AIDS pandemic, the low rate of growth in net inflows of FDI, the fluctuations in international commodity prices and unfavourable weather conditions. A combination of these factors exacerbated unemployment, income inequality and poverty in Swaziland. The budget projected a deficit of E221m, or 1.4% of GDP, which represents a phenomenal turnaround from the estimated deficit of 5.8% of GDP recorded in 2003/04. As shown in Table 1, the actual outturn for 2004/05 was 4.5% while in

2003/04, the reduced deficit actual outturn was 2.9%. Since 1999-2000, government's fiscal balance shifted into a pattern of persistent and increasing deficits because growth in expenditure exceeded growth in revenue. That was largely due to the ballooning size of the wage bill for civil servants, continuous subventions to non-performing public enterprises and uncontrolled expenditure involved in the procurement of goods and services. Government, therefore, committed itself to lowering the overall fiscal deficit over the medium term in order to achieve a balanced budget within a two to three years period. A Medium Term Expenditure Framework (MTEF), which forms part of the fiscal restructuring project, was subsequently adopted.

3. Structure and patterns of trade

For purposes of this review, certain parameters need to be clearly defined so that the data presented herewith are discussed concisely and clearly. Attention is drawn to the exclusion of two important regional trading blocks in which Swaziland is an important player: the SACU, which operates as a free trade area, and the COMESA, which has granted Swaziland derogated, preferential treatment. This study has assumed that the two blocks can be subsumed within the SADC because the countries trading with Swaziland have membership either in SACU or in COMESA while also being members of the SADC. However, this assumption introduces a certain degree of bias in the data. The reason for this is that Swaziland's major trading partner is South Africa and both countries trade under the FTA which they ascribe to as members of SACU. The exclusion of intra-SACU trade in the data, therefore, suggests inaccurately that all trading arrangements between Swaziland and other members occur under the auspices of the SADC Trade Protocol, and not between SACU members.

3.1 Trade balance

In 2004, Swaziland's overall trade balance was negatively impacted by a fall in the growth rate of exports due to the closure of some major exporting firms. Data show a significantly lower growth rate that resulted in a decrease in the trade balance from its 2003 level of E2,123-m to a mere E20-m in 2004. Overall, exports in 2004 were affected by a predominantly stronger exchange rate. Although exports declined to E11,574-m in 2004, they had been growing at an annual rate of more than 16% for the previous five years. This downturn was as a result of some companies having lost their traditional markets during 2004, while others, mostly in the textile sector, became economically unviable as a result of dwindling profit margins. Some companies, however, especially those in the beverage sector, counteracted the negative impact of the rand-lilangeni appreciation by building competitiveness in their international markets and subsequently increasing their sales.

Table 2: Swaziland's trade balance with the world, with South Africa and with the rest of SADC (RoSADC): 2000-2004 (E m)

	2000	2001	2002	2003	2004	% growth rate (2000-2004)
Exports	6,220	8,846	11,994	12,851	11,574	16.79
Imports	7,668	10,308	10,495	10,728	11,554	10.79
Trade balance	-1,447	-1,462	1,500	2,123	20	
Exports to South Africa	3,712	6,371	7,623	8,807	7,733	20.14
Imports from South Africa	7,143	8,827	8,962	9,331	10,486	10
Trade balance	-3,431	-2,456	-1.339	-524	-2,753	
Exports to SADC	4,777	7,371	9,600	10,011	8,728	16.26
Imports from SADC	7,189	8,883	9,021	9,403	10,567	10.1
Trade balance with SADC	-2,411	-1,512	579	608	-1,839	

Traditionally, South African products have dominated Swaziland's import market, even exceeding the value of exports from Swaziland to that country. The country's small, volatile economy renders it vulnerable to and dependent on South Africa. Swaziland's imports have continued to rise, reaching levels of E10,468m in 2004 and improving from E9,331m for 2003.

Exports to the SADC were volatile during the period under review. From 2000 onwards, there was a steady increase, from a meagre E4,777m to E10,011m in 2003, in Swaziland's SADC export market. The fall in the South African export market significantly affected the overall SADC regional market precisely because South Africa is Swaziland's major trading partner in the SADC region.

Swaziland's exports are mostly unfinished products which have to be sent to South Africa for value adding prior to exportation to other markets. Imports, on the other hand, are mainly machinery and equipment required by the manufacturing and construction sectors.

3.2 Exports and imports by region

Table 3 indicates that Swaziland trades mostly with SADC member countries. This is because of the country's close proximity to South Africa, which has a much larger economy in comparison to that of Swaziland, and because of the liberal trade arrangements that exist between the two countries through the SACU.

To a lesser extent, trade is also influenced by the trade agreements and the preferential access to markets that Swaziland enjoys within the SADC. It must be noted that Swaziland, a landlocked country, imports most of its commodities from its neighbours. The SACU also concluded free trade negotiations with certain countries in MERCUSOR, the regional trading group formed by Brazil, Argentina, Uruguay and Paraguay, during the review year. These initiatives offer favourable trade relations to Swaziland, as indicated in Table 3, although much of its trade involves the export of textile products under the AGOA facility.

Table 3. Exports and imports by region: 2004

Region	Exports value (Em)	Exports as a share of total (%)	Imports Value (E m)	Imports as a share of total (%)
World	11,574	100.00	11,554	100.00
SADC	8,728	75.41	10,567	91.46
North American Free Trade Agreement (NAFTA)	1,179	10.18	44	0.38
Oceania	617	5.33	4	0.03
Rest of Africa	561	4.85	6	0.05
Eastern Asia	250	2.16	176	1.52
European Union	203	1.75	156	1.35
Rest of Asia	27	0.23	596	5.16
Rest of Europe	7	0.06	0	0.00
Rest of Americas	3	0.02	1	0.01
Other regions	1	0.00	3	0.03
MERCOSUR	0	0.00	3	0.03

Swazi sugar, beef and beef products are exported to the European Union (EU) and that particular regional market has been affected by many factors including climatic conditions and Sanitary and Phyto-Sanitary (SPS) requirements. With regards to beef, there is also the problem of farmers' reluctance to sell their cattle to the abattoir. As a result, Swaziland failed persistently to meet its EU quota of 3,363 tonnes of boneless beef. Although a net exporter of beef and beef products, Swaziland continued to import cattle for breeding, fattening and immediate slaughter. Low productivity, due to undernourished and overgrazed herds, exacerbated by the prevalence of dry weather conditions, created that import trend.

The sugar industry also experienced several challenges within the country's preferential markets. Sugar production fell by 4.9% to 597,568 tonnes during the 2004/05 cropping season, compared to 628,191 tonnes recorded in the previous season. Export volumes increased by 3.8% to 295,393 tonnes in 2004/05, rising from 284,652 tonnes exported during the previous season. The increase in export volumes was a result of a 6,000 tonnes shipment to Slovenia during the season under review. After meeting its preferential quota to the EU, the US and the SACU regional market, the industry sold an additional 56,050 and 46,640 tonnes to COMESA and the world markets, respectively.

Export receipts declined slightly by 0.1%, dropping to E758.4m from E762.2m in the 2003/04 season. The low growth in export earnings was influenced mainly by a stronger lilangeni / Rand exchange rate relative to the world's leading currencies. Appreciation occurred despite an increase, by an average of nine cents per pound, in the world sugar prices during 2003-2004. As sugar demand increased, major sugar producing countries, like India, became net importers of sugar, while

Brazil's decision to switch to ethanol production, due to high oil prices, created a shortfall in supply. The local industry continued to dispatch its sugar exports through the Maputo port in Mozambique because of the geographical proximity of the two countries.

Export receipts declined slightly by 0.1% , dropping to E758.4m from E762.2m in the 2003/04 season. The low growth in export earnings was influenced mainly by a stronger lilangeni / Rand exchange rate relative to the world's leading currencies. Appreciation occurred despite an increase, by an average of nine cents per pound , in the world sugar prices during 2003-2004. As sugar demand increased, major sugar producing countries, like India, became net importers of sugar, while Brazil's decision to switch to ethanol production, due to high oil prices, created a shortfall in supply. The local industry continued to dispatch its sugar exports through the Maputo port in Mozambique because of the geographical proximity of the two countries.

3.3 Top 10 sources of imports and destinations for exports

Overwhelmingly, Swaziland trades with South Africa in the SADC region, followed by Mozambique, on a much lower scale. South Africa has a 66.81% share of its total exports market and a staggering 90.76% share of its total imports. The reason for the overwhelming trade with South Africa is the fact that it is part of a customs union with Swaziland and produces many of the commodities that Swaziland demands. A further contributing factor is that as a land-locked country many goods that are destined for Swaziland would need to be shipped to South Africa first and then re-exported to Swaziland. Given that there are no records for such transactions (as trade is measured in terms of the SACU as a whole and not differentiated by country) the SACU set up a revenue sharing formula to compensate members such as Swaziland for the loss of tariff revenue occurred from the goods not entering that country first. This has become an important component of total government revenue for SACU members such as Swaziland.

One would expect that, in time, given the progress being made on roads and shipping facilities in Mozambique, and because of the fact that Mozambique is a member of the SADC, trade between Swaziland and Mozambique would have increased significantly. Mbabane is, after all, in very close proximity to Maputo. Currently, as is evident in Table 4, Mozambique ranks third in Swaziland's top 10 exports destinations and fifth for its most important source of imports. However, due to the dominance of South Africa, its share is only 4.63% of exports and less than a percent of its total imports market. Again, there could be issues associated with recording trade which may be responsible for inflating the figures of exports to Mozambique. Swaziland exports whiskeys and alcoholic beverages to Mozambique yet these are either

Table 4: Top 10 sources of imports and destinations for exports: 2004

	Exports			Imports		
	Country	Value (Em)	Share of total (%)	Country	Value (Em)	Share of total (%)
1	South Africa	7,733	66.81	South Africa	10,486	90.76
2	United States	1,171	10.12	Taiwan	351	3.04
3	Mozambique	535	4.63	Hong Kong	134	1.16
4	New Zealand	351	3.03	China	122	1.06
5	Kenya	350	3.03	Mozambique	75	0.65
6	Australia	266	2.30	Japan	53	0.46
7	China	214	1.85	United States	38	0.33
8	United Kingdom	114	0.98	Italy	33	0.28
9	Tanzania	111	0.96	Germany	30	0.26
10	Angola	107	0.93	Singapore	29	0.25

re-exports or products, produced by other countries, in transit through the Swazi market. No production of whiskeys, gins and vodkas occurs in Swaziland.

Imports from Taiwan, Hong Kong and China are essentially related to the fledgling textile industry in Swaziland, although, more recently, these trade flows have been reversed because of the closure of about 30 textile companies within the local industry. Initially, there was a relatively large consignment of sewing and cutting machinery imported from these Asian countries into Swaziland. Exports to the US, which extends preferential treatment to Swaziland, among others, under the AGOA, were comprised mostly of clothing products, both hand-knitted and machine-made. The small volume of imports flowing in the opposite direction, from the US to Swaziland, included cash registers, harvesting machinery and their parts thereof, and articles of iron and steel. Other products imported from the US included long-pile fabrics, used in the textile industry, and footwear.

3.4 Fastest growing import and export partners

During the review period, imports from Taiwan grew significantly, and as is shown in Table 5, increased by 57.32%. It was an increase which was considerably larger than the increased growth associated with South African imports. The trend was a result of machinery and input material sourced from Taiwan for use in textile production in Swaziland. Imports from Asia into Swaziland most commonly included cotton products, such as yarn, destined for the local textile and garment industry and for preferential exportation to the US under the AGOA facility. The local textile and garment industry has been confined to cut-make-and-trim (CMT) production activities. Input material imported into Swaziland also included fabrics and buttons, labels and badges of textiles. Swaziland also sourced cotton yarn waste from Hong Kong.

Table 5: Fastest growing trade partners:2000-2004

Imports			Exports		
Country	Value 2004 (Em)	Average growth 2000-2004 (%)	Country	Value 2004 (Em)	Average growth 2000-2004 (%)
Taiwan	351	57.32	New Zealand	351	936.90
South Africa	10,486	8.58	China	214	195.75
Hong Kong	134	3.98	Australia	266	81.68
			Kenya	350	79.51
			United States	1,171	28.91
			South Africa	7,733	19.62
			Mozambique	535	8.78

Exports to China grew by 195.75% between 2000-2004, and involved several products categories. The traditional markets for Swaziland's pulp continued to be located in the Far-East, with 23% of the country's pulp being supplied to the new market in mainland China. Drink concentrates were a mainstay of Swaziland's total exports and they accounted for 30% to 40% of all Swazi exports to the world. CONCO Limited, a wholly owned subsidiary of the Coca Cola Company, which is based in Atlanta, USA, is the firm that manufactured these concentrates. At least 78% of CONCO's imported inputs were sourced from Europe and the Americas, with 20% sourced from South Africa and only 2%, including sugar and packaging, sourced locally in Swaziland. China and New Zealand were some of the main markets for Swaziland's drink concentrate products. Large quantities of citrus products, consisting of pineapples and oranges, were also exported to New Zealand.

The US imported garments, jerseys, baby's clothing and other textile products from Swaziland. On the other hand, the food aid received from the World Food Programme (WFP) had an impact on Swaziland's trade pattern and was reflected, in the data, as imports from the US.

3.5 Commodity composition of trade

Section I imports, as defined according to the WTO framework, dominated the share of total imports sourced from the RoSADC by almost a third of the total share of imports for that region. Sections II and III imports, with 15% and 17.59% shares, respectively, had significantly lower shares than Section I imports. These three sections incorporate agricultural or consumption products, a finding which is consistent with the fact that Swaziland's agricultural output was affected by the drought conditions which were experienced for almost two years. Apart from South Africa, Swaziland traded in significant volumes with Mozambique and from which it imported predominantly agricultural products. Section II imports from Mozambique included crustaceans (equivalent to

Table 6: Commodity composition of imports: 2004

Product	Share of total imports from world (%)	Share of total imports from South Africa (%)	Share of total imports from RoSADC (%)
C01: Animals (live) and animal products; Section I	4.63	4.84	27.34
C02: Vegetable products; Section II	6.43	6.84	15.00
C03: Fats and oils (animal or vegetable); Section III	1.16	1.14	17.59
C04: Prepared foodstuffs, beverages and tobacco; Section IV	8.15	8.82	0.94
C05: Mineral products; Section V	10.48	11.50	3.49
C06: Chemical products; Section VI	12.84	13.63	4.26
C07: Plastics and rubber; Section VII	5.20	5.36	1.84
C08: Leather products; Section VIII	0.17	0.18	0.06
C09: Wood products; Section IX	1.16	1.28	0.07
C10: Paper products; Section X	4.84	5.12	0.49
C11: Textile products; Section XI	9.50	4.87	8.11
C12: Footwear, headgear and umbrellas; Section XII	1.30	1.43	0.00
C13: Stone, cement;and glass products; Section XIII	1.21	1.33	0.01
C14: Pearls and precious stones; Section XIV	0.06	0.07	0.00
C15: Metal products; Section XV	6.71	7.18	4.39
C16: Machinery; Section XVI	12.26	12.10	13.47
C17: Vehicles, aircraft and vessels; Section XVII	9.42	9.92	1.29
C18: Photographic instruments, clocks and musical instruments; Section XVIII	0.70	0.75	0.25
C19: Arms and ammunition; Section XIX	0.02	0.02	0.11
C20: Furniture, toys and other products; Section XX	2.47	2.29	0.03
C21: Works of art and antiques; Section XXI	0.01	0.01	0.00
C22: Commodities not elsewhere specified (n.e.s.); Section XXII	1.27	1.33	1.24

E20.4m) and fish, while approximately E12.1m was imported from the RoSADC under Section II. Other imports from Mozambique included maize (valued at E9.5m), which is a staple food, and peas and beans (valued at E2.1m). For Section III imports, valued at E14.2-m, almost all of those products recorded as imported from the RoSADC actually came from Mozambique. Those Mozambican imports included coconut oil, valued at E10.8m, sunflower oil, valued at E2.7-m) and soya oil, valued at E0.5m.

Food donations from abroad accounted for the 6.43% share of total imports from the world. The share of machinery imported from the RoSADC accounted for 13.47% of total imports from the region. That machinery was used mainly in road construction projects which were underway in the country. One of the main roads, which links two major cities, cost E500m and required the importation of expensive construction equipment such as bulldozers and trucks, among others. The 12.10% share of total imports from South Africa, however, covered a

wide range of imported machinery and a diverse number of products such as air-conditioning systems, pumps for liquids, filtering and purifying systems, spraying equipment, office machinery, electrical switches, radio and television equipment, among other things. Recorded trade data show that earthmoving equipment accounted for about 6% of all machinery imported from South Africa.

Table 7 confirms that drink concentrates, which fall under Section VI or chemical products, contributed the highest share of total exports to the world and accounted for 36.40% of total exports. However, in the RoSADC, these chemical products accounted for 53% of the total exports. In 2004, the share of total exports of mixtures of odiferous substances reached an all-time high of 84% and implied that a large portion of the market for this product was in the SADC region.

Section XI exports, or textile products, contributed a quarter of Swaziland's export earnings from the rest of the world. Factory shells were set-up by the government in a bid to address the problems of accommodating investors; most of the Asian textile companies occupy these facilities. The 24% share of total exports to the world recorded with respect to textiles is, however, a decline from the previous year's share of total, simply because of the weak US dollar, which threatened all AGOA exports from sub-Saharan African exporters. Competition from China and India, following the abolition of the Multi-Fibre Agreement (MFA), also exacerbated the problem. In 2004, the closure of some major companies, as a consequence of both the strengthening of the rand against the dollar and competition in the world market, was a reason for declines in the trade levels of the textile industry. Many companies lost some traditional markets due to increasing competition in global markets. Production slowed in the textile industry, too, as exporters faced stiff competition from the more cost effective Asian-based textile firms. One such company affected by the weakening dollar was Texray, which started operating in November 2002, a firm with approximately 1,600 employees. All Texray products are exported to the US through the AGOA agreement. Like other textile companies, it sources its inputs from the Far-East. Texray's holding company, based in Taiwan, is responsible for buying stock for its Swaziland-based operations and subsidiaries. All overheads, such as transport and packaging, are provided locally.

Prepared foodstuffs from Swaziland include canned fruit pieces, slices and rings, fruit juice concentrates and a variety of jams. Canned fruit and fruit juice are sold predominantly to markets in the EU, the US, Japan and Australia, while jam is sold locally and in South Africa (SADC Review: 2007). In 2004, export receipts contracted by 6%, from E117.4m in 2003 to E110.2- m in 2004. The decrease in export revenue was, however, cushioned by favourable developments in that particular export market where, in 2004, international prices increased.

Table 7: Commodity composition of exports: 2004

Product	Share of total exports to world (%)	Share of total exports to South Africa (%)	Share of total exports to RoSADC (%)
C01: Animals (live) and animal products; Section I	0.97	0.76	4.50
C02: Vegetable products; Section II	1.03	1.03	3.21
C03: Fats and oils (animal or vegetable); Section III	0.36	0.22	2.55
C04: Prepared foodstuffs, beverages and tobacco; Section IV	16.86	19.01	19.34
C05: Mineral products; Section V	0.97	1.33	0.93
C06: Chemical products; Section VI	36.40	34.50	52.97
C07: Plastics and rubber; Section VII	0.34	0.35	1.29
C08: Leather products; Section VIII	0.03	0.04	0.01
C09: Wood products; Section IX	2.00	2.97	0.10
C10: Paper products; Section X	9.11	10.24	1.04
C11: Textile products; Section XI	24.29	20.55	2.54
C12: Footwear, headgear and umbrellas; Section XII	0.04	0.03	0.21
C13: Stone, cement and glass products; Section XIII	0.20	0.21	0.57
C14: Pearls and precious stones; Section XIV	0.01	0.02	0.00
C15: Metal products; Section XV	0.86	0.78	2.03
C16: Machinery; Section XVI	3.04	3.70	5.65
C17: Vehicles, aircraft and vessels; Section XVII	1.31	1.78	1.27
C18: Photographic instruments, clocks and musical instruments; Section XVIII	0.10	0.15	0.05
C19: Arms and ammunition; Section XIX	0.00	0.00	0.00
C20: Furniture, toys and other products; Section XX	1.82	2.01	1.61
C21: Works of art and antiques; Section XXI	0.00	0.00	0.00
C22: Commodities n.e.s.; Section XXII	0.26	0.33	0.13

3.6 Fastest growing import and export commodities

Trade policy is one of the tools needed to facilitate and promote trade with the rest of the world. For the past decade, Swaziland has operated without clear policy guidelines, although it has always had establishments, such as a Trade Promotion Unit and a Ministry of Enterprise and Employment, responsible for facilitating some of its trade issues. A draft export policy was compiled yet is still awaiting parliament's approval. Swaziland has relied substantively on trade fairs, both local and international, to promote its exports and facilitate an investment-friendly environment within its economy.

3.6.1 Fastest growing export commodities

The fastest growing exports to the rest of the world are captured in Table 8 and among those categories, H23 products were Swaziland's fastest growing exports. H23 products include residues, food industry

Table 8: Fastest growing exports to the world: 2000-2004

Product	Value 2004 (Em)	Average growth* (2000-2004) %
H23: Residues, wastes of food industry, animal fodder	41	30.27
H11: Milling products, malt, starches, inulin, wheat gluten	35	19.70
H27: Mineral fuels, oils, distillation products, etcetera	105	19.54
H22: Beverages, spirits and vinegar	133	18.67
H20: Vegetable, fruit, nut, etcetera, food preparations	272	12.27
H17: Sugars and sugar confectionery	1,411	7.21
H18: Cocoa and cocoa preparations	44	3.10
H02: Meat and edible meat offal	41	1.94
H15: Animal, vegetable fats and oils, cleavage products, etcetera	42	-1.60
H08: Edible fruit, nuts, peel of citrus fruit, melons	41	-5.88

* Growth rate calculated from trend line regression analysis

wastes and animal fodder. Official customs data statistics show that the major contributor to the growth in H23 products was animal feeds. Swaziland's markets for animal feeds were South Africa and Mozambique. Local animal feed producers in Swaziland include firms such as Arrow Feeds, Crane Feeds and Feedmaster. In terms of market share, 60% of animal feeds sales were locally based, 30% went to South Africa while the remainder went to Mozambique. It is worth noting that local markets are also infiltrated by South African suppliers because of imports made by certain companies.

The second fastest growing exports, as shown in Table 8, were Chapter 11 products comprising of milling products, malts, starches, inulin and wheat gluten. These commodities grew by 20%, which was 11% lower than the growth levels of Swaziland's fastest growing products. Again, the absolute growth in real values for 2003-2004 was only E3m, with the main contributors in this category being flour and maize. Volumes of maize exports, equivalent to 37,564 tonnes, were higher in 2004 than in 2003 which had volumes recorded as amounting to 26,046 tonnes.

In 2004, anthracite and coal contributed significantly to the E105m exports earnings secured for Chapter 27 commodities. The average growth rate of 19% was a contrast with the developments underway in the mining and quarrying sector during 2003. The sector witnessed significant declines in the production of quarried stone and coal during that year. Value adding contracted by 20.1% during 2003 despite having grown by 11.2% the previous year. As a result, the sector's contribution to GDP fell to 0.7% in 2002.

Chapter 33 commodities, as shown in Table 9, had the highest growth rate of all export commodities to South Africa; the major contributor of which was mixtures of odoriferous substances used in the

Table 9: Fastest growing exports to South Africa: 2000-2004

Product	Value 2004 (Em)	Average growth 2000-2004 (%)
H33: Essential oils, perfumes, cosmetics, toiletries	2,650	81.38
H20: Vegetable, fruit, nut, etcetera food preparations	150	29.76
H44: Wood and articles of wood, wood charcoal	224	20.54
H27: Mineral fuels, oils, distillation products, etcetera	100	19.29
H22: Beverages, spirits and vinegar	84	17.82
H17: Sugars and sugar confectionery	1,160	11.20
H47: Pulp of wood, fibrous cellulosic material, waste, etcetera	524	0.13
H18: Cocoa and cocoa preparations	35	-2.42
H08: Edible fruit, nuts, peel of citrus fruit, melons	39	-3.81
H48: Paper and paperboard, articles of pulp, paper and board	94	-7.25

* Growth rate calculated from trend line regression analysis

Table 10: Fastest growing exports to the rest of SADC: 2000-2004

Product	Value 2004 (Em)	Average growth 2000-2004 (%)
H22: Beverages, spirits and vinegar	49	27.78
H84: Nuclear reactors, boilers, machinery, etcetera	53	20.74
H17: Sugars and sugar confectionery	75	15.61
H33: Essential oils, perfumes, cosmetics, toiletries	505	-3.04

* Growth rate calculated from trend line regression analysis

food and drink industries. Drink concentrates contributed 84% to Swaziland's total exports and had an average growth rate of 81.38% for 2000- 2004. The only company producing these exports reported that 60% of its total exports were sold to South Africa, with African countries sharing 30% of total and the remaining 10% being exported to the south Pacific region.

Table 9's data reflect the fact that there was a huge difference between the first and second fastest growing exports to South Africa. Chapter 20 commodities, which were the second fastest growing exports, were influenced by the citrus industry which produces canned fruit pieces, slices and rings and fruit juice concentrates. Citrus fruits and melons are sourced from citrus estates and local farmers, respectively. From the official statistics for canned fruit production and sales, export receipts slumped from E116.1-m in 2001 to E110.2m in 2004. However, the decrease in export revenue was cushioned by favourable developments in the export market, most notably, by the improvement in international prices.

Beverages, spirits and vinegar also featured in the top 10 fastest growing exports to the world, South Africa and the SADC region. Swaziland does not produce wines, champagne or spirited beverages, hence, the export total for these commodities was derived from the re-exportation of these products, sourced originally from overseas countries, to Mozambique and South Africa. Table 10 reveals that Chapter 84 commodities imported in Swaziland, and which consists typically of nuclear reactors, boilers and machinery, among other things, actually involved the importation of bulldozers, excavators, angle dozers, graders and other machinery. Those commodities contributed the greatest proportion of growth in that category. Most of those products were re-exported as materials to be used in the construction industry and required as inputs by capital projects being undertaken by the Swazi government.

The government continued its quest, during the period, to construct earth dams in different regions of the country. Other notable projects, called the Millennium Projects, included the construction of an airport, an international trade fair facility, a sporting centre and factory shells.

Other major projects underway in 2003-2004 involved the construction of major roads. Most of these projects were outsourced to South African companies or to firms from other neighbouring countries that, in turn, imported large consignments of machinery into the country.

3.6.2 Fastest growing import commodities

Swaziland experienced drought for two years of the period under view and that event spurred the importation of consumption goods which could not be produced locally. That fact is reflected in Tables 11 and 12. Chapter 2 commodities, consequently, topped the list of fastest growing imports from the world and South Africa. The importation of meat and edible meat offal, which seemed to be imported from the world, was actually sourced from South Africa. Live animals, which are Chapter 2 commodities, were also imported from South Africa because, as stated earlier, the drought destroyed grazing lands and, in turn, reduced the cattle population. Furthermore, the country's animal products exports to the EU were also impacted, with the result that Swaziland had to import animals from South Africa.

Worth noting, too, from Tables 11 and 12, is that, in absolute value terms, cereals, which consist of maize, had the highest import value. One reason for that could be the fact that maize, which is a staple commodity in Swaziland, was in high demand during the drought-affected period.

Table 11: Fastest growing imports from the world: 2000-2004

Product	Value 2004 (Em)	Average growth 2000-2004 (%)
H02: Meat and edible meat offal	132	30.62
H10: Cereals	294	19.40
H11: Milling products, malt, starches, inulin, wheat gluten	141	15.99
H12: Oil seed, oleagic fruits, grain, seed, fruit, etcetera, n.e.s.	58	13.31
H03: Fish, crustaceans, molluscs, aquatic invertebrates n.e.s.	67	12.65
H07: Edible vegetables and certain roots and tubers	100	11.63
H04: Dairy products, eggs, honey, edible animal product n.e.s.	209	11.54
H09: Coffee, tea, mate and spices	55	3.85
H08: Edible fruit, nuts, peel of citrus fruit, melons	66	-2.57
H01: Live animals	124	-6.44

* Growth rate calculated from trend line regression analysis

Table 12: Fastest growing imports from South Africa: 2000-2004

Product	Value 2004 (Em)	Average growth 2000-2004 (%)
H02: Meat and edible meat offal	132	30.62
H10: Cereals	294	18.93
H03: Fish, crustaceans, molluscs, aquatic invertebrates nes	45	14.40
H04: Dairy products, eggs, honey, edible animal product nes	203	14.09
H11: Milling products, malt, starches, inulin, wheat gluten	121	12.28
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	55	12.08
H07: Edible vegetables and certain roots and tubers	98	9.98
H09: Coffee, tea, mate and spices	55	4.12
H08: Edible fruit, nuts, peel of citrus fruit, melons	65	-1.59
H01: Live animals	124	-6.44

* Growth rate calculated from trend line regression analysis

4. Describing trade

Table 13 depicts Swaziland's trade intensities vis à vis the SADC region, as well as the level of trade complementarity with South Africa. The table reveals that the trade intensity index for exports fell from 21.29 to 10.71 in 2003. The decline implied that the bias in exportation to the SADC weakened in this period, even though it was still significantly strong overall. The Complementary Index was calculated on the country's trade data to show Swaziland's export profile relative to South Africa's. In 2003, the Complementary Index was slightly higher than one, which indicates firstly, less compatibility in trade flows between the two countries and secondly, a mismatch in the trade flows between South Africa and Swaziland. The high volume of imports from South Africa relative to the low exports from Swaziland into South Africa accounts for that mismatch.

Table 14 shows the Hirschmann Index for 2002-2003 for Swaziland's exports to SADC countries. The values, though, are not close to one, which would indicate that trade is less concentrated. The lack of concentration could be as a result of international trade risks accruing from possible price fluctuations for specific products.

Table 13: Trade intensities for exports and imports: 2000-2003

	2000	2001	2002	2003
Export intensities	256.66	198.45	21.29	10.71
Import intensities	221.03	228.68	1.05	0.70
Complementarity Index	1.56	1.49	1.81	1.25

Table 14: Hirschmann indices: 2000-2003

	2000	2001	2002	2003
Exports	0.075	0.088	0.252	0.162
Imports	0.018	0.014	0.014	0.017
Exports to RSA	0.153	0.067	0.092	0.217
Imports RSA	0.012	0.020	0.015	0.016
Exports RoSADC	0.170	0.143	0.398	0.338
Imports RoSADC	0.019	0.013	0.134	0.126

5. Revealed comparative advantage (RCA)

High RCA values were associated with Swaziland's sugar and sugar confectionery exports. The RCA index for these commodities was measured at 56.42 and total exports of these commodities had a total value of E1.411m in 2004. That implied that the total share of sugar and sugar confectionery among all of Swaziland's exports, relative to the share of this particular commodity in the world market, was very high. The RCA, therefore, provides a basis for assessment of the county's export potential.

The advantage that the country has in this sector is very high. Swaziland's climatic conditions are conducive to sugar cane production and cane plantations account for a sizeable volume of sugar production in the country. With the Maputo harbour, through which its sugar is exported, in close proximity, the sector's competitiveness is enhanced by that fact. Swaziland's sugar export markets, especially those in the EU, contributed tremendously to the RCA it enjoys in this important global market. Importantly, though, sugar sold to the EU was priced in euros, a currency which strengthened over the period, and offered more returns to exporters. Exports of sugar and sugar confectionery products are likely, in future, to be affected by other factors. Swaziland, having undertaken important trade negotiations via the SACU with North

American Free Trade Agreement (NAFTA) and MERCUSOR, will have access to new markets and enhanced prospects for growth in its sugar and sugar confectionery sector. In addition, markets in Taiwan, Hong Kong and Asia provide Swaziland with further opportunities for growth of its sugar exports volumes and revenues.

There is also a cloud of uncertainty hanging over sugar exports to the EU under the Sugar Protocol. In 2005 the EU announced that over a four-year period the price of sugar will have to go down by 36%. This will not only have an adverse effect on sugar producers in Swaziland but all across the ACP countries. Effectively, the Sugar Protocol will be denounced in 2009 and countries will export sugar under the EPA arrangement (The Courier, 2007).

In order for Swaziland to fully exploit the areas in which it has a comparative advantage conducive investment policies should be in place. Such policies should also be in harmony with, existing government policies on immigration and foreign exchange regulations, among others. Swaziland has a small domestic market and needs to attract export-oriented enterprises. The Swaziland Investment Promotion Authority (SIPA) should play a bigger role in attracting FDI into the country. It is important to note that the inconsistencies in custom procedures that exist between various SADC member states not only inhibit trade but, detrimentally, also discourage inflows of FDI into the smaller member countries such as Swaziland.

Table 15: Revealed comparative advantage with respect to the world: top 20 commodities in 2004

Product	Index value	Exports (Em)
H17: Sugars and sugar confectionery	56.42	1,411
H33: Essential oils, perfumes, cosmetics, toiletries	55.75	4,164
H47: Pulp of wood, fibrous cellulosic material, waste etcetera	21.60	741
H61: Articles of apparel, accessories, knit or crochet	10.80	1,640
H20: Vegetable, fruit, nut, etcetera, food preparations	6.93	272
H01: Live animals	6.87	17
H96: Miscellaneous manufactured articles	6.84	169
H62: Articles of apparel, accessories, not knit or crochet	5.59	978
H49: Printed books, newspapers, pictures etcetera	3.76	176
H11: Milling products, malt, starches, inulin, wheat gluten	3.30	35
H46: Manufactures of plaiting material, basketwork, etcetera	2.99	6
H54: Manmade filaments	2.43	123
H18: Cocoa and cocoa preparations	1.81	44
H44: Wood and articles of wood, wood charcoal	1.75	225
H22: Beverages, spirits and vinegar	1.75	133
H23: Residues, wastes of food industry, animal fodder	1.05	41
H15: Animal, vegetable fats and oils, cleavage products, etcetera	0.84	42
H48: Paper & paperboard, articles of pulp, paper and board	0.76	137
H08: Edible fruit, nuts, peel of citrus fruit, melons	0.75	41
H55: Manmade staple fibres	0.70	25

6. Intra-industry trade

In Table 16, the Grubel-Lloyd (GLI) index for the top 15 commodities shows that there was a strong intra-industry trade in H6308 product groups between Swaziland and the rest of the world. A GLI index of unity implies that Swaziland imports exactly the same amount of a product it exports to the rest of the world. Most commodities with a high GLI index have been traded in low quantities, such as is the case for motor vehicle motor vehicle chassis-fitted engines and fisheries products. In a few cases more meaningful trade flows are recorded, such as for clothing and meat products.

In assessing levels of intra-industry trade specifically with South Africa, Table 17 reveals that the majority of intra-industry trade takes place with regards to white goods, including refrigerators and freezers. Capital goods and manufactures seem to dominate with regards to the remaining commodities revealed to have high levels of intra-industry trade with South Africa.

Table 18 shows that for a number of H3004 products, including medicaments, therapeutic and prophylactic, there was a high GLI index. The H0804 cluster had the lowest GLI index and implied that there was less intra-trade between Swaziland and the rest of the SADC countries for this product category. The total value of intra-trade between Swaziland and the rest of SADC was very low. Overall, the tabulated data indicate that Swaziland's economy was not fully integrated to the SADC regional economy. Swaziland's economy was aligned to a far greater extent with the South African economy.

Table 16: Intra-industry trade with the world: top 15 commodities (HS4) in 2004

Commodity	Grubel-Lloyd index	Exports (Em)	Imports (Em)
H6308: Sets of woven fabric and yarn for rugs, tapestry etcetera	1.00	27	27
H8706: Motor vehicle chassis fitted with engine	0.99	1,017	1,034
H0302: Fish, fresh or chilled, whole	0.98	2,239	2,353
H4601: Mats, screens, articles n.e.s. of plaiting materials	0.97	251	238
H2713: Petroleum coke, bitumen & other oil industry residues	0.97	755	809
H9203: Harmoniums, pipe organs, etcetera	0.96	451	420
H2306: Oil-cake other than soya-bean or groundnut	0.96	853	932
H7414: Copper wire cloth, grill, netting, expanded metal	0.95	98	89
H3805: Gum, wood, sulphate turpentine, dipentene, etcetera	0.95	339	373
H8481: Taps, cocks, valves for pipes, tanks, boilers, etcetera	0.95	23,571	26,296
H0804: Dates, figs, pineapple, avocado, guava, fresh or dried	0.94	1,157	1,299
H0201: Meat of bovine animals, fresh or chilled	0.94	27,567	24,541
H6111: Babies garments, clothing accessories, knit or crochet	0.93	16,568	19,187
H6206: Women's or girls' blouses, shirts and shirt-blouses	0.93	16,695	14,379
H8002: Tin waste or scrap	0.92	5	4

Table 17: Intra-industry trade with South Africa: top 15 commodities (HS4) in 2004

Commodity	Grubel-Lloyd index	Exports (Em)	Imports (Em)
H8706: Motor vehicle chassis fitted with engine	0.99	1,017	1,033
H8418: Refrigerators, freezers and heat pumps n.e.s.	0.99	70,828	68,963
H6308: Sets of woven fabric and yarn for rugs, tapestry etcetera	0.97	25	27
H9203: Harmoniums, pipe organs, etcetera	0.96	451	420
H8445: Machines for processing textile fibres	0.96	470	431
H7414: Copper wire cloth, grill, netting, expanded metal	0.95	98	89
H8481: Taps, cocks, valves for pipes, tanks, boilers, etcetera	0.95	23,455	26,050
H2713: Petroleum coke, bitumen & other oil industry residues	0.93	710	809
H8002: Tin waste or scrap	0.92	5	4
H4805: Uncoated paper and paperboard n.e.s.	0.92	11,043	12,948
H8417: Industrial, laboratory furnaces, ovens, incinerators	0.91	524	623
H0206: Edible offal of domestic animals	0.91	350	417
H7311: Containers for compressed, liquefied gas, iron, steel	0.91	1,986	1,664
H0804: Dates, figs, pineapple, avocado, guava, fresh or dried	0.91	1,148	960
H8802: Aircraft, spacecraft, satellites	0.91	811	977

Table 18: Intra-industry trade with the RoSADC: top 15 commodities (HS4) in 2004

Commodity	Grubel-Lloyd index	Exports (Em)	Imports (Em)
H3004: Medicaments, therapeutic, prophylactic use, in dosage	0.99	147	149
H8501: Electric motors and generators, except generating sets	0.97	206	220
H4202: Trunks, suit-cases, camera cases, handbags, etcetera	0.90	55	45
H9999: Commodities n.e.s.	0.89	1,255	1,007
H1209: Seed, fruit and spores, for sowing	0.83	30	21
H3303: Perfumes and toilet waters	0.81	210	142
H4823: Paper and paper articles n.e.s.	0.81	293	198
H9004: Spectacles, goggles etc., corrective or protective	0.77	1.1	1.7
H4011: New pneumatic tyres, of rubber	0.74	76	45
H8543: Electrical machinery and apparatus, n.e.s.	0.73	4	2
H2523: Cement (portland, aluminous, slag or hydraulic)	0.73	3,322	1,906
H6802: Worked monumental, building stone, articles thereof	0.70	8	4
H0602: Live plants n.e.s., roots, cuttings, mushroom spawn	0.67	6	13
H0804: Dates, figs, pineapple, avocado, guava, fresh or dried	0.66	9	18
H1902: Pasta, couscous, etcetera	0.64	43	92

7. Summary of trade agreements planned and currently in force

With respect to trade during the period under review, Swaziland was a member of the SACU, SADC and COMESA and, at a broader level, of the World Trade Organisation (WTO).

Being the third largest export destination for Swazi products after the SACU and COMESA, trade relations with the EU are an important element of the negotiation agenda for the country. These trade relations present a major challenge for Swaziland and its SACU counterparts. Currently, there are two trade agreements running concurrently with the EU and SACU member states: the Trade Development Co-operation Agreement (TDCA), involving South Africa and the EU, and the Cotonou Agreement, which is an arrangement between the EU and the African, Caribbean and Pacific (ACP) grouping of countries, which includes Swaziland. The Cotonou is being phased out as it is in contravention of the WTO and so is being replaced by the Economic Partnership Agreements (EPAs). The SACU-EU Economic Partnership Agreement (EPA) negotiations were launched in July 2004 in Windhoek. Eight SADC countries opted to negotiate an EPA with the EU. These countries included five SACU countries and Angola, Mozambique and Tanzania. There is a need to align these agreements so that SACU trades uniformly as a customs union with the EU.

In addition, the SACU-European Free Trade Ageement (EFTA) negotiations, which commenced in 2003, have been concluded. The objective was to establish a FTA by the end of 2012 so that it coincides with the SA-EU TDCA.

Swaziland has also sought preferential access in relation to the Americas also. SACU negotiations with the US, for the establishment of a free trade area (FTA), were launched in January 2003. The main objective of these negotiations was to conclude a WTO-compatible agreement on product coverage and time frames. The agreement was to be concluded by the end of 2004 and negotiations were to be finalised by the end of December 2006.

SACU and MERCUSOR agreed to undertake negotiations for a Preferential Trade Agreement as a first step towards the creation of a FTA. The two parties concluded and signed their agreement in December 2005. In the case of Swaziland, the Swazi Parliament is in the process of tabling it and, once all the countries involved have ratified it, the agreement is scheduled to go into effect in 2007. In terms of market access, MERCUSOR will grant duty-free access to several food products from SACU members, including meat from horses and other animals, carrots and turnips as well as some industrial and chemical

products. MERCUSOR will also reduce tariff rates for crude oil, salts, tanks, reservoirs and capsules. In return, SACU will grant duty-free access to pure-bred animals, lambs, graphite, coal, goats, reptiles, garlic acid and salts, among others, and will reduce tariff rates for seed and green tea products.

Up to now, Swaziland has enjoyed being a member of two custom unions – COMESA and SACU – although with the former the country does not have to reciprocate because of a derogation it got from COMESA. At a summit held in Kampala, Uganda, in June 2004, the COMESA heads of state and governments approved the extension of the derogation to Swaziland by one year, in other words, up to June 2005. This was further extended to December 2008. Meanwhile, Swaziland had engaged its other SACU partners with a view to obtaining concurrence to join the COMESA FTA. The SACU member states, however, denied Swaziland permission to take part in the COMESA FTA, which was its third most important market. That meant that for Swaziland to be able to export to COMESA, a yearly derogation had to be sought from COMESA member states. That ruling continues to create great uncertainty for Swazi exporters. One potential solution to this could be by Swaziland accepting South Africa's offer of technical assistance for diversification of Swazi exports from COMESA.

Whilst Swaziland is a member of SADC, trade with the region is fairly low at present. Barriers to trade within the SADC region have been identified as a key obstacle for countries such as Swaziland to integrate further into the region. For trade to thrive within the SADC region, trade barriers need to be eliminated. The decision by the SADC Industry and Trade Committee of Ministers, since 1999, to promulgate a number of decisions concerning Non-Tariff Barriers (NTBs) is a good mechanism for trade promotion, but more needs to be done. Full dialogue is needed between the SADC governments and the private sector in order to solve further problems relating to NTBs. Furthermore, given that many NTBs in the region are not only of a bilateral nature, it is important that the SADC agrees to tackle them on a multilateral basis. As such, it would be appropriate to negotiate a reduction on all the NTBs within thematic areas. The key areas appear to be agricultural production, import and export permits and licences, customs procedures and documentation, border post management and the harmonisation of standards. SADC should also develop a simple document outlining the procedure involved in small-scale, cross-border trade by traders who trade in relatively low values and volumes of goods. SADC could also draw from the experience of COMESA, which has an ongoing programme for monitoring NTBs and a procedure for traders who are required to notify the secretariat of problems encountered in

their trade arenas. It would be useful for the SADC to participate in this monitoring programme and to make it a joint exercise involving both institutions. A further facilitation mechanism would be the provision of all of the necessary administrative forms which traders can download from the SADC website. A summary of procedures involved in the process of exporting products from one country to the other would further complement this tool.

8. Conclusion and recommendations

Swaziland has a 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. Swaziland experienced a decrease in its exports to the world, from E12,851-m in 2003 to E11,574-m in 2004. 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.

The level of imports has also been increasing since 2000, though export growth outweighed that of imports in 2003/04 resulting in a small trade surplus. There has been little diversification with regards to the basket of goods traded by Swaziland. The country's imports continue to be primarily of manufactured goods, including machinery, whilst exports are dominated by textiles, drink concentrates and prepared foodstuffs, such as canned fruit.

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 partner SADC member state and the potential for greater trade is apparent considering developments in the country's roads and shipping facilities.

Besides Mozambique, it appears that Swaziland trades little with the rest of the SADC region excluding South Africa. The elimination of barriers to trade within the SADC would possibly assist Swaziland in trading more with other SADC member states as suggested.

Specifically, more work is needed with regard to non-tariff barriers, including the streamlining of customs procedures and documentation. Further issues would include improved transport and communications infrastructure, as well as reduction in labour constraints. Swaziland's land-locked geographical position is a key impediment. As a result, it is reliant on South African and Mozambican ports and transportation networks.

Consequently, Swaziland faces high shipping costs in its export and import trade. A further deterrent to increased trade is its inadequate communications infrastructure, which increases the costs of information asymmetries faced by its potential exporters with regards to their abilility to obtain information about potential products and markets in an efficient manner. Swaziland also has a shortage of skilled labour, which again adversely affects its ability to grow its exports. This is further exacerbated by the country's extraordinarily high HIV/AIDS prevalence rates.

These challenges to export growth need to be addressed if the Swazi economy is to thrive and if Swaziland is to be integrated fully to the SADC regional economy.

9. References

International Monetary Fund (2008). http://www.imf.org/external/np/exr/facts/sdr.htm. [Last accessed 09/05/08].

Ministry of Economic Planning and Development (2004). Economic Review and Outlook: 2002/03-2006/07. Government of Swaziland: Mbabane.

Central Bank of Swaziland (2006). Annual Reports: 2005/2006. Mbababane, Swaziland.

Central Bank of Swaziland (2007). Annual Reports: 2006/2007. Mbababane, Swaziland.

SADC Review (2007). Official SADC Trade, Industry and Investment Review 2007/8. http://www.sadcreview.com/country_profiles/swaziland/swa_agriculture.htm [Last accessed on 08/05/08].

The Courier Magazine (2007). http://www.acp-eucourier.info/Sugar-without-a-Protocol.170.0.html [Last accessed on 09/05/08].

United Nations (2007/2008). The Human Development Index 2007/2008. http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_BEN.html. [Last accessed on 08/05/08].