

INTRA-SADC TRADE PERFORMANCE REVIEW: 2005





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Foreword

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

The project arose as a result of a number of interactions with the policy and research community in Southern Africa. In recent years the world trading system has become increasingly complex. Whilst trade negotiations continue under the auspices of the World Trade Organisation (WTO), many developed countries are also pursuing bilateral and pluri-lateral trade agendas. In addition, South Africa's bilateral negotiations with a range of trading partners has placed a further burden on members of the Southern African Customs Union (SACU) to participate in its trade agenda.

As a result, for many Southern African countries, the complexity and sheer volume of trade-related negotiations have increased exponentially. For SADC¹ countries, they may at any one time be involved in WTO negotiations, AGOA²-related discussions, the EU's EPA³ negotiations and SADC Comesa⁴ interactions, and for SACU member states, bilateral negotiations with the US, EFTA⁵ and Mercosur⁶.

The scope and complexity of these negotiations have placed significant additional strain on already thinly spread policy and research capacity in Southern Africa. At the same time, many SADC member states continue to struggle to compile accurate and reliable trade statistics. These twin features of SADC's policy and research environment have the potential to lead to sub-optimal trade agreements being negotiated, with potentially disastrous consequences for already relatively poor countries in the region. Moreover, as trade data for SADC member states are relatively difficult to access, with only very few countries reporting their trade to the United Nations' COMTRADE⁷, researchers outside of SADC – who could potentially boost the limited research capacity within the region – are seriously constrained in their ability to offer relevant trade analysis.

¹ Southern African Development Community

² African Growth and Opportunity Act

³ Economic Partnership Agreement

⁴ Common Market of Eastern and Southern Africa

⁵ European Free Trade Association

⁶ Mercado Común del Sur, or Southern Common Market

⁷ Commodity Trade Statistics Database

In addition, global economic modelling exercises such as the efforts of the Global Trade Analysis Project (GTAP) often aggregate SADC member states due to the poor quality of country-level data, thereby depriving these countries from benefiting fully from these important cross-country studies.

This project aims to make a small but perhaps significant contribution to the research environment in SADC. The project consists of two sequenced sets of activities. First, TIPS researchers undertook country missions to a number of SADC member states to collect countries' trade data. These data have been cleaned, checked for reliability and structured in a consistent and comprehensive manner so as to allow the creation of the first SADC Trade Database. A copy of the database is included with this publication and is also available online at www.sadctrade.org.

The database is updated as new trade data become available and currently contains data covering the period 1998 - 2004 for most SADC member states. The SADC Trade Database also contains a downloadable analytical tool developed by TIPS which can be used to generate key trade ratios and indicators, thus simplifying trade analysis.

The second set of activities co-ordinated by TIPS researchers involves the analysis of the trade performance of SADC member states. An important innovation is the analysis of SADC countries' trade with one another. Up to now, this has been difficult to do as the trade data have simply not been available. However, through the development of the SADC Trade Database we are now able to track intra-SADC trade flows. Crucially, this is a first step to being able to assess reliably the impact of the SADC Trade Protocol (STP). The STP will result in a Free Trade Area in Southern Africa covering 85% of all SADC trade by 2008.

The country reviews presented in this publication are not intended to be definitive assessments of Southern African countries' trade performance. However, they are a first step towards producing regular trade reviews which are increasingly focused on understanding the trade (and other) barriers to growing trade within the SADC region. The reviews are intended to increase the sophistication of the trade analysis presented progressively, and via our use of researchers based in member states themselves, also to improve the capacity and expertise of trade analysts in Southern Africa.

I am therefore pleased to present the first volume of the SADC Trade Performance Review and to acknowledge the outstanding effort of all the in-country researchers who contributed to the publication of the inaugural 2005 Review.



I also wish to acknowledge the trade officials who provided the raw trade data without which the project would not have not been possible.

Finally, TIPS thanks Matthew de Gale, Mmatlou Kalaba and Ryan Hawthorne who were all instrumental in implementing the project, and we gratefully acknowledge the generous support of AusAID in ensuring that this important project became a reality.

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Introduction

The SADC member states span some nine million square kilometres and comprise a market of more than 200-million people. Countries in the region span practically the full spectrum of development stages, from Least-Developed Countries (LDCs) such as the Democratic Republic of the Congo (DRC) and Malawi to middle-income, developing countries such as Mauritius and South Africa. The region plays host to the world's oldest customs union, SACU, as well as the more recent SADC Trade Protocol.

The Southern African region is also party to a range of preferential trade agreements with developed countries, including the Everything but Arms (EBA) initiative and AGOA. Notwithstanding these trade agreements, trade flows remain relatively low and in general continue to reflect colonial trade patterns and structure. Whilst there are many potential and real impediments to growth-enhancing trade and effective trade policy development, one key constraint for Southern African nations is the lack of accurate and reliable trade data and the systematic analysis thereof.

The *Southern Africa Trade Performance Review 2005* maps the trade flows and assesses the performance of key SADC member states' trade, with particular reference to intra-regional trade. In this the inaugural Review we place particular emphasis on the extent to which Southern African nations are benefiting from the STP and the role South Africa plays as a trading hub within the region.

In chapter one, Sydney Mogape of Genesis Analytics analyses the trade flows of Botswana, finding that a decline in total exports has coincided with an increase in total imports (in particular from South Africa), leading to the continuation of the deficit on its trade account. Botswana is relatively well integrated into SADC, and Swaziland and Mozambique account for some of its fastest growing import partners, albeit off a relatively low base. Important fast-growing export partners include Angola and, interestingly, a number of non-SADC African countries such as Kenya, Nigeria and Egypt.

Botswana's trade remains heavily dependent on the export of diamonds and meat products but its textile sector is growing rapidly and in the period under review accounted for 15% of its exports to South Africa. Imports are mainly from South Africa, although some of these imports may have had their origin in other countries and are thus not strictly of South African origin. Nonetheless, Botswana's imports come mainly from South Africa and SADC and include a high proportion of food products due to its semi-arid climate.

Mogape concludes that it is encouraging that more than 80% of Botswana's exports face low or no tariffs in SADC. Moreover, as its fastest growing trade partners are from the immediate region and generally do not trade in diamonds, perhaps export diversification will arise in the near future, reducing the volatility associated with resource exports.



Chapter two assesses Lesotho's trade performance. Lesotho government-based researchers David Maleleka and Retselisitsoe Matlanyane note that Lesotho's exports have recently slowed after a period of high growth between 1999 and 2001. Moreover, although imports have on average grown at a slower pace than exports, they remain high, leading to a significant trade deficit which has increased considerably in recent years. Lesotho is not well integrated into SADC, and if South Africa is excluded from SADC, the country has few significant trading partners in the immediate region.


Maleleka and Matlanyane argue that this is unlikely to change in the short term as no SADC countries appear as fastest growing trade partners, with the exception of South Africa. Moreover, the commodity composition of Lesotho's imports and exports do not coincide with SADC countries' import demand and export supply potential. Lesotho imports mainly textiles and intermediate products, while exporting clothing and some processed food products.

In chapter three, the Malawi country report, government-based researcher Kelvin Banda notes that Malawi's trade balance has worsened significantly in recent years. Although Malawi's exports rose considerably in 2003, this was not sufficient to offset the high levels of imports between 2001 and 2003. Malawi imports primarily from South Africa, Zimbabwe and the UK. Its export destinations are relatively diversified, with the US, South Africa, Kenya, the UK and Germany all accounting for significant shares of its exports.

Banda argues that Malawi is a fairly typical least-developed country, importing mainly manufactures and exporting agricultural products. As such its trade performance is relatively volatile, with tea, tobacco and sugar the main export commodities. In general, Malawi is relatively well integrated into its immediate region with respect to imports but its exports are mainly destined for developed economies.

Chapter four by government-based researcher Sawkut Rojid focuses on Mauritius. Rojid finds that although Mauritius increased its exports in 2003, its trade balance remains in deficit and, in fact, has worsened in recent years. The relatively strong export performance is significant in light of the difficulties experienced by the key export sectors of clothing and sugar, and suggests that Mauritius' export diversification strategies may have begun to have an impact.

Although off a low base, Mauritius is increasingly exporting a broad range of products, including soaps, cereals, hides and electrical equipment. Overall, Mauritius is poorly integrated with SADC and its trade with the region has been declining, primarily due to lower oil imports



from Tanzania. Rojid argues that for a number of products, the tariff barriers imposed by Mauritius are prohibitively high and may constitute a severe impediment to further trade with Southern African countries.

In Chapter five, Mozambican government-based researchers Bruce Byiers and Adriano Ubisse note that the country's trade deficit has become increasingly negative, notwithstanding the substantial increase in exports as a result of the Mozal aluminium smelter becoming operational. They argue that the underlying causes of the trade deficit reflect the import intensity of aluminium smelting as well as the incongruence between Mozambique's export of low-value primary goods and the demand for high-value manufactured goods.

Byiers and Ubisse argue that the STP may already have had a significant impact on Mozambique's trade, with imports from SADC growing significantly faster than imports from any other region, albeit off a low base. It should be noted, however, that Mozambique's main tariff reduction obligations are scheduled to take place in 2007 only, suggesting that other barriers to trade may have been more important than the tariff level. Mozambique's export basket is increasingly diversified, with manufactures becoming an increasingly important export to South Africa, whilst agricultural products are mainly destined for the rest of SADC and developed country partners.

Byiers and Ubisse also reflect on some of the key issues for Mozambique to consider when assessing the costs and benefits of joining SACU.

Chapter six, the Namibia country report by Moureen Matomola and Ben Fuller of NEPRU⁸, highlights the Namibian economy's dependence on primary product exports such as fish, agriculture and mining resources. However, the Namibian government is pursuing an active policy of export diversification, which the authors argue has recently led to the increased importance of manufactured exports such as textiles, furniture and processed foods.

Namibia is relatively poorly integrated into SADC when one excludes South Africa, although Angola does feature as a key export partner. South Africa dominates Namibia's import trade due to historical links and Namibia's membership of the SACU. The authors argue that a key factor behind Namibia's relative poor integration with SADC is its comparative disadvantage in specific sectors rather than any specific trade barriers.

In chapter seven, Owen Willcox of TIPS reviews the performance of South Africa's import and export sectors, noting that these are

⁸ Namibian Economic Policy Research Unit

responsive to exchange rate fluctuations. Exports have generally been on an upward trend, although the effect of the strengthening South African Rand, which began in 2002 and continued in 2003, already meant that exports slowed quite considerably between 2002 and 2003. Imports have also been on the increase and South Africa's trade balance turned from a large surplus in the late 1990s and early 2000s to a moderate deficit in 2003.

SADC is an important export market for South African producers, with almost 10% of total exports destined for the Southern African region. SADC is far less important as a source of imports, with only about 2.5% of South Africa's total imports sourced from Southern Africa. On a more positive note, trade with SADC is generally growing at faster rates than South Africa's total trade, suggesting that the region is of increasing importance to South African exporters. Willcox highlights the significant differences between the basket of exports destined for SADC – which comprises mainly manufactured goods – and the largely primary commodities which South Africa trades with the developed world.

Chapter eight, the Swaziland country report, highlights the important role that AGOA has played in this country's export performance. Swaziland government-based researchers Simiso Mkhonta and S'Khumbuzo Dlamini argue that Swaziland's record trade surplus in 2003 is in large measure due to the much improved export performance, with annual export growth averaging 32% between 1999 and 2003. This has occurred despite a surge in textile imports used in the production of clothing exports destined for the US. Mkhonta and Dlamini note that Swaziland is relatively well integrated with SADC, with almost 90% of its imports sourced from South Africa (mainly) and Mozambique. On the export side, South Africa, Mozambique and Tanzania account for about 73% of Swaziland's total exports.

In chapter nine, Josephat Kweka of the Economic and Social Research Foundation (ESRF) notes that one of the characteristic features of Tanzania's trade performance over the last decade is that non-traditional exports increasingly occupy a significant share of total exports. However, although the country's exports to SADC have grown significantly between 1999 and 2003, total export growth has declined. The growth in exports to SADC is partly because of windfall gains from Tanzania's export of cereal products to its famine-hit neighbours Malawi, Zambia and the DRC. Kweka also notes that Tanzania has very low trade barriers for most agricultural products (especially cereals and tobacco) and some labour-intensive products such as textiles.

In chapter ten, Inyambo Mwanawina of the Institute of Economic and Social Research (INESOR) notes that Zambia's trade performance has worsened in recent years, with exports relatively flat and imports



rising rapidly. He argues that this has been largely due to structural rigidities in the Zambian economy, with capital goods such as machinery and intermediate goods such as chemicals and cereals underlying increased imports.

Zambia's export basket remains undiversified, with base metals (primarily copper) still accounting for the largest portion. Mwanawina argues that although Zambia is well integrated into SADC, with the region accounting for 65% of its imports and 41% of its exports, it is yet to benefit fully from the creation of a free trade area. He suggests that one of the key reasons for this is SADC member states' delay (apart from South Africa) in reducing their tariffs as agreed in the STP.

Unless otherwise specified, all data used in the next 10 chapters of this review have been collected from SADC member countries and collated in the TIPS/AusAID Southern African Trade Database, which can be accessed at www.sadctrade.org.