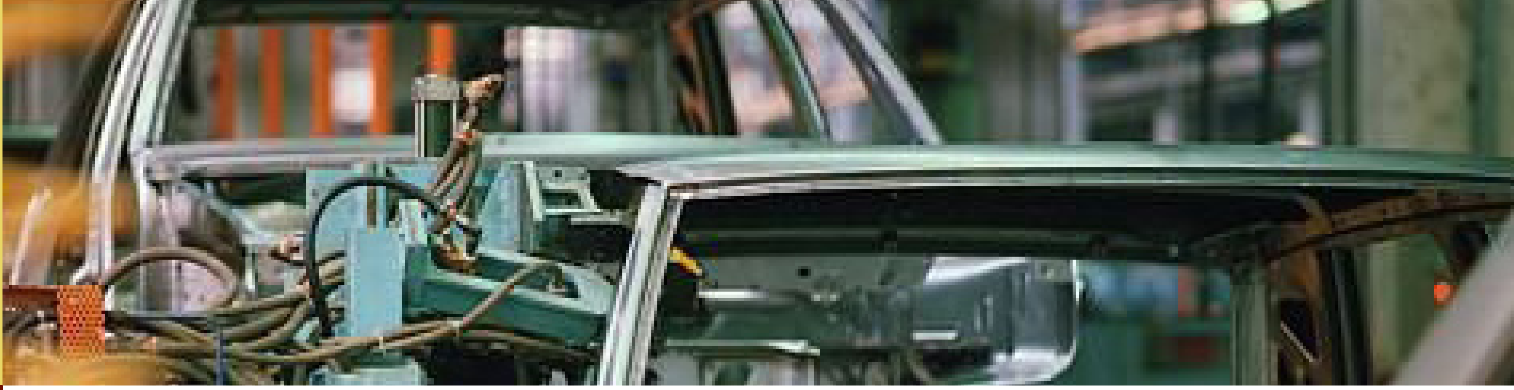


South Africa

1. Trade structure and patterns[1]

1.1 Aggregate trade

SA's trade balance declined from quite healthy surplus in 1999 and 2000 to a general neutral balance between 2001 and 2003. The movements of the Rand have been central to SA's trade. For instance, the effect of the substantial currency depreciation at the end of 2001 can be seen clearly in the large increase in exports in 2002. During 2002 and into 2003, the Rand strengthened and exports declined. 2003's decline in imports was probably due to a slowdown in domestic demand. The long-run trend shows that imports are growing more quickly than exports.

SA has consistently had a trade surplus with SADC. In fact, much of SA's large trade surplus in 1999 and 2000 appears to be due to trade with SADC. Trade with SADC is growing marginally quicker than trade with the rest of the world. SADC trade also mirrors world trade in that imports are growing quicker than exports, but SA exports to the region are still nearly five times as much as imports. Exports to the region make up almost 10% of SA's total exports, while imports from the region account for only 2% of total imports.

The fact that trade with the region is unbalanced explains why SA has undertaken asymmetrical liberalisation as part of the SADC Trade Protocol. The unbalanced trade may also be reflective of SA's relatively good infrastructure for getting products to markets, and the SADC countries' relatively weaker infrastructure. It may also be due to the terms of trade between SA and other SADC countries – SA exports mainly higher value-added manufactured goods but imports largely lower value primary commodities.

SA's only formal statement of trade policy from Government was issued in 1996 as part of the country's macroeconomic strategy, GEAR (Growth, Employment and Redistribution. GEAR was similar in many respects to a structural adjustment programme, and sought to make the economy more competitive and export-focused by reducing very high tariffs – one of the side effects of sanctions and disinvestment during the apartheid era. SA acceded to the WTO in 1995 and the initial offer contained significant cuts in levels of protection. Tariffs were reduced from the mid-1990s, faster than the rate bound in the WTO offer. This process ended around 2000. Since then, SA has pursued liberalisation through bilateral trade agreements.

[1] Due to data limitations, where imports and exports from SA 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 SA alone. Nevertheless, SA is a significant proportion of SACU trade, and inferences drawn from the data shown here are likely to be relatively robust for SA.

Table 1: SA's trade balance with the world and with SADC, 1999-2003 (R-million)

	1999	2000	2001	2002	2003	Growth (%)
Exports	161,508	208,285	215,248	277,993	255,560	12.8
Imports	147,383	188,064	215,441	274,458	258,431	16.2
Trade balance	14,126	20,220	-193	3,535	-2,871	
Exports to SADC	16,662	20,477	23,543	29,734	25,583	13.1
Import from SADC	3,383	2,530	4,477	5,568	5,584	19.6
Trade balance with SADC	13,279	17,946	19,066	24,166	19,999	

Source: TIPS

1.2 Top 10 import sources and export destinations

SA's main sources of imports are largely developed countries, oil-producing countries and China. SA's sources of imports reflect its comparative advantage profile (*see Table 2*), discussed in section 6. SA has a comparative disadvantage in the production of manufactured goods, of the kind the developed countries, and increasingly China, produce. SA has large oil import needs, hence the large share of trade with Saudi Arabia and Iran.

As table 2 shows, SA's main export partners are primarily developed countries. Again, this pattern largely results from SA's comparative advantage in the production of primary commodities, which developed countries that have a comparative advantage in higher value-added goods need.

Significantly, no SADC countries appear on the list of major export and import partners. There may be several reasons for this. First, SADC economies are small relative to the rest of the world, and are therefore not significant markets for exports, nor are they sources of imports. The second issue is that there are substantial barriers to trade between SA and other SADC countries. For instance, SA has undertaken to liberalise its trade regime more quickly towards other SADC countries than they liberalise towards SA. Geographic barriers to trade also exist to some extent – many SADC countries are landlocked or have poor transport infrastructure, and getting products to and from markets is therefore difficult. As SADC economies grow, infrastructure is developed and trade regimes are liberalised, this profile may change.

Table 2: Top 10 sources of imports and destinations for exports, 2003

Imports			Exports		
Country	Imports 2003 (Rm)	Share of total (%)	Country	Exports 2003 (Rm)	Share of total (%)
Germany	43,465	14.2	US	29,258	10.0
US	25,956	8.5	UK	27,611	9.5
China	23,011	7.5	Japan	26,518	9.1
UK	21,084	6.9	Germany	20,054	6.9
Japan	20,942	6.8	The Netherlands	11,992	4.1
France	18,597	6.1	Taiwan Province of China	8,805	3.0
Saudi Arabia	17,086	5.6	Italy	7,734	2.7
Iran (Islamic Republic of)	15,223	5.0	Belgium	7,155	2.5
Italy	9,249	3.0	Switzerland	7,139	2.5
Australia	7,247	2.4	Spain	7,128	2.4

Source: TIPS

1.3 Exports and imports by region

Regional imports reflect similar trends to those seen in the data on largest trading partners. A large proportion of SA's imports come from countries that have a comparative advantage in the production of manufactured goods. Commodity-based economies in the rest of Africa and the Americas produce a relatively small proportion of SA's imports, while OECD[2] countries, China and certain Asian countries with a comparative advantage in manufacturing, make up a significant proportion of SA's imports (*see table 3*).

Table 3: Exports and imports by region, 2003

Region	Exports 2003 (R-million)	Share of total (%)	Imports 2003 (R-million)	Share of total (%)
SADC	24,911	8.6	7,554	2.5
NAFTA	32,379	11.1	28,684	9.4
EU	93,445	32.1	124,781	40.7
MERCOSUR	1,994	0.7	10,027	3.3
Japan	26,518	9.1	20,942	6.8
China	6,459	2.2	23,011	7.5
(Other) Africa	12,209	4.2	6,504	2.1
Oceania	7,783	2.7	8,174	2.7
(Other) Americas	1,279	0.4	1,436	0.5
(Other) Asia	39,201	13.5	70,795	23.1
(Other) Europe	8,534	2.9	4,191	1.4
Other	36,417	12.5	270	0.1

Source: TIPS

[2] Organisation for Economic Co-operation and Development.

Regional export patterns underline the trends observed in the analysis of largest trading partners, which revealed that SA's main export partners reflected the country's comparative advantage in the production of primary commodities for countries with a comparative advantage in the production of manufactured goods. Thus SA's exports largely go to the EU, NAFTA[3] and Japan, all developed regions with a comparative advantage in the production of manufactured goods (*see table 3)*.

SADC countries import a relatively significant proportion of SA's exports. However, a less significant proportion of the country's imports originate in SADC countries, as mentioned earlier.

1.4 Fastest growing import and export partners

Changes in trade show a different picture to absolute sizes of trade (*see table 4*). For instance, Central and Eastern European countries feature prominently in sources of imports that are growing quickly, while African countries are rapidly becoming major destinations for SA exports. The latter trend appears to be a reflection of the success of SA firms' expansion into other African markets.

Significantly, no SADC country appears on the list of either fastest growing export or import partners. The fact that no SADC country is growing substantially as a destination for SA goods is in part due to the fact that SADC economies are not growing at significant rates. At the same time, one might have expected greater increases in imports from SADC countries over the period due to the substantial liberalisation of tariffs for SADC goods. Despite this there has been stronger import growth from other countries. Indeed, none of the countries with which SA has concluded trade agreements appear on either list. Market access does not appear to play a major role in the growth of exports or imports. Most of the countries listed in table 4 have been growing very fast, albeit off a low base.

1.5 Commodity composition of trade

SA's profile of trade with the world differs significantly from trade with SADC (*see table 5*). SA imports predominantly manufactured goods from the rest of the world, and primary goods from SADC. This reflects SA's relative comparative advantage in producing manufactured goods, when compared to SADC, and its comparative advantage in producing primary goods with respect to the world – the typical profile of a middle-income country such as SA.

[3] North American Free Trade Area.

Table 4: Fastest growing trade partners

Imports			Exports		
Country	Imports 2003 (R-million)	Average growth 1999-2003 (%)	Country	Exports 2003 (R-million)	Average growth 1999-2003 (%)
Yemen	203	792.1	Vietnam	559	151.1
New Caledonia	152	709.6	Nicaragua	50	128.8
Benin	19	501.2	Niger	65	119.5
Belize	14	325.8	Ukraine	130	107.1
Lithuania	28	110.6	Mauritania	79	101.9
Kazakhstan	68	86.6	Tokelau	113	94.5
Poland	453	73.0	Sudan	275	87.9
Colombia	105	68.0	Cameroon	496	65.8
Gabon	53	67.0	Sierra Leone	81	60.5
Czech Republic	756	60.6	Iceland	55	59.3

Source: TIPS

Table 5: Commodity composition of imports, 2003

Product	Share of total imports from world (%)	Share of total imports from RoSADC (%)
Ch 1: Live Animals	0.7	0.8
Ch 2: VegetablesC02: Vegetable products (6-14)	1.6	4.0
Ch 3: Animal or Vegetable Fats	0.8	0.1
Ch 4: Prepared Foods	2.0	4.9
Ch 5: Mineral Products	15.2	41.8
Ch 6: Chemicals	9.1	0.9
Ch 7: Plastics	3.7	0.8
Ch 8: Leather	0.5	0.5
Ch 9: Wood Products	0.6	2.4
Ch 10: Wood Pulp & Paper	1.6	0.3
Ch 11: Textiles	3.3	15.0
Ch 12: Footwear	0.9	0.3
Ch 13: Stone & Glass	1.2	0.4
Ch 14: Precious Metals	1.7	3.6
Ch 15: Base Metals	4.2	11.0
Ch 16: Machinery	26.0	6.7
Ch 17: Vehicles	13.4	3.7
Ch 18: Scientific Equipment	3.3	1.0
Ch 19: Arms & Ammunition	0.0	0.0
Ch 20: Misc. Manufactures	1.4	1.0
Ch 21: Art & Antiques	0.1	0.1
Ch 22: Unclassified	0.1	0.7
Ch 23: Special Classification: Motor Parts	8.5	0.0
Total value of imports (Rbn)	306	7

Source: TIPS

SA's relative comparative advantage (RCA) to SADC in the production of manufactured goods is again reflected in the difference between its export profile with SADC and that with the world (*see Table 6*). SA's exports to SADC countries are predominantly manufactured goods, while exports to the world are mainly commodity-based.

Table 6: Commodity composition of exports (2003)

Product	Share of total exports to world (%)	Share of total exports to RoSADC (%)
Ch 1: Live Animals	1.2	1.5
Ch 2: Vegetables	3.4	4.7
Ch 3: Animal or Vegetable Fats	0.1	0.7
Ch 4: Prepared Foods	3.5	7.9
Ch 5: Mineral Products	11.8	16.5
Ch 6: Chemicals	6.0	12.9
Ch 7: Plastics	1.8	6.8
Ch 8: Leather	0.5	0.1
Ch 9: Wood Products	1.1	0.6
Ch 10: Wood Pulp & Paper	2.2	4.1
Ch 11: Textiles	1.7	2.1
Ch 12: Footwear	0.1	0.2
Ch 13: Stone & Glass	0.7	1.2
Ch 14: Precious Metals	27.4	0.2
Ch 15: Base Metals	19.6	14.0
Ch 16: Machinery	8.2	16.9
Ch 17: Vehicles	8.7	6.9
Ch 18: Scientific Equipment	0.5	1.4
Ch 19: Arms & Ammunition	0.0	0.0
Ch 20: Misc. Manufactures	1.6	1.5
Ch 21: Art & Antiques	0.0	0.0
Ch 22: Unclassified	0.1	0.0
Ch 23: Special Classification: Motor Parts	0.0	0.0
Total value of exports (Rbn)	291	24

Source: TIPS

1.6 Fastest growing import and export commodities

1.6.1 Fastest growing export commodities

Many of SA's fastest growing export commodities are manufactured goods, including textiles, clothing and motor vehicles (*see table 7*). This appears to reflect the real depreciation of the Rand between 1999 and 2001, when SA's manufactured exports were growing strongly. More recently, this trend reversed itself, and the manufacturing sector in general and manufactured exports have been under great pressure.[4]

The clothing and textiles sectors are not expected to recover significantly due to the end of the Multi-Fibre Agreement (MFA), which allowed countries to protect their clothing and textiles industries through the impositions of quotas, in the absence of substantial intervention by government.[5] The SA industry remains highly vulnerable to greater imports from China and other East and Southern Asian competitors. Motor industry exports have better prospects, due to the Motor Industry Development Plan (MIDP), which provides a system of import credits for motor industry exports. There are concerns about the legality of this programme in terms of WTO rules, and there is some uncertainty about the extension of the programme beyond 2012, which may limit further investment in the sector and growth in exports.

Annual average nominal growth in exports over the period was positive, at 13%. This is in line with Government's plans to achieve export-led economic growth, and could to some extent be a benefit flowing from the substantial trade liberalisation during the 1990s.

Table 7: Fastest growing exports to the world (average growth rate 1999-2003)

Product	% growth	Exports 2003 (R-million)
H53: Vegetable textile fibres nes, paper yarn, woven fabric	157.3	44
H23: Residues, wastes of food industry, animal fodder	52.8	213
H92: Musical instruments, parts and accessories	43.3	94
H56: Wadding, felt, non wovens, yarns, twine, cordage, etc	39.0	183
H46: Manufactures of plaiting material, basketwork, etc.	38.9	14
H33: Essential oils, perfumes, cosmetics, toiletries	37.7	1,125
H59: Impregnated, coated or laminated textile fabric	30.5	155
H50: Silk	29.2	3
H62: Articles of apparel, accessories, not knit or crochet	29.1	1,303
H87: Vehicles other than railway, tramway	28.9	22,925
H22: Beverages, spirits and vinegar	28.6	4,871
H19: Cereal, flour, starch, milk preparations and products	26.1	240
H10: Cereals	25.5	1,169
H02: Meat and edible meat offal	25.2	474
H84: Nuclear reactors, boilers, machinery, etc	24.9	16,980
H01: Live animals	24.8	164
H78: Lead and articles thereof	24.8	14
H69: Ceramic products	23.8	258
H63: Other made textile articles, sets, worn clothing etc	23.3	299
Total exports	12.8	

Source: TIPS

4 See, for example, Reserve Bank Quarterly Bulletin no. 236, June 2005, www.reservebank.co.za. The Monetary Policy Committee Statement issued on 11 August 2005 shows that manufacturing recovered somewhat in the second quarter of 2005.

5 See, for example, Barnes, A Strategic Assessment of the South African Wearing Apparel Sector, at www.tips.org.za/events/satppjuly2005.asp

One worrying aspect of the results in table 7 is that most of the industries listed, with the exception of motor vehicles and machinery, have quite small exports. SA will only achieve export-led growth when the larger export sectors achieve faster growth rates.

SA's fastest growing exports to SADC are quite diverse. Table 8 shows some advanced manufactured goods, but mostly the list consists of commodities and some processed goods. This may indicate that SA is losing its edge in manufacturing advanced goods for SADC, possibly due to competition from developed countries in the SADC market.

Table 8: Fastest growing exports to SADC (average growth rate 1999-2003)

Product	% growth	Exports 2003 (R-million)
H71: Pearls, precious stones, metals, coins, etc	97.7	121
H97: Works of art, collectors pieces and antiques	56.7	5
H10: Cereals	46.5	1,014
H66: Umbrellas, walking-sticks, seat-sticks, whips, etc	45.7	7
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	43.2	134
H52: Cotton	38.2	168
H89: Ships, boats and other floating structures	37.3	38
H08: Edible fruit, nuts, peel of citrus fruit, melons	34.5	256
H22: Beverages, spirits and vinegar	33.5	945
H41: Raw hides and skins (other than fur skins) and leather	29.3	4
H33: Essential oils, perfumes, cosmetics, toiletries	29.1	350
H01: Live animals	28.6	62
H13: Lac, gums, resins, vegetable saps and extracts nes	27.6	13
H59: Impregnated, coated or laminated textile fabric	26.4	4
H49: Printed books, newspapers, pictures etc	26.4	68
H75: Nickel and articles thereof	25.8	154
H78: Lead and articles thereof	24.5	1
H42: Articles of leather, animal gut, harness, travel goods	23.0	11
H50: Silk	22.6	16
H46: Manufactures of plaiting material, basketwork, etc.	21.7	2
Exports to SADC	13.1	

Source: TIPS

1.6.2 Fastest growing import commodities

SA's fastest growing imports from the world are mainly manufactured goods, although primary commodities also feature prominently in the list (*see table 9*). Imports have grown slightly faster than exports over the period. This reflects greater integration with the world economy, as SA benefits from trade liberalisation and the entry of foreign firms into local markets.

The fastest growing imports from SADC are a mixed bag, mainly consisting of basic processed goods and some agricultural commodi-

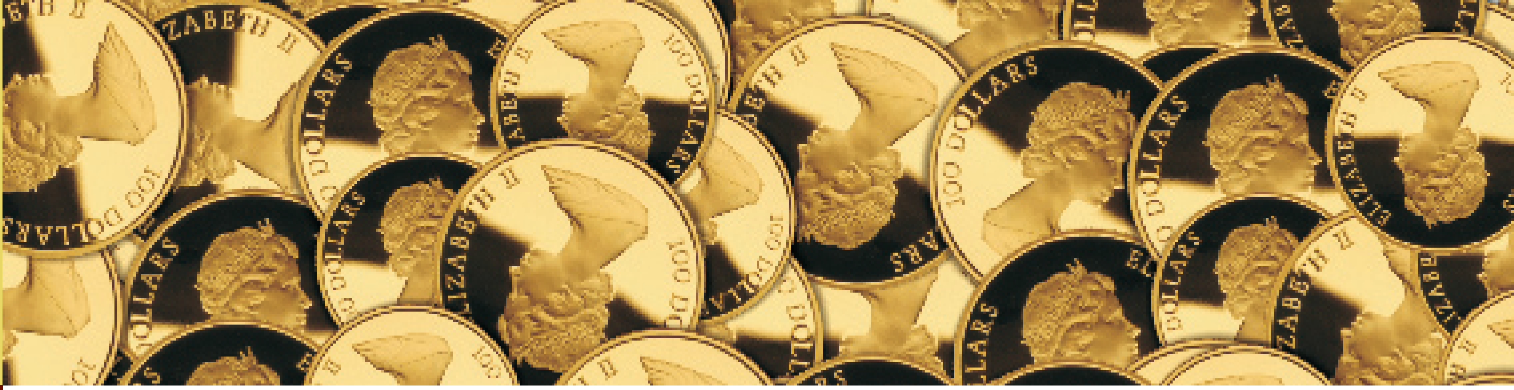


Table 9: Fastest growing imports from the world (average growth rate 1999-2003)

Product	% growth	Imports 2003 (R-million)
H26: Ores, slag and ash	87.9	1,400
H75: Nickel and articles thereof	39.6	1,256
H17: Sugars and sugar confectionery	36.8	343
H87: Vehicles other than railway, tramway	32.6	19,261
H97: Works of art, collectors pieces and antiques	32.2	217
H89: Ships, boats and other floating structures	29.2	1,167
H99: Commodities not elsewhere specified	28.0	363
H52: Cotton	27.3	1,317
H78: Lead and articles thereof	26.9	85
H31: Fertilizers	26.8	941
H14: Vegetable plaiting materials, vegetable products nes	25.5	25
H88: Aircraft, spacecraft, and parts thereof	24.2	9,552
H19: Cereal, flour, starch, milk preparations and products	23.0	295
H07: Edible vegetables and certain roots and tubers	21.7	428
H46: Manufactures of plaiting material, basketwork, etc.	21.7	37
H62: Articles of apparel, accessories, not knit or crochet	21.1	24,325
H61: Articles of apparel, accessories, knit or crochet	21.0	1,447
H04: Dairy products, eggs, honey, edible animal product nes	20.3	862
H53: Vegetable textile fibres nes, paper yarn, woven fabric	19.9	318
H86: Railway, tramway locomotives, rolling stock, equipment	19.9	115
Total Imports	16.2	

Source: TIPS

ties (*see table 10*). However, the value of imports is too low to be able to infer the direction of dynamic comparative advantage. Growth in imports from SADC was slightly higher than growth in imports from the ROW, although individual SADC countries were not amongst the fastest growing importers on our list (see section 1.4, table 4).

2. Trade intensity with the SADC region

The trade intensity indices in Table 11 for both imports from and exports to the SADC region are well above 1, indicating that either SA exporters prefer trading with SADC countries to trading with the world in general, or SADC consumers prefer buying SA goods rather than goods from the rest of the world. However, SADC consumers preferred SA goods less (or SA exporters preferred trading with SADC countries less) in 2003 than in 2002.

The import intensity indices for both years are less significant than those for exports. This implies that SA consumers prefer goods from SADC relative to goods from the rest of the world (or that SADC exporters prefer exporting to SA) but that this preference is less pronounced than the preference of SADC consumers for SA goods (or SA exporters' preference for trading with SADC countries).

Table 10: Fastest growing imports from the RoSADC

Product	% growth	Imports 2003 (R-million)
H26: Ores, slag and ash	261.8	1,061
H17: Sugars and sugar confectionery	146.0	98
H51: Wool, animal hair, horsehair yarn and fabric thereof	136.6	6
H97: Works of art, collectors pieces and antiques	122.5	148
H13: Lac, gums, resins, vegetable saps and extracts nes	91.2	1
H88: Aircraft, spacecraft, and parts thereof	85.6	156
H54: Manmade filaments	77.5	6
H57: Carpets and other textile floor coverings	71.3	1
H79: Zinc and articles thereof	70.4	31
H55: Manmade staple fibres	66.2	10
H67: Bird skin, feathers, artificial flowers, human hair	64.4	0
H22: Beverages, spirits and vinegar	63.0	14
H16: Meat, fish and seafood food preparations nes	60.6	22
H15: Animal, vegetable fats and oils, cleavage products, etc	60.0	14
H66: Umbrellas, walking-sticks, seat-sticks, whips, etc	60.0	0
H19: Cereal, flour, starch, milk preparations and products	57.9	11
H86: Railway, tramway locomotives, rolling stock, equipment	55.3	9
H59: Impregnated, coated or laminated textile fabric	48.8	2
H90: Optical, photo, technical, medical, etc apparatus	44.3	105
H47: Pulp of wood, fibrous cellulose material, waste etc	40.8	1
Imports from SADC	19.6	

Source: TIPS

The export intensity figures are clearly too large to be of any true meaning. Intensity calculations sometimes produce absurd results such as these. Nevertheless, the general picture that SA appears to be obtaining more benefit from the relationship with SADC than vice versa is probably true. The export intensity declined in 2003, indicating that exports to SADC declined more quickly than SA's exports to the rest of the world. Exports to rest of the world declined by 8%, compared to exports to SADC which declined by 14%.

3. Intra-industry trade

Intra-industry trade (IIT) for SA with the rest of the world largely reflects the incentives provided by the MIDP. A significant proportion

Table 11: Trade intensities for exports and imports in 2002 and 2003

	Exports	Imports
2002	63.5	4.4
2003	46.3	5.1

Source: TIPS, ITC COMTRADE and own calculations

of the 15 commodities in which SA has the highest degree of IIT is related to the motor industry. The MIDP essentially 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 has arisen, which has been relatively beneficial for SA. The motor industry is generally accepted as the prime sector worldwide in which IIT takes place, as a result of the market structure of the sector. The MIDP reinforces this phenomenon.

Certain commodities with high degrees of IIT (*shown in table 12*), such as chemical fertilisers, may reflect imperfect competition and resulting reciprocal dumping in these product markets.[6] Essentially, companies in both countries perceive higher prices in the foreign market compared to prices in the domestic market, and sell the product at a lower price in the foreign market (once transport costs are taken into account). There is at least one complaint before the SA competition authorities in the fertiliser sector, which supports this conclusion.[7]

IIT with SADC differs markedly from IIT with the rest of the world (*see Table 13*). While IIT in SA largely reflects the MIDP, and a few cases of possibly imperfectly competitive markets, trade with SADC

Table 12: Intra-industry trade with the world: top 15 commodities (HS4)

HS code	Commodity	Grubel-Lloyd index	Exports 2003 (Rm)	Imports 2003 (Rm)
8708	Parts and accessories for motor vehicles	0.99	3,827	3,721
4011	New pneumatic tires, of rubber	0.98	1,366	1,317
3808	Insecticides, fungicides, herbicides etc (retail)	0.98	993	947
8207	Interchangeable tools and dies for hand or power tools	0.94	537	473
8704	Motor vehicles for the transport of goods	0.91	2,075	1,732
8544	Insulated wire and cable, optical fibre cable	0.87	641	496
8409	Parts for internal combustion spark ignition engines	0.87	819	1,062
5402	Synthetic filament yarn(not sewing thread) not retail	0.86	613	466
8407	Spark-ignition internal combustion engines	0.84	604	437
8703	Motor vehicles for transport of persons (except buses)	0.80	16,325	10,950
8474	Machinery to sort, screen, wash, etc mineral products	0.78	816	524
2905	Acyclic alcohols and their derivatives	0.75	798	474
8479	Machines nes having individual functions	0.74	625	1,059
1005	Maize (corn)	0.65	1,039	501
3102	Mineral or chemical fertilizers, nitrogenous	0.65	3,827	3,721
	Weighted average of total intra-industry trade	0.29		

Source: TIPS

[6] See Brander, J & Krugman, P, 1983, 'A "Reciprocal Dumping" model of International Trade'. Journal of International Economics (15), November 1983.

[7] Competition Tribunal case no.61/IR/Nov2003. www.comptrib.co.za.

countries appears to reflect brand competition, the standard rationale for IIT. IIT with SADC is largely in manufactured commodities, which compete substantially on branding.

There is a lower amount of IIT in commodities with SADC relative to the amount of IIT between SA and the world. The weighted average of IIT with the world is 0.29, while the weighted average of IIT with SADC is only 0.01. Nevertheless, the IIT index for the world will be biased upwards because SA is a middle-income country and thus trades different goods with different countries, while no IIT actually occurs.

These trends, on balance, suggest that there are fewer gains to expanding trade with SADC countries than there are to increasing trade with the rest of the world. It is less likely that SA will benefit from economies of scale in the specialisation of the production of fewer brands, and more likely that the country will see a decline in industries in which it does not have a comparative advantage, with the concomitant greater impact on unemployment. Moving workers between industries is significantly harder than moving workers within industries, and the costs of trade liberalisation are likely to be higher where there are lower levels of IIT between two countries.

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

HS code	Commodity	Grubel-Lloyd index	Exports 2003 (Rm)	Imports 2003 (Rm)
8429	Self-propelled earth moving, road making, etc machines	0.82	126	88
8430	Earth or snow moving, boring or pile driving machines	0.82	33	48
5205	Cotton yarn not sewing thread >85 cotton, not retail	0.81	71	104
8428	Lifting, handling, loading machinery nes	0.76	43	70
8516	Electric equipment with heating element, domestic etc	0.71	54	30
4407	Wood sawn, chipped lengthwise, sliced or peeled	0.69	48	91
7102	Diamonds, not mounted or set	0.68	86	166
8525	Radio and TV transmitters, television cameras	0.53	109	40
8544	Insulated wire and cable, optical fibre cable	0.51	109	37
8537	Electrical power, etc, control and distribution boards	0.48	59	18
2401	Tobacco unmanufactured, tobacco refuse	0.43	79	287
7326	Articles of iron or steel nes	0.37	87	20
0902	Tea	0.36	22	99
9403	Other furniture and parts thereof	0.33	179	36
1701	Solid cane or beet sugar and chemically pure sucrose	0.30	516	92
	Weighted average of total intra-industry trade	0.01		

Source: TIPS

4. Tariff analysis

SA tariffs levied on imports from SADC are mostly zero (*see table 14 and figure 1*). Imports from the world are included in table 14, but one must bear in mind that imports from the rest of the world face very different tariffs. The tariff schedule with SADC has been significantly liberalised – although the maximum tariff is 44%, it only applies to one tariff line out of 4,514. In fact, this is the only tariff above 30%.

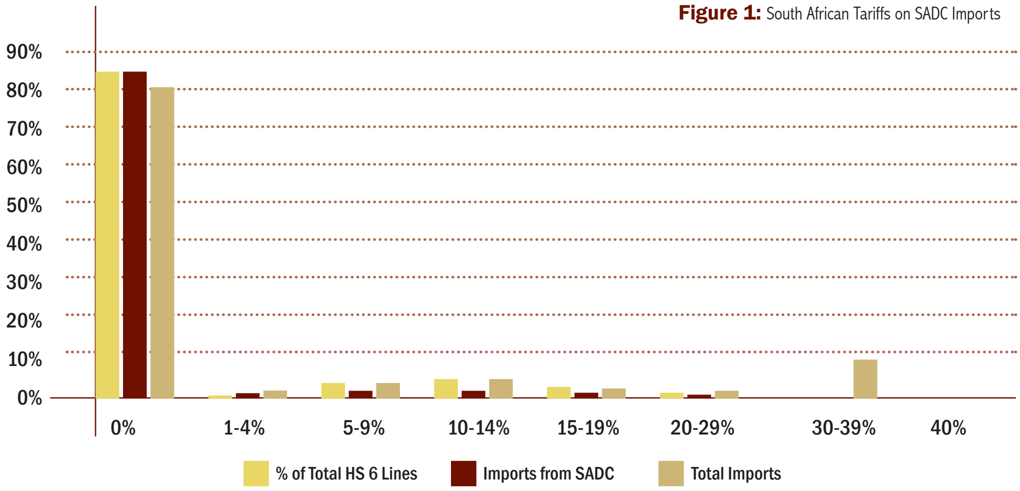
Figure 1 illustrates the information in table 14 graphically. Tariffs on SADC imports are low, and imports from SADC generally directed towards the cheap tariff lines. One spike that stands out is imports from the rest of the world for the 30% to 39% range, which are imports of motor vehicle parts. SA imports no such parts from SADC.

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

Source: TIPS

Figure 1: South African Tariffs on SADC Imports



Source: TIPS

It is obviously important to know which industries face the highest tariffs. From Table 15, as one would expect given SADC's trade profile with SA, it is clear that basic processed goods face the highest tariffs. The major exception to this is the chapter identified above for motor vehicle parts.

Once again, it is obvious that tariffs are quite low and in no way can be considered prohibitive. Industries protected from SADC are mainly labour-intensive, low-technology industries.

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

HS 2 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 & wickerwork	11.7	161,669	37,012,112

Source: TIPS

5. Trade agreements planned and in force

SA has a trade agreement with the EU (the TDCA[8]), and is in the process of negotiating free trade agreements with the European Free Trade Association (EFTA), the US and Mercosur[9]. SA is also a member of the Southern African Customs Union (SACU) and SADC. The country is further a beneficiary of the US Africa Growth and Opportunity Act (AGOA) and the Generalised System of Preferences (GSP), and has been a member of the WTO since 1995.

6. Revealed comparative advantage

In the long run, one would expect the terms of trade to move against commodities and primary goods, hence the general desire to trade in more advanced manufactured goods. According to the calculations reported in Table 16, SA's comparative advantage is, however, still vested in primary goods and commodities. Advanced manufactured goods are

[8] EU-South Africa Trade and Development Co-operation Agreement.

[9] Mercado Comun del Sur, or Southern Common Market, is a trading zone between Brazil, Argentina, Uruquay and Paraquay, and promotes free trade and the fluid movement of goods, people and currency.

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

HS code	Product	Exports 2003 (R-million)	Index value
71	Nat etc pearls, prec etc stones, pr met etc; coin	59,100	13.6
26	Ores, slag and ash	9,125	8.1
8	Edible fruit & nuts; citrus fruit or melon peel	6,814	8.0
51	Wool & animal hair, including yarn & woven fabric	1,542	4.4
72	Iron and steel	29,143	3.8
22	Beverages, spirits and vinegar	4,871	3.4
25	Salt; sulphur; earth & stone; lime & cement plaster	1,210	2.9
20	Prep vegetables, fruit, nuts or other plant parts	2,239	2.3
81	Base metals NESOI; cermets; articles thereof	340	2.2
36	Explosives; pyrotechnics; matches; pyro alloys etc	392	1.9
47	Wood pulp etc; recovd (waste & scrap) ppr & pprbd	2,793	1.9
		4,331	
28	Inorg chem; prec & rare-earth met & radioact compd	7,774	1.8
76	Aluminium and articles thereof	2,737	1.8
3	Fish, crustaceans & aquatic invertebrates	1,906	1.7
17	Sugars and sugar confectionary	1,279	1.7
41	Raw hides and skins (no fur skins) and leather	4,338	1.7
94	Furniture; bedding etc; lamps NESOI etc; prefab bd	754	1.4
75	Nickel and articles thereof	3,361	1.3
44	Wood and articles of wood; wood charcoal	345	1.3
6	Live trees, plants, bulbs etc.; cut flowers etc.	59,100	1.2

Source: TIPS, ITC COMTRADE and own calculations

Table 17: Revealed comparative advantage with respect to the world: bottom 20 commodities (HS2)

HS code	Product	Exports 2003 (R-million)	Index value
91	Clocks and watches and parts thereof	13	0.0
50	Silk, including yarns and woven fabric thereof	3	0.0
92	Musical instruments; parts and accessories thereof	94	0.0
95	Toys, games & sport equipment; parts & accessories	105	0.0
64	Footwear, gaiters etc. and parts thereof	140	0.1
43	Fur skins and artificial fur; manufactures thereof	12	0.1
30	Pharmaceutical products	655	0.1
4	Dairy prods; birds eggs; honey; ed animal pr NESOI	332	0.1
67	Prep feathers, down etc; artif flowers; h hair art	18	0.1
65	Headgear and parts thereof	37	0.1
96	Miscellaneous manufactured articles	82	0.1
37	Photographic or cinematographic goods	85	0.1
90	Optic, photo etc, medic or surgical instruments etc	1,344	0.1
60	Knitted or crocheted fabrics	65	0.1
85	Electric machinery etc; sound equip; TV equip; pts	5,269	0.1
15	Animal or vegetable fats, oils etc. & waxes	292	0.2
10	Cereals	1,169	0.2
46	Mfr of straw, esparto etc.; basket ware & wickerwork	14	0.2
89	Ships, boats and floating structures	388	0.2
49	Printed books, newspapers etc; manuscripts etc	13	0.2

Source: TIPS, ITC COMTRADE and own calculations

notable in that they are listed in Table 17, which shows the commodities in which SA has a comparative disadvantage, indicating that SA exports them at a 'revealed' comparative disadvantage.

7. Revealed trade barriers

SA exports some resources to the SADC region, but in general, the share of such trade is small. This is probably not due to tariff barriers, but more likely because other SADC countries have a comparative advantage in resources and some agricultural goods. Barriers to trade are low in manufactured goods because many SADC countries do not have the capacity to manufacture these products themselves. Instead, they are (generally) imported from SA. Although there may be some tariff barriers, these are unable to protect local industries sufficiently because of low capacity.

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

HS code	Product	Exports to SADC, 2003 (Rm)	Index value
80	Tin and articles thereof	4	23.5
11	Milling products; malt; starch; inulin; wht gluten	220	11.5
4	Dairy prods; birds eggs; honey; ed animal pr NESOI	267	17.4
10	Cereals	1,014	11.7
31	Fertilizers	556	12.9
49	Printed books, newspapers etc; manuscripts etc	154	13.4
1	Live animals	62	12.4
15	Animal or vegetable fats, oils etc. & waxes	200	10.4
34	Soap etc; waxes, polish etc; candles; dental preps	458	12.6
64	Footwear, gaiters etc. and parts thereof	48	11.1
91	Clocks and watches and parts thereof	5	11.1
52	Cotton, including yarn and woven fabric thereof	168	8.2
92	Musical instruments; parts and accessories thereof	2	10.8
96	Miscellaneous manufactured articles	37	8.2
69	Ceramic products	125	6.6
19	Prep cereal, flour, starch or milk; bakers wares	140	7.8
23	Food industry residues & waste; prep animal feed	52	8.4
79	Zinc and articles thereof	48	8.6
21	Miscellaneous edible preparations	311	7.6
30	Pharmaceutical products	181	7.1

Source: TIPS, ITC COMTRADE and own calculations

Table 19: Revealed trade barriers with respect to SADC: bottom 20 commodities (HS2)

HS code	Product	Exports to SADC 2003 (Rm)	Index value
75	Nickel and articles thereof	1	0.0
47	Wood pulp etc; recovd (waste & scrap) ppr & pprbd	51	0.0
71	Nat etc pearls, prec etc stones, pr met etc; coin	121	0.0
26	Ores, slag and ash	14	0.0
41	Raw hides and skins (no furskins) and leather	4	0.1
81	Base metals NESOI; cermets; articles thereof	1	0.1
45	Cork and articles of cork	1	0.1
8	Edible fruit & nuts; citrus fruit or melon peel	256	0.1
51	Wool & animal hair, including yarn & woven fabric	19	0.2
97	Works of art, collectors' pieces and antiques	5	0.2
6	Live trees, plants, bulbs etc.; cut flowers etc.	8	0.2
76	Aluminium and articles thereof	273	0.2
3	Fish, crustaceans & aquatic invertebrates	78	0.2
54	Manmade filaments, including yarns & woven fabrics	39	0.3
74	Copper and articles thereof	42	0.3
43	Furskins and artificial fur; manufactures thereof	1	0.5
72	Iron and steel	1,320	0.5
29	Organic chemicals	226	0.6
28	Inorg chem; prec & rare-earth met & radioact compd	312	0.6
44	Wood and articles of wood; wood charcoal	178	0.6

Source: TIPS, ITC COMTRADE and own calculations