Examining South Africa's trade with the Southern African Development Community (SADC) with the SADC Free Trade Area initiative in place

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Abstract
This paper examines South Africa's trade with SADC given that the SADC FTA is now in place. Trade intensity indexes were calculated and evidence shows that while South Africa trades intensively with other regional groupings in Africa, non-SACU SADC is its most important trading partner. Significant increases in South Africa's imports from non-SACU SADC coincided with the years it zero rated its products in various product categories. In examining the factor intensities of products traded, evidence shows that South Africa's major imports from non-SACU SADC are mainly mineral fuels, non-primary commodities, and resource-intensive manufactures, while its major exports to non-SACU SADC are mainly technology-intensive manufactures. This reflects disparities in levels of industrial development between South Africa and non-SACU SADC. In examining whether other regional groupings in Africa have been able to displace non-SACU SADC as South Africa's major trading partner, evidence shows that while the groupings have made efforts to gain some ground over non-SACU SADC, these efforts have not been sustained, with South Africa trading mostly with non-SACU SADC.

Keywords: trade intensity index, factor intensity of products, Southern African Development Community, Southern Africa Customs Union, East African Community, Economic Community for West African States

JEL classifications: F15 (Economic Integration)

Introduction

The Southern African Development Community (SADC) aims to facilitate and attain deeper economic integration and industrial development among its members. Thus, the grouping developed the SADC Protocol on Trade which they signed in 1996, and came into force in September 2000 to liberalise intra-SADC trade and bring into effect the SADC Free Trade Area (SADC FTA). Part Two Article 3 of the Protocol indicates a phased down elimination of tariffs and non-tariff barriers to be achieved within eight years from entry into force of the Protocol. Progressive reduction and removal of tariffs to trade was effected through implementing an asymmetric tariff reduction schedule which was adopted by member states, with each country implementing its proposed tariff reduction offer to SADC.

The Southern African Customs Union[1] (SACU) is a relatively well-developed region and it was agreed that it front loads its tariff

[1] It is made up of South Africa, Botswana, Lesotho, Namibia and Swaziland.

phase down programme beginning as soon as the trade agreement came into force, and attain 97% coverage by 2008. Mauritius and Zimbabwe were to implement a tariff phase down programme starting in the middle of the eight-year process. The rest of SADC began their phase down schedule in the 5th or 6th year of implementation, which was towards the end of the process, and were expected to achieve tariff reduction coverage of 60-80% by 2008. This asymmetric tariff reduction only applied to goods in Categories B and C, as those in Category A were for immediate liberalisation. Through implementing the SADC Protocol on Trade, the SADC FTA came into effect in January 2008 to enable free trade to at least 85% of intra-SADC trade, with provisions given for extending the full implementation to 2012. The subsequent four years after 2008 in which a few sensitive products may still call for duty, were deemed beneficial to countries as that gave more time for sensitive domestic industries to adjust and become more focussed, in anticipation of the stiff competition that would result with the full implementation of the SADC FTA.

South Africa like the other members of SACU is bound by the SACU tariff phase down offer which they submitted to the SADC Secretariat in 2006, and the analysis of this offer is given in Table A-1 (Appendices). Category A products were zero rated immediately upon entry into force of the SADC Trade Protocol. Category B products were gradually liberalised immediately upon entry into force of the Protocol with the first group of products zero rated in 2002, followed by 2004. Full liberalisation of Category B products was attained at the end of 2006 after zero rating all remaining Category B products. While tariffs on Category C products were gradually reduced, only few products were zero rated in 2001. While gradual reduction of tariffs for Category C products continued, additional product items were only zero rated in 2008 when all the remaining products in this category were zero rated. Tariffs for Category E products were never reduced in line with Part Two Articles 9 and 10 of the SADC Protocol on Trade.

Table A-2 (Appendices) shows the analysis of SACU products in the various product categories as per the tariff reduction offer to SADC. Most products are in Category A and are of various levels of technological complexity, including high technology products. While Category B products are fewer than those in Category A, they are also of various levels of technological complexity. Only 31 product lines are in Category C and all these are from HS87. Category E products are made up of HS98 (Road tractors, motor vehicles for passengers/or goods, and construction vehicles), and 17 product lines from HS17 (Sugars & sugar confectionary).

This research adds value to existing work on South Africa-SADC trade in that it gives insight into: (i) how intensively South Africa trades with other regional groupings in Africa by using trade intensity indexes, which give more information on bilateral trade and show the importance of each trading partner unlike to merely examine values of trade flows between countries; (ii) the tariff phase down offer by SACU to SADC and where non-SACU SADC responded in terms of import flows into South Africa; (iii) factor intensities of major products traded and thus help to reveal and compare levels of industrial development more accurately in the absence of production data; and (iv) efforts which other regional groupings in Africa have made to gain ground over non-SACU SADC as trading partners for South Africa. This is done by examining the performance of major products which

South Africa trades with non-SACU SADC and other regional groupings and show where non-SACU SADC has been displaced.

An Overview of South Africa's Trade in Africa

The trade intensity index is used to examine how intensively South Africa traded with other African regions before and after implementing the SADC FTA. It will establish whether or not the formation of the SADC FTA has in any way influenced South Africa's trade with other regions in Africa.

The trade intensity index measures and analyses bilateral trade flows and resistances. The level of intensity shows the proportion of exports of country i that goes to country j weighted by the world share of imports for country j. The trade intensity index (I_{ij}) is expressed as shown in equation (1).

$$I_{ij} = \frac{(X_{ij})/(X_i)}{M_j/(M_w - M_i)} \quad \text{--} \quad (1)$$

where
X_{ij} is country i's exports to country j;
X_i is country i's total exports;
M_j is country j's total imports;
M_i is country i's total imports; and
M_w is total world imports (Weldemicael, 2010:7, 8; Edmonds and Li, 2010:5; Drysdale and Garnaut, 1982:68; Foroutan, 1998:11).

I_{ij} has values ranging from zero to an infinite positive number, and higher values indicate greater importance of the selected partner region/or country. If $I_{ij} = 1$, this means that the proportion of exports of country i that goes to country j is in exact proportion to country j's world share of imports. In this case therefore, the trade partners are trading without geographic bias. If $I_{ij} > 1$, this means that trade between two countries is more intensive than expected; and if $I_{ij} < 1$, this means that trade between two countries is less intensive than expected, thus indicative of a small flow of trade between countries i and j relative country j's trade with the rest of the world (Weldemicael, 2010:7, 8; Foroutan, 1998:11; Edmonds and Li, 2010:5; Gilbert, 2010:18).

The trade intensity index will not be decomposed into two indexes that separate the effects of the commodity composition (complementarity) from other factors influencing the intensity of trade because all we are interested in is the ***general*** insight into how intensely South Africa trades with three major trade integration regions in Africa outside SACU, *viz*. non-SACU SADC, the East African Community (EAC), and the Economic Community of West African States (ECOWAS). The Common Market for Eastern and Southern Africa (COMESA) is not included because its membership is predominantly SADC and the EAC countries. The BLNS countries (Botswana, Lesotho, Namibia, and Swaziland) are fellow members with South Africa in SACU, and they have always experienced free trade with each other, and as such, trade intensity indexes will not be calculated.

The trade intensity indexes in Table 1 show that South Africa trades very intensively with all the regional groupings, since for all regions $I_{ij}>1$. ECOWAS is located very far from South Africa and one would have expected a trade intensity index of $I_{ij}<1$. However, even though South Africa trade intensively with ECOWAS, it is the least important to South Africa as, in comparison with the other regional groupings, it has the least values of trade intensity indexes, i.e. $3<I_{ij}<7$ for the period 2001-2011. Higher I_{ij} values indicate greater importance of the selected partner region, and in this case, it is non-SACU SADC which is of much greater importance to South Africa, with $31<I_{ij}<59$ in the period 2001-2011. However, there is no indication that the intensity with which South Africa traded with other groupings fell with the SADC FTA initiative.

Table 1: Trade intensity indexes (2001-2011*)

Proportion of exports of South Africa that goes to Africa weighted by the world share of imports by Africa											
Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
(I_{ij})	12.36	12.41	10.30	10.53	10.53	9.012	8.257	7.156	7.094	6.559	6.573
Proportion of exports of South Africa that goes to non-SACU SADC weighted by the world share of imports by non-SACU SADC											
Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
(I_{ij})	53.96	58.52	46.12	41.91	39.84	38.59	34.63	35.20	31.76	37.05	31.05
Proportion of exports of South Africa that goes to the EAC weighted by the world share of imports by the EAC											
Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
(I_{ij})	16.543	21.647	19.382	22.075	18.080	15.189	13.909	12.900	15.500	12.657	9.857
Proportion of exports of South Africa that goes to ECOWAS weighted by the world share of imports by ECOWAS											
Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
(I_{ij})	4.141	6.875	6.478	6.192	5.296	4.969	4.274	4.659	4.900	3.843	3.263

***Notes:* Non-SACU SADC = Angola, the Democratic Republic of Congo, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe.**
EAC = East African Community made of Burundi, Kenya, Rwanda, Tanzania and Uganda
ECOWAS = Economic Community of West African States made up of Benin, Burkina Faso, Cabo Verde, Cote D'ivoire, Gambia, Ghana, Guinee, Guinee Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togolese
**** = 2011 was the most recent year for which statistical data were available for all regions.***
Sources: Own calculations using trade data from the ITC database available on http://www.trademap.org

As trade liberalisation progressed, South Africa's trade with non-SACU SADC grew significantly from a mere 2.5% in 2002 after the immediate liberalisation of Category A in 2001, to peak at a growth rate of 45% in 2007 after there was full liberalisation of Category B; and the liberalisation of Category C had gathered momentum having been initiated in 2005, with some such products already zero rated. In 2008, when the SADC FTA came into effect South Africa's trade with non-SACU SADC grew by 35.6% (trade data from the ITC database available on http://www.trademap.org)

South Africa's Import Trade

Table 2 shows that within non-SACU SADC, South Africa's major import sources were mainly Zimbabwe, Zambia, Mozambique and Angola. Changes in dynamics of imports sources were experienced in 2004-2012 where (i) Zambia lost ground to Angola in 2004-2006 as the second major import source; (ii) Zimbabwe lost ground to Angola as the major import source in 2007-2012; and (iii) Mozambique became the second major import source after Angola in 2007-2012. Due to severe political and economic challenges Zimbabwe has been experiencing, it lost a lot of ground as an import source for South Africa, falling from being the major import source in 2001-2006 to being the fourth import source in 2009-2012.

Table 2: South Africa's import trade (US$mn) with non-SACU SADC countries

SADC countries	Period of years and value of imports (US$mn)											
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Angola	1.5	12.2	3.8	262	297	366	1646	2686	1371	1998	1585	2777
DRC	2.4	1.7	4.0	6.9	4.2	7.2	7.8	6.1	10.2	14.2	14.9	9.0
Madagascar	2.0	3.4	2.0	1.6	1.8	2.0	6.0	14.9	18.6	22.0	44.1	71.6
Malawi	38.5	45.7	50.5	67.3	70.8	78.0	91.5	117	65.4	64.3	66.8	68.7
Mauritius	18.4	8.8	16.4	16.5	26.0	38.2	62.3	65.0	65.3	96.9	157	209
Mozambique	35.4	38.2	37.2	31.2	30.3	47.6	340	399	420	528	1052	1279
Seychelles	4.0	1.1	3.5	4.3	2.8	2.2	6.4	0.5	1.5	1.1	0.7	0.7
Tanzania	4.5	9.0	17.9	32.0	39.1	45.0	52.8	73.1	28.0	63.5	76.5	59.2
Zambia	49.3	73.5	75.5	155	204	271	325	287	195	289	370	406
Zimbabwe	169	202	348	430	488	686	854	759	188	192	433	382

***Notes:** DRC = Democratic Republic of Congo*
***Sources:** Own Table using trade data from the ITC database available on http://www.trademap.org*

For its major import sources, particularly Zimbabwe, Zambia and Angola, significant increases in imports by South Africa began in 2004, which coincided with when South Africa zero rated a significantly large number of its Category B products, in addition to those already zero rated in 2002. Another huge increase in imports from its 4 major import sources was experienced in 2006 and 2007 which coincided with when South Africa zero rated all the remaining Category B products in 2006, while gradual reduction of tariffs for Category C products continued. In 2008 when South Africa zero rated all the remaining Category C products, there was another huge increase in imports coming from its major sources Angola and Mozambique and minor sources like Madagascar, Malawi, and Tanzania.

Table 3 shows South Africa's top ten imports from non-SACU SADC with rankings at commodity level. South Africa's basket of top ten imports has been changing constantly, except for only HS52 which has always appeared in this basket. In terms of factor intensity, South Africa's import basket in Table 3 is dominated by mineral fuels, non-primary commodities, and resource-intensive manufactures, of which HS27, HS71, HS74, HS26 and HS52, tended to rank more favourably. The non-SACU SADC region is well endowed with these resources and thus is a significant import source for South Africa. Even though South Africa is also well endowed with similar resources, these imports which it can easily access from non-SACU SADC augment its own resources and thus help to facilitate its own economic development. HS61 and HS62 are resource-intensive manufactures which do not rank favourably despite South Africa fully liberalising Category B (in which HS61 and HS62 are) by end of 2006. Compared to non-SACU SADC, South Africa has a much stronger industry for HS61 and HS62, and as such imports from non-SACU SADC face challenges in competing favourably.

Table 3: South Africa's top ten SADC import lines (2001-2012)

Product categories: HS2 Classification	Period of years and rank in order of value of imports											
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
27:Mineral fuels oils, distil	3rd	4th	15th	1st	2nd	2nd	1st	1st	1st	1st	1st	1st

74: Copper and articles thereof	4th	7th	11th	4th	4th	5th	18th	5th	3rd	3rd	3rd	2nd
71: Pearls and precious stones,	34th	10th	13th	9th	1st	1st	3rd	2nd	2nd	2nd	2nd	3rd
52: Cotton	1st	1st	2nd	3rd	5th	6th	5th	9th	4th	5th	5th	9th
HS24: Tobacco & manf tobacco	2nd	5th	3rd	6th	8th	12th	10th	11th	9th	8th	9th	12th
26: Ores, slag, and ash	28th	2nd	1st	2nd	3rd	4rd	4th	4th	13th	24th	4th	4th
HS44: Wood &its articles,	5th	9th	5th	5th	7th	9th	9th	16th	14th	21st	22nd	22nd
84: Machinery, nuclear react,	7th	3rd	6th	16th	13th	7th	17th	7th	10th	4th	6th	5th
HS09:Coffee,tea, mate, & spices	8th	11th	7th	8th	9th	11th	11th	14th	8th	10th	11th	13th
61: Articles of apparel, knit	13th	15th	18th	17th	12th	15th	8th	12th	7th	7th	7th	6th
62: Articles of apparel not	6th	8th	8th	10th	11th	14th	7th	10th	6th	9th	10th	7th
85 Electrical, elect. equip	10th	6th	9th	11th	10th	8th	6th	8th	11th	6th	8th	8th
HS75: Nickel & articles …	28th	28th	4th	7th	6th	3rd	2nd	3rd	5th	14th	15th	23rd

***Notes**: HS12 ranked 9th in 2001 and 10th in 2003; HS99 ranked 10th in 2006; HS88 ranked 6th in 2008 and 10th in 2012.*
***Sources**: Own Table using trade data from the ITC database available on http://www.trademap.org*

Product categories which contain manufactures which are high skill-and technology intensive, medium skill-and technology intensive, and low skill-and technology intensive, in that order, rank very lowly in South Africa's imports from non-SACU SADC. These are products from HS88, HS85 and HS84, and tend not to rank favourably even though by 2007 South Africa had fully liberalised Category B in which HS84 and HS85 are, and HS88 products had been zero rated immediately upon entry into force of the SADC Trade Protocol. This reflects low levels of industrial development in non-SACU SADC and its limited ability to supply South Africa with such imports. Also to note is that South Africa has a much more developed industrial base capable of producing these products, thus posing tough competition to similar products from non-SACU SADC.

The performance of products which form South Africa's top ten import lines from non-SACU SADC was compared with the value of the same imports originating from the EAC and ECOWAS. This was to see if traditional South Africa's imports from non-SACU SADC were being displaced by imports from the EAC and ECOWAS, irrespective of the SADC FTA. Results show that, except for HS27, South Africa's top ten imports were not being replaced by the EAC or ECOWAS. Non-SACU SADC was South Africa's main import source for HS27 in only four years, i.e. 2007-2008, 2010 and 2012, leaving South Africa to rely heavily on ECOWAS as its main import source for this product line.

Since South Africa trades intensively with other regional groupings in Africa, it is normal for these groupings to try and gain ground as import sources for South Africa, even though non-SACU SADC may still be the major import source. Table 4 shows that both the EAC and ECOWAS made efforts to gain ground as import sources. For example, the EAC gained ground as an import source for HS71 in 2001-2006; HS24 in 2006-2009; HS84 in 2005-2009; HS09 in 2004-2006 & 2008-2012; and HS61 in 2006-2011. ECOWAS gained some ground as an import source for HS71 in

2004-2006; HS44 in 2001-2008; HS84 in 2003-2004, 2008-2009 & 2011-2012; and HS85 in 2001-2002 & 2006-2007.

Table 4: Where other regional groups are making efforts to gain ground

Economic regions	Period of years and value of imports (US$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
HS71: Pearls, precious stones, metals, coins, etc												
SADC	0.90	14.4	13.0	17.4	462	611	383	511	171	355	342	222
EAC	0.42	0.95	3.90	15.0	30.1	28.8	28.4	24.2	3.18	0.15	0.28	0.65
ECOWAS	0.01	1.03	1.95	1.34	2.25	3.81	3.08	6.15	1.23	5.20	2.07	1.91
HS24: Tobacco and manufactured tobacco substitutes												
SADC	32.0	35.0	33.7	26.0	26.1	31.1	27.4	42.6	35.9	46.5	69.5	46.6
EAC	2.21	5.43	4.62	10.0	3.41	6.72	11.2	13.3	16.1	7.91	1.89	3.28
HS44: Wood and articles of wood, wood charcoal												
SADC	14.9	15.5	22.7	27.5	30.2	34.3	28.2	22.5	13.7	12.4	13.0	17.2
ECOWAS	2.91	4.23	4.79	6.54	6.75	7.10	8.44	9.14	4.61	6.02	5.53	4.39
HS84: Machinery, nuclear reactors, boilers, etc												
SADC	13.1	41.6	17.4	12.3	14.0	47.2	14.6	80.5	33.7	73.5	94.4	128
EAC	1.13	1.06	2.20	1.62	1.80	3.04	4.50	6.15	11.5	5.86	3.34	11.5
ECOWAS	0.94	0.92	1.24	2.90	2.19	1.88	5.12	3.37	10.3	2.43	2.65	2.92
HS09: Coffee, tea, mate and spices												
SADC	12.4	14.4	16.5	22.0	25.3	31.3	27.1	27.7	37.2	41.8	41.1	42.6
EAC	1.28	2.14	1.54	2.02	4.48	7.45	6.20	9.49	10.6	12.4	15.1	16.6
HS61: Articles of apparel, accessories, knit or crochet												
SADC	8.47	8.82	7.10	11.4	17.0	25.1	28.9	36.9	38.5	52.9	85.6	124
EAC	0.01	0.00	0.15	0.26	0.17	0.41	0.48	0.54	1.34	2.33	3.03	2.29
HS85: Electrical, electronic equipment												
SADC	9.97	24.1	13.6	14.5	24.4	46.3	55.5	67.4	32.5	53.9	79.3	87.1
EAC	0.72	0.66	0.32	0.83	1.60	0.60	1.43	0.69	2.39	1.77	1.09	1.00
ECOWAS	0.33	0.39	0.24	0.66	0.60	0.63	1.38	1.36	1.01	1.94	2.93	1.41

Sources: ***Own Table using trade data from the ITC database available on http://www.trademap.org***

The performance of products which are not South Africa's top ten import lines from non-SACU SADC was compared with the value of the same imports originating from the EAC and ECOWAS. This was to see if, irrespective of the SADC FTA, South Africa relies on these other groupings for those products which are not among its top ten imports from non-SACU SADC. Import products with a value of US$1mn and above in each year were considered in this exercise. The results in Table 5 show that South Africa has relied on ECOWAS for some of its major imports which are not in its top ten import lines from non-SACU SADC. South Africa also relied heavily on ECOWAS for HS18 and HS78 throughout the period 2001-2012; for HS40 in 2004-2010; HS25 in 2008-2011; and HS55 in 2006-2011. Since these are just a few product lines, this shows that South Africa continues to rely mostly on non-SACU SADC for most of its imports even though they may not be among its major imports from non-SACU SADC.

Table 5: Where South Africa relies on other regional groups for imports

Economic regions	Period of years and value of imports (US$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
HS18 (Cocoa and cocoa preparations)												
SADC	0.01	0.01	0.01	0.02	0.03	0.66	0.66	0.29	0.30	0.19	0.36	0.49
ECOWAS	11.1	12.8	14.9	14.0	15.3	13.3	16.8	18.7	19.9	27.9	18.3	16.6
HS40 (Rubber and articles thereof												
SADC	3.18	3.39	6.02	5.66	3.26	5.47	7.42	8.72	5.16	10.0	12.7	19.7
ECOWAS	1.79	2.59	3.20	6.13	4.59	9.94	18.3	21.0	11.8	14.1	10.2	13.7
HS78 (Lead and articles thereof)												
SADC	0.14	0.15	0.10	0.24	0.39	0.77	1.90	1.80	0.27	3.57	3.46	4.96
ECOWAS	0.59	8.94	1.68	3.07	4.66	3.67	8.71	6.13	5.32	7.82	5.66	11.4
HS25 (Salt, sulphur, earth, stone, plaster, lime and cement),												
SADC	5.47	7.31	3.46	4.26	5.04	9.76	10.9	16.3	5.16	5.73	6.20	10.2
ECOWAS	6.48	3.69	5.01	4.72	0	7.24	4.49	76.8	9.35	16.3	15.8	0.02
HS55 (Manmade staple fibres												
SADC	0.08	0.55	1.19	1.90	0.33	1.18	1.26	0.57	0.12	0.21	0.02	0.10
ECOWAS	0.01	0	0.12	0.06	0.98	2.31	2.313	1.482	2.525	2.435	1.497	0.012

Sources: ***Own Table using trade data from the ITC database available on*** ***http://www.trademap.org***

South Africa's Export Trade

Table 6 shows that within non-SACU SADC, South Africa's major export destinations were mainly Zimbabwe, Mozambique, Zambia, Angola & the DRC.

Table 6: South Africa's export trade (US$mn) with non-SACU SADC countries

SADC countries	Period of years and value of imports (US$mn)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Angola	309	323	447	482	545	687	772	898	682	700	898	1145
DRC	109	154	164	208	276	364	622	1125	574	866	1107	1486
Madagascar	53.9	39.2	99.2	89.4	85.0	73.3	162	229	122	181	165	174.1
Malawi	222	222	224	244	256	247	307	466	429	442	401	440.7
Mauritius	247	255	271	270	337	286	269	402	300	345	236	321.9
Mozambique	671	601	746	788	992	909	1267	1609	1607	1894	2435	2400
Seychelles	26.4	33.7	38.6	34.5	93.3	70.9	57.7	57.4	58.4	56.4	51.2	47.0
Tanzania	182	192	249	343	419	399	383	505	443	559	577	686.2
Zambia	576	526	537	733	849	1151	1421	1965	1416	1751	238	2678
Zimbabwe	633	692	859	929	1162	1065	1195	1689	1608	2156	2448	2432

Sources: ***Own Table using trade data from the ITC database available on*** ***http://www.trademap.org***

Changes in the dynamics of export destination have been experienced, where for example (i) in 2006-2008 and 2012 Zimbabwe lost ground to Zambia as the major export destination; (ii) in 2008 and 2010-2012 Angola lost ground to the Democratic Republic of Congo as the 4th major export destination; and (iii) in 2009-2011 Mozambique gained ground over Zambia as the 2nd major export destination (after Zimbabwe). Despite the economic and political challenges which Zimbabwe has been experiencing, it has continued to be a significant export destination for South Africa.

Table 7 below examines any changes at commodity level of South Africa's top ten exports to non-SACU SADC and shows that HS84, HS27 and HS87 have consistently been the top three major exports. Whilst the rankings for HS85, HS73, HS72, HS39 and HS48 have tended to fluctuate, these products have always been in South Africa's export basket of its top ten products to non-SACU SADC. However, at an aggregate level, the composition of this basket has not changed much over the years.

Table 7: South Africa's top ten non-SACU SADC export lines (2001-2012)

Product categories: HS2 Classification	**Period of years and rank in order of value of imports**											
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
84:Machines reactors boil	2nd	1st	1st	2nd	2nd	1st	1st	1st	1st	1st	1st	1st
27:Mineral fuels oils,	1st	2nd	2nd	1st	1st	2nd	2nd	2nd	2nd	2nd	2nd	2nd
87:Vehicles than railway,	3rd	3rd	3rd	3rd	3rd	3rd	3rd	3rd	3rd	4th	3rd	3rd
85: Electric, elect. equip	4th	4th	4th	5th	6th	4th	4th	5th	5th	5th	4th	4th
73: Articles of iron/steel	7th	8th	7th	7th	5th	6th	6th	4th	4th	3rd	5th	5th
72: Iron/steel	6th	6th	5th	4th	4th	5th	5th	6th	6th	6th	6th	6th
39: Plastics & articles ther	5th	7th	6th	6th	7th	7th	7th	8th	7th	7th	7th	7th
48:Paper, articles of p	8th	9th	10th	8th	9th	8th	10h	10th	8th	8th	8th	9th
10: Cereals	17th	5th	8th	11th	8th	11th	30th	7th	10th	25th	27th	29th
22: Beverages, spirit & vine	11th	10th	9th	10th	18th	19th	14th	12th	9th	10th	13th	14th
31:Fertilizers	14th	11h	13th	12th	10th	10th	9th	9th	11th	13th	15th	8th
38:Misc chem. products	9th	12th	12th	9th	11th	9th	8th	11th	13th	12th	10th	13th

***Notes*: HS17 ranked 10th in 2001; HS34 ranked 9th in both 2010 and 2011; HS15 ranked 10th in 2012**

***Sources*: Own Table using trade data from the ITC database available on http://www.trademap.org**

When one considers the factor intensity of the products in Table 8, one notes the dominance of manufactures which are medium skill- and technology intensive, high skill- and technology intensive, and low skill- and technology intensive, i.e. products in categories HS84, HS87, and HS85; as well as HS27 which is mainly mineral fuels. This composition reflects a more developed industrial base and South Africa's ability to meet some of the import demand for such products by non-SACU SADC. The non-SACU SADC region is already well endowed with non-fuel primary commodities, resource-intensive manufactures, and low skill-and technology intensive manufactures, and as such, these do not rank highly as South Africa's exports to the region, as reflected by HS72, HS73 and HS39 which have products in these factor intensities.

The performance of products which form South Africa's top ten export lines to non-SACU SADC was compared with the value of the same exports destined for the EAC and ECOWAS. This was to see if, irrespective of the SADC FTA, non-SACU SADC was losing ground or being displaced by the EAC or ECOWAS as South Africa's export destinations. The results show that, except for HS10 (Cereals) in 2009, South Africa's top ten exports were not being diverted to the EAC or ECOWAS. In 2009, South Africa exported US$289.075mn worth of HS10 to the EAC whilst exporting US$172.598mn to non-SACU SADC.

The performance of products which are not in South Africa's top ten export lines to non-SACU SADC was compared with the value of the same exports destined to the EAC and ECOWAS. This was to see if, irrespective of the SADC FTA, South Africa relies on these groupings as export destinations for those products which are not among its top ten exports to non-SACU SADC. Due to the volume of trade data, export products with a value of US$1mn and above in each year were used. The results in Table 8 show that in a few cases, South Africa relied more on ECOWAS and the EAC as export destinations instead of non-SACU SADC. For example, South Africa relied more on the EAC as an export destination for HS88 in 2003, 2009 & 2012; and HS76 in 2001, 2003-2009 & 2011. South Africa relied more on ECOWAS as an export destination for HS24 in 2005, 2007 & 2011; and HS76 in 2004 & 2007-2008.

Table 8: Where SADC lost ground to other regional groupings

Economic groupings	**Period of years and value of exports (US$mn)**											
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
HS88: Aircraft, spacecraft, and parts thereof												
SADC	12.2	6.48	3.40	13.7	103	116	67.8	70.6	14.3	21.4	22.5	14.4
EAC	3.23	4.75	5.06	9.63	8.98	17.8	29.0	18.8	17.2	6.80	16.6	15.4
HS79: Zinc and articles thereof												
SADC	5.05	6.06	6.39	5.31	5.82	7.49	9.32	4.96	4.65	18.4	7.03	1.89
EAC	9.52	5.81	7.24	11.6	14.7	18.0	21.0	7.03	11.3	12.9	10.6	0.01
HS24: Tobacco and manufactured tobacco substitutes												
SADC	68.5	22.8	25.6	22.5	21.6	45.0	20.4	25.3	22.3	34.9	25.4	38.5
ECOWAS	13.9	25.6	16.8	21.2	31.5	37.5	29.4	10.1	18.5	24.3	28.6	28.1
HS76: Aluminium and articles thereof												
SADC	22.1	28.9	36.9	45.4	78.0	58.4	27.5	30.7	32.5	41.0	55.5	63.4
ECOWAS	7.26	6.47	37.1	61.7	62.5	58.0	81.59	36.82	15.04	20.39	29.78	5.40

***Sources:* Own Table using trade data from the ITC database available on http://www.trademap.org**

Given that South Africa relies on other regional groupings as export destinations in very few product lines and in only a few selected years, this shows that non-SACU SADC continues to be South Africa major export destination even for those product lines which may not be among its top ten exports to non-SACU SADC. This is understandable given that South Africa has much easier access into non-SACU SADC markets due to trade liberalisation as a result of the SADC FTA, unlike in the other regional groupings where its products continue to face high tariff barriers.

Discussion of Policy Implications

Nature of economic integration in Africa

Close geographical proximity continues to be a significant factor in membership in regional groupings given transport network challenges the continent continues to face. Also closer historical linkages, culture and social networks, as well as more similar political understandings continue to be underlying significant factors upon which further and deeper trade and economic integration is built. Furthermore, the countries' ability, willingness and commitment to strengthen their grouping's soft infrastructure (e.g. policy, legal, regulatory and institutional frameworks along with systems and procedures) have been key to the progress and depth of each integration arrangement. Thus, no one form/level of economic integration can be recommended for African countries as countries should be allowed to form and enter into arrangements that suit them best.

However, what should be key to any form of economic integration should be (i) to prioritise trade facilitation, regulatory cooperation primarily to conducting business, and a security regime which emphasises good governance at the domestic level; and (ii) regional provision of public goods and network services infrastructure (e.g. energy, finance, telecommunications, transport) as these are important in addressing development challenges irrespective of the level/depth of the integration arrangement. Pooling African markets through economic integration affords greater economies of scale and the potential for regional production sharing, *albeit* the risks of diverting trade and agglomeration. Small markets are vulnerable to monopoly/monopsony capture which may discourage investment, and widening the market may minimise this.

Opportunities for industrial development

South Africa's trade with non-SACU SADC has potential for stronger and more beneficial backward and forward linkages between industries in South Africa and non-SACU SADC. Downstream industries in non-SACU SADC would benefit from inputs from South Africa; while lower-cost producers in upstream industries in non-SACU SADC countries would benefit from import demand from South Africa. This would help to build industries and both regions would benefit as each identifies niche markets and opportunities and utilise these more fully as markets access improves. Increased entry of non-SACU SADC products into South Africa would raise product quality as local industries strive to maintain their local market share against lower-cost producers in non-SACU SADC who now have free access into South Africa.

South Africa's exports to non-SACU SADC are dominated by technology-intensive manufactures, and this entails technology transfer from South Africa. This will have spillover effects as countries gain from embodied technology progress and thus upgrade, modernise and strengthen their local production industries as the countries absorb new technologies. Resource beneficiation in non-SACU SADC would be facilitated, as in terms of factor intensity, non-SACU SADC exports to South Africa are currently dominated by mineral fuels, non-primary commodities, and resource-intensive manufactures. Thus, with their resource endowments together with technology transfers, non-SACU SADC countries would be able to develop new areas of comparative advantage, diversify production capacities and move away from being mainly a cheap import source for raw materials.

Where scale economies of production are significant, South Africa is to benefit from industrial location as industries seek to exploit scale benefits. However, with the SADC initiatives to improve connectivity of countries through transport infrastructure investment and the regional cross border transport network projects, agglomeration of industries need not be inevitable as some industries may locate in other SADC countries which are low cost producers and access the large market in South Africa through improved infrastructure networks.

In order to realise more fully the industrial development benefits that could accrue with the SADC FTA, there is a need to improve political will among SADC member states towards practically unlocking the benefits that accompany regional economic integration. Governments should provide the necessary incentives and conducive environment to crowd in private sector investment, which would facilitate addressing supply-side constraints and infrastructure bottlenecks. While some agricultural products appear among the top ten import lines, there is a need for more effort to facilitate trade in agriculture, since this is a key export sector and provider of employment for many SADC member states.

Any role of exchange rate arrangements

South Africa trades most intensively with non-SACU SADC and one could be tempted to suggest that the two should form or commit to a monetary integration arrangement so that, as per the theory of optimum currency areas, their trade could grow even more. Such a blanket suggestion would be erroneous because a common finding in studies carried out is that, at present, a region-wide monetary union is not feasible. Most studies recommend approaching monetary integration through an extension of the CMA arrangement[2]. While, there is no consensus as to which non-CMA SADC countries are the most suitable candidates, the countries which have been recommended come mainly from the group of countries which in this research paper have emerged as the most significant trading partners for South Africa (i.e. Zimbabwe, Zambia Mozambique, Angola and the Democratic Republic of Congo).

Some of the studies and their recommendations are: (i) Buiguit and Valev (2006) suggest that Botswana, Mozambique and Zambia could be the first countries to join the CMA; (ii) Jefferis (2007) concludes that there is a core 'convergence' group comprising the CMA countries plus Botswana, Mauritius, Mozambique and Tanzania; (iii) Asonuma, Debrun, and Masson (2012) note that the greatest winners among potential new entrants would be Botswana, Zambia and Zimbabwe; (iv) Aziakpono *et al* (2007) concluded that Seychelles, Zambia and Botswana were potential first candidates for a CMA enlargement; (v) Khamfula and Huizinga (2004) suggest that Botswana, Malawi, Mauritius, and Zimbabwe could be the initial members of the monetary union with the CMA countries, with Tanzania and Zambia joining much later; (vi) Johns (2009) concluded that a convergence group existed consisting of CMA countries, Botswana, Malawi, and to some extent, Zambia to form an intermediate monetary union which would be an extension of the CMA arrangement; and (vii) Nindi (2012) found that Botswana and Mozambique were the most suitable countries to first ascend to the CMA arrangement, then Malawi and Zambia once they meet CMA requirements. Zimbabwe could also be a

[2] The Common Monetary Area (CMA) links South Africa, Lesotho and Swaziland into a monetary union. Namibia automatically became a member upon independence, but withdrew with the introduction of the Namibia Dollar in 1993. The Namibia Dollar, the Lilangeni of Swaziland and the Loti of Lesotho are all at par with the South African Rand, which continues to circulate freely in these countries. Botswana is currently out of the CMA, having replaced the rand with the Pula in 1976.

suitable candidate since it ceased using its national currency opting for multiple currencies.

Conclusion

While South Africa trades intensively with other groupings in Africa, non-SACU SADC is its most important trade partner. Significant increases in imports by South Africa from non-SACU SADC coincided with periods when it zero-rated significantly large numbers of its products in various product categories.

In terms of factor intensity, South Africa's major imports from non-SACU SADC are dominated by mineral fuels, non-primary commodities, and resource-intensive manufactures. Non-SACU SADC is well endowed with these resources and would help to augment South Africa's resources to facilitate its economic development. Products which are technology intensive rank very lowly in South Africa's major imports from non-SACU SADC. This reflects lower levels of industrial development in non-SACU SADC and the stiffer competition which such products most likely face in South Africa which is capable of producing such products more efficiently given its stronger industrial base. South Africa's major exports to non-SACU SADC are dominated by technology-intensive products, reflecting a more developed industrial base.

There are opportunities for industrial development in non-SACU SADC countries provided they ensure adequate institutions to harness and take advantage of technological innovations in imports from South Africa. Intra-regional trade would thus cease to be one-sided with South Africa serving as a major source of manufactured products without a reciprocal flow of similar imports from the other countries.

There is no financial integration between South Africa and non-SACU SADC such that it can be said that capital mobility can be taken more or less as given and thus facilitate increased trade between the two. Be as it may, this has not dampened increased trade between the two. While financial integration is not a necessary feature of economic integration for now, a deepening of economic integration could change this over time.

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Appendices

<u>Table A-1</u>: Analysis of SACU's tariff reduction offer to SADC

<table>
<tr><th rowspan="2">Product categories</th><th colspan="9">MFN Tariff phase down (implemented January each year) indicating when products were zero rated, i.e. all tariffs removed</th></tr>
<tr><th>2000</th><th>2001</th><th>2002</th><th>2003</th><th>2004</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th></tr>
<tr><td>A
Immediate liberalisation</td><td colspan="9">By January 2000, all the products in this category were zero rated. Thus full liberalisation of this product category as per the SADC Protocol on Trade.</td></tr>
<tr><td>B
Gradual liberalisation</td><td colspan="2">Gradual reduction of tariffs but <u>no product items</u> have been zero rated</td><td>A lot of products were zero rated</td><td>Gradual reduction of tariffs but <u>no additional product items</u> have been zero rated</td><td>A very large number of products was added to those zero rated, except some fabrics.</td><td>Fabrics, articles of wool, animals hair, man-made textiles materials were zero rated.</td><td>Carpets, floor coverings of various kinds, fabrics of various types, clothing item various types, etc zero rated.</td><td colspan="2">Full liberalisation of this product category</td></tr>
<tr><td>C
Sensitive products</td><td>Gradual reduction of tariffs but <u>no product items</u> have been zero rated</td><td>Assembled chassis frames & parts thereof, heaters & ventilating units & other unmachined cast metal were zero rated</td><td colspan="6">Gradual reduction of tariffs but <u>no additional product items</u> were zero rated</td><td><u>All</u> remaining products are zero rated. Eg tractors, vehicles with motorcycle-type steering mechanism, off-the-road logging trucks, other concrete mixer lorries</td></tr>
<tr><td>E
Products necessary for protection of security to</td><td colspan="9">The tariffs for all product items in this category were <u>never reduced</u>. All product items will still be attracting a tariff rate. These products are HS17011100 – HS17026010; HS029010 – HS17029050. For these products the tariff rate ranged from 0.99c/kg to 75.6c/kg.
The other products are HS98 products, e.g. items include parts for road tractors; motor vehicles for transporting more than 10 passengers, motor cars, motor vehicles for transporting goods, construction vehicles. For these products the tariff rate remained at</td></tr>
</table>

maintain peace	40%.

Source*:** ***Own Table derived from analysing the Tariff reduction offer (Final) by SACU to SADC

Table A-2: Analysis of SACU's product categories as per its tariff reduction offer to SADC

Product (HS code)	**Category A**	**Category B**	**Category C**	**Category E**
HS02 – HS03; HS16; HS35; HS51; HS56; HS59; HS82; HS93	X	X		
HS04; HS18 – HS22; HS94; HS24; HS42; HS52, HS54, HS55, HS58; HS61 – HS65; HS69	X	X (mostly)		
HS17026020; HS17029090 – HS17049000; HS05; HS25; HS26; HS30 – HS32; HS37; HS38; HS41, HS45; HS47; HS49; HS50; HS68; HS70; HS72; HS75; HS78; HS79; HS80; HS81; HS86; HS88; HS89; HS91; HS92; HS97	X			
HS06 – HS15; HS23; HS27 - HS29; HS33; HS34; HS39; HS40; HS44; HS48; HS71; HS73; HS74; HS76; HS83 – HS85; HS90; HS95; HS96	X (mostly)	X		
HS17041000; HS17049000; HS46; HS57; HS60; HS66; HS67		X		
HS87 (Vehicles other than railway, tramway)	X (83 product lines)	X (42 product lines)	X (31 product lines)	
HS17011100 – HS17026010; HS029010 – HS17029050 HS98 (Commodities specified at chapter level only)				X

Source*:** ***Own Table derived from analysing the Tariff reduction offer (Final) by SACU to SADC.

Notes*:** ***HS98 = products are HS98010010, HS98010015, HS98010020, HS98010025, HS98010030, HS98010040, HS98010045, HS010050, and HS98010055.