Development Policy Research Unit
University of Cape Town

Trade Patterns in the SADC Region:
Key Issues for the FTA

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Foreword

The Development Policy Research Unit (DPRU), located within the University of Cape Town's School of Economics, was formed in 1990 to undertake economic policy-oriented research.

The aim of the unit's work is the achievement of more effective public policy for industrial development in South and Southern Africa.

The DPRU's mission is to undertake internationally recognised policy research that contributes to the quality and effectiveness of such policy.

The unit is involved in research activities in the following areas:

- labour markets and poverty
- regulatory reform
- regional integration

These policy briefs are intended to catalyse policy debate. They express the views of their respective authors and not necessarily those of the DPRU.

They present the major research findings of the (ISP). The aim of the ISP is to promote industrial development in the *Southern African Development Community* (SADC) through regional economic integration and cooperation. It is a three-year project that commenced in August 1998 and is funded by the *International Development Research Centre* (IDRC). Ultimately, this project will identify the policies and programmes that support regional interactions that contribute to the industrialisation of SADC national economies.

This policy brief is based on the following conference papers and was synthesised by **Jolene Skordis**:

Cassim, Rashad	The Determinants of Intra-Regional Trade in SADC
Kalenga, Paul	Emerging trends and patterns of foreign direct investment in Southern Africa
Visser, Martine	Inter- and intra-industry trade flows between SADC and SACU: Key Policy Issues

These papers were presented at the second ISP Conference, in September 2000.

If you have any questions, or comments pertaining to the content of this policy brief, please do not hesitate to contact us:

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Introduction

This policy brief examines trade patterns in the Southern African Development Community (SADC) over the period 1980 to 1997.

Intra-regional trade flows and volumes

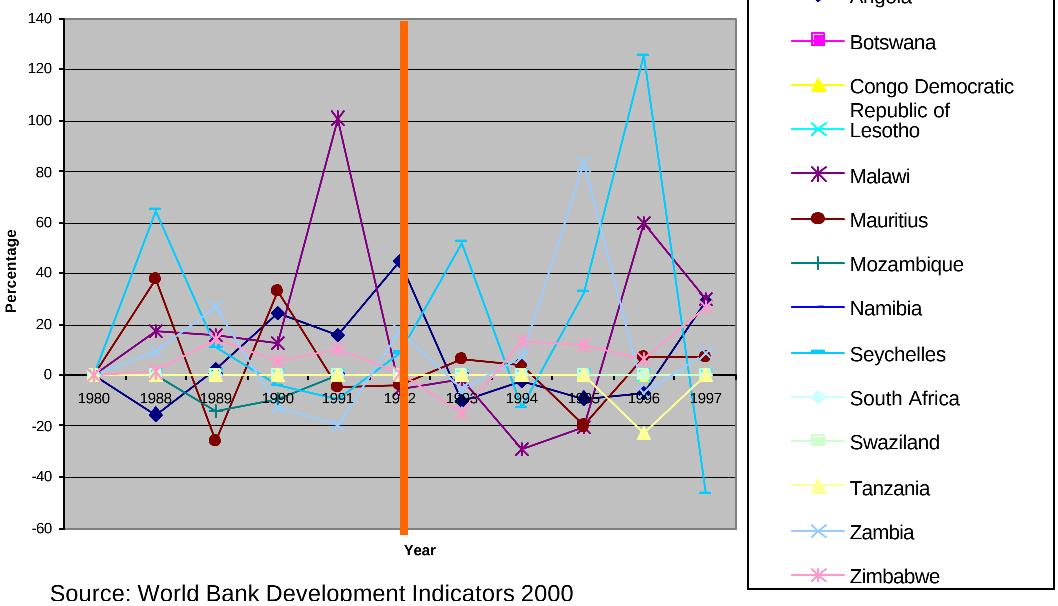
Fluctuating import growth

Perhaps the most distinguishing feature of the period between 1980 and 1992 are the dramatic fluctuations in export growth, import growth and even taxes on international trade. Import growth has been particularly erratic in the following sectors:

- *Non-foods consumer goods imports* - Malawi, the Seychelles and Angola (all non Southern African Customs Union (SACU) SADC countries) have experienced the largest fluctuations in non-food consumer goods imports in the region
- *Capital goods imports*

Manufactured goods imports were particularly erratic throughout the 1980s. However, after 1993 these imports have stabilised in all countries except Zambia, which experienced peaks in 1995 and 1997.

Capital Goods Import: Annual Growth Rates

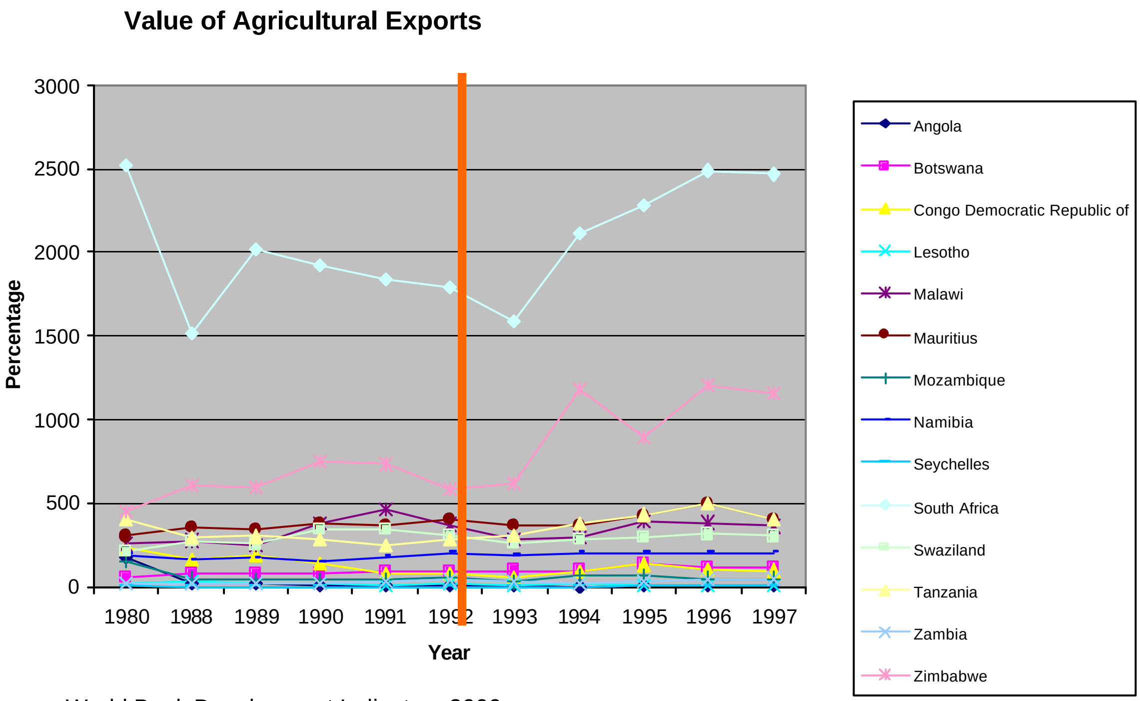


Source: World Bank Development Indicators 2000

Primary intermediate goods imports growth has been considerably more stable over the period although the level of growth has remained under 50 per cent in all cases except Malawi.

Agricultural exports

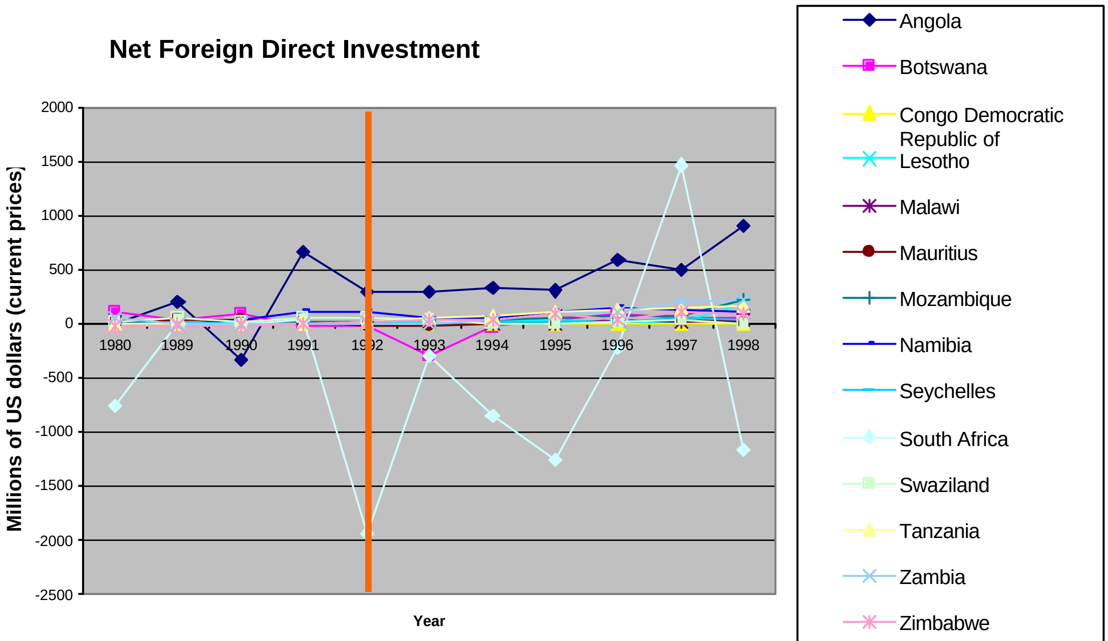
South Africa's agricultural exports far exceed those of other countries in the region. From 1989, however, a downward trend has emerged. After a significant dip in 1993 - preceding South Africa's first democratic election in 1994 – South Africa's exports appear to have turned around this downward trend. The value of agricultural exports for other countries in the region appears to have remained relatively stable since 1980. There is a very similar picture for merchandise exports in the region over this period.



Source: World Bank Development Indicators 2000

Foreign Direct Investment

An analysis of net foreign direct investment (FDI) in the region shows the impact of political stability and exogenous shocks on investment and therefore, indirectly, on growth in the region. South Africa experienced capital flight immediately before and after the first democratic elections in the country. Four years later, over the second election period, a similar dramatic dip in FDI occurs. Uncertainty thus plays an important role in attracting FDI into the region.



Source: World Bank Development Indicators 2000

Sector growth in the SADC-SACU product share in 1997

The following sectors saw a growth in the SADC-SACU product share in 1997: Non-metallic manufacturing, Tobacco and tobacco manufactures, Textile yarn and fabrics, Textile fibers, Articles of apparel and clothing, Cork and wood, Metaliferous ores and scrap, Sugar and sugar preparations, Furniture and parts thereof, Crude fertilizers.

For SADC trade with the world, the most important exports are: Non-ferrous metals, Non-metallic manufacturing, Tobacco and tobacco manufactures, Articles of apparel and clothing, Sugar and related products, Coffee, tea, cocoa and spices, Fish and related products, Textile yarn and fabrics, Textile fibres.

It is interesting to note that the SADC products that saw an increase in their relative share in exports to SACU, also saw an increase in their exports to developed countries - with the exception of textiles. Textiles saw an increase in SACU imports but a decline in developed market imports. However, although there has been some growth in overall SACU imports from SADC between 1990 and 1997, its share has remained low relative to total exports.

South Africa has large trade surpluses with most SADC countries and its economic dominance has been a source of conflict in the region since South Africa joined SADC. SACU and Zimbabwe's exports to the region constitute 94% of total intra-regional exports.

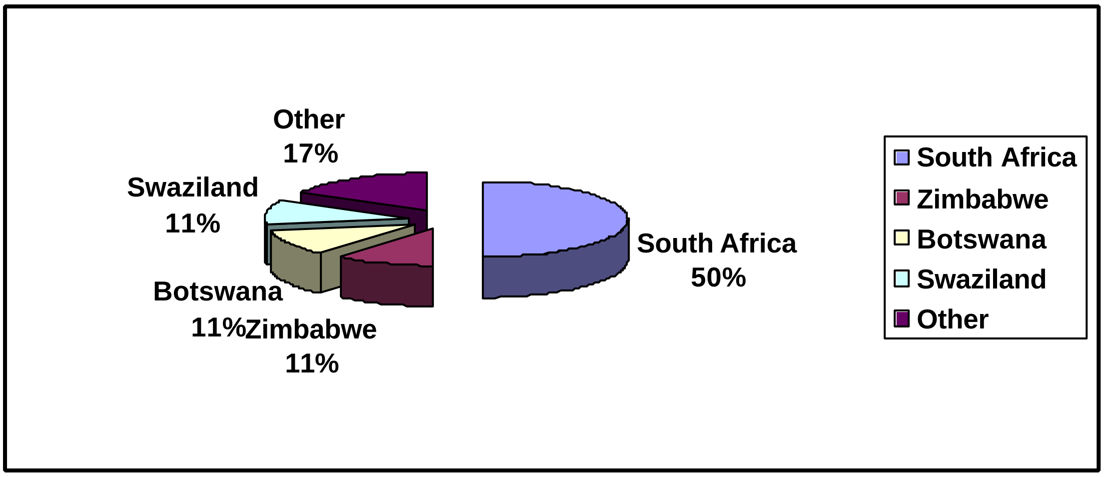
Relative importance of SACU in regional trade, 1996

SADC Country	All exports to the world ($ million)	All exports to the region ($ million)	Share of total SADC exports to world exports	Share of total intra-regional exports	SACU's share in regional exports
Angola	4,918,755	786	0.15	0.00	0.99
DRC	1,614,675	113, 247	0.05	0.03	0.99
Mozambique	225,568	60,276	0.01	0.02	0.72
Mauritius	1,730,147	33,640	0.05	0.01	0.36
Malawi	479,669	16,011	0.01	0.00	0.66
SACU	19,014,052	3,088,221	0.59	0.79	-
Seychelles	138,547	1,404	0.00	0.00	0.71
Tanzania	797,456	7,689	0.02	0.00	0.67
Zambia	1,162,615	37,471	0.04	0.01	0.60
Zimbabwe	2,144,026	474,711	0.07	0.15	0.55
SADC	32,225,510	3,933,456	-	-	-

Source: Visser, M. 2000. Inter- and intra-industry trade flows between SADC and SACU: Key policy issues. DPRU Second Regional Workshop. Namibia. September.

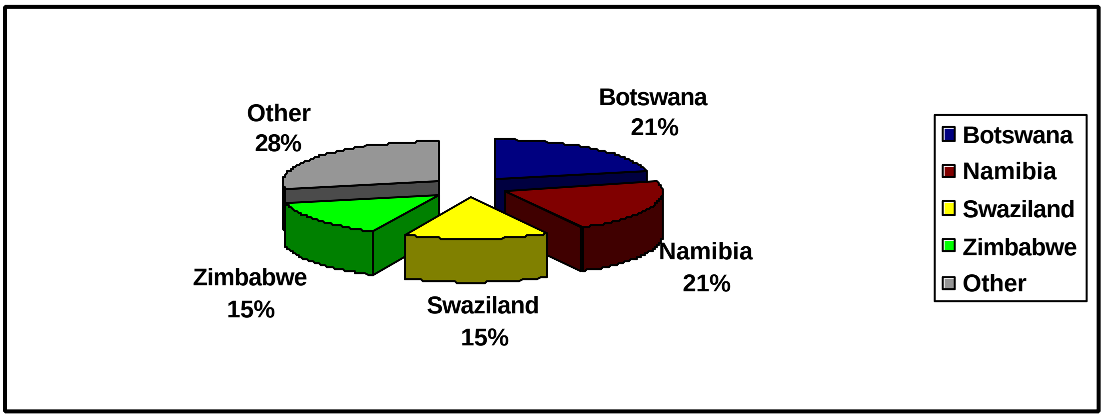
Studies show that intra-SADC trade has been growing significantly in recent years. Between 1993 and 1995, intra-SADC imports grew by 70%. Data for 1996 estimates intra-SADC trade at around US$9 million – up from US$6.9 the previous year. South Africa, Botswana, Swaziland and Zimbabwe account for the bulk of intra-SADC exports with South Africa alone accounting for around 50%.

Intra-SADC Exports



Botswana and Namibia account for the largest proportion of intra-SADC imports along with Swaziland and Zimbabwe. The most heavily traded agricultural products include tobacco, tea, sugar, maize, cotton and timber while the most heavily traded industrial products include motor vehicles, textiles, clothing, petroleum fuels, paper and fertilizers. Intra-SADC trade account for more than 20% of the region's global trade.

Intra-SADC Imports



Potential for SADC export expansion

Most SADC exports comprise mineral and agricultural commodities. Although the region is potentially a significant market for its own products, the bulk of these exports are bound for extra-regional markets. In fact, many non-SACU SADC countries are competitive producers of goods such as food, beverages, tobacco, refined copper, cotton yarn, leather, copper wire, toilet and kitchen linen, furniture, travel goods, footwear and toys amongst others.

Although they are produced in the region, South Africa generally imports these goods from other parts of the world. Intra-SADC trade accounted for only 1.2% of total SADC exports in 1996 and despite its regional dominance in terms of exports, SACU accounts for only 15.5% of intra-regional imports. A significant level of tariff protection under SADC creates a disincentive to purchase from within the region – thus indicating potential to expand SADC export expansion into SACU through the Free Trade Agreement (FTA).

Trade dominance can have a positive impact on economic growth

Studies have shown that there is no theoretical reason why South Africa's trade dominance should be detrimental to the region's economies. In fact, it has been proposed that the size of one's neighbours and trading partners can be positively correlated with trade and economic growth.

SADC's comparative advantage

SADC's main comparative advantage in the SACU market lies in primary and intermediate commodities. The specific products for which SADC has a relative comparative advantage in both the SACU and international markets are sugar and related products, tobacco and tobacco manufactures and non-metallic manufactures. This overlap has significance for any plan to build trade within the region as a stepping stone to the development of international competitiveness and the expansion of global trade in the medium to long run.

The overall impact of a FTA on regional trade in SADC

Economic growth

The main determinants of growth in intra-regional trade will be

- *growth in GDP and GDP per capita* - while there was an increase in GDP in sub-Saharan Africa in 1999, one cannot yet determine whether it is the start of a growth trend or merely an upward fluctuation. However, there is room for increased growth in intra-regional trade in the SADC region even without a concurrent increase in GDP. The reason for this is that unnecessarily high transaction costs act as an incentive for firms to trade extra regionally.
- *a reduction of the transaction costs to trading* - the free trade agreement outlined in the Trade Protocol will go a long way towards lowering the transaction costs of trade once ratified.

Technology transfer

A free trade agreement may also promote technology transfer to lower-income members - through its effect on trade and through foreign direct investment.

Phasing and Safeguarding Issues

Naturally, member states will seek to protect their sensitive sectors. International experience has indicated that the agricultural sector is the most likely to give rise to major negotiating difficulties. A product can be regarded as sensitive if:

- It might yield a substantial part of the government's revenue from customs or excise duties - in some African countries, their production base is small and their dependence of customs revenue is high. This rationale would enable them to classify the vast majority of their output as sensitive. If in fact it applies at all as a justification for exclusion, then it should only do so for a very short period – merely long enough to enable a country to put in place appropriate fiscal reforms
- It might be important for reasons of national security. In agriculture, food security is an obvious issue as all South African countries are well aware.
- It might be of great political and social importance if it is labour intensive. The downscaling or closure of the industry concerned would then lead to a significant increase in employment and social hardship.

The impact of increased intra-regional trade for the further overall regional integration in SADC

> *"Recent research suggests that regional trade agreements, in the form of CU's and FTAs, reduce growth and investment, but generalized trade liberalisation (in the form of unilateral tariff reductions or the reduction of non-tariff barriers to trade) improves growth performance. Trade liberalisation and export growth seem to be positively correlated, and exports act as an engine of growth."*
>
> *African Development Report 2000: 133.*

Regional integration alone is not sufficient to ensure sustainable regional growth. It is necessary to have a corresponding emphasis on stimulating productivity and investment in all sectors. President Chissano believes that trade liberalisation will lead to a process of restructuring with job losses in one sector being compensated for by job creation in other sectors.

> *"Some projections regarding the importance of a free trade for job creation have estimated that up to 5 million new jobs will be created as a result of the implementation of the SADC Free Trade Protocol in the initial phases."*
>
> *President JOAQUIM ALBERTO CHISSANO, Chairman of SADC, January 2000.*

The likely impact of HIV

One cannot look at the economic development of the sub-Saharan region without considering, at least briefly, the possible effect of the HIV epidemic. At present, approximately 20% of South Africa's population is HIV positive. The picture is the same – if not worse - for much of the region.

This implies that labour intensive industries (such as the textile industry in which the region has a relative comparative advantage) are likely to suffer from skills losses and increased costs of production due to increased absenteeism and lower productivity. Higher costs, mean a less competitive global position for each member country and for the region as a whole.

Conclusion

Perhaps the most notable conclusion about trade trends in the region is the rather disturbing lack of trend. Trade patterns over the last decade have shown some significant fluctuations, particularly in the growth of non-food consumer goods imports and the growth of capital goods imports amongst others.

Some stabilisation has been apparent in primary intermediate goods imports, manufactured goods imports and merchandise exports. The growth in the agricultural sector - although modest, is encouraging and South Africa appears to dominate the region in terms of agricultural exports. Increasing political stability in the region will also play an important role in attracting the foreign direct investment so vital to sustained economic growth

Perhaps the greatest opportunities for trade in the region lie in the exploitation of comparative advantages to create supply chains. SACU has realized much of its trade potential, potential which many non-SACU SADC countries have yet to realize. The formation of supply chains across an integrated trading area will facilitate the transfer of skills and assist the region as a whole. This is one of the reasons why South Africa's relative economic strength should not be viewed as a threat, but rather as an asset to the region.

In a similar vein, the opportunity exists to increase intra-regional trade between SACU and non-SACU SADC countries outside of a supply chain scenario. However, in many cases, this will require a relaxing of protectionist attitudes towards sensitive (and some not so sensitive) products. Until this is accomplished, the true benefits of a free trade arrangement are unlikely to be felt in the SADC region.