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Implementation of the SADC Trade Protocol and the Intra-SADC Trade Performance

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Intra-SADC Trade Performance and the Implementation of the Trade Protocol

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Southern African Development Research Network (SADRN) and Trade and Industrial Policy Strategies (TIPS)

Abstract

The Southern African Development Community (SADC) has been implementing the trade protocol for more than seven years. The aim is to liberalise trade flows between members and eventually lead to deeper integration in the region. As member states are preparing to enter another layer of integration in the form of a free trade area, it is also an appropriate moment to evaluate the performance of the implementation of the trade protocol. In this paper, an assessment of intra-SADC trade performance is done by focusing on intra-SADC export share, comparing intra-SADC share with other regional blocs and intra-country trade share. The results show that despite impressive growth in total exports between 2000 and 2006, intra-SADC trade remains weaker. A comparison of SADC with other regional blocs shows that intra-regional trade provides the necessary impetus for deeper integration and regional progress. However, SADC is lagging behind most regions. SADC's growth of extra-regional trade was more than with fellow members. Trade between countries also reveals that more than two thirds of total trade is with South Africa. Potential causes for this outcome include exports of raw materials and intermediate goods, failure to meet tariff reduction requirements, increasing commodity prices, existence of other forms of barriers as well as the challenges relating to weak manufacturing capacity, poor physical infrastructure and unresponsive supply side bottlenecks. As SADC enters another level of integration, it should make sure that the necessary mechanisms to address these challenges are in place so that the region can realise the associated benefits.

1 Introduction

The world has witnessed greater economic interdependence and an acceleration of integration in regional trade agreements (RTAs). Slow progress under the recent multilateral trade negotiations (under the Doha Development Round) seems to have, in turn, further triggered the creation and settlement of these regional economic integration schemes (Crawford and Fioretino, 2005). In the period 1948-1994, the General Agreement on Tax and Tariffs (GATT) received 124 notifications of RTAs relating to trade in goods. Since the creation of the World Trade Organisation (WTO) in 1995, over 240 additional arrangements covering trade in goods or services have been notified the WTO Secretariat (WTO Secretariat, 2008). A further 20 RTAs are due to enter into force once their respective ratification procedures are completed and 70 other RTAs are under negotiations.

RTAs are embraced by members as means to deepen economic integration in specific regions. They are viewed as a first step to globalisation. Countries in the southern African region have garnered behind the Southern African Development Community (SADC) to ensure that they are not left far behind globalisation process. SADC evolved out of the Southern African Development Conference (SADCC), an arrangement that was providing socio-economic, political and security cooperation to its founding members [1](SADC Secretariat, 2000). In 1992 SADC opted for a development integration approach which also recognises the political and economic diversities of its members. When South Africa joined in 1994, the SADC viability as an economic community was enhanced significantly. In 1996 a Trade Protocol was signed, indicating serious commitment towards regional economic integration.

The first steps of the implementation of the Trade Protocol started with the trade liberalisation process, which was to be completed over eight years. The tariff phase down process came into effect as from September 2000. A free trade area (FTA) will be reached in 2008 where up to 85% of trade flows within SADC will be duty free (SADC Secretariat, 2003). The remaining 15% consisting of sensitive products will be liberalised by 2012. Subsequent to the FTA, SADC envisages establishment of a Customs Union

[1] The founding members are Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe.

by 2010 and of a Common Market in 2015. A further liberalisation of trade in services was to be undertaken, but there was very little progress reported in that area.

The aforementioned plans are captured in the Regional Indicative Strategic Development Plan (RISDP), a document that provides direction with respect to SADC programmes, projects and activities (SADC Secretariat, 2003). RISDP sets targets that serve as milestones towards the attainment of agreed goals. These targets are reviewed overtime, to allow some flexibility to change and adjust some of the targets and milestones. For example, earlier versions of the RISDP have set numeral targets for intra-SADC trade of 35%, diversifying and sustaining export growth of 5% per annum (SADC Secretariat, 2001). These numerical targets seem to have been abandoned in the latest versions of the RISDP document (SADC Secretariat, 2003).

Nevertheless, we deem those numeric targets very useful in evaluating progress and outcome of the implementation of the trade protocol. The fact that the first step of the implementation of trade protocol was to phase down tariffs for members, therefore the expected outcome was an improvement in trade flows between members. The commitment to reduce the tariff schedules has been honoured differentially by member states. The SACU countries have reduced tariffs beyond the committed levels, while some countries which were back loading their phase down schedules have not done so (Kalaba, 2007 and Southern Africa Global Competitiveness Hub, 2007). However, after more than five years of implementation the trade protocol, it is fitting to review the performance of countries in relation to other members in the region as well as with the region in total.

This study provide as evaluation of the performance of intra-SADC trade since the implementation of the trade Protocol. We will specifically focus on the

- intra-SADC exports between 2000 and 2006,
- comparison of intra-SADC trade shares with those of selected RTAs and
- comparison intra-SADC trade share on a country-by-country basis.

The first phase of the implementation of the trade protocol is nearing an end and the region is preparing itself for the next integration level of FTA. In this study we restrict our analysis to the period between 2000 and 2006 due to data availability and the period over which the trade protocol has been implemented. Member states had more than six years to prepare for this next step, and it is therefore reasonable time to assess the impact and outcome of the process at this stage.

The rest of the report is structured as follows: the next section focuses on trade data problems in the region, followed by SADC export trends since the implementation of the SADC trade protocol. The fourth section discusses intra-SADC shares by member states, while the fifth section focuses on factors that determine intra-SADC share. Finally in the conclusion, we summarise the implications of the performance and give some reflections on the forth coming SADC FTA.

2 Data challenges

Availability of trade data in the SADC region is often scarce as most of the member states do not report trade statistics to the United Nations Statistical Division (UNSD) which provides data to the United Nations Commodity Trade Database (UNCOMTRADE). According to the International Trade Centre (ITC), half of the SADC member states were reported their trade flows for 2006 with the UNSD (ITC, 2008). In this case, even the use of mirror statistics based on the COMTRADE will still not account for trade with half of the members. To bridge this gap, Trade and Industrial Policy Strategies (TIPS) developed the SADC Trade Database, using trade data collected from the SADC member states (TIPS, 2008). The database shows a series of SADC trade flows from the late 1990s up to the 2006 for most members.

The SADC Trade Database has data reported by twelve of the fourteen member states. Data for Angola, the Democratic Republic of Congo (DRC) is missing as members are not reporting yet. Data for Lesotho is reported up 2003, Zimbabwe‘s data goes up 2004 while Swaziland‘s data is available up to 2005. The rest of the members have their data available up to 2006. Another challenge is provided by the fact that South Africa does not report its trade with its SACU partners (Botswana, Lesotho, Namibia and

Swaziland). Implications for these data problems are that any attempt to analyse intra-SADC trade will be undermined by those gaps. Furthermore, SADC's contribution to total trade is underestimated as such.

In this report we attempt to close these gaps by using mirror statistics of the reporting SADC members. However, this is difficult for Angola and DRC which are not reporters on the SADC Trade Database. In their cases, we complete the gaps for trade outside the SADC region using COMTRADE Database provided through World Bank's World Integrated Trade Solution (WITS) software (World Bank, 2008). Although reconstruction of data to address the shortcoming is not entirely perfect, it does provide second best option in the absence of reported or any data.

3 Export trends since the implementation of the trade protocol

The objective of removing tariffs and non tariff barriers plus a move to FTA in 2008 is expected to provide an impetus to the process of economic integration and development. This goes together with removal of other forms of trade barriers to reduce the cost of doing business among member states. By reducing tariffs amongst member states, it is expected that more exports originating from the region will be geared towards the region. Although in this report we do not focus on tariff reduction in details, however the period when the process of tariff phase down has started is used as a reference period. By assessing export performance over the implementation period can provide some insight on the performance is in line with expectations. In this section we examine markets for SADC exports, SADC exports by products as well as intra-regional market shares.

3.1 Value of SADC exports to various regions

Table 1 reflects SADC's exports to selected regions from the year 2000 to 2006, as well as growth rate over the same period. At the time of implementation of the SADC trade protocol in 2000, SADC's total exports were just over US$ 50 billion. By the end of 2006, the value of exports was over US$ 113 billion. That represented more than 100% growth per annum during period. In 2001 there was slight decline in total exports; however the SADC recovered in 2002 to almost same levels as 2000. Since then it has been growing at an increasing rate.

Table 1: SADC Exports to Selected Regional Destinations in US$ Billion from 2000 to 2006

Year	2000	2001	2002	2003	2004	2005	2006	Annual Growth
Destination	**Value of SADC Exports in US$ billion**							**(%)**
World	**51.29**	**48.97**	**50.74**	**61.01**	**77.59**	**94.33**	**113.63**	***116%***
EU[2]	16.74	15.67	15.71	18.03	23.32	25.78	27.29	111%
MERCOSUR[3]	2.15	1.10	1.33	2.47	5.14	7.18	11.82	144%
NAFTA[4]	7.23	7.36	7.73	7.18	8.58	10.74	11.11	108%
SADC	5.58	5.56	5.73	7.61	8.99	10.13	10.84	114%
Share of SADC (%)	*10.9%*	*11.4%*	*11.3%*	*12.5%*	*11.6%*	*10.7%*	*9.5%*	
East Asia[5]	8.60	7.86	8.19	11.01	13.37	19.02	24.73	121%
Rest of the World	11.00	11.41	12.07	14.71	18.21	21.47	27.84	117%

Source: SADC Trade Database and WITS (2008)

A breakdown of exports by regional blocs as destination in Table 1 shows that by the time of the implementation, the European Union (EU) accounted for most of SADC exports by value (about US$ 16.74 billion), followed by Eastern Asia with US$ 8.6 billion, North American Free Trade Area

[2] The European Union consist of the following 27 members: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

[3] Mercosur consists of Argentina, Brazil, Paraguay and Uruguay

[4] NAFTA is made up by Canada, Mexico and United States

[5] East Asia consist of China, Japan, South Korea, Macao, Mongolia and Taiwan

(NAFTA) with US$ 7.23 billion, lastly SADC itself and Common Markets of the South (MERCOSUR) with US$ 5.58 and US$ 2.15 billion, respectively. Intra-SADC's export share at that point accounted 10.9% of the total, and by the end of the period it had declined to less than one tenth of total exports. It is also interesting to note that in 2000, the value of export to the EU were double those to Eastern Asia, however that difference was reduced to US$ 2.6 billion in 2006. This is mainly due to the role and impact of China's activities in the region and on the whole African continent.

The last column of Table 1 shows the average annual growth rate of SADC exports to those selected destinations. Total exports increased by an average of 116% per annum. The fastest growing exports were geared towards Mercosur, which grew at an average rate of 144% per annum. This resulted in its exports growing in value from US$ 2.1 to US$ 11.8 billion. Eastern Asia is another destination that increased at a rate higher than the total growth. As explained earlier, this has mainly to do with China. The growth from SADC and the EU remained high but still below the average rate. This is mainly a concern for SADC because implementation of the trade protocol was aimed at providing incentives to accelerate trade among SADC member states.

3.2 Main products exported by the SADC region

In the previous section we observed SADC's exports by destination, and it became clear that growth in exports was more towards other partners than the members states themselves. This is something that was not intended with the implementation of the trade protocol, which involved mainly the reduction of tariff barriers. In this section we focus on exports by commodity in an attempt to gain some insight on product performance. This performance is captured in

Table 2, which shows the rank of the top ten exported products by value and share of total exports for the years 2000 and 2006. The product group being analysed is from the HS 2 classification which consist of about 100 products.

Table 2: SADC Exports by Products (Value and Share) in 2000 and 2006.

2000				2006		
	Products	**Value (US$ bn)**	**Share of products**	**Products**	**Value (US$ bn)**	**Share of products**
No	**Total**	**51.3**	**100.0%**	**Total**	**113.5**	**100.0%**
1	Mineral fuels and oils	10.5	20.3%	Mineral fuels and oils	37.4	32.9%
2	Pearls and precious metals	9.8	19.2%	Pearls and precious metals	21.9	19.3%
3	Iron and steel	3.6	7.1%	Iron and steel	6.8	6.0%
4	Vehicles	1.9	3.7%	Vehicles	5.0	4.4%
5	Machinery	1.8	3.5%	Machinery	4.9	4.3%
6	Ores, slag and ash	1.2	2.4%	Copper products	4.3	3.7%
7	Aluminium products	1.0	1.9%	Ores, slag and ash	4.0	3.5%
8	Clothing apparels and accessories	0.9	1.8%	Aluminium products	3.4	3.0%
9	Tobacco products	0.9	1.7%	Electrical and electronic equipment	1.6	1.4%
10	Inorganic chemicals	0.9	1.7%	Horticultural products	1.4	1.2%
	Others	**18.9**	**36.8%**	**Others**	**23.0**	**20.3%**

Source: SADC Trade Database and WITS (2008)

SADC exports in 2000 amounted to US$ 51.3 billion, of which more than US$ 30 billion was contributed by the ten products. *Mineral fuels and oils* and *Pearls and precious metals* accounted for

20.3% and 19.2%, respectively. This is not a surprise as these are all related to mining and resource activities as the region is endowed in those products. *Iron and steel, Vehicles* and *Machinery* were also amongst the top ten; however their contribution was below 10% each. *Clothing apparels and accessories*, *Tobacco products* and *Inorganic chemicals* end that list, each contributing just under US$1.0.

In general, the picture of SADC exports at the time of the implementation of the trade protocol showed a very concentrated basket as these ten products accounted for more than 60% of total exports with the other 40% contributed by ninety products. However, the encouraging sign can be read from the fact that some manufacturing and agricultural activities are present in the group such as vehicles, machinery, clothing, and tobacco products. These products and their sectors have a value adding potential and also involve rural activities, which is where most of SADC inhabitants reside (UNCTAD, 2004). This has potential to provide opportunities to fight poverty and unemployment.

After six years of the implementation of the trade protocol, the structure of the top ten products is mostly the same, with the top five still in the same order. The main gains in shares are also at the top of the list, the biggest beneficiary being *Mineral fuels and oils* which gained more than 12% of the total exports, from 20.3% to 32.9%. This was mostly driven by the two factors. The increase in international oil prices as well as the stabilisation of Angolan economy which is the second largest producer of oil in Sub Saharan Africa, after Nigeria. In 2000, Angola was producing less than 800 barrels per day, the year 2006 its output was 1.9 million barrels a day (IMF, 2007). This growth together increased in other exports of primary nature in that top ten list improved the total SADC exports by reduced the relative contribution to intra-regional trade.

All top products in 2006 were still the same as in 2000 with the exception of, *Copper products, Electrical and electronic equipments* and *Horticultural products*. They have replaced *Clothing apparels and accessories*, *Tobacco products* and *Inorganic chemicals.* Entry into the top ten by these products plus gains by the top two has ensured that SADC intensified its concentration. In this period, the ten products account for nearly 80% of the total exports. Most of the activities are still linked to mining.

3.3 Intra-regional data

In the earlier sections we have observed how intra-SADC declined, despite export growth of more than 100%. In this section we compare intra-regional trade of SADC with those of Association of Eastern Asian Nations[6] (ASEAN), EU25, Mercosur and NAFTA. The share of both intra- and extra regional trade is shown in Figure 1. The comparison is done between other regions, as well as between the years 2000 and 2006. Intra-regional share is indicated in the bottom part with light shading while the extra regional share is the shaded in dark in the upper portion of the bar.

It is noticeable from Figure 1 that only two regional blocs, EU 25 and NAFTA have significant trade between their respective members in both 2000 and 2006. EU's intra-regional share accounts for two thirds of the total trade, while NAFTA's intra-regional exports account for over half of the total in both periods. The other region which has a reasonably high intra-regional trade is ASEAN with 23% and 25% in both periods. Mercosur and SADC come last with lower intra-regional shares. SADC is the only region that has single digit share in the second period. The main concern is that in the second period, the stage where deeper integration is envisaged, the shares are declining even further.

[6] ASEAN is made up by Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam

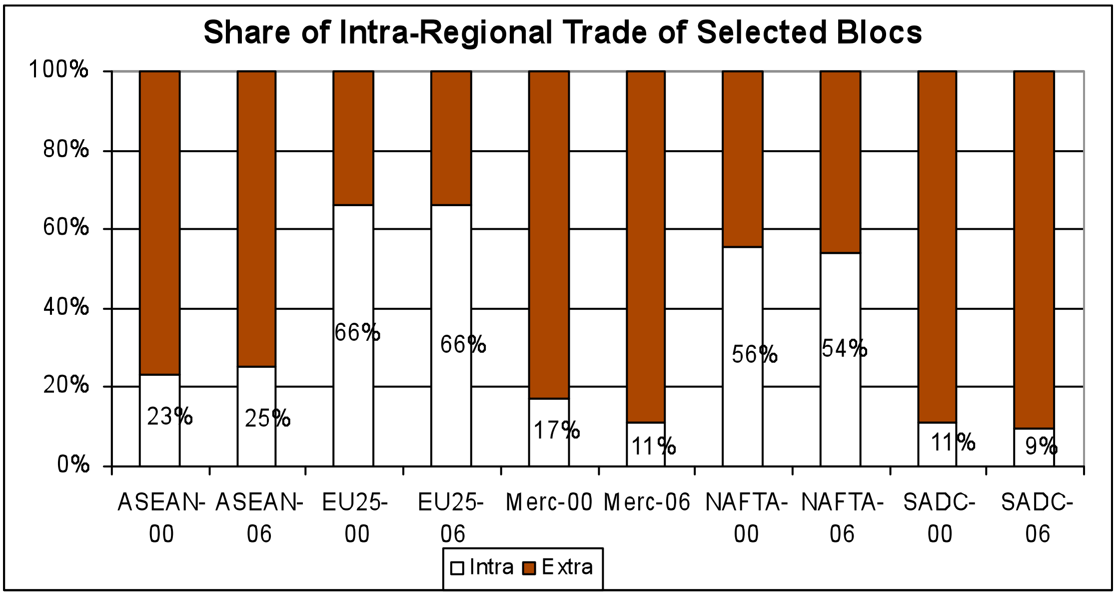

Figure 1: Intra-and Extra Regional Exports as a Share of Total Exports for Selected Groups

Source: SADC Trade Database and WITS (2008)

Since SADC has started its implementation of the trade protocol it experienced huge increases in exports. However, most of these exports were destined to markets outside the region itself. Therefore, SADC lost market shares of its own export growth, and therefore missing out on opportunities to take advantage of its own integration initiative.

3.4 SADC exports relative to global trade

The surge in total exports has helped SADC to increase its share in world marginally. Figure 2 shows a trend in global share of regional exports in world exports from 2000 to 2006. In 2000, SADC exports accounted for 0.8% of global exports. By 2006, SADC had just improved its share by 0.2% to 1.0% of world exports. The EU remains a dominant region as its contribution to global trade the highest of all selected groups. It contributed around two fifths of world exports. NAFTA's contribution was about one fifth of global exports, but the lost about 5% over the period. ASEAN's share remained relatively unchanged while Mercosur is almost on par with SADC. None of the selected regional blocs gains significantly, which implies that the rest of the world gains those shares lost mostly by NAFTA.

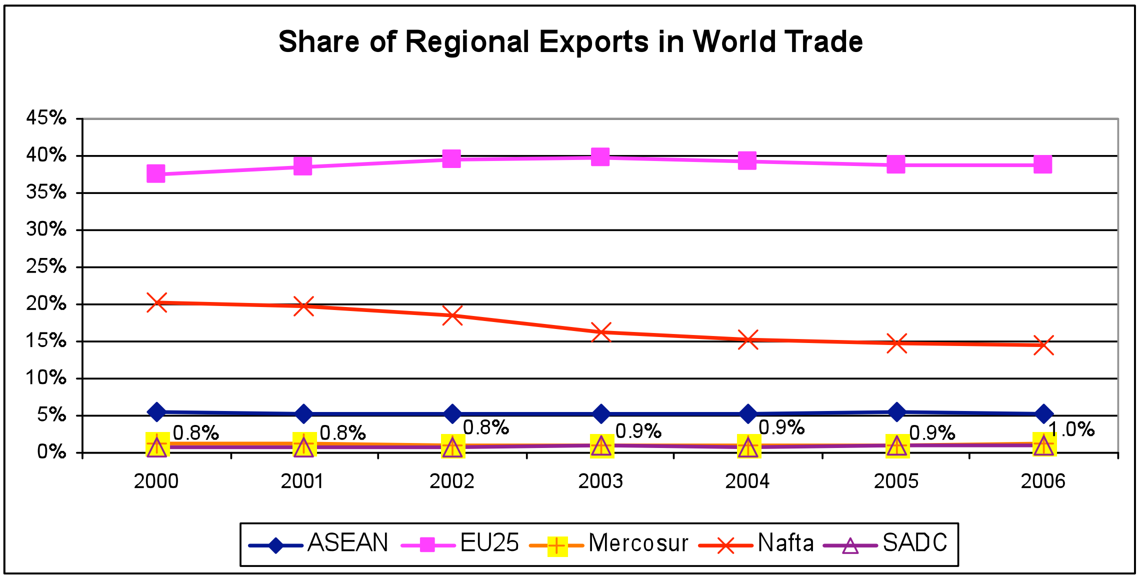

Figure 2: Share of Regional Exports in Global Trade for the Period 2000 to 2006

Source: SADC Trade Database and WITS (2008)

In concluding this section, we have observed that SADC has not made progress in terms of intra-regional exports. Furthermore SADC exports have become more concentrated with the implementation of the protocol on trade. This happened despite increasing its total exports by twice the value at the implementation of the SADC trade protocol. However, it is encouraging to realise some increases in global share of exports, even though it is negligible. It remains a positive sign, and a start that can be built around. Furthermore, the rate of increase in exports is also providing a base over which momentum can be built.

4 Share of exports by SADC member states

Now that SADC overall trade has been examined, the focus switches to the response by SADC member states in terms of their export share to the initiatives and incentives of the trade protocol. This analysis provides insight on how the individual members have contributed to regional trade as well as with specific members. The analysis is based on the calculated shares of each SADC member to other members in its total exports for the two periods, 2000 and 2006. In addition, it serves as an indicator of how individual members are integrating into the regional trade or economy.

Table 3 shows shares of SADC member states exports to others. This applies to those countries that have reported data up from 2000 to 2006, with the exception of Swaziland where 2005 year is used to calculate the latest share. In the table, countries across the rows are the exporters of which the share of what is exported to other members is calculated. Along the columns are SADC markets where exports are destined. Each cell in the matrix at the intersection of two countries contains two numbers. The first number represents the share of exports to the recipient SADC member in the total exports of the exporter for the year 2000. The second number in parenthesis is the share in the latter period, 2006. In most cells there are arrows pointing upwards or down. Those indicate direction of change is shares between two periods. In cells where there is no arrow, it is because the share in the two periods was the same.

Table 3: Changes in Intra-SADC Export Share between Member States

Percent of Intra-SADC Export Share Matrix 2000 and 2006																
		Destination (%)														
		Ang	Bot	DRC	Les	Mad	Mal	Mau	Moz	Nam	SA	Swa	Tan	Zam	Zim	SADC
Exporter's share	Botswana	0⇑ (0.1)		0.1 (0.1)	0 (0)	0 (0)	0.1⇓ (0)	0 (0)	0.2⇓ (0)	0.2⇑ (0.3)	10⇓ (6)	0 (0)	0 (0)	0.3⇑ (0.4)	2.4⇑ (5.4)	**13.6⇓ (12.2)**
	Mad'car	0 (0)	0 (0)	0 (0)	0 (0)		0 (0)	2.3⇓ (1.4)	0 (0)	0 (0)	0.5⇑ (1)	0 (0)	0 (0)	0 (0)	0 (0)	**2.99⇓ (2.5)**
	Malawi	0 (0)	0.6⇓ (0.2)	0 (0)	0⇑ (0.1)	0⇑ (0.2)		0.1⇓ (0)	7.4⇓ (2.3)	0 (0)	12.8⇑ (22.2)	0 (0)	2.3⇓ (1)	4.4⇓ (2.1)	5.7⇓ (3.1)	**34⇓ (31.3)**
	Mauritius	0⇑ (0.1)	0.1⇓ (0)	0 (0)	0.1 (0.1)	5.1⇓ (4.8)	0.1⇓ (0)		0.1 (0.1)	0 (0)	0.6⇑ (2.2)	0 (0)	0.2⇓ (0.1)	0 (0)	0.4⇓ (0.1)	**6.5 ⇑ (7.4)**

	Moz'que	0.2⇓ (0.1)	0 (0)	0 (0)	0 (0)	0.1⇓ (0)	3⇓ (2.8)	0 (0)		0 (0)	14.6⇑ (16.2)	0.2 (0.2)	0 (0)	0⇑ (0.1)	17.7⇓ (2.9)	**35.8⇓** **(22.4)**
	Namibia	6.9⇓ (5.7)	0.6⇓ (0.5)	0⇑ (1.3)	0 (0)	0 (0)	0 (0)	0 (0)	0.1⇑ (0.6)		25.4⇓ (24.7)	0 (0.)	0 (0)	0.1⇑ (0.2)	0.3⇓ (0.1)	**33.5⇓** **(33.2)**
	SA	0.2⇑ (1.1)	4.5⇓ (4.1)	0.4⇑ (0.6)	1.6⇓ (0.9)	0.1 (0.1)	0.7⇓ (0.4)	0.9⇓ (0.5)	2.1⇓ (1.5)	3.6⇑ (3.7)		0.3⇑ (0.5)	0.6⇓ (0.6)	1.9 (1.9)	2.1⇓ (1.7)	**19.4⇓** **(16.4)**
	Swa'and[7]	0.6⇓ (0.3)	0 (0)	0 (0)	0 (0)	0.2⇑ (0.5)	1.1⇓ (0.2)	1.4⇓ (0.3)	6.3⇓ (3.9)	0⇑ (0.2)	59.7⇑ (75.3)		3⇓ (1.3)	0.9⇓ (0.2)	3.8⇓ (0.4)	**76.8⇑** **(82.2)**
	Tan'nia	0⇑ (0.2)	0 (0)	0.7⇑ (1.4)	0 (0)	0⇑ (0.1)	1.1 (1.1)	0⇑ (.01)	0.2⇑ (0.7)	0 (0)	1.6⇑ (14)	0⇑ (0.1)		0.9⇑ (1.2)	0.4⇓ (0.1)	**5.3⇑** **(18.9)**
	Zambia	0 (0)	0.4⇓ (0.2)	4.4⇓ (3.8)	0.0⇑ (0.1)	0 (0)	1.8⇓ (1.5)	0 (0)	0 (0)	0.2⇑ (0.3)	19.6⇑ (21.6)	0⇑ (0.1)	0.6⇑ (6.3)		2⇓ (1.4)	**29.1⇑** **(35.4)**

Source: SADC Trade Database (2008)

An overall indicator of integration for individual members can be read from the last column of

Table 3. The column shows the share of exports for each member going to the SADC region in the two periods under observation. For example, in 2006 Botswana's exported which were destined to the region represented 13.6% of its total exports. In 2006 its share of SADC exports had gone down to 12.2%. Therefore, Botswana's integration into the region, based on this indicator is declining.

Swaziland has the highest share of exports intended for SADC in both periods. It recorded 76.8% and 82.2% in 2000 and 2006, respectively. Other countries which already had highest share at the implementation of the trade protocol are Malawi, Mozambique, Namibia and Zambia. All these countries had shares of around 30% and higher in 2000. Zambia managed to increase its share in the latter period, while the other three countries experienced reduction is export shares to SADC. Mozambique's shares of

[7] The latest share is calculated using 2005 data as opposed to 2006 for the rest of the members on the table.

SADC exports declined by more than 10% to 22.2% in 2006. The main reason for that is decline of its trade with Zimbabwe, which is discussed later.

Countries that had lowest shares in 2000 are the island states of Mauritius and Madagascar as well as Tanzania. However, by the time of implementing the trade protocol, Madagascar was not a member of SADC as it acceded in 2005 (SADC Secretariat, 2008). These three countries had shares of less than one tenth of their total exports each. Madagascar continues to be the country with the lowest SADC export shares, while Mauritius improved slightly in the latter period. Tanzania is the fastest mover of all SADC countries as it increased in shares from 5.3% in 2000 to 18.9% in 2006.

An assessment of intra-country shares reveals that most of the contribution is done through trade with South Africa. This contribution is equivalent to 70% of total intra-SADC export shares in both periods. This is more prevalent with South Africa's SACU partners which have intra-country export shares of less than 1% in both periods except in few cases with Zimbabwe (exports from Botswana and Swaziland), Angola (Namibia) and Mozambique (Swaziland). The picture is less rosy considering that in the latter period the trend is declining, with the exception of Botswana's export share to Zimbabwe.

Other intra-country shares that are interesting include the export share of Mozambique to Zimbabwe of 17.7% which was recorded in 2000. It is the only share that is more that 10% and does not involve South Africa in both periods. However, in 2006 that has declined to 2.9% and has mainly caused regional shares of Mozambique to decline from more that one third to less than a quarter. In 2000 Mozambique's export product to Zimbabwe was electric energy, which accounted to 90% of its all exports to Zimbabwe (TIPS, 2008). By 2006, electricity exports to Zimbabwe declined by 20% of 2000 value, and hence such a decline in intra-country export share between the two countries.

Mozambique is not the only SADC country that had reduced its exports share with Zimbabwe. In fact, all SADC countries have done so with the exception of Botswana. The approach by Botswana is exactly the opposite of what Mozambique has done. The main products that Botswana exports to Zimbabwe are metal products, led by copper products (TIPS, 2008). Most of these were *copper mattes*[8] which in 2000 they contributed more than 80% of exports to Zimbabwe, and by 2006 they were more than double in value. These *copper mattes are* sent to a refinery (the Bindura Nickel Corporation) in Zimbabwe for finishing (BCL Limited, 2008).

The story that seems to emerge out of these contrasting approaches is that out of the economic and socio-political challenges that Zimbabwe is going through, there are opportunities and costs. It is up to SADC as a unit to design ways and means of getting countries out of their problems, in a way that is beneficial to members and the regional as a whole. However, these processes need to be planned and well supported. There are similar cases in the region such that present opportunities and threats, and there is a sense that enough is has not been done to assist the countries and to benefit the region as a whole.

Progress made by countries in terms of integrating into the region is further assessed by looking at how they have improved or declined their share of exports since the implementation of the trade protocol. Figure 3 shows changes of SADC export shares over the period. The figure is ranked from the lowest, those countries that lost more market shares than the rest, to the highest. Mozambique has shed most shares, with a drop of 8%, which has to do with reduction of energy supply to Zimbabwe. The main reasons have been discussed earlier. It is followed by the newest SADC Madagascar and then Botswana, South Africa and Malawi with losses of around 2%.

[8] **Matte** is a term used given to the molten metal sulphide phases typically formed during smelting of copper, nickel, and other base metals. Typically, a matte is the phase in which the principal metal being extracted is recovered prior to a final reduction to produce a crude metal. Mattes may also be used to collect impurities from a metal phase

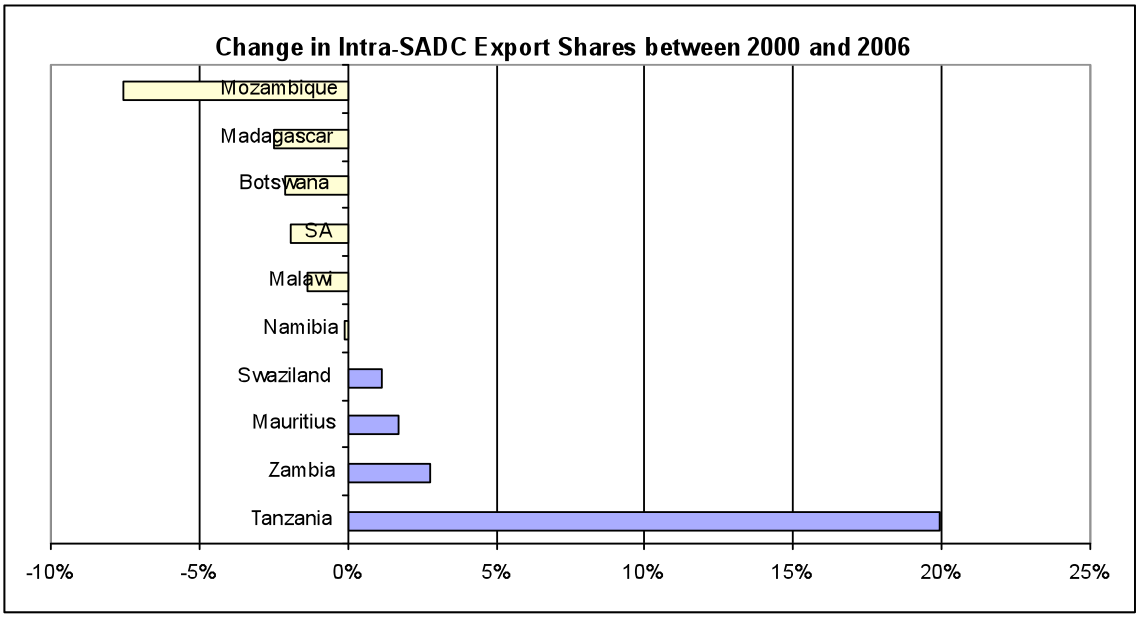

Figure 3: Changes in SADC in Intra-SADC Export Shares between 2000 and 2006
Source: SADC Trade Database (2008)

Tanzania is integrating into the region faster than any other SADC member. Its exports to SADC as a share of total increased by 20%, while its closest country in this regard Zambia, improved by only 3%. Other countries showing improvements in shares are Mauritius and Swaziland. The increase in share of Tanzania is due to the surge in precious metals (unwrought and semi-manufactured gold) which are exported to South Africa, probably for further destinations or beneficiation (TIPS, 2006). Furthermore, it was observed in

Table 3 that its intra-country shares have increased in most cases with fellow members. Therefore efforts by Tanzania to integrate into the region are a clearly showing a positive sign.

The overall view from intra-SADC exports is that most countries have reduced their share of exports to the region. Only a small portion of trade taking place amongst member states outside South Africa. Trade is still low even between members that share the same border or have better trading arrangements than SADC such as COMESA (McLeod, 2003). SACU members seem to be content with trading with fellow members, or South Africa. Zimbabwe's political and economic challenges have resulted in most SADC members reducing their share of exports to that destination. Tanzania has shown most of its total export shares towards SADC, while Mozambique has reduced the most.

5 Factors affecting intra-SADC trade share

The failure of growth in total SADC exports to increase intra-regional trade needs to be explained further. Several factors have contributed to this development and some of them are discussed in this section. It has to be considered that developments within SADC are taking place at the same time with other global activities. Therefore, the initiatives by SADC to promote intra-regional trade have been overtaken by other developments in world which had more impact on the region. Some of those that will be discussed in this paper include increase in commodity prices, recovery of economies of Angola and the DRC, mineral based project, rules of origin as well as lack of capacity, infrastructure and supply-side bottle necks.

a. Rise in commodity prices

In the earlier sections we discussed the fact that SADC's exports are dominated by primary commodities. In the past few years the prices of these commodities have been on the rise globally. The main markets for these commodities are mostly developed countries with more manufacturing capacity than SADC. However, in the recent years, China has become a dominant player in the world and its economic growth of around 10% has meant that it needed to continue importing resources to generate and sustain it (IMF, 2008).

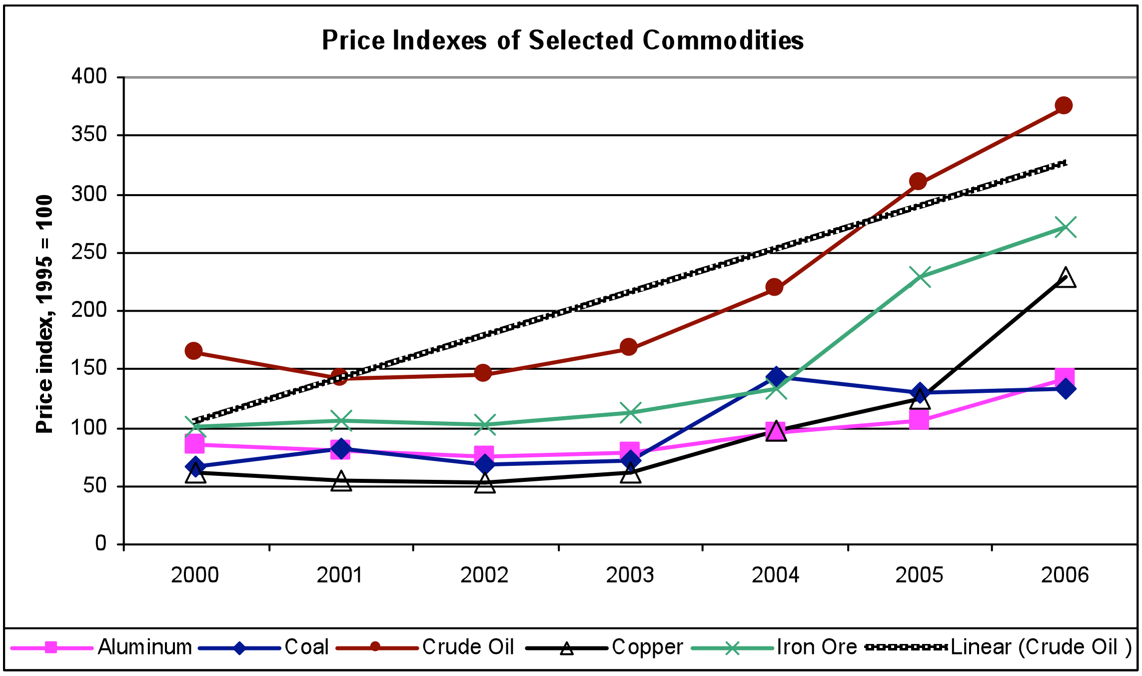

Figure 4: Price Indexes of Commodities from 2000 to 2006

Source: IMF Statistics (2008)

Figure 4 shows trends of commodity prices which are exported by most SADC member states. The commodities covered include aluminium, coal, copper and iron ore. All these are real prices with a 1995 being the base year. All these indexes are showing an upward trend led by crude oil. During this period crude oil prices increased from an average of US$ 25 per barrel in 2001 to an average of US$ 65. Therefore SADC countries responded to these price signals by increasing their value of exports of these industrial inputs, and as a result the intra-SADC trade was affected.

b. Recovery of Angola and DRC

In the year 2002, the states of Angola and DRC reached peace agreements which saw the end of war in the respective countries (Meyns, 2003). The economies of these countries improved significantly once political stability was established. Output growth in Angola has been robust since then, supported mostly by the oil sectors (IMF, 2007). In 2002 Angola's oil production was about 750 barrels per day and that was increased to 1.9 million barrels a day in 2006. This strengthened the country's economic base and enabled further recovery. For the period between 2003 and 2006, Angola's real GDP averaged 13.5% (IMF, 2007).

The DRC has also made significant economic and political progress after many years of turmoil. The country has also made remarkable economic recovery which resulted in improvement from a negative growth rate of -6% in 2000 to 6% in 2006 (IMF, 2007). However, DRC still needs to make further economic reforms to sustain higher growth rates as it still remains a poor country. It was ranked 166th out of 177 countries in the 2006 United Nations Human Development Index (UNCTAD Secretariat, 2006). In 2006, its GDP per capita was around US$ 140 (SADC Review, 2008). Its economic recovery is by and large dependent on exploitation of natural resources including *copper, cobalt, petroleum, industrial and gem diamonds, gold, iron ore, coal, hydropower, timber and* others. As we have become familiar with this trend, it is clear that most these are exported to markets outside the region, and thus further reducing the intra-SADC trade. The most serious of all concerns is that the two countries have not submitted their tariff phase down schedules and therefore are not implementing the trade protocol (Southern African Global Competitiveness Hub, 2007)

These two countries' economic recoveries have come at a time when SADC members are exporting their commodities to developed world, and they have increased that momentum. Almost all of Angola's exports are destined outside the region. SADC accounts for just 1% of Angola's total exports. In the case of DRC, 3% of its total exports in 2006 were destined to the SADC region. The outcome of these low shares of SADC exports shares contributed to the decline of intra-SADC share.

c. Mineral based projects

Some of the projects that are initiated with objective of creating jobs, increase export growth and also contribute to economic development have sometimes added to the reduction of intra-SADC trade share. An example is that MOZAL aluminium smelter in Mozambique and other export processing zones. The production is estimated at more than half a million tonnes a year, of which 99% of that is exported to the EU (TIPS, 2008). Furthermore, funding of this kind of projects is not from SADC members or even from the continent, which means that interest accrues to developed world. A similar project is on the cards in the DRC and is expected to produce about 0.8 million tonnes a year. Some of the projects are high users of electricity, and therefore at this time energy crisis in the region, the effect on the economy as a whole is immense.

d. Inappropriate signals

It is known that countries which were back loading their phase down schedules have not fully implemented the trade protocol as it was required (Imani Development, 2004). In the latest audit report by Southern Africa Global Competitiveness Hub (2007) it was indicated that by 2004 Malawi, Mozambique, Zimbabwe and Tanzania were not up to date with their implementation of the tariff phase down schedule as per commitment. Malawi had made only one tariff reduction since 2001 while Mozambique and Tanzania made only approvals but have not implemented in accordance with the agreement. Zimbabwe has not implemented any tariff reduction, except its offer for South Africa. All these are indications and signs that may be viewed by traders as protective and anti-liberalisation. Consequently, intra-SADC trade gets restricted by failure to comply with legally binding commitments.

e. Rules of origin

This subject is also one of the most contentious when it comes to the implementation of the SADC trade protocol. SADC rules of origin have been described as relatively complex and prohibitive (Brenton *et al*, 2005). One of the rules which are applied differentially by SADC is on textiles and garments, where the least developing members[9] were exempted from the two-stage transformation double transformation (Draper, *et al*, 2006). This decision was welcome as the sector is one of the few where significant manufacturing capacity has been proved to exist in many countries in the region. So in Table 4 we turn our attention to textile exports of the least developing nations of Malawi, Mozambique, Tanzania and Zambia (MMTZ) to SACU. The reason for picking SACU as a market is because South Africa is the main market for most SADC exports going to the region, plus the fact that SACU was frontloading it's phase down schedule.

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9 The least developing countries in SADC are Malawi, Mozambique, Tanzania and Zambia.

Table 4: Value and Growth of Textile Products Exports by the Least Developing SADC Members to the SACU area.

Year	2000	2006	Growth
Country	**US $ Million**		**Percent (%)**
Malawi	11.80	35.28	199%
Mozambique	7.34	8.30	13%
Tanzania	0.98	0.91	-8%
Zambia	8.90	33.63	278%
Total MMTZ	**29.02**	**78.11**	**169%**

SADC Trade Database, 2008

The table provides some empirical evidence that in cases where the rules have been relaxed, exports in those sectors improved. All MMTZ countries have realised significant growth in exports of textile products into SACU, with the exception of Tanzania. Between 2000 and 2006, exports of Tanzania's exports of textile products dropped by 8% while those of Zambia and Malawi increased by 278% and 199%, respectively. The total value of exports of these four countries increased from US$ 29 million in 2000 to US$ 78 million in 2006, which is equivalent to 169% growth.

Although the case we just looked at represents a small portion of total trade, it does however show that some manufacturing capacity may be enhanced. The rules of origin are supposed to encourage industrial development, however if they increase cost of inputs, therefore they might negate the original objective. Therefore, under prohibitive rules, SADC members may consider exporting to other destinations where requirements are less restrictive.

f. Manufacturing capacity, supply side constraints and infrastructure

SADC's export basket, as we have seen under trade in goods earlier, is dominated by raw materials and intermediate inputs. That is an indication that within the region, there are serious capacity weakness to convert such inputs into finished products that have added value, and can contribute to reduction of unemployment and poverty. This point was further illustrated by lack of response to trade liberalisation which has zero-rated more 99% of tariff lines in the SACU area (Kalaba, 2007). Supply side constraints and infrastructural bottlenecks also contribute to the failure of member states to take advantage of incentives provided. Members find it easier to trade with developed world where the business conditions are less demanding.

6 Concluding remarks

It is clear that SADC has made some progress in terms of regional integration. The fact that exports have managed to grow as fast as they did, on its own is a very positive step. The outcome of that is indicated by the increase of SADC's share in global exports, even though that increase is marginal. Angola and DRC have managed to maintain some political stability which and as a result, their economies have been on the growth path in the past few years. These positives are very important in keeping the integration momentum going. At this stage when SADC enters an important milestone of an FTA, it needs to build on these success stories.

As SADC starts with the implementation of an FTA, it needs to take into account the declining shares of intra-regional trade. Implementation steps should consider encouraging members to trade more with each other. These steps should look way beyond just removal of tariffs and other trade barriers. The issues of industrial development and how countries can integrate other production processes need to be organised thoroughly and an FTA process should make those priority.

Linked to the industrial development is the challenge of exporting raw materials and industrial input. It is a well-known fact that manufacturing capacities of SADC countries remain a key challenge. It is however a challenge that can be addressed through the integration process. As it moves into advanced levels, it must make an attempt to move away from traditional rigidities. The only country in the region that has advanced manufacturing capacity relative to the rest of the members is South Africa. That is evident in the size of the economy, the type of export basket and also by the fact that more than two thirds of SADC trade is through South Africa. SADC may have to consider alternatives where South Africa is used as a springboard to global markets by utilising the intermediate goods from the region. However, this would need to be done in such a way that the country of origin for the raw materials and intermediate goods benefit from such an arrangement. East Asian countries are doing the same through China and so are some multinational service companies using South African firms to penetrate the African market.

Trade between members other than with South Africa requires serious effort on trade facilitation and diversification. Individual member states have diversification a priority in their national policies and plans, however trade appears to be more concentrated compared to half a decade ago. It is understandable that countries had to take advantage of increasing prices as well as their mineral endowments; however in the long in long run the costs may outweigh the benefits. The agricultural sector which has also experienced some high prices recently has not realised the same increase in trade as in other primary products. This is the sector that engages most of the poor people in the region, and this is an opportunity to bring them into the economic mainstream while reducing poverty and unemployment.

The SADC FTA which will evolve into customs union in two years time will have to make more progress than the phasing in period from 2000 to 2008. However, at first it is necessary that all members are complying with their own commitments prior to the implementation of the SADC FTA. It is important that the focus on the benefits which are possible from intra-regional trade liberalisation is not lost.

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