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## Targeting Key Export Growth Markets

In this edition of the Trade and Industry Monitor we feature two articles on South Africa's (SA's) presence in key traded product markets, and a report on some of the likely implications of the planned European Union (EU) expansion.

In the first paper on the theme of dynamic products, TIPS' chief economist Dirk van Seventer and former TIPS researcher Katherine Gibson note that SA's presence in dynamic world product markets is low, with the exception of diamonds. Moreover, Van Seventer and Gibson's research suggests that of SA's top 10 products (by market share) in the dynamic products group, more than half have experienced a slow-down in export growth over the period 1997 to 2000.

As world trade in these products has continued to grow, this should be of great concern to SA policy-makers, as it suggests that SA is losing market share in key growth markets where it already has a significant presence. Moreover, even where SA has experienced high export growth in a dynamic product, this has generally been off a low base, and in only nine of the 40 products listed has this growth been sustained in both the first and second periods, notwithstanding strong international demand. Van Seventer and Gibson make the argument that these developments suggest possible supply-side difficulties for SA exporters, and propose a more active and focused role for government in addressing these supply-side failings.

In the second article on SA's trade profile, Nimrod Zalk argues that trade

and investment liberalisation, growing world income and technology change have led to fundamental changes in consumer demand. The result has been a significant increase in non-resource based manufactures' share of world trade, with developed and a few developing countries the main beneficiaries. Zalk goes on to argue that SA's share of the 40 most dynamic products in world trade is low, even by developing country standards, with SA ranked below Namibia, Mauritius and Croatia, and well below East Asian emerging markets such as Malaysia, Taiwan and Thailand.

These and similar exercises in which TIPS is currently engaged are not necessarily about 'picking winners' but rather assisting government to target those sectors where it has the highest potential to have a substantial impact and where the rewards are likely to be greatest relative to the inputs required.



# SA's Absence from Global Trade in Dynamic Products

One objective of successful trade policy is to gain a significant and growing share in the global trade of what are termed 'dynamic products'. TIPS chief economist **Dirk Ernst van Seventer** and **Katherine Gibson**, formerly a researcher at TIPS and now at the Competition Commission, examine SA's position.

Linked to the design of a suitable industrial policy, trade policy-makers traditionally focus on strengthening sectors that globally exhibit a large contribution towards total world exports (or imports). In this case, large exports indicate a largely traded product, which in turn indicates a large potential for a given country for export growth of that product. In contrast, dynamic products represent those products that have shown the largest change in proportion of total world exports (or imports) and so reflect sectors that are not only of considerable size, but are also growing at the most rapid rate.

The United Nations Conference on Trade and Development (Unctad) identifies two forms of product dynamism – demand or market dynamism and supply-side dynamism (Unctad: 2002a). Where the former indicates products that reflect high, stable and sustained growth rates in world trade, the latter indicates products that reflect the highest potential for increases in productivity, and thus for increases in income accrued from the production of such

products. The following discussion assesses demand dynamism only. In this regard, note that the World Investment Report calculates product demand dynamism as the increment in world market share that individual products have displayed over the period under scrutiny.

## Global trends

According to the World Investment Report (WIR, Unctad: 2002a), the 40 most dynamic products in world exports comprise only 5% of the 786 products identified at the SITC<sup>1</sup> revision 2, four-digit level, yet by 2000 accounted for close to 40% of total export value, and as a group grew at 12% annually over the 1985 to 2000 period (in nominal US\$ terms) – considerably more impressive than overall export growth of about 8.5% over the same period. In addition, these 40 product groups raised their market shares by a notable 15 percentage points. The methodology adopted by the WIR is similar to that implemented by Unctad in its *Trade and Development 2002* report (Unctad, 2002b), which selected dynamic products

on the basis of average annual export value growth (at the SITC revision 2, three-digit level) between 1980 and 1998.

In a relatively more straightforward approach, the WIR selects from all world imports only those products (at four digits of the SITC, revision 2) that accounted for at least 0.33% of total world trade in 2000, and ranks them according to their increase in market shares between 1985 and 2000.<sup>2</sup> Of these, shares and values of the top 40 dynamic products, according to the WIR, are presented in column 1 to 6 of Table 1.

Three manufacturing industries stand out:

- *Electronics* (SITC two-digit classifications 75 to 77);
- *Automotive and related components* (SITC two-digit classifications 71 and 78); and
- *Apparel* (SITC two-digit classification 84).

According to the WIR, in 2000 these product groups combined accounted for 23 of the 40 most dynamic products, and for almost 25% of global trade. (Unctad, 2002a: 147). These sectors also accounted for about 10 percentage points of growth in world trade over the 1985 to 2000 period.

Both Unctad reports argue that the greater the degree to which developed countries dominate the exports of dynamic products identified above, the greater the potential barriers to entry in these markets. Thus, understanding the presence of developing countries, and specifically SA's position in

(continued on page 4)

<sup>1</sup> Standard International Trade Classification

<sup>2</sup> For a full description of both the Unctad and WIR methodology, see Unctad (2002a and 2002b).

## Forum 2004

### African Development and Poverty Reduction: The Macro-Micro Linkage

13 - 15 October 2004

Lord Charles Hotel, Somerset West, SA

TIPS and the Development Policy Research Unit (DPRU), in association with Cornell University, are hosting an international conference on African development and poverty reduction.

The global environment poses both a threat and an opportunity for Africa. Taking advantage of the openings afforded by trade and investment while managing the risks and focusing on benefits for the poorest, is the central African challenge in economic policy-making.

Past and current disappointments with macro-level policies are gradually being understood in terms of insufficient linkage to the micro-level realities of the African economy and society. There is also a realisation that micro-level policies are bound to fail if implemented in an unstable macro- or global-level environment. The few success stories seem to be those where macro and micro policies – by design or luck – have been combined correctly.

The conference aims to bring the best



global research to the attention of African policy-makers and has a broad remit, covering theory, empirics and policy, and addressing individual countries, country groups and the continent as a whole.

For conference details, please visit  
<http://www.tips.org.za> or  
<http://www.commerce.uct.ac.za/dpru/>

**Table 1: Dynamic products in world exports, ranked by change in market share, 1985-2000**

Rank	SITC4	Products	World Exports						Developing country share	SA				
			Market share			Value (US\$m)				Market share	Value (US\$m)	Rank i.o. share	Export growth	
			1	2	3	4	5	6		7	8	9	10	11
			1985	2000	Increment	1985	2000	Growth	2000	2000	2000	2000	92-00	97-00
1	7764	Electronic microcircuits	0.82	3.38	2.56	13976	186887	18.9	57.6%	0.009%	16.7	38	27.7%	53.3%
2	7599	Parts of and accessories suitable for 751.2-,752--	1.02	2.33	1.3	17446	128882	14.3	53.9%	0.060%	77.4	26	20.7%	-0.1%
3	7524	Digital central storage units,separately consigned	0.02	1.01	0.99	295	55942	41.9	43.3%	0.007%	4.0	39	18.2%	16.0%
4	7643	Radiotelegraphic & radiotelephonic transmitters	0.11	0.91	0.81	1811	50614	24.9	39.9%	0.199%	100.5	9	32.6%	41.4%
5	5417	Medicaments(including veterinary medicaments)	0.53	1.24	0.71	8985	68452	14.5	7.7%	0.112%	76.5	17	18.6%	13.8%
6	7649	Parts of apparatus of division 76---	0.67	1.28	0.61	11346	70633	13	34.2%	0.067%	47.1	25	28.0%	0.7%
7	7641	Elect.line telephonic & telegraphic apparatus	0.28	0.83	0.55	4704	45962	16.4	25.4%	0.081%	37.0	22	5.6%	2.0%
8	7523	Complete digital central processing units	0.3	0.74	0.44	5160	40845	14.8	16.5%	0.023%	9.5	33	19.8%	4.4%
9	7721	Elect.app.such as switches,relays, fuses,plugs etc.	0.64	1.05	0.41	10919	58297	11.8	26.6%	0.101%	59.0	19	6.7%	-4.8%
10	7788	Other elect.machinery and equipment	0.48	0.86	0.39	8132	47829	12.5	33.6%	0.109%	52.1	18	16.3%	-0.5%
11	8942	Children s toys,indoor games,etc.	0.4	0.79	0.39	6804	43509	13.2	27.7%	0.116%	50.5	15	21.9%	-4.4%
12	8939	Miscellaneous art.of materials of div.58	0.4	0.77	0.37	6815	42483	13	29.9%	0.021%	8.8	35	13.0%	3.2%
13	7924	Aircraft exceeding an unladen weight of 15000 kg	0.44	0.78	0.34	7496	43222	12.4	6.1%	0.132%	57.1	13	11.8%	13.2%
14	7525	Peripheral units,incl.control & adapting units	0.66	0.98	0.32	11248	54390	11.1	52.4%	0.012%	6.6	37	6.6%	-13.6%
15	7712	Other electric power machinery, parts of 771--	0.17	0.49	0.32	2829	26929	16.2	38.5%	0.048%	12.9	27	10.0%	-9.7%
16	7731	Insulated,elect.wire,cable,bars,strip and the like	0.29	0.6	0.3	512	33062	13.4	49.0%	0.210%	69.3	8	22.8%	9.6%
17	5148	Other nitrogen-function compounds	0.15	0.45	0.3	2578	25009	16.4	8.1%	0.101%	25.2	20	21.4%	-18.1%
18	8462	Under garments,knitted of cotton	0.16	0.44	0.28	2714	24145	15.7	60.5%	0.191%	46.1	10	23.1%	29.1%
19	7768	Piezo-electric crystals,mounted, parts of 776--	0.31	0.58	0.27	5285	32259	12.8	30.0%	0.003%	1.0	40	34.3%	-42.6%
20	7522	Complete digital data processing machines	0.2	0.47	0.27	3400	26035	14.5	69.7%	0.018%	4.8	36	-7.0%	-0.1%
21	7810	Passenger motor cars,for transport of pass. & goods	4.9	5.15	0.25	83547	285222	8.5	14.6%	0.365%	1041.6	3	27.3%	72.4%
22	5839	Other polymerization and copolymerization products	0.16	0.4	0.24	2736	22807	14.9	15.2%	0.123%	28.1	14	5.7%	10.6%
23	8219	Other furniture and parts	0.32	0.55	0.22	5495	30281	12.1	36.1%	0.352%	106.5	4	8.2%	-0.9%
24	7763	Diodes,transistors and sim.semi-conductor devices	0.22	0.42	0.2	3735	23025	12.9	52.9%	0.029%	6.7	30	37.0%	86.5%
25	7149	Parts of the engines & motors of 714--and 718.88	0.28	0.46	0.19	4712	25648	12	4.1%	0.026%	6.7	31	-5.2%	-9.8%
26	8211	Chairs and other seats and parts	0.26	0.43	0.18	4366	24006	12	37.1%	1.247%	299.4	2	70.9%	-0.8%
27	8983	Gramophone records and sim.sound recordings	0.33	0.5	0.17	5609	27880	11.3	27.2%	0.026%	7.1	32	0.9%	4.9%
28	8720	Medical instruments and appliances	0.24	0.41	0.17	4122	22722	12.1	16.1%	0.071%	16.0	24	-0.7%	-7.8%
29	8451	Jerseys,pull-overs,twinsets,cardigans,knitted	0.39	0.54	0.15	6594	29987	10.6	41.8%	0.022%	6.5	34	8.3%	-1.4%
30	8439	Other outer garments of textile fabrics	0.3	0.45	0.15	5161	25015	11.1	59.4%	0.038%	9.4	28	0.3%	-5.6%
31	7284	Mach.& appliances for specialised particular ind.	0.68	0.82	0.14	11618	45617	9.6	15.6%	0.144%	65.7	12	11.1%	-6.8%
32	7132	Int.combustion piston engines for propelling veh.	0.45	0.58	0.14	7599	32368	10.1	20.5%	0.033%	10.7	29	39.8%	-50.7%
33	5989	Chemical products and preparations,n.e.s.	0.45	0.58	0.13	7603	31865	10	13.9%	0.334%	106.5	5	16.3%	14.8%
34	7611	Television receivers,colour	0.27	0.4	0.13	4589	21955	11	71.8%	0.091%	20.0	21	47.5%	21.2%
35	5156	Heterocyclic compounds;nucleic acids	0.32	0.44	0.12	5445	24599	10.6	7.5%	0.075%	18.4	23	1.6%	-13.3%
36	7849	Other parts & accessories of motor vehicles	2.23	2.33	0.1	37954	129051	8.5	15.1%	0.319%	411.9	6	7.4%	11.7%
37	6672	Diamonds,unwork.cut/otherwise work.not mounted/set	0.83	0.92	0.09	14166	50741	8.9	24.1%	3.450%	1750.6	1	-6.0%	-15.3%
38	7139	Parts of int.comb.piston engines of 713.2-/3-/8-	0.34	0.4	0.06	5814	22249	9.4	19.0%	0.286%	63.7	7	17.3%	-1.2%
39	7492	Taps,cocks,valves etc.for pipes,tanks,vats etc	0.34	0.4	0.06	5854	22168	9.3	20.1%	0.112%	24.8	16	8.3%	-1.8%
40	7929	Parts of heading 792--;excl.tyres,engines	0.49	0.53	0.04	8334	29475	8.8	7.5%	0.168%	49.6	11	13.7%	3.6%

[Source: Unctad (2002a), based on the UN's Comtrade database, 4-digit SITC, revision 2, and own calculations]

(continued from page 2)

this context, is useful to illustrate which product markets may more readily accommodate export products from the developing world. With this in mind, the developing countries' contribution, as reflected in column 7, is mixed, with strong presence in:

- 7611\_Television receivers, colour (72%, row 34);
- 7522\_Digital data processing machines (70%, row 20);
- 8462\_Under garments, knitted of cotton (60%, row 18);
- 8439\_Other outer garments of textile fabrics (59%, row 30); and
- 7764\_Electronic microcircuits (58%, row 1).

Thus, in markets with relatively high developing country shares, one can predict relatively low barriers to entry for other developing countries. With this said, however, among developing countries, the electronic and clothing sectors are typically dominated by a small number of Asian, Eastern European and Latin American economies, for example China, Czech Republic and Mexico, and thus it may be worthwhile to consider the concentration of developing countries in these markets. The higher the concentration, the higher the barriers to entry implied. Indeed, the WIR (Unctad 2002a: 149) shows that the 10 leading developing country exporters account for some 80% of total manufactured exports by the developing world.

For all remaining sectors, developing countries combined contribute less than 55% towards total world exports. Of these, notable low contributions from the developing world are (from the smallest; see column 7):

- 7149\_Parts of the engines and motors (4%, row 25);
- 7924\_Aircraft exceeding 15,000 kg (6%, row 13);
- 5156\_Heterocyclic compounds; nucleic acids (8%, row 35);
- 7929\_Parts of heading 792-- etc. (8%, row 40);
- 5417\_Medicaments (incl. veterinary) (8%, row 5); and
- 5148\_Other nitrogen-function compounds (8%, row 17).

Further evidence of the weak presence of developing countries in dynamic product exports is that just over half of the 40 products reflect a lower than 30% contribution by developing countries, included in which are six products reflecting a lower than 10% contribution. Referring back to the listed low contributions by developing country products, consider that SA features well within these sectors – at least compared to its other contributions towards total exports of the top 40 dynamic products – reporting a share in world exports near its average world contribution of 0.14% in each case, except for 7149\_Parts of the engines & motors (0.026%) and 5156\_Heterocyclic compounds; nucleic acids (0.075%). It is useful to consider how SA's share of total exports, per dynamic product classification, has changed over the 1992 to 2000 period.

### SA's presence and performance in dynamic product markets

In this section SA's presence in dynamic products in world trade is assessed to lay the foundation for identifying the types of products that SA might seek to gain entry, or increase its market share. In principal, SA should seek a judicious mixture of products with high productivity potential and labour intensity to address the twin challenges of industrial upgrading and unemployment. These considerations are not applied in this paper, and accordingly pave the way for future research to expand upon the present findings.

### SA's total market share in the top 40 dynamic products

Columns 8 through 10 of Table 1 give SA's value of exports and implied market share per dynamic product category in 2000, as well as rank the size of the market share from 1 through 40. Overall, SA's market share per dynamic product group is low, with most sectors examined exhibiting a market share around the average of 0.14% (calculated excluding diamonds), albeit with a few exceptions.<sup>3</sup> Product groups exhibiting the largest market share for SA are (from the highest):

- 6672\_Diamonds etc. (3.45%, row 37);
- 8211\_Chairs and other seats and parts (1.25%, row 26);
- 7810\_Passenger motor car etc. (0.37%,

row 21);

- 8219\_Other furniture and parts (0.35%, row 23); and
- 5989\_Chemical products and preparations (0.33%, row 33).

As expected, natural resources (in the form of diamonds) as well as motor vehicles and associated seats are among the most impressive dynamic sectors for SA. While the latter two can be related back to the Motor Industry Development Programme (MIDP), it is interesting that another furniture classification, which is not likely to be associated with the MIDP, features strongly. Of importance is the fact that developing countries together contribute less than 38% towards the total export market for each of these sectors. So SA is arguably doing well relative to other developing economies, particularly in the case of 7810\_Passenger motorcar etc., for which developing countries supply only 15% of total exports, although one could argue that SA is expanding exports into a market dominated and protected by developed countries. However, there is considerable scope for SA to expand supply into each of these five sectors.

A worrying picture emerges when one examines the growth performance of the top 10 SA products by market share. Of these top 10 products, just more than half have either experienced a fall in their growth rates in the later period of 1997 to 2000 or, worse, have gone into full-blown decline in the later period. For example, the insulated wire products cluster has gone from strong annual growth of 22.8% to significantly weaker growth of 9.6%. For products such as parts of engines and pistons, the performance is even poorer, with annual growth declining from a healthy 17.3% to negative growth of 1.2% in the later period. Of particular concern is the fact that these products are already established in the export market. In many cases, the branding and, more generally, the export entry costs, will have been amortised already, and one would expect continued strong growth in SA's exports of these products.

As world market growth in these products continues to be strong, we can assume that SA is losing crucial market share for these products. This should be of great concern to policy-makers, as it suggests that companies, having made the necessary

<sup>3</sup> The classification 6672\_diamonds etc. exhibits a world share which more than doubles the next highest SA world share. It is excluded from the average calculation to avoid distorting the average upwards to yield a misleading result.

# Services Sectors Workshop

19 May 2004

The tertiary sector accounts for around 60% of SA's GDP and formal employment. In addition, the sector provides key inputs to the manufacturing and primary sectors, and in some cases is a crucial determinant of the competitiveness of these sectors. Nonetheless, services remain under-researched in SA, thereby limiting the potential for government to meet its economic objectives and to use the GATS negotiations at the WTO to win trade preferences for Services' exports.

In an attempt to develop a medium-term research agenda for the sector, TIPS will be convening a small workshop of interested researchers and academics to discuss research priorities, sectoral challenges, availability of information and information sharing.

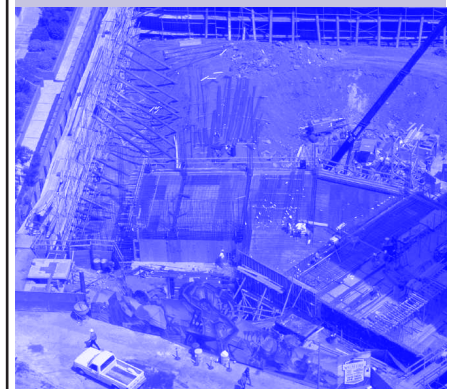
A detailed agenda for the workshop will be available on the TIPS website shortly.

For further details on the workshop, please contact:

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investments to penetrate these export markets, are not able to grow their share or, indeed, in some cases even maintain their current market share. Whilst further case-study analysis is ideally required to confirm our inferences, we believe that supply-side problems are likely to be the key explanatory factor. If this is correct, an important role emerges for **the dti**. Generally, fewer resources are required to address the supply-side problems of existing exporters who have already established themselves in the world market compared to trying to prepare 'new' exporters for competition on the world market. It may therefore be appropriate for policy-makers to consider targeting or prioritising government supply-side measures in favour of some of the sectors highlighted above, as the cost of assisting these sectors is likely to be relatively low whilst the speed and overall benefit of having existing exporters winning further market share are likely to be high.

The worst performers for SA in terms of market share of total exports are (from the weakest):

- *7768\_Piezo-electric crystals etc.* (0.003%, row 19);
- *7524\_Digital central storage units etc.* (0.007%, row 3); and
- *7764\_Electronic microcircuits* (0.009%, row 1).

Unfortunately, SA appears to be more competitive in products that are lower value added than those listed above and which typically require a highly skilled labour force – an area in which SA is strained.

## Growth of SA's dynamic products

To benchmark the growth rates of SA exports to global exports in dynamic products, consider the last two columns of Table 1. SA export growth (per dynamic product) for the periods 1992 through 2000 and 1997 through 2000 are given in columns 11 and 12 respectively. SA product growth over both periods is included to determine if the average growth rate calculated is stronger towards the earlier or later period, with preference being given to those sectors exhibiting stronger than average growth over the final three years reviewed. Of course, the criticism could be made that comparing an average annual growth rate for global exports for the period 1985 to

2000 with an average annual growth rate for SA exports for the period 1992 to 2000 is not comparing like with like. However, because SA lacks pre-1992 data series, we are compelled to use the shorter series.

Dynamic products that exhibit a stronger growth rate for SA exports than total exports and show even greater growth in the more recent (1997 to 2000) period, include (see columns 3 to 5):

- *7764\_Electronic microcircuits* (row 1);
- *7643\_Radiotelegraphic & radiotelephonic transmitters* (row 4);
- *8462\_Under garments, knitted of cotton* (row 18);
- *7810\_Passenger motor cars etc.* (row 21); and
- *7763\_Diodes, transistors etc.* (row 24).

While one would expect these growth rates of up to 37% over the full period and 86% over the later three-year period to come off a very low base, it is important that the products associated with the two-digit 76, 84, and 78 classifications all show exports in 2000 exceeding US\$45-million – by SA standards a relatively strong base.<sup>4</sup>

Products for which SA's 1992 to 2000 export growth is higher than the average annual growth in world exports but lower over the later 1997 to 2000 period are predominantly from the SITC two-digit 75, 76 and 77 classifications, such as:

- *7599\_Parts of and accessories suitable for 751.2 752--* (row 2);
- *5417\_Medicaments* (incl. veterinary) (row 5);
- *7649\_Parts of apparatus of division 76* (row 6);
- *7523\_Complete digital central processing units* (row 8);
- *7788\_Other elect. machinery and equipment* (row 10);
- *8942\_Children's toys etc.* (row 11);
- *7731\_Insulated, elect. wire etc.* (row 16);
- *5148\_Other nitrogen-function compounds* (row 17);
- *7768\_Piezo-electric crystals etc.* (row 19);
- *8211\_Chairs and other seats and parts* (row 26);
- *7132\_Int. combustion piston engines for propelling veh.* (row 32);
- *7611\_Television receivers, colour* (row 34);
- *7139\_Parts of int. comb. piston engines*

(continued on page 6)

<sup>4</sup> Compared to the mean SA dynamic product export amount (excluding diamonds in the calculation) of US\$78.5m and the median (including diamonds) of US\$32.5m.

(continued from page 5)

- etc. (row 38); and
- 7929\_Parts of heading 792-- etc. (row 40).

In these cases we may infer that sustained high growth is less likely, perhaps due to supply-side constraints since global demand for these products is steady. We can make this presumption on the basis that these sectors are the leading demand dynamic products. Thus we expect that SA will only be able to increase its share in these sectors through policy interventions in the form of supply-side measures.

## Conclusion

Moving away from being a strictly resource-based export earner to a more diversified export basket is considered an important objective of SA trade policy. Other countries have shown that capturing a share of global trade in dynamic products can make a significant contribution to gross domestic product (GDP) and employment. We have examined various aspects of SA exports in dynamic products as defined by Unctad's Trade

and Development Report and the WIR. The most important observation is that SA currently has a small, unimpressive presence in the global market of dynamic products, the most significant being *diamonds, motor vehicles, car seats, other furniture* and some *chemicals*. The shares of SA exports in this regard range from 3.5% for *diamonds* to just over 1% for *car seats* and around 0.3% for the others.

Apart from *motor vehicles*, SA's presence in important dynamic products such as the broad commodity groups *electronics* and *clothing* is very small. According to Unctad and the WIR, these commodity groups do not necessarily suffer from major trade barriers, as measured by the developing countries' share in their global trade.

Although SA's share in dynamic products may be very small, some detailed products groups are growing at a high rate, including *electronics, clothing* and *motor vehicles*. However, within the more detailed *electronics* and *electrical machinery* product groups, the higher growth rates observed have started to fall behind global trends. Supply-side measures may be called for as there appears to be sufficient demand for such products.

We concluded our analysis by combining growth and share analysis, the latter dimension being gauged in the global and the SA context. In the global context we can then add certain *chemical* products to our list, as they display a combination of relative medium-high growth and share. In the SA context we looked at the relevance of dynamic products in its export basket and identified *aircrafts* as a further important product group.

Improving SA's performance in global trade of dynamic products is, however, an entirely different question. At least we have managed to map those products for which there appears to be some production capacity, and industry-specific measures can now be considered in more detail.

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# The Role of Dynamic Products in Global Integration: Implications for SA

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**Nimrod Zalk**, chief director: Strategic Competitiveness Unit of the Department of Trade and Industry's (the dti's) Enterprise and Industry Division, examines the implications of global integration for SA – specifically in terms of the country's presence in the highest growth products in world trade.

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The current phase of globalisation, from the mid-1980s to the present, has been characterised by far-reaching changes in the global trading system. There have been differential economic gains from participation in the global economy, particularly between developed and developing countries, and amongst developing countries. Much has depended on the manner in which countries have been able to make themselves part of the global economy.

Global integration can be viewed from a range of perspectives. Here it is examined at a country level, from a similar perspective as that which a firm might use to locate its activities in a particular market, namely the type of business it is engaged in. We briefly examine what 'businesses' the SA economy is involved with in the global economy.

Specifically we look at SA's relative presence in the highest growth products in world trade – the top 40 dynamic products.

## Structural change in the global economy

First, though, it is necessary to examine some broad trends in the global economy, as well as the key drivers of these trends. These developments have heavily conditioned the circumstances under which high export growth has occurred in particular products.

Over the last two decades, non-resource based manufactures have far outstripped the growth in primary products and resource-based manufactures in world trade. Amongst non-resource based manufactures, medium- and high-technology manufactured

exports predominate, with the latter demonstrating the highest growth rates. As a group, developing country exports have grown faster than the world average, as well as more rapidly the higher the level of skill and technology intensity of the products exported.

However, two divergent trends emerge. First, developed countries have captured disproportionate gains from trade, notwithstanding the fact that their share in world trade has declined. Secondly, there is a wide divergence in export performance amongst developing countries. Economies that have increased their share in world trade are the first- and second-tier east Asian tigers, coupled with selected economies from eastern Europe, Latin America and south-east Asia.

A number of key developments in the world economy have brought about these trends. Growing global income and technological advances – albeit unevenly distributed – have driven fundamental changes in global consumer demand towards more sophisticated products and services. Trade and investment liberalisation, at both the multi-lateral and regional level, coupled with advances in transport and information and communication technology (ICT) systems, and continued immobility of unskilled labour, have heightened competitive pressures and prompted wide-ranging shifts in global trade and production.

In particular transnational corporations (TNCs), based largely in developed countries, have emerged as major co-ordinators of global production. TNCs dominate both producer- and buyer-driven value chains, leading to vertical specialisation in various stages of production. Increasingly firms, industries and even countries are only responsible for particular stages of production. Typically, research-intensive and marketing and distribution functions lie in developed countries, while the more labour-intensive elements of manufacturing are being outsourced to selected developing countries.

Two forms of dynamism are distinguished – demand-side or market dynamism and supply-side dynamism. Demand-side dynamism refers to products which have experienced high and sustained growth in world trade. Supply-side dynamism gives an indication of the productivity potential of particular groups of products, based on the skill and technology intensity embodied

in the final product. However, the role of vertical specialisation blurs this indicator at a country level, because, for example, the elements of high-technology value chains residing in developing countries are generally the more labour-intensive ones, sometimes with limited scope for productivity upgrading.

### The top 40 dynamic products in world trade

As noted in the previous article, the top 40 dynamic products in world trade – based on demand or ‘market’ dynamism – comprise 5% of the 786 products in the SITC four-digit classification. Yet they have shown the most sustained gains in world market share over the period 1985 to 2000. Collectively they grew from 22% of world market share in 1985 to 37% in 2000.

Figure 1 demonstrates that these 40 products tend to fall into a set of industry groupings. By market share, the two *road motor vehicles and components* products form the largest single product grouping, comprising 7.5% of world market share.

The next three industry groupings collectively comprise a broader ‘electro-technical’ cluster:

- *Electrical machinery* (seven products, 7.4% share);
- *Computers and office equipment* (four products, 5.6% share); and
- *Communications equipment* (four products, 3.4% share).

Together they account for 16 of the 40 dynamic products and 16 of the 37 percentage points that the 40 dynamic

products hold in world trade. These product groups also demonstrate among the highest average growth rates over the period, well above the average growth rate of 12% for all dynamic products:

- *Electrical machinery*: 15.7%;
- *Computers / office equipment*: 18.9%; and
- *Communications equipment*: 16.8%.

*Non-electrical machinery* comprises five products, with a 3.4% share and average growth of 10.1%. The chemicals grouping also consists of four products, with a 2.7% share and 12.7% growth. The three *apparel* products hold a 1.4% share with 12.3% average growth. *Aircraft* comprises two products, holds a 1.3% share and experienced 10.9% growth. One *pharmaceutical* product accounts for 1.2% share with the fourth-highest growth of 14.5%. *Wooden furniture* constitutes two products, which hold a 1% share and had a 12% growth rate.

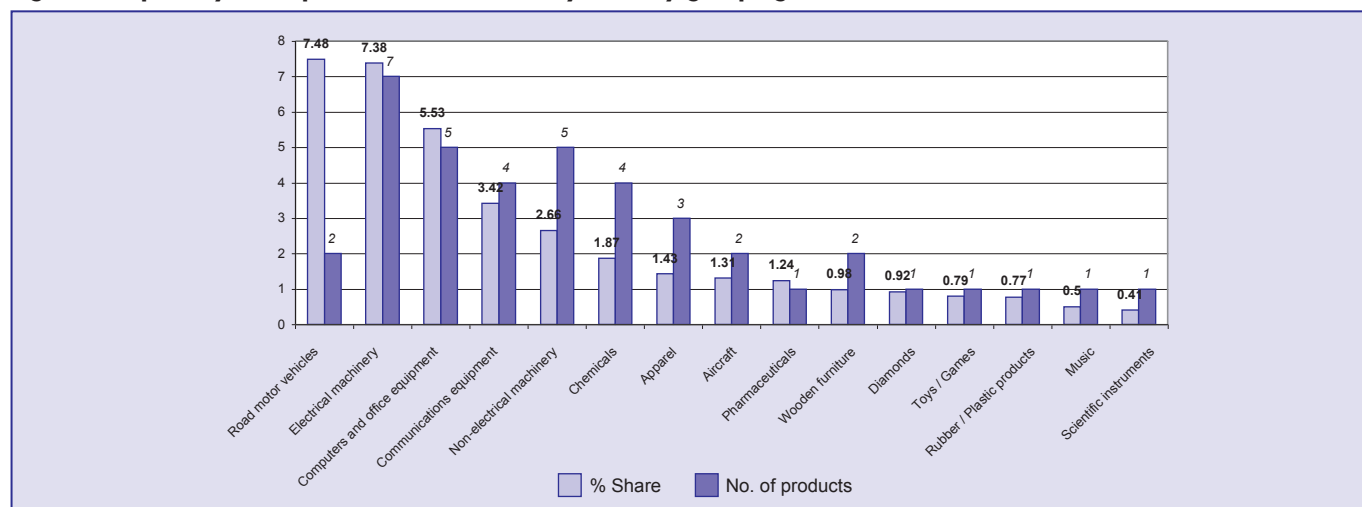
The remainder of product groups each consist of one product, with shares below 1% and growth rates as follows:

- *Diamonds*: 0.9%,
- *Toys / games*: 13.2%;
- *Rubber / plastic products*: 13%;
- *Music*: 11.3%;
- *Medical instruments*: 12.1%.

Figure 2 demonstrates the factor intensity of the top 40 dynamic products. It is notable that 39 of the 40 dynamic products are manufactures. No primary products feature and the one unclassified product is *music*.

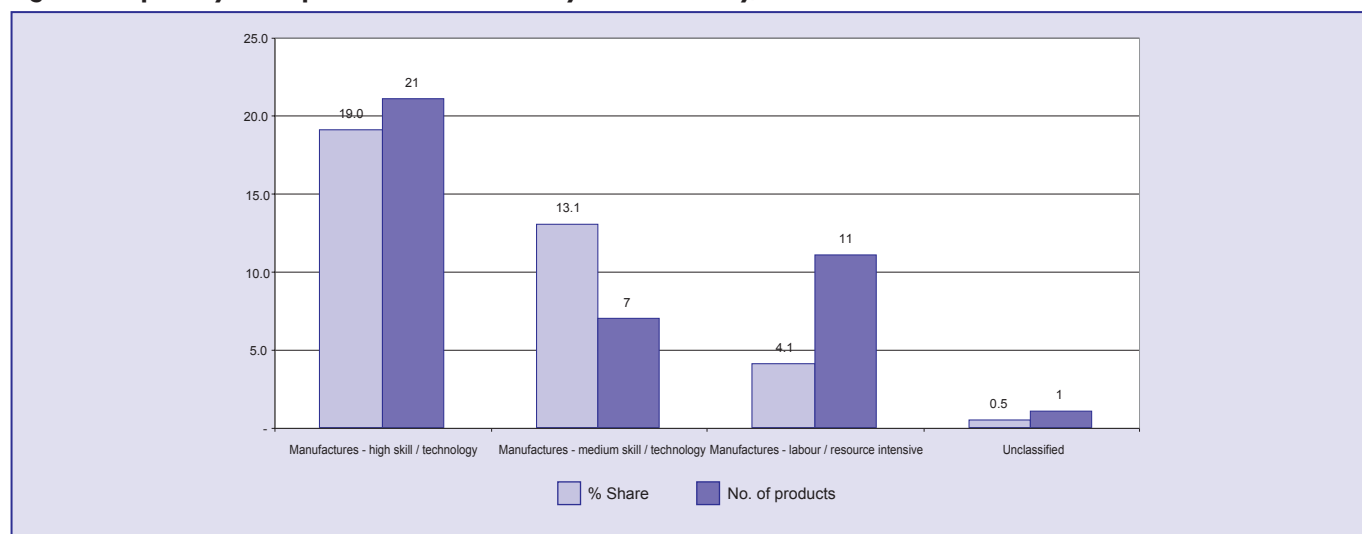
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Figure 1: Top 40 dynamic product market share by industry grouping, 2000



[Source: UNComtrade, own calculations]

**Figure 2: Top 40 dynamic product market share by factor intensity, 2000**



[Source: UNComtrade, own calculations]

High-skill/high-technology manufactures are the largest product group, accounting for 21 of the 40 dynamic products, and 19 of the 37 percentage points that the 40 dynamic products hold in world market share. High-skill/high-technology manufactures are made up of the following industry groupings, and tend to be heavily dependent on research and development"

- Chemicals;
- Pharmaceuticals;
- Computers and office equipment;
- Communications equipment;
- Four of the seven electrical machinery

- products;
- Aircraft; and
- Medical instruments.

Medium-skill/medium-technology manufactures comprise seven products but a 13.1% share of dynamic products and tend to be characterised by scale intensity of production:

- Non-electrical machinery;
- Three of the seven electrical machinery products;
- Road motor vehicles; and
- Rubber / plastic products.

Labour- or resource-intensive manufactures comprise 11 products, but only 4.1% of world market share. They include diamonds, wooden furniture, apparel and toys/games.

As a crude measure of barriers to entry into these dynamic products, developing country share in each dynamic product is examined (not shown). The prevalence of vertical specialisation is borne out by the apparent paradox that a number of medium- and high-technology manufactures have a relatively high developing country market share. This tends to confirm the hypothesis that the labour-intensive elements of these

**Table 1: Top 50 dynamic product exporters per capita, 2000**

Rank	Country	Dynamic Products Exports per Capita, US\$, 2000
1	Singapore (1)	21.138
2	Ireland	13.772
3	Belgium	6.262
4	Luxembourg	4.723
5	Netherlands	3.842
6	Switzerland	3.429
7	Sweden	3.366
8	Taiwan, China (2)	3.352
9	Israel	3.271
10	Finland	2.911
11	Canada	2.889
12	Botswana (3)	2.669
13	Germany	2.598
14	Austria	2.306
15	Denmark	2.282
16	Malaysia (4)	2.182
17	UK	2.037

Rank	Country	Dynamic Products Exports per Capita, US\$, 2000
18	France	21.138
19	Japan	13.772
20	Korea, Rep. (5)	6.262
21	Hungary (6)	4.723
22	Hong Kong, China (7)	3.842
23	Slovenia (8)	3.429
24	Italy	3.366
25	US	3.352
26	Estoria (9)	3.271
27	Spain	2.911
28	Czech Rep. (10)	2.889
29	Mexico (11)	2.669
30	Portugal	2.598
31	Norway	2.306
32	Slovak Rep. (12)	2.282
33	Costa Rica (13)	2.182
34	Mauritius (14)	2.037

Rank	Country	Dynamic Products Exports per Capita, US\$, 2000
35	Thailand (15)	0.396
36	Philippines (16)	0.369
37	Australia	0.346
38	Oman (17)	0.311
39	Namibia (18)	0.309
40	Poland (19)	0.250
41	New Zealand	0.192
42	Greece	0.178
43	Lithuania (20)	0.178
44	Croatia	0.163
45	Tunisia	0.141
46	Turkey	0.117
47	SA (24)	0.112
48	Latvia	0.110
49	Swaziland	0.109
50	Romania	0.105



value chains are being outsourced to (selected) developing countries.

SA's relative presence in dynamic products is also examined, based on a cross-country comparison of dynamic product exports per capita (see *Table 1*). Developed countries clearly dominate dynamic product exports, with only two developing countries in the top 10 ranking. Developing country presence is heavily dominated by east Asian and east European transition economies, respectively. Other economies that feature amongst the top 20 developing countries are Botswana, Mexico, Costa Rica, Mauritius and Namibia. SA ranks relatively low, 24th amongst developing countries and 47th overall.

In absolute terms, SA's ranking in the export of individual dynamic products is led by diamonds, with the country exporting the sixth-largest amount. Other products among SA's highest rankings are *passenger motor vehicles, wooden furniture, aircraft* and particular *chemicals* products (all between 20 and 30).

So overall, SA has a relatively low presence in exports of dynamic products in world trade. However, its relatively strong presence in areas such as *motor vehicles, wooden furniture, aircraft* and certain *chemicals* reflects industrial capabilities that can be built on, and in particular the success of the MIDP.

From this analysis some policy implications can be drawn.

- There is a need to examine SA's industrial structure systematically with respect to the industry groups and specific products which have demonstrated such sustained growth in world trade. Specifically, the ways in which SA can increase integration into the 'electro-technical' cluster of products need to be examined.
- More broadly, the analysis reveals a gap in debates around SA's industrialisation, which have been dominated by the idea that SA's industrial development should proceed in a linear fashion from its resource base through successively increasing levels of value addition.
- TNC-controlled vertical specialisation networks offer an alternative type of integration, which involves both opportunities and challenges for developing countries. The major opportunity is that it is no longer necessary for developing country firms to master the entire scope of production of a particular product. It can specialise in areas of production where it offers a competitive mix of costs and capabilities. Challenges include competition from countries with the same capabilities and longer-term development of the domestic technological base away from a reliance

on foreign technologies. Integration into vertically specialised TNC-controlled networks does not rule out other forms of industrialisation, but adds a further policy option.

- Additional areas for investigation include other relatively high-growth products, particularly high-value agricultural products, as well as fast-growing service outsourcing in world trade.

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## Workshop on SA SMMEs Points Towards Crucial Future Research

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At the end of 2003, TIPS, in conjunction with the **Small Business Project (SBP)**, hosted a workshop on the Economics of SMMEs<sup>1</sup> in SA. Bringing together policy-makers, practitioners and the research community, the workshop debated the lessons learnt in developing the small business sector and the challenges we still face. Importantly, the workshop assisted in the formulation of a medium-term agenda for further research in this area.

Since 1994, SA has been faced with the challenges of reintegration into world markets as a global economy, while at the same time positioning itself to realise the high expectations of its populace regarding a successful transition towards a more democratic order. To achieve the objectives

of economic growth through competitiveness on the one hand, and employment generation and income redistribution as a result of this growth on the other, SA's SMME economy has been actively promoted since 1995. Despite voluminous research, however, the extent to which SA's SMMEs

contribute to poverty alleviation, economic growth or international competitiveness is still largely unclear.

### Presentations

Rashad Cassim, head of the School of Economics and Business Science at the University of the Witwatersrand, initiated the workshop discussion by explaining the background to a study<sup>2</sup> of SMMEs compiled by TIPS in 2002.

The study describes the SA economy as a classic middle-income economy with high levels of inequality and poverty, but moreover as a dualistic economy – with high and low productivity sectors. In addition, SA's economic policy embraces a pro-growth strategy of fiscal prudence, trade reform and public sector restructuring. Evaluating the overall performance of the SA economy makes it clear that a fundamentally flourishing SMME sector is

(continued on page 12)

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<sup>1</sup> Small-, micro- and medium-sized enterprises

<sup>2</sup> The Economics of Small, Medium and Micro Enterprises in SA, by Al Berry, Magali Von Blottnitz, Rashad Cassim, Anna Kesper, Bala Rajaratnam and Dirk Ernst van Seventer, first published by TIPS in December 2002. To download an electronic version of this publication, please visit <http://www.tips.org.za/research>.

**SA Trade Flows to the World**

	Q4 2002		Q4 2003		Q3 2003		Q4 2003	
	Rbn	US\$bn	Rbn	US\$bn	Rbn	US\$bn	Rbn	US\$bn
Total Exports	69.41	7.16	62.24	9.24	62.73	8.45	62.24	9.24
Total Imports	68.33	7.04	63.18	9.35	63.93	8.62	63.18	9.35
Trade Balance	1.09	0.12	-0.94	-0.11	-1.20	-0.16	-0.94	-0.11

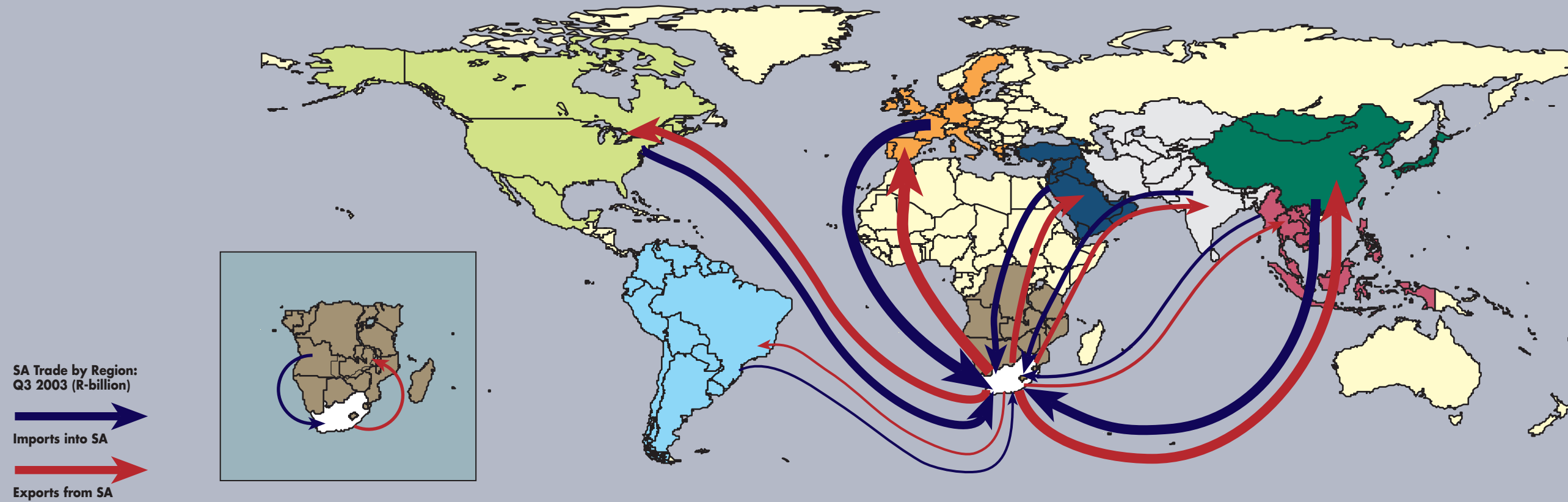
Note: The substantial change in the dollar value of exports whilst the rand value of exports declines is a result of the appreciation of the rand

**SA TRADE AT A GLANCE**

**SA Trade with the World: Percentage Growth Rate**

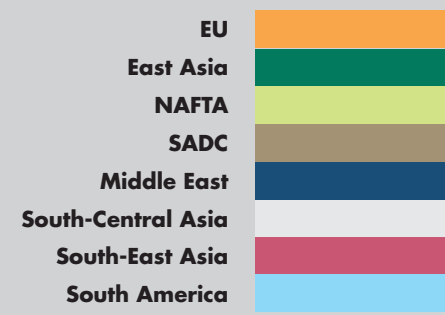
	Q4 2002 - Q4 2003 (%)	Q3 2003 - Q4 2003 (%)
Total Exports	-10.3	-0.8
Total Imports	-7.5	-1.2

Note: Growth rates have been calculated on the Rand values.



**Top Three Non-Mineral Exports from and Imports to SA from Regions (HS4; Q4 2003)**

Region	Exports			Imports		
	Products	Value (Rbn)	Share (%)	Products	Value (Rbn)	Share (%)
EU	Seats	0.65	3.4	Motor Vehicles	2.24	8.8
	Wine	0.64	3.4	Aircraft	1.77	7.0
	Vehicle Components	0.60	3.2	Electronic equipment	1.01	4.0
East Asia	Ferrous alloys	1.19	12.8	Motor Vehicles	0.59	5.0
	Semi-finished iron products	0.24	2.6	Data processing equipment	0.58	5.0
	Products of iron and natural steel	0.14	1.5	Electronic equipment	0.42	3.6
NAFTA	Motor Vehicles	0.83	13.5	Aircraft	1.12	16.2
	Aircraft	0.19	3.1	Motor Vehicles	0.31	4.4
	Centrifuges	0.18	3.0	Wheat	0.22	3.2
SADC	Motor Vehicles	0.24	4.3	Cotton	0.15	10.2
	Maize	0.19	3.4	Tobacco	0.05	3.8
	Cane sugar	0.15	2.7	Aircraft	0.03	2.2
Middle East	Citrus Fruit	0.08	3.5	Saitary household items	0.08	1.4
	Machinery	0.05	2.5	Aircraft	0.08	1.3
	Centrifuges	0.03	1.3	Electronic equipment	0.06	1.0
South-East Asia	Chemical wood pulp	0.14	8.4	Motor Vehicles	0.59	5.0
	Deciduous fruits	0.04	2.4	Data processing equipment	0.58	5.0
	Chemical By-products	0.02	1.3	Electronic equipment	0.42	3.6
South America	Ferrous alloys	0.06	9.2	Soybean Oilcake and Residue	0.15	7.5
	Coal	0.05	7.7	Meat	0.12	6.1
	Synthetic filament yarn	0.02	2.5	Soybean Oil	0.09	4.5



**SA Trade with the World: Top 10 products (HS2; Q4 2003)**

Products	Total Exports (Rbn)	Percentage of Total Exports	Products	Total Imports (Rbn)	Percentage of Total Imports
Precious Metals and Stones	18.40	29.6	Machinery and Boilers	11.32	17.9
Iron and Steel	7.12	11.4	Minerals and Fuel Oils	7.96	12.6
Vehicles	5.51	8.9	Electric Machinery	6.26	9.9
Machinery and Boilers	4.28	6.9	Special Motor Parts	5.10	8.1
Minerals and Fuel Oils	3.58	5.8	Aircraft	3.41	5.4
Ores, Slag and Ash	2.33	3.7	Medical & Surgical Equipment	2.08	3.3
Aluminium Products	1.91	3.1	Plastics	1.51	2.4
Beverages	1.32	2.1	Organic Chemicals	1.36	2.2
Inorganic Chemicals	1.14	1.8	Pharmaceutical Products	1.29	2.0
Furniture	1.09	1.7	Miscellaneous Chemical Products	1.04	1.6
<b>Total</b>	<b>46.67</b>	<b>75.0</b>	<b>Total</b>	<b>41.32</b>	<b>65.4</b>

**Top 10 Export Markets and Import Sources (Q4 2003), all products**

Exports			Imports		
Country	Value (Rbn)	Share (%)	Country	Value (Rbn)	Share (%)
US	6.50	10.4	Germany	8.62	13.6
Japan	5.86	9.4	US	6.21	9.8
UK	5.24	8.4	UK	5.17	8.2
Germany	4.04	6.5	China	4.78	7.6
Netherlands	2.52	4.1	Japan	4.18	6.6
China	1.70	2.7	France	3.81	6.0
Switzerland	1.61	2.6	Saudi Arabia	3.59	5.7
Australia	1.54	2.5	Iran	2.61	4.1
Belgium	1.54	2.5	Italy	1.94	3.1
Italy	1.50	2.4	Australia	1.46	2.3
<b>Total</b>	<b>32.05</b>	<b>51.5</b>	<b>Total</b>	<b>42.36</b>	<b>67.1</b>

**SA Trade by Region (Rbn)**

	Q4 2002		Q4 2003		Q3 2003		Q4 2003	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
EU	24.1	27.6	18.3	25.4	20.2	26.1	18.3	25.4
East Asia	8.6	11.7	10.7	11.8	10.0	11.6	10.7	11.8
NAFTA	7.4	8.7	7.0	7.0	6.6	6.6	7.0	7.0
SADC	7.3	1.5	5.7	1.4	6.0	1.5	5.7	1.4
Middle East	2.4	4.7	2.0	5.2	2.3	5.3	2.0	5.2
South-Central Asia	1.4	4.2	1.2	3.6	1.1	3.4	1.2	3.6
South-East Asia	1.7	2.7	1.4	2.5	1.6	2.7	1.4	2.5
South America	0.8	2.0	0.6	2.0	0.6	2.1	0.6	2.0
Rest of Africa	2.9	0.9	2.5	0.8	2.6	1.2	2.5	0.8
Rest of the World	12.9	4.3	12.9	3.6	11.8	3.5	12.9	3.6

(continued from page 9)

unlikely in the face of low overall economic growth. In this scenario, the question is: how will much-needed employment be created? Cassim further probed the determinants of labour demand in a middle-income economy such as SA's. Whereas developed countries exhibit high absorptive capacity and a high capital base, SA has a limited capital base, an abundance of unskilled labour and low overall economic productivity. From the TIPS report, Cassim highlighted that SMMEs contribute 25% of SA's total fixed capital formation, and thus stressed the importance of micro enterprises to overall economic productivity through the absorption of those on the margins. Moreover, the contribution of medium enterprises should be seen as central to the employment challenge in the long run

Cassim raised the important point that investigating the success and mortality rates of SMMEs is key to devising the kind of policies that are needed in SA to make SMMEs grow and be sustainable. In this regard, he stressed the importance of further research in terms of international comparisons, as well as longer time-series research to determine SMMEs' growth paths and ascertain the reasons behind such businesses' success or failure. In addition, since access to finance is a major constraint for start-up or small firms in SA, research on the SMME sector should probe the nature of financial intermediation. He suggested that, although the reasons behind low bank borrowing in the sector vary from lack of collateral to lack of investment or demand opportunities, the competitiveness of the SA banking sector – especially in terms of its small business loan portfolio – should be scrutinised and compared to that of other countries, for example Brazil and Malaysia. The cost-reducing effects of more competition in the local banking sector – and the resultant benefits for small businesses – cannot be over-emphasised.

Cassim also noted the impact of the labour market – with its heterogeneous labour force and high dispersion of productivity within and across sectors – on the SMME sector, and the importance of evaluating the market's current structure in an international comparative perspective.

In terms of the product markets, he noted the importance of relevant, up-to-date and reliable information on what SMMEs are producing and for which segments of the market.

According to Cassim, a future effective SMME policy package should include strong support for an efficient SMME sector in a competitive, open economy. Included in such a strategy must be the encouragement of increased local activity through the development of regional/sectoral growth pockets and supply-side support, and the opening up of export possibilities.

**Reg Rumney**, information services director at the BusinessMap Foundation and the second speaker at the workshop, focused on SMME development in the context of black economic empowerment (BEE) and the restructuring of State assets.

According to Rumney, the ANC government's Reconstruction and Development Programme (RDP) of 1994 first emphasised the importance of small business development

for SMMEs – than the mere privatisation of State-owned assets.

In terms of government's BEE policy, Rumney said a move away from the criterion of direct equity transfer in existing businesses to alternative means of distributing wealth by channelling equity into entrepreneurial activity should stimulate the expansion and sustainability of the small business sector.

In addition, a focus on promoting empowerment in economic activity such as small mining, small farming, tourism and franchising should not only promote sustainable BEE but also SMME development – as would further economic liberalisation, higher rates of economic growth and making available alternative forms of capital to the small business sector.

In terms of the State's procurement policy, Rumney observed that the Preferential Procurement Policy Framework Act of 2000 is not particularly 'small-business friendly' and has not introduced an effective monitoring mechanism to assess its impact on the small business sector. However, this could improve with the introduction of the balanced scorecard approach of the empowerment charter movement –

for example, the mining charter already makes provision for small business development through procurement.

In her presentation, **Judi Hudson** of the Small Business Project reflected on how the enabling environment can contribute to private sector growth in SA. She referred to a 10-country study<sup>3</sup> co-ordinated by London-based Bannock Consulting, which found an appropriate regulatory and institutional environment to be the single most important element in any economic growth strategy. Only one other factor – available skills, especially technical skills – is as closely correlated with per capita economic growth. Hudson observed that sound macro-economic policies – while an essential basis for development – have not been sufficient to encourage business growth in SA. The rate at which jobs have been created lags well behind the number of job seekers, while employment should have expanded by more than 33% since 1995 to have provided jobs for all new entrants in the job market.

To boost private sector growth and job creation, Hudson suggested that the enabling environment for business, especially small business, should be revisited. However, it is important to understand that SA needs

*Despite voluminous research, the extent to which SA's SMMEs contribute to poverty alleviation, economic growth or international competitiveness is still largely unclear.*

among black people, and so introduced the first definition of black economic empowerment. Currently, 90% of very small businesses (VSMEs) are owned by black people, and 70% of SMMEs. However, small and medium enterprises (SMEs) are still mainly owned by white people.

Rumney said restructuring at first glance has had a limited impact on BEE and the distribution of wealth to a larger section of the population. Telkom's empowerment shareholding, which stands at less than 6%, is a case in point. However, the sale of State forestry assets, to some degree at least, has achieved the dual aims of BEE at company and community level by implementing sustainable affirmative action and human resource development programmes at the local level.

On the other hand, economic liberalisation has created a number of new black radio stations and the first BEE free-to-air TV channel. So the overarching aim of government's restructuring policy – the liberalisation of the SA economy – and the State's objective of playing a continuous developmental role in SA to deal with the legacies of apartheid, poverty and unemployment – are able to create more space for empowerment – and by implication

<sup>3</sup> Seven African and three Central European countries were included in the study.

better regulation or in some cases re-regulation, not simply deregulation. While an enabling environment is good for all business, irrespective of size, and regulations affect the private sector as a whole, they weigh most heavily on smaller firms. For example, it has been found that compliance costs per employee are over five times higher for the smallest SMMEs than for the largest, while an American study concluded that firms employing fewer than 20 employees face an annual regulatory bill of US\$6,975 per employee. This burden is 60% higher than that faced by firms with more than 500 employees.

So it is no wonder that informal operators tend to ignore regulations, taxes, levies and health standards. Unfortunately, inappropriate regulations also act as a barrier to development by keeping many of them out of the formal economy. Hudson listed three approaches, advocated by the OECD<sup>4</sup>, which could help the small business sector to function more effectively within the regulatory environment.

Of major importance is active assistance to small businesses, in particular to meet the administrative compliance requirements of regulation. In addition, regulatory impact assessments could indicate which regulatory requirements should be modified to make them less onerous for SMMEs, and could establish specific mechanisms to ensure that the regulatory design takes better account of small business needs and concerns. Hudson stressed that care must be taken to structure such assessments in a manner that does not add to the administrative burden of small businesses. Another problem of regulatory impact assessments is how to get a sufficient number of entrepreneurs involved in the regulatory debate – most are too busy managing their businesses to spend a significant amount of time in government departments to voice their regulatory difficulties.

In terms of a future research agenda, Hudson noted that, up to now, studies of the small business sector largely relied on perceptions rather than facts – the result of a lack of strong research-based evidence. She suggested that future research should incorporate a greater quantitative component to measure regulatory costs for small businesses in both the formal and informal sectors of the SA economy.

**Chris Rogerson** of the University of the

Witwatersrand presented some preliminary ideas on the way forward for prospective research on the SMME sector, and identified certain gaps in existing SMME research studies. Up to now, Rogerson noted, SMME research was mainly supply-driven, and most research was produced for the short term and neglected longitudinal studies in favour of 'snapshot-type' studies. He referred to recommendations from previous attempts to put in place a small business research agenda – specifically that of Ntsika/the ILO<sup>5</sup> – which highlighted the need for greater participation by users/beneficiaries in determining research agendas, the need for demand-oriented research from beneficiaries, and the importance of including marketing strategies for the different types of SMMEs. However, Rogerson also observed that although

*A focus on entrepreneurs' perceptions often over-emphasises external constraints and vitally misses the dynamics of change over time in this sector.*

demand-oriented research was necessary, an exclusively demand-oriented approach missed the big picture. According to him, a 'big-picture' research agenda would involve core policy-relevant issues and would locate local research within wider international debates on SMME development. Thus Rogerson suggested four potential research thrusts for the SA SMME sector.

In the first place, he stressed the necessity of improving the current poor statistical base in terms of national and regional data on SMMEs to enable relevant policy decisions and the development of appropriate indicators to measure and monitor the performance of implemented policy. In addition, regional, and especially sectoral, research on SMMEs should be emphasised – specifically since the SMME economy is extraordinarily heterogeneous – which could link to **the dti's** priority sectors to investigate SMMEs in the ICT, tourism and clothing sectors.

Secondly, Rogerson emphasised a need to move beyond investigating mainly SMMEs' support needs, such as funding and training, towards research on the conditions under which small firms – of various types – grow and fail. Rogerson suggested that a focus on entrepreneurs' perceptions often over-emphasised external constraints and vitally missed the dynamics of change over time

in this sector. In the third place, little is known of the impact of HIV/Aids on the SMME economy, although major research of the pandemic's effect on large businesses has been conducted. Rogerson noted that work that has been done, suggests a link between the impact of HIV/Aids and the establishment of micro and survivalist informal enterprises as a 'household coping' mechanism.

However, there is little understanding of the effects of HIV/Aids on existing SMME development trajectories. A recent study that used longitudinal research to assess how SMMEs are addressing HIV/Aids at the workplace level and its impact on business development has been useful and should point the way towards further research in this area. Lastly, a policy-relevant research agenda on local initiatives should be drafted to match **the dti's** SMME policy, which includes a focus on strengthening the links to local economic development. Rogerson observed that local government intervention is crucial for SMMEs – both in terms of growth and poverty alleviation.

## Discussion

The discussion from the floor that followed the four presentations raised a number of interesting question and areas for future research.

**Barbara Groeblichhoff** from the Friedrich Neumann Foundation suggested that a substantial investment in research infrastructure for the small business sector was imperative to move away from trying to derive appropriate policy from imperfect knowledge of the sector.

**Dirk van Seventer** from TIPS concurred by saying that the TIPS 2002 publication on SMMEs was based on fairly old data and that the organisation, in conjunction with Statistics SA, is exploring the possibility of allocating resources to provide up-to-date, comprehensive data for the sector.

SMME sector specialist researcher **Magali von Blottnitz** confirmed the considerable uncertainty over small business data and the difficulty researchers experience in trying to compare various incomplete and contradictory data sources.

**John Orford** of the UCT<sup>6</sup> Graduate School of Business' Centre for Innovation and Entrepreneurship commented on SMMEs' higher labour-absorptive capacity due to

<sup>4</sup> Organisation for Economic Co-operation and Development

<sup>5</sup> International Labour Organisation

<sup>6</sup> University of Cape Town

*(continued on page 14)*

(continued from page 13)

the fact that labour is cheaper in the small business sector, and suggested that future research should take a critical look at the 'user-friendliness' of the SA labour and capital markets towards small business. He noted the example of Brazil, where labour market flexibility possibly contributed to the development and prominence of the SMME sector.

**Orford** also observed that, in terms of the risk/reward equation, the SA SMME sector is not unique in its difficulty to access finance. Various country studies have shown that most entrepreneurs use, at least in part, their own resources/savings to establish start-up businesses. However, in terms of small business development and BEE, the emphasis should be on alternative ways in which to unlock capital for black people and a move away from high-profile, narrow-based empowerment.

**Cas Coovadia** of the Banking Council of SA and **Rumney** both noted the possibility that there might be a policy mismatch between the promotion of BEE and of the small business sector, which could create barriers to introducing a greater section of the population into the formal sector.

Small business owner **Phillip Thobela** asked the question whether government, and specifically parastatals, or the private sector contributed most to empowerment, and by implication to the small business sector. He noted that although parastatals take the lead in terms of affirmative action and affirmative procurement, most economic activity occurs in the private sector – which has to be transformed to assist in creating a deracialised economy and opening up further business opportunities for a greater segment of the SA population. In terms of SMME development, the question of how individuals are given access to resources to allow them easier access to capital should be considered.

On the regulatory environment, small business incubator manager **Allon Raiz** noted that entrepreneurs seldom know the difference between the various government agencies designed to assist and promote the small business sector, for example Ntsika and Khula, or whether and in what manner other government initiatives, (such as the Umsombomvu Youth Fund, which is mandated to create a platform for job creation and skills development) are accessible to entrepreneurs. Because funding agencies are not in touch with small

businesses and their major regulatory concerns, the sector seems to exhibit reluctance in proactively trying to solicit administrative and funding assistance and seems to support deregulation. And on this issue, **Hudson** notes that rather than one-sidedly promoting deregulation, regulatory best practice should be advanced – principles, legislation, policies and regulations that promote an enabling environment for SMMEs and allow small businesses to be established and managed successfully over the long term.

**Orford** suggested that a study should be done on the success or failure of the education system to produce entrepreneurs. A longitudinal study of how learners experience entrepreneurial contact and which ideally assesses such contact once the learners leave the school system and enter the workplace should be considered. It was also noted that longitudinal studies could pose problems in terms of the dynamic nature of the SMME sector. For example, a small

*Entrepreneurs seldom know the difference between the various government agencies designed to assist and promote the small business sector.*

business surveyed in Phase I of the study could have closed down by the time Phase II commences, with the resultant loss of valuable information. A possible solution could be to also survey specific entrepreneurs rather than only small businesses.

**Julius Nyalunga** of the dti noted that the department is currently undertaking various assessments of the SMME sector. For example, a three-year study on the profile of SMMEs in SA is under way, while an international conference on regulatory impact assessments is being planned and a study on the cost of compliance for the small business sector. In addition, local development agencies are being established in Mpumalanga and the Northern Cape, in conjunction with the UNDP<sup>7</sup> and UNOPS<sup>8</sup> to provide very poor municipalities with training programmes and access to finance.

The dti is further in the process of revising its integrated support strategy in terms of SMMEs, realigning the incentives available for small businesses with government's policy objectives, and establishing a fund to assist micro enterprises to access finance. On this issue, Rogerson observed that local economic development should not only be a national government initiative – an action plan should

be developed between local government and local municipalities, which also includes the private sector and other players in the sector.

## Medium-Term Research Programme

The workshop clearly highlighted the research gaps that exist in terms of the SMME sector. Crucially, what appears to be missing is a broad-ranging, qualitative assessment of the outcomes of government's initiatives in enterprise development. Moreover, the lack of longitudinal or time-series data illustrating the effect of government's enterprise development strategy over time has long been a critical weakness of research efforts around SMMEs.

TIPS has followed up the workshop by formulating a co-ordinated programme of research on SMMEs that would address these deficiencies. Two research clusters have been prioritised:

- **Sectoral studies on SMMEs** will interrogate specific sectoral issues concerning the growth and/or survival of SMMEs, first within two of the dti's priority sectors – tourism and agriculture – both of which has limited existing research.

- The stronger linkage proposed by government between **SMME support and Local Economic Development (LED)** planning highlights the importance of examining this nexus for informing local, provincial and national policy interventions. In the medium term, TIPS will initiate the following three LED research programmes:

- A national audit of local authority initiatives to support SMME development;
- The role of high-technology incubators; and
- Planning for the informal economy.

In addition, an in-depth study of LED initiatives for the provision of 'innovation infrastructure' in support of SMMEs is planned. The importance of developing relationships and linkages between SMMEs, the advantages that flow from spatial proximity, the collective efficiency gains of small industry clusters and the role of deliberative institutions that can substantially 'thicken' the common knowledge of the group by encouraging collective discussion cannot be underestimated. Drawing on international experience, this research will examine the practical issues of local initiatives to establish an infrastructure specific to the needs of emerging high-technology SMMEs.

<sup>7</sup> United Nations Development Programme

<sup>8</sup> United Nations Office for Project Services

# WTO WATCH

## Special and Differential Treatment for Developing Countries in the Doha Agenda

TIPS economist **Donald Onyango** attended the recent SATRN<sup>1</sup> Annual Symposium entitled “Enhancing the Benefits for SADC Countries in the Doha Round”, which aimed to identify important actions that need to be taken for SADC countries to benefit from the Doha Round of negotiations. In this article he focuses on issues around Special and Differential Treatment, which formed part of the discussions on WTO<sup>2</sup> decision-making at the Symposium.

The premise behind Special and Differential Treatment (SDT) is couched in the belief that trade liberalisation under Most Favoured Nation (MFN) auspices does not necessarily result in the growth and development of Least Developed Countries (LDCs). These countries are therefore accorded flexibility and policy space in the formulation of their economic policies. Michalopoulos (2003) notes that, in principle, developing countries should be subject to somewhat different rules and disciplines in international trade than those applied to developed countries, and that the latter should implement their obligations under the GATT<sup>3</sup> and WTO in ways that would be favourable to development.

Thus SDT entails the compensation of developing countries for the structural asymmetries between themselves and developed countries, which typically take the form of limited access to technology and finance, and weak infrastructure and human resource development (Ceara-Hatton and Isa-Contreras, 2002) – and so allows for more equitable participation in international trade. However, in moving towards a pro-development agenda, the emphasis is on reducing barriers to trade and investment for products and services from developing countries, and hence there is a need to not only recast SDT to focus on the poorest countries but also to address market failures.

From a historical standpoint, provisions for SDT were included in the 1947 Charter that created the General Agreement on Tariffs and Trade. However, these provisions did not extend beyond the provisions of Article XVIII, which allowed developing countries to renegotiate their commitments or in some instances withdraw concessions, either when “wanting to establish an industry with the

purpose of raising the general standard of living of its people”, or when faced with Balance of Payments problems as they procured to expand their internal markets (Ceara-Hatton and Isa-Contreras, 2002). The Kennedy Round (1962-1967) further defined SDT in the emerging international trade system through the introduction of Part IV on the benefits and obligations of developing countries – Article XXXVI in particular acknowledged the wide income disparities between developing and developed countries and the need to ensure “a rapid advance in the standards of living in these countries” by means of “a rapid and sustained expansion of the export earnings of the less-developed contracting

*In principle, developing countries should be subject to somewhat different rules and disciplines in international trade than those applied to developed countries.*

parties”. Ceara-Hatton and Isa-Contreras (2002) add that Article XXXVII also established as a commitment of developing countries the reduction of barriers to imports from LDCs (GATT, 1967).

During the 1979 Tokyo Round, an Enabling Clause was introduced which established that developing countries were exempt from the obligations of the MFN Clause (Article 1 of the General Agreement), and that they should receive more favourable treatment without any obligation to extend that treatment to the rest of the signing parties. One important feature of the Enabling Clause was the introduction of the notion that developing countries were expected to gradually improve their capacity to make contributions or negotiate concessions as their economic development progressed and

their trade situation improved (GATT, 1979).<sup>4</sup>

The Uruguay Round saw the approach adopted under the Tokyo Round give way to one limiting policy flexibilities and exemptions from obligations, except for LDCs, while at the same time allowing for asymmetry in developing country commitments. These were typically expressed in longer time periods for implementation of agreements, smaller tariff and subsidy commitments and more favourable treatment in trade remedy cases brought by developed countries (Draper and Khumalo, 2003). The current Doha Round holds that SDT is an integral part of the WTO Agreements, therefore all SDT provisions will be reviewed to make them more precise, effective and operational (WTO, 2001). However, despite the Doha Declaration calling for modalities for further commitments, including provisions for SDT be established no later than 31 March 2003, all efforts to strengthen and operationalise SDT provisions during 2002 were unsuccessful (Hoekman *et al.*, 2003).

Hoekman *et al.* (2003) identify two major issues around SDT in the WTO: market access and rule related. The former entails preferential access for developing countries to developed country markets, complemented by less than full reciprocity in negotiating rounds. In terms of market access, Hoekman *et al.* (2003) observe that whereas the Generalised System of Preferences (GSP) has traditionally been the avenue for market access for most developing countries and ensured that the extent of reciprocity in periodic multilateral trade negotiations was limited, recent years have witnessed the deepening of trade preferences for least developed countries and sub-Saharan Africa.<sup>5</sup> However, while these schemes could

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<sup>1</sup> Southern Africa Trade Research Network

<sup>2</sup> World Trade Organisation

<sup>3</sup> General Agreement on Tariffs and Trade

<sup>4</sup> Cited in Ceara-Hatton and Isa-Contreras (2002)

<sup>5</sup> Two examples of these are the EU Everything But Arms Initiative and the US African Growth and Opportunity Act (AGOA).

have a significant positive effect on the exports of beneficiary countries, much depends on their supply-side capacity, the ability to put the rents generated to good use and on the ancillary documentary requirements imposed by preference-granting countries, such as Rules of Origin<sup>6</sup>.

Hoekman *et al.* (2003) also point out that preferences are discriminatory in nature, and the granting of preferential access to some countries not only implies but depends on the effects of not giving such access to others. Hence the major policy question is identifying the countries that should be eligible for preferential market access. The reality is a hierarchy of preferences in practice, with the most preferred countries generally being members of reciprocal free trade agreements followed by LDCs (which in principle often enjoy free access to major markets) and other developing countries (which generally get GSP preferences).

In terms of the second issue around SDT – rules – such treatment calls for developed countries to provide technical assistance to lower-income economies to implement WTO disciplines, while at the same time exempting these countries from certain WTO rules. These exemptions may be of a transitory nature and involve longer time periods for implementation. For instance, in the case of rules for customs valuations, trade-related investment measures (TRIMS) are abolished and harmonised protection of intellectual property rights implemented. It should be noted that much of the debate around SDT is about perceptions that the rules – TRIPS<sup>7</sup> or the Agreement on Agriculture, Customs and Standards – are not beneficial to developing countries. Hoekman *et al.* (2003) argue that these perceptions call for a reconsideration and renegotiation of existing WTO rules. By not engaging in the WTO negotiating process of, for example, reciprocity, countries lose out on a mechanism that can be instrumental in pursuing beneficial trade policy reforms and generating better access to export markets. Therefore the core WTO rules should be applicable to all members. Elements of reciprocity are identified as including:

- Own liberalisation by countries as well as by partners;

- Acceptance of the core disciplines of the WTO and trade policy issues;
- Compensation for preference erosion being sought outside the trade policy domain; and
- An increase in the formation of coalitions.

However, given the varying ability (depending on, for instance, size, income, skills and institutional capacity) of countries to implement WTO disciplines and benefit from such implementation, there is a need to differentiate between developing countries to determine the reach of resource-intensive WTO rules. This differentiation hinges on

*The traditional approach to SDT in the GATT/WTO has not been successful in promoting development because it has helped to create incentives for developing countries not to engage in the process of reciprocal liberalisation of trade barriers.*

the belief that certain agreements may not be development priorities, or may require the satisfaction of countless other preconditions (such as economies of scale, institutional capacity or minimum levels of per capita income) before their implementation can be deemed beneficial.

Hoekman *et al.* (2003) suggests the following options when considering country differences to determine the applicability of WTO disciplines that have a significant bearing on resource allocation:

- Total flexibility for developing countries as long as other countries are not harmed;
- An agreement-specific approach involving country-based criteria that are applied on an agreement-by-agreement basis to determine whether or when agreements should be implemented; and
- Country-based approaches that place trade reform priorities in the context of national development plans and employ multilateral surveillance and monitoring to establish a co-operative framework under which countries are assisted in gradually adopting WTO norms as part of a more general programme of trade-related reforms.

Alternatively, a rule of thumb approach could be adopted, based on criteria such as country size or per capita income,

allowing the bulk of identified difficulties to be tackled at little or no negotiating cost. This could consist of an opt-out for those countries that satisfy the criteria, and would be broadly applicable across those disciplines where it has been agreed that there are substantial implementation issues. The suitability of the approach adopted depends on WTO members recognising the diversity of capacities and priorities among members and devising their responses accordingly.

The present debate in the WTO regarding SDT has seen the tabling of 88 proposals by developing countries and LDCs. These proposals relate mainly to the General Agreement on Trade in Services (GATS), GATT and TRIPS (WTO, 2003). These proposals can broadly be categorised as follows:

- **Category One:** The 38 proposals in this category are seen as those most likely to be accepted with minor changes. 12 of these have already been agreed to in February 2002.
- **Category Two:** The WTO General Council considers that these 38 proposals would be most effectively discussed in the relevant WTO bodies.
- **Category Three:** The 12 proposals in this category require major redrafting before they can be agreed upon.

While the Africa Group agrees that SDT has a pro-development agenda, as argued by the World Bank, there are currently 63 proposals dealing with development concerns in developing countries, 26 proposals dealing with policy space, 15 proposals dealing with market access, 10 proposals dealing with resource transfer policies (for example, technology transfer) and 12 proposals dealing with rules that need to be revised. The problem is that in getting major trading parties to agree to all these proposals, SADC has to accept liberalisation in parallel and submit to the core trade policy principles.

One way of making progress would be to consider moving towards greater country differentiation as part of a new SDT framework, instead of dwelling on the existing proposals, which will enable developing countries to identify those options that make a real difference to their development outcomes. SDT should also focus mainly on the needs of poorer countries, particularly in sub-Saharan Africa.

<sup>6</sup> These are particularly significant for sectors such as Textiles and Clothing.  
<sup>7</sup> Trade-Related Intellectual Property Rights.

Hoekman *et al.* (2003) argue that the traditional approach to SDT in the GATT/WTO has not been successful in promoting development because it is fundamentally flawed by the fact that it has helped to create incentives for developing countries not to engage in the process of reciprocal liberalisation of trade barriers. Further, this traditional approach has not aided the WTO to move forward in the arena of rule-making. So it is clear that the SDT issue should be recast if the WTO is to become more effective in helping developing countries to use trade for development.

In particular, the following matters need to be addressed:

- Should SDT be enforced through hard or soft laws? Is trade to be used as an enforcement mechanism?

- An explicit analysis of which policies have a large development payoff is necessary;
- There should be a move towards greater differentiation as part of a new framework for SDT;
- More efficient transfers/assistance to developing countries should be identified, while the adjustment costs should be quantified; and
- Support mechanisms for improved and effective negotiations should be strengthened.

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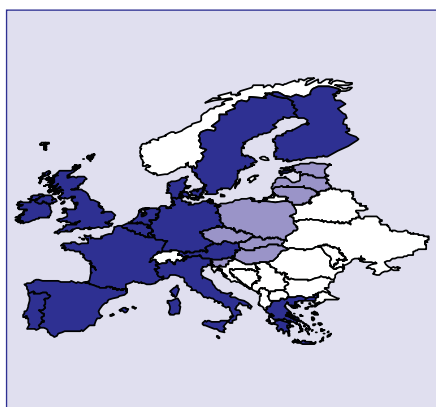
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## European Expansion: Implications for SA

At the Copenhagen European Council Meeting in December 2002, the EU decided to enlarge the EU-15 with 10 new member states, adding Latvia, Lithuania, Slovakia, Malta and Cyprus and the CEEC-5 of Poland, Hungary, the Czech Republic, Slovenia and Estonia (the Accession Countries or ACs). Accession will increase the EU-15 population by about 20%, but GDP by only 8% when measured as purchasing power parity. **Ron Sandrey**<sup>1</sup> examines the medium- and longer-term implication of an expanded EU-25 for SA.

SA's current trade with the ACs is modest but firmly in favour of the latter. Over 80% of exports are non-agricultural or manufactured products, and Poland is the largest single export destination. Hungary and the Czech Republic are the main import sources, and manufactures again dominate these imports.

Agriculture is important to the CEEC-8, and both Poland and Hungary are large producers. Accession negotiations were complicated by the integration of these countries, particularly into the Common Agricultural Policy (CAP) while at the same time reforming the CAP to make it fiscally more sustainable and palatable to WTO trading partners. Given that the ACs will be firmly constrained by the CAP and the associated EU-15 regulation regime, there appear to be few negative effects of enlargement and possibly some positives from CAP reform.

The other two channels likely to have an impact on SA are manufactures exports and the longer-term implications of an expanded and hopefully more prosperous Europe. Both effects are positive.

Analysts generally agree that the macroeconomic benefits to the ACs are considerable. EU-15 transfer payments are an important part of this, but such payments are not too fiscally demanding of these countries. Given that the EU is and will remain the dominant export destination for SA exports, this is all good news.

Most manufacturing exports from SA to the EU-15 are either duty-free at the moment or will soon be. Therefore, as the ACs adopt the EU-15 tariff schedule upon accession, there will be some cases of lower CEEC-8 duties and probably no increases. This will expand trade moderately – especially as it can be shown that in most cases there are

already large exports to the EU-15 in the same major export lines. So there is little chance of trade diversion away from SA.

The implications for SA will come through several channels. For agriculture there are the direct effects of exports to the ACs as tariffs change, plus the more complex interactions of the ACs being merged into the current EU-SA's main market. As the latter is partially through preferential access, there will be both erosion and expansion potentials from the enlargement to an expanded EU-25. Of course, the implications of CAP reform are also inexorably linked to enlargement, but this subject is a study in itself.

For non-agricultural exports – the major exports from SA to the CEEC-8 – the situation is complex. Most of the trade diversion effects from the current EU-15 have probably already taken place as the

<sup>1</sup> Sandrey is economic research co-ordinator at the New Zealand Ministry of Foreign Affairs and Trade.

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EU-15 have had preferential access into the ACs for two or three years. Trade expansion for SA will come about from reduced tariffs into the CEEC-8 and general expansion effects as their industrial sectors become fully integrated into the wider EU. These latter impacts are very hard to quantify, and would even be a challenge for a CGE<sup>2</sup> model.

### Agricultural effects

With or without accession, Poland urgently needs to increase the efficiency of its agricultural system. For Poland to become internationally competitive, it must modernise, implement improved technologies and restructure the farming and food processing sectors with better linkages to the market. An integral part of this is the need to improve quality standards. The importance of a demand-driven approach rather than the decades-old supply-driven approach is crucial. However, modernisation and structural change inevitably lead to lower employment, a problem accentuated by the importance of agriculture as a provider of work. Given the small scale and fragmented nature of land holdings, the agricultural adjustment process will not be easy for Poland, notwithstanding impressive results since 1990.

For Hungary the issues are subtler, as the country is a traditional exporter of agricultural products and striving to increase its competitive position. The farm structures are larger and more efficient and the agri-food sector has undergone considerable transformation, much of which has been funded by international capital. The dilemma is that accession will lock Hungary into the EU system whereby its comparative advantage in agriculture is diluted by both the CAP quota system and the more rigorous EU regulatory system (Acquis Communautaire). The hypothesis that Hungary in particular may have done better with its own agricultural system and a free trade access arrangement into the EU over time will obviously remain untested, although long-term liberalisation of the CAP and the world's agricultural trading regimes may

provide at least partial answers to this question. The corollary is that the more efficient ACs will exert increased pressure for CAP reform and liberalisation over the longer term.<sup>3</sup>

Any long-term analysis of the effects of accession needs to be viewed against this background.

Table 1 shows that over the 2000 to 2002 period, inclusive exports of agricultural products to the CEEC-8 totalled \$30.2m only. This contrasts with exports to the EU-

*There should be few negative effects of enlargement and possibly some positive ones in the medium term, especially since trade diversion effects would have started to take effect by 2002.*

15 of \$9.6bn, or 34.4% of total exports from SA in 2002 alone. On its own this set of statistics suggests that an expanded EU is likely to present a more important market for SA over time. Although the analysis has not been done (and it may be too early to tell anyway), it would appear unlikely that much trade diversion has taken place as the CEECs gained preferential access into the EU-15.

For six HS4 lines, SA exports in aggregate to the CEEC-8 have been over \$1m in total over the three-year period. These items include wine, wool, prepared fruits, citrus and grapes. Exports in these five lines to the EU-15 were 81%, 71%, 44%, 48% and 76% of the total SA exports respectively<sup>4</sup>. Tariffs on wine into the ACs are variable but will fall on accession. Tariffs on wool are generally zero to both the old and the new EU, while tariffs on citrus exports at the moment seem to be higher in the CEEC-8 than the EU-15.

Both Hungary and Poland, big users of WTO tariff quotas, apply such quotas to citrus fruits, grapes and apples. These quotas will be merged with the extensive EU-15 tariff quotas in the same exports. Thus, little expansion (or reduction) of trade would seem likely – especially since the tariffs on

apples and citrus remain high despite the SA-EU trade agreement. Tariffs on grapes are reducing, but not to zero.

All this suggests that there should be few negative effects of enlargement and possibly some positive ones in the medium term, especially since trade diversion effects would have started to take effect by 2002 should there be any. An expanded EU appears to be good news for SA in the medium to longer term, given the current trade flows and likely demand effects detailed earlier resulting from expansion and the constraining supply effects resulting from CAP reform. The truly interesting question of the international competitiveness of the EU-25 under a completely liberalised international agricultural trading regime lies both in the future and outside of the scope of this study. Meanwhile both Bulgaria and Romania wait in the wings, and perhaps the Ukraine at a later stage.

### Manufacturing and mining/mineral exports

Table 1 outlines the main SA non-agricultural export HS4 lines to the CEEC-8.

Data is expressed in US\$ '000, with the period 2000 to 2002 given. Any HS4 line with a value of at least \$1m in any one year is included. The EU-15 data is for 2002, expressed as a percentage of total SA exports in that line. The final column shows the average percentage of the HS line destined for the CEEC-8.

There are a few important points to note from Table 1. The first is that in most cases the percentage of total exports in the particular line going to the CEEC is small, while the companion exports to the EU-15 is often high. This augurs well in that the combined exports could increase as the ACs integrate into the EU-25. The second feature is that many of the export lines to the CEEC-8 are far from stable. Of the 16 lines shown, four are dramatically down over the period, five have almost as dramatically increased, while only the remaining seven could be regarded as somewhat stable. This degree of instability results in a great deal of uncertainty, particularly when the main

<sup>2</sup> Computable General Equilibrium

<sup>3</sup> See, for example, "A Development Perspective on EU Trade Policies and Their Implications for Central and Eastern European Countries", by Faizel Ismail, Head: SA delegation to the WTO, TIPS, Policy Perspectives No 1, April 2003, pages 8 and 9. On the website at <http://www.tips.org.za/research/papers/getpaper.asp?id=661>

<sup>4</sup> The only export not fitting these patterns was HS2301, greaves and/or food waste. These appear as one-off exports of \$1.7 million to Latvia and Slovenia in 2002 only, and CEEC exports made up 10% of the total SA exports in this HS line.

export line (HS 2602, manganese ores, in Table 1) is in the dramatically declining category, which fell from one-third of the exports in 2000 to under \$1m in 2002.

SA either has or will shortly have duty-free access into the EU-15 for most of these HS lines. The exceptions are (a) the iron and steel HS 72 lines which will go to zero by 2006 and HS 3808 which goes to zero by 2003; and (b) HS 3824 and HS 8708 which stay at 4.2% and 2.54% in the EU-15 and are not lowered at all.

As these preference rates will be transferred across to the ACs, there should be potential to increase trade in some of the lines upon accession. An examination of the HS lines where data is readily available shows tariff advantages in the exports for HS 8421, 7201, 3808 and 2701 where all are duty-free into the EU and carry tariffs of 9%, 10%, 3%, 9% and 3% to 6% respectively into the main CEEC markets. In addition, tariffs will fall in at least 7202 and 8708, as the EU rates are lower. There do not appear to be any lines where the tariffs for CEEC-8 imports will increase.

A more detailed but still aggregate analysis of the difference between preferential tariffs on SA imports from the EU and the ACs (on the basis that the ACs paid the MFN rate)

## AEASA 42nd Annual Conference

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was undertaken at the unweighted HS2 line level. This found that the ACs would have paid an estimated total of \$38m in duties over the three years at the SA border.

Had the EU preference rates been applied to these imports, \$1.8m less in duties would have been paid – a reduction of 0.39 percentage points. The main portion of such a reduction stems from lower duties of 0.59

percentage points on the imports of the three main HS2 lines of *machinery, electrical goods and vehicles and their associated parts* (\$1.33m from the original \$13.98m in these three lines). These overall differences will result in a slight trade expansion, but again the larger effect will come through a more prosperous and integrated CEEC-8 and EU-25 in the short and longer term respectively.

**Table 1: Main non-agriculture exports to CEEC-8, 2000 to 2002 average, US\$'000**

	CEEC2000	CEEC01	CEEC02	2002 EU %	CEEC %
<b>HS4 and Description</b>	71,469	77,667	75,131		
2602: Manganese ores	16,607	12,455	949	14	4.1
8421: Centrifuges; filter etc	5,722	9,786	11,210	77	1
2601: Iron ores & concentrates	9,441	6,557	2,264	32	0.6
6802: Worked monument etc. stone	4,753	4,867	5,767	56	7.7
7219: Fl-rl stainless steel products	512	522	5,048	27	0.5
3808: Insecticides, rodenticides etc.	3,169	1,704	1,084	6.5	1
8708: Parts for vehicles	1,535	1,460	2,670	61	0.5
2516: Granite etc.	1,672	1,623	2,343	56	4.3
2701: Coal	0	3,773	1,688	73	0.03
8517: Telephone equipment	2,410	1,978	832	21	2.1
7201: Pig iron	1,556	2,009	1,186	43	2
3006: Pharmaceuticals	2,027	160	209	29	0.1
3822: Diagnostic/lab reagents	364	582	1,221	11	3.9
7202: Ferroalloys	0	1,960	6	38	0.06
2842: Salts of inorganic acids	0	0	1,390	13	0.1
3824: Binders for found molds	1,035	104	5	15	0.05
<b>Subtotal</b>	<b>50,802.7</b>	<b>51,100.6</b>	<b>39,344.3</b>		

[Source: Customs & Excise]

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