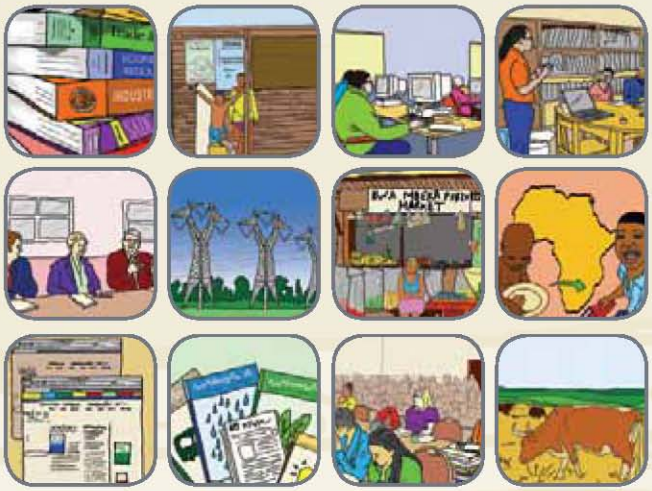
TRADE & INDUSTRIAL POLICY STRATEGIES



15-YEAR REVIEW:

TRADE POLICY IN SOUTH AFRICA

Ximena Gonzalez-Nuñez

December 2010

Contents

Tables

Figures

1. Introduction

South Africa's trade policy has undergone much change as the country approaches its second decade of democracy. In particular, of more recent interest on the global sphere, and hence on the domestic front, have been the trade issues *du jour*, including trade in services and behind-the-border issues such as non-tariff measures and competition.

Trade remains an important facet of the country's economy, and although growth has improved since the 1990s when economic growth of 1% was being experienced, it is generally agreed that South Africa needs to grow its economy by more than the 5% it is averaging currently per annum. Increasing growth in the country's exports is seen as one key objective in the country's path to achieving more robust growth, but of course a crucial question is how this can be done.

Numerous challenges have arisen which have affected South Africa's ability to realise this objective. Amongst these are issues such as volatility of the exchange rate and a widening trade deficit, together with political crises plaguing African trading partners such as Kenya and Zimbabwe. Expanding infrastructure bottlenecks, for example related to maritime transport, and increasing uncertainty regarding energy supply are further limiting factors that are not part of the trade policy arena per se, but do impact on the country's ability to expand its exports. This is also linked to an important area of policy concern, which relates to how trade policy complements, and is complemented by, other economic policies, such as the industrial policy, in a pragmatic way. On the bilateral and multilateral front further difficulties have arisen, for example, within the context of the Doha negotiations related to liberalisation in agriculture, as well as the Economic Partnership Agreement (EPA) negotiations with the European Union (EU).

In recent months, however, the debate concerning what direction South African trade policy should take has been around the age-old argument of free trade versus greater protection. The first camp of thought believes that freer trade leads to greater competition, more efficient use of resources and hence increases in exports of goods and services in which the country has a comparative advantage. It also encourages the adoption of modern technologies from outside South Africa, thereby enabling the country to increase production choices and value-added strategies. The second camp believes in a more active role for the state and that protection is required to allow selected industries to grow their ability to export to a degree to which they will then be able to compete effectively in global markets without that protection. It is, however, pertinent to note that in making such an infant industry argument for protection, one would need to take into consideration a number of issues. In particular it would be important to gauge the levels at which South African tariffs are bound so that they are at least in line with the country's multilateral commitments. Furthermore, a careful assessment of which consumers would be most affected by such policies would need to be done to assess whether the lives of the poor and marginalised would be further adversely affected. In addition, a careful analysis of the sector requiring protection needs to be undertaken to clearly justify the grounds for an infant-industry argument rather than unjustifiable protectionism.

South Africa has since it became a democracy opened up its economy quite rapidly and it is felt that this has led to the export growth experienced in recent years. Prior to democracy, however, South Africa supported certain targeted industries, which are also seen as having influenced the export trends of the 1990s. Electing to follow a trade stance that is more or less protective than is currently the case would require some careful strategic thinking, informed by both global and domestic experience. This report seeks to contribute towards this process.

2. International environment

2.1 World Trade Organisation

The establishment of the World Trade Organisation (WTO) on 1 January 1995 marked a fundamental shift in the multilateral trading system. As the body responsible for regulating world trade, its role has become increasingly difficult with the proliferation of preferential trading agreements and the introduction of more complex issues such as non-tariff barriers[1], as well as the so-called 'new generation' or 'Singapore issues'.

The latest round of trade negotiations being conducted at the multilateral level through the WTO, the Doha Development Agenda (DDA), has as a result been lengthy and erratic in its pace of progress to push through reforms. Some of the reasons behind this are that whilst developing countries became integral members of the trading system at the time of the previous negotiations, during the Uruguay Round, making commitments to trade reform as had been made by developed countries previously, many of these countries feel that they still have not benefited from such commitments. There is a general feeling that the balance in the world trading system remains in favour of the developed nations. Commitments with regards to the liberalisation of agricultural trade are a particularly thorny issue, as emerging economies are of the view that the developed world, mostly represented here by the United States (US) and the EU, have kept their domestic markets highly protected in an area deemed to be of comparative advantage for many developing countries. The DDA was meant to have realised some serious commitments on this front from the so-called North, but this has not materialised. Instead these countries are pushing for the South to commit on issues of interest to them, such as reductions in tariffs on industrial goods[2] and commitments on issues such as intellectual property rights and investment, as well as services[3]. After five years of difficult negotiations and little headway, the Director-General of the WTO, Pascal Lamy, formally suspended the talks in July 2006[4]. It was not until January 2007 that a group of trade ministers from key countries agreed to resume negotiations, primarily in an effort to try and achieve some consensus before the US Trade Promotion Authority, a body that can fast-track the implementation of negotiations, was due to expire in mid-2007.

This was not the case and whilst this round of negotiations has yet to be concluded, a compromise package of subsidy and tariff cuts was proposed in July 2007. This still did not prompt a close to the negotiations, and it is unclear what the round holds in the near future, though in the recent World Economic Forum at Davos, trade ministers pledged their commitment to draw the round to a successful conclusion this year. Ironically, however, the protracted nature of the negotiations of the DDA has also served to

---

[1] This is in line with the current trend for negotiations on market access to focus more closely on technical barriers to trade rather than tariff barriers per se.

[2] The US has advanced an ambitious proposal advocating that zero tariffs be applicable to industrial exports worldwide. The EU and Japan are also in favour of large-scale reductions in tariffs being levied on these goods by developing countries, as are certain larger emerging economies, such as China and Brazil, who would stand to benefit from such liberalisation themselves (Draper, 2007:1)

[3] The General Agreement on Trade in Services was a WTO Treaty that emerged from the Uruguay Round and governs commitments on trade in services. Although, as Pascal Lamy noted in October 2007, the gains from liberalisation of trade in services have been revealed in various studies to exceed the potential gains from liberalisation of trade in goods, very little headway has been made in the DDA in this area.

[4] As the DDA continued to flounder in 2006 at the WTO meeting held in Geneva in July of that year a new proposal was put forward. Essentially it encompassed a reduction in agricultural tariffs (primarily by the EU) and subsidies (primarily by the US) by developed countries, while developing countries would liberalise their industrial goods markets. Developed countries demanded that the developing countries reduce tariffs by up to 70% on such goods, which led to an impasse in the negotiations.

demonstrate that a real accomplishment of the DDA has been that developing countries do now have a stronger, more united voice in the global trade arena. Large developing countries such as India and China have grown their share of world trade substantially over the last few years, and as this trend is set to continue, so too is their increasing balance of power in the multilateral trade arena.

2.2 Important emerging markets

South Africa is strategically aligning itself to partner with these important emerging economies. It is doing this both at a multilateral level through, for example the G-20[5], at a tri-lateral level through the IBSA[6] arrangement and at a bilateral level, particularly with China.

Relations with India and Brazil have been growing from strength to strength since the IBSA alliance was formed in 2003. In late 2005 India and Brazil offered to halve their tariffs on industrial goods and services, which would align themselves to South Africa's levels of liberalisation in this area, in order to facilitate a deadlock reached in the Doha Development Round. Whilst the impasse continues to this day, such developments have served to contribute towards cementing the tri-partite alliance under the IBSA and present an increasingly united front with greater negotiating leverage within the WTO arena.

South Africa could potentially learn a lot from the experience of these countries also. India and China, for example, have both undergone substantial trade liberalisation and regulatory reform. In the past decade China has initiated an enormous trade and investment liberalisation programme, primarily unilaterally driven, though pressure to do so was evident from the US, and prior to the country's accession to the WTO. Since its accession, such reforms have accelerated. This said, these countries have adopted a combination of tariff protection and selective trade liberalisation, sequenced in a way that did not disrupt local productive capacity[7]. It is clear that there are benefits from opening up the economy; it is adopting the approach that maximises these benefits that is the issue. Reduction of tariffs alone is unlikely to increase exports dramatically.

According to work done by the World Bank and OECD, developing countries, mostly from East Asia, which account for a total population of around 3 billion people, have more than doubled their trade to GDP ratios and real per capita incomes since the 1980s. Average import tariffs were reduced by more than a third over this period by said countries. Meanwhile the remaining developing countries, which account for around 1.5 billion people, have liberalised little and had little improvements in their export to GDP and income per capita ratios. It is imperative to note, however, that liberalisation must be part and parcel of broader institutional reforms that are supportive of the market. The key objective is to contribute to greater economic efficiency. Protection contributes to inefficiency by delaying the restructuring of inefficient industries and restricting consumer and producer choice. In south east Asia, industries that succeeded were those that were opened up to inward investment and subjected to lower tariffs. Infant industry protection was, by and large, unsuccessful. In light of this, it is apparent that an industrial strategy should focus on supporting the market and strengthening institutional structures. It is felt that South Africa is too focused on negotiating bilateral

[5] This grouping consists of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK, the US and the EU.

[6] IBSA is a trilateral, developmental initiative between India, Brazil and South Africa to promote South-South co-operation and exchange

[7] China has also adopted a managed exchange rate policy, by effectively devaluating its Yuan and in so doing giving domestic firms an incentive to export.

agreements that are superficial in nature and do not really address the needs of the economy as a whole. The focus should be on deepening unilateral commitments in the direction of benefiting the economy as a whole.

2.3 New generation issues

During the Singapore WTO Ministerial Conference held in Singapore in 1996, three new working groups were set up covering trade and investment, competition policy and transparency in government procurement. During the same meeting, the WTO Goods Council was tasked with assessing how to address trade facilitation. Since this time, these four issues, commonly referred to as the "Singapore Issues" have become a prominent feature of trade negotiations, not only at a multilateral level.

In August 2004, as part of the Doha Development Agenda, it was agreed by consensus that negotiations on trade facilitation rules would commence. Progress on this issue so far has been rather disappointing with no draft text being ready as yet, although a negotiating group on trade facilitation has been established with an agreed workplan and meeting schedule. The negotiations aim to, for example, improve WTO provisions on transit facilitation; simplify and modernise import, export and customs procedures; and make trade regulations transparent. A further important component of the negotiations is their aim to enhance technical assistance and support for capacity building in the area of trade facilitation, as well as develop provisions for effective cooperation between customs authorities. This is deemed to be of utmost importance if trade facilitation is to occur in earnest as most developing countries fear that they do not have the capacity to implement the trade facilitation commitments. Negotiations were suspended from July 2006 and resumed again in January 2007.

Barriers in the area of trade facilitation can cost exporters more than high tariffs. Excessive documentation and data requirements for imports and exports, as well as cumbersome customs and border-crossing procedures are pertinent issues in this regard. In the context of Africa, specifically border procedures need to be streamlined and harmonised so as to reduce the significant delays that they are causing. In sub-Saharan Africa, for example, delays experienced in terms of getting through customs are on average in the order of 12 days, whereas in Latin America they average at around 7 days and East Asia at 5 days. The WTO (1998:13) reports that border delays within the Southern African Development Community (SADC) cost firms and consumers, at the end of the 1990s, US$48-million per year. This is more than US$130,000 per day. It is clear that a region such as SADC has much to gain with regards to addressing issues of trade facilitation with urgency rather than waiting for the conclusion of commitments through the WTO. Other related complementary measures, though not falling within the ambit of trade facilitation, that would serve to contribute to a more conducive environment to trade are issues such as improvements in road, rail and other infrastructure, as well as the reduction in the number of roadblocks.

Little progress appears to have been achieved on the other Singapore Issues within the context of the WTO, but there have been developments in other negotiating fora. Specifically, in relation to the negotiations of the EPAs, the EU has been putting much pressure on the developing country blocs it is negotiating with to make commitments particularly in relation to the Singapore Issues. One of the key arguments being put forward against these blocs succumbing to such pressure is that many are not in a position to make such commitments as they do not even have their own individual member state policies governing such issues, let alone harmonised approaches within the trading bloc. This too was the experience of South Africa. Whilst negotiations governing trade in goods were completed by the end of 2007 within the context of the SADC EPA configuration, agreement regarding commitments governing trade in services and issues such as competition and government procurement

was not reached. South Africa called for more time to negotiate on such issues saying that the SADC members needed to be able to develop their capacity in the services sector in order to be able to compete with highly-resourced European companies. This is seen to be important in relation to the SADC's ability to develop.

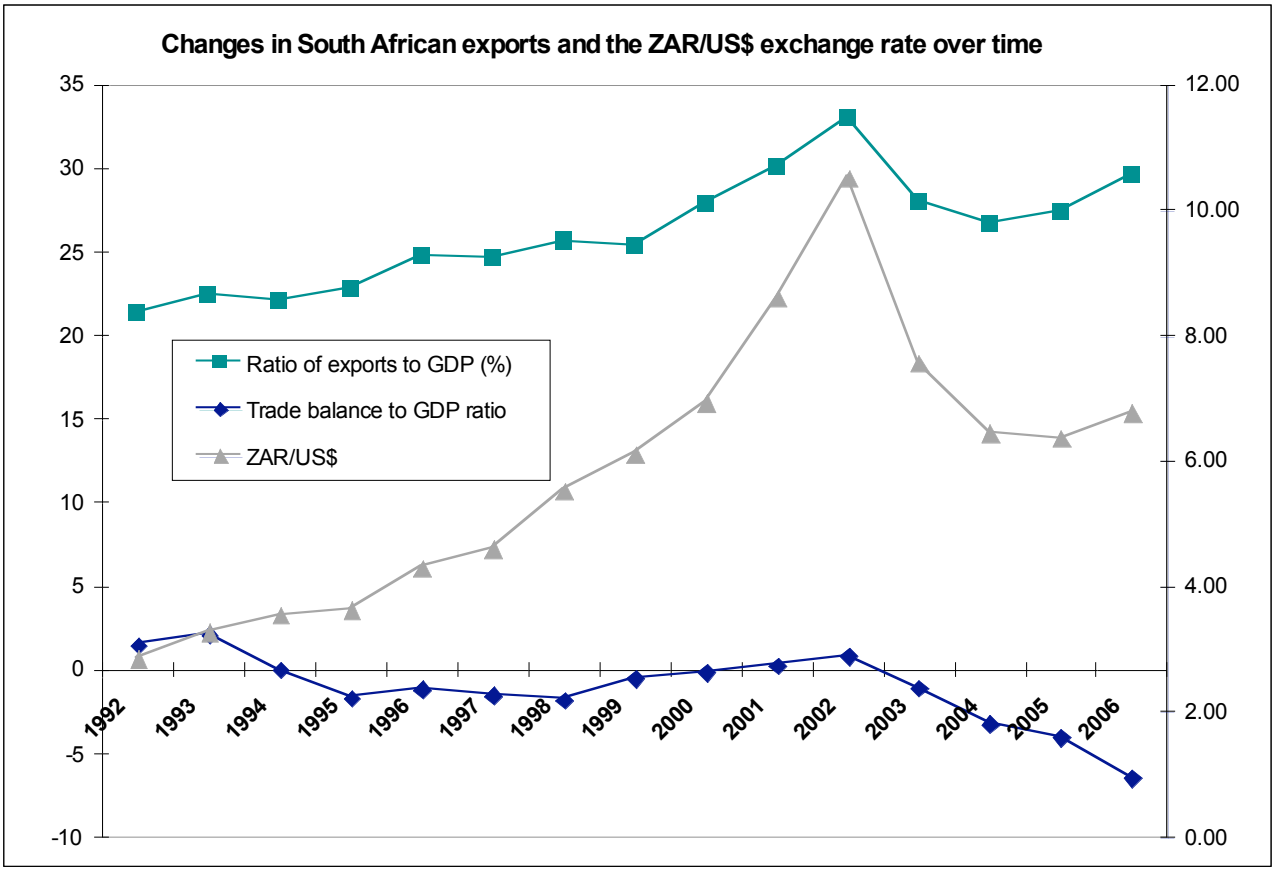
3. Review of trends in South Africa's trade

3.1 Structure and patterns of trade

3.1.1 Key exports and imports

In reviewing South Africa's trade performance over the last 15 years it is apparent that the economy has opened up substantially: the level of both exports and imports has grown over this period.

Figure 1 – Changes in South African exports and trade balance (1992 – 2006)



Source: South African Reserve Bank

The figure above reveals how the export to GDP ratio has risen steadily since 1992, underlying the progressive opening up of the South African economy that has occurred during this period. In fact in the last few years, the country's demand for imports has exceeded its exports, resulting in a widening trade deficit, which continues to concern the Reserve Bank, among others.

In the period following apartheid, as South Africa quickly adopted a more open economic stance, there was a great surge in export growth. It is apparent from Table 1 that a robust increase in exports was recorded between 1992 and 1996. During the time growth in world exports was also healthy. Following this period, however, growth in South African exports began to slow down. Looking at the level of exports in constant ZAR it is clear that since 2001 export growth continues to deteriorate.

Table 1 – Aggregate trade and the trade balance, 1991 - 2006 (R-billion, US$-million)

	1992	1996	2001	2006	Compounded growth	Simple 5-year average growth
Exports (Rbn)	68.9	115.4	251	396.5	13.3%	80.99%
Annual % change		67.5%	117.5%	58.0%		
Imports (Rbn)	46.6	113.6	216	465	17.9%	116.40%
Annual % change		143.8%	90.1%	115.3%		
Trade balance (Rbn)	22.3	1.8	35	-68.5		
Exports (constant Rm)*	143.3	187.4	223.8	254.1	4.2%	21.23%
Annual % change		30.7%	19.5%	13.5%		
Imports (constant Rm)*	107.9	180.7	189.4	330.6	8.3%	48.94%
Annual % change		67.5%	4.9%	74.5%		
Trade balance (constant Rm)	35.5	6.7	34.4	-76.5		
Exports (US$bn)	24.1	26.9	29.2	58.6	6.6%	40.28%
Annual % change		11.6%	8.6%	100.7%		
Imports (US$bn)	16.3	26.5	25.1	68.7	10.8%	77.00%
Annual % change		62.6%	-5.3%	173.7%		
Trade balance (US$bn)	7.8	0.4	4.1	-10.1		
World exports (US$bn)	2,458	4,997	5,935	11,439	11.6%	71.61%
Annual % change		103.3%	18.8%	92.8%		
World imports (US$bn)	2,471	5,081	6,133	11,769	11.8%	72.76%
Annual % change		105.7%	20.7%	91.9%		

Source: Quantec, UN ComTrade and the South African Reserve Bank

*** 2000 prices**

Furthermore, whilst South African exports have grown since 1992, it is apparent that growth in South African exports is still not rapid enough. If one compares growth in more recent years to that of some key developing countries such as India, China and Brazil, unfortunately it apparent that our export growth performance is still not as robust as these countries. This said, South Africa's growth in exports has been at least 11% slower than these countries, as is apparent in the table below. It is interesting to note that like India, South African imports have grown faster than its exports.

BOX 1: Competitiveness of South African exports

Figure 1 reveals that there does seem to be a correlation between South Africa's exchange rate and the level of exports. Whilst the exchange rate has been deemed to be an important determinant of South Africa's export competitiveness it is not the only determinant. In doing an analysis of revealed comparative advantage, Lawrence & Volker (2001) looked at a number of measures of competitiveness including unit labour costs and export diversification. They found that during the 1990s the competitiveness of South African exports increased, though as underlined in this paper, though the country's trade performance was "mediocre" compared to other emerging economies. They concluded therefore that competitiveness hinged not only on trade policy and changes in international prices, but also government supply side measures, labour market institutions and macroeconomic forces that underline these trends. The authors also emphasised the need for greater analysis at a sectoral level of changes in competitiveness in order to better understand export and import behaviour. Other issues that would require further investigation, as suggested by Lawrence & Volker (2001) is the idea that South Africa may not be fully exploiting its revealed comparative advantage of abundant labour, particularly at the regional level as its share of unskilled labour-intensive products remains low. The authors highlight the importance of South Africa not concentrating its export basket in products for which the world market is declining. They do caution that South Africa may be constrained by its skills shortage, for example, if choosing to pursue growing exports of technology and human-capital intensive products, for which there is enormous growth potential. As a result it may be better placed to expand into other resource or labour-intensive commodities within which it already has a comparative advantage. The outcomes of this paper seem to remain relevant if one considers that World Economic Forum's global competitiveness index and South Africa's rating therein. In 2007, according to the index, the three major constraints to South Africa's competitiveness are a shortage of skilled workers, crime and an inefficient bureaucracy revealed through burdensome red-tape. Unit labour costs are an important related issue, which would appear to be adversely affecting South Africa's competitiveness if compared to countries in Asia, for example.

Table 2 – Growth of trade of key developing countries, 1992 - 2006 (US$-million)

		Total exports	Total imports	Export growth (%)	Import growth (%)
Brazil	2001	58,287	55,602		
	2006	137,806	91,343	18.78	10.44
China	2001	266,098	243,553		
	2006	968,936	791,461	29.49	26.58
India	2001	44,306	51,908		
	2006	126,126	185,385	23.27	28.99
South Africa	2001	27,927	24,188		
	2006	53,169	69,184	13.74	23.39

Source: WITS ComTrade and own calculations

South Africa has not only grown its exports, but also managed to diversify its export base somewhat. Whilst its export basket remains predominantly composed of mining and basic processed goods i.e. Chapters 4-15[8] as was the case in 1992, today exports of advanced manufactures account for almost 22 % of total exports compared to 7% in 1992. Exports of agricultural goods have also decreased since 1992.

[8] The aggregation is based on 23 chapter data, which in itself is an aggregation of HS 2 data. The classification was arranged as follows: chapters 1, 2, 3, 8 and 9 were amalgamated into agriculture and forestry. Mining consists of chapters 5 and 14. Basic processing includes chapters 4, 6,7,10,11,12,13 and 15. Chapters 16, 17, 18, 19, 20, 21 and 23 were considered as part of advanced manufacturing. Other unclassified goods (chapter 22) was added to the mining category because it includes platinum, a major mining product.

Table 3 – Structure of exports, 1992 - 2006 (R-million)

HS code	1992		1996		2001		2006	
	Exports (Rm)	Share (%)	Exports (Rm)	Share (%)	Exports (Rm)	Share (%)	Exports (Rm)	Share (%)
Agriculture	3,903	5.7	8,516	7.4	15,018	6.0	18,599	4.7
Mining	40,907	59.4	54,367	47.1	113,039	45.0	167,979	42.4
Basic processing	19,178	27.8	39,256	34.0	74,199	29.5	124,893	31.5
Advanced manufacturing	4,892	7.1	13,272	11.5	48,928	19.5	85,057	21.5
Ch 01: Live animals	735	1.1	1,099	1.0	3,138	1.2	3,331	0.8
Ch 02: Vegetables	2,223	3.2	5,091	4.4	7,375	2.9	10,690	2.7
Ch 03: Animal or vegetable fats	151	0.2	250	0.2	311	0.1	251	0.1
Ch 04: Prepared foodstuffs	1,874	2.7	4,608	4.0	10,264	4.1	12,958	3.3
Ch 05: Mineral products	7,976	11.6	15,696	13.6	36,317	14.5	56,809	14.3
Ch 06: Chemicals	3,212	4.7	8,031	7.0	14,717	5.9	22,781	5.7
Ch 07: Plastics	739	1.1	1,578	1.4	4,134	1.6	6,322	1.6
Ch 08: Leather	417	0.6	1,157	1.0	1,566	0.6	1,458	0.4
Ch 09: Wood products	377	0.5	918	0.8	2,628	1.0	2,869	0.7
Ch 10: Wood pulp and paper	1,616	2.3	3,733	3.2	6,959	2.8	7,563	1.9
Ch 11: Textiles	1,753	2.5	2,454	2.1	5,213	2.1	4,384	1.1
Ch 12: Footwear	53	0.1	190	0.2	233	0.1	239	0.1
Ch 13: Stone and glass	359	0.5	719	0.6	1,355	0.5	2,250	0.6
Ch 14: Precious metals	25,351	36.8	30,347	26.3	46,841	18.6	109,701	27.7
Ch 15: Base metals	9,572	13.9	17,944	15.5	31,323	12.5	68,396	17.2
Ch 16: Machinery	2,083	3.0	6,464	5.6	23,023	9.2	39,442	9.9
Ch 17: Vehicles	2,322	3.4	4,246	3.7	20,539	8.2	38,609	9.7
Ch 18: Scientific equipment	174	0.3	589	0.5	1,224	0.5	2,018	0.5
Ch 19: Arms & ammunition	-	-	0	0.0	407	0.2	791	0.2
Ch 20: Miscellaneous manufactured	294	0.4	1,929	1.7	3,573	1.4	4,007	1.0
Ch 21: Art and antiques	19	0.0	41	0.0	135	0.1	175	0.0
Ch 22: Unclassified	7,581	11.0	8,324	7.2	29,881	11.9	1,469	0.4
Ch 23: Special class. of motor parts	-	-	3	0.0	27	0.0	16	0.0

Source: Quantec

At the Chapter level, the largest export is still *Ch 14: Precious Metals*, although the composition of this has changed over time from being primarily dominated by exports of gold to currently exports of platinum. The next largest category is *Ch 15: Base metals*, which consists of resource-intensive manufactured goods, including *HS 7202: Ferroalloys*, *HS 7208: Flat-rolled iron & na steel not under 600mm* and *HS 7219: Flat-rolled stainless steel products, not under 600mm wide*[9]. Together with *Ch 5: Mineral*

[9] The latter is likely due to the monopoly of Mittal.

products, of which the principal exports are *HS 2701: Coal; briquettes, ovoids etc, HS 2710: Oil (not crude) from petrol & bitum mineral etc* and *HS 2601: Iron ores & concentrates*. Exports of these three chapters represent just over half of total exports.

Whilst this again serves to reiterate the dominance of mining and basic processing exports, it is important to remain cognisant of the increasingly important share of advanced manufactured exports. In this regard, Table 3 reveals how exports of particularly machinery and vehicles have increased since 1992. These account for the greatest share of manufacturing exports. Furthermore, what is interesting to note, however, is that as a share of total exports *Chapter 14* has become progressively less dominant since 1992. This again serves to illustrate the increased diversification in the export basket over this period.

On the import side the majority of imports are of advanced manufactures, but what is notable is that since 1996, which saw a marked increase in the share of total imports of these goods, the proportion of these imports has remained fairly stable. On the other hand, the shares of imports of agricultural and basic processed goods have declined, whilst those of mining have increased.

Imports are primarily of manufactured goods, of which the majority are technology and capital intensive goods, including machinery, vehicles and scientific equipment. Imports of machinery are mainly driven by increased investments of local firms, although demand for consumer goods (e.g. white goods, consumer electronics) are also represented here. The share of total imports accounted for by *Ch 5: Mineral products*, has increased quite substantially since 1992, which can be attributed to the increases in oil imports.

Table 4 – Structure of imports, 1992 - 2006 (R-million)

HS code	1992		1996		2001		2006	
	Imports (Rm)	Share (%)	Imports (Rm)	Share (%)	Imports (Rm)	Share (%)	Imports (Rm)	Share (%)
Agriculture	4,158	8.9	6,393.6	5.6	8,326	3.9	16,921	3.6
Mining	4,100	8.8	13,458	11.8	37,305	17.3	97,226	20.9
Basic processing	16,678	35.8	34,473	30.3	59,600	27.6	116,807	25.1
Advanced manufacturing	21,623	46.4	59,318	52.2	110,813	51.3	234,087	50.3
Ch 01: Live animals	444	1.0	1,104	1.0	1,408	0.7	3,765	0.8
Ch 02: Vegetables	2,569	5.5	2,721	2.4	3,002	1.4	6,076	1.3
Ch 03: Animal or vegetable fats	471	1.0	1,083	1.0	1,431	0.7	2,788	0.6
Ch 04: Prepared foodstuffs	1,130	2.4	2,484	2.2	4,103	1.9	8,194	1.8
Ch 05: Mineral products	575	1.2	11,539	10.2	32,689	15.1	88,791	19.1
Ch 06: Chemicals	5,804	12.5	12,626	11.1	23,409	10.8	37,886	8.1
Ch 07: Plastics	2,251	4.8	4,692	4.1	8,260	3.8	16,175	3.5
Ch 08: Leather	263	0.6	649	0.6	1,187	0.5	1,748	0.4
Ch 09: Wood products	411	0.9	835	0.7	1,297	0.6	2,543	0.5
Ch 10: Wood pulp and paper	1,469	3.2	2,877	2.5	4,157	1.9	7,445	1.6
Ch 11: Textiles	2,503	5.4	3,974	3.5	6,647	3.1	14,371	3.1
Ch 12: Footwear	309	0.7	926	0.8	1,838	0.9	4,271	0.9
Ch 13: Stone and glass	703	1.5	1,603	1.4	2,967	1.4	5,642	1.2
Ch 14: Precious metals	342	0.7	1,607	1.4	3,900	1.8	7,583	1.6
Ch 15: Base metals	2,510	5.4	5,292	4.7	8,220	3.8	22,822	4.9
Ch 16: Machinery	14,719	31.6	36,710	32.3	60,077	27.8	120,945	26.0
Ch 17: Vehicles	4,849	10.4	6,469	5.7	20,813	9.6	54,080	11.6
Ch 18: Scientific equipment	1,649	3.5	4,611	4.1	8,382	3.9	14,870	3.2
Ch 19: Arms & ammunition	0	0.0	0	0.0	35	0.0	45	0.0
Ch 20: Miscellaneous manufactured	387	0.8	1,456	1.3	2,984	1.4	7,473	1.6
Ch 21: Art and antiques	20	0.0	118	0.1	110	0.1	1,338	0.3
Ch 22: Unclassified	3,183	6.8	312	0.3	716	0.3	852	0.2
Ch 23: Special class. of motor parts	0	0.0	9,954	8.8	18,413	8.5	35,336	7.6

Source: Quantec

Trade in the motor industry is largely influenced by the Motor Industry Development Plan (MIDP). Under the plan, original equipment manufacturers (OEMs) producing in South Africa are incentivised to rationalise the number of models produced locally, using import credits to import other models for the local end market. As a result, South Africa imports significantly more in *Ch 17: Vehicles* and *Ch 23: Special Classification: Motor Parts* than would otherwise be the case.

The MIDP has also contributed towards the greater dominance of vehicle and related manufactures in the country's export structure. Exports under *Ch 17: Vehicles*, which represents South Africa's largest advanced manufacturing export category, have increased as a proportion of total exports since 1992. Furthermore, the largest export from *Ch 16: Machinery* is in fact an export of the motor industry that is also covered under the MIDP, catalytic converters[10].

Overall, South Africa remains a typical developing country in the sense that most exports are quite basic and most imports are of advanced manufactures, with a few isolated pockets of capacity in the latter. There has been little change in the composition of the import and export basket. The success of the MIDP is an important industrial policy lesson demonstrating the need for a focused and concerted approach on the trade and industrial front. This includes well sequenced policies as well as a relative ease of working with large transnational corporations (TNCs).

3.1.2 Key trading partners

Most South African exports are destined for developed markets, primarily within the EU, but also Eastern Asia and the North American Free Trade Area (NAFTA). This has remained so since 1992, although trade with SADC, for example, has increased in significance over the period until 2006. Currently SADC accounts for almost 12% of South African exports, having increased from its level of almost 8% in 1992. With regards to changes in South Africa's exports by region, it is of particular interest to note the substantial increase in the share of exports to the EU[11], which accounted for almost 25% of total exports in 1992, and today accounts for almost 35%.

Whilst the import profile by region is very similar to the export profile in that the developed world, particularly the EU dominates, it is encouraging to see that the trade deficit with the EU has narrowed since 1992. Today the EU accounts for almost 32% of South African imports, which constitutes a remarkable decrease from the 44% recorded in 1992. With regards to trade with NAFTA, the trade deficit of 1992, has become a trade surplus in recent years. Imports from the SADC have increased recently, although they are still dwarfed by South African exports to the region.

[10] Considering this, if one were to define catalytic converters as a basic processed good, as opposed to an advanced manufacture, this would mean that the robust performance of the latter group of exports would have been overestimated.

[11] Whilst assessments of trade with the EU are tricky considering the enlargement process, this analysis has used the data for all 27 member states throughout the period.

Table 5 – Trade by region, 1992 - 2006 (R-million)

	Trade by region (Rm)							
	1992		1996		2001		2006	
Region	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
EU	16,500	20,428	28,978	50,758	80,882	89,955	126,210	161,148
NAFTA	5,185	7,421	10,709	15,726	32,910	27,899	45,767	40,543
SADC	5,694	1,040	13,582	2,073	25,609	2,741	35,893	13,153
South-central Asia	263	220	2,071	6,600	4,623	11,421	8,671	30,450
South-eastern Asia	904	1,554	4,002	3,693	6,342	8,025	9,504	25,279
Western Asia	2,074	450	3,603	4,378	8,286	19,663	14,815	38,730
Western Europe	13,380	13,511	16,450	30,011	45,509	54,167	76,092	96,580
Australia & New Zealand	376	684	1,872	3,054	4,156	6,484	9,671	10,481
Not allocated	24,503	1,249	34,143	-	42,866	-	69,906	48,675
	Trade by region (% share)							
	1992		1996		2001		2006	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
EU	24.0	43.9	25.1	44.7	32.2	41.6	31.8	34.7
NAFTA	7.5	15.9	9.3	13.8	13.1	12.9	11.5	8.7
SADC	8.3	2.2	11.8	1.8	10.2	1.3	9.1	2.8
South-central Asia	0.4	0.5	1.8	5.8	1.8	5.3	2.2	6.5
South-eastern Asia	1.3	3.3	3.5	3.2	2.5	3.7	2.4	5.4
Western Asia	3.0	1.0	3.1	3.9	3.3	9.1	3.7	8.3
Western Europe	19.4	29.0	14.3	26.4	18.1	25.1	19.2	20.8
Australia & New Zealand	0.5	1.5	1.6	2.7	1.7	3.0	2.4	2.3
Not allocated	35.6	2.7	29.6	-	17.1	-	17.6	10.5

Source: Quantec

Looking at the tables below it is clear that some countries have become more important trading partners for South Africa than others. Key among these is Japan, which is now South Africa's most important individual trading partner. China, Australia, India and Angola are today key destinations for South African exports, a marked changed from the situation in 1992. China has also become a dominant source of imports for South Africa, as has India.

Table 6 – Trade by country: top 20 markets of destination of exports and source of imports, 1992 and 2006

	1992			2006		
	Country	Exports (Rm)	As a share of total exports (%)	Country	Exports (Rm)	As a share of total exports (%)
1	Switzerland	5,389	7.82	Japan	41,316	10.4
2	US	4,854	7.05	US	41,158	10.4
3	UK	4,451	6.46	UK	31,718	8.0
4	Japan	3,777	5.48	Germany	26,867	6.8
5	Germany	2,958	4.29	Netherlands	18,068	4.6
6	Taiwan	2,166	3.15	China	14,020	3.5
7	Belgium	1,969	2.86	Switzerland	11,661	2.9
8	Netherlands	1,938	2.81	Belgium	10,175	2.6
9	Zimbabwe	1,664	2.42	Spain	10,001	2.5
10	Italy	1,620	2.35	Italy	9,380	2.4
11	Hong Kong	1,524	2.21	Australia	9,021	2.3
12	Zambia	1,144	1.66	France	8,159	2.1
13	Spain	1,072	1.56	Zambia	7,985	2.0
14	South Korea	993	1.44	Zimbabwe	7,411	1.9
15	France	980	1.42	South Korea	6,828	1.7
16	Israel	961	1.40	Taiwan	6,759	1.7
17	Mozambique	899	1.31	Mozambique	6,240	1.6
18	Malawi	760	1.10	India	5,576	1.4
19	Yugoslavia	639	0.93	Angola	4,739	1.2
20	Norway	533	0.77	Israel	4,494	1.1

	1992			2006		
	Country	Imports (Rm)	As a share of total imports (%)	Country	Imports (Rm)	As a share of total imports (%)
1	Germany	7,795	16.74	Germany	57,844	12.4
2	US	7,011	15.06	China	46,719	10.0
3	UK	5,190	11.15	US	35,177	7.6
4	Japan	4,885	10.49	Japan	30,261	6.5
5	France	1,777	3.82	Saudi Arabia	24,545	5.3
6	Italy	1,742	3.74	UK	23,099	5.0
7	Taiwan	1,683	3.62	Iran	18,329	3.9
8	Switzerland	1,198	2.57	France	16,986	3.7
9	Netherlands	1,177	2.53	Italy	13,960	3.0
10	Belgium	1,133	2.43	South Korea	11,873	2.6
11	Hong Kong	820	1.76	India	10,960	2.4
12	Zimbabwe	766	1.64	Australia	9,582	2.1
13	South Korea	682	1.46	Brazil	9,383	2.0

14	Singapore	628	1.35	Nigeria	9,286	2.0
15	Australia	619	1.33	Thailand	7,968	1.7
16	China	612	1.31	Taiwan	7,760	1.7
17	Argentina	515	1.11	Netherlands	7,582	1.6
18	Brazil	460	0.99	Singapore	7,149	1.5
19	Canada	399	0.86	Spain	7,042	1.5
20	Austria	383	0.82	Argentina	6,588	1.4

Source: Quantec

3.1.3 Composition of trade with key trading partners

It is evident that South African exports to its key developed country partners, namely the EU and NAFTA, consist of exports of resources, resource-intensive manufactured goods and some advanced manufactures, mostly from the automotive cluster (likely because of the MIDP). Exports to SADC consist of more advanced manufactured goods, which require inputs of highly-skilled labour and capital, including machinery and vehicles. On the import side, technology-intensive advanced goods dominate from NAFTA and the EU. South Africa imports a large proportion of the machinery needed for manufacturing from the EU and the US. The main factor behind such trade is differences in technology and the capacity to produce advanced goods. In comparison, imports from the SADC region are primarily resource-based and labour-intensive goods.

Trade with the EU has grown substantially since 1992, as mentioned previously. Whilst exports of precious metals to the EU continue to dominate South Africa's export basket to this region, some diversification has occurred particularly with regards to increased exports of manufactures. What is of interest to note is that the share of exports of Machinery to the EU has increased substantially since 1992, and almost 60% of all such exports are destined for the EU. Vehicle exports to the EU have increased since 1992, but their proportion in terms of total South African exports has remained fairly stable. Imports from the EU have also increased substantially since 1992, though there has been little change in the composition of the basket of imports from this region.

Table 7 – Trade with significant trading partners: exports and imports, 1992 - 2006 (R-million)

South African trade with significant trading partners, 1992 (Rm)								
	EU			NAFTA			SADC	
	Exports	Share of exports (%)		Exports	Share of exports (%)		Exports	Share of exports (%)
H27: Mineral fuels and oils	2,381	56.99	H72: Iron and steel	723	11.97	H84: Machinery	704	45.46
H71: Precious Metals	1,635	6.45	H28: Inorganic chemicals	625	35.00	H87: Vehicles	443	29.58
H08: Edibles fruits & nuts	1,264	82.09	H86: Railway locomotives	207	48.40	H72: Iron and steel	332	5.49
H26: Ores, slag and ash	1,086	33.92	H26: Ores, slag and ash	160	5.01	H39: Plastics	202	34.13
H72: Iron and steel	1,004	16.60	H84: Machinery	156	10.05	H22: Beverages	195	49.30
H87: Vehicles	680	45.37	H47: Pulp of wood	146	15.53	H85: Electrical machinery	195	36.43
H28: Inorganic chemicals	557	31.19	H29: Chemicals	76	21.80	H73: Articles of iron or steel	191	27.84
H84: Machinery	510	32.90	H71: Precious Metals	71	0.28	H10: Cereals	174	62.03
H20: Preparations of veg, fruit & nuts	430	59.38	H74: Copper	64	4.98	H26: Ores, slag and ash	169	5.28
H74: Copper	416	32.39	H81: Other base metals	60	30.70	H48: Paper and paperboard	154	23.98
	Imports	Share of imports (%)		Imports	Share of imports (%)		Import	Share of imports (%)
H84: Machinery	5,688	53.46	H84: Machinery	1,952	18.35	H24: Tobacco	172	63.61
H85: Electrical machinery	1,932	47.35	H10: Cereals	1,159	64.57	H52: Cotton	129	-
H87: Vehicles	1,634	42.13	H88: Aircraft, spacecraft	582	63.86	H44: Wood	63	17.18
H29: Chemicals	1,023	56.20	H85: Electrical machinery	563	13.80	H25: Salt and sulphur	54	21.53
H39: Plastics	920	60.87	H90: Optical photographic	342	21.98	H73: Articles of iron or steel	54	6.42
H90: Optical photographic	805	51.79	H29: Chemicals	329	18.10	H17: Sugar	42	4.94
H38: Miscellaneous chemical products	668	65.83	H39: Plastics	242	16.03	H09: Coffee and tea	34	25.13
H30: Pharmaceutical products	636	72.63	H48: Paper and paperboard	238	23.51	H12: Oil seeds	29	14.57
H48: Paper and paperboard	633	62.53	H38: Miscell. chemical products	225	22.21	H64: Footwear	26	9.45
H73: Articles of iron or steel	452	53.78	H87: Vehicles	167	4.30	H85: Electrical machinery	26	0.64

South African trade with significant trading partners, 1996 (Rm)

EU			NAFTA			SADC	
	Exports	Share of exports (%)		Exports	Share of exports (%)		Exports	Share of exports (%)
H71: Precious Metals	4,422	14.57	H72: Iron and steel	1,675.47	16.15	H27: Mineral fuels and oils	1,811.17	16.51
H27: Mineral fuels and oils	4,016	36.61	H28: Inorganic chemicals	1,286.16	35.90	H84: Machinery	1,674.20	36.18
H72: Iron and steel	2,282	22.00	H84: Machinery	508.67	10.99	H87: Vehicles	1,339.28	48.03
H26: Ores, slag and ash	1,664	41.74	H71: Precious Metals	337.36	1.11	H48: Paper and paperboard	636.65	31.67
H08: Edibles fruits & nuts	1,597	74.58	H26: Ores, slag and ash	274.25	6.88	H72: Iron and steel	627.15	6.04
H94: Furniture	1,540	84.11	H29: Chemicals	234.30	17.29	H85: Electrical machinery	605.20	32.95
H84: Machinery	1,400	30.25	H73: Articles of iron or steel	221.61	12.16	H39: Plastics	453.45	45.66
H28: Inorganic chemicals	984	27.48	H17: Sugar	218.98	18.96	H73: Articles of iron or steel	451.01	24.75
H87: Vehicles	804	28.84	H86: Railway locomotives	197.66	18.62	H07: Edible vegetables	412.22	83.53
H85: Electrical machinery	737	40.14	H87: Vehicles	172.25	6.18	H38: Miscell. chemical products	368.60	32.57
	Imports	Share of imports (%)		Imports	Share of imports (%)		Imports	Share of imports (%)
H84: Machinery	13,050	54.41	H84: Machinery	4,308.47	17.96	H71: Precious Metals	437.10	27.20
H85: Electrical machinery	6,996	54.97	H85: Electrical machinery	1,680.32	13.20	H27: Mineral fuels and oils	369.45	3.37
H98: Vehicle parts	4,596	-	H90: Optical photographic	1,021.55	23.39	H24: Tobacco	169.39	58.03
H87: Vehicles	2,925	56.79	H10: Cereals	850.47	51.44	H52: Cotton	124.70	22.34
H90: Optical photographic	2,144	49.09	H87: Vehicles	803.93	15.61	H44: Wood	115.10	15.53
H39: Plastics	1,921	60.37	H29: Chemicals	695.59	19.24	H61: Apparel and clothing	85.13	33.44
H29: Chemicals	1,845	51.04	H88: Aircraft	630.78	58.96	H23: Residues and waste	62.79	7.89
H30: Pharmaceutical products	1,388	64.91	H27: Mineral fuels and oils	541.56	4.94	H62: Apparel & clothing, not knitted or crocheted	53.97	16.41
H38: Miscellaneous chemical products	1,265	61.69	H39: Plastics	454.21	14.27	H09: Coffee and tea	41.37	14.40
H48: Paper and paperboard	1,256	66.20	H48: Paper and paperboard	453.42	23.90	H84: Machinery	39.99	0.17

South African trade with significant trading partners, 2006 (Rm)

EU			NAFTA			SADC	
	Exports	Share of exports (%)		Exports	Share of exports (%)		Exports	Share of exports (%)
H71: Precious Metals	20,969	19.12	H71: Pearls	16,694	15.22	H84: Machinery	4,876	15.64
H84: Machinery	17,920	57.49	H72: Iron and steel	5,648	13.91	H27: Mineral fuels and oils	4,468	12.98
H27: Mineral fuels and oils	17,335	50.37	H87: Vehicles	4,121	12.64	H87: Vehicles	2,528	7.75
H72: Iron and steel	14,007	34.50	H84: Machinery	2,917	9.36	H85: Electrical machinery	2,209	26.72
H26: Ores res, slag and ash	8,460	39.99	H76: Aluminium	2,752	20.89	H72: Iron and steel	2,128	5.24
H87: Vehicles	8,086	24.80	H26: Ores res, slag and ash	2,298	10.86	H73: Iron or steel	1,870	33.33
H08: Edibles fruits & nuts	4,407	54.77	H28: Inorganic chemicals	1,774	24.73	H39: Plastics	1,658	41.32
H76: Aluminium	3,230	24.51	H29: Chemicals	1,257	20.25	H48: Paper and paperboard	1,017	27.19
H22: Beverages	2,883	57.36	H22: Beverages	729	14.51	H38: Miscell. chemical products	1,006	20.02
H85: Electrical machinery	2,762	33.40	H08: Edibles fruits & nuts	685	8.51	H31: Fertilisers	929	81.15
	Imports	**Share of imports (%)**		**Imports**	**Share of imports (%)**		**Imports**	**Share of imports (%)**
H84: Machinery	35,726	47.87	H84: Machinery	11,042	14.79	H71: Precious metals	2,923	38.54
H87: Vehicles	23,909	52.17	H85: Electrical machinery	3,747	8.09	H27: Mineral fuels and oils	2,493	2.92
H85: Electrical machinery	19,533	42.18	H90: Optical photographic	3,374	23.76	H75: Nickel	2,067	58.15
H98: Vehicle parts	16,670	47.18	H87: Vehicles	3,343	7.29	H26: Ores res, slag and ash	1,531	60.61
H90: Optical photographic	6,187	43.58	H88: Aircraft	2,857	51.81	H74: Copper	1,073	60.87
H30: Pharmaceutical products	6,183	68.38	H98: Vehicle parts	1,682	4.76	H52: Cotton	485	40.34
H39: Plastics	4,874	44.54	H29: Chemicals	1,623	21.72	H44: Wood	229	9.94
H27: Mineral fuels and oils	3,810	4.47	H38: Miscell. chemical products	1,187	21.93	H85: Electrical machinery	225	0.48
H48: Paper and paperboard	3,405	64.34	H39: Plastics	1,084	9.90	H24: Tobacco	213	29.93
H38: Miscell. chemical products	3,113	57.54	H30: Pharmaceutical products	986	10.90	H09: Coffee and tea	210	30.33

Source: Quantec

A similar situation is apparent with regards to trade with NAFTA. Of significance with regards to the changing export basket is that exports of vehicles have gained dominance. In the case of SADC, a greater proportion of manufactures exports is evident in South Africa's export basket to the region, though in general the profile has not changed dramatically since 1992. Regarding the imports from SADC, more minerals imports feature today compared to the import profile of 1992. It is likely that this reflects growing domestic demand following the South African manufacturing sector's growth in significance as an exporter. Furthermore, other elements that would contribute towards explaining why minerals imports from the SADC have increased include: (i) South Africa's mineral producers and exporters are only interested in very large orders so smaller firms have to import their requirements; (ii) the fact that some mineral processing requires other mineral inputs which are not available locally (in small volumes or at all); and (iii) some South African mineral firms have grown their investment presence in SADC and thus can easily tap on external supplies.

In recent years, South Africa has been progressively more interested in developing its trade, particularly with other developing countries, including Brazil, India and China. It is evident that trade with these countries has certainly grown if one considers the levels thereof in 1992. The primary issue, however, is that the trade deficit with these countries has been widening dramatically over this period, whilst South Africa itself is keen to increase its exports to these three partners. Currently exports to these countries are primarily resource-based, with the predominant categories of exports being: *HS27: Mineral fuels and oils*; *HS72: Iron and steel* and *HS76: Aluminium and articles thereof*. On the import side, advanced manufactures dominate trade, though it is of interest to note that 9% of imports from India are of *HS72: Iron and steel* and that 10% of trade with Brazil is of *HS2: Meat and edible meat products*. Around 18% of imports from China are of clothing and footwear and another 41% is of advanced manufactures including machinery.

Table 8 – South Africa's trade with Brazil, India and China (R-million)

	Exports				Imports			
	1992	1996	2001	2006	1992	1996	2001	2006
Brazil	241.3	1,171.3	2,323.1	2,751	459,7	1,133.9	3,347.7	9,382.8
China	520	785.2	3,830	14,019.9	611,8	2,396.7	9,098.6	46,718.8
India	20.5	1,047	3,300	5,576.3	107,6	1,084.1	2,113.5	10,960.3

Source: Quantec

3.1.4 Fastest growing exports and imports

The effect of the MIDP is evident when considering which have been the fastest growing imports and exports categories. Focusing on the top 20 exports it is evident that vehicles exports have grown substantially, in value terms, compared to 1992 levels.

Table 9 – South Africa's 20 largest exports at the HS6 level, 1992 - 2006 (R-billion)

	HS	Description	Exports 1992	Exports 1996	Exports 2001	Exports 2006	Average annual growth, 1992-2006 (%)
1	710820	Gold unwrought or in semi-manufactured forms or in powder form	18.2	23.2	30.9	35.5	53.6
2	270112	Bituminous coal	3.8	6.3	14.4	20.2	20.9
3	711011	Platinum unwrought or in powder form	0	0	-	18.1	-
4	842139	Filtering or purifying machinery for gases nes	0.1	0.5	9.0	15.8	-
5	711019	Platinum in semi-manufactured forms	0	0	-	15.8	-
6	870323	Other vehicles of cylinder 1500cc&3000cc	0.1	0.4	11.3	14.8	0.9
7	720241	Ferrochrome containing by mass >4% carbon	1.0	2.6	3.8	12.2	9.9
8	710231	Industrial diamonds - unworked or simply sawn, cleaved or bruted	3.3	2.9	6.0	12.1	29.7
9	711031	Rhodium unwrought or in powder form	0	0	-	10.6	-
10	271011	Light oils and preparations	0	0	-	8.0	-
11	760110	Aluminium, not alloyed	0.3	2.7	5.4	7.1	4.9
12	260112	Iron ores & concentrates agglomerated	0.8	1.2	3.4	7.1	12.8
13	870420	G.V.M. not exceeding 5 T	0	0.0	0.0	-	-
14	710239	Diamonds (jewellery) worked but not mounted or set	0.9	1.5	3.7	4.5	22.1
15	760612	Aluminium alloy	0.1	0.0	1.0	3.1	2.2
16	270900	Petroleum oils and oils obtained from bituminous minerals, crude	0	0.6	0.4	3.0	-
17	220421	Other wine, grape must (fermentation arrested in containers holding 2L or less)	0.0	0.5	1.7	2.8	1.3
18	940190	Parts of seats other than dentists	0.0	1.2	2.4	2.7	0.1
19	740400	Copper waste and scrap	0.1	0.2	0.4	2.6	3.3
20	470200	Chemical wood pulp, dissolving grades	0.6	1.0	2.0	2.6	27.7

Source: Quantec

It is apparent that exports that account for the large majority of total exports, as apparent from the table above, are primarily resource-based goods, including resource-based manufactures. This is also the case with regards to exports that are growing the most rapidly, on an average annual growth basis, as is apparent in the table below.

Table 10 – Fastest growing exports, 1992 - 1996 and 2001 - 2006 (R-million)

	1992	1996	Growth rate (%)
H2207: Indenatured Ethyl Alcoholof An Alcoholic Strength By Volume Of 80 % Vol	34.6	465.6	68.16
H7112: Waste And Scrap Of Precious Metal Or Of Metal Cladwith Precious Metal;	34.3	388.2	62.48
H7601: Unwrought Aluminium	335.0	2,810.9	53.02
H4802: Uncoated Paper Andpaperboard	60.4	361.2	43.01
H8544:Insulated (Incl. Enamelled Or Anodised) Wire Cable (Incl.Co-Axial Cable) And Other Insulated Electric Conductors	38.2	228.0	42.95
H1005: Maize (Corn):	266.0	1,527.7	42.06
H1806: Chocolate And Other Foodpreparations Containing Cocoa.	21.5	121.0	41.31
H9031: Measuring Or Checking instruments Appliances And Machines	20.2	109.8	40.30
H8525: Transmission Apparatus For Radio-Broadcasting Or Television	26.1	141.2	40.16
H2402: Cigars,Cheroots, Cigarillos And Cigarettes	27.8	148.0	39.65
H7204: Ferrous Wasteand Scrap; Remelting Scrap Ingots Of Iron Or Steel.	56.8	299.8	39.50
H2204: Wine Of Fresh Grapes, Including Fortified Wines	116.6	586.7	38.15
H4703: Chemical Wood Pulp,Soda Or Sulphate, Other Than Dissolving Grades.	101.7	4,887.0	36.87
H8479: Machines And Mechanical Appliances Having Individualfunctions	46.8	213.6	35.40
H8704: Motor Vehicles For The Transport Of Goods.	181.6	825.6	35.37
H3105: Mineral Or Chemical Fertilisers	99.6	445.5	34.94
H2823: Titanium Oxides	331.2	1,452.7	34.41
H1701: Cane Or Beet Sugar& Chemically Pure Sucrose	287.2	1,207.6	33.28
H3808: Insecticides, Rodenticides, Fungicides, Herbicides,Anti-Sprouting Products And Plant-Growth Regulators, Disinfectants & Similar Products	178.4	733.2	32.67
H3907: Polyacetals, Other Polyethers Andepoxide Resins, In Primary Forms	21.5	88.4	32.62
	2001	**2006**	**Growth rate (%)**
H2603: Copper Ores And Concentrates	70.2	778.0	61.78
H8407: Spark-Ignition reciprocating Or Rotary Internal Combustion Piston Engines.	123.7	1,359.5	61.52
H9301: Military Weapons (ExcludingThe Arms Of Heading No. 9307)	50.3	469.7	56.36
H2616: Precious Metal Ores & Concentrates	3,638.0	3,067.3	53.17
H2709: Petroleum Oils And Oils Obtained From Bituminous Minerals, Crude	406.4	3,045.3	49.60
H8501: Electrical Motors Andgenerators (Excl. Generating Sets).	1,114.0	778.0	47.51
H8541: Diodes, Transistorsand Similar Semi- Conductor Devices	109.8	698.4	44.77
H7404: Copper Waste And Scrap	414.1	2,569.6	44.06
H2849: Carbides, Whether Or Not Chemically Defined.	50.9	307.5	43.28
H7502: Unwrought Nickel	138.1	780.6	41.40
H6804: Illstones Grindstones Grinding Wheels and The Like	54.5	303.0	40.92
H3302: Mixtures Of Odoriferous Substances (Including alcoholic Solutions)	51.0	226.4	34.69
H8704: Motor Vehicles For The Transport Of Goods.	1,632.6	7,220.0	34.63
H7103: Precious Stones (Excl.Diamonds) & Semi-Precious Stones	52.6	225.9	33.82
H2610: Chromium Ores And Concentrates	539.7	2,110.9	31.36

H7219: Flat-Rolledproducts Of Stainless Steel,Of A Width Of 600 Mm Or More.	2,647.4	9,909.7	30.21
H7105: Dust And Powder Of natural Or Synthetic Precious Or Semi-Precious Stones.	75.4	2,784.0	29.85
H2825: Hydrazine And Hydroxylamine And Theirinorganic Salts;	213.9	739.3	28.15
H9406: Prefabricated Buildings	66.4	229.2	28.12
H2915: Aturated Acyclic Monocarboxylic Acids	122.4	414.0	27.59

Source: Quantec and own calculations

In terms of imports, goods from the textiles and clothing sector have performed well since 2000, which is probably due to the combined effects of lower tariffs, the end of the Agreement on Clothing and Textiles (ACT, the successor to the Multifibre Agreement) and China's emergence in world markets. Imports of vehicles and oil stand out in particular as they not only make up a large proportion of total imports, but are also reflected among the fastest growing imports. The former is likely due to the MIDP, whilst the latter can be attributed to the sharp increase in international crude oil prices that has been evident over this period. Overall the composition of the fastest growing imports is spread among manufactured goods and advanced manufactures, as well as some agricultural goods.

Table 11 – Fastest growing imports, 1992 - 1996 and 2001 - 2006 (R-million)

	1992	1996	Growth rate (%)
H4703: Chemical Wood Pulp,Soda Or Sulphate, Other Than Dissolving Grades.	22.8	229.1	58.71
H8525: Transmission Apparatus For Radio-Broadcasting Or Television	219.6	1,824.0	52.71
H8439: Machinery For Making Pulp Of Fibrous Cellulosic material	50.9	391.8	50.43
H9401: Seats (Excl. Those Of Heading No. 94.02)	31.2	225.9	48.59
H2713: Petroleum Coke, Petroleum Bitumen & Other Residues Of petroleum Oils	40.0	284.2	48.00
H8524: Records, Tapes And Other Recorded Media	212.7	1,395.5	45.68
H2309: Preparations Of A Kind Used In Animalfeeding.	20.8	128.0	43.86
H2304: Oil-Cake And Other Solid Residues	47.4	286.9	43.34
H8528: Monitors And Projectors, Not Incorporating Television Reception Apparatus	54.4	328.2	43.28
H0202: Meat Of Bovine Animals, Frozen.	25.7	157.1	43.09
H8426: Ships' Derricks;Cranes Incl. Cable Cranes;	37.5	213.9	41.66
H8701: Tractors (Excluding Tractors Ofheading No. 87.09).	159.4	904.5	41.50
H8417: Industrial Or Laboratory Furnaces And Ovens	21.9	121.0	40.81
H7102: Diamonds, Whether Ornot Worked, But Not Mounted Or Set.	236.0	1,303.6	40.75
H8458: Lathes (Including Turning Centres) For Removing Metal:	33.6	1,753.0	39.18
H8711: Motorcycles (Incl. Mopeds) And Cycles Fitted With Anauxiliary Motor	30.5	158.2	39.01
H8427: Ork-Lift Trucks; Other Works Trucks Fitted With Lifting Or Handling Equipment.	38.2	191.5	38.01
H8429:Self-Propelled Bulldozers angledozers Graders Levellers Scrapers Mechanical Shovels Excavators Shovelloaders Tamping Machines And Road Rollers	232.0	1,154.8	37.86
H2818: Artificial Corundum Whether Or Not Chemically Defined	197.1	980.3	37.82
H8518: Microphones, Loudspeakers, :Headphones And Earphones	72.6	347.0	36.74
	2001	**2006**	**Growth rate (%)**
H7502: Unwrought Nickel.	174.0	2,246.2	66.79
H7202: Ferro-Alloys.	84.0	918.0	61.33
H6204: Womens Or Girls Suits Ensembles Jackets Blazers Dresses Skirts (Excl. Swimwear).	138.6	1,301.0	56.50
H8502: Electric Generating Sets And Rotaryconverters.	63.4	470.4	49.31
H7408: Copper Wire.	120.7	894.6	49.27
H2613: Molybdenum Ores And Concentrates.	65.3	479.7	49.01
H6109:T-Shirts, Singlets And Othervests, Knitted Or Crocheted.	107.5	701.5	45.52
H2710:Petroleum Oils And Oils Obtained From Bituminous Minerals (Excluding Crude);	2,902.7	17,746.3	43.64
H6105: Men'S Or Boys' Shirts, Knitted Or Crocheted.	50.1	302.5	43.28
H8478: Machinery For Preparing Or Making Up Tobacco	58.8	339.5	42.00
H6302: Bed Linen, Table Linen, Toilet Linen& Kitchen Linen.	56.1	321.1	41.75
H1005: Maize (Corn):	135.0	757.4	41.19
H8702: Motor Vehicles For The Transport Of Ten Or More Persons	121.6	673.5	40.83
H6206: Women'S Or Girls' Blouses, Shirts Andshirt-Blouses.	59.0	323.5	40.54
H8467:Tools For Working In The Hand	181.3	976.4	40.04

H8716:Trailers And Semi-Trailers; Other Vehicles Not Mechanically Propelled	68.7	356.6	39.01
H8426:Ships' Derricks;Cranes Incl. Cable Cranes; Mobile Lifting Frames	240.6	1,206.8	38.06
H8607: Parts Of Railway Ortramway Locomotives Or Rolling Stock.	103.7	506.8	37.34
H8704: Motor Vehicles For The Transport Of Goods.	1,219.3	5,871.4	36.94
H8411: Turbo-Jets, Turbo-Propellers Andother Gas Turbines.	1,321.0	6,322.9	36.77

Source: Quantec and own calculations

3.1.5 Fastest growing trading partners

When considering which have been the fastest growing destinations for South African exports it is interesting to note that the conclusion of preferential trading agreements has not obviously contributed positively in this regard. It is apparent from the table below that despite the TDCA coming into force in 2000, and the SADC agreement that is in place, only a few countries from these regions feature among the fastest growing destinations of exports.

Considering the potential of trade agreements to increase exports, it would appear that the conclusion of the EFTA agreement may explain the healthy increases in exports to Switzerland, and to a lesser extent, Norway. If one considers that China is not only the fastest growing export destination for South Africa, but in value terms is also the most important of all the growing export destinations, it is clear that a preferential trading agreement is not necessarily the key enabling mechanism to increasing exports to a country or region. This said, it may affect the type of exports demanded. A more significant determinant, however, may be changes in income of the population of the partners, e.g. growing demand for goods. For example, Nigeria, Russia, the United Arab Emirates (UAE) and Angola are all benefiting from higher oil prices and higher economic growth. Poland and China are other trade partners experiencing high growth rates.

Table 12 – Fastest growing export destinations, 2000 - 2006

	Country	2000 exports (Rm)	2006 exports (Rm)	Growth, 2000-2006 (%)
1	China	2,411	14,020	34.10
2	Poland	223	1,288	33.91
3	Nigeria	707	4,001	33.49
4	Algeria	229	1,113	30.16
5	Finland	163	585	23.70
6	Turkey	679	2,411	23.50
7	Angola	1,376	4,739	22.89
8	Russia	204	676	22.09
9	Switzerland	3,670	11,661	21.25
10	Morocco	335	1,042	20.84
11	Pakistan	360	1,082	20.13
12	Ghana	592	1,737	19.65
13	Iran	500	1,438	19.24
14	DRC	889	2,555	19.24
15	Spain	3,504	10,001	19.10
16	Sweden	1,047	2,969	18.97
17	New Zealand	232	649	18.68
18	Norway	177	490	18.54
19	Denmark	455	1,189	17.38
20	Netherlands	7,033	18,068	17.03

Source: Quantec

*** The cut-off used was R100-million of exports in 2000**

Looking more carefully at the markets that are rapidly expanding their imports from South Africa, it emerges that many of the aforementioned countries also feature as increasingly important sources of South African imports. In contrast to the context of exports, it appears that the conclusion of a preferential trade agreement with the EU, the TDCA, would account for why three of the top six fastest growing source of imports for South Africa are newer EU member states[12]. The agreement with Mercosur may also account for why imports from Argentina and Brazil have grown by around 30% between 2000 and 2006, as can be seen from the Table below. Increasing imports from Zambia and Zimbabwe may be related to the preferential terms received under the SADC.

Imports from China, have not been growing as rapidly as what has been observed with some of the new EU Member States. However, if one considers the level of imports from China, the significance of this growth in imports is elevated in importance, particularly considering that this recent growth is not off a very low base. This strong growth in Chinese imports has been a major contributor to the growing trade deficit that has been evident in South Africa's trade balance. In fact China accounts for 10% of

[12] The EU enlargement to include these new member states was completed in May 2004.

total South African imports currently, which is up from 4% in 2001. Another factor in the deteriorating trade balance has been the increasing amount of oil imports resulting from the sharp increases in crude oil prices, which have reached levels not seen since the oil crises of the 1970s. South Africa has also shifted to obtaining more oil from African sources, hence the growth in imports from Nigeria.

Table 13 – Fastest growing import sources, 2000 - 2006

	Country	2000 imports (Rm)	2006 imports (Rm)	Growth, 2000-2006 (%)
1	Czech Republic	170	1,836	48.74
2	Poland	131	1,408	48.64
3	Turkey	383	3,273	42.99
4	Nigeria	1,281	9,286	39.11
5	China	6,935	46,719	37.43
6	Hungary	442	2,936	37.13
7	India	1,765	10,960	35.58
8	Zambia	302	1,842	35.15
9	Qatar	206	1,223	34.52
10	Argentina	1,335	6,588	30.47
11	Singapore	1,459	7,149	30.32
12	Brazil	2,053	9,383	28.82
13	United Arab Emirates	904	3,922	27.71
14	Thailand	1,841	7,968	27.65
15	Mexico	456	1,935	27.21
16	Viet Nam	169	638	24.81
17	Zimbabwe	1,300	4,633	23.60
18	Spain	2,075	7,042	22.59
19	South Korea	3,527	11,873	22.42
20	Russia	567	1,896	22.30

Source: Quantec

*** The cut-off used was R100-million of imports in 2000**

It is evident that Asia is becoming an important source for imports for South Africa. China again accounts for a large proportion of the volume of trade within the top 20 import destinations for South Africa, but if one also includes India, Singapore, Thailand and South Korea, the importance of this region for South African trade becomes most apparent.

3.2 Evolution of tariff structure

In the 1990s South Africa introduced an ambitious multi-faceted round of tariff and trade policy reform. This encompassed substantive multilateral liberalisation through the WTO; the elimination of quotas, export subsidies and most import surcharges and new bilateral agreements with the EU and SADC. The tariff structure has also been simplified markedly through a

substantial reduction in the number of tariff lines, the replacement of most compound, specific formula-based and mixed rates by *ad-valorem* tariffs, and some reduction in the number of rates levied

South Africa's liberalisation of tariffs is likely to have contributed to an increase in import penetration. It is apparent from the table below, however, that whilst the weighted average tariff of the economy as a whole has decreased from about 11% in 1996 to 7% in 2004, import penetration in fact only dropped from 14.2% in the late 1990s to around 12% in the period to 2004. The limited import response to the average tariff reduction would appear to be counter-intuitive. Moreover, between 2001 and 2004, with regards to the manufacturing sector, whilst the weighted average tariff was reduced from 12% to 9%, the import penetration ratio dropped from 31% to 25%. The highest reductions in tariffs in the sector occurred within clothing, footwear, beverages, motor vehicles, textiles, printing, plastic products and metal products among others. Of these, import penetration ratios also dropped except in the cases of clothing and footwear where increases were recorded.

Table 14 – Import tariffs and import penetration (in constant prices) for South Africa, 1996 - 2004

		Weighted tariff 1996	Weighted tariff 2004	% point change in tariff 1996-04	Effective rate of protection 2004	Import penetration 1995-99	Rank	Import penetration 2000-04	Rank	% point change in import penetration
1	Clothing	61.4%	35.8%	-25.5%	103.4%	13.7%	24	16.3%	19	2.6%
2	Beverages	22.1%	4.1%	-18.0%	12.1%	7.2%	29	4.5%	30	-2.8%
3	Motveh & parts	44.7%	29.9%	-14.7%	116.5%	32.9%	8	31.0%	7	-1.9%
4	Tobacco	39.3%	25.6%	-13.7%	12.1%	3.3%	31	1.1%	31	-2.2%
5	Footwear	39.6%	29.4%	-10.2%	78.3%	32.4%	10	36.5%	6	4.1%
6	Textiles	26.6%	17.2%	-9.4%	68.3%	29.8%	14	21.9%	13	-7.9%
7	Printing	9.8%	1.0%	-8.7%	-1.2%	24.7%	18	17.5%	17	-7.2%
8	Non-met mins	10.6%	3.6%	-7.0%	10.9%	18.8%	19	16.3%	20	-2.5%
9	Oth industr	11.6%	5.1%	-6.5%	3.4%	32.1%	11	26.6%	10	-5.5%
10	Gold mining	6.0%	0.0%	-6.0%	-1.5%	0.0%	32	0.0%	32	0.0%
11	Petrol ref	5.8%	0.4%	-5.4%	-0.5%	29.9%	13	12.6%	21	-17.3%
12	Plastic prods	19.0%	13.8%	-5.1%	25.8%	14.8%	22	11.1%	23	-3.7%
13	Metal prods	10.8%	5.7%	-5.1%	9.8%	12.9%	25	12.3%	22	-0.5%
14	Paper & prods	8.5%	5.4%	-3.1%	18.9%	18.4%	20	9.5%	25	-9.0%
15	Bas iron & st	5.7%	2.7%	-3.0%	6.8%	18.0%	21	8.8%	26	-9.2%
16	Electr mach	8.2%	5.3%	-2.9%	11.1%	37.2%	7	25.7%	11	-11.5%
17	Agriculture	4.7%	2.4%	-2.3%	-0.1%	8.7%	28	7.2%	28	-1.5%
18	Glass & prods	9.7%	7.7%	-2.0%	18.2%	27.4%	16	21.1%	14	-6.3%
19	Other chems	4.6%	2.7%	-1.9%	14.7%	27.3%	17	19.6%	15	-7.8%
20	Bas n-fer met	3.2%	1.5%	-1.8%	2.9%	29.7%	15	19.3%	16	-10.4%
21	Rubber prods	16.6%	14.9%	-1.7%	41.2%	32.5%	9	28.2%	9	-4.3%
22	Basic chems	3.5%	2.1%	-1.4%	5.7%	46.5%	6	29.4%	8	-17.1%
23	Furniture	19.9%	18.6%	-1.3%	61.4%	14.1%	23	16.3%	18	2.3%
24	Oth trnsp eq	0.9%	0.2%	-0.7%	-3.4%	69.8%	3	72.7%	3	2.9%
25	Machinery	2.4%	1.8%	-0.6%	0.1%	69.0%	4	62.3%	4	-6.8%
26	Scientific eq	0.7%	0.3%	-0.5%	-4.1%	91.5%	1	80.3%	2	-11.2%
27	Other mining	0.2%	0.0%	-0.1%	-1.1%	31.5%	12	50.6%	5	19.1%
28	Wood & prods	4.0%	3.8%	-0.1%	5.2%	12.4%	26	9.8%	24	-2.6%
29	Food	9.4%	11.7%	2.3%	61.8%	10.6%	27	8.2%	27	-2.5%
30	Coal mining	0.0%	0.0%	0.0%	-2.0%	4.5%	30	6.0%	29	1.5%
31	Tv & coms eq	2.0%	2.2%	0.2%	1.3%	81.3%	2	80.9%	1	-0.4%
32	Leather prods	16.3%	17.2%	0.8%	28.6%	50.3%	5	23.2%	12	-27.1%
33	Primary	1.0%	0.3%	-0.7%	-1.0%	18.2%		28.5%		19.7%
34	Manufacturing	12.4%	9.3%	-3.1%	19.2%	31.0%		24.7%		-6.3%
35	Services				-1.4%	2.9%		2.1%		-0.7%
36	**Total**	**11.0%**	**7.7%**	**-3.2%**		**14.2%**		**12.0%**		**-2.2%**

Source: Willcox & Van Seventer (2007) using IDC (tariffs 1996) and Customs & Excise (trade & tariffs 2004)

According to Willcox and Van Seventer (2007), the sectors with the highest reduction in tariffs still have high rates of effective protection meaning that their relatively high nominal protection on output is not eroded much by tariffs on intermediate inputs. Low (less than the nominal rate and less than 10%) or negative effective protection characterise printing, metal products, basic

metals, agriculture, basic chemicals, machinery, other transport equipment and wood products. Clothing, motor vehicles, textile, leather and footwear, plastic and rubber products, furniture and food, however, continue to enjoy high rates of effective protection. Primary and services sectors face negative effective tariff protection as their nominal tariff protection is low or zero, while they continue to pay import duties on their intermediate inputs, notably those drawn from manufacturing. For manufacturing as a whole, the effective tariff protection is about twice their nominal protection. This makes sense since at least part of manufacturing inputs is derived from primary or services sectors, both of which have low output tariffs and therefore constitute low input duty taxes for manufacturing.

3.3 Dynamics of trade

A key underlining proponent of any export-led strategy is the selection of the products being exported. Lall (2002) classified goods as dynamic if they were amongst the 40 fastest growing products with a world market share of over 0.33%. Gibson & Van Seventer (2004) used this framework and found that South Africa had a low share of dynamic products.

In comparing total developing country (defined as those benefiting from the Generalised System of Preferences) performance with regards to trade in dynamic products versus that of South Africa, it is apparent that South Africa performs comparatively poorly. Whilst developing countries as a whole have almost doubled their share of world trade, South Africa's share has declined somewhat over the same period, as is apparent in the tables below.

Table 15 – Developing country performance in trade in dynamic products, 1989 - 2004

	Share of world trade		Trade (US$m)		Annual growth
	1989 (%)	2004 (%)	1989	2004	1989-2004 (%)
Dynamic products	1.5	10.9	15,325	920,663	34.0
Non-dynamic products	16.3	19.5	163,979	1,642,989	17.9
Total	17.8	30.4	179,305	2,563,652	20.9

Source: Willcox & Van Seventer (2007) using UN ComTrade and own calculations

Table 16 – South Africa's export of dynamic products, 1989-2004

	Share of world trade		Trade (US$m)		Annual growth
	1989 (%)	2004 (%)	1989	2004	1989-2004 (%)
Dynamic products	0.06	0.11	652	9,519	21.1
Non-dynamic products	0.54	0.44	5,451	37,246	14.7
Total	0.61	0.55	6,102	46,765	15.7

Source: Willcox & Van Seventer (2007) using UN ComTrade and own calculations

South Africa doubled its share in dynamic product trade between 1989 and 2004. Nevertheless, this share was still very low at 0.11% in 2004. Furthermore, the improvement which was observed is unlikely due to South Africa shifting production towards dynamic products, but instead is likely caused by a number of resource based commodities becoming classified as dynamic

products, as is certainly not as dramatic an increase as that experienced by other developing countries, including China and India.

Real growth in exports was, in general, positive from the early 1990s through to recent years as is apparent from the table below, and as was alluded to earlier.

Table 17 – Exports growth and shares for broad technology groups (2000 prices)

	Growth				Shares			
	1991-1995	1996-2000	2001-2005	1991-2005	1991-1995	1996-2000	2001-2005	1991-2005
Total	7.0%	3.8%	2.1%	4.3%	100.0%	100.0%	100.0%	100.0%
Primary	0.9%	0.4%	-0.6%	0.2%	46.3%	36.3%	31.4%	37.7%
Manufacturing	13.6%	5.8%	2.5%	6.6%	42.4%	49.9%	51.9%	48.1%
Resource based	11.3%	3.6%	2.9%	5.3%	25.1%	27.2%	27.3%	26.5%
Low tech	11.0%	1.0%	-2.9%	1.4%	9.6%	9.6%	7.1%	8.6%
Med tech	26.1%	17.1%	4.3%	15.7%	6.1%	10.8%	16.4%	11.4%
Hi tech	25.1%	5.0%	0.1%	1.7%	1.5%	2.1%	1.0%	1.5%
Services+	9.7%	5.5%	6.1%	8.3%	11.3%	13.8%	16.7%	14.2%

Source: Willcox & Van Seventer (2007), Quantec (South African Standardised Industry Database) and own calculations

Contractions in certain sectors, including the primary sector and low-tech manufacturing have been evident. Whilst the primary sector remains a major contributor to total exports it is clear that its share has been decreasing somewhat. Exports of medium-tech manufactures and services have grown most robustly over the period. The share of these sectors in relation to total exports has also increased, and manufacturing as a whole has surpassed agriculture as they key exporting sector and now accounts for just over 50% of total exports. Most of the growth in manufacturing exports, which was concentrated in the 1990s, can be attributed to the strong growth in exports of vehicles, which was fuelled by both the MIDP and the weaker exchange rate. Despite this growth, however, exports of resource-based manufactures continue to account for the greatest share of total manufacturing exports, as reiterated previously.

3.4 Real economy dimensions

A key determinant of export competitiveness is the exchange rate. Throughout the 1990s South Africa experienced a depreciation of both the nominal and real effective exchange rate, the former being in the order of around 7% per annum and the latter around 3% per annum. This trend was reversed with marked appreciations of the exchange rate being evident since 2002. Whilst export growth had been robust as South Africa entered into its new democratic regime and adopted a more open trade stance during a period in which the exchange rate depreciated, as the real effective exchange rate started to appreciate late in 2002, growth of exports slowed and that of imports picked up. This has led to an increasingly widening current account deficit, which is putting further strain on the economy. More recently the ZAR has been weakening again. Many hope that this will have a positive effect on exports and hence a narrowing of the trade deficit. It is, however, well known that volatility in an exchange rate is of most concern with regards to securing, for example, export contracts. In fact, it is hard to assess just how much

damage has been done to export confidence as the lag between currency appreciation and order cancellation varies from industry to industry. As South Africa continues to be an exporter of predominantly resource based commodities, it remains vulnerable to commodity booms and slumps, which adversely affect the exchange rate.

Of course there are other macro-economic dimensions that have affected trade and in particular South Africa's ability to compete in the global arena. Other supply-side factors also need to be taken into consideration. In South Africa, for example, the small pool of skilled workers, inefficient ports and railways, poor regulation etc. constrain the overall trade performance and economic growth prospects of the country. Weak trade facilitation, and more recently, debilitating cuts in energy supply, represent further constraints to the country's ability to export in an increasingly competitive global market place. It is argued that further liberalisation of the economy should only take place once some of these supply-side constraints have been removed. An important issue in this regard is that of correct policy sequencing, which has been argued as being a weakness in the South African context.

Since 2007 a more comprehensive Industrial Policy exists, as in January of that year Cabinet adopted the National Industrial Policy Framework (NIPF), which sets out government's broad approach to industrialisation. The Framework targets specific sectors including natural resource-based industries, such as iron, steel, aluminium, paper and pulp; as well as downstream beneficiation and advanced manufacturing, including the automotive and aerospace sectors. Labour-intensive sectors, including clothing and textiles and agro-processing; as well as services, which include tourism and business process outsourcing are also targeted.

Calls have been for South Africa to have its trade and industrial policies more closely aligned, and this is a key area of policy debate. Whilst export volume growth has increased over the preceding two decades, this growth was much lower than the average annual growth in world trade, of about 6%. Accelerated growth in exports will only be achieved if we can improve the competitiveness of our exports in the long-term. In this regard, continued reforms to the regulatory structure of our economy, as well as improvements to infrastructure and associated networks, and conducive policies related to, for example, investment are key. Such policy reforms are important to influencing private sector behaviour towards greater investment, innovation and employment. They also contribute towards promoting the sustained increase in labour productivity needed to allow consistently rising real wages, household incomes and living standards. Whilst the NIPF recognises the need for many of these reforms, it is the implementation thereof that will be crucial to South Africa's ability to reach global levels of export growth.

4. Evolution of South Africa's trade policy

Since becoming a democracy South Africa has opened up its economy on various levels, and normalised its trade environment with the removal of the dual exchange rate and opening up of its capital account. The country has liberalised its trade regime substantially. It has engaged at a multilateral level by becoming a founding member of the WTO in 1995, the authorities negotiated bilateral agreements with the EU, Mercosur and the European Free Trade Association (EFTA), as well as committed to some unilateral liberalisation.

As South Africa entered the mid-1990s it embarked on a change of trade policy stance from import substituting industrialisation towards export orientation. Trade liberalisation was undertaken with earnest as numerous trade reforms were put in place and certain sectors were incentivised through specific instruments, providing, for example, targeted export subsidies. The depreciation of the exchange rate at the time contributed positively to South Africa's adoption of a more open trade stance.

South Africa's tariff reform process over the last 15 years has essentially encompassed four facets. Firstly, nominal tariffs, particularly in manufacturing, which was historically the most protected sector, were reduced. At the time, as a founding member of the WTO, and signatory to the General Agreement of Tariffs and Trade (GATT), South Africa committed itself to a tariff reform package and phase-out of distorting subsidies. Secondly, the number of tariff bands and categories was reduced. Thirdly, surcharges and quantitative controls, particularly related to agriculture, were removed. Fourthly, phased unilateral reduction of tariffs.

In the 1990s South Africa phased out its general export subsidies under the General Export Incentive Scheme (GEIS) in accordance with its WTO commitments and introduced WTO compatible supply-side incentives. Explicit subsidies still exist for two sectors, namely clothing and textiles and motor vehicles and components. The Motor Industry Development Programme (MIDP)[13], whose WTO compatibility is being questioned, is a system of incentives based on selective import duty reductions which provide substantial subsidies to investment and exports in return for the production and sale of motor vehicles in the protected domestic market. The clothing and textiles sector is subsidised through the Textile Clothing Industry Development Programme (TCIDP), which replaced the Duty Credit Certificate Scheme (DCCS). The DCCS was introduced on 31 March 2006, with the implementation thereof being for a period of two years, retrospectively from 1 April 2005 to 31 March 2007. Amongst others the conditions of the TCIDP was that the tradability of duty credit certificates be limited to manufacturers for the export period 1 April 2006 to 31 March 2007. Late in 2007 it was announced that the DCCS was to be extended through to March 2009. This had been preceded by announcements that the tariffs on textiles were due to be reviewed.

South Africa has also embarked on a process of significant tariff reform. During the 1990s import controls and surcharges in manufacturing were gradually phased out and quantitative restrictions related to agriculture were converted into tariffs. These tariffs in turn were also reduced substantially except for a few key commodities such as sugar. Import surcharges were also abolished. As already emphasised, the tariff structure has also been simplified over the last 15 years, with both the number of

[13] The MIDP is legislated until the end of 2009. It is currently under review, a process which is due to be completed in August 2008 after which a revised system of support would be introduced. A new support programme for the motor industry aimed at improving the domestic value chain and informed by the review will be introduced to last until 2020.

tariff lines being almost halved from 12,500 in 1990, and the number of different bands also being reduced by 50% from 200 in 1990. Tariff peaks do, however, still exist and effective rates of protection remain high in certain key products[14].

On a multilateral level, South Africa has been active and has participated in the 15 plurilaterals out of 18 that it was invited to. In these sessions the dti realised that its negotiating stance has been of a defensive nature as it still struggles to identify market access opportunities due to an absence of an institutional relationship with the private sector. This is an issue that the dti have expressed their commitment to improve on. Under Doha, the dti is currently studying the texts on agriculture that have been released. Once this process is completed they will be able to assess whether their offer needs to be revised accordingly before tabling this formally.

As pointed out previously, the multilateral trade agenda has begun focussing less on traditional areas of trade reform, such as tariffs, and more on the "new-generation issues" and technical barriers to trade. South Africa's focus has been on issues of rules of origin, subsidies, government procurement and safeguard mechanisms. In this regard its negotiating team have been actively working with the ASEAN, Africa group and other like-minded countries. There has, however, not been much progress due to a stand-off between ASEAN and the EU. Whilst the former wishes the negotiations to focus on safeguard measures, the latter is pushing for more movement on government procurement. It is again evident that the introduction of such issues has led to trade negotiations through the WTO having becoming increasingly complex and lethargic. As a result, South Africa, like other countries, has shifted its attention to pursue bilateral relations with new trade partners and regional trade groupings.

South Africa concluded its first major preferential trade agreement, the Trade and Development Co-operation Agreement (TDCA), as a democracy with the EU. The TDCA had come into force on 1 January 2000, but to date two specific agreements namely those governing "Fisheries" and "Wine & Spirits" have yet to be ratified by South Africa. The "Wine & Spirits" agreement essentially provides for financial compensation to South Africa for its agreement to phase-out the use of certain European names of origin, for example, port and sherry. South Africa has delayed its ratification of the agreement as it needs to assess more clearly the implications of it agreeing to accept the "geographic indications" clauses within the agreement that would affect our exports of wine and cheese, as well as canned goods.

Besides the TDCA, already mentioned and presented above, South Africa has actively pursued other bilateral and regional trade negotiations in the last 15 years. At the time of the TDCA coming into force, on a regional level South Africa was party to the SADC Trade Protocol and also the signing of the new Southern African Customs Unit (SACU) agreement in 2002.

With the deepening of the SACU in 2003[15], South Africa's trade negotiating mandate has been reduced as this process needs to be undertaken in consultation with other SACU member states. This marked an important shift in trade policy for South Africa as it meant that all FTAs concluded by South Africa henceforth would have to be done through SACU as a regional grouping. This

[14] In May 2006 ITAC announced a review of chapters 84 and 85 of the Customs and Excise Act. The review was aimed at assessing whether current import duties should be reduced on items that are key to the success of the government's R400 million infrastructure development programme. Commitments to reduce tariffs on certain industrial imports may be beneficial in the short-run if they assist such projects, but a primary concern is that such decisions are not strategically thought through to consider the country's broader industrial policy.

[15] According to the WTO Trade Performance Review of the SACU, "the 2002 SACU Agreement provides for a more democratic institutional structure; a dispute settlement mechanism; the requirement to have common policies on industrial development, agriculture, competition, and unfair trade practices; and a new system regarding the common revenue pool and sharing formula. It is hoped that, once in force, the new SACU Agreement, combined with multilateral trade liberalisation and outward-orientation, will help SACU countries to foster their integration into the world economy".

has important implications with regards to South Africa's negotiating capacity e.g. its ability to commit to liberalisation of imports, as well as the political sensitivity created by the perception of South Africa as a nation influencing regional economic and political outcome (e.g. South Africa is seen by many as a regional hegemon pushing its own interests, although the term hegemon[16] is not systematically associated with a negative outcome in the International Relation literature). Whilst negotiating within a bloc has benefits, it can also create complications e.g. China not wanting to negotiate with SACU as Swaziland recognizes Taiwan as an independent State. South Africa's trade policy and negotiating stance has become substantially more complicated over time and now needs to take into account a host of new issues.

Furthermore, negotiations at a bilateral level are complicated further in light of the various levels of development among the SACU member states. The negotiation of a SACU-US free trade agreement (FTA) is a further example of how such processes struggle to become concluded due the combination of both asymmetrical levels of development and the increased complexity of the issues being negotiated. After protracted negotiations the two sides failed to reach a consensus in 2006. SACU was, in 2005 calling for a phased approach, with an initial basic free trade agreement being concluded and the new-generation issues being negotiated later on in the process, that is once SACU had achieved greater harmonisation on these issues internally. The negotiations dead-locked as a result and have not been revisited since. Some analysts feel that South Africa missed an opportunity to fast-track such harmonisation and commit to a more comprehensive agreement. They argue that the benefits from trade agreements signed with, for example, India and China, will stem from commitments made on the new generation issues and not really from trade in goods. Calls are for greater harmonisation within SACU of, for example, regulatory frameworks.

South Africa had hoped to conclude FTAs with the European Free Trade Association (EFTA), the US, and Mercosur in 2005, as well as to begin talks with India. So far only the agreements with EFTA and Mercosur have been concluded, with the former being a fully fledged free trade agreement and the latter a preferential trading agreement.

It has become apparent, however, that negotiation of market access can be tricky and needs to be carefully considered. A case in point on this is, again, that of China. In recent years, South Africa, like other countries, has had to face severe competition from China within the textiles and clothing sector. It has been clear that Chinese imports have benefited from cheap labour and so have been price-wise much more competitive than local producers. The flood of cheaper imports as a result led to many a call from industry for South Africa to restrict such imports by increasing tariffs and also implementing a quota system[17]. The key problem with this is that South African consumers would suffer as they would no longer have access to more affordable clothing. Furthermore, China's rapid growth and subsequent enormous demand for resource-based goods have benefited South African exports. By raising duties of Chinese imports to South Africa, we run the risk of China reducing our market access to their markets in retaliation. It is pertinent to note that in fact textiles and clothing is already one of the most protected sectors, with tariffs of up to 30-40% (though these have decreased by 10-20% since the 1990s), and certain Chinese imports are still cheaper than domestically produced goods despite these tariffs. The South African textiles and clothing sector would need to compete on

[16] Note that the term "hegemon" is not systematically associated with a negative outcome in the International Relations literature

[17] Labour have been particularly vocal regarding the issue of the severe trade imbalance with China, citing severe job losses in the clothing and textiles sector as a key concern. Furthermore, it is felt that trade with China is entrenching South Africa's role as a primarily resource based exporter and not contributing in any way to improving South Africa's industrial capacity.

more than price to be able to succeed. Focus on improved quality and better designs are areas in which South African manufacturers could compete more effectively.

South Africa is also a member of the Southern African Development Community, as mentioned previously. Under SADC ambitious targets have been set for its member states. These include the elimination of tariffs on 85% of all goods by 2008, as well as the formation of a customs union by 2010, a common market by 2015 and common monetary area by 2016. The SADC has signed a number of accords, though important questions remain about SADC's members' ability to implement these. South Africa has not only been intimately involved with the deepening of the SADC itself, but a further facet of South Africa's relationship with SADC is its recent inclusion in the SADC's EPA negotiations with the EU. In light of South Africa's relatively large negotiating capacity in the region and, following the phasing out of Cotonou and the introduction of the EPAs, South Africa's role within the region vis à vis the EU has become enhanced. In parallel, it is clear that trade negotiations have already become more complex as South Africa has to negotiate taking into account the interests and stakes of a growing number of countries. The EPA negotiations were concluded in relation to trade in goods, but deadlocked around the Singapore Issues, as related previously under Section 2.3. South Africa has been firm in its position that no binding commitments should be made by countries within the region in relation to the Singapore Issues. The country feels strongly that the region needs to be more convergent internally, for example in relation to competition policy, before it seeks to open itself up. As such it sought a 5-year window period within which the region could assess its ability to liberalise fully in these areas, but this proposal was rejected by the EU. South Africa has reiterated its commitment to the liberalisation of the services sector, but it is clear in its view that this should not take place prematurely. Within the SADC a framework regarding the modalities for liberalisation of the sector has been in the process of being negotiated. It has been agreed within the region that this would need to take the form of a protocol, which means it requires Ministerial approval at member state level. South Africa is still to sign off on the text itself, but it is clear that it will be sometime before such a protocol comes into effect.

5. Policy considerations for the way forward

This report has served to reveal that the environment within which South Africa has to formulate its trade policy is multifaceted and complex. Not only are the determinants of trade in general not as clear cut, but there are also a number of key issues to be considered in the approach adopted on the way forward.

5.1 Importance of collaboration with involved stakeholders

Among the implications of a more complex trade negotiating environment is that it is even more important now than ever for the dti to enhance its collaborative linkages with other stakeholders including fellow government departments, business, labour and civil society. This would not only boost South Africa's negotiating capacity with regards to enhancing the level of specialist, technical expertise available, but also ensure that negotiations go beyond a narrow range of economic interests. The South African authorities negotiating on trade matters need to ensure that all parties' interests are represented and effectively articulated at the various negotiating tables. Kenya has established a WTO forum, for example, which may be worth investigating as an example of the kind of vehicle that could potentially be used in this vein.

A key concern regarding South Africa's trade negotiating stance is the increasing view that the government no longer ascribes to a participatory approach in this regard. Whilst Labour was included as a key stakeholder in the Hong Kong Ministerial demonstrating that trade negotiations in South Africa were tackled in an inclusive manner, with the negotiation of a clothing and textiles agreement with China it would appear that an about-turn has been done. This shift has resulted in Labour and other stakeholders publicly criticising government for its lack of transparency with regards to the negotiations, and in fact, this process has been rife with speculation regarding the details of the agreement. The agreement with China, concluded in June 2007, was only enacted in September. It was only then that the proposal to institute import quotas vis à vis Chinese imports of clothing to South Africa was gazetted. Though ITAC invited comments on the proposal, it only provided a one week window for the various parties to do so. As South Africa is seeking to conclude a preferential trading agreement with China, scepticism of its ability to conclude a deal that does not adversely affect South Africa is mounting.

Of course, it is also important to take into consideration the consumer and how potential commitments would affect particularly the poor. As reflected in the document, a trade policy needs to be fully aligned to the country's poverty alleviation and development objectives. Furthermore, as South Africa is now part and parcel of SACU, and trade negotiations need to be conducted within the context of this bloc, the stakeholders are also deemed to be not only within our own borders. This inherently implies that it is imperative that South Africa be fully cognisant of the diverging interests of the other member states, both of the SACU and the SADC. There are therefore certain issues that would need to be tackled, including the need to conduct a comprehensive information gathering / intelligence exercise, at both the country and sector level. Furthermore, staff of the dti would need to have access to assessments of the various trade deals concluded and also fully understand the positions of the various SADC and SACU members in this regard and how to move agreements forward.

The dti itself admits that its greatest negotiating challenge is to move from a defensive to an offensive stance i.e. a position that is informed by the market and means that we are demandeurs rather than requestees. Taking the above into account it is clear, that the interest of various stakeholders, not only the private sector, need to be part and parcel of the negotiations going forward.

5.2 Aligning of trade policy with pro-poor objectives

Supachai Panitchpakdi, at the time when he was Director-General of the WTO, emphasised the importance of linking a country's trade policies with its development and poverty reduction plans. He stressed that unless trade policy and its priority areas of action are anchored in overall national development plans and/or poverty reduction strategies the relationship between trade and improvements in growth and development could not bear fruit. Issues such as demographic change and economic growth potential need to be more tightly linked to the negotiating agenda.

With the multiplicity of negotiations that have been underway with China, India, Brazil and others this raises questions around the effectiveness of such processes and agreements. It is imperative to consider to what effect do these agreements contribute to South Africa's development and trade objectives. Our analysis of some of the trade figures has alluded to the possibility that trade with, for example, Argentina and Brazil has increased likely due to the Mercosur agreement. Similarly with the EFTA, however it is not clear to what extent these agreements ultimately contribute towards the broader policy objectives of South Africa, including the reduction of unemployment.

As mentioned in Box 1, a key determinant of the country's competitiveness relates to the supply of skilled labour. However, South Africa wishes to not only increase its exports, but also ensure that its trade policy has positive impacts on its employment and its ability to create employment. It is currently difficult to do extensive work in assessing the links between trade and employment as the data are classified using different nomenclature. Labour statistics are recorded using SITC and trade statistics using HS codes. This implies the need for creating concordance tables, which would link these and enable some real analysis to be done. This is, however, quite a complex, though certainly important process that should be tackled sooner rather than later.

5.3 Optimising opportunities afforded by preferential access negotiated

Negotiating a preferential trade agreement does not automatically generate the benefits sought in doing so. If such access does not lead to, for example, greater levels of intra-industry trade, then perhaps the benefits are merely of a political nature. It is important that the benefits derived from the negotiation of preferential access are clear. The increased levels of imports from Mercosur and EFTA seem to indicate, for example, that South African exporters are not benefiting as much as their counterparts in such regions. It is possible, however, that the imports from the countries are being used as inputs by South African exporters. Alternatively, it is perhaps simply indicative of the superior ability of firms in these countries to take advantage of the preferential access to South Africa or that these firms are provided with better information regarding how to take advantage of the preferential access. In the case of China, where South Africa is seeking to negotiate preferential access it would be pertinent to bear in mind in so doing that a large proportion of its imports from China would appear to be important inputs to the burgeoning domestic manufacturing sector.

All these issues are imperative to consider if South Africa is to fully take advantage of any preferential access arrangement it seeks to negotiate or has negotiated already. Furthermore, it suggests that trade policy cannot be considered in a vacuum.

5.4 Sequencing of trade and industrial policy reforms

Trade policy, whilst being an import policy tool, is not the primary one to be used to drive economic growth. Bearing this in mind it would appear that the expectations of what trade policy can achieve with regards to increasing levels of growth of the economy as a whole should be more conservative. Trade policy is a powerful tool, but it needs to be used in conjunction with other policy tools. It is used to facilitate international trade through progressive, sequenced liberalisation and institutional upgrading. As such trade policy seeks to maximise efficiency of local resources and the country's competitiveness. It is clear that certain import-competing industries may suffer in the process. Trade policy therefore needs to be complemented with a clear industrial policy that develops new economic activities to replace those which are deemed uncompetitive when competing in a global marketplace. The importance of having industrial and trade policies that are mutually reinforceable, which includes having an industrial policy that provides for an enabling environment for increasing the competitiveness of domestic producers e.g. good infrastructure, stable service delivery etc.

Unilateral liberalisation alone will not help South Africa increase exports and diversify its export basket. Industrial policy has an important role to play, in terms of, for example, supporting the provision of a conducive environment for investment through regulatory reform, improved infrastructure etc. Whilst the NIPF was adopted in January 2007, despite labour's support thereof due to its focus on supporting labour-intensive industries through beneficiation, a key concern relates to the dti's capacity to implement its NIPF. Of course, such a sectoral approach needs to also consider the interests of consumers, whose voice is not only dispersed, but also not formally represented in South Africa. Careful and transparent consideration of sectors selected for support is also important in relation to such an industrial strategy. Within the context of the NIPF the sectors selected vary with regards to their strength and hence requirements for support, which presents problems in itself. Furthermore, it is important to have in place an exit strategy in terms of sectoral support schemes, as well as timeframes for reaching certain industrial policy objectives.

Calls have been for South Africa to have its trade and industrial policies more closely aligned, and this is a key area of policy debate. Whilst export volume growth has increased over the preceding two decades, this growth was much lower than the average annual growth in world trade, of about 6%. Accelerated growth in exports will only be achieved if we can improve the competitiveness of our exports in the long-term. In this regard, continued reforms to the regulatory structure of our economy, as well as improvements to infrastructure and associated networks, and conducive policies related to, for example, investment are key. Such policy reforms are important to influencing private sector behaviour towards greater investment, innovation and employment. They also contribute towards promoting the sustained increase in labour productivity needed to allow consistently rising real wages, household incomes and living standards.

An important consideration within the ambit of attaining trade and industrial policies that are mutually reinforceable is the role of imports. Our earlier analysis has revealed that our exports of manufactures goods is increasing and so too is our demand for machinery imports from, for example, China. This clearly demonstrates the importance of understanding what imports are needed to in turn grow our exports, in order to be able to negotiate agreements that maximise the benefits thereof for the local economy. Again such consideration should not only be limited to certain stakeholders in the private sector who are able to lobby

their own interests and affect the direction of trade policy accordingly. Civil society and other stakeholders must be included even if this does require an innovative approach of some sort.

5.5 Need to be more strategic as negotiating priorities are changing

Trade facilitation issues and the other new generation issues are now crucial. Increasingly developing countries such as South Africa are being pushed to make commitments in services, which highlights the importance of being strategic about future negotiations. South Africa should have sewn up SADC's service markets well before the EPAs were even mentioned. Services are difficult to supply without some element of commercial presence. SADC and sub-Saharan Africa more generally are obvious markets for South Africa to move into, but this has happened despite not because of government support. Services are also important because they may have significant spinoffs in the home country in terms of manufacturing links. Strategic thinking regarding the traditional areas such as agriculture is also important. What we should be thinking through is, for example, what the options are for exporting value added agriculture where we should have a significant comparative advantage.

References

Business Day, 11 May 2005, “Break down Africa’s barriers”, Nkululeko Khumalo

Business Day, 06 October 2005, “States should ‘just do it’”, Razeen Sally

Business Day, 18 October 2005, “Think before ‘just doing it’”, Owen Willcox

Business Day, 03 November 2005, “Trade gap with China wiping out jobs — Vavi”, Vukani Mde

Business Day, 05 December 2005, “Brazil, India in bid to break logjam in world trade talks”, Chris van Gass

Business Day, 08 February 2006, “SA needs to get the basics right”, Peter Draper and Razeen Sally

Business Day, 25 April 2006, “The ‘one size’ trade pact that doesn’t fit at all”, Carli Lourens

Business Day, 26 June 2006, “Industrial blueprint seeks jobs, growth”, Mathabo le Roux

Business Day, 06 September 2006, “A common thread of cynicism”, Robert Wilson

Business Day, 22 March 2007, “Manuel highlights trade in growth effort”, Linda Ensor

Business Day, 11 June 2007, “State plans duty cuts on infrastructure projects”, Mathabo le Roux

Business Day, 23 November 2007, “SADC, EU meet for last-ditch trade talks”, Mathabo le Roux

Department of Trade and Industry, 18 December 2007, “MIDP and future support for the Automotive Sector”. Available at: http://www.thedti.gov.za/article/articleview.asp?current=1&arttypeid=1&artid=1506

Draper, P. (2007), “South Africa Trade Policy and the WTO”

Engineering News, 25 February 2005, “Textile, clothing development programme reviewed”, Riaan de Lange. Available at: http://www.engineeringnews.co.za/article.php?a_id=62861

IPS, 12 October 2007, TRADE: South Africa Won't "Roll Over" on Singapore Issues”, Sam Nzioki. Available at: http://ipsnews.net/news.asp?idnews=39640

ITAC, 1 December 2006, “Amendments to TCIDP guidelines”. Available at: http://www.itac.org.za/news_article_page.asp?aID=139

Lamy, P. (15 October 2007), “Doha success will need positive outcome in services”. Available at: http://www.wto.org/english/news_e/sppl_e/sppl77_e.htm

Edwards, L. and Schoer, V. (2001), The Structure and Competitiveness of South African Trade, TIPS Forum Paper, 2001

This Day, 14 August 2007, “West Africa: Ecowas, EPAS and Singapore Issues”, Ken Ukaoha. Also available at: http://allafrica.com/stories/200708150431.html

Willcox, O. and van Seventer, D. (2007), Unpublished draft of the State of Trade Policy in South Africa

WTO (1998) Land Transport Services. Part I – Generalities and Road Transport, Background Note by the Secretariat”, Council for Trade in Services, S/C/W/60, WTO, Geneva.

WTO website: http://www.wto.org/english/tratop_e/tradfa_e/tradfa_negoti_e.htm

http://www.euractiv.com/en/trade/davos-brings-global-trade-deal-sight/article-161252 - “Davos brings global trade deal 'in sight'”

http://www.wto.org/english/news_e/spsp_e/spsp05_e.htm - “Trade policies cannot work on their own, Supachai tells development seminar”