SADC: KEY POTENTIAL EXPORT MARKETS AND THE MARKET ACCESS BARRIERS FACING EXPORTERS

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by

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EXECUTIVE SUMMARY

Current Markets

Europe has traditionally been by far the largest market for SADC exporters and continues to account for well over 40% of total SADC exports. The importance of the U.S. market has grown substantially, especially following the enactment of the Africa Growth and Opportunity Act (AGOA) in 1999, which has caused total African exports to the U.S. to increase by more than 50%.

While these markets will continue to be the main destination for regional exports, the scope for substantial expansion of exports to large developing countries, with the possible exception of Japan, may be limited. Most SADC member countries already have duty and quota free access to US and EU markets, with few, though significant, exceptions. Consequently, further opening of these markets may present relatively few opportunities for increased SADC exports. Indeed, as the EU expands to take in new members, and both the EU and US continue to sign preferential trade agreements with third, mostly developing, countries, SADC exporters will face increasingly strong export competition in these established markets.

The proliferation of regional trade agreements (RTAs) such as EU agreements with most Southern and Eastern Mediterranean countries as well as several Latin American countries, and U.S. Free Trade Agreements (FTAs) with many developing countries, has vastly expanded the number of countries that have preferential access to markets in Europe and North America. Many of these countries have succeeded in penetrating U.S. and European markets for products in which SADC countries have historically had a commanding share of the import market.

In some cases, liberalization of European and U.S. markets could cause substantial declines in both export volumes and prices of products that are now highly protected and therefore highly priced, and for which many SADC countries have preferential access.

Food safety and other, related, standards are also becoming an increasingly competitive issue for SADC exporters to EU markets. The predominance of agricultural and food products in SADC exports to the EU, and increasing EU consumer sensitivity to food safety and related environmental standards may make these exports vulnerable to exports from other countries whose production, packaging and distribution are perceived as safer and more highly controlled.

Potential Markets

Based on the trends described above, SADC needs to look to the development of new export markets. Though some scope exists for expansion of intra-SADC trade through deeper regional integration, such intra-regional trade appears to have reached a peak. Therefore, the greatest potential for SADC export expansion may lie in the development of new markets in other developing country regions.

Using techniques that can be readily replicated in Trade Ministries and Departments throughout the region, this report identifies and selects exports in which SADC

countries have a revealed comparative advantage and some of the most dynamic potential developing country markets for those products.

Barriers to Trade

Indicative trade potential may remain unrealized for a host of policy and business reasons, including trade barriers (tariff and non tariff), strong competition from domestic or third party producers, differences in tastes, marketing deficiencies and transport costs. However this study attempts to identify which regional exports to which target markets are most likely to be constrained by *trade policy*. Recent research shows that tariffs are the main trade barrier in gaining access to developing countries' markets. Therefore the analysis focuses on tariff reform.

Priority Markets

The analysis of revealed comparative advantage, potential markets, and trade barriers is brought together in Table 1 below, allowing the reader to identify those markets where products with high export potential also face high tariff barriers - listed in Column (C). It serves to identify, for further analysis, the main countries where tariff reduction may have the greatest impact on exports from the region. These include **India, Mexico, Egypt, Nigeria** and to a lesser extent **China**.

Column (A) details markets where export potential is high, but where trade barriers, including tariff barriers, are not likely to be impeding exports. These markets may be prime targets for enhanced export promotion activities. Column (B) lists those products and markets for which tariffs may be significantly constraining exports. The table also indicates areas where both SADC exports, and the imports of target markets, are growing.

The analysis contained in this paper is highly aggregated, and is intended to help countries identify trade policy and tariff reform efforts likely to result in significant export growth. Policy makers will require a more detailed examination, both of export potential and specific tariff barriers, at a much deeper level of specificity than the current analysis can provide.

A potential obstacle to SADC exporters' ability to compete in new developing country markets could arise from the proliferation of regional trade agreements. The risk comes from the possibility of being blocked from important developing country markets like Brazil, Mexico, Chile, Argentina and Venezuela, as they evolve towards free trade within their regional markets, fostering trade diversion. This serves to underline the importance of advancing **multilateral trade negotiations** to minimize the cost disadvantage the SADC exporters may face on markets to which they do not have preferential access.

Table 1: Priority Matrix for Tariff Reductions on Developing Country Markets

Key SADC Exports	Potential Markets		
	Column (A) MFN Tariff < 15%	Column (B) MFN Tariff 15% - 25%	Column (C) MFN Tariff > 25%
Fish, Seafood		China* Egypt* Korea*	India Mexico* Thailand* Nigeria.
Fruit & Nuts	Argentina Indonesia Saudi Arabia		China[1] Egypt India[1] Mexico Nigeria [1]
Vegetables	Brazil China* Malaysia Pakistan *	Egypt* Mexico*	India[1] Korea[1] Nigeria[1]
Metals	China* Iran* Korea Malaysia Thailand Turkey	Argentina Brazil Mexico*	India
Pulp and Paper Products	China* Indonesia* Malaysia Saudi Arabia Korea* Venezuela*	Mexico*	India
Sugar	Korea Malaysia Saudi Arabia	Venezuela* Mexico*	China* India[1]
Apparel	Argentina* Chile* Costa Rica* Korea Saudi Arabia Venezuela*	China* Venezuela	Egypt[1] India [1] Mexico* Nigeria[1]

* Areas where SADC exports and target market demand are both growing.
[1] Exports to the markets are limited, but domestic consumption and trade barriers are high.

1.0 EVOLUTION OF SADC TRADE AND EXPORT MARKETS

This section provides an overview of exports to principal markets, the key trends affecting SADC exports to the EU and the USA, and the evolution of SADC and South-South trade more generally. It suggests that, although the big markets of the industrialised countries will continue to be among the main destinations for exports, the potential for further growth of SADC exports to these markets may be limited.

1.1. Sub Saharan African Exports

After reaching a peak in the late 1970s, Africa's exports declined substantially until the mid 1990s, when liberalisation initiatives began to take effect.

Total exports by developing countries in Africa reached $95 billion in 1980. They did not reach this level again until 2000, when total exports reached $122.5 billion.[1] In nominal terms, this represents annual growth of only 1.3%, while in real, inflation-adjusted terms, it represents a decline. Nevertheless, recent trends (since the early to mid 1990s) the trend has been encouraging.

In 1980, 83% of sub-Saharan Africa's exports went to developed countries. By 2000, this percentage had dropped to 71%. As Table 1 illustrates, from 1980 to 2000, African exports to the EU, the U.S. and Japan declined from 80% to 67% of Africa's total exports, while exports to other developing regions, especially other African countries, Latin America, the Middle East and, above all, Asia, increased markedly.

Table 1: Evolution of Africa's Exports

	1980	1990	2000
World	**$94.9 billion**	**$81 billion**	**$122.5 billion**
Percentage To:			
EU	46.3	56.0	41.9
USA	31.3	19.0	23.4
Japan	2.1	1.5	1.5
Developing Africa	3.2	5.9	5.8
Middle East	1.9	4.1	3.1
Developing Asia	1.6	4.6	10.3
Developing Latin America	1.6	1.6	3.5

Source: UNCTAD Online Handbook of Trade Statistics

Within this trend there exist substantial variations and sub-trends. African exports to other African countries increased by less than 50% from 1990 to 2000, while African exports to Middle Eastern countries grew by only 14%. During the same period, African exports to developing countries in Latin America and Asia increased more than threefold (3.3 times and 3.4 times, respectively). African exports to the U.S. increased by 86% from 1990 to 2000, but almost all of that increase is attributable to the entry in effect of the Africa Growth and Opportunity Act (AGOA), which caused

[1] UNCTAD Online Handbook of Trade Statistics

U.S. imports from Africa to jump from $14 billion in 1999 to $23.5 billion in 2000. Crude oil imports from Angola, Nigeria and Gabon accounted for about 80% of this increase.

African exports to the European Union increased substantially as a proportion of the total from 1980 to 1990, rising from 46% to 56%, but between 1990 and 2000 the percentage fell back to 42%, while the total value increased by only 13% over the entire decade. The increase from 1980 to 1990 is not easy to explain, but the decline from 1990 to 2000 is almost certainly attributable to increased trade between the EU and the former Soviet bloc countries, as well as to the succession of EU-Mediterranean agreements that vastly increased EU imports from Morocco, Tunisia and Turkey, among others.

Sub-Saharan Africa's exports to developed markets are, however, on a downward trend. Exports to the EU fell by 3% a year during the 90's, continuing a long term decline that started in the early 80's.

Exports to developing countries have, by contrast, increased by 6% a year over the decade, up from 21% of total exports in 1990 to 34% by 1999.

AGOA and the EU's "everything but arms" expansion of GSP market access for least-developed countries (LDCs) give SADC exporters duty-free and quota-free access to the EU and US markets with only limited exceptions. SADC exporters stand to face greater competition from middle income countries as their unique preferences diminish. Liberalisation of trade in many product areas, including agricultural products, may also result in falling EU and US prices for some of the major SADC exports to these markets, making them less attractive destinations. Finally, heavy dependence on industrialised countries for agricultural exports may make the region more vulnerable to changes in food and health standards in developed countries.

In contrast, South-South Trade is growing rapidly, especially in agricultural products. For SADC, however, the potential of these markets remains to be tapped by exporters from the region. Efforts by South Africa to develop a free trade agreement with the Mercosur group in South America are a clear sign that some governments and companies in the SADC region are well aware of the potential to increase South-South trade.

1.2 SADC Principal Export Markets

For SADC exports (table 2), the European Union is by far the largest market for the region, taking 42% of its exports, followed by the U.S.A. at 17%. Other SADC countries absorb about 10% of SADC exports, while Japan (6%) and China (4%) are other significant export markets. Of the remaining 21%, developed or transition economies such as Australia, Canada, Switzerland, the Gulf countries, East and Central Europe, and Israel account for about half the total, while exports to other developing countries amount to 10% to 12% of total SADC exports.

As a fairly representative example from the SADC Region, over 57% of Tanzania's exports go to the EU, while just 11% go to other African countries, principally Kenya, South Africa, Burundi, Zambia, the DRC and Uganda (all but South Africa are contiguous). Tanzania's exports to India account for 11% of total exports, making it a more important export market than Japan (9%), or the United States (2%)[2] Interestingly, Tanzania is not a COMESA member, which might lead one to expect it to trade more with SADC Member States than with COMESA Member States (Kenya, Burundi, DRC and Uganda) other than Zambia, which is a member of both SADC and COMESA. In the event, Kenya, which purchases 5% of its exports, is Tanzania's biggest export market in Africa. No other African country, whether or not it is a SADC member, takes even as much as 2% of Tanzanian exports.

Table 2: SADC Principal Export Markets

	Percentage of Total Exports	**Percentage of Total Exports**	**Percentage of Total Exports**	**Percentage of Total Exports**	**Percentage of Total Exports**	**Percentage of Total Exports**
Angola	USA	EU	China			Other
	54%	15%	12%			19%
Botswana	EU	South Africa	Zimbabwe			Other
	86.7%	6.4%	3.2%			3.7%
DRC	EU	USA				Other
	56%	38%				6%
Lesotho	South Africa	USA	EU			Other
	53.0%	33.4%	8%			5.6%
Malawi	EU	USA	South Africa	Japan	Turkey	Other
	42%	20%	15%	4.4%	2.3%	16.3%
Mauritius *	EU	USA	Madagascar	Japan	South Africa	Other
	64.2%	19.6%	3.9%	1.5%	1.1%	9.7%
Mozambique	EU	South Africa	China§	Japan	USA	Other
	74.1%	15.0%	4.1%	3.1%	1.0%	2.7%
Namibia	EU	South Africa	Angola	USA		Other
	54.6%	30.9%	5.8%	3.0%		5.7%
Seychelles	USA	EU	Yemen	Singapore	Japan	Other
	37.3%	27.7%	21.1%	9.2%	1.4%	3.3%
South Africa	EU	USA	Japan	China	South Korea	Other
	37.3%	14.9%	9.3%	2.8%	2.3%	33.4%
Swaziland	South Africa	Mozambique	USA	Angola	Tanzania	Other
	78.0%	4.6%	4.0%	1.5%	1.4%	10.6%
Tanzania	EU	India	Japan	Kenya	USA	Other
	57.0%	10.7%	8.9%	5.0%	2.0%	16.4%
Zambia	EU	S. Africa	Tanzania	Switzerland	D.R.C.	Other
	48.0%	23.0%	7.6%	6.1%	4.3%	11.4%
Zimbabwe	EU	South Africa	UAE	Japan	China	Other
	25.0%	17.1%	17.0%	8.3%	5.9%	26.7%
SADC TOTAL	EU	USA	Other SADC	Japan	China	Other
	42%	17%	10%	6%	4%	21%

* 2000; § including Hong Kong

Sources: COMTRADE, European Union, U.S. Commerce Department

[2] *Comtrade*, United Nations

1.3 The Evolving Trade Environment for SADC Countries in EU and US Markets

European markets, on which African exporters have traditionally depended, may no longer be capable of providing sufficient growth in demand for African exports, while exports from other developing countries have become much more competitive relative to African products and now also benefit from comparable market access.

When the ACP-EU Lomé Convention came into effect in 1976, it was virtually the only preferential market access agreement for developing countries apart from the Generalised System of Preferences (GSP). The GSP was also implemented in 1976, providing preferential duty-free access into the U.S. market (and, subsequently, to most developed-country markets) for many products from many developing countries, but it excluded many of the products of greatest economic importance to sub-Saharan Africa.

With successive Lomé Conventions, the Cotonou Agreement, the adoption of the Everything But Arms Initiative, exports from the region (apart from South Africa) enter the EU duty and quota free with limited, though significant, exceptions. The Africa Growth and Opportunity Act (AGOA), which came into effect in 1999, has substantially increased sub-Saharan Africa's exports to the U.S. and promises to yield future increases. Among the areas specifically covered by AGOA are textiles, handicrafts, and fruit and vegetables, all products of substantial importance to SADC countries.

Preferential access has not, however, prevented the decline of Africa's share of world trade. African countries must now compete in US and European markets with many countries that now enjoy preferential access to these same markets that is equivalent – and in some cases, superior – to the preferences that benefit African exporters.

For both economic and strategic reasons, the US and the EU, especially over the past 10 years, have concluded preferential market access agreements with many more countries. For the E.U., these have included a series of partnerships with Mediterranean countries, including Tunisia, Morocco, Egypt, Algeria, Israel and Jordan, as well as the incorporation of Turkey into the E.U. Common Customs Area. Exports from former Soviet bloc countries into the E.U. increased substantially from 1990 onwards, and now most of these same countries will become part of the E.U. in less than a year. U.S. trade agreements, beginning in the 1980s with the Caribbean Basin Initiative, grew to encompass Free Trade Agreements with Mexico and Canada (NAFTA) Israel, Jordan and Singapore. Future U.S. free trade agreements are under negotiation with SACU, as well as with Morocco, Egypt, and Bahrain.

As a consequence, SADC is facing increased competition in the US and EU markets from middle income countries, many of which have infrastructure and geographic advantages relative to SADC countries.

Further liberalization and reform of EU and US markets may also lead to falling sales and prices for products that are highly protected, and therefore highly priced, to which some countries in the region have preferential access. For example, exporters to the

EU under the Sugar Protocol currently receive a price several times that paid on world markets. In the case of SADC exports to the US, changes in the structure of world textile and clothing trade – textiles and clothing are one of the main sectors in which African countries have already achieved measurable export growth under AGOA – may present significant challenges to African countries' ability to continue their U.S. export growth trajectory.

Food and safety standards are also an increasing concern for SADC exporters to the EU market in particular. The dependence on predominantly agricultural and food exports to the EU and the demand from EU consumers' for ever higher standards makes exports very vulnerable. Recent examples run from foot and mouth disease to imposed limitations on aflotoxins in food stuffs.

1.4 The Evolution of Intra-SADC Trade

Intra-SADC trade appears to have reached a stable, or even slightly declining, level, after increasing tenfold from its level of more than 20 years ago. Some portion of this sharp increase may be attributed to tariff liberalization, but it is likely that the big increases are due to (a) the liberation of Zimbabwe in 1981 and the abandonment of the anti-Rhodesia trade sanctions: The relative portion of Zimbabwe's exports to other SADC countries increased nearly twenty times from 1980 to 1985, almost certainly a result of the removal of anti-Rhodesia sanctions. (b) The advent of majority rule in South Africa in 1994 and the abandonment of ant-apartheid trade sanctions. The big increase in the SADC share of most member states' imports from 1990 to 1995 coincides with the abandonment of trade sanctions against South Africa.. Mozambique's exports to other SADC countries increased by a factor of 60 and Zambia's exports to other SADC states increased four times. Exports from SACU countries to the rest of SADC also grew four-fold from 1990 to 1995. Subsequently, intra-SADC trade has remained fairly constant as a percentage of the total.

Table 3: Trends in Intra-SADC Trade

SADC Percentage Share in SADC Countries' Total Exports	1980	1985	1990	1995	1999	2000	2001
Angola	0.03	0.00	0.01	0.03	0.7	0.7	
DRC	0.05	0.03	0.1	6.0	0.3	0.3	
Malawi	12.4	15.4	1.6	17.2	16.9	17.0	
Mauritius	1.4	0.1	1.2	1.4	1.4	1.2	
Mozambique	1.1	0.3	0.2	32.1	17.4	17.5	
Seychelles	10.5	0.8	0.4	1.4	1.2	1.2	
South Africa (SACU)	0.7	2.8	2.5	10.7	11.5	11.5	
Tanzania	5.2	0.1	5.1	1.4	7.4	2.0	
Zambia	0.9	3.1	0.8	3.8	7.8	23.0	
Zimbabwe	1.3	25.0	30.7	31.7	28.0	17.1	
Intra-SADC Trade	**0.9**	**3.4**	**3.1**	**9.9**	**11.9**	**11.9**	**10.9**

Source: Sophie Chauvin, Guillaume Gaulier, "Regional Trade Integration in Southern Africa," Centre d'Etudes Prospectives et d'Informations Internationales, October 2002, p. 45, and Author's own calculations from COMTRADE

As many a mutual fund prospectus has advised, past performance is no guarantee of future results. Trends do not last forever. Resolution of some of the issues that emerged at Cancun would certainly have the potential to increase SADC exports to the developed countries. Proposed extensions of and modifications to AGOA will certainly have some positive effect on SADC trade with the U.S., as would successful conclusion of a SACU-U.S. Free Trade Agreement. Increased liberalisation of trade within and between the SADC and COMESA RTAs (several countries, including Zambia, Zimbabwe, Mauritius, Malawi, Namibia, DRC, Swaziland, and Seychelles, are members of both groups) may contribute to increased trade among SADC Member States and with other African countries.

While deepening trade integration and progressive elimination of trade barriers among SADC countries may give rise to some growth in trade within the region, it is unlikely that intra-SADC trade will be the main engine of export growth for the region. Among other reasons, Chauvin and Gaulier, cited above, note a low degree of complementarity among SADC economies. Apart from South Africa and Zimbabwe, which have substantial industries producing capital and consumer goods that other SADC countries consume, most SADC Member States have similar export profiles, based mainly on primary commodities. This will limit the potential growth of trade within the region and also with other countries in the COMESA and ECOWAS regions that have similar export profiles. South Africa is one of the very few countries in sub-Saharan Africa that has the potential to increase its exports to the rest of Africa, particularly as trade liberalisation increases.

1.5 South-South Trade

From 1990 to 2001, South-South trade grew at 10%, twice the rate of world trade. The value of South-South trade increased from $219 billion to $640 billion during the same period and the share of total world trade represented by trade among developing countries rose from 6.5% in 1990 to 11% in 2001. The share of developing country imports originating from the South grew to over 40% in 2001, from 30% in 1990.

Significantly, from the point of view of the SADC region, developing countries' agricultural exports to other developing countries increased during the 1990's at a rate of 7.8% per year, while agricultural exports to industrialized countries grew at only 3.3%. Over 30% of developing countries' agricultural exports are now sold to other developing countries. Until now, however, most of this growth has come from middle-income developing countries while low income, mainly African, countries have lost market share. Furthermore, Africa has the smallest share of intra-developing country trade. In 2001, African exports to developing countries, at around $36 billion, where slightly less than 6% of total trade among developing countries.

Increasing trade among developing countries is largely a function of tariff reduction. Tariff reductions by developing countries have, naturally, increased those countries'

demand for imports from all sources. And, since the percentage drop in developing country tariffs, from a much higher initial rate, has been much greater than corresponding reductions by industrialized countries, it is not surprising to find that the relative growth in import demand by developing countries has been higher.

According to the World Bank, the average import tariff imposed by developing countries fell from over 30% in 1980 to 12.7% in 2001.[3] These reductions were accompanied by equally substantial reductions in non-tariff protection.

This liberalization on the part of developing countries far outstripped that of developed countries, at least partly because the richer countries already had lower tariffs to begin with. Over the same period, industrialized country import tariffs fell from 9.8% to 3.7%. The result of such liberalization by developing countries was an increase in exports far in excess of GDP growth.

As the World Bank observes, "The increase in the demand for exports from developing countries is determined by the reductions in import prices in their markets —both in industrial countries and in other developing countries." Given the substantially greater tariff reductions on the part of developing countries as compared to industrialised countries, the lion's share of this increase is attributed to liberalization by developing countries:

"[I]n aggregate, *developing countries' own liberalization* has been the primary channel through which trade reform has expanded developing countries' export growth. Because reform in any one developing country benefits other developing countries as well, the total contribution of developing country reform can be captured by combining the "own-liberalization" effect with the market-access benefits provided by other developing countries. When we do this, we find that 88 percent of the stimulus to developing country exports following tariff liberalization derives from developing-country liberalization."[4]

[3] *Global Economic Prospects 2004*, The World Bank, p. 76
[4] *ibid.*, p. 77

2.0 KEY EXPORTS OF THE SADC REGION

This section provides comparative data on the industries and sectors, and export markets, which figure most prominently in exports of SADC Member States, and in which SADC countries have a comparative and, potentially, a competitive, advantage in export markets. The analysis cannot cover all products or industries, but identifies the five most prominent export sectors for each economy in the SADC region.

This section also seeks to identify the industries or sectors in which SADC countries specialise the most, using the concept of revealed comparative advantage (RCA). RCA, is a measure of a country's export specialisation, which is calculated by dividing the percentage of a country's total exports represented by a single product category by the percentage of total world exports represented by that commodity.

As an example, petroleum and diamonds represent 98.9% of Angola's exports, even as minerals, taken in aggregate, account for just under 12% of total world merchandise trade. This gives Angola an RCA in minerals of 8.34. An RCA value in excess of 1 indicates a relative specialisation by a given country in a given commodity, while a value less than 1 indicates that the country exports relatively less of that commodity. Aluminium, a basic manufacture, represents nearly 55% of Mozambique's exports, giving it an RCA of 8.76, the second highest rate of specialisation in that sector in the world.

RCA for any country can change over time. Indeed, the process of industrialisation or post-industrial transformation is largely about a country's shift in sectoral specialisation, which will normally be reflected in the composition of its exports. But RCA does not change overnight, and the process of change is typically one that involves profound macroeconomic changes. Therefore, any examination of the export potential of the SADC region will focus mainly on those products and industries in which SADC countries have a positive RCA. RCA is not, however, the same as competitive advantage, and a high degree of export specialisation by a given country in a given set of products does not necessarily translate into an ability to penetrate new markets for those products. In some instances *a high RCA may reflect preferential trade access to protected markets rather than international competitiveness*.

The rapid expansion of developing country trade, discussed above, has largely bypassed sub-Saharan Africa. From 1980 to 1996, according to the WTO, sub-Saharan Africa's share of global trade fell by more than 50%, from 5.9% of world exports in 1980 to 2.3% in 1996.[5] Exports of sub-Saharan countries are principally concentrated in agricultural and primary resource sectors, which are themselves declining as a percentage of world trade. While the newly industrializing economies of East Asian diversified their exports away from primary commodities towards manufactures, African economies remained concentrated on primary commodities. International demand for primary commodities has fallen – in agriculture from 20% of total world trade to 11%, while prices for many such commodities also fell. This

[5] Trade Development Centre, http://www.itd.org/issues/africa0.htm

accounts for much of Africa's falling share of world trade. Also, the persistence of tariff and non-tariff barriers imposed by developed countries against agricultural products and many labour-intensive manufactures such as textiles, in which developing countries tend to specialise, has certainly contributed to the stagnation of Africa's exports.

As Table 4 shows, most SADC member countries' exports are concentrated largely in primary commodities – crude oil, mineral ores and concentrates, coal, gemstones, sugar, cotton and unprocessed foods – and basic manufactures, which include copper mat, aluminium ingots, iron and steel, and wood and paper products. There are a few exceptions to this. The textile and apparel industry is a significant source of export revenues for many countries in the region, as is the food processing industry. Many countries also export significant values of processed foods, while both South Africa and Botswana have domestic auto industries which, in addition to supplying domestic demand, have also become part of the global supply chains for finished vehicles and components for many multinational car makers.

Table 5 shows the revealed comparative advantage of SADC countries in different broad product categories.

Increasing SADC trade with other developing countries will result in a substantially different trading pattern than currently prevails for most Member States.

Table 4: Composition of SADC Exports – Top Export Commodities by Country

	Commodity Value $m/ percent	Commodity Value $m/ percent	Commodity Value $m/ percent	Commodity Value $m/ Percent	Commodity Value $m/ percent	Commodity Value $m/ percent	Commodity Value $m/ percent
Angola	Petroleum	Diamonds					Other
	5549/89.9%	557/9.0%					130/1.1%
Botswana	Diamonds	Copper	Meat	Cars and components			Other
	4602/85.1%	221/4.1%	135/2.5%	109/2.0%			341/6.3%
DRC	Petroleum	Cobalt	Diamonds	Copper	Coffee	Veg. extracts	Other
	127/29.5%	121/27.9%	100/23.1%	18/4.3%	12/2.8	10/2.2%	44/10.2%
Lesotho	Apparel	Footwear	Electrical, electronic eqpt.	Beverages			Other
	149/53.2%	36/12.9%	30/10.6%	25/8.9%			40/14.4%
Malawi	Tobacco	Tea, coffee	Textiles and apparel	Sugar	Fresh, dried fruit & veg.		Other
	293/69%	45/10.6%	32/7.6%	24/5.7%	11/2.6%		4.5%
Mauritius*	Textiles and apparel	Sugar & confectionery	Other manufacturing	Fish, seafood			Other
	959/63.1%	284/18.7%	106/7.0%	68/4.1%			7.1%
Mozambique	Aluminium	Fish, seafood	Fresh fruit, veg., meat	Electric current	Wood products	Textiles & apparel	Other
	383/54.6%	100/14.3%	75/10.7%	57/8.2%	24/3.4%	16/2.2%	6.6%
Namibia	Gemstones/ Precious metals	Fish, seafood	Printed matter	Ores, slag, ash	Beverages	Electric & non-Electric machinery	Other
	473/33.7%	306/21.8%	155/11.0%	102/7.3%	66/4.7%	28.9/2.1%	272/19.4%
Seychelles	Aircraft components	Fish, seafood	Petroleum distillates	Electric, Electronic eqpt.			Other
	51/36.6%	40/28.5%	30/21.5%	11/8.2%			7/5.2%
South Africa	Gemstones/ Precious metals	Fresh and processed food	Electr. & non-electr. machinery	Iron and steel	Coal	Vehicles and components	Other
	8574/28.7%	3227/10.8%	2212/7.4%	2177/7.3%	2083/7.0%	1680/5.6%	11,322/37.9%
Swaziland	Essential oils, perfumes	Processed foods	Sugar & Confectionery	Textile & Apparel	Wood & paper	Electr. & non-electr. machinery	Other
	133/19.6%	125/18.4%	97/14.2%	74/10.9%	61/9.0%	24/3.5%	188/27.7%
Tanzania	Gemstones/ Precious metals	Vegetables, fruit, nuts	Coffee, tea	Fish, seafood	Ores, slag		Other
	253/33.2%	140/18.4%	96/12.6%	95/12.5%	45/5.9%		133/17.4%
Zambia	Copper	Other base metals	Fresh Food	Gemstones/ Precious metals	Cotton	Sugar & Confectionery	Other
	493/53.1%	136/14.6%	70/7.5%	49/5.2%	40/4.3%	35/3.8%	107/11.5%
Zimbabwe	Fresh Food	Tobacco	Cotton	Iron and Steel	Nickel	Sugar & Confectionery	Other
	919/47.6%	609/31.6%	201/10.5%	175/9.1%	108/5.6%	95/5.0%	736/38.3%

* 2002

Table 5: SADC Member States Revealed Comparative Advantage

	Product/ RCA	**Product/ RCA**	**Product/ RCA**	**Product/ RCA**	**Product/ RCA**	**Product/ RCA**
Angola	Minerals					
	8.34					
Botswana	Minerals					
	7.53					
DRC	Minerals	Wood Products	Basic manufactures	Fresh Food		
	6.35	1.81	1.60	1.29		
Lesotho	Clothing					
Malawi	Tobacco	Fresh Food	Clothing	Processed Food		
	180.66	18.73	2.31	1.89		
Mauritius	Sugar & confectionery	Clothing	Processed Food	Textiles		
	90.4	17.01	5.88	2.42		
Mozambique	Aluminium	Fresh Food	Wood Products			
	8.76	5.23	1.00			
Namibia	Fish & seafood	Minerals				
	5.21	2.84				
Seychelles	Processed Food	Fish & seafood				
	14.87	6.81				
South Africa	Non-ferrous metals	Iron & Steel	Coal	Non-metallic mineral manufactures	Vegetables & fruits	Inorganic chemicals
	23.5	15.2	9.8	8.9	6.7	3.2
Swaziland						
Tanzania	Fruit & vegetables	Fish & seafood	Tobacco	Textile fibres	Non-metallic mineral manufactures	
	21.61	12.68	9.3	7.38	2.86	
Zambia	Non-ferrous metals	Fresh Food	Textiles			
	9.25	3.10	2.47			
Zimbabwe	Tobacco	Textile fibres	Sugar & confectionery	Fresh food	Crude fertilizers	Iron & Steel
	117.1	20.2	18.5	13.30	13.4	13.3

3.0 POTENTIAL NEW MARKETS FOR SADC

As outlined in Section 2, overall imports by developing countries have increased at a much faster rate than imports by industrialised countries. The trends discussed in Section 2 show African exports to the EU falling as a percentage of total exports, while exports to the U.S. have increased at a much more modest rate than exports by other developing countries. Nevertheless, SADC exports remain highly dependent on these two major markets.

This section will show that, for many of the main SADC export industries, developing country markets, especially in Asia, the Middle East and Latin America, show substantial promise for SADC exports. SADC exports to some of these markets, especially China and India, but also South Korea, Saudi Arabia, Malaysia and Indonesia, have shown some meaningful increases, though in few cases do SADC exports to these markets in aggregate amount to even 10 per cent of total SADC exports of these same products. The potential, though there, remains largely untapped.

The analysis in this section covers SADC exports of selected products in aggregate, which inevitably means that South Africa is heavily weighted in the aggregate numbers - South Africa's tenth-largest export sector is larger than the largest export sector of most other Member States. In order to avoid an excessive focus on South Africa, the analysis includes sectors and industries that are of substantial importance to all or most Member States.

The main products covered are:

- **Fish and Seafood** (especially important to Namibia, Tanzania, Mauritius, Seychelles and South Africa)
- **Apparel** (important to most countries in the region, esp. Mauritius, Lesotho, Swaziland, South Africa, Zimbabwe, Botswana)
- **Fresh and Dried Fruit and Nuts** (significant for Tanzania, Zambia, Mozambique, Malawi, Zimbabwe, South Africa)
- **Sugar** (significant to Mauritius, Swaziland, South Africa, Mozambique, Zambia, Zimbabwe)
- **Fresh, Chilled and Frozen Vegetables** (Zambia, Tanzania, Zimbabwe, South Africa, Mozambique, Malawi)
- **Iron and Steel Products** (South Africa, Namibia, Zimbabwe, Botswana, Swaziland)
- **Wood and Paper Products** (South Africa, Swaziland, Mozambique, DRC,

Unsurprisingly, China tops the list of potential export markets for these products from SADC. Though its reputation is that of an export-driven juggernaut, China is also one of the largest importers in the world. For all its export prowess, China's trade balance is fairly neutral. India, with an economy nearly as large as China's, imports far less of most products that SADC countries export, while its imports of most such products are declining. Other large, growing, and potentially significant export markets for SADC Member States include Iran, Mexico, Brazil, Thailand and Venezuela. Other markets with some potential include Egypt and Nigeria, though for some products

Turkey, Argentina, Algeria and other countries also could prove to be attractive export markets. These are markets almost entirely untapped by SADC exporters, but which could become important purchasers of SADC products in the future.

Of course, SADC and its member states must continue to seek improved access to attractive markets in Europe, North America and the rest of the OECD. However, the challenges that the region is likely to increasingly face on these markets, and the untapped potential of markets in the South suggests that SADC should look to other developing countries as an equal, if not greater, source of future export growth.

In the analysis certain products are, notably, excluded. These are products for which there is effectively a single world market, where the ability of the region to expand exports is not dependent on liberalisation of individual consumer markets. These include petroleum, coffee, tea, aluminium, copper, precious metals and gemstones. As basic commodities, these products are essentially undifferentiated, and their prices are set either on international exchanges or as a function of cartelised production, marketing and distribution arrangements. Crude oil prices, for example, vary according to OPEC production agreements, long-term production-sharing contracts with international oil companies, and exchange-based spot markets in London, Chicago and New York. International prices for copper, gold, platinum and aluminium are set in similar ways, through international exchanges, while even long-term supply contracts tend to refer to, or can be hedged against, international benchmark spot and forward prices. For gemstones, especially diamonds, production, marketing and distribution are highly concentrated, and to a large degree insulated from market forces.

3.1 Estimating Export Growth Potential

This section will identify six major product groups in which SADC has the potential to increase its exports, especially to developing countries. Fresh, frozen and chilled vegetables are included as one of the six product categories, even though the current total SADC export volume of $80 million represents a very small fraction of total SADC exports. But vegetable exports are of great importance to some of the LDCs in the region, including Tanzania, Malawi and Zambia, which together account for about two-thirds of total SADC exports of vegetables.

This section also identifies some of the major developing markets.

The “gravity method” is the most common tool for gauging trade potential between countries or regions. Though it has been proven empirically to have predictive value, the gravity model does not work terribly well in analysing potential trade between two countries that do not have an existing trade relationship of any significance. More importantly it is not an approach that, given limited resources, can be replicated by Trade Departments and Ministries in the Region.

An alternative method, that can be readily used in Ministries and Departments of Trade in the region and which was developed and used by UNCTAD and the International Trade Centre in Geneva, is the Trade Flow Analysis (TFA). The

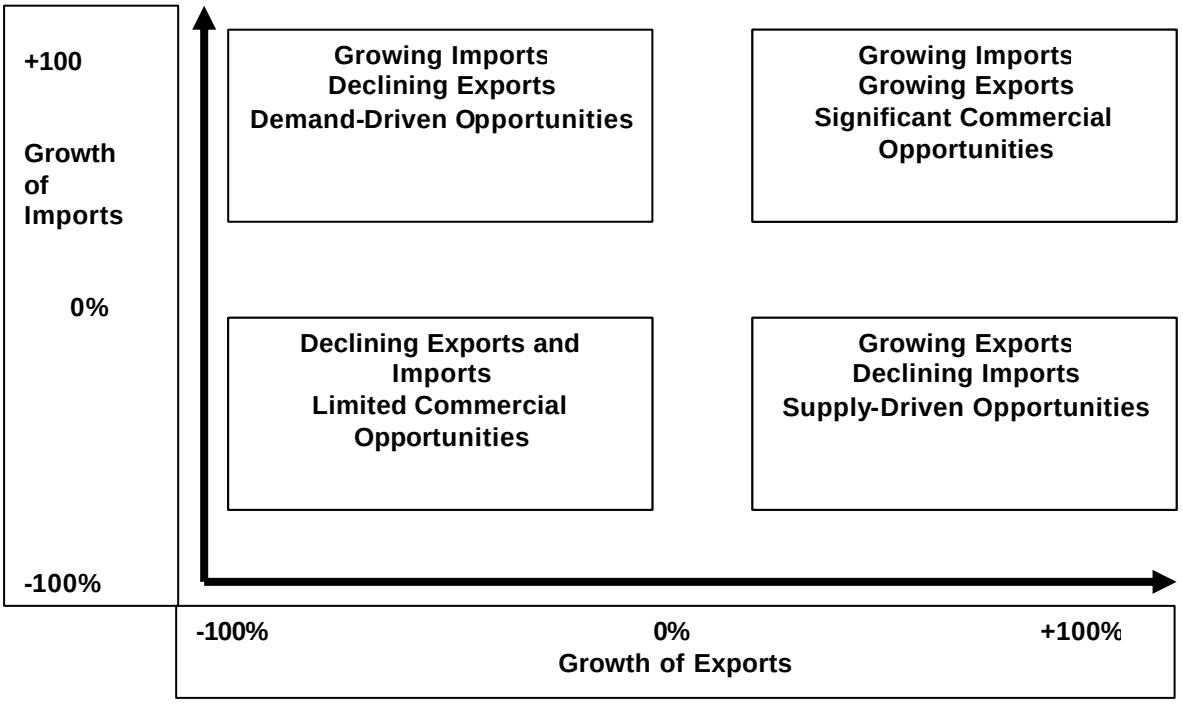
approach is very simple, comparing a country or region's exports of a given commodity with a target country's imports of that commodity from all sources, yielding what is referred to as an "indicative export potential."

Indicative trade potential is the lesser of a country's or region's exports of a given commodity to the entire world, and a target country's imports of the same product from the entire world. For example, the SADC region in 2001 exported about $1 billion of fresh, frozen and chilled fish and seafood. In 2001 China imported $1.3 billion of the same products (HS categories 034 and 036). The indicative export potential of fish and seafood from SADC to China is therefore $1 billion. SADC exports of fish and seafood to China in 2001 amounted to less than $5 million, or 0.5%.

We augment this by looking at the trends in SADC exports and Chinese imports, from which we can get a much clearer sense of the true potential for increased SADC exports of fish and seafood to China. From 1997 to 2001 Chinese imports of fish and seafood grew at an average annual rate of 26%. Over the same period, SADC exports of fish and seafood grew at an average annual rate of 27%. This indicates that there exists a significant potential for SADC countries, with a growing export production of fish and seafood, to expand exports to China, a market whose demand is growing as fast as SADC countries' supply.

The trade flow analysis approach identifies four categories of export opportunities, as illustrated in Figure 1.

Figure 1: Dynamic Import-Export Matrix



Under this taxonomy, SADC has a strong potential to increase its exports of fish to China. This is, however, far from a guarantee that SADC countries can actually penetrate the Chinese market for fish and seafood.

Section 5 of this report will look at the possible effects of trade liberalisation in target markets on key SADC exports, but trade barriers tell only part of the story.

Finally, this approach, assessing supply and demand at the 2-digit HS Code level or the SITC 3-digit code level, cannot capture the complex dynamics of the market. For example, China, in addition to being the sixth-largest importer of fish and seafood in the world, is also the third largest exporter of fish and the fifth-largest exporter of shellfish. Without knowing the exact species of fish that China imports and exports and that SADC exports, more precise measures of export potential cannot be obtained. Transport and distribution channels must also be evaluated in detail. This report is however, intended to broadly inform and guide policy debate. It is not intended to conclude deals for private sector companies.

This analysis concentrates on those products that have substantial export growth potential and on markets that represent large and growing sources of potential demand. It provides an "indicative trade potential." Together with the next section, which considers trade barriers imposed by these target markets, this analysis should be useful to trade policy makers and negotiators in identifying product groups and target markets, which can form the basis for future trade negotiations.

The Table 7 quantifies the indicative trade potential for several major products and target markets.

Table 6: SADC Indicative Export Potential, Selected Products and Developing Country Markets

Product	SADC Exports to the World ($million) 2001	Growth of SADC Exports 1997-2001	Imports from the world by country ($million)	Indicative Trade potential	Growth of Imports 1997-2001	SADC exports to Target Market ($million)	Undeveloped Trade Potential ($ million)
Fish, Seafood HS 03	1,000	27%					
			S. Korea: 1,448	1,000	14.2%	0	1,000
			China: 1,300	1,000	26%	50	950
			Thailand 692	692	3.8%	0	692
			India:: 6	6	-15%	0	6
			Egypt: 93	93	5.5%	0	93
			Nigeria: 227	227	1.9%	0	227
			Malaysia 204	204	-2.1%	0	
			Mexico: 87	87	22.6%	0	87
Fruit and Nuts, Fresh, Dried HS 08	641	-1.7%					
			Mexico: 573	573	26.5%	0	573
			India: 404	404	2.9%	0	404
			S. Arabia: 310	310	-1.5%	50	591
			Argentina: 156	156	1.1%	2	639
			Indonesia: 142	142	7.6%	2	140
			Kuwait: 128	128	2.6%	2	126

Table 6, continued

Product	SADC Exports to the World ($million) 2001	Growth of SADC Exports 1997-2001	Imports from the world by country ($million)	Indicative Trade potential	Growth of Imports 1997-2001	SADC exports to Target Market ($million)	Undeveloped Trade Potential ($ million)
Vegetables, Fresh, Chilled, Frozen HS 07	80	3.8%					
			Malaysia: 255	80	-0.6%	0	80
			China: 221	80	30.1%	0	80
			Mexico: 214	80	9.8%	0	80
			Brazil: 203	80	-15.2%	0	80
			Egypt: 161	80	7.6%	0	80
			Pakistan: 135	80	24.6%	0	80
			India: 100	80	-26.7%	0	80
Basic Iron & Steel Products HS 72	2,364	8.4%					
			China: 10,121	2,364	11.0%	27	2337
			S. Korea: 5,924	2,364	-0.5%	185	2179
			Mexico: 3,150	2,364	8.1%	76	2288
			Iran: 1,886	1,886	10.0%	18	1868
			Malaysia: 2,191	2,191	-10.5%	16	2175
			Turkey: 1,757	1,757	-10.0%	30	1727
			Thailand: 2,559	1,459	-8.1%	60	1399
			Brazil: 681	681	-3.8%	10	671
			India: 724	724	-15.3%	40	884

Table 6, continued

Pulp and Paper Products HS 47,48,49	SADC Exports to the World ($million) 2001	Growth of SADC Exports 1997-2001	Imports from the world by country ($ million)	Indicative Trade potential	Growth of Imports 1997-2001	SADC exports to Target Market ($ million)	Undeveloped Trade Potential ($ million)
	910	4.7%					
			China 6864	910	10.7%	24	886
			Mexico 5715	910	7.6%	0	910
			S. Korea 2158	910	1.0%	0	910
			Indonesia 1031	910	1.2%	48	862
			Malaysia 1307	910	-1.5%	0	910
			Thailand 1017	910	0%	28	882
			India 977	748	-0.5%	27	721
			S. Arabia 649	649	-1.5%	6	643
			Venezuela 661	500	14.0%	2	498
Sugar and Confectionery HS 17	1,002	6.8%					
			S. Korea 477	477	-3.5%	57	420
			China 377	377	10.7%	0	377
			Malaysia 324	324	-1.9%	0	324
			S. Arabia 231	231	1.3%	21	210
			Algeria 222	222	0.7%	0	222
			Mexico 212	212	8.5%	0	212
			Venezuela 157	157	13.1%	0	157

Sources: UN COMTRADE, TRAINS databases

Table 6, continued

Apparel HS 61,62	**SADC Exports to the World ($million) 2001** 1,167	**Growth of SADC Exports 1997-2001** 9.7%	**Imports from the world by country ($ million)**		**Indicative Trade potential**	**Growth of Imports 1997-2001**	**SADC exports to Target Market ($ million)**	**Undeveloped Trade Potential ($ million)**
			Mexico	3,058	1,167	3.8%	0	1,167
			S. Korea	1,457	1,167	6.0%	0	1,167
			Venezuela	392	392	21.0%	0	392
			S. Arabia	747	747	-2.1%	0	747
			Chile	436	436	4.7%	0	436
			Argentina	241	241	6.3%	0	241
			China	822	822	18.1%	0	822
			Costa Rica	245	245	4.7%	0	245

Table 6 shows six major product groups in which the SADC region has some revealed comparative advantage and in which its exports are growing. Though South Africa, which accounts for 60% of SADC exports, dominates exports in each of these product groups, other SADC Member States export significant amounts of most of these products relative to the size of their economies. The major exception is in iron and steel products, of which South Africa is virtually the sole exporter in the SADC region. Zimbabwe, which has historically had a significant industrial base, has seen much of its industrial production and exports collapse over the past several years.

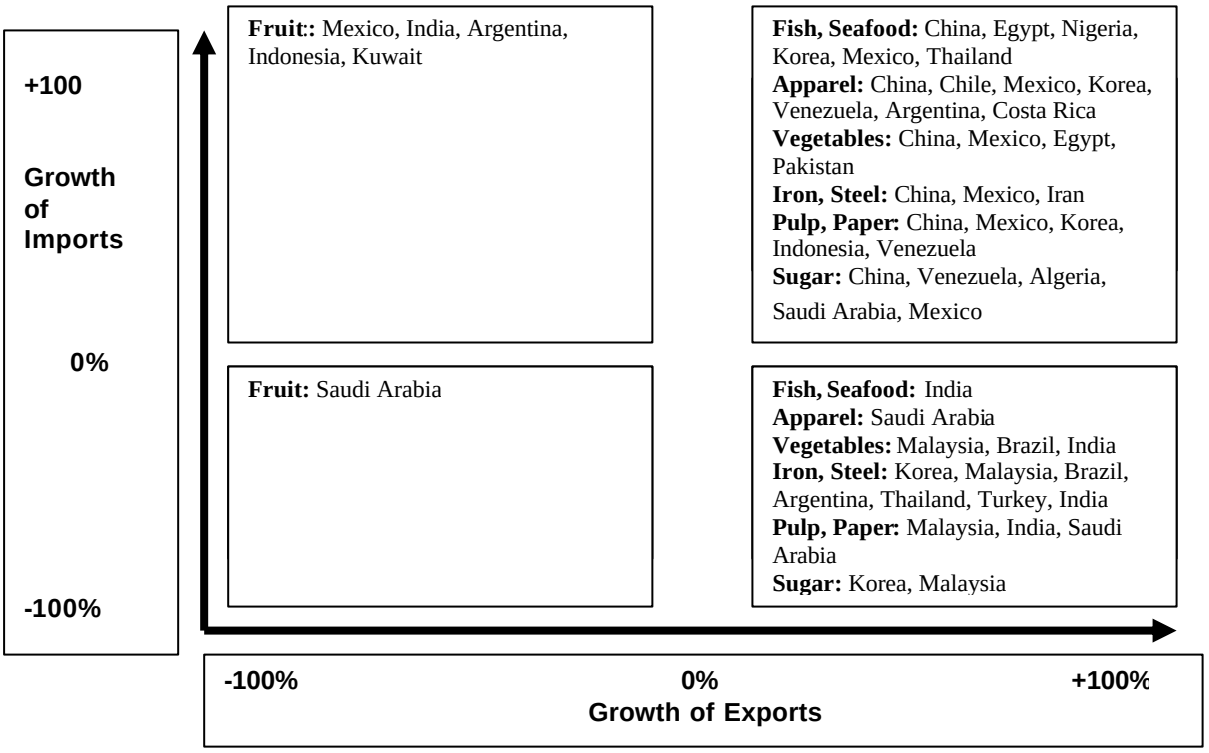
What, then, do the data in Table 6 reveal?

They show that there are several product categories in which SADC Member States are potentially competitive, and that many large developing country markets import significant quantities of those same products. This indicates the markets where SADC Member States which, for the most part, export very little to most of these markets, could expand their exports.

Most of the products selected for this analysis are, moreover, experiencing fairly rapid growth. The main exception is fruits and nuts, which have experienced a 1.7% annual decline in exports since 1997. This indicates that, for most products, expansion into these promising developing country markets would not simply divert exports from existing markets, but have real potential to expand total exports from the region.

As Figure 2, below, illustrates, there are significant opportunities for most of the main SADC products analysed, in most of the main developing country markets. Some target markets, currently experiencing declining demand, may be more difficult for SADC products to penetrate, others, where both SADC production and target market demand are growing, present real opportunities for export growth.

Figure 2: Products and Markets of Opportunity for SADC Export Growth



Successful trade negotiations should aim to deliver an outcome that benefits all parties. An analysis conducted by the Trade and Industrial Policy Studies (TIPS) group of the potential for trade between SADC and India draws a distinction between export expansion that results from SADC goods becoming cheaper relative to imports from other countries and expansion that results from SADC goods becoming cheaper relative to domestic Indian production. The first is simply trade-diverting; it replaces imports from another country or region with imports from SADC. It does not add to the welfare of Indian consumers, since the total amount of imports will not change, and fiscal revenue may fall.[6]

If, however, SADC exports become cheaper relative to goods produced domestically in India as a result of trade liberalization, this is considered trade-creating, contributing to growth in overall import demand by Indian consumers and, if this increase in demand is for a SADC product experiencing significant export growth, total SADC exports are likely to expand. It also contributes to the welfare of Indian consumers by allowing them access to more competitively priced products.

The opportunities for trade creation tend to be much greater for those products for which SADC exports to the world are increasing, targeting markets in which demand is also growing. These are the products and markets represented in the upper right-

[6] Dirk Ernst van Seventer, Thembi Mlangeni, "A Free Trade Area Between South Africa And India: Which Commodities Matter?" Trade and Industrial Policy Studies, South Africa, August 2001

hand quadrant of Figure 2 where there is greatest potential for increased exports from SADC to deliver benefits to consumers in export markets.

3.2 Identifying Markets with "Hidden" Export Potential

Trade flow analysis is based on existing export flows. It is therefore of little use in instances where high trade barriers are blocking exports. Indeed, it is these highly protected markets which, if they are big consumers, may offer the greatest potential rewards for trade negotiations (see Box 1).

To address this shortcoming, we have identified the developing countries which have the highest domestic consumption of the key agricultural products that the SADC region exports as well as the import penetration of these markets. In countries where overall import penetration is low (and, therefore, where the weaknesses of the TFA approach are most pronounced) the low penetration of imports can be the result of efficient domestic production or high levels of protection. We therefore use the MFN tariff to indicate which of these explanations is most applicable.

The results are set out in table 7. For most products this analysis has uncovered potential markets in addition to those already identified. Most notably, Egypt and Nigeria become more significant target markets, while for sugar, India, the largest sugar-consuming country in the world, becomes relevant as a potential market.

Table 7: Developing Markets with "Hidden" Potential

Product	Country	Consumption (1000 tons)	Import Penetration	MFN Tariff*
Fish & Seafood	World	120015		
	Indonesia	4128	10%	5%
	Russia	2675	52%	10%
Fruit & Nuts	World	471386		
	China	68980	4%	28%
	Brazil	26114	1%	11%
	Nigeria	9055	1%	100%
	Egypt	7144	2%	31%
Vegetables	World	774332		
	India	78512	0%	35%
	Korea rep	12517	3%	42%
	Iran	11018	0%	10%
	Nigeria	8042	2%	100%
Sugar	World	133401		
	India	18101	0%	60%
	Pakistan	3576	23%	25%

Source: FAO, UNCTAD

*estimated averages

Box 1 - Indian Sugar: Does No Imports Equal No Market?

The market for Indian sugar reveals what may be the most serious shortcomings of the Trade Flow Analysis Approach. India is the second-largest producer and the largest consumer of sugar in the world, with 2002-2003 production estimated at 19.5 million MT, second only to Brazil's production of 22.7 million MT, and consumption estimated at 16.5 million MT. Brazil exports over half of its production, while India exports less than 10%. Yet sugar is India's largest agricultural sub-sector and one to which the Indian Government has extended massive protection.

Protection of the domestic sugar industry includes, in addition to import tariffs and barriers, minimum sugar cane prices set by both State and Central Governments, retail price controls, and Government schemes to control the release of sugar onto the domestic market in order to maintain price stability.

In the late 1990s, India imported small amounts of sugar, averaging about $100 million per year, but since 2000, with a rise in world sugar prices, a hike in the import tariff from 40% to 60% and a surcharge of Rs 850 (about $18) per ton, imports have fallen to zero.

The Mumbai wholesale raw sugar price is currently around $281 per MT, while world prices are now at record lows of around $150 per MT. But import duties and surcharges would raise the price of imports to about $260 per MT, exclusive of transport costs. Imported sugar is also subject to the same limited release scheme as domestic sugar, and importers are required to sell 30% of their imports to Government at prices dictated by Government.

Exports are insignificant, apart from small quantities exported under preferential arrangements to the U.S. and Europe. Exports are seen mainly as n occasional mechanism by which companies can liquidate excess stocks, since protection renders Indian exports uncompetitive in most markets. Exports generate at least 10% less per MT than domestic sales, a clear case of anti-export bias. Indian sugar producers estimate that they cannot export profitably at world prices under $250 per MT.

Because Indian sugar exports are uncompetitive, the Government, which has historically been the major purchaser of sugar, has absorbed the excess, and now has stockpiles equivalent to two-thirds of total annual consumption..

SADC, meanwhile, is a major sugar exporter, with total exports of over $1 billion in 2001, representing about 50% of total production. 36% of SADC exports go to preferential access markets in the EU and the US, at prices more than double free market prices, but the remainder is sold at world prices. SADC sugar producers have proven their ability to compete in world markets. What would be the consequences for SADC if India's sugar production and trade were fully liberalized?

India's sugar industry, absent the elaborate structure of protection and regulation, would probably be uncompetitive. Government policy has limited the size and capacity of sugar production plants, so that India has far more plants than any other country, with a daily production capacity less than half that of SADC producers. Indian cane production per hectare is less than half that of SADC. Though cane production costs are said by Indian sources to be among the lowest in the world, this advantage is negated by higher prices guaranteed to cane growers. The same sources also indicate that SADC sugar mills have lower production costs than Indian mills.

The FAO estimates that full trade liberalization would result in a 43% increase in the world price of sugar. India's sugar production, in particular, would fall, and imports would rise substantially. Though liberalization might reduce the preferential prices SADC countries obtain in the EU and US markets, liberalization would result in net gains in production and increased demand (at higher prices) in India and other developing country markets. Since nearly 75% of SADC exports are sold at non-preferential prices, liberalization would provide a substantial net benefit to SADC sugar growers and processors.

Sources: Indian Sugar Mills Association, Illovo Sugar, *Hindu Business Times* March 17, 2002, *IndiaInfo Online Sectoral Database*, FAO

4.0 BARRIERS TO INCREASED TRADE

The trade flow analysis does not take account of factors that may impede export expansion with respect to a given market. These factors can include tariff and non-tariff barriers, different consumer preferences, and a different structure of production. Some researchers using the TFA approach have referred to large gaps between indicative trade potential and actual trade flows as "revealed trade barriers," explicitly attributing two countries' or regions failure to maximize trade to the persistence of trade barriers between the two groups.[7] This may be something of an over-simplification, since trade barriers alone cannot explain the lack of trade between two countries.

Nevertheless, tariffs and non-tariff barriers (NTBs) to trade are certainly one of the major contributors to unrealised trade potential. Furthermore, they can be tackled through trade negotiations, while differences in consumer tastes cannot. This section seeks to identify the nature of trade barriers in developing countries and the extent to which these trade barriers are currently imposed on SADC exporters in key markets.

5.1 The Nature of Barriers to Trade in Developing Country Markets

Barriers to exports include tariffs, which make exports less competitive by raising prices; quota restrictions, which physically limit the quantity of exports; and subsidies, through which governments absorb the cost disadvantages that domestic producers might otherwise face with respect to cost-competitive imports.

Recent debate has focussed on agricultural subsidies in developed countries which, according to reliable estimates, account for around 30% of the total protection offered to OECD farmers. This average figure masks wide variation; for example, while over 80% of protection to Japan's farmers derives from tariffs and tariff quotas, in the USA over 50% comes from direct subsidies[8].

The use of subsidies to protect farmers from competition and keep out exports is largely restricted to OECD countries, especially Japan, the EU and the US., which together account for 88% of total domestic support measures worldwide.[9] The only developing countries which provide significant support to farmers are Brazil, Thailand and Venezuela and, to a limited extent, South Africa.

The use of Tariff Rate Quotas (TRQs) to protect producers is also largely the preserve of industrialised countries. According to the OECD, nearly 30% of agricultural production is protected by TRQs, again with wide variations – ranging from 0% in New Zealand and Australia to over 50% for Eastern Europe OECD members[10]. In contrast, less than 15% of developing-country agricultural production is protected by TRQs.

[7] van Seventer and Mlangeni, *op.cit*
[8] World Bank, OECD.
[9] Calculated from WTO G/AG/NG/S/1.
[10] Source: OECD Agricultural Market Access Database, World Bank .

Given the above, the discussion that follows will largely though not exclusively focus on tariffs barriers in developing countries.

5.2 The Effect of Tariffs and Tariff Reductions

There is no dispute that high import barriers reduce imports and that reducing trade barriers will increase demand for imports. The question is: How much, and for which products?

The increase in demand from tariff reduction has two components. One, in the immediate term, is a function of the lowered price of imports relative to goods produced domestically. The second, which becomes apparent over the longer term, as domestic producers shift out of production of goods in which they can no longer compete with imports.

A study of trade liberalisation in Australia examined the effects of the country's sharp reduction in tariffs from 1984 to 1993, during which period the effective rate of protection for the Australian economy fell by almost half, from 22% to 12%. The study found that imports grew by about 47% over the same period (47.1% for consumption goods and 46.4% for intermediate goods). Much of this increase was attributed to an overall increase in economic activity, some of which may have been due to tariff reduction. But the reduction of protection was found to be responsible for over 18% of the increase in imports of consumption goods and just under 15% of the increase in imports of intermediate goods. This analysis also showed that the effect of relative prices was often offset by exchange-rate movements, while the main long-term import growth was more directly linked to a decline in domestic import-competing production.[11]

In the case of Australia, a 45% reduction in protection led to, or coincided with, a 46% to 47% increase in imports over 10 years. Of this increase, between 15% and 18% was directly attributed to the reduction of protection.

Put another way, this 45% reduction in Australian trade barriers by itself directly increased Australian imports by about 8%. Since Australia's imports grew approximately threefold from 1984 to 1993, from US$33 billion to US$103.7 billion,[12] trade liberalisation thus accounted for an increase in annual import demand of approximately $8 billion by the end of the 10-year period.

This represents a significant new opportunity for a region like SADC, whose total annual exports currently amount to some $60 billion. Over this same period - which leaves out the effect of the end of trade sanctions in 1994, which caused South African trade with Australia to double - South African exports to Australia grew by more than 18% annually in Rand terms and 10% in U.S. dollar terms.[13]

[11] Jacqueline Dwyer and Christopher Kent, "A Re-Examination Of The Determinants Of Australia's Imports," Reserve Bank of Australia, December 1993
[12] Australian Bureau of Statistics
[13] Thembi Mlangeni and Dirk van Seventer, "South African Trade with the Indian Ocean Rim," Trade and Industrial Policy Secretariat (TIPS), Johannesburg, June 2001

When this kind of relationship between trade liberalisation and increased demand is extended to all of the potential markets mentioned in this survey, the potential increase in demand for SADC exports becomes highly significant and worth pursuing.

The strength of the correlation observed in the Australian case may vary substantially from one country to another, based on differences in composition of imports and domestic production , price elasticity of demand, and other elements. But the positive relationship between lower trade barriers and increased import demand has been observed in countless other cases.

Another effect of trade liberalisation is on the country whose protection against imports is being reduced. This is often seen as a "cost," where acceptance of reduced protection is the price a country must pay in order to increase access to export markets. What is less often appreciated is that reducing protection of domestic production can, in fact, increase exports by making them more competitive. Liberalisation can reduce or remove what is typically referred to as "anti-export bias," thus allowing rising exports to match growth in imports. In Australia's liberalisation, discussed above, the trade balance remained virtually constant. Liberalisation brought about an increase in exports as significant as the increase in imports. Over the 10 years of the survey, imports remained virtually constant as a percentage of GDP. Increase openness did not flood the market with imports, but rather contributed to a vastly increased export competitiveness.

Numerous studies have confirmed the proposition that high import tariffs, by distorting domestic market prices, render a country's exports less competitive. A study of anti-export bias in Egypt in the late 1990s observed that:

"a very important barrier [to exporting], which is not easy to identify, is the distortion of domestic market prices caused by high tariff rates on imports. Due to higher prices of imports, caused by tariffs, investors bid up the prices of workers, materials, and plant and equipment for investment in the more profitable import substitution products. Consequently, these costs are higher for export producers, who suffer a loss of price competitiveness in world markets, and are induced to produce for the local market. This market price distortion amounts to an implicit tax on exports. The average tariff on imports is estimated to be about 30 percent (World Bank, 1998), which creates an implicit tax on exports of 19.4%. Unfortunately, this tax falls most heavily on non-traditional, manufactured exports which must compete in the world market. Traditional exports, such as petroleum, minerals, tourism, and agriculture, rely on industry-specific inputs, and sell into highly controlled markets. Thus, the impact of tariffs on these traditional exporters is less than the impact on non-traditional exports.

"High import tariffs generate an implicit tax on exports in three principal ways. First, tariffs and other taxes on inputs raise the costs of producing the exportable product. Second, costs of factors of production in protected industries increase under tariff protection, as factors are bid away from non-protected industries. Third, domestic product prices tend to be bid up to the level of the world price plus the amount of the tariff. Domestic market prices therefore exceed international prices, so domestic

markets are more profitable than export markets. Thus, production costs rise and exports become [mere] residual outlets for production."[14]

As SADC Member States enter into trade negotiations, it may be useful to bear in mind that the benefits from liberalisation are not limited to those resulting from improved access to export markets but can also, in many cases, increase the export competitiveness of SADC industries.

4.3 Tariffs Facing SADC Exporters in Main Markets

In earlier sections we identified the main exports and export markets for SADC countries. To identify those products and those markets to which policy makers should pay the greatest attention in trade negotiations, especially in addressing tariff barriers, we need an indication of the extent to which trade barriers, rather than tastes or competitiveness, may be restraining exporters from SADC.

It is therefore useful to examine the tariff rates, and to a lesser extent, non-tariff barriers, facing some of the main SADC export products in key potential markets. Table 8 shows that developing countries in general have higher average tariffs on both agricultural and non-agricultural products than either the E.U. or the U.S[15]. Only Malaysia has a lower average agricultural tariff than the E.U. or the U.S., while for non-agricultural products, only South Korea, Indonesia and Turkey and, to a lesser degree, Malaysia and Iran, have tariff rates comparable to those applied by the U.S. and Europe.

As well as average or maximum tariffs, of real importance are:

- the percentage of tariff peaks
- the percentage of tariff lines subject to non-*ad valorem* duties; and,
- the percentage of tariff lines exempted from duties.

Malaysia, for example, has a maximum non-agricultural tariff of 300%, which is 10 times higher than its maximum agricultural tariff. But this tariff applies only to one product category – automobiles – while the tariffs on goods of importance to most SADC exporters range between 2% and 11%. Malaysia's high tariff on cars means that South African, Botswana and Namibian car manufacturers are unlikely to have much success in penetrating the Malaysia market, but for most other SADC exports Malaysia is one of the most open developing country markets.

[14] Charles Vandervoort and Michelle Morgan, "Reducing Transport Costs of Egypt's Exports," Nathan Associates, Inc., DEPRA Project, July 1999, p. vii

[15] The figures shown in Table 8 represent averages only, which may encompass hundreds or even thousands of tariff lines in any given category. To get a truly meaningful appreciation of the effects of tariffs on specific SADC exports to specific markets, it would be necessary to go to a much greater level of detail than is possible here.

Table 8: Average Applied MFN Tariffs by Market and Product (per cent)

	Non-Agricultural Products									Agricultural Products					
	Wood, Pulp, Paper, Furn.	Apparel	Metals	Fish, Sea-food	Maximum Tariff	No. of Lines	% at Peak rates (>15%)	Non *ad valor-em*	Duty Free	Avg. Applied Tariff	Maxi-mum Tariff	No. of Lines	% at Peak Rates (> 15%)	Non *ad valorem*	Duty-Free
Algeria	20%	25%	17%	29%	30.0%	5181	37.9%	0	2.0%	12.8%	30%	815	67.5%	0	0.2%
Argentina	13%	10%	14%	12%	35.0%	8461	36.2%	0	2.4%	12.3%	22.5 %	946	27.2%	0	3.0%
Brazil	13%	20%	14%	12%	35.0%	8458	50.0%	0	2.3%	12.5%	55%	946	27.5%	0	3.0%
China	9%	18%	7%	15%	71.0%	7323	30.3%	0.5%	3.2%	19.2%	71%	1047	55.7%	0.6%	2.5%
Egypt	22%	36%	17%	19%	135.0%	5833	42.4%	12.1%	0.6%	22.8%	600%	852	57.0%	0.8%	0.0%
Chile	8%	8%	8%	8%	8%	5107	0	0	0.7%	8.0%	8.0%	748	0	0	0
Costa Rica	6	10	2	9	48.0%	6854	0	0	52.4%	12.0%	154%	1144	9.9%	0	23.2%
European Union	2%	8%	2%	12%	26.0%	8305	0.9%	0.7%	17.1%	5.9%	74%	2151	8.2%	39.9%	25.8%
India	29%	30%	32%	35%	105.0%	4771	86.9%	6.0%	0.8%	37.0%	210%	745	87.0%	0.3%	2.6%
Indonesia	5%	11%	7%	5%	170.0%	6450	2.6%	0%	20.6%	8.2%	170%	1082	3.9%	0.7%	10.4%
Iran	8%	14%	5%	8%	25.0%	4427	9.8%	0%	25.2%	8.4%	30%	645	8.8%	0%	20.9%
Malaysia	11%	14%	9%	2%	300.0%	9215	23.3%	0.2%	51.4%	2.1%	30%	1164	2.5%	4.9%	66.0%
Mexico	16%	24%	15%	28%	35.0%	1024 8	55.1%	0%	0.7%	23.4%	260%	1071	47.9%	5.6%	2.1%
Nigeria	22%	51%	23%	25%	100.0%	4443	51.6%	0.6%	0%	23.9%	150%	686	75.8%	0.3%	0.0%
Saudi Arabia	13%	12%	13%	12%						11.3%	20%	1167	2.0%	8.7%	5.7%
South Korea	6%	10%	6%	16%	30.0%	9767	1.6%	0.1%	5.4%	45.5%	917%	1513	48.6%	3.1%	1.9%
Thailand	14%	25%	13%	58%	80.0%	5866	31.2%	18.0%	1.2%	30.8%	65%	1001	31.5%	53.3%	2.8%
Turkey	2%	9%	4%	50%	84.6%	1599 8	3.3%	0.7%	16.6%	42.2%	232.5 %	3231	60.6%	8.1%	14.3%
U.S.A.	0.8%	10%	2%	1%	109.7%	8447	4.1%	0%	31.1%	4.7%	350%	1740	7.2%	1.9%	28.5%
Venezuela	13%	18%	10%	19%	35.0%	5817	25.9%	0.7%	35.0%	14.8%	25%	874	40.5%	0%	0%

Source: World Trade Report 2003, World Trade Organisation

The number of tariff peaks – an international tariff peak is defined as a tariff line on which an import duty in excess of 15% is applied - is also an important measure of protection. Maximum and simple average tariffs provide little indication as to the actual tariff burden imposed on imports. For non-agricultural goods, Indonesia, Iran, Turkey and South Korea have relatively low incidences of tariff peaks while India, Mexico, Nigeria and Brazil all apply peak tariffs to over 50% of non-agricultural import items.

For agricultural products, Indonesia, Iran, Malaysia and Saudi Arabia are the least protectionist, with peak rates applying to fewer than 10% of agricultural tariff lines, while India, Nigeria, Algeria, Egypt, Turkey and China are the most protectionist, with over 50% of agricultural tariff lines subject to peak rates of 15% or more. Table 9 below provides indicative tariff rates for SADC's key exports on key potential markets.

Table 9: Indicative Agricultural Tariffs by Key Market and Export

Product	Country	MFN Tariff (indicative)[16]
Fruit and	Argentina	12%
Nuts	China	28%
	Egypt	31%
	India	35%
	Indonesia	5%
	Kuwait	NA
	Mexico	23%
	Nigeria	100%
	Saudi Arabia	12%
Vegetables	Brazil	9%
	China	12%
	Egypt	25%
	India	35%
	Korea	42%
	Malaysia	1%
	Mexico	14%
	Nigeria	100%
	Pakistan	12%
Sugar	Algeria	NA
	China	90%
	India	60%
	Korea	3%
	Malaysia	0%
	Mexico	NA
	Saudi Arabia	12%
	Venezuela	20%

Source: UNCTAD

Of the non agricultural exports examined, Egypt, India and Nigeria offer large potential for SADC exporters of apparel. Though imports are very low, domestic

[16] The large number of products means that only an indicative MFN tariff rate can be calculated. In the case of Fruit and Nuts, Pistachios, Cashews, Bananas, Pineapples, Strawberries and Oranges were examined, for vegetables we looked at Tomatoes, Garlic, Onions, Olives, Lettuce.

demand is very high and tariff protection is an estimated 36%, 30% and 51% respectively.

The extent to which non-*ad valorem* duties are assessed is an important measure of protectionism. Non-*ad valorem* duties assess a charge on units, weight or volume of a product rather than on its value. Import duties of this kind could also include both *ad valorem* and non-*ad valorem* components (known as combined tariffs); for example, a certain amount per kg plus a certain percentage of the value of the shipment. Applied largely against agricultural imports, non *ad valorem* duties tend to fall most heavily on relatively low-value items and are explicitly intended to restrict imports. The U.S., for example, imposes an import duty of more than $2.25 per kg for certain kinds of cheeses. Depending on the exact nature and value of the product, this could be the equivalent of an *ad valorem* tariff of more than 100%. Non-*ad valorem* tariffs are far less transparent than *ad valorem* tariffs, and their elimination should be an important objective of trade negotiations.

The effect of non *ad valorem* tariffs tends to fall disproportionately on poorer countries. Since developing country exports tend to have lower unit values than developed-country exports (a shirt made in Lesotho is likely to have a much lower landed cost in the U.S. than a shirt made in Italy), so a $1 per unit tariff might increase the cost of the Lesotho-made item by 25% and the cost of the Italian-made item by only 5% (this example is purely illustrative).

As Table 8 shows, Egypt, India and Thailand apply non-*ad valorem* tariffs to a wide range of non-agricultural goods (up to 18% of all non-agricultural tariff lines in the case of Thailand), while the EU, Turkey, Malaysia and Saudi Arabia apply non-*ad valorem* tariffs to a relatively high percentage of items – in the case of the EU, nearly 40% of agricultural tariff lines.

Many countries allow duty-free entry to a wide range of goods. This tends to be true of countries for which customs duties are not a principal source of government revenue, and which instead use tariffs as an instrument to protect or promote domestic industries. Among the developing countries surveyed, Malaysia, Indonesia, Turkey, Iran and Venezuela allow high percentages of non-agricultural products duty-free entry. In the case of Malaysia, the percentage is over 50%, considerably higher than either the U.S. or the E.U. For agricultural imports, Malaysia, Iran, Indonesia and Turkey give duty-free treatment to a relatively high percentage of import items.

The assessment has thus far considered only the impact of MFN tariffs. However, **one of the main challenges facing SADC countries is the proliferation of regional trade agreements (RTAs)**, to which they are not party. This puts the exporters of the region at a significant cost disadvantage relative to preferential partners in the RTAs.

As Section 3 of this report showed, Mexico is one of the largest and fastest-growing markets for the kinds of goods that SADC Member States produce, yet SADC penetration of this market is almost nonexistent. As Table 8 indicates, Mexico is not one of the most open markets in our survey. If Mexico applied MFN tariffs to all countries, this might not make a huge difference, but Mexico's participation in NAFTA, and the possible expansion of NAFTA into the proposed Free Trade Area of

the Americas (FTAA), puts SADC countries at a significant disadvantage with respect to the Mexican market.

Taking the specific example of fruit exports to Mexico, even though SADC currently exports almost no fruit to Mexico, Apples account for nearly 40% of Mexico's total fruit imports, worth about $211 million annually. Of this total, the U.S. supplies 85%, Chile 12% and Canada 4%. South Africa in 2002 supplied a total of $132,000 worth of apples to the Mexican market, or 0.06% of Mexico's total imports.

Mexico's MFN import tariff on apples is 23%. But, as of January 2003, after a 10-year phase-out period, Mexican import tariffs on U.S. and Canadian were removed on agricultural goods, except maize, dairy products and sugar. U.S. and Canadian apple exporters thus benefit from free access to the Mexican market, as does Chile, which signed a bilateral trade agreement with Mexico in 1999. Chile, which has for years been a major source of fruit and vegetable exports (especially counter-seasonal) to the U.S., signed a Free Trade Agreement with the U.S. in June 2003, after having signed an Association Agreement with the EU in November 2002. In 1996, Chile also signed a Free Trade Agreement with Canada. Though the provisions of these and other regional bilateral and multilateral agreements differ, Chile, as well as several other Latin American countries, already enjoy something close to free trade with the U.S., Canada and other big regional markets, including Mexico.

Though SADC exporters of apples already enjoy free access to the U.S. market, where the MFN tariff is 0, they remain effectively blocked from the Mexican market. Even as countries progressively reduce their MFN tariffs, if they continue to apply preferential tariffs or free trade status to certain trading partners, those countries not included in those arrangements will suffer a competitive disadvantage.

Box 2 - Will RTAs Keep SADC Goods Out?: Latin America and Clothing Trade

According to the UN Food and Agriculture Organisation (FAO), "Removal of trade barriers within common trading areas poses a threat to many developing countries, especially ACP countries." Though this point was raised in the context of NAFTA and ACP countries' access to the U.S. sugar market, it applies to many products and other RTAs.
Section 3 of this report has identified Mexico and Venezuela as two of the largest potential markets for SADC apparel exports. Mexico is the largest developing-country clothing importer, with imports worth over $3 billion in 2001. Venezuela's imports are just under $400 million, but are growing at more than 20% a year.

Almost all of Mexico's official imports are from the United States and enter duty-free under NAFTA. Most of these U.S. imports are part of *maquiladora* production arrangements in which certain apparel components produced in the U.S. are sent to Mexico for finishing or assembly before being re-exported to the U.S. It might be hard, in any case, for SADC textile and clothing manufacturers to enter into similar kinds of supply chain and sourcing arrangements with Mexican companies that U.S. companies depend on, but the existence of free access to the Mexican market by U.S. producers, while SADC exporters face a 24% tariff on clothing exports to Mexico, can certainly make a difference. Mexico also has an Association Agreement with the EU that calls for elimination of all non-agricultural tariffs by 2007, as well as a trade agreement with Israel, and a 3-way FTA with Colombia and Mexico, and agreements with Chile, Honduras, Nicaragua, El Salvador, and Costa Rica.

Unlike Mexico, which is a huge clothing exporter as well as an importer. Venezuela is a big net importer of clothing, with exports amounting to less than 1% of imports. Venezuela is a member of the Andean Community Customs Union, along with Ecuador, Colombia and Peru. The Andean Community has recently concluded a free trade agreement with MERCOSUR that will come into effect at the end of 2003. Venezuela and Colombia have also concluded preferential trade agreements with Caribbean community CARICOM, and Venezuela has bilateral trade agreements with most Central American countries. Venezuela's agreement with CARICOM has eliminated import duties on clothing, while the agreement with Mexico and Colombia also eliminates most trade barriers by 2004.

Venezuela's average MFN duty on garments is 18%, but big Latin American garment exporters, including Mexico, have duty-free or close to duty-free access to the Venezuelan market. Though SADC members have free access to the U.S. market under AGOA, they are at a severe disadvantage in markets such as Mexico, Venezuela, Chile and Argentina. As trade integration in the Western Hemisphere continues, possibly culminating in a Free Trade Area of the Americas, the U.S. could be the only market to which SADC clothing producers have access. Meanwhile, other big clothing markets in the region could remain almost entirely the preserve of other regional trading partners, including the U.S.

SADC countries can try to negotiate individual or sub-regional market access deals (as, for example, the proposed South Africa-Mercosur free trade agreement), but most SADC members will remain largely excluded from these attractive markets.

Sources: Organization of American States, UNCTAD, ITC, COMTRADE

4.4 Non-Tariff Barriers

One of the main purposes of the WTO and its predecessor, the GATT, was to transform the entire panoply of trade barriers into a much more transparent system of *ad valorem* duties. Once this occurs, each country's trade regime becomes much more transparent, and mutual reductions can be negotiated more easily. One of the sticking points at Cancun was the persistence of non-tariff barriers, especially agricultural subsidies, which impede access to important markets and which are harder to quantify and negotiate than pure tariff barriers. Cotton, sugar and dairy subsidies granted by the U.S. and E.U. are prime examples of such barriers.

Developing countries, including many of those identified as potentially important markets for SADC exporters, also apply a wide range of non-tariff barriers. For agricultural products, one of the most commonly-used import barriers is the imposition of stringent sanitary and phytosanitary (SPS) requirements, often accompanied by a refusal to admit certification by other recognized national or international standards bodies as acceptable proof of conformity to local standards. For non-agricultural products, other technical barriers exist, which include standards for pharmaceuticals and both industrial and consumer goods.

Though WTO accession brings with it commitments to reduce these technical barriers to trade (TBTs), many countries have been slow in implementing these commitments. The U.S. Trade Representative (USTR) each year issues a National Trade Estimate (NTE), which assesses barriers to entry of U.S. goods into important export markets. Most of the barriers identified apply not only to U.S. exports but to exports from all countries.

The 2003 NTE described the range of TBTs applied by China, even subsequent to WTO accession. These include: "quarantine certificates" for agricultural imports, regulations on biotechnology products, and use of technical standards and sanitary and phytosanitary measures to control import volumes. In fact, several national officials have stated openly in the state-run media that China should manipulate technical standards to limit imports...These problems are compounded by the fact that coordination between the State Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) and its new affiliated bodies, the China National Certification and Accreditation Administration (CNCA) and the Standardization Administration of China (SAC), is lacking, as is coordination between these bodies and China Customs and other local implementers of standards and import regulations."[17]

The NTE went on to cite other non-tariff barriers, such as import quotas, which include both quantitative restrictions for a few classes of imports, and tariff-rate quotas (TRQs) for a much larger number of product categories, including wheat, maize, rice, soy oil, cotton, barley, vegetable oils and fertilizers. Tariff-rate quotas are applied by many countries, including the U.S., especially on agricultural imports. Such quotas allow a certain quantity of goods to enter at a low tariff rate, while

[17] *National Trade Estimate 2003*,USTR

quantities above that level are subjected to much higher tariffs. China has begun to phase out most of its simple quotas, but TRQs remain. For imports within the TRQ limits, tariffs are low – from 1% to 9% - while tariffs applied to imports over the TRQ limits are prohibitively high. Import restrictions such as TRQs are especially burdensome, since the system by which they are allocated is un-transparent, and tends to favor existing suppliers over new entrants to the market. The administrative burden and cost of applying for TRQ allocations is also substantial, while the system is rendered even less open by separate import licensing requirements for many products, including both TRQ and non-TRQ goods. The system is rendered even more complex and discriminatory by allocation procedures that favour state-owned trading companies over private companies, while state monopolies in other sectors - the NTE specifically mentions motion picture distribution - impose *de facto* import barriers.
These NTBs are by no means unique to China. The NTE cites Egypt's cumbersome import licensing procedures, a wide range of quantitative or qualitative restrictions on imports (cars, for example, can be imported only in their year of manufacture), and opaque and conflicting industrial and agricultural standards. Egyptian Customs is widely regarded, even by domestic Egyptian businesses, as one of the greatest impediments to business expansion, since its classification and valuation procedures are arbitrary, and tariffs are subject to a wide range of unofficial surcharges.

India, long famous for its "License Raj," has liberalized considerably since the early 1990s; however, it retains high NTBs in addition to its high tariff rates. India imposes a wide range of surcharges and excise taxes on imported goods, including sugar and confectionery (60%), raisins (119%), plywood and veneer (59%), and wine (264%). India's value added tax (VAT) applies multiple rates, ranging from 8% to 32%, although the Government has pledged to implement a unified rate of 16% in 2004. Though India has eliminated import licensing on most consumer goods, a burdensome licensing system remains in place for a wide range of other products. These include most fruits and vegetables, most pharmaceutical and chemical products, and animal products. India's customs valuation procedures are arbitrary. For many products, India sets a minimum import price. Most steel products are subject to such minimum prices – hot-rolled steel coils, for example, are not allowed entry unless the c.i.f. value is at least $302 per ton. This could erode any price or other competitive advantage SADC exporters might have with respect to domestic Indian producers or exports from other countries. Other products are subject to a "reference price," which may be considerably higher than the transaction price. The reference price, which is applied to edible oils and other agricultural products, does not ban imports, but instead establishes a price on which duties are assessed, regardless of the real value of the goods. Again, this discriminates against cost-competitive producers.

Because of the complexity of Indian Customs procedures, and the vast number of exemptions and exceptions, complying with documentary requirements can be exceedingly difficult, costly and time-consuming. India also applies mandatory testing standards to over 100 products. Certification must be carried out by the Bureau of Indian Standards, but can be granted only to companies that have an established presence or representative in India. Testing fees are high, including annual fees and a percentage of the value of the shipment. No risk-based testing system exists, so all shipments must be inspected. India also applies a wide range of SPS standards that are not science-based, do not conform to WTO and other international standards, and

clearly exist mainly to block imports. All food imports are required to be detained and inspected, while the same requirements do not apply to domestic products.

Each country has its own set of NTBs, though India's, Egypt's and China's may be among the worst. The information outlined above is intended to illustrate the importance of NTBs in a given market in determining the true export potential for SADC producers into that market. It also highlights the degree to which policy makers and trade negotiators must conduct highly detailed research into the exact nature of NTBs in target markets and the likely effects they will have on specific SADC export goods. Unfortunately, the very nature of NTBs is un-transparent, which means that the kind of analysis that can be undertaken relatively easily on tariffs themselves becomes much more difficult and is often very difficult to address in the context of trade negotiations.

5.0 PRIORITY MATRIX FOR MARKET ACCESS NEGOTIATIONS

Section 2 identified those exports where the region has had a revealed comparative advantage, including sugar and apparel which are sectors of key concern for the region. Section 3 used a trade flow analysis, augmented by an examination of domestic consumption, to pick out key potential developing country markets, and Section 4 examined trade barriers that SADC exporters face in these markets, focusing largely on tariff barriers.

This information is brought together in Table 10, below. Column (C) lists countries where products with high export potential also face high tariff barriers. These are the countries – **India, Mexico, Egypt, Nigeria** and to a lesser extent **China –** where tariff reduction would have the greatest potential impact on exports from the region and which therefore merit greater attention from a trade policy perspective.

Column (A) details markets where export potential is high, but where trade barriers, or at least tariff barriers, are unlikely to be impeding exports. More intensive and effective export promotion activities may prove effective in increasing SADC producers' access to these markets. Column (B) lists those products and markets for which tariffs may be constraining exports, but possibly very significantly. The table also indicates areas where both SADC exports, and the imports of target markets, are growing.

Table 10: Priority Matrix for Tariff Reductions on Developing Country Markets

Key SADC Exports	Potential Markets		
	Column (A) MFN Tariff < 15%	Column (B) MFN Tariff 15% - 25%	Column (C) MFN Tariff > 25%
Fish, Seafood		China* Egypt* Korea*	India Mexico* Thailand* Nigeria.
Fruit & Nuts	Argentina Indonesia Saudi Arabia		China[1] Egypt India[1] Mexico Nigeria [1]
Vegetables	Brazil China* Malaysia Pakistan *	Egypt* Mexico*	India[1] Korea[1] Nigeria[1]
Metals	China* Iran* Korea Malaysia Thailand Turkey	Argentina Brazil Mexico*	India
Pulp and Paper Products	China* Indonesia* Malaysia Saudi Arabia Korea* Venezuela*	Mexico*	India
Sugar	Korea Malaysia Saudi Arabia	Venezuela* Mexico*	China* India[1]
Apparel	Argentina* Chile* Costa Rica* Korea Saudi Arabia Venezuela*	China* Venezuela	Egypt[1] India [1] Mexico* Nigeria[1]

* Areas where SADC exports and target market demand are both growing.
[1] Exports to the markets are limited, but domestic consumption and trade barriers are high.

APPENDIX I
NOTE ON METHODOLOGY AND INFORMATION SOURCES

The notion of "indicative trade potential" based on trade flow analysis (TFA) has been used extensively by the International Trade Centre in Geneva (part of the UN system and closely affiliated with UNCTAD and the WTO). The technique has been used extensively to evaluate the potential for increased trade within RTAs, including SADC, and also between RTAs (such as WAEMU and CAMU or SADC and SACU). It can be used equally effectively to assess trade potential between any two-country pairs.

The virtue of this technique is that it can provide an estimate of trade potential even between countries or groups that do not currently trade with each other. More importantly however, the technique can be readily used within Ministries and Departments for Trade with very little training required.

TFA analysis is of limited use in, for example the case of Indian sugar imports, or the lack thereof. The analysis doesn't even identify India as a potential market for SADC sugar, when in fact it could potentially be one of the largest markets. Therefore we have augmented TFA to explicitly address this issue. However, other aspects which might include infrastructure, transport distance and cost, and the existence of preferential trade agreements that might skew a country's trade towards a given country or set of countries.

The trade potential indicators presented in Sections 3 and 4 are estimated at the HS 2 level, and should be seen as indicating the broad priority areas for closer examination. TFA analysis should therefore be seen as a first step, followed by a more detailed set of investigations to understand why, in the presence of a large trade potential, more trade does not actually occur. Detailed work of this nature would probably be best undertaken at the national, rather than regional, level.

The tools used in this analysis are as follows:

- Indicative trade potential is simply the lesser of SADC countries' exports of Product A to the entire world and Country X's imports of that same product from the entire world. Unrealised trade potential would be the indicative trade potential less any existing exports to that market. The main data sources for this indicator are:
    - The UN Statistical Database (COMTRADE): http://unstats.un.org/unsd/comtrade/ , which includes country trade snapshots
    - The International Trade Centre's Product and Country export and import statistics and country trade profiles: www.intracen.org/countries and www.intracen.org/tradstat
    - The U.N Conference on Trade and Development (UNCTAD) statistical handbook, for information on trade flows: http://www.unctad.org/Templates/Page.asp?intItemID=1890&lang=1

- Tariff information at the HS 6-digit level, and some information on non-tariff barriers and trade flows are available from UNCTAD's Trade Analysis and

Information System (TRAINS) :
http://www.unctad.org/Templates/Page.asp?intItemID=1907&lang=1

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- The World Trade Organisation's *World Trade Report 2003* contains detailed information on bound and applied tariff rates.

- The World Bank's *Global Economic Prospects 2004* includes a detailed description of the different tariff reduction proposals under discussion in the Doha Round.

- Several other, highly sophisticated tools are available that facilitate analysis of trade flows, trade barriers and other relevant information. They are relatively costly, but are often offered at concessionary prices to users in developing countries. They include:
    - Trade Analyser: This is a tool developed and offered by Statistics Canada, that contains 20 years of information on merchandise trade among U.N. members, and which permits detailed custom data retrieval. An annual license costs $CDN 4,000. http://www.statcan.ca/english/ads/trade/world.htm

- TradeMap: This is a system developed for the International Trade Centre, using the UN COMTRADE database and permitting highly customised date searches, which include analysis of present export markets, pre-selection of priority markets, overview of competitors in global and specific markets, review of opportunities for product diversification in a specific market, identification of existing and potential bilateral trade with any partner country, and information on tariffs and non-tariff barriers. Licenses are available for single users, trade support institutions and national governments. Prices depend on location, type of user and number of authorized users and may range from $1,500 to $36,000. http://www.trademap.org/