

SOUTHERN AFRICAN
CUSTOMS UNION INSIGHTS:
**A 15 YEARS
JOURNEY
FROM
2004 -2019**



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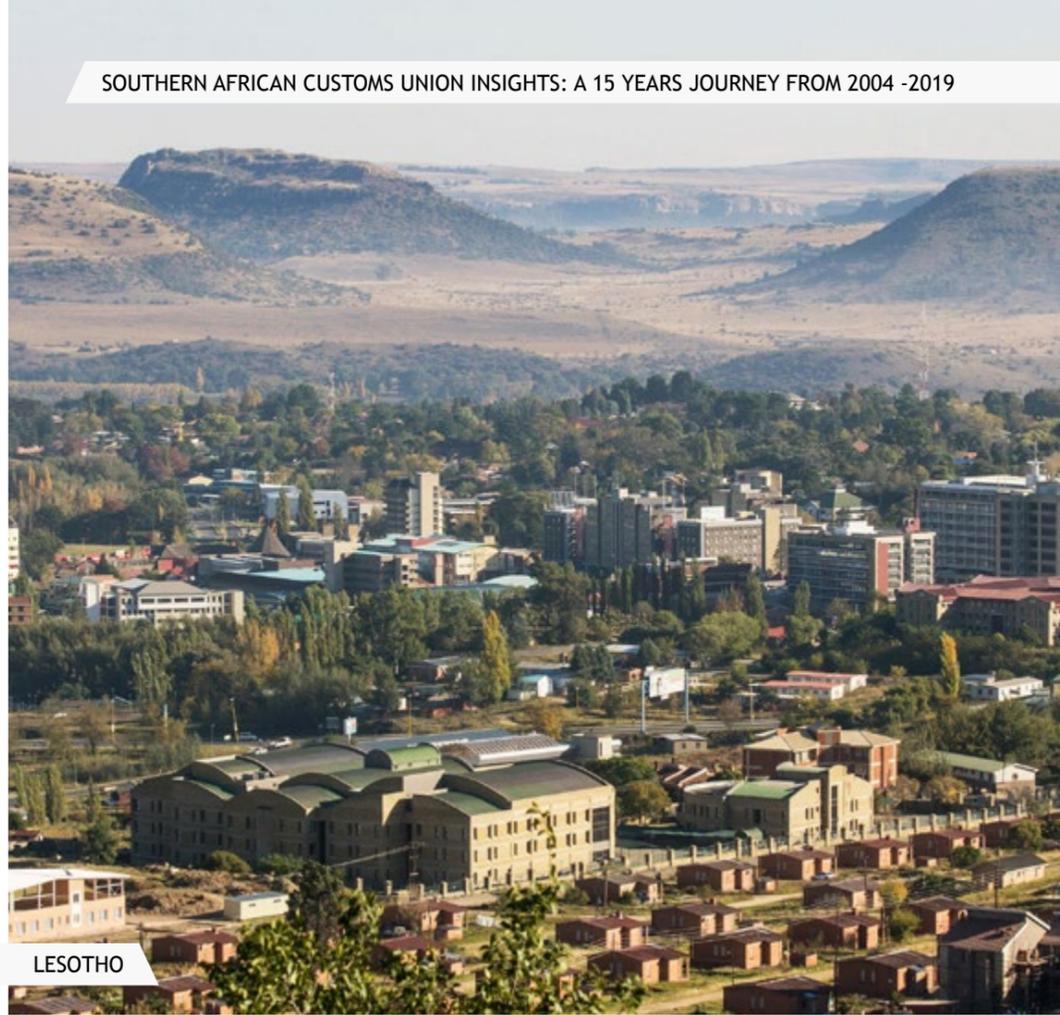
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BOTSWANA



ESWATINI



LESOTHO



NAMIBIA



SOUTH AFRICA

FOREWORD BY THE EXECUTIVE SECRETARY OF SACU MS. PAULINA MBALA ELAGO



It gives me great pleasure to present this Publication titled: “*The Southern African Customs Union Insights: A 15 YEAR JOURNEY FROM 2004 to 2019*”, as part of SACU Secretariat’s knowledge sharing, publicity and awareness drive.

The Southern African Customs Union (SACU), comprising Botswana, Eswatini, Lesotho, Namibia and South Africa, is recognised as the world’s oldest functioning Customs Union, having been established in 1910.

The Publication provides an overview of SACU’s evolution since 2004, when the SACU Agreement, 2002, entered into force, until 2019, just before the advent of the Covid-19 pandemic. Since 2020, there have been rapid and emergency responses to the pandemic that not only affected the economies of the SACU Member States but also changed the normal processes of conducting business not only in the Customs Union, but globally.

This Publication highlights the evolution of the Customs Union since its establishment in 1910 and the revised SACU Agreement of 1969, which later culminated in the SACU Agreement, 2002.

It also covers information on the overall economic performance of the SACU economies, trade performance, Trade Agreements concluded with third parties, trade facilitation, revenue sharing formula, and the industrialisation agenda.

The SACU Agreement, 2002, marks a watershed in the history of the Customs Union; providing clear objectives, a renewed mandate for SACU and establishing several institutions to ensure its effective operation. These include the Council of Ministers, SACU Commission and the Secretariat, among others. The Agreement was amended in 2013 to institutionalise the SACU Summit of Heads of State or Government. The Agreement further provides for joint decision-making by consensus amongst all the Member States.

It also provides for a Common Revenue Pool (CRP), into which all customs, excise and additional duties collected in the Common Custom Area are remitted. The CRP is currently managed by the Republic of South Africa. The revenue collected is shared amongst the Member States in accordance with the specified Revenue Sharing Formula.

In 2011, in pursuit of the SACU Vision and Mission, the SACU Heads of State or Government adopted a Work Programme, which prioritised regional industrialisation as an overarching objective for SACU. The Summit also adopted the following key priority areas of the SACU Work Programme:

- (a) Review of the Revenue Sharing Arrangement;
- (b) Trade Facilitation;
- (c) Development of SACU Institutions;
- (d) Unified engagements in Trade Negotiations;
- (e) Trade in Services; and
- (f) Strengthening the capacity of the Secretariat.

Regional industrialisation is the main vehicle through which the SACU region can transform its economies to generate sustainable growth, employment and reduce poverty. To realise this regional ambition, the SACU Member States agreed to develop common policies and strategies with respect to industrial development. However, due to the asymmetries presented by the economies in the Customs Union, the development of a SACU-wide Industrialisation Policy was not attained.

Considering the above challenge, in 2016, the focus of the Regional Industrialisation Programme shifted from the development of

common policies to the development of public policy interventions and tools to support industrialisation based on the development of regional value chains in SACU. This process resulted in agreed principles, public policy interventions and tools, identification of priority sectors as well as the criteria to underpin the development of regional value chains. As a result, six (6) sectors were prioritised namely: *Agro-processing; Automotives; Mineral Beneficiation; Pharmaceuticals and Chemicals; Textiles and Clothing; and Supporting/Enabling Services*. The work on industrialisation was programmed to continue into 2020, with a further prioritisation of the sectors, as well as identification of bankable projects. This also included exploring the feasibility of establishing a Regional Financing Mechanism for SACU-wide infrastructure projects and industrialisation.

Another important focus area towards deepening regional integration has been the implementation of the SACU Trade Facilitation Programme. The Trade Facilitation Programme has been centred on promoting intra-SACU trade, through the development of concrete measures, tools and policy interventions. It is anchored on the Customs Modernisation Programme (CMP), which has four (4) pillars namely: (i) Customs Legislative Reforms; (ii) Customs Risk Management and Enforcement; (iii) Trade Partnerships; and (iv) Customs IT Connectivity. The main objective of the CMP is to enhance Customs operations to facilitate seamless trade by creating an enabling business environment. With this objective, the CMP is expected to enhance efficiency of border operations, reduce transaction costs and barriers to trade, as well as to contribute to, and enhance the competitiveness of firms.

The SACU Trade Facilitation Programme has evolved over the years and yielded positive results which have partly contributed to an increase in intra-SACU trade from R63 billion in 2004 to R192 billion in 2018.

On the trade front, to integrate the SACU economies into the global economy, SACU Member States pursued a coordinated approach to trade negotiations with third parties. During the period under review, SACU negotiated and concluded several Agreements. These include:

- (a) the Free Trade Agreement between SACU and the European Free Trade Association (EFTA) States;
- (b) the Preferential Trade Agreement between SACU and the Common Market of the South (MERCOSUR); and
- (c) the Economic Partnership Agreement between the European

Union (EU) and its Member States and the Southern African Development Community Economic Partnership Agreement States (EU-SADC EPA).

In anticipation of the United Kingdom’s (UK) withdrawal from the EU, an Economic Partnership Agreement was also negotiated between the United Kingdom, and SACU and Mozambique. This Agreement aims to ensure that trade with the UK should continue uninterrupted following the UK’s exit from the EU.

To further deepen integration and boost trade within the African continent, the SACU Member States have been actively engaged in concluding two (2) major trade Agreements. These are: (i) the Tripartite Free Trade Agreement between three (3) African Regional Economic Communities of Eastern African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), and Southern African Development Community (SADC); and (ii) the African Continental Free Trade Area (AfCFTA).

The conclusion and implementation of the AfCFTA remains a key priority for the SACU region as it will open access to a larger market comprising 54 countries. The AfCFTA provides an opportunity for the continent to increase intra-African trade thereby creating jobs through industrial production, logistics and services, among others. The full realisation and operationalisation of the AfCFTA is squarely in line with SACU’s ambitions and provides an opportunity to advance its industrialisation agenda.

It is my hope, therefore, that this Publication will provide the stakeholders with objective information about the evolution of SACU and more specifically key developments since the entry into force of the SACU Agreement, 2002, on the 15th July 2004.

Finally, I wish to thank the SACU Secretariat Staff for their dedication and commitment towards the implementation of SACU’s Programmes and activities. I also commend them for their hard work and the many hours spent to ensure the final delivery of this important Publication that sets out SACU’s journey since the entry into force of the SACU Agreement, 2002.

Paulina Mbala Elago
Executive Secretary

ACKNOWLEDGEMENTS

The book on *“Insights on SACU’s Journey Over the Past 15 Years”* has been prepared under the overall guidance of Ms. Paulina M. Elago, the Executive Secretary of SACU. Gratitude is extended to the Secretariat’s professional staff members from the Directorates of Policy Development and Research; Trade Facilitation and Revenue Management for their concerted efforts and contributions to the book.

Gratitude is also expressed to the Secretariat’s Oversight Committee, comprised of Mr. Benjamin R. Katjipuka, Director Policy Development and Research, Mr. Abed Iyambo, Senior Office Manager, and Mr. Donald Ndwandwe, Acting Director Trade Facilitation and Revenue Management, for ensuring quality control of the publication. The Directorate of Policy Development and Research is also appreciated for coordinating, supervising and facilitating both the technical and administrative process of producing this book. The primary contributors to this publication are:

Ms. Ngoanamokgotho M. Tladi, Ms. Lerato Ntlopo, Dr. Pelotshweu Moepeng, Mrs. Khutsafalo Sekolokwane, Mrs. Mpho Masupha, Mr. Tiroyaone Sirang, Ms. Rejoice Karita, Mrs. Albertina T. Hitiwa and Mr. Bevuya B. Mdlankomo.

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LIST OF ABBREVIATIONS USED

ACP	African, Caribbean and Pacific States	GDP	Gross Domestic Product
AfCFTA	African Continental Free Trade Area	HCT	High Commission Territories
AfDB	African Development Bank	IMF	International Monetary Fund
AGOA	African Growth and Opportunity Act	IT	Information Technology
AIDA	Accelerated Industrial Development of Africa	JAC	Joint Administration Committee
AUC	African Union Commission	MERCOSUR	Common Market of the South
BELN	Botswana, Eswatini, Lesotho, Namibia	MFN	Most Favoured Nation
BLNS	Botswana, Lesotho, Namibia, Swaziland	MVA	Manufacturing Value Added
CCA	Common Customs Area	PTA	Preferential Trade Agreement
CET	Common External Tariff	REC	Regional Economic Community
CIP	Competitive Industrial Performance	RoO	Rules of Origin
COMESA	Common Market for Eastern and Southern Africa	SACU	Southern African Customs Union
CPA	Cotonou Partnership Agreement	SADC	Southern African Development Community
CRP	Common Revenue Pool	SPS	Sanitary and Phytosanitary
EAC	East African Community	SSA	Sub-Saharan Africa
EEC	European Economic Community	TDCA	Trade, Development and Cooperation Agreement
EFTA	European Free Trade Association	TIDCA	Trade, Investment and Development Cooperation Agreement
EPA	Economic Partnership Agreement	TRQ	Tariff Rate Quota
EU	European Union	UK	United Kingdom
EU-SADC EPA	European Union-Southern African Development Community	US	United States
FTA	Economic Partnership Agreement	WCO	World Customs Organization
GATT	Free Trade Agreement	WITS	World Integrated Trade Solutions
	General Agreement on Tariffs and Trade	WTO	World Trade Organization



EVOLUTION
OF SACU

CHAPTER 1

INTRODUCTION

This Chapter highlights the evolution of the Southern African Customs Union (SACU) since its establishment in 1910 to 2018. It captures key events including institutional and administrative arrangements that evolved over time.

SACU predates modern trade and customs agreements, and to date it remains a customs union. It was originally established by the British colonial power in the 1880s and was not created through negotiation by its Member States. McCarthy (2013) notes that the original 1910 SACU Agreement was signed by one individual, Lord Herbert Gladstone, who was both the Governor General of the Union of South Africa and the High Commissioner of the three High Commission Territories (HCT) of Basutoland, Swaziland and the Bechuanaland Protectorate. Initially, the British Government suggested that, after some time, there would be a transfer of the HCT to the Union of South Africa, provided the Union constitution protected their inhabitants. This chapter will share the history of the evolution of SACU from its establishment in 1910 until 2019. It captures key events, including the SACU institutional and administrative arrangements that have evolved over time. It begins

with a description of the events preceding the signing of the 1910 SACU Agreement. First, some events leading to the signing of the 1910 SACU Agreement are outlined.

In 1889, a Customs Union Convention was held between the British Colony of the Cape of Good Hope and the Orange Free State Boer Republic, preceding the formal establishment of SACU in July 1910 (Hudson, 1979). Later, in 1891, this Customs Union Convention was joined by British Bechuanaland and Basutoland and then, in 1893, by the Bechuanaland Protectorate. Natal joined the Customs Union in 1899. Following the end of the South African War, a new Customs Union incorporating the previous territories of the original Customs Union plus the Transvaal and Southern Rhodesia was formed in 1903. The Kingdom of Swaziland joined this enlarged Customs Union in 1904 and North-Western Rhodesia in 1905.

SACU Headquarters



Following the establishment of the Union of South Africa in 1910, a new set of Customs Union Agreements were entered into: one between the Union of South Africa, Southern and Northern Rhodesia and the other, called the Southern Africa Customs Union, between the Union of South Africa and the HCT (McCarthy, 2013). These Agreements superseded existing Customs Union Agreements. Under the 1910 Southern African Customs Union Agreement, the countries that signed the Agreement were the British High Commission Protectorates of Basutoland, Bechuanaland and Swaziland. Under this Agreement, a Revenue Sharing Formula was administered by the Union of South Africa. Southern and Northern Rhodesia did not sign this Agreement but retained various exemptions until 1965, when Southern Rhodesia faced international sanctions and various prohibitions imposed under British regulations (Hudson, 1979). During this period, a Free Trade Area was established between the Federation of Rhodesia and Nyasaland and the Bechuanaland Protectorate.

The political changes following the independence of Botswana in 1966, Swaziland in 1968 and Lesotho in 1966 necessitated a renegotiation of the 1910 Agreement. This culminated in the conclusion of the SACU Agreement between Botswana, Lesotho, South Africa and Swaziland in 1969. Further political and economic developments of the early 1990s warranted a complete renegotiation of the 1969 Agreement. This followed Namibia's independence in 1990 and democracy in South Africa in 1994. Negotiations to reform the 1969 Agreement started in 1994, and a new Agreement was signed in 2002, which entered into force on 15 July 2004. It is worth noting that Namibia has been a de facto SACU member since 1920 by virtue of being a colony of South Africa until 1990,

when the country gained its independence. The current members of SACU are the Republic of Botswana, Kingdom of Eswatini (formerly Swaziland), Kingdom of Lesotho, Republic of Namibia and Republic of South Africa. The SACU Headquarters is in Windhoek, Namibia, where the SACU Secretariat is based.

Like other customs unions, a key feature of SACU is that the economic structures of the Union are linked by a single tariff – the Common External Tariff (CET) – and a common customs territory where no customs duties are applied on goods traded among the members. This means the Member States form a single customs territory in which tariffs and other barriers are eliminated on all trade between them, provided the products originate in these countries. The CET applies to non-members of SACU.

The subsequent sections provide a further account of the evolution of SACU over the past 109 years and concludes with the latest developments reflecting the structure of the SACU Secretariat, which became operational in 2004.

SACU Agreement of 1910

The SACU Agreement of 1910, also referred to as the “Customs Union Agreement”, provided the first formal framework for the operation of SACU and predates both the General Agreement on Tariffs and Trade (GATT) of 1947 and the World Trade Organization (WTO) of 1995. The economic rationale for the original formation of the Union was primarily to serve the interests of the British Colonial Administration, including facilitating the collection and distribution of revenue from customs duties.



The main highlights of the SACU 1910 Agreement were that:

- the revenue generated was administered by South Africa and distributed among member countries on the basis of fixed percentage shares determined by an estimate of the customs and excise duty content of imports of the HCT;
- tariff management was undertaken solely by the South African government;
- the customs external tariff of SACU was primarily a South African import tariff and served as a South African strategy of import substitution since 1925; and
- SACU was not formed as a proactive and planned effort to establish an integration arrangement of independent nation states, but instead became an instrument of industrial policy to meet the industrial development of South Africa.

This Agreement was in force and operation until 1969, when it was renegotiated following the independence of Botswana, Swaziland and Lesotho.

SACU Agreement of 1969

The political changes following the independence of Botswana, Swaziland and Lesotho necessitated a renegotiation of the Customs Union Agreement of 1910. This culminated in the conclusion of the SACU Agreement of 1969. The latter was concluded between the Governments of the Republic of South Africa, Republic of Botswana, the Kingdom of Lesotho and the Kingdom of Swaziland (SACU Secretariat, 2020).

The objectives of this Agreement were:

- the maintenance of free trade among the Member States;
- to afford all the Member States equitable benefits arising from trade among them and with other countries; and
- to encourage the economic development of the less advanced members of the Customs Union and the diversification of their economies.

The following changes in the SACU arrangement were effected in the Agreement of 1969:

- a revenue distribution formula that guaranteed Botswana, Swaziland and Lesotho a %17 revenue share, which was also a revenue stabilisation factor for them; and
- a provision that allowed these countries to temporarily levy additional duties on goods imported to support infant industries in order to meet competition from other producers or manufacturers in the Common Customs Area (CCA), which would encourage diversifying growth through industrialisation.

The South African Government retained the role of administering SACU matters, including imposing, amending and abrogating any customs duty without the consent of Botswana, Lesotho, Namibia and Swaziland, even when the 1969 SACU Agreement required consultation with the other Member States (McCarthy, 2013). Hudson (1979) had found that managing customs and excise tariffs by South Africa was also by extension a SACU industrial policy. Botswana, Lesotho and Swaziland had little or no influence in this structure from 1910 to 1969, and the same applied until 2004, when the SACU Agreement of 2002 took effect.

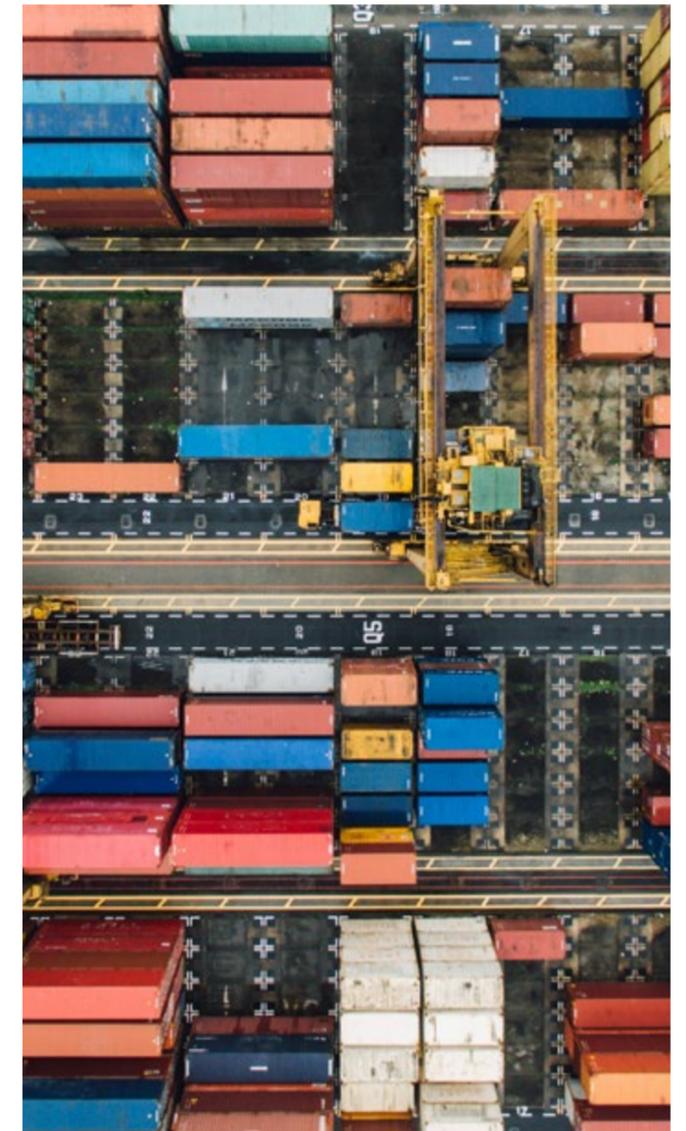


His Majesty King Mswati III of Eswatini and the Former President of the Republic of Botswana His Excellency Dr. Seretse Khama Ian Khama assisted by the SACU Chief Legal Officer Ms. Ndibo Oitsile during the signing of the SACU agreement amendment in 2013.

In summary, the following were the key features of the SACU Agreement of 1969 (Hudson, 1979; McCarthy, 2013; SACU Secretariat, 2002):

- South Africa retained responsibility for setting trade and industries priorities, which determined and set the CET and other trade measures such as excise, anti-dumping, countervailing and safeguard duties on imports into the customs area;
- all customs and excise duties collected by the four members were pooled into a Consolidated Revenue Fund administered by South Africa;
- the shares for the Member States were determined based on a Revenue Sharing Formula, which had an explicit provision for a compensatory payment to Botswana, Lesotho and Swaziland for the loss of fiscal autonomy;
- any SACU Member State could enter into a Preferential Trade Agreement (PTA) with Third Parties, provided that the terms of such an agreement did not conflict in any way with the provisions of the SACU Agreement; and
- a provision for infant industry protection, which has been used by Botswana, Lesotho and Swaziland in a limited way.

The political and economic developments of the early 1990s, including Namibia's independence in 1990 and the attainment of democracy by South Africa in 1994, warranted a complete renegotiation of the Agreement of 1969. It is also worth noting that this agreement did not include a provision for a joint decision-making mechanism, which made it necessary to take these developments into account and conclude a new agreement. The SACU Agreement of 1969 was thus renegotiated with the aim of democratising SACU and addressing the needs of the Member States more effectively. The result was the SACU Agreement of 2002, which sets out a broad framework for enhanced integration with a new legal and institutional architecture, decision-making structures and financing procedures. It describes a clear mandate and all the objectives of SACU.





The SACU Summit Heads of State or Government in 2010, His Excellency Jacob Gedleyihlekisa Zuma, the President of South Africa, His Majesty King Mswati III of the Kingdom of Eswatini, His Excellency Hifikepunye Lucas Pohamba, the President of Namibia and Chairperson of the SACU Summit 2010, His Excellency Dr. Seretse Khama Ian Khama, the President of Botswana, and Mr. Pakalitha Mosisili, The Prime Minister for the Kingdom of Lesotho.



His Majesty King Mswati III of the Kingdom of Eswatini, His Excellency Dr. Mokgweetsi Eric Keabetswe Masisi, President of the Republic of Botswana and Chairperson of the SACU Summit, His Excellency Dr. Hage Geingob, President of the Republic of Namibia, His Excellency Cyril Matamela Ramaphosa, President of the Republic of South Africa, the Right Honourable Dr. Thomas Motsoahae Thabane, Prime Minister of the Kingdom of Lesotho and Ms. Paulina M. Elago, the Executive Secretary of SACU, at the 6th SACU Summit held on 29th June 2018, in Gaborone, Botswana.

- the peoples of Southern Africa;
- to develop common policies and strategies for areas such as trade facilitation, effective customs controls and competition; and
- to develop effective, transparent and democratic institutions and processes.

The SACU Vision and Mission underscore the ambition of the SACU Member States to eventually establish an economic community. An economic union requires member countries to go beyond the requirements of a customs union and formalise unified and coordinated national economic policies.

While markedly different from its predecessor, the SACU Agreement of 2002 adapted some of the Articles that constituted the 1969 Agreement as follows:

- Free Movement of Domestic Goods;
- Goods Imported from outside the CCA;
- Customs Duties on Imported Goods;
- Specific Excise and ad valorem Excise Duties and Specific Customs and ad valorem Customs Duties on Imported Goods of the same class or kind;
- Protection of Infant Industries;
- Rail and Road Traffic;
- Arrangements for Regulating Marketing of Agricultural Products;
- Sanitary and Phyto-Sanitary Measures;
- Trade with Third Parties; and
- Pool of Customs, Excise and Additional Duties.

The SACU Agreement of 2002 introduced a rules-based dispensation and joint decision-making by all its Member States. Decisions in all institutional structures are taken by consensus, as provided for in Article 17. The exception is in Article 13 where it states that a decision of the Tribunal is taken by majority vote and it is final and binding.

Provision for a Common Negotiation Mechanism is made in Article 31 of the SACU Agreement of 2002. This requires external trade policy to be jointly determined by the Member States as articulated in Article 8. No Member State shall negotiate and enter into new PTAs with Third Parties or amend existing agreements without the consent of the other Member States.



Ms. Paulina M. Elago, Executive Secretary of SACU, Dr. T. Nyamadzabo, Secretary of Economic & Financial Policy in the Ministry of Finance and Economic Development, Botswana and Chairperson of SACU Commission and Mr. Abed Iyambo, Senior Office Manager, SACU Secretariat during the 45th Meeting of SACU Commission, on 20 September 2017 in Windhoek, Namibia.

SACU Member States have established a Common Negotiation Mechanism for the purpose of undertaking negotiations with Third Parties. Although the mechanism has not yet entered into force, SACU Member States have pursued a unified approach to negotiations with Third Parties. Since 2002, SACU Member States have concluded several trade negotiations as a bloc with key trading partners. These include the following:

- A PTA between SACU and the Common Market of the South (MERCOSUR), which comprises Brazil, Argentina, Paraguay and Uruguay in 2016;
- A Free Trade Agreement (FTA) between SACU and the European Free Trade Association (EFTA), which consists of Norway, Iceland, Liechtenstein and Switzerland in 2008; and
- An Economic Partnership Agreement (EPA) between the Southern African Development Community (SADC) and the European Union (EU) in 2016.

With these agreements, the Member States and private sector can now take full advantage of the market access opportunities provided in them. More details on these trade agreements are outlined in Chapter 4. At the time of this publication, SACU Member States were engaged in the following continuing Trade Negotiations:

- Common Market for Eastern and Southern Africa (COMESA)-East African Community (EAC)-SADC Tripartite FTA;
- Africa Continental Free Trade Area;
- SACU-India PTA;
- Review of the SACU-EFTA FTA; and
- SACU, Mozambique and United Kingdom (UK) EPA.

Article 33 of the SACU Agreement of 2002, hereafter in this chapter referred to as the SACU Agreement, provides that a Member State or SACU institution may be appointed by Council to manage the Common Revenue Pool (CRP). All transactions into and out of the CRP are to be reported to the Secretariat, which shall be subjected to regular audits. At the time of the agreement, South Africa was to manage the CRP for a transitional period of two years from the time it entered into force.

As a customs union, SACU maintains a CET on imports from outside the customs area. South Africa's International Trade Administration Commission was mandated by the SACU Council to process customs tariff applications on the behalf of all SACU Member States, pending the establishment of the SACU Tariff Board.

The SACU Agreement includes a new Revenue Sharing Formula in Article 34 of the agreement. The formula has three components: customs, excise and development. The calculation methods are articulated in Chapter 6 and Annex A to the agreement. The calculation of each Member State's share of the customs component is cost-insurance-freight as a percentage of the total cost-insurance-freight value of intra-SACU imports. The excise component is a percentage of total SACU gross domestic product (GDP) in such a year. The development component was initially set at 15% of the excise component and reviewed from time to time, and it would be adjusted if all the Member States agreed. The result is that Botswana, Eswatini, Lesotho and Namibia get a proportionately higher share of the revenue from the Customs Component because they are net importing countries.

The SACU Agreement also provides for the development of common policies among the Member States in the areas of industrial development, agriculture, competition policies and unfair trade practices. Work and consultations among the Member States are continuing with a view to work towards positions that would promote economic growth in the CCA. The key objectives of this work are to achieve balanced economic development and deal with the effects of economic polarisation and industrial concentration.

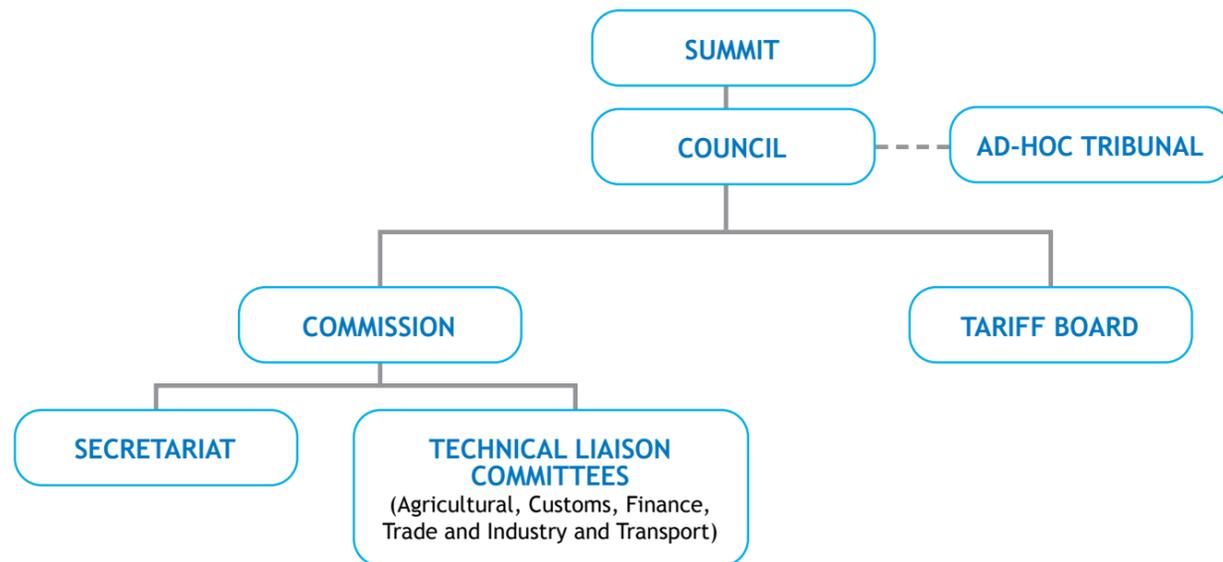
McCarthy (2013) observed the need to encourage and facilitate the industrial development of all Member States as a driving force of economic growth and poverty alleviation. The SACU Heads of State or Government have endorsed regional industrialisation as a priority area and overarching objective of the SACU Work Programme. In implementing this objective, Member States have thus agreed on priority sectors to be considered in the development of regional value chains. Work undertaken will leverage from progress made under SADC as guided by the SADC Industrialisation Strategy. There are arguments that if SACU was to follow a fast-growing developing economies and newly industrialised countries approach, the export-oriented industrial approach would be the appropriate route (McCarthy, 2013). More details regarding the regional industrialisation agenda are provided in Chapter 7 of this publication.

A Secret Memorandum of Understanding was also concluded by the parties. This covered general provisions of trade, the determination of customs and excise duties, protective measures for industries in Botswana, Eswatini, Lesotho and Namibia (BELN), trade agreements with parties outside SACU and revenue sharing.

SACU Institutions

Article 7 of the SACU Agreement, amended in 2013, provides for the establishment of the following institutions as outlined in Figure 1: (i) the SACU Summit, (ii) Council of Ministers, (iii) Customs Union Commission, (iv) Secretariat, (v) Technical Liaison Committees, (vi) Ad Hoc Tribunal and (vi) Tariff Board.

Figure 1: SACU Institutions¹



¹ The institutions that were not functional at the time of this publication included: Tariff Board, Ad-Hoc Tribunal and Technical Liaison Committees.



His Majesty King Mswati III, of the Kingdom of Eswatini, His Excellency Dr. Mokgweetsi Eric Keabetswe Masisi, President of the Republic of Botswana and Chairperson of the SACU Summit, His Excellency Dr. Hage Gottfried Geingob, President of the Republic of Namibia, His Excellency President Cyril Matamela Ramaphosa, President of the Republic of South Africa, the Right Honourable Dr. Thomas Motsoahae Thabane, Prime Minister of the Kingdom of Lesotho and Ms. Paulina M. Elago, SACU Executive Secretary, at the 6th SACU Summit held in 2018 in Gaborone, Botswana.

THE SACU SUMMIT: This is provided for in Article 7A. The amendments to the SACU Agreement to institutionalise the Summit were adopted on 12 April 2013. The SACU Summit comprises the Heads of State or Government from all the SACU Member States. According to the SACU Secretariat (2013), the key function of the Summit, as the highest decision-making body of SACU, is to define the political and strategic direction and priorities of SACU. The Summit shall meet at least once a year.

SACU COUNCIL OF MINISTERS: As provided for in Article 8, the Council of Ministers comprises the Ministers responsible for Finance and Trade in the SACU Member States (SACU Secretariat, 2013). The Council is responsible for decision-making on the overall policy direction and functioning of the SACU institutions, including the formulation of policy mandates, procedures and guidelines for the SACU institutions. The Council is also responsible for appointing the Executive Secretary and Deputy Executive Secretary as well as members of the Tariff Board. Further, the Council approves the budget of the Secretariat and, among other duties, oversees the implementation of SACU's policies.



SEATED: Hon. Bogolo Joy Kenewendo, Minister of Investment, Trade and Industry of Botswana, Hon. Dr. Moeketsi Majoro, Minister of Finance of Lesotho, Hon. Tjekero Tweya, Minister of Industrialisation, Trade and SME Development of Namibia, Hon. Dr. Martin G. Dlamini, Minister of Finance of Eswatini and Hon. Dr. Rob Davies, Minister of Trade and Industry of South Africa.
 STANDING: Hon. Carl-Hermann Gustav Schlettwein, Minister of Finance of Namibia, Hon. Kenneth O. Matambo, Minister of Finance and Development Planning of Botswana and Chairperson of the SACU Council of Ministers, Hon. Jabulani Mabuza, Minister of Commerce, Trade and Industry of Eswatini, Ms. Paulina M. Elago, Executive Secretary of SACU, Hon. Tefo Mapesela, Minister of Trade and Industry of Lesotho and Hon. Nhlanhla Musa Nene, Minister of Finance of South Africa at the 35th Meeting of the Council of Ministers held in 2018 in Gaborone, Botswana.

CUSTOMS UNION COMMISSION: In terms of Article 9 of the SACU Agreement, the Commission comprises senior officials at the level of Permanent Secretaries, Directors-General, Principal Secretaries, Executive Directors, or other officials of equivalent rank. The key responsibility of the Commission is to monitor the implementation of the SACU Agreement and decisions of the Council. The Commission also provides advice to the Council on technical issues and supervises the work of the Secretariat.

SACU SECRETARIAT: The Secretariat is a new institution created in the SACU Agreement and is covered in Article 10. The Secretariat is responsible for the day-to-day administration of SACU and coordination and monitoring of all decisions of the Summit, the Council and the Commission. It also arranges meetings and keeps minutes of the SACU institutions' meetings. The Secretariat is the depository of all SACU records. It has no supranational authority or policy-making powers. The budget of the Secretariat is funded from the CRP and is deducted proportionately from the gross amounts of customs, excise and additional duties collected before the distribution of revenue shares to the Member States.

At its inception in 2004, the Secretariat operated with a lean structure comprising the Executive Secretary as the only employee and three seconded staff members from the Ministry of Finance

and Office of the Prime Minister of Namibia. The seconded staff consisted of a Secretary, an Administration Clerk and a Personal Assistant. The initial Secretariat Structure as approved by the Council in 2004 comprised the following Directorates: Executive Secretary's Office, Directorate of Trade Facilitation and Revenue Management, Directorate of Policy Development and Research, Directorate on Legal Services and Directorate of Corporate Services. The structure was approved with the understanding that it would be reviewed as and when the operational need arises.

As part of implementing the Priority Area of Strengthening the Capacity of the Secretariat, new positions were established. These were Deputy Executive Secretary, Senior Office Manager in the Office of the Executive Secretary, Trade Negotiations Coordinator, Facilities and Administration Assistant and Information and Communications Technology Technician. The current structure provides for 50 employees.

From January 2004 to January 2014, the Secretariat was headed by Ms. Tswelopele C Moremi, a Botswana national who served as the Executive Secretary. After serving two terms, Ms. Moremi was replaced by Ms. Paulina M. Elago from Namibia, who began on 1 April 2014.



STANDING: The Minister of Finance of Lesotho, Honourable Dr. Moeketsi Majoro, the Minister of Finance of Namibia and Chairperson of the SACU Council of Ministers, Honourable Calle Schlettwein and the Minister of Finance of Eswatini, Honourable Neil Rijkenberg. **SEATED:** The Deputy Minister of Industrialisation, Trade and SME Development of Namibia, Honourable Lucia Lipumbu, the Minister of Investment, Trade and Industry of Botswana, Honourable Peggy Serame, the Executive Secretary of SACU, Ms. Paulina M. Elago, and the Deputy Minister of Trade and Industry of South Africa, Honourable Gina Nomalungelo, at the 38th Meeting of the Council of Ministers on the 5th December 2019, in Windhoek, Namibia.

TECHNICAL LIAISON COMMITTEES: In accordance with Article 12 of the SACU Agreement and after a Council decision, the following Technical Liaison Committees were established in 2007: Agricultural; (ii) Customs; (iii) Trade and Industry; (iv) Transport; and (v) Finance. These committees are responsible for assisting and advising the Commission on its work, and they report directly to the Commission. In accordance with their Terms of Reference, they are mandated to meet to consider technical issues and present their reports to the Meetings of the Commission. The Meetings of the Technical Liaison Committees were suspended in August 2010 following challenges identified by the Heads of State or Government in July that year. This was to enable an assessment of their operations and align their work to that of the Commission. Discussions have been continuing since April 2018 to resuscitate the work of the committees and revised proposals are being considered.

AD-HOC TRIBUNAL: The Ad Hoc Tribunal is established in the SACU Agreement but not yet operational. The Tribunal, once operational, will settle any dispute regarding the interpretation or application of the agreement, or any dispute arising from it.

SACU TARIFF BOARD: Article 11 of the SACU Agreement provides for the establishment of the Tariff Board, which would govern tariff administration in SACU. The Tariff Board has not been operationalised and discussions about it are continuing. As an interim arrangement, tariff matters are currently being handled by the International Trade Administration Commission of South Africa, as per a decision of the Council taken in 2007. At the time of this publication, the Member States were in discussion on the review and development of a suitable architecture for tariff-setting, rebates, duty drawbacks and trade remedies as part of the Work Programme for the Ministerial Task Teams on Trade and Industry and on Finance.

NATIONAL BODIES: Article 14 of the SACU Agreement provides that the Member States shall establish specialised, independent and dedicated National Bodies or designated institutions. These National Bodies shall be responsible for carrying out preliminary investigations and recommending any tariff changes necessary to the Tariff Board. In executing their mandates, the National Bodies are to study, investigate and determine the impact of tariffs in the respective Member States, periodically propose such changes as may be deemed necessary and, through the Secretariat, make recommendations to the Commission. The establishment of National Bodies is at different levels across Member States as they institute appropriate legislative frameworks. Botswana has a Trade Commission and South Africa has its International Trade Administration Commission. Eswatini, Lesotho and Namibia have not yet formed these bodies, but they have designated officers in the Ministries of Trade.



Her Excellency the late Madam Tswelopele Cornelie Moremi, the Founding Executive Secretary of SACU (2005-2014)



Members of the SACU Commission together with the Executive Secretary of SACU at their 54th Meeting on the 4th December 2019, in Windhoek, Namibia.



Hon. Kenneth O. Matambo, Minister of Finance and Economic Development of Botswana and Chairperson of the SACU Council of Ministers, Ms. Paulina M. Elago, the Executive Secretary of SACU and Dr. Tafila Nyamadzabo, Secretary for Economic and Financial Policy at the Ministry of Finance and Economic Development of Botswana and Chairperson of the SACU Commission at the 35th Meeting of the Council of Ministers on 27th-28th June 2018, held in Gaborone, Botswana.



Hon. Martin G. Dlamini, Minister of Finance of the Kingdom of Eswatini and Chairperson of the SACU Council, together with Ms. Paulina M. Elago, the Executive Secretary of SACU and Mr. Bheki Bhembe, Principal Secretary in the Ministry of Finance in the Kingdom of Eswatini and Chairperson of the SACU Commission at the 31st Meeting of the Council of Ministers on 22nd June 2017, held in Ezulwini, Eswatini.



His Excellency President Cyril Matamela Ramaphosa, President of the Republic of South Africa, the Right Honourable Dr. Thomas Motsoahae Thabane, Prime Minister of the Kingdom of Lesotho and Ms. Paulina M. Elago, Executive Secretary of SACU, at the 6th SACU Summit on 29th June 2018, held in Gaborone, Botswana.

SACU Priorities

As approved by summit in 2010, consistent with the SACU Vision and Mission, the SACU Work Programme is focused on the following priority areas:

- Regional Industrial Development Policy;
- Review of the Revenue Sharing Arrangement;
- Trade Facilitation;
- Development of SACU Institutions;
- Unified Engagement in Trade Negotiations;
- Trade in Services; and
- Strengthening the Capacity of the Secretariat.

The ministerial work programme was approved and endorsed by the SACU Summit in June 2017 in Ezulwini, Eswatini. The key focus areas of the Programme are:

- reviewing and developing a suitable architecture for tariff-setting, rebates, duty drawbacks and trade remedies;
- reviewing the Revenue Sharing Formula and the long-term management of the CRP;
- exploring ways to address revenue volatility and the feasibility of a financing mechanism for regional industrialisation;
- identifying financing options for regional projects;
- developing public policy interventions to promote and align industrial development and value chains; and
- strengthening existing cooperation and collaboration on trade facilitation to improve border efficiencies.

The Secretariat continues to coordinate the implementation of the regional programme on industrialisation and the development of regional value chains. The focus to date was on facilitating work on the identification of guiding principles, public intervention and tools, priority sectors as well as criteria that would underpin regional industrialisation in SACU. Since all SACU Member States are also members of SADC, the Council agreed to use the SADC Industrialisation Strategy and Roadmap as the basis for developing work on regional value chains in SACU.



Ms. Ericah B. Shafudah, the Executive Director in the Ministry of Finance, Namibia, Chairperson of SACU Commission and SACU Secretariat Employees during the SACU Brand Fair on 14 August, 2019.

The President of the Republic of Botswana, His Excellency Dr. Mokgweetsi Eric Keabetswe Masi, together with the Executive Secretary of SACU, Ms. Paulina M. Elago, the Minister of Investment, Trade and Industry, Hon. Peggy O. Serame, and the Minister of International Affairs and Cooperation, Hon. Dr. Unity Dow, the High Commissioner of Botswana to Namibia, Her Excellency Mrs. Tshenolo Modise, as well as the Secretariat Executive Commity members during the President's visit to the SACU Headquarters on the 13th February 2020.



SACU Secretariat Staff at the 100 year SACU establishment celebration on 22nd April 2010, Windhoek, Namibia

In 2017, the SACU Member States agreed that the architecture on tariff-setting and administration, as it appeared in the SACU Agreement, should be reviewed and a suitable architecture for tariff-setting, rebates, duty drawbacks, refunds and trade remedies developed. This review was to find an inclusive process that took into consideration all the Member States' interests. The process is continuing. The key problems and challenges in implementing the Ministerial Work Programme have included the need for extensive consultation on issues related to the programme, which has hampered the development of common positions in engagements with third parties. The implementation is also characterised by slow and complex issues that have an impact on the agreed timelines.

Conclusion

SACU is the oldest functioning customs union in the world. It predates the GATT and the WTO. Initially, SACU was the creation of the British Colonial Administration, whose aim was to raise revenue through the customs and excise tax on imports to the Union of South Africa and the HCT of Basutoland, Swaziland and the Bechuanaland Protectorate. During the apartheid era, SACU was also a part of the industrial policy of South Africa, playing a major role in its import substitution policy as an instrument of industrialisation.

In the more than 109 years of its existence, SACU has gone through various stages of transformation, from an arrangement that focused mainly on revenue sharing to a customs union that serves as a tool for the economic development of its Member States. In particular, the SACU Agreement signifies a major departure from the 1910 and 1969 Agreements, in a number of areas. For instance, the SACU Agreement established new institutions such as the Summit, Council, Commission, Secretariat, the Headquarters and other offices that were not in existence in the 1969 and 1910 SACU Agreements. The previous agreements did not provide a joint decision-making mechanism, and the collection and management of the CRP was the exclusive preserve of South Africa. The SACU Agreement democratises SACU and allows for joint decision-making among the Member States. It also established SACU institutions to enhance equal participation by the Member States. More significantly, having the Secretariat enhances efficiency in coordinating the regional Trade Agenda, especially the implementation of agreed decisions.

A key feature of SACU is that its Member States implement a CET. Within SACU's common customs territory there is free movement of goods between the Member States and no customs duties are applied. All the Member States except Botswana belong to a Common Monetary Area and use the Rand. As stated earlier in this chapter, the SACU Vision and Mission imply that SACU as an economic union requires Member States to go beyond the requirements of a Customs Union in which the national economic policies of member countries are unified and coordinated. And although there is progress in most areas of the SACU programme, the implementation of the Ministerial Work Programme still needs strategic guidance to conclude outstanding issues.





The SACU Agreement is not yet fully implemented. What remains to be done are a review and development of a suitable architecture for tariff-setting, rebates, duty drawbacks and trade remedies; a review of the Revenue Sharing Formula and the long-term management of the CRP; finding ways to address revenue volatility and exploring the feasibility of a financing mechanism for regional industrialisation; identifying financing options for regional projects; developing public policy interventions to promote and align industrial development and the value chain; and strengthening existing cooperation and collaboration on trade facilitation to improve border efficiencies. The full implementation of this agreement will enable the region to serve as a building block for regional integration in southern Africa, as envisaged in the SACU Vision and Mission.

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OVERALL ECONOMIC PERFORMANCE
CHAPTER 2

INTRODUCTION

This Chapter provides an analysis of the global and SACU regional economic performance over the last five years. The focus of the analysis is on the Gross Domestic Product, price developments, public debts, budget deficit, and current account balance. The Chapter concludes with an assessment of the macroeconomic convergence in SACU, using the SADC benchmarks.

Main Features of the SACU Economies

The following is an overview of the main features of the economies of Botswana, Eswatini, Lesotho, Namibia and South Africa. The source of the data used is the World Bank’s World Development Indicators.

Demographics

The demographics of SACU are uneven, with nearly 88% of the population of the Customs Union located in South Africa. Three of the other Member States have similar-sized populations while Eswatini has the smallest population.

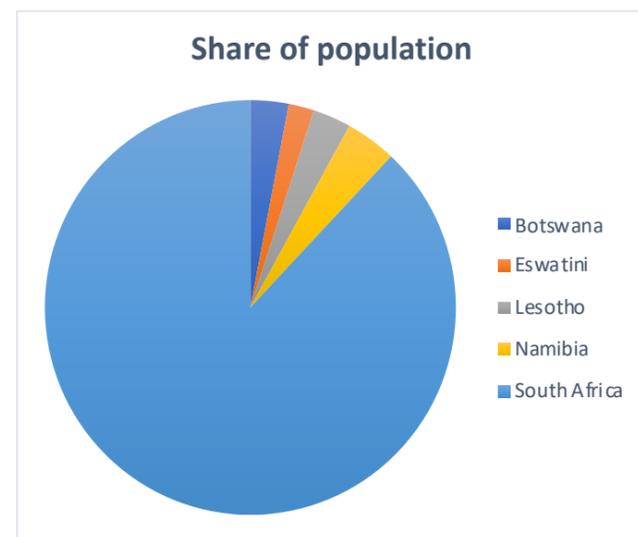
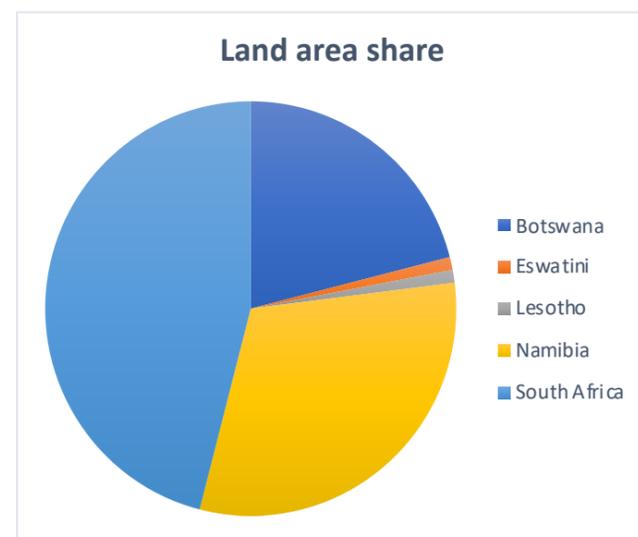
Table 1: Basic Demographics

	Land area share	Share of population	Population density (per square km)
Botswana	21.38%	3.43%	3.89
Eswatini	0.65%	1.73%	65.39
Lesotho	1.15%	3.21%	68.89
Namibia	31.06%	3.72%	2.91
South Africa	45.77%	87.91%	46.99

The contrast in land area is also uneven, with three large countries accounting for 98.21% of the land total land area and the other two countries accounting for 1.79%. The fact that Botswana and Namibia collectively hold 52.45% of the land area but only 7.2% of the population suggests very low population densities in these countries, which is borne out by the data in Figure 1.



Figure Group 1: Basic demographics



Macroeconomic indicators¹

Macroeconomic indicators are presented for all five countries and for the SACU aggregates in Table 2, Table 3 and Table 4.

¹ Note that where averages are used in the data tables, these are simple rather than weighted averages. This reflects the notion that each SACU Member holds equal importance regardless of their economic size.

Table 2: GDP Growth vs Per Capita GDP Growth

	2014	2015	2016	2017	2018
GDP growth (annual %)	3.5%	1.8%	2.5%	0.6%	1.4%
Botswana	4.1%	-1.7%	4.3%	2.9%	4.5%
Eswatini	1.9%	0.4%	3.2%	1.9%	0.6%
Lesotho	3.1%	2.8%	3.2%	-2.3%	1.5%
Namibia	6.4%	6.1%	1.1%	-0.9%	-0.1%
South Africa	1.8%	1.3%	0.6%	1.3%	0.6%
GDP per capita growth (annual %)	2.2%	0.5%	1.1%	-0.8%	0.0%
Botswana	2.8%	-3.2%	2.4%	0.8%	2.2%
Eswatini	1.2%	-0.4%	2.3%	0.9%	-0.4%
Lesotho	2.4%	2.0%	2.4%	-3.1%	0.7%
Namibia	4.5%	4.2%	-0.7%	-2.7%	-1.9%
South Africa	0.2%	-0.3%	-0.9%	-0.1%	-0.7%

For SACU overall, growth has fallen off since 2014, a result of the global stagnation following the post-commodity boom period and the trade war between the United States (US) and China from 2017. Due to population growth rates in SACU exceeding GDP growth rates, per capita GDP growth rates have fallen more than for growth and went negative in 2017. The worst affected countries were Lesotho and Namibia, with the latter remaining in

the red for 2018. On the other hand, Botswana’s per capita GDP growth was the highest of the Customs Union for the full period (2014-2018). South Africa’s was the worst for both forms of the growth calculation.

The main sector shares out of GDP are given in Table 3. This data can assist in understanding important shifts in the production base of the region.

What is clear is that the size of the broad agricultural sector remained roughly the same as a proportion of the regional economy. Opposite changes took place in Eswatini and Namibia, with the latter showing some growth in the sector and the former showing some shrinkage, but there were no major changes. Given that these are proportional measurements, when one sector grows (or shrinks), another one or more have to increase to maintain the overall proportion. Eswatini’s manufacturing sector grew by less than its agricultural sector shrank, so other changes must have happened. Indeed, its services sector grew proportionally by nearly 3%, the largest increase in services’ output share in the Regional Economic Community. Lesotho saw strong growth in its manufacturing share - driven by its apparel and clothing exports under the African Growth and Opportunity Act (AGOA) - but its proportional share of services shrank to some extent. South Africa and Botswana experienced slight shrinkage in their manufacturing sectors’ share out of GDP and this is described as “premature deindustrialisation”.

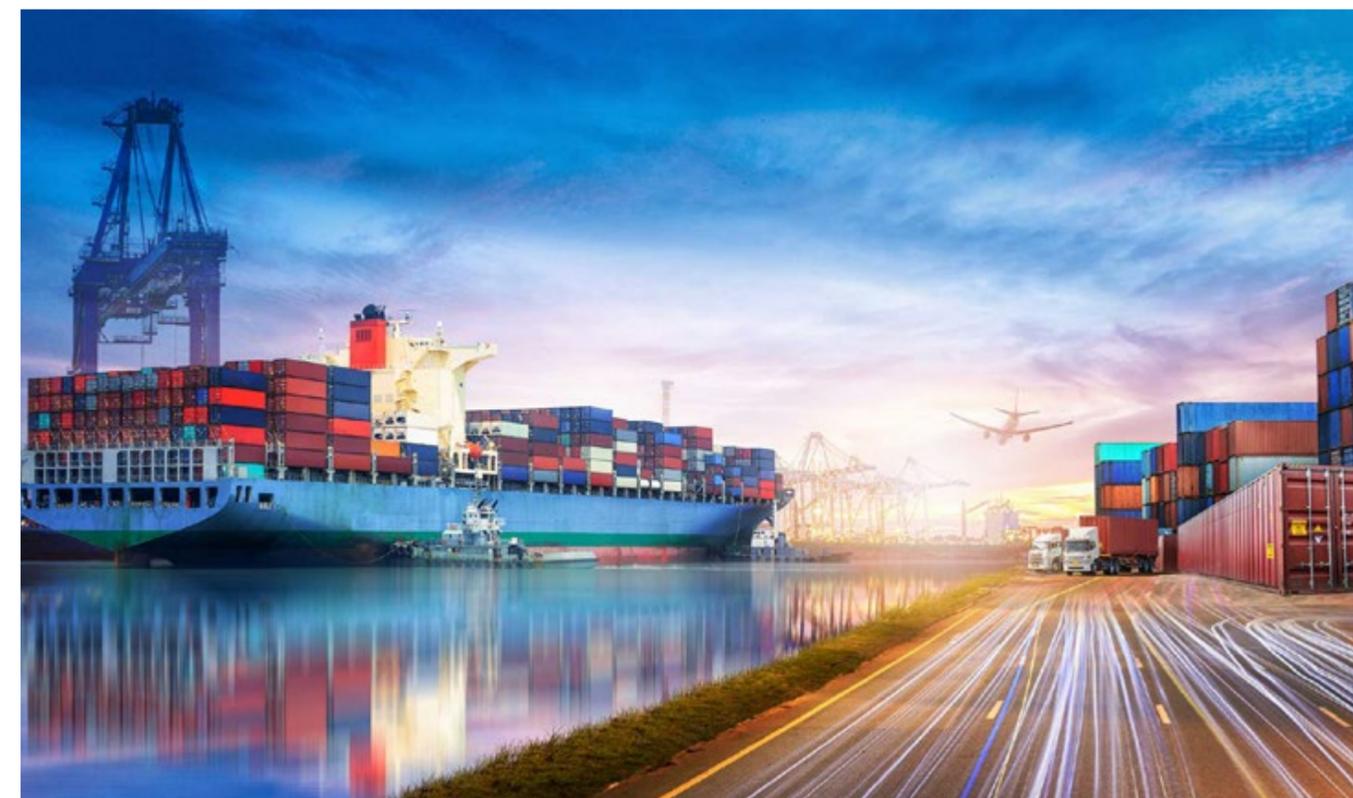


Table 3: Main Sector Shares out of GDP

	2014	2015	2016	2017	2018
Agriculture, forestry, and fishing, value added (% of GDP)	5.2%	4.9%	5.0%	5.1%	5.0%
Botswana	2.1%	2.2%	2.0%	2.0%	2.0%
Eswatini	9.5%	9.6%	9.0%	8.4%	8.6%
Lesotho	5.6%	5.0%	5.9%	6.1%	
Namibia	6.7%	5.9%	6.1%	7.0%	7.2%
South Africa	2.2%	2.1%	2.2%	2.3%	2.2%
Manufacturing, value added (% of GDP)	14.0%	14.8%	15.0%	14.4%	14.6%
Botswana	5.3%	5.8%	5.2%	5.1%	5.2%
Eswatini	30.8%	31.8%	31.0%	30.1%	31.1%
Lesotho	12.0%	14.6%	15.7%	13.7%	
Namibia	10.0%	9.7%	11.0%	11.2%	10.1%
South Africa	12.0%	12.0%	12.0%	11.9%	11.8%
Services, value added (% of GDP)	55.8%	56.2%	56.0%	56.9%	57.8%
Botswana	55.7%	58.1%	57.0%	59.1%	59.5%
Eswatini	49.8%	49.7%	51.9%	53.4%	52.8%
Lesotho	54.4%	52.9%	52.1%	52.5%	
Namibia	57.9%	59.1%	58.2%	58.1%	57.7%
South Africa	61.0%	61.4%	61.0%	61.5%	61.4%

The services share of output grew in aggregate for SACU, which reflects a more general global rising share of services in output. This is due to an increasing breadth and depth of services driven mainly by technological advances. However, the rates of growth in the developed world are higher.

Changes in public finance aggregates and savings are given in Table 4. At the aggregate level, government consumption spending fell over the seven-year period (2012-2018, with some series truncated in 2017). Similarly, government revenue fell at the aggregate level and so did savings. However, the dominant economy's data is not so positive. South Africa's government consumption expenditure as a proportion of GDP rose, as did revenue. At the same time savings fell, and these movements are not positive for long-term growth. South Africa spends 60% of its revenue on the public sector wage bill, Namibia's share is even higher, and these patterns are not reflective of good public sector management. In both South Africa and Namibia, gross savings' share fell, suggesting the private sector is under pressure because of rising tax rates and slowing economic growth. These trends need to be reversed by putting the brakes on government current expenditure and real tax increases. Public debt also needs to be reined in.



Table 4: Public Finance vs Savings

	2012	2013	2014	2015	2016	2017	2018
General government final consumption expenditure (% of GDP)	24%	24%	25%	24%	24%	22%	21%
Botswana	19%	19%	20%	21%	18%	18%	19%
Eswatini	18%	18%	19%	20%	24%	24%	
Lesotho	37%	35%	37%	35%	34%		
Namibia	25%	26%	26%	26%	24%	24%	23%
South Africa	20%	21%	21%	20%	21%	21%	21%
Gross savings (% of GDP)	23%	24%	25%	24%	20%	19%	14%
Botswana	43%	39%	40%	36%	37%	37%	
Eswatini	18%	23%	23%	23%	13%	9%	
Lesotho	21%	22%	24%	28%	23%		
Namibia	18%	20%	22%	15%	10%	15%	14%
South Africa	15%	15%	16%	17%	16%	16%	14%
Revenue, excluding grants (% of GDP)	35%	36%	36%	34%	32%	32%	
Botswana	37%	39%	38%	33%	34%	31%	
Eswatini							
Lesotho	40%	40%	39%	37%	32%	34%	
Namibia	35%	34%	36%	35%	31%	33%	
South Africa	28%	29%	31%	32%	31%	31%	

Trade Indicators

The export performance of SACU has been influenced since 2014 by the slowing down of global commodity demand and the impact of the US-China trade war that was initiated in 2017 by President Donald Trump. Only Lesotho showed any significant growth in real exports over the period 2014-2016 (its data for 2017 and 2018 is missing from the data set). The other countries' real export growth went sideways, while Botswana, which is heavily reliant on its diamond exports, experienced a real decline in export values by about 3%. This was not associated with a corresponding change in its current account balance, so imports must have adjusted downwards.



Table 5: Current Account Balance vs Total Exports

	2014	2015	2016	2017	2018
Current account balance (BoP, current US\$)	-16 205 054 994	-14 696 472 764	-7 634 210 456	-7 077 018 691	-13 806 951 533
Botswana	2 145 728 676	812 776 087	2 145 192 041	2 148 740 231	
Eswatini	766 213 043	734 382 178	541 057 245	553 645 250	
Lesotho	-122 512 646	-77 639 215	-198 197 895	-182 048 312	-114 445 864
Namibia	-1 170 458 266	-1 598 141 997	-1 768 878 506	-689 280 900	-311 502 067
South Africa	-17 824 025 801	-14 567 849 818	-8 353 383 341	-8 908 074 960	-13 381 003 602
Exports of goods and services (constant 2010 US\$)	142 141 335 843	143 548 283 899	145 224 959 072	142 746 775 083	142 853 718 524
Botswana	12 450 113 241	10 422 799 841	10 462 303 845	9 319 119 819	9 696 828 161
Eswatini	2 753 706 417	2 711 793 917	2 659 694 027	2 946 992 125	
Lesotho	875 873 518	989 565 248	1 066 402 874		
Namibia	5 384 564 128	5 365 632 065	5 778 473 749	5 344 097 316	6 156 944 998
South Africa	120 677 078 539	124 058 492 829	125 258 084 576	125 136 565 823	126 999 945 364

Looking ahead, export performance will take several years to recover from the impacts of the Covid-19 pandemic that struck early in 2020. In this time, SACU members will need to consolidate and maintain, or build competitiveness in their traditional export industries.

Table 6: Merchandise Trade vs Trade in Services

	2014	2015	2016	2017	2018
(Merchandise trade (% of GDP)	93.3%	89.5%	87.4%	80.0%	82.7%
Botswana	102.1%	94.1%	86.3%	64.6%	63.7%
Eswatini	84.4%	80.2%	81.5%	78.0%	76.9%
Lesotho	116.0%	114.0%	118.1%	121.6%	126.2%
Namibia	102.7%	101.0%	94.4%	81.5%	89.7%
South Africa	61.3%	58.4%	56.8%	54.5%	56.8%
(Trade in services (% of GDP)	11.8%	11.5%	11.1%	11.2%	10.8%
Botswana	12.3%	13.1%	10.7%	11.1%	
Eswatini	8.7%	6.8%	7.2%	10.8%	
Lesotho	13.7%	14.5%	15.6%	14.6%	13.8%
Namibia	14.7%	13.4%	12.2%	10.4%	9.8%
South Africa	9.7%	9.6%	9.9%	9.2%	8.9%

Finally, shares in GDP of merchandise versus services trade are provided in Table 6. These ratios reflect the value of a component of trade as compared with the value of GDP and are quite capable of being greater than 100%. In the case of SACU, three countries - Botswana, Lesotho and Namibia - began the period 2014-2018 with merchandise trade proportions greater than GDP. This shows the size and the importance of the merchandise trade component to the economy. South Africa, on the other hand, has a more diversified and deeper domestic economy and is less reliant on trade than its smaller SACU partners.

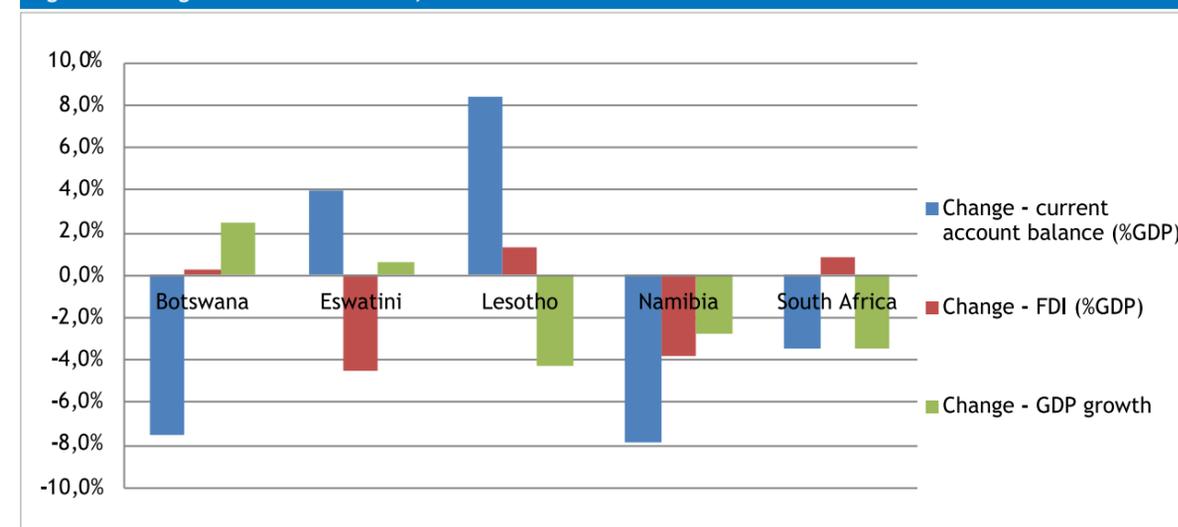
Previous data showed that Botswana had experienced the largest drop in its exports of the SACU Member States, and this is reflected in the large drop in the merchandise trade share of GDP. However, Namibia, Eswatini and South Africa, in that order, also showed a decline in their merchandise trade shares as the fallout of the US-China trade war had an impact on commodity demand. Only Lesotho, which exports light manufacturing to developed countries, bucked this trend. Lesotho has this in common with Rwanda, which also showed robustness in its economy in the face of the commodity cycle downturn.

The second portion of Table 6 shows that trade in services' share of GDP fell far less than that of merchandise trade. Again, Lesotho's data shows better performance than its SACU partners, which is understandable given its merchandise trade performance. Lesotho's demand for services would have been affected by its export growth demand and general level of economic activity. That being said, Eswatini also shows a rising share of services trade, possibly a reflection of a catch-up given its relatively low starting values.

Changes in Some Development Indicators

The change in incoming foreign direct investment (i.e. not portfolio investment) indicates whether foreign investment is relatively greater or smaller at the end of the period, but it is important to note that this metric can be quite volatile from year to year. This is the change in real GDP growth rates. Note also that GDP growth rates fluctuate with the business cycle. However, the end points of the range do not span any significant up or down points in the business cycle.

Figure 2: Changes to Current Account, FDI and GDP

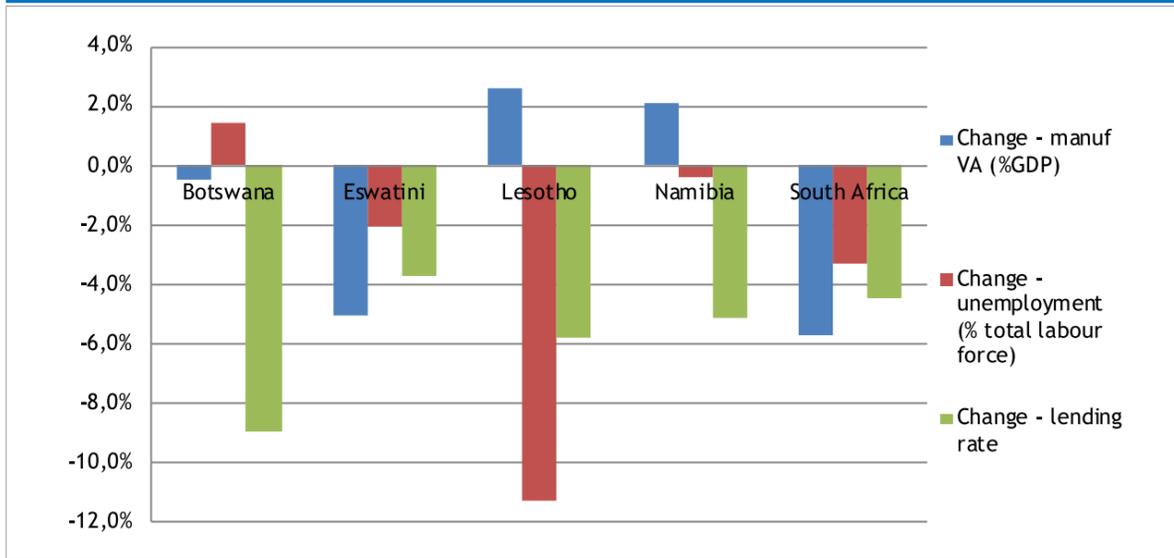


Source: World Bank, and IMF 2020



Similarly, Figure 3 shows additional world development indicators for SACU such as manufacturing value-added, unemployment and lending rates. A declining manufacturing value-added rate as a proportion of GDP indicates deindustrialisation and vice versa. This is because the contribution of manufacturing to output is declining. The unemployment rate reflects those workers that are not in formal employment, either because they have lost jobs or have been unable to find jobs. It is a proportion of the total labour force. The lending rate is the base rate at which commercial banks can borrow from the central bank. It is a key indicator of financial repression and is a countercyclical policy tool used by the monetary authority.

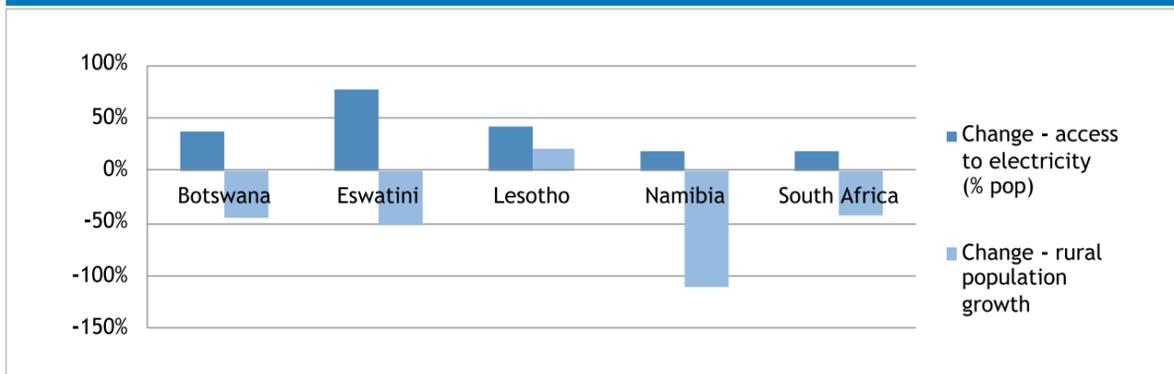
Figure 3: Changes in Manufacturing, Unemployment and Lending Rates



Source: ILO, IMF and World Bank 2020

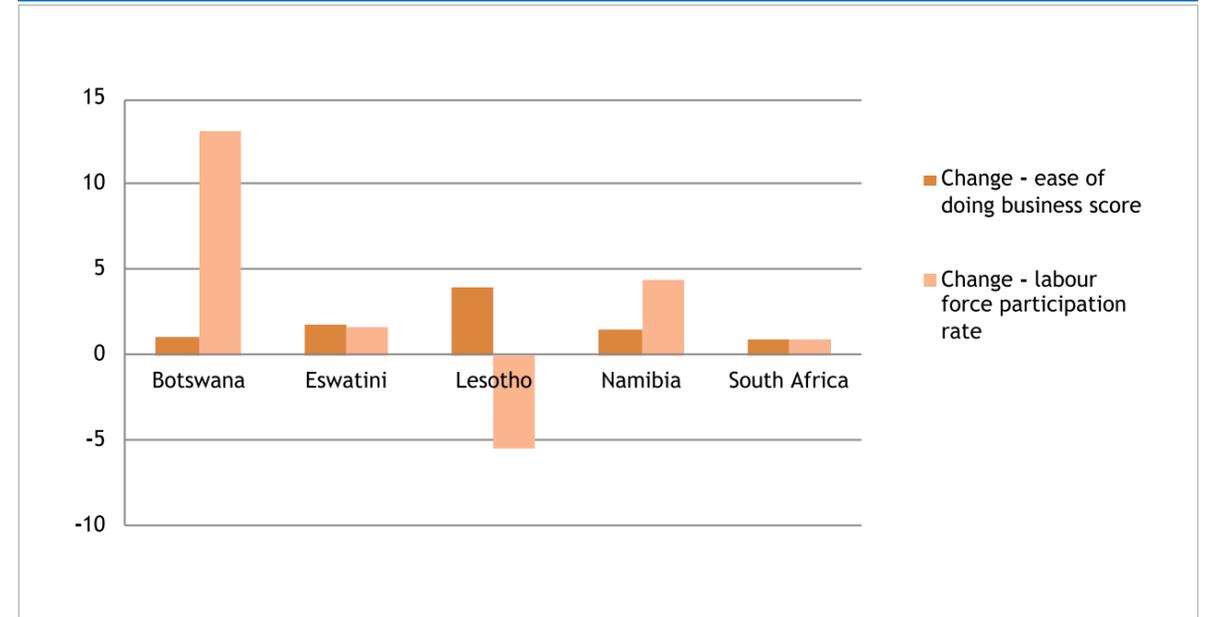
The United Nations' Sustainable Development Goal Number 7 states that by 2030 the world must ensure universal access to affordable, reliable, sustainable and modern energy services. Access to electricity is one of the indicators towards achieving this goal. A negative rural population growth is the mirror of increased urbanisation and is associated with an increasing standard of living or development. Only Lesotho has shown a minimal increase in rural population growth. Regarding the ease of doing business, the score is higher if the ease of doing business is scored better. It is a leading indicator of development as the deregulation of markets is associated with a rise in growth and improvements in development.

Figure 4: Ease of Doing Business, Rural Population and Labour Force Participation Rate



Source: ILO 2020, IMF 2020, UNDP 2020

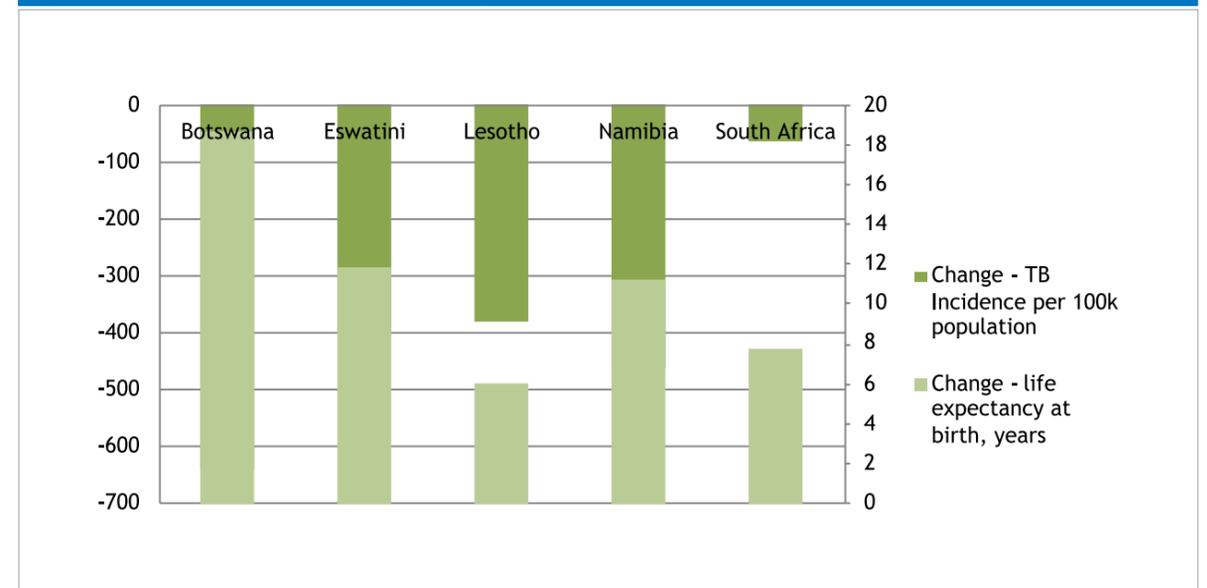
Figure 4: Ease of Doing Business, Rural Population and Labour Force Participation Rate



Source: World Bank 2020

Figure 5 shows an indication of how SACU Member States performed with respect to tuberculosis (TB) infections. A decline in infectious TB is expected with an improvement in development because it is a disease of poverty. The incidence of TB is the estimated number of new and relapse cases arising each year, expressed as the rate per 100 000 of the population. This comprises all forms of TB as well as cases in people living with HIV. Estimates for all years are recalculated as new information becomes available and techniques are refined, so they may differ from those published previously. Life expectancy at birth indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.

Figure 5: Incidents of TB and Life Expectancy

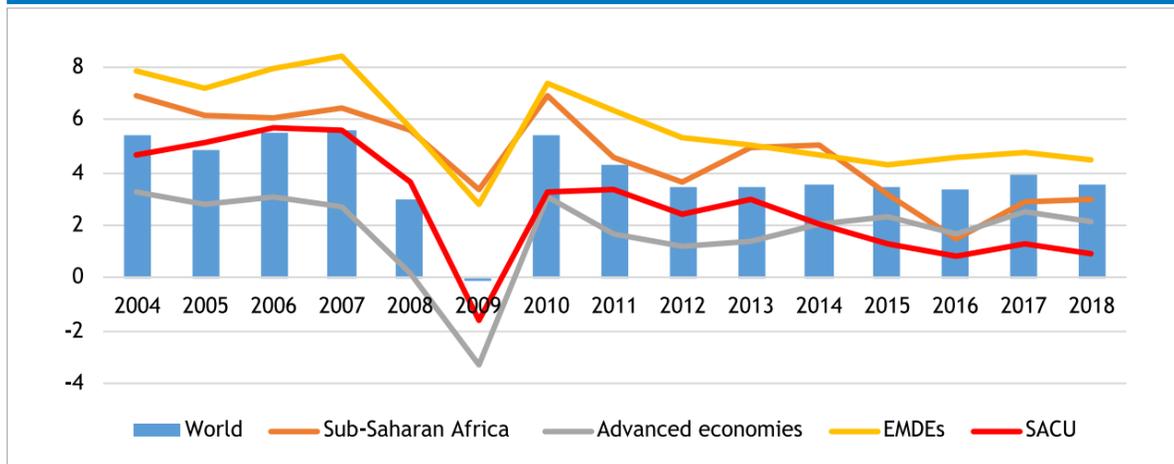


Source: UNDP, WHO 2020

ECONOMIC PERFORMANCE IN SACU

The weighted average real GDP growth in the SACU region performed in line with global developments and in step with global economic contraction, reduced demand and declining export performance. Since 2004, there was overall robust growth in the region, exceeding a weighted average of 4.7% recorded in 2004 and reaching a high of 5.7% in 2008 before declining to -1.6% in 2009 during the financial crisis. Growth ticked up from 3.3% in 2010 as recovery rebounded and remained somewhat strong at around 3% until 2016. But it fell to 1.3% in 2017 and further to 0.8% in 2018. Therefore, the average growth has lost momentum in the region since the financial crisis. International merchandise trade has not returned to its pre-crisis levels. Capital flows remain subdued, while exports of the Member States to the world have also not rebounded amid global policy uncertainty and weak world demand. Against this background, economic growth differs between the Member States and has been below the average growth rate for sub-Saharan Africa (SSA) since 2004 and has exceeded growth in developed countries. The growth patterns for the SACU economies have largely moved with the overall world economic growth rates. During the global financial crisis in 2009, when global demand fell while policy uncertainty increased amid low business confidence and financial market uncertainty, this weighed down not only world economic growth but regional growth. Figure 6 shows this performance in comparison to the global economic performance.

Figure 6: Further GDP Growth Decomposition by Region (%)

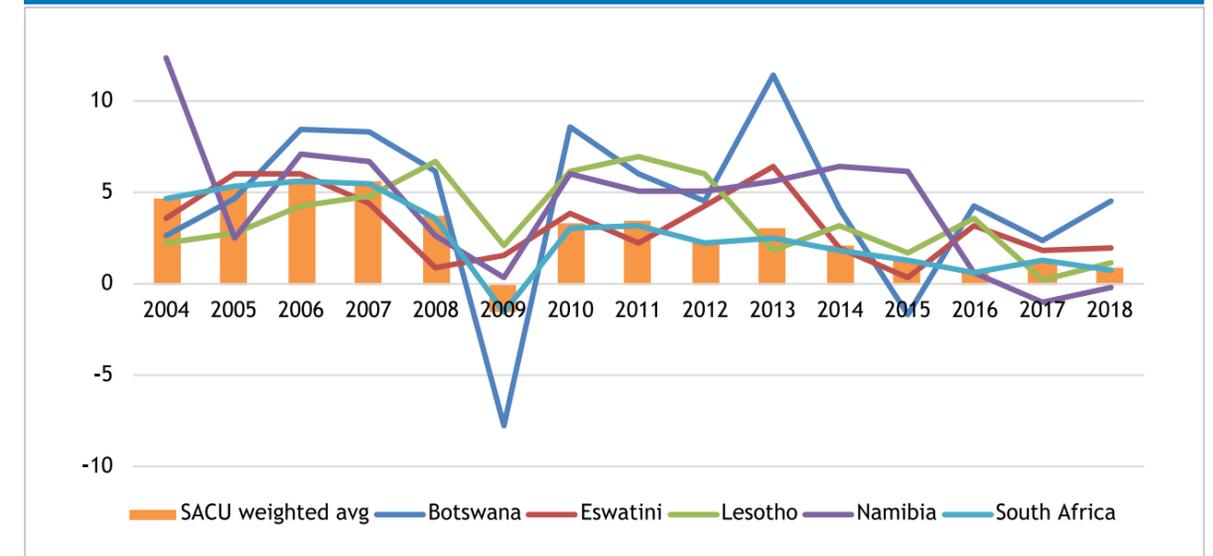


Source: IMF WEO 2019 and SACU databases



However, economic growth has been uneven in the region after the financial crisis. South Africa, the larger economy in the region, has generally been subdued, which has led to reduced overall growth in the region. Figure 7 illustrates the growth rates in individual SACU Member States.

Figure 7: Member States Economic Growth Rates vs SACU (% annual)



Source: Member States National Accounts (2019)

During the period under review (2004-2018), Namibia grew by an average estimated 4.7% followed by Botswana at 4.5%. Next was Lesotho at an average estimated growth of 4%. Eswatini stood at 3.3% followed by South Africa at about 2.8%. Most Member States had good growth trajectories prior to the financial crisis, with a regional average increasing from 4.7% in 2004 to 5.7% in 2007 before declining during the crisis. Growth recovery has been inconsistent in Most Member States and it has been hard to reach pre-crisis levels. Growth was, however, expected to improve amid lower commodity prices, benign inflation, improved business and consumer confidence as well as the general rebound in world economic growth since the financial crisis and into the medium term beyond 2018.



Factors potentially undermining growth, such as tighter financial market conditions, trade wars and policy uncertainty by the US continued to undermine growth prospects in SACU in 2018. This trend has persisted in the wake of the financial crisis. There are also significant vulnerabilities from large private and public sector debt across the Member States, making sovereign bank “doom loop” risks more real, the International Monetary Fund (IMF) stated in its World Economic Outlook (WEO) data in October 2019. In addition, public debt has surged in the region since the financial crisis and remains high in most Member States, as outlined in the next sections. Should all these factors potentially undermining growth materialise, it will be at a time when the monetary and fiscal policy space is too constrained to drive economic recovery.



This implies that if financial market conditions were to tighten further, Member States would potentially struggle with debt servicing costs.

In emerging market and developing economies, including SACU, policies should be geared towards securing growth and strengthening resilience (IMF WEO, Oct 2019). Monetary policy should therefore continue the focus on anchoring inflation expectations in cases where inflation remains high and currency depreciation could lead to inflation pass-through to domestic prices. South Africa follows an inflation-targeting regime adopted since 1999, hence Lesotho, Eswatini and Namibia, which are members of the Common Monetary Area, follow the South African monetary framework and have pegged their currencies one to one with the South African Rand (SARB, 2019). On the contrary, Botswana’s monetary policy framework doesn’t follow a strict inflation-targeting regime but has a price objective. It operates the crawling band exchange rate mechanism, which was introduced in May 2005 with the objective of enabling an automatic nominal adjustment of the Pula exchange rate with a view to maintain real effective exchange rate stability and avoid the need for sizeable discrete adjustments, as had been the case in the past (Bank of Botswana, 2019).

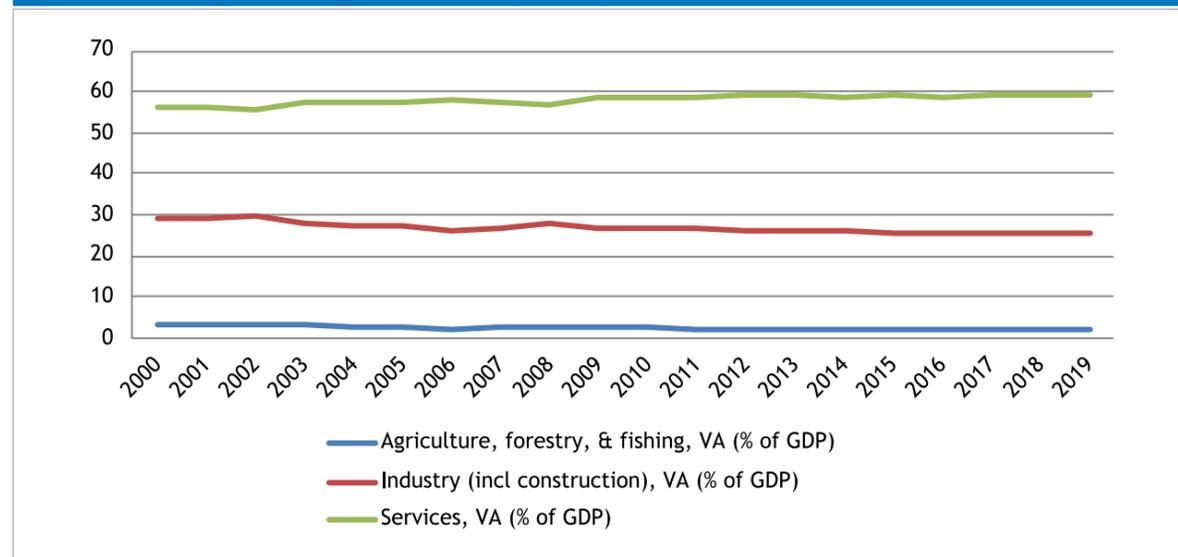
According to the IMF WEO (Oct 2019), tighter financial conditions could expose countries with higher public debt to vulnerabilities associated with balance sheet maturities and currency mismatches in the case of a sharp rise in interest rates. Fiscal policy should be geared towards consolidation and ensuring the sustainability

of public debt. Borrowing costs should be contained in cases of economic downturns. Subsidies should be well targeted, recurrent expenditures rationalised and revenue mobilisation improved. There is a need to bolster macroprudential policy frameworks and rein in credit growth. Across all economies, the pursuit for sustainable and inclusive growth should continue.

SECTORS DRIVING ECONOMIC GROWTH IN SACU OVER THE YEARS

During the period under review, growth in the Member States has been largely driven by the general government sector and key sectors outlined under the performance of each Member State. In addition, services value-added as a percentage of GDP has been significant in driving growth in the region (Figure 8) followed by industrial value-added. The rise of the importance of the finance and business services across the Member States from 2004 to 2018 is worth noting (Member States National Accounts, 2018). This sector has gained prominence in its relative contribution to GDP, thereby raising key questions such as those relating to financial inclusion and economic growth. In contrast, the role and importance of the agricultural sector in SACU, which has significant potential benefits to economic growth and development, has been declining over the years. This has significant policy implications for the Member States regarding investment in agricultural development, value chains and climate change mitigation strategies. The role of the agricultural sector in economic growth and structural transformation need not be overemphasised, especially during the years when manufacturing is struggling to drive economic growth.

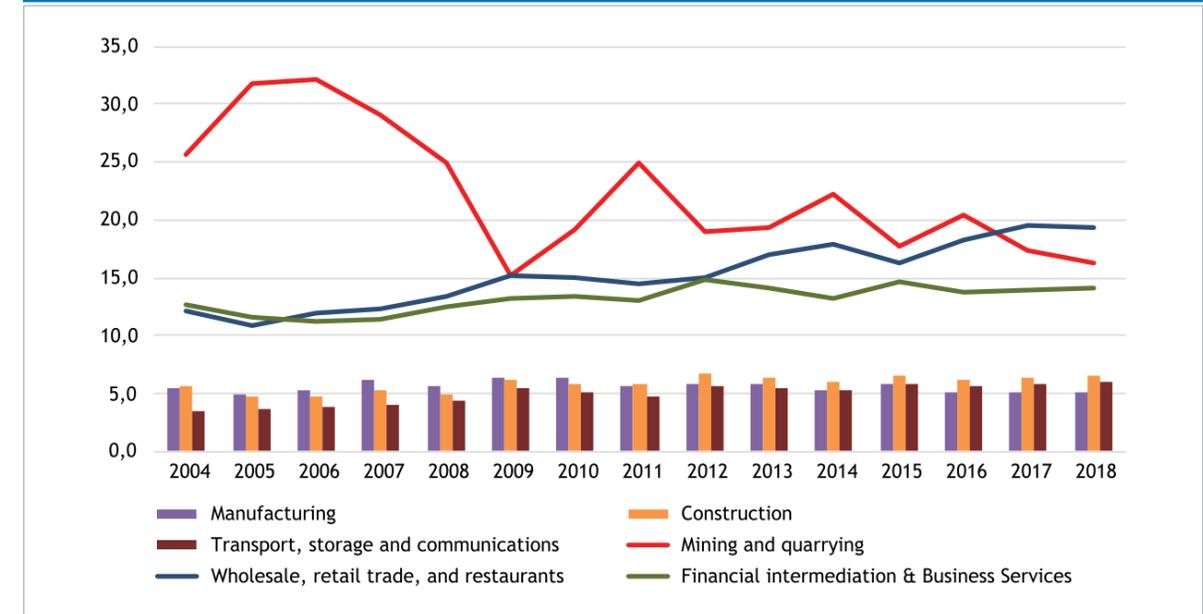
Figure 8: SACU Weighted Average Value-Added (% of GDP)



Source: Author’s calculations based on World Bank’s WDI 2020

Botswana’s growth was mainly driven by mining and quarrying, followed by wholesale and retail as well as the financial and business services sectors. These sectors contributed an average of 22.4%, 15.2% and 13.2%, respectively, to the GDP for the period 2004 to 2018. Meanwhile, the contribution to GDP by some sectors such as agriculture and electricity and water have been relatively low. Figure 9 shows the performance of key sectors and their percentage contribution to GDP during the period under review.

Figure 9: Sectors Driving Economic Growth in Botswana

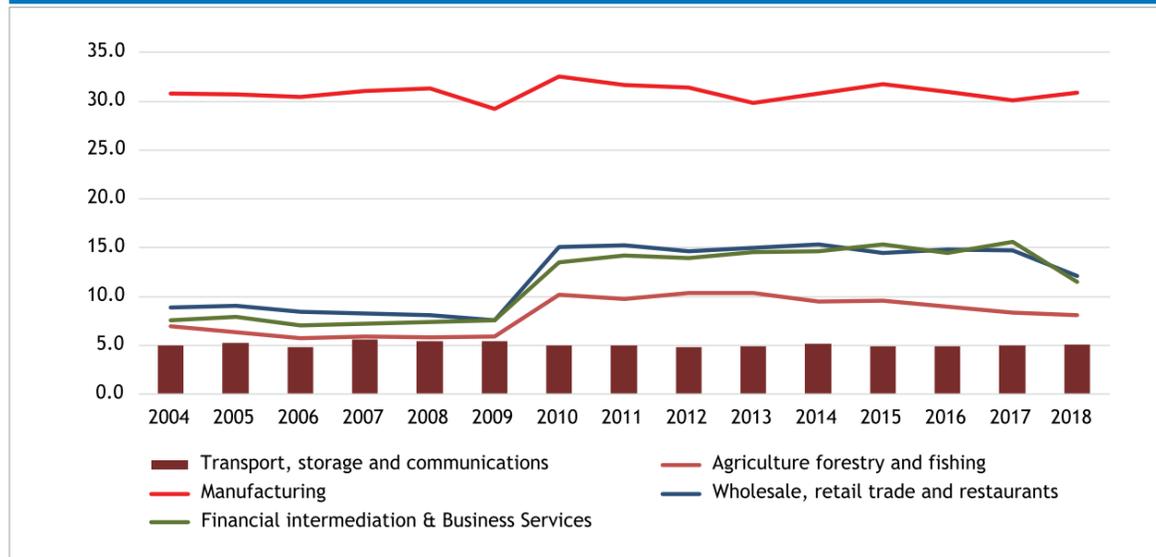


Source: National Accounts (2019)



In Eswatini, manufacturing, wholesale and retail as well as finance and business services were the main drivers of the economic growth for the period under review. The sectoral contribution to GDP averaged at 30.9%, 12.1% and 11.5% in the order of manufacturing, wholesale and retail as well as finance and business services sectors during the period under review. In contrast, other sectors such as mining, electricity and construction have contributed less to GDP.

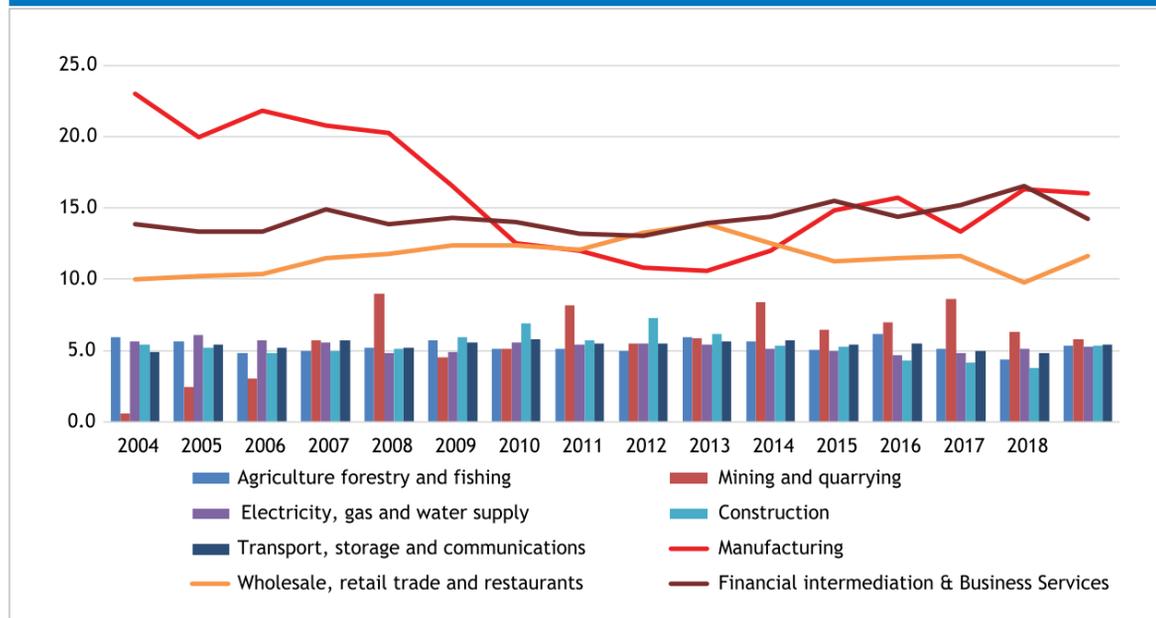
Figure 10: Sectors Driving Economic Growth in Eswatini



Source: National Accounts (2019)

In Lesotho, growth was mainly driven by manufacturing (textiles and apparels) at an average of 16%. Finance and business services followed at 14.2% while the wholesale and retail sector averaged 11.6% for the period 2004 to 2018.

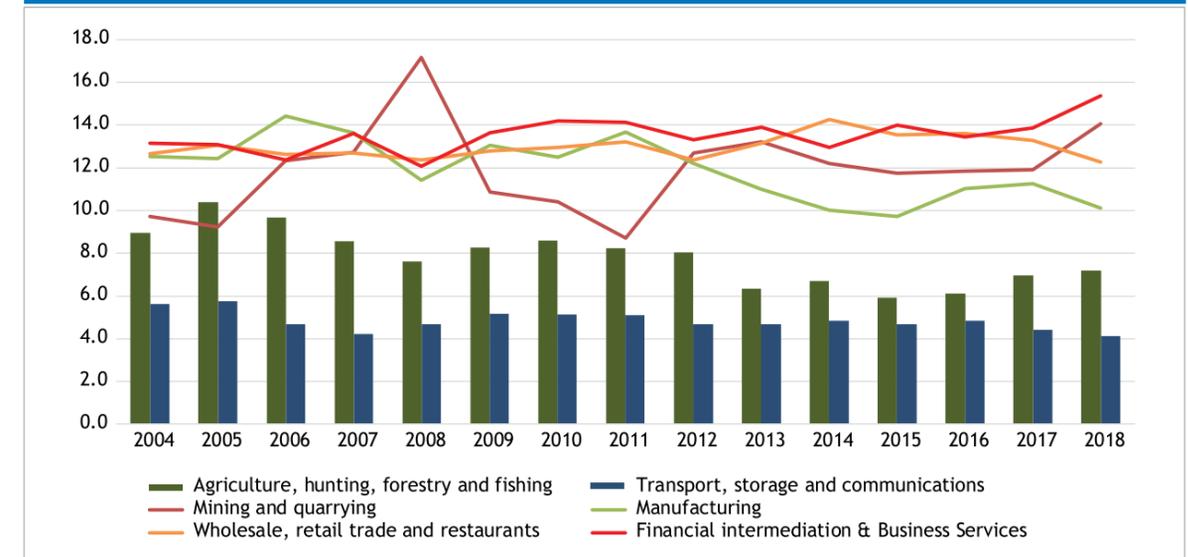
Figure 11: Sectors Driving Economic Growth in Lesotho



Source: National Accounts (2019)

In Namibia, the economy was mainly driven by the finance and business services sector, which averaged 13.5% during the period under review. This was followed by the wholesale and retail sector averaging 13.0% while manufacturing, mining and quarrying came in third at an average of 11.7% and 12% respectively. Meanwhile, electricity and water as well as construction have contributed relatively lower than the other sectors.

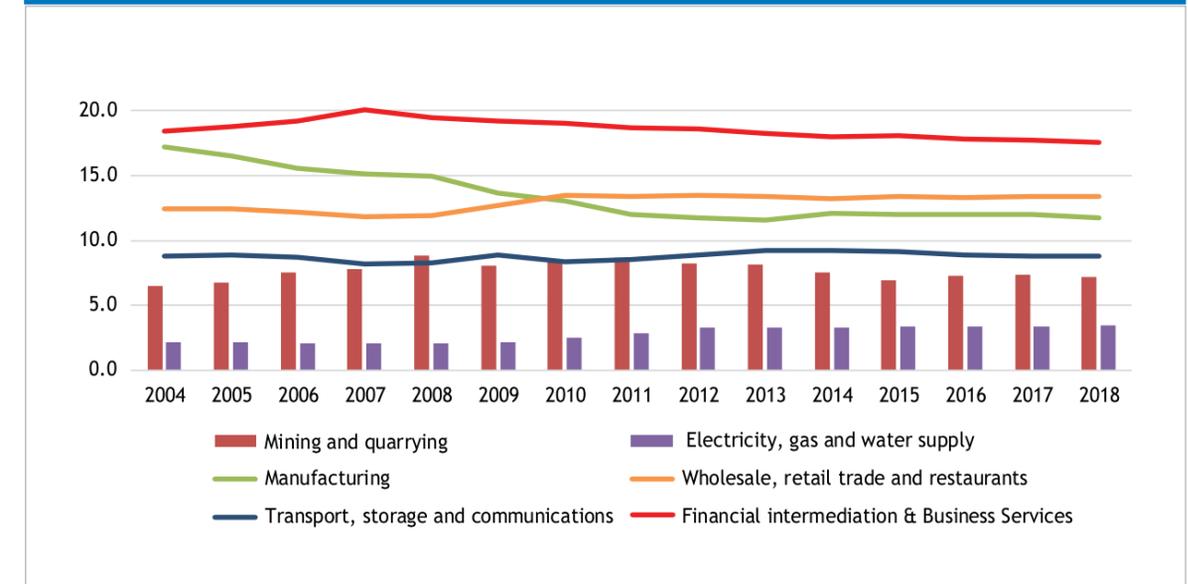
Figure 12: Sectors Driving Economic Growth in Namibia



Source: National Accounts (2019)

In South Africa, average sectoral contribution to GDP was as follows: financial and services contributed an average 18.6%, followed by manufacturing at 13.4% and the wholesale and retail sector at 12.9% from 2004 to 2018. Sectors like agriculture and construction have contributed less to GDP over time.

Figure 13: Sectors Driving Economic Growth in South Africa



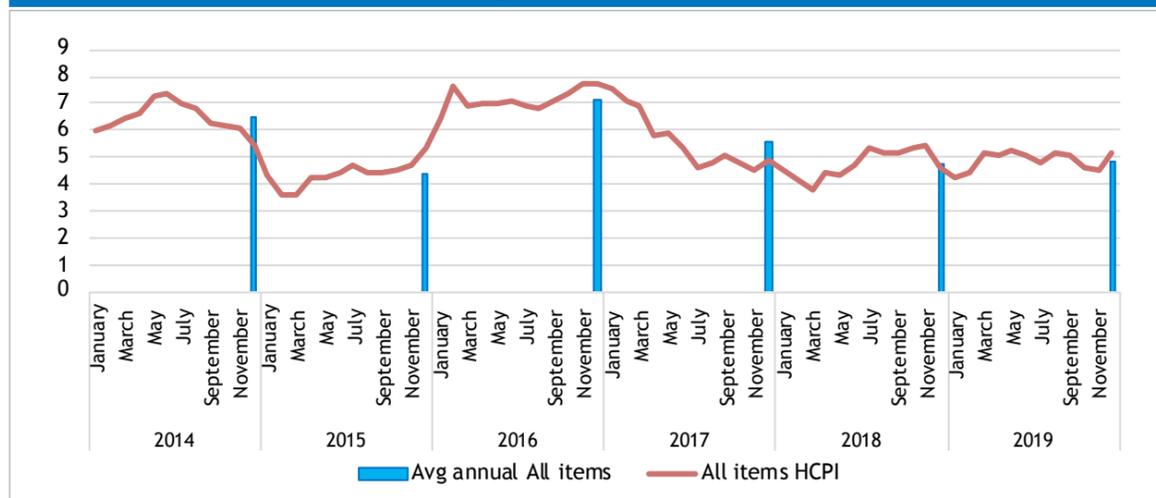
Source: National Accounts (2019)

ANALYSIS OF KEY MACROECONOMIC INDICATORS

Inflation and Its Dynamics

In SACU, all Member States follow an inflation framework that stipulates a range or objective of 3-6%, although without a formal consultation framework by the monetary authorities except in the case of the Common Monetary Area. The Member States have largely been able to meet this target since 2004. Figure 14 shows inflation developments in the region over the period under review for individual Member States by their respective national consumer price indices. The ideal reference would be the SACU Harmonised Consumer Price Index (HCPI), which is used as a convergence criterion to monitor progress towards deeper regional integration. Unfortunately, a SACU HCPI was not produced until 2014. Figure 14 shows an overall weighted inflation performance in SACU.

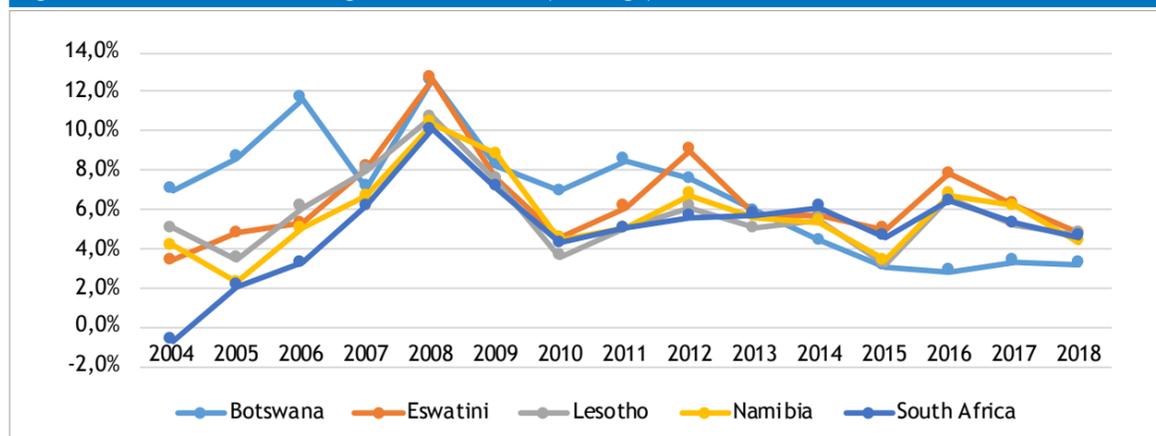
Figure 14: SACU HCPI (Annual Inflation % Change)



Source: SACU Secretariat based on Member States - HCPIs (2019)

Most Member States have recorded single-digit rates of inflation in step with moderating global inflation since 2004, except for the period during the global financial crisis in 2006-2008. Post the financial crisis, as output rebounded, inflation also moderated to date. While the rate of inflation has greatly subsided in most Member States, it remains low in comparison with SSA rates. Central banks in the region are still committed to price stability and policy rates that promote economic growth and development. However, as explained before, the monetary policy framework for Botswana is slightly different from the Common Monetary Area framework and entails an implicit inflation targeting regime with a price objective range the same as the price target range of 3-6% in the other Member States.

Figure 15: Member States Average Annual Inflation (% change)



Source: SACU CPI Database

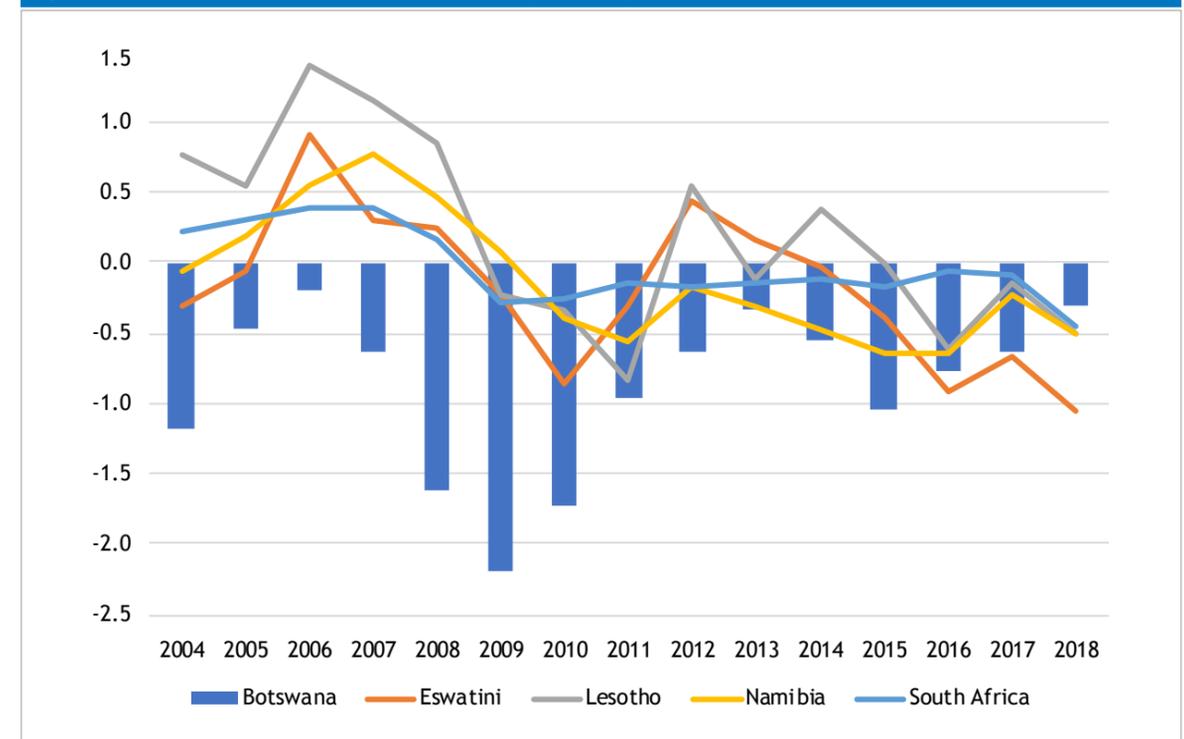
In 2018, factors that drove inflation in the region included food and energy costs, wage increases, utilities charges, and exchange rate movements against the US Dollar. Food and energy costs as well as fuel prices make up a significant weight of personal expenditures in the SACU region. Recent drought spells have also added to pressure on food shortages and food prices volatility. A slightly different picture was evident in 2004 when alcoholic beverages, housing and utilities, and transport and communications were the leading inflation drivers, in that order.

Fiscal Performance

SACU Member States are at varying levels of development, hence there are varying performances in their government revenues versus their government expenditures. Therefore, it is not surprising that the fiscal balances have fluctuated and performed varying over the period under review given different revenue outcomes. Governments in SACU remain committed to fiscal consolidation to stabilise public debts and narrow the budget deficits, which are high in some instances.

The average public budget deficits were as follows for the period under review: Botswana averaged -8.8% while Eswatini recorded -1.8%. Lesotho's budget deficit averaged 1.9% and for Namibia it was -1.3%. In South Africa, the budget deficit averaged -0.3%. Fiscal balances were in surplus for most of the period, with higher surpluses prior to the financial crisis compared with afterwards. Since the financial crisis, recovery has been uneven across the Member States and fiscal positions and fluctuation were primarily influenced by diverse domestic fiscal pressures such as rising government expenditures and public debt and debt servicing costs. Figure 16 shows the budget deficits of each Member State over the period under review.

Figure 16: SACU Member States Fiscal Balances (% of GDP)



Source: SACU Secretariat based on International Monetary Fund (2018)

Public Debt

According to the World Bank’s International Debt Statistics (2019), average public debt stood at 49% of GDP in SSA in 2018 from 15.5% in 2016. This represented a faster growth compared with other low and middle-income countries. In some cases, Member States have to some extent, owing to domestic developments, allowed fiscal policy to be procyclical as opposed to countercyclical, resulting in higher public debt. Much of the debt increase was driven by increased borrowing by Nigeria and South Africa, with their external debt rising by 29% and 56.7%, respectively. Gross public debt is also on the rise in SACU owing to fiscal pressures across the Member States as well as the burden of non-performing state-owned enterprises and other factors. This is true particularly for South Africa. Similarly, public debt remains relatively high in SACU Member States as a percentage of GDP, and it has been rising since the financial crisis as governments came under pressure to borrow and finance their expenditures. However, Table 7 and Figure 17 only show gross government debt as a percentage of GDP and do not go deeper into separation between domestic and external debt categories nor the currencies in which the debt is denominated.

In Botswana, public debt stood at 12.1% in 2018 and at 35.2% in Eswatini. It was 44.5% in Lesotho, 45.8% in Namibia and in South Africa 56.7%. In some cases, foreign debt forms the largest percentage of the total debt across SACU Member States, making them open to dangers of sudden shifts in investor sentiments. In addition, if subdued domestic economic growth persists, or there is a rapid rise in interest rates in developed economies, which could accelerate financial outflows and tighten financial market conditions, there will be an increased debt servicing burden in Member States where public debt is high, such as in Lesotho, Namibia and South Africa.

Table 7: Public Gross Debt in Member States (% of GDP, 2004-2018)

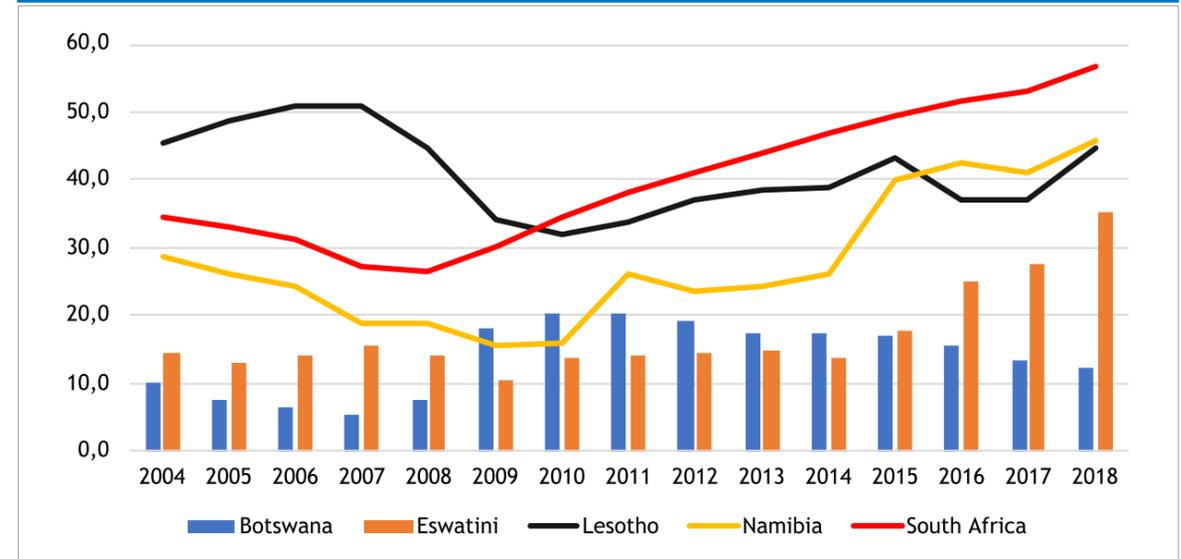
Member State	2004	2007	2008	2009	2010	2018	average 2004-18
Botswana	10.2	5.5	7.7	17.9	20.4	12.1	13.9
Eswatini	14.6	15.7	14.2	10.3	13.8	35.2	17.2
Lesotho	45.5	50.9	44.9	34.1	31.8	44.5	41.1
Namibia	28.8	18.7	18.8	15.5	16.0	45.8	27.9
South Africa	34.4	27.1	26.5	30.1	34.7	56.7	39.9

Source: SACU Secretariat based on IMF (2019)

By comparison, in 2004, public debt in most of the Member States was relatively low with Botswana at 10.2%, Eswatini at 14.6%, Lesotho at 45.5%, Namibia at 28.8% and South Africa at 34.4%. In contrast to 2004, in 2018 the SACU Member States are faced with challenges regarding refinancing and rollover risk of debts in the face of increasing fiscal pressure and changes in financial market sentiment risks. Most Member States face higher debt repayment costs in the face of rising interest and inflation rates as well as exchange rate fluctuations today than was the case in 2004, which add potential mounting pressures on their public debt stocks. Weaker growth outcomes resulted in unanticipated revenue shortfalls, especially during periods of economic downturns, and sluggish growth has also added to rising government debt-to-GDP ratio across Member States over the years. This has taken place amid governments’ efforts towards fiscal consolidation and the reigning in of government expenditure, especially support to state-owned enterprises (Figure 17).



Figure 17: General Gross Government Debt in SACU (% of GDP)

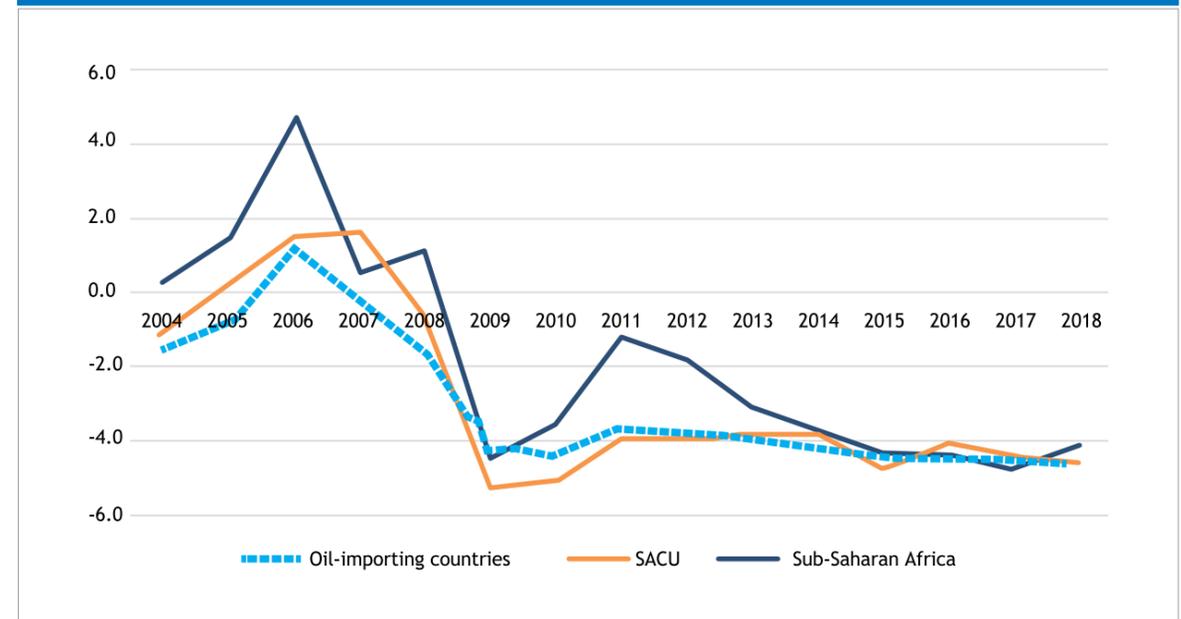


Source: SACU Secretariat based on IMF (2019)

Current Account Balances

The Current Account Balance is a measure of a country or region’s value of foreign goods relative to imports. Current accounts record the amount of capital passing through an economic region or country in the form of trade in goods and services, earnings and payments on foreign investments, and international cash transfers. Therefore, the current account surplus indicates the level of net export of goods and services from a region, while a deficit indicates positive net imports into the region.

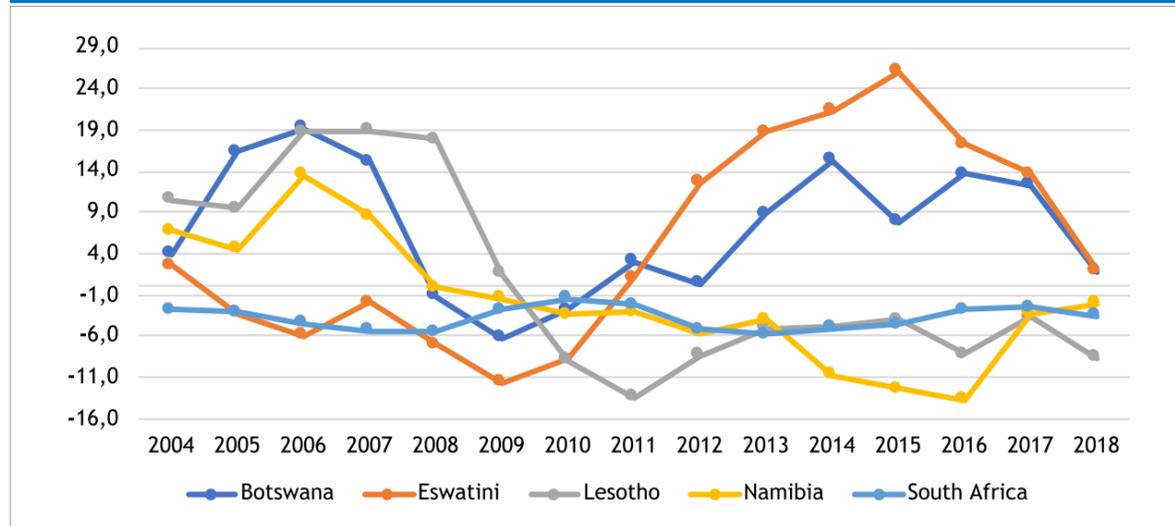
Figure 18: SACU Current Account as % of GDP



Source: SACU Secretariat based on IMF (2018)

The current accounts of individual SACU Member States varied widely over the years from 2004 to 2018. Some Member States have larger export-driven productive capacities, like Botswana, Namibia and South Africa. Others, like Eswatini and Lesotho, receive significant amounts in grants and SACU revenue receipts, which form a significant part of their expenditures. The average current account balance for SACU since 2004 is about 2.8% of GDP and slightly higher than that of SSA, which is about 1.8% of GDP. Over the years, however, the performance of the current account situation in the region largely mirrored global economic developments. Since 2004, the overall current account for SACU was in surplus and rising (2004 to 2007-2008), only to decline later into deficit since the wake of the financial crisis in 2008. A strong reduction in the current account deficits was realised between 2009 and 2014 amid a global economic rebound and, ultimately, growth recovery in the region. Moreover, before the crisis, exports from the region were doing well, but they later declined alongside capital flows into the region as global players bore the brunt of the crisis and developed inward-looking trade policy tendencies (Figure 19).

Figure 19: Member States Current Account Deficits (% of GDP)



Source: SACU Secretariat based on IMF (2019)

At the individual level, the current account has been performing as follows for Member States: Botswana, Eswatini, Lesotho and Namibia have recorded surpluses over the years, but mainly from transfer payments from SACU and not an increase in exports, while South Africa has had a current account deficit widen due to the growth in imports. Hence, this situation has led to much public debate about the proximate causes of the current deficit and its sustainability issues.

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SACU TRADE PERFORMANCE
 CHAPTER 3

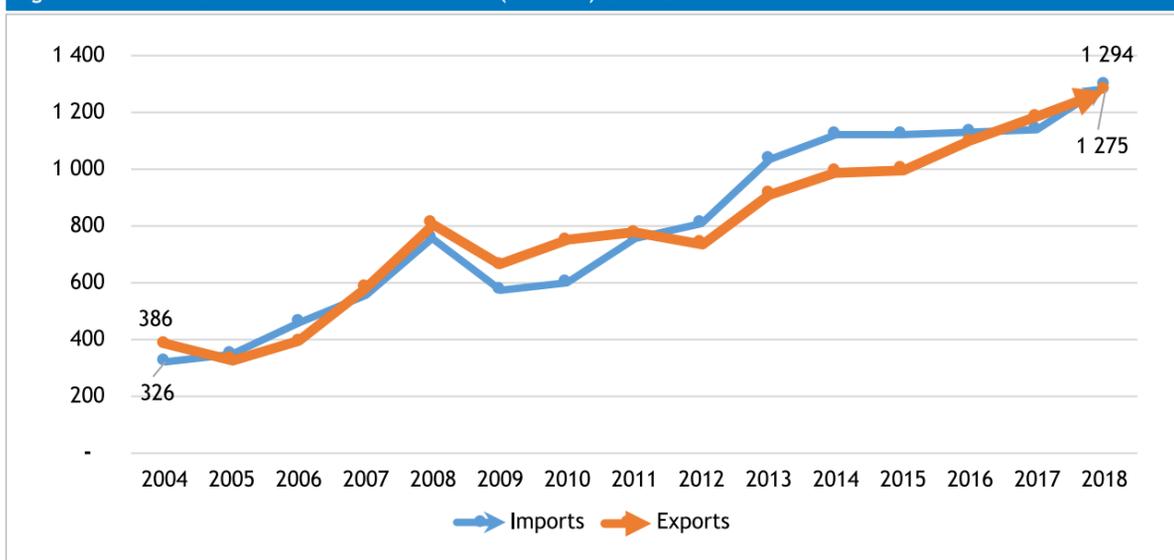
INTRODUCTION

This chapter reviews the trade performance and key competitiveness indicators of SACU Member States for the period 2004-2019. It highlights SACU's trade with global partners and the trade with partners with whom SACU concluded trade agreements, such as the SACU-European Free Trade Association (EFTA) Free Trade Agreement (FTA), the SACU-Common Market of the South (MERCOSUR) Preferential Trade Agreement (PTA), and the European Union-Southern African Development Community Economic Partnership Agreement (EU-SADC EPA). This chapter mainly focuses on the SACU Member States' trade profile on trade in goods.



SACU's trade with its trading partners was on an upward trajectory from 2004 until 2008, when the global financial crisis hit and trade declined. Since 2010, trade has picked up and has been on an upward trajectory, as reflected in Figure 1.

Figure 1: SACU Trade with the Rest of the World (R billion) 2004-2019



Source: SACU Secretariat Trade Statistical Database, 2019

SACU Exports to the Rest of the World

SACU exports of goods to the rest of the world have significantly increased from R386 billion in 2004 to R1.275 billion in 2018, but their export share declined. During the same period, SACU's exports share in the global market declined to 0.6% in 2018 from 0.5% in 2004. Similarly, the share of SACU's exports in Africa's exports has also declined to 19.4% in 2018 from 24.9% in 2004.

The composition of SACU exports to the rest of the world by individual Member States shows that South Africa accounts for more than 80% of them, although this has declined over time from 90.2% in 2004 to 87.0% in 2018. Botswana and Namibia's share improved during the period under review, accounting for 6.1% and 5.8% in 2018, respectively, compared with 5.3% and 3.4% in 2004.

The top 10 commodities exported by SACU in 2004 and 2018 accounted for 37.6% and 37.7% of the total exports, respectively. This reflects a stagnation over time in the diversification of the export basket, which is concentrated on a few products. In 2004, SACU's major export product was non-industrial diamonds, which accounted for 9.9% of total exports. It was still the main product SACU exported by 2018, as reflected in Tables 1 and 2. The top 10 exports in the SACU basket have remained relatively the same over the period under review and have been mainly dominated by minerals and motor vehicles.

Table 1: SACU's Top 10 Exports Commodities in 2004 (R billion)

		ZAR billion	% of Total
710231	Non-industrial diamonds unworked or simply sawn, cleaved or brute	31	8.0%
711019	Platinum, in semi-manufactured forms	16	4.1%
270112	Bituminous coal, whether pulverised, non-agglomerated	15	3.9%
870323	Motor cars and other motor vehicles principally designed for the transport of persons	12	3.1%
720241	Ferrochromium, containing by weight > 4% of carbon	10	2.6%
842139	Machinery and apparatus for filtering or purifying gases	8	2.1%
711011	Platinum, unwrought or in powder form	7	1.8%
271011	Light oils and preparations of petroleum or bituminous minerals	7	1.8%
760110	Aluminium, not alloyed, unwrought	6	1.6%
750610	Plates, sheets, strip and foil of non-alloy nickel (excluding expanded plates, sheets)	4	1.0%
Total Exports in 2004		386	

Source: SACU Secretariat, 2019

Table 2: SACU's Top 10 Exports Commodities in 2018 (R billion)

		ZAR billion	% of Total
710231	Non-industrial diamonds unworked or simply sawn, cleaved or brute	84	6.6%
270112	Bituminous coal, whether pulverised, non-agglomerated	80	6.3%
710813	Gold, incl. gold plated with platinum, in semi-manufactured forms, for non-monetary purposes	72	5.6%
260200	Manganese ores and concentrates	46	3.7%
	Ferrochromium, containing by weight > 4% of carbon	40	3.2%
870421	Motor vehicles for the transport of goods, with engine of a gross vehicle weight <= 5 t	38	3.0%
260112	Iron ores and concentrates	35	2.8%
711019	Platinum, in semi-manufactured forms	30	2.4%
870332	Vehicles with cylinder capacity over 1500 but not over 2500cc	28	2.2%
711021	Metals, palladium, unwrought or in powder form	26	2.0%
Total Exports in 2018		1,275	

Source: SACU Secretariat, 2019



SACU Imports from the Rest of the World

Similar to the increase in total exports, the value of goods imported into SACU has increased over time from an imports bill of R326 billion in 2004 to R1.294 billion in 2018. Most of the goods imported into the region in 2004 were destined for South Africa, which accounted for 96.2%, followed by Botswana (1.6%), Namibia (1.3%), Lesotho (0.6%) and Eswatini (0.3%). Fast forward to 2018 and South Africa as the biggest economy in the region still accounted for most of the imports into the region (92.5%) followed by Namibia (4.7%), Botswana (1.8%), Eswatini (0.5%) and Lesotho (0.5%).

On the demand side, SACU’s import basket between 2004 and 2018 shows that petroleum, minerals and motor vehicles and parts thereof dominate, as reflected in Table 3. The top 10 commodities imported by SACU in 2004 and 2018, respectively, accounted for 25.2% and 28.9%. This shows that the import basket is less concentrated on a few products, unlike in the export basket.

Table 3: SACU Top 10 Imports Commodities in 2004 (R billion)

		ZAR billion	% of Total
270900	Petroleum oils and oils obtained from bituminous minerals, crude	38	10.8%
870323	Motor cars and other motor vehicles with engine of a cylinder capacity > 1.500 cm ³ but <= 3.000 cm ³	9	2.7%
880240	Aeroplanes and other powered aircraft of an unladen weight > 15000 kg	8	2.3%
852520	Transmission apparatus incorporating reception apparatus, for radiotelephony, radiotelegraphy, etc	8	2.2%
847330	Parts and accessories of automatic data-processing machines or for other machines of heading	5	1.5%
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, etc	5	1.4%
271011	Light oils and preparations of petroleum or bituminous minerals	4	1.2%
870324	Motor cars and other motor vehicles principally designed for the transport of persons	4	1.2%
710231	Non-industrial diamonds unworked or simply sawn, cleaved or brute	4	1.1%
271000	Petroleum oils and oils obtained from bituminous minerals	3	0.8%
Total Imports in 2004		352	

Source: SACU Secretariat, 2019

Table 4: SACU Top 10 Imports Commodities in 2018 (R billion)

		R billion	% of Total
270900	Petroleum oils and oils obtained from bituminous minerals, crude	145	11.2%
980100	Original equipment components for motor cars, road tractors for semi-trailers	98	7.6%
271012	Light oils and preparations of petroleum or bituminous minerals	69	5.3%
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	22	1.7%
851762	Machines for the reception, conversion and transmission or regeneration of voice, images or other data	22	1.7%
851712	Telephones for cellular networks (mobile telephones) or for other wireless networks	18	1.4%
490700	Unused postage, revenue or similar stamps of current or new in the country	16	1.3%
870322	Motor cars and other motor vehicles, with engine of a cylinder capacity > 1.000 cm ³ but <= 1.500 cm ³	14	1.1%
870323	Motor cars and other motor vehicles with engine of a cylinder capacity > 1.500 cm ³ but <= 3.000 cm ³	14	1.1%
740200	Copper, unrefined; copper anodes for electrolytic	14	1.0%
Total Imports in 2018		1,294	

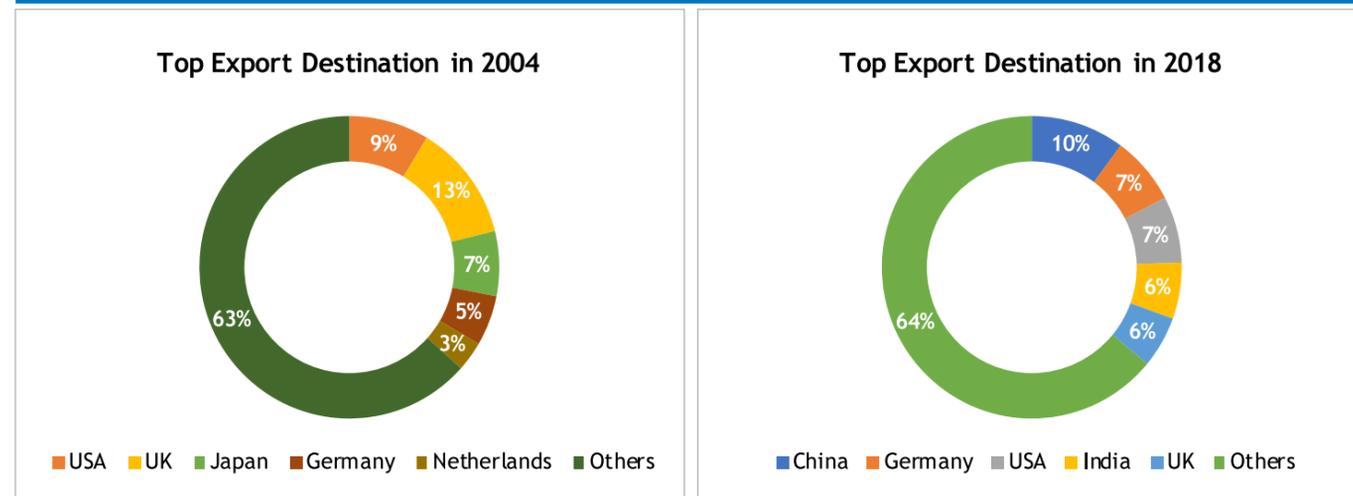
Source: SACU Secretariat, 2019



SACU's Main Trading Partners

The main destination of SACU exports in 2004 was the UK, which accounted for 12.6% of the total exports, followed by the US (8.6%). In 2018, China emerged as the main destination for SACU exports, accounting for 10.1% of total exports, followed by Germany (7.3%). The main products exported to China in 2018 were agglomerated iron ores and concentrates, accounting for 20.9% of the total exports to the country. The US and Germany have maintained their position in the top five export destinations for SACU products between 2004 and 2018 (Figure 2).

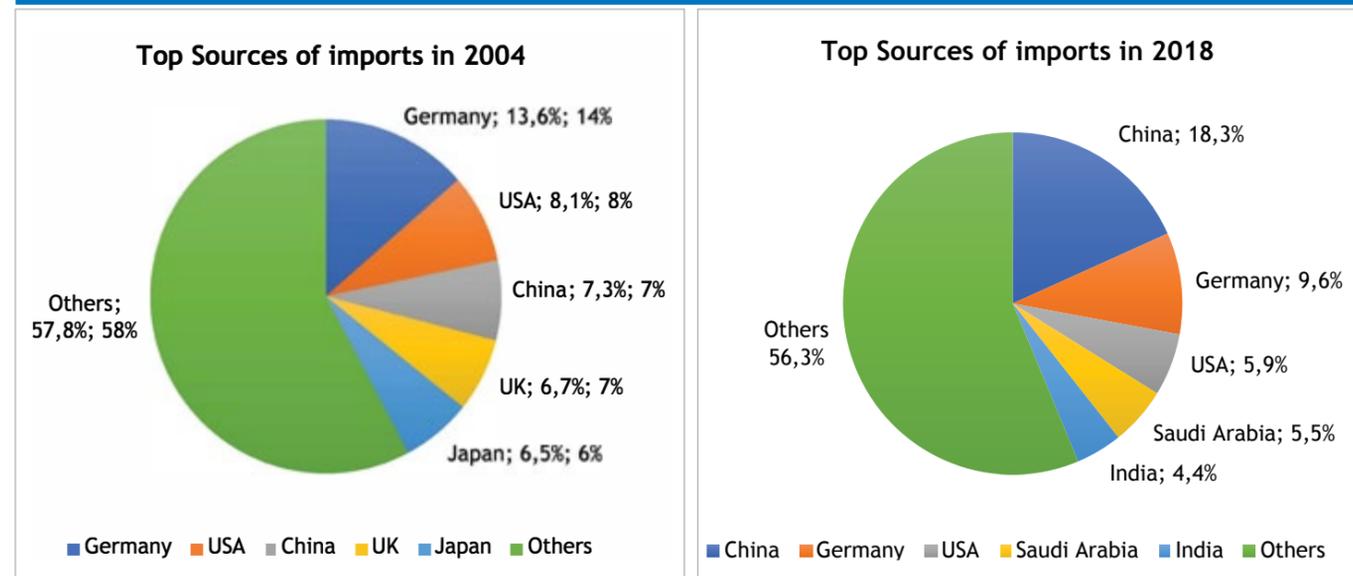
Figure 2: SACU Top 5 Export Destination in 2004 and 2018 (R billion)



Source: SACU Secretariat, 2019

On the import side, the main supplier of goods into the SACU region in 2004 was Germany, accounting for 13.6% of the total, followed by the US (8.6%). Fast forward to 2018 and China emerged as the main source of imports into SACU, accounting for 18.8% of the total, followed by Germany accounting for 11.4%. The main product imported from China in 2017 was telephones for cellular networks, accounting for 6.3%. China, Germany and the US have remained among the top five sources of imports for SACU in 2004 and 2018 (see Figure 3).

Figure 3: SACU Top 5 Main Source of Imports in 2004 and 2018 (R billion)



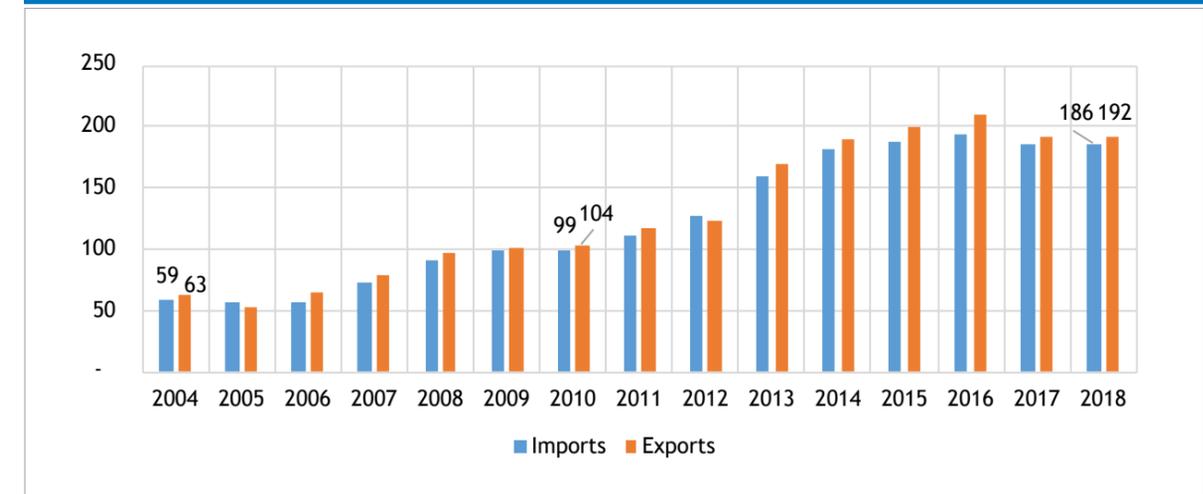
Source: SACU Secretariat, 2019

Intra-SACU Trade

Intra-SACU trade has been on an upward trajectory since 2005 for the duration of the period under review, indicating a strong and deep trade integration among SACU Member States. Intra-SACU trade has averaged about 14% of SACU's total trade between 2004 and 2018. While this performance compares favourably against other Regional Economic Communities in Africa, there is still a lot more that must be done to ensure that the benefits of integration are shared widely. For the period under review, intra-SACU trade slightly declined in 2017 and 2018. Intra-SACU exports have increased from R63 billion in 2004 to R192 billion in 2018. Similarly, intra-SACU imports recorded a significant increase from R59 billion in 2004 to R186 billion in 2018, as shown in Figure 4.

SACU in Intra-SADC and Intra-Africa Trade

Figure 4: Intra-SACU Trade Flows (R billion)



Source: SACU Secretariat, 2019

A review of the structure of intra-SACU trade shows that it has mainly remained the same over the period under review. On the export side, South Africa accounts for most of the intra-SACU exports - an average of 72.5% - followed by Namibia (10.2%), Eswatini (8.1%), Botswana (6.7%) and Lesotho (2.4%). However, on the intra-SACU import side, Botswana accounts for 32.8%, followed by Namibia (29.8%), South Africa (16.6%), Eswatini (11.1%) and Lesotho (9.6%).



Trade Indicators

Trade Openness Index

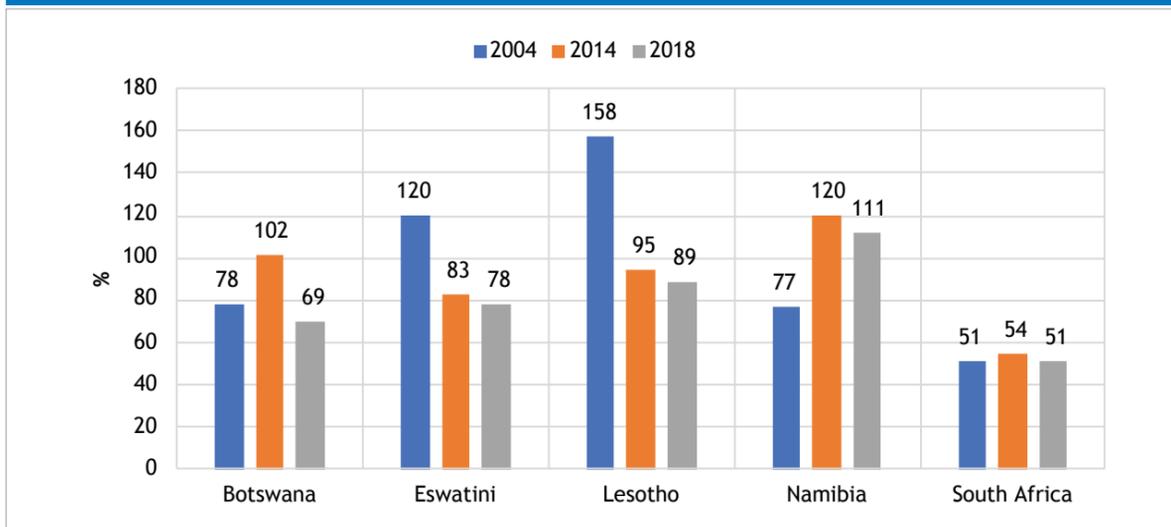
The importance of trade overall for the SACU economies is evidenced by the high Trade Openness Index¹ (TOI) recorded by the Member States. The SACU Member States have maintained a high degree of trade openness, which demonstrates the importance of regional and international trade for the Customs Union. There is a considerable variation in the degree of openness among the SACU economies, as reflected in Figure 5.

Botswana's TOI expanded from 78% in 2004 to 102% in 2014 before declining to 70% in 2017, as shown in Figure 5. A similar trend was also observed in Namibia, with the TOI increasing from 77% in 2004 to 120% in 2014 before dropping to 90% in 2017. The trend in TOI for South Africa appears to have slightly expanded trade between 2004 and 2014, from 51% to 54%, but it declined to 49% in 2017. For Eswatini, the TOI has been on a downward trend, from 120% in 2004 to 77% in 2017. The picture in Lesotho is that the TOI dropped from 158% in 2004 to 95% in 2014 while it increased to 105% in 2017.

Overall, the TOI appears to have declined from the levels observed in 2004 compared with 2018 for all the Member States except Namibia. In 2018, Namibia was the most open economy in SACU followed by Lesotho, Eswatini, Botswana and South Africa.

¹ The Trade Openness Index is a measure of the importance of international trade in the overall economy. The trade dependence index is the value of total trade (imports plus exports) as a percentage of GDP. It gives an indication of the degree to which an economy is open to trade.

Figure 5: Trade Openness Index



Source: SACU Secretariat, 2019

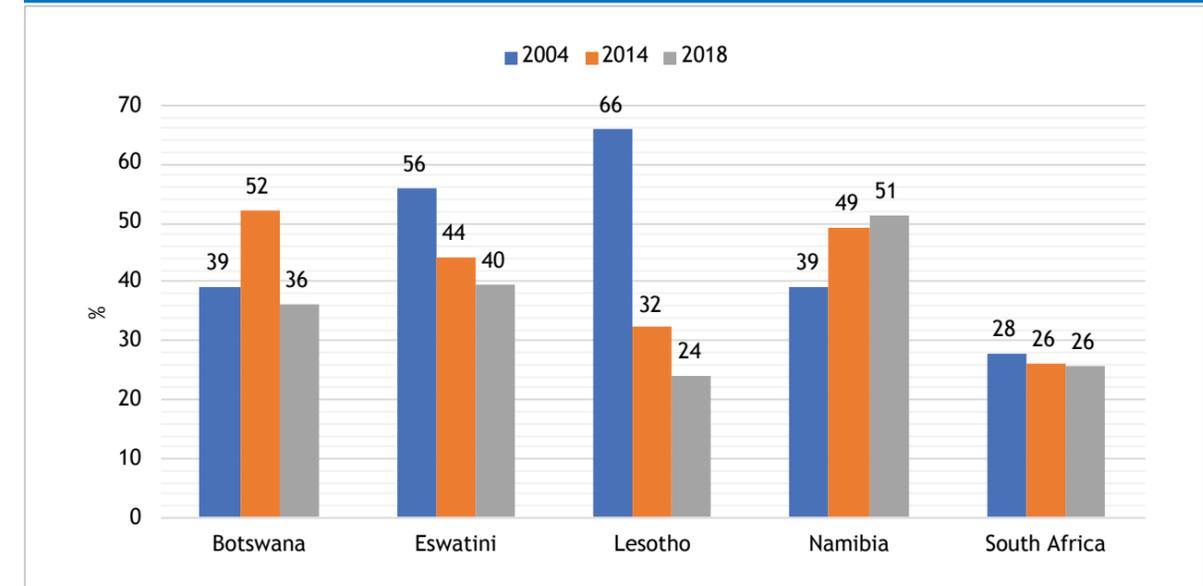
Export Propensity Index

An analysis of the Export Propensity Index (EPI) for the SACU Member States, which explains to what degree the domestic producers in SACU rely on foreign markets, shows that for most of the Member States it has declined over time.

The reliance of Botswana's domestic producers on foreign markets in 2004 stood at 39%. This increased to 52% in 2014 before declining to 36% in 2018. In Eswatini, 56% of production by domestic producers was destined for foreign markets in 2004, but this declined to 44% and 40% in 2014 and 2018, respectively. In Lesotho, the reliance declined from 66% in 2004 to 32% in 2014 and further to 24% in 2018. In Namibia, however, it increased from 39% in 2004 to 49% in 2014 and 51% in 2018. In South Africa, on the other hand, the EPI declined from 28% in 2004 to 26% in 2014 and remained unchanged in 2018 (Figure 6).

In 2018, the reliance of Namibia's domestic producers on foreign markets was the highest in the region with 51% of their production destined for foreign markets, followed by producers in Eswatini (40%), Botswana (36%), South Africa (26%) and Lesotho (24%).

Figure 6: Export Propensity Index



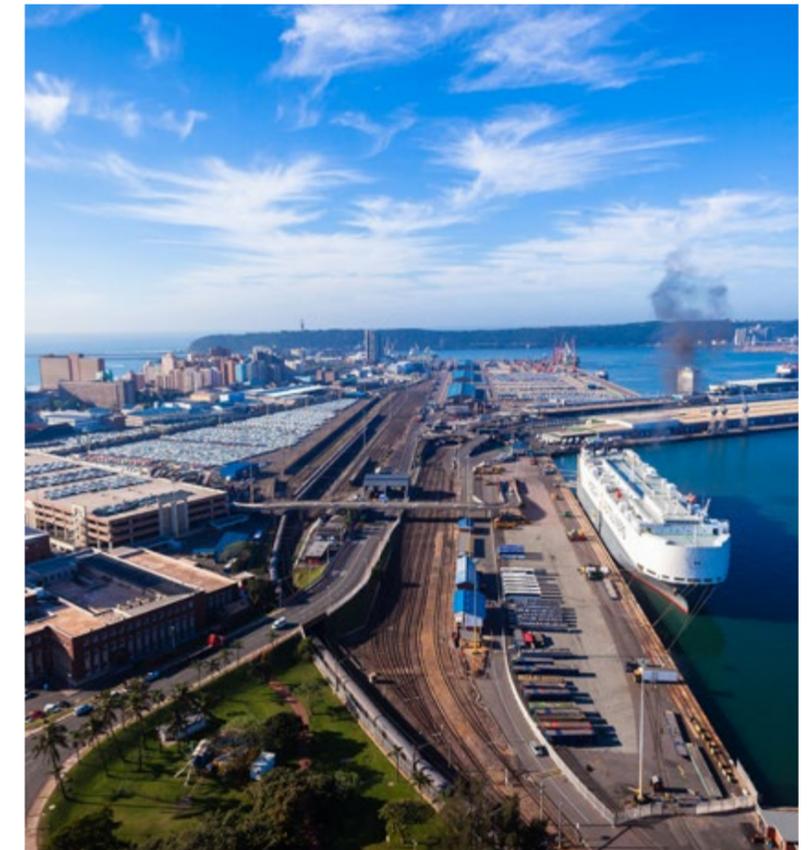
Source: SACU Secretariat, 2019

Conclusion

The trade performance during the 15 years under review indicates that there is a need for the region to engage in a more robust exportable-products diversification drive. This will not only improve the balance of trade but also broaden the industrial base of the region and ensure inclusive growth. SACU's exports of goods to the rest of the world have significantly increased over time, from R386 billion in 2004 to R1 275 billion in 2018.

Similarly, the value of goods imported into SACU has also increased, from an imports bill of R326 billion in 2004 to R1 294 billion in 2018. For the period under review, intra-SACU trade was on an upward trajectory, indicating a strong and deep trade integration within SACU averaging at around 14%.

The Trade Dependency Index appears to have declined from the levels observed in 2004 compared with 2018 for all the Member States except Namibia, where it increased. Similarly, the reliance of domestic producers on foreign markets measured by the Export Dependency Index shows that for most of the Member States the index has declined over time with the exception of Namibia, where it has increased.



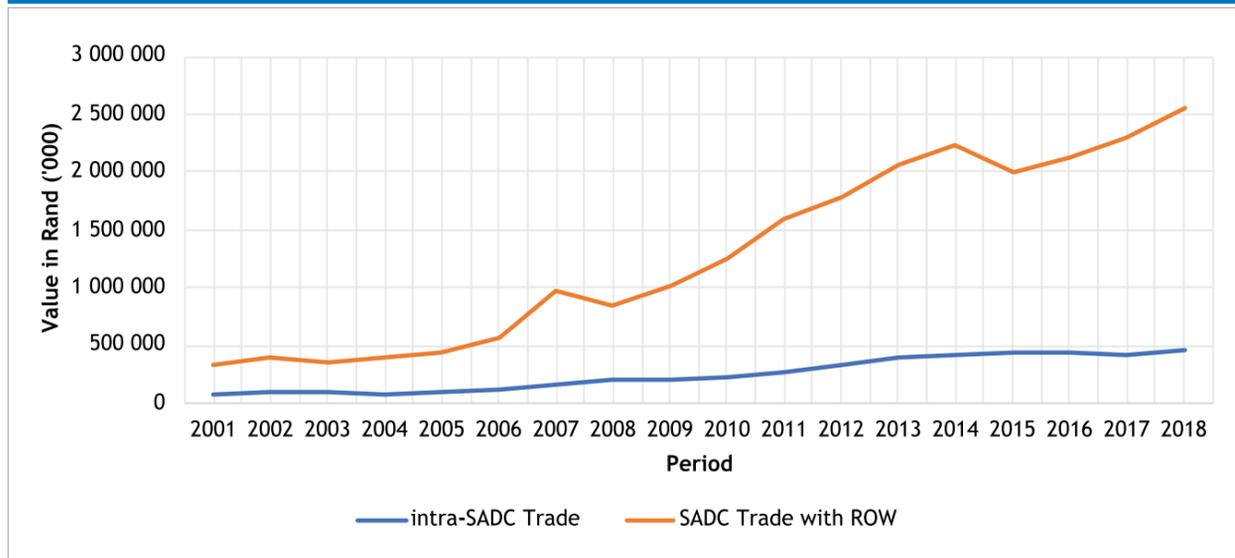
SACU Bilateral Trade with Third Parties

SADC Trade Protocol and Intra-Regional Trade

Since 2001, when the SADC Protocol on Trade was implemented, intra-SADC trade soared tremendously from about R69.6 billion to around R459.7 billion in 2018, as indicated in Figure 7. As a proportion of total SADC trade, the intra-SADC trade has been fluctuating between 16.1% and 27.4% in the same period.

This performance could be attributed to the dismantling of trade barriers, including the removal of tariffs on sensitive products that was achieved in 2012. To date, SACU Member States have liberalised around 99.7% of the tariff lines that are being traded on duty-free under the SADC FTA. This scenario was supposed to be the case for all FTA-participating SADC Member States. However, due to economic challenges, some Member States have delayed their liberalisation commitment on some tariff lines. SACU Member States have been fully implementing their tariff liberation commitment under the SADC FTA since 2012.

Figure 7: Intra- SADC Trade vs SADC with Rest of the World

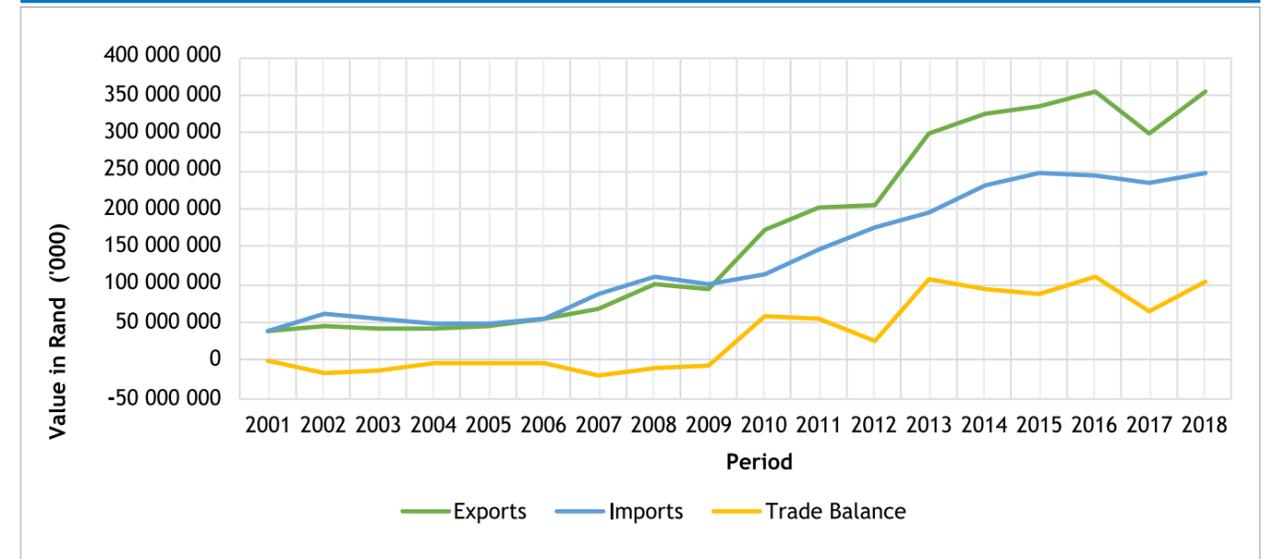


Source: ITC Trademap, <http://www.trademap.org/>, accessed in March 2020



Since the implementation of the SADC FTA, SACU has been able to grow its share of trade within SADC, as illustrated by Figure 7. In this regard, SACU's trade with SADC moved from a deficit recorded between 2001 and 2009 to posting a surplus from 2010 onwards. Today, the SADC region has become a very important market for SACU in terms of both exports and imports. For instance, SACU exports to SADC stood at over R352.9 billion in 2018 while imports were recorded to be around R247.6 billion in the same year.

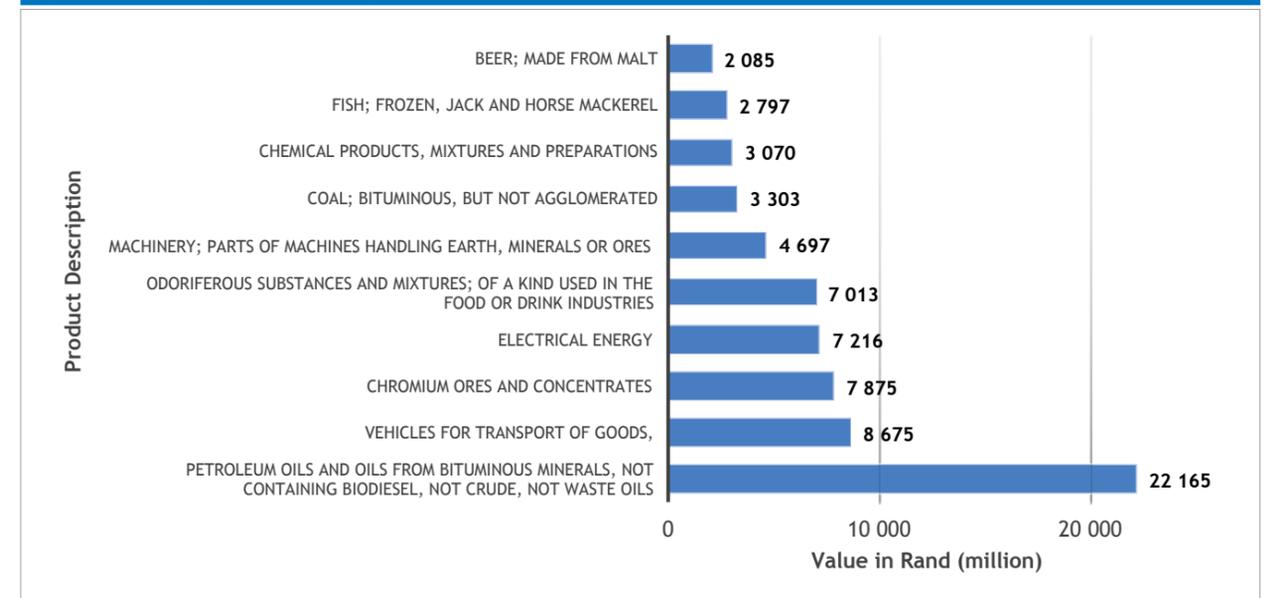
Figure 8: SACU Trade with non-SACU SADC Countries (in Rands)



Source: ITC Trademap, <http://www.trademap.org/>, accessed in March 2020

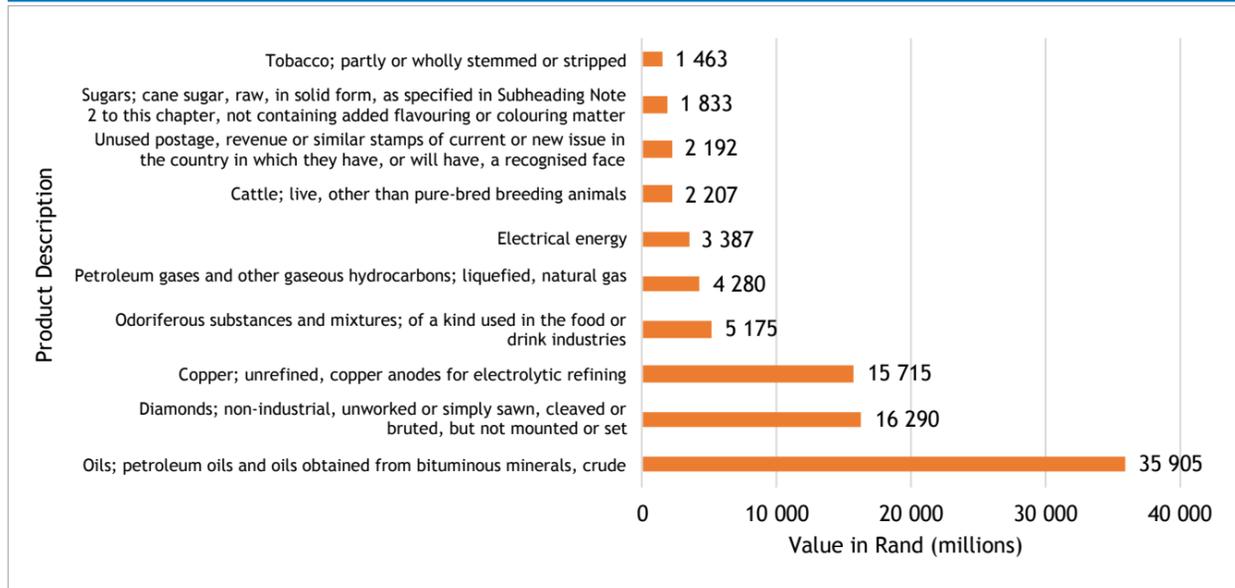
The main products that SACU traded with non-SACU SADC countries are petroleum oils, vehicles, diamonds, metal ores, electrical energy as well as some agricultural products such as animal products, fish, sugar and cereals. Figures 9 and 10 further expound on the SACU major products of exports and imports to and from the SADC region.

Figure 9: SACU Top 10 Products Exported to SADC Market, 2018



Source: SACU Secretariat, 2019

Figure 10: SACU Top 10 Products Imported from SADC, 2018



Source: SACU Secretariat, 2019

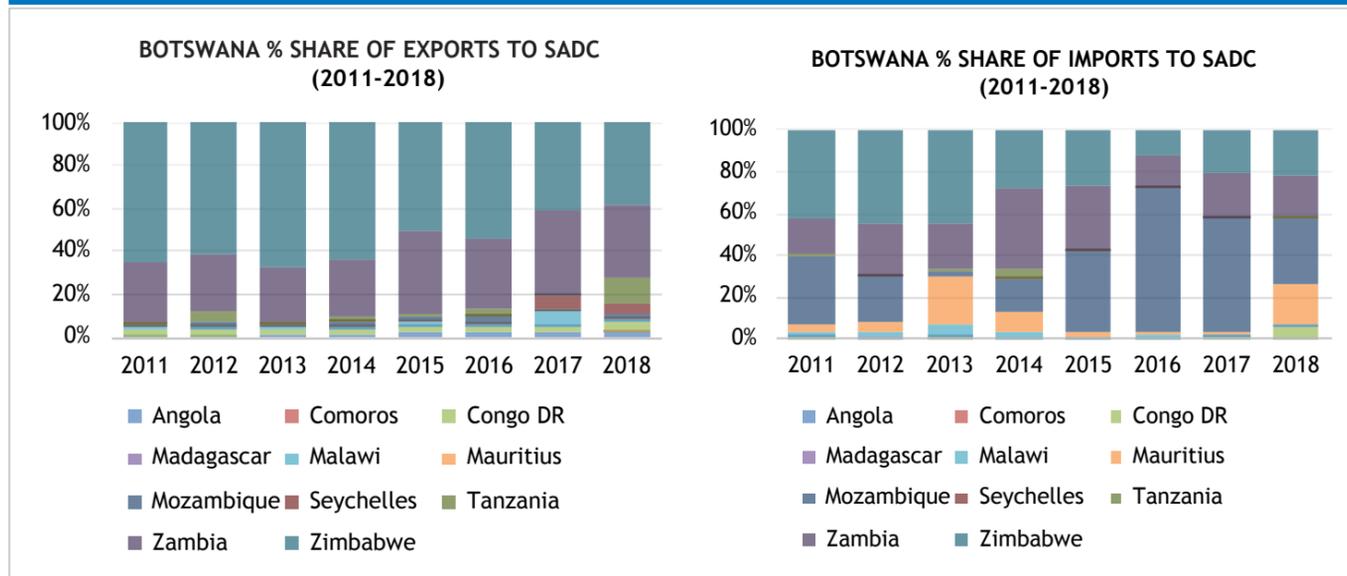
SACU Member States' Bilateral Trade with non-SACU SADC Countries



Botswana

SADC has become an even more important market for SACU countries since the implementation of the FTA. For Botswana, the SADC market has been able to absorb around R12.6 billion of exports for the eight years between 2011 and 2018 (see Figure 11). In this regard, the lion's share of Botswana's exports to SADC has been destined for Zimbabwe. On the demand side, Botswana's main sources of imports within SADC have been Mozambique, Zimbabwe, Zambia and Mauritius. Figure 11 illustrates Botswana's exports and imports share among non-SACU SADC countries.

Figure 11: Botswana % Share of Exports and Imports to and from SADC



Source: SACU Secretariat, 2019

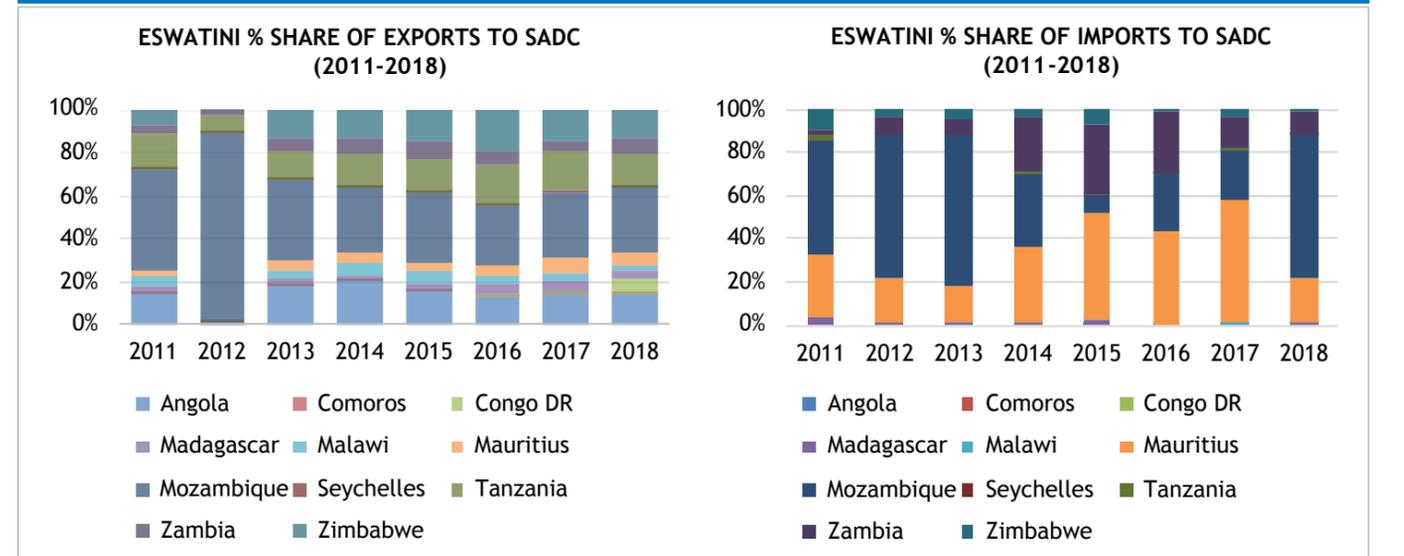


Eswatini

Eswatini's exports to non-SACU SADC countries have been on the increase, with the highest total exports of R3.0 billion registered in 2016 while R2.6 billion and R2.8 billion was recorded for 2017 and 2018, respectively (see Figure 12). Mozambique has consistently been the main destination for Eswatini's exports. In addition, Tanzania, Angola and Zimbabwe have been important players for Eswatini's export landing, as demonstrated by Figure 12.

Similarly, Eswatini has increased its imports from non-SACU SADC countries, with total imports valued at R509 million recorded for the year 2018. This was the first time in a decade that Eswatini has recorded an imports bill of over R200 million from non-SACU SADC countries. Mozambique, Mauritius and Zambia have been the main source of imports to Eswatini.

Figure 12: Eswatini % Share of Exports and Imports to and from SADC



Source: SACU Secretariat, 2019



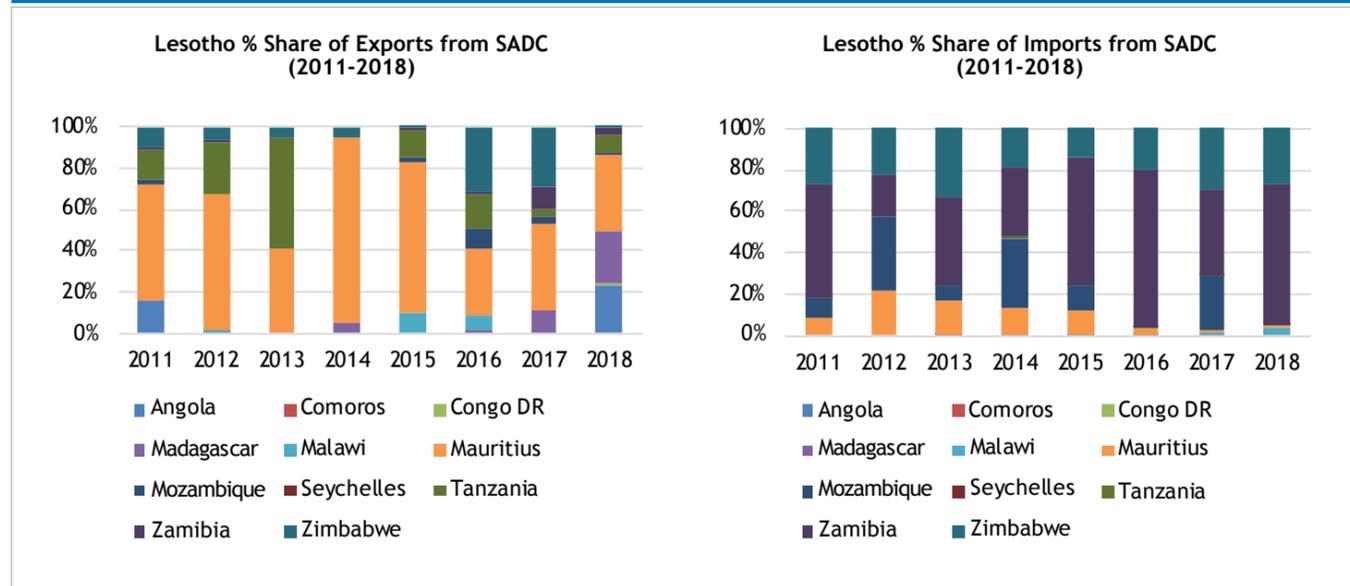


Lesotho

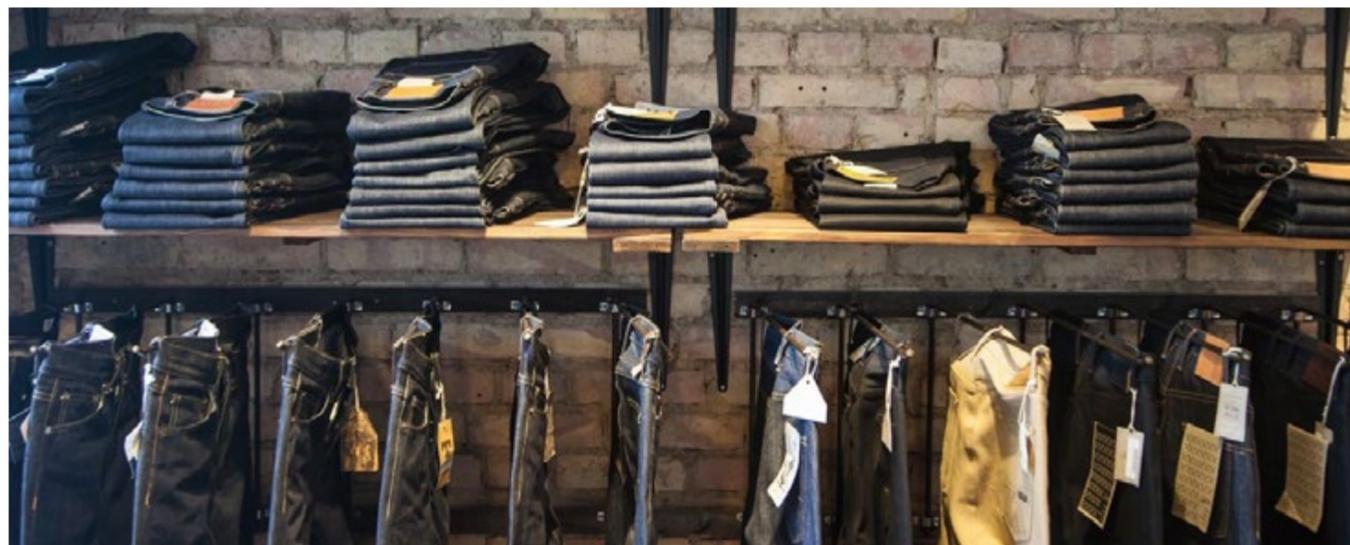
Unlike other SACU Member States, Lesotho's trade with non-SACU SADC Member States is not that significant, but the market still remains important for Lesotho's future market opportunities. The latest figure shows that Lesotho's exports to the SADC market was valued at R37.6 million for the year 2018. This was a slight decline from the R50.6 million recorded in 2017 (Figure 13).

In terms of imports, Lesotho sourced significantly more from non-SACU SADC Member States in comparison with its exports, thereby registering a deficit trade balance from 2011 to 2018. In particular, Lesotho's import bill amounted to R442.9 million and R326.9 million in 2017 and 2018, respectively. As illustrated by Figure 13, Mauritius, Angola and Madagascar captured the largest percentage share of Lesotho's export to the SADC region while Zambia, Zimbabwe and Mozambique remained the biggest sources of imports for Lesotho.

Figure 13: Lesotho % Share of Exports and Imports to and from SADC



Source: SACU Secretariat, 2019

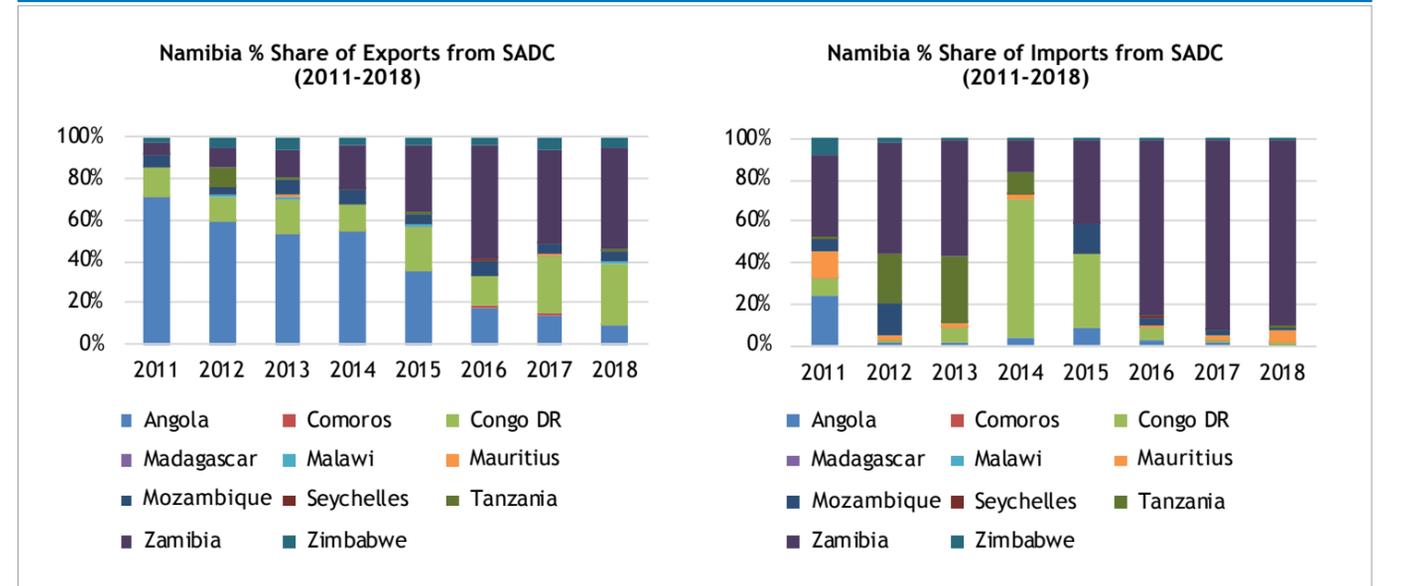


Namibia

For Namibia, the market of non-SACU SADC Member States is extremely important. This is evident in the fact that Namibia's trade to the region has been increasing, with the value of exports reaching a total of R56.8 billion while importing goods worth R40.3 billion between 2011 and 2018. It is also interesting to note that Namibia's trade is not only limited to countries that are participating in the SADC Tripartite Free Trade Agreement. For instance, Figure 14 demonstrates strong trade relations between Namibia and Angola, especially between 2011 and 2015. In 2011, over 70% of Namibia's total exports to the SADC Market was destined for Angola. This scenario changed between 2016 and 2018 owing to the economic slowdown experienced by Angola. In addition to Angola, Zambia and the Democratic Republic of Congo (DRC) also absorbed a significant share of Namibia's exports during the period under review.

In terms of imports, Zambia remained a very important sourcing market for Namibia. Figure 14 also illustrates the importance of countries such as Tanzania and the DRC in Namibia's sourcing.

Figure 14: Namibia % Share of Exports and Imports to and from SADC



Source: SACU Secretariat, 2019



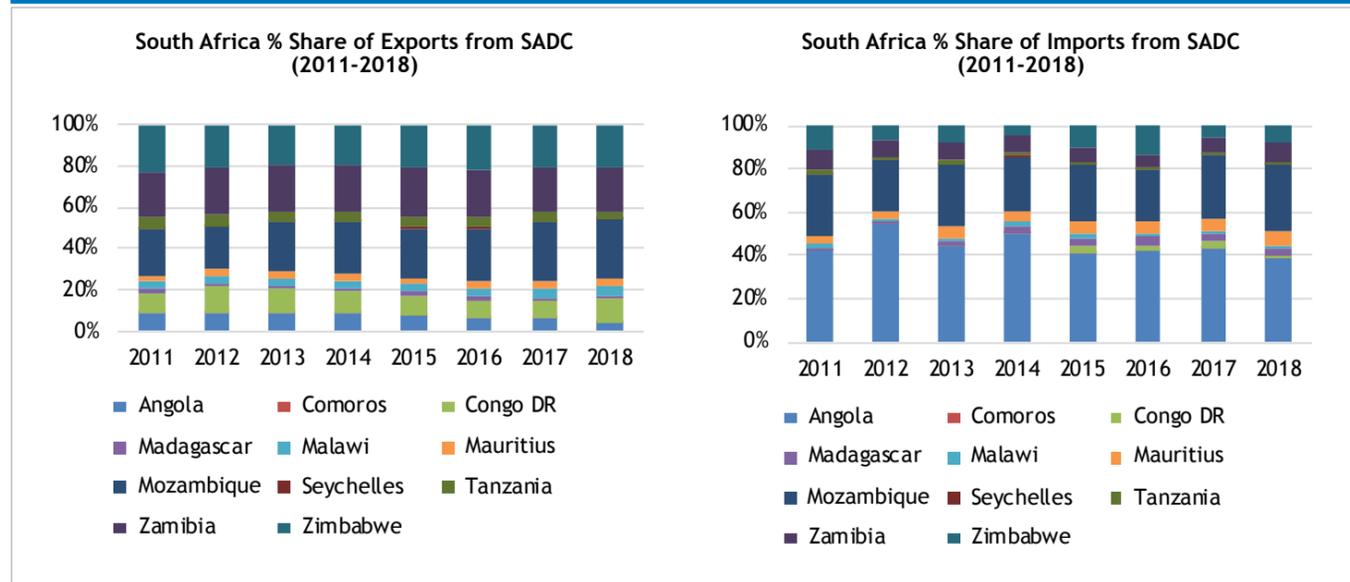


South Africa

As the most advanced economy in the region, the importance of the non-SACU SADC Market to South Africa cannot be overemphasised. South Africa is the main supplier of exports among most of the countries in the SADC region. South Africa's exports to the non-SACU SADC Market reached a total of R946.8 billion compared with a total of R326.1 billion in imports recorded from 2011-2018. From Figure 15, South Africa is exporting to all SADC countries but with Zambia, Zimbabwe and Mozambique retaining the biggest proportional share of these exports.

On the demand side, South Africa is a lucrative market for non-SACU SADC products, hence there has been an increase in South Africa's imports from these countries. In this regard, the value of imports steadily grew from R27.5 billion in 2011 to over R43.6 billion recorded in 2018, as reflected in Figure 15. It is also interesting to note that Angola topped the list of countries exporting to South Africa despite not being party to the SADC FTA. Other main countries South Africa is importing from the most were Mozambique, Zimbabwe, and Zambia.

Figure 15: South Africa % Share of Exports and Imports to and from SADC



Source: SACU Secretariat, 2019



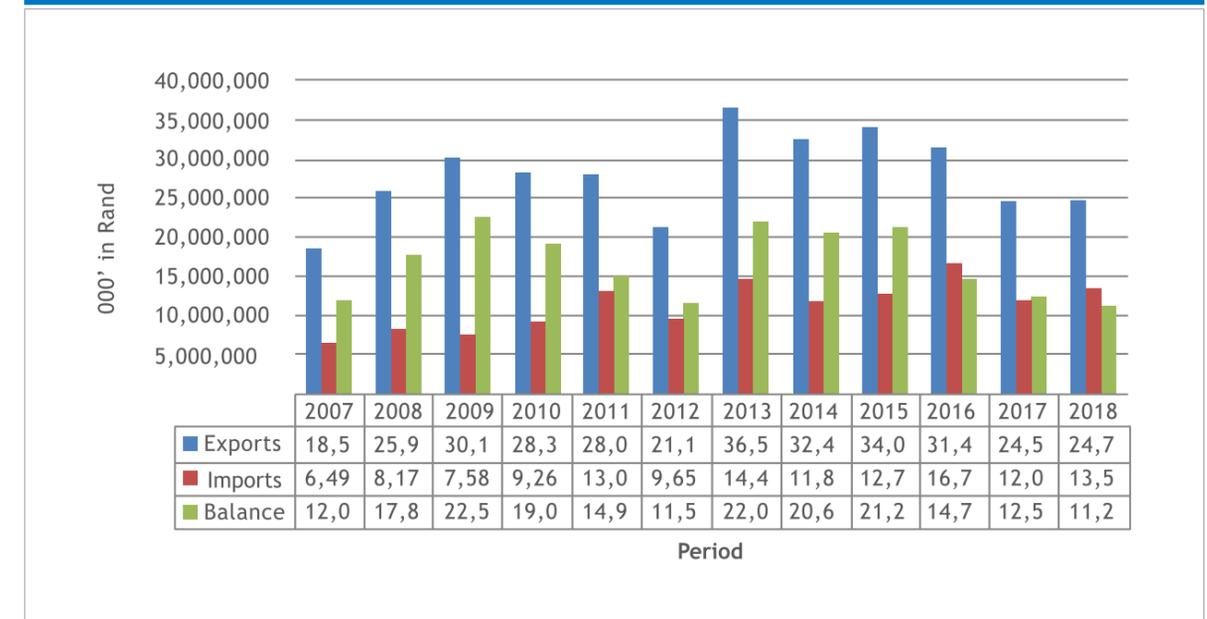
An analysis reveals that the SADC FTA that was progressively implemented between 2001 and 2012 may have contributed to the increase in intra-SADC trade, which rose from R69.6 billion in 2001 to reach R459.7 billion in 2018. It further demonstrates that SACU countries have benefited from the creation of the SADC FTA as well as the significance of the SADC market to SACU countries both in terms of export destinations and sources of imports. Overall, SACU exports to SADC stood at over R352.9 billion in 2018, while imports were recorded to be around R247.6 billion in the same year. With the exception of Lesotho, all SACU countries run a trade surplus against the non-SACU SADC countries from 2012-2018. This was not the case prior to the year 2008 when the SADC FTA was fully achieved.

The analysis also reveals strong trade relations between Namibia, Angola and the DRC as well as between South Africa and Angola, even though both Angola and the DRC are not participating in the SADC FTA as yet. This signifies that SACU is on the right track in pursuing the regional integration agenda as a catalyst for economic growth and development for its Member States and the region at large.

SACU Trade with the EFTA

This section provides an overview of the trade relations between SACU and the EFTA before and after the implementation of the FTA. SACU's trade with the EFTA from 2007 recorded a steady increase, save for a decrease in both imports and exports from 2011 to 2012. Both exports and imports increased from 2013 and thereafter there was a slight decrease over the years, as reflected in Figure 16. SACU has enjoyed a positive trade balance over the years, but this has slightly decreased from 2017 into 2018. The value of imports from the EFTA has been fluctuating, with the highest value of R16.75 billion recorded in 2013. With regard to the value of exports to the EFTA, the highest value of R36.51 billion was also recorded in 2013.

Figure 16: SACU Trade with EFTA (2018-2007) in Billion Rands

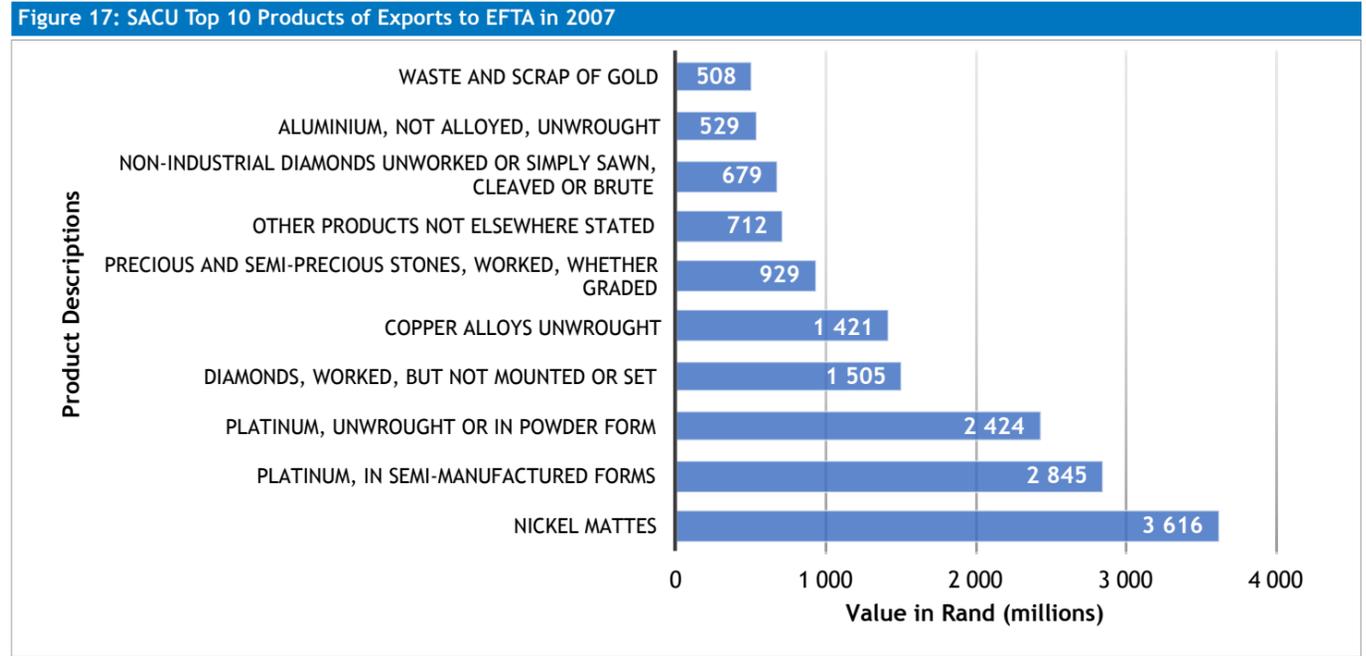


Source: SACU Secretariat, 2019

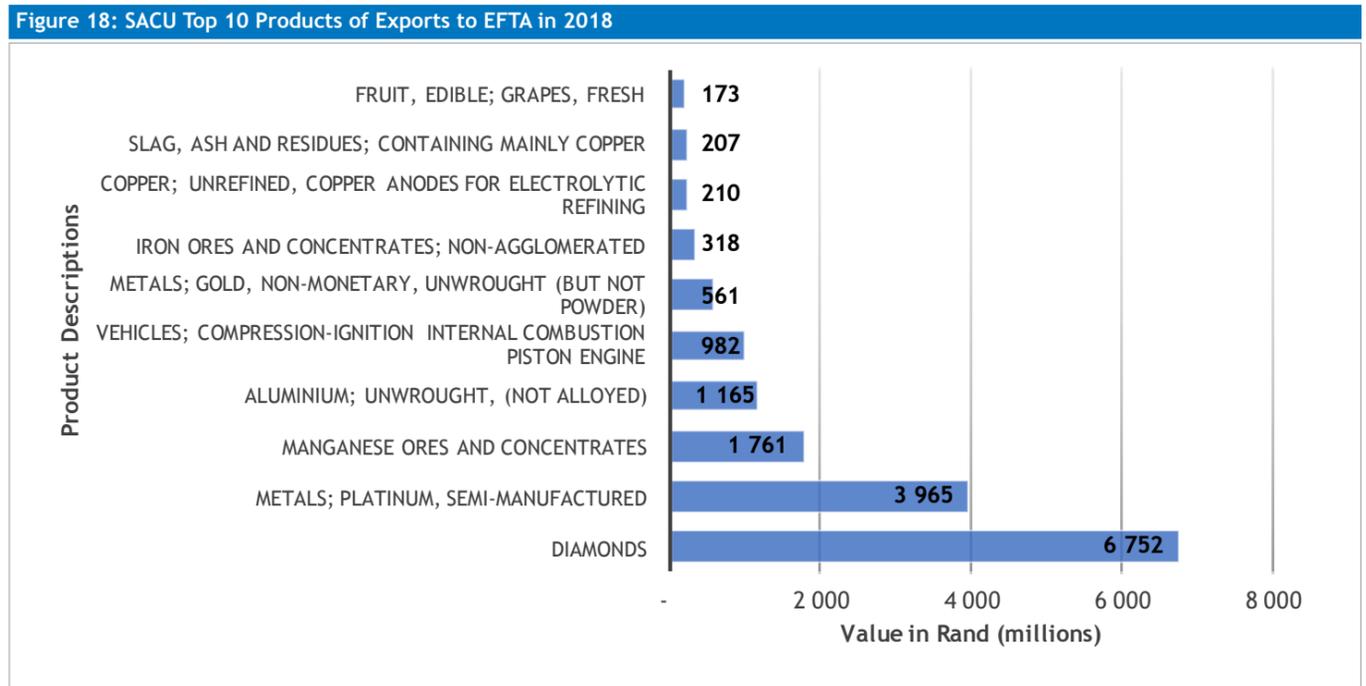


Delegations of EFTA and SACU

Figures 17 and 18 show SACU's top 10 exports to the EFTA countries in 2007 and 2018 - that is, prior to and after the agreement came into force. Comparatively, there has been a slight increase in the value of exports for SACU. The top 10 SACU exports to the EFTA in 2007 included, among others, precious and semi-precious stones, copper alloys unwrought, and diamonds and nickel mattes. The export products for 2018 are similar, although vehicles have been added.

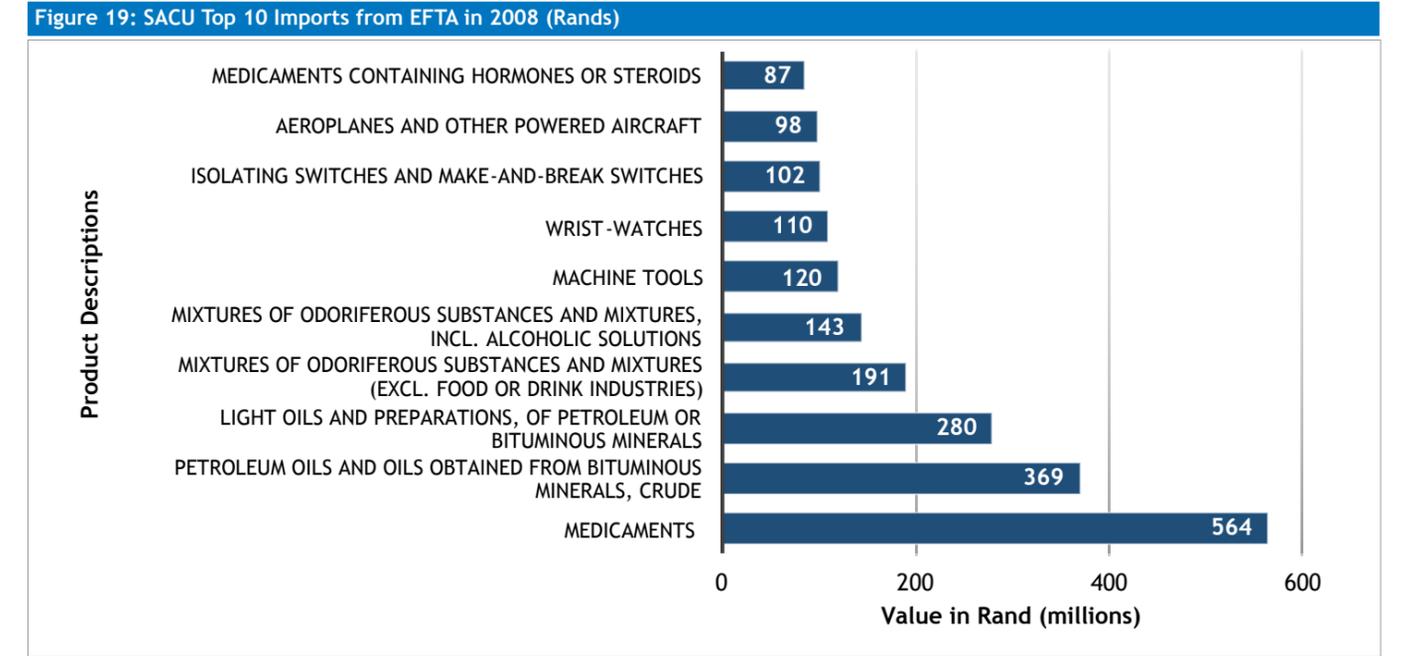


Source: SACU Secretariat, 2019

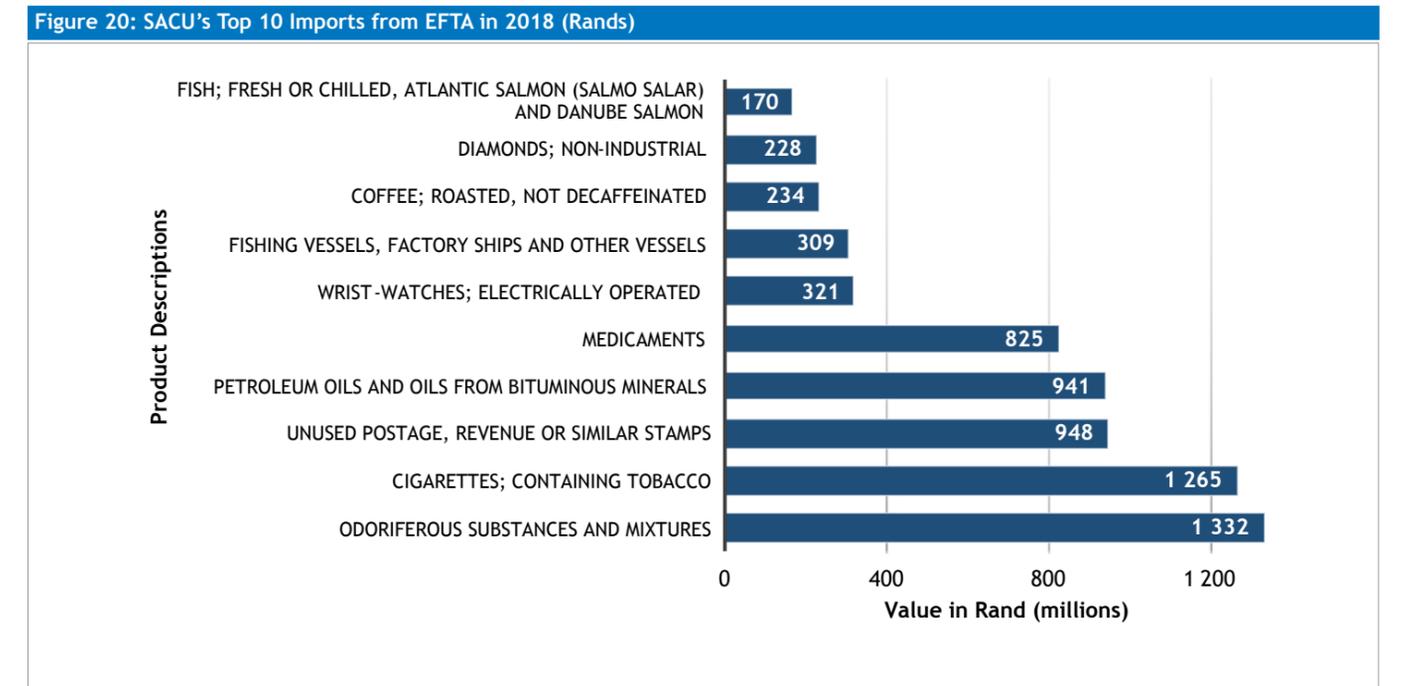


Source: SACU Secretariat, 2019

As for the imports into the SACU Member States from the EFTA, there has been an increase over the years, with the total value of imports in 2007 at R6.5 billion and at R13.5 billion in 2018. However, there has not been a significant change in the top 10 imports from the EFTA over the years, as reflected in Figures 19 and 20.



Source: SACU Secretariat, 2019



Source: SACU Secretariat, 2019

SACU Member States' Bilateral Trade with EFTA

This section reflects the individual SACU Member States' trade with the EFTA from the years 2012 to 2018.

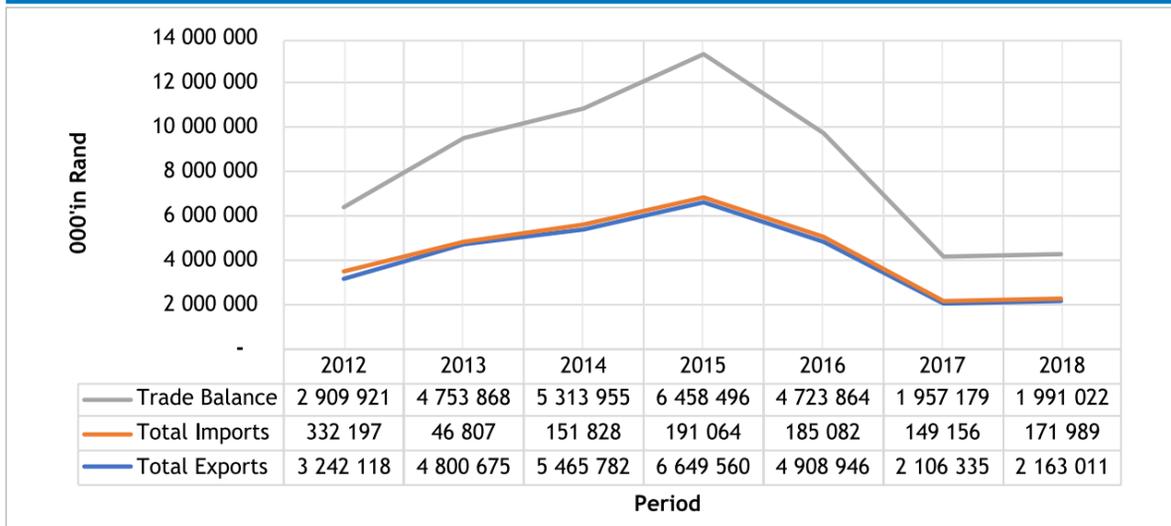
Botswana



Botswana's exports to the EFTA steadily increased from 2012 until 2015, but a decrease was recorded from 2016. Figure 21 shows that in value terms Botswana's exports in 2018 were R2.2 billion. The main exports from Botswana to the EFTA have been diamonds; nickel mattes, unworked or simply sawn, cleaved or brute; copper ores and concentrates; copper mattes; and cement copper (precipitated copper) destined for mainly Norway.

In terms of the imports from 2012 to 2018, Botswana did not record significant imports from the EFTA. There were major imports in 2012, but thereafter there has been a reduction in imports over the years. The main imports were, among others, electrical and electronic equipment, pearls, aircraft, vehicles and medical apparatus. Botswana's main trading partner in terms of imports has been Switzerland.

Figure 21: Botswana's Trade with EFTA (2012-2018)



Source: SACU Secretariat, 2019

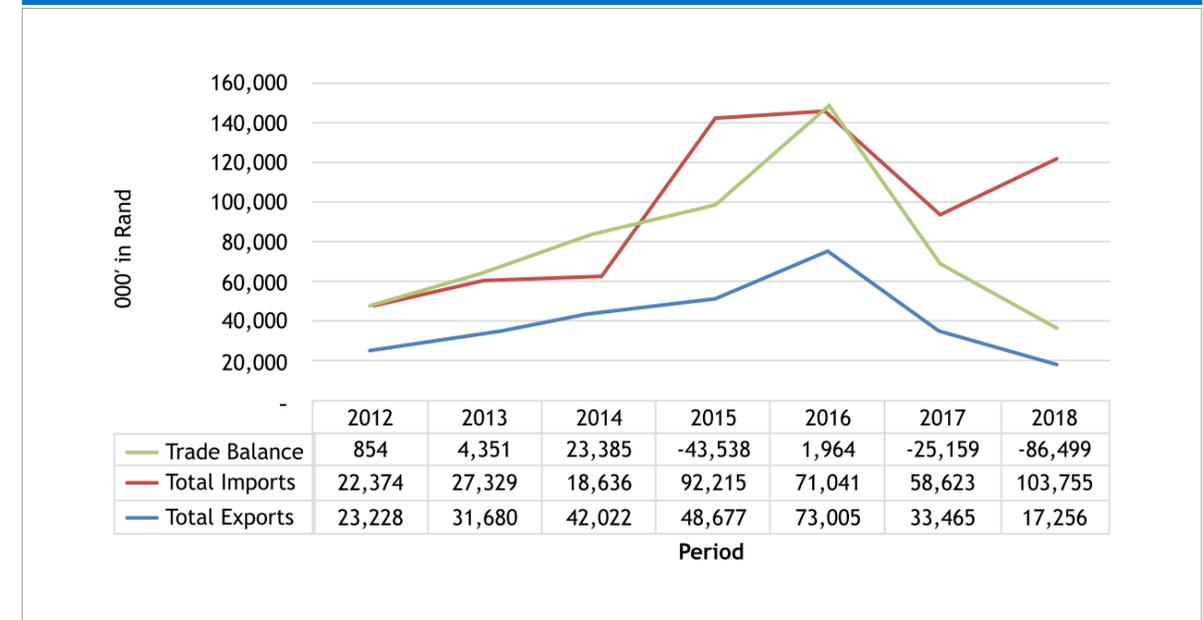


Eswatini

Eswatini recorded a positive trade balance from 2012 until 2016, following which it took a downward turn in 2018. Eswatini exported products worth R48.6 million in 2015 to the EFTA market. Exports from Eswatini to the EFTA increased from 2012 until 2016 and thereafter there has been a decrease until 2018, as shown in Figure 22. The main exports were meat, sugars, vegetables, juices and medicaments, mainly to Switzerland.

With regard to imports, Eswatini had a significant rise in imports in 2018 compared with the previous years. The total value of imports for 2018 was R103.755 million, which stood against a total of R59 million in 2017. These imports were mainly from Switzerland.

Figure 22: Eswatini's Trade with EFTA (2012 to 2018) in Rands



Source: SACU Secretariat, 2019



SACU Secretariat, Director Corporate Services, Ms. Alma Andrade showcasing the Eswatini products during the Eswatini National Day on 4 September 2017



Lesotho

Lesotho's trade with the EFTA has mainly been in textiles and clothing. However, exports have been minimal over the years compared with imports from the EFTA, leading to a negative trade balance during the period under consideration. From 2012 to 2015, Lesotho did not export to the EFTA, while in 2016 a total value of R13.6 million was exported followed by R500 000 in 2017 and R3.8 million in 2018. The main export partner for Lesotho was Switzerland then Iceland.

In terms of imports, Lesotho's imports from the EFTA countries in 2013 were valued at R75.5 million. Thereafter the imports from the EFTA to Lesotho declined from 2014 to 2018, as shown in Figure 23. Lesotho imports mostly from Switzerland followed by Norway.

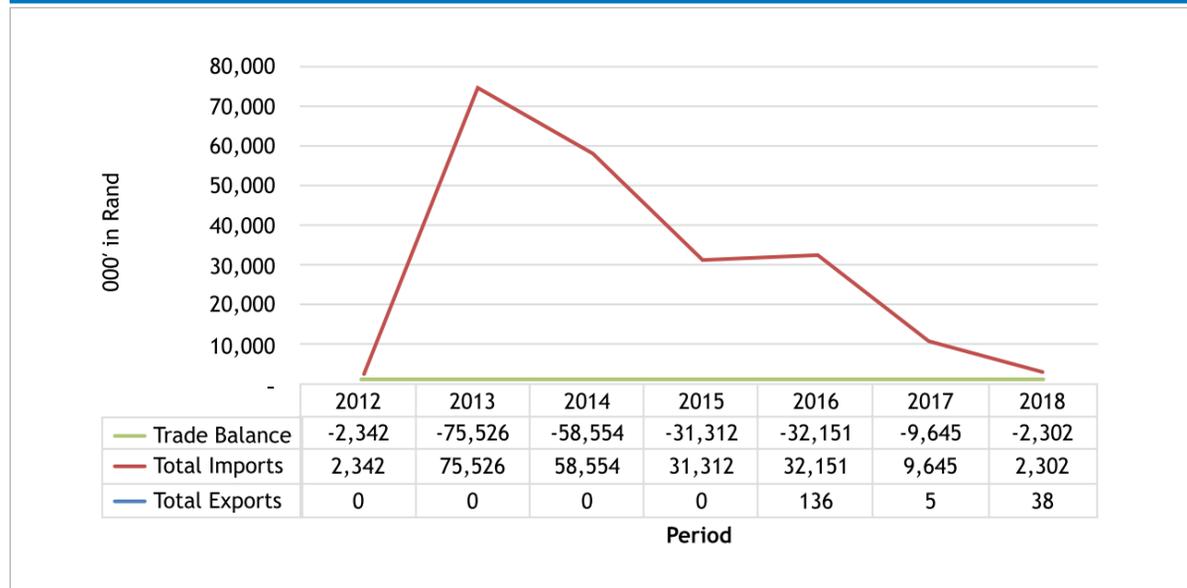


Namibia

Namibia's exports to the EFTA increased from a total value of R5.8 billion in 2013 to R8.3 billion in 2014. This trade dropped to R8.2 billion in 2015, followed by further drops in 2017 and 2018, as shown by Figure 24. The main exports from Namibia into the EFTA are cathodes and copper ores and concentrates destined for Switzerland. The value of exports decreased sharply from 2017 to 2018, when it was R928 million.

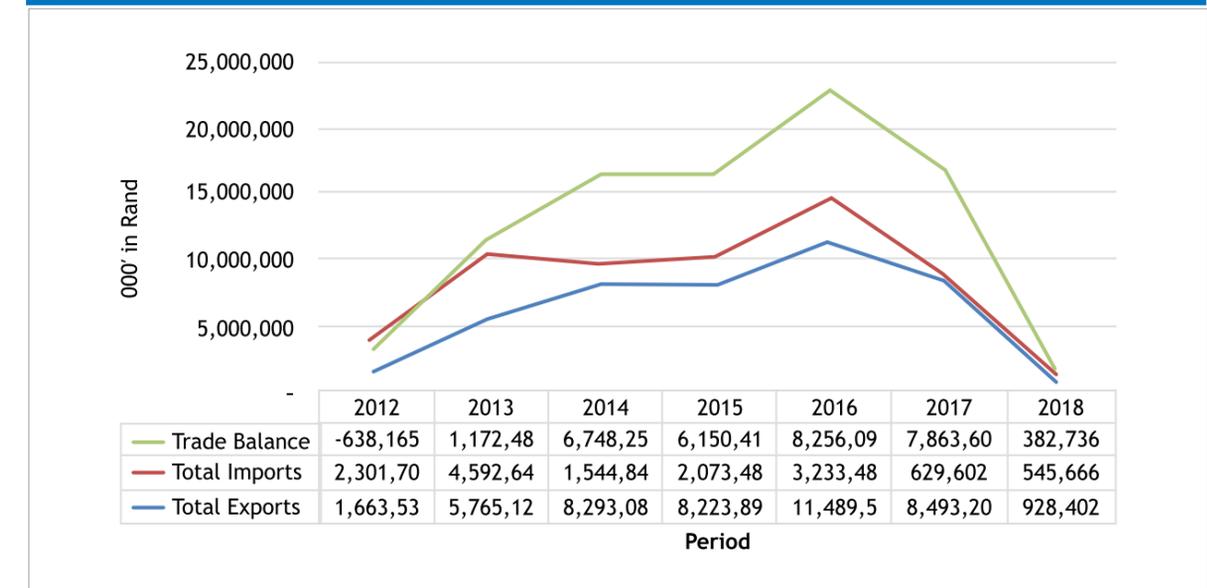
In terms of imports, 2016 brought the most of them at a value of R411 billion. Namibia's imports include, among others, copper ores and concentrates; vessels and other floating structures and fishing vessels; and factory ships and other vessels for processing or preserving fishery products. Namibia's main trading partner in terms of imports is Switzerland followed by Norway.

Figure 23: Lesotho's Trade with EFTA (2012 to 2018) in Rands



Source: SACU Secretariat, 2019

Figure 24: Namibia's Trade with EFTA (2012 to 2018) in Rands



Source: SACU Secretariat, 2019



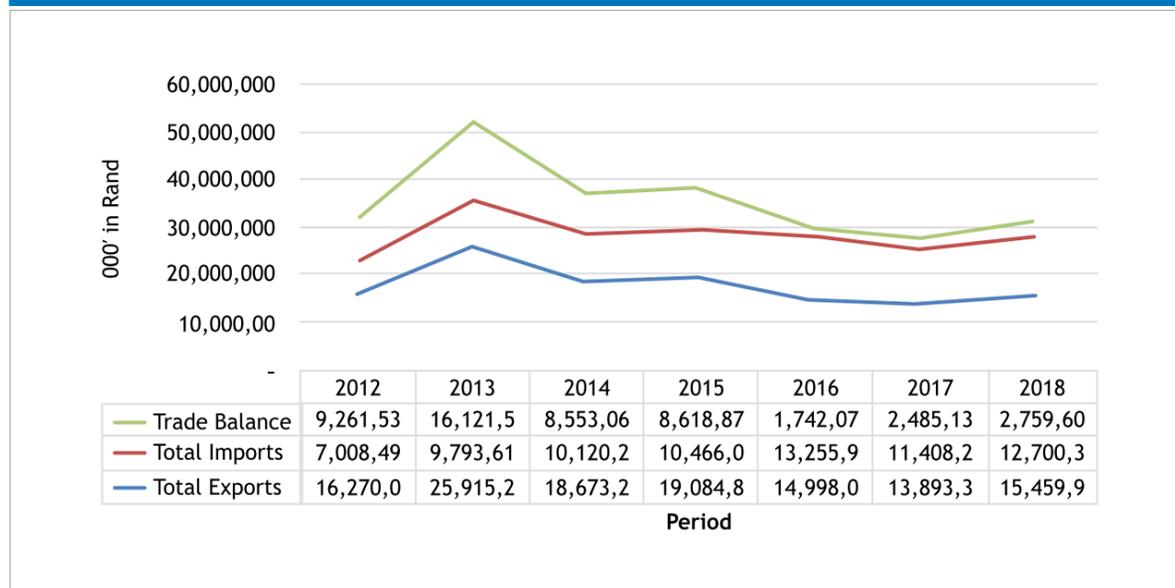


South Africa

Within SACU, South Africa is the main trading partner with the EFTA, as the value in Rands in Figure 25 shows. Switzerland then Norway are the leading trade countries. South Africa has enjoyed a positive trade balance over the years, but this has decreased slightly since 2013. The total exports in 2013 were worth R25.9 billion while the total import value was R10 billion. In 2018, the export value was R15.4 billion compared with an export value of R13.9 billion. The main exports to the EFTA by South Africa include precious metals, aluminium and platinum.

In terms of imports, the bilateral trade volume between South Africa and the EFTA has increased over the years, with a total value of R12.7 billion in 2018. This was a slight increase from 2017, when the imports value was R11.4 billion. South Africa's imports included pharmaceuticals, machines, precision instruments and watches, mainly from Switzerland.

Figure 25: South Africa's Trade with EFTA (2012 to 2018) in Rands



Source: SACU Secretariat, 2019



An analysis reveals that SACU Member States have not diversified their products to the EFTA market. This, in turn, has limited their ability to fully exploit the EFTA market. The current review of the agreement is intended to improve the existing Rules of Origin so that the parties can have increased benefits from the agreement. Despite this, there is clear evidence that the trade agreement between the EFTA States and SACU has been beneficial to the SACU Member States.

While the SACU EFTA Agreement provides opportunities for increased exports of manufactured goods, little has been achieved in this regard thus far. Of significance is that the SACU Member States have not diversified their markets to be able to fully take advantage of the EFTA market. The business community needs to be capacitated to consider this market for effective entry and sustained presence.

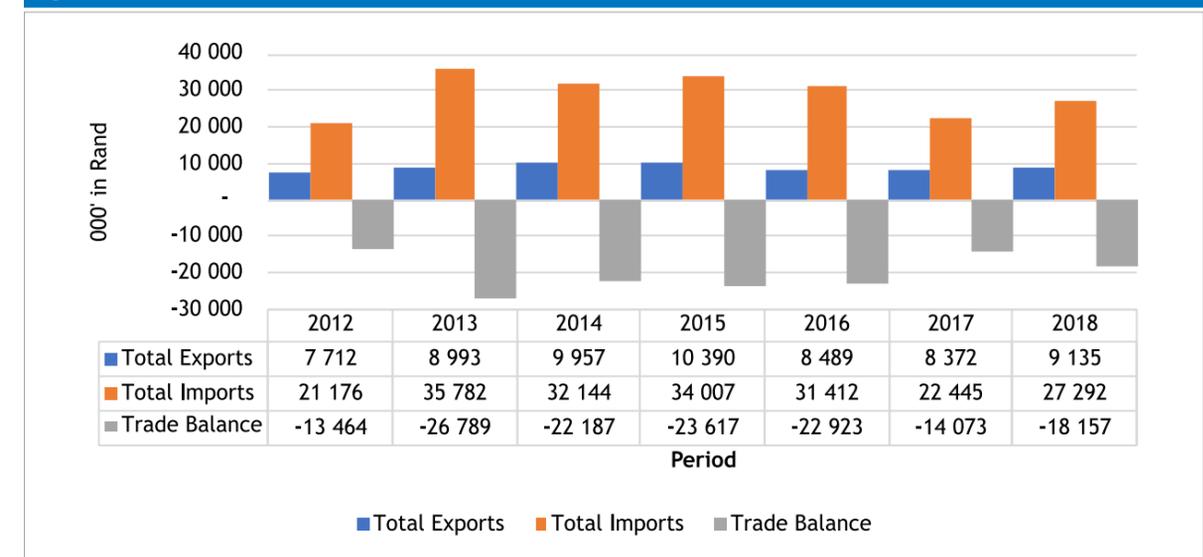
SACU-MERCOSUR Trade Flows

Before the PTA with the full members of MERCOSUR - Argentina, Brazil, Paraguay and Uruguay - came into force on 16 April 2016, commercial exchanges between the parties were fully regulated through the WTO Framework Agreements. This has now partially changed with the coming into force of the PTA. However, it should be noted that this agreement is only limited to 000 1 tariff lines, which in SACU's case make up less than %15 of the tariff book. Most of the trade between the parties therefore continues to take place on non-preferential terms. The next analysis looks at trade flows between MERCOSUR and SACU before and after the implementation of the PTA.

Figure 26 shows that SACU's trade balance with MERCOSUR has been in deficit for both the period 2015-2012, before the PTA came into force, and the period 2018-2016, following its implementation. Despite the overall trade deficit that SACU recorded against MERCOSUR, it is encouraging to note that SACU's export values have been on the rise - from R7.7 billion in 2012 to R10.4 billion in 2015, before it fell to R8.5 billion and R8.4 billion in 2016 and 2017, respectively. In 2018, there was a slight upward movement in terms of SACU's exports to MERCOSUR and they were recorded at R9.1 billion compared with R8.3 billion the previous year. Brazil and Argentina took up the lion's share of SACU's exports, while exports destined for Paraguay and Uruguay were minimal.

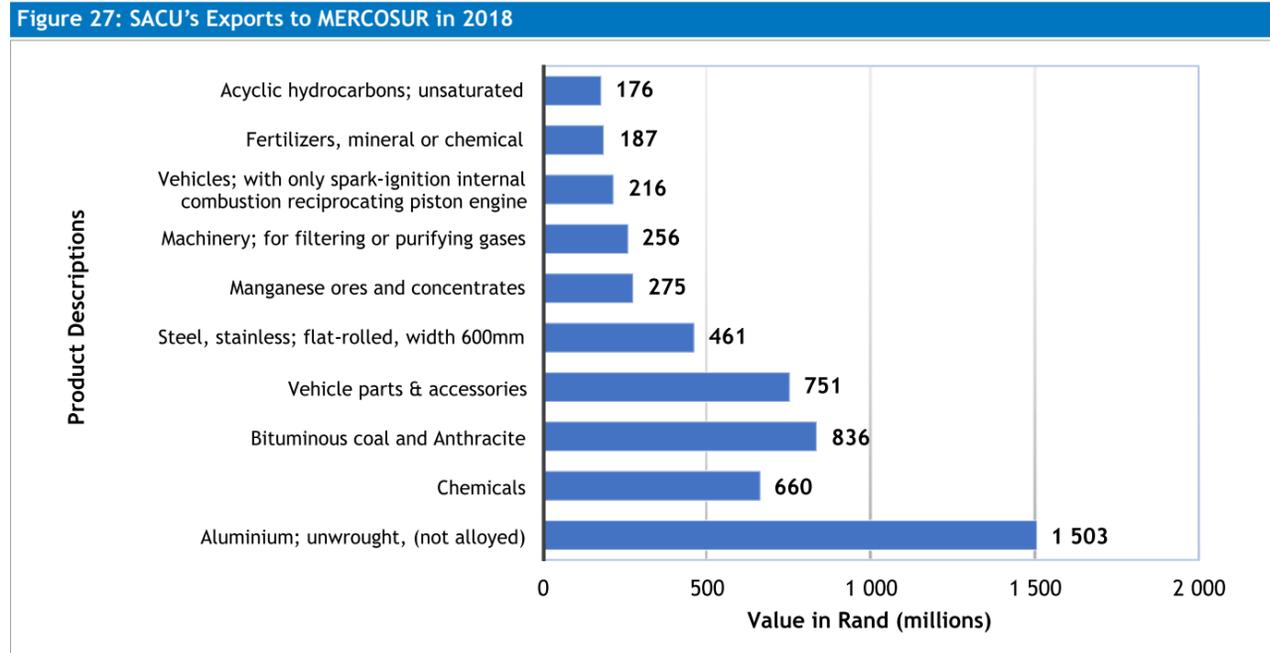
Meanwhile, the value of imports from MERCOSUR has been fluctuating, with the highest value of R35.8 billion recorded in 2013. This was mostly due to a spike in the imports of machinery and prepared foodstuffs, which constituted a combined %22 share of imports for that year. This was not carried through to post the PTA-implementation period, when the value of imports was recorded at R22.4 billion and R27.3 billion for 2017 and 2018, respectively.

Figure 26: SACU's Trade with MERCOSUR



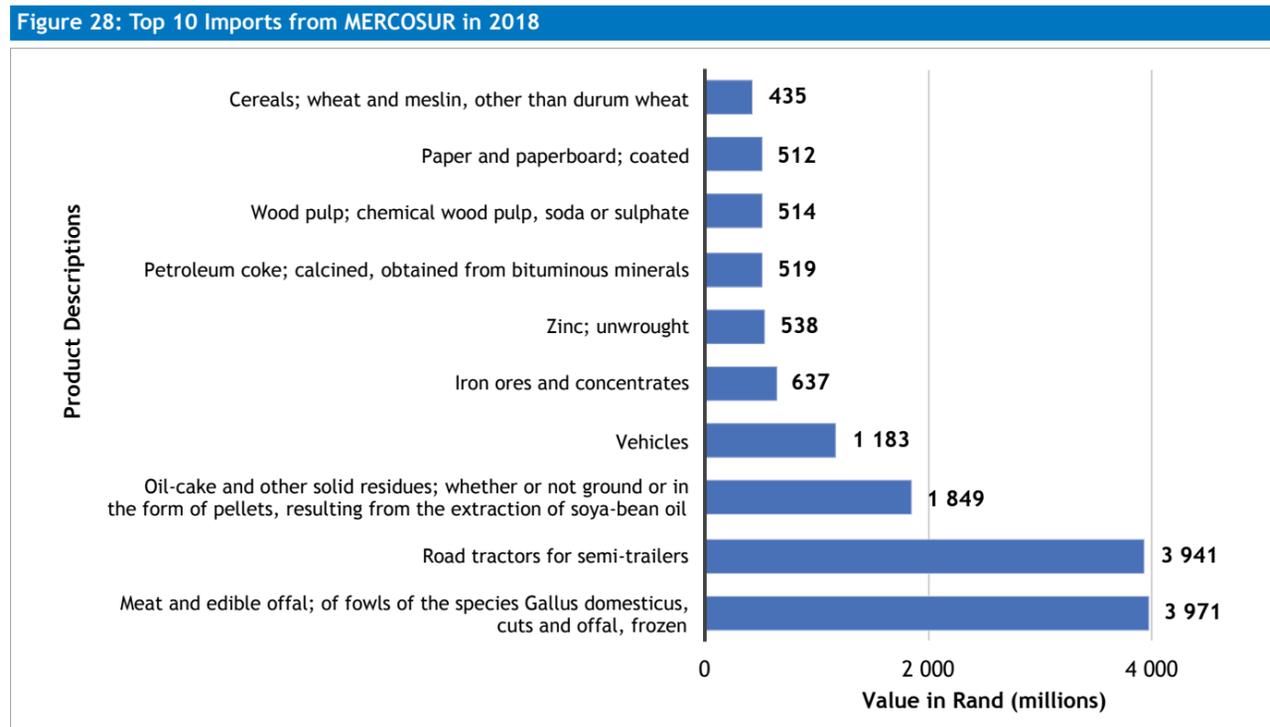
Source: SACU Secretariat, 2019

Chemicals, minerals, base metals and agricultural products accounted for more than half of SACU's exports to MERCOSUR over the period under review. The top 10 exports to MERCOSUR during the year 2018 are highlighted in Figure 27.



Source: SACU Secretariat, 2019

On the other hand, SACU's imports from MERCOSUR have been diversified among industrial, manufactured and agricultural products. Figure 28 ranks SACU's top 10 imports from MERCOSUR in 2018.



Source: SACU Secretariat, 2019

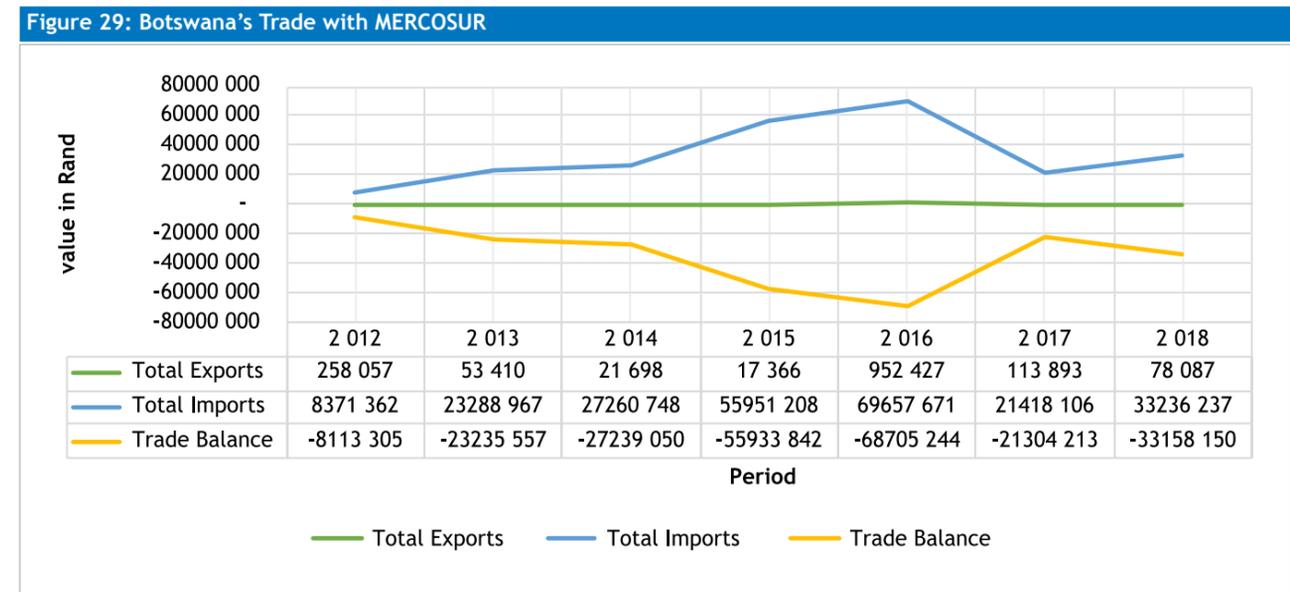
SACU Member States' Bilateral Trade with MERCOSUR

This section provides an overview of the trade relations between the SACU Member States and MERCOSUR before and after the commencement of the implementation of the PTA.



Botswana

There has been minimal trade between Botswana and MERCOSUR, with exports primarily destined for Brazil and Argentina and no data captured for Paraguay and Uruguay. For 2012-2018, Botswana only managed to record a total of less than R1.5 million in export values. This is in comparison with the total import bill of R230.8 million registered from MERCOSUR over the same period. Figure 29 provides a depiction of the trade flows between Botswana and MERCOSUR. The main export products to MERCOSUR were diamonds, which were followed by advertising materials as well as pictures, prints and photographs. The main imports from MERCOSUR were spread between agricultural, pharmaceutical and industrial products such as wheat, sand-blasting machines and vaccines for veterinary medicine.



Source: SACU Secretariat, 2019

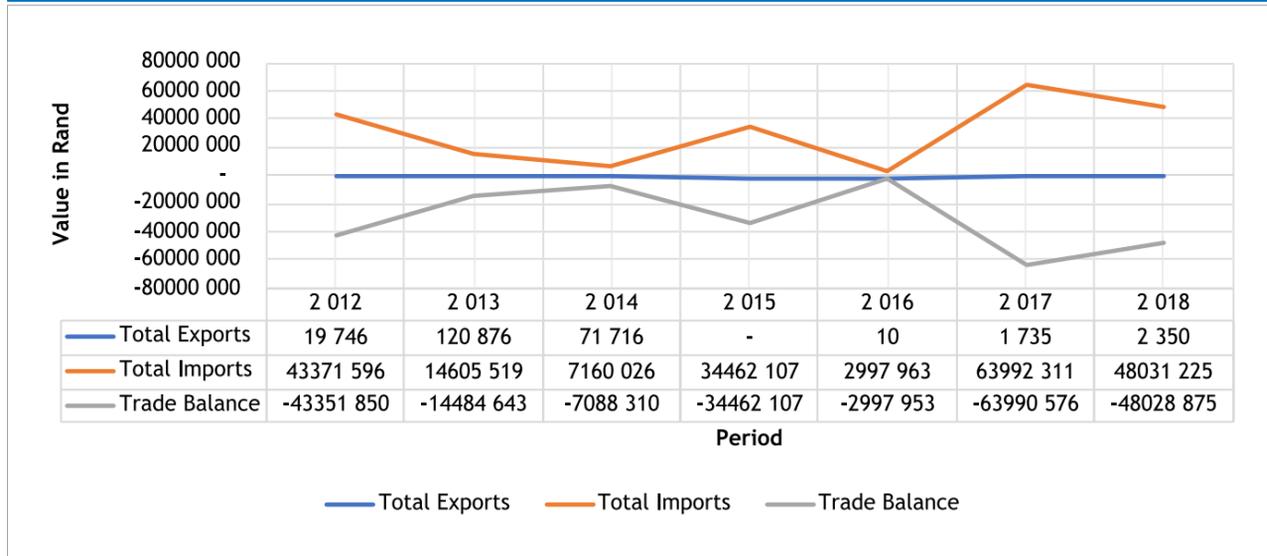




Eswatini

As in the case of Botswana, there was little commercial exchange between Eswatini and the MERCOSUR market, with the total export value for the period 2012-2018 almost negligible. Meanwhile, the MERCOSUR States, particularly Brazil, have been able to access Eswatini's market, with imports picking up to over R63.9 million in 2017 but dropping to R48 million in 2018. Eswatini's trade with MERCOSUR is illustrated in Figure 30. The main exports to MERCOSUR include refrigerators while the main imports include pharmaceutical products, machinery and mechanical appliances.

Figure 30: Eswatini's Trade with MERCOSUR



Source: SACU Secretariat, 2019

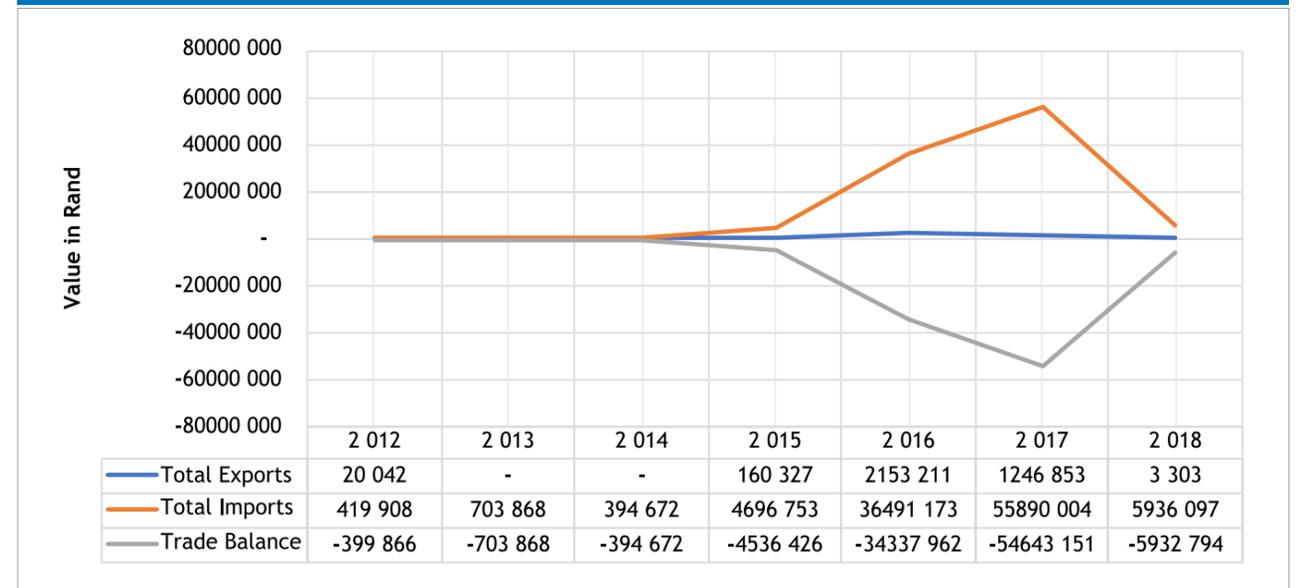


Lesotho

The overall trade balance between Lesotho and MERCOSUR has remained significantly low. In the years 2013-2014 the country did not record any exports to MERCOSUR, while the value of imports recorded was also negligible. For instance, Lesotho only exported goods worth R2.01 million to MERCOSUR in 2018 and imported goods to the tune of R48.03 million in the same year. Figure 31 shows the trade pattern between Lesotho and the MERCOSUR States.

Lesotho exports apparel and clothing accessories products to MERCOSUR, whereas the main imports include cotton, agricultural machinery, footwear and handbags.

Figure 31: Lesotho's Trade with MERCOSUR



Source: SACU Secretariat, 2019



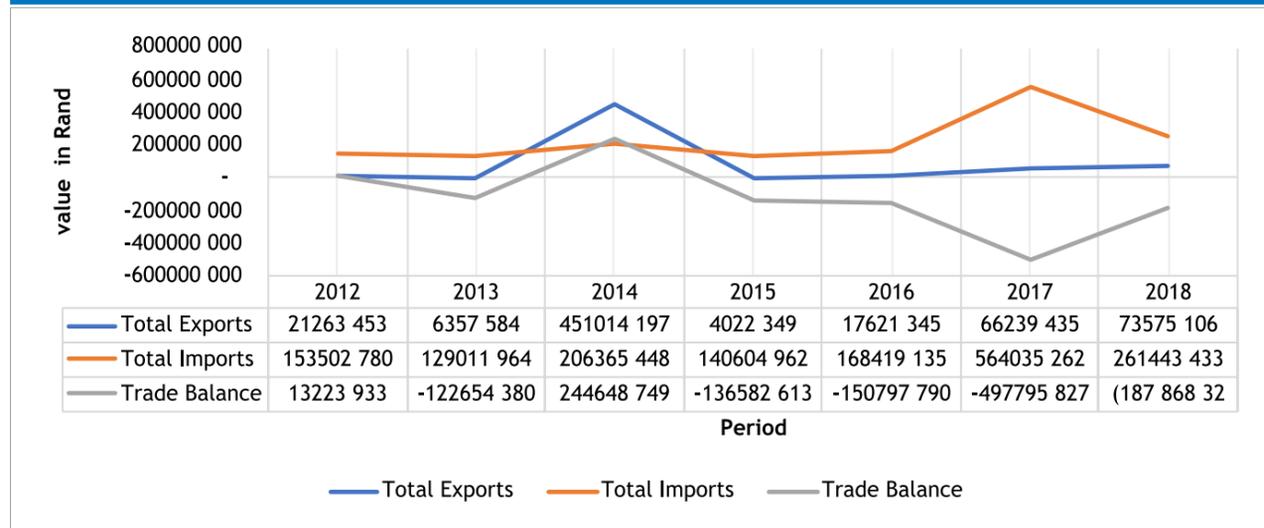


Namibia

Namibia is the only country in SACU that ever recorded a surplus in its trade with MERCOSUR during the period under review. This was in 2014 when Namibia registered an export value of over R451 million, mostly owing to the high value of the ship and boat products that it exported to Brazil in that particular year. This performance was however short-lived as MERCOSUR reclaimed its trade dominance with Namibia in the subsequent years, as depicted in Figure 32. Overall, Namibia's exports to MERCOSUR have been somewhat improving from R212 million registered in 2012 to R735.7 million in 2018.

The main products of export to MERCOSUR include frozen, fresh and chilled shark fins, frozen fowls, marble and frozen cuts of edible offal. The main imports from MERCOSUR include diesel-electric locomotives, raw cane sugar, frozen fowls, new pneumatic tyres, maize, cleaning machines, machines and mechanical appliances, and concrete or mortar.

Figure 32: Namibia's Trade with MERCOSUR



Source: SACU Secretariat, 2019

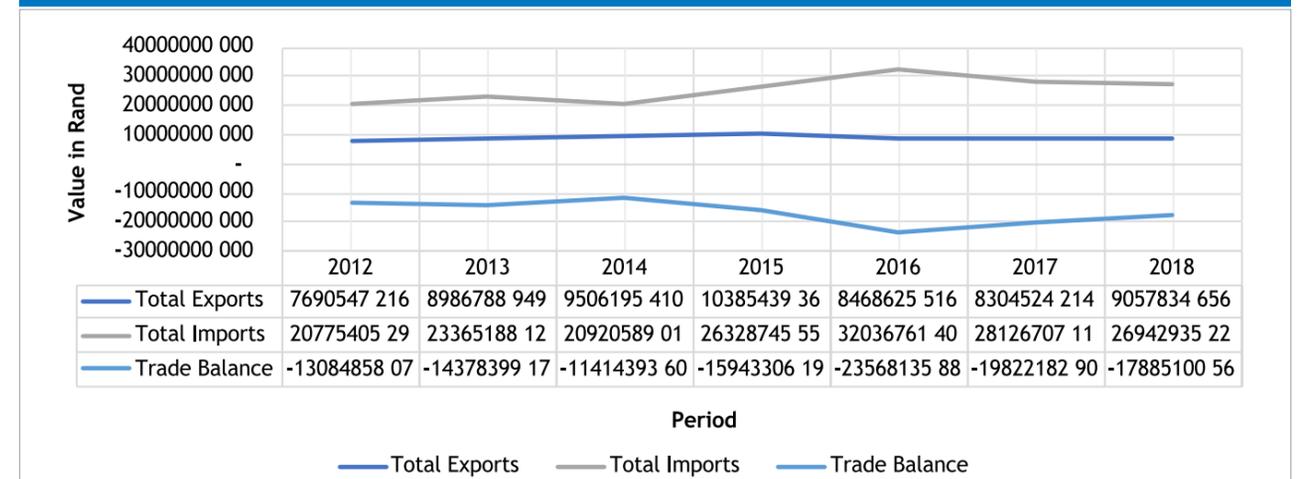


South Africa

South Africa's trade with MERCOSUR makes up 99% of the overall trade between SACU and MERCOSUR during the 2012-2018 period. This means that BELN only contributed 1% to the overall SACU trade balance with MERCOSUR. MERCOSUR products are also primarily destined for the South African market as opposed to the other SACU Member States. This could be the reason that South Africa recorded a wider trade deficit with MERCOSUR in this period, as demonstrated in Figure 33. It is, however, encouraging to note that despite South Africa recording a trade deficit, its exports value to MERCOSUR has been consistently on the rise, from R76.9 billion recorded in 2012 to R90.6 billion registered in 2018.

On the other hand, South Africa's imports from MERCOSUR have been fluctuating during the period under review. Goods worth R207.8 billion were recorded in 2012 while imports were worth R269.4 billion in 2018. The main export products to MERCOSUR have been dominated by mineral and agricultural products, whereas the main imports from MERCOSUR include industrial, manufactured and agricultural products such as petroleum oils, copper and copper ores and vehicles.

Figure 33: South Africa's Trade with MERCOSUR



Source: SACU Secretariat, 2019



The analysis of the SACU-MERCOSUR trade balance prior to and after the PTA was implemented reveals that there has been much increase in the level of trade between the two regions. SACU continued to record a trade deficit with MERCOSUR, though the value of exports picked up slightly in 2018.

The overall analysis of SACU's products of export to MERCOSUR for 2017 and 2018 further reveals that most of these products were not necessarily those that enjoy preferences under the PTA. However, it is also interesting to note that some of the products topping SACU's exports to MERCOSUR for the 2017-2018 period were bituminous coal and anthracite, which have a 100% margin of preference into the MERCOSUR market. This could therefore be a sign that the private sector has started to take up the opportunities the agreement offers. In terms of imports from MERCOSUR, most of the products traded are outside the scope of the PTA.

There is no question that the PTA presents enormous opportunities for the private sector to explore. The current low level of trade between the two regions should not be interpreted as a sign that the PTA is ineffective. The limited scope of the agreement may have influenced the low level of trade performance between the two regions. It should also be noted that this assessment comes only two years after the agreement was effectively implemented, namely 2016, which means it is too early to determine the full impact of the PTA on the trade performance between MERCOSUR and the SACU Member States.

This should warrant a concerted effort by SACU, and particularly BELN, to create awareness of the agreement and increase the trade volume to the MERCOSUR region. All in all, it is important for the parties to intensify efforts aimed at promoting the PTA among all the stakeholders so that the agreement is optimally utilised on both sides.

Since the SACU-MERCOSUR PTA has only been operational from April 2016, much trade is still in products that do not benefit from preferences. More effort may be required to inform members of the business community of these preferences so that they can start entering the MERCOSUR market in an effective and sustainable way.

SACU Trade with EU

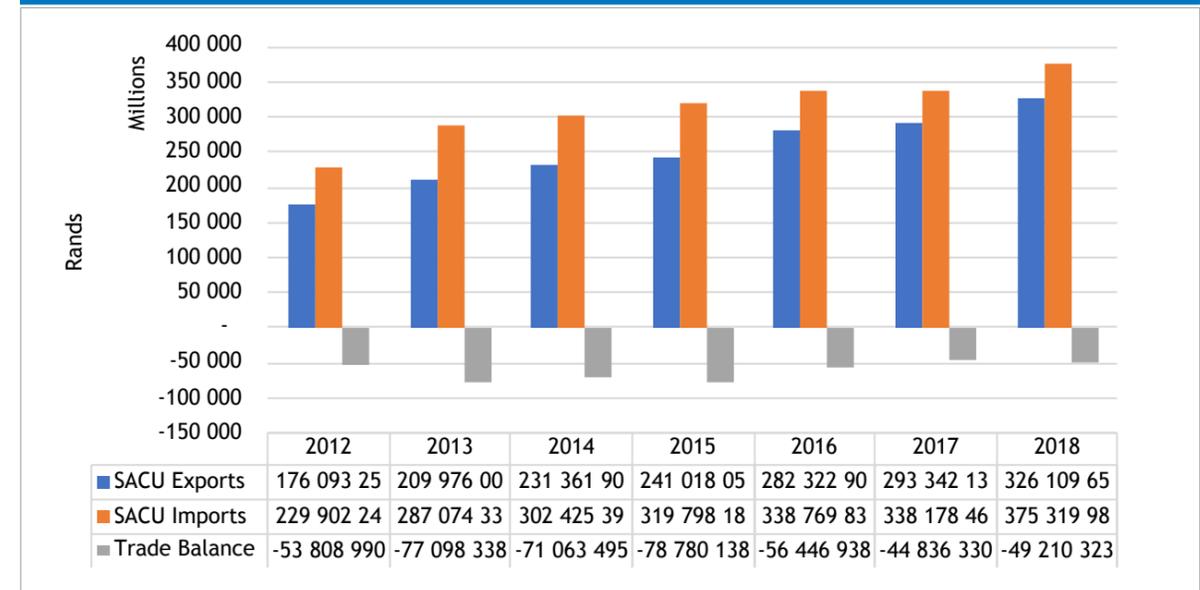
This section provides an overview of the trade relations between SACU and the EU before and after the commencement of the implementation of the EU-SADC EPA. It is, however, important to note that while the EU-SADC EPA only came into force in 2016, the Trade, Development and Cooperation Agreement (TDCA) between the EU and South Africa was operational since 2000 and therefore also covers the period under review.

SACU's overall trade with the EU for the period 2012-2018 is reflected in Figure 34. This shows that the trend in SACU's trade with the EU has remained relatively stable during this period as imports from the EU continued to exceed exports. Figure 34 further shows that SACU's imports and exports from the EU reflect an increasing trend, with imports amounting to R375 billion in 2018 compared with R229 billion seven years earlier. SACU's exports to the EU in 2018 were valued at R326 billion compared with R176 billion in 2012.

Figure 34 also shows that SACU has been experiencing a trade deficit with the EU, which amounted to R49 billion in 2018 compared with R53 billion in 2012. The deficit was on an increasing trend until 2015, but it started to decline from 2016. This decline may be attributable to increased exports as a result of the implementation of the EU-SADC EPA.



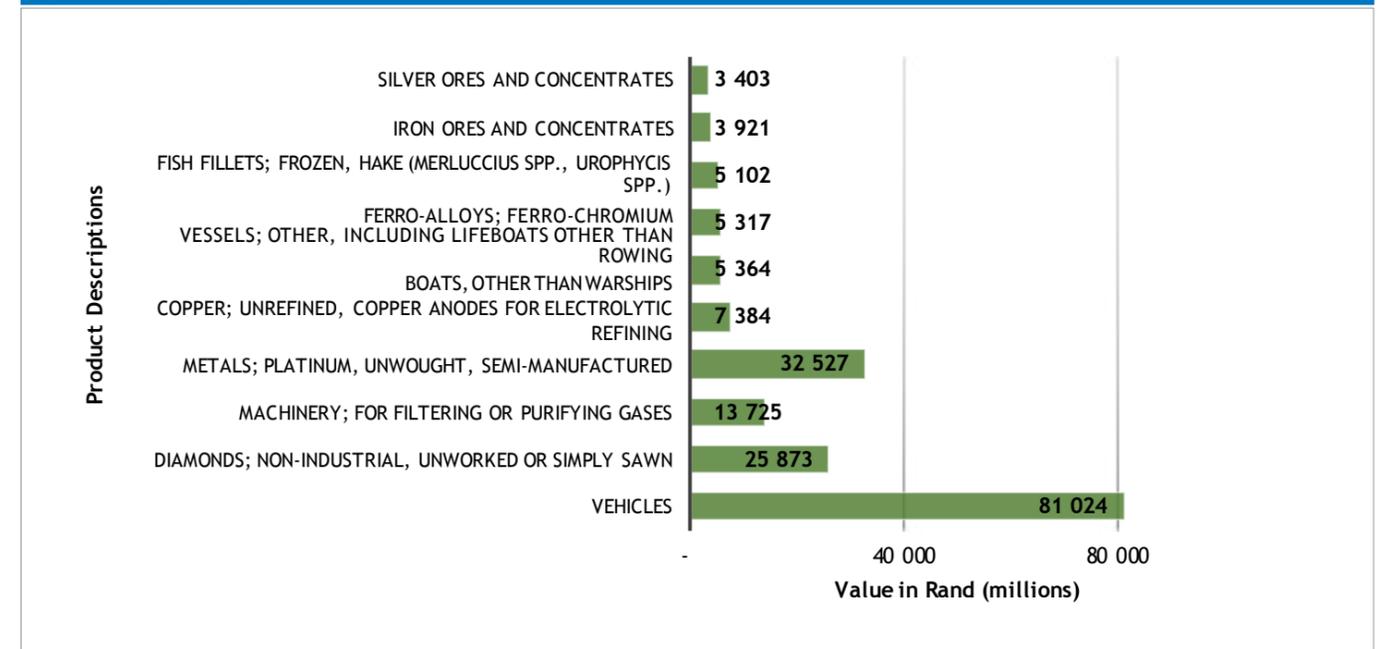
Figure 34: SACU's Overall Trade with EU: 2012-2018



Source: SACU Secretariat, 2019

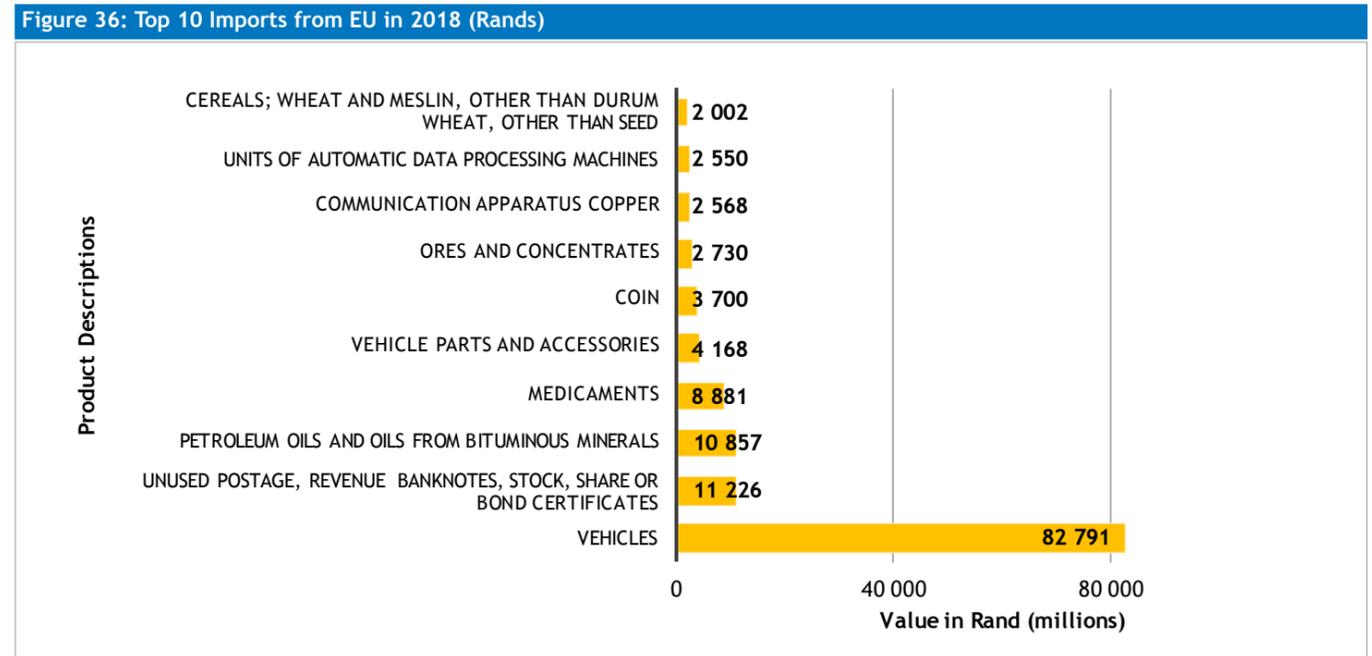
As reflected in Figure 35, vehicles to the value of R81 billion was the main product exported to the EU in 2018, followed by platinum at R32 billion. Other exports featuring in the top 10 SACU's exports to the EU included non-industrial diamonds, machinery, unrefined copper and alloys.

Figure 35: Top 10 Exports to EU in 2018 (Rands)



Source: SACU Secretariat, 2019

Figure 36 reflects SACU's top 10 imports from the EU in 2018. Motor vehicles and related products were the main products imported and amounted to R82 billion. Other products featuring in the top 10 SACU imports from the EU included products related to unused postage stamps, petroleum oils, medicaments as well as vehicle parts and accessories.

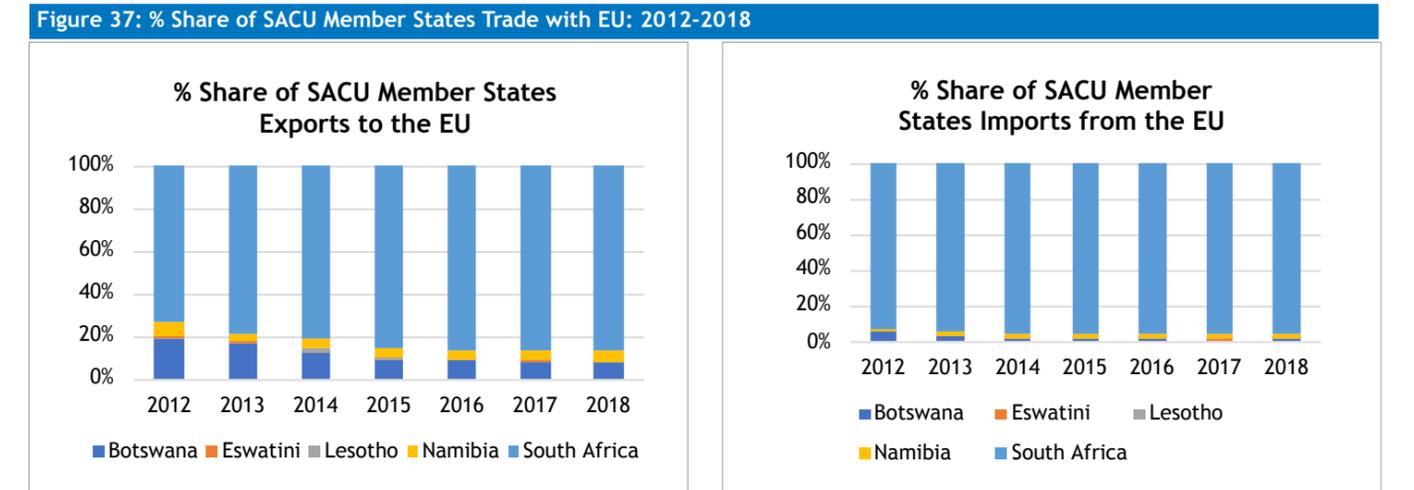


Source: SACU Secretariat, 2019

Trade between SACU Member States and the EU

SACU Member States' Trade with EU

South Africa is the EU's largest trading partner among the SACU Member States both in terms of exports and imports, as shown in Figure 37. It shows that South Africa accounted for 87% of SACU's total exports to the EU in 2018. This was followed by Botswana with 7% and Namibia with 5%, respectively. Similarly, SACU's imports from the EU were completely dominated by South Africa at 96% in 2018.



Source: SACU Secretariat, 2019

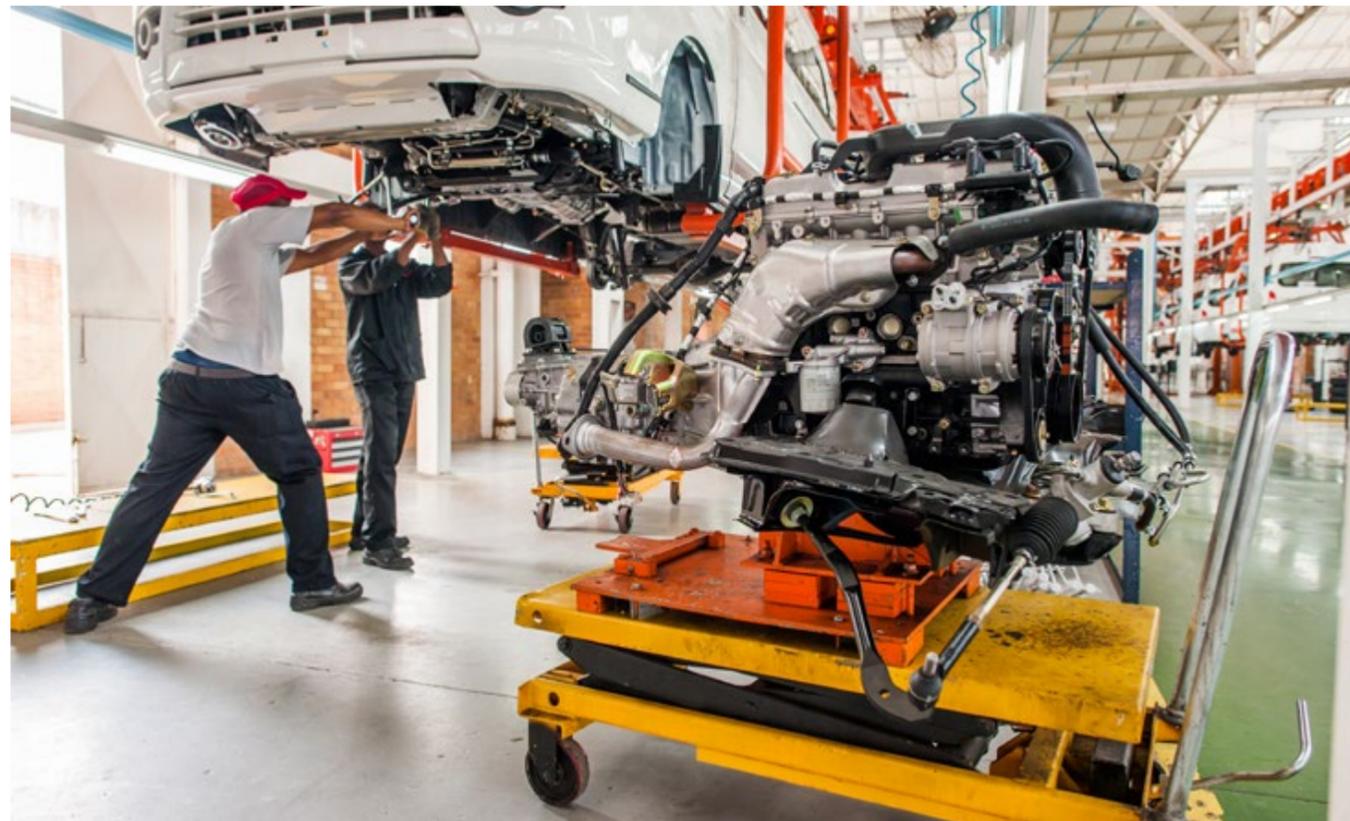
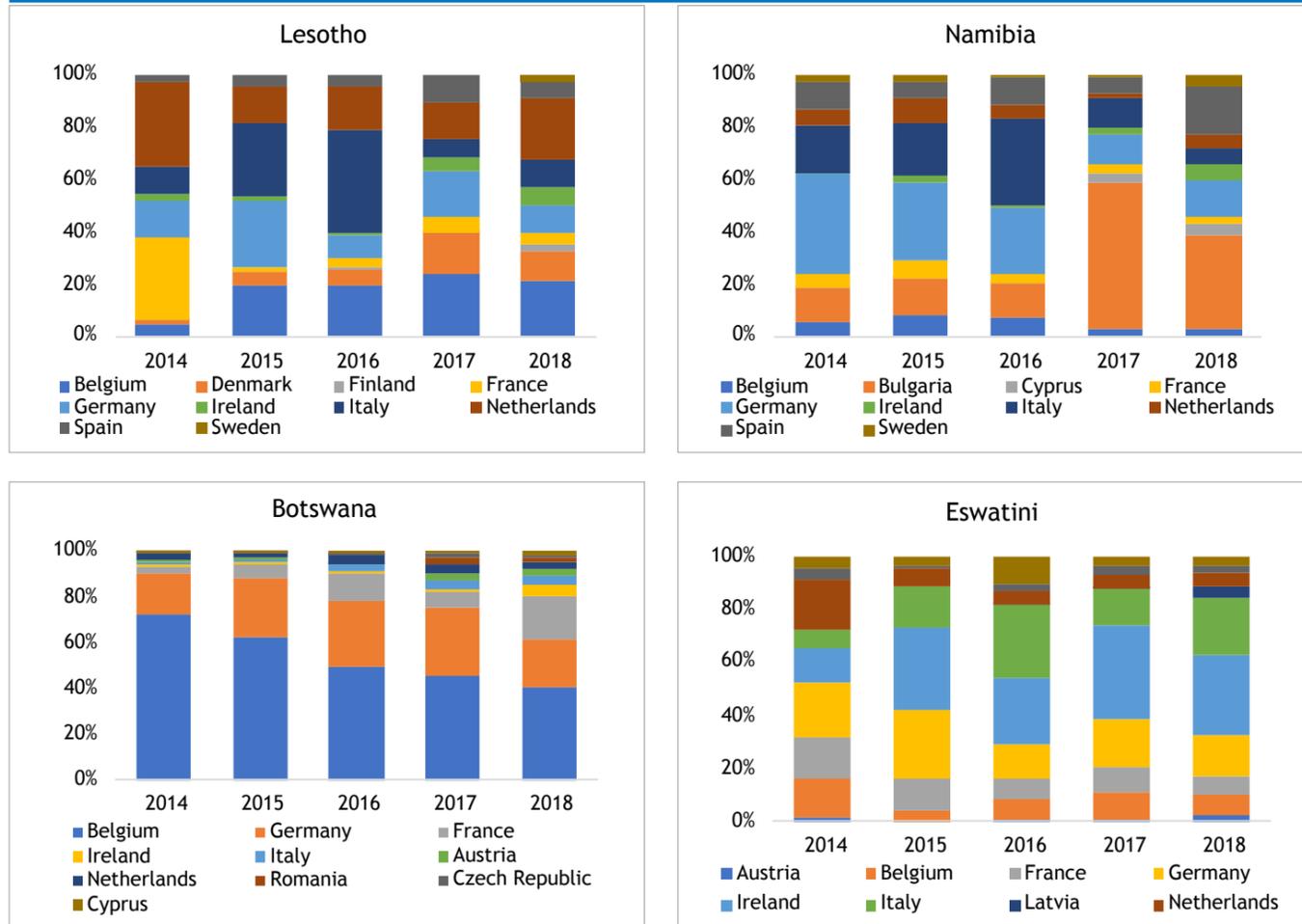
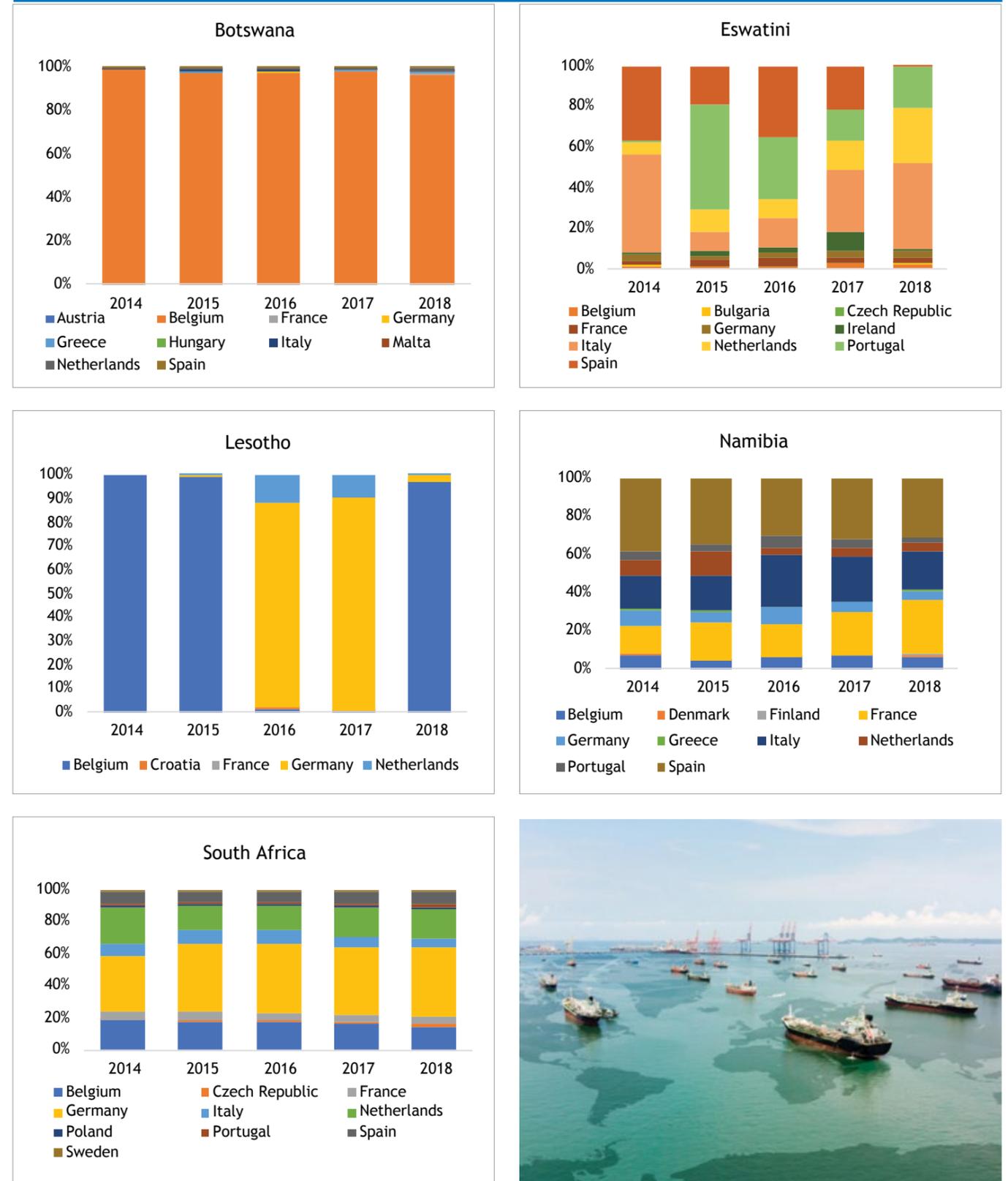


Figure 38: SACU Member States Import Sources from EU



Source: SACU Secretariat Trade Statistical Database, 2019

Figure 39: SACU Member States Export Destinations in EU



Source: SACU Secretariat Trade Statistical Database



This section provides an overview of the SACU Member States' individual trade with the EU in the period 2012-2018.

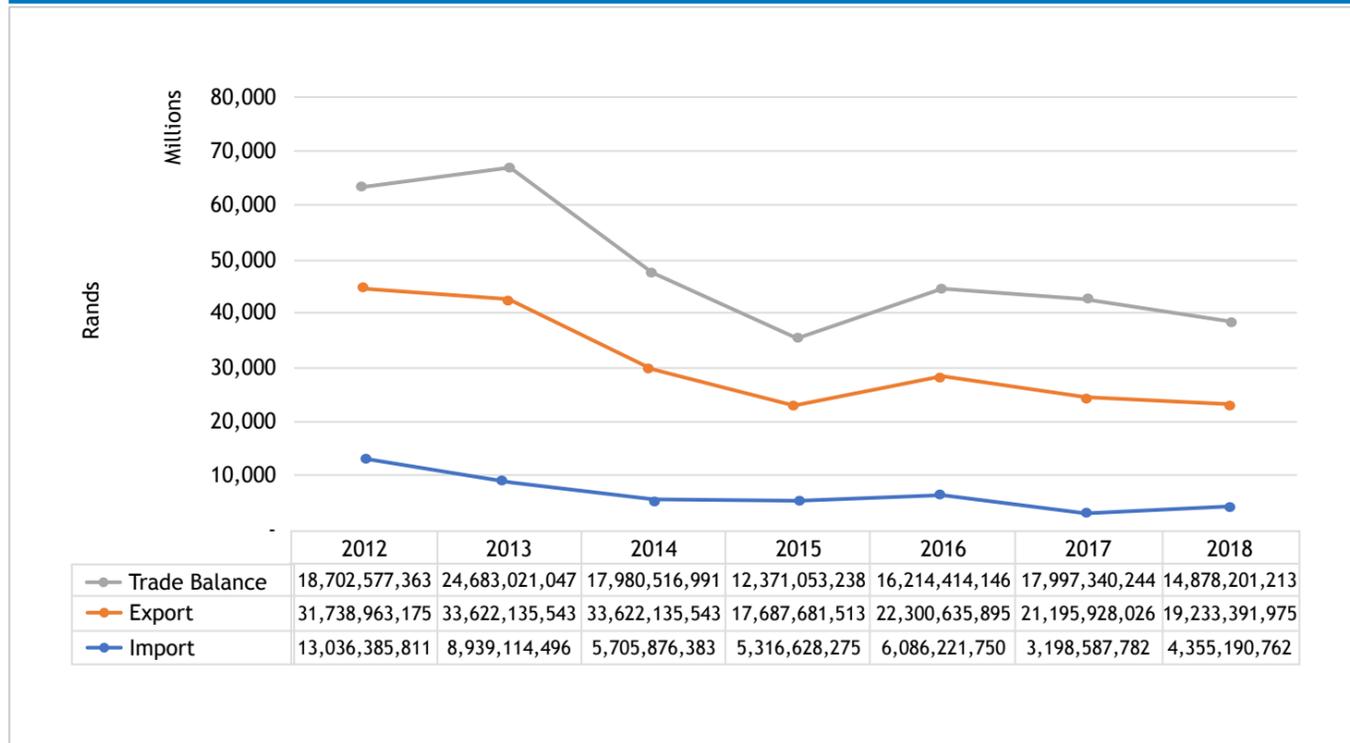


Botswana

Botswana's trade with the EU shows a downward trajectory, although it recorded a consistent trade surplus between 2012 and 2018. Botswana recorded exports worth R19 billion in 2018, down from R31 billion in 2012. In the same vein, imports declined to R4 billion in 2018 compared with R13 billion in 2012, as reflected in Figure 40.

Belgium featured prominently as Botswana's trading market in 2018, representing 41% of the country's total imports from the EU and 96% of total exports. The country's top traded product in 2018 was unworked non-industrial diamonds, worth R18 billion.

Figure 40: Botswana's Trade with EU



Source: SACU Secretariat Trade Statistical Database, 2019

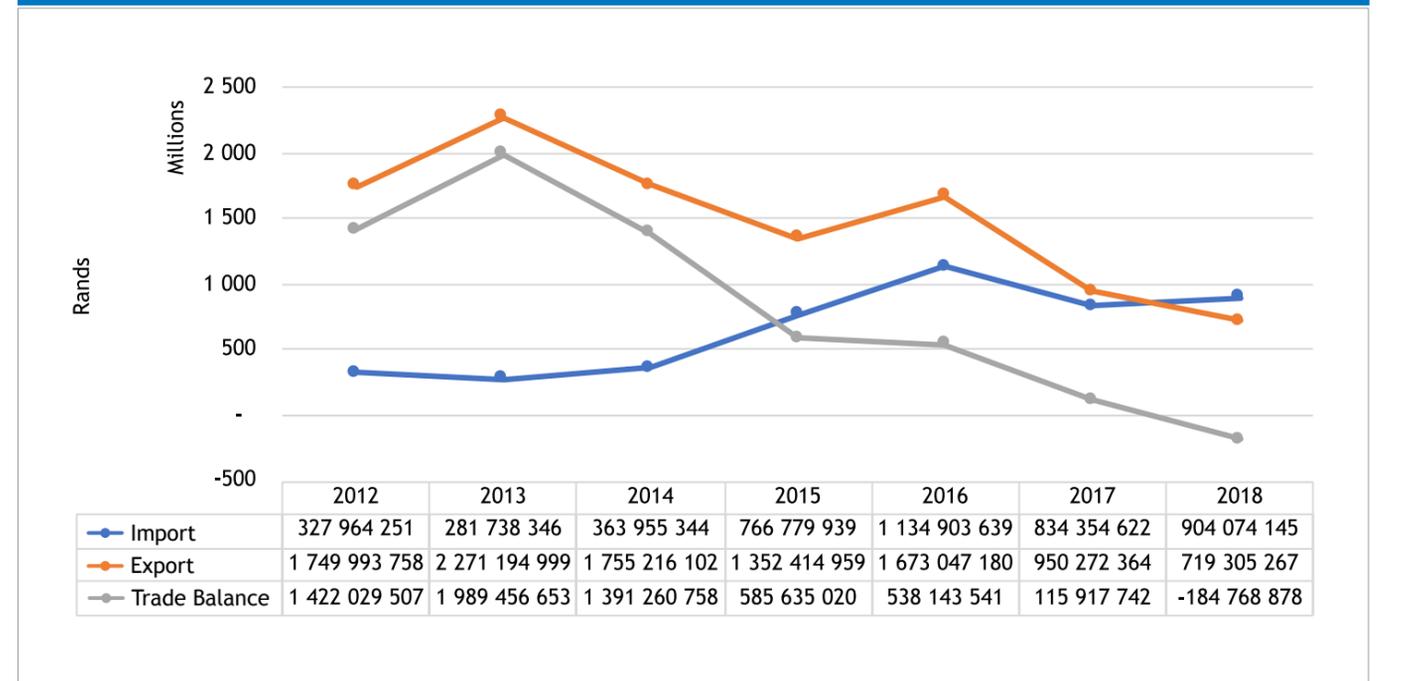


Eswatini

Similar to Botswana, Eswatini also recorded a positive trade balance with the EU in the period under review, and Figure 41 reflects that Eswatini's exports to the EU also show a downward trend. Total exports in 2018 were valued at R719 million compared with R1.7 billion in 2012. However, imports have been increasing and totalled R904 million in 2018 compared with R327 million in 2012. As a result, the trade balance shows a sharp downward trend.

The top import market for Eswatini in 2018 was Ireland at 30%, followed by Italy and Germany with 22% and 15%, respectively. Wooden furniture, representing 9% of Eswatini's total imports, and odoriferous substances and mixtures at 7% featured in the top imports from the EU in 2018. In terms of exports, Italy, the Netherlands and Portugal were Eswatini's major export destinations in the EU market in 2018. Sugar was the top export, representing 76% of the year's total exports.

Figure 41: Eswatini's Trade with EU



Source: SACU Secretariat Trade Statistical Database, 2019



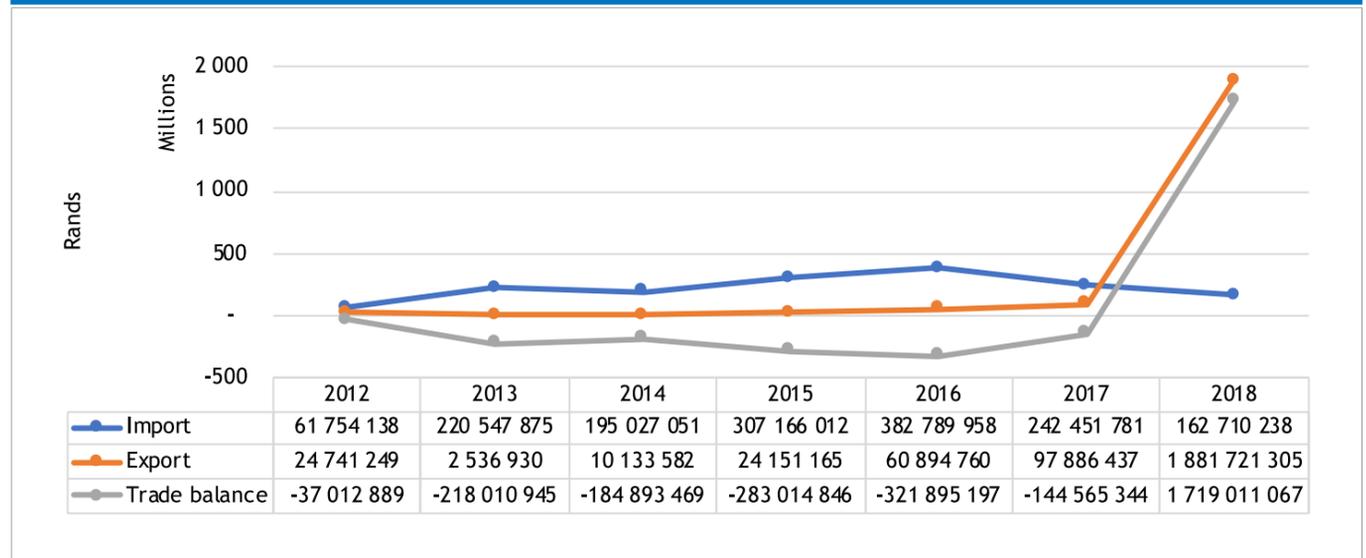


Lesotho

Lesotho experienced a trade deficit with the EU between 2012 and 2017, followed by a trade surplus of R1.7 billion in 2018 (Figure 42). Exports to the EU increased from R24 million in 2012 to R1.8 billion in 2018. Imports were valued at R61 million in 2012, reached a peak of R382 million in 2016 and declined to R162 million in 2018.

The top imports from the EU in 2018 included medicaments, weaving machines and clothing, printed matter and vaccines, which together represented 40% of Lesotho's total imports from the EU. The main import markets in 2018 included the Netherlands, Belgium and Denmark. Lesotho's exports to the EU in 2018 primarily comprised non-industrial diamonds, which represented 97% of the total. These products were mainly destined for Belgium, which represented Lesotho's main export market. The exports to Germany, which also featured among Lesotho's export markets in 2018, were more diversified and included fish products, tea and textiles and clothing.

Figure 42: Lesotho's Trade with EU



Source: SACU Secretariat Trade Statistical Database, 2019

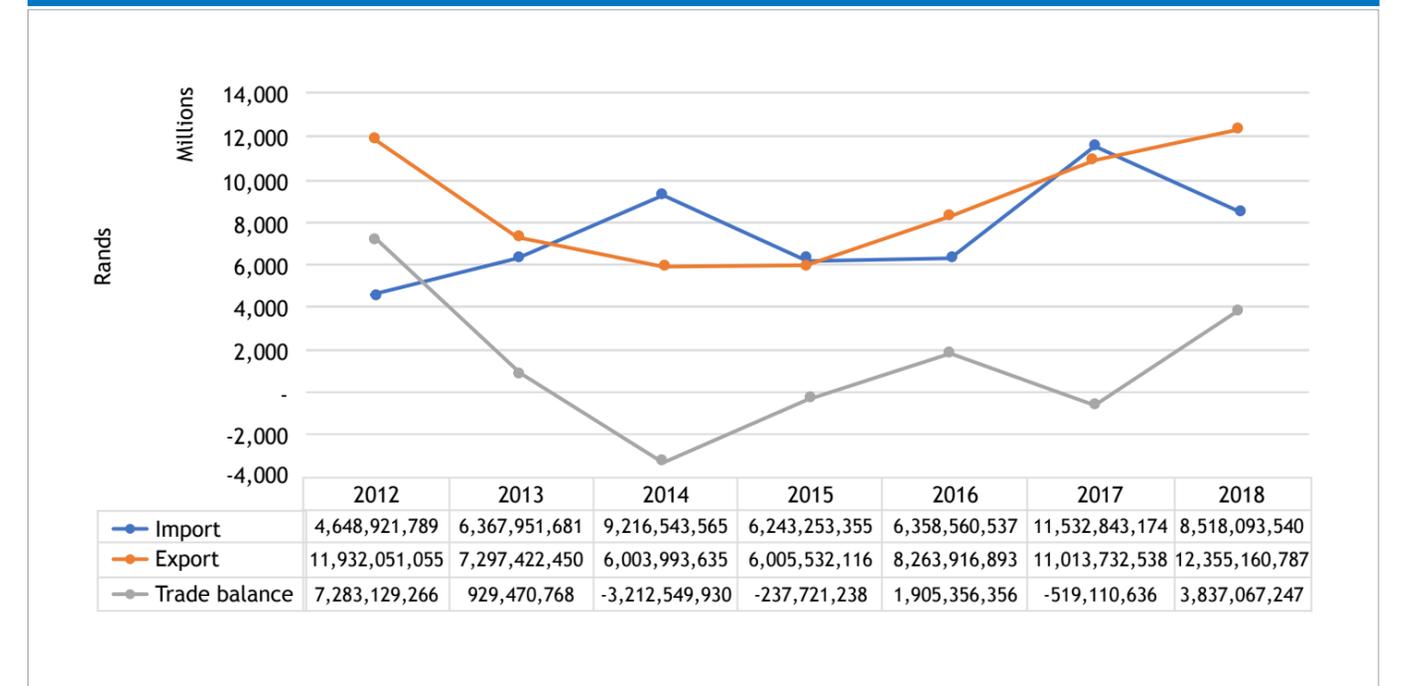


Namibia

According to Figure 43, Namibia recorded a trade deficit between 2014 and 2015. The situation improved in 2016 when there was a surplus of R1.9 billion. Namibia's trade with the EU was valued at R8.5 billion in imports and R12 billion in exports in 2018, compared with the 2012 imports and exports of R4 billion and R11 billion, respectively.

Copper ores, petroleum products and fishing vessels featured in Namibia's top imports from the EU in 2018, representing 26% and 18% respectively. In terms of import markets, Bulgaria featured prominently in the data, which represented 36% of Namibia's total imports from the EU in 2018. The main import from Bulgaria was copper ores and concentrates. Bulgaria was followed by Spain at 18% and Germany at 15%. In the same year, 75% of Namibia's total exports to the EU was composed of copper at 30%, fishing vessels at 20%, fish at 14% and uranium at 11%. Spain, France and Italy were Namibia's main export markets in the EU in 2018.

Figure 43: Namibia's trade with EU



Source: SACU Secretariat Trade Statistical Database, 2019





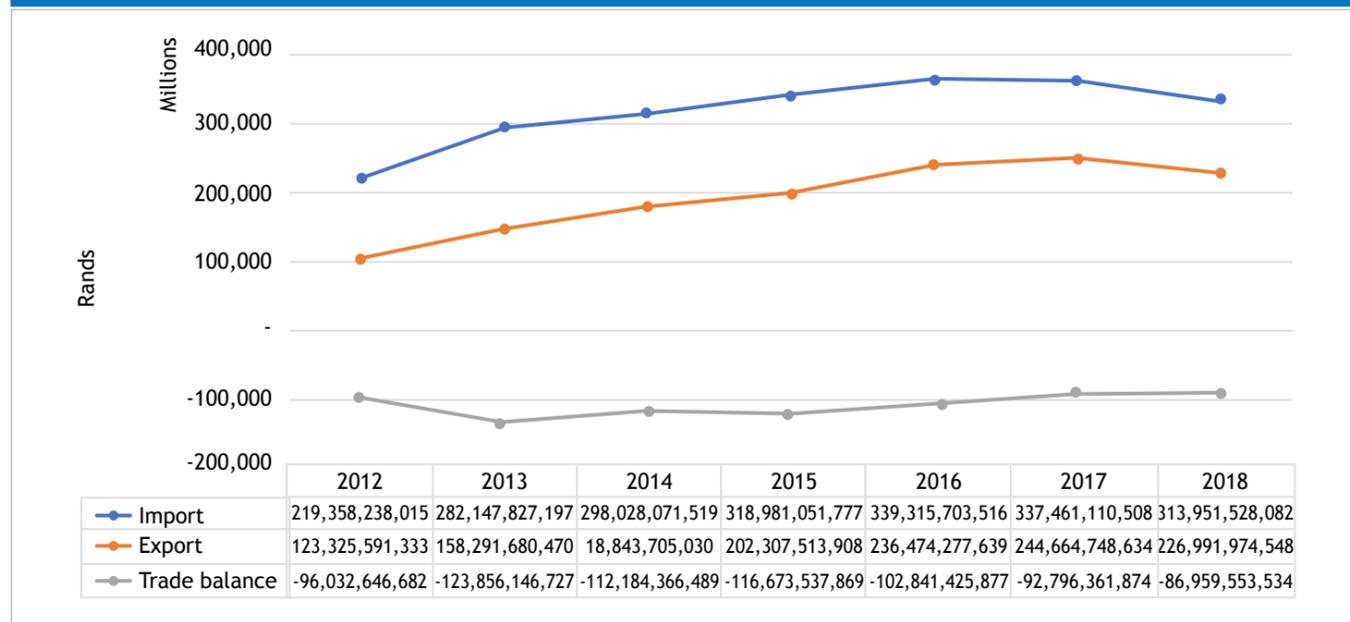
South Africa

As mentioned before, South Africa is the EU’s largest trading partner in SACU. South Africa’s trade with the EU has increased relatively since 2016 with the entry into force of the EU-SADC EPA. South Africa’s imports were valued at R313 billion in 2018 while exports totalled R226 billion in the same year, as reflected in Figure 44. South Africa, however, experienced a trade deficit between 2012 and 2018, although the deficit shows a slight decline during this period.

South Africa’s major imports from the EU in 2018 were concentrated on products from the motor vehicle industry, which represented 23% of the total imports. The main import market in 2018 was Germany, which represented 45% of South Africa’s imports from the EU.

South Africa’s exports to the EU in 2018 were a composition of different types of motor vehicles valued at over R70 billion and representing 28% of the total exports to the EU. This was followed by platinum with 10%. The main export destinations were Germany, the Netherlands and Belgium.

Figure 44: South Africa’s Trade with EU



Source: SACU Secretariat Trade Statistical Database, 2019

The EU-SADC EPA has only been under implementation since October 2016, and it must be noted that major inroads into the EU market by SACU producers require time. There are potential benefits that can be realised once the business community gears itself to penetrating the market. Members of the business community need to be mobilised and incentivised continuously to consider this lucrative market as a destination for their products.



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TRADE AGREEMENTS

CHAPTER 4

INTRODUCTION

Background and Conceptual Framework of Trade Agreements

All the SACU Member States are founding Members of the World Trade Organization (WTO). The 1994 Agreement by which it was established, known as the Marrakesh Agreement and signed by 123 nations, lays down the principles, disciplines and rules for conducting international trade. The aim is to ensure that trade flows as smoothly, predictably and freely as possible. The WTO makes provision for the establishment of Free Trade Agreements (FTAs) and customs unions like SACU under specific conditions. This is a permitted exception to the general principle of non-discrimination in the WTO for regions to facilitate trade between the constituent territories and not to raise barriers to the trade of Third-Party countries.

The SACU Agreement of 2002 was notified to the WTO under Article XXIV of the General Agreement on Tariffs and Trade (GATT) of 1994. The SACU Members are bound to adhere to the disciplines of the WTO, including those related to the establishment of bilateral relations as provided for in Article XXIV of the GATT 1994.

SACU Member States are subjected to the trade policy reviews for transparency requirements as per Annex 3 to the Marrakesh Agreement. As a Customs Union, these reviews for SACU Member States are done as a collective. To date, SACU has been reviewed in 1998, 2003, 2009 and 2015. In accordance with the WTO Ministerial Amendment in July 2017, which reformed the review cycles, SACU Member States have a legal obligation to be reviewed every seven years.



Overview of Trade Agreements

The main objective of trade agreements is to facilitate unhindered trade across borders by eliminating or reducing customs duties and other trade restrictions in order to expand business opportunities between the parties to the agreements. In this regard, the preferential agreements outline legal and administrative requirements that must be observed when goods are traded on the bilateral or regional markets, or both.

There are several mandatory legal or administrative requirements to observe when goods are traded on the international markets. Trade between bilateral partners to a preferential agreement is mainly regulated by rules set out in that agreement, compatible with the multilateral rules under the WTO.

FTAs have two basic requirements: i) preferential tariff concessions (on substantially all trade, with liberalisation implemented over a reasonable period of time), and ii) preferential rules of origin to prevent trade deflection and protect transshipment.

First, the trade agreements outline the scope and depth as agreed by the parties, which are mainly regulated by the level of tariff liberalisation. FTAs usually contain a broader approach to tariff liberalisation and other trade restrictions, while Preferential Trade Agreements (PTAs), in the SACU context, mainly focus on limited scope or ambition trade liberalisation on an agreed number of products. The preferences granted for each product are usually presented as an annex to the agreement. These preferences include the reduction or elimination of tariffs, or partial liberalisation through the use of tariff rate quotas (TRQs) to control access to the domestic market. TRQs are allocated for specific products to permit the bilateral partner a limited volume of imports at the lower tariff.

Second, linked to tariff liberalisation, is the need to distinguish between trade between the Parties with the rest of the world and trade between the Parties to a PTA in order to determine the applicable tariff. This is due to the fact that the tariffs and other restrictions applied to a product are determined by the source of the import. These basic rules are referred to as Rules of Origin (RoO), which determine the “nationality” of a product.

Preferential RoO contain criteria for determining the origin of products. They determine whether goods qualify for preferential



THE SACU AGREEMENT OF 2002 WAS NOTIFIED TO THE WTO UNDER ARTICLE XXIV OF THE GATT OF 1994. THE SACU MEMBERS ARE BOUND TO ADHERE TO THE DISCIPLINES OF THE WTO, INCLUDING THOSE RELATED TO THE ESTABLISHMENT OF BILATERAL RELATIONS AS PROVIDED FOR IN ARTICLE XXIV OF THE GATT 1994.





Sugar processing plant

treatment under a given trade agreement; ensure that the concessionary market access is limited to the beneficiary parties; prevent transshipment through countries with lower trade barriers; and determine, where appropriate, the application of any trade policy measures (quotas, anti-dumping duties, trade embargoes etc). The provisions of trade agreements also specify whether the parties agreed on general RoO or ones that are specific to sectoral or product processes. Products may either be wholly obtained or sufficiently worked or processed in a country before they can obtain originating status.

Some trade agreements further provide for cumulation, which enables production-sharing within the FTA territory and, sometimes, from countries that are not part of the FTA. Cumulation is a mechanism that allows goods obtained in or processing taking

place in an FTA party to be considered as local inputs or processes for the purpose of determining the origin of the final product. It is one of the ways to provide producers with flexibility in terms of sourcing inputs and parts and still meet the origin criteria for preferential treatment.

Cumulation may be applied in three main types of cumulation: bilateral, diagonal and full cumulation. The key difference between these three types of cumulation is the number of parties involved and the types of inputs (originating or non-originating) that can be used as the basis for cumulation. In most cases, two conditions need to be fulfilled for any of the cumulation types to be applied: i) there needs to be a trade agreement or agreements between the countries wishing to cumulate; and ii) all trade agreements in the cumulation zone should have identical

RoO. In addition, a Mutual Administrative Assistance Agreement or arrangement needs to be in place between all the countries involved to implement cumulation.

Trade agreements also include regulatory provisions such as: (i) measures on establishing a legal mechanism for identifying and monitoring national measures to protect domestic industries against foreign competition, referred to as non-tariff barriers; (ii) sanitary and phytosanitary (SPS) measures; and (iii) cooperation on trade-related areas, investment, intellectual property rights and competition government procurement. Noting the emphasis on the importance of trade in services to economic development, some trade agreements also include the liberalisation of services sectors.

In all the trade agreements that SACU entered into, the parties are governed by the WTO Agreement on SPS Measures. The agreements provide that the parties should strengthen their cooperation in SPS matters to increase mutual understanding. Cooperation may include expert consultations, especially on issues related to where SPS measures have been taken. These are intended to facilitate trade in agricultural products, i.e. animals and animal products as well as plants and plant products and any other regulated products that require measures in order to safeguard human, animal and plant health. When trading in agricultural products, the exporting country must make sure that it meets all the health standards required of the importing country. This must be proven by obtaining health certificates from the competent authorities in the exporting country.

Regarding technical barriers to trade, the parties affirmed their commitment to the rights and obligations provided in the WTO Technical Barriers to Trade Agreement. The cooperation in this regard aims to facilitate and increase trade in goods between the parties by identifying, preventing and eliminating unnecessary barriers to trade in terms of the WTO Agreement.

The agreements also contain several trade remedies instruments in the form of anti-dumping and countervailing measures as well as several provisions on safeguards. These instruments are an important element of the bilateral agreements as they provide the necessary safety net to the industries of the parties in the event of a sudden surge in imports or dumping. They also ensure fair and healthy competition among the players. These provisions allow the parties to the agreement to protect their industries against unfair and subsidised imports or unexpected import surges.

Safeguard measures allow an importing Member State to temporarily suspend the reduction of import duties or charge additional duties to protect a domestic industry from a sudden increase in imports. On the other hand, anti-dumping duties allow a Member State to protect a domestic industry against goods that are sold at a lower price in the export market than in the domestic market, while countervailing measures protect industries against

subsidised imports. The agreement therefore provides disciplines and procedures for invoking the various instruments for protecting domestic industries.

The Signatory Parties are mostly governed by their respective legislation, which should be consistent with Articles VI and XVI of the GATT of 1994, the Agreement on Implementation of Article VI of the GATT of 1994 and the WTO Agreement on Subsidies and Countervailing Measures.

One of the objectives of the SACU Agreement of 2002, as amended in 2013, is to promote the integration of Member States into the global economy through enhanced trade and investment. To this end, and pursuant to Article 31 of the SACU Agreement of 2002, the Member States negotiate trade agreements with Third Parties as a collective.

This chapter therefore provides an overview of the trade agreements that SACU Member States have concluded as a bloc. This includes the SADC Protocol on Trade; the FTA between SACU Member States and the European Free Trade Association (EFTA) States; the PTA between SACU and the Common Market of the South (MERCOSUR); the European Union-Southern African Development Community

Economic Partnership Agreement (EU-SADC EPA); and the Trade and Investment Development Cooperation Agreement with the United States (US) (TIDCA). An assessment of the extent to which the SACU Member States have utilised the opportunities created as a result of these agreements in terms of their exports is also provided.

SADC Protocol on Trade

The five SACU Member States belong to SADC, which consists of 16 Member States. The 11 other members are Angola, Comoros, Democratic Republic of Congo, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe.

SADC has been in existence since April 1980, when it was known as the Southern African Development Coordination Conference. At the time, the Coordination Conference was formed to advance the cause of national political liberation in southern Africa. Following the attainment of independence by most of the southern African countries, the Coordination Conference was transformed to a development community, SADC. The Treaty establishing SADC was adopted during the Summit of the Heads of State and Government held on 17 August 1992 in Windhoek. The main objectives of SADC are to achieve economic development, growth and peace and security, alleviate poverty, enhance the standard and quality of life of the peoples of southern Africa, and support the socially disadvantaged. These objectives are to be achieved through increased regional integration and built on democratic principles and equitable and sustainable development.

In order to implement the objectives of SADC as outlined in Article 5 of the SADC Treaty of 1992, several legal instruments referred to as protocols were developed. Currently, SADC has 26 protocols, including the Protocol on Trade.

The SADC Protocol on Trade was signed in 1996 and amended in 2000, 2007, 2008 and 2017, respectively, to clarify aspects of RoO and safeguard measures, and incorporating new annexes on the settlement of disputes and trade in sugar. Annex 7 on trade in sugar was adopted to promote the production and consumption of sugar in the region and create a stable climate for investment, leading to the growth and development of sugar industries in the Member States.

Thirteen SADC Member States have signed the SADC Protocol on Trade, including all SACU Member States. The other SADC Member States that are party to the protocol are Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe. Angola and the Democratic Republic of Congo are in the process of acceding to this protocol. While Comoros joined SADC in August 2018, it has not yet acceded to the SADC Protocol on Trade.

The objectives of the SADC Protocol on Trade are to liberalise intra-regional trade in goods and ultimately create an FTA among the Member States, and to enhance economic development, diversification and industrialisation in the SADC region. In this regard, the protocol advocates that Member States eliminate barriers to trade, ease customs procedures, harmonise trade policies based on international standards, and prohibit unfair business practices.



The process and modalities for eliminating barriers as provided for in the Protocol on Trade was adopted by the Summit of SADC of Heads of State and Government held on 6 and 7 August 2000 in Windhoek.

Tariff Concessions

These modalities set the level of ambition for the elimination of tariffs at 100%, spread over different phases of implementation. In this regard, the tariff phase-down programme started in 2000. The minimum requirement for the formation of an FTA was achieved by 2008 when 85% of intra-regional trade attained zero-duty status. The full FTA was subsequently realised by 2012 when the tariff phase-down process for sensitive products was completed. The approach towards the SADC liberalisation schedule was categorised as follow:

- Category A: Products whose tariffs reached zero (or were already 0%) at the start of the phase-down process, i.e. in 2000;
- Category B: Products subject to tariff phase-down to zero over an eight-year period from 2000 to 2008;
- Category C: Sensitive products, phase-down over a 12-year period from 2000 to 2012; and
- Category E: Excluded from preferential trade for security reasons, mainly under Chapter 93 of the Harmonised Commodity Description and Coding System, which deals with arms and ammunition and parts and accessories thereof.

Rules of Origin

The SADC Protocol on Trade requires that goods identified to be eligible for tariff preferences among SADC FTA Member States should satisfy the requirements as set out under Annex I on RoO. In this regard, Annex I provides for the general provisions on RoO. In addition, Appendix I on product-specific rules outlines how each tariff heading is assigned one or several criteria to be fulfilled for origin to be conferred. Traded goods are therefore expected to comply with the set criterion and must be accompanied by a valid SADC certificate of origin.

Although the SADC RoO have been adopted and are operational, the Mid-Term Review of the SADC Protocol in 2004 called for the reform of the SADC RoO regime towards the adoption of less restrictive rules. The review is mainly focused on the Harmonised System's Chapters 52 to 63 relating to the textile and apparel sector. The review process concerning these chapters began in 2014. Due to the sensitivities of these sectors, there were divergent views among Member States regarding the degree of transformation required to confer origin on these products. The discussion on this is therefore still ongoing.



The Senior Advisor at the Norwegian Ministry of Trade, Industry and Fisheries and EFTA Spokesperson, Mr. Lars Erik Nordgaard and the SACU head of delegation and Director General at the Department of Trade and Industry of South Africa, Ms. Xolelwa Mlumbi Peter and during the 5th Joint SACU-EFTA FTA Review meeting held on 1 to 4 July 2019 in Geneva, Switzerland.

SACU-EFTA Free Trade Agreement

The negotiations to conclude the FTA between the SACU Member States and EFTA States, which consist of Iceland, Liechtenstein, Norway and Switzerland, commenced in May 2003 and concluded in June 2006. The agreement was signed in June 2006 and entered into force on 1 May 2008. The FTA was notified under Article XXIV of the GATT of 1994 to the Committee on Regional Trade Agreements of the WTO in 2009 and was found to be in conformity with the WTO provisions.

The FTA provides a distinction between industrial products referred to as Non-Agricultural Market Access, Processed Agricultural Products and Basic Agricultural Products. The first two products categories are covered under the general FTA between all EFTA and SACU Member States (referred to as the main Agreement), and the latter is covered under three Bilateral Agricultural Agreements concluded between SACU and Iceland, SACU and Norway, and SACU and Switzerland, respectively.

The main objective of the FTA is to: (i) achieve the liberalisation of trade in goods in conformity to the GATT; (ii) substantially increase investment opportunities in the FTA; (iii) promote adequate and effective protection of intellectual property rights; and (iv) expand trade through the removal of barriers to trade.

Tariff Concessions

The agreement covers all products falling in Chapters 25 to 97 of the Harmonised System, which cover industrial products. For these industrial products, the EFTA provides duty-free and



quota-free market access for products coming from SACU, while for processed agricultural products the EFTA offers the same market access offered to the EU under its Association Agreement. SACU offers duty-free, quota-free market access on about 95% of industrial goods and processed agricultural products. Some important exceptions are found in the area of clothing and textiles and some motor industry-related products.

For agriculture, the three Bilateral Agreements between the individual EFTA States and SACU cover basic agricultural products falling in Chapters 1 to 24 of the Harmonised System. These agreements, which form part of the instruments establishing the FTA, are also asymmetrical in that SACU has been given improved preferential access to the EFTA markets.

Rules of Origin

Annex V sets out the conditions for origin regarding the products covered by the Main Agreement and the Bilateral Agreements. In addition, Appendix 2 of Annex V contains the product-specific rules that define the criterion that must be satisfied for the products to confer the status of origin (e.g. products may either be wholly obtained or be sufficiently worked or processed in-country before they can obtain originating status). On certain products, the criteria for determining origin requires that products could use up to 60% of non-originating input in the production.



Documents required as evidence of origin are the invoice declaration issued by the customs authorities of the exporting country and the EUR1 certificate.

Annex VI Articles 14 to 33 set out the provisions for customs-related procedures. These include administrative procedures and disciplines that apply to proof of origin and mutual administrative assistance in customs matters. The provisions lay down under which circumstances and how customs authorities can assist each other to ensure that the customs legislation is correctly applied. This is mostly for the prevention, detection and investigation of operations in breach of the legislation.

Other Regulations

The agreement also covers intellectual property, services, investment, public procurement, economic cooperation, technical assistance, institutional and procedural provisions (including dispute settlement) and final provisions.

The intellectual property provisions highlight that the parties will grant each other adequate, effective and non-discriminatory protection of intellectual property rights. The parties will also ensure the enforcement of such rights to protect against infringement.

The chapters on services, investment and government procurement provide for possible extension of the scope of the agreement to further liberalise trade in services. The parties recognise the importance of attracting and providing a stable environment for cross-border investment and the exchange of technology for economic growth and development.

The FTA also contains provisions that allow for cooperation and the exchange of information between the parties in case a party finds anti-competitive practices in another party that affect the benefits of the agreement. If such issues cannot be resolved between the parties concerned, they can be taken up for consultations in the Joint Committee, which is established under the FTA for purposes of addressing issues pertaining to the agreement.

The agreement further has provision for infant industry protection for Botswana, Eswatini, Lesotho and Namibia in accordance with Article 26 of the SACU Agreement of 2002. This allows the Member States to temporarily levy duties on imports to protect infant industries. Such duties can be equally levied on goods originating in other SACU States or countries outside SACU. Any Member State intending to protect their infant industry are to inform the Joint Committee.

Trade Remedies

The agreement provides for trade defence instruments such as subsidies and countervailing measures, anti-dumping measures,



safeguard measures and exceptional measures in case of structural adjustment.

Global Safeguard Measures: The parties have adopted the obligations under Article XIX of the GATT of 1994 and the WTO Agreement on Safeguards. This is in line with the fact that the EFTA and SACU Member States are Members of the WTO and therefore its rules are applicable.

Bilateral Safeguards: The FTA provisions address situations in which there is a reduction or elimination in the tariffs that leads to a surge in imports, which could injure a domestic industry. The parties can impose an emergency measure to address and control such a situation, but prior to and following the imposition of the measure certain procedures have to be followed, such as consultations.

Agricultural Safeguard Measures: The FTA provides for provisions on safeguard measures related to agricultural products. The aim is to deal with situations where there is a sudden increased quantity of imported goods that may cause serious injury or threat to the domestic industry of similar or directly competitive products in the territory of that party.

Subsidies and Countervailing Measures: The parties have adopted the rights and obligations under Articles VI and XVI of the GATT

of 1994 and the WTO Agreements on Subsidies and Countervailing Measures. The parties are required to consult each other before undertaking investigations into the alleged subsidy, with a view to finding a mutually acceptable solution.

Exceptional Measures in Case of Structural Adjustment: The FTA has provisions to allow SACU States to take measures to protect infant industries or sectors undergoing restructuring. Such exceptional measures must be of limited duration in the form of an increase or reintroduction of customs duties. Customs duties introduced by the SACU States by these measures may not exceed the level of the applied Most Favoured Nation (MFN) rates of duty and should maintain an element of preference for products originating in the EFTA States.

Balance of Payments: The FTA provides for the rights and obligations with regard to restrictions to safeguard the balance of payments. The rights and obligations are governed by Article XII of the GATT of 1994. The party introducing a measure shall promptly notify the other party and the Joint Committee of such a measure.

Regarding anti-dumping and countervailing measures, the parties have adopted the rights and obligations under Article VI of the GATT of 1994 and the Agreement on the Implementation of Article VI of the GATT of 1994.

Institutional Framework

The Institutional and Procedural Provisions relating to the implementation and administration of the agreement are laid down in Chapter VI. The body responsible for the supervision and administration of the agreement is the Joint Committee, in which each party (each EFTA State and SACU Member State) is represented. The Joint Committee serves, among other purposes, as a forum to exchange information and for consultations at the request of any party. It may also review the further removal of obstacles to trade between the parties, take decisions in cases provided for under the agreement and make recommendations on any other matters. The Joint Committee acts by consensus and may set up sub-committees and working parties to assist it in its functions. It meets at least every two years, or at the request of any party.

The FTA establishes a Sub-Committee on Customs and Origin Matters. The functions of this sub-committee are to exchange information, review developments, prepare and coordinate positions, prepare technical amendments to the RoO, and assist the Joint Committee in the administration of the agreement on matters relating to customs and origin. The sub-committee may also deal with any other matters referred to it by the Joint Committee.

Dispute Settlement

The provisions of the agreement encourage the parties to hold consultations if aggrieved under this agreement prior to the matter being referred to the Joint Committee for Dispute Settlement. There are also provisions on the procedures related to disputes regarding the interpretation of rights and obligations under the agreement.

Economic Cooperation and Technical Assistance

The EFTA States have committed to provide technical assistance to SACU Member States in order to help them implement the agreement. The assistance relates to the exchange of information, transfer of expertise, and training regarding trade policy, trade facilitation and trade promotion. It also relates to customs and origin matters; technical regulations, standards and conformity assessment as well as SPS measures; and local enterprise development. Finally, it covers regulatory assistance and implementation of laws in areas such as services, investment, intellectual property and public procurement.

The EFTA has aided the SACU Member States on customs and origin matters. The parties are yet to explore joint trade and investment promotions in the EFTA States and SACU Member States to ensure that the FTA is publicised to the private sector.

Review of the Agreement

The parties agreed to review the agreement considering international economic developments. The parties would also consider the possibility of further developing and deepening cooperation under the agreement and extending it to areas not covered in it.

In November 2016, the parties agreed on the modalities, scope and coverage of the review. The objective for the review is to improve on the market access conditions to enable improved trade among the parties. The areas under review include: (i) trade in goods for basic agricultural products and processed agricultural products, where both SACU and the EFTA are seeking better market access, and the EFTA is seeking new market access under non-agricultural market access; and (ii) customs and origin matters, specifically the evaluation of Annex V on rules of origin and the product-specific rules to improve and harmonise rules and procedures. Additional issues under consideration include an article on an agricultural safeguard in the Agreement proposed by SACU, a chapter on trade and sustainable development proposed by the EFTA, and an article on trade facilitation.

Since the commencement of the review of the SACU-EFTA FTA in January 2017, six rounds of joint reviews have been held. The negotiations on the review of the FTA were still ongoing at the time of this publication.

SACU-MERCOSUR Preferential Trade Agreement

Negotiations for a PTA between SACU and MERCOSUR started in December 2002 and were concluded in December 2004. The agreement was signed on 15 December 2008 in Salvador, Brazil, by the MERCOSUR State Parties and on 3 April 2009 in Maseru, Lesotho, by the SACU Member States, pursuant to Article 36 of the PTA. The ratification process was concluded in February 2014



and December 2015 by SACU and MERCOSUR respectively, and the agreement came into force on 1 April 2016.

The ultimate objective of this agreement is to promote trade between MERCOSUR and SACU. This will be achieved through tariff preferences that the parties have offered to one another. This agreement has established fixed preference margins as a first step towards the creation of an FTA between the two parties.

Tariff Concessions

The SACU-MERCOSUR PTA is a limited-in-scope agreement. The PTA is characterised by the exchange of partial tariff preferences among trading partners providing for margins of preference. The preferences agreed between the two parties covers 1 000 tariff lines with preference margins ranging between 10% and 100%. The agreed margins of preference are applied to customs duties that are applicable in each Signatory Party's country at the time of importing the relevant products. The schedules of the products covered are outlined in Annexes I and II to the agreement. Annex I list the preferences that MERCOSUR granted to SACU, and Annex II sets forth the preferences that SACU granted to MERCOSUR. In addition to the tariff preferences, Annexes I and II also indicate

other conditions agreed for the importation of negotiated products from the respective territories of the Signatory Parties.

It is also important to note that used products are not covered by the preferences under the PTA and therefore subjected to the domestic regulations of the Signatory Parties. In addition to trade liberalisation commitments, the parties have undertaken not to apply non-tariff restrictions to the exchange of products offered preferences under the PTA.





Utilisation of the TRQ given for Paraguay and Uruguay

As part of the preferences that SACU granted to MERCOSUR as contained in Annex II, Paraguay and Uruguay enjoy TRQ market access on SACU products such as boneless beef cuts, soya beans and soya bean oil, and sunflower seed or safflower oil. The size of the TRQs and how they were distributed among SACU Member States is illustrated in Table 1.

Table 1: TRQ Allocation for Paraguay and Uruguay

SACU TRQ Allocation for the First Year after entry into force of the SACU-MERCOSUR PTA							
	Country	Quota	Botswana	Eswatini	Lesotho	Namibia	RSA
TRQ Allocation in tons /annum							
02023000 - Boneless	Paraguay	250	12.5	12.5	12.5	12.5	200
02023000 - Boneless	Uruguay	250	12.5	12.5	12.5	12.5	200
12010000 - Soya Beans	Paraguay	10 000	500	500	500	500	8 000
	Uruguay	6 000	300	300	300	300	4 800
15071000 - Soya Bean Oil	Paraguay	5 000	250	250	250	250	4 000
15121100 - Sunflower	Paraguay	4 000	200	200	200	200	3 200

Source: SACU Member States

Despite SACU’s TRQ market access to Paraguay and Uruguay on the above products, the statistics for 2016-2017 indicate that there were no imports from these countries into the SACU market.

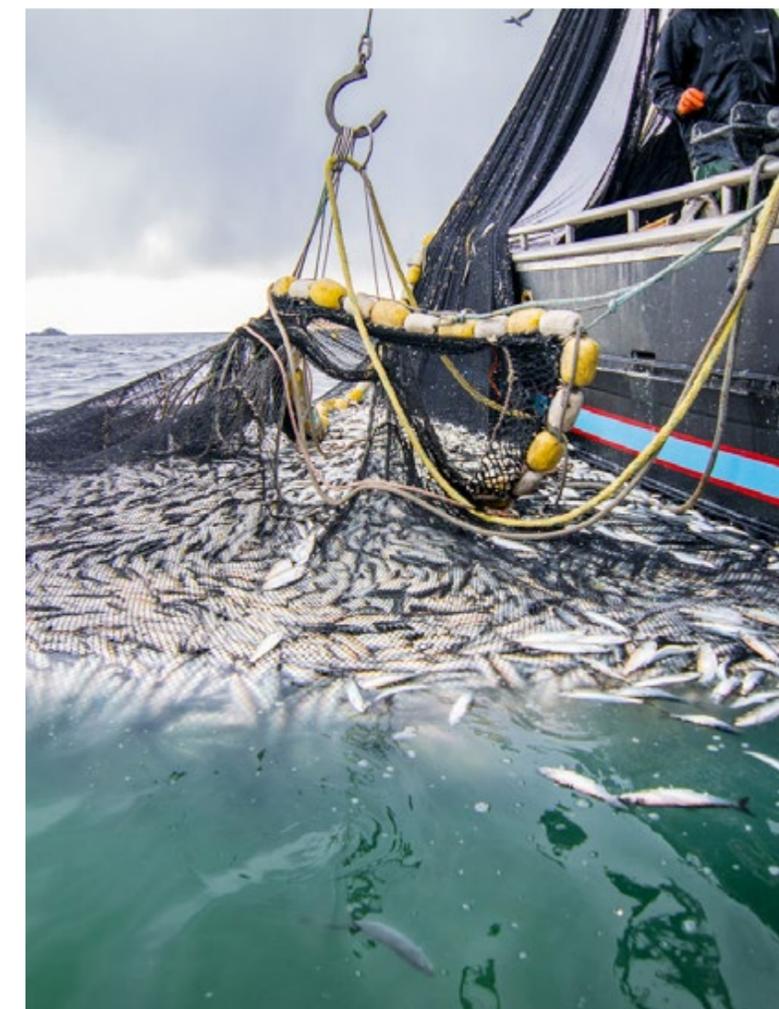
Rules of Origin

The products included in Annexes I and II of the PTA are expected to meet the RoO specified in Annex III in order to qualify for tariff preferences. This means that for products to benefit from this agreement, they should be accompanied by the certificates of RoO issued by the customs or competent authority of the exporting country.

Annex III defines the criteria that must be satisfied for the products to be conferred a status of origin and therefore qualify for preferences granted under this PTA. In this regard, the criteria for determining the origin of the products may either be wholly obtained in MERCOSUR or SACU, as provided for under Article 4 of Annex III, or to a sufficient degree of working or processing in the Signatory Party country, in line with the conditions set out in Article 5 of the same Annex.

Goods may also obtain origin status through a cumulation provision. This allows goods originating in one Signatory Party (MERCOSUR or SACU) to undergo sufficient working or processing in another Signatory Party to be considered as originating.

Furthermore, the agreement has listed operations that are considered as insufficient working or processing to confer the status of originating products, whether or not the requirements stated above are satisfied. The agreement also contains provisions on unit of qualification; accessories, spare parts and tools; sets;





containers and packing materials for transport; and neutral elements. Title III of Annex III deals with territorial requirements. Title IV contains provisions that apply to the certificate of origin, including procedures, duplicate certificates, validity, submission, importation by instalments, exemptions and documentation. Title V deals with arrangements for administrative cooperation including verification, dispute settlement and penalties.

In addition, there are four appendices that are necessary for the implementation of Annex III on RoO:

- Appendix I, which provides the introductory note to Appendix II and therefore lays out the conditions to qualify as sufficiently worked or processed products;
- Appendix II, which contains product-specific rules of origin and sets out the working or processing that needs to be carried out on non-originating materials to confer originating status. For

products in Chapters 1 to 24 of the Harmonised System, the wholly obtained criterion is the norm, while for some processed agricultural products a change in tariff heading is the rule. In the case of industrial goods, a change in tariff heading is the most frequent. For some products an alternative is provided, usually based on a value-added content rule in which the value of all the materials used does not exceed a certain percent of the price of the product;

- Appendix III, which contains the specimen of SACU-MERCOSUR certificates of origin and the application procedures; and
- Appendix IV, which contains an understanding on free zones. The parties agreed to continue their work to develop a common approach to the treatment of products manufactured or produced in free zones, especially with respect to the RoO criterion. This work was to be undertaken following the entry into force of the agreement. The process, however, has not

commenced yet. Currently, products originating from free zones are excluded from the preferences.

In terms of customs-related matters, the parties agreed to refer to GATT Article VII and the WTO Agreement on the Implementation of GATT Article VII. The Signatory Parties undertook to develop instruments on customs cooperation. The main objective is to promote cooperation between the customs administrations of the Signatory Parties in all matters pertaining to customs.

Trade Remedies

This PTA has made provision for trade remedy instruments such as safeguard measures and anti-dumping and countervailing measures. In terms of safeguard measures, Annex IV covers two types, namely:

Global Safeguards, which retains the rights and obligations of the parties to apply safeguard measures consistent with GATT Article XIX and the WTO Agreement on Safeguards; and

Preferential Safeguards, which regulate the implementation of safeguard measures for imported products that are the object of tariff preferences under the SACU-MERCOSUR PTA. In this regard, a preferential safeguard measure can be applied when preferential imports have increased in such quantities, absolute or relative to domestic production of the importing party, and such imports cause or threaten to cause serious injury to the domestic industry of the importer. The measures shall only be applied following an investigation under the procedures laid down in Annex IV. Moreover, the preferential safeguard measures shall not be applied in the first year after the tariff preferences negotiated under the agreement come into force.

With respect to anti-dumping and countervailing measures, the Signatory Parties are governed by their respective legislation, which are consistent with Articles VI and XVI of the GATT of 1994, the Agreement on the Implementation of Article VI of GATT 1994 and the WTO Agreement on Subsidies and Countervailing Measures.





Institutional Framework for the Implementation of the Agreement

In line with Article 25 of the PTA, the functioning and the implementation of the agreement is monitored through the Joint Administration Committee. It meets at least once a year and may meet at any time at the request of SACU or MERCOSUR. Following the entry into force of the agreement, the inaugural Meeting of the Joint Administration Committee was held on 25 and 26 May 2017.

The following implementation issues as agreed by the parties have been addressed: parties' legal requirements; the exchanges of specimen impression of stamps and signatures for the certificate of RoO; the exchanges of contact points for SPS measures, technical barriers to trade and customs cooperation; the transposition of tariff lines resulting from migration from the Harmonised System of 2007 to the one of 2017; and the exchange of the list of arbitrators for the purposes of Article 10 of the PTA.

These processes have since been completed by both parties and the PTA is fully operational in all Signatory Parties. The Joint Administration Committee will continue to monitor the implementation of the agreement, including resolving any trade restrictions that may arise between the parties and recommend further steps towards the creation of an FTA.

Dispute Settlement

The agreement also provides for dispute settlement. Any disputes arising in connection with the application or interpretation of, or non-compliance with the agreement as well as its additional protocols and related instruments, is subject to the Dispute Settlement Procedure and Rules set out in Annex V to the PTA. The parties are required to make all reasonable efforts to settle disputes through consultations with a view to reaching a mutually satisfactory solution. Such consultations are undertaken by the Joint Administration Committee and can be referred to the Group of Legal Experts in case a solution is not reached. Both parties are represented in the Group of Legal Experts.

EU-SADC Economic Partnership Agreement

The former European Economic Community (EEC) and the 71 members of the African, Caribbean and Pacific Group of States (ACP) States cooperated through a trade and aid agreement signed in February 1975 in Lomé, Togo, known as the Lomé Convention. The Lomé Convention provided unilateral market access for ACP agricultural and mineral exports to the EEC duty-free. On 23 June 2000, the ACP States and the Member States of the EU, which had incorporated the EEC, signed the Cotonou Partnership Agreement (CPA) in Cotonou, Benin. The CPA, which entered into force in

2003, governed EU and ACP economic and trade relations between 2000 and 2020. The CPA expired on 29 February 2020. The parties adopted a transitional measure that extended the application of the CPA to 31 December 2020 while negotiations for the new agreement were under way.

One of the fundamental changes in the CPA was the requirement for reciprocal trade preferences through WTO-compatible EPAs between the ACP States and the EU.

In parallel, the EU and South Africa signed the Trade, Development and Cooperation Agreement (TDCA) in 2000. This was because South Africa was not a party to the Lomé Convention and the CPA. The TDCA established a preferential trade arrangement between the EU and South Africa and provided asymmetrical liberalisation between the parties. While the EU liberalised %91 of imports from South Africa within 10 years, South Africa liberalised around %86 of imports from the EU over 12 years. The tariff concessions in the TDCA had important linkages to the tariff liberalisation under the EU-SADC EPA, which are elucidated in the following section.

The EU commenced negotiations for the various EPAs with the ACP countries as far back as 2002. The primary aim of the proposed EPAs was to establish new trading arrangements between the EU and ACP countries. This was to comply with the WTO's non-discriminatory principle. The EPAs were also foreseen to be developmental instruments aimed at fostering the smooth and gradual integration of the ACP States into the global economy.

In this regard, the EPAs are FTAs with the salient feature of reciprocity, in contrast with the former non-reciprocal Lomé Convention and its successor, the CPA, which was asymmetric in favour of ACP countries.

After almost 10 years, the negotiations between the EU and SADC were concluded in 2014. The EU-SADC EPA was initialled on 15 July 2014 and subsequently signed on 10 June 2016 in Kasane, Botswana. Although Angola is a member of the SADC EPA States, it has not yet signed or ratified the agreement. There is, however, provision for Angola to join the EU-SADC EPA in future. Angola has recently submitted a notification to accede to the EU-SADC EPA. The parties are now considering the process for these negotiations.

The agreement has been provisionally applied since 10 October 2016. The EU-SADC EPA provides the legal framework that governs trade relations between the EU and the SADC EPA States. The EPA will enter full implementation once it is ratified by all EU Member States.

The ultimate objective of the EU-SADC EPA is to "contribute to the reduction and eradication of poverty through the establishment of a trade partnership consistent with the objective of sustainable development; the Millennium Development Goals and the Cotonou Agreement". Other objectives of the agreement include the promotion of regional integration and economic cooperation; good governance and the gradual integration of the SADC EPA States into the global economy; and improving the SADC EPA States' capacity in trade policy and trade-related areas.

The EU-SADC EPA currently only covers the trade in goods. The agreement, however, includes a rendezvous clause for future cooperation on other trade-related issues such as trade in services, investment, competition policy and intellectual property rights. Botswana, Eswatini, Lesotho, Mozambique and South Africa, known as the Participating SADC EPA States, are currently pursuing trade in services negotiations with the EU.



Tariff Concessions

Chapter I, Trade in Goods, establishes an FTA between the EU and the SADC EPA States. The FTA is to be achieved through the gradual phase-down or elimination of customs duties on goods traded between the parties. Annex I to the agreement provides the EU duties applicable to SACU's exports, while SACU's duties on EU imports are contained in Annex II.

A key feature of tariff liberalisation provided in the EPA is Article 20, which provides the principle of asymmetry in line with the parties' level of development. In this respect, while both the EU and the SADC EPA States offered reciprocal preferential market access, the EU provided greater liberalisation than the SADC EPA States.

The EU provided differential tariff treatment to the SADC EPA States based on the level of development of the countries in the configuration. The EU granted duty-free, quota-free market access to Botswana, Eswatini, Lesotho, Namibia (BELN) and Mozambique, for all products.

However, the tariff preferences the EU granted to South Africa are different. The tariff liberalisation under the TDCA was concluded in 2012, while the EU-SADC EPA was signed in 2016. The market access preferences South Africa enjoyed under the TDCA therefore formed the basis of the tariff concessions in the EU-SADC EPA. Subsequently, the EU-SADC EPA replaced the trade in goods provisions of the TDCA. Under the EU-SADC EPA, the EU granted South Africa tariff elimination on about 95% of tariff lines, while about 4% of tariff lines are subjected to limited tariff liberalisation or will remain dutiable. The EPA improved market access for South African fisheries products and 32 agricultural products. These products include sugar, ethanol, active yeast,

skimmed milk powder, butter, canned mixtures of fruit, frozen orange juice and wine.

As a Customs Union with a Common External Tariff, SACU granted the EU a single tariff concession. This concession consists of tariff elimination on about 86% of tariff lines, in line with the principle of asymmetry. Around 13% of tariff lines will remain dutiable for EU imports ranging between 10% and 25%. These include bovine meat, pig meat and lamb; dairy and milling products; motor vehicle parts; and selected minerals such as crude petroleum oils obtained from bituminous minerals and lubricating grease and oils.

In addition, SACU granted the EU limited liberalisation through TRQs for pork, pig fat, butter, cheese, wheat, barley, cereal-based food preparations, ice cream and mortadella bologna. The TRQ management in SACU is explained further in the coming sections.

Similarly, the EU maintains TRQs for imports from South Africa of skimmed milk powder, butter, frozen strawberries, sugar, white crystalline powder, citrus jams, canned fruit, canned tropical fruit, frozen orange juice, apple juice, active yeast, wine and ethanol. The TRQs are applied on a first-come, first-served basis. The TRQs that were applied for imports from South Africa under the TDCA have continued under the equivalent conditions under the EU-SADC EPA, from the date of provisional application until the Geographical Indications between the EU and South Africa listed in the Agreement are protected.

The chapter on Trade in Goods also includes provisions on export duties or taxes. This provision restricts the imposition of customs duties or taxes in connection with the exportation of goods, and

those currently applied shall not be increased. There is, however, flexibility for the SADC EPA States to introduce temporary customs duties or taxes on exports if justified for industrial development needs. In such cases, temporary export duties may be applied on a total of eight products and their application shall not exceed 12 years in total. Annex I of the agreement contains the EU schedule, while the SACU schedule is contained in Annex II.

Another key element of this chapter is the Regional MFN Clause, which disciplines discrimination against the EU. The agreement states that any more favourable treatment that the SADC EPA States grant other major trading economies shall, upon request, be extended to the EU. In the same vein, if the EU grants any more favourable treatment to a Third Party, the EU shall extend such treatment to the SADC EPA States. There are, however, specific clauses for South Africa since it does not enjoy duty-free, quota-free market access under the EU-SADC EPA.

Rules of Origin

The EU-SADC EPA criteria for origin determination are that products may either be wholly obtained or sufficiently worked and processed in a country before they can obtain originating status in either the EU or the SADC EPA States.

The EU-SADC EPA replicated the RoO contained in the Cotonou Agreement in Protocol 1 of the agreement. There are two main documents required as documentary evidence for RoO, namely a movement certificate EUR.1 and origin declaration, which are contained in Annexes III and IV to Protocol I, respectively.

The tolerance level for the use of non-originating materials has been maintained at a maximum of 15% of the ex-works price of the product as applied in the Cotonou Agreement.

In addition to bilateral cumulation, the EU-SADC EPA extends diagonal cumulation to include the EU's Overseas Countries and Territories as part of the countries in the cumulation zone. Therefore, diagonal cumulation in the EU-SADC EPA is between the SADC EPA States, the EU, and the ACP EPA States as well as the EU's Overseas Countries and Territories. This cumulation provision only includes those ACP countries that have concluded an EPA with the EU, known as the ACP EPA States.

Furthermore, Protocol 1 of the EPA introduces two additional cumulation possibilities. They are cumulation with respect to materials that are subject to MFN duty-free treatment in the EU (Article 5), and cumulation with respect to materials originating in countries benefiting from duty-free and quota-free access to the EU (Article 6). Cumulation under Article 5 adds the countries that benefit under the Generalised System of Preferences and the Everything but Arms initiatives of the EU as part of the SADC EPA States' source for inputs. This includes ACP countries that have not concluded an EPA with the EU. The additional cumulation



in Article 6 allows the SADC EPA States to source materials from anywhere in the world, provided that such materials are subject to zero tariffs when exported directly to the EU.

The cumulation provisions, however, have restrictions on the materials used and the source territories. This includes restrictions for SADC EPA States to use materials originating in South Africa that cannot be imported directly into the EU duty-free and quota-free; materials that are subject to anti-dumping and countervailing duties in the EU; materials that are not duty-free when exported to the EU directly, and tuna products from Chapters 3 and 16.

To allow for cumulation, the EU and the SADC EPA States are required to enter into administrative cooperation arrangements with the territories in the cumulation zone. This is to ensure that formal mechanisms are in place to allow the contracting parties to verify compliance with the origin requirements. On 26 June 2018, the EU submitted a notification containing the details of the arrangements on administrative cooperation it has with some ACP EPA States, as required by the agreement. In this respect, the EU's diagonal cumulation with those ACP EPA States has been applied since 1 October 2018.

The Joint Undertaking on Administrative Cooperation for the Implementation of Cumulation Provisions contained in the Economic Partnership Agreement between ACP Regions/Countries and the EU will facilitate administrative cooperation between the SADC EPA States and other ACP EPA States. Currently, 14 ACP States have signed the joint undertaking. On 20 December 2019, SACU notified the EU that diagonal cumulation was to commence from 2 March 2020 with the ACP EPA States that have signed the joint undertaking. However, there are still further internal processes under way to make this notification effective.

Sugar processing plant





Trade Remedies

In addition to the general anti-dumping, multilateral and bilateral safeguard provisions, the EU-SADC EPA contains some unique safeguard provisions. These are provisions on agricultural safeguards, food security safeguards, BELN transitional safeguards, and infant industry safeguards.

Agricultural safeguards: Under certain prescribed conditions, safeguard measures (in the form of an import duty) may be imposed on a list of agricultural products (edible offal, processed cereals, meat preparations, UHT or long-life milk, preserved cucumbers and olives, and chocolate). These safeguard measures may not exceed the prevailing MFN applied rate. This provision is only available to SACU Member States for a 12-year transition period from the date of entry into force of the agreement. Article 35 contains the procedures for the implementation of the measure.

Food security safeguards: Article 36 acknowledges that the removal of barriers to trade may pose significant challenges to agricultural and food sector producers in the SADC EPA States. In this regard, food security safeguards may be adopted where essential for the prevention or relief of critical general or local shortages of foodstuffs or other products in a SADC EPA State. The measure may involve the suspension of tariff reduction; an increase in the customs duty (up to a level that does not exceed the MFN applied rate); or the introduction of TRQs for the product concerned. The measure is to be reviewed at least annually and shall be removed as soon as the circumstances leading to their adoption cease to exist.

Botswana, Lesotho, Namibia, Swaziland/Eswatini (BLNS) transitional safeguards: The parties acknowledged the sensitivity of the liberalised products listed in Annex V to the BLNS States. The products concerned include frozen poultry, milk and cream, honey, some vegetables, cereal flours, chocolate, uncooked pasta, and some textiles products reproduced. These were products that were liberalised in 2012 under the TDCA. The BLNS States may apply transitional safeguards for a period of 12 years from the entry into force of the agreement. The measure shall take the form of a duty up to a level that does not exceed the MFN applied rate or introduce a duty-free TRQ, provided that the level of the out-of-quota duty does not exceed the MFN applied rate at the time the measure is taken. The procedures for the application of this safeguard are articulated in Article 37.

Infant industry protection safeguards: Article 38 allows Botswana, Eswatini, Lesotho, Namibia and Mozambique to temporarily suspend reductions of customs duties, or increase them up to a level not exceeding the applied MFN duty, where a product originating in the EU is being imported in such increased quantities that it threatens the establishment of an infant industry, or cause or threaten to cause disturbances to an infant industry producing similar or directly competitive products. These measures may be applied for a period of up to eight years and may be further extended by a decision of the Joint Council.



Balance of Payments safeguards: Where one or more Member States of the EU or a SADC EPA State is in serious balance of payments or external financial difficulties, or under threat thereof, the EPA allows the parties to take restrictive measures in accordance with the WTO Agreement and the Articles of Agreement of the International Monetary Fund. They may last for a period not exceeding six months.

Other safeguards: The agreement also permits the parties to take safeguard measures with respect to payments and capital movements if, in exceptional circumstances, payments and capital movements between the parties cause or threaten to cause serious difficulties for the operation of monetary or exchange rate policy in one or more SADC EPA States or one or more Member States of the EU. The measures should be such that they are strictly necessary and for a period not exceeding six months.

Dispute Avoidance and Settlement

It is to be expected that the interpretation and implementation of the EU-SADC EPA is likely to lead to disagreements between the parties. Therefore, as with many trade agreements, the EU-SADC EPA provides for processes and procedures for the resolution of disputes in the chapter on Dispute Avoidance and Settlement.

The agreement outlines a three-stage dispute settlement mechanism comprising consultations, mediation and arbitration. The parties should endeavour to resolve any dispute through consultations. If these are unsuccessful, the parties may seek recourse to a mediator. The mediator's opinion may include a recommendation on how to resolve the dispute, consistent with the provisions of the agreement. The mediator's opinion is non-binding. The final step in the dispute settlement procedure is arbitration. Should the parties fail to resolve the dispute through consultations or mediation, the complaining party may request the establishment of an arbitration panel. In its request, the complaining party shall identify the specific measures at issue and explain how such measures constitute a breach of the provisions of the agreement.

Institutional Framework

The EU-SADC EPA establishes several institutions to monitor or administer the implementation of the agreement, as outlined here:

Institution	Participation	Mandate
Joint Council	Relevant members of the Council of the EU and European Commission, and relevant Ministers of the SADC EPA States or their representatives	Operation and implementation of the Agreement Monitors the work of the Trade and Development Committee and performs any other duties under the Agreement
Trade and Development Committee	Senior officials from the parties	Assists the Joint Council in the performance of its duties
Customs and Trade Facilitation	Customs representatives of the parties	Monitors the implementation and administration of customs and trade facilitation and Protocol 1 on Rules of Origin
Special Committee on Geographical Indications and Trade in Wine and Spirits	Relevant representatives of the parties	Monitors the development of Protocol 3, intensifying cooperation and exchanging information, notably product specifications or summaries thereof, and improving the dialogue on Geographical Indications
Agricultural Partnership	Relevant representatives of the parties	Exchange of views on agriculture, food security, development, regional value chains and integration.

Implementation of the EU-SADC EPA

As stated before, the EU-SADC EPA has been provisionally applied since 10 October 2016. Since then, the parties have been engaged in addressing implementation issues, chief of these being the implementation of the tariff concessions and TRQs, measures to facilitate cumulation, the correction of identified technical errors, and developing the regulatory framework for the various institutions established by the agreement.

A Meeting of the First Joint Council took place on 19 February 2019. It reviewed the state of play of the trade relations between the parties to the agreement.

Tariff Rate Quota Utilisation

As stated before, SACU granted the EU TRQs for nine products as part of the market access concessions as outlined in Part I, Section B of Annex II. The nine products are pork, pig fat, butter, cheese, wheat, barley, cereal-based food preparations, ice cream and mortadella bologna.

The agreement requires the management of these TRQs on a first-come, first-served basis for SACU once a customs management system is developed to enable such TRQ management at the regional level. The development of a permanent TRQ Management System is currently ongoing in SACU. Pending the establishment of a permanent TRQ Management System at the SACU level, the agreement states that TRQs shall be allocated among SACU States based on the historical trade as specified under each TRQ as an interim measure.

Furthermore, the TRQs shall be managed on a first-come, first-served basis, except for Namibia. On 1 September each year, any unused TRQ in a country allocation is available for import into any other Member State of SACU, and therefore reallocated to other Member States annually in September. The use of the quotas by Member States is monitored by the SACU Secretariat.

Table 2 shows the TRQ utilisation by the SACU Member States from January 2017 to August 2019. It shows that the quota utilisation in 2017 was lower for most of the products when compared with 2019. This may be attributed to the fact that the EU-SADC EPA only entered into force in 2016, and the private sector still had to be familiarised with the quota arrangements in the agreement.

Table 2: SACU TRQ Utilisation, 2017-2019

Tariff Rate Quota Utilisation							
Products	Annual Quota (ton)	Total Uptake Aug 2017	% Utilisation	Total Quota Uptake Aug 2018	% Utilisation	Total Quota Uptake Aug 2019	% Utilisation
Pork	1,500	1,240	82.7	1,275	85	693	46.2
Pig fat	200	123	61.5	140	70	50	25.0
Butter	500	21	4.2	350	70	319	63.7
Cheese	7700	5767	74.9	2,377	31	3,790	48.3
Wheat	300,000	289,064	96.4	264,495	88	266,927	89.0
Barley	10,000	0	0.0	0	0	0	0.0
Cereal-Based Food Preparations	2,300	0	0.0	0	0	162	7.1
Ice Cream	150	0	0.0	80	53	101	67.0
Mortadella Bologna	100	0	0.0	0	0	4	3.8

Source: SACU Member States





Table 2 also shows that wheat had a high level of utilisation with 96.4%, 88% and 89% in 2017, 2018 and 2019, respectively. This was followed by ice cream at 67% and butter at 63.7% in 2019. Surprisingly, there were no imports under TRQ for barley since 2016, while cereal-based food preparations and mortadella bologna only recorded imports in 2019.

All the Member States publish the specific TRQs at the national level, as provided for in their respective customs legislation. The process of publication takes place after the SACU Council of Ministers has approved the specific annual TRQ allocations per Member State. There are various stakeholders involved in the management of TRQs or the issuance of permits for tariff quotas in all the Member States. These include the Ministries responsible for Agriculture, Trade and Industry as well customs administrations. Companies interested in importing TRQ products from the EU should contact the relevant institutions in their countries for more information on how to apply for the quotas.

SACU, Mozambique and UK Economic Partnership Agreement

Following the referendum in the United Kingdom on 23 June 2016, in which 52% of British nationals voted to leave the EU, the UK Government triggered Article 50 of the Treaty on European Union on 29 March 2017. This trigger put the UK on a course to leave the EU after 47 years of membership.

Although there have been several extensions of the Brexit deadline, the UK left the EU on 31 January 2020. The UK and the EU concluded two instruments: a Withdrawal Agreement and a Political Declaration. The Withdrawal Agreement is a legally

binding international treaty and contains the terms of the UK's exit from the EU. It also contains a time-limited Transition Period that expires on 31 December 2020. During this period, the UK will be treated as an EU Member State for the purposes of EU international agreements. This implies that the EU-SADC EPA will continue to apply to the UK until the end of the Transition Period. The UK is, however, able to negotiate, sign and ratify agreements in this period, but they will only enter into force after the Transition Period. The Political Declaration sets out the scope and terms of the future relationship.

Due to the significance of the UK for SACU Member States, SACU was one of the first movers to engage the UK for an agreement since 2016 when Brexit was announced. This was to ensure continuity of the trading relationship once the UK leaves the EU, and by implication the EU-SADC EPA. The process commenced with a Joint Meeting of SACU and UK Ministers of Trade held on 19 July 2017. The Ministers directed that the engagement between the parties should focus on replicating the EU-SADC EPA into a new agreement and only consider the necessary technical amendments to ensure the applicability of the agreement in a UK context. This was considered to be the most realistic and pragmatic, considering the uncertainties around the Brexit time frame at the time as well the period it usually takes to negotiate a new trade agreement. This, however, also implied that there was little room to expand the scope of the engagement to consider new issues.

After numerous negotiating rounds, the SACU, Mozambique and UK Economic Partnership Agreement (SACUM-UK EPA) was subsequently signed on 9 October 2019 in London, England, by Botswana, Eswatini, Namibia, Lesotho and Mozambique. South

Africa signed the agreement on 16 October 2019 in Cape Town. The parties are now in the process of undertaking the necessary domestic processes for ratification to ensure the agreement enters into force immediately when the EU-SADC EPA ceases to apply to the UK on 1 January 2021.

While the SACUM-UK EPA replicates some parts of the EU-SADC EPA, it contains salient differences to it. This includes a Built-In Agenda of issues to be reconsidered post entry into force. These are issues that could not be finalised due to the Brexit deadline, as well as others that require renegotiation to ensure a balanced and commercially meaningful agreement for all the parties. The Built-in Agenda includes, among others, (i) a review of the cumulation limitations among SACU countries and with Mozambique, as well as TRQs; (ii) reviewing the time frame for safeguards; (iii) reviewing the scope and volume under the automatic derogations; (iv) export taxes in terms of the treatment of vehicles with engine capacity of less than 1 000 CC; and (v) the treatment of EU overseas Countries and Territories. The SACUM-UK EPA therefore presents a window of opportunity for SACU Member States to improve the terms of the agreement in future negotiations. It is important to note that SACU's future negotiations with the UK will also be informed by the outcome of the EU-UK's future trading relationship.

Other Trade Arrangements

Trade and Investment Development Cooperation Agreement with the US

In 2001, SACU and the US started a process aimed at concluding an FTA between the two sides. Negotiations to launch an FTA began on 3 June 2003. The negotiations were initially scheduled to conclude by December 2004, but the deadline was pushed to the end of 2006 after negotiations stalled in late 2004 and resumed in late 2005. The talks continued to move at a slow pace until April 2006, when US and SACU officials decided to suspend negotiations and instead begin a longer-term joint work programme.

SACU and the US concluded a TIDCA that was signed on 16 July 2008. The TIDCA provides the framework for formal interaction between the two parties, while also providing a basis to enter into separate agreements on technical issues. The agreement identifies four areas of cooperation: i) SPS measures; ii) technical barriers to trade; iii) customs cooperation and trade facilitation; and iv) trade and investment promotion activities for further cooperation through bilateral agreements or memorandums of understanding. The TIDCA further establishes a Consultative Group, consisting of the appropriate senior officials representing the respective Ministries or Departments of Trade. Its function is aimed at, inter alia, endeavouring to conclude mutually beneficial trade and investment-enhancing agreements; monitoring trade and investment relations between SACU and the US and identifying opportunities for expanding trade and investment; identifying and working to remove impediments to trade and investment between

SACU and the US; considering trade capacity-building assistance and/or cooperation; and promoting increased contact between the private sectors in SACU and the US to facilitate the expansion of trade and investment.

Trade under Preferential Arrangements

SACU's preferential market access into the US is mainly governed by the African Growth and Opportunity Act (AGOA), which was initially approved by the US Congress in 2000 as a non-reciprocal and unilateral arrangement that aims to provide market access for products originating from sub-Saharan Africa countries into the US market. After its initial 15-year validity, the AGOA legislation was extended to 2025 in June 2015.

Although non-reciprocal, AGOA provides conditions for eligibility. As such, beneficiary countries should comply with set criteria in order to benefit from the AGOA preferences. These conditions include respecting and promoting the rule of law, respecting human and workers' rights, upholding democratic and market-based economic principles, as well as removing barriers to US trade and investment.

AGOA builds on the existing US Generalised System of Preferences by extending duty-free treatment to certain apparel and footwear products that are not eligible under this system. The US preference schemes provide duty-free and quota-free market access into the US for over 6 500 tariff lines from sub-Saharan Africa countries. Of the 49 countries in sub-Saharan Africa, 39 are currently eligible for AGOA preferences, including all the SACU Member States.

AGOA also establishes the annual US and Sub-Saharan Africa Economic Cooperation Forum, known as the AGOA Forum, which aims to promote a high-level dialogue on trade and investment-related issues.





Current Negotiations

AfCFTA Negotiations

During its 25th Ordinary Session held in Johannesburg, South Africa, in June 2015, the Assembly of Heads of State and Government of the African Union launched negotiations for the establishment of the Africa Continental Free Trade Area (AfCFTA). The launch of negotiations marked a major milestone in the implementation of the Summit decision to establish a continental FTA by 2017. Negotiations for the AfCFTA commenced in 2016.

The main objectives of the AfCFTA are to facilitate free flow of goods and services, free movement of business persons and

investment. It wants to expand intra-African trade through better harmonisation and coordination of trade liberalisation and facilitation regimes and instruments across the African Regional Economic Communities (RECs). The AfCFTA is further expected to enhance competitiveness at the industry and enterprise level through exploitation of opportunities for scale production, continental market access and better reallocation of resources. The AfCFTA will create a market of over one billion people with an aggregate GDP of close to US\$4 trillion.

The AfCFTA Agreement entered into force on 30 May 2019. The

operational phase of the AfCFTA was launched in July 2019. There is, however, critical work that remains to be completed. This includes the conclusion of an operating instrument such as the Appendix on RoO, schedules of tariff concessions as well as schedules of concession for trade in services. In SACU, Eswatini, Namibia and South Africa have ratified the AfCFTA Agreement. Botswana and Lesotho are yet to ratify it. The aim of the trade liberalisation commitments under the AfCFTA are set to commence on 1 January 2021.



The COMESA-EAC-SADC Tripartite Negotiations

The negotiations between the three African RECs of East Africa, the Common Market for Eastern and Southern Africa (COMESA) and SADC continued since its launch in June 2015 in Sharm El Sheikh, Egypt. The Tripartite FTA aims to establish a single market for 26 African countries with a combined population of about 700 million people (57% of Africa's population) and GDP above US\$1.4 trillion once fully implemented. Twenty-two Member or Partner States have signed the Tripartite FTA. In SACU, four Member States, namely Botswana, Eswatini, Namibia and South Africa, have signed it. The agreement will enter into force upon ratification by 14 Member or Partner States. So far, only eight (Botswana, Burundi, Egypt, Kenya, Namibia, Rwanda, South Africa and Uganda) have ratified it.

The bilateral tariff negotiations between SACU and the East African Community (EAC) under the Tripartite FTA was concluded in June 2019. However, technical consultations are currently ongoing between the parties with regard to the outstanding issues, as directed by the Joint Ministerial Meeting.

The SACU-India PTA Negotiations

The negotiations between SACU Member States and India for a PTA with India commenced in 2007. There has been limited progress to date as the parties have been trying to reach an agreement on the level of ambition. In the spirit of South-South cooperation, the parties resumed negotiations in July 2020 with the aim to submit their offers before the end of 2020.

Conclusion

Rules governing the establishment of regional integration schemes, including FTAs and Customs Unions, are stipulated in Article XXIV

of the WTO's GATT. It is a permitted exception to the general principle of non-discrimination in the WTO. All bilateral trade agreements between SACU Member States with Third Parties are in line with the rights and obligations of the SACU Member States in accordance with Article XXIV of the GATT.

Agreements between SACU and Third Parties have been notified to the WTO under Article XXIV of the GATT. The agreements differ in terms of scope, coverage and level of ambition as reflected in Annex 1 at the end of this chapter. The SACU-EFTA FTA that came into force in 2008 provides for a rendezvous clause. This is a unique feature of the FTA, which resulted in the current review of the agreement.

SACU Member States' preferential trade with the UK will continue under the EU-SADC EPA while the UK is in a Transition Period until 31 December 2020. The concluded SACUM-UK EPA is scheduled to enter into force on 1 January 2021, when the EU-SADC EPA ceases to apply to the UK. The SACUM-UK EPA will therefore govern future trade relations between SACU Member States and the UK. While the SACUM-UK EPA is a replication of the EU-SADC EPA with some technical adjustments, it also provides an opportunity for the parties to renegotiate some of the provisions in a manner that supports each party's developmental objectives.

The success of any trade agreement depends on how it is being implemented and how the business community is capacitated to take advantage of the new market access opportunities offered. There is also a need for continuous monitoring of the impact of the implementation of the agreement, not only on SACU's trade with the EU but on poverty reduction and alleviation. In addition, the dissemination of information on the content of the agreement will facilitate the private sector to take advantage of the new opportunities it created.

For traders to benefit from the preferences offered under the different agreements, goods should satisfy the RoO conditions as provided for under each agreement. In this regard, traders are expected to present a proof-of-origin certificate to the importing country so that the customs authority of the importing country can exempt the goods from customs duties, in line with the agreed margin of preferences. A certificate of origin shall be issued by the customs or competent authority of the exporting country on application having been made in writing by the exporter or, under the exporter's responsibility, by an authorised representative. In addition to the certificate of origin, traders may be required to present additional documents to the customs authority for clearance. These may include invoice declaration, technical standard certificate, bill of entry, commercial invoice etc.

The SACU Member States continue to pursue a unified approach to trade negotiations with Third Parties. These include the negotiations for the AfCFTA, COMESA-EAC-SADC Tripartite FTA and negotiations for a PTA with India.

Annex 1: Trade Agreements between SACU Member States and Third Parties

No.	Title	Scope	Date of Signature	Date of Ratification	Entry into Force
	SADC Protocol on Trade	FTA	Botswana - 24 August 1996	07 January 1998	25 January 2000
			Lesotho - 24 August 1996	12 August 1999	
			Namibia - 1996	22 December 1999	
			South Africa - 24 August 1996	24 December 1999	
			Eswatini - 24 August 1996	09 December 1999	
	Free Trade Agreement between the EFTA States and SACU	FTA	Botswana - 14 July 2006	21 December 2006	01 May 2008
			Lesotho - 7 August 2006	25 September 2007	
			Namibia - 14 July 2006	21 November 2007	
			South Africa - 1 July 2006	14 May 2007	
			Eswatini - 1 July 2006	Swaziland - 11 October 2007	
			Iceland - 26 June 2006	29 January 2007	
			Liechtenstein - 26 June 2006	02 May 2007	
			Norway - 26 June 2006	24 November 2006	
			Switzerland - 1 July 2006	25 April 2007	
			Iceland - 26 June 2006	29 January 2007	
	Preferential Trade Agreement between MERCOSUR and SACU	PTA	Botswana - 3 April 2009	31 March 2010	01 April 2016
			Lesotho - 3 April 2009	20 February 2014	
			Namibia - 3 April 2009	09 March 2012	
			South Africa - 3 April 2009	11 January 2012	
			Eswatini - 3 April 2009	07 December 2012	
			Argentina - 15 December 2008	31 July 2013	
			Brazil - 15 December 2008	21 October 2015	
			Paraguay - 15 December 2008	27 June 2014	
			Uruguay - 15 December 2008	02 December 2015	
				Economic Partnership Agreement between the EU and its Member States, and the SADC Economic Partnership Agreement States	
Eswatini - 10 June 2016	08 September 2016				
Lesotho - 10 June 2016	20 September 2016				
Namibia - 10 June 2016	06 September 2016				
South Africa - 10 June 2016	21 September 2016				
	Economic Partnership Agreement Between the SACU Member States and Mozambique, and the UK	EPA	Botswana, Eswatini, Lesotho, Namibia - 9 October 2020		
			South Africa - 16 October 2019		
			UK - 9 October 2019		

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TRADE FACILITATION

CHAPTER 5

INTRODUCTION

This chapter highlights the trade facilitation initiatives aimed at enhancing efficiencies for the cross-border movement of goods that the SACU Member States implemented during the period 2018-2004.

In accordance with the SACU Agreement of 2002, the Member States are committed to facilitating the free movement of goods in the Common Customs Area (CCA). The agreement also aims to promote freedom of transit and transport facilitation; customs cooperation; collaboration on monitoring the import and export of prohibited and restricted goods; the harmonisation of product standards and technical regulations in the CCA; and support for trade negotiations and the implementation of trade agreements signed with Third Parties. As part of the mandate to cooperate on customs and revenue matters, customs administrations are administering the trade agreements signed with Third Parties and the tariff book, and also collect customs and excise duties that are paid into the SACU Common Revenue Pool (CRP).

The SACU region has signed trade agreements with Third Parties as highlighted in Chapter 4. In this regard, the SACU Member States have significantly reduced tariffs on several products and improved market access for products produced in the SACU region. Therefore, to leverage new market access created through trade agreements with Third Parties, there is a need to constantly develop solutions to ease the movement of goods that are traded within the single territory.

While the Member States continue to make significant strides to ensure the smooth flow of goods in and out of the region, there



SACU IT connectivity workshop. SACU Secretariat employees Former Deputy Director Trade Facilitation Mr. Yusuf Daya, Customs Specialist Mr. Marcel Ratsiu and an IT Expert from World Customs Organisation

are practical challenges to consider. The treatment of cargo at internal borders is often delayed owing to, among others, the use of different procedures and processes for clearance of goods, a lack of regional collaboration between border agencies on the control of cargo, and the differing level of modernisation and use of technology by the border agencies. These factors often stall the clearance of cargo. Therefore, implementing measures to coordinate the clearance of goods both within and among Member States is essential.

As a Customs Union, SACU is uniquely positioned to propel regional integration to achieve the objective of free and unhindered movement of cargo in the region. The SACU region consists of two coastal countries, Namibia and South Africa, and three landlocked countries, Botswana, Eswatini and Lesotho. The Namibian and South African ports handle a large number of vessels with cargo destined for the SACU region and beyond. Therefore, there is a need to consistently improve efficiencies for land, sea and air transport to facilitate the seamless movement of goods in the region. Trade facilitation contributes significantly to the competitiveness and comparative advantage of firms operating in the SACU region. In this regard, the behind-the-border rules, policies and regulations require constant revision to align to international best practices. These include the maximum use of technology, adopting the latest global initiatives that are geared to enhance the movement of goods, and upskilling government officials who are tasked with implementing trade facilitation initiatives in the region.

SACU Member States are also parties to the World Trade Organization (WTO) Trade Facilitation Agreement, which entered into force on 22 February 2017. While most of the SACU trade facilitation work predates the entry into force of this agreement, the outcomes of these initiatives propel the implementation thereof in the region. More specifically, the national implementation of the agreement continues to take place in parallel to the initiatives of the SACU Trade Facilitation Programme, which are complementary. Some Member States have engaged development partners to support implementation of the trade facilitation measures at national level to meet the commitments of the WTO Trade Facilitation Agreement.

SACU Member States are also implementing trade facilitation initiatives in the World Customs Organization (WCO); African Union; the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and Southern African



“ THE SACU REGION HAS ADOPTED PRACTICAL STEPS AND MEASURES TO ENSURE A COMMON NEGOTIATING MECHANISM FOR TRADE AGREEMENTS THAT ARE NEGOTIATED WITH THIRD PARTIES. IN THIS REGARD, THE SACU MEMBER STATES HAVE SIGNIFICANTLY REDUCED TARIFFS ON SEVERAL PRODUCTS AND IMPROVED MARKET ACCESS FOR PRODUCTS PRODUCED IN THE SACU REGION. ”



The Executive Secretary of SACU, Ms. Paulina M. Elago with the Secretary General of the World Customs Organisation (WCO), Dr. Kunio Mikuriya during the signing of the MOU between SACU and WCO on the implementation of the SACU WCO Connect Project

Development Community (SADC) Tripartite Free Trade Agreement; and bilateral arrangements. Through all these arrangements and agreements SACU Member States aim to facilitate the smooth flow of goods across borders.

For the purpose of this chapter, the focus is on the specific trade facilitation initiatives and interventions pursued by the SACU Member States from 2004 to 2018. The focus will be on the measures and variables related to customs and trade facilitation.

In addition, the chapter will also highlight the rankings for SACU Member States on global indices such as the World Bank’s annual Doing Business Report. The rankings assist Member States to identify specific areas that require improvement for ease of doing business and competitiveness.

Evolution of the Trade Facilitation Programme and Ease of Doing Business

The World Bank uses an annual reference tool assessing the ease of doing business to appraise the reforms and modernisation that countries globally have undertaken to improve business conditions. Its Doing Business Report focuses on measures such as starting a business, labour market regulations, dealing with construction permits, getting electricity, registering property, getting credit, trading across borders, paying taxes, enforcing contracts and resolving insolvency. For the purpose of this chapter, the focus will be on the global ranking of SACU Member States against the measure on Trading Across Borders.

The measure on Trading Across Borders assesses procedural requirements for import and export transactions, including the documents, cost and time required to complete import and export procedures. Although the Doing Business Report does not cover all the cross-border requirements and their stakeholders, over the years it has provided a global picture of the status quo on procedures and the challenges associated with cross-border trade. Globally, the assessment is used in most countries by policymakers and firms. The latter uses the rankings to identify business-friendly locations in the world for import and export investments, while policymakers use them to inform policy decisions and the focus for reforms and modernisation. The SACU Member States also



Table 1: SACU Member States’ Ranking: Trading Across Borders Measure

COUNTRY	2009 181 countries	2010 183 countries	2011 183 countries	2012 183 countries	2013 185 countries	2014 189 countries	2015 189 countries	2016 189 countries	2017 190 countries	2018 190 countries
Botswana	149	150	151	150	147	145	157	51	51	50
Eswatini	154	158	147	148	141	127	127	30	31	32
Lesotho	141	143	140	147	144	144	147	36	39	40
Namibia	150	151	153	142	140	141	136	118	127	163
South Africa	147	148	149	144	115	106	100	130	139	147

Source: World Bank Doing Business Reports: 2009 to 2018 (table compiled by author)



use the rankings to assess the progress made and determine the areas that require attention. Table 1 depicts the ranking of SACU Member States over a 10-year period from 2009 to 2018.

Table 1 highlights the varied results of SACU Member States’ performance against the Trading Across Borders measure. It shows steady improvement for the first six years from 2009 until 2014. Thereafter, three Member States, Botswana, Eswatini and Lesotho, have recorded high levels of performance. This could be attributed to the implementation of the customs modernisation and reform initiatives as well as the broader trade facilitation initiatives pursued by the Member States. All customs administrations in SACU have embarked on long-term reforms and modernisation initiatives that aim to enhance cross-border trade and reduce the cost of import and export transactions. It is worth acknowledging that reforms and modernisation require long-term commitment and investment in both hard and soft infrastructure as well as human and financial capital. There is also a need for collaboration among all stakeholders mandated to facilitate cross-border trade to achieve holistic results.

The modernisation and reform of customs is a long-standing flagship initiative of the World Customs Organization (WCO) that is implemented globally by customs administrations. The objective of the initiative is to eliminate the myriad inefficiencies related to cross-border movement of goods that result in the high cost of doing business globally. The ultimate impact of the interventions

and initiatives will contribute to the improved competitiveness of firms as well as the ease of doing business. Globally, most countries have adopted and continuously implemented reforms to modernise customs to keep abreast of the changing business and trade landscape.

Some of the key reforms that were adopted globally in 2005 include the establishment of the WCO Columbus programme, an initiative intended to strengthen the capacity in customs administrations to enable them to implement the SAFE Framework of Standards; and the Revised Kyoto Convention as a model for trade facilitation on the Simplification and Harmonisation of Customs Procedures. The Revised Kyoto Convention served as the base document for the WTO Trade Facilitation Agreement; the establishment of the Private Sector Consultative Group to strengthen dialogue and engagement between customs and business; the implementation of the global strategy to combat counterfeiting and piracy; and the modernisation of the Nomenclature for the Harmonised Commodity Description and Coding System.

In 2008-2009, the focus expanded to address the opportunity cost of imports and exports, which arises as a result of cumbersome processes and requirements for cross border movement of goods. Globally, there was a realisation of the interdependencies among administrations to facilitate the movement of goods from one country to the other, and the need for all countries to improve efficiencies. The more costly and lengthened the period for import



and export is, the lesser the chance for the trader to reach their intended market on time and with reasonable cost. It is thus difficult for the trader who is facing a myriad challenges to compete on similar products that are destined for the same market for both import and export.

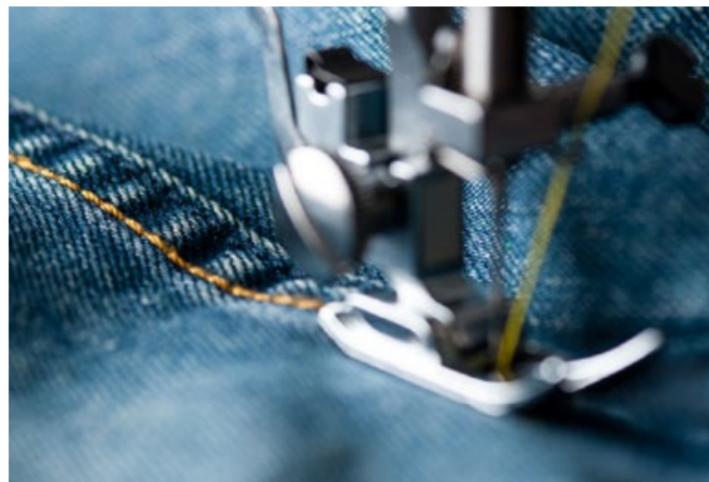
Based on global developments, the SACU region refocused the customs agenda to align it with the reforms and modernisation agenda. The initiatives pursued by SACU focused on introducing a paperless customs environment to reduce the number of days needed to import and export goods; adopting non-intrusive inspection tools; and adopting risk-based inspection to facilitate legitimate trade in order to focus more resources on inspecting, detecting and preventing illicit trade from entering the territories of countries.

Regional Customs Modernisation Programme

The SACU Customs Modernisation Programme has been recognised as a key area and priority for the SACU Work Programme. In 2004, SACU adopted five customs initiatives to strengthen cooperation and collaboration at a regional level. These are: (i) the development of a coordinated Customs Operations Strategy and Joint Controls; (ii) introduction of Joint Customs Controls and the establishment of One-Stop Border Posts; (iii) introduction of the Single Administrative Document 500 as a standardised, multipurpose declaration form for the importation, exportation and transit movement of goods to fast-track their clearance; (iv) exchange of information between customs administrations on a real-time basis; and (v) development of a common approach towards capacity-building in customs.

In 2006 and 2007, the WCO conducted phase one of the Columbus Programme in SACU. The purpose of the programme was to assess the readiness and required support to implement the SAFE Framework of Standards in SACU. Based on the findings and recommendations of the diagnosis, a regional programme on customs development was conceived. Therefore, in 2008, the five customs initiatives were revised and streamlined into the new Customs Development Programme to align with the findings of the Columbus Programme as well as global developments that were taking place in the WCO.

To this end, SACU and the WCO agreed to cooperate towards the implementation of a Customs Modernisation Programme. This programme was implemented within the framework of the agreement entered into between the WCO and the Swedish International Development Cooperation Agency. It was implemented in two phases: Phase I from 2009 to 2013 and Phase II from 2014 to 2018. The focus areas for



the collaboration included Policy Development; Legislation; Risk Management; Trade Partnerships; Standard Operating Procedures in Common Areas; and IT Connectivity. These objectives were underpinned by an overarching human resource and strategic management support programme focusing on integrity, human resource development and strategic change management. Significant progress has been recorded under the collaboration with the WCO, and to date the focus areas have been narrowed to those that require continued improvement.

The objective of the SACU Regional Customs Modernisation Programme is to strengthen collaboration on customs, with a focus on reforms and the modernisation of customs laws, IT systems, processes and procedures. The key priority areas of focus are IT Connectivity; Trade Partnerships (Stakeholder Engagement and Preferred Trader Programme); Risk Management and Enforcement; and a Customs Legislative Framework.

In 2014, the SACU Member States continued their cooperation with the WCO under Phase II, which was renamed the WCO-SACU Connect Project. Phase II of the WCO-SACU Connect Project ended in December 2018. The key focus areas are as follows:

i. Customs Legislation

The purpose of Customs Legislation reform is to ensure sufficient domestic legal provisions to support the effective implementation of customs reforms in SACU. It therefore supports regional cooperation and collaboration on customs modernisation and

reforms with specific focus areas such as Risk Management, Compliance and Enforcement; IT Connectivity - Customs Data Exchange; and Trade Partnerships - Preferred Trader Programme and Stakeholder Engagement.

The application of similar legislations in the Customs Union with regard to customs and excise duties is a requirement in terms of Article 22 of the SACU Agreement of 2002. This means that customs administrations in SACU will each independently draft their Customs Legislation and ensure the alignment of all the key provisions. In line with this requirement, the process of redrafting the Customs and Excise Act was initiated in South Africa in 2003. In 2010, this process culminated in the development of a Draft Customs Control Bill and a Draft Customs Duty Bill.

The Draft Customs Control Bill is primarily concerned with the control of imported and exported goods. It is intended to





regulate duties payable and confined to the levying, payment and recovery of customs duties on goods imported or exported. The Bills were promulgated into law in South Africa in 2014 but their implementation is ongoing at the South African Revenue Service. These Bills have been adopted as model legislation and are used as model laws for SACU, with all Member States having aligned their Customs Acts accordingly. To this end, the Customs Legislation of Botswana, Eswatini, Lesotho and Namibia have been revised drawing from these Bills. In Botswana, a new Customs Act was enacted in 2018, whereas in Eswatini a comprehensive review of its Customs Act is continuing following a major amendment to

enable alignment with the region. In Lesotho and Namibia, the Customs Bills are in their final stages of amendments and they have been submitted to the respective authorities for consideration.

In addition, SACU Member States have simultaneously embarked on developing regional legislative frameworks to support initiatives implemented to reform and modernise customs. These initiatives are driven within the Customs Modernisation Programme. They are supporting regional frameworks to enable administrative mutual cooperation on IT Connectivity, Risk Management and Customs Enforcement.

The specific achievements recorded under the Customs Legislative Framework include:

- a. The development and implementation of Annex E to the SACU Agreement of 2002 on Mutual Administrative Assistance by all SACU Member States, as well as the development of a Model Bilateral Arrangement to facilitate the automatic exchange of customs information in SACU;
- b. The Botswana Unified Revenue Service, Eswatini Revenue Authority and Lesotho Revenue Authority have signed Bilateral Arrangements with the South African Revenue Service to facilitate the automated exchange of customs information, which enables doing it in real time. The arrangements are administrative instruments that are signed by the heads of revenue authorities and developed in line with Annex E of the Agreement on Mutual Administrative Assistance. Therefore, they are legally enforceable to facilitate the exchange of customs data;
- c. By December 2018, the Namibia Customs and Excise Department in the country's Ministry of Finance had exchanged the text of the Bilateral Arrangement with the South African Revenue Service in South Africa and Botswana Unified Revenue Service in Botswana. The Bilateral Arrangement with the South African Revenue Service was concluded in June 2020 pending signature. The Namibia Customs and Excise Department and the Botswana Unified Revenue Service are in the process of finalising the text of their Bilateral Arrangement; and

- d. SACU developed the Annex on the Issuance of Supplier Declaration to support cumulation in the Customs Union in instances where SACU enters into trade agreements with Third Parties that recognise SACU as a single territory. The Annex is yet to be ratified by the Member States.

ii. Risk Management and Enforcement

The objective of Risk Management and Enforcement is to modernise customs controls in SACU through the application of intelligence-based risk management techniques. This is intended to facilitate trade and promote compliance and security in line with international standards such as the WCO Revised Kyoto Convention and the SAFE Framework of Standards. In addition, Risk Management and Enforcement will support the implementation of the national and regional Preferred Trader Programmes and the Authorised Economic Operators Programmes in SACU.

The specific achievements recorded were:

- a. Development of the Regional Customs Risk Management Strategy and the Regional Customs Compliance Management Strategy;
- b. Implementation of the Joint Customs Enforcement Operations, which is a cooperative initiative by customs administrations to curb the entry and circulation of illicit trade and non-compliance with laws in the region. The operations are aimed at the treatment of identified high-risk goods that are





entering or in circulation in SACU. In this regard, the Joint Operations are conducted in line with Annex E on Mutual Administrative Assistance in order to be legally feasible. They are also conducted in line with the Regional Risk Management Strategy and Policy, which provides the operational framework and strategies to be applied when conducting the Regional Joint Customs Enforcement Operations. Between 2012 and 2018, the SACU region conducted three Joint Operations that targeted tobacco and tobacco products, alcohol, and textiles and clothing. The following results were achieved from the Joint Operations:

- detection of illicit trade transactions with a combined revenue prejudice of R309 166 306 - revenue that could have been lost;
 - detection of 266 transactions being undervalued;
 - detection of misdeclaration of 71 transactions;
 - 14 arrests for smuggling cigarettes and tobacco; and
 - seizures of 9 400 cigarette master cases and 40 000 litres of undenatured alcohol.
- c. All offenses were handled in line with the national laws and legal requirements of the Member States. The goods that

- were seized were also dealt with in accordance with national laws in the Member States, including the destruction of illicit goods. In terms of arrests, customs authorities would hand over offenders to the law enforcement agencies that have the powers to arrest and thereafter send offenders for prosecution.
- d. The results of the Joint Customs Operations highlight the need to strengthen controls and collaboration among border agencies to mitigate and curb the scourge of illicit trade and non-compliance in the region.
- e. The experience and expertise gained in Risk Management and Enforcement in SACU were also used to guide similar efforts in West Africa and in the EAC.

iii. Trade Partnership

Trade Partnership seeks to strengthen customs-to-business dialogue and the development of an Authorised Economic Operator Programme. This programme is a partnership between national customs administrations and national businesses, and is aimed at rewarding compliance; facilitating legitimate trade; promoting mutual recognition among Member States and Third Parties; and strengthening the security of the supply chain. In developing the Authorised Economic Operator Programme, Member States have agreed on a phased approach, starting with the establishment of a Preferred Trader Programme. Preferred Traders can include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors, among others.

The implementation of the Preferred Trader Programme is ongoing in each Member State and at the regional level. It has two key elements, namely the full roll-out of a national Preferred Trader Programme and a regional mutual recognition of the status awarded a trader across the region. To date, four Member States have functional programmes. By March 2020, there were 133 traders accredited as Preferred Traders in Botswana, Eswatini, Lesotho and South Africa, respectively. Namibia is piloting its national Preferred Trader Programme.

At a regional level, Member States have developed a draft Mutual Recognition Annex that aims to facilitate recognition of the status awarded to the accredited Preferred Traders to be recognised across the region. This means that with this status the accredited Preferred Trader will enjoy the benefits in all the Member States as soon as the Mutual Recognition Annex comes into force. The annex is not yet completed.

The specific achievements under Trader Partnerships include development of the:

- a. Preferred Trader Programme Stakeholder Engagement Strategy;
- b. Preferred Trader Programme Training Manuals on Risk Management and Audit for Customs Officials; and
- c. Preferred Trader Programme Internal and External Manuals to guide Customs Officials and Traders on implementation of the Preferred Trader Programme.

In addition, SACU established National and Regional Customs Trade Forums to strengthen dialogue between customs authorities and the private sector. The National Customs Trade Forums are convened nationally in Member States to engage businesses on changes to legislations, regulations, processes and procedures emanating from reforms and modernisation. These are convened monthly or quarterly as well as when the need arises. The Regional Customs Trade Forums are convened annually and when the need arises to engage businesses on regional initiatives such as the Preferred Trader Programme and address matters of common interest identified in the region.

Furthermore, capacity-building and technical assistance was delivered to more than 500 customs officers and private sector operators. The direct knowledge and skills transferred include audit and risk management capabilities, and stakeholder engagement and management, among others.

iv. Customs IT Connectivity

SACU customs administrations are pursuing the automation and interconnectivity of their Customs IT Systems to enable the timely electronic exchange of data between them. The automated electronic transfer of trade information between customs administrations will facilitate the real-time exchange of import and export customs transactions, thus limiting human intervention and reducing the margin of errors. An additional



benefit for customs administrations is that risk assessment will be conducted prior to the arrival of goods at the border, thus reducing the processing time.

The full implementation of IT Connectivity will result in increased transparency; the expedited clearance of goods; maximum revenue collection; improvement in the quality of trade data; and reduction of the cost of physically moving goods across borders and behind them. In addition, IT Connectivity will also contribute to generating reliable and accurate trade data for the CRP.

The key achievements under IT Connectivity are:

- development and implementation of the SACU Unique Consignment Reference tool and SACU IT Connectivity Blueprint;
- the IT Connectivity Utility Block “Your Export Is My Entry” and the Unique Consignment Reference as the regional frameworks required to facilitate connectivity of customs IT systems in SACU;
- the Eswatini Revenue Authority and South African Revenue Service are enabled to exchange export information in real time using the Utility Block; and
- the Botswana Unified Revenue Service, Lesotho Revenue Authority and Namibia Customs and Excise Department have also commenced work to enable their customs IT systems to connect with South Africa.

The Eswatini Revenue Authority and South African Revenue Service have achieved matching in more than 70% of import and export transactions between the two countries using the Unique Consignment Reference. However, the revenue services of Botswana and South Africa, and Lesotho and South Africa, respectively, are still working on improving data matching using the reference. Namibia has completed its configuration of the Unique Consignment Reference and implementation was slated to commence in 2020 along with configuring the customs connect software to enable connectivity with other SACU Member States.



In addition to these achievements, the main achievement under the five customs initiatives is that the SACU Member States have developed and are implementing the Single Administrative Document that was introduced on 1 October 2006 across the Customs Union. The Single Administrative Document was developed by SACU as part of implementing the five customs initiatives and replaced the old CCA 1 form that was used for intra-SACU trade transactions.

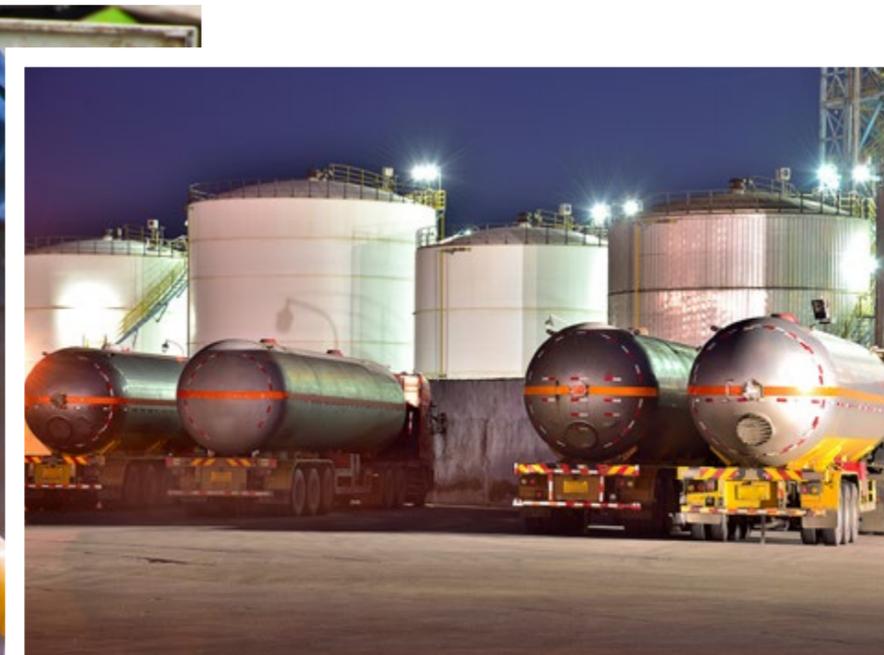
The purpose of the new document is for all SACU customs administrations to use a common declaration and clearance form for exporters when they move goods inside the common area and with trade beyond SACU. With the automation of customs processing, the Member States have automated the Single Administrative Document as part of paperless customs clearance processes. The document was also adopted by SADC as a common standardised form for clearing the importation, exportation and transit movement of goods.

SACU Member States have compiled a Customs Modernisation Handbook that consists of all the regional customs tools and frameworks developed to strengthen collaboration on the reform and modernisation of customs. Full implementation of the tools and frameworks developed will result in enhanced customs operational efficiencies in the long term, which will lead to the:

- mutual recognition of traders by the respective customs administrations in SACU when they move their cargo from one country to the other through a SACU Preferred Trader Programme;
- automatic exchange of import and export transactions without human intervention, thus leading to the facilitation of seamless and easy trade transactions in Member States through IT Connectivity;
- significant reduction of entry of illegal and substandard goods into the SACU region through Risk Management and Enforcement; and
- enhancement of the legislative environment to facilitate and support regional customs cooperation and collaboration.

Transport Programme

The SACU region has recognised that an efficient transport system is vital to facilitate trade, especially for the land-locked Member States. In 2008, the SACU region started work to develop the SACU Transport Programme. It is worth noting that several studies were recommended and undertaken. In addition, a Transport Sector Study was commissioned to explore the state of regional transport with a view to identify priority areas that could be pursued under a regional Transport Programme. The study focused on an assessment and audit of the transport sectors of SACU Member States as they relate to the cross-border movement of goods. It further sought to review the transport sectors of the SACU Member States covering legislation, policy and the institutions that implement transport policies, among others.



- investigation of the economic impact of liberalising transport;
- development of a common law enforcement strategy and action plan;
- harmonisation of regulations and standards for vehicle fitness and transportation of abnormal goods; and
- identification and implementation of appropriate infrastructural projects on major corridors.

In 2013, the SACU Member States took a decision to revise the SACU Transport Programme to align it with global developments and link transport to trade facilitation. This process was overtaken by events and coincided with the review of the SACU Trade Facilitation Programme. The SACU Transport Programme is being considered as part of the ongoing review of the SACU Trade Facilitation Programme under the SACU Work Programme with which the Ministerial Task Teams on Finance and on Trade and Industry have been tasked. The Member States are considering additional areas of focus to develop a comprehensive SACU Trade Facilitation Programme that encompasses other border agencies and stakeholders mandated to facilitate trade in the region.

Conclusion

The SACU Trade Facilitation Programme has evolved over the years. As it is noted, the programme is being reviewed to expand its scope and focus in order to build on the achievements to date. In this regard, the various initiatives implemented under the Customs Modernisation Programme have yielded tangible results. The frameworks developed continue to strengthen and cement the foundation for customs cooperation in SACU. The Member States are continuing to implement the regional Customs Technical Frameworks with support from the SACU Secretariat.

Following the conclusion of the Transport Sector Study, the Member States agreed on key priorities that will underpin the SACU Transport Programme as follows:

- development of the SACU Transport Strategic Plan;
- development of a Legal Instrument to Guide the SACU Transport Sector (Review the SACU Transport Memorandum of Understanding);
- harmonisation of transport documents required at border posts;
- commissioning of a comparative study on the on-road user charges and determining a general agreed model for adoption by SACU;
- development of national laws on the transportation of dangerous goods;
- development of a SACU Road Safety Strategy and Action Plan;
- collaboration with other regional bodies such as SADC, COMESA and the Trans-Kalahari Corridor on programmes of common interests;

It is clear from the achievements attained to date that SACU's Member States are committed to reform and modernise customs. In addition, the reform and modernisation is a continuing journey as customs functions in a dynamic environment that is driven by constant change. Each World Bank Doing Business Report further highlights the importance of stakeholder collaboration to be able to address reforms and modernisation holistically, taking into account all the government agencies mandated to facilitate trade.

Finally, the reform and modernisation of customs and related services will assist SACU Member States to improve compliance and reduce the cost of import and export as well as the time companies spend on customs clearance at the border posts. The long-term impact will contribute to improved rankings in global competitiveness as well as the ease of doing business for companies operating in the region.

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SACU REVENUE SHARING ARRANGEMENT

CHAPTER 6

INTRODUCTION

This chapter provides an overview of SACU's Revenue Sharing Formula and management of the Common Revenue Pool (CRP). It outlines the formula's application in the determination of Member States' annual revenue shares and examines the impact these have on their revenue streams.

The SACU Revenue Sharing Arrangement is provided for in Articles 32 to 37 of the SACU Agreement of 2002. The arrangement makes provisions for the CRP into which all customs, excise and additional duties collected in SACU are pooled. It also makes provisions for the management of the pool and a formula to determine the respective shares that are paid to each Member State.

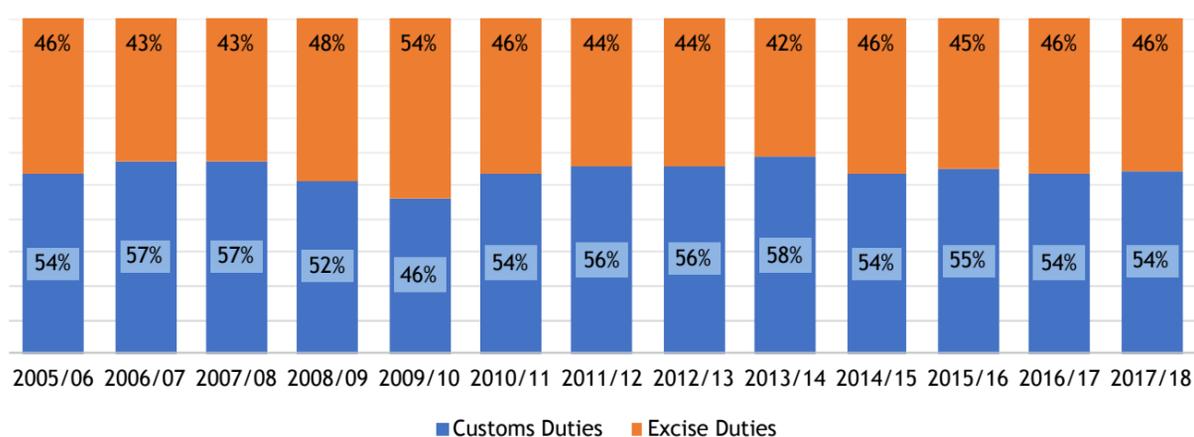
The Common Revenue Pool

The SACU Agreement of 2002 establishes a CRP into which all customs, excise and additional duties collected in the Common Customs Area shall be paid. It further obliges Member States to remit customs and excise duty collections into the CRP within

three months of the end of the quarter of a financial year. In practice, Botswana, Eswatini, Lesotho and Namibia remit collections into the CRP on a quarterly basis while South Africa remits on a continuous basis. The CRP is held by South Africa, as part of its National Revenue Fund. Payments from the CRP are made on the first day of each quarter of a financial year to all the Member States. A financial year in SACU is from 1 April to 31 March.

During the period from 2005-2006 to 2017-2018, the customs duties collected remained the highest contributor to the CRP, except for 2009-2010, when excise duties accounted for more because of the financial crisis, as reflected in Figure 1.

Figure 1: Composition of the CRP



Source: SACU Secretariat (2019)

Management of the Common Revenue Pool

Article 33 of the SACU Agreement of 2002 makes provision for the Council to appoint either a Member State or a SACU institution to manage the CRP. Article 33(4) specifically states that South Africa shall manage the CRP for a transitional period of two years from the agreement's entry into force. On 27 October 2011, the SACU Member States entered a Memorandum of Understanding on the Transitional Management of the CRP. The Member States agreed as part of this arrangement that South Africa continues to manage the CRP. This transitional arrangement shall remain in force until a permanent arrangement regarding the management of the CRP is in place. These discussions are part of the Work Programme for the Ministerial Task Team on Finance and were ongoing at the time of this publication.



“ THE SACU AGREEMENT OF 2002 ESTABLISHES A CRP INTO WHICH ALL CUSTOMS, EXCISE AND ADDITIONAL DUTIES COLLECTED IN THE CCA SHALL BE PAID. ”

The Structure of the Revenue Sharing Formula

The Revenue Sharing Formula has three components, namely the customs component, excise component and development component as outlined in Box 1 below.

The customs component is allocated based on each country's share of intra-SACU imports. The excise component, which constitutes 85% of the excise revenue, is distributed based on each country's share of total SACU GDP, a proxy for the value of excisable goods consumed in each country. The development component, which is fixed at 15% of the total excise revenue, is distributed according to the inverse of each country's GDP per capita. The deviation

in GDP per capita from the SACU average is reduced by a factor 10 in order to reduce disparity in the distribution of shares for the development component. This means that the distribution of the development component is weighted in favor of the less developed Member States.

Given the structure of the Revenue Sharing Formula, the BELN Member States get a significant share of their revenue from the customs component due to their relatively higher imports from the SACU region. On the other hand, South Africa gets more of its revenue share from the excise component. The Kingdom of Eswatini and Lesotho receive the highest share of the development component.

Box 1: Revenue Sharing Formula

$$R_i = \sum_{i=1}^{i=5} (C_i + E_i + D_i)$$

$$C_i = \{IM_i / [\sum_{i=1}^{i=5} IM_i]\} * C \dots\dots\dots \text{Customs Component}$$

$$E_i = \{GDP_i / [\sum_{i=1}^{i=5} GDP_i]\} * E \dots\dots\dots \text{Excise Component}$$

$$D_i = 0.2 * \left[1 - \frac{\left(\frac{GDPC_i}{\left(\frac{\sum_{i=1}^{i=5} GDPC_i}{5} \right) - 1} \right)}{10} \right] * D \dots\dots\dots \text{Development Component}$$

Where Ri = Revenue of Country i from the customs union
 Ei = Excise derived by country i
 GDPi = GDP of country i
 GDPCi = GDP per capita of country i,
 C = Total customs duties
 Ci = Customs revenue derived by country i
 Di = Development revenue of country i
 IMi = total intra-SACU imports of country i,
 E = 85% of total excise duties (minus development)
 D = 15% of excise duties

Source: SACU Secretariat, 2002.



Data Requirements

Annex 1 to the SACU Agreement of 2002 requires that Member States submit actual data of intra-SACU trade, GDP and population for the most recent year for which such data is available to the Secretariat at least six months prior to the beginning of the financial year (30 September). The agreement further states that no future adjustments will be made for errors or improvements to the data provided. Therefore, the formula uses data for the period t-2, where t refers to the current period and t-2 refers to a period of two years prior. Calculations of Member States' revenue shares are done in December of each year.

GDP and Population Data

These variables are used to determine revenue shares from the excise and development components of the Revenue Sharing Formula. The GDP variable used is the nominal GDP at basic prices, and the population data estimates are based on the de facto approach. The population data are based on projections by the respective National Statistics Offices if the period being considered falls outside a population census period. The formula requires Member States to submit GDP and population data for the period t-2. Therefore, for the calculation of 2014-2015 revenue shares that was done in December 2014, the formula used GDP and population data for the calendar year of 2012.

Intra-SACU Trade Data

Intra-SACU imports are used to determine revenue shares from the custom component of the Revenue Sharing Formula. Member States are required to submit the intra-SACU trade data for the period t-2. For the calculation of 2014-2015 revenue shares that was done in December 2014, the formula used intra-SACU imports data for the financial year of 2011-2012.

Before the trade data is used in determination of the revenue shares from the custom component, it is a requirement that the data sets need to be reconciled among the Member States (intra-SACU trade data) in order to uphold the integrity and quality of the data. The reconciliation of the trade data is done by a Task Team on Trade Data Reconciliation. The reconciliation process compares the export and import statistics of one Member State with the reciprocal import and export statistics of a partner Member State. In theory, a country's recorded exports to a trading partner are the mirror image of the trading partners' recorded imports. However, in practice there are many reasons why partner country statistics may not fully reconcile. For the purpose of revenue sharing, the SACU Member States have agreed on a tolerance level of 5%.

The Task Team on Trade Data Reconciliation is mandated to carry out the trade data reconciliation process and consist of officials from the Ministries of Finance and Statistics, and the Member States' customs and revenue administrations. The task team

meets three times a year, in July, September and December, and its last meeting is held in December each year to calculate the revenue shares. These are then considered by the SACU Commission and approved by the SACU Council of Ministers. The process of reconciliation is guided by a framework that defines the data, the reference years and the guiding principles.

Determination of Revenue Shares for Member States

The CRP forecast for the next financial year (t+1) is officially presented by South Africa as the manager of the CRP to the Task Team on Trade Data Reconciliation, which consists of representatives from all SACU Member States. The task team uses the forecast, after deducting the budgeted cost of financing the Secretariat, for the related financial year to determine the Member States' annual revenue shares. The agreement also makes provision for deducting the budget cost of financing the Tariff Board and the Tribunal, but these two institutions are not operational yet.

Calculations of Member States' revenue shares are then presented to the SACU Commission, which then recommends them for approval to the SACU Council of Ministers in December of each year. The approved shares are then paid out of the CRP by the manager of the pool on a quarterly basis, in line with the SACU Agreement.

Member States' revenue shares for the financial year (t+1) are calculated based on the CRP forecast provided by the manager of the pool, where t refers to the current financial year. Since revenue shares are determined based on a forecast, there is a need to reconcile the forecast and the actual audited level of the CRP. The SACU Agreement of 2002 stipulates that the adjustments will be made in years (t+2) to account for the differences between the forecast and the actual revenue collected.

Operationally, the actual audited collections are published in the Medium-Term Budget Policy Statement that is released in October of each year by South Africa. Subsequently, South Africa as the manager of the CRP announces the actual and audited customs and excise duties at the third meeting of the Task Team on Trade Data Reconciliation held in December each year. The adjustment accounts for the difference between the CRP forecast used to calculate Member States' revenue shares and the actual duty collected.

The adjustments are calculated in proportion to the Member States' revenue shares using the same variables that were used in the calculation of the revenue shares based on the CRP forecast. The excess collections (positive adjustments) are added to the revenue shares for the subsequent financial year while the deficit (negative adjustments) are deducted from the revenue shares.

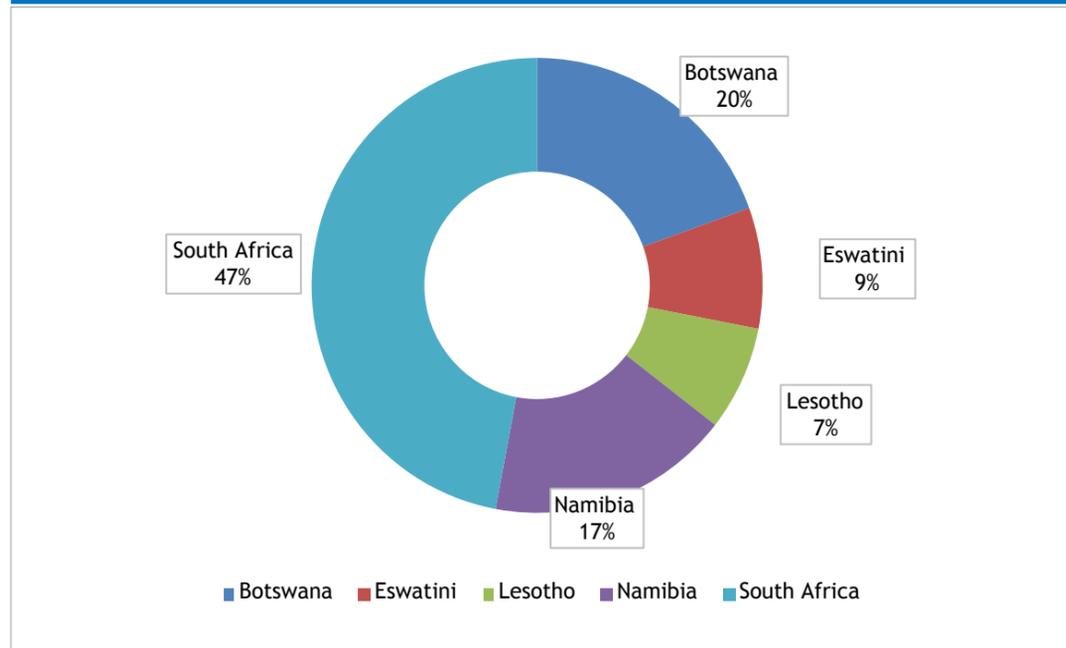
Since the inception of the SACU Agreement of 2002, the total payments (nominal) to Member States have increased from R27.1 billion in the 2005-2006 financial year to R91.3 billion in the 2018-2019 financial year, as reflected in Table 1. During the period under review, on average South Africa received 47% of the CRP payments, followed by Botswana (20%), Namibia (17%), Eswatini (9%) and Lesotho (7%).

Table 1: Trends in Member States' Revenue Shares from the CRP (R million)

FY	Botswana	Eswatini	Lesotho	Namibia	South Africa	Grand total
2005/06	4,773	3,136	2,306	3,892	13,027	27,134
2006/07	8,308	5,720	4,206	8,609	18,323	45,166
2007/08	9,001	4,989	4,098	6,622	21,228	45,938
2008/09	9,473	6,009	4,901	8,502	24,264	53,149
2009/10	6,613	3,760	3,568	6,155	21,990	42,086
2010/11	5,657	1,969	2,162	5,149	23,385	38,322
2011/12	8,949	2,881	2,753	7,137	23,612	45,332
2012/13	15,283	7,063	5,966	13,796	30,620	72,727
2013/14	15,335	7,154	6,055	14,727	33,685	76,955
2014/15	19,277	7,602	7,124	18,344	36,853	89,201
2015/16	20,039	6,815	6,308	17,127	38,609	88,898
2016/17	15,547	5,252	4,519	14,071	39,898	79,286
2017/18	23,031	7,109	6,154	19,597	43,746	99,637
2018/19	19,465	5,844	5,542	17,375	43,069	91,294
2019/20	18,744	6,318	6,226	18,922	46,115	96,326

Source: SACU Secretariat (2019)

Figure 2: Member States' Share of CRP Payments (average %: 2006-2005 to 2019-2018)



Source: SACU Secretariat (2019)

As mentioned earlier, SACU receipts constitute a large portion of national budgets in some Member States. For the period 2005-2006 to 2017-2018, SACU receipts as a percentage of total revenues of the national budget accounted for an average of 51% of total government revenue in Eswatini, followed by Lesotho (44%), Namibia (32%) and Botswana (25%). In contrast, SACU revenue receipts only account for a small share in South Africa at 3%. Table 2 shows the percentage contribution of the SACU receipts to Member States' national budget from the 2004-2005 to 20017-2018 financial years. In all the Member States except South Africa, the SACU receipts are a major source of revenue in the national budgets. During the period under review, the percentage has been varying from year to year in all the Member States except South Africa, where it has remained more or less constant.

Table 2: SACU Receipts as % of Total Budget Revenue in Member States

	Botswana	Eswatini	Lesotho	Namibia	South Africa
2005/6	18%	58%	50%	29%	3%
2006/7	26%	73%	63%	48%	4%
2007/8	27%	63%	56%	32%	4%
2008/9	25%	63%	54%	36%	4%
2009/10	19%	41%	38%	28%	3%
2010/11	16%	28%	24%	22%	3%
2011/12	22%	38%	29%	24%	3%
2012/13	31%	58%	45%	36%	3%
2013/14	27%	55%	46%	35%	3%
2014/15	29%	52%	49%	37%	3%
2015/16	32%	48%	41%	33%	3%
2016/17	21%	39%	32%	28%	3%
2017/18	28%	43%	41%	34%	3%
AVG	25%	51%	44%	32%	3%

Source: National Budget Speeches, Ministries of Finance in Member States and SACU Secretariat

Recent Developments on the Revenue Sharing Arrangement

The Member States recognised a need to reconsider the current Revenue Sharing Formula and agreed to review it as part of the SACU Work Programme for the Ministerial Task Teams on Trade and Industry and on Finance. The discussions on the review are currently ongoing and all the Member States have presented their proposals.





Conclusion

The Revenue Sharing Arrangement in SACU is unique as it has been shown that all the Members of SACU collect customs and excise duties at the first point of entry. These duties are remitted into a single account and thereafter redistributed on an annual basis to all the SACU Member States using a Revenue Sharing Formula with three unique components. The calculation of the revenue shares follows a clear process in which all the Member States participate, and the shares are approved by the SACU Council of Ministers, which has representatives from all the Member States.

The SACU revenues are very important to the Member States given its significant contribution to their national government revenues. In some instances, the contribution is almost 50% of national government revenue. Overall, the total payments to Member States have significantly increased from R27.1 billion in the 2005-2006 financial year to R99.6 billion in the 2017-2018 financial year.

The original Revenue Sharing Formula first came into operation in 1910, but it has evolved over the years and has twice been

revised. The main objective of these revisions was to ensure that the revenue collected is efficiently and equitable distributed across all the Member States. Starting in 2017, the Member States are currently undertaking another review of the formula.



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SACU INDUSTRIALISATION AGENDA

CHAPTER 7

INTRODUCTION

For many countries and regional economic groupings, regional industrialisation presents an opportunity to maximise the benefits arising from a broader and integrated market. Building regional synergies, especially through regional value chains, is considered a gateway for participation in global value chains.

Furthermore, a regional industrialisation approach is often adopted to foster regional competitive advantages and develop new sector-oriented strategies that support economic development and strengthen integration through backward linkages in value chains.

Industrial development has been associated with the rapid economic development of regions such as East Asia, which is now highly industrialised (WIDER, 2018). The desire for building regional synergies through industrialisation has been observed in the African Union, which has developed an action plan for the acceleration of Africa's industrial development (African Union, 2020). The plan provides a continental framework for addressing Africa's low level of industrial development. In implementing this plan, regional economic communities are expected to serve as the main agents for the promotion of industrialisation through the promotion of regional stability and the implementation of infrastructure projects to enhance productive capacity and intra-regional and continental connectivity.

SACU Member States have also identified regional industrial development as an overarching priority that will underpin the region's development and integration agenda. This is in line with the SACU Agreement of 2002, which has the enhancement of economic development, diversification, industrialisation and

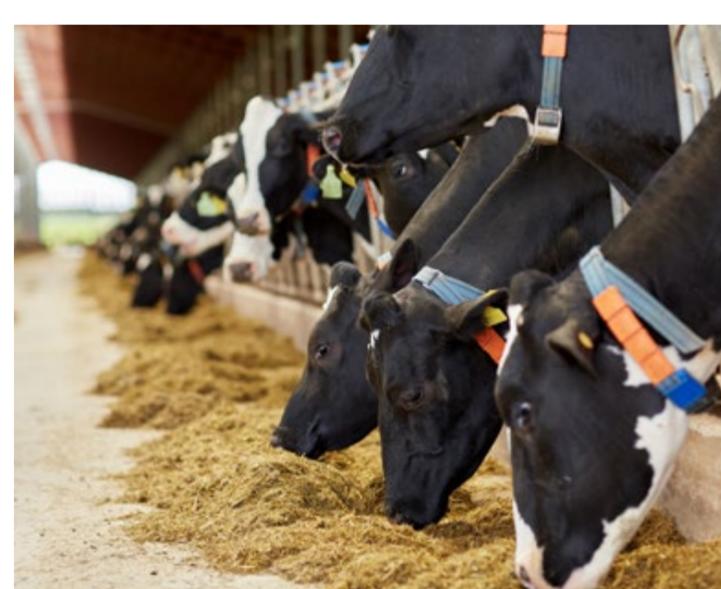
competitiveness of the Member States as one of its main objectives (SACU Secretariat, 2002). Regional industrialisation is seen as the main vehicle through which SACU can transform its economies and generate sustainable growth and employment, which will reduce poverty in the region. The industrialisation process in SACU has been evolving from the development of common policies to a current focus on the development of regional value chains in the context of the Work Programme for the Ministerial Task Teams, which was adopted in 2017 (SACU Secretariat, 2017).

With the asymmetrical levels of development in the SACU economies, this work programme is very important for the region as it provides an opportunity for all the Member States to diversify their industrial structures and deepen the regional industrial base.

This chapter shares insights on SACU's regional industrial development agenda and highlights recent developments in progressing this work. It is structured as follows: section 1 presents an overview of SACU's industrial development programme as provided for in the SACU Treaty; section 2 gives highlights of regional industrialisation as an overarching SACU objective; section 3 presents SACU's industrial performance; section 4 gives an overview of the SADC industrialisation agenda; and section 5 sets out the conclusions.



“INDUSTRIAL DEVELOPMENT HAS BEEN ASSOCIATED WITH THE RAPID ECONOMIC DEVELOPMENT OF REGIONS SUCH AS EAST ASIA, WHICH IS NOW HIGHLY INDUSTRIALISED (WIDER, 2018).”



Industrial Development Under the SACU Treaty

The industrial development agenda in SACU is guided by Article 38 of the SACU Agreement of 2002. The article calls for the development of common industrial development policies and strategies with the objective of fostering economic integration and speeding up the process of economic upgrading of the customs territory.

Article 38(1) of the agreement calls for balanced industrial development of the Common Customs Area (CCA) as an important objective for economic development. As will be discussed later in the chapter, recent developments reflect a shift from the initial focus on developing “common policies and strategies to support industrial development” to the development of public policy interventions and tools to support industrialisation and regional value chains in SACU.

Supporting Instruments for Industrial Development

The SACU Agreement of 2002 provides for the use of other supporting instruments such as the Protection of Infant Industries (Article 26) and Application of Rebates, Refunds or Drawbacks (Article 21(2)) to promote industrial development at Member State level. Furthermore, the agreement makes provision for cooperation and the development of supporting policies, namely the Agricultural Policy (Article 39), Competition Policy (Article 40) and Unfair Trade Practices (Article 41).

As provided for under Article 26, the agreement recognises the right of all Member States, except South Africa, to protect their infant industries. This policy tool is a temporary measure to allow an infant industry time to establish itself in the market and become viable, for a period of eight years, unless otherwise determined by the SACU Council of Ministers. Botswana, Eswatini, Lesotho, Namibia (BELN) request and provide justification for infant industry protection, and this is discussed in the given SACU structures and approved by all the Member States.

Infant industry protection has been accorded to the BELN countries in the past years. For instance, Botswana has benefited from the instrument to support its soap, brewery, Bolux Milling and ultra-heat-treated milk industries. Eswatini has exercised its right under the SACU agreement to support its fertiliser, cement, beer and flour milling industries. And Namibia has used it to support its cement, pasta and dairy industries.

On the application of rebates, refunds and drawbacks, Article 21(2) provides for Member States to apply the rebates, refunds or drawbacks on imported goods in respect of such identified goods. This process is done in consultation with other Member States. Currently, the International Trade Administration Commission undertakes the process of administering the rebates, refunds

and drawbacks as mandated by all SACU Member States. Some of the product categories in which SACU Member States have benefited from rebate quotas are milk and milk products, textiles, automotive, wheat and, recently, sugar.

Article 39 on agricultural policy calls for Member States to cooperate on these policies to ensure the coordinated development of the agricultural sector in the CCA. Work undertaken in this regard includes a study undertaken in 2009 that outlines each Member State’s agricultural policies with a view to develop a common coordinated policy framework for agriculture. The study was aimed at taking stock of and compiling all existing agricultural policies and legislation.

Article 40 on competition policy calls for Member States to cooperate in terms of enforcing competition laws and regulations. To facilitate the implementation of this article, the draft Annex on SACU Competition was developed in 2006 with the assistance of the United Nations Conference on Trade and Development. Regarding Article 41 on unfair trade practices, it states that policies and instruments should be developed to address unfair trade practices between Member States and that these policies and measures shall be annexed to the SACU Agreement. However, this work has not progressed owing to policy differences and variable geometry.

Regional Industrialisation - An Overarching Objective for SACU

Development of Common Industrial Policy

The Member States have agreed on the need to identify common objectives and strategies for an industrial development policy in SACU. Efforts to build regional synergies on industrialisation as per the SACU Agreement of 2002 date as far back as 2006. During this time, the SACU Member States agreed on the need to identify common objectives and strategies for the industrial development in SACU. Like many developing countries, the Member States seek to transform their economies through regional collaboration on industrial development initiatives, and many initiatives have been undertaken to realise this regional ambition.

Baseline Assessments

Initial efforts over the period 2006 to 2010 focused on appreciating the status quo in each Member State and assessing their national and regional industrialisation aspirations as well as their ambitions towards the development of a SACU-wide industrial development policy. In this regard, in 2010, the Member States developed ambition papers outlining their national positions on these issues.

A synopsis of these papers revealed that all the Member States desired to pursue industrial development at all levels (national and regional), although not all of them had national industrial





policies by then. In their positions, all the Member States unanimously acknowledged that a concerted effort by the region to develop the regional industrial policy will propel the economic growth and development of the region and ensure that the playing field is levelled for the smaller and less developed economies. These aspirations and goals were, however, only entrenched in their different national policy strategies and plans.

As indicated in their ambition papers, all the SACU Member States wanted to diversify their economies away from heavy dependence on a few sectors, particularly traditional sectors such as agriculture and mining. Some of the proposed ways to achieve this goal included promoting the services sector, such as tourism, as well as sectors with strong backward and forward linkages. Given

the important role the agriculture sector plays in SACU Members' economies, the aim was to diversify and encourage further processing and value addition. Member States also highlighted a need to beneficiate mining products as they account for a large share of the export base for several countries in the region. At the time, most mining outputs were largely exported in their raw or semi-processed form.

Member States proposed that the envisioned industrial policy should focus on the promotion of a more labour-absorbing industrialisation path. The emphasis was on tradeable labour absorbing goods, and the development of economic linkages that catalyse employment creation. Member States wanted to promote natural resource-based, export-oriented and high value-

added industries that would help curb their high unemployment rates. This policy's approach included promoting a broad-based industrialisation path characterised by the increased participation of marginalised regions in the mainstream industrial economy. Some Member States proposed that the path to promoting industrialisation should be in conformity to each country's comparative advantage.

Member States cited some challenges that were inhibiting them from realising this noble goal. The most common challenges highlighted included: (i) an overreliance on imported raw materials, semi-manufactured and capital goods; (ii) a high dependency on exports of raw resources; and (iii) a dependency on few products and product markets that renders countries vulnerable to external shocks. Given their dependency on imports, Member States indicated that they were often faced with a shortage or unreliable supply of raw materials, or both, which affected productivity. Furthermore, high production costs caused by the high cost of utilities, especially electricity, water and telecommunications, and high transportation costs were also major problems that hindered the progression of industrialisation in the region.

Other challenges identified included weak physical infrastructure and industrial support services; insufficient processing or value addition to raw resources and thus suboptimal employment and export earnings; inadequate critical skills for industry (managerial, technological and engineering capabilities); the high cost of capital; and limited access to export finance. These challenges were exacerbated by the fact that some of the Member States had not yet developed industrial policies to promote the development of industries at the national level.

Regional Industrialisation in SACU Post 2010

Building on these efforts, in 2011 the SACU Heads of State or Government endorsed regional industrialisation as a priority area and an overarching objective of the SACU

Work Programme. They further agreed on the development of regional value chains within SACU. To fast-track the process towards developing regional value chains, the region embarked on a parallel process to identify projects that could be implemented for immediate cross-border collaboration. In 2011, the SACU Member States agreed to prioritise eight sectors as initial areas for cross-border collaboration to support SACU-wide industrialisation.

The identified sectors were:

- a. Textiles, clothing and apparel;
- b. Agro-processing, including agricultural value chains;
- c. Mining and quarrying, including mineral beneficiation and processing;
- d. Leather and leather products;
- e. Automotive, including automotive components;
- f. Renewable/alternative energy;
- g. Arts and crafts; and
- h. Support services (ICT, financial, skills development, infrastructure, transport and logistics, and engineering).

Subsequently, these sectors were reprioritised to facilitate, for four of them, the immediate short-term implementation of collaboration programmes. Considering the complexity and the length of time it would take to develop an all-inclusive, overarching common industrial development policy for SACU, the region agreed on this approach. For example, agro-processing was prioritised for cross-border collaboration in the development of regional value chains. The agro-processing sub-sectors identified were dairy, meat, leather, fruits and vegetables. In addition to the four immediate priority sectors, the region identified the automotive sector as the fifth priority one for cross-border collaboration.

The process of advancing this work encompassed various activities, including engagements with regional development finance institutions to solicit their willingness and availability to pursue such projects. In addition, these institutions were involved in considering the technical know-how and resources to conceptualise and roll out the projects.



Recent Developments: Ministerial Work Programme 2017

Because of the asymmetries in the national industrial policies of the respective Member States and the different levels of economic development, it has proven to be a challenge to develop a SACU-wide industrial development policy. As a result, there has been a shift from the initial focus of developing common policies and strategies. The present focus is to support industrial development through the development of public policy interventions and tools that support industrialisation and regional value chains in SACU.

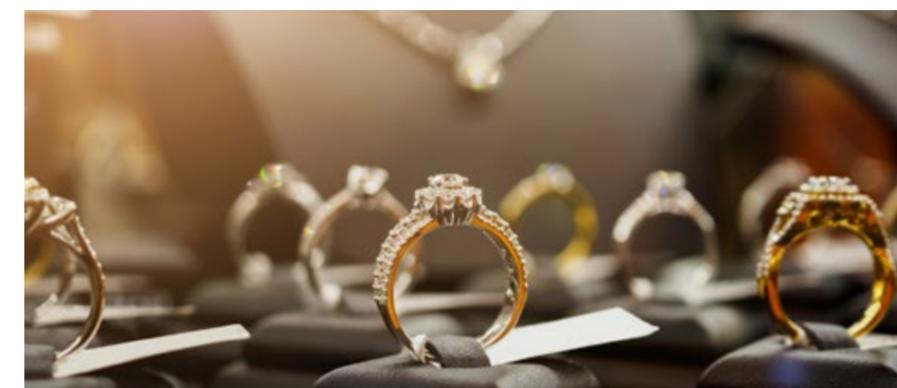
Pursuant to achieving regional industrialisation as an overarching objective for SACU, in June 2016 the Member States reflected on how to reinvigorate and move the SACU agenda forward. It was agreed that criteria and principles to underpin the development of value chains in SACU should be identified. This process led to the establishment of the Ministerial Task Team on Trade and Industry to guide the implementation of the SACU agenda on regional industrialisation (SACU Secretariat, 2017). The Work Programme was endorsed by the 5th Summit of the SACU Heads of State and Government in 2017 and focuses on six key areas, as outlined in Chapter 1.

Public Policy Interventions and Tools and Principles

In advancing the Ministerial Work Programme under this workstream, in June 2018 the SACU Member States adopted broad public policy interventions and tools, principles as well as priority sectors that would underpin regional industrialisation in SACU. Furthermore, the Member States agreed to use the SADC Industrialisation Strategy and Roadmap as the basis for developing work on regional value chains in SACU. Given that SACU Member States are also members of SADC, the proposed approach to use the SADC Industrialisation Strategy would enable Member States to follow a single approach in both organisations.

In relation to public policy interventions and tools, the region has agreed on the following areas:

- a. Trade facilitation and the development of key infrastructure;
- b. Development and harmonisation of standards (standards, technical regulations and quality infrastructure (Standardisation, Quality, Assurance and Metrology);
- c. Research, development and innovation;
- d. Development of relevant skills aligned to sectoral value chains;



- e. Development of cross-border fiscal and economic incentives for the manufacturing sector;
- f. Development of financing/funding mechanisms to support regional value chains; and
- g. Coordination of public procurement policies.

Development of Regional Value Chains

Thus far, the region has identified and endorsed six priority sectors for cross-border collaboration in the development of regional value chains. They are: (i) agro-processing (covering leather and leather products, meat, and fisheries and forestry); (ii) automotive; (iii) mineral beneficiation; (iv) pharmaceuticals and chemicals; (v) textile and clothing; and (vi) trade in services. This prioritised list shows that the sectors of interest for regional collaboration remain to a large extent the same as those that had been proposed in the early stages of implementing this work.

Criteria for Prioritising Sectors

The region has also agreed on criteria to underpin further prioritisation of these priority sectors. These include: (a) small,

micro and medium enterprises and women integration into the value chain; (b) availability of and access to resources; (c) youth employment; (d) upgrading potential; (e) current and future competitiveness; (f) level and segments of participation; (g) complementarities in demand and supply; (h) growth potential; and (i) country risk.

Work is currently continuing to further prioritise two to three of the six agreed sectors and pilot them, and to identify concrete and bankable projects for cross-border regional collaboration.

SADC Industrialisation Agenda

As highlighted in Chapter 4, all the SACU Member States are signatories to the Southern African Development Community (SADC) Protocol on Trade and are therefore parties to the SADC Free Trade Agreement. Through this protocol, the SADC Member States have committed to link the liberalisation of trade to a process of viable industrial development and also to cooperate in the finance, investment as well as other sectors. Industrialisation is prioritised as a major tool for sustainable growth, development and poverty eradication under SADC.

In order to advance work on industrial development, SADC has developed the SADC Industrialization Strategy and Roadmap 2015-2063. This initiative aims to promote the development of an integrated industrial base in SADC through exploiting regional synergies in value-added production and enhancing export competitiveness.

The SACU Member States have agreed to use the SADC Industrialisation Strategy and Roadmap as its basis for advancing SACU's industrialisation agenda. In this regard, the public policy interventions identified by the SACU Member States include, among others, the development of viable national and regional value chains capable of linking SADC with global value chains. This approach will avoid the duplication of efforts in SACU and inform the development of a targeted work programme on regional industrialisation.

Work on industrial development at SADC has advanced and the region has thus far identified its priorities in developing regional value chains. The Member States have prioritised six value chains clusters, namely agro-processing; mineral beneficiation and related mining operations; pharmaceuticals; other consumer goods; capital goods; and services. The SADC region has further prioritised agro-processing, minerals beneficiation and pharmaceutical sectors as top priorities for consideration in advancing work on regional value chains. These sectors are being profiled to identify potential projects across the SADC Member States.

SADC's work on developing regional value chains and linkages to global value chains will add value to the work SACU has done on developing cross-border value chains. In this regard, SACU seeks to establish complementarities, leverage the work initiated by SADC and, in so doing, accelerate the work on regional industrialisation within the southern African region.

SACU'S Industrial Performance

The previous sections have reflected on the work undertaken to advance the objectives of the SACU Agreement in regard to promoting industrialisation in the region. This section employs available data to assess the industrial performance of the SACU Member States over the period 2004 to 2018. It assesses the performance of the main economic sectors, namely agriculture, industry and services, over the review period. It further assesses the performance of the manufacturing sector in each Member State and looks into each country's individual capacity to produce and export manufactured products, and the SACU region as a whole. The country's ability to produce manufactured products is measured by manufacturing value added (MVA) per capita, and the capacity to export is measured by manufactured exports per capita. The section also assesses the industrial competitiveness of the SACU Member States against other countries in the world.



Industry contribution to GDP

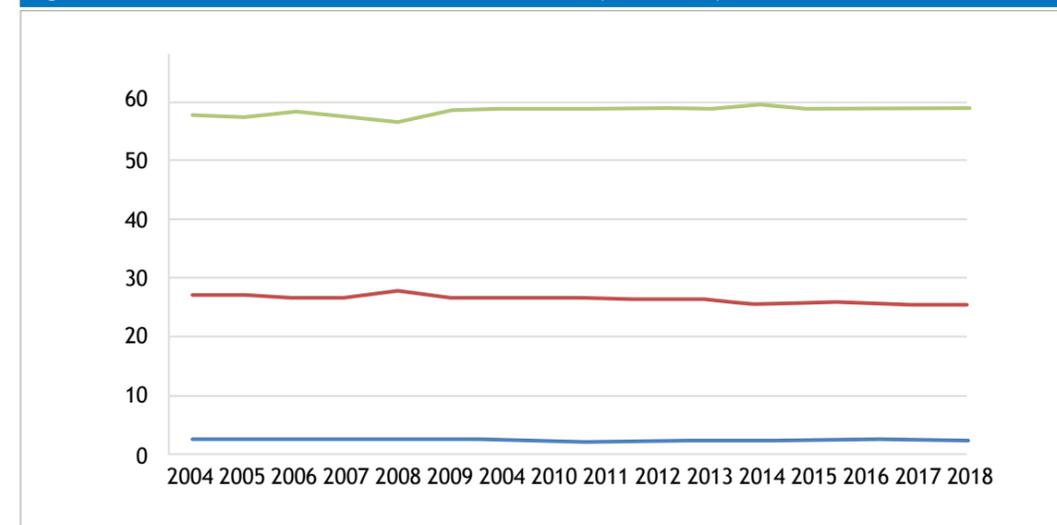
There is a consensus among the SACU Member States that the industrial sector plays a vital role in the economic transformation and development of their economies, hence the concerted efforts to advance the regional industrialisation agenda. An overview of regional trends shows declining shares of the value added by the industry and agriculture sectors over the review period (Figure 1). The share of the value added by the industry sector to GDP declined from 27% in 2004 to 25% in 2019. This declining share depicts deindustrialisation and low levels of industrial activity in the region.

The lack of positive growth in industrial activity is noted despite commitments in development plans and various efforts undertaken by the Member States over the past years to diversify their economies and promote industrialisation. A move by the region to place industrialisation as an overarching objective in the SACU Work Programme and work towards the development of cross-border value chains is therefore envisaged to stimulate industrial growth across the region.

The agricultural sector's share of value added to GDP was 1.9% in 2019, depicting a decline from 2.8% in 2004. The weak performance of the agricultural sector calls for the region to consider operationalising Article 39 on Agriculture Policy (SACU, 2002). Under Article 39, the SACU Member States recognise the importance of the agricultural sector to their economies and have agreed to cooperate to ensure the coordinated development of the agricultural sector in the region. In light of the interlinkages between the agricultural and industry sectors, especially manufacturing and its related value chain activities, coordinated efforts are needed in the region to support the agricultural sector's development. A focus on this sector is also important to ensure food security in the region and reduce the high food import bill in the respective Member States.

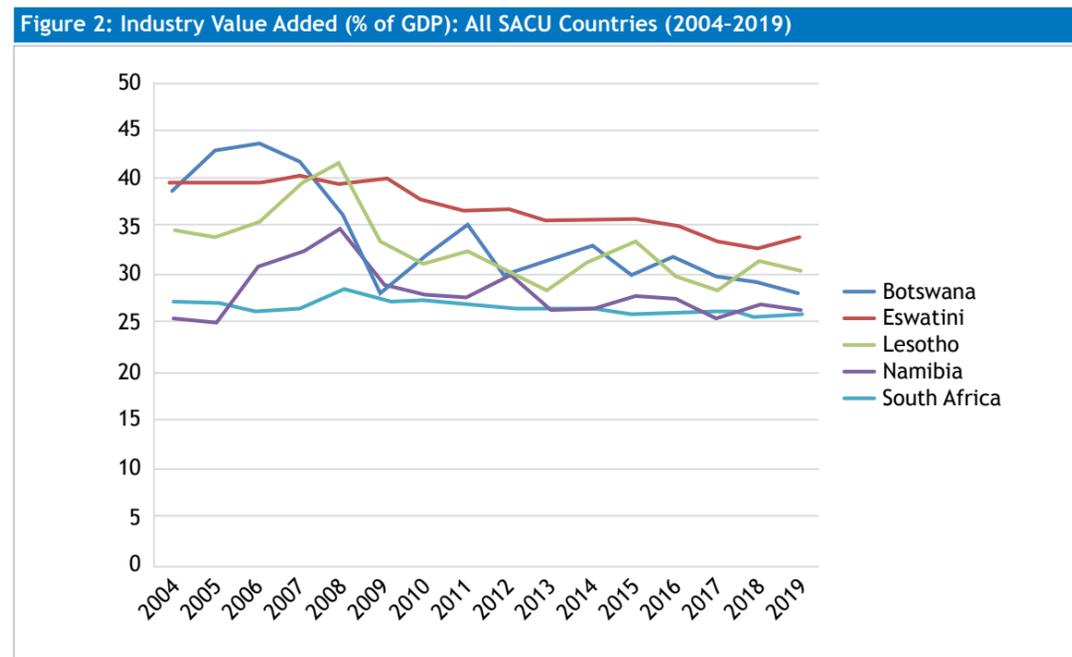
On the other hand, the value added by the services sector to GDP has been significant over the years, outweighing the contribution of both industry and the agriculture sector. The share of value added by the services sector to GDP has increased slightly over the years from 58% in 2004 to 59% in 2019. This positive performance is noted despite there being no coordinated efforts at a regional level to spur growth in the services sector.

Figure 1: SACU Main Sectors - Value Added as % of GDP (2004-2019)



Source: World Bank (2020)

A review of each Member State’s performance in the industry sector depicts an overall decline in industry value added for all of them. Figure 2 shows a sharp decline noted in 2009, which coincides with the global financial crisis in that period. The value added to GDP by the industry sector has been the highest for Eswatini, despite the decline recorded over the years from 39% in 2004 to 33% in 2019. Botswana, Lesotho and Namibia experienced a sharp fall in the value added by industry over the years as well. South Africa has recorded the lowest proportion of value added to GDP by industry.



Source: World Bank (2020)

Industrial Production Capacity

The manufacturing sector is used here as a proxy indicator to assess the performance of the industrial sector in each country. MVA per capita is also used as the basic indicator of a country’s level of industrialisation adjusted for population size. It shows a country’s capacity to add value in the manufacturing process. Table 1 presents the SACU Member States’ MVA for the period 2004 to 2018.

Table 1: Manufacturing Value Added (2004-2018)

	MVA (US\$ million, constant)			Avg. growth rate (%)	MVA per capita (US\$, Constant)			Avg. growth rate (%)
	2004	2010	2018		2004	2010	2018	
Botswana	500	817	134 1	6.3	273	405	486	4.4
Eswatini	114 1	441 1	837 1	3.8	018 1	198 1	320 1	2.1
Lesotho	312	299	325	0.5	161	147	143	-0.6
Namibia	020 1	408 1	607 1	3.4	508	648	621	1.6
South Africa	481 42	994 48	376 52	1.6	880	950	912	0.3
SACU	482 40	959 52	278 57	1.7	824	897	868	0.5

Source: World Bank (2019), World Development Indicators

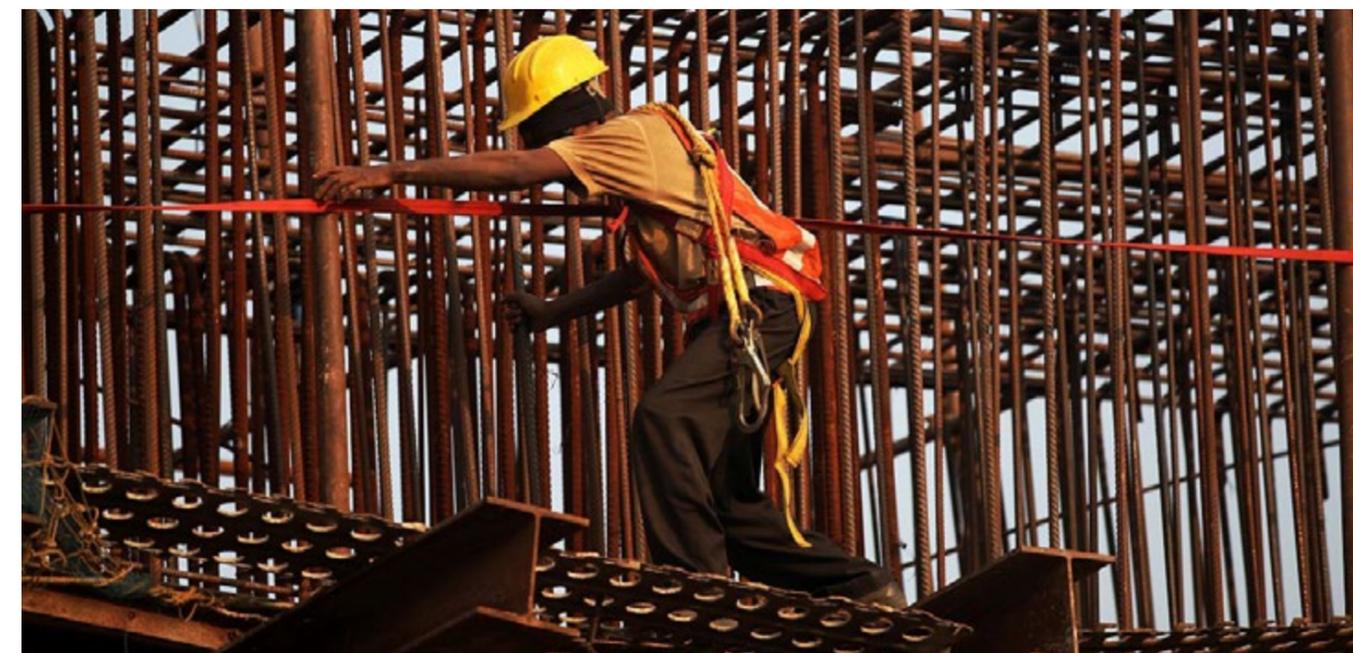
South Africa recorded the highest MVA of US\$52 billion in 2018, followed by Eswatini at US\$1.8 billion and Botswana at US\$1.1 billion. Lesotho recorded the lowest MVA of US\$325 million in 2018. Overall, the MVA for SACU stood at US\$57 billion in 2018, an increase from the US\$40 billion recorded in 2004. As evident from Table 2, over 90% of the MVA in SACU is accounted for by South Africa, the biggest economy in the region.

In terms of MVA average growth rates, Botswana recorded the highest at 6.3%. This could be attributed to increased diamond-processing activities following the relocation of the De Beers diamond processing plant from the UK to Botswana. Eswatini and Namibia followed with average growth rates of 3.8% and 3.4%, respectively. South Africa and Lesotho recorded average growth rates of 1.6% and 0.5%, respectively, thus falling below the SACU average of 1.7%.

In terms of MVA per capita, it is observed that all the SACU Member States except Lesotho recorded an increase in industrial performance. Showing that after discounting for population size, Eswatini recorded the highest increase in industrialisation in the

SACU region. In 2018, Eswatini’s MVA per capita was US\$1 320, which was the highest compared with all the other SACU Member States.

The MVA per capita growth rates show that all the Member States except Lesotho increased their industrial performance during the period under review. However, at 1.7%, the average MVA growth rate for the region is low. In addition, when industrial performance is measured through MVA per capita, an average growth rate of 0.5% over the 14 years is not indicative of notable success in SACU Members’ industrialisation performance. In spite of the average low percentage, Botswana recorded the highest industrial performance with an MVA per capita growth rate at 4.4%, followed by a relatively high industrial growth performance in Eswatini at 2.1%. At 1.6% over the period 2004 to 2018, Namibia’s industrial performance measured with MVA per capita is three times higher than the region’s overall average 0.5%. South Africa, which recorded an MVA per capita growth rate of 0.3%, is below the SACU average rate of 0.5%. Lesotho’s record of a negative 0.6% MVA per capita during the period 2004 to 2018 depicts a weakening industrial performance.



The State of Competitive Industrial Performance

The United Nations Industrial Development Organization’s competitive industrial performance (CIP) index is also used in this chapter to further assess the SACU Member States’ industrial performance. This CIP index ranks countries according to their ability to produce and export manufactured goods in a competitive world market. It assesses and benchmarks industrial competitiveness across economies and provides valuable information on the strengths and weaknesses of national manufacturing sectors (UNIDO, 2018).

Table 2 presents the SACU Member States’ CIP. For all the years assessed, the CIP ranking covered more than 140 countries. Table 3 shows that the top five most industrially competitive countries in 2017 were Germany, Japan, China, the Republic of South Korea and the US. The performance of China and South Korea is worth noting over this period. The two countries have become more successful in industrial competitiveness internationally, moving from positions 22 and 12, respectively, in 2000 to position 3 and 4 in 2017. Both surpassed the US in the ranking.

The CIP rankings for the SACU Member States in general reflects a weakening in the competitive industrial performance for all the countries over the period 2000 to 2017. The highest-ranked SACU country is South Africa at position 45 in 2017, a decline from position 40 in 2000. Eswatini moved down 11 ranks from position 70 in 2000 to 81 in 2017. Botswana’s ranking has been fluctuating over the years under review, but also reflects a decline in ranking from 76th in 2000 to 88 in 2017.

Looking at the trends over the period 2004 to 2019, the CIP rankings based on the 2005 and 2017 rankings reflects an improvement in industrial performance for Botswana. Eswatini and South Africa, on the other hand, recorded a decline in industrial performance during the same period. Data is not available to cover all the years for Lesotho and Namibia, but for the years available they also experienced a decline in ranking. Both South Africa and Botswana were stable between 2015 and 2017, maintaining rankings of 45 and 88, respectively. Eswatini improved from number 84 in 2015 to 81 in 2017.

Compared with the other African countries, the SACU Member States are doing relatively better. South Africa is the highest ranked among all the African countries. SACU fares better than many sub-Saharan African countries - in 2017, for example, Nigeria, Kenya and Rwanda are ranked 102, 112 and 139, respectively.

Table 2: SACU CIP Rankings among Selected Countries (2000-2017)

2017 Ranking	CIP Index 2017	Country	2015 Ranking	2010 Ranking	2005 Ranking	2000 Ranking
1 →	0.515	Germany	1 →	1 →	1 ↑	2
2 →	0.404	Japan	2 →	2 →	2 ↓	1
3 ↑	0.369	China	4 ↑	7 ↑	19 ↑	22
4 ↑	0.365	South Korea	5 ↓	4 ↑	6 ↑	12
5 ↓	0.355	United States	3 →	3 →	3 →	3
45 →	0.068	South Africa	45 ↓	39 ↑	40 →	40
81 ↑	0.026	Eswatini	84 ↑	88 ↓	80 ↓	70
88 →	0.021	Botswana	88 ↑	90 ↑	95 ↓	76
NA	NA	Lesotho	NA	110 ↓	102 ↑	114
97 ↓	0.015	Namibia	93	NA	NA	NA

Source: UNIDO Competitiveness Industrial Performance Reports (2014, 2018 and 2019)

Manufactured Export Capacity

In a globalising world, the capacity to export is a key ingredient for economic growth and competitiveness. Manufactured exports per capita are the basic indicator of trade competitiveness, as it shows the capacity of countries to meet global demands for manufactured goods in a highly competitive and changing environment. Rising share of manufactured exports to GDP show increasing performance in industrialisation.

Table 3: Manufactured Exports, 2004-2018-2018

	Manufactured exports (US\$ million, constant)			Avg growth rate (%)	Manufactured exports per capita (US\$)			Avg growth rate (%)
	2004	2010	2018	2004-2018	2004	2010	2018	2004-2018
Botswana	3 394	4 398	6 334	5.5	1 885	2 183	2 715	3.8
Eswatini	1 430	1 731	1 827	16.4	1306	1 439	1 313	14.6
Lesotho	537	781	1 226	9.1	278	383	542	7.9
Namibia	1 335	3 136	2 345	13.9	665	1 443	906	12
South Africa	27 581	28 532	61 795	8.7	572	1 135	1 077	7.1
SACU	34 277	68 579	73 527	8.3	622	1 162	1 114	6.7

Source: World Bank (2020), World Integrated Trade Solutions (WITS)

Table 3 shows that there has been an increase in the exports of manufactured products in all the SACU Member States during the period 2004 to 2018, with South Africa accounting for significantly over half of the region’s exports. In 2018, South Africa recorded the highest manufactured exports at US\$62 billion, followed by Botswana and Namibia at US\$6 billion and US\$2 billion, respectively. Lesotho recorded the lowest level of manufactured exports at US\$1.2 billion in 2018. Overall, SACU manufactured exports more than doubled from US\$34 billion in 2004 to US\$74 billion in 2018, mainly attributed to the positive performance in South Africa.

Eswatini recorded the highest average annual growth rate in manufactured exports of 16.4% over the 14-year period, followed by Namibia with an average growth rate of 13.9%. Lesotho and South Africa’s annual average growth rates in manufactured exports stood at 9.1% and 8.7%, respectively. Botswana recorded the lowest annual growth rate in manufactured exports at 5.5%. The overall SACU annual growth rate stood at 8.3%.

When the population size is considered, Botswana recorded the highest manufactured exports per capita of US\$1 885 in 2004 and it increased significantly to US\$2 715 in 2018. Eswatini was in second place with manufactured exports per capita of US\$1 306 in 2004 and US\$1 313 in 2018. On average, Eswatini recorded the highest manufactured exports per capita annual growth rate at 14.6%, followed by Namibia, Lesotho and South Africa at 12%, 7.9% and 7.1%, respectively. Overall, SACU registered an average annual growth rate of 6.2%.



Conclusion

The regional industrialisation journey for SACU in the 15 years from 2004 to 2019 started with a need to develop a common industrial policy as provided for in the SACU Agreement of 2002. The agreement also made a provision for instruments that would support industrialisation at Member State level, including ones on Protection of Infant Industries and Application of Rebates, Refunds or Drawbacks. The agreement further made provisions for cooperation and the development of supporting policies such as an Agricultural Policy, Competition Policy and Unfair Trade Practices, all of which, if developed, would also stimulate industrial growth.

However, due to asymmetries in levels of development, a policy shift was engendered to focus on public policy interventions and tools that support industrialisation and the development of regional value chains. Currently, SACU has identified and endorsed six priority sectors for cross-border collaboration in the development of regional value chains as well as the criteria to underpin further prioritisation of these sectors. Of the six priority sectors, work is currently continuing to further prioritise two to three of these sectors and pilot them in order to identify concrete and bankable projects for cross-border regional collaboration.

The industrial performance in SACU remains mixed. South Africa remains the most industrialised Member State, followed by Botswana and Namibia. The trends on the shares of value added by industry to GDP depict deindustrialisation for all the Member States. On the other hand, an overall rising share of manufactured exports to GDP is observed in most Member States, signalling positive performance in the industrial sector. The growth rate is, however, considered low given the level of commitment and effort that the Member States have put towards regional industrialisation and the diversification of their economies.

The CIP index also reflects a weakening industrial performance for the Member States over the review period, although the index shows a good industrial performance by South Africa compared with other African countries.

In general, there is a need for more concerted efforts to be undertaken to foster industrialisation across the SACU region. The Member States need to develop a common vision towards regional industrialisation that is outward-looking, rather than continue implementing inward-looking national industrial policies and initiatives. All the Member States need to create an effective environment geared towards promoting cross-border value chains. Cooperation and the harmonisation of programmes between SADC and SACU would be very important in this regard to avoid the duplication of efforts and ensure the efficient use of limited resources both financial and human. This approach will also enable the SACU region to leverage the progress made, accelerate the industrialisation process at the broader SADC level and, eventually, feed into the continental industrialisation agenda.

Regional industrialisation requires the involvement of various stakeholders including the government, private sector (industry), finance and development institutions, and chambers of commerce and industry. Collaboration among these players should be a key element towards progressing and making this ambition a success. This will ensure coherence in initiatives undertaken, including the development of policy frameworks, regulations and project planning, among others.

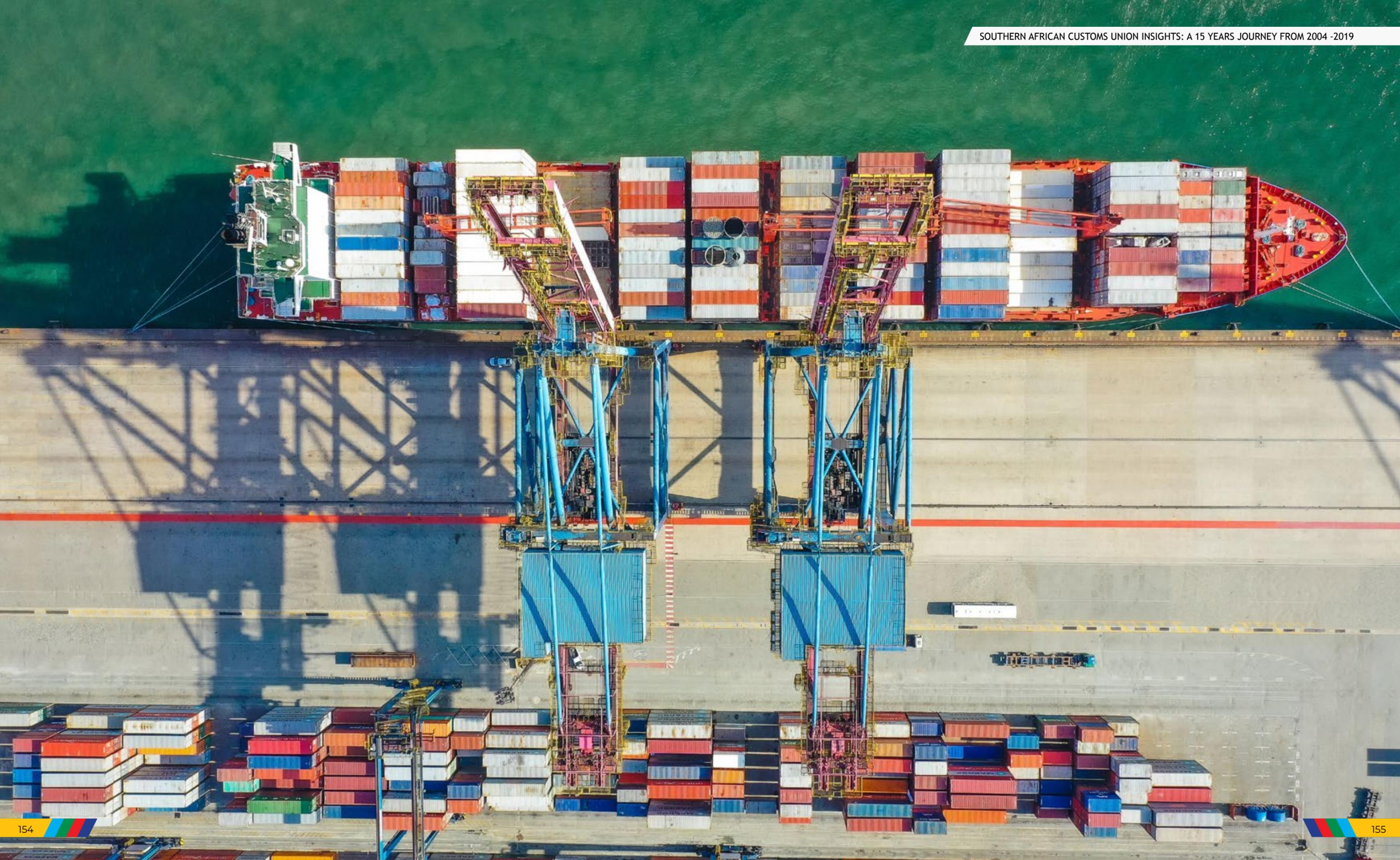
Going forward, with the advancements in technology, the SACU Member States would need to consider how to embrace the use of digital technologies in enhancing industrial development.

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SACU Secretariat Staff after the visit of His Excellency Dr. Seretse Khama Ian Khama, the President of Botswana to the SACU Headquarters on 5th February 2018 in Windhoek, Namibia





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