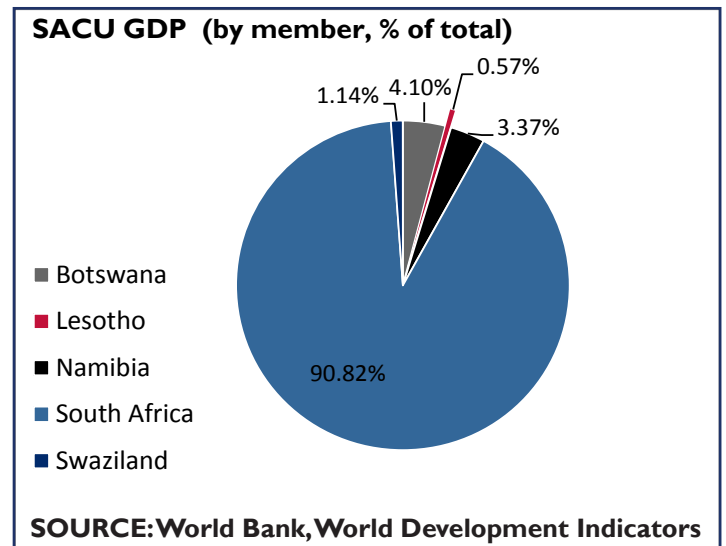


TRADE IN THE SOUTHERN AFRICAN CUSTOMS UNION (SACU)

OVERVIEW OF SACU

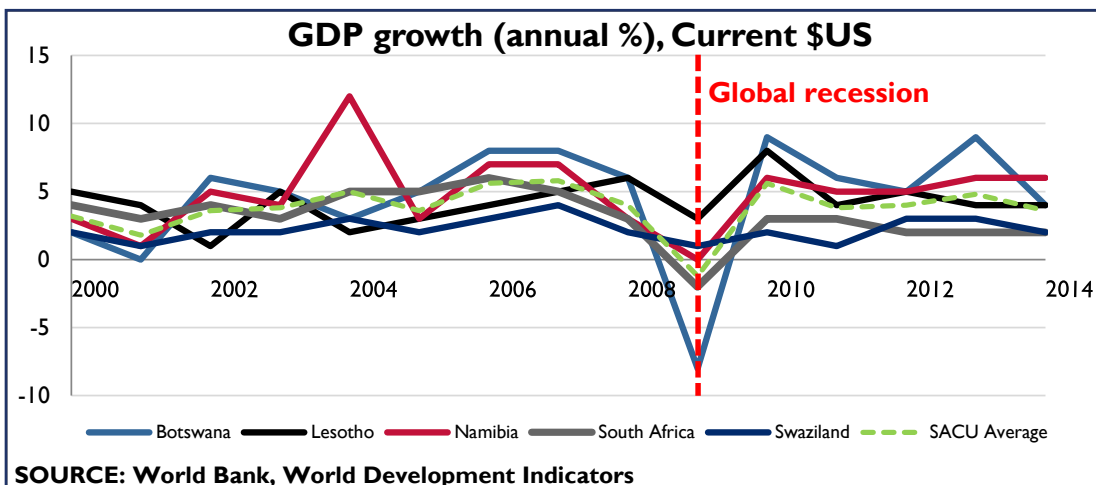
The Southern African Customs Union (SACU) emerged in its modern form as a result of a June 29, 1910 agreement. It is based on an earlier trade openness agreement established by the 1889 Customs Union Convention between the then British Colony of Cape of Good Hope and the Orange Free State Boer Republic. It is the world's oldest customs union. The five countries comprising SACU are: Botswana, Lesotho, Namibia, South Africa and Swaziland. All members maintain a common external tariff on all goods imported into the union in addition to sharing a common pool of customs revenues. Moreover, members enjoy duty-free movement of manufactured products, not subject to any quantities restrictions, within the union.

This analytical brief surveys the role trade has played in SACU since 2000, highlighting, in part, each member economy's performance following the global recession brought about by the 2008 financial crisis. The analysis investigates trade patterns, primarily from 2000 through 2015, in an attempt to understand the evolution of SACU's relationships with other regional partners. Additionally, the analysis examines the United States' efforts in promoting trade capacity building in the region as well as the trade relationship between the region and the U.S. More specifically, the analysis provides an overview of U.S. imports from SACU for goods eligible under the African Growth and Opportunity Act (AGOA).



SACU PERFORMANCE ON KEY ECONOMIC INDICATORS RELATED TO TRADE

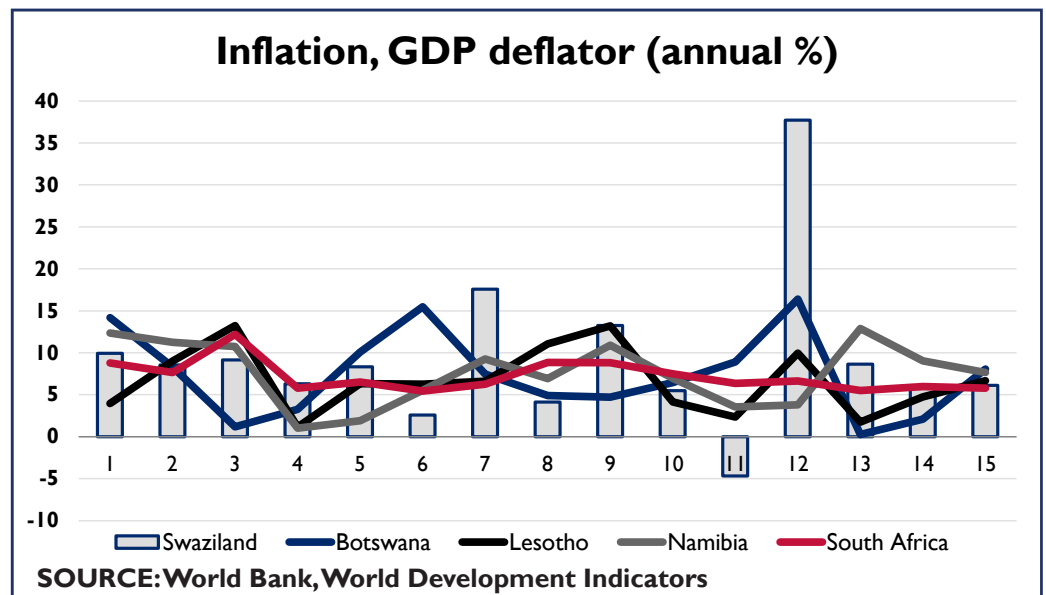
GDP GROWTH AND INFLATION



With a GDP of \$350.1 billion in 2014, South Africa accounted for 90.8 percent of SACU's combined GDP of \$385.5 billion. The next largest contributor, Botswana, contributed 4.1 percent or \$15.8 billion, to SACU's collective GDP while Namibia, at \$13 billion, contributed 3.4 percent.

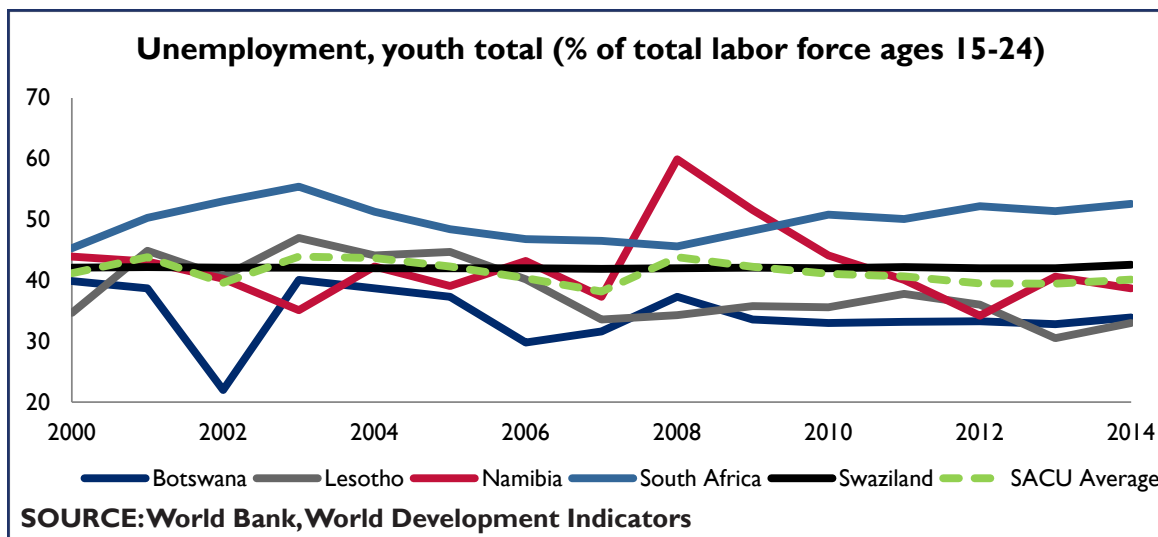


The region as a whole averaged 3.8 percent annual growth from 2000 to 2014. Namibia, at 4.9 percent, posted the most impressive performance in SACU followed by Botswana, whose economy grew by 4.6 percent per year over the same period. Lesotho, South Africa, and Swaziland grew at 4.2, 3.2, and 2.3 percent per year, respectively. Meanwhile, inflation among member countries mostly remained between 0 and 15 percent per year over the fifteen years surveyed. Only Swaziland experienced inflation significantly outside of the stated range, reaching 37.7 percent in 2011 (World Bank, World Development Indicators).



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EMPLOYMENT



SACU has struggled with issues of unemployment over the 2000-2014 period. Youth employment has especially suffered, averaging 41.3 percent. As should be expected, youth unemployment increased the most in 2008 with a 5.6 percentage point spike to 43.8 percent. The

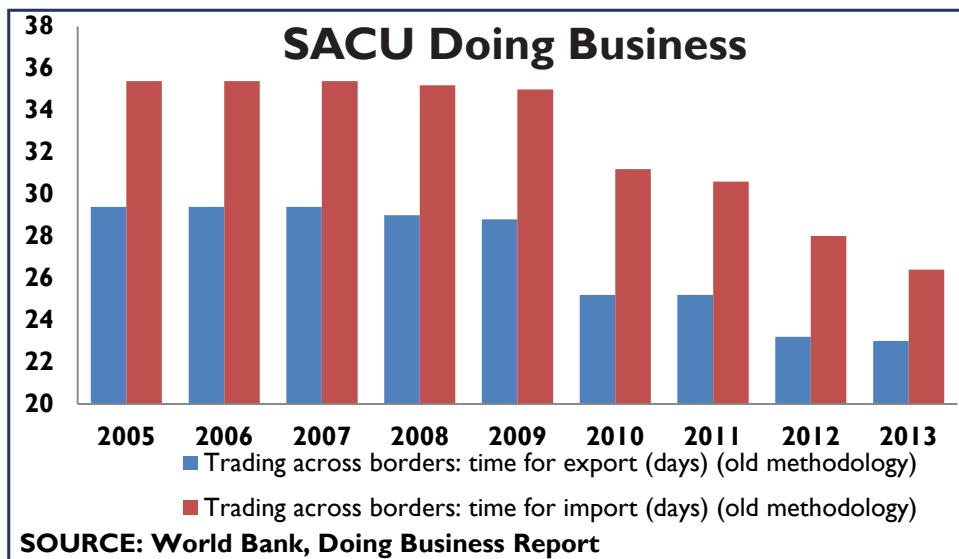
story has varied from country to country, though not necessarily drastically from year to year. Namibia suffered the most notable increase in youth unemployment during 2008, up 22.6 percentage points from the previous year. By contrast, Botswana, with the next most pronounced increase in the same period, saw youth unemployment spike by 5.7 points while Lesotho and Swaziland experienced changes of 0.7 and 0.1 points, respectively. South Africa was the only SACU member for whom youth unemployment decreased slightly, by 0.9 percentage points, in 2008 (World Bank, World Development Indicators).

EASE OF DOING BUSINESS INDICATORS

SACU made improvements in trade efficiency over the last decade. For instance, according to the World Bank's Doing Business 2016 report, the cost to export in SACU countries, measured in \$US per container, decreased from an average of \$2,723.72

in 2005 to \$2,015.34 in 2013.

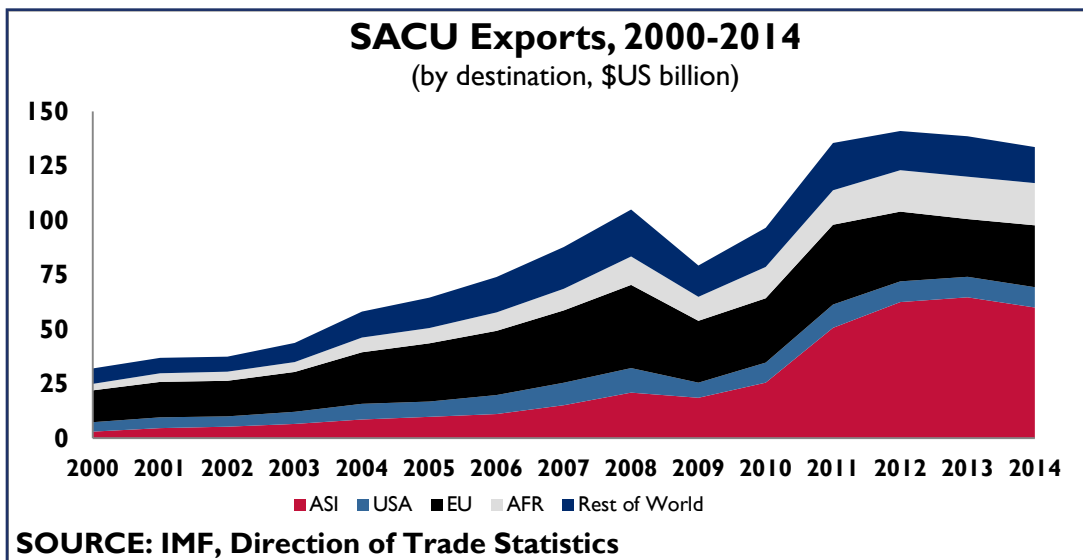
Similarly, the time to export as well as import by member countries decreased on average by 6 days for the former and 9 days for the latter. Lesotho improved the most in terms of days to import, reduced by 13 days, and days to export, reduced by 16 days. Swaziland made the biggest strides in reducing the cost to export in absolute terms, by \$1,372.10, and in percentage terms, by 65 percent.



SACU TRADE WITH REGIONAL AND GLOBAL PARTNERS

EXPORTS SINCE 2000

Data from the IMF, Direction of Trade Statistics database reveals a significant increase in the value of exports from SACU since 2000. Exports are broken down by five partner regions: Asia (ASI), the United States (US), the European Union (EU), Sub-Saharan Africa (AFR), and the Rest of the world. ASI and AFR groupings are based on USAID regional groupings. Broken down by destination, total exports steadily increased for each partner region up to the global recession in 2008. Nevertheless, the region recovered fairly rapidly as the total value of exports, expressed in current \$US, rebounded to \$135 billion by 2011, a 29 percent improvement over 2008 figures. While exports to all the major regions listed increased, the rankings of SACU's preferred export partners have undergone a major reorganization since 2000. The European Union (EU), which received at least 40 percent of annual SACU exports from 2001 to 2006, experienced the most noticeable change as the proportion of exports destined for its economies decreased to 21 percent by 2014. The proportion of SACU exports destined for Sub-Saharan African economies averaged roughly 12 percent over the same period while the U.S. received, on average, 10 percent of all exports from the region. Asia emerged as the favorite destination from SACU exports as it attracted 45 percent of total exports in 2014. In all, the total value of exports from SACU, in current \$US, grew by 262 percent from 2001 to 2014. South Africa alone provided, on average, 92 percent of total SACU exports to the world per year (IMF, Direction of Trade Statistics).



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TOP EXPORT PARTNERS

The rise of Asia as the preferred destination for SACU exports can be explained mainly by the region's involvement with China and, to a lesser extent, India. Together, these two countries received 87 percent of SACU exports destined for Asia. Exports to China alone were valued at \$45 billion or one third of the total value of all SACU exports in 2014 (IMF, Direction of Trade Statistics). The UN Comtrade database, which provides more detail than the aggregate amounts provided by the IMF, Direction of Trade Statistics database, designates roughly \$27 billion (59 percent) of total SACU merchandise exports to China in 2014 as Commodities and transactions not classified elsewhere in SITC,¹ all of which are from South Africa. This category is not further decomposed in the UN Comtrade database except for the \$5 million subcategorized as gold, non-monetary (excluding gold ores and concentrates).

Crude materials, inedible, except fuels (mostly metalliferous ores and metal scrap and 96 percent coming from South Africa) were valued at \$ 8.2 billion (18 percent of the total). Manufactured goods classified chiefly by material, at \$8.7 billion, amounted to 19 percent of the total. These manufactured goods are further decomposed into three main subcategories: non-metallic mineral manufactures, non-ferrous metals and iron and steel.

China is also the main source of goods and services imported by SACU countries, valued at \$ 16.5 billion for 2014. 37 percent of these imports consist of machinery and transport equipment, the primary subcategories of which include telecommunications and sound-recording equipment, electrical machinery and appliances, general industrial machinery and machine parts, and road vehicles. Miscellaneous manufactured articles, mostly articles of apparel and clothing accessories, footwear and furniture and parts thereof, accounted for 31 percent of total imports. Manufactured goods classified chiefly by material, mostly textile yarn, fabrics, and related products, along with manufactures and household items of base metal, made up 22 percent of total imports in 2014 (UN Comtrade).

Although South Africa would rank as a top trading partner for other SACU members, it is excluded from table I considering that a more detailed analysis of SACU intra-regional trade is provided in the sequent section. This leaves Mozambique and Zambia, which each imported a little over \$ 3 billion from SACU in 2014, as the region's only top partners from Sub-Saharan Africa. Unsurprisingly, these are in close geographic proximity to some SACU members.

SACU INTRA-REGIONAL TRADE

South Africa, SACU's largest economy, exported roughly \$ 9.8 billion to the other member countries in 2015. Most of the South African goods traded within SACU borders were: machinery and transport equipment, mainly subcategorized under road motor vehicles and electrical machinery and appliances (\$ 2.5 billion); manufactured goods classified chiefly by material, iron and steel and other manufactures of metal along with textile yarn and fabrics for the most part, (\$ 1.9 billion); minerals fuels, lubricants and related materials, mainly comprised of petroleum and petroleum products (\$ 1.6 billion), and food and live animals, mainly fruits and vegetables and cereals and cereal preparations (\$ 1.4 billion). South Africa's exports in 2015 by SACU partner were as follows: Botswana (\$ 3.8 billion), Namibia (\$ 3.8 billion), and Swaziland (\$ 1.2 billion) Lesotho (\$ 1 billion) (UN

¹SITC: Standard International Trade Classification

2014 Top export destinations		2014 Top import sources	
China (P.R.C.)	45.3	China (P.R.C.)	16.5
United States	9.5	Germany	9.6
United Kingdom	7.5	Saudi Arabia	7.2
India	7.2	United States	6.8
Japan	5.7	India	5.8
Belgium	5.6	Nigeria	5.1
Germany	5.3	United Kingdom	3.4
Netherlands	3.5	Japan	3.3
Mozambique	3.4	Netherlands	2.7
Zambia	3.2	Italy	2.7

SOURCE: World Bank, World Development Indicators

Comtrade).

Namibia's exports to the other SACU members totaled \$ 1.8 billion in 2014, down from 2.6 billion in 2013. In 2014, 43 percent of Namibia's exports to the other SACU members went to South Africa and 55 percent went to Botswana. Namibia was the only SACU economy for which South Africa was not the biggest export partner in 2014. In 2000, however, South Africa received roughly 98 percent of all SACU exports from Namibia. The value of manufactured goods classified chiefly by material, 99 percent of which is comprised of diamonds, not industrial, not set or strung, exported to Botswana from Namibia rose from \$ 99 thousand in 2000 to \$ 905 million in 2014 (UN Comtrade).

Botswana exported \$ 1.5 billion to the other SACU members in 2014, up from 993 million in 2013. 61 percent of Botswana's SACU exports went to South Africa and 38 percent to Namibia. Namibia went from receiving 2.7 percent of Botswana's exports in 2000 to capturing close to 40 percent in 2014. This is due to the considerable increase in the value of manufactured goods classified chiefly by material, also mainly nonindustrial loose diamonds, from \$ 485 thousand in 2000 to \$ 557 million in 2014 (UN Comtrade).

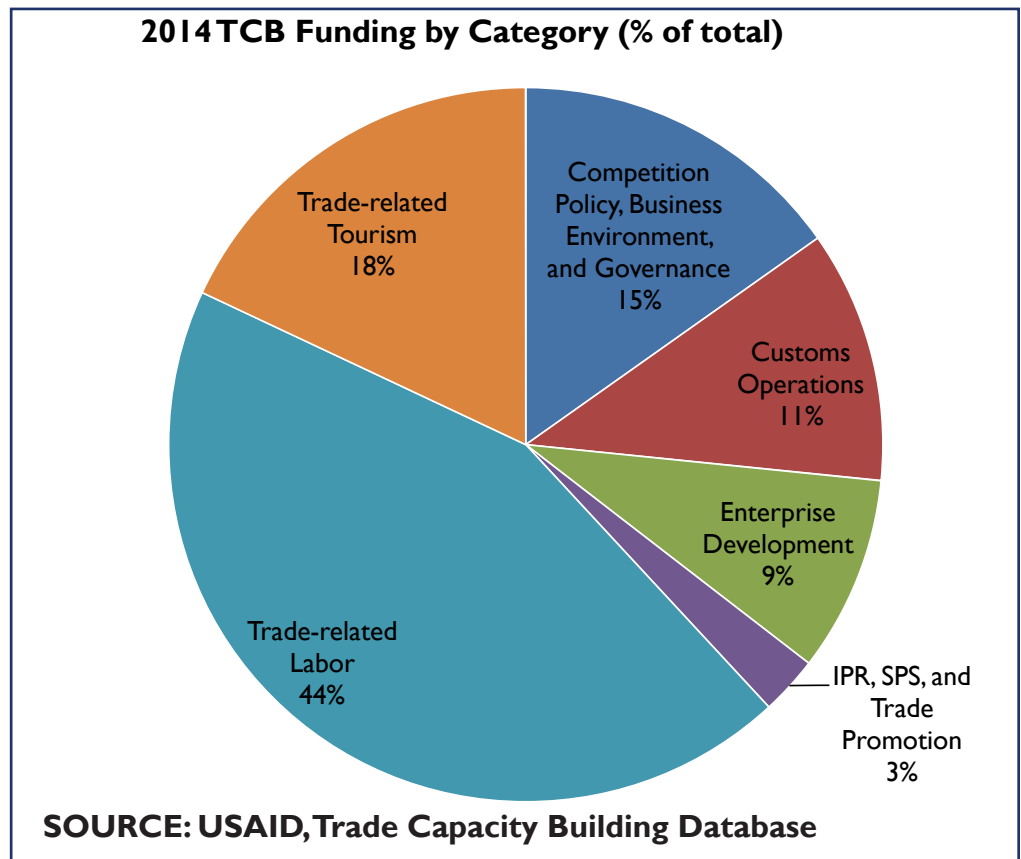
As for Swaziland, the latest figures from the UN Comtrade database, last reported in 2007, indicate 924 million in total exports to the other SACU members, 96 percent of which went to South Africa. These were mostly perfume materials, toilet and cleansing preparations as well as chemical products and preparations. Lesotho, with SACU exports totaling \$ 327 million in 2012, the last year reported, sent 98 percent of its goods to South Africa that year.

US TRADE RELATIONSHIP WITH SACU

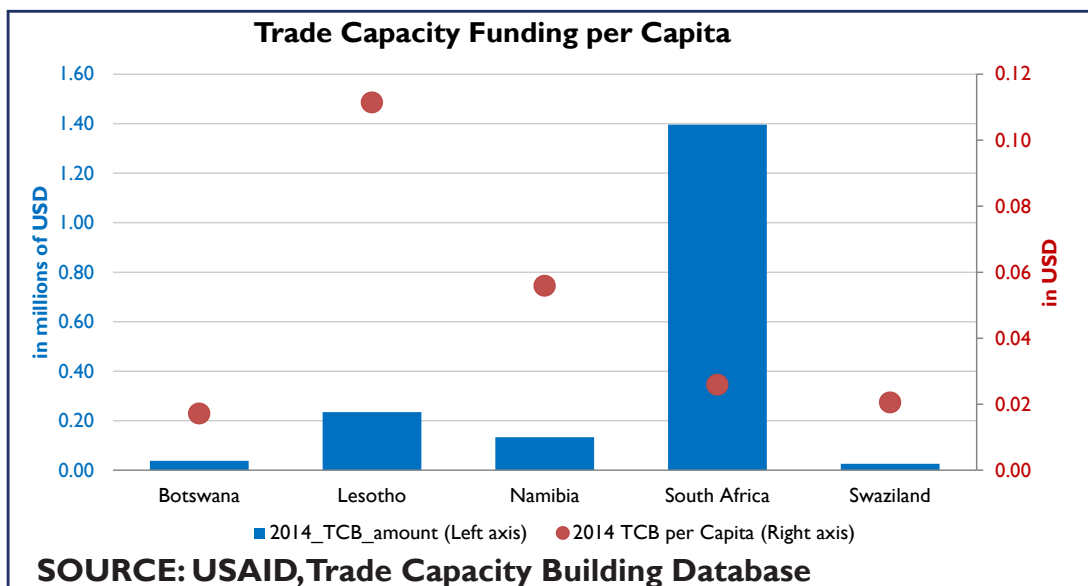
On 16 July 2008, SACU Trade ministers and the US Trade Representative signed a Trade and Investment Development Cooperation Agreement (TIDCA) after previous Free Trade Agreement (FTA) negotiations between the United and State and SACU were suspended in 2006. According to the US Trade Representative, "divergent views on the scope and level of ambition for a FTA" were to blame. The TIDCA is meant to serve as a vehicle for continued collaboration between the two parties to solidify a foundation for future collaboration, particularly keeping as its long-term goal a future FTA.

USG TCB EFFORTS IN SACU

Meanwhile, the United States Government (USG) has promoted other trade enhancing measures in SACU countries. Bilateral USG trade capacity building efforts in SACU countries from FY1999 to FY2014 totaled \$ 288 million. Roughly 27 percent of this amount went to fund Trade-related Infrastructure while the next



sizable amount, 21 percent, went towards improving capacities in Trade-related Tourism. The next major focus of USG efforts has been in the areas of Competition Policy, Business Environment, and Governance, to which 13 percent of total TCB funds were devoted. Broken down by country, bilateral USG TCB allocation since FY1999 heavily favored Namibia which benefited from \$ 147 million (51 percent of bilateral U.S. TCB funds in



SACU countries). This includes \$ 134 million from the Millennium Challenge Corporation. The MCC Namibia Compact primarily supported the development of trade capacity building efforts in ecotourism. Lesotho was the second largest recipient of bilateral USG TCB funding among SACU countries over this period with \$ 78 million (27 percent) (USAID, Trade Capacity Building Database).

While an overall assessment of the trade capacity building figures over the surveyed period provides a broad scope of U.S. priorities in the region, a reading of more recent allocation of that funding by category can provide some insight into understanding how priorities may have shifted overtime. For instance, the FY2014 TCB data reveals Trade-related Labor as the main focus of bilateral U.S. trade capacity building efforts in SACU, accounting for 44 percent of the \$ 1.8 billion in bilateral TCB funds. Looking at individual countries, Lesotho received the most funding per capita followed by Namibia. South Africa received the most funding in absolute terms with close to \$ 1.4 million (USAID, Trade Capacity Building Database).

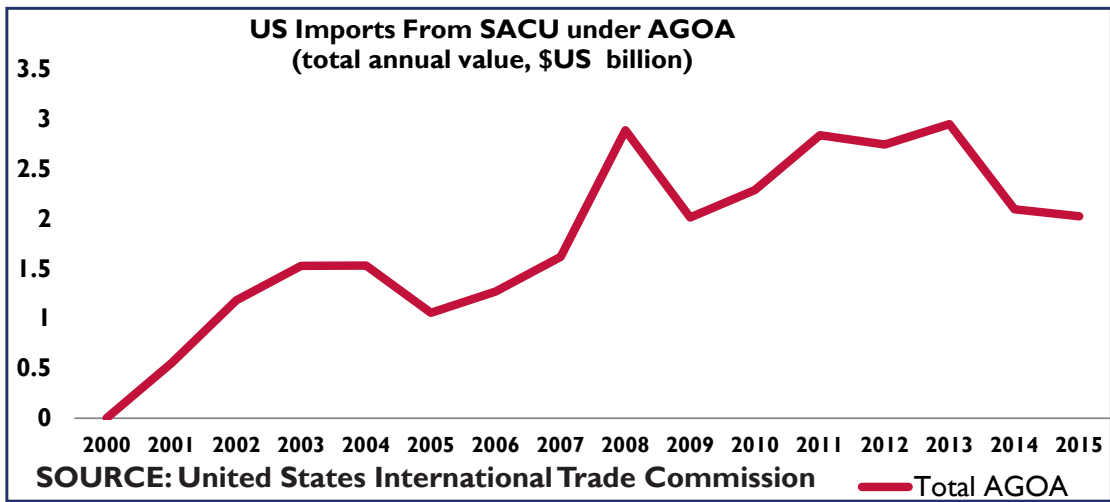
One of the most notable USG efforts affecting SACU, the USAID Southern Africa Trade Hub (SATH): Enhancing Economic Growth and Food Security through Trade, launched in November 2010 with the goal of supporting intra-regional trade, boosting international competitiveness and improving food security in the Southern African Development Community (SADC), of which all SACU countries are members. The SATH builds on previous trade hubs established in 2002 by the US Africa Growth and Opportunities Act (AGOA). AGOA, whose primary goal was to boost exports under USAID's Trade Hub, has evolved to include work meant to support new initiatives within the region. Such work includes support for regional integration and increased trade capacity of regional value chains in selected areas related to Trade Facilitation, Agricultural Value Chains, Textiles and Apparels, Clean energy, and Enabling Environment. Perhaps notably, the only Sub-Saharan economies ranked among SACU's top ten export partners, Mozambique and Zambia, are also beneficiaries of SATH.

US-SACU TRADE

Total (two-way) trade between the United States and SACU was estimated, in current \$US, at \$16.3 billion in 2014, a 106 percent increase from 2000. 2014 U.S. imports from SACU were \$ 9.5 compared to \$ 4.6 billion in 2000. Likewise, U.S. exports to SACU more than doubled, growing from \$ 3.3 billion in 2000 to \$ 6.8 billion in 2014. About 89 percent of SACU goods destined for the U.S. market in 2014 came from South Africa. South Africa has provided, since 2000, at least 85 percent of the total value of SACU goods sent to the U.S. U.S. imports from SACU in 2014, broken down by member country were: South Africa (\$ 8.5 billion), Lesotho (\$ 373 million), Botswana (\$ 324 million), Namibia (\$ 257 million), and Swaziland (\$ 86 million) (UN Comtrade).

According to UN Comtrade, the \$ 6.8 billion worth of goods exported from the U.S. to SACU in 2014 can be grouped into the following major categories: machinery and transport equipment (\$ 3.5 billion), chemicals and related products (\$ 822 million) and manufactured goods classified chiefly by material (\$ 716 million). U.S. exports of food and live animals totaled \$ 187 million in 2014, down 17 percent from 2013. U.S. exports significantly increased to all but one SACU member. Since 2000, U.S. exports grew for Namibia (by 327 percent), Lesotho (by 183 percent), South Africa (by 106 percent), and Botswana (by 68 percent). For Swaziland, conversely, the total value of U.S. exports diminished by 62 percent between 2000 and 2014. This is due to decreases of 5, 89, and 95 percent respectively in the value of U.S. exports of machinery and transport equipment, miscellaneous manufactured articles, and manufactured goods classified chiefly by material to Swaziland over that period.

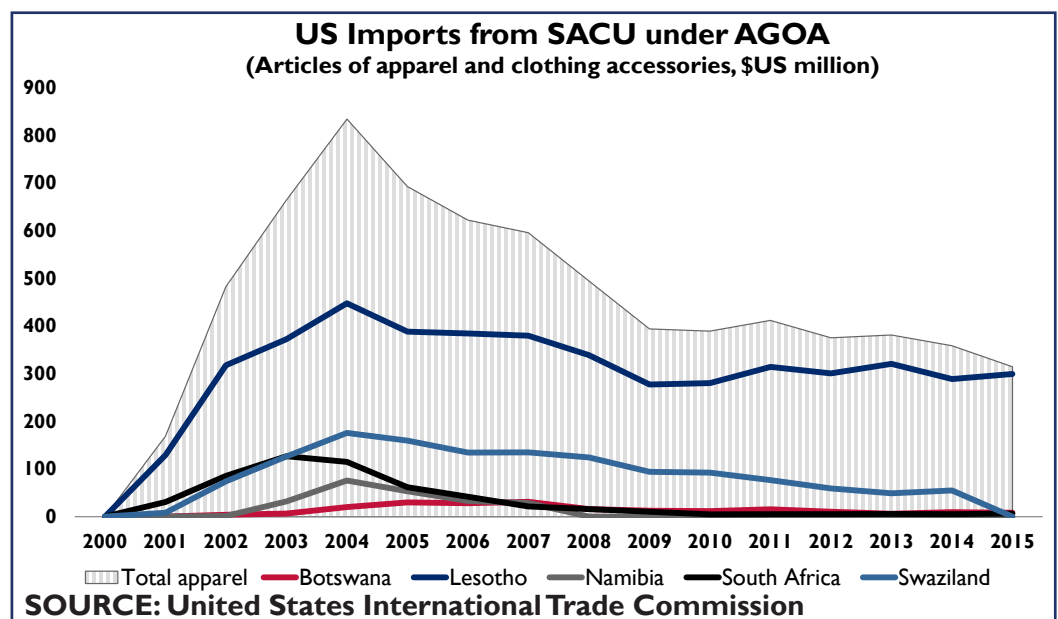
AGOA



The African Growth and Opportunity Act (AGOA) was enacted in May 2000 as Title I of The Trade and Development Act of 2000. AGOA offers incentives for African countries to implement reforms aimed at liberalizing their economies. It affords reforming African economies access to the U.S. market surpassed only by countries or re-

gion with which the United States has a FTA. Through AGOA, eligible Sub-Saharan African economies may export an expansive list of products duty-free to the U.S. market under the Generalized System of Preferences (GSP). AGOA GSP applies to more than 6,400 items as opposed to the approximately 4,600 items covered under general GSP. Although originally intended for 8 years, AGOA was extended through legislative amendments signed by then-President George Bush, to 2015. It has since been renewed to 2025. (US Department of Commerce, International Trade Administration)

U.S. total imports from SACU under AGOA totaled slightly over \$2 billion in 2015 compared to \$555 million in the 2001, the first full year of data under AGOA (which was



signed in May 2000). Articles of apparel and clothing accessories have been the category of goods most exported among member countries. In fact, articles of apparel and clothing accessories have represented virtually 100 percent of U.S. imports from Botswana, Lesotho, Namibia, and Swaziland qualifying under AGOA. In the case of South Africa, articles of apparel and clothing accessories only made up on average 5 percent of yearly imports by the U.S. from that country. The value of U.S. imports for this particular category from all SACU members was estimated at \$314 million in 2015—a sharp drop since it peaked in 2004 at \$834 million. Lesotho leads all SACU members in apparel exports to the U.S. under AGOA, having exported a total value of \$4.8 billion since 2001. Swaziland comes in second place with total goods valued at \$1.4 billion while South Africa, Namibia, and Botswana each respectively contributed \$541 million, \$224 million, and \$209 million to the \$7.2 billion worth of goods classified under articles of apparel and clothing accessories imported by the U.S. from SACU since 2001 (United States International Trade Commission). Articles of apparel and clothing accessories accounted for \$6.9 billion (26 percent) of the \$26.6 billion worth of SACU produced goods imported from 2001 to 2014 into the U.S. under AGOA. Notably, there has been a declining trend for goods traded under this category as they only comprised 17 percent of AGOA-qualifying SACU imports into the U.S. in 2014 and 15 percent in 2015.

The remaining 74 percent, coming virtually entirely from South Africa, are primarily comprised of the following categories: road vehicles (including air-cushion vehicles) (\$1.4 billion), iron and steel (\$2.2 billion), vegetables and fruit (\$1.1 billion), and organic chemicals (\$772 million).

CONCLUSION

Over the period surveyed for this analysis, SACU members made considerable improvements, especially related to increased operational efficiency in trade as well as an overall increase in the value of exports. With respect to the region's trade relationship with the U.S., export values grew considerably for goods eligible under AGOA. However, closer attention is needed to elucidate the reasons for the continued decline in the value of articles of apparel and clothing and accessories as they represent an important piece of SACU's trade with the U.S. U.S. commitment to support TCB efforts in the region, if sustained, could lead to greater benefits from trade for SACU in the future.

For questions or more information, please contact the author of this publication, Francis Muya at fmuya@usaid.gov.
To access the data, please visit the EADS International Data & Economic Analysis (IDEA) website at idea.usaid.gov.

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