

South Africa's way ahead: Shall we Samba?

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Foreword

The Trade Law Centre for Southern Africa (tralac) has in recent years developed a sound analytical base to assess the impact of Free Trade Agreements (FTA), specifically those on the agenda of South Africa and the Southern African Customs Union (SACU). This book focuses on SACU and Mercosur. This relationship is important in terms of the broader south-south configurations in the global economy. South Africa, Brazil and Argentina are key players in important international markets, and also feature prominently in shaping global governance of international trade. South Africa, the regional powerhouse in southern Africa, has articulated a particular preference for concluding free trade agreements with other developing countries. SACU and Mercosur have already concluded a preferential trade agreement, hence looking at the impact of a more comprehensive free trade agreement between these two regional groupings is important.

There is a strong focus in the book on trade in goods, specifically agricultural trade. It is increasingly apparent that the real barriers to trade in goods may well be found among the raft of non-tariff barriers; a review of these factors makes an important contribution to the development of a knowledge base from which policy interventions can be developed. Trade in services as well as trade remedies are included in this review too. Services make an important contribution to developing country economies and play a growing role in international trade, as well as being an important contributor to competitiveness of both agriculture and industry. With this book tralac hopes to contribute to debate and analytical work on the impact of FTAs on the development priorities of the South.

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ACRONYMS

ACP	African, Caribbean and Pacific
ADA	Anti-Dumping Agreement
AGOA	African Growth and Opportunity ACT
AMAD	Agricultural Market Access Database
ASEAN	Association of South-East Asian Nations
AVEs	Ad Valorem Equivalents
BEE	Black Economic Empowerment
BLNS	Botswana, Lesotho, Namibia and Swaziland
CCM	Council of the Common Market
CET	Common External Tariff
CGE	Computer General Equilibrium
CIF	Costs of Freight and Insurance
CMG	Common Market Group
COMESA	Common Market for East and Southern Africa
CPI	Consumer Price Index
EAC	East African Community
EC	European Commission
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
EU	European Union
EV	Equivalent Variation
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FOB	Free on Board
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences

GTAP	Global Trade Analysis Project
HS	Harmonised System
IBSA	India, Brazil and South Africa
ICC	International Chamber of Commerce
ICT	Information and Communications Technology
IFIA	International Federation of Inspection Agencies
ITAC	International Trade Administration Commission
LDC	Least Developed Country
MERCOSUR	Mercado Comun del Sur (in English, Common Market of the South)
MES	Market Economy Status
MFN	Most Favoured Nation
MPS	Market Price Support
MTC	Mercosur Trade Commission
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NFM	Non-Ferrous Metals
NPC	Nominal Protection Coefficient
NRA	Nominal Rate of Assistance
NTBs	Non-Tariff Barriers
NTMs	Non-Tariff Measures
OECD	Organisation for Economic and Cooperation Development
PSE	Producer Support Estimate
PTA	Preferential Trade Agreement
RoO	Rules of Origin
ROW	Rest of the World
RSA	Republic of South Africa
RSF	Revenue Sharing Formula
RTA	Regional Trade Agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community

SCM	Subsidies and Countervailing Measures
SPS	Sanitary and Phytosanitary
SSG	Special Safeguards
STE	State Trading Enterprises
TBT	Technical Barriers to Trade
TCF	Textile, Clothing and Footwear
TDCA	Trade Development and Cooperation Agreement
ToT	Terms Of Trade
TPR	Trade Policy Review
TRQ	Tariff Rate Quotas
UNCTAD	United Nations Conference on Trade and Development
US	United States (of America)
WTA	World Trade Atlas
WTO	World Trade Organisation
XSC	Rest of SACU (Lesotho, Namibia and Swaziland as used in GTAP)

Summary:

The South African trading environment and FTA prospects with Mercosur

Ron Sandrey

Introduction

Like many developing countries, South Africa continues to evaluate its trade policy objectives and options. From an agricultural perspective this is especially important in the wake of the effects of the commodity price spikes of 2008, spikes that undoubtedly benefited South Africa as a resources exporter but provided a mixed picture for the agricultural sector. It is important to keep in mind that agriculture plays several roles in a country like South Africa. While the country has traditionally been a net exporter of agricultural foodstuffs, this is changing as imports are increasing, and especially as these imports are concentrated in staples such as rice and wheat. These changing profiles introduce the second and more fundamental role for agriculture – that of providing a safe, secure and affordable source of foodstuffs for South Africa's citizens.

In recent years South Africa has gone a long way towards liberalising its agricultural policy setting, and it is against this backdrop that tralac has produced its 'South Africa's way ahead' series, in part to ascertain if South Africa is in fact 'way ahead' and/or is in any instance pointing the way ahead. This publication, the third in the series, examines the trading implications of extending the current preferential trading agreement (PTA) between the Southern African Customs Union (SACU) and the Mercado Comun del Sur (Mercosur) to a full free trade agreement (FTA). It concludes that such an FTA is worthy of serious consideration.

Background

The research starts with a section that carefully outlines the background reason for an FTA with an examination of the political, economic and trading regimes for both Mercosur and SACU. For practical purposes, this section largely restricts the main analysis and commentary to the two major Mercosur countries of Argentina and Brazil on the one hand and South Africa on the other, although some background information and summary results for the other SACU and Mercosur members are

provided. This section moves sequentially through the 'big picture' economic and policy settings for the three 'majors' before examining the agricultural production, policy profiles and trade regimes and performances of these countries.

Overall we find that SACU and Mercosur are both important players on their respective continents, and that South Africa's dominance of SACU in terms of population, economic size and share of extra-regional trade is mirrored by a similar dominance of Mercosur by Argentina and, in particular, Brazil. Both SACU and Mercosur conduct the majority of their extra-regional trade with a small group of trading partners, and although trade between SACU and Mercosur has grown steadily but unspectacularly over the last decade it remains at relatively low levels. This trade is nevertheless significant for a number of reasons. The overall pattern of SACU-Mercosur trade shows that SACU's exports to Mercosur consist mostly of primary and intermediary goods such as metals, minerals and chemicals while Mercosur's exports to SACU consist mostly of agricultural products and transport equipment. Examining the current SACU-Mercosur PTA suggests that it is unlikely to lead to significant increases in trade flows between the two regions, but that it is nevertheless important both as a political step towards the conclusion of a more comprehensive FTA, and as a way for both regions to consolidate and deepen their commitments to so-called 'south-south' cooperation.

Focusing on agriculture in the next chapter we find that the three (main) countries have much in common in that they are all significant actors on the global agricultural trade reform stage as highlighted by the rise of the so-called G20 country grouping. This results from their common positions as champions of a more liberal agricultural trading world and their individual and combined weight as lightly supported agricultural exporters and significant emerging nations. Specifically of interest to South Africa, are the many similarities in the production patterns of the three countries. While they are to a large degree competitors in global markets there are also many complementarities in their trade profiles. The European Union (EU) as a single entity is the main source of agricultural imports (as defined by the World Trade Organisation) and including agri-business processed foods for South Africa, but when we treat Mercosur as a similar single entity, we find that the EU's role has been usurped by imports from South America. The importance of the latter is reinforced by a closer look at these imports, revealing that while imports from the EU are largely of

processed products, those from Mercosur are mainly animal feeds such as soya cakes and soya oils for beef and chicken production or staples such as wheat and chicken meat.

The analysis of an FTA

To assist here the internationally accepted benchmark Global Trade Analysis Project (GTAP) global computer model is used as an analytical tool. This is the same model that tralac used in its 2008 'Looking East' analysis of potential Indian and Chinese FTAs, albeit with an updated baseline to reflect the recent global economic downturn. As outlined above, the analysis includes but does not report in detail on the other SACU countries¹. It treats Uruguay and Paraguay (and a possible future member of Mercosur, Venezuela) in the same way. The simulations examine an FTA between SACU and Mercosur that eliminates tariff barriers and a representative but conservative estimate of both non-tariff and services trade barriers between the parties.

The results for the simulated SACU-Mercosur FTA show that there are comfortable welfare gains to South Africa of US\$236 million with real Gross Domestic Product (GDP) increasing by 0.12 percent. Although indicative only, these results suggest that an FTA with Mercosur warrants serious consideration. The gains to South Africa derive from a better use of land, labour and capital (enhanced allocative efficiency), increased net investment increasing the amount of capital employed in the economy, and a small contribution from increased labour employment. On the negative side, these gains are negated by terms of trade that go against South Africa. Essentially the economy becomes more efficient with better capital utilisation in response to more competitive Mercosur imports. This in turn leads to a devaluation of the real exchange rate in South Africa, boosting exports albeit with a terms of trade loss. The South African economy then gains from this devaluation.

An FTA with Mercosur is not so beneficial for the South African agriculture sector, however. Imports of agricultural products increase dramatically – by US\$422 million from Mercosur (with US\$353m of this from Brazil), but trade diversion away from Botswana, Lesotho, Namibia and Swaziland (BLNS) and all other sources (with

¹ This is done in a separate chapter at the end.

reductions of US\$34m and US\$346m respectively) limit the overall increase in imports into South Africa to a lesser US\$140 million. All of the increased imports are in secondary (processed) agricultural products. Exports in the agricultural sector are modest (US\$84m), although on the positive side they largely reflect 'new trade' or trade creation rather than trade diversion. Countering this (from an agricultural but not a consumer perspective), is the finding that there are marginal reductions in the prices of all agricultural products. Overall, when combined with quantity reductions, the decreased value of production in South African agriculture of US\$418 million is significant. Much of this derives from reduced chicken meat and vegetable oilseeds production. This is in turn reflected in a decrease of 0.5 percent in land prices as a result of increased competition from Mercosur's imports. The FTA is thus bad news for farmers, but good news for consumers as the reduced agricultural prices across the board help to lower the consumer price index which in turn contributes to overall welfare gains for South Africa. This means that the winners are the vast majority of South Africans who are consumers, while the losers are mainly the small number of commercial farmers.

The results for the manufacturing sector are better news for South Africa, as despite a reduction in the value of production (US\$146m) in motor vehicle and parts production, there is an increase in the overall value of manufacturing output by US\$388 million. The big gainers are the chemicals, rubber and plastics and non-ferrous metals subsectors. Much of the trade change is trade diversion that largely benefits South Africa. This is especially so in vehicle imports, where imports from Brazil increase by US\$621 million, but with this offset by reductions of US\$616 million from non-FTA partners to give a final increase in vehicle imports of only US\$60 million following the FTA.

Finally, it is notable that overall services output in South Africa increases by US\$214 million, with this mainly being driven by increased demand for services as the production of capital goods and other industries expand production in the South African economy. The total value of services exports also increases by US\$27 million. In the model it is assumed that the services sectors face a 2 percent tariff-equivalent decline in non-tariff barriers in both SACU and Mercosur that is removed by the FTA.

Alternative scenarios

Reviews of the agricultural policy setting for South Africa show that the protection is concentrated in the **sugar sector**. To examine the implications for South Africa of this level of protection we modelled the overall implications of protection to the South African and Swaziland sugar sectors as represented by a 20 percent non-tariff barrier (NTB) tariff equivalent. The simulation scenario now becomes one of reducing that NTB 20 percent tariff equivalent to zero. Liberalisation of the sugar sector as proxied in the model actually reduces welfare in both South Africa and rest of SACU (which includes Swaziland). The reallocation of resources away from the sugar industry does not find a more efficient allocation in the economy as the real GDP declines slightly in South Africa. The 20 percent NTB against imports is therefore welfare enhancing for South Africa when modelled as an ad valorem tariff equivalent at the border with agents capturing rents on the restrictions imposed.

Given that there are factors in play in the motor vehicles sector (both globally and in South Africa) that may override general free-market assumptions, we also simulated a scenario whereby changes to the vehicle sector were constrained. The result suggested that by continuing to protect its motor vehicle sector South Africa is worse off. The final FTA welfare gains are around half of what they could have been, and protecting the motor vehicle sector against Brazilian imports is not in the best interest of South Africa or South African agriculture. South Africa would be foregoing welfare gains by not opening to Mercosur's vehicle imports in the event of an FTA, although we caution that as we have not modelled the tariff rebate system on intermediate inputs into the vehicle sector, our results here overstate the case somewhat.

Non-tariff barriers

As tariffs have been progressively reduced globally, NTBs have become more significant as barriers to trade. NTBs are defined as measures, other than tariffs, which result in the distortion or restriction of trade by imposing additional costs on exporters. They can be classified into five categories: (a) quantitative restrictions and similar limitations aimed at limiting imports or exports; (b) non-tariff charges and related policies including anti-dumping measures and taxes; (c) direct government participation in restrictive trade practices covering instruments such as state-trading

enterprises and trade-distorting competition policy; (d) customs procedures and administration procedures including high transport costs and inspections; and (e) technical barriers to trade such as environmental regulations and labelling requirements.

A dedicated chapter undertakes a literature review of the NTBs relevant to this current research. The World Trade Organisation (WTO) Policy Reviews of Argentina and Brazil show that the most prevalent NTBs in these countries are additional taxes levied on imports and the application of anti-dumping and countervailing duties. In addition South Africa is shown to have a very complicated sanitary and phytosanitary regime with import permits required for various goods. Controlled imports must also enter through a specified port of entry. There is also direct government involvement in the agricultural sector through support programmes and guideline prices for grapes, milk, dairy products and cotton lint. In the rest of the SACU countries, tariff quotas are applied to some agricultural products and infant industry protection differs from country to country. Botswana, Namibia, Lesotho and Swaziland all have controlled crops, where there is a ban on imports of specific products depending on prevailing domestic market conditions.

Technical barriers to trade seem to be the most common NTB facing exports to Brazil, Argentina and South Africa. Technical regulations and standards of the individual countries are seen to be more stringent than common international standards and varying standards are applied by the different countries. There is a lack of information and transparency in the testing and certification arrangements and numerous regulations regarding labelling. Exports are also hindered by the requirement of import licences, the sanitary and phytosanitary requirements of individual countries and internal taxes.

While admittedly not directly linked to actual research, in the GTAP model we proxy a reduction in NTBs resulting from an FTA with a 2 percent reduction across the board in actual tariffs. The approach that we have used in the base scenario is to simulate the NTBs in the GTAP as a barrier that raises the price of imports and has agents capturing the rents from this increase in price. These rents captured by agents contribute to the income generated in each country, but since in the GTAP model there is only one household the distributional effects of these rents within the

economy are not captured. The overall contribution from the reduction of NTBs when we simulate their removal is US\$49 million in increased welfare to South Africa and US\$121 million and US\$26 million to Brazil and Argentina respectively. The reduction in NTBs thus contributes just over 20 percent of welfare gain to South Africa.

An alternative approach to modelling the NTBs is to state that they create an efficiency loss to the economy and that there are no rents captured by agents in the economy. This is what is referred to as 'sand in the wheels' whereby NTBs are a drag on the economy and their removal will enhance efficiency. Their removal is in effect a technology-enhancing change that will lower the costs of imported goods (an example is a trade facilitation measure that improves efficiency at little or no cost). This approach is likely to lead to greater welfare gains as new efficiency is generated, compared to modelling NTBs as ad valorem tariff equivalents where rents captured by agents are reduced to zero. This is indeed the case. Using this 'sand in the wheels' assumption, the overall welfare gains to South Africa increase from US\$236 million to US\$349 million (an increase of US\$113m or approximately 50%), with some US\$95 million of this increase now directly arising from NTB reductions. Overall welfare gains to Brazil only increase by US\$10 million while those to Argentina actually reduce by US\$6 million. This shows the potential economic welfare potential of trade facilitation.

Trade remedies and services

Following on from NTBs, and recognising that the modern FTA consists of many more facets than just tariff reductions, we examined two further aspects of the SACU-Mercosur trading relationship: a) relevant trade remedies and b) services trade and services trade liberalisation.

Trade remedies traditionally consist of anti-dumping measures, countervailing duties and safeguards. Anti-dumping and countervailing duties are aimed at addressing the 'unfair' trade practices of dumping and subsidisation and leveling the playing field between domestically produced goods and foreign imports. Safeguards are utilised in trade conditions which are 'fair', but where a surge in imports cause or threaten damage to the domestic industry. However, these trade defence instruments are also seen as non-tariff barriers to trade and a modern form of protectionism. It has been

argued that trade remedies and safeguards have little economic justification and are often implemented on an arbitrary and unilateral basis, lacking transparency.

Although developed countries have been the traditional users of trade remedies, recently, some developing countries, such as Brazil and Argentina, have become active in the implementation of these instruments. This can mostly be attributed to the increased tariff liberalisation that has taken place since the Uruguay Round of WTO trade negotiations. On the other hand, South Africa has shown a decline in the implementation of these measures over the last few years.

The SACU, Mercosur and SACU-Mercosur agreements have varied provisions regarding trade remedy implementation. SACU and Mercosur are both currently aiming to create common policies for the usage of these instruments. SACU is, however, yet to develop these common policies, while Mercosur has prohibited the implementation of intra-regional safeguards and has the Council of the Common Market Decisions for matters regarding the application of anti-dumping measures and countervailing duties on intra-Mercosur trade and safeguards on imports from non-Mercosur countries. Again, however, these are yet to be implemented. These developments may become important should SACU and Mercosur move towards a comprehensive free trade agreement.

For Services trade the SACU-Mercosur agreement is limited in scope and currently excludes any reference to trade in services. Judging from the ongoing processes in both regional groups, the possibility of concluding a services trade agreement in the near future appears unlikely. SACU is currently embroiled in a number of regional and bilateral arrangements without having a common negotiating structure. One of the consequences is that the SACU member states have no common position on how to treat the liberalisation of trade in services. The importance of developing a common strategy on new generation issues such as services is being emphasised, as services are currently being negotiated at the bilateral level in the context of the Economic Partnership Agreement (EPA) negotiations, and countries are split on the way forward. Botswana, Lesotho and Swaziland are forging ahead to negotiate services, while South Africa and Namibia have opted out of the second negotiating phase (the phase which includes services). At a regional level, the Southern African

Development Community (SADC) has also been trying to draft a protocol on services, but progress has been particularly slow.

In contrast, Chile and the members of Mercosur are more prepared to liberalise trade in services. Mercosur countries have a firm deadline in place with clear guidelines on how to achieve their desired targets. These countries have already proved their readiness by negotiating services commitments going well beyond what was agreed in the WTO General Agreement on Trade in Services (GATS). They are busy creating a regional market first by liberalising substantially all services sectors in the context of the Montevideo Protocol. The South American countries are more advanced and have negotiated considerably more in the area of services than their southern African counterparts. These two groups are at different stages of the liberalisation process. It can also be argued that services negotiations involving south-south relations will be tougher than north-south negotiations because there will be less development assistance and flexibility because these countries are more equal in terms of wealth.

There are, however, measures countries can employ to facilitate the trading of services. Most important is access to relevant information and the transparency of domestic legislation. The GATS schedules are outdated and do not give a clear reflection of current domestic realities. Foreign suppliers cannot therefore rely solely on the information provided in these schedules. While there is a general obligation in the GATS to maintain enquiry points and publish all measures affecting trade in services, in practice access to such relevant information is not straightforward. These points need to be upgraded to sophisticated information portals where all relevant and current restrictions can be published for public perusal. Once such a database has been created, it can easily be updated. This is of particular importance when dealing with countries whose native language is not English; most of the documentation in South America is either in Spanish and Portuguese. The information portals can furthermore be used by promotion and investment agencies to generate additional investment. Effective enquiry points with sufficient capacity can elevate a country above its competitors by providing interested parties with an accurate representation of each services industry, investment possibilities and investment procedures for establishment.

The process of services liberalisation and the formulation of an appropriate strategy provide countries with the opportunity to reconsider domestic governance issues, domestic policy issues and domestic regulatory issues. Barriers to trade in services are maintained through domestic legislation and regulation, therefore the focus is more about what is happening domestically. Opening up services markets is no guarantee that foreign investment will flow into a country, however. If the conditions in these markets are not favourable, foreign suppliers will not consider establishing businesses there. A more holistic approach is needed to create the optimal environment in which foreign and domestic companies can operate. Not only is a liberalisation strategy important to regulate and restrict market access for foreign firms, it is also crucial for technology and skills transfer in order to develop and grow local enterprises.

Chile and South Africa

Although it falls outside the SACU-Mercosur mandate, Chile is a South American country that has close ties with Mercosur and shares many characteristics with South Africa. Both are medium-sized southern hemisphere countries at the 'developed end' of the developing country spectrum with large mineral resources that dominate exports and agricultural sectors noted for their fruit exports in particular. Chile's solid economic performance in recent years has been based on sound macroeconomic management, institutional and structural reforms, trade openness, and the prudent management of the country's mineral resources, while the agricultural and agri-business sectors have also been important to this economic success.

Chile's trade regime is defined by its uniform most-favoured nation (MFN) tariff of 6 percent but an average effective tariff of only about 2 percent given its comprehensive network of FTAs. Its agricultural sector is similar to South Africa's in that it is very lightly protected. Chile also has anti-dumping measures, countervailing duties and safeguards in place on various import products as well as a complicated price-band system on the imports of wheat, wheat flour and sugar. With respect to FTAs and services, instead of the regional approach, Chile is following the bilateral route by negotiating and implementing FTAs – most of which include a services component – with a wide range of countries all over the world. The pace at which

Chile is negotiating these types of services agreements is remarkable but so too is the manner in which this is done².

As an adjunct to tralac's analysis of the implications for South Africa (SACU) in seeking closer trading relationships with the South American countries of Brazil and Argentina (Mercosur), we similarly examine these implications for a South Africa-Chile FTA. This relationship has some intuitive appeal as there appear to be no obvious sensitive sectors such as those of clothing, motor vehicles or sugar, that are likely to lead to a cautious approach from South Africa. However, while direct bilateral trade opportunities may be limited, there are other gains (not fully explored in this paper) such as market coordination and investment and technology transfer opportunities for South Africa that may be enhanced by an FTA.

The similarities in the agricultural sector are apparent. The top four commodities by production value – beef, chicken, grapes and milk – are common to both countries (as are maize and eggs). Similarly, with agricultural exports, wine, grapes and apples feature in the top four export lines for both countries. These exports are much more important to Chile than they are to South Africa because while both countries are major resource exporters, South Africa also has significant manufacturing exports, which Chile does not. South Africa is 'competitive' in the export of deciduous fruits while Chile is 'strongly competitive'. Importantly, Chile's competitive advantage increases as further value-adding processing take place. This suggests a need for South Africa to improve its overall policy framework and support areas such as infrastructural development and research and technology in agricultural processing. Access to the EU market is important for agricultural exports from both countries, and here Chile has decided access advantages through its FTA when compared with South Africa's Trade, Development and Cooperation Agreement (TDCA). This is especially true for wine, grapes and oranges.

The GTAP results show that South Africa's moderate gains are US\$37 million, a figure higher than Chile's US\$27 million. There are very limited changes to overall aggregate trade flows for either country. There are also effectively no changes in the values of the production, trade and relative prices in the main agricultural and

² Chile mainly follows a negative list approach which is far more comprehensive than the positive list approach used in the GATS.

resource sectors for South Africa, but there is a little more action in the manufacturing sector.

South African merchandise **exports** to Chile increase by US\$57 million but only US\$35 million overall as some trade diversion takes place. These exports are concentrated in iron and steel, chemicals, rubber and plastics, and 'other machinery and equipment'. Increased **imports** from Chile are US\$32 million, and these imports not offset by overall trade diversion as the final import change from the world (including Chile) is a marginally higher US\$34 million. These imports are heavily concentrated in the apparel sector and in chemicals, rubber and plastics. The model also suggests that given our assumptions, output in the South African services sector increases by a significant US\$87 million.

Implications for Botswana, Lesotho, Namibia and Swaziland (BLNS)

Both Botswana and the rest of SACU (Lesotho, Namibia and Swaziland as one GTAP 'region') derive imperceptible welfare gains as measured by GTAP. As with South Africa, most of the interest is in the agricultural sector, and given that Mercosur is the global benchmark producer of cattle meat and sugar, both of which are important exports from BLNS under EU preferences, this is to be expected. There are perhaps smaller reductions than feared in both of these sectors and limited changes in other agricultural products. For manufacturing, and in concert with pressure on South Africa's motor vehicle industry, there is also a small contraction seen here in the BLNS vehicles and parts subsector. In trade, the direct effects are of less importance than the indirect effects as Mercosur imports in particular replace some trade between BLNS and South Africa at the margin.

Finally, the SACU tariff revenue pool implications for the BLNS countries following an FTA with Mercosur are substantial and sobering. Thus, it is not the direct trade effects from such an FTA that are the main interest to the BLNS but rather the tariff revenue pool implications. It is generally accepted that there is a tension between South Africa seeking trade liberalisation on the one hand and the BLNS countries relying heavily on tariff revenues from the SACU pool on the other. Much of this revenue represents a direct aid support payment from South Africa to the BLNS. The total loss to the SACU revenue pool from an FTA with Mercosur is US\$324 million.

Most (US\$206m) is from reduced tariffs on manufacturing imports, while US\$146 million of this is from foregone tariffs on motor vehicle and parts imports. Just over one third (US\$118m) is from agricultural products, while most of this agricultural loss (US\$82m) is from reduced duties on imports from Mercosur rather than from trade diversion. All of these losses are attributed to South Africa in the welfare reported here, but, in reality, given the redistribution of these revenues, we are (a) underestimating the gains to South Africa and (b) disguising the considerable losses to the BLNS.

Ron Sandrey
tralac Associate

Chapter 1

SACU and Mercosur: The big picture

Sean Woolfrey

Summary and key points

This introductory chapter lays the foundation for further analysis of SACU-Mercosur trade and the potential benefits of a full free trade agreement (FTA) by outlining the history and structure of the Southern African Customs Union (SACU) and the Mercado Comun del Sur (Mercosur), and by examining the economies of their most important members. It details the two blocs' recent trade relations with the world and with each other before highlighting the evolution of the SACU-Mercosur preferential trade agreement (PTA) concluded in 2008. The chapter closes with a look at the contents of the PTA, its relevance, likely impact and significance going forward. Overall the chapter finds that:

- SACU and Mercosur are both important players on their respective continents.
- South Africa's dominance of SACU in terms of population, economic size and share of extra-regional trade is mirrored by a similar dominance of Mercosur by Argentina and, in particular, Brazil.
- Both regions are marked by a somewhat heterogeneous membership.
- Both SACU and Mercosur conduct the majority of their extra-regional trade with a small group of trading partners.
- Trade between SACU and Mercosur has grown steadily but unspectacularly over the last decade, and remains at relatively low levels.
- SACU's exports to Mercosur consist mostly of primary and intermediary goods such as metals, minerals and chemicals.
- Mercosur's exports to SACU consist mostly of agricultural products and transport equipment.
- The current SACU-Mercosur PTA is unlikely to lead to significant increases in trade flows between the two regions, as it covers a very limited range of products and excludes provisions on services and investment.

- The PTA is nevertheless important both as a political step towards the conclusion of a more comprehensive FTA, and as a way for both regions to consolidate and deepen their commitments to south-south cooperation.

Introduction

On 3 April 2009 in Maseru, Lesotho, trade ministers from the Southern African Customs Union (SACU) signed a preferential trade agreement (PTA) with the Mercado Comun del Sur (Mercosur), thereby concluding a process which had its roots in a framework agreement signed by South Africa and Mercosur in 2000. Although the PTA is quite limited in scope, it represents an important step in establishing closer ties between the two regions, and in facilitating enhanced south-south cooperation. Furthermore, the conclusion of this agreement comes at a time when deadlock at the Doha Round of World Trade Organisation (WTO) trade talks and the looming spectre of potential new forms of ‘eco-protectionism’ such as carbon tariffs, mean that bilateral trade agreements are likely to become an ever more important focus of SACU and Mercosur trade policies.

This chapter aims to put the SACU-Mercosur PTA into perspective by providing some background information on the two regions, their trade relations with the world and with each other and the evolution of the PTA itself. Section 1 outlines the evolution of SACU and examines the economies of its members. Particular attention is paid to the economy of its largest member, South Africa. Section 2 then looks at the history and institutional structure of Mercosur, and examines its members’ economies, focusing in particular on the economies of Brazil and Argentina. Finally, Section 3 concludes the chapter by tracing the recent history of SACU-Mercosur trade relations, examining recent merchandise trade statistics¹, highlighting the evolution of the SACU-Mercosur PTA and looking ahead to the likely consequences of the PTA.

¹ Unless otherwise specified, in the analysis below ‘trade’ refers to goods trade, and excludes trade in services.

Section 1 SACU

The Southern African Customs Union dates back to an agreement signed in 1910 by the Union of South Africa and the British High Commission Territories of Basutoland (Lesotho), Bechuanaland (Botswana) and Swaziland (SACU, 2007). The 1910 SACU Agreement established a common external tariff (CET) on goods imported into the union, as well as a revenue sharing formula (RSF) to be used in the distribution of the pooled customs revenues. Following repeated calls for a review of the RSF, a new agreement was signed in 1969 by South Africa and the newly independent states of Botswana, Lesotho and Swaziland. While this agreement provided for a change to the RSF and the inclusion of excise duties in the revenue pool, it left the administration of the union largely unchanged, as South Africa retained exclusive decision-making power over SACU policies (Ibid.).

A new round of negotiations between SACU members – including the newly independent Namibia – began in 1994 following the end of apartheid in South Africa. These negotiations culminated in the 2002 SACU Agreement which entered into force on 16 July 2004, and which differs fundamentally from previous SACU agreements (Ibid.). The 2002 Agreement addresses the issue of joint decision making by providing for the establishment of independent institutions including a Council of Ministers, a Secretariat, a Customs Union Commission and five Technical Liaison Committees (Ibid.).

The 2002 Agreement also makes provision for a Tribunal to adjudicate on disputes between member states, and a Tariff Board to recommend amendments to the CET and instigate trade remedies. These last two institutions are yet to be established, however, and South Africa's International Trade Administration Commission (ITAC) is currently fulfilling the role of the Tariff Board. The common policies envisaged by the agreement are also yet to be developed, and policies in a number of areas including public procurement, competition policy, incentives and internal taxes have not yet been harmonised within SACU.

In addition to the PTA with Mercosur, SACU has a free trade agreement with the European Free Trade Association (EFTA). While SACU does not have an agreement with the European Union (EU), all SACU members have been de facto parties to the

Trade and Development Cooperation Agreement (TDCA) between South Africa and the EU which came into force in 2004.² In 2009, however, Botswana, Lesotho and Swaziland signed an interim Economic Partnership Agreement (EPA) with the EU, with the result that two separate agreements now cover SACU-EU trade.

As illustrated in Table 1 below, South Africa's population, economy and trade volumes dwarf that of BLNS (Botswana, Lesotho, Namibia and Swaziland). South Africa accounts for approximately 87 percent of SACU's population, and just over 91 percent of the union's gross domestic product (GDP). In addition, in 2007, 87 percent of SACU's merchandise trade involved goods either exported from or imported into South Africa. Because goods are generally allowed to move freely between SACU members – and the vast majority of goods entering or leaving the union pass through South African ports – accurate and up-to-date trade data for BLNS is difficult to find. For this reason, and because of South Africa's dominance of the region's economic activity, much of the analysis and discussion dedicated to SACU in this and the following chapters focus on South Africa and use South African data as a proxy for SACU data.

² This is because, in order to preserve the free movement of goods within SACU, BLNS have extended the same preferences to the EU as South Africa has under the TDCA. BLNS exports have benefited from duty-free quota-free access to the EU under a number of different arrangements.

Table 1: SACU selected data, 2008

	SACU	Botswana	Lesotho	Namibia	S. Africa	Swaziland
Population (millions)	55.9	1.9	2.0	2.1	48.7	1.2
GDP (US\$bn)	302.6	13.0	1.6	8.6	276.8	2.6
GNI per capita, PPP (US\$)	9,201	13,100	2,000	6,270	9,780	5,010
Average annual GDP growth 2004–2008	3.8%	3.1%	4.6%	4.2%	4.6%	2.5%
Exports (US\$m) [']	75,042*	4,838	789 [^]	4,729	80,208	1,113*
Imports (US\$m) [']	90,800*	5,099	1,645 [^]	4,689	91,059	1,270*
Main exports by value	Platinum, iron & steel, diamonds	Diamonds, nickel	Clothing	Diamonds, uranium ore	Platinum, motor vehicles & parts, iron & steel	Sugar
Main imports by value	Petroleum, electrical equipment, motor vehicles & parts	Petroleum, motor vehicles & parts	Fabric	Petroleum, motor vehicles & parts	Petroleum, electrical equipment, motor vehicles & parts	Electrical equipment

[']Includes intra-regional trade

*2007 data

[^]Own estimate from Lesotho Bureau of Statistics data

Source: World Bank, World Development Indicators; International Trade Centre, Trade Map; World Trade Atlas

South Africa

History

In 1910 the four previously separate colonies of the Cape, Natal, Transvaal and the Orange Free State were united as the Union of South Africa, a self-governing member of the Commonwealth (Sandrey & Vickers, 2008: 24). The introduction of racial segregation as official policy under the apartheid regime led to growing tensions between South Africa and the international community, and culminated in the country becoming a republic in 1961 and withdrawing from the Commonwealth. What followed was three decades of international isolation, as South Africa – by then something of a pariah state – was excluded from various international organisations and major sporting events. In addition, the country became the target of various international economic and trade sanctions. These sanctions contributed to a weakening of the South African economy, and together with growing domestic unrest ultimately led to the apartheid regime becoming untenable.

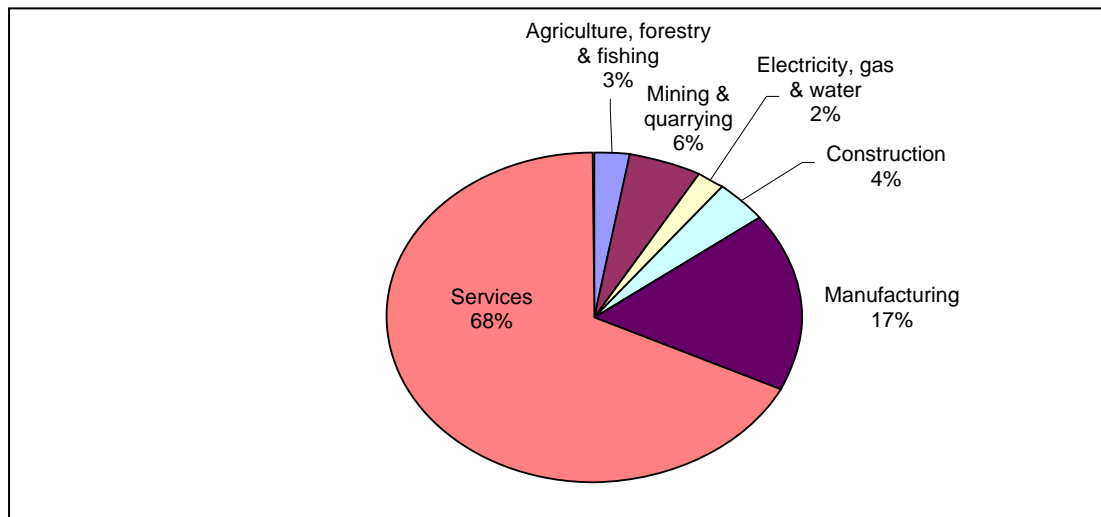
The demise of apartheid in the 1990s and the election of Nelson Mandela in the country's first democratic elections in 1994 brought to an end more than three centuries of racially based minority rule in South Africa (Ibid.: 24). While South Africa was welcomed back to the international community, the country nevertheless faced, and continues to face, serious challenges including extremely high levels of unemployment, poverty, income inequality, crime and HIV/AIDS infections. Despite a growing black middle-class, the country's economic resources remain highly concentrated in the minority white population.

Economy

Based on figures from the *CIA World Factbook*³, South Africa's economy is the largest in sub-Saharan Africa, accounting for roughly 40 percent of the region's GDP. Historically, the country's abundant mineral resources have played an important role in its economic development. South Africa is the leading international producer and exporter of a number of metals and minerals including gold, platinum and manganese. Although arable land is relatively scarce in South Africa, the country has historically had a comparative advantage in agriculture, producing crops such as sugar cane, wheat and maize, as well as high-value goods such as fruits and nuts (WTO, 2009a: 331). The importance of agriculture to the overall economy has declined in recent years, but it nevertheless remains a significant source of employment for the country's unskilled workforce (Ibid.: 281).

Despite its abundant natural resources, South Africa has a relatively diversified economy, with the agricultural and mining sectors together contributing less than 10 percent of GDP. Manufacturing contributes around 17 percent of GDP, while the services sector contributes over two-thirds of GDP. South Africa's top manufacturing industries by sales are petroleum, chemical, rubber and plastic products; iron, steel, metal products and machinery; food and beverages; and motor vehicles, parts and accessories (Stats SA, 2009a: 11). The largest services subsectors are retail and wholesale trade; financial and business services; and general government services (Stats SA, 2009a: 14).

³ The *CIA World Factbook* can be viewed online at <https://www.cia.gov/library/publications/the-world-factbook/>

Figure 1: Sectoral contributions to South Africa's GDP, 2008

Source: Statistics South Africa

In addition to abundant natural resources, South Africa's economy benefits from well-developed financial, legal, communications, energy and transport sectors, as well as modern infrastructure. Between 2004 and 2008 South Africa recorded fairly robust economic growth on the back of strong domestic demand, favourable international conditions and macroeconomic stability. In 2009, however, South Africa's economy slipped into recession as a result of the global financial crisis. The effects of the crisis have been exacerbated somewhat by electricity shortages that have plagued the country since early 2008. Nevertheless, investment spending remains strong, due partly to public spending on infrastructure, and preparations for hosting the 2010 FIFA World Cup (WTO, 2009a: 283).

Trade policy

The end of apartheid brought about a significant change in South Africa's trade policy, as the country shifted from a focus on import-substituting industrialisation towards an export-oriented regime. During the 1990s South Africa undertook unilateral liberalisation that far exceeded its WTO commitments, and also began negotiations on a number of significant trade agreements, including the SACU Agreement and the TDCA with the EU (Sandrey & Vickers, 2008: 25).

Recent dissatisfaction with the outcomes of across-the-board liberalisation has led the South African government to articulate a new 'strategic trade policy' approach.

The current government views trade policy as a tool of industrial policy which can be used to contribute to the upgrading and diversifying of the country's economic base, through, *inter alia*, 'a strategic and calibrated approach to future tariff setting' (DTI, 2009: xi). Some of the key objectives of trade policy include the promotion of direct investment and growth in industrial and services sectors with the potential for employment creation and an increase in the level of exports and enhanced regional integration in southern Africa (WTO, 2009a: 289). It is not clear, however, exactly how a trade policy informed by industrial policies is likely to be realised in practice given the dynamics of customs union membership and, in particular, the goal of common industrial policies envisaged by the 2002 SACU Agreement.

As a member of SACU, South Africa applies the SACU CET. The simple average applied tariff⁴ for imports into SACU is 8.1 percent, with the average for agricultural goods slightly higher than that for non-agricultural goods. Goods benefiting from significant protection include meat, dairy and tobacco among agricultural products, and clothing and textiles, footwear and motor vehicles among non-agricultural goods. The current SACU tariff profile largely represents South African industrial policy objectives. Until the SACU Tariff Board is established, South Africa continues to administer the CET, and in addition is responsible for tariff amendments and trade remedy investigations.

⁴ I.e. not trade-weighted.

Table 2: South African (SACU) Most Favoured Nation (MFN) tariff profile, 2009

	No. of lines	Simple avg. tariff (%)	Tariff range (%)
Total	6,695	8.1	0-96
Agriculture	917	10.1	0-96
Live animals and products thereof	115	15.3	0-43.7
Dairy products	29	21.9	0-96
Coffee and tea, cocoa, sugar, etc.	184	8.6	0-44.2
Cut flowers and plants	45	7.1	0-25
Fruit and vegetables	207	11.1	0-55
Grains	16	0.5	0-5
Oil seeds, fats, oils, and their products	86	7.9	0-20
Beverages and spirits	56	17.1	0-60.1
Tobacco	17	33.6	0-45
Other agricultural products	162	3.1	0-20.6
Non-agriculture (excluding petroleum)	5,751	7.8	0-60
Fish and fishery products	175	5.8	0-30
Mineral products, precious stones, and precious metals	391	4.7	0-30
Metals	752	4.6	0-30
Chemicals and photographic supplies	1,215	3.7	0-20
Leather, rubber, footwear, and travel goods	238	12.5	0-43
Wood, pulp, paper, and furniture	324	6.1	0-30
Textiles and clothing	991	21.2	0-60
Transport equipment	211	8.7	0-30
Non-electric machinery	622	2.7	0-30
Electric machinery	374	6.6	0-25
Non-agricultural articles n.e.s.	458	5.1	0-30

Note: Where possible non-ad valorem tariffs have been converted to ad valorem equivalents
Source: WTO Trade Policy Review – Southern African Customs Union, 2009

South Africa has been a keen proponent of multilateralism and has played an active role at the WTO. This has been the case at the Doha Round of negotiations, where the country is particularly active in the agriculture and non-agricultural market access (NAMA) negotiations (Ibid.: 290). Due to its economic importance in the region, South Africa has also traditionally played a key role in economic integration initiatives in southern Africa. As well as belonging to SACU, South Africa is part of ongoing integration efforts in the Southern African Development Community (SADC). SADC became a free trade area in 2008 and is seeking deeper integration as a customs

union, monetary union and common market in the future (Ibid.: 283). Also on the integration agenda in the region is a mooted 'tri-partite FTA' between SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), which would serve as an import step on the path to an African Economic Community (Ibid.: 283).

Trade profile

Agricultural products accounted for only 7 percent of South Africa's exports in 2008. Nonetheless, fruits (notably grapes, apples and citrus), maize and wine are all major export products. Minerals and metals dominate South Africa's export basket, accounting for well over half of the country's exports in 2008. Important products in this group include platinum group metals, gold, ferroalloys, steel, coal, manganese ore, chrome ore and iron ore. Motor vehicles and parts are also exported in significant quantity from South Africa. On the import side, petroleum is by far South Africa's most significant import by value. Other significant imports include motor vehicles and parts, electrical equipment and machinery. With a few exceptions – including rice, wheat and vegetable oils – agricultural products are not imported into South Africa in any significant quantity.

Table 3: Composition of South Africa's external trade, 2008 (US\$ millions)

	Imports	Share	Exports	Share
Total	91,058.75	100.0%	80,207.61	100.0%
Agricultural products				
Animal products	329.26	0.4%	131.07	0.2%
Dairy products	98.12	0.1%	50.63	0.1%
Fruit, vegetables, plants	288.81	0.3%	2,000.68	2.5%
Coffee, tea	238.73	0.3%	51.81	0.1%
Cereals & preparations	1,357.14	1.5%	983.63	1.2%
Oilseeds, fats, oils	1,244.86	1.4%	374.71	0.5%
Sugar	151.40	0.2%	246.72	0.3%
Beverages & tobacco	618.42	0.7%	1,359.04	1.7%
Cotton	51.32	0.1%	5.79	0.0%
Other agricultural products	422.06	0.5%	419.51	0.5%
Non-agricultural products				
Fish & fish products	235.24	0.3%	525.61	0.7%
Minerals & metals	11,701.87	12.9%	46,182.50	57.6%
Petroleum	18,777.26	20.6%	1,930.89	2.4%
Chemicals	8,568.14	9.4%	5,351.41	6.7%
Wood, paper, etc.	2,171.78	2.4%	2,419.32	3.0%
Textiles	1,391.74	1.5%	440.71	0.5%
Clothing	909.85	1.0%	106.89	0.1%
Leather, footwear, etc.	1,824.72	2.0%	559.18	0.7%
Non-electrical machinery	14,091.36	15.5%	6,380.51	8.0%
Electrical machinery	8,148.80	8.9%	1,557.14	1.9%
Transport equipment	8,585.09	9.4%	8,243.22	10.3%
Manufactures, n.e.s.	3,884.35	4.3%	854.41	1.1%
Other/Unspecified	5,968.45	6.6%	32.22	0.0%

Source: World Trade Atlas (SARS – South African Revenue Services data)

The EU is South Africa's most important trading partner, accounting for 31 percent of South Africa's imports and almost 30 percent of South Africa's exports in 2008. Other major trading partners include the US, China and Japan. Together these four partners account for over half of South Africa's total external trade. The presence of Saudi Arabia, Angola and Nigeria among South Africa's major sources of imports highlights the country's reliance on imported oil. The figures below do not account for intra-SACU trade, and therefore do not reflect trade between South Africa and BLNS.

Table 4: Direction of South Africa's external trade, 2008 (US\$ millions)

Rank	Partner	Imports	Share	Rank	Partner	Exports	Share
	The World	91,058.75	100.0%		The World	80,207.61	100.0%
1	EU 27	28,515.11	31.3%	1	EU 27	23,653.20	29.5%
2	China	10,007.09	11.0%	2	United States	8,176.17	10.2%
3	United States	7,096.57	7.8%	3	Japan	8,005.48	10.0%
4	Saudi Arabia	5,637.79	6.2%	4	China	4,456.48	5.6%
5	Japan	4,973.53	5.5%	5	India	2,250.30	2.8%
7	Angola	2,829.70	3.1%	6	Zambia	1,988.44	2.5%
8	India	2,303.17	2.5%	7	Switzerland	1,725.56	2.2%
9	Nigeria	1,856.35	2.0%	8	Zimbabwe	1,671.19	2.1%
11	Brazil	1,694.88	1.9%	20	Brazil	657.91	0.8%
17	Argentina	1,015.18	1.1%	38	Uruguay	200.77	0.3%
69	Uruguay	23.11	0.0%	43	Argentina	151.82	0.2%
85	Paraguay	6.23	0.0%	115	Paraguay	4.42	0.0%

Source: World Trade Atlas (SARS – South African Revenue Services data)

BLNS

BLNS face similar challenges including high levels of poverty, income inequality, unemployment and HIV/AIDS. Membership of a customs union with the much larger South African economy also brings about unique challenges. Notable is the fact that South Africa, which continues to administer the CET, views the tariff as a tool of industrial policy, while to BLNS it is far more important as a source of revenue. Given the narrow tax bases in BLNS, transfers from the SACU Revenue Pool make up a significant proportion of these countries' government revenue, accounting for 57 percent and 62 percent of government revenue in Lesotho and Swaziland respectively⁵. Any changes to the SACU tariff are thus likely to be keenly felt in BLNS. Lesotho, Namibia and Swaziland also peg their currencies to the South African rand, thereby ceding monetary policy autonomy to South Africa. Botswana, meanwhile, uses a crawling band exchange rate based on a basket of currencies which includes the rand, and is therefore also affected by South African monetary policy.

⁵ From own calculations based on figures from the Central bank of Swaziland and Lesotho Bureau of Statistics.

A particularly significant challenge facing BLNS is a lack of diversification of their exports, as they tend to export a very narrow range of products. In addition, BLNS trade is concentrated among just a few partners. Apart from clothing exported to the United States under the African Growth and Opportunity Act (AGOA), the vast majority of BLNS exports are destined for either the EU – which extends duty-free, quota-free access to the vast majority of BLNS goods under the EPA – or other SACU members, particularly South Africa. Most BLNS imports originate from South Africa. Reliance on trade with South Africa is exacerbated by the fact that Botswana, Lesotho and Swaziland are landlocked, and by the fact that the domestic markets in BLNS are dominated by South African retailers.

BLNS are all members of SADC, while Swaziland also participates in COMESA. BLNS also benefit from preferential market access to both the US under AGOA, and the EU under the EPA. In addition they receive preferential access to a number of markets under the globalised system of preferences (GSP).

Table 5: BLNS sectoral contributions to GDP, 2007

	Botswana	Lesotho	Namibia	Swaziland
Agriculture, forestry & fishing	2.1%	7.1%	9.8%	12.7%
Mining & quarrying	42.1%	6.9%	11.7%	0.2%
Manufacturing	3.7%	18.2%	16.7%	31.7%
Electricity, gas & water	2.9%	4.5%	2.7%	1.5%
Construction	4.4%	5.2%	3.9%	3.5%
Services	44.8%	58.1%	55.2%	50.4%

Source: Central Statistics Office, Bank of Botswana; Lesotho Bureau of Statistics; Bank of Namibia; Central Bank of Swaziland

Botswana

Botswana is widely considered an African (and indeed global) success story thanks to spectacular levels of growth since independence in 1966, stable politics, and one of the highest income per capita levels in sub-Saharan Africa. This success has been dependent on the extraction of the country's mineral wealth, particularly diamonds – the country's most important natural resource. Data from the Bank of Botswana's Central Statistics Office shows that the mining sector in Botswana contributes around two-fifths of GDP, and that in 2008 diamonds represented over 65 percent of Botswana's total merchandise exports by value, and copper-nickel almost

19 percent. This overdependence on the country's mineral wealth has been recognised by the government, and diversification of Botswana's economy is a key priority, especially given expected future declines in diamond output (WTO, 2009a: 73).

Lesotho

Small, poor and landlocked, the Kingdom of Lesotho is a net-food importer despite the fact that around 60 percent of its population is involved in (largely subsistence) agriculture (Ibid.: 170). Lesotho's most important natural resources are water, much of which is exported to South Africa, and – since the reopening of the country's mines in 2004 – diamonds. Lesotho is heavily dependent on external trade, with total trade in goods and services valued at over 140 percent of GDP in 2007 (Ibid.: 145). Lesotho's chief export is clothing, which, according to the Lesotho Bureau of Statistics, accounts for around 60 percent by value of Lesotho's total exports. The vast majority of this clothing is exported to the US under AGOA, and any erosion of the preferences offered under the scheme is likely to have a detrimental effect on Lesotho's manufacturing sector, dominated as it is by the export-oriented clothing industry.

Namibia

Sparsely populated Namibia has only been an independent country since 1990. It has benefited from strong economic growth in recent years, and currently enjoys levels of economic development somewhat higher than the sub-Saharan average (Ibid.: 207). Namibia also benefits from large reserves of minerals, most notably diamonds and uranium. In 2008 the mining sector contributed almost 16 percent of Namibia's GDP, and around half of the total value of the country's merchandise exports (Bank of Namibia, 2009: 80; WTO, 2009a: 207). Other important exports include metals, animal products, fish, and food and beverages. While agriculture contributes less than 10 percent of GDP, it employs almost a third of the country's labour force (WTO, 2009a: 207). Food and beverage processing is the most significant manufacturing industry in the country (Bank of Namibia, 2009: 80).

Swaziland

The Kingdom of Swaziland is the smallest country in southern Africa, and, like Lesotho, is heavily dependent on external trade. In 2007 total trade in goods and services was worth 174 percent of GDP (WTO, 2009a: 409). Economic growth in recent years has been sluggish, partly due to severe droughts which have hindered the country's agricultural sector (Ibid.: 408). This sector contributes around 13 percent of GDP, with sugar the most significant crop. Swaziland's manufacturing industry contributes almost a third of GDP and is largely geared toward the production value-added goods based on sugar (Ibid.: 407). Chemicals, sugar and – to a lesser extent – clothing are Swaziland's most significant merchandise exports (Ibid.: 464). Unlike other SACU members, Swaziland does not have a significant mining sector.

Section 2 Mercosur

Mercosur is a customs union comprising Argentina, Brazil, Paraguay and Uruguay. It was established by the Treaty of Assunción, which was signed in 1991 and entered into force on 31 December 1994 (WTO, 2009b: 21). Bolivia, Chile, Colombia, Ecuador and Peru are all associate members of Mercosur, while Venezuela is currently in the process of becoming a full member⁶. Building on earlier regional integration efforts, Mercosur was established with the aim of creating a common market and ensuring the free circulation of goods, services, capital and labour among member states, through, *inter alia*, the removal of tariffs and other non-tariff barriers to intra-regional trade (WTO, 2007: 25).

The institutional structure of Mercosur, established by the 1994 Protocol of Ouro Preto, comprises six bodies. The Council of the Common Market (CCM), the Common Market Group (CMG) and the Mercosur Trade Commission (MTC) have decision-making powers, while the Joint Parliamentary Commission, the Economic and Social Advisory Forum and the Mercosur Administrative Secretariat do not (Ibid.: 26). The CCM is the chief decision-making body of Mercosur and comprises the member states' Ministers of Foreign Affairs and of the Economy. The CMG is the

⁶ Associate members do not enjoy full voting rights and are not required to apply Mercosur's common external tariff. They receive tariff reductions, but do not have complete access to the markets of the four full members (Hanson & Klonsky, 2009)

executive body of Mercosur and is responsible for supervising the implementation of the Treaty of Assunción, its protocols and any agreements concluded within its framework. It is also responsible for all negotiations with third parties. The MTC implements common trade policy instruments. All Mercosur institutions are intergovernmental rather than supranational.

Mercosur has applied a CET since 1995, although a number of sector- and country-specific exemptions have been allowed (WTO, 2009b: 21). Mercosur's simple average tariff on goods imported into the customs union is 11.4 percent, with agricultural goods subject to an average tariff of 10 percent and non-agricultural goods subject to an average tariff of 11.6 percent. The most protected goods are sugar, beverages and dairy among agricultural goods, and clothing and textiles, footwear and motor vehicles among non-agricultural goods. Any changes to the CET require the consent of all Mercosur members. Intra-Mercosur trade in goods is duty-free except for goods in the automotive and sugar sectors. Mercosur provisions cover market access, customs valuation, rules of origin, export subsidies, safeguards, dispute settlement, technical regulations, sanitary and phytosanitary (SPS) measures, trade in services and government procurement (Ibid.: 21).

Table 6: Mercosur common external tariff (CET) profile, 2009

	No. of lines	Simple avg. tariff (%)	Tariff range (%)
Total	9,816	11.4	0-35
Agriculture	954	10	0-20
Live animals and products thereof	110	8.2	0-16
Dairy products	34	15.1	12-16
Coffee and tea, cocoa, sugar, preparations, etc.	153	14.3	0-20
Cut flowers and plants	55	5.8	0-14
Fruit and vegetables	193	10	0-14
Grains	35	6.1	0-12
Oil seeds, fats, oils, and their products	116	7.7	0-12
Beverages and spirits	44	17.6	12-20
Tobacco	18	15.3	10-20
Other agricultural products	196	7.7	0-14
Non-agriculture	8,862	11.6	0-35
Fish and fishery products	230	9.7	0-16
Mineral products, precious stones, and precious metals	449	7.7	0-20
Metals	771	11.3	0-18
Chemicals and photographic supplies	3,150	7.2	0-18
Leather, rubber, footwear, and travel goods	240	14.8	0-35
Wood, pulp, paper, and furniture	378	10.9	0-18
Textiles and clothing	1,006	25.1	2-35
Transport equipment	202	14.2	0-20
Non-electric machinery	1,129	11.6	0-20
Electric machinery	590	12.2	0-20
Non-agricultural articles n.e.s.	691	13.4	0-20
Petroleum	26	0.4	0-6

Source: Own calculations based on figures from Mercosur website: <http://www.mercosur.int/>

In addition to the PTA with SACU, Mercosur has signed economic complementarity agreements with Bolivia, Chile, Colombia, Cuba, Ecuador, Peru and Venezuela, and partial scope agreements with Mexico and India (Ibid.: 162-165). An FTA between Mercosur and Israel was also signed towards the end of 2007. Although Mercosur signed an Interregional Framework Cooperation Agreement with the EU in 1995, negotiations on a full agreement have stalled. Negotiations for agreements with a number of other parties including Egypt, Jordan, Morocco and Turkey are currently ongoing (Ibid.: 13).

Mercosur is by far the largest trading bloc in South America, accounting for over 75 percent of the continent's GDP, and is the fourth largest trading bloc in the world, after the EU the North American Free Trade Agreement (NAFTA) and the Association of East Asian Nations (ASEAN) (Hanson & Klonsky, 2009). As can be seen from Table 7 below, however, Mercosur is dominated by Brazil and Argentina. These two countries account for 96 percent of Mercosur's population and 98 percent of its GDP. In addition, in 2008, the two countries accounted for 95 percent of Mercosur trade with the rest of the world (ITC Trade Map). Due to this dominance, the discussion and analysis of Mercosur in this and later chapters is largely focused on Brazil and Argentina.

Table 7: Mercosur selected data, 2008

	Mercosur	Argentina	Brazil	Paraguay	Uruguay
Population (millions)	241.4	39.9	192.0	6.2	3.3
GDP (US\$bn)	1,989.1	328.4	1,612.5	16.0	32.2
GNI per capita, PPP (US\$)	10,621	14,020	10,070	4,820	12,540
Average annual GDP growth 2004-2008	6.6%	8.5%	4.7%	4.8%	8.4%
Exports (US\$m)	278,302	70,021	197,942	4,390	5,949
Imports (US\$m)	248,529	57,422	173,197	8,977	8,933
Main exports by value	Iron & steel, petroleum, motor vehicles & parts, beef	Soya beans, motor vehicles, petroleum	Petroleum, iron & steel, soya beans, motor vehicles & parts	Soya beans, beef	Beef, rice
Main imports by value	Petroleum, electrical equipment motor vehicles & parts, chemicals	Motor vehicles & parts, electrical equipment, petroleum	Petroleum, electrical equipment, motor vehicles & parts, fertilisers	Electrical equipment, petroleum	Petroleum, motor vehicles & parts

Source: World Bank, World Development Indicators; International Trade Centre (ITC), Trade Map, World Trade Atlas

Brazil

History

The twentieth century was a tumultuous time for Brazil, both politically and economically. The country's political landscape was marked by alternating periods of military and civilian rule, culminating in a return to democracy in 1985. On the economic side, the global slowdown in the 1930s prompted the state to take a more active role in economic affairs, introducing policies of import-substituting industrialisation aimed at diversifying an economy that had until then been largely based on the export of commodities such as timber, sugar, minerals and coffee (Arbache, 2006). Although Brazil experienced spectacular growth in the 1960s and 1970s, this gave way to hyperinflation and economic stagnation in the 1980s and early 1990s.

Brazil's economy underwent significant economic reform during the 1990s, epitomised by the Real Plan of 1994 which put an end to the country's chronic hyperinflation, bringing the annual inflation rate down from over 2,000 percent in 1994 to just 7 percent in 1997 (Treisman, 2004). Privatisation and trade liberalisation programmes also provided the economy with significant efficiency gains and led to large increases in foreign trade. These reforms provided the foundation for Brazil's robust economic performance under current President Lula da Silva, who, despite a left-wing background, has maintained the macroeconomic discipline introduced during the 1990s. This continuation of orthodox policy has resulted in record levels of external trade and foreign direct investment, which in turn have facilitated relatively impressive recent economic growth. This growth has allowed the government to make inroads into the country's high levels of poverty and inequality.

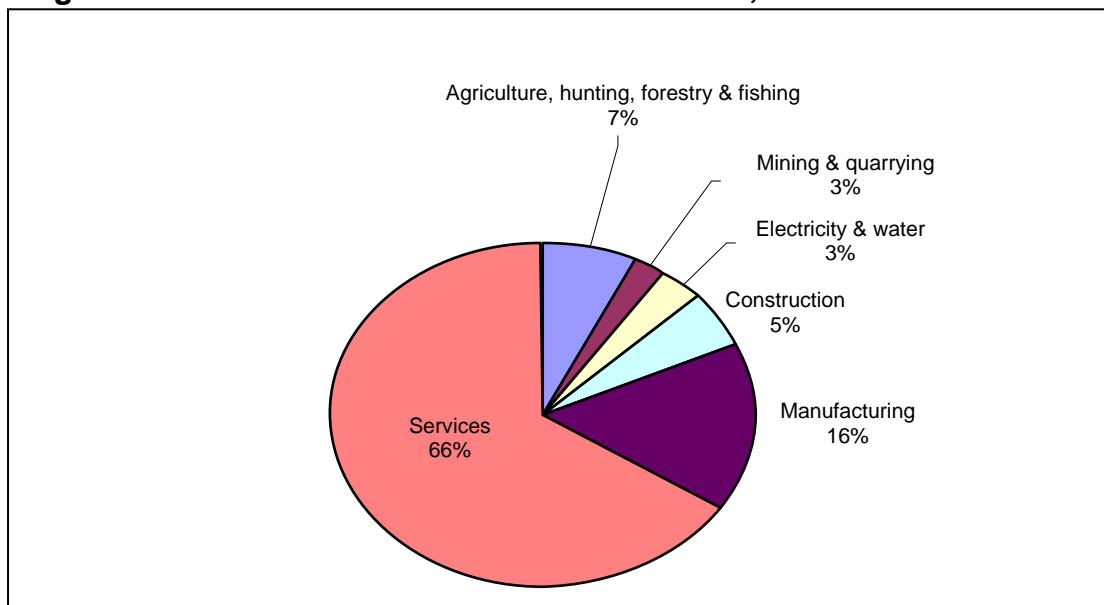
Economy

Brazil is blessed with an abundance of natural resources, including a significant portion of the world's arable land and massive mineral and energy reserves. The country has a large and well developed agricultural sector, and is a leading producer and exporter of many agricultural products, including beef, chicken, soya beans, coffee and sugar (WTO, 2009b: 97). The country's mineral resources include large reserves of graphite, bauxite and iron ore (Ibid.: 108). The recent discovery of vast

oilfields off the Brazilian coast is likely to see the country become a major oil exporter ('Getting it together', 2009: 3). Brazil is also the world's largest exporter and second largest producer of ethanol (WTO, 2009b: 96).

Brazil's economy is nevertheless quite diversified, and despite the country's apparent advantage in agriculture and minerals, these two sectors contribute less than 10 percent of GDP. By contrast, the country's highly diversified manufacturing sector contributes 16 percent of GDP, while the services sector dwarfs all others, contributing almost two-thirds of Brazil's output. The most important industrial subsectors in Brazil are: food and beverages; metallurgy; machinery and equipment; pulp and paper; motor vehicles; chemical products; and plastic products (Ibid.: 3). The most important services subsectors are: government services; distributive trade (including hotels and restaurants); real estate; financial and insurance services; and transport services (Ibid.: 3).

Figure 2: Sectoral contributions to Brazil's GDP, 2008



Source: WTO Trade Policy Review – Brazil, 2009

Brazil's GDP grew by around 4.7 percent a year in real terms between 2004 and 2008. The main drivers of this growth were strong international demand for Brazilian commodities, rising incomes at home and reduced interest rates (Ibid.: 1). This growth in turn resulted in a decrease in the unemployment rate from 11.5 percent in 2004 to 7.8 percent in 2008 (Ibid.: 2). During this period Brazil also significantly increased its external trade, especially with other developing countries. This reflects

the current regime's emphasis on international trade as a measure for achieving economic growth, and the belief in the need for increased economic cooperation and trade between developing countries (Ibid.: 15).

Trade policy

Brazil is an active participant in WTO negotiations, especially in the context of the Doha Round, where it is considered one of the most influential developing countries contributing a relatively large number of proposals on areas ranging from trade in agriculture to intellectual property rights (Ibid.: 13). Although Brazil views the WTO and the creation and maintenance of a fair, rules-based multilateral trading system as the main focus of its trade policy, the country does seek to complement its efforts at the multilateral level with regional trade agreements, which it considers valuable tools of trade policy (Ibid.: 19-20). Mercosur is Brazil's most important preferential agreement when measured by trade value. In addition, Brazil is party to all of Mercosur's trade agreements with third parties, and has applied the Mercosur CET – with a few exceptions – since 1995. These exceptions are due to be phased out in 2010 (Ibid.: 21).

Trade profile

Brazil is a major exporter of agricultural products. In 2008, animal products – notably chicken and beef – accounted for 7.4 percent of all exports by value, while oilseeds and related products, such as soya beans, accounted for 9.3 percent. In total, agricultural products accounted for almost 30 percent of all exports. Brazil also exports significant quantities of metals such as iron, aluminium and copper. In 2008, minerals and metals comprised over 22 percent of all exports. Transport equipment – notably motor vehicles and aeroplanes- accounted for 11.3 percent of all exports while petroleum accounted for 9.3 percent. On the import side, Brazil is a major importer of machinery, minerals and metals, petroleum, chemicals and transport equipment.

Table 8: Composition of Brazil's external trade, 2008 (US\$ millions)

	Imports	Share	Exports	Share
Total	173,196.63	100.0%	197,942.44	100.0%
Agricultural products				
Animal products	188.93	0.1%	14,655.12	7.4%
Dairy products	211.59	0.1%	509.27	0.3%
Fruit, vegetables & plants	1,305.86	0.8%	1,230.08	0.6%
Coffee & tea	233.68	0.1%	5,217.54	2.6%
Cereals & preparations	3,524.81	2.0%	2,911.24	1.5%
Oilseeds, fats & oils	976.08	0.6%	18,392.75	9.3%
Sugar	57.71	0.0%	5,695.70	2.9%
Beverages & tobacco	383.81	0.2%	7,394.72	3.7%
Cotton	56.28	0.0%	701.18	0.4%
Other agricultural products	575.25	0.3%	1,321.73	0.7%
Non-agricultural products				
Fish & fish products	689.77	0.4%	361.89	0.2%
Minerals & metals	33,531.00	19.4%	43,733.21	22.1%
Petroleum	26,264.06	15.2%	18,468.20	9.3%
Chemicals	25,387.72	14.7%	11,223.85	5.7%
Wood, paper, etc.	2,534.46	1.5%	9,652.21	4.9%
Textiles	3,627.12	2.1%	1,815.47	0.9%
Clothing	693.76	0.4%	238.77	0.1%
Leather, footwear, etc.	3,857.82	2.2%	6,109.54	3.1%
Non-electrical machinery	25,707.94	14.8%	12,688.10	6.4%
Electrical machinery	19,289.61	11.1%	6,869.34	3.5%
Transport equipment	16,293.65	9.4%	22,359.51	11.3%
Manufactures, n.e.s.	7,805.70	4.5%	1,571.62	0.8%
Other/Unspecified	0.00	0.0%	4,821.40	2.4%

Source: World Trade Atlas (SECEX – Brazilian Foreign Trade Secretariat data)

The EU is Brazil's main trading partner, accounting for over a fifth of Brazilian imports, and almost a quarter of Brazilian exports in 2008. Brazil's other main trading partners include the United States, China and Argentina. Together these four trading partners account for well over half of Brazil's external trade. Brazil's trade with Africa is focused largely on imports from oil producers such as Nigeria and Angola, while trade with southern Africa is negligible. In 2008, trade with South Africa and BLNS accounted for less than 1 percent of Brazil's total external trade.

Table 9: Direction of Brazil's external trade, 2008 (US\$ millions)

Rank	Source	Imports	Share	Rank	Destination	Exports	Share
	World	173,196.63	100.0%		World	197,942.44	100.0%
1	EU 27	36,191.59	20.9%	1	EU 27	46,366.66	23.4%
2	United States	25,626.82	14.8%	2	United States	27,423.05	13.9%
3	China	20,040.02	11.6%	3	Argentina	17,605.62	8.9%
4	Argentina	13,257.93	7.7%	4	China	16,403.04	8.3%
5	Japan	6,806.89	3.9%	5	Japan	6,114.52	3.1%
6	Nigeria	6,706.28	3.9%	6	Venezuela	5,150.19	2.6%
8	Chile	4,161.96	2.4%	7	Chile	4,791.70	2.4%
18	Angola	2,240.26	1.3%	14	Paraguay	2,487.56	1.3%
29	Uruguay	1,018.20	0.6%	18	Angola	1,974.58	1.0%
33	South Africa	772.91	0.4%	21	South Africa	1,754.85	0.9%
35	Paraguay	657.50	0.4%	22	Uruguay	1,644.13	0.8%
	BLNS	0.31	0.0%		BLNS	27.04	0.0%

Source: World Trade Atlas (SECEX – Brazilian Foreign Trade Secretariat data)

Argentina

History

Foreign capital and mass immigration from Europe during the late nineteenth century drove economic expansion in resource-rich Argentina. Increased grain and livestock exports aided economic growth, and by the beginning of the twentieth century Argentina was one of the wealthiest countries in the world (Taylor, 1992). Nevertheless, the economy remained heavily reliant on commodities, and proved vulnerable to the global economic shocks of the early twentieth century. These shocks contributed to the internal political conflict that was prevalent during the first half of the twentieth century, and led to the country adopting import-substituting industrialisation in the 1930s (Ibid.).

The immediate post-World War II period was dominated by the populist policies of President Juan Peron, who nationalised key industries but could not return Argentina to previous levels of growth (CIA World Factbook). His ousting in 1955 was followed by a period of economic instability and social unrest. Military interference in political affairs also became prevalent, culminating in a campaign of state terror waged by the military junta which came to power in 1976 (Ibid.). Civilian rule was reinstated in 1983

following the collapse of the economy in 1981-82, and military defeat in the Falklands War (Ibid.).

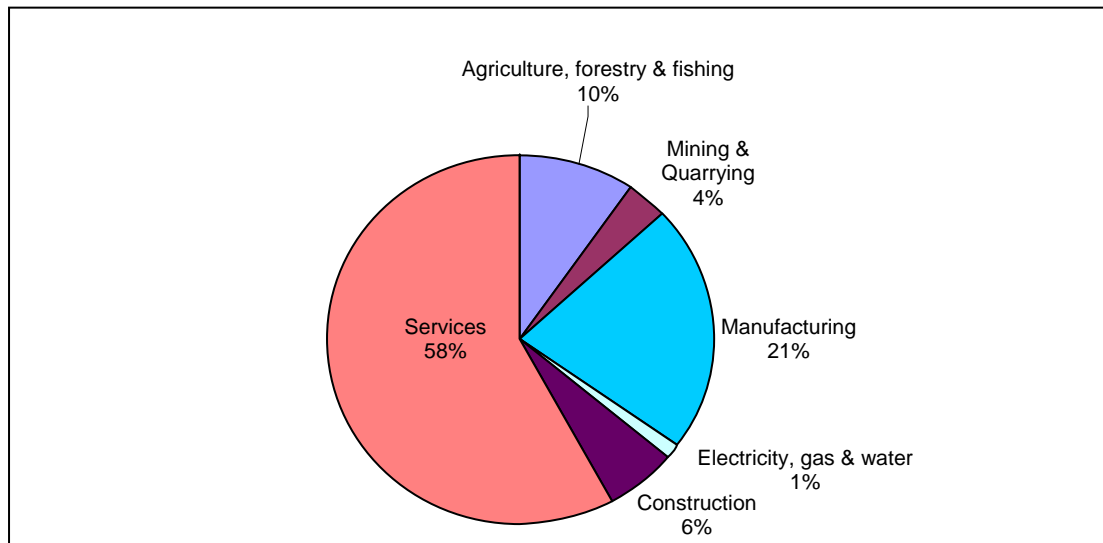
The 1980s were marked by a struggle to stabilise the turbulent economy and tame runaway inflation (Triesman, 2004). Stabilisation and liberalisation programmes in the 1990s brought low inflation and sustained growth, but lax fiscal policy and a prolonged recession in the late 1990s ultimately resulted in a severe monetary crisis in 2001 (EIU, 2009). The Argentine economy has since rebounded and began recording impressive growth rates from 2003 onwards. More recently, however, inflationary pressures have returned, and the present government faces significant challenges in maintaining political and economic stability.

Economy

Like Brazil, Argentina benefits from abundant natural resources and has a large and highly productive export-oriented agricultural sector. The country is a leading producer and exporter of many agricultural goods, such as beef, honey, soya beans, sunflower seeds, citrus fruit, corn, grapes, tobacco and wheat (WTO, 2007: 103). A number of oilfields are situated in Argentine territory, and the country produces and exports significant quantities of petroleum and natural gas (Ibid.: 102). Mining is a growing industry in the country, with metals such as gold, aluminium and copper featuring heavily among Argentina's exports. In addition to these primary industries, Argentina has a diversified manufacturing and a large services sector.

The primary sector – comprising agriculture, fishing, forestry, mining and quarrying – accounts for around 14 percent of GDP, while the manufacturing sector accounts for approximately 21 percent of GDP. The services sector is by far the largest in Argentina accounting for around 58 percent of domestic output. Argentina's major industrial subsectors are: food processing; motor vehicles and parts; farming equipment; home appliances; textiles; chemicals and petrochemicals; printing; metallurgy; and steel (MECON, 2009). The country's largest services subsectors are: wholesale and retail trade; real estate, rentals and business services; education, health and social services; and transport, storage and communications (Ibid.).

Figure 3: Sectoral contributions to Argentina's GDP, 2008



Source: MECON – Argentine Ministry of Economy and Public Finances

Between 1998 and 2002 Argentina experienced one of its worst recessions in history, with GDP declining by 18.5 percent (WTO, 2007: 1). This was exacerbated by a financial crisis which resulted in Argentina defaulting on its debt. The economy has since rebounded, growing by an average of 8.5 percent a year between 2004 and 2008. As in Brazil, recent economic growth has been driven by higher domestic spending and strong international demand for Argentina's commodities. It has also helped bring down the unemployment rate from 18.3 percent in 2001 to 8 percent in 2008 (World Bank, 2009).

In attempting to meet its policy objectives such as ensuring fiscal surpluses and controlling inflation, the Argentine government has made use of controversial measures such as export taxes and price agreements with producers to prevent or moderate price increases (WTO, 2007: 1). Inflation has nevertheless resurfaced as one of the country's biggest economic concerns. Official Argentine Ministry of Economy and Public Finances (MECON) estimates put the inflation rate at below 9 percent in 2008, but these figures have been disputed, with some commentators suggesting real figures are significantly higher than those offered by the government ('A chance to change course', 2009).

Trade policy

Argentina has been an active participant in the multilateral trading system, especially in the context of the Doha Development Round where it has made a number of proposals both individually and jointly with other WTO members (WTO, 2007: 23). Argentina's main area of interest in multilateral negotiations is undoubtedly in agriculture, although the country also has interests in areas such as services, market access for non-agricultural products and special and differential treatment for developing countries (Ibid.: 24). Argentina's chief trade policy aims are to promote higher value-added exports, to further economic integration in South America and to diversify the country's export markets. Argentina's trade policy is strongly determined by its involvement in Mercosur, as the country applies – with some exceptions – the Mercosur CET, and is party to Mercosur's trade agreements with third parties. While Argentina remains committed to an open economy and regional and multilateral liberalisation, it also recognises the need for policy space so as to respond to domestic economic and social aims (Ibid.: 19).

Trade profile

Over half of Argentina's exports in 2008 were agricultural products, with oilseeds and related products – notably soya beans – accounting for over 27.5 percent of total exports for the year, and cereals and preparations – mostly maize and wheat – accounting for 11.7 percent of total exports. In addition to agricultural goods, Argentina exports significant quantities of minerals and metals, chemical products, transport equipment – mostly motor vehicles and parts – and petroleum. Argentina imports relatively small quantities of agricultural products, with such imports accounting for less than 5 percent of total imports in 2008. Instead, the country's major imports are machinery, transport equipment, chemicals and minerals and metals.

Table 10: Composition of Argentina's external trade, 2008 (US\$ millions)

	Imports	Share	Exports	Share
Total	57 422.09	100%	70 020.55	100%
Agricultural products				
Animal products	126.89	0.2%	2 218.80	3.2%
Dairy products	19.99	0.0%	812.36	1.2%
Fruit, vegetables & plants	318.05	0.6%	2 599.00	3.7%
Coffee & tea	260.85	0.5%	233.71	0.3%
Cereals & preparations	185.77	0.3%	8 202.86	11.7%
Oilseeds, fats & oils	1 453.19	2.5%	19 271.26	27.5%
Sugar	47.16	0.1%	255.29	0.4%
Beverages & tobacco	115.90	0.2%	1 530.77	2.2%
Cotton	59.20	0.1%	3.55	0.0%
Other agricultural products	225.91	0.4%	909.38	1.3%
Non-agricultural products				
Fish & fish products	100.85	0.2%	1 315.95	1.9%
Minerals & metals	8 340.81	14.5%	6 506.73	9.3%
Petroleum	2 740.03	4.8%	4 937.07	7.1%
Chemicals	9 491.95	16.5%	5 660.10	8.1%
Wood, paper, etc.	1 744.83	3.0%	1 089.05	1.6%
Textiles	1 520.94	2.6%	458.09	0.7%
Clothing	348.33	0.6%	105.99	0.2%
Leather, footwear, etc.	1 502.01	2.6%	1 399.81	2.0%
Non-electrical machinery	9 237.70	16.1%	1 830.31	2.6%
Electrical machinery	6 166.32	10.7%	560.48	0.8%
Transport equipment	10 668.61	18.6%	7 347.40	10.5%
Manufactures, n.e.s.	2 369.34	4.1%	606.17	0.9%
Other/Unspecified	377.45	0.7%	2 166.43	3.1%

Source: UN Comtrade Database

The bulk of Argentina's trade with the world takes place with just four partners: the EU, Brazil, China and the US. Together these four partners account for over 70 percent of Argentina's imports, and almost 60 percent of Argentina's exports. Brazil is Argentina's number one source of imports, accounting for almost a third of all imports, while the EU is the country's number one export destination. Argentina's other main trading partners are largely concentrated in Latin America. Argentina does not conduct a significant proportion of its external trade with Africa. Its number one trading partner on the continent is South Africa, but South African imports accounted

for less than half a percent of Argentina's total imports in 2008, while Argentina's exports to South Africa accounted for just 1.2 percent of total exports in that year.

Table 11: Direction of Argentina's external trade, 2008 (US\$ millions)

Rank	Source	Imports	Share	Rank	Destination	Exports	Share
	World	57,422.09	100.0%		World	70,020.55	100.0%
1	Brazil	17,976.76	31.3%	1	EU 27	15,516.93	22.2%
2	EU 27	8,958.58	15.6%	2	Brazil	13,259.60	18.9%
3	China	7,103.89	12.4%	3	China	6,390.21	9.1%
4	US	7,023.23	12.2%	4	US	5,514.32	7.9%
6	Paraguay	1,782.96	3.1%	5	Chile	4,716.67	6.7%
7	Mexico	1,595.33	2.8%	6	Uruguay	1,799.94	2.6%
10	Chile	951.77	1.7%	7	Venezuela	1,417.93	2.0%
11	Russia	755.89	1.3%	11	Paraguay	1,085.62	1.6%
13	Uruguay	540.15	0.9%	14	South Africa	1,012.77	1.4%
14	India	491.85	0.9%	15	Russia	969.08	1.4%
23	South Africa	220.30	0.4%	17	India	829.67	1.2%
	BLNS	0.00	0.0%		BLNS	10.14	0.0%

Source: UN Comtrade Database

Paraguay and Uruguay

Paraguay and Uruguay are dwarfed by the two larger members of Mercosur. Given their small internal markets and the fact that they conduct a significant portion of their external trade within Mercosur, both countries are vulnerable to shocks in the Argentine or Brazilian economies. Like their fellow Mercosur members, Paraguay and Uruguay are both significant agricultural exporters. Unlike their neighbours, however, neither country has significant mineral resources, although Paraguay has abundant hydroelectric energy resources and is one of the world's leading exporters of electricity. In terms of economic development, the two countries differ quite noticeably. Paraguay is one of the poorest countries in the region, while Uruguay is one of the wealthiest (Table 7).

Table 12: Paraguay and Uruguay sectoral contributions to GDP, 2007

	Paraguay	Uruguay
Agriculture, forestry & fishing	24.2%	10.1%
Mining & quarrying	0.1%	0.3%
Manufacturing	14.1%	22.6%
Electricity, gas & water	1.9%	4.8%
Construction	5.9%	4.1%
Services	53.8%	58.1%

Source: Central Bank of Paraguay (<http://www.bcp.gov.py/>); Central Bank of Uruguay (<http://www.bcu.gub.uy/>)

Paraguay

Paraguay is classified by the World Bank as a ‘low-income country’, and is one of the poorest countries in South America. Real per capita income has stagnated at 1980 levels, and almost a third of the population lives below the poverty line (CIA World Factbook). Paraguay is also characterised by high levels of income inequality, a very large informal sector and high numbers of people involved in subsistence farming. The country’s poor economic performance has been attributed to political instability, corruption and inadequate infrastructure (Ibid.). The agricultural sector is crucial to the Paraguayan economy contributing almost a quarter of GDP and employing around a third of the country’s workforce (Ibid.).

Having a relatively small internal market, Paraguay is highly dependent on external trade. The fact that the country is landlocked, however, means that international trade-related transport costs are very high (WTO, 2005: 24). In addition, Paraguay’s export basket is highly concentrated, with agricultural goods – notably soya beans and beef – accounting for over 90 percent of the country’s merchandise exports in 2008 (ITC Trade Map). This concentration has seen Paraguay record decent economic growth rates in recent years, as international commodity prices have been high, but also means Paraguay is extremely vulnerable to commodity price fluctuations. Paraguay mainly imports manufactured goods such as computing and electrical equipment. Around 45 percent of Paraguay’s international trade is conducted within Mercosur, while China and the rest of Latin America are other important trading partners (Ibid.).

Uruguay

Uruguay is one of the smallest countries in South America both in terms of area and population. Classified by the World Bank as ‘high-income’, it is also one of the most economically developed countries in the region, and is characterised by a well-educated workforce, high levels of social spending and labour and political conditions among the freest on the continent (CIA World Factbook). Uruguay also has relatively low levels of corruption, poverty and income inequality by regional standards (Ibid.). Historically, agriculture has played an important role in the Uruguayan economy, although the services sector contributes the majority of the country’s GDP, and accounts for over two-thirds of employment (Central Bank of Uruguay). The manufacturing sector is largely based on agri-processing industries.

Agricultural products – notably beef, rice, dairy products and soya beans – account for well over half of Uruguay’s total exports. Major imports include petroleum and manufactures such as motor vehicles and electronic equipment (ITC Trade Map). Much of Uruguay’s international trade is conducted within Mercosur, with the other members collectively accounting for 44 percent of Uruguay’s imports and 27 percent of the country’s exports in 2008. Other major trading partners include the EU, the US, China and the rest of Latin America (Ibid.).

Section 3 SACU-Mercosur trade relations and the evolution of the PTA

Trade between South Africa and Mercosur

South Africa's exports to Mercosur over the last 12 years have been dominated by non-agricultural commodities and intermediate goods – and by minerals, metals and chemical products in particular. The table below displays South Africa's top ten exports to Mercosur by value over the period 1997-2008. These exports account for approximately 46 percent of South Africa's total exports to Mercosur during this period. Of these products, eight are mineral (including oil), chemical or metal products.

Table 13: Top 10 South African exports to Mercosur, 1997–2008 (US\$m)

HS Code	Description	1997	2008	1997–2008	Share of exports 1997–2008	Average annual growth
	Total exports to Mercosur	426.6	1,014.9	5,130.5	100%	8.2%
2701	Coal	60.1	117.8	629.4	12.3%	6.3%
7202	Ferro-alloys	11.0	136.0	505.7	9.9%	25.7%
2709	Crude oil	20.2	188.4	361.5	7.0%	22.5%
3808	Insecticides, rodenticides; fungicides, herbicides, etc.	27.3	8.3	227.3	4.4%	-10.2%
7606	Aluminum plates	0.0	12.1	131.3	2.6%	89.6%
2901	Acyclic Hydrocarbons	1.4	31.2	113.2	2.2%	32.5%
7219	Flat-rolled stainless steel	12.5	29.4	112.5	2.2%	8.1%
8407	Internal combustion piston engines	0.2	62.0	106.1	2.1%	72.2%
5402	Synthetic filament yarn	10.5	4.5	103.6	2.0%	-7.3%
2934	Nucleic acids and their salts	3.1	25.2	86.5	1.7%	21.1%

Source: World Trade Atlas (SARS – South African Revenue Services data)

Agricultural products and motor vehicles and parts have been South Africa's most significant imports by value from Mercosur over the past 12 years. Of the top ten products imported by South Africa during this period, seven were agricultural products, and the other three were motor vehicles or vehicle parts. Together these ten products account for 54 percent of South Africa's imports from Mercosur during this period.

Table 14: Top 10 South African imports from Mercosur, 1997-2008 (US\$m)

HS Code	Description	1997	2008	1997–2008	Share of imports 1997–2008	Av. annual growth
	Total imports from Mercosur	606.7	2,739.4	15,482.4	100%	14.7%
9801	Original equipment components*	94.8	419.8	2,572.5	16.6%	14.5%
2304	Soya bean oilcakes	48.6	302.0	1,409.0	9.1%	18.1%
1507	Soya bean oil	7.1	264.3	971.3	6.3%	38.9%
0207	Meat & edible offal of poultry	6.2	162.7	809.2	5.2%	34.6%
1512	Sunflower-seed, safflower or cotton-seed oil	108.5	55.4	719.1	4.6%	-5.9%
1001	Wheat	6.2	237.5	581.1	3.8%	39.2%
1005	Corn (maize)	22.7	19.4	514.6	3.3%	-1.4%
8704	Motor vehicles for the transport of goods	0.0	78.4	343.2	2.2%	82.1% ¹
8708	Parts and accessories for motor vehicles	5.5	48.9	229.6	1.5%	22.0%
2401	Unmanufactured tobacco	7.9	24.9	229.4	1.5%	11.0%

*These are automotive components imported for use in the domestic manufacture of motor vehicles

¹Average annual growth 1999-2008

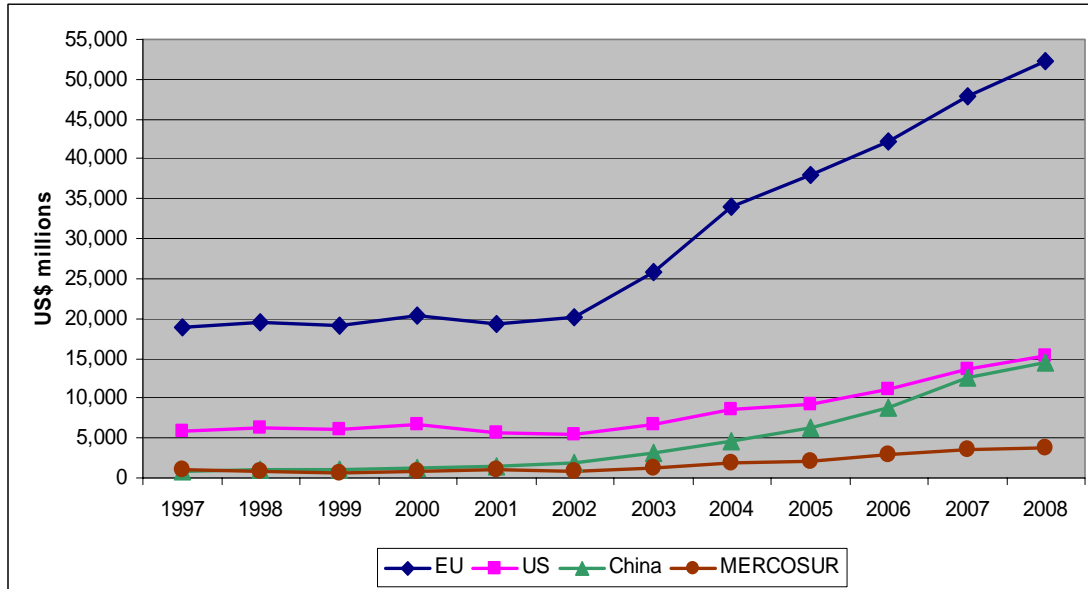
Source: World Trade Atlas (SARS – South African Revenue Services data)

The graph below illustrates the value of overall trade between South Africa and Mercosur between 1997 and 2008, as well as the values of overall trade between South Africa and three of its most important trading partners: the EU, the US and China. South Africa's two-way trade with Mercosur has grown at an average rate of 12.4 percent a year between 1997 and 2008, a figure that compares well with the 9.1 percent and 9.6 percent growth registered in trade between South Africa and the US and EU respectively over the same period. South Africa's trade with Mercosur was at a much lower level in 1997 than trade with the US and the EU, however. In 1997 South Africa's trade with Mercosur was worth around US\$1 billion, while its trade with the US and EU was worth US\$5.8 billion and US\$19 billion respectively.

More revealing is the comparison with growth in overall trade with China, as the value of South Africa-China trade in 1997 (US\$887m) was similar to that of South Africa-Mercosur trade at the time. It is clear from the graph, however, that trade with China has grown far more rapidly (by roughly 29% a year on average) than

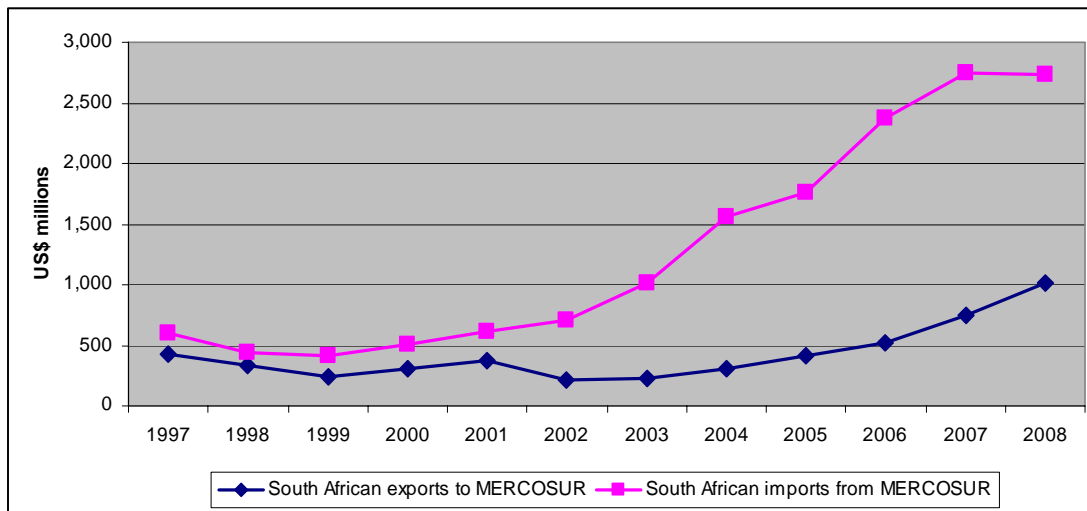
trade with Mercosur, as the two lines diverge from about 2002 onwards. In 2008, the value of South Africa’s trade with China was US\$14.4 billion, almost four times the US\$3.8 billion worth of trade between South Africa and Mercosur that year.

Figure 4: Value of South Africa’s overall trade with select partners, 1997–2008



Source: World Trade Atlas (SARS – South African Revenue Services data)

Figure 5 shows that while South Africa’s overall trade with Mercosur has grown at a decent rate over the last 12 years, the country’s imports from Mercosur have grown much faster than its exports to Mercosur, thereby widening South Africa’s trade deficit with Mercosur. Starting from a fairly similar level, exports grew by an average of 8.2 percent a year between 1997 and 2008, while imports increased by an average of 14.7 percent over the same period.

Figure 5: Value of South Africa's trade with Mercosur, 1997-2008

Source: World Trade Atlas (SARS – South African Revenue Services data)

Trade between South Africa and Brazil dominates South Africa-Mercosur trade. In 2008, 62 percent of South Africa's imports from Mercosur originated in Brazil, while 65 percent of South Africa's exports to Mercosur were destined for Brazil. Argentina's share of overall South Africa-Mercosur trade in 2008 was 31 percent.

Evolution of the Preferential Trade Agreement

The 2008 SACU-Mercosur PTA has its roots in a framework agreement signed by South Africa and Mercosur in 2000. This agreement was largely the result of South African interest in the relatively new South American trade bloc, and its objective was to create a free trade area between the parties (Bratt, 2005). Following the conclusion of the 2002 SACU Agreement – under which SACU members are meant to enter into trade agreements with third parties as a bloc – SACU and Mercosur concluded an initial PTA in 2004.

While the 2004 PTA was intended to boost bilateral trade and to strengthen economic cooperation between the two regions, it was more noteworthy as a first step towards the conclusion of a full FTA between the two regions (Ibid.). The PTA can be viewed in light of the rush to conclude bilateral agreements that has become prominent over the last decade, as progress at the multilateral level of trade negotiations has stalled. The emergence of the WTO G20 bloc of developing nations in 2003 also served to strengthen ties between the Mercosur countries and

South Africa, given their common interests in current multilateral negotiations⁷. Furthermore, the 2004 PTA served both to strengthen so-called ‘south-south’ cooperation, and to create momentum in the India-Brazil-South Africa (IBSA) dialogue forum (Ibid.).

The 2004 Agreement laid out fixed preference margins between the regions on a limited number of goods. Mercosur granted preferences to SACU on 958 product categories, around half of which were organic chemicals, while SACU granted Mercosur preferences on 951 product groups, including a significant number of machinery, equipment and appliance product groups. The agreement also contained annexes relating to rules of origin (RoO), safeguards and dispute settlement. In general it referred various trade policy measures to relevant WTO agreements. Finally, the agreement established a joint administration committee and recommended that further steps be taken to create a free trade area.

Negotiations between the parties continued following the signing of the 2004 agreement, and ultimately led to the conclusion of the 2008 PTA which replaced the earlier one. The 2008 PTA extends the product coverage slightly, with SACU's offer to Mercosur consisting of 1064 product groups, and Mercosur's offer to SACU consisting of 1051 product groups. In addition, new annexes on SPS measures and customs cooperation have been added. Otherwise, the 2004 and 2008 agreements are essentially identical.

Looking ahead

The impact of the current SACU-Mercosur PTA on trade flows between the two regions is likely to be minimal given the limited product coverage of the respective offer lists. The products contained in Mercosur's offer list to SACU, for instance, account for only 16 percent of the value of South Africa's exports to Mercosur in 2008 and only 7 percent of the value of South Africa's total exports in that year. In general, the preferences offered by each party are either minimal or pertain to goods which are either subject to insignificant MFN duties or are not heavily traded. The PTA is thus unlikely to lead to significant trade creation.

⁷ South Africa, Argentina, Brazil, Paraguay and Uruguay are all members of the ‘WTO’ G20

The real value of the PTA is as an important political step towards the conclusion of a more exhaustive FTA which would likely be of far more value to both parties. The process of moving towards a full FTA is likely to be fraught with difficulties, however, especially considering that the two regions produce many similar products, including motor vehicles, electrical equipment and agricultural products such as sugar. Because of these similarities, defensive interests are likely to play a significant part in FTA negotiations, with industries in the less-competitive region likely to lobby vociferously for protection. It is unlikely for instance, that motor vehicles and automotive parts trade between SACU and Mercosur will be significantly liberalised, as the automotive sector is considered highly sensitive in both regions.

Other factors that may hamper the conclusion of a full FTA between SACU and Mercosur include the difficulties inherent in negotiations between blocs rather than individual countries, the risk that important stakeholders such as business representatives may be marginalised during the negotiations and the potential for other distractions to arise (*Ibid.*). One such distraction is likely to be SACU's need to resolve the issues that have resulted from the recent EPA negotiations with the EU. Furthermore, the current PTA makes no mention of services and investment. While deals on services and investment are likely to prove more elusive than an agreement focusing exclusively on trade in goods, the exclusion of these areas would severely limit the potential benefits of a future FTA.

FTA negotiations may indeed prove difficult, but a comprehensive agreement could be of great benefit to SACU in particular. Mercosur, due to its sheer size, is a potentially attractive market for SACU's exporters, and the level of trade between the two regions is still relatively low. The strengthening and deepening of trade ties that would result from a SACU-Mercosur FTA would also serve to reinforce south-south cooperation. This is viewed as an important way for developing and emerging economies to reduce their reliance on traditional trade partners in the developed world, to climb value chains, and to present a stronger front at multilateral trade negotiations (*Ibid.*). With regard to the latter, a strong SACU-Mercosur alliance could provide effective leadership for the WTO G20.

Given the lack of positive developments at the multilateral level of trade negotiations, and the potential threat of new forms of 'eco-protectionism' such as carbon tariffs,

bilateral and regional trade agreements are likely to remain a significant aspect of SACU and Mercosur's respective trade policies. The current PTA is unlikely to result in significant direct benefits, but its value lies in strengthening ties between the two regions, and providing a platform from which to conclude a more comprehensive agreement. The potential benefits of such an agreement are the focus of later chapters in this volume.

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Chapter 2

South Africa, Brazil and Argentina: Agricultural production and policy regimes

Bonani Nyhodo and Ron Sandrey

Summary and key points

This chapter examines the agricultural policies and production profiles of Brazil, South Africa and Argentina in order to set the scene for an analysis of how these countries can further their current trading relationship by moving to a full free trade agreement (FTA). This FTA would be a significant one in a global sense, as it would be a truly south-south relationship between three of the developing world's emerging powers. We of course fully recognise that, on the one side, both Brazil and Argentina are members of the Mercado Comun del Sur (Mercosur) along with Uruguay and Paraguay, while on the other side, South Africa is a member of the Southern African Customs Union (SACU) and is part of an inclusive trade regime with Botswana, Lesotho, Namibia and Swaziland (BLNS). We do, however, concentrate our analysis on the three major economies.

Brazil has well and truly entered the world trading stage as a key player in agricultural negotiations. It has done so through a combination of its own liberal trading regime, its emergence as a global exporting giant in several agricultural products and its political leadership in getting the G20 group of developing countries to the point where it is having significant input at the World Trade Organisation (WTO) Doha Development Round. South Africa, one of the founding members of the G20 and an important WTO 'bridge' between the developing and developed world in one sense, and between the African continent and other key players in another sense, is a natural partner for Brazil on the world stage. Cementing this relationship are the burgeoning agricultural trade flows from Brazil to South Africa that have resulted from the liberalisation of South Africa's own trade and agricultural policies. Providing more reinforcement are the similarly significant agricultural trade flows into South Africa from Brazil's fellow Mercosur member, Argentina.

There are several similarities between the agricultural and economic settings of the three countries examined here. All three are developing countries with real gross domestic product (GDP) per capita of between US\$3000 and US\$4000, all three

have a significant agricultural sector, all three have significant populations and all three are actively but cautiously seeking mutually beneficial trading alliances. Agriculture is important to the economy in all three countries but in different ways. While 42 percent of South Africa's population is classified as rural, only 8 percent of its exports are agricultural products. Brazil has 16 percent of its population classified as rural, and around 30 percent of its exports classified as agricultural. Only 10 percent of Argentina's population is rural, yet over half (51.1%) of its exports are agricultural products.

In general all three countries provide modest support to their agricultural sectors – indeed Argentina effectively taxes its exportable products through its policy regime. In South Africa the support provided is uneven, with sugar singled out for special assistance. Similarly, border tariffs in all three countries on agricultural imports are modest by international standards, although again they are uneven.

Brazil's agricultural exports have changed dramatically in recent years as the country has transformed itself from an exporter of traditional tropical products to a significant global player in oilseeds, cereals, meats, bio-fuels and processed foods that are components of an agri-business economy rather than a traditional commodities exporter. Meanwhile South Africa, in exporting wine and fruit, is still exporting the same product mix that it was exporting over a hundred years ago at the end of the 19th century. Argentina is among the world's top five producers of soya beans, beef and maize. This is reflected in its export portfolio (with soya beans and their associated products being the major growth industries).

Section 1 Introduction: The political-economy background of agriculture

This section examines the policy regimes in Brazil, South Africa and Argentina. This is done in order to set the scene for an analysis of their production and trading profiles in agricultural products in the following section. An FTA between SACU and Mercosur would be a significant one in a global sense, as it would be a truly south-south initiative involving three of the developing world's emerging powers. While the 'big three' dominate the relationship we also explore the trading patterns of the other relevant parties.

The emergence as a major force in world trade politics of the newly-formed G20 Group¹ at the September 2003 Cancun Ministerial Conference of the WTO changed the dynamics of the crucial agricultural negotiations. Previously these negotiations had focused on the views of the all-powerful European Union (EU) and United States (US) interests, with the Cairns Group of agricultural exporting countries arguably having a major influence in ensuring the completion of the previous Uruguay Round. The G20 originated from the Brasilia Declaration signed between Brazil, India and South Africa in June of 2003, an agreement which had emerged from the trust built up between the three parties.

Prior to the Cancun meetings, many developing countries (some of whom were members of the Cairns Group) saw the Cairns Group as adopting a rather timid approach to the negotiations, one that complied with the US-EU interests. The result of this dissatisfaction was the G20, formed under Brazilian leadership. Critical to its success was the enthusiastic support of China and India as well as the group's wide geographic membership, which represented around 60 percent of the world's population, 70 percent of the world's rural population and 26 percent of the world's agricultural trade. The so-called 'south' had arrived on the global negotiating stage. Core members of the group include five from Africa (Egypt, Nigeria, South Africa, Tanzania and Zimbabwe), six from Asia, including China and India, and a further twelve from Latin America, including the founding members Brazil and Argentina.

Although several members of the G20 were and continue to be members of the Cairns Group, the G20 distinguishes itself from the Cairns Group in that the latter has the objective of representing agricultural exporters while the former recognises the balances between agricultural exporters (such as Brazil) who have reformed their economies and the more 'agricultural protectionists' (such as India) who are still evolving their economies to a full market approach. Crucially, the G20 members are all developing countries, and are united in their stance that the developed countries must meet a higher level of ambition in trade reforms for agriculture than the developing countries. It is against this backdrop that the respective roles of Brazil,

¹ This is the World Trade Organisation (WTO) G20, not to be confused with another G20, a group of Twenty Finance Ministers and Central Bank Governors from the world's leading economies. The WTO G20 relates to the original group of signatories of the 20 August 2003 document. It has gone through some changes and has been known under such different names as the G-21 or the G-22. The title G20 was finally chosen, in honour of the date of the group's establishment.

Argentina and South Africa become important, and a more formal alliance between these three would be a major factor in cementing south-south trade relationships.

Focusing on the three main economies of interest in this paper, namely Brazil, Argentina and South Africa, Table 1 shows that agriculture is important to all three. Brazil is the giant in terms of both population and arable land, followed by Argentina and South Africa with somewhat similar populations – about one-quarter of Brazil’s – and arable land about one-half of Brazil’s in the case of Argentina, and one-quarter in the case of South Africa. Brazil has one of the biggest areas of agricultural land in the world, after China, Australia and the US. The agricultural product mix gives some clues as to the likely trading relationships that will be explored later: (i) South Africa as an importer of wheat and soya bean products, (ii) Brazil as an exporter of soya beans in particular, and (iii) Argentina as an exporter of both soya beans and wheat. Also note that the national incomes per capita are similar: from Brazil’s US\$3,000 to Argentina’s US\$3,580 and South Africa’s US\$3,670.

Table 1: Economic and agricultural indicators, Brazil, Argentina and South Africa

Indicator	Brazil	Argentina	South Africa
Population (millions)	180.7	38.9	45.2
National income/capita, US\$ (2004)	3,000	3,580	3,670
% of population rural	16	10	42
Arable land million ha & global rank	66.6 & 5th	28.9 & 10th	15.7 & 19th
Main food products	beef, soya beans & chicken meat	soya beans, beef & wheat	beef, maize & chicken meat
Main agricultural exports	soya beans, soya bean cake & chicken meat	soya beans & their products	Wine, grapes & oranges
Main agricultural imports	wheat, rubber & barley malt	soya beans, 'other' & bananas	rice, wheat & soya beans
% share of agriculture in total exports	30.0%	51.5%	8.0%
Share global agricultural exports, 2008	4.6%	2.8%	0.5%

Source: FAO website

Brazil has traditionally been an inward-looking economy, but changes in trade policy began to occur from the late 1970s when the import substitution system was beginning to break down. This was accentuated by two major oil crises at the time, a

major recession in the early 1980s and the legendary Brazilian inflation of around 2,000 percent by 1990. Over the past 15 years, Brazil's economy has undergone radical reforms that have provided a more stable investment climate and stimulated agricultural growth. Policy changes included deep tariff cuts and the elimination of non-tariff barriers to trade. Agriculture both contributed to these reforms and benefited from them. Through the 1990s, there was a scaling down of expenditures on price support and subsidised credit, the markets for wheat, sugar cane and coffee were deregulated, and trade was liberalised not just on the import side, but also for exports, notably with the elimination of export licences, quotas and taxes. Agriculture benefited in overall terms from the change in development paradigm, as this removed the discrimination against the sector that was implicit in support for the manufacturing industry, and helped establish a more stable investment climate (OECD, 2005).

The Food and Agricultural Organisation (FAO) reports that Brazil is the world's leading producer of chicken meat, sugar cane and oranges. The country is also among the top five producers of soya beans, beef and maize. During 2006 Brazil accounted for 47.7 percent of global concentrated orange juice exports, 43.9 percent of raw sugar exports, 35.1 percent of soya bean exports, 30.1 percent of chicken meat exports and 26.4 percent of green coffee bean exports. Brazil has transformed itself from an exporter of traditional tropical agricultural products (coffee, cane sugar and cocoa) to a world leader in oilseeds, cereals, meats, bio-fuels and processed foods that are components of an agri-business economy rather than those of a traditional commodities exporter. This product mix and the associated global dominance in these products, along with a liberalised agricultural policy environment, set the scene for Brazil to emerge as a world force in trade liberalisation.

After 1994 **South Africa** adopted a policy of openness and limited intervention in markets. The policy objective was to promote trade and consequently competition that would result in efficient allocation and use of resources as well as increased economic activity. This led to the deregulation of trade policies as border tariffs were reduced and export subsidies eliminated. By the end of apartheid, all controls had effectively been cut adrift. With the closing of agricultural marketing boards, phasing-out of certain import and export controls, elimination of subsidies, and introduction of

tariffs and their reduction, South Africa now has a very lightly protected agricultural sector.

In general these agricultural reforms went well beyond those mandated by the then General Agreement on Trade and Tariffs (GATT) (now the WTO). The jury is still out on the results, but an analysis of productivity in South Africa² shows that productivity increases seem to be the result of labour shedding – a result that does not bode well for South African agriculture. The sector is hamstrung by poor physical resources, has hardly benefited from the WTO Agreement on Agriculture, seems to be hampered by a lack of innovation and is faced with the transformation of the sector. It has not succeeded in building competitiveness in ‘new’ agricultural industries, but has rather concentrated on traditional export industries, such as fruit and wine – resulting in questions regarding the global competitiveness of the sector. Indeed, in stark contrast to Brazil, South African agricultural exports in recent years bear a great similarity to its agricultural exports at the end of the 19th century. Meanwhile, this is the policy setting that now informs South Africa’s offensive approach in all trade negotiations with third parties and at the multilateral level, and provides opportunities for cooperation with partners such as the G20.

Argentina has a strongly revealed comparative advantage in the export of agricultural products, and especially in cereals, soya beans and livestock products. The country is also among the world’s top five producers of soya beans, beef and maize. Argentina and economic boom/bust crises have become synonymous, but in recent years the country has overcome some of these problems and witnessed a remarkable recovery, a recovery stimulated by policy measures that have included the abandonment of the fixed exchange rate, renegotiation of external debt and a simplification of import taxes. Table 1 shows that agricultural products make up over 50 percent of Argentina’s exports, and a further look at FAO data shows that Argentina had a 2006 global export share of 37.15 percent in soya bean cake, 47.04 percent in soya bean oil, 11.03 percent in soya beans, 7.18 percent in wheat, 4.9 percent in beef and 9.53 percent in maize.

All three parties are of course members of regional trade groups. This severely limits their ability to negotiate in their own right. We are also aware that the very modest

² See Sandrey and Vink (2008).

SACU-Mercosur PTA has been concluded. This PTA has an in-built agenda leading to the formation of a SACU-Mercosur FTA, and such a future agreement would be between the Mercosur countries of Argentina, Brazil, Paraguay, Uruguay and the SACU members of Botswana, Lesotho, Namibia, South Africa and Swaziland.

Agricultural support

In a report on agriculture in emerging nations, the Organisation for Economic Cooperation and Development (OECD, 2009) highlights the fact that Brazil provides relatively little support to its farmers. Producer support, as measured by the Producer Support Estimates (PSE), accounted for just 3 percent of the gross value of farm receipts in 2002–04 – a rate comparable with that of New Zealand (2%) and Australia (4%), and far below the OECD average of 30 percent. The highest support levels are for import-competing staples (wheat, maize and rice) and cotton, ranging between 6 percent and 17 percent for these products. Direct support (mostly interest rate subsidies but also – when international prices are low – some direct price support) to farmers accounts for about three-quarters of all support to agriculture, with the remaining quarter delivered as general services to the sector (including research and extension, training, and the development of rural infrastructure).

This low level of producer support highlights the radical transformation of the Brazilian economy over the last 15 years, as the move away from policies of import substitution led to agriculture's growth. Livestock output rose rapidly in the 1990s, and recently there has been a boom in the production of soya beans, driven by high prices and a low exchange rate. Today, however, agricultural growth is more attributable to improved productivity, lower prices for imported inputs and an expansion in agricultural area land.

In the same 2009 report the OECD states that support to South African agricultural producers (in terms of PSE) followed a downward trend from 1995 to 2001, when it reached its lowest level. In 2002, support increased and then stabilised at around 7 percent. By 2005–07 it was still around the 6 percent level, with most of this support delivered in the form of Market Price Support (MPS). The producer Nominal Protection Coefficient (NPC) indicates that prices received by domestic producers were on average 5 percent higher than world market prices in 2005–07. However,

there are wide variations in price support to individual commodities. Kirsten et al. (2009) calculate that protection rates as measured by the Nominal Rate of Assistance (NRA) are high for sugar (41%), sheep meat (24%), poultry (18%), yellow maize (9.3%) and milk (8%) but zero for all other significant commodities except white maize, which is heavily taxed and has a negative NRA (i.e. is taxed instead of supported) of 23.4 percent.

Note that sugar, with by far the highest levels of support, is an export crop in South Africa. It is very unusual for a country to heavily support an export crop. Sandrey and Vink (2010) provide a more detailed analysis of the sugar policy regime in SACU and the production and trade analysis for South Africa and Swaziland. The WTO (WTO 2009b: 337) also reports that with respect to sugar, '[t]he domestic price is above world market prices because of the quota system and border protection'. This system is implicitly taxing South African sugar consumers and subsidizing exporters.

Unfortunately the OECD has not undertaken a similar analysis of Argentine agriculture, but Anderson et al. (2007) place distortions to South African agricultural prices in an international perspective by comparing South Africa to Australia, New Zealand, Argentina and Chile. Using the NRA measure as used by Kirsten et al.³ they assessed the protection levels for South Africa, Argentina and Chile as shown in Table 2⁴.

³ The Anderson study was a large international comparison coordinated by the World Bank, and Kirsten et al. provided the South African input. Considerable attention was paid to a template for this international comparison, so rates were indeed comparable across countries.

⁴ Note that Brazilian details are not available from this source, but the WTO (2009) reports an average nominal tariff for agriculture of 10.1 percent in 2008 and an overall average of 11.5 percent over the same period.

Table 2: NRA and average border tariffs for agricultural products, 2000–2005

	Exportables	Importables	Average import tariff, agricultural	Average import tariff, non-agricultural
South Africa	-2	4	9	8
Argentina	-16.2	5.3	10	13
Chile	3.0	2.1	6	6

Source: Anderson et al, 2007, where * represents non-agricultural average border in parentheses.

Argentina heavily taxes its agricultural exports – as shown by the nominal rates of assistance to the exportable sector – but supports importable products. Chile, with very low agricultural support across all commodities, moderately supports the overall sector, while South Africa also moderately supports importable products while slightly taxing exportables.

Table 2 also shows the average border tariffs for both agricultural and non-agricultural merchandise, with Argentina levying the highest tariffs in both cases and Chile the lowest with its flat 6 percent tariff on almost all merchandise imports. Border protection for agricultural products into South Africa/SACU is uneven, with quantitative restrictions and high tariffs in place for meat, dairy and some cereals plus a special regime for sugar, while other imports such as wheat and rice are duty-free. In general Sandrey and Jensen (2007) found that the combination of WTO bound tariffs, the lower and similarly bound WTO in-quota tariff rates and bilateral tariff preferences negotiated with the EU and non-SACU SADC members means that there is little or no ‘policy space’ available to South Africa/SACU to adjust agricultural tariffs, except in wheat and possibly some other grains (maize), oil seeds, meat and possibly vegetables.

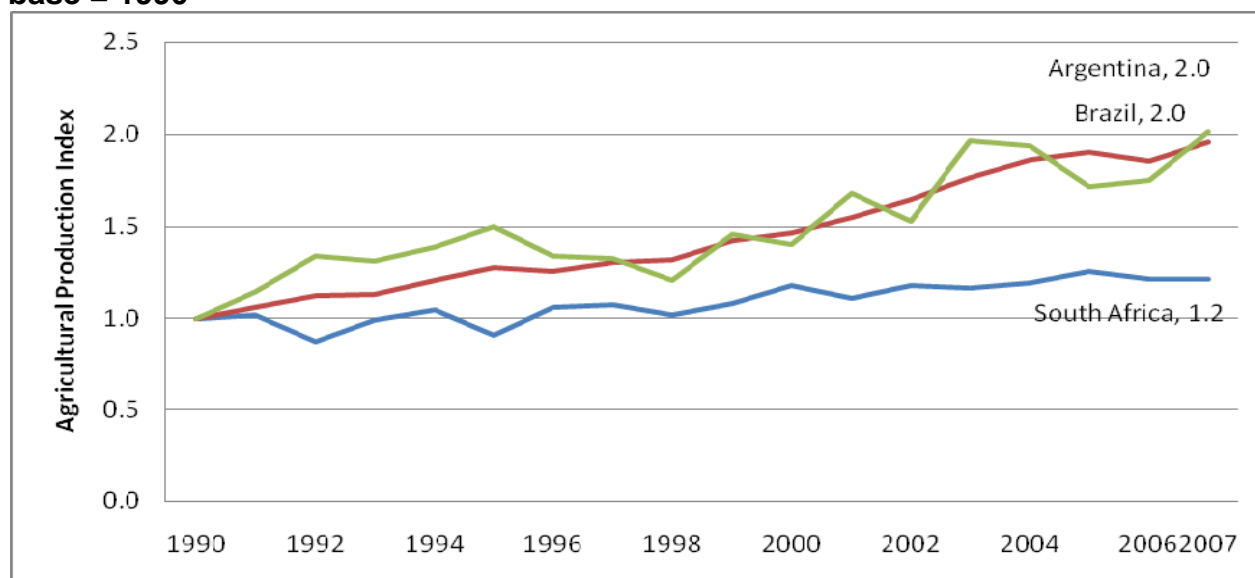
In both Brazil and Argentina the Mercosur common external tariff (CET) applies, although with some exceptions. Accordingly, both Brazil and Argentina have duties of 10 percent on most meats, 10 to 16 percent on dairy products, 10 percent on most fruit and vegetables, cereals and oils, 16 percent on sugars, 12 to 20 percent on most processed foods and 20 percent on most beverages and tobacco. There are import prohibitions on certain grapes and grape juices and wine in containers over five litres, non-operational tariff quotas on apples and pears and an export tax on leather and skins (WTO, 2009a). Nassar et al. (2008) examine possible WTO Doha

Round outcomes for Brazilian agriculture and find that under any likely outcome for market access, Brazil would not be obliged to make more than a few insignificant cuts to its border tariff. Given the common Mercosur tariff it is reasonable to assume that the same would apply for Argentina.

Section 2 The agricultural sectors in Brazil, South Africa and Argentina

This section starts by showing the indexed growth in agricultural production in South Africa, Brazil and Argentina since 1990. Both Brazil and Argentina exactly doubled their production over the period, while South Africa's production increased by only 20 percent (from 1.0 to 1.2 in the index). Argentina's growth is more variable than the steady pattern of Brazil's. Note in particular that this index does not allow for population growth - when this is taken into account agricultural production per capita actually declines in South Africa⁵.

Figure 1: Agricultural production in South Africa, Brazil and Argentina, base = 1990



Source: FAO database

To confirm this overall pattern and facilitate the comparisons between the agricultural sectors in the three countries, Tables 3, 4 and 5 put in perspective the relative agricultural production of cereals, meat, and fruit and vegetables in Brazil, Argentina and South Africa. The data is again sourced from the FAO database and shows the

⁵ As shown in the FAO database.

percentage of world production for each country. Also shown is the data for Uruguay and Paraguay for all commodities and for Botswana and Namibia for meat only. Table 3 shows the increasing role of Brazil as a world player in **cereals**, with its share increasing from around 2 percent over the first two periods to over 3 percent in 2003. Argentina's share remained relatively stable (despite a decline during the 1980s) while South Africa's declined. Both Paraguay and Uruguay increased their relative shares.

Table 3: Relative production of cereals, % world shares

Country	Share of world cereal production (%)				
	1979–1981	1989–1991	1999–2000	2003	2004
Brazil	1.96	1.98	2.41	3.23	2.81
South Africa	0.90	0.67	0.56	0.57	0.54
Argentina	1.56	1.05	1.75	1.63	1.51
Paraguay	0.03	0.04	0.06	0.08	0.09
Uruguay	0.06	0.06	0.09	0.10	0.11

Source: FAO database

The relative shares of global **meat** production are shown in Table 4, where again the rise of Brazil is apparent. South Africa's share was very stable while Argentina's declined. Both Paraguay and Uruguay's shares were stable. Both countries are relatively important players on the world meat scene given their economic size. Also shown are the relative positions of Botswana and Namibia. Both countries' beef exports to the EU under preferences dominate their agricultural exports. Neither country is an important global player, however, nor does either reach even 20 percent of Paraguay or Uruguay's meat output. Paraguay and Uruguay in turn struggle to reach 15 percent of the output of their neighbours, Brazil and Argentina.

Table 4: Relative production of meats, % world shares

Country	Share of world meat production (%)				
	1979–1981	1989–1991	1999–2000	2003	2004
Brazil	3.83	4.58	6.53	7.25	7.66
South Africa	0.80	0.77	0.71	0.73	0.73
Argentina	2.72	1.97	1.71	1.48	1.61
Paraguay	0.15	0.19	0.16	0.14	0.16
Uruguay	0.30	0.25	0.23	0.21	0.23
Botswana	0.04	0.03	0.02	0.02	0.02
Namibia	0.05	0.04	0.03	0.04	0.04

Source: FAO database

Finally, Table 5 shows the relative shares of global **fruit and vegetable** production. South Africa and Argentina both lost global share over the period, with South Africa's relative share converging with Argentina's. Overall, despite being a major fruit exporter, South Africa lies in the shadow of Brazil as an overall producer.

Table 5: Relative production of fruit and vegetables, % world shares

Country	Share in world production in fruit and vegetables (%)				
	1979–1981	1989–1991	1999–2000	2003	2004
Brazil	3.64	4.44	3.55	3.27	3.16
South Africa	0.74	0.71	0.59	0.59	0.56
Argentina	1.36	1.09	0.88	0.80	0.77
Paraguay	0.13	0.10	0.07	0.06	0.06
Uruguay	0.07	0.06	0.06	0.05	0.05

Source: FAO database

Table 6 goes further for Brazil, South Africa and Argentina and looks at their main agricultural production by commodities for 2007, with the data expressed in millions of US dollars.

- Note the relative size of the values – Brazil's are often at least double the values for Argentina while Argentina's in turn are generally above those for South Africa

- Four of the top ten commodities (beef, chicken, sugar cane and milk) are common to all three countries
- Oranges are the only other commodity common to Brazil and South Africa
- Wheat, grapes, maize and eggs are common to Argentina and South Africa, meaning there are eight common commodities in this pairing

There are some interesting inter-linkages in Table 6, as the chicken industry in South Africa is based upon imports of soya bean products from Brazil and Argentina rather than a 'home grown' industry. Note also that while Brazil is the dominant exporter of sugar globally, and Brazil's sugar cane production is about twenty times that of South Africa's, not all of this cane is transformed into sugar and sugar-related products. A considerable portion is used in ethanol production. This will be discussed in more detail in the next section.

Table 6: Top 10 agricultural products by value of production, Brazil, South Africa and Argentina, 2007 (US\$ millions)

Brazil		South Africa		Argentina	
Commodity	Production (US\$m)	Commodity	Production (US\$m)	Commodity	Production (US\$m)
Beef	13,868	Beef	1,635	Soya beans	10,147
Soya beans	12,288	Chicken	1,140	Beef	6,164
Sugar cane	11,376	Grapes	841	Milk	2,792
Chicken	10,929	Milk	679	Wheat	2,475
Milk	7,094	Sugar cane	422	Maize	2,464
Oranges	3,284	Maize	355	Grapes	1,345
Rice	2,310	Eggs	337	Chicken	1,177
Pig meat	2,069	Wheat	317	Sunflower	822
Cotton	2,014	Oranges	248	Sugar cane	399
Coffee	1,839	Potatoes	247	Eggs	390

Source: FAO data

An examination of the FAO database reveals that, of the agricultural products of interest to South Africa, Brazil is the world's leading producer of sugar cane, coffee and oranges, it is number two for soya beans, tobacco, beef and pineapples and number three for bananas, tangerines and mandarins and chicken meats. Similarly,

Argentina is among the top 10 global producers of honey, sunflowers, soya beans, lemons, pears, beef, maize, tobacco, wool, wheat, groundnuts, grapefruit and grapes. South Africa is among the top 10 for grapefruit (3rd), 'other cereals' (7th), pears and maize (both 8th) and castor oil seed and grapes (both 10th). Interestingly, South Africa is ranked 20th for game meats while Argentina ranks much higher in 10th place. Many of these products plus others crucial to South Africa will be examined in the next section.

Agricultural production and trade: South Africa and Brazil in perspective⁶

This section has been compiled from information and statistics downloaded from FAO databases. It is important to note that the country production ranking was done with 2007 data. The production indices use 1990 as a base year (1990 = 100). We caution that this shows the relative changes in production in each country over the period and does not reflect the actual production levels which can differ by several orders of magnitude in some instances (as shown in the tables that precede the graphs). Note that emphasis in this section is placed on Brazil rather than Argentina.

Wheat

Neither Brazil nor South Africa ranked in the top 20 global producers of wheat in 2007. Brazil only came in at number 23, accounting for only 1 percent while South Africa came in at number 36. The leading producers, as presented in Table 7, were China, India and the US with combined production amounting to a 48 percent share of world production.

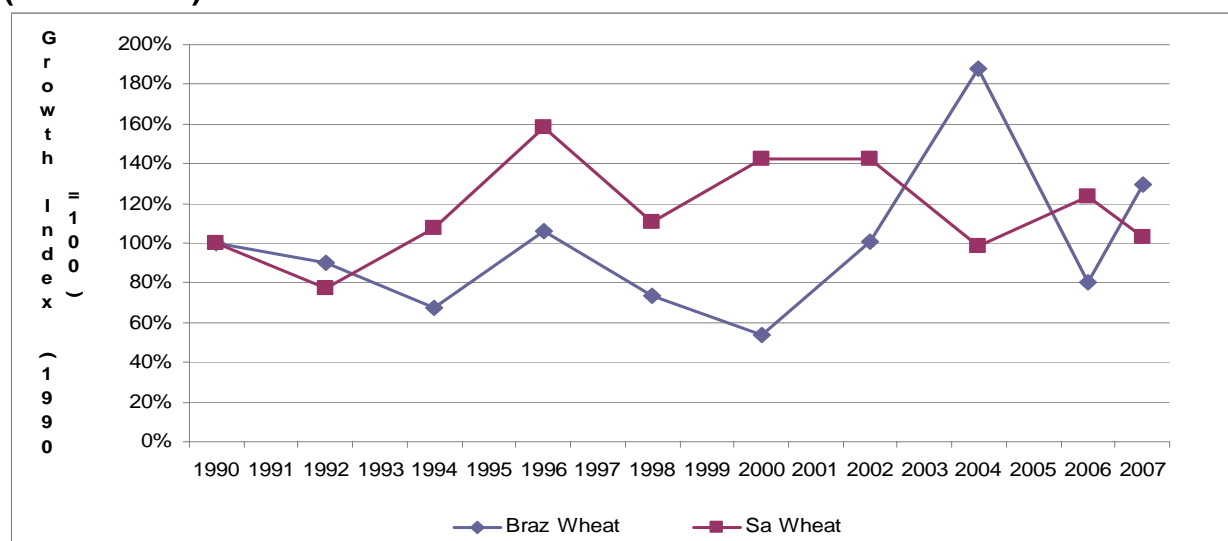
⁶ This section was largely compiled by Modise Moloi and Bonani Nyhodo from the Department of Trade and Industry and National Agricultural Marketing Council.

Table 7: Leading producers of wheat, 2007

Rank		Production in metric tons	Share of global production
1	China	109,860,350	22.1%
2	India	74,890,000	15.1%
3	United States of America	53,603,040	10.8%
4	Russian Federation	49,389,860	9.9%
12	Argentina	14,000,000	2.8%
23	Brazil	3,998,072	1%
36	South Africa	1,756,900	0.4%
	World	497,185,683	100.0%

Source: FAO statistics (2009), tralac calculations

Figure 2 is the first of a series of graphs that shows the relative changes in production in both Brazil and South Africa over the period 1990 to 2007, with the index benchmarked at 1990 = 100. It shows that South African wheat production generally grew at a rate higher than that of Brazil, although the trend seems to have been changing in recent years. Between 1990 and 1992 both countries experienced a decline (10% for Brazil and 23% for South Africa, with drought conditions influencing South Africa's harvest). Since the mid-1990s South African production has exhibited a general downward trend, while Brazil's has been more variable with a significant spike in 2004.

Figure 2: Wheat production growth trends for Brazil and South Africa (1990 – 2007)

Source: FAO Statistics, 2009

Sugar

Brazil was the leading producer of sugar cane in 2007, followed by India and China, with their production accounting for 35, 24 and 7 percent of world production respectively. South Africa was ranked at number 12, with production of over 20 million metric tons, and Argentina at number 13. Table 8 provides a summary of the leading producers of sugar cane.

Table 8: Leading producers of sugar cane, 2007

Rank	Country	Production in metric tons	Share of global production
1	Brazil	514,079,729	35%
2	India	355,520,000	24%
3	China	106,316,000	7%
4	Thailand	64,365,682	4%
12	South Africa	20,500,000	1%
13	Argentina	19,200,000	1%
	World	1,452,013,978	100%

Source: FAO statistics (2009), tralac calculations

Figure 3 shows the trend of sugar cane production in South Africa and Brazil between 1990 and 2007. Brazil's production growth rate was very steady over the period, while South Africa's increased through to 2000 before declining. The overall result was that Brazilian production doubled over the period while South Africa's ended the period just above the 1990 reference point. Brazil's growth pattern is explained by two related factors: 1) Brazil has a lot of available land for expansion of crops and 2) much of the sugar produced is used for bio-fuel production.

Figure 3: Sugar production growth trends for Brazil and South Africa (1990 – 2007)



Source: FAO statistics (2009)

During 2006 Brazil was the leading sugar exporter in the world, with a 30.7 percent share of global exports. Next was the EU with 26.1 percent (including intra-EU trade), followed by Australia (7.2%), Thailand (3.7%) and India (3.4%). South Africa was ranked at number 7 with 1.9 percent and Argentina at number 12 with 1.2 percent. Swaziland was ranked at number 20 with a 0.7 percent global share. Equally important for sugar cane production in Brazil has been the development of the ethanol industry in that country. The share of ethanol in sugar cane production increased sharply from the beginning of the gasohol program (Proálcool) in 1975 until 1985, when 70 percent of sugar cane was devoted to ethanol. A period of stagnation

that lasted until 1991 followed this initial euphoria and production later declined. As of 2007, sugar represented 49 percent of sugar cane production and ethanol accounted for 51 percent (Brandão, 2007).

Soya beans

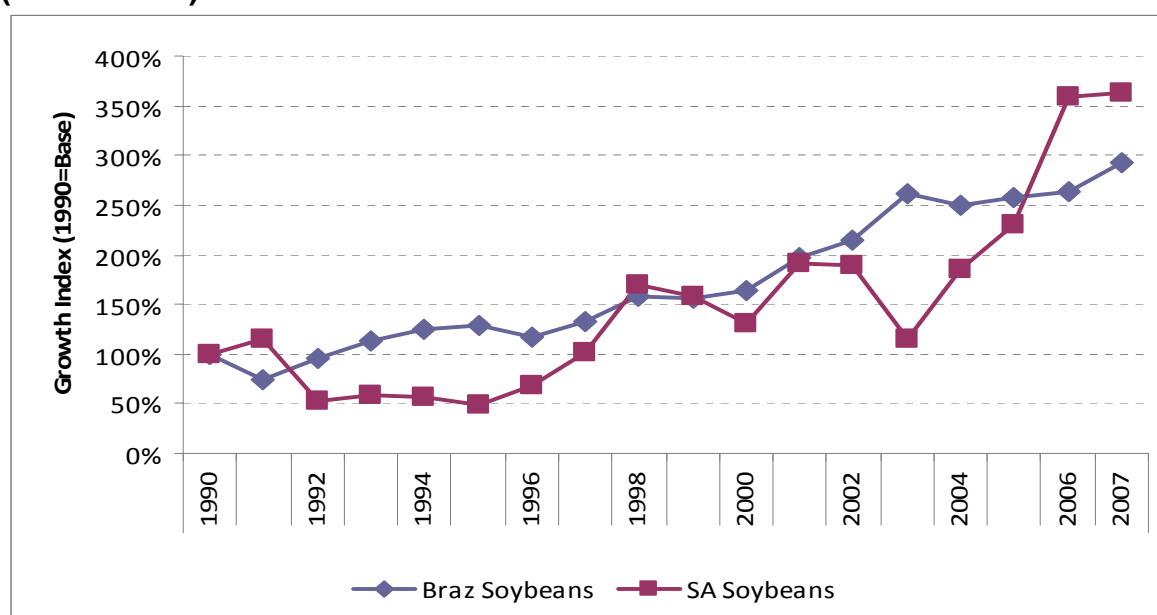
Table 9 displays the top producers of soya beans. The top three were the United States of America (35%), Brazil (29%) and Argentina (23%), together accounting for around 87 percent of world production in 2007. South Africa was ranked at number 17, producing about 430 thousand metric tons.

Table 9: Leading producers of soya beans, 2007

Rank	Country	Production in metric tons	Share of global production
1	United States of America	70,707,492	35.3%
2	Brazil	58,197,297	29.0%
3	Argentina	45,500,000	22.7%
4	China	15,600,200	7.8%
17	South Africa	430,000	0.2%
	World	200,544,262	100.0%

Source: FAO statistics (2009), tralac calculations

Figure 4 shows the production trends of soya beans for South Africa and Brazil between 1990 and 2007. The growth pattern of these two countries is more or less the same for the period under analysis, but, of course, Brazil's actual production was several orders of magnitude above South Africa's. Between 2003 and 2006 the South African growth rate became very pronounced, while Brazil's production steadily increased over the entire period albeit with some evidence of a plateau in the most recent years. Both Brazil and South Africa increased their production about threefold between 1990 and 2007.

Figure 4: Soya bean production growth trends for Brazil and South Africa (1990 – 2007)

Source: FAO statistics (2009)

Oranges

Brazil also dominated global production of oranges in 2007, producing 18 million metric tons (mt) and accounting for a 29 percent share of world production. The second and third leading producers were the United States and Mexico at 7 million mt and 4 million mt respectively. During the same year South Africa ranked number 14 with production of around 1 million mt.

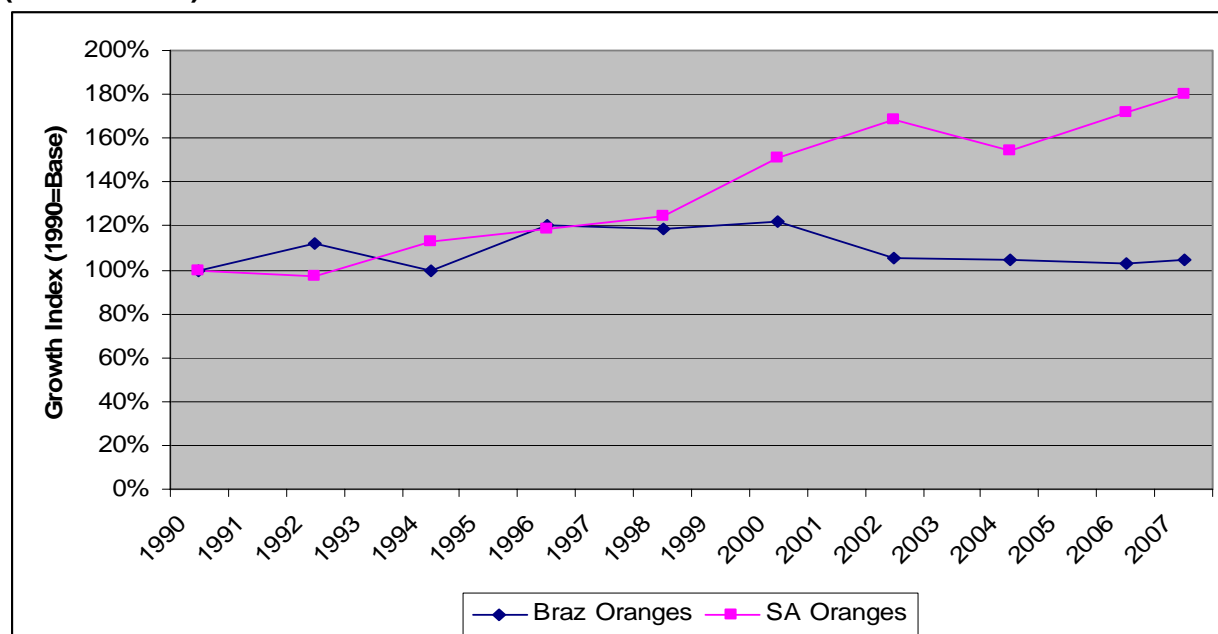
Table 10: Leading producers of oranges, 2007

Rank	Country	Production in metric tons	Share of global production
1	Brazil	18,279,309	29%
2	United States of America	7,357,000	12%
3	Mexico	4,160,000	7%
4	India	3,900,000	6%
5	China	2,865,000	4%
14	South Africa	1,400,000	2%
15	Greece	1,000,000	2%
17	Argentina	766,000	1%
	World	63,906,064	100%

Source: FAO statistics (2009), tralac calculations

Figure 5 shows a steady increase in the production of oranges in both South Africa and Brazil until 1998. Since then South Africa's production of oranges has increased to nearly double the 1990 level while Brazil's has declined to near the 1990 level.

Figure 5: Orange production growth trends for Brazil and South Africa (1990 – 2007)



Source: FAO statistics (2009)

Beef

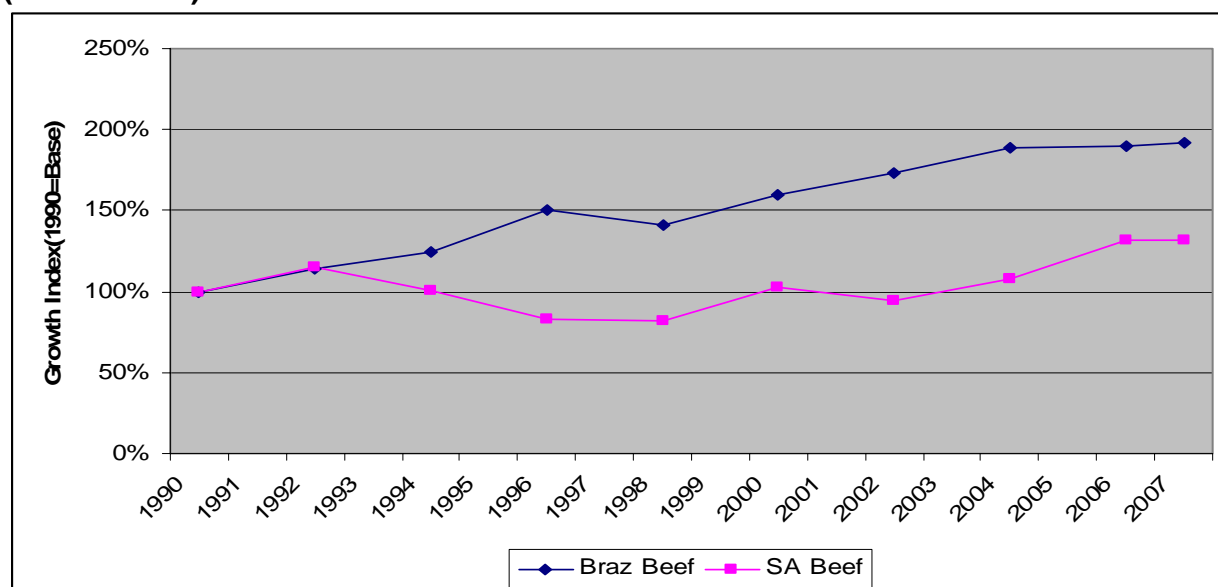
In 2007, global beef production reached about 55 million mt. The US, Brazil and China were the top three producers of beef producing around 12 million mt, 8 million mt and 7 million mt respectively. This amounted to 19, 13 and 12 percent shares of global production respectively. It is interesting to note that with the exception of China and the US, the countries in the list are southern hemisphere countries. Meanwhile South Africa was ranked at number 14, producing 805,000 mt, or about 1 percent of global production by volume.

Table 11: Leading producers of beef, 2007

Rank	Country	Production in metric tons	Share of global production
1	United States of America	12,044,305	22%
2	Brazil	7,900,000	14%
3	China	7,272,010	13%
4	Argentina	2,830,000	5%
14	South Africa	805,000	1%
	World	54,631,160	100%

Source: FAO statistics (2009)

Figure 6 clearly shows that South Africa's growth rate in beef production was lower than the growth rate in Brazil. During the review period production in Brazil steadily increased to nearly double the 1990 level. South Africa's production was close to the 1990 level until 2004 after which it increased to around 35 percent above 1990s levels.

Figure 6: Beef production growth trends for Brazil and South Africa (1990 – 2007)

Source: FAO statistics, 2009

Chicken

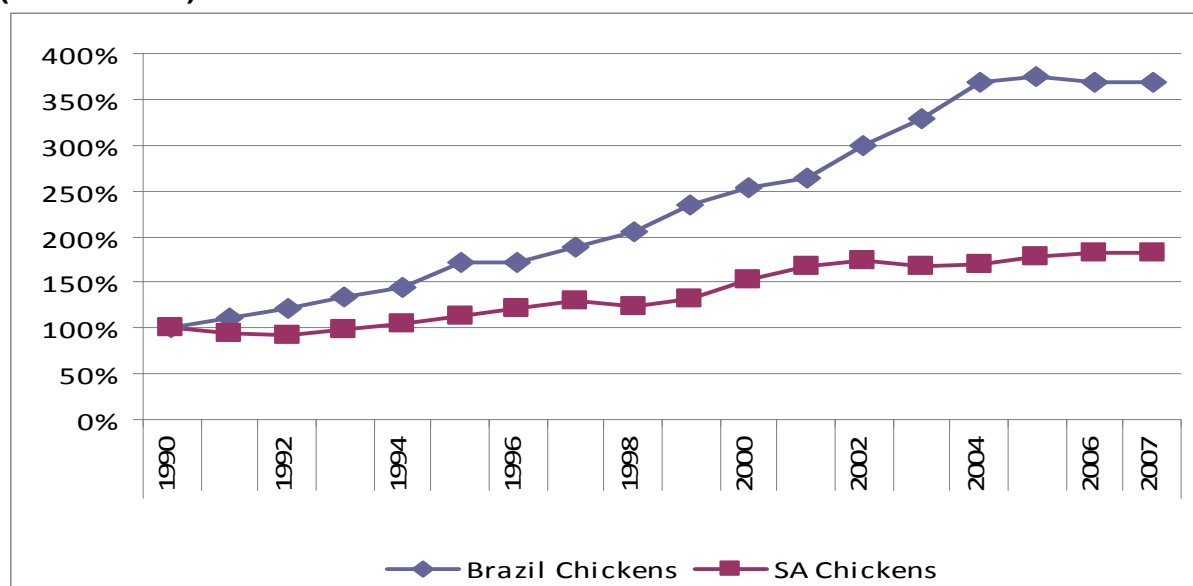
Global chicken production was about 64 million mt in 2007. The US was by far the leading producer with production of nearly 16 million mt representing around 25 percent of world production. Second on the list was China with 11 million mt, followed by Brazil with 9 million mt. South Africa was positioned at number 15, accounting for only 2 percent of world production, or 975,000 mt.

Table 12: Leading producers of chicken, 2007

Rank	Country	Production in metric tons	Share of global production
1	United States of America	16,000,000	25%
2	China	10,856,800	17%
3	Brazil	8,670,000	14%
4	Mexico	2,500,000	4%
11	Argentina	1,160,000	2%
15	South Africa	975,000	2%
	World	64,040,374	100%

Source: FAO Statistics, 2009

Figure 7 shows the production growth rates from 1990 – 2007 of chicken meat in both South Africa and Brazil. Both show an increasing trend, but Brazilian production growth was much more apparent, as Brazilian production increased to more than three times the 1990 level while South Africa's stabilised at around 50 percent above the 1990 level. Note here that Brazil has become a major exporter of chicken meat, and also that South Africa imports much of its chicken feed from Argentina and Brazil.

Figure 7: Chicken production growth trends for Brazil and South Africa (1990 – 2007)

Source: FAO statistics, 2009

Grapes

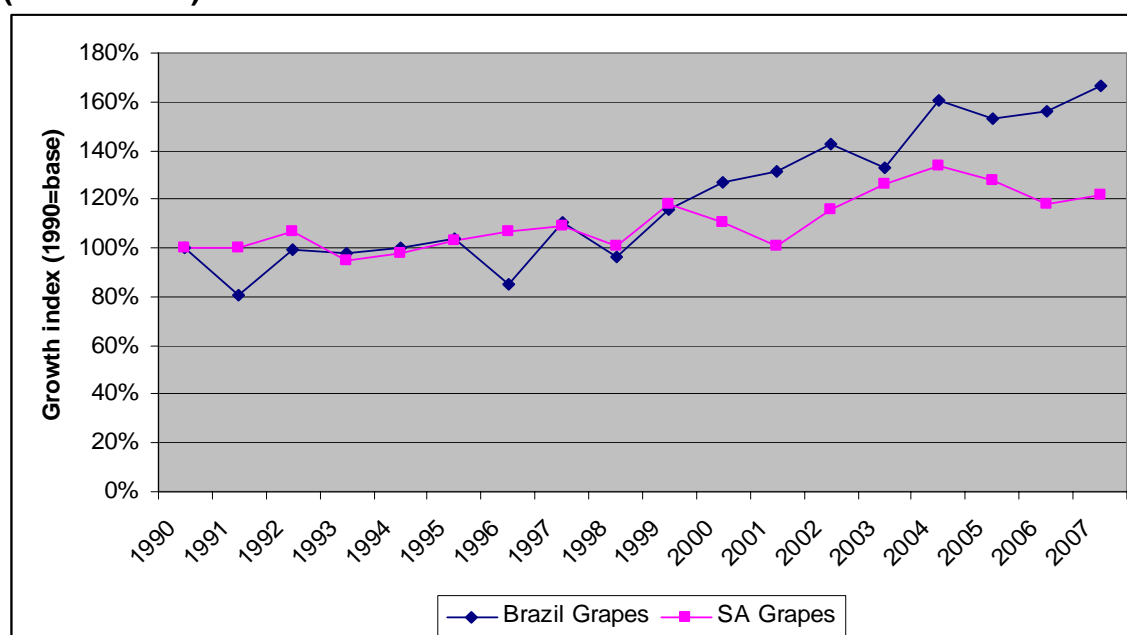
The leading producers of grapes in 2007 were Italy, France and China, with production amounting to approximately 8 million mt, 6.5 million mt and 6 million mt (and accounting for 13%, 10% and 9% of world production) respectively. During 2007 the FAO reported that Argentina ranked 8th in the world, closely followed by Chile (9th), South Africa (11th) and Brazil (13th). Grapes (and possibly apples – see Table 15 below) are the only product in this section where production is similar in Argentina, South Africa and Brazil, as well as in Chile.

Table 13: Leading producers of grapes, 2007

Rank	Country	Production in metric tons	Share of global production
1	Italy	8,519,418	14%
2	France	6,500,000	11%
3	China	6,250,000	10%
4	United States of America	6,105,080	10%
8	Argentina	2,900,000	5%
9	Chile	2,350,000	4%
11	South Africa	1,600,000	3%
13	Brazil	1,341,806	2%
	World	60,121,676	100%

Source: FAO statistics, 2009

Figure 8 presents production trends for South Africa and Brazil in the familiar format. Brazilian production growth was a little erratic but trended upwards, with production in 2007 around 60 percent higher than in 1990. South Africa trended marginally upwards through to 1999 before declining to the 1990 level in 2001. It then increased to around 20 percent above the 1990 level in 2007.

Figure 8: Grape production growth trends for Brazil and South Africa (1990 – 2007)

Source: FAO statistics, 2009

Taking grape production an extra step further and looking at world wine production, Table 14 shows world wine production for 2005, with the percentage changes from 1996 also shown to clarify where growth is taking place. This growth is the absolute and not annual growth over the period. The European countries of France, Spain and Italy top the rankings despite declining production in the first two countries and a marginal increase in Spain. Argentina comes in at number 5, with South Africa at 9, Chile at 10, Brazil at 15 and Uruguay at 28. For exports, the FAO reports that during 2006, France and Italy were the leading wine and vermouth exporters with a combined world market share of 53.3 percent. Next was Australia (9%), with Chile in 5th place (3.6%), South Africa in 10th and Argentina in 12th position. This FAO data also highlights how the so-called ‘new world’ wine producers of the southern hemisphere and the US all experienced dramatic growth over the ten years up to 2006.

Table 14: Global wine production 2005 and % change from 1996

Rank	Country	Hectolitres ('000)	% change from 96
1	France	52,004	-7.6
2	Italy	50,556	-7.0
3	Spain	34,750	1.7
4	United States	28,692	34.2
5	Argentina	15,222	13.1
6	Australia	14,000	89.7
9	South Africa	8,410	7.3
10	Chile	7,890	55.8
15	Brazil	3,200	9.6
28	Uruguay	890	-10.9

Source: Wine institute (California) at <http://www.wineinstitute.org/files/WorldWineProductionbyCountry.pdf>

Apples

The leading producers of apples in 2007 were China, the US and Iran, with production amounting to approximately 28 million mt, 4 million mt and 3 million mt (and accounting for 42 %, 6% and 4% of global production) respectively. During 2007 Chile ranked 9th in the world, immediately followed by Argentina (10th), with Brazil in 11th and South Africa in 17th position.

Table 15: Leading producers of apples, 2007

Rank	Country	Production in metric tons	Share of global production
1	China	27,865,953	42.2
2	US	4,237,730	6.4
3	Iran	2,660,000	4.0
9	Chile	1,390,000	2.1
10	Argentina	1,300,000	2.0
11	Brazil	1,115,380	1.7
16	South Africa	709,912	1.1
	World	659,707,076	100%

Source: FAO statistics, 2009

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Chapter 3

South Africa, Brazil and Argentina: The agricultural trading relationships

Taku Fundira, Bonani Nyhodo, Ron Sandrey, Willemien Denner

Executive summary and key points

Following on from the previous chapter which examined the agricultural policies and production profiles of Argentina, Brazil and South Africa, this chapter takes a closer look at the agricultural trading profiles of the three countries.

During 2008 Brazil's agricultural exports were worth US\$58.4 billion. These exports also experienced an average annual growth rate of 12 percent between 1997 and 2008. Conversely, Brazil's agricultural imports in 2008 were valued at only US\$8.2 billion, giving Brazil a trade surplus of over US\$50 billion in agricultural products during 2008.

- The EU (accounting for 32% of exports), China (12%) and Russia (7%) were the top three **export** destinations for Brazil's agricultural exports. These destinations accounted for over 50 percent of the country's total agricultural exports.
- South Africa was ranked as Brazil's 16th most important export destination for agricultural products, with exports valued at US\$510 million or just below 1 percent of Brazil's total agricultural exports.
- Exports to Venezuela (44%), South Africa (24%) and China (24%) recorded the highest average annual growth rates between 1997 and 2008.
- Brazil's main agricultural exports are soya beans and soya bean products (accounting for 29.7% of agricultural exports), coffee (7%), beef (6%), sugar cane (6%) and chicken and chicken by-products (10%). Together these products accounted for nearly 61 percent of total agricultural exports in 2008.
- During 2006 Brazil was responsible for 26.4 percent of the world's green coffee bean exports by value, 35.1 percent of soya bean exports, 20.7 percent of soya bean oil exports, 24.6 percent of beef exports, 30.7 percent of sugar exports and 21.3 percent of tobacco exports.

- Argentina (39%); EU (16%) and the US (8%) accounted for approximately 63 percent of Brazil's total agricultural **imports**. South Africa was only Brazil's 27th most significant source of imports, with a market share of only 0.1 percent in 2008.
- China is the main emerging import source, having experienced an average annual growth rate of 18 percent in value terms from US\$48 million in 1997 to US\$298 million in 2008. Brazilian imports from Indonesia also experienced a relatively high average annual growth rate of 17 percent over the review period.
- Brazil mainly imports wheat and wheat products. These account for over 30 percent of the country's total agricultural imports. Outside of wheat (and perhaps barley malt) Brazil is highly self-sufficient in agricultural products.

This chapter extends the analysis of the trading relationship between South Africa and Brazil by including a trade reconciliation exercise and a trade chilling exercise. The trade reconciliation exercise compares South Africa's reported exports with Brazilian import data, and shows that there is a very good match between the data sets at the aggregate level. The trade chilling exercise, meanwhile, examines products that Brazil imports and South Africa exports but where there is little or no bilateral trade in these products. It also provides a few examples as to where increased agricultural trade could possibly take place.

An examination of the 2008 Argentine agricultural trade data shows that:

- The EU (accounting for 28% of exports), China (14%) and Brazil (8%) were the top three **export** destinations for Argentine agricultural and fisheries exports during 2008. These markets accounted for over 50 percent of Argentina's total agricultural and fisheries exports. South Africa was ranked 11th of all export destinations receiving 1.9 percent of Argentina's exports of these products.
- Argentina's agricultural and fisheries exports to Algeria and China displayed the highest growth rates between 1998 and 2008, with average annual growth rates of 28 percent each. During the same period Argentina's exports to South Africa grew by 13 percent a year on average.

- In 2008 soya beans and their associated products accounted for 44 percent of Argentina's total agricultural and fisheries exports and were mainly exported to the EU and China.
- Paraguay (46%), Brazil (22%) and the EU (7%) were Argentina's most significant sources of agricultural and fisheries **imports** during 2008. Argentina's imports from these sources accounted for over 70 percent of the country's total agricultural and fisheries imports. South Africa was ranked 24th of all import sources with a share of only 0.2 percent in the Argentine market.
- Between 1998 and 2008 Argentina's agricultural and fisheries imports from Paraguay grew by 30 percent in value, from US\$97 million in 1998 to US\$1.3 billion in 2008. Imports from China showed a moderate growth rate of 18 percent a year over the same period.
- Soya beans accounted for over 45 percent of Argentina's total agricultural and fisheries imports. They were mostly imported from one source – Paraguay – which supplied 98% of Argentina's total soya bean imports.

Analysis of South Africa's imports during 2008 shows that the EU has maintained a dominant position as the country's main supplier of agricultural products, with a 22.8 percent share in 2008. Argentina and Brazil followed with a combined share of 27.3 percent. Together these three sources accounted for 75.4 percent of South Africa's agricultural imports during 2008. The share of imports from Argentina was above 10 percent during the whole period from 1996 to 2008, while Brazil's share rose from around 2 percent at the beginning of this period to around 10 percent by 2008.

South Africa's main imports from the Mercado Comun del Sur (Mercosur) are soya beans and their associated products (Mercosur's market share in this market was generally over 90% during the period under review), wheat – accounting for a 53 percent market share, chicken meat (85%), sunflower products (18.5%) and sugar (88%). Imports of cane sugar have shown the highest growth rate over the period from 1996 to 2008. Imports of agricultural products from Mercosur into the BLNS countries are minimal.

Introduction

This chapter examines and analyses the trading relationship between South Africa/SACU on the one side and Brazil and Argentina on the other side. The emphasis here is on agricultural trade. Section 1 focuses on Brazil and examines the country's agricultural trading profile and performance. Brazil's agricultural trading relationship with South Africa is also outlined. Included in this section are: i) a reconciliation exercise comparing South African export data with Brazilian import data, and ii) a trade chilling analysis to investigate areas of potential in bilateral agricultural trade between Brazil and South Africa. Section 2 follows the same general pattern as Section 1, focusing on Argentina this time. Finally, Section 3 concludes the chapter by examining South Africa's agricultural import profile and showing how important Brazil and Argentina are to South Africa as sources of Agricultural imports. This section also briefly looks at agricultural trade flows from Mercosur to Botswana, Lesotho, Namibia and Swaziland (BLNS).

Section 1 Brazil's agricultural trading profile

Agricultural imports

Table 1 shows Brazil's agricultural imports by source. The data is expressed in US dollar nominal amounts and is sourced from the World Trade Atlas (WTA) for the December 2008 year, with the 1997 data shown as a comparison. Brazil's agricultural imports totalled US\$8.2 billion in 2008.

Table 1: Brazil's top 10 sources of agricultural imports (US\$ millions)

Rank	Country	1997	2008	2008 share (%)	Compound annual growth, 1997-2008 (%)
0	--World--	6,353.30	8,221.04	100.0	2.4
1	Argentina	2,392.89	3,177.47	38.7	2.6
2	EU 27	755.79	1,288.82	15.7	5.0
3	United States	560.51	692.14	8.4	1.9
4	Uruguay	568.06	542.63	6.6	-0.4
5	Paraguay	465.79	476.79	5.8	0.2
6	Chile	202.88	359.25	4.4	5.3
7	China	48.13	297.52	3.6	18.0
8	Indonesia	52.44	265.62	3.2	15.9
9	Norway	152.22	193.70	2.4	2.2
10	Canada	215.59	184.49	2.2	-1.4
27	South Africa	82.17	8.83	0.1	-18.4

Source: World Trade Atlas and tralac calculations

- Brazil's total agricultural imports were valued at US\$ 8.2 billion in 2008, having grown by only around 2 percent a year since 1997.
- Argentina (39%), EU (16%) and the US (8%) accounted for approximately 63 percent of Brazil's total agricultural imports in 2008. South Africa was only Brazil's 27th most significant source of agricultural imports, with a market share of only 0.1 percent for 2008. The data also reveals that over the period 1997-2008, South Africa's importance to Brazil as an agricultural import source has declined, as reflected by the negative growth of 18 percent a year that imports from South Africa experienced over the period.
- China was the most significant emerging import source, with imports from China having experienced an annual growth rate of 18 percent in value terms, from US\$48 million in 1997 to US\$298 million in 2008. Indonesian imports also experienced a relatively high growth rate of 16 percent over the review period.
- Imports from Uruguay and Paraguay experienced relatively low growth rates with Uruguayan imports actually reflecting a decline in value terms of 0.4 percent.

Individual product lines at the disaggregated HS 6 level are shown in Table 2, with South Africa's share shown along with dollar values and compound annual growth between 1997 and 2008.

Table 2: Brazil's top 10 agricultural imports from the world (US\$ millions)

HS	Description	MFN tariff (%)	1997	2008	Share of total agricultural imports, 2008 (%)	South Africa's share, 2008 (%)	Avg. annual growth, 1997-2008 (%)
	Total agricultural		6,353.30	8,221.04	100.0		2
100190	Wheat, meslin	5	705.25	1,871.29	22.8	--	9
110710	Malt, not roasted	14	231.39	507.96	6.2	--	7
110100	Wheat or meslin flour	12	95.18	291.83	3.5	--	11
071333	Kidney beans	5	89.43	208.15	2.5	0.0	8
220421	Wine	27	45.90	165.39	2.0	13.0	12
180100	Cocoa beans		20.26	158.35	1.9	--	21
100630	Rice	13	206.15	155.22	1.9	0.0	-3
150910	Olive oil/fractions	10	12.36	151.70	1.8	--	26
230990	Animal feed	8	18.79	150.87	1.8	0.0	21
030429	Fish fillets, frozen	10	0.00	149.63	1.8	--	--

Source: World Trade Atlas and tralac calculations

- Brazil's most significant agricultural imports are wheat and its associated products. These account for over 30 percent of the country's total agricultural imports. Outside of wheat (and perhaps barley malt) Brazil is highly self-sufficient in agricultural products.
- Brazilian imports of olive oil (26%), animal feed (21%) and cocoa beans (21%) experienced the highest growth rates over the review period.
- In total, the 10 products highlighted in Table 2 above account for over 46 percent of Brazil's total agricultural imports. In value terms this translates to approximately US\$3.8 billion.
- South Africa only features in wine imports into Brazil in the top disaggregated lines.
- Imports of fish fillets are included at number 10 on the import list. This provides a perspective on Brazil's trade in fisheries products.

The South Africa-Brazil trading relationship (Brazilian imports)

Several points can be deduced from Table 3 below:

- Alcoholic products represent Brazil's main imports from South Africa. Liqueurs and cordials (31%), fatty alcohols (21%), and wine (13%) together accounted for 65 percent of Brazil's total agricultural imports from South Africa in 2008.
- Of the main products imported from South Africa, only wine imports featured in Brazil's top 10 global imports.
- With the exception of HS050590 (skins & other parts of birds) which has experienced negative growth of 14 percent, all the other products in the table experienced growth of more than 10 percent a year over the review period.
- HS200990 (mixtures of fruit) (47%), HS080620 (grapes) (38%) and HS120991 (vegetable seeds for sowing) (25%) experienced the highest growth over the review period.

Table 3: Brazil's agricultural imports from South Africa (US\$ millions)

HS code	Description	1997	2008	Avg. annual growth (%)	Share of agricultural imports (%)	Main competitors share in import line (%)
	Total agriculture	82.17	8.83	-18		
220870	Liqueurs and cordials	0.91	2.77	11	31.4	EU (39), Argentina (2)
382370	Fatty alcohols	0.00	2.13	--	24.1	EU (25), India (18)
220421	Wine	0.11	1.15	24	13.0	EU (43), Chile (31)
080620	Grapes, dried	0.03	1.03	38	11.7	Argentina (77), Chile (11)
120991	Vegetable seeds	0.05	0.60	25	6.8	EU (41), US (16)
051199	Pet food	0.00	0.41	--	4.6	US (40), Argentina (38)
200990	Mixtures of fruit	0.00	0.19	47	2.2	US (95), EU (3)
210690	Food preparations, other	0.00	0.19	--	2.2	EU (45), US (30)
151590	Fixed vegetable oil	0.00	0.13	--	1.5	EU (35), US (29)
050590	Skins & parts, birds	0.28	0.05	-14	0.6	Zimbabwe (6)

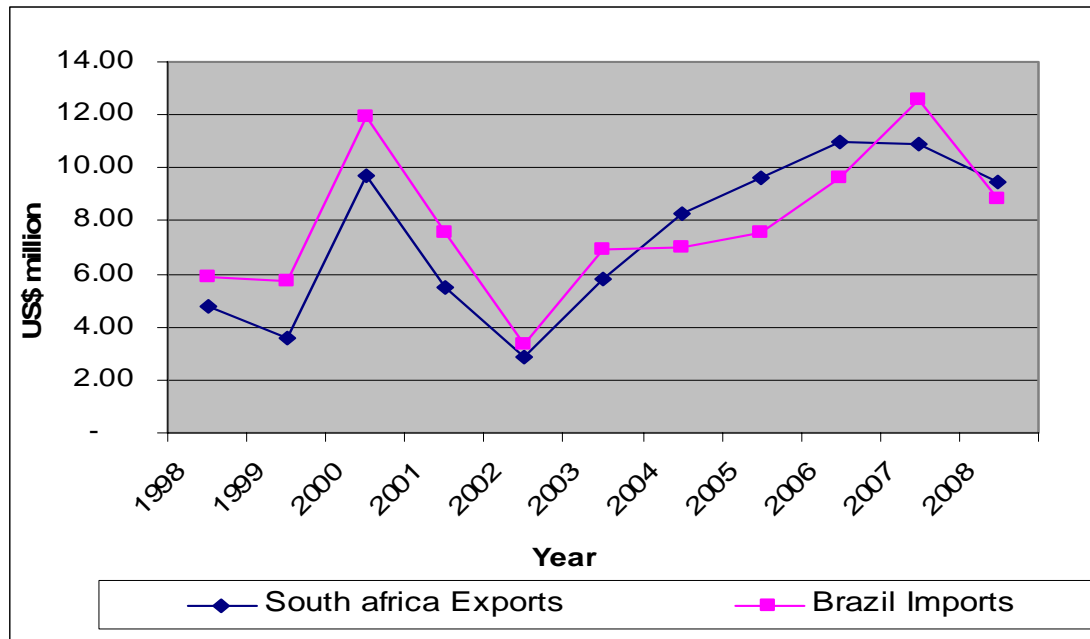
Source: World Trade Atlas and tralac calculations

Data reconciliation: South Africa and Brazil

Data reconciliation is used to double-check trade flow data between trading partners, in this case, South Africa and Brazil. The comparison here is based on what South Africa reports to have exported to Brazil against what Brazil has recorded to have received from South Africa. In most cases the data does not reconcile exactly due to reasons such as different evaluation methods (e.g. free on board (FOB) versus cost insurance freight (CIF)), currency fluctuations or the timing of shipments. Import data is usually considered more reliable than export data since goods imported are usually recorded as part of the process to collect import duties or check compliance with import controls

Figure 1 shows the annual aggregated data of South Africa's reported agricultural exports to Brazil and Brazil's reported agricultural imports from South Africa over the period 1998-2008. The figure shows a continuous fluctuation in the reporting patterns of both the countries, but with both lines remaining in 'touching distance'. We would expect that Brazilian import data would be higher than South African exports, as Brazil assesses its imports on a CIF basis whereas South Africa records its exports on a FOB basis. Between 1998 and 2002 Brazil's imports were higher than South African exports, but this pattern was reversed between 2004 and 2006. Overall, we consider that this aggregate picture suggests that there are only minor differences and difficulties with reported trade flows in this direction.

Figure 1: South Africa’s recorded exports to Brazil versus Brazil’s recorded imports from South Africa, 1998-2008 (US\$ millions)



Source: World Trade Atlas

The reconciliation update

Extending the analysis above, the disaggregated data for 2008 was taken to further examine differences in reported values between the two countries. This data shows that total Brazilian reported imports from South Africa amounted to US\$8.8 million in 2008 against US\$9.4 million worth of South African reported exports to Brazil in the same year, reflecting a difference of US\$570,000. South Africa’s recorded exports to Brazil were thus over 6 percent higher in value than Brazil’s recorded imports from South Africa. Given that Brazilian data includes the costs of getting products to the country whereas South African export data is calculated as the value at South African ports, one would expect Brazil’s recorded data to be higher in value than South Africa’s. Table 4 shows the main differences in the top 6 products at the disaggregated HS 6 level.

Table 4: South African exports (South African data) versus Brazilian imports (Brazilian data), 2008 (US\$ millions)

HS	Description	Brazil's imports	South Africa's exports	Difference
	Total Trade	8.88	9.45	0.57
220870	Liqueurs and cordials	2.77	3,08	0.31
382370	Industrial fatty alcohols	2.12	1.97	-0.15
220421	Wine	1.15	1.39	0.24
080620	Grapes, dried	1.03	0.38	-0.65
120991	Vegetable seeds	0.60	0.17	-0.43
051199	Pet food	0.41	0.17	-0.24
	Top 6 total	8.08	7.16	-0.92

Source: World Trade Atlas

- South Africa's recorded exports were US\$570,000 higher than Brazil's recorded imports.
- Industrial fatty alcohols, dried grapes, vegetable seeds and pet food show values of imports above that of exports, which is what we would expect to see.
- Conversely, liqueurs and cordials and wine show reported export values above reported import values.

These top 6 products constitute 91 percent of total Brazilian agricultural imports from South Africa and 75.7 percent of South Africa's agricultural exports to Brazil. This implies that remaining South African exports were valued at US\$2.29 million but remaining Brazilian imports only at US\$800,000. A large share of this difference is explained by dried beans, where South African exports of US\$1.08 million are not matched by any reported imports into Brazil for 2008, and several other smaller lines where there are differences. Thus, while the aggregate data reconciles relatively well, there are several discrepancies at the detailed level. These discrepancies can occur for several reasons and would require a close examination of the original data sets in order to be fully explained.

The 'trade chilling' concept

The benefits of an FTA include both 'trade deepening' whereby trade in already traded products is expanded as a result of the FTA and 'trade widening' whereby new trade lines are introduced into the bilateral trade flows. The problem with trade widening is that it is difficult to foresee where these opportunities may lie.

Quantitative and qualitative analyses and projections of the welfare effects of tariff liberalisation traditionally focus on current trade flows. Such approaches are unable, however, to estimate where new opportunities might lie. In particular, it is not possible to derive from the standard quantitative models or qualitative analyses a sense of where new areas of trade might be opened up as a consequence of tariff liberalisation. It is quite possible, for instance, for South Africa to have relatively concentrated flows of trade in specific product categories, with one reason for this level of concentration being that the tariff structure outside those specific product lines is relatively high. In short, as a consequence of these tariffs, trade may have been 'chilled', and it is this area of enquiry that should be of interest to trade policy makers.

The issue here is whether South Africa is fully exploiting potential trade (export) opportunities in Brazil or whether there is some trade chilling taking place, whereby Brazil imports a product in large quantities, and South Africa exports the same product in large quantities, but little or no bilateral trade of this product is occurring. In other words, the two partners are trading this product but not with each other. One way to determine whether this is the case is to conduct a trade-chilling analysis. The methodology has the following points of departure:

- Market opportunity (importer) is viewed through the value or volume (high) of imports.
- Supply potential (exporter) is viewed through the value or volume (high) of exports.
- The importer imports from other exporters but not from the exporter.
- The exporter exports to other importers but not to the importer.

We would caution that this analysis is one that, although able to provide some useful pointers, does have limitations. These limitations include an inability to account for non-tariff barriers, tastes and preferences and product classifications systems that may not be strictly comparable at a detailed level.

Narrowing the field down to agricultural and fisheries products we looked at HS 6 lines where (a) Brazilian imports from the world were worth at least US\$1 million on

average over the last two years (2007 and 2008) to denote the demand side and (b) South African exports to the world were worth at least US\$1 million on average over the last two years to denote the supply side potential from South Africa. We then looked at the lines where imports into Brazil from South Africa and exports from South Africa to Brazil were both below US\$10,000 over the last four years (2005-2008) to indicate 'no trade'. In total this left us with 124 HS 6 lines. We then narrowed the selection down again and examined the lines where (i) global exports from South Africa over the last two years in total were at least US\$5 million and (ii) global imports into Brazil over the last two years were at least US\$5 million to give us lines where the trade opportunities are most significant. This left us with 33 HS 6 lines in agricultural and fisheries products.

Table 5 below provides a summary of products which the two countries are not currently trading but which have the potential for increased bilateral trade. With the exception of HS040210 (powdered milk), the applied Most Favoured Nation (MFN) tariffs are 20 percent or less which implies that existing tariffs do not seem to be the main factor prohibiting trade. There are, of course, several other reasons why trade may not be taking place. For example, fresh fruit products appear prominently on the list but Brazil and South Africa are both southern hemisphere countries and therefore have similar harvest periods.

Table 5: Summary of products in which Brazil and South Africa are trading with the rest of world but not with each other.

All values in US\$ millions		Brazilian MFN tariff	2 year average	4 year average	2 year average	4 year average
HS	Agricultural products		Brazil's imports from the world	Brazil's imports from South Africa	South Africa's exports to the world	South Africa's exports to Brazil
010290	Cattle, live	2%	13.31	0.00	7.93	0.00
020130	Beef, boneless, fresh or chilled	12%	72.34	0.00	6.36	0.00
030371	Sardines, frozen	10%	27.39	0.00	14.04	0.00
030429	Fish fillets, frozen	10%	138.70	0.00	94.31	0.00
040210	Milk powder	27%	19.27	0.00	6.02	0.00
070310	Onions and shallots	5%	53.82	0.00	8.50	0.00
080610	Grapes, fresh	10%	14.91	0.00	318.77	0.00
080810	Apples, fresh	10%	45.33	0.00	230.22	0.00
080820	Pears and quinces, fresh	10%	109.38	0.00	118.21	0.00
080930	Peaches and nectarines, fresh	10%	15.05	0.00	11.43	0.00
080940	Plums, fresh	10%	21.73	0.00	38.29	0.00
100190	Wheat, meslin	5%	1,630.03	0.00	69.30	0.00
100510	Corn (maize) seed	0%	6.57	0.00	39.46	0.00
100590	Corn (maize), other than seed corn	8%	134.70	0.00	231.69	0.00
100630	Rice	13%	165.69	0.00	5.41	0.00
110100	Wheat or meslin flour	12%	233.85	0.00	5.95	0.00
121020	Hop cones	8%	13.63	0.00	7.30	0.00
151211	Sunflower seed or oil	10%	13.66	0.00	35.10	0.00
151219	Sunflower oil, refined	11%	8.92	0.00	14.24	0.00
151620	Vegetable fats & oils	10%	29.11	0.00	6.97	0.00
160420	Fish, prepared or preserved, other	16%	13.88	0.00	12.68	0.00
170490	Sugar confectionary	20%	15.24	0.00	11.31	0.00
180690	Cocoa preparations	20%	26.67	0.00	6.05	0.00
190110	Preparations for infants	18%	6.29	0.00	10.40	0.00
190590	Bread, pastry, cakes, etc	18%	5.81	0.00	6.14	0.00
200870	Peaches, prepared or preserved,	14%	6.83	0.00	59.87	0.00
210210	Yeasts, active	14%	39.27	0.00	10.94	0.00
210500	Ice cream	17%	9.29	0.00	12.07	0.00
220300	Beer	20%	10.42	0.00	15.76	0.00
220830	Whiskies	17%	71.57	0.00	10.73	0.00
240110	Tobacco	13%	10.61	0.00	6.50	0.00
330113	Essential oils of lemon	14%	11.26	0.00	6.91	0.00
520100	Raw cotton	9%	89.28	0.00	5.69	0.00
	Subtotal		3,083.81		1,444.55	
	Total agriculture		7,198.55		5,532.39	
	Subtotal as % of total agriculture		43%		26%	

Source: World Trade Atlas and tralac calculations

Brazil's imports from other countries

This section looks at Brazil's agricultural trade profile with its other main agricultural trading partners. Again, the WTA data for the December year 2008 is used, with the 1997 data used as a reference point for assessing growth rates. The countries examined are Argentina (Arg), the EU, the US, Uruguay (Ur), Paraguay (Pa), Chile and China.

Table 6: Brazil's agricultural imports from Argentina (US\$ millions)

HS code	Description	MFN tariff (%)	1997	2008	Avg. annual growth 1997-2008 (%)	Share of total agricultural imports (%)	South Africa's share (%)	Share of this line (%)	Share of main competitors in this line (%)
	Total agricultural		2,392.89	3,177.47	3				
100190	Wheat and meslin	5	540.60	1,264.25	8	39.8	--	68	US (17), Par (8)
110100	Wheat flour	12	87.32	270.67	11	8.5	--	93	Ur (7)
110710	Malt	14	57.90	204.63	12	6.4	--	41	Ur (27), EU (25)
030429	Fish fillets, frozen	5	0.00	100.88	--	3.2	--	67	Chile (18)
071333	Kidney & white beans	10	80.25	100.51	2	3.2	0.0	45	China (35), Bolivia (16)
080820	Pears, fresh	10	74.72	98.89	3	3.1	--	80	EU (10), US (8)
200570	Olives	14	27.30	87.21	11	2.7	--	79	Peru (16), EU (4)
200410	Potatoes	14	27.69	83.62	11	2.6	0.0	70	EU (30), Canada (0.1)
100300	Barley	na	0.00	75.35	--	2.4	--	84	Ur (16)
040221	Milk powders		113.48	69.61	-4	2.2	0.0	80	Ur (15), Poland (5)

Source: World Trade Atlas and tralac calculations

- Brazil's agricultural and fisheries imports from Argentina grew by 3 percent a year between 1997 and 2008, from US\$2.4 billion to almost US\$3.2 billion.
- Imports of HS100190 (wheat and meslin) represent some 40 percent of Brazil's total agricultural and fisheries imports from Argentina.
- Argentina dominates supply in all of these product lines, with market share of 70 percent or higher in a number of the lines. The proximity to the market and the preferential access that Argentina enjoys from Brazil is a significant factor influencing this trade pattern.

- South Africa is not a significant competitor in any of the top products imported from Argentina.

Table 7: Brazil's agricultural imports from the EU (US\$ millions)

HS code	Description	MFN tariff (%)	1997	2008	Avg. annual growth 1997-2008 (%)	Share of total agricultural imports (%)	South Africa's share (%)	Share of this line (%)	Share of main competitors in this line (%)
	Total agricultural		755.79	1,288.82	5				
110710	Malt	14	80.01	127.89	4	9.9	--	16	Arg (40), Ur (27)
150910	Olive oil	10	10.14	121.91	25	9.5	--	80	Arg (19), Chile (0.25)
150990	Olive oil, refined	10	62.49	75.80	2	5.9	0.0	95	Arg (4), Tunisia (0.15)
230990	Animal feed	8	10.73	73.64	19	5.7	0.0	49	China (28), US (14)
220421	Wine	27	36.88	71.57	6	5.6	13.0	43	Chile (31), Arg (23)
220830	Whiskies	17.33	68.05	65.92	-0.3	5.1	--	99	US (1)
210690	Food preparations	15.75	12.71	64.80	16	5.0	2.2	45	US (30), Arg (6)
050400	Animal guts	7.2	19.34	62.71	11	4.9	--	57	China (26), US (7)
200410	Potatoes	14	8.77	36.98	14	2.9	0.0	30	Arg (69), Canada (0.06)
030551	Cod, dried	n/a	8.22	35.02	14	2.7	--	31	Norway (69), China (0.31)

Source: World Trade Atlas and tralac calculations

- Brazil imported a total of about US\$1.3 billion worth of agricultural and fisheries products from the EU in 2008.
- These imports grew by approximately 5 percent a year between 1997 and 2008.
- The main import products were HS110710 (malt) and HS150910 (olive oil) which both represent almost 10 percent of total imports from the EU. These two products thus accounted for an almost 20 percent share of Brazil's agricultural imports from the EU.
- In terms of competitors, Argentina, Chile and Uruguay feature prominently. Other main competitors include the US, China, Norway, Canada and Tunisia.
- SA competed in wines (HS220421) with a share of 13 percent of Brazil's wine imports. The other main competitors in this category were Chile and Argentina. In terms of share of total agricultural imports from the EU, wine accounted for a

mere 6 percent. However, the EU (43%) remains the largest suppliers of wine to Brazil followed by Chile (31%).

Table 8: Brazil's agricultural imports from the United States (US\$ millions)

HS code	Description	MFN tariff (%)	1997	2008	Avg. annual growth 1997-2008 (%)	Share of total agricultural imports (%)	South Africa's share (%)	Share of this line (%)	Share of main competitors in this line (%)
	Total agricultural		560.51	629.14	3				
100190	Wheat	5	0.00	318.30	--	46.0	--	16	Arg (68), Pa (8)
210690	Food preparations	15.75	30.33	43.74	3	6.3	2.2	30	EU (45), Arg (6)
520100	Cotton	8.67	90.78	35.17	-8	5.1	0.0	64	Pa (22), Egypt (8)
230990	Animal feed	8	4.42	21.69	16	3.1	0.0	14	EU (49), China (28)
330210	Soft drink flavours	14	5.90	15.63	9	2.3	0.0	40	Ur (30), EU (15)
040700	Birds' eggs	2.67	1.95	14.28	18	2.1	0.0	70	EU (27), Canada (1)
382370	Industrial alcohols	2	8.31	13.48	5	1.9	24.1	16	EU (25), India (18)
200990	Vegetable juices	14	0.06	11.28	61	1.6	2.2	95	EU (3), South Africa (2)
200520	Potatoes	14	3.67	11.10	11	1.6	0.0	50	Mexico (29), EU (9)
051110	Bovine semen	0	6.86	10.05	4	1.5	--	54	EU (21), Canada (18)

Source: World Trade Atlas and tralac calculations

- The US is ranked as the number three supplier of agricultural and fisheries products to Brazil. In 2008, Brazil's imports from the US were valued at approximately US\$629 million, reflecting 3 percent compound annual growth since 1997.
- HS100190 (wheat), HS210690 (food preparations) and HS520100 (cotton) top the list of most significant imports from the US – accounting for a combined share of about 57 percent of Brazil's agricultural imports from the US.
- The EU is the major competitor in most of the products. Products lines in which South Africa competes include HS210690 (food preparations), HS382370 (industrial alcohols) and HS200990 (Vegetable juices).

Table 9: Brazil's agricultural imports from Uruguay (US\$ millions)

HS code	Description	MFN tariff (%)	1997	2008	Avg. annual growth 1997-2008 (%)	Share of total agricultural imports (%)	South Africa's share (%)	Share of this line (%)	Share of main competitors in this line (%)
	Total agricultural		568.06	542.63	-0.4				
110710	Malt	14	39.44	137.36	12	25.3	--	27	Arg (40), EU (25)
100630	Rice	12.5	106.50	78.60	-3	14.5	0.0	50	Arg (37), Pa (12)
100190	Wheat	5	12.89	31.59	9	5.8	--	2	Arg (68), US (17)
020130	Beef	12	13.49	25.76	6	4.7	--	34	Arg (44), Pa (21)
030375	Dogfish	10	0.05	25.57	76	4.7	0.0	77	EU (16), Taiwan (5)
010290	Live cattle, nesoi	2	18.75	20.62	1	3.8	--	100	Arg (0.0), US (0.0)
151790	Edible fats	12	0.00	19.98	--	3.7	--	45	EU (42), Malaysia (9)
020442	Meat of sheep	10	3.49	19.80	17	3.6	--	96	Arg (3), Chile (1)
110100	Wheat flour	12	4.77	19.50	14	3.6	--	7	Arg (93), Pa (0.4)
100620	Rice, husked (brown)	10	34.73	14.61	-8	2.7	--	27	Arg (71), EU (1)

Source: World Trade Atlas and tralac calculations

- Brazil's agricultural and fisheries imports from Uruguay declined between 1997 and 2008 by a compound rate of 0.4 percent a year. Brazil's imports from Uruguay in 2008 in value terms were approximately US\$543 million, compared to US\$568 million in 1997.
- HS100190 (wheat) and HS020130 (beef) were Brazil's major imports from Uruguay. These two products accounted for 6 percent and 5 percent respectively of Brazil's total agricultural and fisheries imports from Uruguay.
- Argentina, Paraguay, Chile and the EU feature prominently as import suppliers of similar products to those imported by Brazil from Uruguay. Other suppliers include the EU, the US and Malaysia.
- South Africa is not a significant supplier of products imported from Uruguay by Brazil – an indication that South Africa is not a big exporter of the above products to Brazil.

Table 10: Brazil's agricultural imports from Paraguay (US\$ millions)

HS code	Description	MFN tariff (%)	1997	2008	Avg. annual growth 1997-2008 (%)	Share of total agricultural imports (%)	South Africa's share (%)	Share of this line (%)	Share of main competitors in this line (%)
	Total agricultural		465.79	476.79	0.2				
100190	Wheat	5	23.25	150.47	19	31.6	--	8	Arg (68), US (17)
100590	Corn (maize)	8	10.17	123.50	26	25.9	0.0	90	Arg (10), EU (0.0)
120100	Soya beans	4	170.35	39.70	-12	8.3	--	99	Arg (1), Japan (0.0)
230400	Soya bean oilcake	6	58.53	37.65	-4	7.9	--	99	China (0.25), US (0.23)
100630	Rice	12.5	0.00	18.20	--	3.8	0.0	12	Ur (51), Arg (37)
020130	Beef	12	0.04	15.96	75	3.3	--	22	Arg (44), Ur (34)
151211	Sunflower-seed	10	1.12	13.16	25	2.8	--	87	Bolivia (9), Arg (5)
520100	Cotton	8.67	81.73	12.03	-16	2.5	0.0	22	US (64), Egypt (8)
100610	Rice in the husk	6.67	2.10	10.29	16	2.2	--	61	Arg (30), Ur (9)
120510	Rape/colza seeds	Na	0.00	7.59	--	1.6	--	90	Australia (10), Canada (0.64)

Source: World Trade Atlas and tralac calculations

- Brazil's imports from Paraguay remained relatively constant over the review period. Imports were valued at approximately US\$477 million in 2008 signifying compound annual growth of only 0.2 percent since 1997.
- Wheat is the leading import product accounting for around 32 percent of Brazil's total agricultural imports from Paraguay. The top 10 products account for about 90 percent of total agricultural and fisheries imports from Paraguay. Other leading import products are corn (26%), soya beans (8%), soya bean oilcake (8%) and rice (4%).
- Argentina features prominently as a major competitor in most product lines. South Africa, on the other hand, is not a significant supplier or competitor in these particular product lines.

Table 11: Brazil's agricultural imports from Chile (US\$ millions)

HS code	Description	MFN tariff (%)	1997	2008	Avg. annual growth 1997-2008 (%)	Share of total agricultural imports (%)	South Africa's share (%)	Share of this line (%)	Share of main competitors in this line (%)
	Total agricultural		202.88	359.25	5				
030212	Salmon	10	16.25	104.43	18	29.1	--	100	EU (0), Arg (0)
220421	Wine	27	5.24	50.74	23	14.1	13.0	30	EU (43), Arg (23)
030429	Fish fillets, frozen	10	0.00	27.20	--	7.6	--	18	Arg (67), China (9)
080232	Walnuts	10	5.55	19.08	12	5.3	--	72	US (20), China (5)
030322	Atlantic salmon	10	0.67	16.96	34	4.7	--	100	EU (0), Arg (0)
200799	Jams	14	0.91	7.72	22	2.2	0.0	34	Arg (43), EU (13)
081320	Prunes, dried	10	6.18	6.85	1	1.9	--	28	Arg (72), US (0.17)
080231	Walnuts, in shell	10	5.66	6.84	2	1.9	--	75	US (21), Arg (2.3)
080920	Cherries, fresh	10	3.13	6.32	7	1.8	--	76	US (16), Arg (10)
070310	Onions and shallots	5	2.21	5.97	9	1.7	--	8	Arg (88), EU (4)

Source: World Trade Atlas and tralac calculations

- Brazil's agricultural imports from Chile were approximately US\$359 million in 2008. This value reflects a 5 percent compound annual growth from the 1997 value of approximately US\$203 million.
- Brazil mainly imports fisheries products from Chile with HS030212 (salmon) as the top product accounting for over 29 percent of total agricultural and fisheries imports.
- Wine is a product that Brazil imports from both Chile and South Africa. Wine imports from Chile account for 14 percent of Brazil's total agricultural and fisheries imports from that country.
- For the top products that Brazil imports from Chile, the EU, Argentina and the US are the major competitors. Apart from wine, South Africa does not compete in these product lines.
- Apart from Chile, South Africa faces competition for the Brazilian wine market from the EU and Argentina.

Table 12: Brazil's agricultural imports from China (US\$ millions)

HS code	Description	MFN tariff (%)	1997	2008	Avg. annual growth 1997-2008 (%)	Share of total agricultural imports (%)	South Africa's share (%)	Share of this line (%)	Share of main competitors in this line (%)
	Total agricultural		48.13	297.52	18				
071333	Kidney Beans Beans	5	0.18	72.31	72	24.3	0.0	36	Arg (48), Bolivia (15)
230990	Animal Feed	8	0.52	42.60	49	14.3	0.0	28	EU (49), US (14)
070320	Garlic, Fresh	17.5	27.30	31.81	1	10.7	0.0	37	Arg (64), Pa (0.16)
050400	Animal Guts	7.2	5.13	28.56	17	9.6	--	26	EU (57), US (7)
110710	Malt, Not Roasted	14	0.00	26.10	--	8.8	--	5	Arg (40), Ur (27)
030429	Fish Fillets, Frozen	10	0.00	12.79	--	4.3	--	9	Arg (67), Chile (18)
071290	Vegetables Mixtures	10	0.33	8.75	35	2.9	0.0	56	Arg (16), Turkey (15)
050210	Pigs Bristles	Na	2.77	7.27	9	2.4	--	100	EU (0.0)
110900	Wheat Gluten	10	0.00	5.94	--	2.0	--	53	EU (27), Arg (21)
030559	Fish	6.67	0.00	4.90	--	1.6	--	4	Norway (86), EU (7)

Source: World Trade Atlas and tralac calculations

- Brazil's imports from China have grown by 18 percent a year over the review period, from approximately US\$48 million in 1997 to about US\$298 million in 2008.
- The value of the main import from China – HS071333 (kidney beans & white pea beans) grew by 72 percent a year over the review period. This product accounts for around 24 percent of Brazil's agricultural imports from China. Argentina (48%) and Bolivia (15%) are Brazil's other main sources for this product.
- Imports of garlic, which is another top imported product, have remained relatively constant, recording growth of only 1 percent a year from US\$27.30 million in 1997 to US\$31.81 million in 2008 in value terms.

Table 13 summarises the data for Brazil’s agricultural imports from the country’s top six import sources as well as South Africa. It shows (a) each country’s total share of Brazil’s agricultural imports, (b) the agricultural imports from this source expressed as shares of total Brazilian imports from that particular source and (c) the growth rate of these import sources, expressed as the weighted (compound) annual growth rate from 1997 to 2008. Note that agricultural imports represent a low percentage of total imports from all sources.

Table 13: Shares of Brazil’s agricultural imports, agricultural imports as share of total imports from source and annual growth rates of agricultural imports

Source	Share of Brazil’s total agricultural imports (%)	Share of total imports from source (%)	Annual growth rate (%)
World	100	5	2.4
South Africa	0.11	0.01	-18
Argentina	38.65	1.83	3
EU	15.68	0.74	5
US	8.42	0.40	2
Uruguay	6.60	0.31	-0.4
Paraguay	5.80	0.28	0.2
Chile	4.37	0.21	5
China	3.62	0.17	18

Source: World Trade Atlas and tralac calculations

In summary, agricultural imports from only two of the countries under review experienced a decline in over the period – South Africa (-18%) and Paraguay (-0.4%). The rest had positive growth, with imports from China experiencing the highest growth of around 18 percent a year over the review period.

- In terms of market share of Brazil’s agricultural imports, Argentina accounted for almost 39 percent. However, this translated to a mere 2 percent of Brazil’s total imports. The EU (16%), the US (8%) and Uruguay (7%) were Brazil’s other significant sources of agricultural imports.
- Although China still holds a low 4 percent share of agricultural products, it is likely that this share will grow should China conclude an FTA with Brazil, or with Mercosur as a bloc. On the other hand, South Africa’s trade with Brazil in relative terms is very small, and declined over the review period. However, this does not imply a lack of opportunities for South Africa’s agricultural products.

Brazil's global agricultural exports

This section for agricultural exports is, of course, much more relevant for Brazil, one of the truly global agricultural exporters. The data here is impressive: exports of US\$58.4 billion and an annual growth rate of 12 percent over the period. If we revert to Table 1 in chapter 2 we see that in 2007 agricultural exports accounted for approximately 30 percent of Brazil's total exports, and 4.6 percent of global agricultural exports. With agricultural exports of US\$58.4 billion and agricultural imports of US\$8.2 billion in 2008, Brazil had a trade surplus of over US\$50 billion in agricultural products. This is massive and clearly shows what an agricultural giant the country is on the world stage.

Table 14: Brazil's top 10 agricultural export destinations (US\$ millions)

Rank	Country	1997	2008	2008 share (%)	Annual growth (%)
0	--World--	16,786	58,369	100.0	12.0
1	-EU 27-	8,140	18,802	32.2	7.9
2	China	653	6,692	11.5	23.6
3	Russia	686	4,156	7.1	17.8
4	United States	1,500	3,415	5.9	7.8
5	Venezuela	40	2,218	3.8	44.2
6	Japan	938	2,138	3.7	7.8
7	Saudi Arabia	251	1,393	2.4	16.9
8	Hong Kong	213	1,377	2.4	18.5
9	Iran	157	910	1.6	17.3
10	Korea, South	137	906	1.6	18.7
16	South Africa	48	510	0.9	24.0

Source: World Trade Atlas and tralac calculations

- Brazil's agricultural exports were valued at over US\$58 billion in 2008 reflecting 12 percent compound annual growth from the 1997 value of approximately US\$17 billion.
- The EU (32%), China (12%) and Russia (7%) were the top three export destinations. These accounted for over 50 percent of total agricultural exports. South Africa was ranked as the 16th most significant export destination with Brazilian exports to the country valued at US\$510 million, less than 1 percent of Brazil's total agricultural exports.

- Brazilian exports to Venezuela (44%), South Africa (24%) and China (24%) recorded the fastest annual growth between 1997 and 2008.

Table 15: Brazil's top 10 agricultural exports to the world (US\$ millions)

HS	Description	1997	2008	2008 share (%)	Annual growth (%)
	Total agricultural exports	16,786	58,369	100.0	12.0
120100	Soya beans	2,452	10,952	18.8	14.6
230400	Soya bean oilcake	2,681	4,364	7.5	4.5
090111	Coffee	2,746	4,132	7.1	3.8
020230	Beef, boneless, frozen	148	3,699	6.3	34.0
170111	Cane sugar, raw	1,045	3,650	6.3	12.0
020714	Chicken cuts and offal, frozen	422	3,612	6.2	21.5
240120	Tobacco	963	2,548	4.4	9.3
220710	Ethyl alcohol	54	2,366	4.1	41.0
020712	Meat & offal of chickens, frozen	445	2,207	3.8	15.7
150710	Soya bean oil & fractions	5312	1,985	3.4	12.7

Source: World Trade Atlas and tralac calculations

- Brazil mainly exports soya beans and soya bean products (29.7%), coffee (7%), beef (6%), sugar cane (6%) and chicken and chicken by-products (10%). These products accounted for nearly 61 percent of the country's total agricultural exports in 2008.
- According to the FAO database Brazil accounts for 26.4 percent (by value) of the world's green coffee exports, 35.1 percent of soya bean exports, 20.7 percent of soya bean oil exports, 24.6 percent of beef exports, 30.7 percent of sugar exports and 21.3 percent of tobacco exports.

Section 2 Argentina’s agricultural trade profile

The aim of this section is to evaluate Argentina’s agricultural trading profile. Firstly, the section looks at Argentina’s agricultural and fisheries imports, disaggregated at the HS 6 level. This is followed by an examination of Argentina’s exports. Finally, Argentina’s total agricultural and fisheries imports are compared with South Africa’s total agricultural and fisheries exports to reveal where there may be potential for furthering agricultural trade between the two countries.

Argentina’s agricultural imports

Table 16 shows Argentina’s agricultural and fisheries imports by country. The data is sourced from the World Trade Atlas for 1998 and 2008, and is shown in US\$ millions. The table also displays each country’s share of total Argentine agricultural and fisheries imports and the compound annual growth rate for these imports between 1998 and 2008.

Table 16: Top 10 sources of Argentina’s agriculture and fisheries imports (US\$ millions)

Rank	Country	1998	2008	Share of total agricultural & fisheries imports (%)	Annual growth (%)
0	World	1,760.47	2,929.64		5.2
1	Paraguay	97.09	1,349.28	46.1	30.1
2	Brazil	490.61	631.06	21.5	2.5
3	EU 27	308.14	214.06	7.3	-3.6
4	Ecuador	95.94	129.62	4.4	3.1
5	United States	241.23	129.11	4.4	-6.1
6	Chile	176.41	115.62	3.9	-4.1
7	Uruguay	123.4	56.84	1.9	-7.5
8	China	7.3	39.24	1.3	18.3
9	Bolivia	14.17	39.22	1.3	10.7
10	Thailand	27.79	27.8	0.9	0
11	Malaysia	4.62	22.8	0.8	17.3
24	South Africa	7.61	5.36	0.2	-3.4

Source: World Trade Atlas and tralac calculations

- Argentina imported agricultural and fisheries products to the value of US\$1.7 billion and US\$2.9 billion in 1998 and 2008 respectively. During the review period these imports grew by 5.2 percent a year.
- In 1998 Argentina's top three sources of agricultural and fisheries products were Brazil, the EU and the US. However, in 2008, Paraguay was the most significant source of these products, followed by Brazil and the EU.
- In terms of Argentine imports in 2008, South Africa was ranked 24th with a very small share of the Argentine market. While Argentina imported 46 percent of its total agricultural and fisheries products from Paraguay, 22 percent from Brazil and 7 percent from the EU, only 0.2 percent was imported from South Africa.
- Between 1998 and 2008 Argentina's imports from Paraguay and China experienced the highest annual growth rates of 30 percent and 18 percent respectively. Over the same period imports from Uruguay and the US declined by 8 percent and 6 percent a year respectively, while imports from South Africa also declined by 3.4 percent a year.

Table 17 shows Argentina's most significant agricultural imports at the disaggregated HS 6 level, along with each product's MFN applied tariff, South Africa's share of these imports, the compound annual growth rate of these imports between 1998 and 2008 and the main suppliers for each of the specific products in 2008.

Table 17: Top 10 Argentine agricultural and fisheries imports from the world (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		1,760.47	2,929.64			5.2	
120100	Soya beans	4.00	124.21	1,343.44	45.9	0.0	26.9	Paraguay (98), Uruguay (1)
080300	Bananas	10.00	76.16	100.83	3.4	---	2.8	Ecuador (80), Bolivia (11)
210690	Food preparations	15.75	45.80	79.16	2.7	0.0	5.6	EU (24), Brazil (22), US (18)
090111	Coffee	10.00	88.44	75.51	2.6	---	-1.6	Brazil (98), Colombia (2)
020329	Frozen pork	10.00	76.11	65.36	2.2	---	-1.5	Brazil (93), Chile (6)
180400	Cocoa butter	12.00	40.94	60.46	2.1	---	4.0	Brazil (95), Ecuador (4)
520100	Cotton	6.00	10.14	59.03	2.0	---	19.3	Brazil (87), Paraguay (13)
230990	Animal feed preparations	8.00	22.24	36.52	1.2	2.5	5.1	US (34), China (20), Brazil (19)
160414	Tuna	16.00	26.01	30.92	1.1	---	1.7	Ecuador (42), Brazil (39), Thailand (19)
180310	Cocoa paste	12.00	24.03	30.28	1.0	0.0	2.3	Brazil (89), EU (7)

Source: World Trade Atlas and tralac calculations

- South Africa's imports account for a very small share of the Argentine market. Apart from animal feed preparations (HS 230990), imports from South Africa do not account for a significant share of any of Argentina's top 10 agricultural and fisheries imports.
- In 2008 Argentina's main agricultural import products and their share of total agricultural and fisheries imports were: soya beans (HS 120100) (46%), bananas (HS 080300) (3%), food preparations (HS 210690) (3%) and coffee (HS 090111) (3%).
- During the period 1998 to 2008 imports of soya beans (HS 120100) and cotton (HS 520100) experienced the fastest annual growth of 27 percent and 19 percent respectively. Imports of coffee (HS 090111) and swine meat (HS 020329) experienced a decline of 2 percent each during the review period.

- Tuna (HS 160414) is the only fish product in the top 10, providing a perspective on Argentina's trade in fisheries products.

The South Africa-Argentina trading relationship (Argentina's imports)

Table 18, showing Argentina's top 10 agricultural and fisheries imports from South Africa, indicates the following:

- Argentina's agricultural and fisheries imports from South Africa declined by 3.4 percent a year between 1998 and 2008, from US\$8 million to US\$5 million.
- Argentina's imports of vegetable seeds for sowing (HS 120991) and liqueurs and cordials (HS 220870) grew by 45 percent and 41 percent a year respectively, while imports of animal feed preparations (HS 230990) declined by 3 percent a year over the period.
- In 2008 Argentina mostly imported vegetable saps (HS 130219), animal feed preparations (HS 230990) and pineapple juice (HS 200949) from South Africa.
- South Africa accounts for 64 percent of Argentina's imported pineapple juice (HS 200949). This is the only market in which South African imports dominate. South African ethyl alcohol (HS 220720) accounts for 31 percent of Argentina's imports of this product. Other South African products with significant import share include grain sorghum (HS 100700) and liqueurs and cordials (HS 220870), with 17 percent and 16 percent shares respectively.

Table 18: Argentina's top agricultural and fisheries imports from South Africa (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		7.61	5.36			-3.4	
130219	Vegetable saps	5.75	0.21	1.05	19.6	13.3	17.6	EU (50), SA (13), US (11)
230990	Animal feed prep	8.00	1.18	0.90	16.8	2.5	-2.7	US (34), China (20), Brazil (19)
200949	Pineapple juice	14.00	0.00	0.85	15.8	63.8	---	SA (64), Brazil (26), China (7)
100510	Corn (maize) seed	0.00	0.27	0.66	12.3	2.7	9.4	US (57), Brazil (29), EU (4)
220870	Liqueurs and cordials	20.00	0.01	0.38	7.2	16.3	41.2	EU (81), SA (16), US (2)
100700	Grain sorghum	4.00	0.00	0.34	6.3	16.9	---	US (52), Bolivia (29)
120991	Vegetable seeds for sowing	0.00	0.01	0.21	3.9	2.1	44.8	EU (48), US (12), China (9)
210210	Yeasts, active	14.00	0.00	0.17	3.2	2.6	---	Paraguay (42), EU (29), Chile (14)
510111	Wool	8.00	0.00	0.14	2.6	5.5	---	Australia (60), New Zealand (26), Chile (9)
220720	Ethyl alcohol	20.00	0.00	0.13	2.4	30.7	---	US (68), SA (31)

Source: World Trade Atlas and tralac calculations

Argentina's imports from other countries

This section looks at Argentina's agricultural and fisheries imports from other significant trading partners. The data is for 2008 and is sourced from the World Trade Atlas. Data for 1998 is also provided for comparison. The trading partners evaluated in this section are the Mercosur member countries, Paraguay, Brazil and Uruguay, as well as the EU, Ecuador, the US and Chile.

Table 19: Argentina's top agricultural and fisheries imports from Paraguay (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		97.09	1,349.28			30.1	
120100	Soya beans	0.00	73.25	1,314.41	97.4	0.0	33.5	Paraguay (98), Uruguay (1), Bolivia (1)
120600	Sunflower seeds	0.00	0.00	10.45	0.8	0.5	---	Paraguay (51), Bolivia (27), Chile (10)
520100	Cotton	0.00	6.50	7.64	0.6	---	1.6	Brazil (87), Paraguay (13)
210210	Yeasts, active	0.00	0.36	2.76	0.2	2.6	22.5	Paraguay (42), EU (29), Chile (14)
110814	Starch	0.00	0.19	2.13	0.2	---	27.5	Paraguay (81), Brazil (18)

Source: World Trade Atlas and tralac calculations

- Argentina's agricultural and fisheries imports from Paraguay have shown a significant increase over the review period. In 1998 Argentina imported agricultural and fisheries products to the value of US\$97 million. By 2008, however, the value of imports had surged by 30 percent a year to a high of US\$1.3 billion.
- Although there was a significant increase in imports during the review period, the agricultural trading relationship between these two countries is dominated by one product – soya beans (HS 120100) – which accounts for over 97 percent of Argentina's total agricultural and fisheries imports from Paraguay.
- Paraguay dominates Argentina's imports of soya beans (HS 120100) with a 98 percent share of Argentina's total soya bean imports. Paraguay also accounts for 81 percent of Argentina's imports of starch (HS 110814).
- With the exception of sunflower seeds (HS 120600) and active yeasts (HS 210210) South Africa does not compete with Paraguay in the Argentine import market. However, Paraguay is the main supplier of sunflower seeds and active yeast to the Argentine market, supplying 51 percent and 42 percent respectively of Argentina's total imports of these products.

Table 20: Argentina's top agricultural and fisheries imports from Brazil (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		490.61	631.06			2.5	
090111	Coffee	0.00	79.92	73.62	11.7	---	-0.8	Brazil (98), Colombia (2)
020329	Frozen pork	0.00	62.04	60.90	9.7	---	-0.2	Brazil (93), Chile (6)
180400	Cocoa butter	0.00	35.45	57.45	9.1	---	4.9	Brazil (95), Ecuador (4)
520100	Cotton	0.00	2.96	51.39	8.1	---	33.0	Brazil (87), Paraguay (13)
180310	Cocoa paste	0.00	19.42	26.98	4.3	0.0	3.3	Brazil (89), EU (7)
240399	Tobacco	0.00	0.04	18.79	3.0	---	84.6	Brazil (100)
210112	Coffee extracts/essences/concentrates	0.00	0.10	14.86	2.4	---	65.2	Brazil (97), Chile (1), Switzerland (1)
180632	Chocolate	0.00	2.21	13.35	2.1	0.0	19.7	Brazil (81), Switzerland (9), EU (6)
180500	Cocoa powder	0.00	3.67	12.64	2.0	---	13.2	Brazil (65), EU (16), Malaysia (11)
160414	Tuna	0.00	9.69	12.16	1.9	---	2.3	Ecuador (42), Brazil (39), Thailand (19)

Source: World Trade Atlas and tralac calculations

- Argentina's agricultural and fisheries imports from Brazil grew by 2.5 percent a year, from US\$490 million in 1998 to US\$631 million in 2008.
- South Africa accounts for an insignificant share of the top ten products Argentina imports from Brazil.

Table 21: Argentina's top agricultural and fisheries imports from the EU (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		308.14	214.06			-3.6	
210690	Food preparations	15.75	12.55	19.10	8.9	0.0	4.3	EU (24), Brazil (22), US (18)
220830	Whiskies	15.33	24.08	13.21	6.2	0.0	-5.8	EU (85), Brazil (11)
350190	Caseinates	14.00	2.47	12.68	5.9	---	17.8	EU (81), New Zealand (18)
051000	Ambergris, castoreum	1.00	2.53	6.75	3.2	---	10.3	EU (45), Brazil (43)
380993	Finishing agents, dye	14.00	4.29	6.44	3.0	0.0	4.1	EU (50), Brazil (27), Uruguay (9)
230990	Animal feed prep	8.00	11.09	6.09	2.8	2.5	-5.8	US (34), China (20), Brazil (19)
130213	Vegetable saps	8.00	0.02	5.61	2.6	---	73.7	EU (73), US (27)
120991	Vegetable seeds for sowing	0.00	2.19	4.72	2.2	2.1	8.0	EU (48), US (12), China (9)

Source: World Trade Atlas and tralac calculations

- Argentina's agricultural and fisheries imports from the EU declined by 3 percent a year over the review period. Argentina imported agricultural and fisheries products to the value of US\$308 million in 1998, while imports were valued at only US\$214 million in 2008.
- South Africa competes with the top 10 European imports in the Argentine market in two product lines only. These are animal feed preparations (HS 230990) and vegetable seeds for sowing (HS 120991). Argentina's imports of vegetable seeds for sowing (HS 120991) from both South Africa and the EU have shown an increase during the review period of 45 percent and 8 percent respectively, while imports of animal feed preparation (HS 230990) from the EU declined by 6 percent and from South Africa by 3 percent during the same period.
- The EU is the main supplier of whiskies (HS 220830), caseinates (HS 350190) and vegetable saps (HS 130213) to the Argentine market, supplying 85 percent, 81 percent and 73 percent respectively of Argentina's total imports of these products.

Table 22: Argentina's top agricultural and fisheries imports from Ecuador (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		95.94	129.62			3.1	
080300	Bananas	0.00	67.45	80.96	62.5	---	1.8	Ecuador (80), Bolivia (11)
160414	Tuna	0.00	6.08	12.95	10.0	---	7.8	Ecuador (42), Brazil (39), Thailand (19)
200891	Palm hearts	0.00	8.56	9.02	7.0	---	0.5	Ecuador (62), Bolivia (23), Peru (13)
160420	Prepared or preserved fish,	0.00	0.51	6.51	5.0	0.0	29.1	Thailand (65), Ecuador (28), Brazil (3)

Source: World Trade Atlas and tralac calculations

- Argentina's imports of agricultural and fisheries products from Ecuador increased by 3 percent a year during the review period, from US\$96 million in 1998 to US\$130 million in 2008. The top four imports account for almost 85 percent of Argentina's total agricultural and fisheries imports from Ecuador.

Table 23: Argentina's top agricultural and fisheries imports from the US (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & Fisheries		241.23	129.11			-6.1	
210690	Food preparations	15.75	14.93	14.45	11.2	0.0	-0.3	EU (24), Brazil (22), US (18)
100510	Corn (maize) seed	0.00	12.54	13.78	10.7	2.7	0.9	US (57), Brazil (29), EU (4)
230990	Animal feed prep	8.00	4.57	12.50	9.7	2.5	10.6	US (34), China (20), Brazil (19)
200290	Tomato paste	14.00	0.00	5.23	4.0	---	---	China (27), Chile (26), US (24)

Source: World Trade Atlas and tralac calculations

- There was a significant decline of 6 percent a year in Argentina's total agricultural and fisheries imports from the US during the review period. The top 10 Argentine imports only represent 55 percent of Argentina's total agricultural and fisheries imports from the US.
- South Africa has an insignificant share in two product lines which Argentina imports from the US. These are corn (maize) seed (HS 100510) and animal feed preparations (HS 230990). South Africa has a 3 percent share in each. However, the US supplies 57 percent of Argentina's total corn seed imports and 34 percent of Argentina's imports of animal feed preparations.

Table 24: Argentina's top agricultural and fisheries imports from Chile (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		176.41	115.62			-4.1	
030212	Frozen or chilled salmon	0.00	3.75	13.94	12.1	---	14.0	Chile (100)
210690	Food preparations	2.13	8.81	5.84	5.0	0.0	-4.0	EU (24), Brazil (22), US (18)
080212	Almonds	0.00	3.85	5.61	4.9	---	3.8	Chile (95), US (4)
200290	Tomato paste	10.08	15.10	5.52	4.8	---	-9.6	China (27), Chile (26), US (24)

Source: World Trade Atlas and tralac calculations

- Argentina's agricultural and fisheries imports from Chile declined by 4 percent a year over the review period with the value of imports decreasing from US\$176 million in 1998 to US\$116 million in 2008.
- Argentina imports a diverse range of agricultural and fisheries products from Chile with no product dominating bilateral agricultural and fisheries trade between these two countries. This is evidenced by the fact that the top 10 imports from Chile account for only 46 percent of Argentina's total agricultural and fisheries imports from Chile.
- South Africa does not compete in the lines constituting the top 10 agricultural and fisheries imports from Chile.

Table 25: Argentina's top agricultural and fisheries imports from Uruguay (US\$ millions)

HS code	Description	MFN applied tariff (%)	1998	2008	Share of total agricultural & fisheries imports (%)	South Africa's share (%)	Annual growth (%)	Share of main suppliers in line (%)
	Total agriculture & fisheries		123.40	56.84			-7.5	
120100	Soya beans	0.00	0.00	14.62	25.7	0.0	---	Paraguay (98), Uruguay (1), Bolivia (1)
150200	Fats, bovine, sheep or goat, raw or rendered	0.00	4.05	10.16	17.9	---	9.6	Uruguay (98), Argentina (2)
151790	Edible fats & oil mixtures	0.00	0.00	4.66	8.2	---	207.3	Uruguay (28), Malaysia (26), EU (23)
020120	Fresh or chilled meat	0.00	20.24	3.98	7.0	---	-15.0	Uruguay (100)
110710	Malt, not roasted	0.00	4.51	3.80	6.7	---	-1.7	Uruguay (91), EU (9)

Source: World Trade Atlas and tralac calculations

- Argentina's imports from Uruguay declined the most compared to the imports from all the other trading partners evaluated over the time period. Imports from Uruguay decreased in value by 8 percent a year from US\$123 million in 1998 to US\$57 million in 2008. The top 10 imports account for 79 percent of Argentina's total agricultural and fisheries imports from Uruguay.

The table below summarises the growth rates for the eight import sources under investigation. It shows each country's share in terms of Argentina's total imports and total agricultural and fisheries imports in 2008, as well as the annual growth rate of Argentina's imports of agricultural and fisheries products from each country over the 1998 to 2008 time period.

Table 26: Shares of the selected import sources and their growth rates, 2008

Country	Share of total imports	Share of total agricultural and fisheries imports	Annual growth in agricultural and fisheries imports, 1998-2008
Brazil	30.80%	21.50%	2.50%
Chile	1.70%	3.90%	-4.10%
Ecuador	0.20%	4.40%	3.10%
EU	15.70%	7.30%	-3.60%
Paraguay	3.10%	46.10%	30.10%
South Africa	0.40%	0.20%	-3.40%
US	12.00%	4.40%	-6.10%
Uruguay	0.90%	1.90%	-7.50%

Source: World Trade Atlas and tralac calculations

- In 2008 Argentina's imports of all products amounted to US\$57 billion, while total agricultural and fisheries imports amounted to approximately US\$3 billion in value. This indicates that agricultural and fisheries products accounted for only 5 percent of Argentina's total imports in 2008.
- In comparison to the other countries, South Africa has a very small share of the market in Argentina for both total imports and agricultural and fisheries imports, with shares of 0.4 percent and 0.2 percent respectively. Brazil has the largest share of total imports at 31 percent, while Paraguay has the most significant share in agricultural and fisheries imports with 46 percent.
- With the exception of some products such as cattle hides, live birds, bird feathers and pineapple juice, South Africa does not compete in Argentina's agricultural and fisheries markets.
- For all the countries except Paraguay, Brazil and Ecuador, Argentina's agricultural and fisheries imports declined from 1998 to 2008. Argentina's imports from Paraguay showed a significant increase of 30 percent a year over the time period. Agricultural and fisheries imports from South Africa declined by an average of 3 percent a year between 1998 and 2008.

Argentina's agricultural exports

Table 27 shows the top markets for Argentina's agricultural and fisheries exports. Export data is provided for 1998 and 2008, and is again sourced from the World Trade Atlas. The table also indicates the share of Argentina's agricultural and fisheries exports to each country and the compound annual growth rates of these exports over the time period 1998 to 2008.

Table 27: Top 10 destinations for Argentina's agricultural and fisheries exports (US\$ millions)

Rank	Country	1998	2008	Share of total agricultural & fisheries exports, 2008 (%)	Annual growth rate 1998-2008 (%)
	World	13 439.98	37 315.17		10.8
1	EU 27	3 698.95	10 362.84	27.8	10.9
2	China	453.97	5 294.21	14.2	27.8
3	Brazil	2 661.78	3 064.71	8.2	1.4
4	Chile	475.39	1 655.38	4.4	13.3
5	United States	694.96	1 237.60	3.3	5.9
6	Iran	464.96	1 074.25	2.9	8.7
7	Egypt	384.96	1 008.02	2.7	10.1
8	Peru	226.24	892.95	2.4	14.7
9	Russia	130.85	886.56	2.4	21.1
10	Algeria	66.55	809.91	2.2	28.4
11	South Africa	206.31	710.2	1.9	13.2

Source: World Trade Atlas and tralac calculations

- Argentina's agricultural and fisheries exports amounted to US\$37.3 billion in 2008. From 1998 to 2008, agricultural exports grew annually by around 10.8 percent.
- The EU (28%), China (14%), Brazil (8%) and Chile (4%) are the top export destinations, together accounting for 52 percent of Argentina's agricultural and fisheries exports. South Africa was the 11th most important export destination of these exports, with a share of 2 percent.

- Agricultural and fisheries exports to Algeria and China both exhibited spectacular growth of 28 percent a year over the review period. Exports to Russia (21%), Peru (15%), Chile (13%) and South Africa (13%), all grew faster than total agricultural and fisheries exports.

Table 28 shows Argentina's most important exports at the disaggregated HS 6 level. South Africa's share, the compound annual growth rates and the main export destinations for each specific product are also shown in the table. The top export destinations are the countries to which Argentina exported the greatest quantity of a specific agricultural and fisheries product, expressed as a percentage of total Argentine exports of that product.

Table 28: Argentina's top 10 agricultural and fisheries exports to the world (US\$ millions)

HS Code	Description	1998	2008	Share of total agricultural & fisheries exports (%)	South Africa's share (%)	Annual growth (%)	Share of main export destinations (%)
	Total agriculture & fisheries	13 439.98	37 315.17		1.9	10.8	
230400	Soya bean oilcake	1 691.63	7 127.46	19.1	3.7	15.5	EU (57), Philippines (12)
150710	Soya bean oil	1 349.78	4 711.26	12.6	1.3	13.3	China (31), India (12)
120100	Soya beans	643.03	4 583.19	12.3	0.1	21.7	China (79), Iran (6)
100590	Corn (maize)	1 285.48	3 417.42	9.2	0.3	10.3	EU (24), Iran (13)
100190	Wheat	1 286.50	2 543.57	6.8	8.3	7.1	Brazil (48), SA (8)
151211	Sunflower-seed	847.54	1 423.76	3.8	2.8	5.3	EU (53), Turkey (10)
020130	Fresh meat	330.93	826.17	2.2	0.0	9.6	EU (80), Chile (13)
020230	Frozen meat	134.49	523.00	1.4	0.5	14.5	Russia (38), EU (16)
220421	Wine	111.63	521.48	1.4	0.0	16.7	EU (30), US (28)
110100	Wheat flour	96.87	435.45	1.2	0.0	16.2	Brazil (36), Bolivia (22)

Source: World Trade Atlas and tralac calculations

- Argentina's main exports are soya beans and soya bean products. These products accounted for 44 percent of total agriculture and fisheries exports in 2008 with a combined value of US\$16.4 billion.

- Over the review period, most of the top 10 exports experienced growth rates above the world average with exports of soya beans (22%); wheat flour (17%) and wine (16%) experiencing particularly high growth.
- The FAO database also reports that during 2006, Argentina accounted for 47 percent of the world's soya bean oil exports, 11 percent of soya bean exports and 20 percent of both sunflower cake and sunflower oil exports. Argentine wheat and fresh beef exports accounted for 7 percent and 5 percent of global exports respectively.

The South Africa-Argentina trading relationship (Argentina's exports)

Table 29 displays Argentina's top 10 agricultural and fisheries exports to South Africa, and shows that:

- Argentina's exports to South Africa account for only 2 percent of the country's total agricultural and fisheries exports. In 2008 exports to South Africa were worth US\$710 million, with the top 10 exports accounting for 93 percent of total agricultural and fisheries exports, reflecting a high degree of concentration.
- Soya beans, soya bean products and wheat account for 75 percent of Argentina's agricultural and fisheries exports to South Africa.
- Exports to South Africa grew by 13 percent over the review period. Products that had significant growth rates include wheat (47%) and soya bean oilcake (18%). Others with high growth rates albeit from a low base include soya bean oil (437%) and chicken cuts (125%).

Table 29: Argentina's top 10 agricultural and fisheries exports to South Africa (US\$ millions)

HS Code	Description	1998	2008	Share of total agricultural & fisheries exports (%)	South Africa's share (%)	Annual growth (%)
	Total agriculture & fisheries	206.3	710.2		1.9	13.2
230400	Soya bean oilcake	49.1	263.4	37.1	3.7	18.3
100190	Wheat	4.4	211.6	29.8	8.3	47.3
150710	Soya bean oil	33.4	60.0	8.5	1.3	6.0
151211	Sunflower seed	74.6	39.6	5.6	2.8	-6.1
200969	Grape juice	0.0	25.4	3.6	11.9	---
150790	Soya bean oil	0.0	20.1	2.8	10.9	437.4
020714	Frozen chicken cuts	0.0	15.4	2.2	11.3	124.5
100590	Corn (maize)	12.0	11.2	1.6	0.3	-0.7
200811	Peanuts	0.0	7.9	1.1	2.4	---
040120	Milk/cream	0.0	6.9	1.0	45.3	---

Source: World Trade Atlas and tralac calculations

Argentina's exports to other countries

The section identifies Argentina's agricultural and fisheries exports to other significant trading partners. The data for 1998 and 2008 is presented in US\$ millions, and is sourced from the World Trade Atlas. The trading partners investigated in this section are the EU, China, Brazil, Chile and the US.

Table 30: Argentina's top 10 agricultural and fisheries exports to the EU (US\$ millions)

HS Code	Description	1998	2008	Share of total agricultural & fisheries exports (%)	South Africa's share (%)	Annual growth (%)
	Total agricultural & fisheries	3 698.95	10 362.84		1.9	10.9
230400	Soya bean oilcake	1 007.70	4 069.94	39.3	3.7	15.0
100590	Corn (maize)	157.38	835.46	8.1	0.3	18.2
151211	Sunflower seed	180.13	754.33	7.3	2.8	15.4
020130	Meat	229.65	663.28	6.4	0.0	11.2
150710	Soya bean oil	2.36	382.86	3.7	1.3	66.4
030613	Shrimps and prawns, frozen	130.89	353.26	3.4	0.0	10.4
080550	Lemons and limes	0.00	269.03	2.6	---	---
200811	Peanuts	14.96	220.75	2.1	2.4	30.9
230250	Bran sharps	1.09	181.15	1.7	---	66.7
220421	Wine	34.29	155.2	1.5	0.0	16.3

Source: World Trade Atlas and tralac calculations

- The top 10 exports to the EU account for 76 percent of total agricultural and fisheries exports. Soya bean cake and maize are the top export products with a combined share of 47.4 percent.
- Exports to the EU grew by 11 percent a year over the review period. Soya bean oil (66%) and bran (67%) experienced the highest growth. Only one product in the list – frozen shrimp and prawns – had a growth rate below that of all agricultural and fisheries exports.
- It is clear that South Africa accounts for a very small share of Argentina's exports of the products in this list. There are five product lines that are exported to the EU but not to South Africa. These are fresh or chilled beef cuts, bran and sharps, and grape wines, lemons and frozen shrimp.

Table 31: Argentina's top 10 agricultural and fisheries exports to China (US\$ millions)

HS Code	Description	1998	2008	Share of total agricultural & fisheries exports (%)	South Africa's share (%)	Annual growth (%)
	Total agriculture & fisheries	453.97	5 294.21		1.9	27.8
120100	Soya beans	90.07	3 609.04	68.2	0.1	44.6
150710	Soya bean oil	138.9	1 457.17	27.5	1.3	26.5
030799	Frozen molluscs	2.47	47.98	0.9	0.1	34.5
240120	Tobacco	0.00	32.7	0.6	0.1	---
020714	Frozen chicken cuts	4.52	28.26	0.5	11.3	20.1
230120	Fish meal	1.18	15.71	0.3	0.0	29.6
030379	Frozen fish	15.8	11.13	0.2	0.5	-3.4
220429	Wine	0.00	9.24	0.2	0.0	---
510121	Wool	0.13	7.98	0.2	0.0	51.0
151211	Sunflower seed	4.11	7.12	0.1	2.8	5.7

Source: World Trade Atlas and tralac calculations

- Total agricultural and fisheries exports to China were US\$5 billion in 2008, 99 percent of which was accounted for by the top 10 export products. This shows the high concentration of Argentina's exports to China, with soya beans and soya bean products accounting for 86 percent of Argentina's agricultural and fisheries exports to China. The annual growth rate of exports to China was a relatively high 28 percent, with products such as wool and soya beans recording growth of 51 percent and 45 percent respectively over the review period. Except for frozen fish, exports of all the products in the top 10 recorded positive growth.
- Except for in chicken cuts, South Africa does not account for a significant share of Argentina's exports of these products.

Table 32: Argentina's top 10 agricultural and fisheries exports to Brazil (US\$ millions)

HS Code	Description	1998	2008	Share of total agricultural & fisheries exports (%)	South Africa's share (%)	Annual growth (%)
Total	Agriculture & fisheries	2 661.78	3 064.71		1.9	1.4
100190	Wheat	731.92	1 212.11	39.6	8.3	5.2
110100	Wheat flour	56.67	266.82	8.7	0.0	16.8
110710	Malt	52.89	146.6	4.8	0.0	10.7
071333	Beans	118.58	99.92	3.3	0.0	-1.7
080820	Pears and quinces	62.2	98.89	3.2	---	4.7
030429	Fish fillets, frozen	0.00	97.88	3.2	0.1	---
040221	Milk/cream	169.94	92.62	3.0	0.0	-5.9
100300	Barley	10.41	91.65	3.0	1.5	24.3
200570	Olives	58.7	87.38	2.9	0.4	4.1
200410	Potatoes	37.66	84.86	2.8	5.1	8.5

Source: World Trade Atlas and tralac calculations

- In 2008 Argentina exported US\$3 billion worth of agricultural and fisheries products to Brazil. The top 10 products accounted for 75 percent of these exports.
- South Africa's share of these exports is negligible except for the country's share of Argentina's wheat and potato exports.
- Argentina's exports to Brazil grew by a mere 1.4 percent a year over the review period, although barley showed spectacular growth, albeit from a low base. Exports of dairy products experienced the fastest decline over the review period, while kidney beans also experienced negative growth over the period.

Table 33: Argentina's top 10 agricultural and fisheries exports to Chile (US\$ millions)

HS Code	Description	1998	2008	Share of total agricultural & fisheries exports (%)	South Africa's share (%)	Annual growth (%)
	Total agriculture & fisheries	475.39	1 655.38		1.9	13.3
100590	Corn (maize)	63.39	256.96	15.5	0.3	15.0
151800	Animal/vegetable fats & oils	0.01	181.87	11.0	0.0	169.2
151790	Edible fats & oil mixtures	12.98	176.54	10.7	0.0	29.8
020130	Meat	67.45	104.46	6.3	0.0	4.5
230400	Soya bean oilcake	20.18	92.51	5.6	3.7	16.4
100190	Wheat	20.19	70.63	4.3	8.3	13.3
230990	Animal feed preparations	0.65	70.42	4.3	3.9	59.7
100700	Grain sorghum	2.16	59.26	3.6	0.0	39.2
170199	Sugar	20.23	55.11	3.3	---	10.5
230910	Dog and cat food	7.17	48.26	2.9	0.0	21.0

Source: World Trade Atlas and tralac calculation

- Agricultural and fisheries exports to Chile grew by 13 percent a year over the review period and were worth US\$1.7 billion in 2008.
- The top 10 products accounted for 67 percent of total exports in 2008. Exports of animal and vegetable fats, animal feed preparations and grain sorghum displayed high growth rates over the review period.
- Again, except for wheat, South Africa is not a significant destination for these exports.

Table 34: Argentina's top 10 agricultural and fisheries exports to the US (US\$ millions)

HS Code	Description	1998	2008	Share of total agricultural & fisheries exports (%)	South Africa's share (%)	Annual growth (%)
	Total agriculture & fisheries	694.96	1 237.60		1.9	5.9
220421	Wine	18.86	147.09	11.9	0.0	22.8
200969	Grape juice	0	95.85	7.7	11.9	---
100510	Corn (maize) seed	45.19	77.32	6.2	0.1	5.5
160250	Prepared or preserved meat	96.8	71.71	5.8	0.0	-3.0
200979	Apple juice	0	69.97	5.7	0.0	---
040690	Cheese	21.39	55.25	4.5	0.0	10
350110	Casein	0	47.2	3.8	---	---
330113	Lemon oils	13.94	45.82	3.7	0.0	12.6
030429	Fish fillets, frozen	0	42.68	3.4	0.1	---
081040	Fresh berries	0.88	41.7	3.4	---	47.2

Source: World Trade Atlas

- Exports to the US grew at an average rate of 6 percent a year over the period, and were valued at US\$1.7 billion in 2008.
- Major exports to the US include wine (12%), grape juice (8%) and maize (6%). The top 10 products accounted for 56 percent of Argentina's agricultural and fisheries exports to the US, reflecting the fact that exports to the US are not particularly highly concentrated.
- Exports of wine and cranberries exhibited spectacular growth over the review period.
- Except for grape juice, Argentina does not export these products in significant quantities to South Africa.

The ‘trade chilling’ concept for Argentina

The importance of this analysis has been discussed above for Brazil and will not be repeated in this section. However, figures used to narrow down the agricultural products in the methodology for Argentina are different and highlighted below. Again we stress that while this analysis is useful it does have limitations.

The analysis started with a total of 753 agricultural and fisheries HS6 product lines. In an attempt to narrow the field those HS6 lines were examined where (a) South Africa’s exports to the world were at least US\$0.5 million a year on average over the last five years (to denote the supply potential from South Africa) and (b) Argentina’s imports from the world were at least US\$0.5 million a year on average over the last five years (to denote the demand side). After this first threshold cut-off 190 product lines at the HS6 level remained. Next, the lines were examined where exports from South Africa to Argentina and imports into Argentina from South Africa were both below US\$5,000 over the last five years (to indicate ‘no trade’). After this a total of 165 HS6 product lines remained. The selection was further narrowed down and the lines examined where (i) global exports from South Africa over the last five years in total were at least US\$2 million and (ii) global imports into Argentina over the last five years were worth at least US\$2 million. This served to identify the product lines where trade opportunities are most significant. Finally, 69 HS6 product lines of agricultural and fisheries products remained.

Below is a summary of the top 20 products South Africa exports to the world but which it does not currently export to Argentina. This is indicative of the products in which there is the potential for trade between the two countries. Based on the applied MFN tariffs on these product lines there seems to be no evidence to suggest that the tariff is the main factor prohibiting trade. All the products on the list have an applied MFN tariff of 20 percent or less. However, there may be several other reasons why South Africa and Argentina are not trading these products with one another. For instance, Argentina may not import fresh onions and shallots from South Africa because both countries are located in the southern hemisphere where growing seasons are the same.

Table 35: Top 20 products South Africa exports to the rest of the world but not to Argentina

All values in US\$ millions			5-year average	5-year average	5-year average	5-year average
		Argentine MFN applied tariff (%)	Argentine imports from South Africa	Argentine imports from the world	South African exports to Argentina	South African exports to the world
	Total agricultural and fisheries products		3.93	1,595.97	21.95	32,451.02
	69 Agriculture and fisheries HS 6 lines		0.52	1,009.65	0.13	3,041.34
170199	Sugar	16.00	0.00	2.09	0.00	522.61
240310	Smoking tobacco	20.00	0.00	2.00	0.02	393.59
220210	Waters	20.00	0.00	3.36	0.00	323.63
240120	Tobacco	14.00	0.00	4.71	0.04	228.33
220300	Malt beer	20.00	0.00	3.62	0.00	125.89
210410	Soups and broths	17.00	0.00	2.70	0.00	103.11
170490	Sugar confection	20.00	0.00	12.05	0.00	75.19
520100	Cotton	6.00	0.00	43.95	0.00	73.52
210210	Yeasts, active	14.00	0.06	5.40	0.02	59.73
220830	Whiskies	15.33	0.00	12.90	0.00	58.90
190531	Cookies (sweet biscuits)	18.00	0.00	2.13	0.00	56.26
070310	Onions and shallots	5.00	0.00	2.12	0.00	55.16
190110	Food preparations for infants	17.50	0.00	3.98	0.00	41.99
151620	Vegetable fats & oils	10.00	0.00	7.31	0.00	39.60
121190	Plants & parts for medicaments	8.00	0.01	4.95	0.00	39.50
330129	Essential oils	10.83	0.01	3.70	0.01	39.49
100630	Rice	11.00	0.00	3.11	0.00	36.51
180632	Chocolate	20.00	0.00	9.44	0.00	36.23
160232	Chicken meat or offal	16.00	0.00	3.69	0.00	33.88
190410	Cereal/cereal product	16.00	0.00	5.30	0.00	33.56

Source: World Trade Atlas and tralac calculations

Table 35 displays some of the product lines in which there could be the potential for increased agricultural trade between South Africa and Argentina. The top five agricultural and fisheries products South Africa exports in terms of value, with minimal or no exports to Argentina are sugar (HS 170199), smoking tobacco (HS 240310), waters (HS 220210), tobacco (HS 240120) and malt beer (HS 220300). Out of all five products, South Africa exports only US\$20 000 worth of smoking tobacco and US\$40 000 of tobacco to Argentina. Potentially more of these products can be exported to Argentina. The applied tariffs on these products, however, range between 14 percent and 20 percent which, although not high, could be a deterrent for South African exporters. Chile also dominates the Argentine market for waters with a

share of imports of 87 percent, while malt beer is supplied by various partners, including Mexico, Paraguay and the EU.

Argentina's agricultural and fisheries imports from the world show the products with the most potential for South African exporters. These, in terms of value, are cotton (HS 520100), whiskies (HS 220830) and sugar confection (HS 170490). None of these products are currently being imported from South Africa. The applied tariff for whiskey imports is 15.33 percent and for sugar confection 20 percent, which might discourage South African exporters. The main suppliers of these products are all dominant in the Argentine market, with Brazil supplying 87 percent and 60 percent of Argentina's total cotton and sugar confection imports and the EU 85 percent of Argentina's whisky imports.

The geographical location of South Africa's main competitors in the export of these products to the Argentine market could be a non-tariff barrier contributing to the lack of South African exports to Argentina. In particular, the proximity of producers in countries such as Brazil and Paraguay to Argentine markets, gives them a significant advantage over South African producers.

Section 3 South Africa's agricultural imports: Mercosur in perspective

The aim of this section is to show how important Brazil and Argentina are to South Africa as a source of agricultural imports. The section will show that these countries have become vital sources of animal feedstuffs in recent years, and that recently Brazil has become a source of cane sugar imports – imports that will surely place pressure on the Department of Trade and Industry, as it is mandated to protect the SACU sugar industry. This protection benefits South Africa and Swaziland at the expense of Lesotho, Namibia and Botswana.

Table 36 shows the values, shares and average annual growth rates for South African imports of agricultural products over the 1996 to 2008 period. These imports were valued at US\$4.74 billion in 2008, up from \$1.79 billion in 1996 (an 8.1% cumulative annual growth rate when expressed in log form). The EU has maintained a dominant position as the main supplier (with a 22.8 percent share in 2008),

followed by Argentina and Brazil with a combined share of 27.3 percent. Brazil in particular has exhibited rapid growth as a source of imports. Cumulatively these sources accounted for 75.4 percent of South Africa's agricultural imports in 2008, up from 65.9 percent in 1996. Note that the nominal value of imports from the US has barely stayed constant, and the country has lost significant market share.

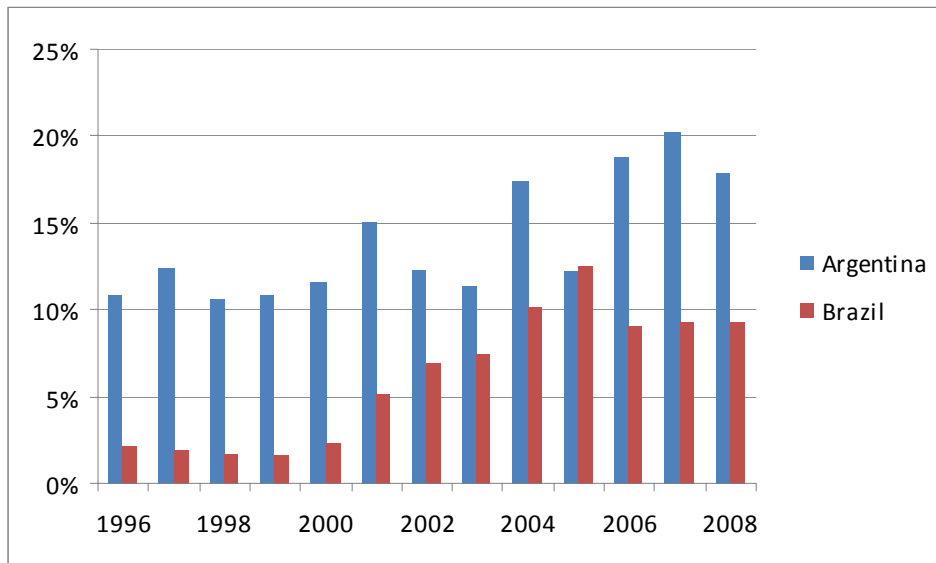
Table 36: South Africa's agricultural imports, 1996 and 2008 (US\$ millions)

Source	Imports (US\$m)	Share	Imports (US\$m)	Share	Average annual growth
	1996		2008		
World	1,789		4,735		8.1%
EU 27	435	24.3%	1,078	22.8%	7.6%
Argentina	194	10.8%	847	17.9%	12.3%
Brazil	40	2.2%	443	9.4%	20.1%
Thailand	67	3.8%	415	8.8%	15.2%
US	312	17.4%	320	6.7%	0.2%
Malaysia	106	5.9%	260	5.5%	7.5%
China	25	1.4%	209	4.4%	17.6%
Subtotal	1,179	65.9%	3,571	75.4%	

Source: World trade Atlas, tralac calculations.

Figure 2 shows the shares of South Africa's agricultural imports from Argentina and Brazil expressed as a percentage of total agricultural imports into South Africa over the period 1996 to 2008 inclusive. In 2007 the share from Argentina was just over 20 percent, while Brazil's share peaked at 13 percent in 2005. Argentina held a share above 10 percent over the whole period, while Brazil's share has risen from around 2 percent in the first five years to a consistent level of around 10 percent during the last five years.

Figure 2: Shares of South African agricultural imports, 1996 to 2008



Source: World Trade Atlas, tralac calculations

Table 37 looks at the main South African agricultural imports from all sources by aggregated HS products. It shows that cereals (rice and wheat), with imports of nearly US\$1 billion, occupied the top place in 2008, a position cereals also held in 1996. This was followed by fats and oils (mainly palm and soya bean oils), animal and poultry feeds (soya bean products) and beverages. Imports of sugar show the biggest increase in percentage terms since 1996, and these reached US\$151.4 million during 2008.

Table 37: South African agricultural imports by main products, 1996 and 2008

Product group	Imports (US\$ millions)		Percentage	
	1996	2008	Share (2008)	Annual growth
Agricultural products	1,788.9	4,735.3	100.0%	8.1%
Cereals	384.1	968.2	20.4%	7.7%
Fats and Oils	253.1	818.2	17.3%	9.8%
Animal/poultry feed	181.9	447.0	9.4%	7.5%
Beverages	128.3	431.9	9.1%	10.1%
Meat	134.6	297.2	6.3%	6.6%
Miscellaneous food	46.8	218.2	4.6%	12.8%
Sugars	13.7	151.4	3.2%	20.0%
Spices, coffee, tea	66.5	145.6	3.1%	6.5%
Preserved food	33.2	134.7	2.8%	11.7%
Tobacco	68.1	133.1	2.8%	5.6%
Baking related	23.1	115.2	2.4%	13.4%
Subtotal	1,333.6	3,860.6	81.5%	8.9%

Source: World trade Atlas data, tralac calculations

Following on from Tables 36 and 37, Table 38 shows the main agricultural imports from Mercosur and from Brazil and Argentina individually. The data is again 2008 data in US\$ millions, with the relative import share in that particular, more detailed, HS 4 line. This table shows that with regard to the two main imports from Mercosur, soya bean oilcakes (HS 2304) and soya bean oil (HS 1507), Mercosur supplies over 90 percent of South Africa's imports. Several other import codes display a Mercosur share of over 50 percent. Also shown is that during 2008, Brazil supplied 1.9 percent of total merchandise imports into South Africa, and 22.6 percent of Brazil's imports are accounted for by the top agricultural products shown (total agricultural imports from Brazil during 2008 were US\$443 million, as shown in Table 36 above).

Similarly, Argentine imports were some 1.1 percent of total South African merchandise imports, and the subtotal of the agricultural products shown represents 77.6 percent of these imports from Argentina. Collectively Mercosur was the source of 3 percent of South Africa's total imports, with some 43.1 percent of Mercosur's imports represented by the agricultural imports shown in the table. The associated tariff rates are also shown, and these vary from an MFN rate of zero for cane sugar

and petones through to 40 percent for beef. The 2 percent tariffs levied on wheat, chicken meats and maize are little more than ‘nuisance’ tariff rates. Note that there are also some imports from Uruguay and Paraguay, and these will be discussed below.

Table 38: South Africa’s main agricultural imports from Mercosur, Brazil and Argentina, 2008

HS	Description	MFN Tariff (%) [*]	Mercosur		Brazil		Argentina	
			2008	Share	2008	Share	2008	Share
	Total imports		2739.4	3.0%	1,694.9	1.9%	1,015.2	1.1%
2304	Soya bean oilcake	6.6	302.0	96.8%	0.9	0.3%	301.1	96.5%
1507	Soya bean oil	10	264.3	91.6%	129.3	44.8%	134.9	46.8%
1001	Wheat	2	237.5	53.4%		0.0%	237.5	53.4%
0207	Chicken meat	2	162.7	85.4%	144.9	76.1%	17.8	9.4%
1512	Sunflower seed	10	55.4	18.5%	4.9	1.6%	48.8	16.3%
1701	Cane sugar	0	50.4	88.0%	50.4	88.0%	0.0	0.0%
2009	Fruit juice	5	25.6	46.3%	1.2	2.2%	24.4	44.1%
2401	Tobacco	15	24.9	23.8%	22.9	22.0%	0.4	0.4%
1005	Corn (Maize)	2	19.4	67.3%	0.0	0.0%	19.4	67.3%
1704	Sugar confection	37	17.1	32.7%	16.7	32.0%	0.4	0.7%
3504	Peptones	0	12.5	34.4%	12.5	34.4%	0.0	0.0%
0202	Frozen beef	40	10.2	77.2%	0.0	0.2%	3.0	22.6%
	Subtotal		1,182		384		788	
	Subtotal share of total imports		43.1%		22.6%		77.6%	

Source: World Trade Atlas, tralac calculations.

* The tariff is the MFN rate taken from the TIPS SACU tariff schedule and is indicative only. For example, the tariff on maize imports is a specific rate that equates to just below 2 percent for imports during 2008. An analysis of the preferences that will be granted to Mercosur suggests that only in HS 2304 (soya bean oilcake) will there be any preferences granted to these imports.

Imports from Uruguay and Paraguay

In 2008 South Africa imported merchandise goods worth US\$23.11 million from Uruguay and US\$6.23 million from Paraguay. As shown below, frozen beef was the only significant import. Some US\$9.48 million of the imports from Uruguay were agricultural products. The main agricultural imports were:

- Frozen beef (US\$6.13 million)
- Rice (US\$1.03 million)
- Animal fats (US\$1.01 million)
- Milk and cream (US\$0.72 million).

Most (US\$5.88 million) of the total imports from Paraguay were agricultural products:

- Sunflower seeds (US\$1.73 million)
- Tobacco (US\$1.54 million)
- Edible offal (US\$1.09 million)
- Frozen beef (US\$1.06 million).

BLNS agricultural trade with Mercosur (BLNS imports)

BLNS imports from Mercosur are shown in Table 39 below. The table shows total imports and certain agricultural product HS sections. Note that the years differ and that the values are expressed in local currency. Imports are generally modest to non-existent, but in some cases, such as that of Namibian imports from Argentina, the identified agricultural products represent 100 percent of all imports from that country. Namibia is the only BLNS importer of agricultural products from either Uruguay or Paraguay. Brazil is a significant supplier of prepared foodstuffs to Botswana and Namibia, and of animals and animal products to Lesotho.

Table 39: BLNS imports from Mercosur (rand/pula)

Imports	Brazil	Argentina	Uruguay	Paraguay
Botswana, 2006 (pula)				
Total	1,7127,557	443,792	--	263,442
Animals & animal products	49,741	--	--	--
Prepared foodstuffs	3,310,011	432,192	--	--
Namibia, 2006 (rand)				
Total	71,928,824	12,762,290	5,364,606	66,807
Animals & animal products	3,083,168	10,081,579	4,730,331	--
Vegetable & fruit	-	197,466	--	--
Fats & oils	441,815	287,489	--	--
Prepared foodstuffs	12,009,453	1,331,308	--	66,807
Lesotho, 2003 (rand)				
Total	4,113,501	--	--	--
Animals & animal products	4,113,501	--	--	--
Swaziland, 2004 (rand)				
Total	1,970,807	145,640	--	--
Prepared foodstuffs	230,203	--	--	--

Source: TIPS database

Chapter 4

SACU and Mercosur: The FTA

Ron Sandrey and Hans Grinsted Jensen

Summary and key points

In this chapter we examine the implications of South Africa/SACU and the Mercado Comun del Sur (Mercosur) entering into a genuine free trade agreement (FTA). We use the Global Trade Analysis Project (GTAP)¹ database to assess the welfare and trade gains from this FTA as determined by mainly merchandise goods access but with a small reduction in assumed services barriers also factored in. Although recognising that South Africa on the one side and Brazil and Argentina on the other are bound by their respective memberships of the Southern African Customs Union (SACU) and Mercosur we concentrate the analysis on these three main players.

The results for this SACU-Mercosur FTA show that there are comfortable welfare gains to South Africa of US\$236 million with the real Gross Domestic Product (GDP) increasing by 0.12 percent. Although these results cannot be taken as exact figures but rather as indicative, they suggest that an FTA with Mercosur warrants serious consideration. The gains to South Africa derive from a better use of land, labour and capital (enhanced allocative efficiency), increased net investment increasing the amount of capital employed in the economy, and a small contribution from increased labour employment. On the negative side, these gains are negated somewhat by terms of trade² that go against South Africa.

Essentially the economy becomes more efficient with better capital utilisation in response to more competitive Mercosur imports. This in turn leads to a devaluation of the real exchange rate in South Africa, boosting exports albeit with a terms of trade loss. The South African economy gains from this devaluation of the real exchange rate (0.0579%), as even though the value of total income (sum of factor income and indirect tax receipts) declines by 0.0676 percent, prices decline by more (0.1391%). This translates into a raise in Equivalent Variation (EV) of US\$236 million when measured in fixed prices.

¹ See the GTAP website at <https://www.gtap.agecon.purdue.edu/> for a full introduction to the model.

² Where terms of trade are the relative changes in import and export prices following a change.

An FTA with Mercosur is not beneficial for the South African agricultural sector. Imports of agricultural products increase dramatically: by US\$422 million from Mercosur (with US\$353 million of this from Brazil), but trade diversion away from BLNS (Botswana, Lesotho, Namibia and Swaziland) and all other sources (which reduce by US\$34 million and US\$346 million respectively) limit the overall increase in imports into South Africa to a lesser US\$140 million. All of the increased imports are in secondary (processed) agricultural products. Increased exports in the agricultural sectors are extremely modest (US\$84 million), but on the positive side these represent largely 'new trade' or trade creation rather than trade diversion. But countering this (from an agricultural but not a consumer perspective) is the finding that there are marginal reductions in the prices of all agricultural products. Overall, when combined with quantity reductions, the decreased value of production in South African agriculture of US\$418 million is significant. Much of this derives from reduced chicken meat and vegetable oilseeds production. This in turn is reflected in a decrease of 0.5 percent in land prices as a result of increased competition from Mercosur's imports. Therefore the FTA is bad news for farmers, but it translates into good news for consumers as the reduced agricultural prices across the board help to lower the Consumer Price Index (CPI) which in turn contributes to overall welfare gains for South Africa. This means that the gainers are the vast majority South Africans who are consumers, while the losers are mainly the small number of commercial farmers.

The results for the manufacturing sectors are better news for South Africa, as despite a reduction in the value of production (by US\$146 million) in the motor vehicle and parts sector, there was an increase in overall value of manufacturing output by US\$388 million. The big gainers were the chemicals, rubber and plastics sector and non-ferrous metals. Total manufacturing exports were up by US\$587 million, with US\$325 million of this to Brazil and US\$194 million to destinations other than those involved in the FTA. These increases included an increase of US\$111 million in vehicle exports in total. Total manufacturing imports were up by \$190 million, with imports from Brazil increasing by US\$913 million, but imports from non-FTA participant sources declining by US\$854 million as more competitive Brazilian manufacturing replaced traditional sources in the South African market. Much of the trade change was trade diversion that largely benefits South Africa. This is especially

so in vehicle imports, where imports from Brazil increased by US\$621 million, but reductions from non-FTA partners of US\$616 million meant an increase of only US\$60 million following the FTA.

Finally, it is notable that overall services output in South Africa increases by US\$214 million, with this mainly being driven by increased demand for services as the production of capital goods and other industries expand production in the South African economy. The total value of services exports also increases by US\$27 million. In the model it is assumed that the services sectors face a 2 percent tariff-equivalent decline in non-tariff barriers in both SACU and Mercosur as a result of the FTA.

Alternative scenarios

Following the agricultural policy setting for South Africa which shows that protection is concentrated in the **sugar sector** we modelled the overall implications of protection for the South African and Swaziland sugar sectors as represented by a 20 percent non-tariff barrier (NTB) tariff equivalent. The simulation scenario now becomes one of reducing that NTB 20 percent tariff equivalent to zero. The expectation is that this elimination of the NTB on sugar imports would enhance welfare in SACU. This is not the case. Liberalisation of the sugar sector as predicted in the model actually reduces welfare in both South Africa and rest of SACU (which includes Swaziland). The reallocation of resources away from the sugar industry does not find a more efficient allocation in the economy and real GDP declines slightly in South Africa. The 20 percent non-tariff barrier against imports is therefore welfare enhancing for South Africa when modelled as an ad valorem tariff equivalent at the border with agents capturing rents on the restrictions imposed.

Given that there are factors in play in the motor vehicle sector (both globally and in South Africa) that may override general free-market assumptions, we simulated a scenario whereby changes to the vehicle sector were constrained. The result suggested that by continuing to protect its motor vehicle sector South Africa would be worse off. The final FTA welfare gains are around half of what they could have been, and protecting the motor vehicle sector against Brazilian imports is not in the best interests of South Africa or South African agriculture. South Africa would forego

welfare gains if it did not open up fully to vehicle imports from Mercosur's in the event of an FTA, although we caution that as we have not modelled the tariff rebate system on intermediate inputs into the vehicle sector, our results here overstate the case.

Policy implications

Several potential policy issues emerge from this research. The first is that while a full FTA between SACU and Mercosur is good for the South African economy it is not good news for South African farmers. Agricultural imports of chicken and oilseed products in particular increase, and this creates ripple effects that result in small price reductions across all agricultural sectors. These price reductions assist in reducing the real CPI for South Africa, which in turn is a factor in generating welfare gains to the economy (and consumers), but also reduce the total value of South African agricultural output and land values.

The second policy issue is that we are able to assess changes to the trade exposure for the agricultural sector. Agricultural imports increase by 2.39 percent, exports by 0.73 percent and the value of production declines by 0.63 percent. The openness of South African agriculture as measured by the sum of exports and imports divided by the total value of production now increases: from 26.044 percent to 26.546 percent (an increase of 0.502 percentage points). The benefit to South Africa of this increased exposure to international prices is reflected in the efficiency gains and cheaper food prices for consumers from the FTA, but in reality it will also increase the price variability of agricultural products. In the final analysis, however, the GTAP database assesses probable South African agricultural exports (US\$11.56 billion) to be nearly double the agricultural imports of US\$5.85 billion in 2010, and therefore as a net agricultural exporter the country needs to be open to world market prices in order to remain competitive and to adjust to changing world demand and prices.

Another policy issue is that we are unable to assess the full distributional effects of the relatively small changes in the agricultural sector between the numerically smaller commercial sector with its disproportionate share of production and the numerically much larger small or subsistence sector. We would, however, hypothesise that the latter is only marginally exposed to the changes as it has a much smaller exposure to

the full agricultural market as producers and may even gain from the FTA as consumers.

The final comment on policy implications relates to the tariff revenue pool and South Africa's trade policy. It is generally accepted that tension exists between South Africa's trade liberalisation efforts on the one hand and BLNS relying heavily on tariff revenues from the SACU revenue pool on the other. Research in this area involves some conflicting values. For the Mercosur FTA, the total revenue loss is US\$324 million. Most of this loss (US\$206m) stems from losses to the manufacturing sector, with some US\$146 million of this resulting from losses to the motor vehicle and parts industries. Just over one-third (US\$118m) results from losses to the agricultural sector, with most of these agricultural losses (US\$82m) deriving from the now duty-free imports from Mercosur rather than from trade diversion. All of these losses are attributed here to South Africa, but, in reality, given the redistribution of these revenues we are (a) underestimating the gains to South Africa and (b) disguising the considerable losses to BLNS.

Research into the revenue implications of a SACU-Mercosur FTA also highlights that the converse applies to efforts by South Africa to protect its manufacturing sector through industrial policy, as it showed how maintaining protection on motor vehicles would shelter BLNS from revenue pool reductions.

Introduction

In assessing South Africa's future trade policy options, Brazil and Argentina's dramatically increasing role as trading giants for agricultural products both globally and as sources of imports for South Africa has to be considered. In addition, the rise of Brazil as an exporter of manufacturing products is also a factor. Associated with this is the emergence of a strong developing-country presence on the world stage (the so-called 'south' countries) and in particular the consideration of the role that South Africa can play at this stage with countries such as Brazil. The trade and political economy background to this has been discussed in earlier chapters, and now the focus is on how South Africa's trading relationship with Mercosur may be advanced by the adoption of a free trade agreement between South Africa (or, more properly, SACU) and Mercosur. To assist with this analysis the internationally

accepted benchmark GTAP database –discussed below – and its associated general equilibrium model is used here as an analytical tool. In undertaking this analysis, the starting point is a simulation of the ‘known’ and best estimate conditions that will prevail at the end of a given period (2020 in this case) followed by an assessment of the difference that the selected policy change under consideration is likely to make.

The objective of this chapter is to simulate an FTA between South Africa (SACU) and Mercosur. We believe that such an analysis provides a useful pointer to the potential gains that South Africa, a medium-sized developing country (albeit one with significant industrial capacity and elements of a first-world agricultural structure coexisting with a numerically larger small scale or subsistence sector), can make given a comprehensive FTA with Brazil and Argentina. We assure readers that we are fully cognisant of the complexities of the South African/SACU trade policy formulation procedures but we will not do more than outline the main implications for BLNS in this chapter, and similarly for Mercosur with its smaller partners of Uruguay, Paraguay and, possibly in the future, Venezuela. It is, however, tralac’s intention to (a) highlight the main conclusions associated with the smaller partners in each case and (b) examine BLNS more comprehensively in a separate report later.

Section 1 The GTAP database/model

GTAP is supported by a fully documented, publicly available, global database, as well as underlying software for data manipulation and for implementing the model. The framework is a system of multi-sector economy-wide input/output tables linked at the sector level through trade flows between commodities used both for final consumption and intermediate use in production. The latest GTAP Version 7 database divides the global economy into 113 countries/regions with 57 commodities specified in the database. The database represents global trade in the year 2004 measured in millions of (2004) US dollars.

The standard GTAP model is a comparative, static, general equilibrium model, which means that while it examines all aspects of an economy via its general equilibrium feature (as distinct from a partial equilibrium approach that examines only the sector under consideration), it is static in the sense that it does not specifically incorporate

dynamics such as improved technology and economies of scale over time unless these are specifically built in. The economic agents of consumers, producers and government are modelled according to neoclassical economic theory, with both producers and consumers maximising their profits and welfare respectively with markets assumed to be perfectly competitive and all regions and activities linked. Results are measured as a change in welfare arising principally from the reallocation of resources within an economy and the resulting changes in allocative efficiency, terms of trade effects³, capital accumulation and changes in unskilled labour force employment. This change in welfare is based upon a representative household, so unless this is modified it is not possible to examine the distributional aspects other than through the skilled/unskilled labour market closures. The standard GTAP model also does not address the time path of benefits and capital flows over time. These changes are important as they allow consumers to borrow, which in turn allows consumption patterns to vary over time.

The interpretation of GTAP results

The GTAP model expresses the welfare implications of a **modelled change in a country's policy** as the Equivalent Variation (EV) in income. **The EV in income measures annual change in a country's income (gains or losses) from having implemented, for example, an FTA. The EV in income is simply defined as the difference between the initial pre-FTA income and the post-FTA income after implementation of the FTA, with all prices set as fixed at current (pre-FTA) levels.**

EV in income = post-FTA income – pre-FTA income

If a country's EV in income increases due to a policy change, the country can increase its consumption of goods equal to the increase in income and thereby improve the national welfare in the country. The EV is a doubly effective measure for

³ Where terms of trade are the relative changes in import and export prices following a change. Improved allocative efficiency within a country comes about as it moves resources into more internationally competitive activities following a reduction in its own border protection. It is paradoxically this allocative efficiency that is providing most of the benefits to the 'home' country from reducing its own protection rather than the exporter gaining better market access as the partner country reduces tariffs. This is an example of where a general equilibrium model is often able to counter the common mercantilist argument that a country needs protection to develop its own industrial sector.

measuring global economic impacts of an FTA agreement between groups of countries. Firstly, the EV provides a monetary valuation of effects induced by FTA policy changes globally and at the country or regional level, so as to illuminate winners and losers. And secondly, the EV also facilitates comparisons of different policy scenarios, given that income changes are measured in initial base prices.

These total welfare gains/losses can be decomposed into contributions from improvements in allocative efficiency, capital accumulation, changes in the employment rate of the labour force, and terms of trade.

Gains from **allocative efficiency** arise from improved reallocation of productive resources (such as labour, capital and land) from less to more productive uses. For instance, when import tariffs are abolished, resources shift from previously protected industries towards other sectors, which are more in line with the country's comparative advantage, producing an increase in real GDP and economic welfare.

Terms of trade effects are the consequence of changing export and import prices facing a country. So, when a country experiences an increase in its export price relative to its import price (e.g. due to improved market access), it may finance a larger quantity of imports with the same quantity of exports, thus expanding the supply of products available to the country's consumers. Whereas allocative efficiency contributes to increases in global welfare gains, changes in terms of trade affect the distribution of global welfare gains across countries; essentially, one country's terms of trade gain is another country's terms of trade loss. The global total must therefore add to zero, and if a large proportion of the benefits to South Africa from an FTA is derived from terms of trade effects, this implies transfers to South Africa from the rest of the world.

Capital accumulation summarises the long-run welfare consequences of changes in the stock of capital due to changes in net investment. A policy shock affects the global supply of savings for investment as well as the regional distribution of investments. If a trade agreement has a positive effect on income through improvements in efficiency and/or terms of trade, a part of that extra income will be saved by households, making possible an expansion in the capital stock. At the same time, rising income will increase demand for produced goods, pushing up factor

returns and thus attracting more investments. Generally, economies with the highest growth will be prepared to pay the largest rate of return to capital, and will obtain most of the new investments. Therefore we will tend to see that the long-run welfare gains from capital accumulation reinforce the short-term welfare gains deriving from allocative efficiency and terms of trade.

The welfare effects of changed **employment** rates are consequences of changes in the extent of the unskilled labour force employed due to changes in the real wage. In a situation where the demand for labour and thereby the real wage increases, the amount of labour employed increases, reducing the relative rise in the real wage and thereby increasing the competitiveness of the country's industries (increasing EV in income).

The GTAP simulation

The analysis undertaken in this chapter is based upon a variant of the GTAP model to simulate the impact of possible multilateral market access reforms resulting from an FTA between SACU and Mercosur. The database is the Version 7 GTAP database (Badri & Walmsley 2008) with the base year 2004⁴, where the 2004 tariff data originating from the Market Access Maps (MAcMap) database has been used with some verification and minor modifications. The main unskilled labour market closure of the model has been changed so that the supply of unskilled labour is endogenously determined by the labour supply elasticity.

As with any applied economic model, this model is, of course, based on assumptions, both in terms of theoretical structure and the specific parameters and data used. Regional production is generated by a constant return to scale technology in a perfectly competitive environment, and the private demand system is represented by a non-homothetic demand system (Constant Difference Elasticity function).⁵ The foreign trade structure is characterised by the Armington assumption implying imperfect substitutability between domestic and foreign goods.

⁴The documentation of the Version 7 database can be found on the website https://www.gtap.agecon.purdue.edu/databases/v7/v7_doco.asp.

⁵ Hence, the present analysis abstracts from features such as imperfect competition and increasing return to scale, which may be important in certain sectors. We are therefore using what can be thought of as a base GTAP structure.

The macroeconomic closure is a neoclassical closure where investments are endogenous and adjust to accommodate any changes in savings. This approach is adopted at the global level, and investments are then allocated across regions so that all expected regional rates of return change by the same percentage. Although global investments and savings must be equal, this does not apply at the regional level, where the trade balance is endogenously determined as the difference between regional savings and regional investments. This is valid as the regional savings enter the regional utility function. The quantity of endowments (land, skilled labour and natural resources) in each region is fixed exogenously within the model, while the extent to which unskilled labour is employed is endogenously determined. The capital closure adopted in the model is based on the theory according to which changes in investment levels in each country/region come on-line instantly, updating the capital stocks endogenously in the model simulation.⁶ Finally, the numeraire used in the model is a price index of the global primary factor index.

The applied ad valorem equivalent (AVE) tariff data found in the standard GTAP Version 7 database originates from the MAcMap database, contributed by the Centre d'Etudes Prospectives et d'Information Internationales (CEPII). The MAcMaps database is compiled from UNCTAD TRAINS data, country notifications to the WTO, the Agricultural Marketing Access Database (AMAD), and from national customs information (Bouet et al., 2005). The MAcMap database contains bilateral applied tariff rates (both specific and ad valorem) at the 6-digit Harmonised Systems (HS6) level. These are then aggregated to GTAP concordance using trade weights.

Baseline projection 2004–2020

Before simulating the trade policy (FTA) scenario, we construct a baseline scenario to serve as an updated basis for analysis. The baseline scenario updates the standard database with a projection of the world economy from 2004 to 2020, applying suitable shocks to GDP, population, labour and capital, as well as incorporating the most important developments, realised or planned, since 2004. We have identified and updated the database with developments: such as the implementation of the Trade, Development and Cooperation Agreement (TDCA), the

⁶ This capital closure adopted in the model is the so-called Baldwin closure as documented in GTAP Technical Paper no. 7.

enlargement of the European Union from 25 to 27 member countries, the Everything But Arms (EBA) Agreement between Least Developed Countries (LDCs) and the EU and Venezuela becoming a member of Mercosur. For the country/regional aggregation we have used:

- The three available groupings for SACU of South Africa and Botswana as countries in their own right and the only option of the ‘rest of SACU’ comprising Lesotho, Namibia and Swaziland. This is of course not ideal as the three economies are very different, but there is no alternative.
- The five individual Mercosur members (accepting Venezuela as a member) of Brazil, Argentina, Uruguay, Paraguay and Venezuela.
- And the remaining groupings of Chile, the EU, US, China, India, rest of Africa and the rest of the world (RoW).

For the GTAP sectors we have used the full set of merchandise sectors that are available but we often only report on the main ones of interest. Services are merged into one aggregated services sector.

As always, we apply shocks to GDP, population, labour force, and capital to project the world’s economy to the baseline year of 2020 – a year in which we assume that an FTA could be fully implemented.⁷ The projection of the world economy uses the exogenous assumptions listed in Table 1, and is important in shaping the baseline scenario. The general sources for the assumptions in Table 1 are given in a footnote to the table, and these assumptions represent the best estimates of the possible future path of the data.

The GTAP model then determines changes in output through both an expansionary and a substitution effect in each country/region of the model. The expansionary effect represents the effects of growth in domestic and foreign demand shaped by income and population growth and the assumed income elasticities. The substitution effect reflects the changes in competitiveness in each country/region shaped by changes in relative total factor productivity, cost of production as well as any policy changes. The

⁷ Note in particular that the baseline has the 2008 global downturn factored into these macro-projections, and that the World Bank as of mid-2009 expected a rather quick recovery back to earlier long-term predictions.

GTAP model uses this set of macroeconomic projections to generate the 'best estimate' of global production and trade data for 2020. The relative growth rates of each country/region for GDP, population, labour, capital and total factor productivity play an important role in determining the relative growth in output of the commodities when projecting the world economy from 2004 to 2020, and we can now take the resulting data set from this baseline simulation as the new base for our FTA scenario. A simulation scenario measures the difference between our baseline model's output in 2020 in the absence of, for example, the FTA, against the likely output if an FTA were concluded. The model results shown in this chapter present the isolated effect of a possible FTA or other simulated scenario in the year 2020.

Table 1: Macroeconomic projections expressed as average annual growth rates, 2004–2020

	Real GDP	Population	Labour			Capital	TFP
			Total	Unskilled	Skilled		
South Africa	4.0	0.4	1.5	2.0	1.5	4.0	0.5
Botswana	3.5	0.5	0.9	4.9	0.8	3.5	0.4
Rest SACU	3.7	1.0	1.2	2.1	1.1	3.7	0.4
Brazil	3.3	1.1	1.0	3.1	0.8	3.3	0.5
Argentina	4.4	0.9	2.8	5.8	1.4	4.4	0.6
Uruguay	5.0	0.6	0.5	3.4	-0.4	5.0	1.1
Paraguay	3.2	1.8	2.3	5.2	2.1	3.2	0.3
Venezuela	3.8	1.3	1.5	3.1	1.0	3.8	0.7
Chile	3.4	1.0	3.1	5.4	2.6	3.4	0.1
Rest Africa	4.9	1.9	2.6	3.3	2.6	4.9	0.8
EU	1.3	-0.1	0.1	0.0	0.1	1.3	0.3
USA	1.6	0.7	1.2	0.8	1.5	1.6	0.1
China	9.1	0.6	0.9	3.9	0.8	9.1	1.6
India	7.2	1.1	1.7	4.1	1.6	7.2	1.6
RoW	2.6	1.0	1.7	2.4	1.6	2.6	0.2

Source: World Bank forecasts, Walmsley (2006) and own assumptions.

Note: The annual growth rate in total factor productivity (TFP) is determined endogenously by the exogenous variables (GDP, unskilled/skilled labour force and capital), the model and the associated database.

SACU and Mercosur FTA scenario

The FTA **primary** scenario considered in this chapter entails the results of the removal of trade barriers between Mercosur and SACU as measured in the year 2020 in a world shaped by the **baseline** scenario. This implies that:

- all ad valorem tariffs and ad valorem equivalents of specific tariffs between Mercosur and SACU are abolished;
- an assumed **2 percent** blanket tariff equivalent to represent non-tariff barriers (NTBs) has been built in to proxy a reduction in these barriers from an FTA. We note that there is no empirical justification for that 2 percent level other than an intuitive feel that NTBs are often of that level or even considerably more;
- a similar 2 percent NTB has also been applied to services to proxy some gains from an FTA where services trade has been factored in.

Differences between the so-called **baseline** scenario and this so-called **primary** scenario as measured by the gains at 2020 in 2004 real dollar terms are therefore the result of the implementation of the simulated SACU-Mercosur FTA.

Section 2 The big picture GTAP results

Table 2 shows the changes in welfare from the FTA assuming the announced reductions in merchandise tariffs and NTBs, with the data expressed in US\$ millions as one-off increases in annual welfare at the assessed end point of 2020. South Africa's gains are US\$236 million, a figure much lower than Brazil's US\$834 million but greater than Argentina's US\$138 million. The gains to South Africa result from the contributing factors of increased investment expanding the capital stock (US\$268m) and allocative efficiency gains of US\$53 million as resources are better employed in the economy. These are enhanced by small gains from increased labour employment (US\$9m) but negated by the terms of trade deterioration of US\$94 million resulting from an adverse change in relative prices between South African exports and imports. Brazil's large gains are concentrated in capital (US\$341m), allocative efficiency (US\$257m) and terms of trade (US\$181m),

while Argentina's gains are evenly spread across the same factors. Notable are the very minor welfare results accruing to both Botswana (US\$3m) and the rest of SACU with US\$7 million. The other Mercosur members also see modest gains to Paraguay of US\$10 million, good gains to Uruguay of US\$26 million, but a loss to Venezuela of US\$12 million. Overall, SACU gains by US\$246 million while Mercosur's gains are over four times as much at US\$995 million.

Table 2: Change in welfare (EV of income) due to SACU-Mercosur FTA (US\$ millions)

	Welfare (US\$m)	Change in welfare comes from			
		Allocative efficiency	Labour	Capital change	Terms of trade
South Africa	236	53	9	268	-94
Botswana	3	0	0	2	2
Rest SACU	7	4	0	6	-3
SACU total	246	57	9	276	-95
Brazil	834	257	56	341	181
Argentina	138	39	9	49	41
Uruguay	26	6	1	14	4
Paraguay	10	2	0	3	4
Venezuela	-12	2	0	-6	-8
Mercosur total	995	306	65	401	222
Chile	-18	-2	0	-7	-8
Rest Africa	-12	-5	-3	-3	-2
EU	-338	-152	-12	-106	-67
US	-43	-20	-5	-27	9
China	-75	-13	-3	-41	-18
India	-37	-12	-1	-18	-7
Rest world (RoW)	-245	-75	-14	-120	-35
Non-member total	-768	-279	-38	-322	-128
Global total	474	83	34	357	0

Source: GTAP results

In addition, Table 2 shows:

- Large losses to the EU and the RoW and modest losses to all other countries/regions;
- all of these changes resulting in a global welfare gain of almost a half billion dollars; and
- importantly, and as shown next in Table 3, that the welfare gain for South Africa translates into an increase in real GDP of 0.12 percent in 2020 through better allocative efficiency and, in particular, the expansion of the capital stock, which push out the production frontier in the South African economy. On the other hand, the terms of trade decline slightly contributing negatively to total welfare gain in South Africa.

In further examining the GTAP results we are able to decompose the results to find that:

- South Africa's welfare gains derive from better access into Mercosur of US\$274 million (mostly gains into Brazil of US\$213m), but this was negated by losses of US\$79 million as Mercosur, following the SACU tariff eliminations, makes inroads into the South African market.
- Brazil's gains derive overwhelmingly from SACU tariff reductions with better access into South Africa (US\$708m).
- These Brazilian gains are augmented by gains of US\$121 million from the elimination of an assumed 2 percent NTB restricting trade flows between SACU and Mercosur. South Africa gains a lesser US\$49 million from the 2 percent reduction in non-tariff barriers, while Argentina gains US\$26 million from the same source. Conversely, the EU loses US\$56 million and the ROW US\$45 million, but the overall global gain is US\$66 million here.
- Argentina's gains derive overwhelmingly from SACU tariff eliminations.
- The EU and China see most of their respective losses from increased Mercosur competition in South Africa, while conversely the US loses most from increased South African competition in Mercosur.

- In total, GTAP shows that the FTA is welfare enhancing for the world, as world welfare increases by US\$474 million (and, as shown in Table 2, this is mainly from increased investments/capital stocks but also from some enhanced allocative efficiency and to a lesser extent labour effects).

Table 3 expands on the welfare gains to show on the left-hand side what the actual percentage changes are in terms of trade, real GDP and factor income in SACU and the main Mercosur economies. The right-hand side of the table provides some insights into where the contributions to changes in factor income are coming from.

In Column 3 (real GDP) South Africa gains by some 0.12 percent, Brazil's gains expressed as a percentage of GDP are very similar at 0.08 percent but Argentina's are lower at 0.04 percent. Botswana's are a miniscule 0.01 percent, while the rest of SACU's 0.09 percent is a good result. These results flow in large part from Table 2 above, as allocative efficiency and capital contributions are essential components of real GDP changes with resources being better used within the economy, while in South Africa's case the negatives from terms of trade detract from the outcome. Not shown are that Uruguay's GDP increases by 0.09 percent and Paraguay's by 0.05 percent while Venezuela's change does not register at two decimal points of 1 percent.

Table 3: Percentage changes in terms of trade, real GDP and factor income, 2020

	Terms trade	Real GDP	Total factor income	With the relative contributions deriving from				
				Land	Unskilled labour	Skilled labour	Capital	Natural resources
South Africa	-0.09	0.12	0.065	-0.02	0.015	0.01	0.05	0.01
Botswana	0.04	0.01	-0.050	-0.01	-0.02	-0.01	-0.02	0.01
Rest SACU	-0.03	0.09	-0.029	-0.05	-0.002	0.004	0.02	0.00
Argentina	0.09	0.04	0.165	0.02	0.057	0.03	0.06	0.00
Brazil	0.14	0.08	0.288	0.01	0.095	0.06	0.13	-0.01

Source: GTAP results

On the right-hand side of Table 3, the relative contributions to total factor income⁸ are shown. These must equate with the total factor income percentages shown. Thus, for South Africa's 0.065 percentage **increases** in total factor income, the majority (0.052%) comes from capital, while minor contributions derive from both skilled and unskilled labour and natural resources with a reduction in land as the Mercosur competition is felt at the margin. Note that for land, skilled labour and natural resources, the quantities are fixed in the GTAP model, so the increases derive from price increases as their values are bid up or down, while for both unskilled labour and capital, where the quantities are not fixed, there is both a price and a quantity effect. Also note that for Botswana there are losses across the table except for an increase in natural resources. For the rest of SACU the main contribution to the overall loss is from a reduction in land values resulting from increased Mercosur agricultural competition.

Table 4 extends this analysis to look at the agricultural sector changes. Here the quantity of land is fixed in that it can only be used in primary agricultural production while unskilled/skilled labour and capital can change in both price and quantity as resources can move freely in and out of other industries in the economy. We can see that for all SACU members, and for the rest of SACU in particular, the impacts upon agricultural factor income are **negative**. Land prices decrease by up to nearly 1 percent (rest of SACU) while contributions from employed unskilled agricultural labour also decline. Thus, a SACU-Mercosur FTA is not good news for SACU's agricultural sector. Mercosur's land prices marginally increase, as do its contributions from unskilled agricultural labour.

⁸ In this paper the percentage change in factor income is defined as the percentage change in returns to primary factors employed in the economy (i.e. the returns to land, labour, capital and natural resources). These changes in returns to primary factors employed occur due to reallocation of resources in the economy (allocative efficiency), changes in employment and changes in investment/capital stock which are all driven by price changes due to the modelled FTA tariff reductions. These changes in factor income occur with no changes in the production technology employed in the economy (no changes in TFP) as we have not modelled technological spillovers through trade in the FTA scenarios.

Table 4: Percentage changes in primary agricultural factor income, 2020

	Agricultural factor income	With the relative contributions from				
		Land	Unskilled labour	Skilled labour	Capital	Natural resources
South Africa	-0.66	-0.50	-0.07	0.00	-0.10	0.00
Botswana	-0.57	-0.40	-0.08	0.00	-0.09	0.00
Rest of SACU	-1.08	-0.83	-0.12	0.00	-0.13	0.00
Argentina	0.33	0.23	0.07	0.00	0.02	0.00
Brazil	0.28	0.15	0.05	0.00	0.08	0.00
Paraguay	0.14	0.09	0.04	0.00	0.01	0.00
Uruguay	0.13	0.05	0.07	0.00	0.00	0.00

Source: GTAP results

Changes in trade flows

Table 5 starts by introducing the aggregate overall changes to trade flows for the partner countries in 2020, expressed as percentage changes in both exports and imports, and then in US\$ millions for the trade balance. South Africa exhibits increases in both exports and imports globally of around 1 percent once all markets are accounted for. However, the country suffers a deteriorating trade balance as imports were higher than exports to start with, which negates the relatively higher export percentage shown. As mentioned before, the real exchange rate declined making exports relatively cheaper, reducing South Africa's terms of trade. Not shown is that Botswana reduces both imports and exports by 0.1 percent with a deterioration in its trade balance of one million dollars. The rest of SACU, meanwhile, experiences increases of 0.1 percent in both exports and imports but a marginally higher deterioration of three million dollars in its trade balance. For Mercosur, there is a modest increase in Argentina's trade balance, despite imports increasing more than exports, but a decline in Brazil's trade balance as imports increase more than exports.

Table 5: Percentage changes in the quantity of total import/export & trade balance, 2020

	Change in		
	Exports (%)	Imports (%)	Trade balance (US\$m)
South Africa	1.0	0.8	-57
Argentina	0.1	0.2	18
Brazil	0.3	0.5	-28

Source: GTAP results

Section 3 Specific sectors: The agricultural and natural resources sectors

This section discusses the production, trade and relative price changes in the main GTAP sectors as they relate to South Africa. Given the theme of the agricultural trading relationship, we will dwell on agriculture and natural resources before discussing manufacturing in less detail. Table 6 starts with exports from the agricultural sectors of (a) primary agriculture and (b) secondary (processed) agriculture in the first two blocks of the table and (c) natural resources in the final block. Column 1 shows GTAP sectors, with Column 2 showing the initial Brazilian tariff.⁹ The next three sets of columns show changes in South African exports to Argentina, Brazil and ‘other Mercosur’ (3, 4 and 5), BLNS and the rest of world (6 and 7) and finally the grand total (8 and 9).

⁹ In the baseline scenario (projecting the database from 2004 to 2020) the individual member countries of SACU and Mercosur, tariff schedules are updated from the 2004 tariffs found in the GTAP database to the latest available tariff data downloaded from the WTO website. In order to save space the Brazilian tariffs are shown as a proxy for the Mercosur tariff rates faced by South Africa in all Mercosur countries. Note that in addition to the Brazilian tariff shown all sectors are simulated with a tariff reduction of two percent in both SACU and Mercosur to reflect a reduction in non-tariff barriers at the respective borders.

Table 6: Changes to the South African agricultural/natural resources export profile (US\$ millions and %)

Column no.	Brazilian tariff	Exports to Mercosur			Exports to other		Total exports	
		Change in US\$m			Change in US\$m		Change in	
		Arg	Brazil	Other	BLNS	Others	US\$m	%
	2	3	4	5	6	7	8	9
Primary agriculture								
vegetables, fruit	10.0	0	0	0	-1	15	14	0.7
other crops	10.4	0	1	2	0	12	15	4.2
wool	7.8	0	0	7	0	3	10	1.6
Subtotal		0	2	10	-3	37	46	
Secondary agriculture								
beef, sheep	8.5	1	1	0	-1	2	3	2.5
vegetable oils	10.0	0	0	0	0	11	11	3.5
dairy products	14.0	0	0	0	0	5	6	0.9
sugar	16.0	0	0	0	0	4	4	0.9
other foods	9.4	1	1	2	-4	10	9	0.6
Subtotal		3	4	3	-11	41	38	
Natural resources								
coal & oil	0.0	5	88	0	0	-84	8	0.0
Subtotal		6	89		0	-85	11	

Source: GTAP results

Overall, increases in South Africa's agricultural exports to Mercosur are minimal or non-existent and are only worth an extra US\$22 million in total. There is a decrease in exports to BLNS as Mercosur's imports replace South African goods, but globally there is an increase of South African exports of US\$80 million that is evenly spread between primary and secondary agriculture. Exports of coal to Brazil show the largest increase, but as total coal exports only increase by US\$8 million, this is merely trade diversion away from previous markets.

Following the same format as Table 6 for exports, Table 7 replicates the South African agricultural export data for the most significant import data, with the tariff rates shown as the SACU rates reflected by weighted Brazilian imports into South Africa. Recall that, as with the Mercosur (Brazilian) tariffs above in Table 5, there is an extra allowance over and above the official tariff for a 2 percent reduction in the tariff equivalent of non-tariff barriers that the FTA is assumed to reduce for all sectors. Here the agricultural impacts are much more important, and especially so for 'other crops' in primary and beef, other meats (chicken), oil seeds and other foods in secondary. In primary agriculture, there is only a significant increase in the importation of 'other crops' from Brazil but actually a small decline globally as these

Brazilian imports are replacing other sources. For processed products in secondary agriculture there are significant increases in imports of other (chicken) meat from Brazil and vegetable oils from Argentina, with this mostly reflecting new trade (trade creation) and not trade diversion from other import sources. Beef imports into South Africa from BLNS decline as Mercosur provides competition here. The final outcome for imports in primary agriculture is a decline of US\$15 million globally but in secondary agriculture there is an overall increase of US\$155 million. In resources, following on from the increased exports of coal to Brazil, there is a small increase in imports globally.

Table 7: Changes to the South African agricultural/natural resources import profile (US\$ millions and %)

	SA (SACU) tariff	Imports from Mercosur			Imports from other		Total imports	
		Change in US\$m			Change in US\$m		Change in	
		Argentina	Brazil	Other	BLNS	Others	US\$m	%
Column no.	2	3	4	5	6	7	8	9
Primary agriculture								
wheat	1	21	0	0	0	-20	1	1.4
oil seeds	9.9	7	0	0	0	-10	-3	-0.4
other crops	14.6	8	96	1	-2	-110	-8	4.4
Subtotal		38	98	2	-3	-148	-15	
Secondary agriculture								
beef, sheep meat	19.2	13	33	4	-12	-14	24	21.2
other meats	14.3	3	133	0	-6	-52	78	35.3
vegetable oils	9.8	90	35	0	-1	-84	39	11.7
sugar	0	0	2	0	-1	0	1	0.5
other foods	18.9	6	50	0	-9	-34	12	2.6
Subtotal		124	255	6	-31	-198	155	
Agriculture sub-total		162	343	8	-341	-346	140	
Natural resources								
coal & oil	0	0	0	1	0	22	23	0.1
Subtotal		0	1		1	26	28	

Source: GTAP results

The next question is how these trade results translate into output and prices in South Africa in the main GTAP sectors, and what is driving these changes. Table 8 again starts with agricultural sectors in the first two blocks of the table, where the picture is consistent. There are decreases in most sectors shown in both the primary and secondary agricultural sector with only the increase in wool production being important. Losses in other meats (chicken) and vegetable oils are especially noticeable as competition from Mercosur increases. Overall, agricultural production declines by US\$418 million with losses concentrated in secondary agriculture. The changes in the value of agricultural output are mainly driven by actual tariff changes in either Mercosur or SACU as shown. On the right-hand side of the table the relative contributions from each are shown. Most of the changes are driven by the reduction of South Africa's (SACU's) own tariff (and the assumed 2% NTB tariff equivalent) as resources are drawn out of agriculture at the margin. Output increases in the natural resources sector are insignificant with only a modest increase in the coal, oil and gas sector. Note that subtotals may not reconcile with the data as some minor sectors are not shown.

Table 8: Changes in South Africa's production in agriculture & resources (US\$ millions & %)

	Change in production		Contributions from tariffs changes		
	Value US\$m	%	Into Mercosur (%)	Into SACU (%)	NTBs (%)
Primary agriculture					
oil seeds	-10	-1.9	0.0	-1.5	-0.4
other crops	-13	-1.2	0.1	-1.1	-0.1
cattle (live, not beef)	-21	-0.3	0.0	-0.3	0.0
Other animals nec	-64	-1.3	0.0	-1.2	-0.1
wool	10	1.4	0.1	1.1	0.2
Subtotal	-107				
Secondary agriculture					
beef, sheep meat	-39	-0.5	0.1	-0.6	0.0
other meats	-109	-2.7	0.0	-2.4	-0.3
vegetable oils	-91	-3.9	-0.1	-3.0	-0.7
sugar	-2	0.2	0.0	0.3	0.0
other foods	-62	-0.1	0.0	-0.2	0.0
beverage, tobacco	-13	0.1	0.1	0.0	0.0
Subtotal	-311				
Natural resources					
coal & oil	19	0.0	0.0	0.0	0.0
Subtotal	21				

Source: GTAP results

Table 9 provides a summary of the changes to the agricultural and natural resource sectors in South Africa as shown in the previous three tables. Notable here is that reductions in the price of primary agricultural products range between 0.1 and 0.8 percent, while in the secondary agricultural sectors, the price changes are again all negative but to a slightly lesser degree than in primary agriculture. This in turn drives the changes in output, with some relatively large declines in oil seeds and vegetable oils and other meats (chicken) in particular. Thus, the impact of the FTA will be felt across the agricultural and agricultural processing sectors in South Africa as increased competition from the global prices benchmark countries of Mercosur is felt in these sectors. Note that (a) cattle in primary agriculture is largely a non-traded sector and, more significantly, is a production input into beef, and (b) that there is

limited change to SACU sugar imports as the official tariff rate is zero and therefore any changes can only be as a result of a combination of the 2 percent NTB and resource reallocation across the sector.

Table 9: Summary of changes in agricultural and natural resource sectors for South Africa

	Percent change in			
	Output	Exports	Imports	Prices
Primary agriculture				
wheat	-0.6	1.8	1.4	-0.4
vegetables, fruit	0.3	0.7	-0.4	-0.2
oil seeds	-1.9	3.3	-0.4	-0.8
other crop	-1.2	4.2	4.4	-0.6
sheep & cattle	-0.3	0.3	-0.2	-0.4
poultry, etc.	-1.3	1.3	-0.1	-0.5
wool	1.4	1.6	-0.2	-0.0
Secondary agriculture				
beef, sheep	-0.5	2.5	21.2	-0.3
other meat	-2.7	0.5	35.4	-0.4
vegetable oils	-3.9	3.5	11.7	-0.7
sugar	-0.2	0.9	0.5	-0.1
other food	-0.1	0.6	2.6	-0.2
beverages and tobacco	0.1	0.6	0.8	-0.2

Source: GTAP results

From the above analysis we can conclude that an FTA with Mercosur sends a strong message to South African agriculture overall as there is a decrease of 0.5 percent in land prices as a result of increased competition from Mercosur's imports into the region. New exports in the agricultural sector are extremely modest (US\$84 million) although they appear to reflect 'new trade' or trade creation rather than trade diversion. This is somewhat encouraging, but countering this is the finding that there are marginal reductions in the prices of all agricultural products. Overall, the decreased value of production in South African agriculture of US\$418 million is significant, with much of this deriving from reduced chicken meat and vegetable oilseeds production. The good news is not for farmers but for consumers, as the reduced agricultural prices across the board help drive down the CPI, which in turn

contributes to overall welfare gains for South Africa. As always with changes there are winners (the vast majority of South Africans who are consumers) and losers (the small number of commercial farmers, as it is unlikely the larger group of South African subsistence farmers are really participating in the market other than marginally).

Section 4 Specific sector results for manufacturing

For the manufacturing sector we will not replicate the full GTAP output results as presented for agricultural products but rather give more summary tables that are augmented with key points and discussions from the GTAP results. We do this because (a) the focus of our analysis is on agriculture and (b) although recognising that the gains to South Africa come from manufacturing there is considerable variability in the outcomes for the different sectors and thus analysis is more complex. Table 10 provides a summary of the overall changes to the manufacturing sectors in South Africa following the FTA. Firstly, the output picture is mixed, with most sectors recording an increase in output, except for leather, lumber, 'other mineral products' and the crucial motor vehicle sector. Note that changes to production are given firstly in volume terms and then in value terms (price times quantity). To put the overall changes into perspective these factors should be read together. Secondly, all manufacturing sectors record increases in the **quantity** of both exports and imports globally except for the 1.1 percent reduction in the relatively minor lumber exports. Finally, there are real price declines across nearly all sectors, with the largest decline being the 0.3 percent decline in motor vehicles (no sector records an increase in price).

Table 10: Summary of changes in South Africa's manufacturing sector (US\$ millions and %)

Manufacturing	Output changes		Percent change in		
	Volume (%)	Value (US\$m)	Exports	Imports	Prices
textiles	0.5	25	5.0	0.4	-0.1
apparel	0.1	3	1.2	0.2	-0.1
leather	-1.0	-33	1.6	4.2	-0.2
lumber	-0.5	-24	-1.1	0.9	-0.1
paper products	0.4	44	2.7	0.4	-0.1
petroleum products	0.1	15	0.0	0.1	0.0
chemicals, rubber, plastic	0.5	177	2.0	0.3	-0.1
other mineral products	-0.3	-23	0.8	2.4	-0.1
iron steel	0.6	89	1.2	0.5	-0.1
nonferrous metal	1.1	111	1.1	0.6	-0.1
ferrous metal products	0.4	35	2.1	0.2	-0.1
vehicles & parts	-0.2	-146	2.2	2.3	-0.3
other transport	0.7	6	1.2	0.2	0.0
electrical machinery	0.5	10	0.9	0.2	-0.1
general machinery	0.4	85	1.5	0.3	-0.1
other manufacturing	0.2	15	1.2	0.0	-0.1
Overall manufacturing increase		388			
services	0.1	214	0.4	0.1	-0.1

Source: GTAP results

From the table we can arbitrarily split these 20 sectors into four groups based upon the changes in production value: 1) where there is an increase of greater than US\$35 million; 2) where the increase is between zero and US\$35 million; 3) where the loss is between zero and US\$35 million; and 4) where the loss is greater than US\$35 million. Groups (2) and (3) are of relatively minor interest to the overall analysis.

In group 1 there are six sectors where the gain is greater than US\$35 million. These are:

- Paper products, with output gains of US\$44 million or 0.4 percent and increases of 2.7 percent in exports;
- chemicals, rubber and plastics, where output increased by 0.5 percent or US\$177 million and exports by 2.0 percent;
- iron and steel, where production increased by 0.6 percent or US\$89 million;
- nonferrous metals, which see production increases of 1.1 percent (US\$111m) and increased exports of 1.1 percent;
- ferrous metal products, which see production increase 0.4 percent (US\$35m) and increased exports of 2.1 percent; and
- general machinery, with a 0.4 percent increase in quantity or US\$85 million in value and increased exports of 1.5 percent.

There are also six sectors in group 2 where the increase is between zero and US\$35 million. These are textiles, apparel, petroleum products, other transport equipment, electrical machinery and the catch-all 'other manufacturing'. Similarly, there are modest changes to the three sectors in group 3 where declines of between zero and US\$35 million were recorded. These are leather goods, lumber products and other mineral products. Finally, motor vehicles and parts are the only manufacturing sector to record a significant loss (group 4), as here the value of production declined by US\$146 million. Note, however, that both imports and exports of vehicles increased while the price declined by 0.3 percent (the largest relative price decline of any sector), and that overall the results from this sector are the most significant of all the GTAP manufacturing sectors.

This section now examines the trade flow changes in monetary values for manufacturing and services following the FTA. Table 11 shows changes to South Africa's manufacturing exports, with the same structure as set out in Table 6 for agricultural exports, while Table 12 similarly shows changes to imports. Note that only those sectors where the data is meaningful are shown. South African manufacturing exports increase by US\$587 million in total, with US\$415 million of

this from increases to Mercosur and US\$194 million to others (but offset by a decline of US\$23m to BLNS). The big increases are in the chemical, plastics and rubber sector, followed by other metal products and vehicles. Most (US\$325m) of the increase is through increased exports to Brazil.

Table 11: Changes to the South African manufacturing export profile (US\$ millions and %)

Column no.	Brazilian tariff	Exports to Mercosur			Exports to other		Total exports	
		Change in US\$m			Change in US\$m		Change in	
		Argentina	Brazil	Other	BLNS	Others	US\$m	%
		3	4	5	6	7	8	9
Manufacturing sectors								
Textiles	14.9	2	22	2	0	2	28	5.0
Paper & printing	12.9	19	13	2	0	3	36	2.7
Chemicals, rubber, plastic	7.7	17	92	8	0	23	140	2.0
Iron - steel	7.4	5	39	5	-1	13	61	1.2
Other metal products	5.6	1	46	1	0	57	106	1.1
Vehicles	15.9	1	41	2	1	66	111	2.2
Other machinery	13.6	4	39	10	-1	15	67	1.5
Manufacturing subtotal		56	325	34	-23	194	587	
Services	0.0	3	8	3	0	13	27	0.4
Grand total (including agriculture & services)		67	428	51	-38	200	709	1.0

Source: GTAP results

The South African import profile shown in Table 12 highlights the US\$621 million increase in vehicle imports from Brazil, although note that almost all of this (US\$616m) is trade diversion away from other sources. However, this still leaves an increase of US\$60 million in South African vehicle imports by 2020. This is in turn somewhat balanced by an increase in exports to other destinations of US\$111 million (Table 11) as the sector becomes marginally more competitive at exporting to other destinations.¹⁰

Table 12: Changes to the South African manufacturing import profile (US\$ millions and %)

	SA (SACU) tariff	Imports from Mercosur			From other		Total imports	
		Change in US\$m			Change in US\$m		Change in	
		Argentina	Brazil	Other	BLNS	Others	US\$m	%
Column no.		3	4	5	6	7	8	9
Manufacturing sectors								
Leather goods	10.2	6	64	18	0	-67	20	4.2
Other mineral products	10.9	11	49	0	0	-42	17	2.4
Vehicles	18.0	64	621	0	-13	-616	60	2.3
Other machinery	13.6	10	85	1	0	-68	39	0.3
Manufacturing subtotal		120	913	22	-11	-854	190	
Services		2	2	7	0	-8	3	0.1
Grand total (including agriculture)		283	1,268	36	-45	-1,182	361	0.8

Source: GTAP results

¹⁰ The FTA between SACU and Mercosur depreciates South Africa's real exchange rate by 0.0578 percent, thereby increasing South Africa's price competitiveness in the global market place.

Table 13 summarises the main trade changes between South Africa and Argentina/Brazil as outlined in Tables 11 and 12 above. The overwhelming importance of Brazil in manufactures must be noted, and especially the importance of the increased vehicle and associated parts from Brazil (although recall from Table 12 that US\$616 million of these imports are replacing other global sources and is not really new trade).

Table 13: Changes in South Africa’s manufacturing trade with Mercosur (US\$ millions and %)

Manufacturing	Exports to Mercosur			Imports from Mercosur		
	Change (%)	Change in US\$m		Change (%)	Change in US\$m	
		Argentina	Brazil		Argentina	Brazil
Leather products	12.6	1	1	10.2	6	64
Chemicals, rubber, plastic	7.7	17	92	4.1	4	33
Iron & steel	7.4	5	39	0.7	1	6
Other metal products.	5.6	1	46	0.3	18	49
Vehicles and parts	15.9	1	41	18.0	68	621
Other machinery	13.6	4	39	3.7	10	85
Subtotal (including others)		56	325		120	913

Source: GTAP results

The conclusion for the manufacturing sector is that despite losses of US\$146 million in the motor vehicle (and parts) sector there was an increase in overall output of US\$388 million. The big gainers were the chemicals, rubber and plastics sector and the nonferrous metals sector. Total exports were up by US\$587 million, with US\$325 million of this to Brazil and US\$194 million to destinations other than those involved in the FTA. These increases included an increase of US\$111 million in vehicle exports in total. Total imports were up by US\$190, with imports from Brazil increasing by US\$913 million but imports from non-FTA participant sources declining by US\$854 million as relatively cheaper Brazilian manufacturing replaced traditional sources in the South African market. Much of the change was in vehicle imports, where imports from Brazil increased by US\$621 million, but reductions from non-FTA partners of US\$616 million mean an overall increase of only US\$60 million in vehicle imports following the FTA. Note, however, that we are not modelling the motor vehicle import tariff rebate on intermediate inputs into the industry. Therefore the

modelled results of the FTA are overstating the effect of the FTA's reduction of motor vehicle tariffs to zero

Finally, it is notable that overall services output in South Africa increases by US\$214 million, with some of this driven by increased services exports of US\$27 million. Recall that the services sectors face a 2 percent tariff-equivalent decline in barriers in both SACU and Mercosur. This means that as the services sector represents a large share of South African production value, a small change in the production or price of services relative to other sectors can result in considerable leverage and therefore a surprising change in overall production values. The FTA with Mercosur increases demand for services as the production of capital goods and other industries expand production in the South African economy. The expansion of production is larger than the decline in the price of services resulting in an increase in the value of South Africa's output.

Overall, the SACU Mercosur FTA leads to a devaluation of the real exchange rate in South Africa and boosts exports albeit with a terms of trade loss (meaning that exports become relatively cheaper than imports). The South African economy gains from this devaluation of the real exchange rate (by 0.0579%), and even though the value of total income (sum of factor income and indirect tax receipts) declines by 0.0676 percent, prices decline by more (0.1391%). This translates into an increase in EV of US\$236 million when measured in fixed prices.

Section 5 Labour market changes

In this model, the labour market closure is one whereby skilled labour is fixed, but unskilled labour is a function of the unemployment rate. In a developed country with generally (but not always) low unemployment rates we would expect that the benefits to unskilled labour flow through in the form of higher real wages. In a country that has a high unemployment rate (South Africa's is an official 25 percent but the higher unofficial rate is possibly the world's highest among countries at a similar level of development) we would hope that the changes are reflected in increased employment. Table 14 shows the outcome for employment. The employment and real wage outcomes are both positive for South Africa: employment increases by

0.012 percent and real wages by 0.036 percent. At the same time, however, the CPI declines by 0.16 percent, meaning that unskilled workers would be able to buy even more with their marginally increased wage. The results are less encouraging for BLNS, however, with very minor decreases in both employment and real wages that are of a similar magnitude to South Africa's increases. For both Brazil and Argentina the results of both real wage increases and greater employment are more significant.

Table 14: GDP, CPI and employment changes (%)

EV US\$ m	South Africa			South Africa	Botswana	Rest of SACU	Brazil	Argentina
	Real GDP (%)	CPI (%)						
236	0.12	-0.16						
			Employment	0.012	-0.012	-0.002	0.026	0.016
			Real wage	0.036	-0.062	-0.005	0.287	0.160

Source: GTAP results

As mentioned above, the standard unskilled labour market closure of the model is a function of a labour supply elasticity which is calculated from initial unemployment rates.¹¹ There are, of course, two extreme alternatives to this. The first is to make wages fixed and have adjustments in the labour market come through changes to the employment rate. Here the results are that the welfare gains to South Africa increase by around 50 percent to US\$349 million following an increase of 0.08 percent in the number of people employed. The second alternative is to fix the number of persons employed. This means that any adjustments come through as changes to their wage rates. Here the result is a marginal decline in welfare to US\$216 million following an increase of 0.036 in the real wage rate. Hence, the policy of promoting employment rather than increasing the wages of those already in employment is clearly a superior option for South Africa to pursue.

¹¹ For a more detailed explanation see Annex B: Derivation of the labour market assumptions in Sandrey et al. (2007: 136).

Section 6 Non-tariff barriers

The approach that we have used in the base scenario is to simulate NTBs in the GTAP as a barrier that raises the price of imports and which has agents capturing the rents from this increase in price. These rents captured by agents contribute to the income generated in each country, but since in the GTAP model there is only one household the distributional effects of these rents within the economy are not captured in the work undertaken in this book.

The overall contribution from the reduction of NTBs (modelled as a 2% ad valorem tariff equivalent) when we simulate their removal is the US\$49 million in increased welfare for South Africa and US\$121 million and US\$26 million for Brazil and Argentina respectively. The overall welfare gain is US\$236 million in South Africa as reported above, so the reduction in NTBs contributes just over 20 percent of this welfare gain.

An alternative approach to modelling the NTBs is to say that they result in an efficiency loss to the economy and that there are no rents captured by agents in the economy. This is what is referred to as ‘sand in the wheels’ whereby NTBs are a drag on the economy and their removal would enhance efficiency. The removal is in effect a technology enhancing change that will lower the costs of imported goods. An example might be a trade facilitation measure that improves the ease of importing or exporting. This approach is likely to lead to greater welfare gains as new efficiency is generated, compared to modelling NTBs as ad valorem tariff equivalent where rents captured by agents are reduced to zero.

Using this ‘sand in the wheels’ assumption, the overall welfare gains to South Africa increase from the earlier figure of US\$236 million to US\$349 million (an increase of US\$113m or just about 50%), with some US\$95 million of this increase now directly attributable to the removal of NTBs.¹² Overall welfare gains to Brazil increase by only US\$10 million while those to Argentina actually decline by US\$6 million. Global

¹² The welfare changes measured by the EV in the two alternative approaches of modelling NTBs are run on two different databases. One database includes an initial two percent AVE tariff of the NTBs while the other database does not. This means, of course, that the initial income in each country is slightly different according to which a comparison of the EV is technically not correct. If we look at the percentage change in per capita utility in South Africa, this increases from 0.07 to 0.11 percent with the removal of NTBs contributing 0.014 percent when the NTBs are modeled as AVE tariffs, and 0.045 percent when they are modelled as efficiency losses.

welfare gains increase overall by US\$144 million, with the global gains from NTB removal contributing an US\$41 million.

Examining the changes to South Africa's production reveals that there are minor changes from the original rent-seeking NTB simulation in all goods sector.

Section 7 Tariff reductions and the implications for the SACU revenue pool

Sandrey (2007) explores the implications of SACU trade agreements with respect to changes in tariff revenues, and highlights that there are large welfare transfers to BLNS which arise from them obtaining revenues over and above what they would have collected at their own borders if they were not part of SACU. This represents a direct aid support payment from South Africa to BLNS.¹³ The objective of this section is to explore the implications for BLNS countries in particular of the tariff revenue losses that would result from the FTA. As part of the analysis we compare the tariff revenue losses from a SACU-Mercosur FTA with the revenue losses from a simulated SACU-China FTA as outlined in Sandrey et al. (2008).

There are two ways in which tariff revenues would be reduced through an FTA with either Mercosur or China. The first is the obvious one in that with an FTA the vast majority of merchandise goods from the FTA partner would now enter SACU duty-free. The second relates to trade diversion. This takes place when trade is deflected away from previous sources that were paying duty to the sources which now benefit from duty free access under the FTA. The overall tariff revenue effect of an FTA would almost certainly have a larger impact on BLNS than the direct production and trade impacts following an FTA with either Mercosur or China would have, especially given the way revenue is distributed under the current SACU Agreement.

The way in which the revenue is distributed is an important and sensitive issue in SACU. Revenues are effectively collected by South Africa and then distributed to BLNS according to a formula that bears no resemblance to the way in which the revenues were collected. GTAP attributes all the tariff loss from the FTAs to South Africa and none to BLNS, when in fact it is a crucial issue for BLNS. Therefore, South

¹³ The levels of these grants are confirmed by the data in the IMF 2009, Table SA20, which reports Official Grants to Lesotho of 37.5 and 32.0 percent of GDP for 2007 and 2008 respectively. The comparable data for Swaziland was 20.8 and 20.5 percent respectively, while South Africa's was -1.0 and -1.1 percent for the two years.

Africa's welfare should be higher than that given in this chapter, as the subsequent transfers are not modelled, and there are substantial losses to BLNS from reductions in the tariff pool which are similarly not reported.

From further examination of the output data we can provide details of the **tariff loss**. Table 15 shows this data, and compares the losses to the revenue pool from firstly an FTA with China and secondly an FTA with Mercosur. The data is in US\$ millions and not in rands.

Table 15: Revenue loss following FTAs with China and Mercosur (US\$ millions)

China FTA	Total	Loss deriving from	
		China	Diversion
Primary agriculture	1	1	0
Secondary agriculture	9	4	5
Resources	1	1	0
Manufacturing	1,639	1,167	472
Total	1,650	1,173	477
of which TCF	969	675	294
Mercosur FTA	Total	Mercosur	Diversion
Primary agriculture	47	30	17
Secondary agriculture	71	52	19
Resources	1	1	0
Manufacturing	206	109	97
Total	324	192	133
of which vehicles	146	72	74

Source: GTAP results

The table shows that:

- Total losses to the revenue pool from an FTA with China are US\$1.65 billion. Almost all (US\$1.64bn) of this is from the manufacturing sector, with much of this in turn from the textile, clothing and footwear (TCF) sector (US\$969m). The direct revenue loss from allowing Chinese goods in duty-free is US\$1.17 billion, while another US\$477 million is lost from trade diversion as China replaces previously tariff-paying sources.

- For the Mercosur FTA the total revenue loss of US\$324 million is considerably less than with the China FTA. Again, most (US\$206m) is from the manufacturing sector, from which some US\$146 million is from the losses in revenues on motor vehicles and parts.¹⁴ In contrast to the FTA with China, however, just over one-third (US\$118m) of the loss in revenues from a Mercosur FTA is from losses of tariffs on agricultural products. As with China, most of this agricultural loss (US\$82m) arises from reductions on duties of Mercosur imports rather than from trade diversion.

It is clear that the 2002 formula from the SACU Agreement is both bad economics and bad politics. South Africa is concerned about the redistribution of non-transparent grant monies to BLNS, while BLNS are similarly concerned about the vulnerability of their revenues being tied to the potentially declining revenue pool, a pool that is hostage to South African trade policy.

Section 8 Other alternative scenarios

Exempting the automotive sector

Given that there are factors in play in the vehicle sector (both globally and in South Africa) that may override general free market assumptions, we decided to simulate a scenario whereby changes to the vehicle sector were constrained. We therefore ran the model as before but left the trade-weighted tariffs of 18.0 percent against automotive imports from Mercosur in place.¹⁵ The implications of this change are:

- Overall welfare gains to South Africa reduce by around half to US\$121 million from the earlier figure of US\$236 million, while those to Brazil and Argentina are now US\$412 million and US\$107 million respectively. Note that gains to Brazil also halve while those to Argentina drop by only a quarter. Global gains are now a lesser US\$185 million, while losses to the EU almost halve. Examining these welfare gains to South Africa we find that there is little change in allocative efficiency or labour market gains (with the latter being small in both scenarios in

¹⁴ Again, note there that we are not considering the tariff rebate on imports of intermediate parts into the vehicle industry which we have not modelled and taken account of in our GTAP results.

¹⁵ We did, however, eliminate the two percent NTB tariff along with the NTB tariff on all sectors.

any case). The big differences are (a) in the capital component of overall welfare, as the gains are now not much more than one-third of the previous level (US\$102m as distinct from US\$268m before), and (b) from the offsetting loss in terms of trade that now only go against South Africa by a lesser US\$30 million as opposed to US\$94 million before.

- South Africa's CPI now reduces by only 0.051 percent (as opposed to 0.12% previously), while employment levels increase by the same 0.01 percent and wage rates increase by a marginally lower amount. The change to the CPI suggests that much of the reduction of the CPI in the primary scenario was due to changes in the vehicle sector.
- Overall exports increase by 0.7 percent (1% before), imports increase by 0.5 percent (0.8% before) and the overall trade balance declines by US\$31 million (US\$57m previously). Total exports (including services) now increase by US\$488 million, including an increase of US\$500 million in exports to Mercosur. Increased imports are now US\$520 million, including increased imports from Mercosur of US\$1.12 billion (with trade diversion accounting for US\$564m of these imports).
- For agriculture, imports are now up by US\$280 million overall (as opposed to US\$140m previously), with an increase of US\$641 million (US\$532 million previously) from Mercosur but trade diversion of US\$34 million from BLNS and US\$325 million from other sources. Exports are marginally lower, however, at US\$76 million (US\$84 million previously). The overall result is that the value of South African agricultural production now declines by US\$428 million (only marginally more than the previous US\$418 million decline), but this translates through to a decline in South African land values of 0.759 percent, a greater reduction than the 0.5 percent with full changes to motor vehicles and their parts as indicated in the primary scenario.
- The big changes are in the manufacturing sector. Firstly, for the motor vehicle sector, where the only change has been the elimination of a perceived 2 percent NTB against imports from Mercosur (as the actual tariffs have been frozen here), we find that increased exports in this sector are now only US\$11 million (as opposed to US\$111m before). Global vehicle imports now

only increase by US\$16 million, with US\$41 million more from Brazil but US\$31 million from rest of the world. Previously they increased by US\$60 million globally following increased imports of US\$621 million from Brazil but US\$616 million of this was trade diversion from other sources. The final result is that the output in the vehicle and parts sector in South Africa now actually increases by 0.1 percent overall rather than declines by 0.2 percent in the face of Brazilian competition.

- After freezing the vehicle sector we find that, overall, manufacturing exports now increase by US\$383 million globally, a figure lower than the US\$587 million mentioned before, while global imports are now up by US\$210 million (US\$190m previously).

The conclusion is that by continuing to protect its motor vehicle sector South Africa is worse off. The welfare gains are around half of what they could have been. However, as the macroeconomic changes are transmitted through the economy there is some difference to the agricultural sector as agricultural imports from both Mercosur and in total increase by more than they did previously when vehicle tariffs were also eliminated. In short, the message is simple: protecting the motor vehicle sector against Brazilian imports is not in the best interests of South Africa or South African agriculture, as South Africa would be foregoing welfare gains by not opening to Mercosur's vehicle imports in the event of an FTA.¹⁶

Economic implications for the SACU sugar regime

Given the discussion in Chapter 2 that outlined the background and policy settings for South African agriculture in general and highlighted the assessed protection to the sugar sector, we also decided to model the overall implications of protection to the South African and Swaziland sugar sectors as represented by a 20 percent NTB tariff equivalent. We acknowledge that this 20 percent has elements of an arbitrary figure, but given the high levels of support to the sector outlined by both the Organisation for Economic and Cooperation Development (OECD) and Kirsten et al. in the earlier chapter, we consider that this is a useful starting point to proxy the non-tariff protection. We also note that while the tariff level may be zero in times of high world

¹⁶ We once again point out that we are overstating the impact of removing tariffs on vehicles because we have not modelled the tariff rebate system.

prices, it does constitute a non-tariff measure in that there is uncertainty about future tariff levels. Thus, the new baseline becomes one in which all other parameters in the GTAP model as presented above for the main analysis were held constant, and the only change was the inclusion of a 20 percent NTB tariff equivalent on sugar imports into SACU. The simulation scenario now becomes one of reducing that NTB 20 percent tariff equivalent to zero. The expectation is that this elimination of the NTB on sugar imports would enhance welfare in SACU.

This is not the case, however. Liberalisation of the sugar sector as simulated in the model actually reduces welfare in both South Africa and the rest of SACU (which includes Swaziland). Using the standard Armington elasticities the model results suggest that welfare reduces by US\$13.5 million in South Africa and by US\$6.9 million in the rest of SACU. Conversely, there are gains to Brazil of US\$15.8 million as sugar exports to SACU increase. Overall this is beneficial to the world as total welfare increases marginally by US\$1.3 million. Increasing the Armington elasticities or making sugar less of a differentiated product merely increases the losses to South Africa. With the standard run, imports of sugar into South Africa from Brazil increase by US\$38 million, but as some US\$18 million of this is displacing imports from Swaziland (rest of SACU), the final result is an increase of US\$17 million or 6.6 percent.

The main driving force behind the negative result for South Africa/SACU is that the reduction of the NTB tariff equivalent to zero reduces the price of imported sugar which lowers the returns to capital/labour employed in the sugar industry in South Africa. Capital/labour employed in this industry is reduced slightly, with some of it being reallocated to other industries. But due to the reallocation of capital/labour in the South African economy the rental/wage rate declines slightly reducing the total amount of capital/labour employed in the South African economy. In other words, the modelled NTB in this simulation is creating income (increasing total factor income and indirect taxes (rents) generated by the NTB tariff equivalent) in South Africa. The reallocation of resources away from the sugar industry does not find a more efficient allocation in the economy, and this is the reason why removing the perceived NTB of 20 percent slightly reduces the real GDP by 0.003 percent in South Africa. The 20 percent non-tariff barrier against imports is therefore welfare enhancing for

South Africa when modelled as an ad valorem tariff equivalent at the border with agents capturing rents on the restrictions imposed.

Changing the modelling approach and instead modelling the NTB as 'sand in the wheels' of trade, where we assume that NTB policies only generate efficiency losses (with no rents being generated), still results in a welfare loss to South Africa (US\$2.8m) when we increase sugar import efficiency by 20 percent. Once again we find that increased efficiency in the handling/administration of sugar imports into SACU reduces import prices in the market place which feeds back to the sugar industry reducing slightly the amount of capital and labour employed in South Africa. This has a negative impact on the economy.

Section 9 A comparison between potential FTAs with Mercosur and China

China

Sandrey et al. (2008) reported on a simulation of an FTA between China and South Africa (SACU). That analysis was also undertaken using Version 7 of the GTAP database¹⁷ to assess the welfare and trade gains from the FTA as determined by merchandise goods access only. Since the same model is used in this chapter to assess an FTA between SACU and Mercosur, the results are directly comparable. The China FTA results showed that there were welfare gains to South Africa of US\$295 million or 0.21 percent of real GDP. Negating these were labour market-related losses to South Africa, where employment falls by 0.13 percent and the real wage declines by 0.37 percent, but where at the same time the CPI declines by 0.86 percent. These labour market-related changes are a function of the unskilled labour market closures used in the model, so, although indicative, they do raise distributional concerns for South Africa about an FTA with China. The overall gains to South Africa derive from enhanced allocative efficiency and capital allocation in the economy, while losses derive from labour-related losses and terms of trade that go against South Africa.

¹⁷ The only difference is that the current version has the macroeconomic assumptions updated to reflect the current global economic crisis and the World Bank's expected longer term response to this crisis.

The results also reveal that South Africa gains modestly in the agricultural sector. Enhanced agricultural exports to China of US\$136 million are concentrated in vegetables and fruit products in primary agriculture and in 'other foods' in processed agriculture. These increased exports are largely 'new' exports or trade creation rather than 'current' exports or trade diversion away from other destinations. Increased agricultural imports are minimal. The most notable results however, are in the manufacturing sector, where increased manufacturing imports from China are valued at US\$5.49 billion, although US\$3.57 billion of this is trade diversion away from other sources (newly created trade therefore accounting for US\$1.92 billion).

Nearly 40 percent of these enhanced imports from China are in the textile, clothing and leather (footwear) sectors (TCF), with around half of these TCF imports reflecting 'new' trade. Output in the South African apparel sector reduces by a massive 42 percent as a result of the FTA. Other increases in manufacturing imports from China are spread across all sectors, but with 'machinery' the largest single increase outside of TCF. Trade diversion away from other suppliers is more evident outside of the TCF sector. Balancing this Chinese intrusion is the fact that manufacturing exports to China increase by US\$644 million, while manufacturing exports increase by US\$955 million to other destinations as the South African economy becomes more competitive. This results in an increase of US\$1.43 billion in global manufacturing exports. Specific increases are concentrated in chemicals, plastics and rubber, non-ferrous metals, vehicles, general machinery and 'other manufacturing'.

In the final analysis, the FTA with China results in the South African economy undergoing a devaluation of the real exchange rate due to cheaper Chinese imports that reduce domestic market prices in South Africa. This leads to a terms of trade loss in that exports become cheaper relative to imports. This then results in South Africa being able to expand its exports not only to China but also to the rest of the world. In total, the South African economy gains from this devaluation (lower prices) because the value of total income (sum of primary factor income and indirect tax receipts) in South Africa declines by less (0.68%) than the general market price reductions (0.77% decline in the price index for disposition of income) giving rise to an increase in EV of US\$295 million in fixed prices.

Mercosur

Following an FTA with Mercosur a similar pattern emerges, but there is a much smaller reduction in South African real prices as the economy similarly becomes more efficient with better capital utilisation in response to more competitive Mercosur imports. This in turn similarly leads to a devaluation of the real exchange rate in South Africa, boosting exports albeit with a terms of trade loss (i.e. exports become relatively cheaper than imports). As with the China FTA, the South African economy gains from this devaluation of the real exchange rate (0.0579%) as even though the value of total income (i.e. the sum of factor income and indirect tax receipts) declines by 0.0676 percent, prices decline by more (0.1391%). The final outcome gives rise to the increase in EV of US\$236 million in fixed prices. Note that this welfare increase is almost as large as the US\$295 million welfare gain from the Chinese FTA.

However, an FTA with Mercosur is not beneficial for the South African agricultural sector. Imports of agricultural products increase dramatically: by US\$532 million from Mercosur (with US\$353m of this from Brazil). But trade diversion away from BLNS, imports from which are reduced by US\$34 million, and all other sources (US\$346m) limit the overall increase in imports into South Africa to a lesser but still significant US\$140 million. Increased exports in the agricultural sector are modest (US\$84m) although they do appear to reflect mostly 'new trade' or trade creation rather than trade diversion. This is somewhat encouraging, but countering this is the finding that there are marginal reductions in the prices of all agricultural products.

Overall, the decreased value of production in South African agriculture of US\$418 million is significant, with much of this deriving from reduced chicken meat and vegetable oilseeds production. A final outcome is that there is a decline of 0.5 percent in land prices as a result of increased competition from Mercosur's imports into the region. While this is bad news for farmers, it translates into good news for consumers as the reduced agricultural prices across the board are significant enough to drive down the CPI, which in turn contributes to overall welfare gains to South Africa. The winners from the FTA are therefore the vast majority of South Africans who are consumers, while the main losers are the small number of commercial farmers in the country.

Changes in the manufacturing sector are literally driven by vehicles. In the primary scenario vehicle imports increased by US\$60 million, with an increase of US\$621 million from Brazil being largely offset by a decline of US\$616 million in imports from other sources. Overall manufacturing exports from South Africa were up by US\$587 million, while manufacturing imports were up by US\$190 million. Output in manufacturing increased by US\$388 million, but this result was tempered by a reduction in the output of the vehicle sector of US\$145 million (a 0.2% reduction in the quantity of vehicles produced) in the face of Brazilian competition. In the final analysis, the same macroeconomic factors are at work for Mercosur as they were for China. The big difference is that for China the vulnerable sector was the clothing sector with its consequential reduction in output and therefore employment whereas in the case of an FTA with Mercosur South Africa's automotive sector is only moderately impacted. Furthermore, continuing to protect this sector against Brazilian competition reduces the overall welfare gains to South Africa if the tariff rebate on intermediate car parts going into the vehicle industry is ignored.

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Chapter 5

A review of the Non-tariff barriers affecting agricultural imports into Argentina, Brazil, Chile and the Southern African Customs Union

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Summary and key points

Non-tariff barriers (NTBs) are measures, other than tariffs, which result in the distortion or restriction of trade by imposing additional costs on importers and exporters. Although NTBs are not a new phenomenon, they have become more prevalent in recent years as traditional barriers to trade such as tariffs have been reduced by successive rounds of multilateral trade negotiations.

NTBs can be classified into five categories: (a) quantitative restrictions and similar limitations aimed at limiting imports or exports; (b) non-tariff charges and related policies including antidumping measures and taxes; (c) direct government participation in restrictive trade practices covering instruments such as state-trading enterprises and trade-distorting competition policy; (d) customs procedures and administrative procedures including high transport costs and inspections; and (e) technical barriers to trade such as environmental regulations and labelling requirements.

The World Trade Organisation's Trade Policy Reviews of Argentina and Brazil show that the most prevalent NTBs in these countries are additional taxes levied on imports and the application of antidumping and countervailing duties. Chile also has antidumping measures, countervailing duties and safeguards in place on various import products as well as a complicated price band system on imports of wheat, wheat flour and sugar. The Chilean government actively supports domestic agricultural production with investment and expenditure programmes. South Africa, meanwhile, has a very complicated sanitary and phytosanitary regime with import permits required for various imports. Controlled imports must also enter through a specified port of entry. There is also direct government involvement in the agricultural sector through support programmes and guideline prices for grapes, milk, dairy products and cotton lint. In the rest of the Southern African Customs Union (SACU) countries, tariff quotas are applied to some agricultural products, while infant industry

protection differs from country to country. Botswana, Namibia, Lesotho and Swaziland all have controlled crops where there is a ban on imports of specific products depending on the domestic market conditions.

Technical barriers to trade seem to be the most common NTB facing exports to Brazil, Argentina, Chile and South Africa. Technical regulations and standards in the individual countries are seen to be more stringent than common international standards and varying standards are applied by the different countries. There is a lack of information and transparency in the testing and certification arrangements and numerous regulations regarding labelling. Exports are also hindered by the requirement of import licences, the sanitary and phytosanitary requirements of individual countries, and internal taxes.

This chapter firstly provides an overview of the increasing importance of non-tariff measures in international trade and the types of measures which can be classified as non-tariff measures. Secondly, the identified non-tariff measures in Argentina, Brazil, Chile and SACU are tabled according to information obtained from the World Trade Organisation's Trade Policy Reviews for the various countries. Lastly, some further observations regarding non-tariff measures in Argentina, Brazil, Chile and South Africa are provided. This information was sourced from these countries' trading partners, including the US, EU, Australia and New Zealand.

Section 1 Background: Non-tariff barriers

Real and meaningful market access requires a reduction in all types of barriers to trade. Successive rounds of the World Trade Organisation (WTO) and its predecessor the General Agreement on Tariffs and Trade (GATT) have seen tariffs significantly reduced, although agriculture is one sector where large 'tariff peaks' on 'sensitive' products remain. As tariffs have decreased, both in prevalence and importance, the importance of non-tariff barriers, used here interchangeably with non-tariff measures (NTMs), has increased. There are various definitions of NTMs, but in general they can be understood as any measures or interventions, other than tariffs, which distort or restrict trade in goods, services and factors of production. Examples of such measures include excessive health and safety regulations, costly

customs procedures, and government procurement policies which favour domestic over imported goods or services.

Many forms of NTMs have long existed, but have only become relevant as trade increased in response to reductions in tariffs. High tariffs in the past restricted trade regardless of the existence of any other barriers, and hence many of these NTMs previously went unnoticed. With the reductions in tariffs achieved through WTO and GATT negotiations, the importance and awareness of NTMs have increased. In 1994, the average number of lines per country affected by any type of NTB was recorded at around 1880. By 2004 this figure had increased to 5620 (Beghin, 2006). This increase can be attributed to: a) the increasing awareness and better monitoring of pre-existing barriers resulting from the shift in focus of trade agendas towards addressing these issues, and b) the implementation by many countries of new forms of NTMs in order to replace the high tariffs that had served to protect their industries in the past. Indeed, evidence suggests that the latter is a very important factor.

The last couple of decades have also witnessed a shift away from 'traditional' or 'core' NTBs, such as import quotas, voluntary export restraints, price control mechanisms, and export subsidies, towards new 'creative' barriers, such as health and safety regulations, antidumping measures, rules of origin, and phytosanitary standards. Export subsidies have largely been eradicated except in a few agri-food markets, while most quotas been converted into the two-tiered tariff systems known as tariff-rate quotas (TRQs). Increased consumer demand for higher safety standards and environmentally friendly practices has also contributed to the increasing prevalence of non-traditional NTBs. Of product lines affected by NTBs, the percentage affected by quantity and price control measures, or finance measures, (i.e. 'traditional' NTBs) declined from 45 percent in 1994 to just 15 percent in 2004, while the percentage affected by technical barriers to trade (TBTs), such as quality standards and labelling regulations, increased from 32 percent to 59 percent over the same period (Ibid.).

NTMs are important as they restrict trade between nations by imposing additional costs on importers and exporters. Furthermore, the proliferation of these measures could potentially undo a lot of the good work done in liberalising tariffs over the last few decades. This possibility was highlighted by the United Nations Conference on

Trade and Development (UNCTAD) in December 2005, when it stated (UNCTAD, 2005):

‘The Commission expresses concern about the increased use of non-tariff barriers in international trade that risk neutralizing the gains of tariff liberalization for all countries, but particularly on products of export interest to developing countries. In particular, standards and technical regulations must be developed transparently and applied non-discriminatorily, and should not pose unnecessary obstacles to trade...’

As hinted at in the above statement, the existence of NTBs can be quite controversial, with countries holding different views on which measures constitute appropriate responses to legitimate concerns, and which are simply devices used to protect local industries. In this regard, identifying NTMs can be a highly subjective business. A country might argue that a certain health and safety regulation it imposes is necessary to protect the welfare of its citizens or environment, while an exporting country affected by this regulation may see it as a trade-distorting measure, designed to keep its products out.

NTMs, and especially TBTs, are often imposed in the presence of genuine market failures. Negative externalities that can arise from unregulated trade may include the introduction of pests which might damage local ecosystems, or human welfare risks posed by unhealthy additives in processed food products. It is often difficult to assess whether a policy is protectionist if its stated aim is to address such externalities. One method to determine whether TBTs and certain other NTMs are protectionist measures is to examine whether the standards and regulations imposed are applied to domestic goods and services as well as imports. If no discrimination against imports can be ascertained, then the presumption is that the measures are not protectionist (Beghin, 2006). When NTBs are not aimed at addressing market failures (including negative externalities such as environmental degradation) or information asymmetries that exist between producers and consumers (such as the nutritional information of processed food products), then they are inherently protectionist.

Developing countries and Least Developed Countries (LDCs) are particularly vulnerable to NTMs, and especially to the new generation of TBTs, such as sanitary

and phytosanitary regulations. Many developing countries rely on exports of only a few commodities, and regulations which hamper their ability to export these goods can severely affect their economies. Although WTO agreements emphasise that national regulations should be based on international standards where these exist, there is a paucity of such standards covering agri-food products, precisely the products in which many developing countries have a competitive advantage. In addition, developing countries have historically been poorly represented on international standard-setting bodies. This has often meant that important issues specific to developing countries are not taken into account when standards are set.

It is also sometimes difficult for developing countries, which lack money and resources, to comply with regulations and standards set by developed countries. Developed countries usually defend their stringent standards by citing increased consumer awareness of health risks related to food consumptions, and increased consumer pressure for safer goods. Nevertheless, there is some evidence of developed countries discriminating against imports by imposing stricter regulations on imports than on locally produced goods (Mold, 2005). Finally, even where such discrimination exists, and where measures are clearly in violation of WTO rules, it is often too costly for developing countries to challenge the legality of these measures.

The importance of addressing NTMs is officially recognised in South Africa, as evidenced by the following quote from the country's Permanent Mission to the WTO (Permanent Mission of South Africa, 2003):

‘Reducing tariff barriers alone will not succeed in providing genuine market access for developing countries. Non-tariff barriers such as antidumping, technical barriers to trade and import licensing in developed countries, often pose significant barriers to developing country exports. Some issues, such as antidumping, are currently under discussion in other negotiating groups. Real progress in these areas must be achieved as part of a single undertaking.’

Addressing NTBs is a significant part of the ongoing WTO agenda, and multilateral agreements regulating specific NTBs are already in place. These include the Sanitary and Phytosanitary (SPS) Agreement, the Technical Barriers to Trade Agreement,

and various other agreements covering subsidies and countervailing measures, antidumping, and rules of origin among other relevant issues. Nevertheless, significant work still needs to be done in examining the economics of NTBs, as current empirical and conceptual knowledge of these barriers remains limited. In particular, knowledge of NTBs and their effects is hampered by a lack of common methodologies, adequate data and updated information. Due to the heterogeneous nature of the policies involved, establishing a unified method for quantifying NTBs also remains a significant challenge (UNCTAD, 2005).

Section 2 Types of non-tariff barriers

In order to examine the various measures that can be termed NTMs it is useful to place these measures into specific categories. Alan Deardorff and Robert Stern have proposed a taxonomy of NTMs which contains the following five categories (Beghin, 2006):¹

- **Quantitative restrictions and similar limitations.** These are generally measures designed with the express aim of limiting imports or exports. Examples include import quotas and the various methods used in their administration (including licensing and auctions), limitations or bans on exports, voluntary export restraints, foreign exchange controls, domestic content requirements, embargoes, discriminatory preferential trading arrangements, and rules of origin requirements.
- **Non-tariff charges and related policies.** The most important of these are variable levies which are triggered when prices reach certain threshold levels, antidumping and countervailing duties, safeguard duties and taxes which are levied more heavily on imported goods than on the domestic goods with which they compete.
- **Direct government participation in restrictive trade practices.** This category is quite broad, and covers instruments such as state trading enterprises, state sponsored monopolies, government procurement policies which favour domestic goods and services, and industrial policies which provide subsidies to

¹ Many classifications of NTBs group the first three categories highlighted here into one broad category of 'trade policy NTBs'.

domestic firms. This category also covers various forms of government policy that in certain contexts can be described as trade distorting, including macroeconomic policy, competition policy, investment policy, taxation and social security policy and immigration policy.

- **Customs procedures and administration practices.** These include customs valuation methods which do not use the actual value of the imports, the use of classification procedures other than the harmonized system to levy further fees, high freight and transportation costs, toll fees and clearance procedures which create additional costs (such as inspections and documentation).
- **Technical barriers to trade (TBTs).** Examples of TBTs include health and safety regulations for human, animal and plant welfare (including sanitary and phytosanitary standards), environmental regulations, quality standards, labelling requirements and other marketing regulations

What follows is a closer look at some of the more important measures mentioned above. The list is by no means exhaustive, however, and some of the measures discussed are specific to agricultural trade, while others are common across many or all sectors.²

Quantitative restrictions and similar limitations

Import licensing

Import licensing systems are not as common as they once were. They nevertheless remain a potential source of trade restriction, as countries can adjust or restrict the quantity of imports through their licence allocation process, rather than through using explicit quota mechanisms. According to the WTO Agreement on Import Licensing Procedures, import licensing should be simple, transparent and predictable. In addition, the administration of licences should be fair and equitable, and should not have a restricting or distorting effect on imports. Governments are required by the agreement to publish information as to why and how the licences are allocated, and are also required to notify the WTO of any new licensing procedures or any changes

² Unless otherwise specified, the information contained in this section is sourced from the World Trade Organisation website: <http://www.wto.org/>.

to existing procedures. The WTO classifies two types of licensing: 'automatic licensing' and 'non-automatic licensing'.

Automatic licenses are issued in all cases as long as certain conditions are fulfilled. There should be no discrimination in the awarding of these licences, and this should take place within 10 days of receipt of an application. Non-automatic licensing covers all other forms of import licensing, and is generally used to administer quantitative restrictions that have been applied under the WTO legal framework. Again, no discrimination among applicants may be applied, and if an application is rejected, the applicant has the right to an explanation, and to have the decision reviewed on appeal. It should take no longer than 30 days to process an application for a non-automatic licence, or 60 days if applications are considered simultaneously, and the licence should be valid for a reasonable period. This period should not be so short as to prevent the importation of goods from a distant source.

Domestic content requirements

Domestic content requirements usually refer to regulations that specify the percentage of a product's total value that must be domestically produced if that product is to be sold on the domestic market. Governments typically use such regulations to aid the development of domestic industries. Although domestic content requirements are not widely used for agricultural products, there have been some examples, including requirements on Australian cigarette producers that they use over 50% domestic leaf tobacco in their products (Sumner et al., 2001). Such requirements typically result in producers sourcing local inputs even when these are more expensive than imported equivalents. This in turn can have a restricting effect on trade.

Rules of origin requirements

Rules of origin are criteria used to define where a product was made. Their importance stems from the fact that many trade policies discriminate between exports from different countries. These include quotas, countervailing duties, and antidumping duties, among others. In addition, rules of origin criteria are widely used in regional or preferential trade agreements to ensure that the main benefits of the agreement accrue to the countries party to it. The WTO's Rules of Origin Agreement

requires that member states apply their rules of origin in a transparent manner, and that these do not have a restricting or distorting effect on international trade.

One noted consequence of rules of origin legislation is that these rules can undermine the effectiveness of preferential trade deals, which are often vitally important for developing countries, especially LDCs. Rules of origin requirements attached to such deals often require exporting countries to ensure that a significant percentage of the value added of a particular export is created within that country. This is a problem for smaller countries which do not always have the necessary resources needed for the production or processing of their exported goods. By preventing significant sourcing from third-party countries, which could lower input costs, these requirements place an additional cost on exporters. This is especially true when the exporting country is party to a number of trade agreements which contain different rules of origin criteria.

Non-tariff charges and related policies

Antidumping duties

Dumping occurs when a good is exported at a price lower than its 'normal value'. The normal value for a good is determined as the price it would fetch on its domestic market. WTO rules do not allow dumping, as it can undermine established industries in importing countries. If a country determines that the dumping of a particular good is threatening material injury to a local industry, it may apply antidumping duties to imports of the good. This is sanctioned under the WTO's Antidumping Agreement. The existence of such measures is often enough to have a 'chilling' effect on trade, as producers prefer not to expose themselves to the risk of additional duties, and therefore do not expand into new sectors and export markets. This is often especially true when the foreign market is that of an industrialised country, as these countries have the resources to instigate the procedures that accompany the implementation of antidumping duties.

Countervailing duties

Countervailing duties are duties that a country is allowed to impose on imports if the imported goods in question benefit from 'specific' subsidies (i.e. subsidies only

available to an enterprise, industry, group of enterprises, or group of industries, and including domestic and export subsidies) and if these imports are causing material injury to local producers. A country wishing to levy countervailing duties must instigate an investigation to determine whether the imports are in fact causing material injury to local producers. This investigation must be conducted in a transparent manner and must include a dispute settlement mechanism.

Safeguards and Special Agricultural Safeguards

The WTO's Agreement on Safeguards allows countries to impose temporary duties (or quantitative restrictions) on certain imports if the country has witnessed a surge (either an absolute or relative increase) in these imports which is damaging, or threatening to damage, a local industry. These measures are designed to give breathing space to a local industry so as to allow it to adjust to the competition provided by increased imports. Unlike in the case of countervailing duties, these imports do not need to be found to be benefiting from subsidies, but the effect they are having on the local industry, or the threat that they pose, must be quite serious.

In addition, safeguard measures are subject to time limits, and, if imposed for more than a year, must be progressively liberalised. Furthermore, the local industry for which the safeguards provide protection must show that it is making efforts to adjust to international competition. It is also important to note that safeguard measures cannot be targeted at a specific country, but instead must be applied to all imports of the goods in question. Notwithstanding the above, safeguard measures cannot be applied to imports from a developing country, unless that country supplies more than 3 percent of the imports of the relevant good, or unless developing countries together account for more than 9 percent of these imports. As in the case of countervailing duties, a transparent investigation process must be instigated, and responsibility for overseeing member countries' commitments with regard to the Safeguards Agreement rests with the WTO Safeguards Committee.

The WTO Agreement on Agriculture contains special provisions for safeguards on certain agricultural products. These special safeguards (SSGs) can only be applied by countries which reserved the right to do so in their schedules of commitments on agriculture, and can only be applied on products that were tariffied (i.e. for which

other forms of protection were converted into tariffs or tariff rate quotas). These special safeguards differ from ordinary safeguards in that duties can be applied automatically when import volumes rise above a particular level or when prices drop below a certain level. In addition, governments do not have to show that imports are materially damaging the local industry. Special safeguards have been used on very few occasions.

Direct government participation in restrictive trade practices

State-trading enterprises (STEs)

These are governmental and non-governmental enterprises, including marketing boards, possessing exclusive or special rights or privileges, including statutory or constitutional powers, which allow them to influence the direction of imports or exports through their purchases or sales. Article 17 of GATT obliges member states to ensure that the import and export decisions of such enterprises are based on the principle of non-discrimination, and that they are guided by commercial considerations only. In addition, the workings of STEs must be transparent, and they may not have recourse to measures which operate as effective quantitative import or export restrictions.

Government procurement

Given the size of the procurement market, government procurement is not only an important aspect of governments' domestic operations, but is also a very important aspect of world trade. Although open, transparent, and non-discriminatory procurement is generally recognised as the best way to generate competition among suppliers, thereby ensuring the best value for money, many governments still favour domestic products and services, even when these are more costly or less efficient. In effect, these governments use their purchasing decisions as a way to assist and promote local industries or sectors.

Subsidies

When governments subsidise domestic producers, these producers are often able to sell their products at a price lower than cost. This in turn acts as a barrier to the importation of similar or competing goods from other countries which cannot compete

with the artificially low prices of the domestic goods. If the subsidised products are exported, these subsidies can also hurt rival exporters competing with subsidised producers in the market of a third country. Subsidies that require producers to meet minimum export targets, or to ensure that a certain proportion of inputs are sourced domestically, are prohibited by the WTO Agreement on Subsidies and Countervailing Measures. These subsidies can be challenged under the WTO's dispute settlement procedure. All other types of subsidies are classed as 'actionable'. These can only be challenged if evidence is provided showing that the subsidies are damaging to a country's interests.

Other government policies

Various government policies can have both direct and indirect distorting and restrictive effects on trade. Exchange rate management policy, for example, can serve to restrict exports by maintaining an undervalued currency. Similarly, by maintaining a foreign direct investment (FDI) policy which offers significant concessions to multinational firms in order to attract FDI, countries can effectively distort the volume of imports of goods that are manufactured by these firms. This occurs when instead of these goods being imported as before, they are now simply manufactured domestically by the local subsidiaries of the multinational firms. A similar effect can result from a national taxation policy which charges low taxes on locally situated producers.

Customs procedures and administration practices

Preshipment inspections

Preshipment inspection is the practice of employing specialised private agencies to examine the shipment details (usually price, quantity and quality) of goods ordered overseas. This practice is widely used by developing countries to prevent fraud, customs evasion or capital flight, or to compensate for inadequate administrative infrastructure. The Preshipment Inspections Agreement obliges governments to ensure that these inspections are transparent and non-discriminatory, protect confidential business information, avoid unreasonable delay, use specific guidelines for verifying prices, and avoid conflicts of interest by the agencies tasked with the inspections. The agreement also establishes an independent review procedure jointly

administered by the International Federation of Inspection Agencies (IFIA) and the International Chamber of Commerce (ICC). The purpose of the procedure is to resolve disputes between exporters and inspection agencies. The most obvious trade restricting effect of pre-shipment inspections is when they cause excessive delays on the exporting side. This is particularly problematic for exporters of fresh produce.

Customs valuations

In order to impose customs duties it is necessary for customs officials to determine the monetary value or price of imported goods. This process is termed customs valuation. As duties often take the form of ad valorem duties, which are determined as a percentage of the value of the imported goods, there exists an incentive for customs officials to place as high a valuation as possible on imported products. If countries use customs valuation methods which deviate from established international norms, this can result in the value of imports being exaggerated, and therefore in being subject to excessive duties. This in turn can lead to a drop in trade as imported goods are no longer able to compete with domestic equivalents. The WTO Agreement on Customs Valuation seeks to ensure that member countries establish fair, uniform and non-discriminatory customs valuation methods, and in particular that they avoid customs valuation regimes that are based on methods such as minimum values.

A recent dispute between Panama and Colombia resulted in a WTO Panel ruling that Colombia had violated the Customs Valuation Agreement by using indicative prices (a form of reference price) to establish the value of certain imports from Panama, instead of using the transaction price or attempting to use the alternative methods set out in the agreement.³

Classification systems

The use of customs classification procedures other than the international harmonised system can also result in trade distortion. If these procedures provide customs officials with too much leeway in determining which categories to apply to specific imports, exporters can end up having larger-than-expected duties levied on their

³ See WTO Dispute Settlement: *Colombia – Indicative Prices and Restrictions on Ports of Entry* (DS366). [Online]. Available: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds366_e.htm.

products. Not only can an arbitrary system of classifying imports result in higher prices for imported goods than their local equivalents, but the lack of predictability involved can also serve as a disincentive for foreign exporters wishing to sell their goods to the domestic market.

Other customs clearance procedures

Excessive and unpredictable customs requirements, especially with regard to inspections and documentation, can lead to unnecessarily long delays and extra costs when processing goods at entry points such as ports or borders. Long delays in turn can affect the quality of the goods themselves, such as in the case of fresh produce. In some circumstances the goods may even spoil before they reach their final destinations.

The WTO Panel hearing the dispute between Panama and Colombia mentioned above, also ruled that Colombia had violated various GATT articles by requiring that certain imports from Panama had to enter the country through two specified ports. The panel found that this ‘port of entry requirement’ constituted an import restriction as it limited the ‘competitive opportunities’ for these products.⁴

Technical barriers to trade (TBTs)

Sanitary and phytosanitary (SPS) measures

The WTO’s SPS Agreement sets out the basic rules for food and agricultural products, relating to the health and safety of humans and animals (sanitary measures) and plants (phytosanitary measures). Its aim is to provide protection for human, animal, and plant welfare while avoiding resort to unnecessary trade barriers. According to the Agreement, specific measures should be applied only to the extent necessary to protect human, animal or plant life or health, should not arbitrarily or unjustly discriminate between countries where identical or similar conditions prevail, and should be based on science and not maintained without scientific justification. Excessively strict sanitary and phytosanitary regulations often prevent producers who do not have the resources to comply with these regulations from exporting their

⁴ See *Colombia – Indicative Prices and Restrictions on Ports of Entry* (DS366).

goods to the country where they apply. Even where resources are available, compliance nevertheless imposes additional costs on the exporter.

Standards and technical regulations

Standards and technical regulations refer to specific characteristics, such as quality, safety, or authenticity that a product should possess, or in some cases to the manner in which the product is produced or packaged. The difference between standards and regulations lies in the fact that compliance with standards is voluntary, while compliance with regulations is required by law. Technical regulations can restrict international trade by ensuring that products which are not in compliance are kept off the local market. Products that do not comply with local standards are not prevented from entering markets where these standards apply, but the fact that they do not comply may lead local consumers to avoid these products in favour of those products which do meet the relevant standards.

Technical regulations impose four kinds of costs on exporters. Firstly, in order to meet technical requirements, firms may have to undergo costly restructuring of their production processing. Secondly, compliance with such regulation needs to be confirmed. This is achieved through testing, inspection, and certification by relevant bodies, usually undertaken at the expense of the producer. Thirdly, firms are often required to devote resources to evaluating the technical impact of foreign regulations, translating and disseminating the product information, and training experts in relevant compliance procedures. Finally, regulations often place exporters at a disadvantage to local producers, who are less likely to be surprised by the content of new regulations.

Labelling requirements

Some countries argue that imposing voluntary or mandatory labelling requirements is a way of dealing with concerns such as animal welfare or information on genetically modified organisms, without distorting trade. By encouraging or forcing exporters to provide consumers with relevant product information (such as nutritional content, free range status, etc.), these requirements help consumers to make consumption choices, and provide them with confidence in the products they buy. Requirements of this sort do nevertheless impose additional costs on exporters, and because not all

exporters would be able to bear the costs of compliance, some would not be able to export their goods to markets where the requirements are in force. Thus, labelling requirements can have a restricting effect on trade.

A related issue is that of traceability. Consumers have a right to know the origins of their purchases, and being able to trace a food quality problem to its source is often vitally important. Nevertheless, many developing countries have food production chains which incorporate many small and fragmented suppliers, and it is therefore often difficult for these countries to provide information as to the exact origin of each individual agricultural product. Where standards requiring this information are applied, exporters that are able to comply will have a competitive advantage over those that cannot. In this way, traceability standards can be viewed as discriminating against developing country exporters.

Environmental standards

Increasing awareness of environmental issues such as global warming, deforestation, and water pollution, especially among citizens of developed countries, has resulted in many countries enacting regulations aimed at addressing these issues. Increasing use is also being made of standards relating to such aspects as a product's 'carbon footprint', or, in the case of agricultural products, the fact that it was 'organically' produced. Although these standards and regulations generally result from quite noble intentions, they can be used by countries as a way of preventing, or discouraging, imports of certain products from countries which do not have the resources to comply.

An increasingly important issue facing agricultural exporters is the issue of 'food miles'. As consumers become more aware of the greenhouse gas emissions that result from all stages of the production and transportation of a particular food item, many prefer to purchase goods which have not been transported large distances. This issue is of particular concern to agricultural producers which are geographically situated a significant distance from their major export markets. There is potential for standards which address this issue to become yet another form of NTM.

Other potential sources of barriers to trade

Inadequate infrastructure

A lack of adequate infrastructure in importing countries can also serve as a barrier to trade. Poor road conditions can mean heavy traffic and resulting delays, as well as the need to spend more money on the upkeep of transport fleets. These effects are likely to translate into higher freight charges which will in turn be reflected in the final price of the good being imported. Poor road quality is not only a problem in overland trade, but can also hamper trade with countries where the final destination of the good is a significant distance from the coast. Poor roads are not the only infrastructural issue, however, as inadequate port facilities can prove to have an even more restricting effect on trade. Where ports cannot cope with the volumes of freight passing through them, bottlenecks are likely to occur. These can result in long and costly delays before goods are finally processed (TIPS & AusAID, 2008).

Corruption

Corrupt practice by customs officials is a big problem in many developing countries. Not only does the need to pay bribes place additional costs on importers or exporters, but it is also impossible for them to predict the exact value of these additional costs. The additional costs and the lack of transparency involved serve as significant disincentives to export to countries where such corruption is rife.

Section 3 Secondary information on non-tariff measures

This section will review the literature on NTBs in firstly Brazil, followed by Argentina and then Chile. There is a general consensus that the NTBs that a country faces are determined by who its major trading partners are and by the composition of its exports to those markets (OECD, 2005). The analysis that follows concentrates upon the agricultural sector. We draw our review and findings based on reports from the WTO, US, EU, Australia and New Zealand. These reports have been undertaken by scholars, trade analysts, governments, and international organisations. Table 1 below summarises some of the main NTMs reported in the WTO Trade Policy Reviews of the respective countries under analysis.

Table 1: Non-tariff measures reported in the WTO Trade Policy Reviews

Type of NTB/NTM	Argentina	Brazil	Chile	South Africa	Rest of SACU
Quantitative restrictions and similar limitations.	<ul style="list-style-type: none"> - No quantitative restriction on agricultural products reported 	<ul style="list-style-type: none"> - TRQs exist and are determined by Mercosur Resolution GMC No. 69 and the Agreement on Agriculture 	<ul style="list-style-type: none"> - MFN tariff quotas for refined sugar since January 2002; - TRQs under regional trade agreements on imports of vegetable oils, bovine meat, poultry meat, dairy produce and fish 	<ul style="list-style-type: none"> - TRQs apply to agricultural products, such as animal products and vegetables 	<ul style="list-style-type: none"> - SACU TRQs on imports into BLNS of wheat, cheese, butter and skimmed and whole milk powder - Swaziland - National Agricultural Marketing Board can limit agricultural imports through quotas and import levies; - Sugar industry can determine the varieties of sugar cane that can be imported - Namibia - Local content requirements in fishing rights and quotas and horticulture
Non-tariff charges and related policies.	<ul style="list-style-type: none"> - Statistical tax levied on CIF of all goods imported except from Mercosur; - Sugar attracts additional charges; - Wine bottles exceeding 5 litres prohibited for import; - Pre- authorisation required for wine imports; - Most agricultural products require automatic licensing; - Countervailing duties imposed on imports of olive oil, wheat gluten and peaches 	<ul style="list-style-type: none"> - Complex internal tax system applicable to imported products - Trade remedies actively used (e.g. coconuts have a safeguard measure and two countervailing measures in place); - Wine bottles exceeding 5 litres prohibited for import; - Imports of foreign grapes and grape juice for wine production are also prohibited - Automatic and non-automatic licences for imports applied through SECEX. Agricultural 	<ul style="list-style-type: none"> - Price band system for imports of wheat, wheat flour and sugar; - 19% VAT calculated on the customs value plus import duties; - 1% tax by customs for verification service; - Tax on goods entering under the temporary admission regime; - Storage tax for goods in the in-bond warehouse; - Various antidumping measures, safeguards and countervailing duties have been imposed, including on wheat, wheat flour, fructose 	<ul style="list-style-type: none"> - 14% value added tax (VAT) on imports calculated on duty-inclusive FOB plus 10% 	<ul style="list-style-type: none"> - Lesotho - 14% VAT on most imports - Swaziland - Infant industry protection for milk and dairy products, vegetables, flour and wheat; - 14% sales tax for most goods excluding agricultural inputs and basic foodstuffs; - Administration charge on goods requiring import permits - Namibia - Infant industry protection for UHT milk and pasta; - VAT based on FOB prices plus 10% on all imports; - Automatic licenses for agricultural imports - Non-automatic licences for meat and fish, live animals and animal genetics; - 1.2% levy on the landed cost of consignment fruits and vegetables; - Import authorisation and permits for fresh fruits and vegetables required

Type of NTB/NTM	Argentina	Brazil	Chile	South Africa	Rest of SACU
		products mostly require non-automatic licences	and dairy products		<ul style="list-style-type: none"> - Botswana - Infant industry protection on UHT milk; - Base for VAT differs between SACU and non-SACU imports
Direct government participation in restrictive trade practices	<ul style="list-style-type: none"> - Various domestic support measures in place for agricultural sector; - Resolution No. 1/2006 sets benchmark prices on beef cuts, live animals and bovine meat; - Minimum pricing system for tobacco products funded by the Special Tobacco Fund 	<ul style="list-style-type: none"> - Various domestic support measures in place for agricultural sector; - These include; price support and stabilisation mechanisms, option contracts and guaranteed minimum prices; - Products affected include coffee, corn, cotton, milk, rice, sorghum and soya beans. 	<ul style="list-style-type: none"> - Ministry of Finance can prohibit imports from countries which have imposed trade restriction on Chile; - Government aid for agricultural production including payments to farmers for plot irrigation, inputs, productivity and training; - Governmental expenditure on general agricultural services like infrastructure; - Agricultural insurance scheme and disaster relief payments; - Government provided investment credits and soil recovery programme; - National Irrigation Commission provides subsidies for small-scale irrigation projects; - Institute for Agricultural Development assists in the development of small-scale 	<ul style="list-style-type: none"> - Minister of Agriculture, Forestry and Fisheries can prohibit the importation of any agricultural product; - Procurement preferences in awarding tenders to small, medium and micro-enterprises and to historically disadvantaged individuals; - Procurement preference points awarded based on comparative prices; - Marketing of Agricultural Products Act designates guideline prices for grapes intended for wine production, grape juice, milk and other dairy products and cotton lint; - Sugar industry remains highly regulated; - 	<ul style="list-style-type: none"> - Price preference schemes and reservations regarding tenders and bids based on local content - Swaziland - Governmental measures to promote Swazi companies in public procurement - Price controls on bread, sugar and dairy products - Namibia - Imports of controlled crops like whole grain maize, wheat, pearl millet and their milled products are seasonally restricted based on domestic production; - Wheat flour imports normally prohibited depending on market conditions; - Agricultural Credit Programme for farmers in communal areas; - Direct support by the Ministry of Agriculture, Water and Forestry; - Small Business Credit Guarantee Trust for small businesses - Botswana - Food security policy requires import permits on certain agricultural products; - Poultry products restricted based on domestic market conditions; - Seasonal ban on vegetables and dairy imports; - Support to agriculture through free water and irrigation services, drought relief and covering the costs for implementing SPS measures;

Type of NTB/NTM	Argentina	Brazil	Chile	South Africa	Rest of SACU
			farms into more productive units and provides credit programmes for small farmers	Comprehensive Agricultural Support Programme provides support to land reform beneficiaries willing to establish commercial farms; - Micro-Agricultural Finance Schemes gives financial services to communal farmers	- Agricultural Credit Guarantee Scheme for small and medium farmers in arable rain-fed agriculture
Customs procedures and administrative practices.	<ul style="list-style-type: none"> - Lengthy process to comply with customs procedures for prospective exporters; - Several institutions are involved in the customs and administration process; - Certificate of Origin may be required for imports subject to non-preferential treatment and are applicable to goods subject to trade remedies. 	<ul style="list-style-type: none"> - Valuations governed by WTO Customs Valuation Agreement as well as additional Normative Instructions issued by the Brazilian government 	<ul style="list-style-type: none"> - Customs declarations for entry required for all imports. These need to be endorsed by the customs authorities; - Declaration required to be sent electronically through a customs agent; - Mandatory customs agent for imports with a value exceeding FOB US\$1,000 	<ul style="list-style-type: none"> - 2 to 3 days customs clearance for shipped imports 	<ul style="list-style-type: none"> - Lesotho - 2 days for customs clearance of non-SACU imports - Swaziland - Slow and costly customs clearance and process not yet fully computerised; - Clearance takes 20 minutes to 3 days; - Goods physically examined prior to release - Botswana - Clearing agents mandatory for commercial imports
Technical barriers to trade (TBTs).	<ul style="list-style-type: none"> - SPS measures for all imports of live animals and animal or plant products and by-products 	<ul style="list-style-type: none"> - Labelling requirements should meet set criteria and label must be printed in Portuguese; - Endangered animals and plants are prohibited for 	<ul style="list-style-type: none"> - Endangered animals and plants are prohibited for import; - Administrative formalities on the imports of plant products, animals and animal 	<ul style="list-style-type: none"> - Development of technical regulations, inspection and enforcement responsibility of different government departments; 	<ul style="list-style-type: none"> - Lesotho - Prohibitions based on avian flu and classical swine fever and of certain fauna and flora; - Import permits for all agricultural products except cereals and cereal products

Type of NTB/NTM	Argentina	Brazil	Chile	South Africa	Rest of SACU
		import	<p>products, food products and fisheries products;</p> <ul style="list-style-type: none"> - No general regulation on the preparation and notification of an SPS measure, and no minimum period between the publication of a measure and its entry into force; - Specific SPS measures applicable to certain imports based on the type of product and species; - Livestock imports must come from an approved facility; - All imported animals must be placed in quarantine on arrival; - Imports of plants must enter Chile through a designated port of entry; - If no SPS requirements exist for the importation of a product, the importer must apply for an import permit. A pest risk analysis is then undertaken to determine the requirements for importing 	<ul style="list-style-type: none"> - No consistent national approach for regulation development; - Regulatory system is fragmented leading to unclear and difficult access to information on technical regulations; - Technical regulations for the manufacture, production, processing and treatment of canned meat products; - 60 technical regulations on foodstuffs; - Several laws governing packaging, marketing requirements and labelling applying to a vast list of agricultural products; - 'Special' labelling requirements for wine and foodstuffs; - SPS requirements on agricultural imports stringent because imports are subject to quality standards or technical regulations; 	<ul style="list-style-type: none"> - Swaziland - SPS measures including the prohibition of plants, seeds, bulbs and raw cotton, and import permits for specified agricultural products like wheat, flour and dairy products; - Complex process for first-time import permit applicants; - Sugar industry can determine conditions for importing sugar as well as testing requirements; - Seed imports must be tested by a phytopathologist in Swaziland and/or issued with a clearance certificate; - Labelling of dairy products requires grade and the producer's registration number on the label - Botswana - Import permits and prior approval for agricultural products

Type of NTB/NTM	Argentina	Brazil	Chile	South Africa	Rest of SACU
			the specific product. The risk assessment on plant health application can take three months to one year and on livestock seven months to two years; - More than 20 legal statutes covering marking, labelling and packaging of goods; - Labels required in Spanish	- Import permits required for controlled goods including plants and animals; - Meat importers must be approved by the national executive officer; - Imports of controlled goods must pass through a specified port of entry	

Source: WTO Trade Policy Reviews

Observations on NTBs in trade with Brazil, Argentina, Chile and South Africa

As noted earlier in this chapter, the application of NTBs can be quite controversial, especially when countries hold different views on which measures constitute appropriate responses to legitimate concerns and which are simply devices used to protect local industries. We therefore acknowledge the fact that identifying NTBs is a highly subjective matter.

The review of the reports conducted here reveals some interesting findings. All the countries under review are developing countries that mainly trade with developed countries. Customs administration and non-tariff charges are the most prevalent types of NTBs in the evaluated developing countries, according to their developed trading partners. This trend can be attributed to the concerns by developing countries over loss of tariff revenue as a result of trade liberalisation and hence the need to find alternative sources of revenue to compensate for this loss. However, this does not imply that TBTs and quantitative restrictions are not of concern in these countries.

a) Customs procedures and administration

Import licensing procedures were highlighted as common and prevalent across all the reviewed countries. The complaint here stemmed from the delays and lack of transparency in the process. This was more prevalent in Brazil than in Argentina or Chile.

For example, a **US report**⁵ notes that despite the fact that a list of import products for which non-automatic licences are required is published on the website of the Brazilian Ministry of Development, Industry and Trade, specific information on the stated requirements and explanations regarding the rejection of a licence application are lacking. This has had the effect of exports to Brazil being less transparent and more burdensome for US exporters.

⁵ See the 2009 National Trade Estimate Report on Foreign Trade Barriers, available at http://www.ustr.gov/sites/default/files/uploads/reports/2009/NTE/asset_upload_file837_15458.pdf and the rules and regulations provided by the United States of America Department of Agriculture; Animal and Plant Health Inspection Service, available at http://www.aphis.usda.gov/import_export.

The EU⁶ reported that non-automatic **licences** are applicable to a wide variety of imports and must be requested prior to shipment. The applications often remain pending for an indefinite period without a formal reply resulting in imports being stopped at the border. These procedures and practices restrict trade and cause damage to exporters from the EU.

Customs valuation rules also came under the spotlight. Overestimation of prices for customs, the use of minimum or reference prices rather than transaction prices, and, to a certain extent, too much discretion of custom's officers were the highlighted problem areas.

b) Non-tariff charges and related policies

Brazil

From the reviewed literature, the message coming across is that federal and state taxes applied by Brazil can have the effect of doubling the actual cost of importing into Brazil, with the complex tax system posing a challenge to current or prospective foreign companies operating in Brazil. Agricultural exports from the rest of the world are also seen as being at a competitive disadvantage to those products imported from Mercado Comun del Sur (Mercosur) countries due to a 25 percent merchant marine tax on long distance freight charged at Brazilian ports of entry.

From 2002 to 2008 Brazil imposed definitive **antidumping duties of** between 17.4 percent and 26.4 percent on canned peaches imported from the EU. Canned peaches from the EU are also on Brazil's exception list. Thus, European canned peaches are currently not subject to immediate tariff-free treatment when imported into Brazil.

Argentina

Imports are subject to various internal **taxes**, including a statistical tax, VAT and excise taxes of 60 percent on cigarettes, 12 percent on whisky; 6 percent on hard liquor and 4 percent on beer and soft drinks.

⁶ EU Market Access Strategy at http://ec.europa.ec/trade/issues/sectoral/mk_access; Dehousse et al. (2002).

Chile

Chile has a complex **price band** system for wheat, wheat flour and sugar.⁷ The system is intended to guarantee a minimum and maximum price for the commodities it covers. When the cost, insurance and freight prices fall below a set minimum price, a special tax is added to the applicable tariff rate to raise prices to the minimum price level. The determined minimum price is normally higher than both the international and Chilean domestic price for the specific product.

South Africa

Antidumping measures and safeguards have been cited as non-tariff barriers inhibiting US exports to South Africa. US exporters have raised concerns regarding transparency and due process in the procedures applied by the International Trade Administration Commission (ITAC) when investigating allegations of dumping and import surges and the implementation of antidumping duties and safeguard measures. Issues have also been raised regarding ITAC's administration of South Africa's antidumping laws and regulations. At the end of 2008 South Africa had antidumping duties in place on four US import products: chicken meat portions, L-lysine-HCL, suspension polyvinyl chloride (PVC) and acetaminophenol.

c) Technical barriers to trade

i) Technical regulations and standards: Standards in the countries under review have been reported as being more stringent than common international standards. Another common complaint is that the standards imposed are not consistent across these countries.

Brazil

The **SPS regime** in Brazil prohibits the importation of all **US** cattle, beef and beef products due to the discovery of a bovine spongiform encephalopathy (BSE) positive animal in the US in 2003. The importation of unprocessed poultry products from the US has also been prohibited. Importing poultry meat and table eggs from the US is also restricted and requires sanitary certificates. Export certificates for animals and

⁷ This will be phased out by 2016 under the US-Chile FTA for imports from the US.

plants and their by-products from the US need to be authenticated prior to shipment by a Brazilian consulate in the US. Unprocessed US products of plant origin, including fresh fruits and vegetables, can only be exported if they are accompanied by an Animal and Plant Health Inspection Service certificate and/or Plant Protection and Quarantine Phytosanitary certificate.

In addition, US exports to Brazil of products from animal origin, including pork, powdered milk, whey and cheese must be processed at a plant that has been **inspected** by federal agencies. State level inspections are not accepted and products from these plants will not be registered in Brazil.

All **food additives** must be analysed separately, to prove their safety before they can be approved for consumption. The approval of a specific food additive may be accompanied by restrictions regarding use. Specific regulations exist for products including alcoholic and non-alcoholic beverages, meat and meat products, and oils and fat.

Argentina

Standards and technical requirements provide that wheat flour products imported into Argentina must be enriched with iron, folic acid, thiamine, riboflavin and niacin to prevent neural tube disease. This requirement applies to products such as pasta, chocolate and cookies, and, according to the EU, is having a negative impact on the exports of these products. Exemptions to the requirement can be granted on a case by case basis, but the exemption procedure takes a long time causing unnecessary delays in the export of the products.

Public health requires that food products comply with the *Codigo Alimentario Argentino* for safety and wholesomeness. Animal-related products, plants and plant materials can only enter Argentina through specified ports of entry and are subject to inspections on arrival. The Agriculture Ministry must approve and inspect imports of fruits, vegetables, nuts and grains and approve imports of frozen meat. The registration of foodstuffs with the Argentine Ministry of Health is the responsibility of the importer, but it is necessary for the exporter to provide all the data and information available on the import product.

SPS requirements in Argentina have led to a ban on energy drinks and bovine meat and meat products. Energy drinks containing a caffeine content of more than 200mg/litre are currently banned from importation. Due to a risk of BSE, imports of bovine meat and meat products are also currently prohibited. The **SPS regime** in Argentina resulted in the ban of poultry imports from the US in 2002 due to concerns regarding avian influenza and Exotic Newcastle Disease. The importation of hatching eggs or day-old birds to Argentina is allowed, provided health certificates for the products are obtained. Importing swine from the US is also banned due to the risk of Porcine Reproduction and Respiratory Syndrome. The importation of horses requires an original health certificate from the country of origin and the importation of minks requires a bilingual health certificate, notification to the Argentine Quarantine Authorities of the date and place of arrival and 60 days quarantine in Argentina after arrival.

Export certificates for dairy products for human consumption from the US must be endorsed by the Agricultural Marketing Services. The export of ovine greasy wool is also restricted requiring a bilingual SPS certificate.

Chile

The importation of genetically modified food is prohibited in Chile. The **SPS regime** requires that all imports of animals or animal products be accompanied by a sanitary certificate from a competent authority in the country of origin. A sanitary certificate is also required for all products destined for human consumption. Phytosanitary certificates by a competent authority of the exporting country must accompany all imports of plant and any part of a plant either in its natural state or processed. All imported animals are quarantined on arrival, regardless of the country of origin. Imported plants and seeds can be quarantined in Chile, depending on the phytosanitary conditions in the country of origin.

The importation of milk powder and bovine and caprine genetics is currently subject to various requirements under the **SPS regime** of Chile. The heating standards on milk powder are 2.5 seconds at 148°C or 1 minute at 130°C or 3 minutes at 120°C or 5 minutes at 110°C. These requirements are seen as being in conflict with international standards. Milk powders are not UHT products and the heating

requirements do not appear to be justified. It is also not clear whether the requirements also apply to Chilean domestic products.

Requirements pertaining to bovine and caprine semen are seen as being more excessive than the regulations of the World Organisation for Animal Health (OIE). According to the latter regulations exports of semen from areas affected by Bluetongue are permissible as long as the donor animal has tested negative for the disease. This is not the case when exporting to Chile. In addition, exports of bovine embryos to Chile are prohibited if the collection team has worked in an area affected by Bluetongue. Such a requirement normally only applies to diseases in list A of the OIE code, and Bluetongue has not been on the list since 2005.

South Africa

The **SPS regime** in South Africa has stringent requirements for importing fresh produce and pharmaceutical products. Products for which import permits are required are contained in the country's Import Control Regulations. **Import permits** are required for various import products, including consumer goods, wood, paper products, raw wool and minerals. The importation of various live animals and animal genetics, including birds, day-old poultry and cattle and sheep genetics, requires import permits and health certification. Certification by the state veterinary department is required for the importation of meat products.

South Africa has a vast list of plants and plant products which require SPS certificates. This includes the importation of various living plants, seeds and fresh fruits and vegetables. The importation of soil and sand is prohibited. It is prohibited to import live plants and seeds of plants declared weeds or invaders except if a person in charge of a bona fide research institution obtains a special import permit. Whole plants imported into South Africa must be glasshouse grown and not older than 10 weeks and/or exceeding 200mm in height. All plants grown in the open ground require import permits.

According to the SPS regime packaging material of hay, straw, flax combings, palm fibre or brown coconut fibre is only permitted under very stringent conditions. A fumigation certificate is required as proof that all packaging material has been fumigated or sterilised.

Public health requirements allow for the inspection, prior to release, by the port authorities of all human and animal consumption or application goods and plants and animals and their products when imported.

US horticultural producers have raised concerns regarding the SPS requirements for the importation of apples, cherries and pears from the US to South Africa. The complex SPS requirements for some grains, pork and poultry are also alleged to be unnecessary. The South African National Department of Agriculture issues the import permits required for agricultural imports listed in the Table of Import Arrangements. Permit applicants need to be registered with the South African Revenue Services and the Department of Trade and Industry. Of these permits 10 percent are reserved for importers which have not imported in the past three years, while another 10 percent is reserved for importation by small, medium and micro-enterprises.

Based on the case of **BSE** in Washington State in December 2003, South Africa banned the import of all ruminant animals and products originating in the US. The ban remains in effect on the majority of ruminants and ruminant products, including beef and beef products. The US continues to urge South Africa to fully reopen its beef market to imports of US beef and beef products consistent with World Organisation for Animal Health guidelines on BSE.

ii **Testing and certification arrangements:** The general absence of information and a lack of transparency were noted as significant constraints in the countries under review. Complaints that levels of sensitivity are unnecessarily high were also expressed.

Argentina

In 2002 a framework for all agricultural imports to be overseen by the National Food Safety and Quality Service (SENASA) was established. SENASA can **inspect** all processing and packaging plants of products intended for export to Argentina. In 2006 and 2007 SENASA requested several plant inspections to take place prior to issuing permits for these plants to export to Argentina. This causes delays in the exportation of products, and the US is currently requesting SENASA to recognise the equivalency of the US inspection system rather than for plants to require SENASA plant inspections.

iii Marking, labelling and packaging requirements: The issues here mainly concern the numerous regulations an exporter has to comply with as well as the languages to be used on the labels of imported goods.

Brazil

Brazil possesses well developed legislation on **labelling and marking** requirements within a highly complex system. Some products are the subject of several different labelling regulations and all regulations need to be complied with. Foodstuffs and alcoholic and non-alcoholic beverages intended for sale to consumers must be labelled with various details in Portuguese including the lot number, expiry date, country of origin and ingredients in decreasing percentage values.

A request for the pre-registration of foreign food **labels** for processed meat and dairy products must be filed by the importer at the Ministry of Agriculture and Food Supply. Only those products whose labels have been pre-approved are allowed to enter Brazil.

Argentina

The EU experiences four difficulties in terms of food, wine and spirit **labels**. These are label requirements, label certification before clearance, the requirements on product description and the control of labels during clearance.

Food labels must be pre-approved by the Health Ministry, SENASA or the Argentine National Food Institute with approval procedures that are costly and time-consuming. The approval process can last up to four months and exporters must wait for authorisation before products can be shipped to Argentina.

Alcoholic beverages must be registered with the Health Ministry. The first company to register obtains exclusive rights in terms of that product. Registration of the product requires a detailed file containing three specimen labels. The products need to be tested in Argentina and the composition analysed. This analysis can last about two weeks. The analysis number must also be printed on the label. Article 4 of Argentina's trademark legislation also requires that the brand name or trademark of each product be translated into Spanish or Portuguese.

The exterior **packaging** of imports must have shipping marks and numbers on at least two sides of the cases, but not on the top or the bottom. The repetition of numbers in packages shipped under one bill of lading is prohibited. Importers are required to submit samples of labels, containers, wrapping and additional material relating to any product sold at retail to the Bureau of Commerce and Industry. Argentine branches of foreign companies must provide all the information and certificates to the Bureau. The certificates must be issued by the home office of the foreign company and accepted by an Argentine consulate stating that the **label** is the same as that used in the country of origin. Fruits and vegetables are subject to more detailed and specific labelling requirements.

Chile

Chile has more than 20 legal statutes in force regarding the **marking, labelling and packaging** of goods. The Ministries of Agriculture and Health and the Superintendency of Electricity and Combustibles have issued most of these statutes. Products covered by the statutes include food products, seeds and plants. All imported food products must display the country of origin. Canned or packaged foodstuffs must bear labels in Spanish regarding the ingredient (including additives), manufacture and expiry dates and the name of the producer or importer.

South Africa

Legislation regulating the labelling and packaging of imports differs from product type to product type. Quantity statements on **labels** are strictly controlled. Goods in pre-packed form imported for sale other than by quantity may not have a direct or indirect reference to weight or measure. Descriptive names which imply size or quantity, such as large or small, may not be used to describe the size of a pre-packed article unless it is legally recognised in South Africa as an indication of size or grade, or unless it is part of a trade or brand name or an established term in a particular trade.

The South African government has approved biotechnology products like transgenic varieties of cotton, corn and soya beans for commercial planting. However, legislation has been proposed to mandate the labelling of biotechnology foods. According to the US the legislation could disrupt South African development of biotechnology crops and is likely to be impracticable for unpackaged foods, like corn

and sorghum. The decision-making process regarding agricultural biotechnology regulations is also seen as lacking transparency, while the approval process for plants which have two or more biotechnology traits is seen as unduly burdensome.

d) Quantitative restrictions

Quantitative restrictions are no longer a significant barrier to imports and have been largely replaced with **import licences** in the countries analysed here. Most of these licences are granted automatically, but there are still certain products requiring non-automatic licences which can be difficult to obtain.

e) Other restrictions

The **business culture and environment** in Brazil generally requires exporters to establish a local presence in Brazil through an agent, distributor, representative office or a joint venture with a local partner. Business relationships are built through personal contacts, and most Brazilian importers do not respond well to short and infrequent visits by foreign representatives. A continuous working relationship is preferred with deals rarely being completed by letter or telephone.

The **high cost of bank financing** in Brazil makes long credit terms usual practice. A 90-day payment term is a normal request with capital intensive goods requiring even longer terms. At the beginning of a business relationship, export sales will be agreed upon based on letters of credit. However, as the relationship develops, the local partner can ask to pay directly by transfer due to high bank charges and the cost of letters of credit.

The **Corruption** Perceptions Index (CPI) measures the perceived level of public-sector corruption in 180 countries and territories in the world. The CPI is based on 13 independent expert and business surveys.

Table 2: Corruption Perceptions Index, 2009

Rank	Country
1	New Zealand
2	Denmark
3	Singapore
3	Sweden
25	Uruguay
37	Botswana
55	South Africa
56	Namibia
75	Brazil
79	Swaziland
106	Argentina
154	Paraguay

Source: Transparency International⁸

Table 2 shows the ranking of the top four countries and the member countries of Mercosur and SACU on the corruption index. Uruguay is ranked as the best of the member countries of Mercosur and SACU in terms of perceptions of public-sector corruption, while Paraguay is perceived to be the worst. Of the SACU member countries Botswana has the best ranking at number 37 out of the 180 countries evaluated, while Swaziland performed the worst, and is ranked at number 79 on the list.

⁸ [Online]. Available:
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Chapter 6

Trade remedies and safeguards in SACU, Mercosur and the SACU-Mercosur Preferential Trade Agreement

Willemien Denner

Summary and key points

Trade remedies traditionally consist of anti-dumping measures, countervailing duties and safeguards. Anti-dumping and countervailing duties are aimed at addressing the 'unfair' trade practices of dumping and subsidisation and levelling the playing field between domestically produced products and foreign imports. Safeguards are utilised in trade conditions which are 'fair', but where a surge in imports cause or threaten significant damage to the domestic industry. However, these trade defence instruments are also seen as non-tariff barriers to trade and a modern form of protectionism. It has been argued that trade remedies and safeguards have little economic justification and are often implemented on an arbitrary and unilateral basis, lacking transparency.

Although developed countries have been the traditional users of trade remedies, recently some developing countries like Brazil and Argentina have become active in the implementation of these instruments. This can mostly be attributed to the increase of tariff liberalisation taking place after the Uruguay Round of trade negotiations. On the other hand, South Africa's use of these measures has declined over the last few years.

The Southern African Customs Union (SACU)¹, Mercado Comun del Sur (Mercosur)² and SACU-Mercosur agreements have varied provisions regarding trade remedy implementation. SACU and Mercosur are currently aiming to create common policies for the usage of these instruments. SACU is yet to develop these common policies, while Mercosur has prohibited the implementation of intra-regional safeguards and relies on the Council of the Common Market's Decisions on the matters of applying anti-dumping measures and countervailing duties on intra-Mercosur trade, and safeguards on imports from non-Mercosur countries. However, these Decisions have

¹ The members of SACU are Botswana, Lesotho, Namibia, South Africa and Swaziland

² The members of Mercosur are Argentina, Brazil, Uruguay and Paraguay.

yet to be implemented. These developments may become important should SACU and Mercosur move towards a comprehensive free trade agreement (FTA), as the modern FTA generally incorporates aspects relating to trade remedies.

Introduction

Trade between South Africa and Mercosur has grown significantly over the last few years, with Brazil becoming South Africa's largest trading partner in Latin America. Brazilian exports to the South African market increased by 2 percent between 2007 and 2008. Although Mercosur's imports to South Africa have shown only a slight increase, exports from South Africa to the Mercosur member states have increased significantly. South Africa's total exports to Paraguay, Uruguay, Argentina and Brazil increased by 85 percent, 62 percent, 53 percent and 26 percent respectively from 2007 to 2008.

Mercosur represents an important market with substantial trading opportunities for SACU exporters. SACU and Mercosur have concluded a preferential trade agreement (PTA) which is expected to facilitate trade between these two sides, enabling industries to take advantage of the opportunities in each market. This was the first trade agreement SACU concluded with another developing region, giving meaning to south-south cooperation for the diversification of market opportunities and integration. This PTA is also the first step towards creating a free trade area (FTA) between these two customs areas.

Trade remedies and safeguards play an important role within the modern trade agreement. These measures provide governments with the necessary flexibility to temporarily withdraw from commitments made under a liberal trade policy. However, anti-dumping measures, countervailing duties and safeguards are also viewed as non-tariff barriers to trade. Non-tariff barriers are any trade measures or policy interventions by government, other than tariffs, which restrict international trade. This includes export quotas, import licensing and contingent protection measures. Anti-dumping measures, countervailing duties and safeguards are grouped in the non-tariff barrier category of trade policy regulations, which are broader policy measures.

The various rounds of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO) have led to the reduction of tariff barriers through

multilateral trade negotiations. However, as tariffs have decreased the utilisation of non-tariff barriers has increased. This is true of anti-dumping measures which are currently a significant non-tariff barrier. Thus, policymakers have recently shifted their focus to non-tariff barriers as measures impeding trade and economic integration between trading partners.

The aim of this chapter is to provide an overview of the utilisation of trade remedies by South Africa and Mercosur members and the trade remedy provisions in the SACU, Mercosur and SACU-Mercosur agreements. The first part provides an overview of available trade remedy measures and the rationale that has been used to justify the application of these instruments. The second part looks at anti-dumping legislation and measures in Brazil, Argentina and South Africa, focusing on the differences in these systems. The third part provides data and statistical information on the use of anti-dumping measures, countervailing duties and safeguards by South Africa and the Mercosur member states. The last part of the chapter examines the various trade remedy provisions in the SACU and Mercosur agreements and the SACU-Mercosur PTA.

Trade remedies and safeguards

GATT 1994 and various WTO agreements contain provisions regarding the implementation of trade remedies at the multilateral level. These trade defence instruments traditionally consist of anti-dumping measures, countervailing duties and safeguards.

Anti-dumping measures allow countries to act against dumped³ imports that cause or threaten to cause material injury to domestic industry. Article VI of GATT 1994 and the Agreement on Implementation of Article VI of the GATT 1994 (the Anti-Dumping Agreement (ADA)), govern the implementation of anti-dumping measures by WTO members at the multilateral level. Anti-dumping measures are unilateral remedies which can be applied after an investigation and determination by the member state, in accordance with the ADA, that dumping has taken place, and that this is causing or threatens to cause material injury to a domestic industry of a member producing a like product.

³ Goods are considered to be dumped when they are exported to a destination at a price that is deemed to be below their true cost of production in the exporting country.

Countervailing duties allow an importing country to take action against the subsidised imports of a trading partner. The Agreement on Subsidies and Countervailing Measures (SCM Agreement) and Article VI of GATT 1994 regulate the provisions on subsidies and the implementation of countervailing duties to offset any injury caused by subsidised imports. Countervailing duties are unilateral instruments which can be applied by the member after an investigation to determine whether subsidisation has taken place, and whether this subsidisation is causing or threatening material injury to the domestic industry of the like product in the member country.

Strictly speaking, safeguards are not trade remedies because these measures protect importing countries against ‘fairly’, rather than ‘unfairly’, traded imports. The Agreement on Safeguards governs the implementation of safeguard measures provided for in Article XIX of GATT 1994. The Safeguards Agreement allows for the implementation of these temporary measures when an increase in import products threatens or causes serious injury to a domestic industry of the like product. Multilateral safeguards must be implemented on a non-discriminatory basis on all sources of the imported goods.

The rationale

Governments which maintain a liberal trade policy might be subject to occasional pressure for exceptional treatment. A generally liberal trade policy can be protected through a mechanism to manage such pressure. Trade remedy provisions can be the manner in which a ‘safety valve’ is provided for special interests that could otherwise undermine broad liberalisation efforts.

Various rationales have been put forward for the implementation of trade remedies under GATT and WTO rules. These include:

- Trade remedies are import restrictions provided for in exceptional circumstances where the assistance to the domestic producers outweigh the cost to the domestic consumers of the product;
- Exporting countries are provided with a disincentive to implement policies which would reduce the domestic national economic interest;

- A management tool is provided for governments to accommodate and isolate powerful interests which might otherwise inhibit the liberalisation programme; and
- Administrative complexities are introduced which might discourage the pursuit of protectionism by interested parties.

Anti-dumping measures and countervailing duties allow countries to take action when unfair foreign competition takes place. These measures level the playing field between imported and domestically produced goods to offset the unfair and anti-competitive trade practices of dumping and subsidisation. Anti-dumping measures protect the domestic industry against foreign producers whose domestic markets are highly protected and can afford to set lower prices in export markets or provide protection against producers whose government support allows them to price below cost. In anti-dumping and countervailing measures, governments are provided with a mechanism for managing and containing domestic pressure for protection. Countervailing duties can be seen as a policy management support mechanism to assist governments in the avoidance of trade subsidies and to discourage distorting behaviour by exporters (Finger and Zlate 2003).

Safeguards provide temporary relief to domestic industries which have incurred serious injury due to 'fairly' traded imports and are justified through either an insurance or 'safety valve' approach. Governments may be reluctant to sign trade agreements leading to substantial liberalisation without safeguards as insurance. In this way safeguards can be seen to facilitate liberalisation. A 'safety valve' is provided for governments when pressured to renege on certain liberalisation commitments protecting the integrity of the remainder of the agreement and improving the durability of the trade regime (Bown and McCulloch 2003). Safeguards provide a mechanism for the temporary re-imposition of protection when liberalisation imposes unexpected and severe political burdens on the importing nation and when the implementation of the temporary protection will impose a relatively modest political cost on the trading partners (Sykes 2003).

The argument has, however, also been made that there is no economic basis and little economic justification for the implementation of trade remedies and safeguards. It is seen that trade remedies are used to support a system of administered

protection (Waincymer 2001); that they benefit only those with vested interest instead of protecting domestic industries from decline (De Cordoba et al. 2006) and that the symptoms of increased liberalisation (like dumping) rather than the source of the problem (like inefficient domestic industries) are addressed (Kohler 2001). According to Gao (2009) anti-dumping instruments have little to do with creating 'fair' trade and levelling the playing field between domestic and foreign producers, but rather have to do with the discriminating treatment of foreign products – which is incompatible with competition laws and the WTO.

Anti-dumping in Brazil, Argentina and South Africa

Brazil, Argentina and South Africa have domestic laws and regulations governing the implementation of anti-dumping measures and national authorities responsible for the investigation and implementation process. The anti-dumping practices in these countries are similar regarding the 'market economy status'⁴ of China and the application of the lesser duty rule⁵, but quite different in terms of the utilisation of public interest considerations and price undertakings.

Brazil

Brazil has increased its use of trade defence measures since the Uruguay Round of multilateral negotiations. This can be attributed to rapid tariff liberalisation, the growth in imports of finished products since the Uruguay Round, domestic lobbying for trade protection due to an increase of foreign imports and the democratisation of Brazil, which has led to the increased organisation of pressure groups.

Through Presidential Decree⁶ the WTO agreements on trade remedies were incorporated into the Brazilian legal system. Federal Act no. 9019 of March 1995 established the competent authorities responsible for the investigation of allegations of dumping and subsidisation and the administrative procedures applicable to such investigations. The Secretary of Foreign Trade is the authority which must decide whether an anti-dumping investigation will be initiated and which is responsible for

⁴ A country which is a market economy depends upon market forces to allocate productive resources, while a non-market economy is not a free market economy and pricing policy is based on factors other than supply and demand.

⁵ This is when government authorities impose anti-dumping duties at a lower level than the margin of dumping, but which is adequate to remove the injury caused by the dumped imports

⁶ Presidential Decree no. 1355 of December 1994.

the review process. The Department of Trade Defence is responsible for conducting the dumping investigation after which recommendations are made to the Secretary to terminate the investigation or to the Chamber of Foreign Trade to impose anti-dumping duties.

In the Brazilian system the preliminary examination of an anti-dumping application takes place within 20 days of submission. Within 30 days of the communication informing an applicant of the preliminary examination, an investigation is initiated, while a preliminary determination is given within a maximum of 60 days from the initiation. A final determination can be expected within a year of the investigation being initiated.

The market economy status (MES) status of China, the usage of public interest factors, the lesser duty rule and price undertakings in Brazil are the following:

- The Chamber of Foreign Trade can take into account public interest factors when an anti-dumping duty has been imposed or a price undertaking negotiated. In exceptional circumstances, due to the national interest, the Chamber can decide to suspend an imposed anti-dumping measure, disapprove a negotiated price undertaking or apply a measure of a different amount than was recommended.
- In 2003 Brazil afforded MES to Russia and in November 2004, China, along with 20 other countries, was also granted MES. Prior to granting MES to China, the normal value of Chinese imports was determined by looking at a third country market economy. The normal value determinations Brazil used include the export price of imports from the United States to Canada or from the United States to Japan.
- Brazilian domestic legislation does not contain a mandatory lesser duty rule, but authorities take the view that prices of the domestic like product and foreign product must be taken into account. Thus, the Department of Foreign Trade may consider the prices which the domestic industry should have used in normal trade conditions. This price can also be lowered if the Department is of the view that the dumping margin will provide excessive protection to the domestic industry.

- The domestic legislation of Brazil allows for the application of price undertakings when dumping takes place, instead of the imposition of anti-dumping duties. Price undertakings have been used in 10 percent of anti-dumping investigations and mainly when the exporting countries are Mercosur members or associated members.

It does not seem that the use of trade defence measures by Brazil will be reduced any time soon. On the contrary, the Ministry of Development has issued a strategy to accelerate the pace of anti-dumping investigations to 10 months and prioritise the use of specific duties rather than ad valorem duties as appropriate anti-dumping measures (Barral and Brogini 2005).

Argentina

Argentina has become an active user of trade defence instruments in the last few years. If the value of imports is taken into account, Brazil is one of the countries most affected by anti-dumping duties applied by Argentina, followed by China, Korea and the Ukraine.

The domestic legislation of Argentina regarding trade remedies follows the WTO Agreement of the Uruguay Round of trade negotiations. In 1992 Law 24.176 was introduced which approved the Anti-Dumping Agreement and the Agreement on Subsidies and Countervailing Measures. In 1994 Decree 2121 formulated the regulations and implementation rules regarding the application of anti-dumping duties and countervailing measures. Law 24.425 of 1995 introduced regulations on anti-dumping and countervailing into Argentine domestic legislation. New regulations on anti-dumping investigation and implementation were also promulgated in September 2008.

The Undersecretary of Foreign Trade of the Ministry of the Economy is responsible for receiving anti-dumping and countervailing applications, investigations regarding the dumping or subsidy margin and advising the Ministry of the Economy on the appropriate measures to implement. The National Commission of Foreign Trade is the body responsible for the determination of damage to the domestic industry due to dumping or subsidisation which has taken place.

Argentina applies MES to China and has the following regulations regarding the consideration of public interest factors in determinations, the use of price undertakings and the application of the lesser duty rule:

- The Ministry can take public interest factors into account when a determination regarding the application of anti-dumping duties is made. The factors which can be taken into account include the public interest of consumers, the users of the products and the purchasers of inputs. Although the Ministry is allowed to take the public interest into account, these considerations are hardly ever applied.
- The application of a price undertaking instead of an anti-dumping duty is allowed by the regulations promulgated in 2008 in accordance with the Anti-Dumping Agreement and the Agreement on Subsidies and Countervailing Measures.
- In 2004 Argentina and China signed a memorandum in which Argentina officially recognised China's MES.
- Domestic legislation does not contain a mandatory lesser duty rule in terms of the application of anti-dumping duties. However, a lesser duty can be applied if the Minister is of the opinion that the imposed duty will be sufficient to eliminate the injury to the domestic industry caused by dumping. Argentina has adopted this principle in 20 percent of their anti-dumping cases (Berlinski 2008).

South Africa

South Africa's use of anti-dumping measures dates back to 1914 when the Customs Tariff Act introduced the concept of anti-dumping actions. Since then South Africa has become one of the most active users of anti-dumping measures, especially since the 1990s. This can be explained by the tariff and trade liberalisation which took place after the isolation of the apartheid era.

The International Trade Administration Act (ITA Act) of 2002 and the International Trade Administration Commission (ITAC) Anti-Dumping Regulations regulate the implementation of anti-dumping measures in South Africa. ITAC is an independent agency which is responsible for decisions regarding anti-dumping measures. ITAC is supported by investigators which are responsible for the dumping determination and injury analysis. Their reports are submitted to the Commission which is obliged to

take decisions. A report on the final finding by the Commission is submitted to the Minister of Trade and Industry and if accepted published in the Government Gazette.

South Africa is part of SACU, which is a customs union that also includes Botswana, Lesotho, Namibia and Swaziland (BLNS). The 2002 SACU Agreement makes provision for new SACU institutions tasked with the implementation of trade remedies. The Tariff Board will be a supra-national SACU body which will be responsible for the consideration of submissions by the member states' national bodies and for making recommendations to the Council of Ministers. ITAC will function as the national body of South Africa, but the Tariff Board and national bodies of BLNS must still be established.

According to the ITA Act and the Anti-dumping Regulations, the domestic market which must be considered in the dumping and injury analysis is not just the South African market, but the SACU market. However, due to South Africa's dominant position in SACU, anti-dumping investigations are mostly concerned with the South African market and South African firms seeking import protection. Although the relevant target market is the SACU market, the members of SACU are individual members of the WTO and thus South Africa and not SACU reports investigations to the WTO.

The differences between Argentine and Brazilian anti-dumping applications and those of South Africa are based on the fact that South Africa only recently granted MES to China and that public interest does not play a role in determinations within South Africa.

- ITAC does not have a predetermined list of countries which are considered to be non-market economies. Non-MES is applied to socialist economies and was applied to China prior to 2007. Prior to it being granted MES by South Africa in 2007, China was considered to be the most important source of 'unfair' trade originating in a non-market economy in terms of the value of trade and the perception of its competition against South African producers.
- Although there is no formal obligation on ITAC to apply a lesser anti-dumping duty under full cooperation, the Commission does apply it in practice. The Anti-Dumping Regulations define a lesser duty as a payment or duty 'imposed at the

lesser of the margin of dumping or the margin of injury, and which is deemed to be sufficient to remove the injury caused by the dumping’.

The price disadvantage of the domestic industry is seen as being the ‘margin of injury’. The amount by which the price of the import product is less than the selling price of the SACU product is accepted as the price advantage.

- The economic impact of anti-dumping measures on consumers and industries (public interest considerations) is not considered by ITAC when it makes a recommendation to implement anti-dumping duties.
- The Anti-Dumping Regulations allow for the application of a price undertaking instead of the implementation of an anti-dumping duty. However, South Africa has not used price undertakings in the past and it is not expected that they will be used much in the future (McCarthy 2005).

Trade remedy usage by South Africa and Mercosur members

Developed country members of the WTO have been the traditional users of trade defence measures. However, in the last few years developing countries have increased their utilisation of anti-dumping measures and safeguards in particular. According to WTO statistics (2009)⁷ developed countries are still the main users of countervailing duties.

Anti-dumping measures

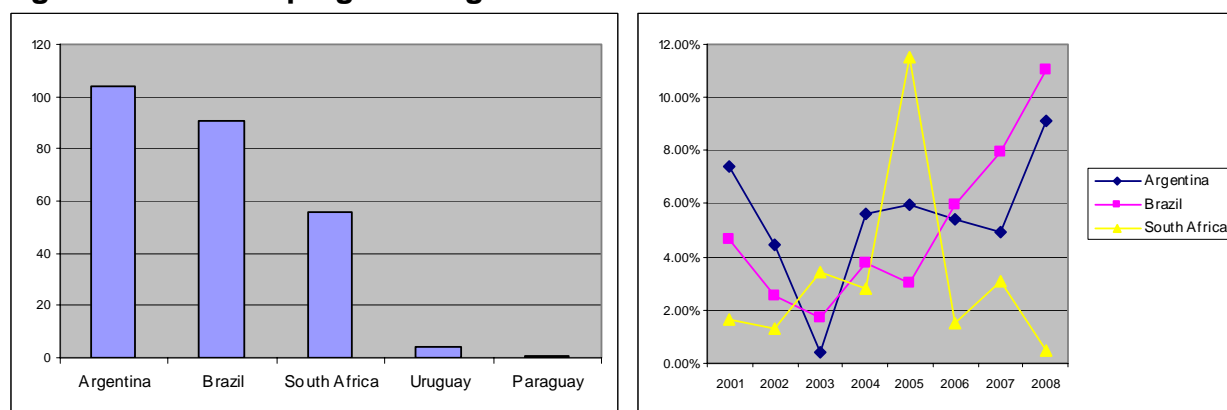
Between 1995 and 2008, 3427 anti-dumping investigations were initiated by WTO members. India (16%), United States (12%), the European Union (11%) and Argentina (7%) initiated 47 percent of the total anti-dumping investigations in this period. In 64 percent of the total anti-dumping investigations, final duties were imposed. India and Argentina accounted for 25 percent and the United States and European Union 24 percent of the total final anti-dumping duties imposed during 1995–2008. South Africa was responsible for 6 percent of both the total anti-dumping investigations and final duties which were imposed, while Brazil initiated 5 percent of the total investigations and applied 4 percent of the total anti-dumping duties. Uruguay and Paraguay have not played a major role in the initiation of investigations

⁷ [Online]. Available: http://www.wto.org/english/tratop_e/scm_e/scm_e.htm

or the implementation of final duties. Uruguay initiated 0.18 percent and Paraguay 0.06 percent of the total investigations and implemented 0.05 percent and 0.09 percent of the final anti-dumping duties respectively.

In the period 2001–2008 the Mercosur member states initiated 200 anti-dumping investigations and South Africa 56 in total. Of the 200 investigations initiated by Mercosur most were initiated by Argentina (104) followed by Brazil (91) and then Uruguay (4) and Paraguay (1). In the time period Mercosur was responsible for 11 percent of the total anti-dumping initiations by all WTO members and South Africa for 3 percent. Figure 1 below shows the total anti-dumping investigations by Mercosur members and South Africa as well as the South African, Argentine and Brazilian share of total anti-dumping investigations for 2001–2008.

Figure 1: Anti-dumping investigations 2001–2008



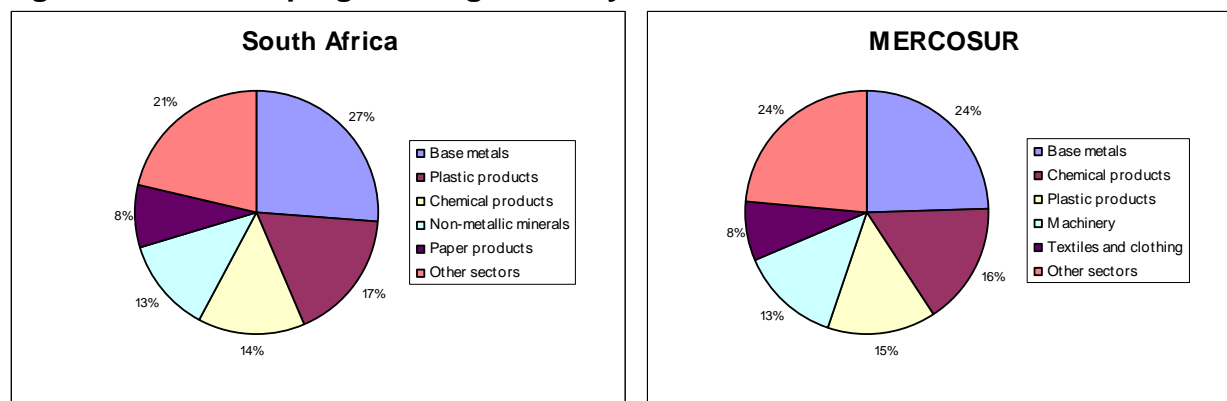
Source: WTO Statistics on Anti-Dumping (2009)⁸

The Brazilian and Argentine share of total anti-dumping initiations by all WTO members shows an upward trend of anti-dumping usage since 2003 for both countries. South Africa, as a traditional user of anti-dumping measures, showed a steady increase of investigations until the end of 2005, after which a sharp decline in the number of anti-dumping initiations took place. Uruguay and Paraguay play only a small role in the initiation of anti-dumping investigations with Uruguay accounting for only 0.21 percent and Paraguay 0.05 percent of total initiations between 2001 and 2008.

⁸ [Online]. Available: http://www.wto.org/english/tratop_e/adp_e/adp_e.htm

Between 1995 and 2008 the five product sectors in which 79 percent of all South Africa's anti-dumping investigations were initiated were: base metals (27%); plastic products (17%); chemical products (14%); non-metallic minerals (13%) and paper products (8%). 76 percent of total anti-dumping investigations by Mercosur members targeted the imports of base metals (24%), chemical products (16%), plastic products (15%), machinery (13%), and textiles and clothing (8%).

Figure 2: Anti-dumping investigations by sector 1995–2008



Source: WTO Statistics on Anti-Dumping (2009)⁹

South Africa has focused its anti-dumping efforts mostly on extra-regional imports with no measures being implemented against other SACU member states. However, most anti-dumping investigations have targeted imports from other developing countries including China (15%), India (10%) and Korea (7%). In Mercosur however, intra-regional anti-dumping investigations form a large percentage of total anti-dumping investigations by the member countries. Table 1 shows the percentage of intra-Mercosur anti-dumping initiations as well as those against and by South Africa.

⁹ [Online]. Available: http://www.wto.org/english/tratop_e/adp_e/adp_e.htm

Table 2: South Africa and intra-Mercosur initiations 1995–2008

Reporting country	Exporting countries					AD initiations 1995–2008
	Argentina	Brazil	Paraguay	Uruguay	South Africa	
Argentina		17%	0.4%	1%	4%	241
Brazil	4%		—	0.6%	2%	170
Paraguay	50%	50%		—	—	2
Uruguay	33%	17%	—		—	6
South Africa	0.5%	3.9%	—	—		206

Source: WTO Statistics on Anti-Dumping (2009)¹⁰ and author's calculations

Between 1995 and 2008 Argentina's anti-dumping investigations were targeted mostly at imports from China (25%) and Brazil (17%), while Brazil initiated investigations against China (22%), the United States (16%) and Argentina (4%). Of the six anti-dumping investigations launched by Uruguay during the time period, one was against Brazilian imports and two against imports from Argentina, while of the two investigations by Paraguay, Argentina and Brazil were the target of one each. Although Mercosur is a customs union, it seems that the smaller countries focus most of their anti-dumping efforts on intra-regional imports from Argentina and Brazil, while Argentina and Brazil also regularly target imports from each other.

Argentine imports from South Africa have been the target of 4 percent of Argentina's total anti-dumping investigations from 1995 to 2008. Brazil targeted South African imports in 2 percent of their anti-dumping investigations. Of the 206 anti-dumping investigations South Africa initiated in the time period, one investigation was against Argentine imports (0.5%) and eight against imports from Brazil (3.9%).

Safeguards and countervailing measures

WTO statistics (2009) on safeguards¹¹ and countervailing¹² measures show that developing countries have implemented the majority of final safeguard measures, while developed countries have been responsible for the majority of implemented countervailing duties. India (9%), Turkey (8%), Jordan (7%) and Chile (7%) have initiated 31 percent of total safeguard initiations by WTO members. These countries

¹⁰ [Online]. Available: http://www.wto.org/english/tratop_e/adp_e/adp_e.htm

¹¹ [Online]. Available: http://www.wto.org/english/tratop_e/safeg_e/safeg_e.htm

¹² [Online]. Available: http://www.wto.org/english/tratop_e/scm_e/scm_e.htm

were also responsible for implementing 37 percent of all final safeguard measures between 1995 and 2008. The United States, the European Union and Canada initiated 74 percent of all countervailing initiations and implemented 71 percent of all final countervailing duties by WTO member states.

Uruguay and Paraguay have not played any role in the implementation of safeguard measures, while Argentina, Brazil and South Africa have had limited participation in safeguard investigations and the implementation of final measures. From 2001 to 2008 Argentina, Brazil and South Africa were responsible for a combined total of six safeguard initiations, representing a 5.56 percent share of total safeguard investigations by WTO members. Argentina initiated 2.78 percent, Brazil 1.85 percent and South Africa 0.93 percent of total safeguard initiations for the time period.

Uruguay and Paraguay have also not implemented any countervailing duties, while South Africa, Argentina and Brazil initiated a total of only 17 subsidy investigations between 1995 and 2008. Argentina initiated three of these investigations between 1995 and 1997; South Africa eleven from 1997 to 2001 and Brazil three, in 2001, 2003 and 2007 respectively. These investigations represent 7.9 percent of total subsidy investigations by WTO members in the time period.

The investigations by Argentina were focused on vegetable products; animal or vegetable fats & oils and food, beverages and tobacco. Brazil initiated investigations in the sectors of plastic products and base metals, while South Africa focused its countervailing efforts in the sectors of base metals (27%), machinery (27%) and plastic products (18%). Countervailing investigations initiated by Brazil and Argentina did not target each other's imports or imports from the other Mercosur members. South Africa also did not target any Mercosur imports in its investigations.

Trade remedy provisions in SACU, Mercosur and the SACU-Mercosur PTA

The SACU, Mercosur and SACU-Mercosur agreements all make provision for the implementation of trade defence instruments. However, the provisions regarding these instruments vary from minor details regarding the implementation of anti-dumping and countervailing duties in all the agreements to detailed provisions regarding the implementation of preferential safeguards in the SACU-Mercosur PTA.

The Southern African Customs Union (SACU)

The 2002 SACU Agreement does not contain detailed provisions regarding the implementation of trade remedy investigations and final duties. Provision is made for National Bodies within member states to make recommendations regarding remedial action to the SACU Tariff Board which in turn must make recommendations to the SACU Council of Ministers.

Part 8 of the 2002 SACU Agreement makes provisions for Common SACU Policies and contains Article 41 which pertains to unfair trade practices. The article determines only that the Council of Ministers shall develop policies pertaining to unfair trade practices between member states, which will be annexed to the agreement. These policies have not yet been developed and attached to the agreement. However, Annex C, pertaining to the National Bodies of member states, contains Article 8 which looks at the considerations these National Bodies must take into account in the investigations regarding trade remedies and the implementation of duties. Trade remedy consideration and recommendation by National Bodies must take place in accordance with the procedures in the ADA, SCM Agreement and the Agreement on Safeguards of the WTO and any other trade arrangement SACU has entered into. When a trade remedy application is received regarding imports into the Customs Area, National Bodies have the authority to decide whether they will initiate an investigation into the allegations. If the decision is made to investigate the matter, the Secretariat must be notified about the application received and the intended investigation.

According to Part 3 Article 11 of the agreement, the Tariff Board will consist of experts from member countries. Its duties will include the making of recommendations to the Council of Ministers regarding anti-dumping, countervailing and safeguard duties on imports from outside the Customs Area.

South Africa is currently the only SACU member which has an established National Body in the form of ITAC and which has notified domestic legislation and regulations to the WTO regarding trade remedy application. The other member states have yet to establish National Bodies and to notify domestic legislation on anti-dumping,

countervailing and safeguards to the WTO. The SACU Tariff Board is also yet to be established.

The Mercado Comun del Sur (Mercosur)

The Mercosur Agreement also does not contain detailed provisions regarding the application of anti-dumping measures, countervailing duties and extra-regional safeguards. The only significant provision is in Annex IV to the agreement regarding the implementation of intra-Mercosur safeguard measures. However, since 31 December 1994 Mercosur members have been prohibited from applying safeguards on other member countries. The implementation of anti-dumping measures, countervailing duties and extra-Mercosur safeguards are mostly governed by the applicable WTO agreements and by the decisions of the Mercosur Council of the Common Market.

Article 3 of the agreement allowed for the implementation of intra-Mercosur safeguards during the transitional period of the agreement, which lasted until 31 December 1994. General rules were adopted in terms of Annex IV to the treaty which allowed for safeguards to be implemented on intra-Mercosur imports in exceptional circumstances.

Article 4 states that Mercosur members must retain equitable terms of trade relations with third countries. In order for members to obtain this goal, members can utilise their domestic legislation to restrict imports the prices of which are influenced by subsidies, dumping or any other unfair practice. Members must also coordinate their domestic policies in order to be able to draft common rules for trade competition.

The Council of the Common Market adopted the ADA and SCM Agreements to apply to intra-Mercosur trade in June 2002. Investigations and the application of anti-dumping and countervailing duties follow the national legislation of each member, and each member has its own investigating and decision-making authority. Decision 22/02 which creates the disciplines for the application of anti-dumping measures and countervailing duties on intra-Mercosur trade was also adopted by the Council, but is yet to be enforced. According to this decision, members are obliged to notify the exporting country of an allegation of dumping or subsidisation. Prior to the initiation of an investigation the non-confidential application must be sent to the exporting

country, consultation needs to be entered into and anti-dumping and countervailing duties may be applied for a maximum of three years (Brazilian Ministry of Development, Industry and Foreign Trade 2006).

The Council of the Common Market Decision 17/96 contains the regulations for the application of safeguards to imports from non-Mercosur countries. Decision 17/04 concerns the regime for the application of safeguards to non-Mercosur countries and was incorporated into the 49th Additional Protocol to the Mercosur. Brazil has already incorporated this decision into its domestic legislation, but incorporation into the national legislation of the other Mercosur members is still pending. This decision has therefore not yet entered into force (WTO 2009).

Further negotiations by the Mercosur member states regarding trade remedies are ongoing. The main objectives of these negotiations are to create common regulations for the application of anti-dumping and countervailing measures to the imports of countries outside the Mercosur trade bloc, to institute an intergovernmental trade remedies authority and to eliminate anti-dumping and countervailing usage in intra-Mercosur trade (Brazilian Ministry of Development, Industry and Foreign Trade 2006).

The SACU-Mercosur Preferential Trade Agreement (PTA)

Article 31 of the 2002 SACU Agreement mandates a common SACU negotiating mechanism when any preferential trade agreement is negotiated after the agreement has come into force. In terms of Mercosur, Article 27 of the Treaty of Montevideo allows Mercosur members to conclude Partial Scope Agreements with other developing countries and economic integration areas outside Latin America. Thus, the 2004 SACU-Mercosur PTA was the first agreement negotiated by SACU in accordance with the common negotiating mechanism. Recently a new SACU-Mercosur PTA has been concluded which will hopefully enter into force in 2010.

The provisions regarding safeguards, anti-dumping and countervailing are identical in both agreements, with little detail provided on the implementation of anti-dumping and countervailing measures. Annex IV to the PTA provides detailed requirements and procedures regarding the implementation of preferential safeguards.

Articles 14 and 15 of the 2004 text (Articles 15 and 16 of the new text) allows for the application of anti-dumping measures and countervailing duties by the individual signatory countries of the agreement in terms of their domestic legislation. The only requirement is that this legislation be consistent with Articles VI and XVI of the GATT 1994 and the ADA and SCM Agreement. The individual countries must give notice within 30 days of an initiation of an investigation in terms of dumping or subsidisation affecting mutual trade, as well as the preliminary and final conclusions reached by the investigations.

Article 13 of the 2004 Agreement (Article 14 of the new text) allows for the application of safeguards on imports on which tariff preferences have been granted under the PTA, and must be applied in accordance with Annex IV of the agreement. Annex IV provides for the application of global safeguards and preferential safeguards. The individual signatory countries retain their rights and obligations to implement global safeguards in terms of Article XIX of GATT 1994 and the Agreement on Safeguards.

The regional configurations of SACU and Mercosur or the individual countries can apply preferential safeguards when imports for which a tariff preference has been given increase in such a manner as to cause or threaten serious injury to the domestic industry of SACU, Mercosur or the individual countries. These preferential safeguards cannot be applied in the first year after the tariff preferences negotiated enter into force.

SACU can apply preferential safeguards on a customs union basis, or a SACU member country can apply these measures if it is provided for in terms of the SACU Agreement. Mercosur, or individual Mercosur members can apply preferential safeguards. If an individual country makes use of this measure, the measure will be limited to imports into that country only.

The safeguard measures which can be implemented include a quota or the suspension or reduction of the negotiated tariff preference and can be applied for a maximum of two years. The initiation of an investigation can take place on the request of a domestic producer within SACU or Mercosur, or within the individual countries, and the time period between the publication of the date to initiate an investigation, and the publication of the final decision may not exceed one year.

A provisional preferential safeguard can be implemented if the delay to implement immediate duties will cause damage which will be difficult to repair. A provisional measure can be taken after notification and prior to making a preliminary determination. The measure can only be implemented for 200 days and if the final determination finds no injury or threat, the increased tariff, if collected, must be refunded.

Conclusion

Although the retention of trade remedies in regional trade agreements has been the subject of economic debate for some time, the SACU, Mercosur and SACU-Mercosur trade agreements retain these trade defence instruments in the text of the agreements.

SACU and Mercosur are both customs unions which aim to develop common policies regarding trade remedies and safeguards. However, these policies are yet to be established by SACU, while Mercosur has managed to develop some common policies applicable to Mercosur members. The application of intra-Mercosur safeguards is prohibited. In addition, Mercosur has developed common strategies for the implementation of safeguards against imports from non-Mercosur members and the application of anti-dumping measures and countervailing duties against Mercosur member states. However, these strategies are yet to be implemented.

The SACU, Mercosur and SACU-Mercosur agreements share a lack of detailed provisions regarding anti-dumping and countervailing due to the implementation of these measures being regulated by domestic legislation and relevant WTO agreements. While the SACU Agreement also provides no detail regarding safeguards, the Mercosur agreement contains details about intra-Mercosur safeguards in an annex to the agreement. However, since the prohibition of these measures on 31 December 1994, the significance of this annex has decreased.

The new SACU-Mercosur PTA allows for the implementation of global safeguards in accordance with GATT 1994 and the Agreement on Safeguards, and for the implementation of preferential safeguards in terms of a detailed annex to the agreement. The individual signatory countries can implement anti-dumping measures and countervailing duties in accordance with their domestic legislation. Although all

Mercosur members have notified domestic legislation in terms of the application of these measures to the WTO, South Africa is the only SACU country which has notified domestic legislation.

Preferential safeguards can be implemented by SACU or by individual SACU member states, if provided for in the SACU Agreement. The SACU Agreement does not directly allow for the implementation of preferential safeguards, but by implication through Article 8 of Annex C. This requires the National Bodies to take into consideration and make recommendations in terms of the Agreement on Safeguards and any trade agreement SACU has entered into. However, while domestic legislation and investigation authorities have been established within Mercosur members, South Africa is the only SACU member country with an established National Body. The SACU Tariff Board is also yet to be established. Thus, the only current option for BLNS should they wish to implement trade remedies against Mercosur imports, is to do so at the customs union level, with ITAC acting as the SACU body with the authority to investigate allegations and make recommendations to the SACU Council of Ministers.

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Bilateral Trade Agreements

Southern African Customs Union (SACU) Agreement (2002)

Mercado Comun del Sur (Mercosur) Agreement (1991)

Preferential Trade Agreement between the Mercado Comun del Sur (Mercosur) and the Southern African Customs Union (SACU) (2004), (2008)

Chapter 7

Services liberalisation in SACU, Mercosur and Chile

Paul Kruger

Summary and key points

The preferential agreement between the Southern African Customs Union (SACU) and the Mercado Comun del Sur (Mercosur) is the first step towards closer cooperation and alignment between the two blocs. The agreement is limited in scope and currently excludes any reference to trade in services. At this stage it is unclear whether the countries involved will consider including binding commitments on services at a later stage. Judging from the ongoing processes in both regional groups, the possibility of such an expansion in the near future appears unlikely.

SACU is currently embroiled in a number of regional and bilateral arrangements without having a common negotiating structure. One of the consequences is that the SACU member states have no common position on how to treat the liberalisation of trade in services. At the last SACU Council meeting¹, the importance of developing a common strategy on new generation issues such as services was emphasised, but at the moment, services are being negotiated at the bilateral level in the context of the Economic Partnership Agreement (EPA) negotiations, and countries are split on the way forward. Botswana, Lesotho and Swaziland are forging ahead to negotiate services, while South Africa and Namibia have chosen to opt out of the second phase (the phase which include services). At a regional level the Southern African Development Community (SADC) has also been trying to draft a protocol on services, but progress has been particularly slow. Despite the recognition in SACU and the efforts in SADC, it nevertheless seems as if there is no unified approach or firm plan of action in the region to develop and liberalise trade in services.

In contrast, the South American countries such as the Mercosur members and Chile are more prepared and better organised to liberalise trade in services. Mercosur countries have a firm deadline in place with clear guidelines on how to achieve their desired targets. These countries have already proved their readiness by negotiating services commitments going well beyond what was agreed in the General Agreement

¹ September 2009. See online: <http://www.sacu.int/docs/pr/2009/pr0917.pdf>.

on Trade in Services (GATS). They are creating a regional market first by liberalising substantially all services sectors and modes in the context of the Montevideo Protocol. Instead of taking a regional approach, Chile is following the bilateral route by negotiating and implementing free trade agreements (FTAs) – most of which include a services component – with a wide range of countries. The pace at which Chile is negotiating these types of services agreements is remarkable but so too is the manner in which this is done.² The South American countries are more advanced and have negotiated considerably more in the area of services than their southern African counterparts. The countries are also at different stages of the liberalisation process. SACU must be prepared for these realities if a services component is to be considered between these configurations.

Introduction

Trade in services and other trade related issues (competition, investment, intellectual property, procurement, labour and environment) are grouped together under the banner of new generation trade issues in the context of international trade negotiations. Negotiations on trade in services are a relatively new phenomenon and it was only during the Uruguay Round that the first multilateral agreement to regulate services was drafted. Some countries have already made far-reaching commitments at this stage, a move which could arguably have an impact on their liberalisation processes and strategies. The aim of this chapter is to examine the initial commitments made by the SACU member states and the South American countries of Argentina, Brazil and Chile. The scope and depth of their obligations under the GATS are considered in order to determine how far these countries have liberalised at the multilateral level.

The issue of trade in services has gradually been making its way into bilateral and regional agreements. The manner in which services are included in these trade agreements differ widely depending on the approach of the countries involved and ranges from best endeavour undertakings to firm binding obligations. Despite the proliferation of services components at the bilateral and regional levels, the multilateral process to further liberalise trade in services is at a standstill. The result is

² Chile mainly follows a negative list approach which is far more comprehensive than the positive list approach used in GATS. For a discussion on their liberalisation strategy see Section 3 below.

that countries are at different stages of the liberalisation process – the process in Chile, for example, is far more advanced than in countries that were more conservative regarding the inclusion of services at the bilateral and regional levels. The chapter also considers the bilateral and regional processes to establish how far beyond GATS each of the countries has ventured.

The chapter concludes by taking a closer look at the services sectors of interest and examining what is happening beyond the borders of the countries, in particular how the Black Economic Empowerment measures in South Africa impact upon the services liberalisation process.

Box 1: Brief guide to the GATS Schedules

GATS schedules reflect a positive list approach where members list only the commitments they are willing to undertake. A negative list approach on the other hand requires that all sectors be liberalised unless a specific reservation is made to exclude certain sub-sectors or modes. The 'positive list' approach was adopted specifically on request of the developing countries since they felt that they did not have the administrative resources required to determine all the measures applying to each sector and to decide which they wanted to exempt. The GATS provides a sector-based services classification system for the purpose of structuring the commitments of member states. The system which is known as the W120 classification system comprises the following twelve core services sectors:

- Business services;
- Communication services;
- Construction and related engineering services;
- Distribution services;
- Educational services;
- Environmental services;
- Financial services;
- Health related and social services;
- Tourism and travel related services;
- Recreational, cultural, and sporting services;
- Transport services; and
- Other services not included elsewhere.

These sectors are further subdivided into a total of some 160 sub-sectors. In each sub-sector the commitments are entered into the schedules according to the four modes of supply as listed in GATS Art. I. The four modes of supply are as follows:

- Cross border supply (**Mode 1**): Services supplied from the territory of one member state across the border into the territory of another member state. Today cross-border services are increasingly delivered through electronic means.
- Consumption abroad (**Mode 2**): The resident moves abroad to consume services in the territory of another member state. It doesn't necessarily need to be the consumer who moves – it can also be the property of the consumer that moves.
- Commercial presence (**Mode 3**): Foreign suppliers establish an operation in the territory of another member state. This can be done through a number of means, for example establishing a local affiliate, subsidiary, or representative office.
- Movement of natural persons (**Mode 4**): The entry and temporary stay of residents moving from one member state into another. The length of stay usually depends on the type of work and the level of skill.

When making a commitment the government therefore binds the specified level of market access and national treatment and undertakes not to impose any new measures that would restrict entry into the market or the operation of the service. For each services sector or sub-sector that is offered, the schedule must indicate, with respect to each of the four modes of supply, any limitations to be maintained on market access or national treatment.

A schedule typically contains a column each on market access and national treatment in which the commitments made in the relevant sub-sector will be indicated. The numbers listed in the schedule refer to the four modes of supply. Commitments can range from 'Unbound' to 'None' for any individual mode of supply in any given sector/sub-sector. If a country decides that there are no limitations or restrictions in a certain mode of supply, the entry will read 'None'. If a government enters the word 'Unbound' in its schedule, it wishes to remain free to impose limitations in that given sector and mode of supply. This means that a country can introduce or maintain measures inconsistent with market access or national treatment in the sub-sector where the government indicated 'Unbound'. Besides specific commitments, member states can also stipulate horizontal limitations which are commitments that apply across the entire range of the scheduled services sectors.

Even with the existence of country schedules, the regulatory nature of trade barriers in services makes it difficult to identify the prevailing conditions in each sector. Trade barriers in relation to trade in goods are difficult if not impossible to impose on services. Barriers to trade in services are therefore maintained through domestic laws and regulation. To further

determine the specific domestic restrictions applicable in an unbound sector, each piece of legislation in that sector needs to be examined to establish whether it discriminates against foreign suppliers or denies market access in any way. This illustrates just how complicated it is to determine the current barriers in each sector of a specific country. Although the ultimate aim of liberalisation is the reduction of barriers and a freer services trade, a related objective is to increase the transparency of laws and regulations that affect the trading of services.

Section 1 GATS overview

The first multilateral agreement regulating trade in services, the GATS, was negotiated during the Uruguay Round. The GATS includes a variety of provisions, but it also provides a framework for countries to make liberalisation commitments in specific services sectors and modes of supply. These specific commitments are detailed indications made by the individual member states on how much access is allowed for foreign services and suppliers and on the conditions under which they are allowed to operate domestically. These are then recorded in the national schedules on a sector-by sector-basis and only bind the countries to the extent that they have committed themselves. The schedules are attached to GATS and form an integral part of the agreement. All the SACU and Mercosur³ countries are WTO members and have completed their initial liberalisation schedules.⁴

Interestingly enough, during the GATS negotiations, there was no requirement on WTO member states to schedule a minimum number of commitments,⁵ the only obligation they had was to enter into successive rounds of negotiation to liberalise trade in services.⁶ For that reason, countries made varying commitments ranging from very limited to fairly extensive.⁷ For example, Namibia made commitments in only three sub-sectors (out of a possible 160 sub-sectors) while South Africa made

³ The Mercado Comun del Sur countries are Argentina, Brazil, Uruguay and Paraguay.

⁴ For the SACU member states, these initial schedules are the only example of how the southern African countries have treated services liberalisation thus far.

⁵ This was the case regardless of whether a member state was a developed, developing or least developed country. It was long after the Uruguay round, only in 2003, that the WTO Council for Trade in Services adopted the 'Modalities for the special treatment for least developed country members in the negotiation on trade in services (TN/S/13)'. Flexibility is provided for LDCs by allowing them to open fewer sectors and to liberalise fewer types of transactions, and by allowing them to progressively extend market access in line with their development situations.

⁶ See GATS Art. XIX: 1

⁷ Roy (2009) suggests that four key determinants (democracy, relative power, relative endowments and the negotiating process) explain why governments undertook such varying commitments.

commitments in 91 sub-sectors. Of the South American countries, Brazil committed 38 sub-sectors, Chile 42 sub-sectors and Argentina 58 sub-sectors.

These initial undertakings formed the basis of global services liberalisation and this process was supposed to be supplemented by successive negotiations to progressively liberalise further. However, little progress has been made to further liberalise services trade at the multilateral level, so the GATS schedules still contain the same commitments that were made during the Uruguay Round in the early nineties. There is no mechanism in GATS to update the schedules if any of the sub-sectors have subsequently been liberalised.⁸ Due to the intended progressive nature of the process, countries are usually reluctant to schedule these unilateral changes which could negatively impact on policy space and leverage in ensuing trade negotiations. This may give rise to a situation where the current realities are not reflected in the schedules. Investors can therefore not rely solely on the information provided for in the GATS schedules, and it is advisable to examine relevant domestic legislation and regulations in order to ascertain the existing regulatory conditions.⁹

If countries are serious about closer cooperation on services, the adoption of greater transparency and more sophisticated information portals is an important first step. Discussions around transparency and access to information can precede services negotiations on market access, and, if implemented correctly, can play an important complementary role in progressive liberalisation. The services arena is gradually becoming more complex with countries increasingly including more services obligations in bilateral and regional agreements. Establishing an effective enquiry point with sufficient capacity can elevate a country above its competitors and provide prospective investors with an accurate representation of each services industry.

⁸ The GATS makes provision for modifying or revoking commitments, but it can be interpreted only to refer to more restrictive or discriminatory commitments. GATS Art. XXI deals with the modification or withdrawal of scheduled commitments, but refers basically to the introduction of more restrictive measures. Positive unilateral changes imply more freedom for foreign suppliers and their application is not controlled under the GATS.

⁹ There is a general obligation on member states to publish all the measures affecting the operation of the GATS and to notify these changes to the WTO Council for Trade in Services. In addition, each country is expected to establish an enquiry point and respond promptly to all requests for specific information. This obligation would, however, be of little value if the information is not readily available. It could benefit a country to publish the relevant restrictions and conditions on a government website or elsewhere where they will be easily accessible to the international community.

Another sticking point created by the varying degrees of commitments, is how negotiating partners can agree on a suitable method to liberalise trade between them. Imagine a hypothetical scenario where a country with few commitments, such as Namibia, negotiates a services chapter with a country such as Argentina which has made significant commitments. To improve market access for services suppliers, countries have to go beyond existing commitments undertaken in the GATS. It will be easier to agree to a WTO-plus services chapter for Namibia than for Argentina, only because far fewer commitments have been made by Namibia. Things will be further complicated if South Africa (which made even more comprehensive commitments) is one of the negotiating parties, as the policy and regulatory space within which South Africa can manoeuvre is much more limited. During the EPA negotiations, South Africa argued that due to its substantial liberalisation during the Uruguay Round, it would be more difficult to offer WTO-plus concessions. Although the requirements of GATS Art. V¹⁰ must be kept in mind when negotiating the services components of trade agreements; countries that liberalised to a greater extent nevertheless have fewer options.

Successive negotiations at the multilateral level were intended to gradually level the playing field but the current disproportion in levels of liberalisation can make bilateral services negotiations more challenging. This dimension will be more pronounced in south-south negotiations where most countries are developing countries and flexibility alternatives are more restricted.¹¹ From the onset of services negotiations, negotiating parties must determine the precise levels or degree to which services sectors must be liberalised as well as the flexibility that will be provided for lesser developed countries. Not only are the countries in the two configurations under examination in this book (SACU and Mercosur) at different levels of development, they are also at different stages in their respective services liberalisation processes.

Among the services that are most frequently included in the GATS schedules of the SACU and the South American countries (Argentina, Brazil and Chile) are business, communication, financial and tourism services. The commitments for the core

¹⁰ Services chapters should have substantial sectoral coverage regarding the number of sectors included, the modes of supply and volume of trade affected. See Section 2 below for more information.

¹¹ GATS Art. V:3(b) does provide some flexibility for services agreements amongst developing countries. See footnote 25 below for more information.

infrastructural services are, however, largely influenced by the extended negotiations in these areas of basic telecommunications (Fourth Protocol) and financial services (Fifth Protocol) which were concluded in 1997 and 1998 respectively. Of these countries, only South Africa, Argentina, Brazil and Chile participated in the extended negotiations. The commitments of the SACU member states as well as Argentina, Brazil and Chile can be summarised as follows:

GATS commitments

Botswana¹²: Botswana made minimal commitments in the area of professional business services (such as architecture, engineering, medical, dental, and veterinary services), computer and related services (such as consultancy, software implementation and data-base services), research and development and real estate. In these areas there are no restrictions to market access and national treatment in Mode 2, while treatment in Mode 3 is occasionally qualified by requirements relating to residency, professional qualifications and registered institutions. Botswana made some further commitments in courier services and two tourism related activities: hotels and restaurants, and travel agencies and tour operators. No commitments were made in Mode 4 except for limitations provided for in Botswana's horizontal commitments. These limitations are applicable to all services sectors included in the schedule and relate to the approval of capital remittances and transfer of funds (Mode 2), registration and licensing requirements of juridical persons, notification and equity requirements of foreign investors (Mode 3), and employment laws, regulations and procedures (Mode 4).

Lesotho¹³: Despite its least developed country (LDC) status, Lesotho made extensive and liberal commitments covering 85 sub-sectors which include professional business services, communication, construction and engineering, distribution, education, environment, financial, transport and tourism. A wide range of professional business services is listed in the schedules with varying degrees of commitments and restrictions. Lesotho has made narrow audiovisual cross-border services commitments but substantial distribution service commitments in wholesale and retailing. Franchising is limited to cross-border provision. Lesotho has made

¹² 2009 WTO TPR and Botswana country schedules available at www.wto.org.

¹³ Source: Coalition of Service Industries at www.uscsi.org; 2009 WTO TPR and Lesotho country schedules available at www.wto.org.

considerable education services commitments across all sub-sectors. It has also made extensive environmental services commitments. In insurance and insurance-related services, Lesotho has left cross-border trade unbound, allows for consumption abroad and limits commercial establishment. In the financial services area, Lesotho insurers must be incorporated as a public company to do business. Acquisition of 25 percent or more of shares in a registered insurer requires written approval. In banking, cross-border trade and consumption abroad are unbound. Establishment is limited by restrictions on ownership. Lesotho has narrow tourism commitments with bindings in consumption abroad and in the establishment of tourist guide services.

Lesotho has made some horizontal limitations in Mode 3 and Mode 4 which relate to all the services sectors listed in its schedule. Concerning commercial presence, foreign companies and joint ventures are required to satisfy capital and equity requirements while agency establishments must have authority to negotiate and conclude contracts on behalf of their foreign parent company. In respect of movement of natural persons, the schedule binds the automatic grant of entry and work permits for up to four expatriate senior executives and specialised skill personnel in accordance with relevant provisions in the laws of Lesotho. It further prescribes that enterprises must also provide for training in higher skills for locals to enable them to assume specialised roles.

Lesotho only joined the Uruguay negotiations at a late stage after it was recognised that it would become more difficult to negotiate favourable terms of accession after the establishment of the WTO. Manduna (2005) argues that at the time Lesotho had no clear idea what the WTO was about and did not put forward specific proposals to address national concerns. Manduna's research further reveals that there was a lack of understanding on the technical aspects of scheduling while the responsible branch of government had limited capacity to deal with services negotiations. This has left Lesotho with a schedule of commitments containing some errors which in certain instances do not accurately reflect government policy or domestic legislation.

Namibia¹⁴: Namibia only made commitments in three sub-sectors. No restrictions are scheduled in any of the four modes of supply in the areas of related scientific and technical consulting services pertaining to offshore oil and gas exploration, hotels and restaurants and travel agencies and tour operator services. Horizontal limitations do however restrict operations in Mode 3 and Mode 4 of the listed sub-sectors. Commercial presence requires that foreign services providers incorporate or establish their business locally in accordance with the provision of the Namibian Companies Act and stipulates that foreign enterprises in Namibia have the same rights and responsibilities as domestic enterprises. In Mode 4 the entry and residence requirements of foreign natural persons are subject to Namibia's Immigrations Control Act and labour laws. The employment of foreign natural persons must further be done in accordance with Namibian law and requires that foreign nationals shall only be employed in management and expert jobs after the terms have been agreed upon by the contracting parties and approved by the Namibian Government.

South Africa¹⁵: South Africa made substantial commitments in 91 sub-sectors across business services, communication services, construction and engineering, distribution services, environmental services, financial services, tourism and travel, transport and other services not included elsewhere. Reforms and advances in the telecommunications and financial industries compelled WTO members to continue negotiations in these areas. Participation was voluntary and South Africa was the only SADC EPA member state involved in the extended negotiations. Sixty-nine countries reached consensus on liberalising trade in basic telecommunications services in what is known as the Fourth Protocol. The agreement came into effect on 5 February 1998 and currently has 72 signatories. It substantially expands the original schedules and includes commitments to dismantle state monopolies, open markets in basic telecommunications and satellite services and adopt competition regulation in the sector. To assist with the introduction of competition in this market, members also adopted a set of regulatory principles covering matters such as competition safeguards, interconnection guarantees, transparent licensing processes, and the independence of regulators. This document, the Regulatory

¹⁴ 2009 WTO TPR and Namibia country schedules available at www.wto.org.

¹⁵ Coalition of Service Industries www.uscsi.org; Internet Service Providers Association www.ipsa.org; 2009 WTO TPR and South Africa country schedules available at www.wto.org.

Reference Paper, provides a guideline for designing market access policies and was adopted as a whole by South Africa.

A decision was adopted at the end of the Uruguay Round to resume negotiations in the area of financial services. The result of the negotiations was a new set of commitments which was annexed as the Fifth Protocol under the GATS. The negotiations in the financial services sector include two broad categories of services: insurance and insurance-related services and banking and other financial services. In the area of insurance the establishment and operation of insurers and re-insurers are restricted. They must be incorporated as a public company in South Africa and must register with the relevant supervisory authority to carry out their business. The acquisition of shares or any other interest in a registered insurer above 25 percent requires written approval. In addition, the executive chairman, public officer and majority of directors must be resident in South Africa. Life insurance actuaries must also be resident in South Africa.

In the area of banking and other financial services, foreign exchange dealers must be authorised by the South African Reserve Bank to establish operations in South Africa. Asset management, collective investment schemes and custodial services for securities and financial instruments must be incorporated as public companies in South Africa and registered with the relevant supervisory authority. Branches of banks not incorporated in South Africa must maintain a minimum balance of one million rand on the deposit accounts of natural persons while foreign non-bank organisations are required to establish a domestic public company if they want to obtain a controlling interest in a local bank.

The movement of natural persons is, however, significantly restricted by South Africa's horizontal limitations across all listed sectors. Specific provisions are made for salespersons, intra-corporate transferees, executives, managers, specialists, professionals as well as personnel engaged in establishment. Additionally, local borrowing of companies with a non-resident shareholding of 25 percent is limited. The practical effect of this restriction is that a foreign owned South African entity is limited to borrowing in South Africa up to the amount of capital introduced from offshore.

Swaziland¹⁶: Swaziland made limited commitments in nine sub-sectors including engineering services, integrated engineering services, medical and dental services, consultancy services related to the installation of computer hardware, research and experimental services in natural sciences and engineering, management consulting services, technical testing and analysis services, hospital services and hotel and restaurant services. Swaziland has left measures affecting Mode 1 unbound in all scheduled sectors, but lists no restrictions on market access and national treatment on Mode 2 and 3. Under Mode 4, Swaziland has bound measures affecting supply, to a limited range of senior professional staff in engineering, medical, computer, management consulting, hospital, and hotel and catering services. No horizontal commitments were made by Swaziland.

Argentina¹⁷: Although Argentina only scheduled six of the 12 sub-sectors, the commitments made were significant. What sets it apart from the other countries under examination is that the commitments have a high level of openness, higher even than that of Chile which is generally taken as the Latin American paradigm for a liberalised and deregulated economy.¹⁸ Argentina made deep commitments in the core sectors of professional services, communication services, construction and engineering services, distribution services and tourism and travel services by fully liberalising Mode 1, 2 and 3 in all the scheduled sub-sectors.

Although Argentina participated in the negotiations for the Fifth Protocol, no offer was submitted, in part because its GATS commitments (excluding insurance services) were already broad. Argentina fully liberalised Mode 2 and Mode 3 in all the sub-sectors under banking and other financial services. This means that Argentina retains the right to restrict the cross-border supply in most instances. In the area of insurance, Argentina suspended the authorisation of the commercial establishment of new entries.¹⁹ However, deregulation was implemented in 1998 which ended the suspension of the establishment of new insurance firms.²⁰

¹⁶ 2009 WTO TPR and Swaziland country schedules available at www.wto.org.

¹⁷ 2007 WTO TPR and Argentina country schedules available at www.wto.org.

¹⁸ See http://www.wto.org/english/res_e/booksp_e/casestudies_e/case2_e.htm.

¹⁹ To operate as an insurer or a re-insurer in Argentina it is necessary to obtain the prior authorisation of the National Insurance Supervisory Authority (SSN).

²⁰ This is confirmation of the earlier argument that the GATS schedules do not always accurately reflect the current domestic conditions. See Section 1 above.

Argentina stipulated one horizontal restriction on Mode 3 ('Commercial presence') relating to the acquisition of land in frontier areas (150 kilometres in land frontier areas and 50 kilometres in coastal areas). The Frontiers Act (Law Decree 15385/44) reserves the acquisition of land in 'frontier zones' to Argentine citizens. This act, however, also provides for foreigners to acquire such frontier areas subject to prior consent from the relevant governmental department. This leaves Argentina free to fully earmark frontier zones exclusively to Argentine citizens if the need arises. In the horizontal section under Mode 4 ('Presence of natural persons') commitments have been undertaken with respect to senior personnel such as managers, executives and specialists. Foreigners who comply with the requirements as set out in the horizontal section are allowed to supply their services domestically in Argentina.

Brazil²¹: Brazil's specific commitments under the GATS cover seven core sectors including business services, communication services, construction and engineering services, distribution services, financial services, tourism and travel services and transport services. Commitments were shallow, however, with a number of listed restrictions under Mode 3, and no commitments made in Mode 1 and 2 in almost all of the committed sub-sectors. Brazil was an active participant in the extended negotiations, but is still in the process of ratifying the Fourth and Fifth Protocol. This effectively means that no commitments were made in the telecommunications sector while the original financial services commitments – instead of the offer made in the Fifth Protocol – still remain in force.

Brazil stipulates a number of general restrictions in the horizontal section relating to investment, legal entity requirements and subsidies. All foreign capital invested must be registered at the Central Bank to be eligible for remittances. In addition, there are a number of requirements on the form of the juridical persons which must be observed if foreign suppliers wish to commercially establish themselves in Brazil. A notable restriction is the ratio of employees working for juridical persons who commercially established themselves in Brazil. Two Brazilians for every three employees is required if the juridical person is engaged in the sectors of communications, land transportation, commercial stores in general, commercial offices, insurance, advertising or hotels and restaurants. Subsidies are inscribed as

²¹ 2009 WTO TPR and Brazil country schedules available at www.wto.org.

'unbound' in the horizontal section, clearly an attempt to exclude subsidies from the operation of the scheduled commitments. It remains to be seen if this stipulation has any practical effect, especially on the market access side.²² Under Mode 4 in the horizontal section, Brazil has exempted specialised technicians, highly qualified professionals, managers and directors to allow them to supply their trade domestically if they comply with the prescribed requirements.

Chile²³: Chile made specific commitments in the five core sectors of business services, communications services, financial services, tourism services and transport services. It also adopted the Fifth Protocol on Financial Services and the Fourth Protocol on Basic Telecommunications as well as accepting the Reference Paper on regulatory principles in telecommunications. The tourism and travel sector has been substantially liberalised, only restricting the movement of certain persons under Mode 4. Most of the other sub-sectors were left 'unbound' in Mode 1 and 2 with Mode 3 being treated more liberally. In general, Chile's services regime is considerably more liberal than the commitments undertaken in the GATS which suggest ample policy space to lock in deeper multilateral commitments.

In the horizontal section, Chile lists detailed prerequisites on investment considerations which are taken into account when establishing a commercial presence. Investors must comply with the rules and legal procedures on foreign direct investment as contained in the Chilean Foreign Investment Statute (Decree Law No. 600). According to the decree, foreign investment authorisations must be evidenced in a contract known as Foreign Investment Contract DL600. This contract establishes the rights between a foreign investor and the state of Chile and sets out the rights and obligations of both parties.

²²At the moment, the GATS does not contain any binding disciplines on subsidies; while GATT Art. XVI (as clarified and elaborated by the Agreement on Subsidies and Countervailing Measures) only applies to trade in goods, or more specifically to the manufacturing sector. GATS Art. XV briefly refers to the issue of subsidies and establishes a negotiating mandate to develop multilateral disciplines to reduce the distortive effect subsidies can have on trade in services. These negotiations form part of the GATS 'built-in agenda' which since 2001 has been incorporated under the multilateral Doha Development Round. These negotiations are now part of the Doha Round which is currently on hold. In the absence of such disciplines subsidy practices are subject to the general and specific obligations in the GATS. Most important of these is the National Treatment obligation which requires non-discrimination between domestic and foreign suppliers. National treatment with respect to subsidies means that a subsidy must then also be available to the commercially established foreign supplier. Brazil, however, left the market access obligations 'unbound' for all sectors, but the national treatment obligations in the horizontal section were inscribed as 'unbound for subsidies for research and development'. For more information see Kruger (2009).

²³ 2009 WTO TPR and Brazil country schedules available at www.wto.org.

According to the horizontal section, the authorisation for the establishment for foreign suppliers are contingent on the following criteria: the effect the commercial presence has on economic activity, the effect it has on productivity, industrial efficiency, technological development and product innovation, the effect of competition and the contribution to Chile's integration into world markets. This affords the government an additional oversight function when authorising foreign investment. In the national treatment column in the horizontal section exclusions were made on capital remittances, real estate acquisitions and local content. Regarding local content, at least 85 percent of the staff employed by a services supplier must be Chilean citizens. Enterprises with fewer than 15 employees are exempted from this requirement, except for suppliers in the professional services sector where 85 percent of the staff must be Chilean citizens regardless of size. Transfer of certain senior and specialised personnel is allowed but foreign personnel may not constitute more than 15 percent of the total staff employed.

Section 2 Comparing commitments

Table 1: Liberalisation under the GATS

	Botswana	Lesotho	Namibia	South Africa	Swaziland	Argentina	Brazil	Chile
1. Sectors committed (out of 12)	3	10	2	9	3	6	7	5
2. Sub-sectors committed (out of 160)	20	78	3	92	9	69	44	56
3. Commitments negotiated (out of 1280)	160	624	24	736	72	552	352	448
4. Partial commitments made	26	9	0	55	0	6	46	34
5. Commitments without restrictions	54	326	24	345	56	391	50	125
6. % fully liberalised commitments	4.22%	25.47%	1.88%	26.95%	4.38%	30.55%	3.91%	9.77%

1. *Sectors committed*: The number of core sectors included in the GATS schedule of each country.

2. *Sub-sectors committed*: The number of sub sectors included in the GATS schedule of each country.

3. *Commitments negotiated*: The total number of commitments negotiated in market access and national treatment. These include all measures bound/unbound/partially bound or otherwise with respect to all four modes of supply.

4. *Partial commitments made*²⁴: The number of commitments with limitations. Measures inconsistent with market access and the national treatment obligations can be maintained if so inscribed in the schedule.

5. *Commitments without restrictions*: Full commitments made without any restrictions, indicated by an inscription of 'none'.

6. *Percentage fully liberalised commitments*: Fully liberalised commitments expressed as the percentage of the total number of commitments negotiated.

²⁴ Mode 4 commitments expressed as 'unbound except as indicated in the horizontal section' are not included in the calculation of partial commitments. Horizontal commitments are generally referenced in the sub-sectors; so theoretically speaking it is not necessary to include the words '*except as indicated in the horizontal section*' since horizontal commitments automatically apply to all services listed in that country's schedule. These typical Mode 4 inscriptions are therefore regarded as 'unbound' measures where no commitments are made.

Simply looking at the number of core sectors or sub-sectors committed is not enough to determine the depth and degree of liberalisation. South Africa committed 92 (or 57.5%) of the potential 160 sub-sectors, Lesotho 78 (48.75%) and Argentina 69 (43.13%) sub-sectors. However, closer scrutiny is necessary to understand how far each country has pursued substantial liberalisation. In the table above, calculations were made on the basis of 1280 possible commitments. There are 160 sub-sectors in each schedule with four modes of supply in each of the market access and national treatment columns; therefore the total number of negotiated (or modal) commitments is 160 sub-sectors times the eight modes (two times the four modes of supply) which equals 1280 possible inscriptions.

The picture changes considerably if the depth and extent of the commitments are included as a variable. On the basis of this analysis, Argentina liberalised more with 367 (30.55%) full commitments slightly ahead of South Africa with 345 (26.95%) and Lesotho with 326 (25.47%) full commitments. When considering the percentage of full commitments expressed in terms of the negotiated commitments (and not in terms of the possible commitments) the depth of Argentina's liberalisation can be more fully appreciated. Argentina fully liberalised 391 out of 488 negotiated commitments (80.12%) in contrast with South Africa which liberalised 345 of out 736 negotiated commitments (46.88%) and Lesotho with 326 out of 624 negotiated commitments (52.24%).

Even after an analysis of this extent, there are still some variables that would make it difficult to determine the precise degree to which each services industry has been opened. Some modes of supply are more sensitive than others. If put in order of importance, Mode 4 would be the most sensitive, followed by Mode 3, Mode 1 and lastly Mode 2. So a commitment in Mode 4 would be a greater commitment than one made in Mode 2, and a commitment made in Mode 3 would be a slightly better commitment than one made in Mode 1. A specific value would have to be attributed to each of the commitments to arrive at a more precise percentage.

The relative importance of the various core services sectors can also influence the analysis; a commitment in the financial or telecommunications sector might be more valuable than one made in the distribution or environmental sector. But that might also depend on the offensive or defensive interests of a country. So it can be argued

that understanding the relative value and depth of the various commitments is an essential framework for further services liberalisation, especially in the context of south-south interactions. Improved understanding will enable countries to better prepare their offers and requests and evaluate the position of their negotiating partners.

Such an analysis will also promote observance of the disciplines of GATS Art. V. Services chapters should have substantial sectoral coverage regarding the number of sectors included and the modes of supply and volume of trade affected. The substantial coverage is qualified by a footnote to GATS Art. V:1(a) which specifically states that agreements should not provide for the a priori exclusion of any mode of supply.²⁵ These requirements are aimed at preventing the negotiation of an agreement with a limited scope. Parties are further required to extend national treatment to service suppliers by eliminating substantially all discrimination. This provision not only calls for the elimination of existing discriminatory measures, but also for the prohibition of new or more discriminatory measures. These requirements must be observed when negotiating a services component.

Unlike GATT Art. XXIV, there is no understanding on the interpretation of GATS Art. V, nor is there agreement among WTO Members on the interpretation of its provisions. This gives rise to uncertainty regarding the appropriate application of the rules and leads to inconsistency when assessing a trade agreement with a services component.²⁶ This then brings us back to the question of policy space: How far beyond the GATS is one negotiating partner expecting the other to liberalise its services industries, especially given their diverse levels of development and the

²⁵ If developing countries are parties to a services agreement, GATS Art. V:3(a) states that flexibility must be provided when considering the degree of substantial sectoral coverage, particularly regarding the elimination and prohibition of discriminatory measures. It does not specify how much flexibility must be provided, but such flexibility should be extended in accordance with the level of development of the countries concerned, both overall and in individual sectors and sub-sectors. When the services agreement only involves developing countries (south-south arrangements) more favourable treatment may be granted to juridical persons owned or controlled by natural persons of the parties to the agreements (GATS Art V:3(b)).

²⁶ GATS Art. V: 7 requires member states party to an agreement liberalising trade in services to promptly notify any such agreement and any enlargement or any significant modification of that agreement to the Council for Trade in Services. Parties are further obliged to report on the progress of any phase-in if the agreement is implemented on the basis of a time frame. However, only some services agreements have been notified, a few examined and none pronounced upon by the Council for Trade in Services (CTS).

varying number of commitments already made during the initial GATS negotiations? Importantly, this target must be agreed within the parameters of WTO law.²⁷

Section 3 Services liberalisation in regional and bilateral agreements

SACU

According to Art. 31(2) of the 2002 SACU Agreement, member states must establish a common negotiating mechanism for the purpose of undertaking trade negotiations with third parties. Such a mechanism has not yet been implemented, but the need to finalise the common negotiating mechanism was reiterated at a Special Council of Ministers meeting in September 2009. Not following a unified approach when engaging with third parties complicates the structure, and even the objectives, of the SACU member states. From recent negotiations and policy debates in SACU, it is clear that the member states are not in agreement on how to move forward in the arena of trade in services.

The foremost issue is that South Africa's services industries are considerably more developed than those of other countries in the region, and the country relies on its dominance and offensive regional interests to inform its services strategy. South Africa is already exporting a wide range of services to its lesser developed neighbours, in many instances without any meaningful competition. The BLNS (Botswana, Lesotho, Namibia and Swaziland) countries, in contrast, do not have any noteworthy industries to protect against foreign competition. South African firms providing services in the BLNS countries will suffer the most when these countries liberalise their services industries. The BLNS countries are aware that liberalisation is the only way of avoiding complete dominance by the South African firms.

Whether foreign investment will materialise when the BLNS countries liberalise their services markets is a completely different question. In many instances this not only depends on the regulatory barriers but also on the nature of the local market.²⁸ A small country like Lesotho has already liberalised a large part of its services industries without any significant success. The developing countries in the region seem more eager to start liberalising trade in services, most likely because foreign

²⁷ More specifically GATS Art. V.

²⁸ See Section 5 below for a more complete discussion of this topic.

direct investment is seen as an important source of development, but also arguably to reduce reliance on South African firms. One expected result of liberalisation is that foreign competition will enter the local markets to receive a share of the profits. This will be done by undercutting the price offered by competitors until they cannot do so without gaining negative profits. As more and more firms enter the market, each will have to provide some sort of unique service or aspect of their product in order to win market share (rather than simply lowering the price). This will lead to a greater range of services and products, as well as a higher quality of delivery and customer care, as each competitor tries to beat the other. Botswana, Lesotho and Swaziland have already indicated their interest in pursuing deeper services liberalisation. In a sense it seems as if these countries have nothing to lose by substantially opening up their services sectors, and much to gain in terms of more competitive pricing, greater choice, product specialisation, technology transfer and development of domestic industries.

In the absence of a common negotiating mechanism, the degree of development between countries in a configuration can give rise to fundamental differences. The goals of the countries within the group can conflict: while some push for further liberalisation, others take a more protectionist stance. As seen from the recent EPA negotiations, it will be difficult to reconcile the different approaches in SACU to arrive at a shared solution. Only Botswana, Lesotho and Swaziland proceeded to discuss a framework for the substantial liberalisation of services while South Africa and Namibia opted out of the ongoing negotiations on services. Despite its aggressive approach to liberalisation during the Uruguay Round, it now seems as if South Africa is taking a step backwards.

In South Africa's official trade policy and strategy framework document²⁹ published in September 2009, the Department of Trade and Industry recognises the importance of trade in services.³⁰ The document is rather vague on South Africa's treatment of services, however, and does not provide any real clarity on its official approach

²⁹ The document concentrates on the industrial policy debate but neglects to emphasise the importance of the services sector in promoting and facilitating South Africa's industrialisation strategy. Services are included almost as an afterthought, focusing more on past events than on the way forward.

³⁰ The document sets out the key principles and approaches to South Africa's strategy for global integration with respect to our engagements and negotiations at multilateral, regional and bilateral levels.

forward. Well defined research, more accurate data and statistics, determination of South Africa's competitiveness strengths and the establishment of a trade in services forum are steps proposed to inform its trade strategy. No mention is made of services negotiations in current or upcoming negotiations with third parties and it remains to be seen to what extent services will be included in future agreements.

In the earlier agreement between the European Union (EU) and South Africa brief references to trade in services were included in the agreement. Although no binding commitments were made in the area of services, parties agreed to make an effort to further liberalise trade in services with one another. Art. 30 of the Trade Development and Cooperation Agreement (TDCA) includes provisions on the future liberalisation of services:

'1. The Parties will endeavour to extend the scope of the Agreement with a view to further liberalising trade in services between the Parties. In the event of such an extension, the liberalisation process shall provide for the absence or elimination of substantially all discrimination between the Parties in the services sectors covered and should cover all modes of supply including the supply of a service.'

No time frame was established for further liberalisation – parties only undertook to endeavour to discuss the possibility of substantially eliminating all discrimination. A tentative deadline was set for 1 January 2005, but to date nothing has been discussed. Rather than liberalisation, the focus of the TDCA is on economic cooperation in services between the EU and South Africa. Provisions are detailed but not substantive and cover several sectors including: information and communication technology (Art. 55), postal services (Art. 56), energy (Art. 57), mining and minerals (Art. 58), transport (Art. 59), tourism (Art. 59) and banking, insurance and financial services (Art. 63). None of these provisions places any binding obligations on the parties; the main aims are simply cooperation, information exchange, promotion and mutual dialogue.

Although the TDCA calls for further liberalisation of services, the conduct of South Africa vis-à-vis the EU during the EPA negotiations indicates that this process will not move forward unless the regional approach is harmonised. According to the

Department of Trade and Industry the main reason for South Africa's refusal to negotiate on services is the vision of a consolidated regional market. It wants meaningful convergence in the regional market first; only thereafter would services be discussed in a more global context. This will enable the region to negotiate as a coherent configuration after a regional foundation has been laid. It is therefore unlikely that South Africa will consider further liberalisation on the bilateral level, especially with a powerful developed group of countries such as the EU. This might be different in south-south negotiations, but as yet there has been no indication from South Africa about such a move. As the most developed country in southern Africa, South Africa has already established a foothold in most of the countries in the region and clearly wants to protect its regional interests.

Unfortunately the situation regarding services integration in SADC is somewhat uncertain. The services process in SADC was initiated in 2000 and there is still no final protocol on services. It now seems as if the SADC Protocol is close to being agreed and a final text is expected shortly. It is important to achieve finality on this document as an important first step in the regional liberalisation process. The Protocol provides the framework for liberalising services in region, very much along the same lines as the GATS. There are additional complexities that have to be dealt with which include, among other things, mutual recognition agreements, special and differential treatment, subsidies, specific commitments on market access and national treatment and the establishment of institutions. This is where important lessons can be learned from Mercosur's implementation and operation of a services protocol.

Mercosur

In 1991 Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción with the objective of establishing a common market to allow for the free movement of goods, services and factors of production.³¹ Trade between members of the bloc, was mainly based on goods while the liberalisation of trade in services raised complex and sensitive issues at a time when there was not sufficient expertise or political will to address them (Gari 2006). Issues such as tariff elimination, the common external tariff and the institutional structure to establish a customs union

³¹ Art. 1 of the Treaty of Asunción

enjoyed preference and it was only in 1997 that the framework document to liberalise trade in services was signed.³²

Although the Montevideo Protocol on Services was signed by the Mercosur members in 1997 it was decided that the Protocol would not be sent for legislative approval until the texts of the sectoral annexes and the lists of specific commitments had been completed. The ratification process was dogged by severe delays before it finally entered into force in December 2005. Argentina, Brazil and Uruguay deposited their instruments of ratification to fulfil the procedural obligations while Paraguay is still required to ratify the Protocol.³³

The ultimate goal of the Montevideo Protocol is to phase out restrictions on trade in services over a ten-year period, beginning from the date of entry into force.³⁴ Further liberalisation is to be progressive with annual negotiating rounds being incorporated in the schedule of specific commitments. In line with the multilateral process conducted under the GATS, Mercosur members opted for a positive list approach whereby the liberalisation commitments only apply to the listed sub-sectors and modes. Regarding the specific commitments of Argentina and Brazil in the Montevideo Protocol (the two Mercosur members under examination), both countries included GATS-plus commitments in their initial offers. The regional commitments made in terms of the Montevideo Protocol, however, were modest with only slight improvements mostly in the professional and transport services sectors. It has to be kept in mind that only the initial commitments as agreed in 1998 by the Mercosur member states have entered into force which explains the lack of enhanced liberalisation.³⁵

Since then there have been six negotiating rounds to expand the scope of liberalisation, but these additional commitments are not yet binding. The commitments made in the first six rounds have been consolidated and approved by

³² Another explanation for the delay on reaching an agreement put forward by Mercosur officials was the novelty of the issues and lack of experience on how to deal with them. See Gari 2006: 9).

³³ The Montevideo Protocol required only three member states to deposit their instruments of ratification for the protocol to enter into force.

³⁴ See Art. XIX of the Montevideo Protocol. Pursuant to GATS Article V:7, the Montevideo Protocol on Trade in Services was notified to the Council for Trade in Services on 5 December 2006.

³⁵ Brazil has also domestically adopted the first round of negotiations in terms of Decreto Legislativo 926/2005 which expanded its offer in the sector of telecommunications.

the Council of the Common Market (CMC)³⁶, but must be domestically incorporated before they can enter into force and become effective. Article XXVII of the Montevideo Protocol states that the schedules of specific commitments must be incorporated into the national legal system in accordance with the procedures laid down in each country. It remains to be seen how long the Mercosur member states will take to domestically incorporate the improved undertakings.

The results of the first six negotiating rounds were nevertheless inspiring, with the Mercosur countries making liberal and comprehensive strides beyond their initial GATS commitments. Argentina and Brazil undertook liberalisation commitments in all of the core services sectors (except for the last category: ‘Services not included elsewhere’), the scope and depth of which clearly show the commitment of the Mercosur countries to build a common market for services trade.³⁷ Their efforts are in line with GATS Article V which requires substantial sectoral coverage in relation to the number of sectors included, the modes of supply and the volume of trade affected.³⁸ Argentina and Brazil have included many of the 160 sub-sectors and have in some instances gone further than the W120 classification list by specifically referencing the United Nations Product Classification (CPC) List. The countries have also expanded the horizontal section by including additional categories of professionals which will be exempted from the strict Mode 4 restrictions.³⁹

Mercosur is making good progress to complete its liberalisation process by the deadline of 2015. In order to maintain the momentum, the regional bloc recently adopted a roadmap with directives to guide the countries through the final stages of liberalisation.⁴⁰ The work plan for 2009 consisted of a diagnosis of the current situation, defining the areas where no major difficulties exist, identifying those sectors more sensitive to liberalisation and determining the regulatory frameworks to be harmonised.

³⁶ See Mercosur/CMC/Dec. N° 01/06.

³⁷ Besides the specific commitments, the protocol is also supplemented by four annexes specifically addressing the movement of natural persons, financial services, land and water transport and air transport.

³⁸ For more information see Section 2 above.

³⁹ As a rule, no commitments are made in Mode 4 (the inscription frequently reads ‘unbound except as indicated in the horizontal section’) but certain types of professionals are allowed to supply their services if there is compliance with the requirements inscribed in the horizontal section.

⁴⁰ See Mercosur/CMC/Dec. N° 49/08.

Chile

Chile has a current total of 21 regional trade agreements (RTAs) with 57 trading partners, making it one of the countries with the largest number of agreements and preferential trading partners in the world. As a result roughly 92 percent of Chile's total merchandise trade is carried out with preferential partners (Chile Trade Policy Review 2009). Several of these agreements also include a services component, demonstrating the willingness of Chile to further liberalise trade in services. Although Chile is an associate member of Mercosur, it also concluded an economic complementarity agreement (a type of FTA) with the Mercosur states in 1996.⁴¹ Chapter XIII of the agreement deals with the progressive expansion of trade in services between the Mercosur members on the one side and Chile on the other.⁴² In terms of this mandate, the two parties concluded a Protocol on Trade in Services in July 2008. Mercosur members have been liberalising services amongst themselves, but this is Mercosur's first services agreement with another country.

The Protocol includes general obligations as well as extensive specific commitments on market access and national treatment. The commitments made in the Mercosur-Chile negotiations go beyond what was agreed in the GATS, but are still not as comprehensive as the liberalisation undertaken in the Montevideo Protocol. Emphasis was placed on professional services and the movement of certain categories of persons, an area which is of crucial importance when building a common regional market. Argentina, already making substantial commitments under the GATS, only improved its offer in the sectors of professional services and transportation services. Brazil, which was more conservative during the GATS negotiations, made improvements in professional, communication, educational, environmental and transportation services. Chile has gone far beyond the GATS, making additional commitments in the areas of professional, construction, distribution, educational, environmental and transportation services. Financial

⁴¹ Negotiations for Chile to become a full member of Mercosur nonetheless continued but serious difficulties arose with regard to developing a calendar for its accession. The process, however, became more complicated when Chile initiated free trade talks with the US. Chile's aggressive approach towards liberalisation with third parties is an important reason why it is not a full member of Mercosur.

⁴² According to Art. 1(2) of the Mercosur-Chile Protocol on Trade in Services, the provisions only apply to relations between states parties of Mercosur and Chile, not covering the relations between the states parties of Mercosur.

services were excluded from the initial schedules but an undertaking was established to assess the possibility of future negotiations in this sector.

In recent years, Chile and the Mercosur members have improved their understanding of their services sectors while building experience and capacity in negotiating services. This partly explains why the parties were comfortable with accelerating services liberalisation amongst each other. The Mercosur members had six negotiating rounds in which far-reaching commitments were made, whereas Chile negotiated several trade agreements which included chapters on trade in services.

One of the most prominent features of Chile's trade policy regime is the central role given to RTAs⁴³. Chile concluded 21⁴⁴ agreements of which 14 contain extensive undertakings and obligations on trade in services. Services liberalisation in most of these agreements (12 out of 14) follows the 'negative' list or 'top-down' approach.⁴⁵ It is also known as the 'list or liberalise' method whereby all sectors are automatically liberalised unless specifically reserved in the annexes. The annexes typically contain reservations for current nonconforming measures as well as reservations for future measures. An annex on nonconforming measures typically includes: i) the sector concerned; ii) obligations concerned; iii) the mode of supply affected; iv) a description of the non-conforming measure; and v) the existing measures in force. Such an approach implies the review and negotiating of all services sectors because measures not listed are liberalised by default. Other advantages of the negative list approach is the scope of liberalisation – it includes services that will be developed in the future as well as new combinations of services being offered through creative and innovative means (European Services Forum 2006) – unless of course the measure is reserved. The negative list approach also provides for greater clarity and transparency of the applicable restrictions. A country like Chile, for example, has identified and listed all current measures affecting trade in services. Parties

⁴³ See Chile 2009 TPR.

⁴⁴ Australia, Bolivia, Canada, Central America, China, Colombia, Cuba, Ecuador, European Union, European Free Trade Association (EFTA), India, Japan, Mercosur, Mexico, Panama, Peru, Republic of Korea, Turkey, United States, Venezuela and a Trans-Pacific Agreement with New Zealand, Singapore and Brunei Darussalam.

⁴⁵ The alternative, the positive list approach, was only utilised in the two agreements which were negotiated with European counterparts (EU and EFTA). According to this technique, countries only undertake market access and national treatment obligations insofar as these are listed in the schedule. In contrast to the negative list approach, sub-sectors that have been omitted from the schedules are excluded from liberalisation. Only the listed sub-sectors and modes which have been committed are liberalised. This is also the approach followed during the GATS negotiations.

negotiating with Chile are now well-informed of these restrictions and where to locate these measures in the domestic legislation. This defines the negotiating parameters more closely and provides a solid framework from which the liberalisation process can move forward.⁴⁶

The pace at which Chile has concluded recent trade agreements is staggering, especially for a developing country. Since 2003 Chile has signed 11 new RTAs⁴⁷ with eight of these agreements containing extensive provisions on trade in services. This stands in stark contrast to the number and scope of agreements being concluded by SACU in the same period. The South American countries have intensified their strategy of expanding trade with third parties, even in areas beyond trade in goods. Chile has built strong capacity in the area of services and gained a good understanding of its offensive and defensive capacities in all industries. The pace at which it is concluding services chapters is testament to the fact that the negotiations are to the point and only focus on pertinent issues. Although Mercosur members negotiated far fewer agreements than Chile, their step-by-step approach towards services liberalisation is sound logic. It is clear that Mercosur members prefer the consolidation of a regional services market before exploring liberalisation with third parties. Creating a regional market for services before liberalising with third parties gives Mercosur countries the necessary policy space and capacity to benefit from any ensuing negotiations.

Section 4 Important domestic restrictions

It is not the purpose of this chapter to identify all the applicable restrictions affecting trade between SACU and the South American countries. Since Mercosur and SACU follow the ‘positive list approach’ when scheduling services commitments, all relevant domestic legislation needs to be examined in order to arrive at an accurate reflection of current conditions. Restrictions are scattered throughout legislation, regulations and policy measures. In the case of Chile, applicable restrictions will be easily identifiable because it subscribes to the more liberal ‘negative list approach’ where all

⁴⁶ A WTO paper by Roy, Marchetti and Lim on the impact of bilateral and regional agreements argues that deals using the negative approach have yielded greater liberalisation benefits than those based on a positive list approach. See Roy et al. (2006).

⁴⁷ With Australia, China, Colombia, EFTA, Japan, Panama, Peru, Republic of Korea, Turkey, United States and the Trans-Pacific Agreement with New Zealand, Singapore and Brunei Darussalam.

restrictions are specifically listed.⁴⁸ There is, however, one important restriction of general application in South Africa that warrants closer scrutiny.

Market access measures generally restrict entry into a domestic sector while national treatment measures become applicable once foreign suppliers operate in the domestic market. In practice, market access restrictions are more prevalent than national treatment restrictions. The national treatment principle demands that a country treat foreign services and services suppliers no less favourably than it treats its own services and services suppliers. Countries are therefore required to abstain from measures which modify the conditions of competition in favour of their own services industries. The key question to ask here is the following: Is there discrimination against foreign suppliers?

Discrimination refers to both direct and indirect discrimination and typical national treatment restrictions include subsidies reserved for nationals, higher licence fees charged for non-residents, residency requirement for employees, licensing conditions requiring residency, obligation for foreign companies to have local registered offices, requirement for foreign service suppliers to recruit and develop more local human resources and offer on-the-job training for national employees (WTO 2006). In many instances, such discrimination is in line with trade policy which has the purpose of developing certain industries. However, if the sub-sector and relevant mode⁴⁹ are fully liberalised, discrimination against foreign suppliers is prohibited. Then treatment afforded to domestic suppliers must also be extended to foreign suppliers when dealing with like services.

National treatment is particularly important in the case of South Africa on account of its equitable growth strategy, known as Black Economic Empowerment (BEE). BEE is arguably the most important policy tool in realising the goals and objectives of the South African government and is at the centre of economic growth in this country. The South African government defines BEE as an integrated and coherent socioeconomic process that directly contributes to economic transformation in South

⁴⁸ See Section 3 above for more information on the positive and negative list approach.

⁴⁹ The liberalisation of commercial presence (Mode 3) is the most relevant when considering national treatment implications. There is no obligation in the GATS which requires a member to take measures outside of its territorial jurisdiction. National Treatment obligations do not therefore require a member to extend similar treatment to a services supplier located in the territory of another member (par. 16 of the *Guidelines for the scheduling of specific commitments under the GATS S/L/92*).

Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (DTI 2003). Any future trade strategy will be informed by these principles. The only problem is that BEE measures found in certain sectors could perhaps constitute an infringement of the national treatment principle.

To achieve these objectives an enabling legislative framework – the Broad-Based Black Economic Empowerment Act 53 of 2003 – was introduced to promote and enable BEE in South Africa. The legislation allows various industries to issue guidelines and codes of good practice on BEE as well as to utilise regulatory means⁵⁰ to achieve the purported objectives. In February 2007, the BEE Codes of Good Practice⁵¹ was gazetted, in terms of which a number of Transformation Sector Charters were introduced, each charter tailored to a particular industry. The specific charters which have the potential to affect trade in services are the Accountancy Professional Charter, Marketing, Advertising and Communications Charter, Construction Charter, Engineering Charter, Financial Sector Charter, Forward and Clearing Industry Charter, Health Charter, Human Capital and Related Professional Charter, Information and Communications Technology (ICT) Charter, Integrated Transport Charter, Legal services Charter, Maritime Charter, and Tourism Charter. Some of these charters make specific reference to multinational corporations and foreign firms, while others do not distinguish between foreign owned and domestically owned companies.⁵² For example, the BEE Charters of the Maritime Industry⁵³ and the Forwarding and Clearing Industry (Par. 3.1.2.1) deal with foreign ownership in the same way:

‘With regard to foreign ownership, foreign companies, which have a local asset base, will implement BEE strategies, according to the guidelines provided by [this Charter]. They will be encouraged to sell equity in their

⁵⁰ One such regulatory instrument is the ‘balanced scorecard’ which sets specific targets for equity ownership, management, procurement, and equality in employment in the case of ‘historically disadvantaged individuals’.

⁵¹ The codes of good practice provide a standard framework for the measurement of broad-based BEE across all sectors of the economy.

⁵² This raises the question of how foreign suppliers will be treated when operating in one of these industries. The Department of Trade and Industry is in the process of publishing a Code of Good Practice on the Ownership Requirements for Multinationals. A draft was circulated in 2005 but as yet no official codes on the treatment of foreigners have been published.

⁵³ See Par. 3.1.2 of the Maritime Transport and Services BEE Strategy

local operations. However, companies that are wholly owned offshore and are unable to sell equity should consider using the enterprise development indicator and set off achievements in this regard against the ownership requirement.’

These charters recognise ‘enterprise development’ as a method for multinationals to satisfy BEE requirements in ways other than pure ownership. These measures include various support and funding initiatives such as joint ventures, direct investment, subcontracting, training programs, and consultancy services, among others.⁵⁴ Similar provisions⁵⁵ indicating alternative measures to satisfy BEE requirements are found in the Construction Charter, Financial Sector Charter, Health Charter, ICT Charter, and Integrated Transport Charter. If there is no need for foreign companies to conform to the BEE ownership requirements, it can be argued that foreign companies in fact receive treatment that is more favourable than that received by domestic companies. No discrimination is present in this instance – every supplier operating in South Africa must comply with the ownership, or alternatively the enterprise development requirements as set out in the charters.⁵⁶

BEE principles do, however, have a spill-over effect that makes it a commercial imperative for many foreign companies to transfer equity and/or assets to BEE groups. In other words, because state-owned entities and government departments are legally obliged to apply BEE legislation in evaluating tenders or in granting licences, permits or concessions, those firms that rely on government business become obliged to comply with BEE requirements. These same firms then demand that their suppliers become BEE compliant so that they can meet their own BEE targets, which creates a domino effect (Davids et al. 2006). Preferential procurement

⁵⁴ See Appendix A, Forward & Clearing BEE Charter

⁵⁵ Foreign companies typically have global policies in place restricting the level of ownership and control that can be transferred to local minority shareholders, making certain BEE targets difficult to achieve. Additionally, the domestic structure of foreign-owned companies often makes it more complex to transfer equity to BEE groups in a way that most local companies are able to do. For instance, a black investor cannot hold shares in a local branch office of a foreign-owned company without first obtaining exchange control approval, which may be difficult and time consuming to obtain. Another complication can be that the application of global transfer-pricing policies by some foreign-held companies often affects the level of profits of the local operation that are available for distribution by way of dividend. This can possibly explain why foreign companies are exempt from the BEE ownership and control targets as set out in some BEE Scorecards (Davids et al. 2006).

⁵⁶ Local companies do not have the choice to an equivalent measure instead of BEE ownership. Foreign companies in this sense are accorded treatment ‘more favourable’ and not ‘less favourable’ than their domestic counterparts.

is seen by the government as one of the key methods of driving BEE. Procurement can be used to leverage many valuable government resources and increase black economic participation. For example, the Maritime Charter in par. 3.5.5.1 supports the specific procurement objectives by stating that:

‘As far as possible, parastatals and public sector agencies should use local as opposed to foreign suppliers and state the reasons for using a foreign supplier. Where a foreign supplier must be used, parastatals must use the offset principle to secure the commitment of these companies to a set of BEE obligations.’

Conformity with these measures is a priority as the relevant authorities must report on how the participation of black people in port services has been enhanced⁵⁷. In addition, the regulator may monitor the progress and even enforce compliance⁵⁸.

⁵⁷ See Section 4(1) of the National Ports Regulations 2007.

⁵⁸ See Section 4(2) of the National Ports Regulations 2007.

To better illustrate the previous point, the requirements for providing services at South African ports can be highlighted. Section 3 of the 2007 National Ports Regulations states:

‘In the second, third and fourth years following the commencement of these regulations at least 25 percent per year of all:

(a) agreements entered into in terms of section 56 of the Act by the Authority;

(b) licences issued in terms of section 57 of the Act by the Authority;

(c) other concessions or authorisations granted in terms of the Act by the Authority;

(d) sales or leases of any property owned by the Authority within a port; and

(e) any partnerships with the private sector and the Authority,

shall be entered into, issued or granted to persons or entities who have attained the Broad-based Black Economic Empowerment Status Level Four Contributor measured in terms of the Codes of Good Practice issued in terms of section 9 of the BEE Act or an equivalent rating in terms of the Sector Code if any.’

The National Ports Authority is the owner of the infrastructure and has the power to enter into an agreement, contract, or partnership with a services supplier to perform certain services.⁵⁹ Read together with relevant sections of the National Ports Authority Act, the provisions mentioned above practically span all the services that can be provided at the port terminal or facility. During the first four years of implementation 25 percent of these services are reserved for BEE compliant companies or persons, but after five years the allocation rises to 75 percent. A Level Four BEE Contributor must accumulate between 65 and 75 points when adding the scores achieved in ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socioeconomic

⁵⁹ See Section 56(1) of the National Ports Authority Act. These agreements include the design, construction, rehabilitation, development, finance, maintaining or operation of a port terminal or port facility, or provide services relating thereto.

development. Enterprise development is only one component of the overall assessment, however, and multinationals may be excluded from contending.

If foreign suppliers are indeed excluded from tendering or participating on the basis of their composition, the BEE regulations are discriminatory. If no equivalent rating for foreign suppliers is included⁶⁰, the conditions of competition have been modified in favour of domestic suppliers and should be noted as such in the service schedules. It is provisions such as these that require careful consideration when formulating a services liberalisation strategy or drafting a schedule of services commitments.⁶¹

Section 5 Services sectors of interest

It is difficult to predict in which sectors investment and expansion will occur. South Africa, Argentina, Brazil and Chile all have prominent multinational companies which would arguably be competitive in a wide range of services industries. International expansion depends not only on regulatory barriers but also on market conditions in third countries. An examination of the barriers to entry will reveal the available options, but today many expanding firms are driven by profit and shareholder considerations. Therefore, whether a company expands its presence in another country also depends on, among others things, its corporate strategy, the potential of the target market, the conditions that exist in the target market and perhaps even current issues in its domestic environment. The opportunities and threats must be weighed against the costs of setting up operations, the potential for

⁶⁰ See last paragraph of Section 3 of the National Ports Authority Regulations 2007: '...or an equivalent rating in terms of the Sector Code if any'.

⁶¹ In 2007 European investors in granite mines lodged a request for international arbitration against the South African government with the International Centre for the Settlement of Investment Disputes (ICSID). It is the first international arbitration to challenge BEE policies. The claimants allege that certain obligations contained in the Mineral and Petroleum Resources Development Act and BEE Mining Charter violate bilateral investment protection treaties with Italy and Luxembourg by unfairly discriminating against Italian investors. The Mining Charter is one of those charters that do not distinguish between foreign and domestic firms. In a Request for Arbitration filed in 2007, the European investors allege that they have suffered an 'expropriation' of the companies' pre-existing mining rights, and have suffered 'unfair and inequitable treatment at the hands of state officials. See Peterson (2008). The progress of the case can be followed online at: <http://icsid.worldbank.org/ICSID/FrontServlet?requestType=CasesRH&reqFrom=ListCases&caselD=C90&actionVal=viewCase>. In 2008 the Department of Trade and Industry embarked on a review of the bilateral investment treaties. This was published in June 2009. The report can be downloaded online at: <http://www.pmg.org.za/files/docs/090626trade-bi-lateralpolicy.pdf>.

growth, the possible return on investment and the risk profile in that market (McMilan 2006). This corporate dimension backdrop with its profit driven motives must be kept in mind when discussing services sectors of interest.

Another challenge when speculating on the type of investment is how to accurately measure trade flows in services. Among other things, accurate statistics are necessary to evaluate market access opportunities, compare liberalisation commitments, assess the extent of liberalisation reached in specific sectors and provide statistical background for the settlement of disputes (WTO 2008). In this instance, it is difficult to make certain assumptions on the services sectors of interest without access to reliable data.⁶² Data focusing on the specific mode of supply or individual sectors is hard to obtain. For the sake of consistency and comparability the services statistics in the chapter were taken from the most recent Trade Policy Reviews of SACU, Argentina, Brazil and Chile.

Table 2: Percentage shares of services sector in GDP (%)

	2002	2003	2004	2005	2006	2007	2008
Botswana	47.7	46.5	46.6	47.5	47.0	48.6	51.4
Lesotho	-	42.3	42.5	42.7	41.8	-	-
Namibia	-	58	57	57	56	57	58
South Africa	62.2	63.1	63.5	63.8	64.5	65.0	65.6
Swaziland	-	46.4	48.1	48.4	49.8	50.4	-
SACU (total)	58.3	60.2	60.6	60.6	59.8	59.3	58.3
Argentina	58.1	54.6	54.2	55.3	57.0	-	-
Brazil	-	64.7	62.9	65.0	64.7	65.8	65.8
Chile	-	65.3	64.7	65.3	65.6	65.8	66.9

Source: WTO Trade Policy Review for SACU, Argentina, Brazil, Chile 2007 – 2009

The contribution of services to the GDP of all the examined countries remained fairly stable and has not changed significantly since 2002. For example, in 2002 services accounted for 58.3 percent of SACU's GDP, exactly the same percentage as recorded in 2008. This illustrates that the services sector forms a large and important part of economic activity in a country. It can be argued that the share of services

⁶² The intangibility of services, the fact that many services are digitised and delivered through electronic means, the intricate composition of multinational firms and the multitude of institutions recording statistics are some of the reasons put forward for the lack of reliable services data.

value expressed in terms of GDP tends to rise with a country's level of income. Services consumption currently represents more than two-thirds of world GDP with an average of 72 percent in high income countries compared to 54 percent and 45 percent in middle and low income countries respectively (WTO 2008).

Focusing on the individual countries within SACU, services in Botswana accounted for 51.4 percent of GDP in 2008, rising steadily from 47.7 percent in 2008. Banking, insurance and professional services (11.8%) make the largest contribution to GDP in the country. The financial services sector (banking and insurance) is the focal point of Botswana's services strategy. Although Botswana lacks an explicit trade in services policy or detailed plan to develop trade in services⁶³, the idea is to establish the country as a hub to facilitate the delivery of a wide range of cross-border financial services to clients in the region.

In the case of South Africa, the finance, insurance, real estate and business services sector (20.1%) comprises the biggest share of the services sector followed by the community, social and personal services sector (18.0%) and wholesale and retail trade, catering and accommodation (13.8%). South Africa has well developed services industries and has been exploiting its comparative advantage in the region by successfully exporting a wide range of services including professional, communication, construction, wholesale and retail and financial services. The volume of services trade in the rest of SACU is negligible, with tourism and travel services making the largest contribution towards services exports. Lesotho includes water distribution as a service, and this accounts for nearly 50 percent of its services exports.

The data on trade in services of the South American countries is far more detailed than that provided by SACU. It is therefore easier to determine the relative importance of each services sector. The data is also more logically structured by closely following the classification of the services sectors as set out in the W120 list⁶⁴. Services data is measured in terms of transport, travel, communications

⁶³ SACU Trade Policy Review 2009

⁶⁴ This is the sectoral classification list in terms of which the specific commitments are scheduled under GATS. It is generally known as the W120 list and was already compiled in 1991. The list which is a condensed version of the United Nations' Central Product Classification (CPC) Listing for services with about 600 sub-sectors is further divided into 160 sub-sectors. This W120 system is also used to identify services in bilateral and regional negotiations.

services, construction services, insurance services, financial services, computer and information services, business, professional and technical services, personal, cultural and recreational services, and government services. Namibia was the only SACU which included the same level of details on its services trade flows.

Table 3: Services trade flows, 2005 (US\$ millions)

	Exports			Imports		
	Argentina	Brazil	Chile	Argentina	Brazil	Chile
Transport	1,306	3,139	4,301	1,958	5,089	4,135
Travel	3,336	3,861	1,109	3,341	4,720	1,050
Communication	212	-	147.6	268	-	158.3
Construction	46	-	-	2	-	-
Insurance	0	134	163	218	702	462.8
Financial	6	507	256	198	737	34
Computer and information	200	88	-	168	1,626	-
Business, professional and technical	922	6,038	-	852	2,387	-
Personal, cultural and recreational	154	-	-	155	-	-
Government services	112	1192	-	262	1,947	-
Total	6,343	16,043	7134	8,008	24,356	7,755

Source: WTO Trade Policy Review for SACU, Argentina, Brazil, Chile 2007 – 2009

The most important sectors in Argentina on both sides of the balance sheet are travel and transport services, which represent roughly three-quarters of services exports and more than two-thirds of services imports. This is followed by business and professional services which constitute about 15 percent of Argentina's services exports and just over 10 percent of its imports. The situation is similar in Chile where transport and travel services contributes around 75 percent of exports and over 66 percent of all services imports. In Brazil the travel and transport sectors represent 43 percent of services exports and 40 percent of the country's services imports – significantly lower than the figures recorded in the Argentina and Chile. The most prominent services industry in Brazil is business, professional and technical services which contributes around 39 percent of its services exports. This seems to be in line

with the trend in South Africa which also exports a wide range of business services to less developed countries in the southern African region.

Conclusion

It appears unlikely that negotiations between Mercosur and SACU will be expanded to include a services component. Until they decide to do so, there are a number of measures countries can employ to facilitate the trade in services. Most important is access to relevant information and the transparency of domestic legislation. The GATS schedules are outdated and not a clear reflection of current domestic realities. Foreign suppliers can therefore not rely solely on the information provided for in the GATS schedules. Instead, it is advisable to examine the relevant domestic legislation and regulations in order to confirm the existing regulatory conditions. There is a general obligation in GATS to maintain enquiry points and publish all measures affecting the trading of services, but in practice access to such relevant information is not simple. These points need to be upgraded to sophisticated information portals where all relevant and current restrictions can be published for public perusal.

Creating such a database will be easier for countries utilising a negative list approach since all restrictions must be specifically listed. Once the database has been created, it can easily be updated. This is of particular importance when dealing with countries whose native language is not English; most of the documentation in South America is either in Spanish or Portuguese. The information portals can furthermore be complemented and used by promotion and investment agencies to generate additional investment. Effective enquiry points with sufficient capacity can elevate a country above its competitors by providing interested parties with an accurate representation of each services industry, investment possibilities and investment procedures for establishment.

The process of services liberalisation and the formulation of an appropriate strategy provide countries with the opportunity to reconsider domestic governance issues, domestic policy issues and domestic regulatory issues. Barriers to trade in services are maintained through domestic legislation and regulation so that the focus is more on what happens at a domestic level. Opening up services markets does not guarantee that foreign investment will flow into a country. If the conditions in these

markets are not favourable, foreign suppliers will not consider establishing a commercial presence. A more holistic approach is needed to create an optimal environment in which foreign and domestic companies can operate. Not only is a liberalisation strategy important to regulate and restrict market access for foreign firms, it is also crucial for technology and skills transfer in order to develop and grow local enterprises.

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Chapter 8

Chile and South Africa: An assessment of a possible FTA agreement

Ron Sandrey and Hans Grinsted Jensen¹

Summary and key points

South Africa and Chile share many characteristics. Both are medium-sized southern hemisphere countries at the ‘developed end’ of the developing country spectrum with large mineral resources that dominate exports and agricultural sectors noted for their fruit exports in particular. Chile’s solid economic performance in recent years has been based on sound macroeconomic management, institutional and structural reforms, trade openness and the prudent management of its mineral resources. The country’s agricultural and agri-business sectors have also been important to this economic success. Chile’s trade regime is defined by its uniform Most Favoured Nation (MFN) tariff of 6 percent, but an average effective tariff of only about 2 percent given its comprehensive network of free trade agreements (FTAs). In addition, Chile’s agricultural sector, like South Africa’s, is very lightly protected.

This chapter examines the implications for South Africa and the rest of the Southern African Customs Union (SACU) of seeking an enhanced trading relationship with Chile in the form of an FTA. This relationship has some intuitive appeal as, unlike in the case of a potential FTA with China (clothing) and Brazil (motor vehicles and sugar), there appear no obvious sensitive sectors which would lead to a cautious approach from South Africa. Importantly, while direct bilateral trade opportunities may be limited there are other gains (not fully explored in this chapter) such as market coordination and investment and technology transfer opportunities for South Africa that may be enhanced by an FTA.

In keeping with the theme of tralac’s ‘South Africa’s way ahead’ series we concentrate our analysis here on the agricultural sector. The similarities in the agricultural sectors in South Africa and Chile quickly become apparent. In production the top four commodities by value – beef, chicken, grapes and milk – are common to both (as are maize and eggs), while wine, grapes and apples feature in the top four

¹ The authors would like to thank Taku Fundira for some data analysis and Nick Vink for helpful comments on the manuscript.

export lines for both countries. However, agricultural exports are much more important to Chile than they are to South Africa, as although both countries are major resource exporters (copper in the case of Chile and gold, platinum and iron ore among others in South Africa's case), South Africa has significant manufacturing exports that are not replicated from Chile. International competitiveness analysis highlights that while South Africa is 'competitive' in the export of deciduous fruits, Chile is 'strongly competitive' and, importantly, that Chile's competitive advantage increases as further value-adding processing take place. This suggests that South Africa needs to improve its overall policy framework and support areas such as infrastructural development and research and technology in agricultural processing. The European Union (EU) market is important for agricultural exports from both countries, but Chile has decidedly better access to this market through its FTA than South Africa has through its Trade, Development and Cooperation Agreement (TDCA). This is especially true for wine, grapes and oranges.

This chapter uses the same pre-release Version 7 of the Global Trade Analysis Project (GTAP) model as used in Chapter 4 to assess the welfare and trade gains from the FTA as determined by tariff-free merchandise goods access and a small reduction in barriers to services trade. South Africa's moderate gains are US\$37 million, a figure higher than Chile's US\$27 million. The losers in dollar terms are the EU and the rest of the world combined. There were very limited changes to overall aggregate trade flows for South Africa or Chile. There were also effectively no changes in the values of the production, trade and relative price in the main agricultural and resource sectors for South Africa, but there was a little more action in the manufacturing sector.

South African merchandise **exports** to Chile increase by US\$57 million but only by US\$35 million overall as some of the increased exports to Chile arise through trade diversion. These increased exports are concentrated in iron and steel, chemicals, rubber and plastics, and 'other machinery and equipment'. **Imports** from Chile increase by US\$32 million, with imports from the world (including Chile) increasing by US\$34 million. These imports are heavily concentrated in the apparel sector and chemicals, rubber and plastics. The model also suggests that given our assumptions, output in the South African services sector increases significantly by US\$87 million.

Introduction

South Africa is continually assessing its future trade policy options. To assist in this enterprise, tralac has conducted research to produce this book, which focuses on South Africa's agricultural trading relationship with Brazil and Argentina, and in particular on ways in which this relationship could be advanced by the adoption of an FTA between South Africa (or, more properly, SACU) and Brazil and Argentina (or, again more properly, the Mercado Comun del Sur (Mercosur)). As an extension to this SACU-Mercosur relationship, tralac decided to also undertake an analysis of the South Africa-Chile trading relationship given both the close proximity of Chile to Mercosur and the similarities that exist between the trading profiles of South Africa and Chile. We are fully conscious that South Africa, as a major member of SACU, cannot unilaterally enter into an FTA with Chile, but given the relatively minor trade relations between Chile and the rest of SACU we have ignored this detail. The internationally accepted benchmark Global Trade Analysis Project (GTAP)² global computer model is used here as an analytical tool. In undertaking this analysis, the starting point is a simulation of the 'known' and best estimate conditions that will prevail at the end of a given period (2020 in this case). This is then assessed against the difference that the selected policy change under consideration is likely to make.

The objective of this chapter is therefore to undertake a simulation that examines the impacts of an FTA between South Africa and Chile. We believe such an analysis provides a useful pointer to the potential gains that two medium-sized southern hemisphere countries with similar agricultural trading patterns can derive from an FTA. Before making this analytical assessment we provide a comprehensive background to the political and economic regimes of Chile, and, in keeping with tralac's 'South Africa's way ahead' series, focus on its agricultural sector in particular.

Section 1 Chile's economy and FTA policy

Chile is a South American temperate climate country bordering the Pacific Ocean with a population of 16.6 million (approximately one-third of South Africa's population of 49 million). The Central Intelligence Agency (CIA) World Factbook estimated the 2008 gross domestic product (GDP) in purchasing power parity (PPP) terms to be

² See the GTAP website at <https://www.gtap.agecon.purdue.edu/> for a full introduction to the model.

US\$245.3 billion, giving a per capita level of US\$14,900. The comparison with South Africa from the same CIA website is for GDP at US\$489.7 billion or US\$10,000 per capita. Chile also has a lower poverty rate than South Africa (18.2% in Chile versus the CIA estimate of 50% in South Africa) and therefore a more even distribution of wealth. Exports account for 40 percent of GDP, with commodities (dominated by copper) making up some three-quarters of total exports and copper providing one-third of government revenue.

Patricio Aylwin took office in March 1990 as Chile's first democratically elected president after almost 17 years of military rule, and the broad centre-left coalition he led has been in power ever since. Like South Africa, the new democratic regime set about seeking economic growth with a more equal distribution of wealth following the military (apartheid in South Africa's case) regime. Since then Chile has made important progress in raising incomes and reducing poverty, and, importantly, reducing income inequality in the country. This success has been based on sound macroeconomic management, institutional and structural reforms, trade openness and the prudent management of mineral resources.

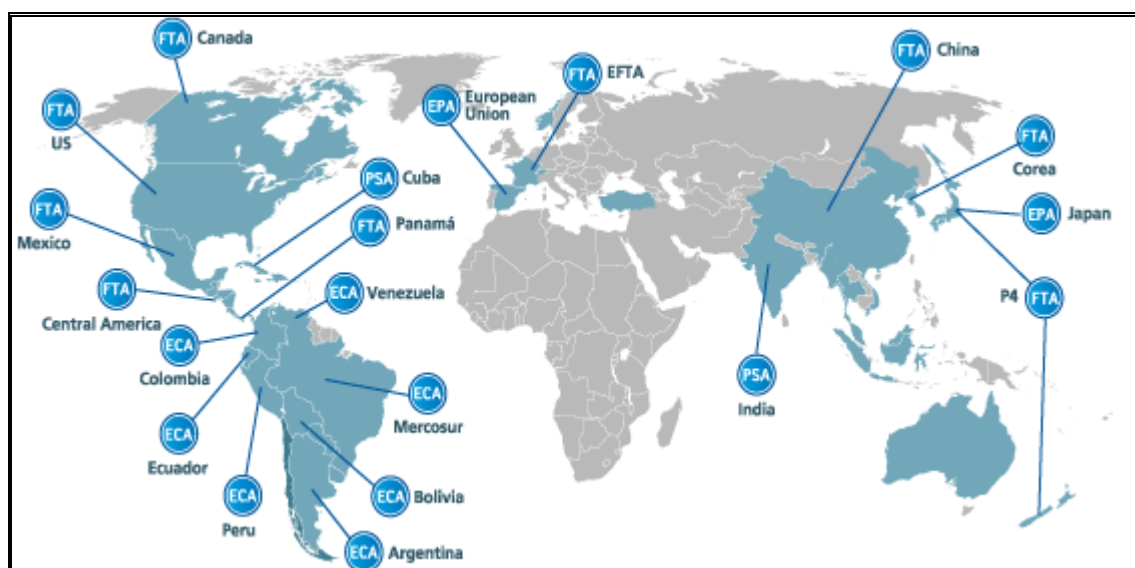
The agricultural sector, and especially its related downstream activities, has played a key role in Chile's economic success. The incomes of agricultural households have increased, but most of this increase for small-scale farmers derives from improved off-farm opportunities. Agriculture has benefited from an open trading environment, characterised by a uniform MFN tariff of 6 percent but an average effective tariff of only about 2 percent given Chile's extensive FTA network (albeit with the exception of wheat, wheat flour and sugar which are covered by the price band tariff system operating during seasons of the year when prices for these commodities are low). Agriculture is very lightly protected, with an average Producer Support Estimate (PSE) as a share of gross farm receipts of just 4 percent in 2005–07, and prices received by farmers only 1 percent above world market prices during the same period. Thus budgetary payments have dominated producer support in recent years, with relatively little coming from market price support. Government expenditures on agriculture have nevertheless more than trebled in real terms over the past ten years,

with about half of this spending on public goods and the other half on measures assisting the competitiveness of Chile's poorer farmers.³

On trade policy, the *bilaterals.org* website highlights just how active Chile is in concluding FTAs. As of April 2009 the site reports that Chile has signed more or less comprehensive FTAs with the US, Canada, the European Union, the European Free Trade Association (EFTA), South Korea, Japan, Central America and Mexico. In June 2005, it finalised a four-way deal with Pacific neighbours Brunei, New Zealand, and Singapore (P-4), and in June 2006 it signed an FTA with Panama. It was the first Latin American country to have sealed an FTA on goods with China (2005) and since early 2007 it has been working with Beijing on an expansion of that deal to cover services and investment. Chile also has bilateral 'economic complementarity agreements' with Bolivia, Peru, Venezuela, Argentina, Ecuador, Colombia and Mercosur, as well as a partial agreement with Cuba. In 2008, Chile signed FTAs with Australia, Honduras, and Colombia and expanded its agreements with Peru and Cuba. Negotiations with Turkey, Malaysia, India, and Panama are ongoing. Chile's active FTA regimes are highlighted on the global map in Figure 1, with Africa perhaps the most prominent omission from the map. The WTO (2009) reports that at mid-2009 Chile had in force 21 regional trading arrangements (RTAs) with 57 trading partners, and as a result, just over 92 percent of Chile's total merchandise trade is carried out with preferential partners. Importantly, and with possible implications for an agreement with SACU, Chile seeks FTAs that are comprehensive in areas such as trade in services, investment, government procurement and other so-called 'second generation' issues.

³This paragraph has drawn heavily from OECD (2008), and more details can be found in WTO (2009).

Figure 1: Chile's trade preference profile



Source: <http://www.bilaterals.org/IMG/rubon130.gif>

Section 2 South Africa

South Africa, classified as a developing country, is situated at the southern tip of Africa, and is bordered by Namibia, Botswana, Zimbabwe, Mozambique and Swaziland as well as surrounding Lesotho. It is one of the members of the world's oldest customs union, SACU.⁴ In 1910 South Africa became a self-governing union as a member of the Commonwealth, but in 1961 owing to the accentuation of the apartheid regime and associated peer pressure it became a republic and withdrew from the Commonwealth to begin a 30-year period of international isolation. The 1990s brought a political end to apartheid and ushered in black majority rule under the new 'Rainbow Nation' and the leadership of Nelson Mandela. South Africa had emerged from three centuries of racially based minority rule, including forty-six years of virulent ideological apartheid.

Since transition to democracy in 1994 the country has embarked on major unilateral liberalisation that was reinforced by the multilateral tariff and subsidy reductions under its WTO commitments and the signing of the TDCA with the EU.⁵ Other trade

⁴ The Southern African Customs Union came into existence on 11 December 1969 with the signature of the Customs Union Agreement between South Africa, Botswana, Lesotho, Namibia and Swaziland (with the latter four commonly referred to as BLNS). It entered into force on 1 March 1970, thereby replacing the Customs Union Agreement of 1910.

⁵ The Trade Development and Cooperation Agreement (TDCA) is a free trade agreement between the EU and South Africa which came into force in 2004.

initiatives include ongoing work on the Southern African Development Community (SADC) FTA, the current Economic Partnership Agreement (EPA) negotiations between the EU and the African, Caribbean and Pacific Island (ACP) countries, the very partial SACU-Mercosur Preferential Trade Agreement (PTA) and the unilateral but non-reciprocal African Growth and Opportunity Act (AGOA) with the US. Importantly, the new SACU Agreement severely restricts individual SACU members' ability to conclude trade agreements other than as members of SACU (Article 31).

South African trade policy and the agricultural sector

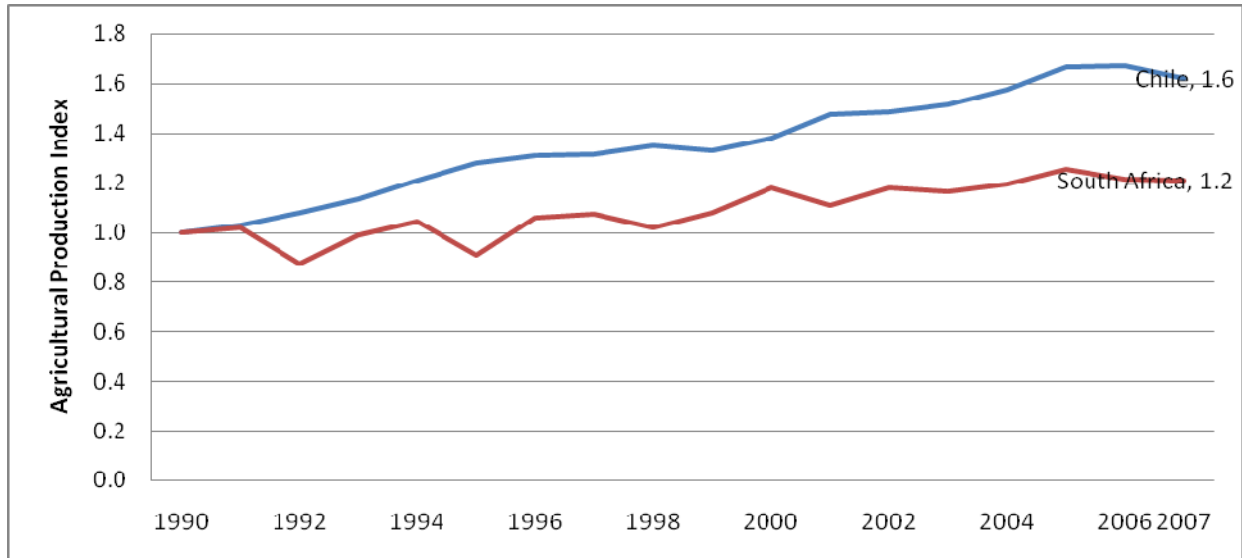
When combined with agri-processing South Africa's agricultural sector contributes around 14 percent to GDP and accounts for around 8 percent of formal employment, as it employs around two million workers. The sector has undergone enormous economic, social and political change since 1994, and has become increasingly integrated into world markets. Agricultural exports have declined as a percentage of total exports from 35.2 percent in 1965–69 to 8.2 percent during 2000–2005, although the most recent June 2009 six-monthly period sees the figure back up to 9.6 percent. Around one-third of agricultural production is exported with processed agricultural exports more important than unprocessed exports. The sector is highly dualistic with a small number of commercial operations run predominantly by white farmers and large numbers of subsistence farms run by black farmers.

The concentration of agricultural exports remains high. Fruit in general is the main export, followed by wine, sugar and maize. During the first six months of 2009 the main HS 4 exports were wine (largely to the EU), maize (Kenya and Zimbabwe), grapes (EU), apples (EU), citrus fruit (EU), and sugar (Mozambique, India and Zimbabwe). Imports of agricultural products represented only 6.4 percent of South African imports during the first six months of 2009, with these imports concentrated in rice (mainly from Thailand), soya bean oilcake (Argentina), palm oil (Indonesia and Malaysia), wheat (EU and Argentina) and chicken meat (Brazil). Reversing the general trend of recent years and returning to long-standing patterns, agricultural exports were more than imports over the first six months of 2009.

Section 3 Chile and South Africa: Agricultural production comparisons

To set the scene Figure 2 illustrates how growth in Chilean agricultural production has outstripped South Africa's in the period since 1980. The Food and Agricultural Organisation (FAO) data is indexed to 1980 = 1.0. By 2007 South Africa had reached 1.21 or a 21 percent increase while Chile had grown to 1.62 or a 62 percent increase.

Figure 2: South Africa and Chile, agricultural production



Source: FAO database

The Chilean and South African agricultural sectors share many characteristics, the main one being the similarities of the two sectors' production. This is shown in Table 1 where the top ten agricultural commodities for each country are reported. The data is ranked by production value in US\$ millions for 2007 and sourced from the FAO. There are very similar production patterns for both countries. Indeed, both countries rank in the top 20 global producers of grapes, pears, apples, lupins, lemons and peaches, suggesting potential trade competition in third markets as both are southern hemisphere producers.

Table 1: Agricultural production in South Africa and Chile, 2007 (US\$ millions)

South Africa		Chile	
Commodity	US\$ millions	Commodity	US\$ millions
Beef	1,635.3	Grapes	1,090.2
Chicken	1,136.0	Cow milk	605.8
Grapes	841.1	Chicken	533.2
Cow milk	759.0	Beef	445.9
Sugar cane	421.7	Pig meat	416.1
Maize	354.8	Apples	399.2
Hen eggs	337.1	Tomatoes	300.9
Wheat	285.0	Avocados	160.7
Oranges	248.2	Wheat	142.3
Potatoes	247.0	Hen eggs	107.1
Top 20 total	7,374	Top 20 total	4,931

Source: FAO database

Note from Table 1 that:

- The top four commodities are common to both countries;
- Of the top 10 South African products shown six are common to Chile's top 10;
- Of the other products in South Africa's top 10, potatoes rank 10th in South Africa and 11th in Chile; neither oranges or maize rank in Chile; cane sugar ranks 5th in South Africa as distinct from Chile's beet sugar at 16th;
- The top 20 commodities total US\$7.37 billion for South Africa, around 50 percent more than the US\$4.93 billion for Chile.

Fisheries production and trading patterns

While not strictly a component of agriculture we considered it helpful to outline fisheries production and trade profiles for both Chile and South Africa, and especially so as fisheries is also of interest to Namibia. The FAO maintains a global fisheries database that contains the annual volume of aquatic species caught by country or area, by species, by major fishing areas, and for all commercial, industrial, recreational and subsistence purposes. The comparison of South Africa and Chile's marine fisheries production in Table 2 reveals that:

- both countries produce and harvest significant marine fisheries resources; but
- Chile produced/harvested more than South Africa.

Table 2: Fisheries production in South Africa and Chile, 2007 (tonnes)

Species	South Africa	Chile
	2007	2007
Aquatic plants	9,600	359,770
Crustaceans	3,682	22,185
Marine fishes	655,540	3,567,232
Molluscs	11,856	352,082

Source FAO Fisheries Global Production database

Table 3 shows the top 10 fisheries exports of Chile and South Africa during 2007. The table reveals that:

- Only two products (HS030429 – frozen fish fillets and HS030379 – frozen fish not elsewhere specified) are common in the top 10 for both countries.
- Despite differences in the product mix, the bulk of both countries' fisheries exports are accounted for by these top 10 products (83% in Chile's case and 84% in South Africa's).

Not shown is that Chile's fisheries exports account for about 6 percent of total Chilean exports compared to a significantly lower figure of about 1 percent for South Africa.

Table 3: Top 10 fisheries exports from Chile and South Africa (US\$ millions)

Exports to world					
HS 6	Chile		HS 6	South Africa	
	Product description	2007		Product description	2007
	Total	65,738.86		Total	64,026.61
	Fisheries	3,673.05		Fisheries	494.59
	Share of fisheries	5.6%		Share of fisheries	0.8%
030419	Fresh or chilled fillets	564.57	030429	Frozen fish fillets	84.39
230120	Flour meal	538.44	030749	Squid	75.12
030429	Frozen fish fillets	530.52	030269	Fish nes*, fresh or chilled	57.37
030499	Frozen fish meat	386.34	030621	Lobster fresh	39.60
030319	Frozen Pacific salmon	271.37	030611	Lobster, etc. frozen	38.38
030321	Trout, frozen	264.14	030379	Fish nes, frozen	31.05
160590	Molluscs	166.76	030378	Hake, frozen	27.73
030379	Fish nes*, frozen	116.46	230120	Flour, meal fish	25.77
160419	Fish nes, prepared	108.99	030791	Molluscs	18.18
030212	Salmon, other	107.22	030371	Sardines	16.71
Top 10 fisheries subtotal		3,054,810	Top 10 fisheries subtotal		414,281
Share of top 10 in total fisheries		83%	Share of top 10 in total fisheries		83.8%

*not elsewhere specified

Source: TradeMap, ITC UNCOMTRADE Database

Examining the trade profiles further in term of exports to the EU, we find that Chile's fisheries exports account for a higher share (4.6%) of total EU fisheries imports, while South Africa's fisheries exports account for only a 1.2 percent share of total fisheries imports into the same market. A tariff analysis reveals that:

- The EU extends greater preferences in fisheries products to Chile than it does to South Africa;
- The maximum tariffs levied on Chile and South Africa are 20 percent and 22 percent respectively, while the average tariff facing Chile is 2 percent compared to 6 percent as calculated for fisheries imports from South Africa;
- Anchovies and tuna attract the highest tariff for both South African (22% and 21%) and Chilean (12% and 20%) imports into the EU.

Section 4 Chile and South Africa: Global trading patterns

Table 4 shows the top ten HS 6 lines of exports from Chile by value on the left-hand side and the country's top 10 export destinations on the right-hand side. Copper represents over half of the exports from Chile, with molybdenum featuring in third place. Fish fillets are in 6th place, with agricultural exports of wine and fresh grapes also in the top 10. By destination, China is in first place, followed by the US and Japan. Note that the EU countries are given separately, and that if they were grouped as 'EU' they would be ahead of China. Food and beverages accounted for 14.5 percent of total exports.

Table 4: Chile's global exports, 2007 (US\$ millions)

Commodity (HS 6 lines)		Destination	
Total	65,739	Total	65,739
Refined copper	20,417	China	9,980
Copper ores	13,476	US	8,419
Molybdenum ores	3,086	Japan	7,092
Unrefined copper	2,901	Netherlands	3,909
Wood pulp	2,347	Republic of Korea	3,849
Fish fillets	1,530	Italy	3,454
Other commodities	1,436	Brazil	3,356
Wine	1,257	France	2,391
Refined petroleum	778	Mexico	2,367
Grapes	862	India	2,212
Share of top 10	73%	Share of top 10	72%

Source: Comtrade 2008 Yearbook; <http://comtrade.un.org/pb/CountryPagesNew>

During 2007 imports were worth US\$42.73 billion, giving Chile a positive balance of US\$23 billion on merchandise trade. Top imports were petroleum, vehicles, transmission equipment, molybdenum ores, data processing machines, heavy machinery and plastics.

World Trade Atlas (WTA) data for South African exports during 2008 (Comtrade 2008 data was not available) gives total exports of US\$80.2 billion, with platinum (US\$9.96 billion), ferro-alloys (US\$56.98 billion), gold (US\$5.52 billion) coal (US\$4.67 billion), and vehicles (US\$4.54 billion) representing the top five spots. The

main destinations were the EU, US, Japan, 'Unallocated' and China. In an export mix dominated by resources and manufactures, agricultural exports do not feature.

Although agricultural exports are more important for Chile as shown in Table 4, a similar pattern to the common agricultural production theme exists for agricultural trade for both countries. This is shown in Table 5 where wine is the main agricultural export commodity from both countries and grapes and apples appear third and fourth for South Africa but second and third for Chile. Counting wine as a fruit product there are seven fruit products on the list for South Africa and five (along with avocados) for Chile. Overall, Chile's agricultural exports of US\$11.23 billion are more than double South Africa's agricultural exports of US\$4.11 billion.

Table 5: South Africa and Chile, global agricultural exports for 2007 (US\$ millions)

South Africa		Chile	
Commodity	US\$ millions	Commodity	US\$ millions
Total agriculture	4,109.3	Total agriculture	11,234.8
Wine	668.7	Wine	2,414.1
Oranges	390.2	Grapes	1,966.8
Grapes	312.6	Apples	1,104.7
Apples	212.3	Pork	656.4
Sugar Raw	200.4	Fruit Prep other	554.0
Fruit Prep other	172.2	Avocados	357.8
Wool, greasy	145.7	Cranberries	314.5
Food Prep other	129.6	Crude Materials	292.0
Pears	118.2	Maize	232.3
Grapefruit	99.4	Chicken meat	195.,9
Share of top 10	59.6%	Share of top 10	72.0%

Source: FAO database

The main destinations for Chilean agricultural and fisheries exports are the EU and US, while the main import sources are Argentina and the US. This is shown in Table 6 for 1997 and 2008. Note that the data is sourced from the World Trade Atlas and thus may not reconcile with other data used in this chapter.

Table 6: Chilean agricultural and fisheries trade, 1997 and 2008

Exports			Imports		
	1997	2008		1997	2008
Total (US\$m)	4,321	11,693	Total (US\$m)	1,229	4,453
Destination	Share of exports (%)		Source	Share of imports (%)	
EU	19.6	25.1	Argentina	40.1	41.8
US	23.1	22.2	US	10.2	12.1
Japan	18.4	10.9	Paraguay	3.6	8.0
Venezuela	1.3	5.4	Brazil	4.1	6.0
Mexico	1.8	4.8	EU	8.9	5.9
China	1.2	3.8	Peru	1.0	3.6

Source: World Trade Atlas data

The table highlights that (a) exports of US\$11.69 billion were worth more than double imports of US\$4.45 billion in 2008 and (b) that Japan has become less important as an export destination while Venezuela, Mexico and China have become more important. Not shown is that the main exports to the EU are fish and fish products (US\$775m), wine, grapes, apples, kiwifruit and raspberries, while the main exports to the US are fish and fish products (US\$876m), grapes, wine, cranberries and maize. Chile's main imports from the world are beef, maize, edible fats and wheat.

Table 7 expands on the Chilean agricultural exports, and places South Africa's global exports of the same commodities into perspective. The data is for 2008 by the disaggregated HS 6 lines, with values expressed in US\$ millions and growth as measured by the average annual percentage change between 1997 (not shown) and 2008 values. The first column provides a description of the exports. The second and third columns show Chile's exports to the world and their changes from 1997. The fourth and fifth columns show the same data for Chilean exports to the EU, while the sixth and seventh show exports to the US. This data is given to place the EU and US in perspective. On the right-hand side the eighth and ninth columns show South African exports to the world and their associated growth over the same period to place the competition in perspective.

Table 7: Chilean agricultural exports and South African comparison, 2008 (US\$ millions)

	Chilean exports, 2008						South African exports to the world	
	to the world		to the EU		to the US		US\$m	Growth
	US\$m	Growth	US\$m	Growth	US\$m	Growth		
Wine	1,174	12%	547	13%	194	7%	550	12%
Grapes, fresh	988	8%	219	10%	484	7%	329	9%
Apples, fresh	564	10%	136	7%	57	15%	249	8%
Pork	304	27%	60	101%	3		3	2%
Food, prepared	199	8%	0	-26%	4	12%	78	14%
Wine	187	7%	106	12%	6	-14%	186	17%
Jams, etc.	177	20%	8	24%	11	24%	3	-20%
Cranberries, etc.	174	34%	38	39%	130	33%	1	43%
Cherries	170	25%	32	23%	63	29%	0	-16%
Raspberries	165	14%	79	11%	56	17%	0	23%
Kiwi fruit	152	8%	92	11%	13	0%	1	19%
Chicken cuts	145	27%	46	24%	2	0%	4	5%
Grapes, dried	127	10%	37	15%	17	13%	59	6%
Maize seed	123	8%	28	10%	92	8%	62	2%
Prunes	120	16%	53	27%	1	0%	0	-9%
Pears	108	3%	41	1%	13	-1%	118	7%

Source: World Trade Atlas, tralac calculations.

The data shows that:

- South Africa and Chile compete heavily in the first three exports lines (wine, fresh grapes and apples), the sixth line (again wine), and the final line (pears).
- In eight other lines South Africa does not compete at all.
- Where South Africa and Chile compete in global exports, export growth is similar.

Given the importance of the EU to both South Africa and Chile, access to that market is of particular importance. South Africa's TDCA with the EU allows for reciprocal tariff preferences on most merchandise goods, albeit with exceptions for many of the EU's protected agricultural sectors. Similarly, Chile has an FTA with the EU that also has some notable exceptions. In Table 8 we analyse the export profiles of both South Africa and Chile for their exports to the EU during 2007 and assess the concordance between the two agreements for access to the EU.

Table 8: Exports from South Africa and Chile to the EU, 2007 – access comparisons (US\$ millions and %)

	South Africa	Chile
Total – all exports	21,144.83	16,129.11
Goods that are duty free to both	19,032.62	14,037.95
% duty free to both	90.0%	87.0%
Goods with no preference to either	30.79	22.29
Goods with South African preference greater than Chile's	111.50	291.00
Goods with Chilean preference greater than South Africa's	1,949.89	1,671.20

Source: ITC Trademap database

The data highlights that:

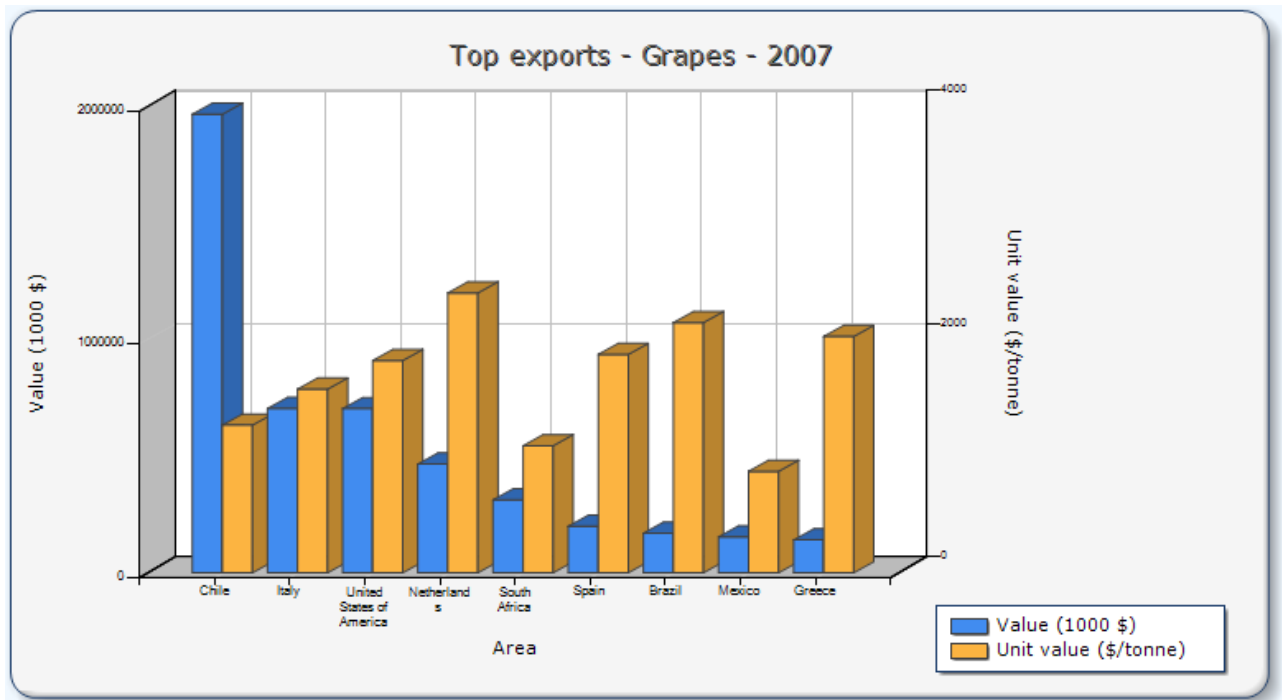
- Some 90 percent of South African and 87 percent of Chilean exports to the EU are of products on which no duty is applied to either source.
- Neither country exports significant quantities of those products on which no preferences are granted to either.
- Examination of the data shows that there is little competition between the two parties when it comes to their main exports to the EU. The top 10 duty-free exports account for 52 percent of South Africa's duty-free exports to the EU, but zero percent of Chile's exports to the EU, while the top 10 Chilean duty-free exports account for 88 percent of Chile's duty-free exports to the EU, but only 1 percent of South Africa's duty free exports to the EU.
- Raw sugar from South Africa worth US\$15,130 is the main export for which no preferences are granted, and this trade faces tariffs of 72.5 percent into the EU.
- While trade in goods where South Africa has a preference over Chile is somewhat modest, 9.2 percent of South Africa's exports to the EU is accounted for by goods where Chile has a greater preference than South Africa.
- The main South African exports in this latter category include:
 - Wine worth US\$379,898 (The tariff facing Chilean wine is 2.3% versus a 5.3% tariff facing South African wine);
 - Unwrought aluminium worth US\$312,813 (0% versus 3%);
 - Grapes worth US\$257,984 (1.2% versus 2.6%);

- Oranges worth US\$182,846 (13.5% versus 20.9%); and
- Apples worth US\$126,731 (11.0% versus 14.3%).

On a related issue Mashabela and Vink (2008) examine the relative competitiveness of the South African and Chilean deciduous fruit export sectors. They find that South Africa has a revealed global competitive advantage in selling deciduous fruit but that the advantage decreases as the product moves through the value chain, with this decline possibly associated with higher costs and less efficiency in the processing sector. Chile, conversely, has a 'strongly competitive' advantage in selling deciduous fruit and this advantage increases as the Chilean product moves through the value chain. Chile's export structure is dominated by high-value products relative to South Africa. This success resulted from Chilean reforms which focused on international demand and resourced a policy regime to support the supply chain. The authors believe that more sector coordination, government infrastructure investment and research and technology are required in South Africa to emulate Chile's success.

Table 7 shows that table grapes are Chile's second most significant agricultural export after wine. The relative positions for both Chile and South Africa in global table grape exports are shown in Figure 3, with the left-hand bar for each country denoting value (in US\$ millions) and the right-hand bar denoting average values in dollars per tonne. The data shows that Chile is the main exporter by value, followed by Italy, the US, the Netherlands and South Africa. Chilean exports of around US\$2 billion are considerably above the US\$313 million from South Africa, while Chile's average value of US\$1,267 per tonne is also above South Africa's US\$1,090 per tonne average.

Figure 3: Global grape exporters, 2007 (US\$ '000s and US\$/tonne)



Source: FAO database

Table 9 goes further and shows the relative global table grape trade profiles for both Chile and South Africa for the year 2008. The data gives imports from both Chile and South Africa into the main global table grape markets by both value (in US\$ millions) and market share, along with the percentage of global table grapes destined for that market. Note that the data used here is US import data, and the figures will be higher than the comparable Chilean export data shown in Table 7 as they include freight and associated costs.

Table 9: Chilean and South African table grape trade, 2008 (US\$ millions)

Destination	Imports from (US\$m)			Share of imports		Share of world trade
	Chile	SA	World	Chile	SA	
United States	679	1	975	70%	0%	21.9%
EU (External)	467	469	1,491	31%	31%	33.5%
Canada	150	6	357	42%	2%	8.0%
Russia	71	21	526	13%	4%	11.8%
Korea	64	0	71	90%	0%	1.6%
Hong Kong	46	13	181	25%	7%	4.1%
China	45	0	95	48%	0%	2.1%
Mexico	42	0	112	38%	0%	2.5%
Venezuela	13	0	27	49%	0%	0.6%
Norway	13	31	101	13%	31%	2.3%
Taiwan	8	2	36	23%	5%	0.8%
Indonesia	6	2	48	12%	5%	1.1%
New Zealand	4	0	22	20%	0%	0.5%
Ukraine	2	1	45	5%	3%	1.0%
Thailand	2	1	44	4%	1%	1.0%
Singapore	1	7	36	4%	21%	0.8%
Switzerland	1	8	79	2%	10%	1.8%
Subtotals	1,661	569	4,454	37%	13%	
Subtotal as % of total	97.3%	98.9%	95.3%			

Source: World Trade Atlas

The data highlights how competitive Chile is against South Africa and shows that:

- Chilean exports of US\$1.66 billion are around three times that of South African exports of US\$569 million;
- Chilean exports dominate the US market with a 70 percent share of a market that accounts for 21.9 percent of global grape imports (South Africa has a token presence only);
- in the world's leading market, the EU, the shares are almost exactly equal and together South Africa and Chile account for 62 percent of the EU's external imports (and as discussed earlier, Chilean grape imports into the EU face a 1.2 percent average tariff versus a 2.6 percent tariff on imports from South Africa);

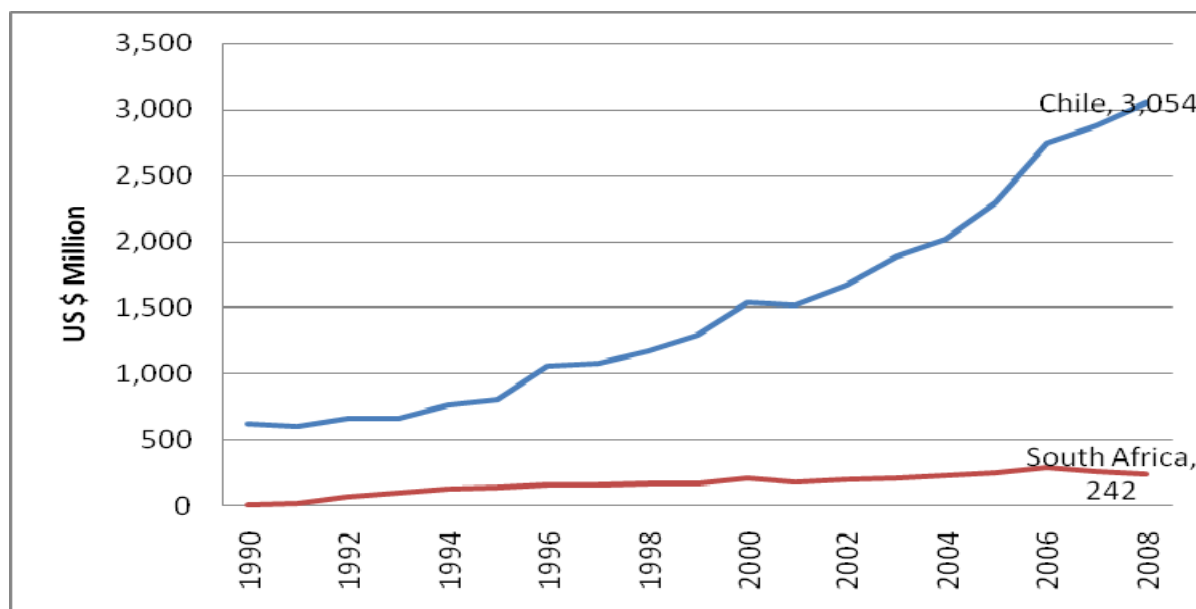
- only in Norway and Switzerland does South Africa have a higher market share than Chile; and
- the data shown represents 97.3 percent and 98.9 percent of Chilean and South African exports respectively, while the markets shown represent some 95.3 percent of recorded global table grape imports.

Not shown is that the average annual growth of imports from Chile between 2000 and 2007 was 13.8, a figure almost double the 7.2 percent average annual growth in table grape imports from South Africa over the same period.

Chile and South Africa: Agricultural and fisheries trade with the US

Figure 4 highlights how US imports in agricultural and fisheries products from Chile are significantly more than equivalent imports from South Africa and are increasing dramatically faster. As shown in Table 8, US imports of table grapes from Chile were worth US\$679 million in 2008. This represents a significant portion of the US\$3.05 billion worth of US agricultural and fisheries imports from Chile in that year (see Figure 4 below).

Figure 4: US agricultural and fisheries imports, 1990-2008 (US\$ millions)

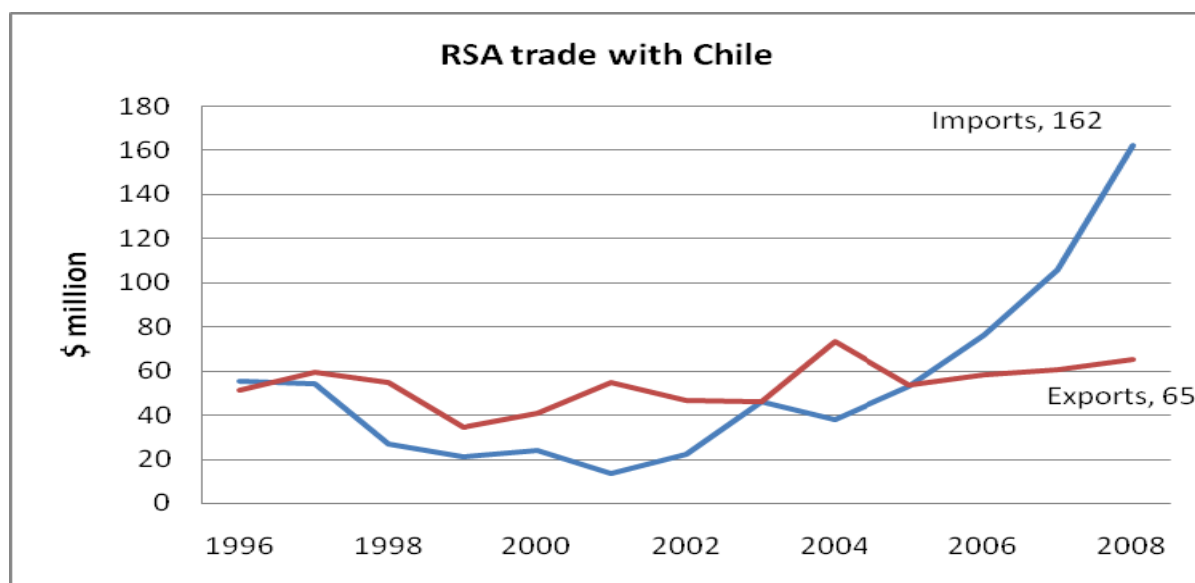


Source: World Trade Atlas

Section 5 Chile and South Africa: The bilateral trading relationship⁶

During 2008, Chile was South Africa's 71st most significant export destination (when EU countries are counted separately) and 56th most important source of imports. South Africa's merchandise trade with Chile (as reported by South Africa) is shown in Figure 5. This shows that trade was somewhat in balance until the last two years, but that from then on imports from Chile increased sharply.

Figure 5: South Africa's bilateral trade with Chile, 1996–2008 (US\$ millions)



Source: World Trade Atlas

Table 10 shows the products which account for the most significant proportion of bilateral trade between South Africa and Chile. Imports into South Africa are very concentrated, with the five lines shown accounting for 83 percent of the total, while the top five South African exports to Chile account for only 41 percent. In particular, molybdenum and nitrates comprise a large share of South Africa's imports from Chile. There are also solid contributions from phosphate fertilisers and ferroalloys.

⁶ This section uses South African trade data as reported by the World Trade Atlas. We have not attempted to reconcile this data with the bilateral trade as reported by Chile. Nor have we undertaken 'trade chilling' analysis to assess where potential trade possibilities for South Africa may exist.

Table 10: South Africa and Chile bilateral trade, 2008 (US\$ millions)

South Africa exports to Chile		Imports from Chile	
Description (HS 4)	US\$ millions	Description (HS 4)	US\$ millions
Total	64.95	Total	162.03
Machinery parts	8.42	Molybdenum	59.35
Cobalt	7.09	Nitrites	31.55
Ferroalloys	6.01	Phosphate fertilizer	19.49
Machinery for screening	3.04	Ferroalloys	17.60
Chromium ores	2.28	Heavy machines	5.96
Share of top 5 in total	41%	Share of top 5 in total	83%

Source: World Trade Atlas

Agricultural bilateral trade is insignificant. During 2008 South Africa exported agricultural products to the value of US\$2.3 million to Chile (seeds and frozen fruit being the most important items) and imported agricultural products worth US\$3.2 million with beans, ethyl alcohol and fruit juices dominating these imports.

Section 6 Assessing the FTA: the GTAP database/model

The Global Trade Analysis Project is supported by a fully documented, publicly available, global database and underlying software for manipulating data and implementing the model. The framework is a system of multisector economy-wide input/output tables linked at the sector level through trade flows between commodities used both for final consumption and intermediate use in production. The latest GTAP Version 7 database divides the global economy into 106 countries/regions with 57 commodities specified in the database. The Version 7 database reflects global trade in the year 2004 measured in millions of 2004 US dollars. For a full discussion of the GTAP model as used in this chapter, see Chapter 4 of this book.

Both South Africa and Chile are represented as economies in their own right, but there is a distinct problem with using GTAP for Botswana, Lesotho, Namibia and Swaziland (BLNS). Botswana is modelled as a country in its own right and therefore the results can be representative except for the problem that much of the import trade coming through South Africa. Lesotho, Namibia and Swaziland, however, are modelled as a composite region. These three countries have very different economic

bases and trade profiles. Consequently, the results for the rest of BLNS need to be interpreted with caution, especially so as tariff revenue loss implications *vis à vis* the SACU revenue pool are not directly factored into these results.

The FTA **primary** scenario considered in this chapter entails the result from the removal of trade barriers between South Africa/SACU and Chile as measured in the year 2020 in a world shaped by the **baseline** scenario. This implies that all ad valorem tariffs and ad valorem equivalents of specific tariffs between South Africa/SACU and Chile are abolished by the FTA. Differences between the so-called **baseline** scenario and this so-called **primary** scenario are therefore the result of the implementation of the South Africa/SACU-Chile FTA. We have simulated a (mainly) goods-only SACU/Chile FTA, with the ‘mainly’ qualification being that we proxied a potential small change to services trade by modelling the equivalent of a 2 percent tariff barrier on services trade for all partners.

GTAP expresses the results and welfare implications of a modelled change in a country’s policy as the Equivalent Variation (EV) in income. The EV in income measures annual change in a country’s income (gains or losses) from having implemented, for example, an FTA. The EV is simply defined as the difference between the initial pre-FTA scenario income and the post-FTA scenario income after implementation of the FTA, with all prices set at current (pre-FTA) levels.

The big picture results

Table 11 shows the changes in welfare from the FTA assuming the aforementioned reductions in tariffs, with the data expressed in US\$ millions as once-off increases in welfare at the assessed end point of 2020. South Africa’s gains are US\$37 million, a minor figure but still higher than Chile’s gains of US\$27 million. The losers in dollar terms are the EU and the rest of the world combined. The gains to South Africa are spread across all the contributing factors of increased allocative efficiency (US\$8m), labour-related gains (US\$4m), capital accumulation (US\$18m) and terms of trade gains of US\$6 million from marginally better relative prices between exports and imports. Chile’s gains, however, are driven mainly by capital accumulation (US\$24m).

Table 11: Change in welfare (EV of income) by 2020 resulting from a South Africa-Chile FTA (US\$ millions)

	Total	Allocative efficiency	Increased employment	Capital accumulation	Terms of trade
South Africa	37	8	4	18	6
Chile	27	5	1	19	3
EU	-11	-4	0	-3	-4
Rest of World	-22	4	3	24	0
Total	31	4	3	24	0

Source: GTAP results. Note that we have included the rest of SACU, Botswana and the rest of Mercosur into the 'Rest of World' total as the impacts are minor for these countries/regions.

In further examining the GTAP results we are able to decompose the results to find that:

- South Africa gains from better access into Chile (US\$34m) but this is negated somewhat by a loss of US\$7 million through reductions in SACU tariffs.
- Chile's gains are split between US\$11 million from increased access into SACU and US\$9 million as a result of reducing its own tariffs.
- The EU loss is mostly as a result of Chile opening its market to South African competition which displaces EU imports (US\$10m).
- The Rest of the World (RoW) loses because SACU displaces it in the Chilean market.
- GTAP shows that the FTA is marginally welfare-enhancing for the world, as world welfare increases by US\$31 million. As shown this is mostly from increased investment and capital stock in SACU and Chile.

Not surprisingly, the FTA makes no significant impact on the terms of trade, real GDP or factor income in either South Africa or Chile. There is a modicum of good news for South Africa, however, in that both the real GDP and the Consumer Price Index (CPI) increase by 0.01 percent (with the former better news than the latter) and employment increases by 0.005 percent as real wages increase by higher 0.016 percent. For South Africa, the latter transfers through to minor improvements in both skilled and unskilled employment rates and a 0.01 percent increase coming

from better capital utilisation. Similar patterns are observed for Chile but at double these very small values.

In the model the quantity of land in the agricultural sector is fixed and can therefore only be used in primary agricultural production. Both labour (skilled and unskilled) and capital can increase in price and quantity, however, as resources move freely in and out of agriculture to and from other industries in the economy. From the results of the simulation we find a minor benefit to unskilled farm labour but only an imperceptible increase from better agricultural capital utilisation in South African agriculture. The same applies to Chilean agriculture, where a very minor increase in land values is reported, unlike in South Africa where no discernable increase occurs.

Changes in trade flows

Again, there are no discernable changes to overall aggregate trade flows for South Africa in 2020 (expressed as percentage changes for both exports and imports), although South Africa does record a US\$5 million loss in its trade balance. The results are slightly more significant for Chile, where increases of 0.1 percent are recorded for both imports and exports and a positive increase of US\$3 million results.

Specific sector results

There were effectively no changes in the values of production, trade and relative prices in the main GTAP agricultural and resource sectors as they relate to South Africa. All agricultural prices edged upwards, but by 0.01 percent at the most. Agricultural production also edged upwards, by US\$3.8 million in total. Trade effects were limited to an increase in exports to Chile of US\$1 million in 'other foods' and imports from Chile of US\$3 million and US\$2 million in 'other foods' and beverages respectively. These were offset by reduced imports from other sources which halved the final outcome to an increase in overall agricultural imports of only US\$3 million.

There is, however, more action in the manufacturing sector for South Africa. **Exports** to Chile increase by US\$55 million but by a lower value of US\$36 million overall as some trade diversion takes place. These exports to Chile are concentrated in iron and steel (US\$22m), chemicals, rubber and plastics (US\$15m) and 'other machinery and equipment'. Global exports of vehicles decline US\$6 million as resources were

transferred into these other export sectors at the margin. **Imports** from Chile decline by US\$24 million, and this is not offset by overall trade diversion as the final import change from the world (including Chile) is US\$27 million. These imports from Chile are heavily concentrated in the apparel sector (US\$12m) and chemicals, rubber and plastics (US\$5m). The **final outcome** is for production increases of US\$49.9 million in manufacturing, with the increases most visible in iron and steel (US\$25.3m), chemicals, rubber and plastics (US\$16.5m) and 'other manufacturing' (US\$11.2m). The GTAP results do, however, show that output in the South African services sector increases by a more significant US\$86 million. This appears to be driven by internal changes in response to marginally changed production settings in South Africa as the bilateral services trade with Chile hardly changes.

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Chapter 9

The implications of a SACU-Mercosur free trade agreement for Botswana, Lesotho, Namibia and Swaziland

Ron Sandrey and Hans Grinsted Jensen

Summary and key points

The Southern African Customs Union (SACU) and the Mercado Comun del Sur (Mercosur) have a preferential trade arrangement that contains a provision for expanding the agreement into a free trade agreement (FTA). In Chapter 4 of this book the authors used the Global Trade Analysis Project (GTAP) database to assess the welfare and trade gains from such an FTA for the major relevant economies of South Africa, Brazil and Argentina. In this chapter we extend that analysis to examine the implications for Botswana, Lesotho, Namibia and Swaziland (BLNS). We note that the analysis is mostly determined by merchandise goods access only, although we allow for some gains from services trade by proxying the relaxation of a 2 percent tariff-equivalent barrier between the partners. We also build upon the analysis by Sandrey and Jensen (2009) of the implications for BLNS of an FTA between SACU and China in order to compare and contrast the potential SACU-Mercosur FTA with a potential SACU-China FTA. In particular, we examine the possible revenue implications for BLNS from these FTAs.

The results for a SACU-Mercosur FTA show that there are comfortable welfare gains to South Africa. Scrutinising the production and trade results reveals that South Africa loses in the agricultural sector, but gains in the manufacturing sector, despite the motor vehicle and parts industry coming under considerable pressure from Brazil. The overall gains come about from efficiency gains and increased investment, which expands the amount of capital employed in the South African economy. Increased agricultural imports from Mercosur lead to a marginal reduction in the prices of all agricultural products (and a decreased value of agricultural output). While this is bad news for farmers, it translates into good news for consumers as the reduced agricultural prices across the board are enough to marginally reduce the consumer price index contributing positively to overall welfare gains for South Africa.

Both Botswana and the rest of SACU (Lesotho, Namibia and Swaziland as one GTAP 'region') have imperceptible welfare gains as measured by GTAP. As with South Africa, most of the interest is in the agricultural sector, and given that Mercosur is the global benchmark producer of cattle meat and sugar (both of which are important exports from BLNS under European Union preferences), this is to be expected. There are perhaps smaller reductions than feared in both of these sectors and limited changes in other agricultural products. For manufacturing, and in concert with pressure on South Africa's vehicle sector, there is also a similar small contraction seen here in the BLNS vehicles and parts sector. In trade, the direct effects are of less importance than the indirect effects as Mercosur imports replace some trade between BLNS and South Africa at the margin.

While similar macroeconomic factors as those that took place following an FTA with China are at work following an FTA with Mercosur, there are differences. The first is a difference of scale in that the Mercosur impacts are more muted and the second is a difference in reallocations (with a China FTA, the reallocations of BLNS trade and consequently production were in the manufacturing sectors, while with Mercosur, they are in the agricultural sectors).

Finally, following an FTA with Mercosur, the SACU tariff revenue pool implications for BLNS are substantial and sobering, although following an FTA with China they are even more substantial. Thus, it is not the direct trade effects from these FTAs that are of main interest to BLNS but rather the tariff revenue pool implications.

Introduction

In assessing the future trade policy options for SACU, Mercosur's increasing role as an agricultural trading giant on the world scene has to be taken into account. The focus of this book is on how the SACU trading relationship with Mercosur may be advanced by the adoption of a free trade agreement between SACU (including BLNS) and Mercosur (including the major economies of Brazil and Argentina as well as Uruguay and Paraguay). To assist with this analysis the internationally accepted benchmark Global Trade Analysis Project (GTAP)¹ database and its associated general equilibrium model is used as an analytical tool. In undertaking this analysis,

¹ See the GTAP website at <https://www.gtap.agecon.purdue.edu/> for a full introduction to the model.

the starting point is a simulation of the 'known' and best estimate conditions that will prevail at the end of a given period (2020 in this case) followed by an assessment of the difference that the selected policy change under consideration is likely to make. The implications of this FTA for South Africa are discussed in Chapter 4 of this book. The objective of this chapter is to discuss the implications for BLNS.

In tralac's 2008 *Monitoring Regional Integration* publication,² Sandrey and Jensen discuss the implications for BLNS of FTAs between SACU and China and SACU and India. Given that the same model and its associated database are used for both China/India and Mercosur³ this provides a good opportunity to compare and contrast a Mercosur FTA with the simulated China and India FTAs.

In addition, the FTA results for BLNS as given by GTAP model output are relatively minor, and what happens to South Africa and its economy will have a significant spillover to BLNS (Sandrey 2007). It therefore behoves us to consider the implications of these FTAs for South Africa. Again, the results between the 2008 Chinese FTA simulations and the current Mercosur work are directly comparable as the same model is used. An analysis of the overall results for South Africa and what this may mean for BLNS will be presented to set the scene for analysis of the direct results for BLNS.

Section 1 FTAs with China and Mercosur: The implications for South Africa

China FTA

Sandrey et al. (2008) reported that the China FTA results showed that there were comfortable welfare gains to South Africa of US\$295 million or 0.21 percent of real Gross Domestic Product (GDP). Negating these were the labour market-related losses to South Africa, where employment falls by 0.13 percent and the real wage declines by 0.37 percent, but where at the same time the Consumer Price Index (CPI) declines by 0.86 percent. These labour market-related changes are a function of the unskilled labour market closures used in the model, so, although indicative,

² *Monitoring Regional Integration in Southern Africa Yearbook Volume 8 – 2008.*

³ The macroeconomic database used has, however, been updated by the World Bank to reflect the 2008/09 global downturn. This makes a limited difference to modelling results as presented for 2020, as the Bank is predicting that similar growth paths to those predicted before the downturn will be restored quite quickly.

they do raise distributional concerns for South Africa. The overall gains to South Africa derive from enhanced allocative efficiency and capital allocation in the economy, while losses derive from labour-related losses and terms of trade that go against South Africa.

Scrutinising the results reveals that South Africa gains modestly in the agricultural sector. Enhanced agricultural exports to China of US\$136 million are concentrated in vegetable and fruit products in primary agriculture and 'other foods' in processed agriculture. These increased exports are dominantly 'new' exports or trade creation rather than 'current' exports or trade diversion away from other destinations. Increased agricultural imports are minimal.

The great action, however, was in the manufacturing sector, where increased manufacturing imports from China are worth some US\$5.49 billion – although US\$3.57 billion of this is trade diversion away from other sources (leaving new or trade creation imports of a much lower US\$1.92 billion). Nearly 40 percent of these enhanced imports from China are in the textile, clothing and leather (footwear) sectors (TCF), with around half of these TCF imports reflecting 'new' trade. Output in the South African apparel sector reduces by a massive 42 percent as a result of preferential access. Other increases in manufacturing imports from China are spread across all sectors, but with 'machinery' the largest single increase outside of TCF. Trade diversion away from other suppliers rather than new imports is more evident outside of the TCF sectors. Balancing this Chinese intrusion is the fact that manufacturing exports to China increase by US\$644 million, and to other destinations by US\$955 million as the South African economy becomes more competitive. This gives an increase of US\$1.43 billion in global manufacturing exports. These increases are concentrated in chemicals, plastics and rubber, non-ferrous metals, vehicles, general machinery and 'other manufacturing'.

In the final analysis, the situation that will eventuate in an FTA with China is for the South African economy to undergo a devaluation of the real exchange rate due to cheaper Chinese imports reducing domestic market prices in South Africa. This leads to a terms of trade loss in that exports become relatively cheaper than imports. This then results in South Africa being able to expand its exports not only to China but also to the rest of the world. In total, the South African economy gains from this

devaluation (lower prices) because the value of total income (sum of primary factor income and indirect tax receipts) in South Africa declines by less (0.68%) than the general market price reductions (0.77 price index for disposition of income) giving rise to an increase in Equivalent Variation (EV) of US\$295 million in fixed prices.

Mercosur FTA

In Chapter 4 of this book it was shown that, following an FTA with Mercosur, a similar pattern emerges, although there is a much smaller reduction in South African real prices as the economy similarly becomes more efficient with better capital utilisation in response to more competitive Mercosur imports. This in turn also leads to a devaluation of the real exchange rate in South Africa, boosting exports albeit with a terms of trade loss (exports become relatively cheaper than imports). As with the FTA with China, the South African economy gains from this devaluation of the real exchange rate (0.06%), even though the value of total income (sum of factor income and indirect tax receipts) declines by 0.07 percent, prices decline by more (0.14%). The final outcome gives rise to an increase in EV of US\$236 million in fixed prices. Note that this welfare increase is almost as large as the US\$295 million welfare gain from the Chinese FTA.

However, an FTA with Mercosur is not so good news for the South African agricultural sector. Imports of agricultural products increase by US\$422 million from Mercosur (with US\$353m of this from Brazil), but trade diversion away from BLNS, imports from which are reduced by US\$34 million, and all other sources (reduced by US\$346m), means the overall increase in imports into South Africa is a lesser but still significant US\$140 million. New exports from the agricultural sector are modest (US\$84m) although they largely appear to be 'new trade' or trade creation rather than trade diversion. This is somewhat encouraging, but countering this is the finding that there are marginal reductions in the prices of all agricultural products. Overall, the decreased value of production in South African agriculture of US\$418 million is significant, with much of this coming from reduced chicken meat and vegetable oilseeds production. A final outcome is that there is a decline of 0.5 percent in land prices as a result of increased competition from Mercosur's imports into the region. While all this is bad news for farmers, it translates into good news for consumers as the reduced agricultural prices across the board are significant enough to drive down

the consumer price index, contributing positively to the overall welfare gains for South Africa. The winners from an FTA are therefore the vast majority of South Africans who are consumers, while the main losers are the small number of commercial farmers in the country.

Changes in the manufacturing sector are literally driven by vehicles. In the primary scenario, vehicle imports increased by US\$60 million globally, with an increase of US\$621 million from Brazil countered by a decline of US\$616 million in imports from sources not party to the FTA. Overall, manufacturing exports from South Africa were up by US\$587 million, while global manufacturing imports were up by US\$190 million. Output in manufacturing increased by US\$388 million, but this result was tempered by a reduction in the vehicle sector of US\$146 million or 0.2 percent in the face of Brazilian competition. In the final analysis, the same macroeconomic factors are at work for Mercosur as they were for China. The big difference is that for China the vulnerable sector in South Africa was the clothing sector with its consequential reduction in output and therefore employment whereas here for Mercosur the vehicle sector is the vulnerable sector, but is less severely impacted. However, continuing to protect the vehicle sector against Brazilian competition reduces the overall welfare gains for South Africa, as a scenario simulating an FTA with no change to the SACU vehicle tariffs shows.

Section 2 Mercosur and BLNS: The direct trade background

It is difficult to obtain a complete picture of the trade between BLNS and Mercosur. Much of the import trade from 'outside' of SACU comes through South Africa, and BLNS trade data itself tends to be dated. To proxy the direct trade between BLNS and Mercosur we have used Brazilian and Argentine data as sourced from the World Trade Atlas (WTA). The data is shown in Table 1. Totals and the main trade items are given, starting with the total trade and then the main trade items where relevant.

Table 1: Direct trade between BLNS and Brazil/Argentina, 2009 (US\$ millions)

Brazilian trade with BLNS, 2008 (US\$m)			
Imports from Botswana	0.011	Exports to Botswana	1.995
Telephone equipment	0.011	New tyres	0.662
		Stoves, etc.	0.502
		Sugar confectionery	0.394
Imports from Namibia	0.066	Exports to Namibia	22.988
Integrated circuits	0.022	Furniture	9.761
Frozen fish	0.021	Chicken meat	5.016
		Sugar confectionery	2.120
Imports from Swaziland	0.178	Exports to Swaziland	2.055
Wood pulp	0.109	Carboxylic acid	1.093
		Sugar	0.404
Imports from Lesotho	0.052	Exports to Lesotho	0.000
Electrical apparatus	0.051		

Argentine trade with BLNS, 2008 (US\$m)			
Imports from Botswana	0.000	Exports to Botswana	0.074
		Sugar	0.051
Imports from Namibia	0.002	Exports to Namibia	9.241
		Wheat	5.544
		Chicken meat	2.220
		Molluscs	0.897
Imports from Swaziland	0.000	Exports to Swaziland	2.827
Wood pulp		Perfumes	1.093
Imports from Lesotho	0.000	Exports to Lesotho	0.000

Source: World Trade Atlas.

Table 1 shows that:

- Wood pulp from Swaziland is the only important import into Brazil from BLNS, while there are significant Brazilian exports of furniture, chicken meat and sugar to Namibia, medium values of new tyres, stoves and confectionary from Brazil to Botswana, and exports of carboxylic acid from Brazil to Swaziland.
- There are effectively no imports into Argentina from BLNS, but there is a significant export of wheat and chicken meat to Namibia and some perfumes to Swaziland.
- The combined imports from BLNS of US\$309,000 are less than 1 percent of the combined exports of US\$39 million to BLNS.

Section 3 The GTAP database/model

GTAP is supported by a fully documented, publicly available, global database and underlying software for manipulating data and implementing the model. The framework is a system of multisector country economy-wide input/output tables linked at the sector level through trade flows between commodities used both for final consumption and intermediate use in production. The latest GTAP Version 7 database divides the global economy into 113 countries/regions with 57 commodities specified in the database. The Version 7 database represents global trade in the year 2004 measured in millions of 2004 US dollars. For a full discussion of the GTAP model as used in this chapter, see Chapter 4 of this book.

There is a distinct problem with using GTAP for BLNS. Botswana is modelled as a country in its own right and therefore the results can be representative, but much of the import trade coming into Lesotho, Namibia and Swaziland is modelled as for a composite region. These three countries have very different economic bases and trade profiles, so we are only able to deduce implications such as 'any changes to the beef sector means Namibia and any change to sugar means Swaziland', for example.

The FTA primary scenario considered in this chapter entails the result from the removal of trade barriers between Mercosur and SACU as measured in the year 2020 in a world shaped by the baseline scenario. Differences between the so-called

baseline scenario and this so-called primary scenario are therefore the results of the implementation of the (mainly) goods-only SACU-Mercosur FTA. The ‘mainly’ qualification arises as we proxied a potential change to services trade by modelling an equivalent 2 percent tariff barrier on services trade for all partners and a reduction in non-tariff barriers (NTBs) represented by a 2 percent tariff barrier on all goods.

Section 4 GTAP results for the SACU-Mercosur FTA

The big picture results

Table 2 shows the changes in welfare from the FTA assuming the elimination of merchandise tariffs, with the data expressed in US\$ millions as one-off increases in annual welfare at the assessed end point of 2020. South Africa’s gains are US\$236 million, a figure much lower than Mercosur’s US\$996 million. Notable are the insignificant welfare gains accruing to both Botswana (US\$4m) and the rest of SACU (US\$4m).

Table 2: Change in welfare (EV of income) by 2020 due to a SACU-Mercosur FTA (US\$ millions)

	Total	Allocative efficiency	Change in unskilled labour employment	Change in capital stocks	Terms of trade
South Africa	236	53	9	268	-94
Botswana	3	0	0	2	2
Lesotho, Namibia, Swaziland	7	4	0	6	-3
Mercosur	996	306	66	401	222
Total including others	474	83	34	357	0

Source: GTAP results

In further examining the GTAP results we are able to decompose the results to find that:

- South Africa’s welfare gains are from better access into Mercosur of US\$274 million (mostly gains into Brazil of US\$213m) but this was negated by losses of US\$79 million as Mercosur, following the SACU tariff eliminations, makes inroads into the South African market.

- Brazil's gains are overwhelmingly from SACU tariff reductions leading to better access into South Africa (US\$708m), with these gains augmented by gains of US\$121 million from the removal of an assumed 2 percent NTB facing its exports to South Africa. Argentina's gains are overwhelmingly from SACU tariff eliminations.
- The losses to the rest of the world (RoW) are mainly from enhanced South African competition to United States exports to Brazil and losses to the European Union and China from increased Mercosur competition in South Africa.
- Overall, GTAP indicates that the FTA is welfare-enhancing for the world, as world welfare increases by US\$474 million (and, as shown in Table 2, this is mainly from increased investments/capital stocks but also from some allocative efficiency and to a lesser extent from labour effects overall).
- The factors contributing to overall welfare changes for BLNS are extremely marginal and reporting them in detail adds little to the GTAP picture.

Changes in trade flows

Table 3 introduces the aggregate overall changes to trade flows for the partner countries in 2020, expressed as percentage changes for both exports and imports, and then in US\$ millions for the trade balance. South Africa increases exports and imports globally of 1 percent and 0.8 percent respectively once all markets are accounted for. There is, however, a deteriorating trade balance as imports were higher than exports to start with, which negates the relatively higher export percentage growth shown. Secondly, as mentioned before, the real exchange rate declines making exports relatively cheaper and thereby reducing South Africa's terms of trade. Botswana experiences declines in both imports and exports of 0.1 percent, with deterioration in its trade balance of US\$1 million. The rest of SACU experiences increases of 0.1 percent in both exports and imports but a marginally higher deterioration of US\$3 million in its trade balance. Not shown is that for Mercosur, there is a modest increase in Argentina's trade balance despite imports increasing more than exports, but a deterioration in Brazil's trade balance with imports increasing more than exports.

Table 3: Changes in total imports and exports and trade balance, 2020

	Change in		
	Exports (%)	Imports (%)	Trade balance (US\$m)
South Africa	1.0	0.8	-57
Botswana	-0.1	-0.1	-1
Rest SACU (LNS)	0.1	0.1	-3

Source: GTAP results

The specific sector results

For both Botswana and the 'rest of SACU' the interest is in the agricultural sector. In **Botswana** there is a reduction of US\$6.5 million in agricultural production, with this coming mostly from 'other foods' (US\$2.3m), cattle (US\$1.6m), beef (US\$1.2m) and a minor reduction (US\$0.7m) in chicken production. There are price reductions in all agricultural subsectors of generally 0.1 to 0.4 percent. The expected change in beef trade is small, with exports declining by 1.1 percent as beef exports to South Africa decline, but this is balanced by a similar increase to the rest of the world (presumably accounted for by exports to the European Union). Overall, Botswana's agricultural exports to South Africa decline by US\$5 million, but almost half (US\$2m) of this is negated by increased exports to the rest of the world. The only change worth reporting in Botswana's manufacturing sector is the US\$4.3 million or 10.3 percent decline in the value of vehicle parts production following a US\$10 million fall in exports to South Africa that is not compensated for by exports to other countries. Overall, there is a consistent 0.1 percent decline in all manufacturing prices in Botswana.

For the **rest of SACU** the production and trade situation is a little more complex given the aggregation into one region, and here we have to assume that sugar refers to Swaziland and that beef and most other agricultural products refer mainly to Namibia. Lesotho's agricultural sector is certainly not export-oriented in any industry and its reliance on imports from South Africa makes drawing conclusions from an FTA with Mercosur quite difficult.

Firstly, there are only minor changes for **sugar** (Swaziland). There is an increase of 0.2 percent in output following a decline of 0.2 percent in the market price but no changes in trade. For the cattle and **beef** sector (Namibia), the result is similar to, but

more pronounced than, the result for Botswana. Beef production declines by 2.6 percent or US\$7.9 million. This again results from a decline in US\$9 million in exports to South Africa that is only marginally compensated for by exports to others (again presumably accounted for by the European Union). There are also declines in the value of production in both 'other meats' (chicken) and 'other foods' of US\$5.7 million, beverages and tobacco of US\$1.6 million and 'other agricultural products' of US\$2.9 million. Overall, reductions in agricultural market prices are slightly more than was the case with Botswana, with most reductions in the 0.2 to 0.9 percent ranges.

In the manufacturing sector there is a similar decline of US\$4.6 million (0.4%) in the vehicles and vehicle parts sector, and a decline of US\$6.6 million in the forestry products sector (presumably in Swaziland) as imports of lumber from Brazil increase and displace domestic production at the margin. There is, however, an increase of US\$6.8 million or 0.3 percent in the chemicals, rubber and plastics sector despite a 0.1 percent fall in the market price following an increase in total exports of US\$5 million evenly split between South Africa and other destinations. This sector is most likely to be the sugar-based drink flavourings in Swaziland, a product where Swaziland is successfully diversifying its cane sugar production away from the raw sugar commodity.

Tariff reductions and the tariff revenue implications

Sandrey (2007) explores the implications of SACU trade agreements with respect to changes in tariff revenues, and highlights that there are large welfare transfers to BLNS in that they currently obtain revenues over and above what they would collect at their own borders if, in fact, there were no SACU. There are two pathways through which reduced tariff revenue will flow into the revenue pool from an FTA with either Mercosur or China. The first is the obvious one in that with an FTA the vast majority of merchandise goods from the FTA partner would now enter SACU duty-free. The second is the result of trade diversion. This occurs when trade is deflected away from previous sources that were paying duty to the FTA partner on whose imports duties are not levied. This further reduces overall tariff revenue. The overall tariff revenue effect will almost certainly have a larger impact on BLNS than the direct production

and trade impacts following an FTA with either Mercosur or China given the distributive formula of the current SACU Agreement.

This loss is not taken into account in the FTA results as reported, but further examination of the output data does provide some details of this tariff loss.

Table 4 shows this data, and compares the losses to the SACU revenue pool from, firstly, an FTA with China and, secondly, an FTA with Mercosur. Keep in mind that the data is in **US dollar millions** and not rand.

Table 4: Revenue loss following FTAs with China and Mercosur (US\$ millions)

		of which from	
China FTA	Total	China	Diversion
Primary agriculture	1	1	0
Secondary agriculture	9	4	5
Resources	1	1	0
Manufacturing	1,639	1,167	472
Total	1,650	1,173	477
of which TCF	969	675	294
Mercosur FTA	Total	Mercosur	Diversion
Primary agriculture	47	30	17
Secondary agriculture	71	52	19
Resources	1	1	0
Manufacturing	206	109	97
Total	324	192	133
of which vehicles	146	72	74

Source: GTAP results

The table shows that:

- Total losses to the SACU revenue pool from an FTA with China are US\$1.65 billion. Almost all (US\$1.64 billion) of this is from manufacturing sector imports, with much of this in turn from the TCF sector (US\$969m). The direct revenue loss from allowing Chinese goods in duty-free is US\$1.17 billion, while another US\$477 million is lost from trade diversion as China replaces tariff-paying sources.

- For the Mercosur FTA, the revenue loss of US\$324 million is considerably less than with the China FTA. Again, most of this loss (US\$206m) is from manufacturing sector imports, and, here, some US\$146 million of this is from the loss of duties on motor vehicle and parts products. In contrast to the FTA with China, just over one-third (US\$118m) of the loss from Mercosur FTA is from agricultural products. As with China, most of this agricultural loss (US\$82m) is from foregone Mercosur duties rather than from trade diversion.

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