**Promoting Regional Trade in the SADC Region: Identifying Opportunities for Manufactured Exports from South Africa to Botswana, Mozambique, Namibia, Zambia and Zimbabwe**



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**By**

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## ABSTRACT

The purpose of this study is to, firstly, identify opportunities for manufactured exports from South Africa to its five largest trading partners in the SADC region, namely Botswana, Mozambique, Namibia, Zambia and Zimbabwe. Secondly, the study investigates the challenges facing South African firms in exporting to the SADC markets and the strategies that can be pursued to overcome these challenges.

The study uses a mixed-methods approach where secondary quantitative data was analysed to identify manufactured products with high potential for export to the selected SADC countries. Semi-structured interviews were used to answer the secondary research questions related to identifying export challenges facing South Africa, and strategies to overcome these challenges.

It was found that the products with the highest potential for export to the five countries are mainly found in heavy duty vehicles, automobiles, pharmaceuticals, structural and building materials, construction machinery and equipment, and petroleum oils and other petroleum products.

The main challenges, as well as strategies to overcome these challenges, were grouped into seven themes as follows: Facilitation of Trade; Understanding the SADC Market; South Africa’s relationship with the Rest of Africa; Non-tariff Barriers; Regional Integration; South African competitiveness; and Competition. The recommendations of the study include South Africa developing a more tailored approach to doing business with the SADC countries in terms of product and service offerings as well as trade promotion activities. Furthermore the development of a market intelligence database, training programmes, a cohesive marketing strategy for the country’s capabilities and a regional value chain approach are recommended.

It is hoped that the findings of the study will contribute towards informing the development of a targeted regional export strategy for South Africa.

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| | |
|---|---|
| AFDB | African Development Bank |
| BMI | Business Monitor International |
| BRIC | Brazil, Russia, India, China |
| COMESA | Common Market of East and Southern Africa |
| DSM | Decision Support Model |
| dti | Department of Trade and Industry |
| EAC | East African Community |
| FER | Foreign Economic Representatives |
| FTA | Free Trade Agreement |
| GDP | Gross Domestic Product |
| GMM | Generalised Method of Moments |
| HS | Harmonised System |
| IDC | Industrial Development Corporation of South Africa |
| IPAP | Industrial Policy Action Plan |
| ITC | International Trade Centre |
| MCEP | Manufacturing and Competitiveness Enhancement Programme |
| MVA | Manufacturing value added |
| NDP | National Development Plan |
| NES | Not Elsewhere Specified |
| PARS | Pan-African Research Services |
| REC | Regional Economic Community |
| SADC | Southern African Development Community |
| SIC | Standard Industry Classification |
| SITC | Standard International Trade Classification |
| SVA | Services Value Added |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNIDO | United Nations Industrial Development Organisation |
| UNSD | United Nations Statistics Division |
| WCO | World Customs Organisation |
| WEF | World Economic Forum |
| WTO | World Trade Organisation |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

Exports are regarded as a key driver of economic growth and job creation (World Bank, 2014a), and various economic policies in South Africa attest to this. South Africa's National Development Plan (NDP) recognises the export sector as a platform for rapid development and targets export volume growth of 6% a year to 2030 to facilitate such development (National Planning Commission, 2011). The NDP considers promoting and diversifying exports as a key enabler for job creation. The strength of the manufacturing sector is linked to exports and job creation. South Africa's manufacturing sector has seen deterioration over time, and the Industrial Policy Action Plan (IPAP) recognises this, with a specific focus on supporting the manufacturing sector. The 2014 IPAP Economic and Employment Cluster report highlights the need to reduce the current account deficit through growing exports, especially those in higher value-added and labour-intensive sectors (Department of Trade and Industry, 2014). Considering the need for economic growth and job creation in South Africa, it is important that South Africa finds ways to improve its export performance.

The prospects for export growth are, to a large extent, determined by the strength of the global demand for goods. The economies of developed countries are in a state of recovery after the global financial crisis of 2007/8. The United States for example has shown consistent gross domestic product (GDP) growth, however some economies have not returned to their pre-crisis levels (World Bank, 2014a). The Eurozone shows output at significantly below pre-crisis levels with unemployment remaining high (World Bank, 2014a; WTO, 2014). African countries, and specifically Southern African Development Community (SADC) countries, have relied on these markets for exports and have thus been affected by their economic slowdown (IDC, 2014a), highlighting the fact that African economies are vulnerable to external shocks and in need of diversification of their export markets (UNCTAD, 2013).

SADC is a Regional Economic Community (REC) consisting of fifteen African countries located south of the Equator and one of the key objectives of SADC is trade liberalisation through the establishment of a Free Trade Area (IDC, 2014a). This would remove tariffs and other barriers, making it cheaper to trade with member countries (IDC, 2014a). The REC also includes other advantages such as a larger market (and thus the potential for economies of scale in production), improved market access and increased foreign investment (Chauvin & Gaulier, 2002). With the level of trade increasing 3.6 times from 2004 to 2013 between SADC and Africa (IDC, 2014a), it is clear that South Africa, being the largest SADC economy, can benefit from developing this trade. According to the World Bank (2014a), Africa's share of South Africa's non-mineral exports has grown to almost 29%, overtaking the European Union (EU) as South Africa's largest export destination for these goods. This indicates that this is where South Africa's export opportunities really lie – with its diversified markets, growth potential and relative proximity to South Africa (World Bank, 2014a). Through focusing on increasing exports with its regional neighbours in the SADC region, South Africa can facilitate the achievement of its economic objectives as discussed above with the added benefit of enhancing regional integration in the REC.

## 1.2 Problem Statement

South Africa's exports have underperformed in recent years, despite the growth experienced by its peer countries (World Bank, 2014a). The South African manufacturing sector has also been characterised by poor performance and has been declining as a percentage of GDP. Leke et al. (2015) state that the manufacturing sector as a percentage of GDP, at 13% in 2014, contributes just over half of its peak of 24% in 1990.

South Africa is in a critical phase of its development journey and despite progress on many fronts, serious challenges remain. The country is in need of jobs-rich development and one of the key areas that can drive this growth is exports. South Africa is the second largest economy in Africa and the largest in the SADC region. However despite its size, its growth prospects are relatively bleak. South Africa is forecast to grow at 2% in 2015, whereas the growth forecast in the rest of Sub-Saharan Africa is 5% (World Bank, 2015a)[1]. According to the Industrial Development Corporation (IDC) (2014a) South Africa has the 3rd lowest average annual real GDP growth rate amongst SADC countries from 2008 to 2013, at around 2.2%. The same research shows South Africa's share of exports to SADC was 58.7% in 2013, representing 12.7% of South Africa's total exports. But despite being the largest exporter to the region, South Africa's export penetration (its exports as a percentage of the

[1] Extracted on 13 December 2015 from http://www.worldbank.org/en/publication/global-economic-prospects/regional-outlooks/Global-Economic-Prospects-June-2015-Sub-Saharan-Africa-analysis#1

importing country's imports) has been declining within certain SADC countries (IDC, 2014a). According to the IDC (2014a), intra-SADC trade is low compared to other developing regions, thus indicating potential for trade growth and the improvement of South Africa's export penetration.

An important consideration for South Africa is how it can participate in the growth forecast for Sub-Saharan Africa. Exports are one way in which a country can improve its growth prospects. The country's NDP and IPAP have highlighted export growth, and specifically manufactured exports, as a key driver for economic growth and job creation. Even though South African exports to developed markets may fetch attractive prices, the potential that African countries hold cannot be ignored and South Africa needs to uncover these opportunities. Sentery (2014) assessed market opportunities for selected agricultural products in the SADC region and found that there were products exported to non-African countries that were subsequently exported back into the SADC, illustrating that there are regional opportunities that are not being realised. However one of the challenges faced by Government is in the selection of the most optimal sectors and markets for export promotion, given its limited resources (Malan, Steenkamp, Rossouw & Viviers, 2014). There are industries that South Africa has a competitive advantage in and if those areas are identified then South Africa can focus its efforts on sustainably growing those exports. Leke et al. (2015) believe that South Africa has a high degree of potential in "advanced manufacturing" such as automobiles, machinery and equipment to name a few sectors, and predict that the exports of advanced manufacturing products can grow from US$16 billion in 2013 to US$61 billion by 2030. South Africa has competitive capabilities in a range of sectors, although it is not gaining the export penetration it is capable of achieving and thus potential growth opportunities are being lost.

## 1.3 Rationale for the Study

By understanding exactly which products in the selected SADC countries can be targeted through exports, export promotion activities can be aligned to enhance the development of these opportunities and to be more strategic in promoting exports. The purpose of this study is to identify opportunities for manufactured exports from South Africa to its five largest trading partners in the SADC region, namely Botswana, Mozambique, Namibia, Zambia and

Zimbabwe. It is hoped that the findings of the study will contribute towards informing the development of a targeted regional export strategy for South Africa.

## 1.4 Research Objective and Questions

The research objective is related to the South African national imperatives of stimulating economic growth and generating employment opportunities. Against this background, the objective of the research is to investigate the state of South Africa's exports, including the identification of high potential export opportunities, in the context of the SADC region, in order to identify strategies to improve exports of manufactured goods to the region.

To achieve this objective, the primary research question is formulated as follows:

1. What are South Africa's highest potential manufactured exports to the following SADC countries: Botswana, Namibia, Mozambique, Zambia and Zimbabwe?

The secondary research questions are as follows:

2. What are the challenges or reasons for South Africa not reaching its export potential in the SADC region?
3. What export strategies should South Africa pursue in order to overcome challenges and grow its manufactured exports to the SADC region?

## 1.5 Research Methodology

The research approach of this study is that of a historical study, investigating past events. This approach employs both quantitative and qualitative data and analysis (Leacock et al., 2015). Quantitative data is used to answer the primary research question, investigating South Africa's manufactured exports to SADC countries, through the use of secondary macroeconomic trade data. The secondary research questions are answered through use of qualitative data, collected from semi-structured interviews with experts and other respondents with relevant experience.

Quantitative macroeconomic data is collected primarily from the International Trade Centre (ITC) Trade Map database. The frequency of secondary data is once off – taken at a specific point in time to reflect the most recent available annual data, being 2014. The reasons for this choice of data are that it is readily available from authoritative sources thus saving time and money. Furthermore, collecting primary data of this nature would not be practical when there are organisations that have the resources to adequately and accurately collect this data. The limitations of using secondary data, according to Mouton (2008), include not being able to control for errors in data collection and being inhibited by the purpose of original research objectives. The type of data that is used is macroeconomic in nature, (such as exports and imports) and thus mitigates these concerns as this data is not gathered for a specific study.

There are several methods and tools to identify export opportunities. This study employs the same methodology to identify the top export opportunities for the specified SADC countries as that employed by the Department of Trade and Industry (dti); identifying the top 30 export opportunities by selecting the top 100 value-added exports in each country (based on 2012 values) and analysing export and import data to rank the products according to 8 measures. The rankings were then added for each product and the 30 lowest ranked products were selected as those with the highest potential (Mthente Research and Consulting Services (MRC), 2014).

In order to answer the secondary research questions, data was collected from semi-structured interviews. The questions posed are open-ended in nature as this is considered the most appropriate in terms of finding a comprehensive solution to the questions posed.

## 1.6 Chapter Outline

The remaining chapters are as follows: Chapter 2 presents a literature review describing the topic; Chapter 3 provides detail on the research methodology, data collection and analysis methods; Chapter 4 presents the research findings, analysis and discussion of both the quantitative and the qualitative data; and Chapter 5 discusses the conclusion and recommendations emerging form the study and outlines areas for further research.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

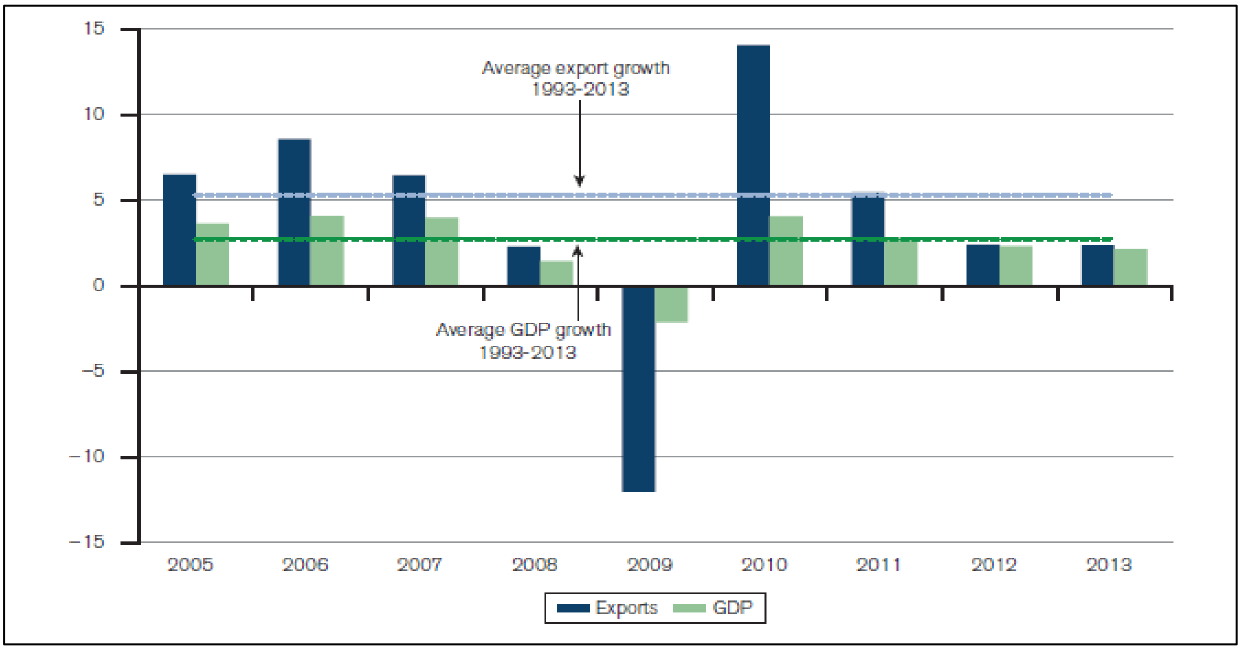
This chapter presents a review of literature to address the research objective and research questions. The literature review presents an overview of trade at the global, African and SADC levels. This situates the research objective and questions within the context of trade dynamics, demand for goods and the nature of export markets. The chapter also highlights the links between manufacturing and growth, and exports and growth, both in the international and South African context.

## 2.2 World Trade

According to the WTO (2014), world merchandise exports, including agricultural products, fuels and mining products and manufactured products, grew by 2.5% in 2013 and 3.5% over the period 2005-2013. Of these total merchandise exports, manufactured goods exports grew by 3 per cent in 2013 and 4% over the period 2005-2013.

The WTO (2014) shows that trade growth has slowed its pace in recent years, with the 2013 average below that of the 5.3% average in the 20 years prior (1993 – 2013) as reflected in Figure 1.

**Figure** 1**: Growth in volume of world merchandise exports and GDP, 2005-13**




*Source: WTO (2014)*

China became the world's biggest merchandise trader in 2013, with imports and exports totalling US$4,159 billion, it recorded a trade surplus of US$259 billion, 2.8 per cent of its GDP (WTO, 2014).

Total world merchandise exports amounted to US$18.3 trillion in 2013 (as reflected in Figure 2), included in this was the top 10 traders in who accounted for a little over half (52%) of the world's total trade in 2013 (WTO, 2014). Developing economies accounted for 44% of world merchandise exports in 2013 and of this trade, over half was sent to other developing economies, 4% of which was exported to Africa (WTO, 2014). South Africa accounted for 0.5% of the world's merchandise exports as seen in Figure 2 (WTO, 2014).

**Figure 2: World merchandise exports by region and selected economy, 1948, 1953, 1973, 1983, 1993, 2003 and 2013**

| | 1948 | 1953 | 1963 | 1973 | 1983 | 1993 | 2003 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | Value | | | | | | | |
| **World** | **59** | **84** | **157** | **579** | **1838** | **3684** | **7380** | **18301** |
| | Share | | | | | | | |
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **North America** | **28.1** | **24.8** | **19.9** | **17.3** | **16.8** | **18.0** | **15.8** | **13.2** |
| United States | 21.7 | 18.8 | 14.9 | 12.3 | 11.2 | 12.6 | 9.8 | 8.6 |
| Canada | 5.5 | 5.2 | 4.3 | 4.6 | 4.2 | 3.9 | 3.7 | 2.5 |
| Mexico | 0.9 | 0.7 | 0.6 | 0.4 | 1.4 | 1.4 | 2.2 | 2.1 |
| **South and Central America** | **11.3** | **9.7** | **6.4** | **4.3** | **4.5** | **3.0** | **3.0** | **4.0** |
| Brazil | 2.0 | 1.8 | 0.9 | 1.1 | 1.2 | 1.0 | 1.0 | 1.3 |
| Argentina | 2.8 | 1.3 | 0.9 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 |
| **Europe** | **35.1** | **39.4** | **47.8** | **50.9** | **43.5** | **45.3** | **45.9** | **36.3** |
| Germany a | 1.4 | 5.3 | 9.3 | 11.7 | 9.2 | 10.3 | 10.2 | 7.9 |
| France | 3.4 | 4.8 | 5.2 | 6.3 | 5.2 | 6.0 | 5.3 | 3.2 |
| Italy | 1.8 | 1.8 | 3.2 | 3.8 | 4.0 | 4.6 | 4.1 | 2.8 |
| United Kingdom | 11.3 | 9.0 | 7.8 | 5.1 | 5.0 | 4.9 | 4.1 | 3.0 |
| **Commonwealth of Independent States (CIS) b** | **-** | **-** | **-** | **-** | **-** | **1.5** | **2.6** | **4.3** |
| **Africa** | **7.3** | **6.5** | **5.7** | **4.8** | **4.5** | **2.5** | **2.4** | **3.3** |
| South Africa c | 2.0 | 1.6 | 1.5 | 1.0 | 1.0 | 0.7 | 0.5 | 0.5 |
| **Middle East** | **2.0** | **2.7** | **3.2** | **4.1** | **6.7** | **3.5** | **4.1** | **7.4** |
| **Asia** | **14.0** | **13.4** | **12.5** | **14.9** | **19.1** | **26.0** | **26.1** | **31.5** |
| China | 0.9 | 1.2 | 1.3 | 1.0 | 1.2 | 2.5 | 5.9 | 12.1 |
| Japan | 0.4 | 1.5 | 3.5 | 6.4 | 8.0 | 9.8 | 6.4 | 3.9 |
| India | 2.2 | 1.3 | 1.0 | 0.5 | 0.5 | 0.6 | 0.8 | 1.7 |
| Australia and New Zealand | 3.7 | 3.2 | 2.4 | 2.1 | 1.4 | 1.4 | 1.2 | 1.6 |
| Six East Asian Traders | 3.4 | 3.0 | 2.5 | 3.6 | 5.8 | 9.6 | 9.6 | 9.6 |

*Source: WTO (2014)*

A few definitions of key terms that apply to international trade are discussed below:

A tariff is “a customs duty or tax levied on the imports of merchandise goods” (ITC, 2015a)[2]. Tariffs can be a percentage of the value of the underlying good or it can be a set value (per ton for example) and are usually charged on imports, and paid by the importer (ITC, 2015a). The levying of tariffs thus makes imported products more expensive thereby giving local goods an advantage whilst also providing a revenue stream for the government of the importing country (ITC, 2015a).

A non-tariff barrier refers to “any obstacle to international trade that is not an import or export duty. They may take the form of import quotas, subsidies, customs delays, technical barriers, or other systems preventing or impeding trade.” (SADC, 2012d)[3].

A free trade area, as highlighted in Section 1.1, is a trading bloc where tariffs have been removed on certain products, making it easier to trade within the bloc. This is typically

[2] Retrieved from http://www.trademap.org/stGlossary.aspx
[3] Retrieved from http://www.sadc.int/themes/economic-development/trade/non-tariff-barriers/

governed by a free trade agreement and countries that are part of the agreement do not impose duties and other member countries with the aim of liberalising trade (Sentery, 2014).

## 2.3 African Trade

The state of industrialisation in Africa has not progressed at the pace of some other emerging markets. There is a view that not only has Africa failed to progress in step with the rest of the world, but that it has actually de-industrialised (UNCTAD, 2013; Page, 2012). Page (2012) claims that in today's terms Africa's manufacturing sector is less developed and less diversified than it was in the decade that followed independence in many of the continent's countries, and that labour productivity, employment and manufacturing as a share of output have declined. As evidence of Africa's inferior labour productivity, African firms' productivity per worker is US$4,734 versus US$6,631 in East Asia (UNCTAD, 2013). In 2008, Africa's average share of manufacturing in GDP accounted for 9.4%; this is less than half of the 21.7% average of other developing countries, and less than 10% of the average manufactured exports per capita of the other developing countries (Page, 2012).

One of the main reasons for the shift in manufacturing production from the African continent to other regions is the failure of Africa to expand its manufacturing and exports into more highly sophisticated products (Page, 2012). Africa has a lower level of diversification and sophistication when compared to other fast growing low-income countries, which results in low sophistication products, concentrated in the minerals sector, accounting for a higher proportion of exports, and high sophistication products that fail to be competitive internationally (Page, 2012).

Logistics costs, procedures and infrastructure are a hindrance to the competitiveness of exports for African countries. The export challenges experienced by African economies include port and customs delays, inefficient export procedures including certification and permits and poor administration of tariffs, duties and other taxes (Page, 2012). The World Bank Trade Logistics Index, 2010, finds that only 3 African low-income economies[4] (South Africa is regarded as middle income country in the study) appear in the top 50% of global distribution, whilst two-thirds rank in the bottom third of distribution (Page, 2012). The 2014

[4] The low-income economies referred to are Senegal, Tunisia and Uganda. If South Africa is included, there will be 4 African economies in the top 50%.

version of the Index reveals that, four years on, the situation has improved but not significantly. Six African economies[5] appear in the top 50% and 30 of the 54 African countries remain in the bottom third of the ranking (Arvis et al., 2014)[6]. These results reinforce the fact that many African economies face serious challenges in trade logistics. Considering that this aspect plays an important role in the cost and efficiency of trade, it must be prioritised in order to create a more competitive and profitable trading platform for these countries.

### 2.3.1 Intra-African Trade

The case for regional integration through trade with African countries offers many benefits to member countries within regional trading blocs. The close proximity to countries is one of the primary advantages for regional trade. Edwards and Alves (2005) note that South African exports of metal products to regional countries are driven by the convenience found in relative proximity for the purposes of after-sales support, and this is regarded as more important than the cost considerations. According to Kamau (2010) many African countries have economies that are too small to drive substantial growth or to negotiate with other trading blocs – they have high trading costs and lack the ability to access bigger markets – which are some of the reasons for the growing interest seen in regional economic integration. Kamau (2010) developed an index to measure the depth of regional integration and the success that African trading blocs, or Regional Economic Communities (RECs) have had in achieving freer trade both within the bloc and with the rest of the world. These trading blocs are the Common Market of East and Southern Africa (COMESA), East African Community (EAC) and SADC. The index takes into consideration the level of reduction in import tariffs together with the extent of regional integration (by assessing the progress towards a free trade area or whether a common external tariff was in existence). The study finds a strong positive relationship between both the level of intra-regional trade intensity and the level of economic integration, and economic performance, thus indicating that a greater level of regional integration contributes to growth in a trading bloc (Kamau, 2010).

[5] The economies referred to are South Africa, Malawi, Kenya, Nigeria, Cote d'Ivoire and Rwanda.
[6] Authors of "Connecting to compete: Transport logistics in the global economy. The Logistics Performance Index and its indicators".

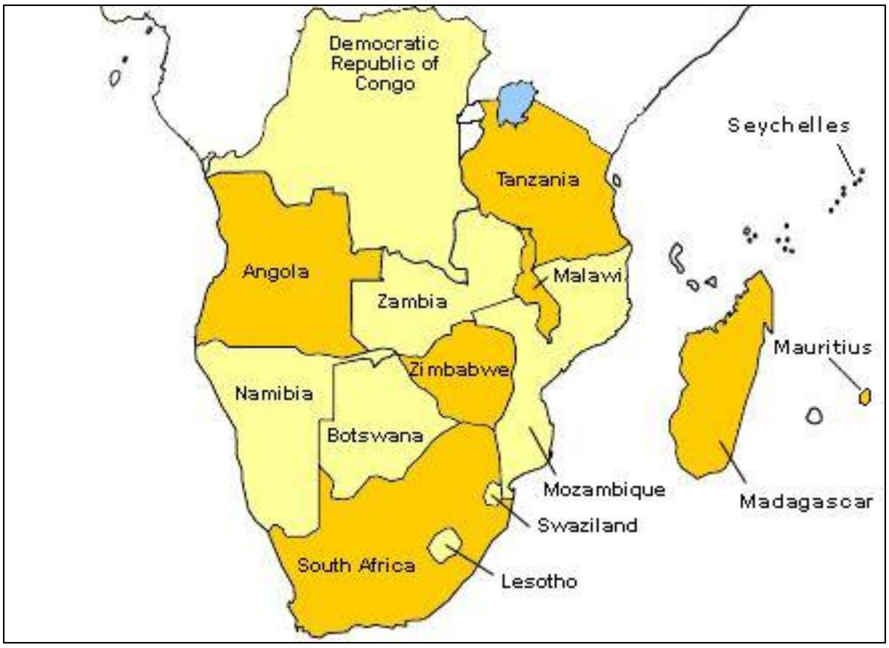
UNCTAD (2013) reaches similar conclusions on intra-African trade to Kamau's (2010) study; that deeper integration and trade will enable stronger growth on the continent; however, the depth of intra-African trade is not reaching its potential. UNCTAD (2013) found that even though trade has grown, the proportion that it represents of total African trade has decreased over time due to trade with the rest of the world growing at a faster pace. The report also highlights that trade within the continent is lower than other developing regions, at 11% on average between 2007 and 2011. This is just over half of the Latin American average and approximately a fifth of the Asian countries. This indicates that there is potential to grow trade within the region (IDC, 2014b). Significantly, African trading blocs are shown to have a strong effect on trade, such that the bulk of REC trade in Africa is conducted within the trading blocs themselves. According to UNCTAD (2013) 78% of SADC trade with the continent was within the bloc itself for the 2007 to 2011 period. This is encouraging and shows that the measures instituted by the trading blocs to encourage trade have yielded positive results.

## 2.4 SADC Trade

SADC is an economic and political bloc consisting of 15 Sub-Saharan member countries. This REC was launched in Zambia in 1980 as the Southern Africa Development Coordination Conference (SADCC), but was later transformed into SADC under the SADC Treaty in 1992 (IDC, 2014a, p. 1). The main goal of the REC is "to promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration, good governance and durable peace as well as security among its 15 Southern African Member States" (SADC, 2012a)[7].

[7] Retrieved from http://www.sadc.int/about-sadc/overview/sadc-facts-figures/

**Figure 3: 15 member states of SADC**




*Source: https://tis.sadc.int/english/sarn/about-sarn/*

According to the Industrial Development Corporation of South Africa (IDC) (2014a), the SADC countries had a combined GDP of approximately US$1.044 trillion in 2013, or 1.2% of the global GDP, according to IMF estimates. Even though SADC's contribution to the global economy is miniscule, the bloc accounts for almost 46% of overall economic activity in Sub-Saharan Africa (IDC, 2014a, p. 1).

The SADC Trade Protocol was introduced in 1996 with the intention of establishing the SADC Free Trade Area. In 2000, 11 of the then 14 member countries signed a Free Trade Accord through which the SADC countries agreed to phase out tariffs on certain products by 2008 (Chauvin & Gaulier, 2002). The SADC Free Trade Area was concluded in August 2008 after the minimum requirements for an FTA were met (85% of intra-regional trade attracted a zero duty for trade amongst the member states) (SADC, 2012c). The FTA currently exists between the 12 of the 15 SADC member states, the exceptions being Angola, Seychelles and the DRC (SADC, 2012c). In addition to the FTA, the bloc aimed to achieve a Customs Union (which would enable a common tariff to countries outside the bloc) and Common Market; however both these milestones have not yet been achieved (IDC, 2014a). The FTA was established to liberalise intra-regional trade, ensure efficient production, contribute towards the improvement of the climate for domestic, cross-border and foreign investment, and enhance economic development, diversification and industrialisation of the region (Sandrey, 2013; Lamprecht, 2015).

The bloc has been successful in increasing its intra-SADC trade; however this trade has been concentrated in a few product categories, highlighting the undiversified nature of the region's production (Hartzenberg & Kalenga, 2015; Page, 2012). For SADC to remain abreast of the times, it needs to implement broader reform that enhances competitiveness, revise its FTA to cater for pertinent trade issues and consider whether the linear integration approach (as implemented in Europe) is the most suitable for the SADC context (Hartzenberg & Kalenga, 2015).

Viviers, Jacobs and Steenkamp (2014) conducted research on the export opportunities for South Africa in South America and found that the top 5 countries that represented the most viable opportunities for exports also had the lowest barriers to trade. Edwards and Alves (2005) conducted research to examine the drivers of manufacturing export performance in South Africa with the use of industry level data from 1990 to 2002. They found evidence that sectors with higher levels of tariff protection (export taxes) experience lower export levels and concluded that reduced tariffs on intermediate and capital imported goods served to reduce input costs thus increasing export profitability and performance. The elimination of tariffs in a Free Trade Area such as SADC can thus aid countries in achieving greater returns on their exports. This was confirmed in the Holden and McMillan (2006) study, where the panel estimates reveal that the impact of the SADC FTA projected to raise South Africa's exports to SADC by 50% over the period 2000 to 2004 (the authors used data from 1994 to 2004 but the impact was measured from the time the agreement was in place). The study uses total averaged exports and imports, which may present a weakness as aggregated trade data could conceal certain sectors that may have experienced a projected decline in exports. A similar study examined the effects of SADC regional economic integration on trade at a sector level, and shows that intra-SADC trade was enhanced in fuel and minerals, and heavy manufacturing; however trade was reduced in the agriculture and light manufacturing sectors (Negasi, 2009).

SADC maintaining trade openness with the rest of the world is cited as a possible reason for reduction in trade within SADC; however it could be a case of lack of diversity in the product offering (Negasi, 2009). This was also proposed by Chauvin and Gaulier (2002) who report that countries in SADC have comparative advantages in similar products, and thus trade within the bloc is limited, further reinforcing the lack of diversified products highlighted by Hartzenberg and Kalenga (2015) and Page (2012). While they do acknowledge that South Africa may provide manufactured goods more effectively than other SADC countries, they also consider this range of products to be limited. In addition, they remark that prospects for growing exports may have already been exploited given the large trade surplus and share of exports that South Africa has within SADC. This research was however conducted in 2002 and the trade landscape has since changed, thus highlighting the need for this study. Rankin (2001) examines the characteristics of manufacturers at the South African firm level and assesses how these characteristics impact on their exports. The research found that more than 25% of exporters export only to SADC countries, and of the total exports, 55% go to SADC. On the whole, it was found that exporters have a higher degree of labour productivity when compared to non-exporters (this is consistent with Van Bisesbroeck, 2005). When factoring in the destination of exports, it is found that firms that export out of SADC are more efficient than those who export to SADC because they can produce more output with the same level of input. Rankin (2001) argues that the exporters to SADC countries may need to attain certain thresholds to compete in the global market; however it may be the case that those that export to global markets have a larger demand for their products and that drives greater economies of scale in production.

## 2.5 Manufacturing, Exports and Growth

### 2.5.1 Manufacturing and Growth

The role of manufacturing is widely accepted as an essential component for growth in an economy. Manufactured exports are integral to trade due to the relationship between industrialisation and development and the indirect benefits that can flow from technology and product innovation (Moran, 1988). Manufacturing drivers for growth include but are not limited to the following: a higher level of productivity, economies of scale and greater opportunity for technological innovation and spillover effects (Szirmai, 2009). The definition of "manufacturing value added" (MVA) according to the World Bank (2015b)[8] is "the net output of a sector after adding up all outputs and subtracting intermediate inputs".

[8] Retrieved from http://data.worldbank.org/indicator/NV.IND.MANF.CD

Kaldor (1966, as cited in Egüez, 2014, p. 2), one of the early proponents of manufacturing as a driver of economic growth, describes a conceptual framework of the impact that manufacturing can have on the growth rate of GDP and labour productivity, both in manufacturing and non-manufacturing labour. What is known as Kaldor's first law of economic growth – "manufacturing as an engine of growth" states that the faster the growth rate of MVA output, the faster the rate of GDP growth. Kaldor also tested this theory empirically and found evidence to support his hypothesis in twelve developed economies (Egüez, 2014, p. 28). Egüez (2014) tests this theory and broadens it to test the relationship between the services sector and economic growth by analysing 119 countries from 1990 to 2011 using the Generalised Method of Moments (GMM) technique (in addition to the OLS and Fixed Effects methods). The author finds that growth in MVA has a positive and significant relationship with economic growth, at 0.56%. Similarly, Lavopa and Szirmai (2012) found a positive relationship between MVA and exports, and economic growth for a sample of 92 countries over the period 1960-2010.

Egüez (2014) finds that a positive significant relationship exists for MVA and economic growth in low income countries and suggests that these countries can engage in low technology manufacturing initially (due to insufficient technical capability) with a view to move towards more advanced technology manufacturing. Szirmai (2009) argues that there is a "structural change bonus" which is regarded as the improvement in per capita income when labour moves from low productivity sectors to high productivity sectors. Akplogan (2014) examined the level of manufacturing in forty African countries as a proportion of GDP and as a proportion of the export mix and found that both these measures have a positive impact on growth. The impact of natural resource exports however have the potential to adversely affect this growth as it was found that the share of manufactured exports to total exports only has a positive and significant impact on growth if fuel and mineral exports are less than 50% of total exports.

What is interesting to note is that analysis of growth in GDP and growth in manufacturing show a level of deindustrialisation for Africa since 1975 (Szirmai, 2009; UNCTAD, 2013; Page, 2012). According to Szirmai (2009) a long run increase is observed in the manufacturing sector as a proportion of GDP in developing countries, whereas the developed economies show a contraction in the sector's share, however, the growth in developing economies' manufacturing is largely explainable by growth in Asia. Between 1950 and 2005 the average share of manufacturing in GDP of Latin America and Africa grew by 1.3%, whereas the Asian share grew from 8.9% to just over 20%. In the thirteen years prior to 1975, Africa's manufacturing growth averaged 6.6%; this dropped approximately 3% in the period thereafter (Szirmai, 2009). South Africa's performance is poorer than the African average showing declining manufacturing growth from 6.8% in the period prior to 1975 to 2.2% and worsening to 1.5% in the last reported sub-period.

Szirmai and Verspagen (2011) investigate whether manufacturing leads to economic growth in a panel of 88 countries, including 21 advanced economies, for the period 1950 to 2005. The results show that there is a moderate positive impact on growth, however once the researchers looked at the sub-periods it was found that only the 1970 to 1990 period showed a positive impact on growth. What is notable is that the period 1990-2005 shows that manufacturing has an insignificant impact on growth. It would be interesting to see what the results would be had the study been extended to a more recent period and had the researchers not included advanced economies in the study.

### 2.5.2 Exports and Growth

The relationship between exports and growth has been tested extensively; however the subject remains one of debate as the empirical evidence has shown contrasting results. Export-led growth has been historically endorsed as a path to industrialisation and a superior alternative to the more inward-oriented strategies such as import substitution (Yaghmaian, 1994). Balassa (1978) was one of the first proponents of the neoclassical export-led growth theory, who tested eleven developing countries in 1960-1973 and found empirical evidence to conclude that export growth "favourably affects the rate of economic growth" (Balassa, 1978, p. 188).

In a study of a disaggregated view of exports and their causal effect on growth in South Africa from 1960 to 2008, Ziramba (2011) noted that a long run relationship exists between real GDP and merchandise exports, real GDP and gold exports and real GDP and services exports. Using a modified version of the Granger no-causality test to examine the relationship between different elements of exports and real GDP, Ziramba (2011) found that there is evidence to support the export-led growth hypothesis for merchandise exports and asserts that export promotion of merchandise would improve growth. Malan et al. (2014) undertook research to determine which manufacturing sectors with an increase in exports would contribute to the highest growth and employment for the South Africa. The results of their simulations confirmed that an export-led strategy focusing on particular industries that are reliant on skilled labour would be most advantageous, as the increase in exports would lead to a greater demand for labour thereby increasing employment.

Van Biesebroeck (2005) tested the theory that exports raise firm productivity in nine Sub-Saharan countries. He found evidence that exporting firms have stronger productivity than non-exporting firms, ranging from 25% to 28% for the impact of exporting on productivity. The main reason Van Biesebroeck (2005) provides for higher productivity is the greater scale of operation that is enabled through exporting. This allows firms to expand sales beyond their domestic markets, to a larger market that also contains customers with broader access to credit. A secondary reason for higher productivity relates to the level of technology, with exporters found to have a higher capital to labour ratio than non-exporters. The author finds that the level of productivity growth and not merely the productivity levels after entering a foreign market is also higher than non-exporters. Therefore one can see that the export-led growth theory holds for this selection of Sub-Saharan African countries.

Edwards and Alves (2005) found that a strong positive relationship exists between level of skilled labour and export performance. They assert that the ability of a country to diversify its manufacturing into high technology products is influenced by the level of skills available. This is further reinforced by Deloitte (2013) whose 2013 Manufacturing Competitiveness survey highlighted the number one factor of manufacturing competitiveness to be “talent-driven innovation”. Another important factor that Edwards and Alves (2005) have shown to influence export performance is that of infrastructure. Their analysis shows that public-sector infrastructure such as paved roads, electricity, gas and water positively affect export performance, with a “1% increase in public-sector infrastructure capital to manufacturing GDP is shown to raise average manufacturing exports by 2.4% in the long run.” (Edwards & Alves, 2005, p. 39)

Awokuse (2007) investigates the causal relationship between trade (both imports and exports) and economic growth in three central European countries using the Granger causality test. He finds that in 2 of the 3 countries exports can stimulate growth and that in one of the countries a bi-directional relationship exists between exports and growth. Imports are found to stimulate growth in 2 of the three countries thus supporting the import-led growth theory. A mixed set of results are also seen in the study conducted by Hye, Wizarat and Lau (2013).

They test the relationship between exports and growth, imports and growth and between exports and imports in six Asian countries using the autoregressive distributive lag method for long-run associations and the Granger causality test to determine the direction of short and long run causality. The researchers find that both the import-led growth and the export-led growth theories are applicable for all six countries with the exception of export-led growth in Pakistan. When looking at the growth-led exports and growth-led imports models, the results show that all countries display the growth-led imports causal relationship, whereas the growth-led exports applies for four out of the six countries. It is interesting to note that the import-led growth relationship is bidirectional for all six countries.

## 2.6 South African Manufacturing and Exports

South Africa has experienced a growth in exports since the falling of economic sanctions in the early 1990's (Edwards & Alves, 2005). This was achieved through greater trade openness and new macroeconomic policies including reduced tariffs, incorporation of South Africa into the global marketplace and the depreciation of the rand in real terms (Edwards & Alves, 2005).

The country has, however, not experienced the export-led growth of other emerging markets in for example East Asia (Deloitte, 2013; Edwards & Alves, 2005). South Africa's export performance lagging behind other countries is not a new phenomenon. According to Edwards and Alves (2005) the decade of the nineties showed that South Africa's average export growth was 2% per annum and this lagged behind the world average, that of developed countries and other economies with similar shares of resources in their export mix. The authors' believe that a lack of high technology products together with concentration in the resource-based products and products with low global growth has led to a poorer relative performance; this has also been highlighted by Page (2012) (see Section 2.3). The manufacturing sector has faced numerous challenges including a shortage and instability of skills, poor infrastructure and increasing electricity costs; however the multiplier effects of manufacturing are considerable due to the connections to other industries (PARS, 2011); this is consistent with the "spillover effects" mentioned by Szirmai (2009) (see Section 2.5.1).

There is a view that in order for South Africa to return to a sustainable growth rate that promotes job-creation, the manufacturing sector needs to grow at least 10% annually, which could create up to 173,000 jobs (PARS, 2011); however the study does not take into account the declining trend in South African manufacturing activity when calculating this effect. The South African manufacturing sector has taken strain over the years. This can be seen in the reduced contribution to GDP as well as the number of job losses in the sector. The competitiveness of the sector has also declined. According to Deloitte (2013), South Africa has slipped from position 22 out of a sample of 38 countries in 2010 to 24 in 2013 in the Global Manufacturing Competitiveness Index[9]. What is further concerning is that the 5 year outlook does not reflect a positive view but instead forecasts that the country will slip down further (Deloitte, 2013). What is clear is that the cost of labour has increased without the same level of productivity or skills development – South Africa's "pay-to-productivity" ranking is 134 out of 142 countries (Deloitte, 2013). Given that labour is a crucial element to bringing down costs and improving efficiency in manufacturing it is critical that South Africa make strides towards achieving a more skilled and productive labour force.

South Africa has recognised the need for industrialisation in its development plans and has rolled out various incentive programmes aimed at improving the country's capabilities and competitiveness. The South African Government has actively provided incentives in the manufacturing sector over the years. One of the more recent programmes is the Manufacturing Competitiveness Enhancement Programme (MCEP) run by the Department of Trade and Industry (dti) – which is a R5.8billion programme aimed at increasing competitiveness and job creation in the manufacturing sector. Another such programme is the Clothing and Textiles Competitiveness Programme (CTCP). The Government is also commissioning Special Economic Zones to improve the flow of trade. Despite the incentive programmes attempts at subsidising manufacturers, South Africa does not rank amongst the most competitive nations, which raises the question as to why the incentives are not working as optimally as other countries' programmes? One of the reasons cited by Deloitte (2013) is that South Africa cannot compete with the extent of incentives (up to 75% in grants in some countries) as well as the variety in types of incentives – for example tax holidays and cash incentives.

The authors Fedderke and Szalontai (2005) examined the level of concentration within sectors of the South African manufacturing industry from 1972 to 1996. They use the Gini coefficient and the Rosenbluth Index as methods of determining concentration. The study

[9] The Global Manufacturing Competitiveness Index is a ranking of 38 countries based on surveys of CEOs and senior manufacturing executives that was compiled by Deloitte and the World Economic Forum

looked at the largest 5%, 10% and 15% of firms in a sector and assessed how much these firms contributed to the total output of the sector. The results from the Gini coefficient assessment were consistent in showing the concentration increasing over time; however the Rosenbluth index showed a mixed picture with some sectors showing an increased concentration whereas others show a reduced concentration over the period. Despite the inconsistency in the two measures the authors conclude that overall the concentration in South Africa's manufacturing sector has increased in the period reviewed. They also investigate what relationships exist between industry concentration and other economic variables such as output growth, employment growth, investment and labour productivity. The results predict a lower output growth (barring a few industry exceptions) thus showing that increased concentration lowers the overall growth of the manufacturing sector (Fedderke & Szalontai, 2005). The tests also show that increased concentration predicts higher relative real unit labour cost and lower labour productivity thus implying lower production efficiencies.

There have been several studies conducted on identifying opportunities for South African exports – Pearson et al. (2010), IDC (2014a), IDC (2014b), Viviers et al. (2014), Malan et al. (2014), Steenkamp et al. (2009) and Steenkamp (2011). Pearson, Viviers, Cuyvers and Naude (2010) use the Decision Support Model (DSM) to identify the opportunities for South African exporters in China, India and Brazil. They identified 51 export opportunities in Brazil, 198 in India and 259 in China (making this the country with the largest export opportunity at the time). Viviers et al. (2014) conducted a similar analysis to identify export opportunities for South American countries using a slightly adjusted DSM model. The study shows that Brazil, Argentina and Chile are the most promising export markets, while the products with the highest potential are transport-related goods, minerals, vegetables and chemicals.

## 2.7 Conclusion

The literature review has presented an overview of global trade, trade in the African continent, and trade within SADC. The impact of manufacturing on economic growth was reviewed. The literature review then examined the export-led growth theories. Finally, the chapter reviewed literature on manufacturing and exports in the South African context. From the literature review conducted it is evident that, although studies have been conducted to identify export opportunities for South Africa, a gap remains for the study of specifically manufactured exports to the SADC region with a focus on Botswana, Mozambique, Namibia, Zambia and Zimbabwe (the five largest trading partners in SADC based on 2014 data).

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Approach

This study uses a mixed-method of quantitative and qualitative approaches to answer the primary research question and the secondary questions.

Firstly, to answer the primary research question – 'What are South Africa's highest potential manufactured exports to selected SADC countries?' – a quantitative method used by MRC (2014) is applied to secondary data. This method involves identifying the top high potential products through a process of ranking and is elaborated on in the Data Analysis section below. Qualitative analysis is applied to some of the findings by assessing research on various product categories.

To answer the secondary research questions – 'What are the challenges or reasons for South Africa not reaching its export potential in the SADC region?' and 'What export strategies should South Africa pursue in order to overcome challenges and grow its manufactured exports to the SADC region?' – primary qualitative data is collected in the form of semi-structured interviews conducted with experts and other relevant respondents. The interview respondents were required to answer questions relating to South African manufactured exports. The full list of the specific interview questions can be found in Appendix A and a list of the respondents can be found in Appendix B.

This type of research is considered a combination of descriptive and exploratory as it sets out to investigate "what" are the manufactured products with the highest potential for export into selected markets (descriptive), and to determine through analysis of qualitative data some of the reasons why South Africa is not reaching its export potential and to explore potential strategies to improve its performance (exploratory). According to Leedy and Ormrod (2013), descriptive research involves examining a situation "as it is". As this research analyses the trade data from 2014 for the primary research question, it does not attempt to determine a cause and effect relationship, and this type of research constitutes a descriptive study. One of the key ways in which exploratory research is conducted is through interviewing experts on the topic (Saunders, Lewis & Thornhill, 2009). The secondary research questions are framed using an inductive reasoning research approach, as the researcher collects and analyses the data to see what themes emerge, and is therefore exploratory in nature (Saunders, Lewis & Thornhill, 2009).

## 3.2 Data Collection

### 3.2.1 Secondary Data

In order to answer the primary research question, secondary quantitative data was collected from the International Trade Centre (ITC) database, Trade Map. Trade Map is an online resource that collects trade data (both exports and imports), growth rates and market shares for 160 countries from the United Nations (UN) Comtrade database. Where data is not reported by a country, ITC reconstructs the data based on data presented by the partner countries; this is known as "mirror" data. The data obtained from the UN Comtrade is maintained by the United Nations Statistics Division (UNSD), and integrated with data collected by ITC. The ITC present this data using the direct (as reported by the country) and the mirror methods at the Harmonised System (HS) 2, 4, 6 and 8 digit level.

The advantage of this choice of data is that the data is readily available and collected by a reputable international organisation on a standardised basis. Information is also available for all countries pertaining to this study on a consistent and direct basis (with the exception of Namibia for 2014, which uses mirror data for this year). There are differences in the exporting country's direct data and the data as reflected by the corresponding importing country. They do not always align to one another for various reasons, such as different trade systems, time lags and transport and insurance costs (ITC, 2015b).

The HS of trade data is a goods classification system put into place by the World Customs Organisation (WCO) in 1983 for customs tariffs and for the collection of international trade statistics. It describes product categories at various levels of detail. According to the ITC (2014, p. 4):

> It allows participating countries to classify traded goods on a common basis for customs purposes. At the international level, the HS nomenclature is a six-digit code system for classifying goods. The HS comprises approximately 5,300 article/product descriptions that appear as headings and subheadings, arranged in 99 chapters, grouped in 21 sections

that refer to specific product categories (animal products, vegetable products, mineral products, etc.).

The type of data that was collected is import and export data as well as annual average growth rates and indicative trade potential[10] for each of the selected SADC countries. The time period that is used is the most recent available full year, being 2014. In certain cases the trading partner is referred to as "Areas NES” (not elsewhere specified) and according to ITC, (2015a), it is used (a) for low value trade and (b) if the partner designation was unknown to the reporting country or if an error was made in the partner assignment. The "Area NES" is essentially a group of partner countries, but the components of the group may vary.

### 3.2.2 Primary Data

The data for the secondary research questions was gathered from semi-structured interviews with a group of respondents that are knowledgeable on the topic of South African exports. The sample of respondents was selected using non-probability (purposive) sampling and was chosen from various organisations, namely: export councils, government institutions, trade research organisations and industry. The non-probability purposive sampling technique is considered most appropriate for this study as this method involves the selection of a specific sample because it contains ample information on the topic being investigated (Leacock et al., 2015). The sample consisted of 27 respondents that were interviewed on a non-random basis using a combination of face-to-face and telephonic interviews.

As a sample was selected on a non-probability basis, the responses are not intended to be generalised or reflective of a population out of the context of this study. There are various advantages and disadvantages associated with the interview method of data collection. Fowler (2009) remarks that being able to answer respondent’s questions as well as the ability to ask probing questions for more detailed answers are benefits to using the personal interview method. This is further reinforced by Creswell (2014) who highlights the advantage of the researcher having greater management in the questioning process. One of the drawbacks to this method is that the interviewer needs to be standardised in their approach as a varied approach may lead to difference in responses from respondents (Fowler, 2009). This

[10] Indicative Trade Potential is defined as the lower value between a country’s exports to the world of a particular product and the partner country’s imports of that product, minus the actual current trade between the two countries of that product (Trade Map User Guide, November 2014, p.97)

concern was averted as the interviewer for all respondents was the researcher. The instrument used was an interview guide (Appendix A) which was developed by the researcher and adapted from MRC (2014).

## 3.3 Data Analysis

### 3.3.1 Secondary Data

In answering the primary research question, there are several methods and analysis tools to identify the export opportunities with the highest potential. In their working paper, Steenkamp et al. (2009) reviewed six export market selection methods at country-level to determine which was best suited to South Africa. The authors conclude that the Decision Support Model (DSM) is the most appropriate method to identify export opportunities. This method begins with the premise that all worldwide product and country combinations must be considered with the goal of narrowing down this list to the product and country combinations with the highest export potential (Steenkamp et al., 2009). The method involves the application of various filters and after each filter is applied, there are options that are filtered out in order to arrive at optimal country and product combinations. This method is considered to be too detailed for the purposes of this study, especially since five SADC markets are selected upfront. One of the other methods the authors analysed was the ITC method, which works by using multiple criteria and a formula to standardise each criteria; the criteria are then ranked from 0 to 100 in order to contribute to an overall index for the criteria (Steenkamp et al., 2009). Sentery (2014) investigated the export opportunities for agricultural products into the SADC region using the ITC method successfully. The procedure carried out in this study is similar to the ITC method.

This study employed the method used by MRC (2014) and involved selecting the top 100 manufactured imported products in each of the 5 SADC markets (based on 2014 values) and then analysed export and import data to rank the products accordingly. The study ranked the export value from South Africa to the selected SADC markets and the export value from South Africa to the world, the value of the SADC country’s imports from the world and the percentage average annual growth for the 5 year period from 2010 to 2014 for each of these measures. The final ranking was the value of indicative potential trade. The rankings are then added for each product and the 20 lowest ranked products are selected as those with highest potential. In selecting the top 100 manufactured products, the starting point was to first filter all the products into those that belong in the "manufactured" category. In this regard, an Excel mapping guideline was used from the IDC. This mapping was developed to classify the total range of products according to the HS 6 digit level into the mining, agriculture or manufacturing categories. The mapping was originally developed in 1993 in conjunction with various trade and statistics organisations in South Africa and has been maintained and updated over the years by the IDC.

It is important to mention the deviations from the MRC (2014) method. For the purposes of this study, the researcher did not include filter 8, which is the annual average growth of the indicative trade potential over the 5 year period 2010 – 2014. The reason for this was that the calculation was not available on the Trade Map database. If the calculation is manually computed it is not consistent with the Trade Map method of calculating the average, and the data is also distorted where indicative trade potential doesn't exist in the first year (2010). In addition, the researcher chose to highlight the top 20 products with high potential as opposed to the 30 highlighted by MRC (2014) in order to give additional focus to the top products. One of the weaknesses of the data is that it ranks products based on a compilation of filters taking the relative position into account. The method does not necessarily focus on the absolute value of the opportunity. By illustration, Botswana's results highlighted fertilizers as one of the top 20 products, however South Africa already supplies 99.9% of its requirement, thus the potential for future trade is minimal. Another area of weakness is that the method used is not forward-looking but rather takes a view based on a snapshot in time (2014) whereas in reality the trade trends may have moved from that point in time.

The method of calculating trade opportunities is considered the most appropriate for this study as the MRC (2014) method has been used for identifying opportunities in the BRIC markets. The study was commissioned by the Department of Trade and Industry (dti), and as such using the same methodology may prove useful for the dti and other potential stakeholders.

### 3.3.2 Primary Data

In answering the secondary research questions, interview data was coded and the codes were then grouped according to themes for analysis. The analysis of the primary interview data follows a four-step data analysis spiral, as described by Leedy and Ormrod (2013).

The first step involves organising the data. The researcher used Excel in order to organise each interview into the various answers to each question. The second step entails the perusal of the data to derive the initial comments and coding. The researcher reviewed the data repeatedly to understand the responses and formulate initial codes. The third step involves the identification of themes. The researcher classified the data into codes which were refined to arrive at 36 final codes. These codes were then grouped into 7 main themes according to the high-level meaning and similarity of the corresponding codes. The fourth and final step is the synthesis of the data. Here the researcher described each code in relation to its theme and placed it into context with quotations from the interviews. Fowler (2009) identifies 2 types of errors that can arise in the analysis of interview data, namely incorrect transcription of a response and secondly incorrect decisions in coding. The researcher applied the due level of care and diligence in the transcription and coding processes to avoid such inaccuracies arising.

## 3.4 Validity and Reliability

According to Creswell (2014) validity is concerned with the accuracy of research findings and reliability relates to the consistency of the researcher’s approach across different conditions. External validity refers to the ability of the research findings to be generalised to other contexts (Saunders et al., 2009). A threat to external validity can arise if the researcher attempts to generalise beyond the research setting and these threats can occur depending on the characteristics of the sample selected, the setting or the timing of the research (Creswell, 2014).

For analysis of primary data from research respondents, one of the situations in which external validity is at risk is when the respondents selected are narrowly defined. Creswell (2014) suggests ways in which validity of a study can be enhanced. One such method that used in this study was to “triangulate different data sources” (Creswell, 2014, p. 201). This was performed by assessing data from multiple sources and using this to build themes, especially with regards to the interview process. If these themes are based on common responses from interview respondents and / or various data sources, then this enhances the validity of the study (Creswell, 2014). Another suggestion is that the researcher should identify the bias that they might bring to the research context and the interpretation of the findings. In addition, the discussion of findings that may be contradictory to a theme are encouraged, as there are different perspectives that may emerge and presenting both sides will add to the validity of a study. An example of this can be found in Section 4.12.3

Fowler (2009) suggests that to improve validity in surveys one can ensure that the questions provide consistent measures in comparable situations. Research respondents were asked an identical set of questions, responses were recorded, and questions were scripted so as to be taken to have the same meaning to each respondent. The research also followed the guidelines of Creswell (2014) to improve reliability by ensuring that transcribed interviews do not contain mistakes and preventing deviation and inconsistency in the coding process by continuously checking the answers to codes and their definitions.

The use of trade data has its weaknesses, highlighted by ITC (2014, p. 109) as the following:

- Trade data is incomplete and may contain errors.
- Countries may reflect re-imports and re-exports in their trade data.
- Export value refers to total contract value and this may differ to local-value added.
- Due to a wide range of products and product categories that can tend to be too general, different products may end up being categorised differently across countries.
- Exchange rate fluctuations are not always recorded correctly as values in local currencies are converted at year end not throughout the year.
- Mirror statistics are sometimes used and this data has various shortcomings, for example countries with mirror statistics do not cover trade with non-reporting countries (and therefore may be understated).

The shortcomings of trade data as mentioned above are acknowledged and have been taken into consideration in the analysis and results (an example regarding re-exports can be found in Section 4.4.3). In addition Leedy and Ormrod (2013) suggest that one way in which validity can be enhanced is through having a consistent approach to the instrument used in all situations. This was adhered to in the quantitative analysis where all countries were analysed using the same method. The calculations were carried out and checked to ensure accuracy and consistency in the analysis. The triangulation of data sources as suggest by Creswell (2014) is also recommended by Leedy and Ormrod (2013). The authors state that this method of ensuring validity is often used in mixed-methods studies. To ensure triangulation of data, the results of the quantitative analysis were compared with the findings in the interviews (see Section 4.11 and 5.2.1)

## 3.5 Research Ethics

The research interviews were conducted in line with the University Of Cape Town Graduate School Of Business's (GSB) research ethics requirements. The approval for the study was obtained prior to the interviews being conducted, from the GSB's Ethics in Research Committee, according to the rules and norms of the University and Commerce Faculty (see Appendix D for ethics approval).

Interview participants were informed of the study and its aims prior to the interview being conducted, and were also informed that participation was voluntary. The interview participants were asked for permission to record the interview and oral consent to participate in the interview was obtained prior to the interview being conducted. It was decided that oral consent would be more feasible given the timelines to conduct the interviews; this consent was voice-recorded. The files that contain the recordings and transcripts of the participants' interviews and responses were saved on a laptop that is password protected. The identity of participants has been kept confidential and anonymous at all times. The interview responses are used only for the purposes of this research study and this was also communicated to the participants.

# CHAPTER FOUR: DATA ANALYSIS AND RESEARCH FINDINGS

## 4.1 Secondary Quantitative Data Analysis

To answer the primary research question – 'What are South Africa's highest potential manufactured exports to selected SADC countries?' – a quantitative method used by MRC (2014) is applied to secondary quantitative data derived from the International Trade Centre (ITC) Trade Map database. The analysis identifies the top high potential products through a process of ranking. Qualitative analysis is applied to some of the findings by assessing research on various product categories.

## 4.2 South Africa

### 4.2.1 Top 10 Export Markets and Products

South Africa's largest and most important export markets are listed in the table below. The countries are ranked by the exported value from South Africa to the importing country based on 2014 values in US$.

**Table 1: South Africa's top 10 export markets for 2014**

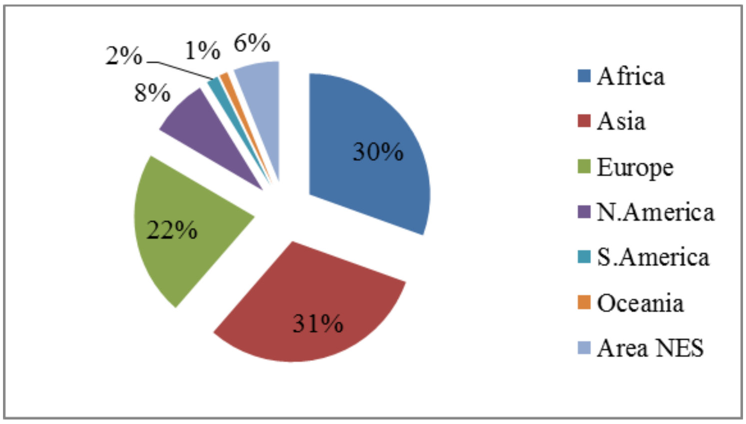
| Importers | Exported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in South Africa's exports (%) | Exported growth in value 2010-2014 (%, p.a.) | Exported growth in value 2013-2014 (%, p.a.) | Top Import Product | Second Top Import Product | Third Top Import Product |
|---|---|---|---|---|---|---|---|---|
| World | 90 612 104 | -9 280 634 | 100.0 | 1 | -5 | | | |
| China | 8 680 022 | -6 769 340 | 9.6 | 1 | -28 | Iron Ore (Agglomerated) | Iron Ore (Non-Agglomerated) | Ferro-chromium |
| USA | 6 420 026 | -175 478 | 7.1 | -4 | -7 | Automobiles | Palladium | Platinum |
| Japan | 4 869 326 | 1 091 962 | 5.4 | -8 | -13 | Iron Ore (Agglomerated) | Platinum (semi-manufactured) | Platinum (unwrought) |
| Botswana | 4 774 961 | 4 307 463 | 5.3 | 3 | 4 | Light petroleum oils | Diamonds | Electrical Energy |
| Namibia | 4 529 161 | 3 954 577 | 5.0 | 3 | 7 | Light petroleum oils | Diesel powered trucks | Automobiles |
| Germany | 4 236 185 | -5 767 057 | 4.7 | -8 | 11 | Filtering or purifying | Platinum | Automobiles |
| India | 3 769 815 | -781 671 | 4.2 | 3 | 25 | Coal | Iron Ore (Agglomerated) | Manganese Ore |
| UK | 3 458 919 | 187 216 | 3.8 | -3 | 5 | Platinum (semi-manufactured) | Platinum (unwrought) | Diesel-powered trucks |
| Mozambique | 3 001 627 | 1 956 375 | 3.3 | 12 | 6 | Electrical Energy | Ferro-chromium | Diesel-powered trucks |
| Netherlands | 2 995 893 | 1 551 757 | 3.3 | 6 | -2 | Coal | Iron Ore (Agglomerated) | Grapes |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Three of the SADC markets that are the subject of this study are featured in the top 10 markets (Botswana, Namibia, Mozambique). What is notable is that these three markets combined account for 13.6% of South Africa's total exports, more than China, the single largest export market. The three SADC markets also show a positive growth trend for the 5 years from 2010 to 2014 as well as the last year alone.

China is the largest importer of South African goods, accounting for 9.6% of South Africa's total exports. This is a large component of exports to the Asian market and thus contributes to Asia being the largest continent for South African exports at US$28 billion. The second largest continent for exports is Africa, following closely behind at US$27.63 billion.

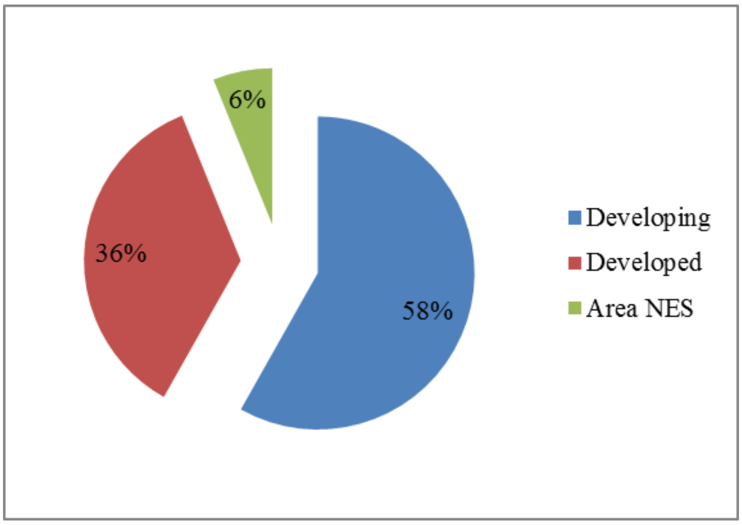
**Figure 4: South African exports by destination**




*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

It is interesting to note that more than 50% of South Africa's exports are destined for developing markets as seen in Figure 5.

**Figure 5: South African exports to developed and developing countries**



*Source: Data from Trade Map. Retrieved from* http://www.trademap.org

### 4.2.2 Top 10 Exports and Markets

The top exported products and destinations can be seen in Table 2 below. What is notable here is the prominence of resource-based materials from the mining sector, with 7 of the top 10 exported products being mined materials. Although some of these 7 may be considered "manufactured" goods, the level of processing is at a low level. African countries are rarely featured in the top markets for the top products, with only Botswana and Swaziland making an appearance in 2 product categories. The top 10 exports accounted for 35.4% of South Africa's total exports in 2014, with 4 product categories individually accounting for more than a fifth of the world's exports of that product. There are 2 products that South Africa's share of exports account for more than 50% of the world's exports, being ferro-chromium and platinum in other semi-manufactured forms.

**Table 2: South Africa's top 10 exported products for 2014**

| Code | Product label | Exported value 2014 (USD thousand) | Annual growth in value between 2010-2014 (%, p.a.) | Annual growth of world imports between 2010-2014 (%, p.a.) | Share in SA exports (%) | Share in world exports (%) | Top Export Market | Second Top Export Market | Third Top Export Market |
|---|---|---|---|---|---|---|---|---|---|
| TOTAL | All products | 90 612 104 | 1 | 5 | 100.00 | 0.5 | | | |
| '270112 | Bituminous coal, whether or not pulverised but not agglomerated | 4 988 983 | -4 | -3 | 5.51 | 6.2 | India | Netherlands | Turkey |
| '710813 | Gold in oth semi-manufactd form n-monetary(inc gold platd w platinum) | 4 726 847 | 529 | 20 | 5.22 | 7.6 | Area NES | Botswana | |
| '260112 | Iron ores & concentrates,other than roasted iron pyrites,agglomerated | 4 449 860 | -4 | -5 | 4.91 | 21.1 | China | Japan | Rep of Korea |
| '720241 | Ferro-chromium containing by weight more than 4% of carbon | 3 118 368 | -3 | -3 | 3.44 | 51.3 | China | USA | Japan |
| '271011 | Light petroleum oils and preparations | 2 943 993 | 6 | 8 | 3.25 | 0.9 | Botswana | Area NES | Swaziland |
| '711019 | Platinum in other semi-manufactured forms | 2 706 259 | -6 | -13 | 2.99 | 50.0 | Switzerland | Japan | UK |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 2 488 472 | -2 | 7 | 2.75 | 0.9 | USA | Japan | Australia |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 2 377 533 | 23 | 6 | 2.62 | 4.9 | UK | Belgium | Germany |
| '260111 | Iron ores&concentrates,oth than roasted iron pyrites,non-agglomerated | 2 284 101 | 46 | 2 | 2.52 | 2.3 | China | Hong Kong | Japan |
| '711011 | Platinum unwrought or in powder form | 1 944 427 | -13 | -3 | 2.15 | 20.4 | Japan | Germany | UK |

*Source: Data from Trade Map. Retrieved from* http://www.trademap.org

### 4.2.3 Top 10 Manufactured Exports and Markets

Manufactured goods are generally taken to mean goods that have had a level of processing or value-addition. The Standard Industry Classification (SIC) codes describe manufacturing as "the physical or chemical transformation of materials or compounds into new products" (Republic of South Africa, 1993, p. 10). The MRC (2014) research uses the HS classification and identifies "value added" as products that have an intermediate and high level of processing and this excludes all raw materials. For the purposes of this study, the IDC mapping of HS codes into the "manufacturing" category is used, as described in the previous chapter. The list of top 10 manufactured goods exported from South Africa can be found in Table 3 below. One can see a concentration in chapter 87 ("vehicles other than railway, tramway"), with 4 products in the top 10 emanating from this chapter, accounting for over US$6.2 billion.

**Table 3: South Africa's top 10 Manufactured exported products for 2014**

| Code | Product label | Exported value 2014 (USD thousand) | Annual growth in value between 2010-2014 (%, p.a.) | Annual growth of world imports between 2010-2014 (%, p.a.) | Share in SA exports (%) | Share in world exports (%) | Top Export Market | Second Top Export Market | Third Top Export Market |
|---|---|---|---|---|---|---|---|---|---|
| TOTAL | All products | 90 612 104 | 1 | 5 | 100.00 | 0.5 | | | |
| 720241 | Ferro-chromium containing by weight more than 4% of carbon | 3 118 368 | -3 | -3 | 3.44 | 51.3 | China | USA | Japan |
| 271011 | Light petroleum oils and preparations | 2 943 993 | 6 | 8 | 3.25 | 0.9 | Botswana | Area NES | Swaziland |
| 870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 2 488 472 | -2 | 7 | 2.75 | 0.9 | USA | Japan | Australia |
| 870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 2 377 533 | 23 | 6 | 2.62 | 4.9 | UK | Belgium | Germany |
| 842139 | Filtering or purifying machinery and apparatus for gases nes | 1 798 970 | -6 | 10 | 1.99 | 9.4 | Germany | USA | UK |
| 760110 | Aluminium unwrought, not alloyed | 1 109 384 | -3 | -1 | 1.22 | 5.0 | Japan | Switzerland | Korea |
| 870322 | Automobiles w reciprocatg piston engine displacg > 1000 cc to 1500 cc | 741 906 | -11 | 5 | 0.82 | 1.0 | Germany | Japan | Australia |
| 470200 | Chemical wood pulp, dissolving grades | 739 763 | 2 | 4 | 0.82 | 16.8 | China | Indonesia | India |
| 870332 | Automobiles with diesel engine displacing more than 1500 cc to 2500 cc | 670 206 | 1 | 6 | 0.74 | 0.5 | Belgium | Japan | Germany |
| 220421 | Grape wines nes,incl fort&grape must,unfermntd by add alc in ctnr<=2l | 506 537 | -3 | 4 | 0.56 | 2.1 | UK | Netherlands | Germany |

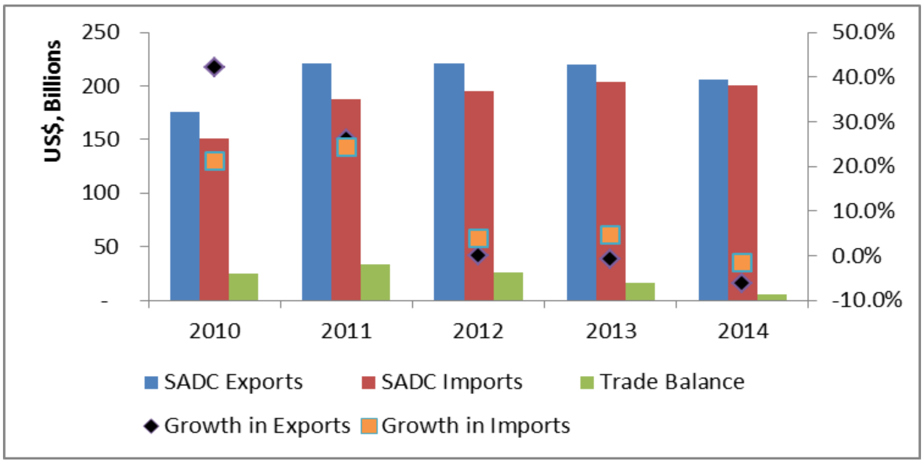
*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

## 4.3 SADC

### 4.3.1 SADC Trade with the World

The figure below shows how SADC trade with the world has changed over time. It can be seen that the trade balance over the last 5 years has been positive but declining, with the nominal growth in imports exceeding the growth in exports.

**Figure 6: SADC trade with the world**




*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Table 4 below shows the top 10 importing and exporting countries trading with the SADC bloc. The markets common to both lists are China, India, South Africa, USA and Japan. The top 10 in both lists account for approximately 58% of total trade, reflecting a relatively high concentration in a few countries. China is the largest trading partner in both lists. At 12.6% of total SADC imports, South Africa features as the second largest market that SADC imports from. Although this is a substantial portion of imports, the proportion attributable to South Africa has been declining over recent years as can be seen in Table 5 below.

**Table 4: Top 10 importing and exporting countries trading with SADC**

| Importers | Exported value in 2014 | Share of SADC Exports % | Exporters | Imported value in 2014 | Share of SADC Imports % |
|---|---|---|---|---|---|
| China | 45 906 525 | 22.3% | China | 29 261 694 | 14.6% |
| USA | 13 954 536 | 6.8% | South Africa | 25 304 661 | 12.6% |
| India | 12 673 003 | 6.1% | Germany | 11 779 305 | 5.9% |
| South Africa | 9 709 401 | 4.7% | India | 10 744 227 | 5.4% |
| Belgium | 7 055 603 | 3.4% | USA | 10 395 713 | 5.2% |
| Switzerland | 6 417 665 | 3.1% | Saudi Arabia | 7 418 185 | 3.7% |
| Japan | 6 059 394 | 2.9% | Japan | 5 724 829 | 2.9% |
| Netherlands | 5 830 832 | 2.8% | United Kingdom | 5 589 654 | 2.8% |
| Botswana | 5 803 334 | 2.8% | Nigeria | 5 147 292 | 2.6% |
| Area Nes | 5 478 302 | 2.7% | Portugal | 4 946 279 | 2.5% |
| | | 57.6% | | | 58.0% |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Table 5 below shows how the countries constituting the SADC bloc contribute to exports and imports within the bloc itself. South Africa is the largest contributor; however it is noticeable that the contribution is decreasing both in exports and imports. While South Africa's proportion of SADC imports from the trading bloc reduced by 5.8% between 2010 and 2014, Angola, Zambia, DRC and Botswana collectively increased their contribution to SADC imports by 6.5% over the same period.

**Table 5: Proportionate split of SADC exports and imports by country**

| Country | Exported value in 2010 | Exported value in 2011 | Exported value in 2012 | Exported value in 2013 | Exported value in 2014 | Imported value in 2010 | Imported value in 2011 | Imported value in 2012 | Imported value in 2013 | Imported value in 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| SADC Aggregation | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| South Africa | 47% | 49% | 45% | 43% | 44% | 56% | 55% | 53% | 51% | 50% |
| Angola | 30% | 30% | 33% | 32% | 31% | 11% | 10% | 11% | 11% | 13% |
| Zambia | 4% | 4% | 4% | 5% | 5% | 5% | 6% | 6% | 6% | 6% |
| Botswana | 3% | 3% | 3% | 3% | 4% | 4% | 4% | 5% | 5% | 5% |
| DRC | 3% | 3% | 3% | 3% | 3% | 2% | 3% | 3% | 5% | 4% |
| Tanzania | 2% | 2% | 3% | 2% | 3% | 4% | 4% | 4% | 4% | 4% |
| Mozambique | 1% | 2% | 2% | 2% | 2% | 4% | 3% | 4% | 4% | 4% |
| Namibia | 3% | 3% | 2% | 3% | 2% | 3% | 3% | 3% | 3% | 3% |
| Zimbabwe | 2% | 2% | 2% | 2% | 1% | 4% | 5% | 4% | 4% | 3% |
| Mauritius | 1% | 1% | 1% | 1% | 1% | 3% | 3% | 3% | 3% | 3% |
| Madagascar | 1% | 1% | 1% | 1% | 1% | 2% | 2% | 1% | 2% | 2% |
| Swaziland | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| Malawi | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| Lesotho | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 1% | 1% | 1% |
| Seychelles | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

SADC's trade with the world is concentrated in the minerals and mining sector as evidenced by the top 10 imported and exported products in Table 6 below. With regards to exports, a significant 31% of SADC exports are attributable to petroleum oil. The top 10 exported products constitute 53% of total exports. The top 10 imports account for 28.1% of total SADC imports, with most of the list being commodity-based products. The non-commodity based products relate to medication, cellular telephones and automobiles, which together account for 4.9%.

**Table 6: Top 10 imported and exported goods between SADC and the World**

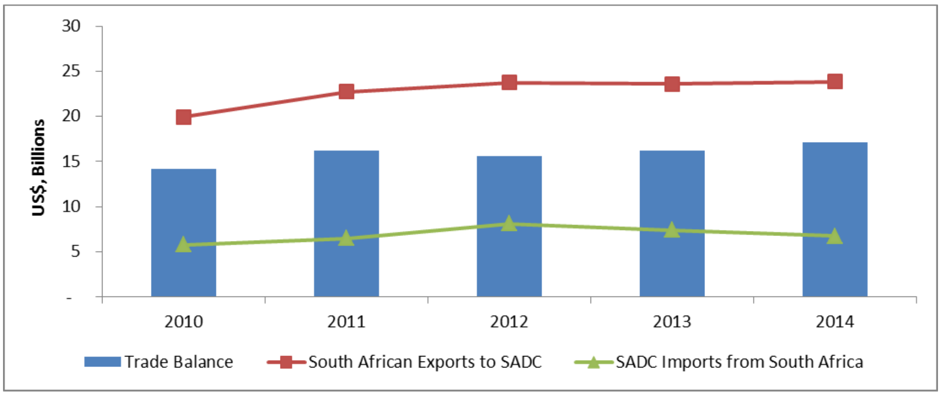
| Code | Product label | Imported value in 2014 | Share of total Imported Porducts | Code | Product label | Exported value in 2014 | Share of total Exported Porducts |
|---|---|---|---|---|---|---|---|
| TOTAL | All products | 200 649 927 | | TOTAL | All products | 206 272 079 | |
| '270900 | Petroleum oils and oils obtained from bituminous minerals, crude | 16 421 845 | 8.2% | '270900 | Petroleum oils and oils obtained from bituminous minerals, crude | 62 242 517 | 31.0% |
| '271012 | Light petroleum oils and preparations | 10 016 238 | 5.0% | '710231 | Diamonds non-industrial unworked or simply sawn, cleaved or bruted | 9 755 559 | 4.9% |
| '271019 | Other petroleum oils and preparations | 7 921 846 | 3.9% | '740311 | Copper cathodes and sections of cathodes unwrought | 7 170 602 | 3.6% |
| '999999 | Commodities not elsewhere specified | 7 411 709 | 3.7% | '710813 | Gold in oth semi-manufactd form n-monetary(inc gold platd w platinum) | 5 947 417 | 3.0% |
| '710231 | Diamonds non-industrial unworked or simply sawn, cleaved or bruted | 3 130 857 | 1.6% | '270112 | Bituminous coal, whether or not pulverised but not agglomerated | 5 007 987 | 2.5% |
| '300490 | Medicaments nes, in dosage | 2 854 268 | 1.4% | '260112 | Iron ores & concentrates,other than roasted iron pyrites,agglomerated | 4 449 870 | 2.2% |
| '851712 | Telephones for cellular networks mobile telephones or for other wirele | 2 737 516 | 1.4% | '720241 | Ferro-chromium containing by weight more than 4% of carbon | 3 389 108 | 1.7% |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 2 616 052 | 1.3% | '271012 | Light petroleum oils and preparations | 3 190 236 | 1.6% |
| '870322 | Automobiles w reciprocatg piston engine displacg > 1000 cc to 1500 cc | 1 669 884 | 0.8% | '711019 | Platinum in other semi-manufactured forms | 2 706 274 | 1.3% |
| '260300 | Copper ores and concentrates | 1 528 531 | 0.8% | '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 2 511 727 | 1.3% |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

### 4.3.2 South African Trade with SADC

Figure 7 shows the development of the trade relationship between South Africa and SADC over the last 5 years. South Africa maintained a positive trade balance with SADC, with imports growing 17% over the period and exports growing 19.6%. The effect of exchange rates has no impact as the information is reported in US$ throughout the period. The trade balance in 2014 was US$17.1 billion.

**Figure 7: Trade balance, Imports and exports between South Africa and SADC**




*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Exports to SADC markets accounted for 26.3% of total South African exports to the world, and 86.4% of South African exports to Africa in 2014. The top 5 markets which are the subject of this study (Botswana, Namibia, Mozambique, Zambia and Zimbabwe) account for 19.1% of total South African exports and 72.5% of South Africa's exports to SADC, highlighting the importance of these markets to South Africa. All of these five markets have shown a growth over the 5 year period 2010 - 2014 as seen below.

**Table 7: South African exports to SADC per country, 2014**

| Importers | Trade Indicators | | | | | |
|---|---|---|---|---|---|---|
| | Exported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in South Africa's exports to World(%) | Share in South Africa's exports to SADC (%) | Exported growth in value between 2010-2014 (%, p.a.) | Exported growth in value between 2013-2014 (%, p.a.) |
| World | 90 612 104 | -9 280 634 | 100 | 100 | 1 | -5 |
| SADC Aggregation | 23 864 343 | 17 392 836 | 26.3 | | | |
| Botswana | 4 774 961 | 4 307 463 | 5.3 | 20.01 | 3 | 4 |
| Namibia | 4 529 161 | 3 954 577 | 5.0 | 18.98 | 3 | 7 |
| Mozambique | 3 001 627 | 1 956 375 | 3.3 | 12.58 | 12 | 6 |
| Zambia | 2 717 093 | 2 382 860 | 3.0 | 11.39 | 11 | 0 |
| Zimbabwe | 2 286 054 | 2 100 943 | 2.5 | 9.58 | 1 | -5 |
| Swaziland | 1 505 888 | 358 578 | 1.7 | 6.31 | -3 | -1 |
| Lesotho | 1 313 949 | 1 059 650 | 1.5 | 5.51 | -1 | -7 |
| DRC | 1 242 221 | 1 224 765 | 1.4 | 5.21 | 10 | -9 |
| Angola | 1 050 602 | -968 368 | 1.2 | 4.40 | 9 | 5 |
| Tanzania | 494 934 | 444 870 | 0.5 | 2.07 | -3 | -3 |
| Malawi | 409 406 | 341 052 | 0.5 | 1.72 | 1 | -20 |
| Mauritius | 329 239 | 149 203 | 0.4 | 1.38 | -1 | 8 |
| Madagascar | 154 655 | 27 481 | 0.2 | 0.65 | -2 | -9 |
| Seychelles | 54 553 | 53 387 | 0.1 | 0.23 | -2 | 20 |
| South Africa | | -291 440 | | 97.74 | | |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

From Table 8 below it can be seen that the value of South African exports to SADC has not changed greatly in the period 2012 to 2014. The top 10 exported products consist mainly of manufactured goods and account for 21.79% of total South Africa exports to SADC in 2014.

**Table 8: Top 10 exported products from South Africa to SADC**

| Product code | Product label | Value in 2012 | Value in 2013 | Value in 2014 | Share of SA exports to SADC (%) |
|---|---|---|---|---|---|
| TOTAL | All products | 23 726 853 | 23 610 965 | 23 864 343 | |
| '271012 | Light petroleum oils and preparations | 1 995 642 | 2 214 871 | 1 961 312 | 8.22 |
| '710231 | Diamonds non-industrial unworked or simply sawn, cleaved or bruted | 296 088 | 474 602 | 657 676 | 2.76 |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 525 550 | 542 407 | 627 729 | 2.63 |
| '271600 | Electrical energy | 520 291 | 562 110 | 569 463 | 2.39 |
| '730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 286 301 | 257 623 | 291 821 | 1.22 |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 292 139 | 249 021 | 282 012 | 1.18 |
| '100590 | Maize (corn) nes | 152 417 | 231 915 | 234 414 | 0.98 |
| '843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 233 811 | 217 463 | 232 315 | 0.97 |
| '870899 | Motor vehicle parts nes | 194 342 | 178 955 | 176 956 | 0.74 |
| '847490 | Pts of sortg/screeng/mixg/crushg/grinding/ washing/agglomeratg mach etc | 196 312 | 173 890 | 166 855 | 0.70 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The list of South Africa's top 10 manufactured exported products to SADC does not differ materially from the total top 10 list above in Table 8. There are 3 items that exit the list, namely "diamonds non-industrial", "electrical energy" and "maize (corn) nes". These are replaced by "medicaments nes", "refined cane or beet sugar", and "ferro-chromium containing by weight more than 4% of carbon". The list of manufactured products contributes 17.6% of South Africa's total exports to the SADC region in 2014, with the total US$ value of the products remaining at a similar level over the last 3 reported years.

**Table 9: Top 10 exported manufactured products from South Africa to SADC**

| Product code | Product label | Value in 2012 | Value in 2013 | Value in 2014 | Share in SA exports to SADC (%) |
|---|---|---|---|---|---|
| TOTAL | All products | 23 726 853 | 23 610 965 | 23 864 343 | |
| 271012 | Light petroleum oils and preparations | 1 995 642 | 2 214 871 | 1 961 312 | 8.22 |
| 870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 525 550 | 542 407 | 627 729 | 2.63 |
| 730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 286 301 | 257 623 | 291 821 | 1.22 |
| 870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 292 139 | 249 021 | 282 012 | 1.18 |
| 843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 233 811 | 217 463 | 232 315 | 0.97 |
| 870899 | Motor vehicle parts nes | 194 342 | 178 955 | 176 956 | 0.74 |
| 847490 | Pts of sortg/screeng/mixg/ crushg/grinding/washing/agglomeratg mach etc | 196 312 | 173 890 | 166 855 | 0.70 |
| 300490 | Medicaments nes, in dosage | 203 655 | 173 888 | 164 285 | 0.69 |
| 170199 | Refined cane or beet sugar, solid, without flavouring or colouring matter | 152 431 | 186 086 | 147 491 | 0.62 |
| 720241 | Ferro-chromium containing by weight more than 4% of carbon | 13 623 | 4 724 | 138 432 | 0.58 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

## 4.4 Botswana[11]

### 4.4.1 Economic overview

The mining sector is important for Botswana and contributes strongly to the country's GDP. In 2013-2014 the mining sector accounted for over a fifth of GDP at 22.4% (Statistics Botswana, 2014). However given the current downward trend in commodities, having an economy that is overly concentrated in the mining sector can be viewed as risky. According to Honde and Abraha (2015)[12] a recovery was seen in the country's diamond mining yet this growth was offset by the decline in other commodities, namely copper, nickel and cobalt. Manufacturing accounted for only 5.7% of Botswana's GDP in 2013. One of the major challenges faced by the sector is the electricity and water supply (Honde & Abraha, 2015). The GDP is forecast to grow approximately 4.4% in the 2015-2016 period and is expected to come mainly from non-mining sectors (Honde & Abraha, 2015). The country is considered to be relatively politically stable with steady macroeconomic fundamentals; however the economy is marred by the high levels of poverty, lack of education and prevalence of HIV (WEF, 2014). Despite these challenging circumstances, the country's outlook for growth is positive with some interesting projects in the pipeline, such as the commissioning of a steel manufacturing plant and the expansion of diamond cutting and polishing capabilities (Honde & Abraha, 2015).

### 4.4.2 Trading Overview

In 2014 Botswana reported a net trade surplus of US$85 million. The country's top trading partners are noted in Table 10 below. South Africa accounts for a large majority of Botswana's imports at 63.2%, and is also one of the top 3 export destinations for Botswana's goods, representing 11.8% of the country's exports.

[11] When working in the country of analysis, the data (other than for the identification test which will reflect the direct data of South Africa's exports to the world) will reflect the "direct data" as reported by that particular country. There are discrepancies between the direct (as reported by the reporting country) and data as reflected by the importing country (as discussed in the previous chapter). The exception to this will be Namibia as there is no direct data reported in 2014 and thus to maintain consistency in reporting period the 2014 mirror data is used.

[12] Authors of the Botswana 2015 African Economic Outlook for the African Development Bank

**Table 10: Botswana top 10 trading partners, 2014**

| Top ten trading partners, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Exporters | Imported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Botswana's imports (%) | Imported growth in value between 2010-2014 (%, p.a.) | Importers | Exported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Botswana's exports (%) | Exported growth in value between 2010-2014 (%, p.a.) |
| World | 7 830 451 | 85 017 | 100.0 | 7 | World | 7 915 468 | 85 017 | 100.0 | 14 |
| South Africa | 4 952 701 | -4 019 805 | 63.2 | 4 | Belgium | 2 040 988 | 1 728 622 | 25.8 | 101 |
| Namibia | 944 326 | -360 478 | 12.1 | 109 | India | 1 179 639 | 1 103 286 | 14.9 | 119 |
| Canada | 783 749 | -460 510 | 10.0 | 297 | South Africa | 932 896 | -4 019 805 | 11.8 | 9 |
| Belgium | 312 366 | 1 728 622 | 4.0 | 67 | Israel | 662 201 | 543 466 | 8.4 | 27 |
| Israel | 118 735 | 543 466 | 1.5 | 3 | Namibia | 583 848 | -360 478 | 7.4 | 143 |
| USA | 112 361 | 115 294 | 1.4 | 11 | UAE | 372 631 | 360 018 | 4.7 | 217 |
| China | 88 222 | -27 032 | 1.1 | -35 | Singapore | 347 375 | 331 080 | 4.4 | 1275 |
| India | 76 353 | 1 103 286 | 1.0 | 8 | Canada | 323 239 | -460 510 | 4.1 | 690 |
| Germany | 76 074 | -75 690 | 1.0 | 13 | Switzerland | 281 230 | 267 509 | 3.6 | 37 |
| UK | 64 646 | 8 433 | 0.8 | -36 | Hong Kong | 235 973 | 221 874 | 3.0 | 167 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The top ten imports by Botswana account for 54.7% of total imports. It can be seen from Table 11 below that Botswana's import basket is biased towards precious stones and commodities, with 35.1% of the top ten imported products being attributed to diamonds and commodities nes. An interesting finding is that Botswana's biggest import is non-industrial unworked diamonds. The country also accounts for over a fifth of the world's imports of "diamonds unsorted whether or not worked" even though it is one of the top diamond miners in the world. This highlights the country's intention to strengthen its diamond processing and lessen the export of rough diamonds as raised by Honde and Abraha (2015).

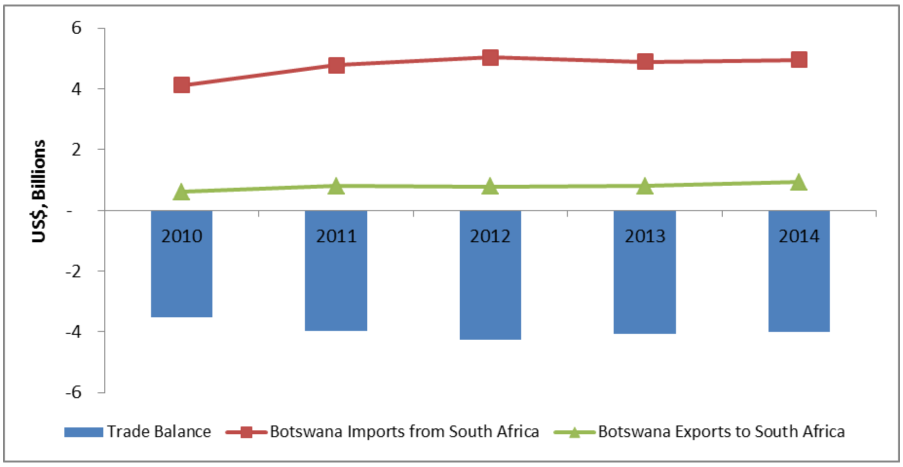
**Table 11: Botswana's top 10 imports from the World**

| Code | Product label | Imported value 2014 (USD thousand | Annual growth in value between 2010-2014 (%, p | Share in world imports (% | Supplier 1 | Supplier 2 | Supplier 3 |
|---|---|---|---|---|---|---|---|
| TOTAL | All products | 7 830 451 | 7 | | | | |
| '710231 | Diamonds non-industrial unworked or simply sawn, cleaved or bruted | 2 030 199 | 38 | 4.2 | Namibia | South Africa | Canada |
| '271011 | Light petroleum oils and preparations | 1 038 267 | 9 | 0.3 | South Africa | Namibia | Mozambique |
| '710210 | Diamonds unsorted whether or not worked | 505 311 | | 21.3 | Canada | South Africa | |
| '271600 | Electrical energy | 149 039 | 11 | 0.5 | South Africa | Namibia | Zambia |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 131 260 | 2 | 0 | South Africa | Japan | United Kingdom |
| '710239 | Diamonds non-industrial nes excluding mounted or set diamonds | 121 685 | 37 | 0.1 | USA | Belgium | Israel |
| '999999 | Commodities not elsewhere specified | 91 696 | 4 | 0 | South Africa | China | USA |
| '300490 | Medicaments nes, in dosage | 80 703 | 4 | 0 | South Africa | India | Cyprus |
| '870431 | Gas powered trucks with a GVW not exceeding five tonnes | 77 137 | 5 | 0.2 | South Africa | Japan | UK |
| '252329 | Portland cement nes | 61 667 | -10 | 0.8 | South Africa | Namibia | Andorra |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Botswana has run a trading deficit with South Africa for the past 5 year timeframe the study examines (2010 – 2014), illustrating the high level of dependence on South Africa for its imported goods (see Figure 8). The export penetration however has reduced over time. World exports to Botswana have increased (in absolute nominal terms) by 38.4% from 2010 to 2014, whereas South Africa's exports to Botswana have increased by 20.3%, resulting in a 7% average annual growth rate for the world and 4% for South Africa over the 2010-2014 period. In 2010 South African exports accounted for 72.8% of exports into Botswana whereas in 2014 this has reduced to 63.2% thus highlighting the dilution of South Africa's share of exports.

**Figure 8: Trade balance, Imports and exports between South Africa and Botswana**




*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Botswana is an important export destination for South Africa, representing 5.3% of South Africa's total exports it is the largest African export destination and the 5$^{th}$ largest overall export destination (based on 2014 figures). Looking at the top 10 products Botswana imports from South Africa (Table 12), it can be seen that 6 products are in the manufacturing sector. South Africa produces more than 50% of the top 10 imported products overall with the exception of diamonds, and 8 of the top 10 imports from South Africa have experienced positive growth over the 2010 to 2014 period with the exception of portland cement and medicaments.

### Table 12: Botswana's top 10 imports from South Africa

| Product Code | Product Label | Value in 2014, USD thousand | Annual growth in value between 2010-2014, %, p.a. | Share in Botswana's imports, % |
|---|---|---|---|---|
| TOTAL | All products | 4 952 701 | 4 | 63.2 |
| '271011 | Light petroleum oils and preparations | 982 923 | 9 | 94.7 |
| '710231 | Diamonds non-industrial unworked or simply sawn, cleaved or bruted | 558 986 | 517 | 27.5 |
| '271600 | Electrical energy | 120 752 | 12 | 81 |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 95 065 | 2 | 72.4 |
| '870431 | Gas powered trucks with a GVW not exceeding five tonnes | 75 893 | 6 | 98.4 |
| '999999 | Commodities not elsewhere specified | 72 867 | 9 | 79.5 |
| '252329 | Portland cement nes | 60 294 | -6 | 97.8 |
| '300490 | Medicaments nes, in dosage | 46 200 | -6 | 57.2 |
| '843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 45 012 | 27 | 87.2 |
| '100590 | Maize (corn) nes | 43 413 | 59 | 100 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

### 4.4.3 Identified High Potential Export Opportunities

Based on the analysis conducted to identify export opportunities, the top 20 manufactured products with the greatest potential for South Africa to export to Botswana are shown in Table 13 below.

### Table 13: Botswana - List of top 20 high potential exports

| Product Code | Product Label | Total | Rank |
|---|---|---|---|
| 851712 | Telephones for cellular networks mobile telephones or for other wirele | 88 | 1 |
| 843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 135 | 2 |
| 271011 | Light petroleum oils and preparations | 144 | 3 |
| 870431 | Gas powered trucks with a GVW not exceeding five tonnes | 199 | 4 |
| 870422 | Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 236 | 5 |
| 310230 | Ammonium nitrate,whether or not in aqeuous sol in pack weighg > 10 kg | 243 | 6 |
| 240220 | Cigarettes containing tobacco | 253 | 7 |
| 870190 | Wheeled tractors nes | 254 | 8 |
| 392690 | Articles of plastics or of other materials of Nos 39.01 to 39.14 nes | 257 | 9 |
| 870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 264 | 10 |
| 870410 | Dump trucks designed for off-highway use | 268 | 11 |
| 300490 | Medicaments nes, in dosage | 274 | 12 |
| 870899 | Motor vehicle parts nes | 278 | 13 |
| 170199 | Refined cane or beet sugar, solid, without flavouring or colouring matter | 279 | 14 |
| 310590 | Fertilizers nes, in packages not exceeding 10 kg | 285 | 15 |
| 847130 | Portable digital computers <10kg | 308 | 16 |
| 401120 | Pneumatic tires new of rubber for buses or lorries | 310 | 17 |
| 220290 | Non-alcoholic beverages nes,excludg fruit/veg juices of headg No 20.09 | 311 | 18 |
| 390110 | Polyethylene having a specific gravity of less than 0.94 | 318 | 19 |
| 841381 | Pumps nes | 331 | 20 |

*Source: Researcher using data from Trade Map. Retrieved from http://www.trademap.org*

The top ranked product is "telephones for cellular networks or mobile telephones", which the country imported US$35.1 million of in 2014 of which 72.8% was supplied by South Africa. As highlighted in Section 3.4, re-exports[13] is sometimes included in trade data. This product would be an example of a re-export, as South Africa does not produce mobile telephones (at least not on the scale that it exports). One of the filters that was applied was the annual growth in value of South African exports of the product between 2010 and 2014. The product was ranked 2$^{nd}$ in this category with a growth rate of 56%. The products that are most common in the top 20 are found in chapters 84 (machinery, nuclear reactors, boilers) and 87 (vehicles other than railway, tramway). The products in chapter 87 include automobiles; however there is a concentration in heavy commercial vehicles. According to Business Monitor International (BMI) (2015a), the market for passenger vehicles has come under strain in the short-term with the country having instituted a ban in 2013 on used cars that are older than 5 years. This reduces the affordability of cars in the market, and together with the inflationary effects emanating from imports due to the rand devaluation, creates pressure for the consumer (BMI, 2015a). Despite this BMI estimates a 3% year-on-year growth in 2015, increasing to an average of 8.7% over the following 4 years. The market for commercial vehicles is viewed in a more positive light. BMI (2015a) forecasts strong growth of 8.5% in 2015 and annual average growth of 15.5% to 2019, this is forecast off the back of anticipated growth in the coal sector, with Government intending to develop the economy beyond the diamond sector.

Chapter 84 is less homogenous with products ranging from laptops to construction equipment. Other notable chapters include "fertilizers" (chapter 31) and "plastics and related articles" (chapter 39) with 2 products each in the top 20. Fertilizers could represent an important category with Botswana looking to grow its agriculture sector. According to the Botswana Investment and Trade Centre (BITC)[14] (2014), agriculture production and agro-processing are sectors identified as a target for investment promotion. South Africa already supplies almost 100% of the requirement for the 2 fertilizer products highlighted, therefore the indicative trade potential will not increase significantly unless the demand for the products increases, which could be the case given the focus on growing the abovementioned sectors. The product ranked number 17 can be seen as complementary to chapter 87 as it is

[13] Re-exports are regarded as "goods that are re-exported in the same state as previously imported" (ITC, 2015a) Retrieved from http://www.trademap.org/stGlossary.aspx

[14] BITC is an investment and trade promotion authority in Botswana.

tyres for buses and lorries (which are heavy duty vehicles) and South Africa could look at solutions that combine the promotion of these products.

## 4.5 Mozambique

### 4.5.1 Economic Overview

The Mozambican economy has displayed resilience in the generally muted economic environment that has been experienced in recent years. The forecast real GDP growth is 7.5% and 8.1% for 2015 and 2016 respectively (Almeida Santos & Roffarello, 2015). This is the highest growth rate forecast of the 5 SADC countries selected for this study. According to Almeida Santos and Roffarello (2015), the main drivers of growth will be public expenditure (especially infrastructure), foreign direct investment (FDI), and coal and liquefied natural gas (LNG), with the Government recently revising legislation around the mining and hydrocarbon sector with the intention of improving revenues from these sectors. There is a potential LNG plant in the pipeline to the value of US$20 billion; however a decision has not yet been made (Almeida Santos & Roffarello, 2015). Should the decision be made to proceed with plant construction, this could open up the door for South Africa to supply the country with requirements for the construction of the plant. Almeida Santos and Roffarello (2015), indicate that the agricultural sector accounts for 80% of employment and just under 30% of GDP, whereas manufacturing contributes 2.8% to employment; and 11.3% to GDP in 2013 terms (down from 13.1% in 2009). The relatively small contribution of the manufacturing and the country's limited capability in the sector (BMI, 2015b) represents an opportunity for South African manufactured exports. The mining sector has been one of the fastest growing for Mozambique in 2014 but the growth has been offset by the fall in commodity prices (Almeida Santos & Roffarello, 2015). The prospects look interesting for the country however there are some pertinent issues that the country must improve upon in order to move forward, one of them being the high level of unemployment and the quality of infrastructure (Almeida Santos & Roffarello, 2015).

### 4.5.2 Trading Overview

Mozambique is running a net trade deficit in 2014 of around US$4 billion, with Mozambican exports roughly half of its total imports from the world. South Africa is the largest exporter to

Mozambique and second largest importer, accounting for 33.1% of total imports into the country and 20.1% of exports from the country as seen in Table 14 below.

**Table 14: Mozambique top 10 trading partners, 2014**

| Top ten trading partners, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Exporters to Mozambique | Imported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Mozambique's imports (%) | Imported growth in value between 2010-2014 (%, p.a.) | Importers from Mozambique | Exported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Mozambique's exports (%) | Exported growth in value between 2010-2014 (%, p.a.) |
| World | 8 743 074 | -4 017 743 | 100 | 25 | World | 4 725 331 | -4 017 743 | 100 | 17 |
| South Africa | 2 891 895 | -1 943 731 | 33.1 | 24 | Netherlands | 1 111 384 | 512 095 | 23.5 | -3 |
| Bahrain | 810 244 | -793 866 | 9.3 | 81 | South Africa | 948 164 | -1 943 731 | 20.1 | 20 |
| China | 700 021 | -495 833 | 8 | 48 | Singapore | 474 724 | 364 789 | 10 | 144 |
| Netherlands | 599 289 | 512 095 | 6.9 | -6 | India | 387 582 | 59 490 | 8.2 | 104 |
| United Arab Emirates | 478 582 | -359 489 | 5.5 | 71 | United Kingdom | 209 903 | 91 511 | 4.4 | 138 |
| Portugal | 455 996 | -402 570 | 5.2 | 34 | China | 204 188 | -495 833 | 4.3 | 15 |
| India | 328 092 | 59 490 | 3.8 | 11 | United Arab Emirates | 119 093 | -359 489 | 2.5 | 102 |
| Japan | 274 532 | -224 116 | 3.1 | 20 | Zimbabwe | 106 496 | 81 619 | 2.3 | 2 |
| USA | 158 615 | -105 279 | 1.8 | 12 | Switzerland | 87 888 | 42 800 | 1.9 | 59 |
| Thailand | 140 599 | -136 745 | 1.6 | 25 | Italy | 77 947 | -15 709 | 1.6 | 184 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Mozambique has a mixed basket of top imports, with products in various sectors including energy, agriculture and manufacturing. The top 10 imports accounts for 35% of total imports, and South Africa is in the top 3 suppliers for 6 of these products. The United Arab Emirates and Portugal also feature as top suppliers in 3 of the top 10 products. The average annual growth in imports from the world was 25% from 2010 to 2014; however the annual growth in the last year (2013-2014) showed a decline of 13%, as seen in Table 15.

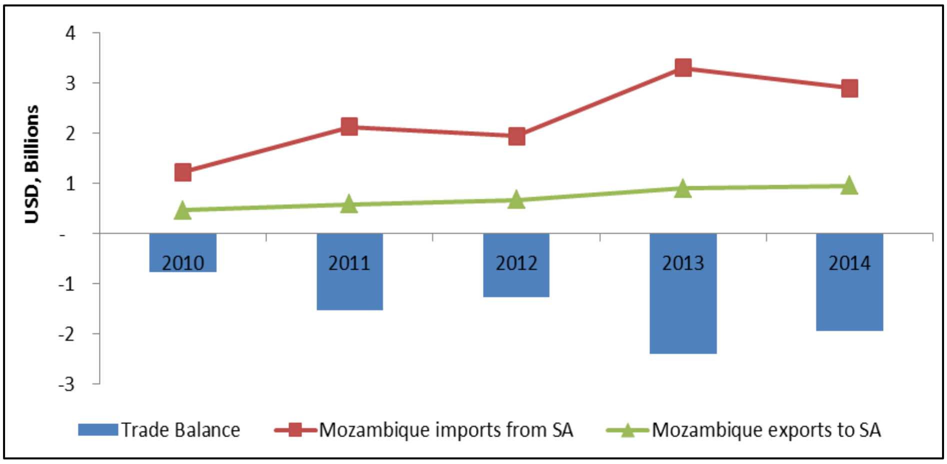
**Table 15: Mozambique's top 10 imports from the World**

| Code | Product label | Imported value 2014 (USD thousand) | Annual growth in value between 2010-2014 (%, p.a.) | Annual growth in value between 2013-2014 (%, p.a.) | Share in world imports (%) | Supplier 1 | Supplier 2 | Supplier 3 |
|---|---|---|---|---|---|---|---|---|
| TOTAL | All products | 8 743 074 | 25 | -13 | 0 | | | |
| '271019 | Other petroleum oils and preparations | 1 033 946 | 30 | -35 | 0.2 | Bahrain | UAE | SA |
| '760110 | Aluminium unwrought, not alloyed | 528 996 | | 8 | 2 | Netherlands | Portugal | SA |
| '271011 | Light petroleum oils and preparations | 312 330 | 26 | -34 | 0.1 | Bahrain | UAE | SA |
| '271600 | Electrical energy | 269 672 | 11 | -8 | 0.9 | SA | Zambia | Malawi |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 242 592 | 23 | 11 | 0.5 | SA | Japan | Thailand |
| '100630 | Rice, semi-milled or wholly milled, whether or not polished or glazed | 187 176 | 28 | -23 | 1 | Thailand | Pakistan | India |
| '100190 | Wheat nes and meslin | 146 455 | 18 | 7 | 0.4 | Russia | Australia | Germany |
| '300490 | Medicaments nes, in dosage | 132 776 | 34 | 7 | 0 | India | Portugal | France |
| '730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 111 670 | 32 | 89 | 0.3 | SA | Portugal | China |
| '151110 | Palm oil, crude | 92 811 | 14 | 4 | 0.8 | Indonesia | Malaysia | UAE |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The average annual growth in imports from South Africa is higher than the exports to South Africa for 2010 to 2014, however ITC data indicates that the growth in the 2013 to 2014 period is negative for imports (-12.3%), meaning that that imports from South Africa have slowed in the last recorded year. This is also reflected by the drop from 2013 to 2014 in Figure 9 below. Despite this drop, the figure depicts the growing trade balance trend between South Africa and Mozambique for the last 5 years.

**Figure 9: Trade balance, Imports and exports between South Africa and Mozambique**




*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Most of the top 10 products Mozambique imports from South Africa are concentrated in the manufactured goods category barring numbers 1 and 9. The largest import from South Africa is electrical energy, accounting for 9% of total imports. What is notable is that South Africa supplies more than 50% of the requirement of Mozambique's imports for the top 10 goods, in all but one category, thus highlighting the importance of South Africa to the Mozambican import market.

**Table 16: Mozambique's top 10 imports from South Africa**

| Product Code | Product Label | Value in 2014, USD thousand | Annual growth in value between 2010-2014, %, p.a. | Share in Mozambique 's imports, % |
|---|---|---|---|---|
| TOTAL | All products | 2 891 895 | 24 | 33.1 |
| '271600 | Electrical energy | 268 246 | 9 | 99.5 |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 160 757 | 33 | 66.3 |
| '730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 63 109 | 51 | 56.5 |
| '271019 | Other petroleum oils and preparations | 62 474 | -16 | 6 |
| '842959 | Self-propelled excavating machinery nes | 39 064 | 33 | 50.8 |
| '721420 | Bars & rods,i/nas,hr,hd or he,cntg indent,ribs,etc,prod dur rp/tar,nes | 35 536 | 76 | 64.5 |
| '843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 34 978 | 78 | 75.4 |
| '721410 | Bars & rods, iron or non-alloy steel forged | 32 145 | 910 | 98.3 |
| '100590 | Maize (corn) nes | 30 822 | 20 | 88.9 |
| '170199 | Refined cane or beet sugar, solid, without flavouring or colouring matter | 29 871 | 92 | 92.1 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The average annual growth of imports from South Africa over 2010 to 2014 was 24% however, as seen in the World imports, the South African imports also show a decline in the 2013 to 2014 period of 12%. When looking at other exporters to Mozambique over the same period, double-digit growth can be seen, in countries such as Bahrain and Netherlands which recorded 44% and 40% growth respectively. This raises the question as to why South Africa has shown a decline.

### 4.5.3 Identified High Potential Export Opportunities

Based on the analysis conducted, the top 20 manufactured products with the greatest potential for South Africa to export to Mozambique are found in the table below.

**Table 17: Mozambique - List of top 20 high potential exports**

| Product Code | Product Label | Total | Rank |
|---|---|---|---|
| 843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 177 | 1 |
| 220300 | Beer made from malt | 179 | 2 |
| 170199 | Refined cane or beet sugar, solid, without flavouring or colouring matter | 202 | 3 |
| 843139 | Parts of lifting, handling, loading or unloading machinery nes | 204 | 4 |
| 870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 212 | 5 |
| 847490 | Pts of sortg/screeng/mixg/crushg/grinding/washing/agglomeratg mach etc | 214 | 6 |
| 870899 | Motor vehicle parts nes | 221 | 7 |
| 730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 224 | 8 |
| 721410 | Bars & rods, iron or non-alloy steel forged | 232 | 9 |
| 842959 | Self-propelled excavating machinery nes | 236 | 10 |
| 271019 | Other petroleum oils and preparations | 247 | 11 |
| 721420 | Bars & rods,i/nas,hr,hd or he,cntg indent,ribs,etc,prod dur rp/tar,nes | 259 | 12 |
| 870422 | Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 259 | 13 |
| 852872 | Reception apparatus for television, colour, whether or not incorporati | 269 | 14 |
| 380891 | Insecticides | 296 | 15 |
| 851770 | Parts of telephone sets, telephones for cellular networks or for other | 303 | 16 |
| 870120 | Road tractors for semi-trailers (truck tractors) | 305 | 17 |
| 847330 | Parts&accessories of automatic data processg machines&units thereof | 310 | 18 |
| 842952 | Shovels and excavators with a 360 revolving superstructure | 312 | 19 |
| 271011 | Light petroleum oils and preparations | 313 | 20 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The products are concentrated in two HS chapters; 84 (“Machinery, Nuclear Reactors, Boilers”) and 87 (“Vehicles Other Than Railway or Tramway”), with 50% of highest potential export opportunities arising from these 2 categories. Many of the products in chapter 84 are construction-related materials, while chapter 87 has a strong focus on heavy duty vehicles such as trucks and tractors. These items are not unexpected given the country’s focus on infrastructure development. In the Mozambique Country Strategy Paper for 2011 to 2015, one of the development pillars was “Enhanced Private Sector Competitiveness through Infrastructure Development” (Ribeiro et al., 2011, p. 21). The specific goals included improving the road network and expanding access to transport and certain corridors that link some of the SADC countries in order to enhance regional integration (Ribeiro et al., 2011). According to the BMI (2015c) report on Mozambique’s Freight Transport, the forecast road haulage will grow by 6.5% in 2016, growing up to 7.3% in 2019, driven largely by consumer goods and coal. The ports of Mozambique represent an important gateway for neighbouring landlocked countries to enable trade with other countries, and as such the transport corridors are a critical aspect of transporting goods to and from the ports (Ribeiro et al., 2011). South Africa is well positioned to participate in this growth by supplying the country with heavy duty vehicles. The product "diesel-powered trucks" for example has an indicative trade potential of US$119.55 million.

The second-hand vehicle market is an important one for the country and the region. Volvo Trucks has recognised this opportunity and has established a used truck centre in Gauteng (BMI, 2015b). Volvo South and East Africa president Torbjörn Christensson is quoted as saying: "trucks exported to other countries from South Africa are better suited to the local conditions than those imported from other regions" (BMI, 2015b, p. 26). A product that is complementary to the second-hand market is vehicle parts and accessories and this has also emerged as a high potential product with an indicative trade potential of US$24.5 million (this was also highlighted by interview respondents; see Table 32). Imports are expected to be kept cheap due to the country's limited manufacturing capability (BMI, 2015b). This represents an opportunity for South Africa to meet a greater portion of the country's import demand.

There are food and beverage product categories that feature in the top 20. "Beer made from malt" is ranked as the product with 2$^{nd}$ most potential and is an area that South Africa is well-established in. SABMiller is one of the largest beer companies in the world (SABMiller plc, 2015). The South African operations are easily able to service the SADC markets and the company also has a growing footprint on the African continent including operations in Mozambique (SABMiller plc, 2015). Mozambique has a developing sugar industry according to Illovo Sugar (2014)[15] accounting for 20% of the country's agricultural exports, making this an important industry given that the agriculture sector accounts for 80% of employment in the country, as mentioned above. However the refining capability is lacking and therefore the country imports most of its refined sugar from South Africa (92.1% of refined cane or beet sugar came from South Africa in 2014). This product is ranked 3$^{rd}$ in the top 20 products.

Another product chapter featuring more than one product is chapter 27. The two products that are in this category have an indicative trade potential of around US$375 million. The "light petroleum oils and preparations" is also South Africa's largest export by value to SADC, accounting for 8.2% of total exports to the region in 2014.

[15] Mozambique Socio-economic Impact Assessment 2014 (Retrieved from Illovo website 11 October 2015 https://www.illovosugar.co.za/UserContent/Documents/Illovo-Mozambique-Socio-economic-impact-12May14.pdf)

## 4.6 Namibia

### 4.6.1 Economic overview

Phiri and Odhiambo (2015) forecast 5.6% and 6.4% GDP growth for Namibia in 2015 and 2016 respectively, and cite mining, construction activity and robust consumer demand as drivers of this growth. The country is seen to have strong political and fiscal stability and has managed to create an enabling environment for the country's growth (Phiri & Odhiambo, 2015). The medium-term outlook is forecast to be positive; however this is heavily based on the mining sector (Phiri & Odhiambo, 2015). Given the global downturn in the mining sector and the muted demand for commodities, this reliance is a concern. With regards to long-term growth prospects, (Phiri & Odhiambo, 2015) suggest that Namibia should explore diversifying its offering into more value-added products, but perhaps this should be a focus in the nearer term as well given the concerns in mining.. The Namibia dollar is pegged to the South African rand and therefore may not necessarily benefit from the weakness that the rand has experienced. According to Phiri and Odhiambo (2015), the country's Debt to GDP is stable and within the fiscal limits set by the Government.

### 4.6.2 Trading Overview

Namibia has a trade deficit of over US$3.4 billion with the world as at the end of 2014 according to mirror data recorded by the countries trading with Namibia. The top 10 exporting countries together make up 90.2% of the country's imports thus reflecting a high degree of concentration in a few countries. This concentration is driven largely by South Africa who is the largest exporter to Namibia by far, accounting for 60% of its imports. It is also the second largest importer from Namibia, behind Botswana, accounting for 14.2% of Namibia's exports.

### Table 18: Namibia top 10 trading partners, 2014

| Top ten trading partners, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Exporters | Imported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Namibia's imports (%) | Imported growth in value between 2010-2014 (%, p.a.) | Importers | Exported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Namibia's exports (%) | Exported growth in value between 2010-2014 (%, p.a.) |
| Total | 7 545 988 | -3 485 718 | 100 | 10 | Total | 4 060 270 | -3 485 718 | 100 | 1 |
| South Africa | 4 529 161 | -3 954 577 | 60 | 3 | Botswana | 944 326 | 360 478 | 23.3 | 109 |
| Botswana | 583 848 | 360 478 | 7.7 | 143 | South Africa | 574 584 | -3 954 577 | 14.2 | -4 |
| China | 545 725 | -228 384 | 7.2 | 25 | Belgium | 449 174 | 427 496 | 11.1 | 33 |
| United States of America | 342 742 | -86 557 | 4.5 | 32 | China | 317 341 | -228 384 | 7.8 | -7 |
| Italy | 205 494 | -125 091 | 2.7 | 90 | Spain | 284 604 | 248 178 | 7 | 6 |
| Germany | 159 848 | 47 511 | 2.1 | 8 | USA | 256 185 | -86 557 | 6.3 | 0 |
| Singapore | 122 274 | -91 780 | 1.6 | | Germany | 207 359 | 47 511 | 5.1 | -3 |
| Peru | 117 842 | -117 839 | 1.6 | -17 | France | 157 611 | 130 630 | 3.9 | -7 |
| India | 116 517 | -85 005 | 1.5 | 28 | Korea, Republic of | 114 529 | 106 176 | 2.8 | 74 |
| Bulgaria | 96 233 | -96 203 | 1.3 | -4 | Netherlands | 98 040 | 32 537 | 2.4 | -2 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Namibia's top 10 imported products in 2014 account for 28% of its total imports. Out of the top 10 imported products, 7 products are in the manufacturing sector and South Africa features in 7 of the 10 products as a top supplier, as seen in Table 19. Two of the products where South Africa is the top supplier have seen a negative annual growth over the past five years (2010–2014), namely "automobiles" and "medicaments".

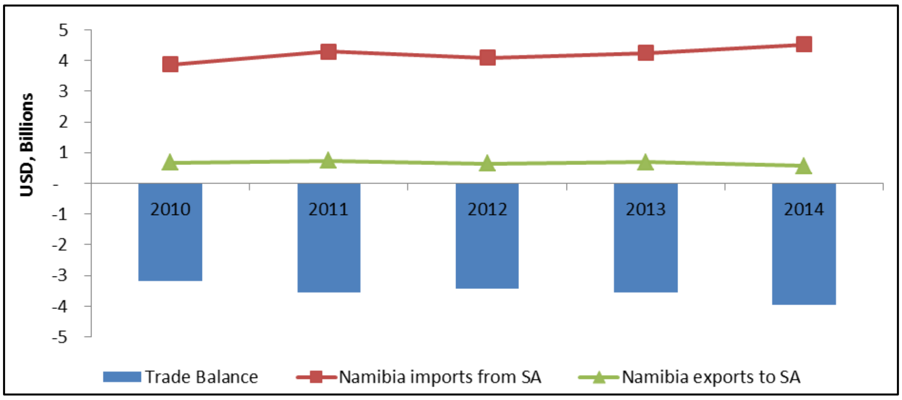
### Table 19: Namibia's top 10 imports from the World

| Code | Product label | Imported value 2014 (USD thousand) | Annual growth in value between 2010-2014 (%, p.a.) | Share in world imports (%) | Supplier 1 | Supplier 2 | Supplier 3 |
|---|---|---|---|---|---|---|---|
| TOTAL | All products | 7545988 | 10 | 0 | | | |
| '710231 | Diamonds non-industrial unworked or simply sawn, cleaved or bruted | 550895 | 130 | 1.2 | Botswana | USA | Israel |
| '271011 | Light petroleum oils and preparations | 413645 | 59 | 0.1 | SA | Italy | India |
| '260300 | Copper ores and concentrates | 305253 | -5 | 0.6 | Peru | Bulgaria | Chile |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 184735 | 18 | 0.4 | SA | Brazil | UK |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 166924 | -7 | 0.1 | SA | Botswana | UK |
| '999999 | Commodities not elsewhere specified | 163086 | 18 | 0 | USA | Germany | Spain |
| '271600 | Electrical energy | 88100 | 3 | 0.3 | SA | Zambia | Zimbabwe |
| '300490 | Medicaments nes, in dosage | 86395 | -1 | 0 | SA | India | Belgium |
| '870410 | Dump trucks designed for off-highway use | 77675 | 36 | 1 | USA | India | SA |
| '730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 72684 | 8 | 0.2 | SA | Netherlands | Botswana |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

South Africa is a key market for Namibia both in terms of imports and exports. There has been a 3% average annual growth in value in the exports from South Africa in the 2010-2014 period; however the Namibian exports to South Africa has decreased by 4% over the same period. This is also reflected in Figure 10 that shows how the trade deficit with South Africa has widened over time.

**Figure 10: Trade balance, Imports and exports between South Africa and Namibia**




*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

At over US$4.5 billion in 2014, Namibia is South Africa's second largest SADC export market and 6th largest export market overall. South Africa supplies the country with more than 50% of all its top 10 imports, with South Africa supplying more than 90% of 5 of the products; notably "raw sugar cane" is 100% supplied and "gas powered trucks" are 99.5% supplied by South Africa. The top 10 imported products are mainly manufactured goods with all but 2 falling into this sector. There are 5 products that show an average annual decline, whereas "light petroleum oils and preparations" shows a 56% annual growth over the 2010-2014 period; it is also the largest import from South Africa.

### Table 20: Namibia's top 10 imports from South Africa

| Product Code | Product Label | Value in 2014, USD thousand | Annual growth in value between 2010-2014, %, p.a. | Share in Namibia's imports, % |
|---|---|---|---|---|
| TOTAL | All products | 4 529 161 | 3 | 60 |
| '271011 | Light petroleum oils and preparations | 210 426 | 56 | 51 |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 175 868 | 17 | 95 |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 150 673 | -9 | 90 |
| '870431 | Gas powered trucks with a GVW not exceeding five tonnes | 71 017 | 6 | 100 |
| '870899 | Motor vehicle parts nes | 64 447 | -7 | 94 |
| '300490 | Medicaments nes, in dosage | 61 513 | -8 | 71 |
| '271600 | Electrical energy | 57 798 | -5 | 66 |
| '870422 | Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 52 276 | 14 | 82 |
| '170111 | Raw sugar, cane | 51 729 | -10 | 100 |
| '730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 50 780 | 2 | 70 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

### 4.6.3 Identified High Potential Export Opportunities

Table 21 below shows the top 20 products with the highest potential for South Africa to export into the Namibian market.

### Table 21: Namibia - List of top 20 high potential exports

| Product Code | Product Label | Total | Rank |
|---|---|---|---|
| 271011 | Light petroleum oils and preparations | 54 | 1 |
| 870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 109 | 2 |
| 851712 | Telephones for cellular networks mobile telephones or for other wirele | 132 | 3 |
| 870422 | Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 179 | 4 |
| 870322 | Automobiles w reciprocatg piston engine displacg > 1000 cc to 1500 cc | 200 | 5 |
| 870333 | Automobiles with diesel engine displacing more than 2500 cc | 205 | 6 |
| 732690 | Articles, iron or steel, nes | 216 | 7 |
| 730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 250 | 8 |
| 870423 | Diesel powered trucks with a GVW exceeding twenty tonnes | 260 | 9 |
| 870431 | Gas powered trucks with a GVW not exceeding five tonnes | 267 | 10 |
| 847989 | Machines & mechanical appliances nes having individual functions | 270 | 11 |
| 330499 | Beauty or make-up preparations nes; sunscreen or sun tan preparations | 275 | 12 |
| 843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 278 | 13 |
| 481840 | Sanitary articles of paper,incl sanit towels&napkin (diapers) f babies | 292 | 14 |
| 852872 | Reception apparatus for television, colour, whether or not incorporati | 304 | 15 |
| 271320 | Petroleum bitumen | 309 | 16 |
| 870190 | Wheeled tractors nes | 318 | 17 |
| 220300 | Beer made from malt | 322 | 18 |
| 842919 | Bulldozers and angledozers, wheeled | 325 | 19 |
| 382490 | Chemical/allied industry preparations/prods nes | 329 | 20 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

At the top of the list is “light petroleum oils” which is Namibia’s second largest import from the world (see Table 19) and the largest from South Africa. South Africa is supplying just over 50% of the country’s requirement and the indicative trade potential is US$203.2 million, and with a ranking in the top 3 for 6 out of the 7 filters, this product is undoubtedly one of the products with the highest potential. As discovered in the Botswana results, chapters 84 and 87 feature prominently in the top 20 export potential products, with 3 and 7 products respectively. The vehicles products identified are concentrated in the heavy-duty category. Together with “bulldozers” and “parts of cranes, work-truck, shovels and other construction machinery” and items from chapter 73 (Articles of Iron or Steel) these represent encouraging prospects given the infrastructure development that the country intends undertaking.

According to the African Development Bank (AFDB) (2014)[16], one of Namibia’s focus areas is improving its infrastructure with regards to energy, transport and water. This includes the construction of new generation and transmission capacity as well as the upgrading and expansion of the road and rail networks. One of the key outputs the country intends to achieve by 2018 is to upgrade 800 kilometres of road to “bitumen standard” (AFDB, 2014). This represents a significant opportunity for South Africa with “petroleum bitumen” being highlighted as one of the top 20 high potential products. South Africa already supplies 81.3% of the country’s requirement, however the average annual growth of Namibia’s worldwide imports over the 2010-2014 period was 41%, and with the anticipated focus on roads this could grow more rapidly in the coming years.

According to the BMI Namibian Infrastructure Report for 2015, growth in the construction industry will remain strong up to 2019 due to major infrastructure projects, with an average annual real growth of 9.4% forecast (BMI, 2015d). Infrastructure spending growth is forecast to then dip to around 4.4% from 2020 to 2024 as Government expenditure on infrastructure will slow down (BMI, 2015d). The short- to medium-term growth will be driven by projects such as the Walvis Bay expansion and the Trans-Kalahari railway (BMI, 2015d). According to the World Economic Forum (WEF) Global Competitiveness Report (2014), the quality of Namibia’s port and road infrastructure ranked 28$^{th}$ and 30$^{th}$ in the world; this bodes well for trade with the country. According to the Namibia Statistics Agency’s Second Quarter Trade Bulletin for 2015, 55.7% of total imports are by road and 39% are by sea. Namibia being a

[16] Namibia: Country strategy paper 2014-2018

coastal country is optimally positioned for trade and this will be enhanced through the development of the port called the "Southern African Development Community Gateway Port". The first phase is due to start in 2015 and is estimated to cost approximately US$365.28 million (BMI, 2015d). This forecast growth in the construction sector represents an important opportunity for South Africa and as such South Africa should position itself to be a key supplier to support Namibia's infrastructure growth.

## 4.7 Zambia

### 4.7.1 Economic Overview

Zambia is generally seen as a politically stable country, with strong democratic processes in place. Rasmussen (2015)[17] forecasts that GDP will grow from the 2014 base of 5.7% to 6.5% and 6.6% in the following 2 years. Whilst the forecast looks optimistic, the predictions should be approached with caution given the decline in commodity prices that are currently being experienced, the increase in electricity costs and the new royalty regimes introduced by the Government (Rasmussen, 2015). According to Rasmussen (2015) the royalties were increased to 20% in January 2015; this will have an impact on mine profitability and potentially the future investment and growth of the industry. Investment in infrastructure has contributed towards the positive growth of the construction sector and medium-term growth is anticipated to be driven by continued infrastructure improvement as well as investment in public administration and defence (Rasmussen, 2015).

The primary sector (agriculture and mining) is the smallest; accounting for 16.5% of GDP in 2014, the secondary sector consists of just over a quarter of GDP with the manufacturing component of the secondary sector accounting for 8.1% (Rasmussen, 2015). The largest constituent of GDP is the wholesale and retail sector, accounting for just over a fifth of GDP, the growth in this sector was 6.2% in 2014 (Rasmussen, 2015) and this may represent an important export opportunity for South Africa.

### 4.7.2 Trading Overview

In addition to SADC, Zambia is also a member of the Common Market for East and Southern Africa (COMESA) Free Trade Area. Zambia is a landlocked country and does not border

[17] Author of the AFDB Zambia 2015 African Economic Outlook

South Africa; therefore any form of land transport would need to pass through another country and more than one border post. Despite having tariff-free trade with certain countries, the country experiences constraints through non-tariff barriers such as regulatory costs and phyto-sanitary certifications (Rasmussen, 2015). The World Bank Doing Business Report for SADC (2014b) shows that Zambia pays on average US$7,060 to import a container and this takes an average of 53 days. This is 2.6 times more costly and takes 1.6 times longer than the Sub-Saharan Africa average (World Bank, 2014c).

Table 22 below reflects the top 10 trading partners of Zambia for 2014. The country shows a trade surplus of US$148 million. The imports and exports are concentrated in a few countries, for example the largest importer of Zambian goods is Switzerland with a 44.7% share of total Zambian exports. South Africa is the largest exporter to Zambia and the fourth largest importer. Kenya is the fourth largest exporter to Zambia and although it accounts for a quarter of South Africa's exports to Zambia, it has shown the most growth of the top 10 over the 5 year period.

**Table 14: Zambia top 10 trading partners, 2014**

| Top ten trading partners, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Importers from Zambia | Exported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Zambia's exports (%) | Exported growth in value between 2010-2014 (%, p.a.) | Exporters to Zambia | Imported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Zambia's imports (%) | Imported growth in value between 2010-2014 (%, p.a.) |
| World | 9 687 918 | 148 894 | 100 | 8 | World | 9 539 024 | 148 894 | 100 | 16 |
| Switzerland | 4 330 974 | 4 290 221 | 44.7 | 2 | South Africa | 3 093 511 | -2 418 937 | 32.4 | 13 |
| China | 1 790 764 | 933 551 | 18.5 | 9 | DRC | 1 459 253 | -659 399 | 15.3 | 6 |
| DRC | 799 854 | -659 399 | 8.3 | 28 | China | 857 213 | 933 551 | 9 | 28 |
| South Africa | 674 574 | -2 418 937 | 7 | 4 | Kenya | 773 821 | -717 105 | 8.1 | 95 |
| Singapore | 371 681 | 225 116 | 3.8 | 182 | India | 406 180 | -370 545 | 4.3 | 28 |
| Australia | 348 744 | 215 925 | 3.6 | 267 | United Arab Emirates | 270 941 | -40 078 | 2.8 | 18 |
| United Arab Emirates | 230 863 | -40 078 | 2.4 | 27 | United Kingdom | 247 021 | -149 242 | 2.6 | 24 |
| Zimbabwe | 195 389 | 92 354 | 2 | 12 | Kuwait | 224 520 | -224 520 | 2.4 | -19 |
| Malawi | 147 970 | 125 966 | 1.5 | 14 | Japan | 218 683 | -139 171 | 2.3 | 30 |
| United Kingdom | 97 779 | -149 242 | 1 | -13 | USA | 172 723 | -159 500 | 1.8 | 30 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Zambia's top 10 imported products account for 36.4% of total imports, with 7 of the 10 in the manufacturing sector. South Africa is featured as one of the top 3 suppliers for 8 of the products. The country's top import is copper ores and concentrates, accounting for 12.8% of total imports (see Table 23); this is peculiar given that Zambia is a large copper-mining country. The country processes ore and the refined copper accounts for the vast majority of the country's exports at a 2-digit aggregated level, with 74.4% of export earnings in 2014 coming from chapter 27 "Copper and articles thereof". This over-concentration in the metals sector is of concern given the downturn in the commodity cycle currently being experienced. The decrease in the copper price can be seen in Figure 12 below. As of the 31st of October 2015 the copper price was a US$2.32 per pound (Trading Economics, 2015).

**Table 15: Zambia's top 10 imports from the World**

| Code | Product label | Imported value 2014 (USD thousand) | Annual growth in value between 2010-2014 | Annual growth in value between 2013-2014 | Share in world imports (%) | Supplier 1 | Supplier 2 | Supplier 3 |
|---|---|---|---|---|---|---|---|---|
| TOTAL | All products | 9 539 024 | 16 | -6 | 0.1 | | | |
| '260300 | Copper ores and concentrates | 1 220 217 | 21 | -12 | 2.3 | DRC | Australia | SA |
| '271019 | Other petroleum oils and preparations | 687 630 | 93 | 16 | 0.1 | Kenya | SA | Singapore |
| '271011 | Light petroleum oils and preparations | 388 034 | 162 | 18 | 0.1 | Kenya | Kuwait | Mauritius |
| '730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 207 497 | 66 | -28 | 0.6 | SA | China | India |
| '260500 | Cobalt ores and concentrates | 203 430 | 2 | 22 | 30.7 | DRC | SA | |
| '270900 | Petroleum oils and oils obtained from bituminous minerals, crude | 179 450 | -29 | 102 | 0 | Kuwait | Tanzania | China |
| '300490 | Medicaments nes, in dosage | 161 763 | 21 | 75 | 0.1 | SA | India | United Kingdom |
| '870410 | Dump trucks designed for off-highway use | 152 987 | 21 | 31 | 2 | SA | Belgium | Mauritius |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 137 487 | 18 | -11 | 0.3 | SA | Japan | United Kingdom |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 131 583 | 32 | -2 | 0 | Japan | SA | Rep of Korea |

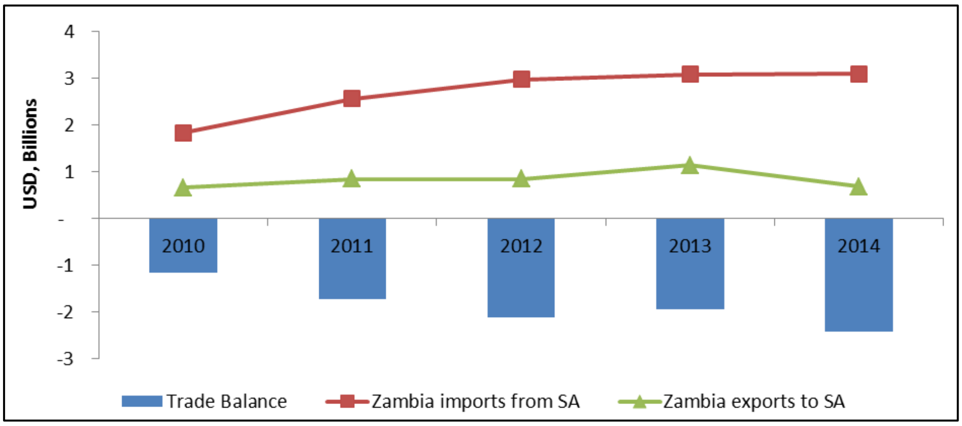
*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

**Figure 11: Historical Copper Price (31 October 2010 to 31 October 2015)**


*Source: www.tradingeconomics.com*

South Africa accounts for 7% of Zambia's total exports, but is the largest exporter to Zambia with 32.4% of the country's total imports; this discrepancy is reflected in the large trade deficit between the 2 countries of over US$2.4 billion. The growth in exports to Zambia outstripped the growth in imports over 2010 to 2014, although both these measures slowed down in the last year (2013-2014) as can be seen in Figure 11 below. The figure also shows that Zambia's trade balance with South Africa has been growing over time.

**Figure 12: Trade balance, Imports and exports between South Africa and Zambia**




*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Most of the top imported products from South Africa are from the manufacturing sector as seen in Table 24 below. There isn't a particularly large concentration in any product, but what is notable is that South Africa produces at least 36% of the country's requirement for 9 out of the top 10 products (the exception being "other petroleum oils and preparations"). There is strong average annual growth in many of the products with exceptional performance in "structures and parts of structures" and in "sulphur, except sublimed, precipitated, colloidal". The average annual growth in exports to Zambia is 13%, however in the last year (2013-2014) this slowed to 0%, and this decline was also seen in world imports that showed a negative 6% growth in the same period.

**Table 16: Zambia's top 10 imports from the South Africa**

| Product Code | Product Label | Value in 2014, USD thousand | Annual growth in value between 2010-2014, %, p.a. | Share in Zambia's imports, % |
|---|---|---|---|---|
| TOTAL | All products | 3 093 511 | 13 | 32.4 |
| '730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 154 336 | 78 | 74.4 |
| '271019 | Other petroleum oils and preparations | 112 451 | 22 | 16.4 |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 86 185 | 19 | 62.7 |
| '870410 | Dump trucks designed for off-highway use | 71 649 | 13 | 46.8 |
| '300490 | Medicaments nes, in dosage | 58 789 | 25 | 36.3 |
| '843149 | Parts of cranes,work-trucks,shovels,and other construction machinery | 49 225 | 5 | 44.8 |
| '280200 | Sulphur, sublimed or precipitated; colloidal sulphur | 46 120 | 36 | 99.7 |
| '847490 | Pts of sortg/screeng/mixg/ crushg/grinding/washing/agglomeratg mach etc | 44 988 | 11 | 42.4 |
| '250300 | Sulphur, except sublimated, precipitated, colloidal | 41 921 | 301 | 55.3 |
| '390210 | Polypropylene | 41 581 | 21 | 77.6 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

### 4.7.3 Identified High Potential Export Opportunities

The top 20 high potential manufactured exports for South Africa to Zambia are seen in Table 25 below.

**Table 17: Zambia - List of top 20 high potential exports**

| Product Code | Product Label | Total | Rank |
|---|---|---|---|
| 271011 | Light petroleum oils and preparations | 109 | 1 |
| 271019 | Other petroleum oils and preparations | 118 | 2 |
| 730890 | Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | 130 | 3 |
| 271320 | Petroleum bitumen | 176 | 4 |
| 310290 | Mineral or chem fertilizers nitrogenous,nes,in pack weighing > 10 kg | 182 | 5 |
| 842959 | Self-propelled excavating machinery nes | 186 | 6 |
| 870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 193 | 7 |
| 300490 | Medicaments nes, in dosage | 227 | 8 |
| 852871 | Reception apparatus for television, whether or not incorporating radio | 237 | 9 |
| 390210 | Polypropylene | 239 | 10 |
| 848180 | Taps, cocks, valves and similar appliances, nes | 245 | 11 |
| 847490 | Pts of sortg/screeng/mixg/ crushg/grinding/washing/agglomeratg mach etc | 247 | 12 |
| 310540 | Monoammonium phosphate&mx thereof w diamonium phosphate,in pack<=10kg | 254 | 13 |
| 850239 | Electric generating sets | 256 | 14 |
| 870410 | Dump trucks designed for off-highway use | 264 | 15 |
| 401163 | Pneumatic tyres, new, of rubber, having a "herring-bone" or similar tr | 264 | 16 |
| 870120 | Road tractors for semi-trailers (truck tractors) | 265 | 17 |
| 870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 282 | 18 |
| 852872 | Reception apparatus for television, colour, whether or not incorporati | 287 | 19 |
| 870423 | Diesel powered trucks with a GVW exceeding twenty tonnes | 294 | 20 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Zambia is another country that shows concentration in chapters 84 and 87. In addition to these 2, chapters 85 (Electrical, electronic equipment) and 27 (Mineral fuels, oils, distillation products) also have 3 products each in the top 20 high potential manufactured exports. The vehicles in chapter 87 are again concentrated in the heavy-duty vehicles and this has been a common trend in the countries assessed thus far. The light vehicles or "automobiles" category ranks 18$^{th}$, however it has the second largest indicative trade potential of US$115.4 million. This product's ranking has been impacted by negative growth rates in 2 filters; Zambia's imports from South Africa as well as South Africa's exports to the world. Zambia's average annual growth in imports of this product from the world has grown 32% over the 2010 to 2014 period, whereas its imports from South Africa declined 7% over the same period. This highlights an important point that export penetration for this product is decreasing over time, it is especially concerning as the product in question shows high potential for trade. The products from chapter 27 rank highly, occupying the first, second and fourth spots. The "light petroleum oil and other preparations" product has the highest indicative trade potential at US$369.5 million, with South Africa supplying only 4.8% of the country's requirement.

Zambia's Revised National Development Plan (Ministry of Finance, 2014) indicates that one of the goals for its transport infrastructure is to build new roads connecting provinces and districts as well as maintaining other main roads; this represents an opportunity for exports of "petroleum bitumen". The Revised NDP also elaborates on the country's objectives in the health sector and specifies strategies that will help avoid essential drug shortages as well as for "financing for the procurement of essential drugs and medical supplies" (Ministry of Finance, 2014, p. 121). With Zambia having some of the worst rates of Tuberculosis and HIV in the world (WEF, 2014), this may represent a significant opportunity for South Africa with "medicaments" ranked 8$^{th}$ and showing an indicative trade potential of US$102.9 million.

According to BMI (2015e), the compound annual growth rate in the healthcare sector over the 2014 to 2019 period is expected to be 4.8%. The BMI believe that this growth will be driven by factors such as an improved access to healthcare, a fast growing population, and the high prevalence of communicable diseases. One of the factors that may hinder this anticipated growth however is the fall in copper price and lacklustre demand for the metal, which has negatively impacted healthcare spending in the past (BMI, 2015e). Despite this potential strain on growth, the Zambian Government has plans to build 26 new district hospitals and increase the use of mobile hospitals to reach the rural population (BMI, 2015e). This bodes well for South Africa both in terms of supplying medical products as well as construction materials and equipment to the country. In addition to the public health sector investments there have been a host of international pharmaceutical companies that have committed resources to the country in various forms, further reinforcing the potential in this sector (BMI, 2015e).

## 4.8 Zimbabwe

### 4.8.1 Economic Overview

Zimbabwe is one of the least politically stable countries in Africa. The BMI Zimbabwe Pharmaceutical Report (BMI, 2015f) states that the current president, Robert Mugabe has not appointed a successor, which creates uncertainty over what will transpire when leadership of the country eventually changes. The debt burden of the country is excessive with total debt valued at US$8.4 billion. Zimbabwe is working towards reducing this debt with a multi-pronged approach, with its Government and with the help of outside organisations such as the AFDB, the World Bank and the International Monetary Fund (Monyau & Bandara, 2015).

The economy's projected real GDP growth rate is 3.2% and 3.3% for 2015 and 2016 respectively, with inflation expected to grow up to 1.5% in 2016 (Monyau & Bandara, 2015). The agriculture sector is an important one for the country. It constituted 12% of GDP in 2013, grew by an estimated 23.4% in 2014 and is expected to grow by 3.4% in 2015 (Monyau & Bandara, 2015). The mining sector as a percentage of GDP grew from 8.1% in 2009 to 10.4% in 2014,but despite the growth over this period the outlook for the sector does not look too optimistic in the short-term given the numerous challenges faced including declining commodity prices (Monyau & Bandara, 2015). Monyau and Bandara (2015) are more bullish for the medium-term based on the pending legislative reforms being introduced in the sector. The manufacturing sector as a percentage of GDP declined from 15.5% in 2009 to 12.8% in 2014 and is expected to decline further on the back of competitive imports, ageing infrastructure and high costs of production (Monyau & Bandara, 2015). Although this does not bode well for the sector, it may represent further opportunities for manufactured exports from South Africa into the country.

### 4.8.2 Trading Overview

The WEF (2014) shows a mixed view of the tariff and non-tariff barriers in Zimbabwe. In terms of trade tariffs the country is ranked 142, based on the average trade-weighted tariff, whilst the extent to which non-tariff barriers limit the competitiveness of imported goods was ranked 17.. Zimbabwe was ranked 133rd for the "burden of customs procedures", indicating the high level of inefficiency in customs. This is further reinforced by the World Bank (2014b), which has shown that the time taken to export and import is 53 and 71 days respectively. Not only is this the highest in the SADC region, it is almost double that of the regional average for time to export (which is 28.3 days) and more than double for time taken to import (which is 33.3 days) (World Bank, 2014c). This could hamper the trade of consumable goods, considering that the average time taken to import exceeds 2 months.

With the intended introduction of the Zimbabwe-South Africa Simplified Trade Regime, the trade of small-scale goods between the two countries will be made easier and more formalised (Monyau & Bandara, 2015). However even without this in place, South Africa is Zimbabwe's largest trading partner, accounting for 67% of its exports and 42.9% of it imports as seen in Table 26. The proportion of South African imports as a percentage of the total has reduced from 48% in 2010 to 42.9% in 2014. The other 4 countries from the study also feature in the top 10 list, and Zimbabwe runs a trade deficit with all except Mozambique.

**Table 18: Zimbabwe top 10 trading partners, 2014**

| Top ten trading partners, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Exporters | Imported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Zimbabwe's imports (%) | Imported growth in value between 2010-2014 (%, p.a.) | Importers | Exported value 2014 (USD thousand) | Trade balance 2014 (USD thousand) | Share in Zimbabwe's exports (%) | Exported growth in value between 2010-2014 (%, p.a.) |
| World | 6 379 758 | -3 316 017 | 100 | 1 | World | 3 063 741 | -3 316 017 | 100 | -1 |
| South Africa | 2 735 522 | -684 023 | 42.9 | -3 | South Africa | 2 051 499 | -684 023 | 67 | 4 |
| Singapore | 1 168 028 | -1 167 729 | 18.3 | 142 | Mozambique | 577 419 | 428 991 | 18.8 | 60 |
| China | 398 816 | -386 208 | 6.3 | 6 | Belgium | 125 015 | 108 785 | 4.1 | 7 |
| Kingdom | 208 429 | -201 675 | 3.3 | 29 | Zambia | 102 778 | -76 944 | 3.4 | 10 |
| Zambia | 179 722 | -76 944 | 2.8 | 6 | UAE | 96 086 | -10 814 | 3.1 | -21 |
| Japan | 154 853 | -154 439 | 2.4 | 58 | Botswana | 27 939 | -120 063 | 0.9 | 1 |
| Mozambique | 148 428 | 428 991 | 2.3 | 0 | China | 12 608 | -386 208 | 0.4 | -54 |
| Botswana | 148 002 | -120 063 | 2.3 | -9 | France | 11 137 | -30 465 | 0.4 | -46 |
| India | 131 689 | -131 001 | 2.1 | 14 | Israel | 9 529 | -925 | 0.3 | 105 |
| Emirates | 106 900 | -10 814 | 1.7 | -3 | Namibia | 8 975 | -8 818 | 0.3 | 14 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The top 10 products imported by Zimbabwe account for just under 37% of total imports, with South Africa featuring as a top 3 supplier in 9 of the 10 products. The top 2 products on their own account for 23.2% and South Africa does feature, however it is a distant third supplier in terms of value, supplying 5.2% and 7.1% of these products respectively. The mix of products includes those in agriculture, energy and manufacturing. Two of the manufactured product categories have shown more than a 25% decline over both the last year and the 5 years prior. On the other hand, strong growth has been recorded in the "medicaments" and "ammonium nitrate" categories, both of which are obtained in large quantities from South Africa.

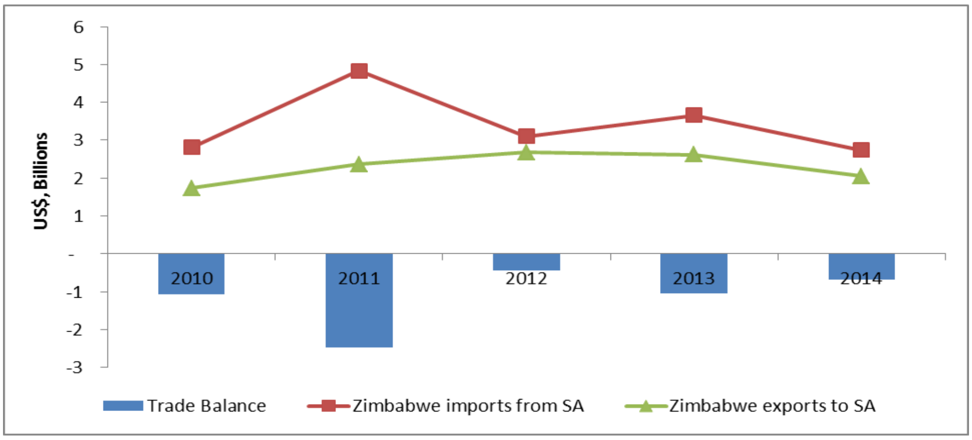
**Table 19: Zimbabwe's top 10 imports from the World**

| Code | Product label | Imported value 2014 (USD thousand) | Annual growth in value between 2010-2014 (%, p.a.) | Annual growth in value between 2013-2014 (%, p.a.) | Share in world imports (%) | Supplier 1 | Supplier 2 | Supplier 3 |
|---|---|---|---|---|---|---|---|---|
| TOTAL | All products | 6 379 758 | 1 | -17 | 0 | | | |
| '271019 | Other petroleum oils and preparations | 1 058 547 | 15 | 0 | 0.2 | Singapore | UK | SA |
| '271011 | Light petroleum oils and preparations | 420 264 | 13 | -8 | 0.1 | Singapore | UK | SA |
| '300490 | Medicaments nes, in dosage | 173 056 | 45 | 49 | 0.1 | SA | India | USA |
| '310230 | Ammonium nitrate,whether or not in aqeuous sol in pack weigh g > 10 kg | 125 585 | 52 | 158 | 3.7 | SA | Russia | Mauritius |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 113 261 | -26 | -33 | 0.2 | SA | Japan | UK |
| '100590 | Maize (corn) nes | 110 790 | 19 | 3 | 0.3 | SA | Zambia | Mauritius |
| '100640 | Rice, broken | 96 302 | 18 | 4 | 3.2 | Thailand | Pakistan | SA |
| '100110 | Durum wheat | 91 982 | 21 | 13 | 0.9 | SA | Russia | Germany |
| '870323 | Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 89 864 | -25 | -25 | 0 | Japan | SA | Zambia |
| '750110 | Nickel mattes | 71 410 | -15 | -36 | 1.6 | Botswana | | |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

Despite two thirds of Zimbabwe's exports going to South Africa, and growth in imports from South Africa slowing by 3% from 2010 to 2014, Zimbabwe has over a US$684 million trade deficit with South Africa, although this has appeared to be erratic over time as seen in Figure 13 below.

**Figure 13: Trade balance, Imports and exports between South Africa and Zimbabwe**



*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The top 10 products imported by Zimbabwe from South Africa account for over 20% of total imports from the country. This list includes 8 manufactured goods and 2 agricultural products. There were 3 products that showed a decline over the 2010 to 2014 period, with the South African total exports to Zimbabwe showing an annual average decline of 3% over the same period. For 6 of the top 10 categories Zimbabwe has imported more than 50% of its requirement from South Africa.

**Table 20: Zimbabwe's top 10 imports from South Africa**

| Product Code | Product Label | Value in 2014, USD thousand | Annual growth in value between 2010-2014, %, p.a. | Share in Zimbabwe's imports, % |
|---|---|---|---|---|
| TOTAL | All products | 2 735 522 | -3 | 42.9 |
| '300490 | Medicaments nes, in dosage | 120 200 | 83 | 69.5 |
| '100590 | Maize (corn) nes | 76 529 | 53 | 69.1 |
| '310230 | Ammonium nitrate,whether or not in aqeuous sol in pack weighg > 10 kg | 59 867 | 43 | 47.7 |
| '870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 58 104 | -7 | 51.3 |
| '271019 | Other petroleum oils and preparations | 55 197 | -33 | 5.2 |
| '150710 | Soya-bean oil crude, whether or not degummed | 41 765 | 875 | 94.9 |
| '310590 | Fertilizers nes, in packages not exceeding 10 kg | 40 310 | 3 | 86.9 |
| '100110 | Durum wheat | 36 702 | 5 | 39.9 |
| '721049 | Flat rolled prod,i/nas,plated or coated with zinc,>/=600mm wide, nes | 31 325 | 35 | 96.5 |
| '271011 | Light petroleum oils and preparations | 29 670 | -31 | 7.1 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

### 4.8.3 Identified High Potential Export Opportunities

The top 20 high potential manufactured exports from South Africa to Zimbabwe are shown in Table 29 below.

**Table 21: Zimbabwe - List of top 20 high potential exports**

| Product Code | Product Label | Total | Rank |
|---|---|---|---|
| 300490 | Medicaments nes, in dosage | 118 | 1 |
| 851712 | Telephones for cellular networks mobile telephones or for other wirele | 123 | 2 |
| 220210 | Waters incl mineral&aeratd,containg sugar o sweeteng matter o flavourd | 153 | 3 |
| 340220 | Surface-active prep, washing & cleaning prep put up for retail sale | 169 | 4 |
| 230990 | Animal feed preparations nes | 174 | 5 |
| 150710 | Soya-bean oil crude, whether or not degummed | 194 | 6 |
| 847130 | Portable digital computers <10kg | 224 | 7 |
| 271019 | Other petroleum oils and preparations | 230 | 8 |
| 310230 | Ammonium nitrate,whether or not in aqeuous sol in pack weighg > 10 kg | 237 | 9 |
| 843143 | Parts of boring or sinking machinery, whether or not self-propelled | 251 | 10 |
| 271011 | Light petroleum oils and preparations | 252 | 11 |
| 870333 | Automobiles with diesel engine displacing more than 2500 cc | 268 | 12 |
| 901890 | Instruments and appliances used in medical or veterinary sciences, nes | 268 | 13 |
| 721049 | Flat rolled prod,i/nas,plated or coated with zinc,>/=600mm wide, nes | 276 | 14 |
| 481840 | Sanitary articles of paper,incl sanit towels&napkin (diapers) f babies | 277 | 15 |
| 870190 | Wheeled tractors nes | 288 | 16 |
| 271320 | Petroleum bitumen | 295 | 17 |
| 870421 | Diesel powered trucks with a GVW not exceeding five tonnes | 313 | 18 |
| 870422 | Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 314 | 19 |
| 100640 | Rice, broken | 316 | 20 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

What is immediately noticeable about this list compared to the other 4 countries is that the products are more diverse with fewer concentrations. Nevertheless there are 3 and 4 products in chapter 27 and 87 respectively. There is a clear trend seen with chapter 87 emerging as a high potential product across the selected SADC countries, as well as “light petroleum oils and preparations” and “petroleum bitumen”.

The top opportunity for export to Zimbabwe is “medicaments”, with an indicative trade potential of US$52.8 million. The prevalence of HIV has increased in the country (Monyau & Bandara, 2015). The UN (2015) estimated that there were approximately 1.328 million people living with the virus in 2013 and 786,299 were in need of antiretroviral treatment. The country’s future priorities include the improvement of procurement of the drugs as well as obtaining the necessary funding to support the goal that 90% of those diagnosed with HIV will receive treatment (UN, 2015). Although the prevalence of the virus in Sub-Saharan Africa is devastating, the shortage of treatment represents an opportunity for South Africa to develop its capability in the antiretroviral area, amongst other medical products. One such area is “Instruments and appliances used in medical or veterinary sciences, nes”. Ranked 13th, this product has an indicative trade potential of US$23.9 million. Due to the economic situation in the country, another area of high potential is generic drugs, as cheaper alternatives would be more viable (BMI, 2015f). According to the BMI (2015f), the country is not looked at favourably by the international drug manufacturers given the instability in the country and the domestic manufacturing capability is limited due to lack of long-term funding. These factors create a favourable environment for South Africa to grow its drug exports to the country.

## 4.9 Secondary Quantitative Data Analysis Summary

It can be seen from the country analysis that the manufactured goods that can be classified as high potential are concentrated in chapters 27, 84 and 87 of the HS codes. This pattern can be seen in most of the 5 selected countries as well as in South Africa’s top 10 exported goods to SADC (Table 8). By identifying the common products and chapters that emerge as high potential exports, South Africa can devise a targeted strategy to grow the market for these products in the SADC countries.

A summary of the most common products appearing in 3 or more countries is shown in Table 30 below. “Light petroleum oils and preparations” is the only product seen in the top 20 of each of the 5 countries and it is also the product with the highest cumulative indicative trade potential, with over US$1.3 billion. The second category with the highest concentration is the diesel powered trucks – appearing in 4 out of the 5 countries.

**Table 22: Most common products across the 5 countries**

| Sum of Indicative Trade Potential | Column Labels | | | | | |
|---|---|---|---|---|---|---|
| Row Labels | Botswana | Mozambique | Namibia | Zambia | Zimbabwe | Grand Total |
| Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 2 009 | 37 688 | 11 196 | | 15 487 | 66 380 |
| Diesel powered trucks with a GVW not exceeding five tonnes | | 81 835 | 8 867 | 51 302 | 55 157 | 197 161 |
| Light petroleum oils and preparations | 55 344 | 303 310 | 203 219 | 369 558 | 390 594 | 1 322 025 |
| Medicaments nes, in dosage | 34 503 | | | 102 974 | 52 856 | 190 333 |
| Other petroleum oils and preparations | | 71 954 | | 21 977 | 79 231 | 173 162 |
| Parts of cranes,work-trucks,shovels,and other construction machinery | 6 627 | 11 382 | 3 592 | | | 21 601 |
| Petroleum bitumen | | | 2 253 | 15 134 | 1 341 | 18 728 |
| Reception apparatus for television, colour, whether or not incorporati | | 6 909 | 3 674 | 1 898 | | 12 481 |
| Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | | 48 561 | 21 904 | 53 161 | | 123 626 |
| Telephones for cellular networks mobile telephones or for other wirele | 9 554 | | 9 576 | | 40 978 | 60 108 |
| Wheeled tractors nes | 5 335 | | 2 923 | | 5 563 | 13 821 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

The indicative trade potential of the top 20 products is the highest in Zambia, with over US$1 billion, followed by Zimbabwe and Mozambique with approximately US$750 million. South

Africa can perhaps also consider focusing their strategies on certain countries with the highest trade potential.

**Table 23: Top 10 products with highest indicative trade potential**

| Sum of Indicative Trade Potential | Column Labels | | | | | |
|---|---|---|---|---|---|---|
| Row Labels | Botswana | Mozambique | Namibia | Zambia | Zimbabwe | Grand Total |
| Light petroleum oils and preparations | 55 344 | 303 310 | 203 219 | 369 558 | 390 594 | 1 322 025 |
| Diesel powered trucks with a GVW not exceeding five tonnes | | 81 835 | 8 867 | 51 302 | 55 157 | 197 161 |
| Medicaments nes, in dosage | 34 503 | | | 102 974 | 52 856 | 190 333 |
| Other petroleum oils and preparations | | 71 954 | | 21 977 | 79 231 | 173 162 |
| Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 36 195 | | | 115 479 | | 151 674 |
| Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | | 48 561 | 21 904 | 53 161 | | 123 626 |
| Self-propelled excavating machinery nes | | 37 891 | | 55 258 | | 93 149 |
| Dump trucks designed for off-highway use | 29 129 | | | 62 876 | | 92 005 |
| Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 2 009 | 37 688 | 11 196 | | 15 487 | 66 380 |
| Pts of sortg/screeng/mixg/ crushg/grinding/washing/agglomeratg mach etc | | | | 61 145 | | 61 145 |

*Source: Data from Trade Map. Retrieved from http://www.trademap.org*

## 4.10 Primary Qualitative Data Analysis

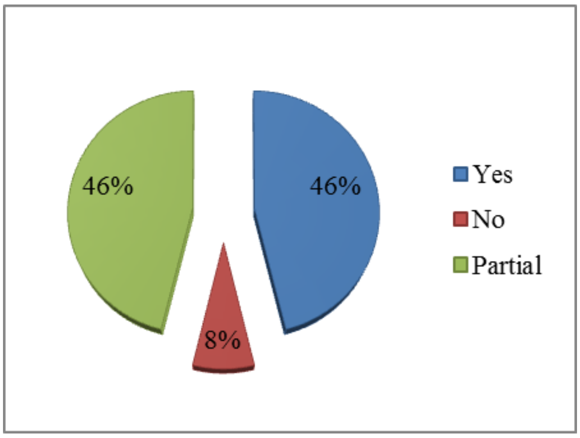
The study set out to answer the following secondary research questions:

- What are the challenges or reasons for South Africa not reaching its export potential in the SADC region?
- What export strategies should South Africa pursue in order to overcome challenges and grow its manufactured exports to the SADC region?

The respondents were asked a series of 4 questions. The first 2 questions were product-based and are discussed further in Section 4.11. The 3rd and 4th questions where designed to answer the research questions as stated above. Some of the themes that emerged from the interviews include the following: Understanding the SADC market, Competition, South Africa's Competitiveness, Non-tariff Barriers and Facilitation of Trade. These are discussed in further detail in Section 4.12.

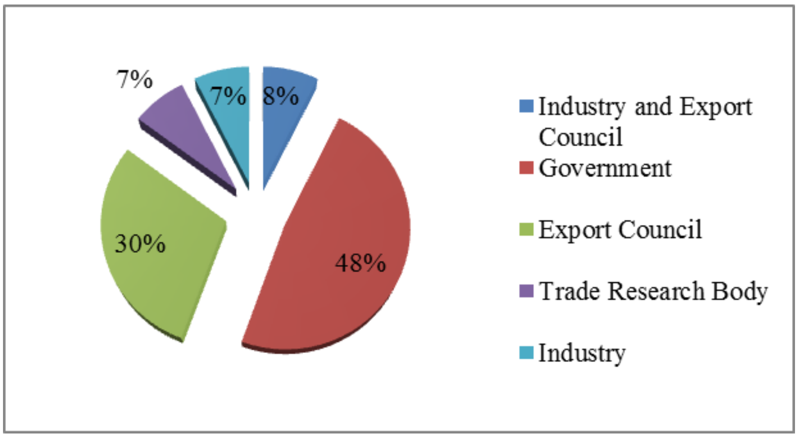
The respondents were selected based on their experience within the export market or within sectors that export. The respondents consisted of individuals from Government, various Export Councils, Trade Bodies and Industry. Many of the respondents had work experience in or related to the SADC region. Where the experience was indirect (not in the country itself) it was usually through research, working with members or clients who export or through financing companies who export to the region. The characteristics of the respondents are reflected in the figures below and list of respondent details can be found in Appendix B.

**Figure 14: Respondent Work Experience in SADC**




Note: Partial work experience relates to experience related to but not in a SADC country, Government respondents consisted of individuals from IDC and the dti.

**Figure 15: Respondent Organisations**




## 4.11 Respondent Views on Highest Potential South African Exports

The first 2 questions were more high-level, broader questions and tie into the primary research question of the study, being: "What are South Africa's highest potential manufactured exports in the 5 selected SADC countries?" but this question was broader looking at SADC as a whole. This question was intended to obtain a general sense of what respondents believed were currently the most important products and secondly what were the products with the highest potential. The most common results from the questions regarding the products with the highest potential are highlighted in Table 32 below.

**Table 24: Frequency of responses to question 2**

| Products | Frequency |
|---|---|
| Processed Food & other food products | 17 |
| Mining Equipment | 8 |
| Construction Equipment | 7 |
| Motor Vehicles | 7 |
| Construction materials | 5 |
| Pharmaceuticals and Medical equipment | 4 |
| Agricultural Equipment | 3 |
| Parts and accessories | 3 |
| Energy equipment | 3 |
| Machinery | 3 |
| Service exports | 3 |
| Trucks and buses | 3 |
| Clothing | 2 |
| Fabricated metals | 2 |
| Maritime vessels | 2 |
| Petroleum products | 2 |
| Cement | 1 |
| Chemical products | 1 |
| Packaging materials | 1 |
| Personal care, home care, baby care | 1 |
| Plastics and polymers | 1 |
| Water equipment | 1 |
| White goods | 1 |

The product with the highest frequency was “processed food products” which had 13 references, together with “other food products” totalling 17. The other prominent categories include various types of capital equipment, namely for the mining, agricultural and construction sectors. The products that correspond with the most common products that emerged from the quantitative trade data analysis as high potential products are found in the machinery and equipment, heavy vehicles (trucks and buses), motor vehicles, construction materials and petroleum products.

There were some unique answers. Three respondents said that “literally everything” (Respondents 3, 5 and 7) is required in the SADC region and so could potentially be exported. Respondent 7 said *“The short answer is anything that South Africa produces is potentially an export product into the continent.”* Some respondents felt that South Africa should focus on infrastructure development and the goods and services that support the development thereof. Respondent 11 stated: *“world class infrastructure makes it possible for other manufactured products to follow.”* Another interesting suggestion made by respondent 13 was that when doing business in the SADC region South Africa should consider how to cater for the "bottom of the pyramid", saying *"If you are making cosmetics for example instead of producing 500ml bottles, sell it in a sachet."*

It was noted that some respondents tended to answer with reference to the industries they work in, nevertheless the first two questions gave respondents the chance to familiarise themselves with the topic and it provided a backdrop to the 3rd and 4th questions.

## 4.12 Export Challenges in SADC and Solutions

The secondary research questions set out to uncover the reasons for South Africa not achieving its export potential in the SADC region as well as identifying what export strategies South Africa can pursue as a country to overcome these challenges. The open coding process was used to code responses and as commonalities started to emerge from the interview data, these codes were used to analyse subsequent interviews. The codes were then grouped into themes based on their suitability to the theme. The analysis of the transcribed interviews yielded 36 codes that were clustered into 7 main themes, being:

1. Facilitation of Trade
2. Understanding the SADC Market
3. South Africa's relationship with the Rest of Africa
4. Non-tariff Barriers
5. Regional Integration
6. South African competitiveness
7. Competition

The identified codes and themes are in response to the 2 secondary questions highlighted above, and codes were generalised where it was relevant to both questions so as to avoid duplication of a similar code. For example, "poor infrastructure" was highlighted as a challenge and "improvement of infrastructure" was highlighted as a solution" – in this case the word "infrastructure" is used as a common code. The codes and themes are discussed in further detail in the following sections. A summary of themes and codes is depicted in Table 33 below:

**Table 25: Themes and codes arising from interview data**

| Facilitation of trade | Understanding the SADC Market | South Africa's Relationship with the Rest of Africa | Non-tariff Barriers | Regional Integration | South Africa's competitiveness | Competition |
|---|---|---|---|---|---|---|
| Access to finance | Affordability in SADC | "Economic recolonisation" by SA | Harmonisation of systems | Infrastructure | Improve our productivity | Cheaper Import Alternatives |
| Communication | Commodity driven economies | "SA Inc" Approach | Corruption at the border posts | Invest locally | Lack of price competitiveness | China in the market |
| Import duties in SADC | Exact requirement of that country | Arrogance | Transport and Logistics | Local partnerships | Skills and Training | Competition from other Countries |
| Implementation of Trade Agreements | High degree of risk (and cost) | Building relationships | Red Tape | Regional Value Chains | | |
| Knowledge of Foreign Economic Representatives | Customised products | Reluctance to explore African market | | | | |
| Marketing Efforts | Language and cultural differences | Educating South African Business | | | | |
| Support from Government | Market Intelligence | | | | | |
| Trade Promotion Activities | Political Matters | | | | | |

### 4.12.1 Facilitation of Trade

This theme consists of 8 codes, making it the theme with the highest number of codes together with the second theme. This theme relates to various elements that can contribute to or hinder the flow of trade between South Africa and SADC.

- **Access to finance**

One of the most prominent codes that featured was "Access to finance". This code was both a challenge and a solution and had a frequency of 12 responses. Many respondents commented that there is a lack of availability of finance for end-users. Given that the SADC region is a price-sensitive one, this is a concern. Other countries have the financial muscle to provide finance and as a result win business and market share. The respondent below highlights this scenario: *"That's how the Chinese win so much market share, because they provide finance to the buyers for 85% of the cost. So the customer only has to put down 15% and the rest is on terms, it's a bit like an HP[18] and SADC is extremely poor, they don't have any cash."* (Respondent 19).

The SADC countries do not have well-developed credit markets and thus the access to funding is limited. This is especially a problem for the higher value capital goods (such as equipment and motor vehicles) that South Africa sells to these markets. One of the suggestions from the respondents is that perhaps banks and institutions like the IDC or the dti

[18] An HP is a Higher Purchase agreement

should provide export credit finance or end-user financing to assist clients to purchase products.

- **Communication**

The issue of poor communication was raised in two respects. Firstly, it was raised as a challenge between government and industry. There is a communication gap, with Government not being fully aware of the commercial strategies and capabilities of industry. This results in Government not marketing these abilities, and lost opportunities as African countries purchase from other markets that have the same offering as South Africa.

As highlighted by respondent 22: *"I think one of the biggest hurdles is communication within the country itself, so in other words between Government bodies and industry. So in other words Government bodies aren't quite aware of capabilities that industry has."*

Secondly, the communication between the foreign economic representatives (FER) and industry in South Africa is lacking. The criticism here is that companies cannot compete for business that they are not aware of, as highlighted by Respondent 1: *"Basically what we need is for that foreign economic representative in that country or the mission that's there to walk down the road, pick up the document, pay the $10 that's necessary, scan it and send it back to us and then we can tender on it."* The suggestions from the respondents are that the opportunities must be communicated so that companies and industry bodies can work together on developing solutions and tendering for business timeously.

- **Import Duties in SADC**

Although SADC is a free trade area, there are still some products that attract duties. What is interesting is the effect this has on trade. There is the obvious effect that pricing in the importing market will become more expensive, which impacts on demand for the product and encourages consumers to opt for cheaper alternatives. This makes it more difficult for South African companies to compete as mentioned by Respondent 24: *"For instance in the case of light vehicles, very recently in the past year or so, both Angola and Zimbabwe increased their import duties on new light vehicles by a large percentage which made it more difficult for South African companies to compete there."*

The other effect that high import duties have is that they encourage illegal markets for goods. Respondent 4 described the situation where goods sold through legitimate channels attract duties thus making them more expensive. The respondent further explained that to circumvent this there are cases where goods are purchased in South Africa and taken across the border to avoid these duties, thus creating the illegal market and an impediment to trading legitimately. Another element that was raised by respondent 11 was the issue of inconsistent and improper application of duties, which also hinders the trade process.

- **Implementation of Trade Agreements**

The implementation of trade agreements was raised as both a challenge and a solution. There are comments that lament the fact that there are trade agreements in place but they are not being implemented properly in practice. Respondent 3 stated: *"The implementation and action of those agreements are never truly realised"*, while Respondent 14 said: *"They are on paper but you will find in practise it is not the case."*

On the solutions side, it was emphasised that South Africa should be *"negotiating better and freer trade"* (Respondent 4). There is a general sense from a number of respondents that South African firms are not using the trade agreements to full advantage. Respondents feel that greater work should be done towards improving the implementation and extracting more benefit from the FTAs, including obtaining firmer commitment from regional governments. Some respondents mentioned that South Africa should look beyond the SADC FTA to the expanded Tripartite FTA that is due to come into place, focusing on how South Africa can harness the benefits of these agreements.

- **Knowledge of Foreign Economic Representatives (FERs)**

Some of the respondents emphasised the need for an increased level of knowledge on the ground in the SADC countries. The knowledge about South Africa's capabilities is seen to be lacking and this hinders the trade process. If FERs are more aware of what is produced in South Africa then they can react accordingly when an opportunity arises and, importantly, communicate this to South African industry. Respondent 1 summarizes this as follows: *"Somehow we've got to get that local knowledge so that any foreign economic representative in any of those SADC countries know…so that when they see a business opportunity in that country they can say 'oh we do that in South Africa'."*

In addition to being aware of capabilities, the FERs should also understand the trade agreements and which products are exempt from duties; this is also seen by respondents as a way to assist in the implementation of FTAs, whereas currently the customs officials may not know which goods are duty-free.

- **Marketing Efforts**

One of the ways in which South Africa can facilitate trade is through marketing its capabilities; this has already been raised above in different contexts. This code specifically relates to the respondents feeling that, as a country, South Africa is not marketing itself adequately and that it should do more to stimulate its exports. There is a common feeling that there should be marketing performed at an industry, governmental and country level, where "South Africa (SA) Inc" is promoted (Respondents 7, 15, 16, 23) which would provide a more holistic and united approach. Another sentiment that emerged through this code is that there is a disproportionate amount of marketing efforts directed towards SADC. This is in two respects – firstly South Africa's effort is lower relative to other countries who are marketing themselves in SADC, and secondly South Africa's efforts in SADC are lower relative to its efforts in other markets, such as the BRIC countries. This is raised by Respondent 23: *"So I think a lot more focus (is required) on Africa, they now accommodate more than 50% of our manufactured exports, we are certainly not putting 50% of marketing spend into Africa. I think there needs to be a shift."*

- **Support from Government**

The general sense from this code was that there is a need for Government to support industry and for Government and industry to work together more effectively. One of the suggestions is that Government must help to unblock certain trade barriers. Respondent 16 describes this need as follows: *"So you do need government relations to improve and Government to go there and assist the private sector in terms of going into these jurisdictions – so take Government along and not see it as something the private sector can do on its own."*

Respondent 23 mentioned a way in which Government can support the private sector*: "…each company goes and they spend a lot of money to establish relationships and that could be helped by Government going in with private sector to help build the facilities that help to reduce transaction costs."*

Respondent 21 also raised the important aspect of Industry's role in working with Government to elevate certain issues: *"But industry needs to bring its needs on a continuous basis to Government and Government needs to support industry and try to also expedite the* *actions…Business should…support the governance initiatives of Government and advise where they see the potential for improvements of those".*

There also appears to be a lack of co-ordination between Government entities that is inhibiting trade facilitation. Respondents suggested that more cohesion and focused strategy would improve Government support. Another issue that was raised was that the high turnover of staff in Government departments presents a challenge as the process of having to constantly up-skill new people slows down progress.

- **Trade Promotion Activities**

Trade promotion activities are seen as activities that can help to market products and facilitate trade – for example trade incentives, trade shows, and trade missions where South African products are actively marketed in a country. This code emerged as one of the solutions to improving export performance through, for example, trade delegations or outward selling missions. However some respondents cautioned against the use of general trade missions, saying that these are costly exercises which are not effective if not properly co-ordinated. What was also raised was that the trade promotion activities should be tailored for the SADC market because what works in other countries will not necessarily work for SADC. An interesting suggestion was that South Africa should bring traders from the SADC countries to South Africa to demonstrate its capability and quality. In this respect, Respondent 21 stated: *"I think that the incentive schemes are right but you could possibly tune them a bit to make the African part of it more favourable."* Respondent 23 said: *"It should be much more sector-focused trade missions where we target specific opportunities and we take a similar group of companies."* Respondent 25 argued that:

> …companies get incentivised by setting up an exhibition or a platform where they can then promote their products. The African continent is still extremely informal – the latest figures show that for the majority of goods in the retail space – 80% to 86 % is being traded on the informal market and not the formal market. So to reach those clients is difficult at a trade exhibition because they don't operate at trade exhibitions.

What is clear from the responses is that South Africa needs to improve the incentive schemes and trade promotion activities by making them more sector and region-specific.

### 4.12.2 Understanding the SADC Market

The second theme includes codes that relate to understanding more about the SADC market. These codes uncover some of the challenges of doing business in these markets and how this impacts on South African exports of manufactured goods.

- **Affordability in SADC**

With the SADC region being a generally poor one, the issue of affordability was raised by a few respondents. The concerns were around the ability to spend on products as well as access to finance (as raised above). With the populations being quite poor and falling into the lower LSM categories, businesses should take cognisance of this when deciding which products to take to market. This also raises the issue of price competitiveness (discussed in Section 4.12.6); with the levels of affordability being quite low, consumers in this market would be highly sensitive to price, making it quite challenging to operate. The quotes below reflect the affordability situation. Respondent 10 stated: *"In the rest of Africa you have the problem of low disposable income, so you have to look at your staple diet products"*, while Respondent 8 said: *"Spend per capita is very low and it applies to most African countries even in SADC."* Respondent 24 stated: *"…if we can grow the middle class then it will improve the purchasing power but they are just surviving at this point in time. There are 300 million people (in SADC) but how many can afford a vehicle?"*

- **Commodity-driven Economies**

Many countries in the SADC region have activities that are concentrated in the resource sectors. This reality was also highlighted in the economic overviews of the 5 countries. This over-reliance on the extractive industries exposes these countries to the global commodity markets and the countries' revenue is therefore highly dependent on the sale of commodities. The mining commodity markets have declined in recent years; this has also been influenced by the slowdown in demand from China. This has a direct impact on the SADC countries' ability to purchase goods due to the reliance on foreign exchange revenue, as stated by Respondent 8: *"…it's an economy unfortunately that still relies on its foreign exchange revenue from copper so Zambia as a market for South Africa is a challenge because of the fact that their copper export revenue basically drives the ability to buy."* Respondent 24 further explained: *"SADC heavily relies on China in terms of commodities and with China's economy now declining it usually impacts on commodity-exporting countries and limits their* *foreign exchange. For example Zimbabwe is one country which has forex problems in terms of purchasing goods and so on."*

There is the added complexity of resource-dependent African countries preventing external companies from taking their money out. Respondent 25 explained this situation with the following example: *"The problem in Angola for us at the moment is that it is an oil-based economy. They have pegged their growth on $75 dollar a barrel and we've seen now in the past couple of months that companies are struggling to get their funds out of Angola because the Government just stops dollars from going out of the country."*

- **Understanding the requirements of the country**

Each country will have different products that they require. South African firms therefore need to investigate what those needs are, so that they can address them appropriately. In certain cases however, South Africa may not produce to the exact requirements of the country. As a country, South Africa may produce similar products but the exact specifications may be different, this is explained by Respondent 9: *"I will give you an example – we only produce certain types of steel as a country. We import many types of steel that are required by South African industry, the same could be happening Mozambique, Zambia, Zimbabwe etc."*

An aspect of understanding these requirements is studying the consumer needs. SADC is a regional economic community consisting of different countries, different people, cultures and tastes. This was raised by Respondent 10 as follows: *"I think also what's important is determining what the consumer preferences are within the rest of Africa because what may appeal to a consumer in Botswana does not appeal to someone in Angola."*

- **Higher Degree of Risk**

Two respondents raised the issue of SADC being a high risk environment in which to operate. By its very nature, choosing to do business in a different country is risky. The SADC region comes with the added challenges of affordability, credit risk, poor infrastructure and logistical issues to name a few. The cost of doing business in SADC is high; Luanda for example was highlighted by 2 respondents as being extremely expensive to do business in. The risk of theft of cargo, bribery and corruption and exorbitant transport costs are also considerable when exporting cross-border. There is another risk associated with losing business, as explained by Respondent 7: *"I think there's two fears – one is the risk itself and* *then there is the risk that you are going to make the effort and the guy is going to buy Chinese anyway because we can't compete on prices."*

However with higher risk comes higher reward. The prospects for trade with the continent bring a bigger market and demand from economies that are experiencing high levels of growth. As Respondent 2 points out: *"I mean if you look at the whole continent, it is a fast growing region and we are sitting with a population of a billion plus people."*

- **Customised Products and Solutions**

This code emerged as one of the potential export strategies. In assessing how South Africa can better service the SADC market, the respondents believed that South African firms should be considering products and services that are tailored for the market. As mentioned above, the SADC countries have their unique and sector-specific requirements. South Africa should therefore consider how it can cater to these unique characteristics, and by doing so gain a competitive advantage. An example cited by Respondent 10 was that of vacuum-packed food products to enhance shelf-life; this is especially a concern when transport times are prolonged. Another example by the same respondent relates to the need for longer shelf lives and the issue of affordability: *"…long life milk may be a good product but in terms of disposable income, they cannot afford it, so what is good is processed milk which is your milk powder.."* (Respondent 10). Another example of a product that is suited for the SADC market is highlighted by Respondent 22: *"If you think, one of the biggest attractions to Africa is game-viewing to the various national parks that we have. South Africa is obviously the best at manufacturing or customising game-viewing vehicles for example."*

Respondent 7 believes that, in addition to providing customised products, South Africa can provide solutions and "packages" of not just products, but services too: *"We know how to put up a building for example. We will bring the architect, we'll bring the quantity surveyor, we'll bring the engineer, we'll bring the grounds design, we'll bring the civils and we'll bring it as a package and that's our advantage."* This was further mentioned by Respondent 22: "*The other potential I see that links to infrastructure is engineering exports - it's not always a repeat product, it is a custom solution."*

- **Language and Cultural Differences**

Two respondents raised the issue of language and cultural differences as a challenge to trade. As mentioned earlier, the SADC region consists of many countries with different languages and cultures. The challenge is highlighted by Respondent 8: *"Botswana and Zambia are English-speaking, the language and the culture and understanding is there. Whereas with Mozambique you still have the challenge of the language barrier and not only language it's a language/cultural difference."* Respondent 15 reiterates this challenge: *"So language is a thing but it also a culture of 'we know how the systems work' so it's easier to do. So, exporting from South Africa to Angola might be a bit difficult because of the language and because of different systems, we don't necessarily understand why things are the way they are."*

- **Market Intelligence**

The issue of market intelligence was raised by 4 respondents as a challenge and as an area that requires improvement to expand exports. It is apparent that lack of knowledge of the local markets and sector-specific information is a weakness. By obtaining greater information South Africa can position itself to partake in opportunities in SADC. As noticed by one of the respondents, some of the foreign competitors are gaining ground due to their ability to obtain market intelligence and market themselves accordingly. This challenge is raised by Respondent 1: *"We need more market information from the SADC countries that is relevant to our sectors, it is very hard to get market information so that would help us if we had that."* Respondent 14 reiterated this idea, stating: *"For one, there is lack of knowledge of specific areas of the specific countries that exporters don't know about how to go into those markets."*

- **Political Matters**

The political stability of the selected SADC countries is seen as generally acceptable, with the exception being Zimbabwe. This is also evident from the country analysis, Section 4.8, of this chapter. The lack of political certainty is a typical deterrent, and Respondent 21 notes in this regard: *"We will probably see a change of at least the president in Zimbabwe in the not too distant future and this may bring opportunities or even more difficulties."* Aside from the political stability there are other political issues at play between SADC countries. There are some countries that limit the amount of goods coming in through for example strict phyto-sanitary requirements, or through providing support to their own industries. Respondent 13 relates the following feelings on the situation: "*And then the politics. I think sometimes it seems as if African countries try to drag each other down. I mean they will try and frustrate the process of trade because of some political infringement."*

There are also various political matters internally in South Africa and these arise in different forms. Respondent 23 for example describes the trade missions as ineffective and deriving little benefit: *"it tends to be a political grouping more than a serious trade mission and this is very damaging.."* Respondent 25 echoes this sentiment when speaking about FERs in South African embassies and consulates: *"..we need to have the right people in there, not political appointees, they need to have career appointees.."*

### 4.12.3 South Africa's Relationship with the Rest of Africa

The relationship between South Africa and the rest of Africa (including SADC) is complex and mixed. On the one hand it seems that other African countries admire South Africa and want to learn from the country. On the other hand there is a sense of resentment towards the country and jealousy over its level of development relative to other African countries. There is also a sense that South Africans come across as arrogant due to their dominance on the continent. This section discusses some of the views about South Africans and the effects this has on trade, as well as South Africa's view of the continent and the suggested ways of improving trade relations with the rest of Africa.

- **"Economic re-colonisation" by South Africa**

While the focus of the study has been on how South Africa can grow its exports in the SADC region, South Africa is already exporting a substantial amount to the SADC market (see Table 5). A sentiment expressed by respondents is that South Africa should not just be focusing on exports and should start establishing companies and manufacturing capacity in these countries to produce the same products that are being exported. Respondent 5 highlights this sentiment: *"South Africa is dominant in SADC so it has gotten to that point where people are saying "why don't you manufacture some of these products here?"*

The fact that South Africa is already operating so significantly on the continent is a challenge in the sense that it is often viewed with the same distrust as the earlier colonial powers, as indicated by Respondent 7: *"The perception about South Africa is like it's a colonisation."* This is further reiterated by Respondent 23: "*South African companies are being seen as predators rather than partners."* This view is reinforced in certain cases where South African companies send South African managers to these countries even where there are local assistant managers. The complaint from the locals centres on the unfair treatment of the locals and failure to uplift them. This is illustrated by Respondent 5: *"The foreign manager who is South African would get paid a huge salary compared to the assistant and the assistant was not being promoted into that position."*

- **Arrogance**

There is a perception of a level of arrogance from South Africans in their dealings with the rest of Africa, which presents a significant challenge to establishing trading relationships with African countries. This arrogance comes across in various ways, such as South Africans not wanting to do business in the rest of Africa and having a "know-it-all attitude". This approach has also had the impact of countries not wanting South Africa to enter their markets. This is seen in Respondent 7's comment: *"our arrogance has prevented us from entering those markets but it has also prevented us from going to those markets. We don't think we need the rest of the continent. But on the other hand when we do go our arrogance counts against us because we go there thinking that we know everything."* Respondent 5 stated: "*Our apparent arrogance, people tend to think South Africans are arrogant…sometimes it's perceived arrogance."* Respondent 15 described the perception of South Africa as: "*the image of "big brother" coming in and dumping its products without value addition in those countries."*

In addition to this is the view that South Africa standards and quality are superior to what is found in those markets, this can be seen in Respondent 5's comment: *"These countries started complaining to say look, "we grow tomatoes, we grow cabbages and whatever, why don't you take the cabbage locally?" (Company A) was saying the quality is not right."*

- **"South Africa Incorporated" (SA Inc) Approach**

The "SA Inc" approach was one of the suggested ways in which South Africa can overcome some of its challenges in the region. This code speaks to improving the country's image in the region, especially given the perception of arrogance. It also indicates that the marketing approaches should include a more holistic view and that perhaps having a more co-ordinated approach will be more effective in demonstrating what basket of products South Africa can offer as a country as opposed to individual companies attempting to do so alone. Respondent 7 stated: "*…we don't have a united approach or consolidated approach to the continent where we are selling "SA Inc".* Respondent 16 suggested: *"Have a sort of "SA Incorporated" approach – so you want to grow the entire group. So it's not just me and my* *own company and I want to grow there on my own and make myself successful. It's rather a co-ordinated effort that needs to be adopted."* Respondent 23: "*I think that we could go in a more co-ordinated way and that might tend to soften the hard-nosed commercial approach."*

- **Building relationships**

Numerous respondents emphasized the need to build both business and governmental relationships with the SADC countries. The thinking here is that South Africa should strengthen and improve these relationships to work together in a more constructive manner that would benefit both parties. Respondent 2 stated: "*If you are importing say certain products from overseas and your neighbour is producing that, why don't you build links with them and then we can strengthen the inter-African business environment."* Respondent 21 added: *"And perhaps also for greater activities related to 'cross-border networking' that could be sponsored by Government."* Respondent 24, describing their specific business plans, stated: "*We want to establish a forum for vehicle manufacturers in Africa with the first aim to come up with some agreement with these countries to pursue opportunities and synergies together."* The need to build relationships was further reiterated by Respondent 25: "*It's just a matter of educating these buyers and getting them into South Africa so they can see the possibility of firstly saving on the products that they want to buy and secondly creating a stronger relationship with South African suppliers"*

- **Reluctance to explore the African Market**

There is fear and reluctance that was raised by the respondents regarding South African companies not wanting to do business in the rest of Africa, particularly in areas north of the SADC region. This can be attributed to two main reasons, the first being the perceived risk of exporting to these countries, as illustrated by Respondent 7: "…*there is a fear to go out there and we are not exposing ourselves to going to the rest of the continent, there is the perceived risk and we not willing to take that risk."* Respondent 13 added: *" One (reason) must be 'Afro-pessimism'… we are finding this pushback where people are not believing that there is a growing middle class, that there is some purchasing power."* Respondent 15 stated: "*Very few companies want to go into Africa they perceive it to be difficult.."* On the post–1994 growth of exports to the African market, Respondent 25 commented on the view from the rest of Africa: *"I still have my market that I had 20 years ago, it doesn't seem like they have the appetite for Africa."*

The second reason that companies are hesitant to venture into the continent is the focus on traditional export markets. It was found that companies are more comfortable servicing the markets that they are familiar with. To illustrate this Respondent 2 stated: "*We still focus on the European Markets, on the Americas and Japan because that's what you are familiar with, and the client base there is fine and the way of doing business is fine."* Respondent 15 confirmed that: "*South Africa likes to woo the big players, China, US, Europe, those kinds of players, ignoring the fact that there is a big market on its doorstep."* Respondent 25 added: "*South African companies have not taken the opportunity of trading with its neighbours. Instead they look at historic markets such as the UK, the USA and Europe."* The findings in this section contrasts the earlier finding that South Africa is seen as a dominant player on the continent (see Economic re-colonisation by South Africa).

- **Educating South African Business**

Interview respondents emphasised the need for a change in mind-set as it relates to doing business in Africa. It emerged that South African companies are hesitant to carry out business and export in the region and continent, as highlighted above. In order to overcome this reluctance respondents felt that South African business people should be advised on the opportunities that exist. Respondent 2 stated: *I think there is an "educational aspect" – to demonstrate to business what the opportunities indeed in Africa are. I'm not sure everybody understands that, generally speaking I mean yes. But if we highlight what are the trade patterns in Africa and bring it down to the product level."* Respondent 13 agreed that: *"..we need to educate our entrepreneurs and our business people on the opportunities that are there."* Respondent 16 pointed out that: *"..they haven't really caught on to the rest of SADC as a potential market. So I think it's probably educating South African business about this opportunity."*

### 4.12.4 Non-Tariff Barriers

There are various non-tariff barriers that are an impediment to trade. This section covers some of these non-tariff barriers highlighted by respondents as challenges in trade with the SADC countries.

- **Harmonisation of systems**

This code was raised by two respondents and relates to the lack of systems integration with respect to the clearing of goods. There is also a link to the implementation of trade agreements, specifically that some SADC countries may not recognise these agreements in practice. The systems may not recognise exempt goods for example as the system is not aligned to the trade agreement. This scenario is illustrated by Respondent 3: *"It must be picked up on the other side, meaning the importing country must be able to be systematically linked for them to be able to say if product A comes through from South Africa therefore it must be exempted for whatever duties."* The need to improve links between countries' systems was further supported by Respondent 19: *"..a harmonious system of clearing goods between the various participants in SADC. If we can get the clearing done, that is the route."*

In addition to systems alignment to facilitate trade, Respondent 3 also called for the need to simplify trading systems to enable an easier understanding and identification of products that are traded: *"We get lost along the very complicated systems and wording that makes it very impossible to access the market."*

- **Corruption at the Borders**

Various respondents pointed out concerns over management at borders. The border controls in general are seen as a major stumbling block; from the cumbersome administrative procedures that are imposed to the corruption and bribery that takes place. Corruption was highlighted 8 times in the codes. The issue of theft and long waiting times were also raised. This is clearly a serious hindrance to trade and one that needs to be addressed to improve the flow of goods between countries. Some of the comments illustrating the situation included Respondent 9 stating: *"You will be able to pick up numerous examples of anecdotal evidence of what happens at Beitbridge – how long those trucks stay there simply waiting in line and you know what happens at the border post – it's all about bureaucracy and corruption."* Respondent 21 described: *"Difficult bureaucracy and corruption, and also customs services and facilities at points of entry and exit, entry in this case into the SADC countries. The border crossings are major problems."* Respondent 23 added: *"I have just seen a very interesting paper that's been done which came out a few weeks ago, where they are saying blockages at the border posts, if you can reduce those, they far outweigh any niggles around tariffs."*

- **Red Tape**

As mentioned above, one of the issues faced at borders is the administrative procedures. The problem includes that the time taken to complete processes is long and frustrating. The level of bureaucracy is stifling and it is often found that there are activities that are considered unnecessary. This has been raised by 4 respondents. Respondent 10 stated: *"There are strict criteria or phyto-sanitary requirements that prevent us exporting."* Respondent 4 described: *"So the frustrating part would be a lot of paperwork that needs to be done, a lot unnecessary certification that is required."* Respondent 11 argued that: *"We need a concerted effort to remove bottlenecks. I would start with infrastructure and border crossings and then focus on administration."* Finally, Respondent 15 stated: *"Some of the biggest challenges are the costs along the transport value chain, the unofficial costs of bribery, getting the right person to sign, time taken to process permits, its non-tariff barriers that are there."*

- **Transport and Logistics**

This code had the highest frequency of 16 comments attributed to it. It was an item that was raised as a serious obstruction to cross-border exports. The issues raised range from the prevalence of poor infrastructure to the exorbitant costs of transporting goods. This item has proven to be such a hindrance to trade that companies actually budget for time delays at the border, even to the extent of building in costs for penalties due to these delays (Respondent 23). The lack of robust infrastructure is a big determinant of the lengthy times it takes to transport goods to the SADC region. A further complication that was mentioned is that some countries are landlocked and this adds to the cost of transport as opposed to landing the goods at a coastal country. Respondent 2 stated: *"The focus on transport and logistics is very important, that is really a barrier to business on the continent."* Respondent 4 added: *"The challenge is internal logistics, I think it's crazy that I can ship a container to Japan cheaper than I can move a product 1000km inland."* Similarly, Respondent 8 reported that: *"One of the biggest challenges is logistics and transport costs. I got a quote now to move two containers from Cape Town to Lubumbashi which is in DRC, just on other side of Zambia. Two containers, two trucks – R240,000, you know it's almost more than the value of the stock."* Furthermore, Respondent 13 stated: *"Then you will probably find that infrastructure remains a huge constraint, for example to get something from here to Zambia takes long and it is expensive."* Finally, Respondent 19 stated: *"Logistics is a nightmare. The trucks can stand up to a week at the border."*

### 4.12.5 Regional Integration

The topic of regional integration was raised by the respondents in various forms, with all codes in this theme discussing potential solutions and strategies to overcome some of the challenges South Africa faces when exporting into the SADC region. There was the general sentiment that regional integration needed to be improved and that it could help not only South Africa but also the other countries to grow their economies. As Respondent 2 summed this up: *"If you look at for instance intra-Africa trade it's very small, about 10% - 12% of all the trade in the region comes from within African countries. Whereas if you look at Europe or Asia, it's much higher, 45% up to 60%. So why doesn't Africa focus on doing business with itself?"*

- **Infrastructure**

One of the major challenges in the SADC region is the lack of proper, robust infrastructure and this is one of the leading causes of transport problems. There are other infrastructure challenges such as facilities at the border, as described by Respondent 18*: "In the case of food and beverage it's about your distribution infrastructure, there are no cooling facilities, there's no cooling distribution and logistics so that restricts a lot."*

However the respondents believe that these are opportunities for South Africa to contribute to the development of the regional infrastructure, thus creating an enabling environment for the flow of goods for South Africa as well as the SADC countries. Respondent 5 asserted: *"We need to be seen to be investing in the infrastructure. All countries need that infrastructure and we need to be seen to be investing in that infrastructure."* Similarly, Respondent 11 stated: *"A good example of what infrastructure can do is look at the explosion of trade from South Africa to Maputo and the associated infrastructure that allowed it to happen."* Respondent 16 added: *"South Africa has the capital to invest in infrastructure in these countries. So infrastructure, whether its distribution infrastructure or general roads and ports or power. It's critical to create that enabling environment for South African companies."*

- **Invest locally**

This code speaks to the need for South Africa to invest in the SADC countries themselves. Although South Africa is already a large investor in the region, there is the sense that it could do more, and look at SADC not only as an export market, but as an investment destination as well. This could take the form of investment in infrastructure, as mentioned above, or it can take the form of investments in companies. By setting up businesses in these countries, South African companies can be closer to their markets. These investments will help to create employment in the SADC countries and help them grow their economies. Respondent 5 argued that: "*We need to be seen to be adding value to the other side, to be employing on the other side and at the end of the day have that fine print 'Made in Zambia', for example.*" Respondent 18 added: "*I think we should be incentivising local companies to invest there to set up their infrastructure to set up their management team or whatever the case might be, satellite companies or subsidiaries or joint ventures with companies in those countries.*" Finally, Respondent 24 motivated to: "*…assist these countries to also grow and if their economies grow then their middle class will grow which will benefit our vehicle exports.*"

- **Local partnerships**

Another way in which South African companies can contribute towards regional integration is through local partnerships. The sense from respondents here is that companies do not necessarily need to venture into the SADC markets on their own. By building partnerships with local companies and people, South African companies improve their knowledge of the business environment and improve their image in the market as well as share the benefits with their local partners. Respondent 5 stated: *"If you have local partners, you are no longer seen as a foreigner, you will be seen as local and because you have local partners, they won't attack their own. And a local partner doesn't mean getting a minister, it means getting ordinary people to be your partner, not the elite but the ordinary, your workers for example."* Respondent 11 added: *"An important consideration in our industry is partnering with companies in other countries. Localisation is just as important when you cross the border as it is in South Africa. We need to be seen as a partner and not a competitor. This is key."*

- **Regional Value Chains**

One of the important aspects of regional integration is that of value chain integration. The respondents highlighted this topic as another area in which South Africa can stimulate more inclusive growth. The ideas shared centred around spreading the value chain amongst countries and not completing a whole value chain in South Africa. By procuring production elements from different countries, SADC can strengthen its bonds as a region and increase intra-regional trade. Respondent 5 explained: *"Don't do the whole thing in South Africa, do part of it in other countries. If they follow that value chain approach, at least they can say at the end of the day we have invested, we need to been as investing in those countries not just using them as a market for our products."* Respondent 9 agreed, stating:

> The moment you have these regional value chains well entrenched within Southern Africa, you start getting these relationships between various segments of the value chain. In a way you are driving other foreign competition out. Other countries become part of the production process. We become stronger and more integrated and more interdependent and it starts going beyond the self-interest of the country or the company within the country towards a mutual interest across the region.

Respondent 13 added: *"..the trade should be two-way trade, it cannot just be South Africa exporting to the rest of the continent. We need to look at what do we buy from the rest of the continent as well."* Respondent 24 reiterated this sentiment, stating: *"..the whole intention with SADC was to try to integrate the region and to have value chain integration to see what we can source from other countries."*

#### 4.12.6 South Africa's Competitiveness

The issue of South Africa's lack of competitiveness was stressed by many respondents. The challenges include the inability to compete on price as well as a decline in the productivity of the manufacturing sector. There are some suggestions from respondents on how South Africa could work towards overcoming these challenges.

- **Lack of price competitiveness**

South Africa faces serious competition from countries that can produce goods at a cheaper rate, as highlighted by Respondent 9: *"We are talking about products that are being imported by those countries that are also produced in South Africa we may not be penetrating because we do not have the price competitiveness."*

The reality is that South Africa's cost base (electricity, water, transport etc.) is high relative to other countries (Leke et al., 2015) and this contributes to the lack of price competitiveness. What is also challenging is the inability to pass on price increases, which results in companies' profit margins being squeezed, as described by Respondent 8: *"…electricity goes up and labour goes up and it becomes a norm. Six or seven years ago you could pass on an increase of 10-12% to the market, today you are lucky if you can get 5%, so your profitability and your GP margins comes under huge pressure."* Respondent 10 suggested how the country can become more competitive on price as it relates to the poultry industry: *"When we land that soya crop in South Africa you are looking at R3000/ton, whereas if we can stimulate primary production you are lowering the cost of feed which builds in and has an impact on your bottom line."*

- **Improve productivity**

The fact that the South African manufacturing sector has deteriorated as a percentage of GDP was discussed in Chapter 1 of this study, which is one of the reasons for embarking on this study. As discussed in Chapter 2, the export-led growth theory shows that growing exports is one way in which the manufacturing sector can be stimulated. However one of the elements that South Africa needs to stimulate and improve is the productivity of the manufacturing sector. This was outlined by Respondent 8: *"We as a South African economy must become more productive straight through the value chain from raw materials inputs to labour costs to electricity the entire 9 yards that adds costs to our product base, it's a huge problem."* Respondent 9 further stated: *"I think that we have seen the competiveness of South African manufacturing decline over time. So it's about again reinvesting in our production capacity, upgrading technology, modernising and so on and improving our own productivity – labour productivity and capital productivity. It's about going full, flat out and reviving the competitiveness of the manufacturing sector."*

- **Skills and Training**

Another way in which South Africa can improve its competitiveness is through skills and training of its people. As highlighted in Chapter 2, the Deloitte (2013) survey found that the cost of labour has increased without a parallel increase in the level of productivity or skills development. This is a need that should be addressed as highlighted by respondents below with specific reference to trade. Respondent 21 encouraged the need for furthering education on trade:

> Then I think it needs to be a matter of particular attention in education – I think where we need to make more of Africa as a trade partner in terms of education at a university level, there should be more attention to Africa….From the point of view of our curricula we tend to use the best practise globally but I think we need to add a stronger flavour of how we contextualise for Africa and for SADC in particular.

Respondent 3 highlighted that training should be on-going in the context of understanding trade agreements: *"Refresher courses on those must be given as well. Because you cannot expect an official that has been trained but resigns and the one that comes after him to be able to know what the origins of a preferential agreement there is."* Respondent 21 further added how Government can support the educational needs: *"...create support via the research support activities of the Department of Science and Technology, you know special grants or inter-governmental grants for trade-directed studies."*

### 4.12.7 Competition

This theme discusses the challenges that South Africa faces with regards to competition. The competitive landscape is diverse and respondents highlighted contenders that are not immediately apparent in addition to the more common competitive threats such as China. These are aspects that South African companies need to be aware of when exporting to the SADC market as the competition is expanding.

- **Cheaper Import Alternatives**

The respondents highlighted products that are cheaply produced and sold into the market as well as items such as "grey goods" and second-hand imports. There are products that produced cheaply by the likes of China and India for example; given that the SADC market is very price-sensitive this is a big concern. What is also apparent is the lack of duties on the importation of second-hand goods, for example on the import of used vehicles. This lack of duty protection is a concern as the price-sensitive SADC market can easily opt for a much cheaper second-hand car than buy a new car from South Africa for example. The concerns around cheaper imports were raised by Respondent 16: *"There is huge competition from China and India. If I speak about the machinery and equipment sector, a lot of that comes at ridiculous prices and South African companies just cannot compete."* Respondent 21 further added: "*The major challenge in terms of light vehicles is that South Africa prohibits the* *import of used vehicles but all the other SADC countries allows that, so that is the big drawback."* The lack of duty protection on the used vehicle imports is further raised as a concern by Respondent 21: *"But the most important thing is first you must have a protective duty barrier around the country, you know you have to have that "fence". Now South Africa has good fences but the SADC countries do not have good fences."* Respondent 24 added: *"The main problem or competition for exports from South Africa is specifically the used vehicles imports and the grey vehicle imports as well as cheaper products from the likes of China and India."*

- **China in the market**

The issue of China and its role on the continent arose on numerous occasions and in a variety of contexts. China is a large concern as they are a strong competitor and they can produce products much more cheaply, thus entering the African market with lower prices. This is a difficult proposition to counter, seeing as the African countries have consumers in the lower income groups who are price-sensitive. Another area in which China is very successful is in the provision of finance. Respondent 24 notes that some consumers in these markets will either buy something for cash or not at all. China has the ability to fill that gap by providing "end-user financing" in many cases. In other words, they will provide a product and the finance to purchase the product at a preferential rate. This makes it even more difficult to compete as South Africa does not have these options in place. To quote Respondent 19: *"If they buy from China, they only have to put 15% down and they get 85% at a credit rating normally at about the LIBOR*[19] *with the insurance of about 4%, so they can't possibly not make use of it. We should be able to play at the same game, otherwise how can we gain market share?"* Respondent 5 added: *"The entry of China into the market – that's the biggest hindrance where China is literally (I wouldn't want to say flooding) but they are bringing in everything into the continent at a very cheap rate."*

South African firms can perhaps focus on product quality as a way of counteracting Chinese competition. This is highlighted by Respondent 17: *"The Chinese involvement on the continent seems to be very high and they bring money and product and employment but not always at the right quality."* Respondent 7 argued: *"The stuff that Africa is importing from South Africa is stuff you can't get from China – for example they can get glass cheaper from China. Where they need a quality product that's what they will get from South Africa."*

[19] London Interbank Offered Rate

Respondent 9 elaborated on how the Chinese enter into "supply-side arrangements" which makes it very difficult for South African firms to compete as these arrangements are entered into as "packaged deals": *"So let us say for example… it's a Chinese project in Mozambique which is backed by Chinese construction firms, backed by Chinese construction equipment, construction materials, construction services."*

- **Competition from Other Countries**

Aside from China, there is competition from other countries. It emerged from the interviews that there are some interesting categories that these countries fall into. One category is other African countries that are bringing their products into SADC. Where South African products used to compete with each other on the shelves, now they are competing with products from other African countries too, as described by Respondent 8: "*The countries from the North are putting up final product, there are Kenyan juices in Zambia today that were not there 5 five years ago."*

There is also the SADC reliance on erstwhile colonial powers – this can be seen in the trade data in Section 4.5.2, for example Portugal is Mozambique's sixth largest trading partner and features as a top 3 supplier in 3 of its top 10 imports. This reliance means that these former colonial powers still maintain a fair market share in the SADC region as highlighted by respondent 15: *"There is a very strong tendency in Africa to continue to trade with your (former) colonial powers."* Respondent 14 suggested that South Africa needs to gain a better understanding of the competition: *"We need to know what the competitors (who are) competing for the target markets, are doing. South Africa is unaware of what the competing markets are doing."*

# CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

In the context of a subdued economic environment, the South African Government has highlighted exports as one of its focus area in the National Development Plan (NDP). In particular, it is clear that manufactured goods and exports can contribute significantly to the growth in the economy, as highlighted in Chapter 2. The Sub-Saharan Africa economies, including the selected SADC economies, show promising growth prospects over the coming years and are already well-established trading partners with South Africa. With this in mind, the focus of this study was centred on growing manufactured exports in the SADC region.

The research questions set out, firstly, to identify high potential manufactured exports from South Africa to the SADC region. The study focused on 5 countries: Botswana, Mozambique, Namibia, Zambia and Zimbabwe. These countries were selected based on the fact that they represented the largest export destinations in the SADC bloc from South Africa in 2014. The question was answered using a method used by MRC (2014), whereby the top 100 manufactured exports were ranked by various criteria. The top 20 products were then selected as the products with the highest potential.

There were two secondary research questions as follows:

- What are the challenges or reasons for South Africa not reaching its export potential in the SADC region?
- What export strategies should South Africa pursue in order to overcome its challenges and grow its manufactured exports to the SADC region?

These questions were answered through semi-structured interviews. The interviews were held with individuals who had relevant experience in the field of exports or in industries that export, as well as respondents involved in research of trade. There were 27 interviews conducted. The interviews yielded 36 codes and 7 themes. The conclusions for the primary and the secondary research questions are discussed in the following sections.

## 5.2 Research Conclusions

### 5.2.1 Primary Research Question

In terms of the primary research question, a full list of the high potential products across all 5 countries can be found in Appendix C. To summarize, the most common product codes that were found in 3 or more countries as well as those with the highest indicative trade values included the following: vehicles (trucks and tractors as well as automobiles), pharmaceuticals, structural and building materials, construction machinery and equipment, reception apparatus for televisions, mobile phones and petroleum oils and other petroleum products. Steenkamp (2011) conducted a study on all (not only manufactured) product categories to identify worldwide export opportunities. Her findings for Africa corroborate with products identified in this study. The high potential export value products she discovered include petroleum products, 1500-3000 cc automobiles and diesel powered trucks, structural and building materials, amongst others. Viviers et al. (2014) identified transportation and machinery products (highlighting chapter 84 and 87) as 2 of the top 5 sectors representing the highest potential export value in South America countries.

These findings were further reinforced with the findings from the interviews. Heavy duty vehicles, building materials, pharmaceuticals and capital equipment featured prominently in respondent responses to which manufactured products hold the highest potential for export into SADC.

The manufactured product that was mentioned with the highest frequency was processed food/beverages, or agro-processed goods. There were certain agro-processed products from the quantitative data that were in the top 20 of some countries; however, it has not emerged as one of the most prominent product categories (neither high indicative trade value nor featuring across many of the countries' results). The agro-processed products that emerged were rice, beer, refined sugar, fruit juices and mineral water, with a combined indicative trade potential of US$35.5 million.

The high potential exports are also supported by the findings on the secondary research questions. For example, infrastructure is considered to be a considerable stumbling block for trade in the region. By expanding exports of capital equipment and building materials this can contribute to infrastructure development and therefore improve trade conditions. An unexpected but interesting finding that emerged from the interviews was that of "service exports" with a focus on construction and engineering services. The respondents believed that South Africa has strong competence in these areas and thus it represented an area of high potential for them. This, combined with the manufactured products, can offer an attractive package of goods and services for export to the selected SADC countries. This focus on service exports is supported in literature; Leke et al. (2015) highlight service exports as a priority area for South Africa, predicting that the country can supply R120 billion of service exports to Sub-Saharan Africa by 2030.

### 5.2.2 Secondary Research Questions

The respondents provided a diverse and interesting set of insights when answering the secondary research questions; investigating the challenges facing South African firms in exporting to the SADC markets and the strategies that can be pursued to overcome these challenges. It was noted that there are some industry-specific challenges. There were also some thought-provoking views that challenged the premises of the research. One such view was that a shift in mind-set is required from South African companies. This shift would mean not seeing the SADC region purely as a market for exporting goods, but also as an environment that South Africa can invest in and collaborate with to build partnerships. It was proposed that a longer-term view should be taken and that South Africa's actions should be more aligned to this view. Another view was that South Africa should not only focus on SADC but look further north towards the larger tripartite Free Trade Agreement (FTA)[20] region.

In answering the question – What are the challenges or reasons for South Africa not reaching its export potential in the SADC region? – some of the key challenges that emerged from the interview responses include the following:

- The lack of access to finance is considered to be a hindering factor to trade, and South Africa is losing market share to countries that can provide end-user financing.

- The lack of proper implementation of trade agreements means that South Africa cannot fully benefit from these agreements. Some products are attracting high duties in the SADC countries (such as light motor vehicles), thus making it more difficult for South African companies to compete. This corresponds with Edwards and Alves' (2005) finding

[20] The Tripartite FTA unites three existing trade blocs – SADC, the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) – into a new larger trading bloc, comprising 26 countries on the continent (UNCTAD, 2013).

that sectors with higher levels of tariff protection in export taxes experience lower export levels.

- South Africa's image of the rest of Africa and the rest of Africa's image of South Africa is not always beneficial to trade. South Africa is perceived to be arrogant when dealing with the rest of Africa and the country is also viewed as a dominant "predator" in some instances. On the other hand, South African companies are also reluctant to venture into African markets due to the perceived level of risk and a focus on their traditional markets.

- SADC is a difficult market in which to operate; it is price-sensitive, the infrastructure is poor, the economies are largely commodity-based with a strong reliance on foreign exchange earnings and the competition is stiff.

- The competition comes in many forms, namely from cheaper import alternatives from the likes of China and other countries and from previous colonial linkages.

- Not only is the external competition a concern, but respondents also highlighted the lack of competitiveness and productivity in the South African manufacturing sector and the need for improvement. The importance of improving productivity is also shared by Edwards and Golub (2004) who found that improved productivity positively influences export growth.

- There are significant non-tariff barriers that are both an impediment to trade and that can add to the cost of trade. One such barrier is the cost of and the poor conditions surrounding transport and logistics. This was the most common challenge that was raised by respondents, with some respondents highlighting how exorbitant transport costs are, in some cases even more so than exporting to countries on other continents. This factor is shared in the literature; Rankin (2013) indicates that transport-related matters are a huge constraint reported by South African exporting firms. Other non-tariff barriers include corruption and burdensome administrative procedures.

Despite the challenges, there is immense opportunity that lies literally on South Africa's doorstep. The question – What export strategies should South Africa pursue in order to overcome its challenges and grow its manufactured exports to the SADC region? – received the following key responses:

- Improving access to finance by engaging banks and other finance-providers such as the Industrial Development Corporation (IDC) to offer export credit finance or end-user finance.

- There were numerous suggestions of improving the implementation of trade agreements through improving Government commitment, knowledge of foreign economic representatives and better harmonisation of systems.

- A few respondents remarked that improving market intelligence would be important in terms of understanding the various export markets and how they function. This ties in with understanding of the exact requirements of the export-destination countries. There was also the suggestion that South Africa should consider how it can tailor products for SADC markets to meet their specific needs.

- Another area where a customised approach is required is trade promotion activities. Some respondents felt that that current incentive schemes and approaches to trade promotion in the rest of Africa are not suitable for the environments. The suggestion was to improve and tailor the approach to the respective markets. Another suggestion in respect of marketing activities was to have a more integrated “SA Inc” approach.

- There was a focus on building and improving relationships with SADC countries. Respondents suggested improving governmental relations as well as building local partnerships through joint ventures for example in order to include people and companies in the opportunities that exist.

- The theme of regional integration arose with many of the respondents suggesting that South African companies should look at how they can invest in these countries, both in terms of businesses and infrastructure. The topical concept of developing regional value chains was suggested by various respondents.

- Many of the suggestions above are shared in literature; Disenyana and Sogoni (2014) highlight some of their suggestions as optimising the use of financial instruments, trade missions, strategic alliances and trade agreements among others.

## 5.3 Recommendations

One of the intentions of this study was to understand the challenges facing South African manufactured exports in the SADC region, and what some of the potential solutions can be, in order to inform a more targeted export strategy. Arising from the research, it is suggested that the following be considered by trade promotion agencies (namely the dti) and other relevant Government departments:

- Design tailored service packages that combine product and service exports, for example in the construction sector. This is supported by Leke et al. (2015) who focus their service exports analysis on the construction services; their analysis suggests that South Africa can compete for a larger market share of Sub-Saharan Africa built-environment projects.
- Design effective and cohesive trade promotion strategies, incorporating trade missions and incentives that are sector-specific and appropriate for the SADC market.
- Develop a market intelligence database that exporters can access in order to educate and up-skill themselves in terms of operating in the SADC market.
- Develop a training programme for foreign economic representatives that enhances the knowledge about FTAs and the capabilities South African industries have.
- Develop an “SA Inc” marketing strategy.
- Engage with SADC Governments and the trade and industry counterparts on developing a value chain approach to various industries.

## 5.4 Limitations of the research

The researcher conducted, transcribed, coded and analysed all interviews. This process involved the interpretation of the data collected and therefore includes a degree of researcher bias. Due to the time limitation, only 27 respondents were interviewed. Included in the selection of respondents were several individuals from the Industrial Development Corporation of South Africa (IDC) who were selected due to relevant or related experience. There is a high proportion of IDC respondents compared to other respondents; this selection was made due to ease of accessibility (the researcher is employed by the IDC). As a result, the industry and geographic distribution of the interview respondents is not as diverse as it could be. Most of the respondents were based in Gauteng. Given that trade trends have geographical nuances, the responses may not be reflective of all provinces. There is a bias in the answers of respondents that have specific sector knowledge and answers provided are specific to that industry. Respondents occasionally responded in the context of Africa as a whole and not specifically about SADC; as a result the answers have less focus on the SADC region than anticipated. Quantitative analysis was based on data from the International Trade Centre Trade Map database for the latest available full year of data, being 2014. The results of this analysis are thus based on historical data and provide a static view. The outcomes of the analysis may change with more recent data (for example quarterly data); however the method used does not cater for this.

## 5.5 Areas for Further Research

In order to address some of the limitations raised above, future research can include a greater distribution of interview respondents in terms of type of organisation and industry that they work in. A greater geographic distribution would also be useful as the different provinces may have unique circumstances. The study could also benefit from a more diverse and larger sample, in order to improve the generalizability of the results.

All the countries selected already have South Africa as one of their top supplying markets. In selecting which markets to focus on, one could carry out analysis for other countries (SADC or rest of Africa) exhibiting a high level of growth and a low level of current export penetration with a bigger potential for growth. The SADC markets are also small compared to others on the continent; one could also focus on larger markets such as Nigeria or Egypt, or select countries based on higher forecast GDP growth. Countries with a high GDP growth could indicate a higher level of income and spending per capita, which would bode well for sales and thus exports to those countries.

Other future research suggestions include:

- Conduct the quantitative analysis of trade data using a different analysis methods and compare results to this study.

- Conduct the quantitative analysis at a provincial level to understand what the high potential products are at that level in order to develop a more detailed and precise strategy.

- Use the case study method to understand how other markets carry out export-led strategies and overcame their challenges.

- The research looked at 5 SADC countries, thus a high level view was taken, and this could conceal sector-specific issues or finer details that exist. A suggestion is to select fewer countries and do a deeper analysis per country to arrive at a very detailed, country, sector, product and perhaps even company-specific strategy. This could include narrowing down the list of high potential exports to the top 10 instead of top 20, and conducting a deeper analysis into the trade issues surrounding various products in countries. Another suggestion would also be to identify products that constitute re-exports as these products are not manufactured in South Africa.

- Identify products that are common high potential products across various countries and conduct research with a focus on a particular sector, for example the automotive sector, to develop a sector strategy across countries.

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# APPENDICES

## Appendix A: Interview Guide

### Introduction and Preliminary questions

1. Are you aware of the study and its objectives and do you have any questions about the study before we begin?
2. Do you have previous work experience in or related to the selected SADC countries?

### Interview Questions for Respondents

1. What do you understand to be the most important products in terms of general/overall exports from South Africa to the selected SADC countries?
2. Which manufactured products do you see the greatest potential in, for South African companies to expand exports to selected SADC countries?
3. What are some of the reasons for South Africa not reaching its export potential in the SADC countries? (What types of challenges do companies that export/want to export face?)
4. What export strategies should South Africa pursue in order to grow its manufactured exports to these SADC countries?

# Appendix B: List of Respondents

| Respondent Number | SADC Experience | Organisation |
|---|---|---|
| Respondent 1 | Yes | Marine Industry Association of South Africa |
| Respondent 2 | Partial | Industrial Development Corporation |
| Respondent 3 | Yes | Wines of South Africa |
| Respondent 4 | Partial | Langeberg and Ashton Foods |
| Respondent 5 | Yes | Industrial Development Corporation |
| Respondent 6 | Partial | Industrial Development Corporation |
| Respondent 7 | Yes | Industrial Development Corporation |
| Respondent 8 | Yes | International Trade Institute of Southern Africa |
| Respondent 9 | Yes | Industrial Development Corporation |
| Respondent 10 | Partial | Industrial Development Corporation |
| Respondent 11 | Yes | Southern African Institute of Steel Construction |
| Respondent 12 | Yes | South African Stainless Steel Development Association |
| Respondent 13 | Partial | Industrial Development Corporation |
| Respondent 14 | Partial | Industrial Development Corporation |
| Respondent 15 | No | Industrial Development Corporation |
| Respondent 16 | Partial | Industrial Development Corporation |
| Respondent 17 | Partial | Industrial Development Corporation |
| Respondent 18 | Partial | Industrial Development Corporation |
| Respondent 19 | Yes | South African Capital Equipment Export Council |
| Respondent 20 | Yes | South African Fruit & Vegetable Canners‟ Export Council |
| Respondent 21 | Partial | Automotive Industry Development Centre |
| Respondent 22 | Partial | South African Boatbuilders Export Council |
| Respondent 23 | No | Department of Trade and Industry |
| Respondent 24 | Yes | Automotive Industry Export Council |
| Respondent 25 | Partial | WESGRO |
| Respondent 26 | Yes | Super Group Limited |
| Respondent 27 | Partial | Cosmetics Export Council of SA |

# Appendix C: List of All High Potential Products across the 5 SADC Countries

| Sum of Indicative Trade Potential | Column Labels | | | | | |
|---|---|---|---|---|---|---|
| Row Labels | Botswana | Mozambiq | Namibia | Zambia | Zimbabwe | Grand Tota |
| Light petroleum oils and preparations | 55 344 | 303 310 | 203 219 | 369 558 | 390 594 | 1 322 025 |
| Diesel powered trucks with a GVW not exceeding five tonnes | | 81 835 | 8 867 | 51 302 | 55 157 | 197 161 |
| Medicaments nes, in dosage | 34 503 | | | 102 974 | 52 856 | 190 333 |
| Other petroleum oils and preparations | | 71 954 | | 21 977 | 79 231 | 173 162 |
| Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc | 36 195 | | | 115 479 | | 151 674 |
| Structures&parts of structures,i/s (ex prefab bldgs of headg no.9406) | | 48 561 | 21 904 | 53 161 | | 123 626 |
| Self-propelled excavating machinery nes | | 37 891 | | 55 258 | | 93 149 |
| Dump trucks designed for off-highway use | 29 129 | | | 62 876 | | 92 005 |
| Diesel powerd trucks w a GVW exc five tonnes but not exc twenty tonnes | 2 009 | 37 688 | 11 196 | | 15 487 | 66 380 |
| Pts of sortg/screeng/mixg/ crushg/grinding/washing/agglomeratg mach etc | | | | 61 145 | | 61 145 |
| Telephones for cellular networks mobile telephones or for other wirele | 9 554 | | 9 576 | | 40 978 | 60 108 |
| Road tractors for semi-trailers (truck tractors) | | 27 051 | | 30 507 | | 57 558 |
| Diesel powered trucks with a GVW exceeding twenty tonnes | | | 3 613 | 34 788 | | 38 401 |
| Motor vehicle parts nes | 5 198 | 24 506 | | | | 29 704 |
| Automobiles with diesel engine displacing more than 2500 cc | | | 6 879 | | 20 735 | 27 614 |
| Instruments and appliances used in medical or veterinary sciences, nes | | | | | 23 290 | 23 290 |
| Pneumatic tyres, new, of rubber, having a "herring-bone" or similar tr | | | | 22 976 | | 22 976 |
| Parts of cranes,work-trucks,shovels,and other construction machinery | 6 627 | 11 382 | 3 592 | | | 21 601 |
| Chemical/allied industry preparations/prods nes | | | 21 474 | | | 21 474 |
| Parts of lifting, handling, loading or unloading machinery nes | | 21 242 | | | | 21 242 |
| Petroleum bitumen | | | 2 253 | 15 134 | 1 341 | 18 728 |
| Parts of boring or sinking machinery, whether or not self-propelled | | | | | 16 995 | 16 995 |
| Machines & mechanical appliances nes having individual functions | | | 16 910 | | | 16 910 |
| Bars & rods,i/nas,hr,hd or he,cntg indent,ribs,etc,prod dur rp/tar,nes | | 15 687 | | | | 15 687 |
| Rice, broken | | | | | 15 397 | 15 397 |
| Wheeled tractors nes | 5 335 | | 2 923 | | 5 563 | 13 821 |
| Monoammonium phosphate&mx thereof w diamonium phosphate,in pack<=10kg | | | | 13 476 | | 13 476 |
| Parts of telephone sets, telephones for cellular networks or for other | | 12 581 | | | | 12 581 |
| Reception apparatus for television, colour, whether or not incorporati | | 6 909 | 3 674 | 1 898 | | 12 481 |
| Parts&accessories of automatic data processg machines&units thereof | | 12 150 | | | | 12 150 |
| Polypropylene | | | | 12 011 | | 12 011 |
| Taps, cocks, valves and similar appliances, nes | | | | 11 973 | | 11 973 |
| Animal feed preparations nes | | | | | 11 759 | 11 759 |
| Sanitary articles of paper,incl sanit towels&napkin (diapers) f babies | | | 1 510 | | 9 592 | 11 102 |
| Mineral or chem fertilizers nitrogenous,nes,in pack weighing > 10 kg | | | | 11 036 | | 11 036 |
| Pts of sortg/screeng/mixg/crushg/grinding/washing/agglomeratg mach etc | | 9 229 | | | | 9 229 |
| Portable digital computers <10kg | 1 425 | | | | 7 404 | 8 829 |
| Waters incl mineral&aeratd,containg sugar o sweeteng matter o flavourd | | | | | 8 793 | 8 793 |
| Insecticides | | 8 073 | | | | 8 073 |
| Beer made from malt | | 6 648 | 1 009 | | | 7 657 |
| Articles, iron or steel, nes | | | 6 792 | | | 6 792 |
| Shovels and excavators with a 360 revolving superstructure | | 5 969 | | | | 5 969 |
| Automobiles w reciprocatg piston engine displacg > 1000 cc to 1500 cc | | | 4 511 | | | 4 511 |
| Surface-active prep, washing & cleaning prep put up for retail sale | | | | | 3 990 | 3 990 |
| Articles of plastics or of other materials of Nos 39.01 to 39.14 nes | 3 861 | | | | | 3 861 |
| Pumps nes | 3 503 | | | | | 3 503 |
| Refined cane or beet sugar, solid, without flavouring or colouring matter | 147 | 2 558 | | | | 2 705 |
| Reception apparatus for television, whether or not incorporating radio | | | | 2 136 | | 2 136 |
| Gas powered trucks with a GVW not exceeding five tonnes | 1 244 | | 326 | | | 1 570 |
| Bulldozers and angledozers, wheeled | | | 1 152 | | | 1 152 |
| Flat rolled prod,i/nas,plated or coated with zinc,>/=600mm wide, nes | | | | | 1 144 | 1 144 |
| Beauty or make-up preparations nes; sunscreen or sun tan preparations | | | 952 | | | 952 |
| Non-alcoholic beverages nes,excludg fruit/veg juices of headg No 20.09 | 949 | | | | | 949 |
| Pneumatic tires new of rubber for buses or lorries | 899 | | | | | 899 |
| Polyethylene having a specific gravity of less than 0.94 | 387 | | | | | 387 |
| Cigarettes containing tobacco | 146 | | | | | 146 |
| Fertilizers nes, in packages not exceeding 10 kg | 36 | | | | | 36 |
| Ammonium nitrate,whether or not in aqeuous sol in pack weighg > 10 kg | 36 | | | | - | 36 |
| Soya-bean oil crude, whether or not degummed | | | | | - | - |
| Bars & rods, iron or non-alloy steel forged | | - | | | | - |
| Electric generating sets | | | | - | | - |
| **Grand Total** | **196 527** | **745 224** | **332 332** | **1 049 665** | **760 306** | **3 084 054** |

Note: Some products have no Indicative Trade Potential however they have been identified as high potential exports due to their ranking in the other filters.

# Appendix D: Ethics Approval

FULL COLOUR THINKING

GRADUATE SCHOOL OF BUSINESS
UNIVERSITY OF CAPE TOWN

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Cape Town, 30 September 2015

**GSB/MCOM/101**

Loshini Moodliar

Graduate School of Business, University of Cape Town

Mdllos004@gsb.uct.ac.za

Dear Loshini,

**RE: ETHICS APPROVAL**

Thank you for submitting your ethical clearance application for your research on **"PROMOTING REGIONAL TRADE IN THE SADC REGION: IDENTIFYING OPPORTUNITIES FOR MANUFACTURED EXPORTS FROM SOUTH AFRICA INTO BOTSWANA, NAMIBIA, MOZAMBIQUE, ZAMBIA AND ZIMBABWE".**

This is to confirm that your application has been assessed by the GSB's Ethics in Research Committee according to the rules and norms of the University and Commerce Faculty, and that it has been approved.

Please note that if you make any substantial change in your research procedure that could affect the experiences of the participants, you must submit a revised protocol to the Committee for approval.

We wish you all the best for your research.

Kind regards

Steph

Dr. Stephanie Giamporcaro, Research Director

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Accredited by Association of MBAs