



# National Agricultural Marketing Council

Strategic positioning of South African Agriculture  
in dynamic global markets

## **Examining the India, Brazil and South African (IBSA) Triangular Trading Relationship**

by

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## Examining the India, Brazil and South African Triangular Trading Relationship

Ron Sandrey and Hans Grinsted Jensen

### Summary and general conclusions from the analysis

Following a comprehensive examination of the most recent merchandise trade flows between the relevant countries, this paper uses a computer model to look at the possible economic results from removing all merchandise<sup>1</sup> tariff barriers between the three partners of India, Brazil and South Africa/SACU (IBSA). We have ignored the political complication of Brazil also belonging to a Free Trade Agreement (FTA) and we have not modelled the estimation and removal of non-tariff barriers, services trade or some of the more sophisticated but speculative gains from technological change or other dynamic effects. Recent research, some of which is cited in the paper, has highlighted that most of these more elaborate assumptions are misleading to policy makers.

The IBSA agreement is potentially good for all major parties with similar welfare gains of between one to one and a half billion dollars at 2015, but with this translating into larger gains for South Africa when measured as a percentage of real GDP since South Africa has a smaller economic base to work from. The gains to South Africa are spread across the contributing factors of allocative efficiency, labour's contribution, capital and the terms of trade gains from both (a) better relative prices between exports and imports and (b) more efficient use of capital. The biggest loser in dollar terms is the EU, with all other countries/regions except Nigeria losing. Unfortunately these losers include both Botswana and the Rest of SACU or the model aggregation of Lesotho, Namibia and Swaziland combined, although these losses are not high and may be misleading given that intra-SACU trade and therefore any changes in this trade will not be picked up in the model's database in view of the poor quality of this trade data.

Another feature of the analysis is that we have used as our base for the simulation a trade picture that includes all the known global updates, and this includes simulating the effects of the Trade, Development and Cooperation Agreement (TDCA) with the EU in such a way that it enables us to isolate these effects from the base. Results from this TDCA simulation suggest that a full and comprehensive IBSA FTA is of greater value (in fact, about double the

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<sup>1</sup> We have used the interchangeable terms of 'merchandise', 'goods' and 'products' either together or separately in this paper. They generally refer to the actual physical items that are traded. The celebrated definition from *The Economist* is that these are items that hurt when dropped on your foot, and the terms are used to preclude the trade in services.

welfare gains) to South Africa than the partial TDCA as it now stands. This is mainly because (a) South Africa faces manufacturing tariffs that are modest, thus the preferences are not that significant, and, more importantly, (b) South Africa gains little preference into the highly protected European agricultural market from the TDCA. Conversely, for IBSA, South Africa is deemed to have gained comprehensive access into the relatively highly protected Indian market, thus gaining a considerable advantage over global competitors in both agricultural and non-agricultural goods.

In the first section of the chapter we examine the current trade flows between the IBSA partners and hypothesise that the interesting results for South Africa may concentrate upon the sugar trade in agriculture and the motor vehicle trade in the non-agricultural sectors. Neither of these proved to be significant for South Africa. Sugar production actually declines in South Africa despite gaining better access into India, as this access is taken up by Brazil rather than the presumably less efficient South African production. The case is similar for motor vehicles, where South African production declines by 1.6 percent in the face of more efficient production, and consequently imports from Brazil in particular and, to a lesser extent, from India.

Given the extent to which China, with its dramatically increasing exports over the last few years, has displaced South African domestic production of clothing, it should come as no surprise that India, although currently not a major source of South African imports but a country with enormous production capacity perhaps second only to China, should compete strongly in South Africa if tariffs were to be eliminated. Clothing production declines by 11.0 percent, and this is a massive decline for an individual sector<sup>2</sup>.

However, the major finding from this GTAP exercise, and one not anticipated from the trade data, is the massive gains to South Africa from attractive access into India from a zero rather than 15 percent duty on gold. This is a happy juxtaposition of the world's leading gold producer with a large jewellery exporter that enables both partners to prosper since India's costs are reduced. Indeed, it is this sector that is driving a considerable portion of the welfare gains to both South Africa and India, and the policy implication is very clear: reducing the Indian tariffs on gold is a win-win situation and must become a priority for negotiators.

Another major finding from this GTAP work is related to the employment closures, where the trade-offs between holding wages constant and increasing the supply of unskilled workers at

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<sup>2</sup> Sandrey (2006c) in discussing the trade and economic implications of the South African restrictions regime on the imports from China provides extensive background on the clothing imports into South Africa.

one extreme and, conversely, holding the supply of workers constant and increasing wages are clearly demonstrated. The somewhat intermediate position of allowing the unskilled labour increase to be a function of the unemployment rate in each country has been adopted as the standard closure for the model, with these two extremes and another closure that holds wage rate increases for unskilled workers to be in line with the inflation rate. There is no doubt that holding wages down and reflecting as much of the change in increasing unskilled workers entering the labour force is the best policy for South Africa. This increases welfare and lessens inflationary pressures quite substantially.

We have provided two alternative scenarios to judge the full and complete removal of merchandise tariffs. These are (a) a 50 percent tariff reduction rather than the full 100 percent, and (b) a full 100 percent IBSA simulation post-Doha. Results for (a) show that this offers 43 percent of the gains for South Africa and a lesser 30 percent for Brazil, but is much better for India which maintains 62 percent of its full gains as the relative prices move around, in consequence of which the trade outcomes are not a linear 50 percent. Results from (b) show that since the Doha results are modest, their diminution of the original IBSA 100 percent results are similarly modest for South Africa.

Results for the **agricultural sector** are modest. Initial agricultural products have been a very minor part of South Africa's exports into India's heavily protected market, while agricultural imports from India are concentrated in the duty-free imports of rice. Brazil has become a major global player in agricultural exports, and sends large quantities of soya bean products and poultry meats, pork and beef to South Africa. Following the FTA South Africa increases **exports** to India by \$182 million and Brazil by an insignificant \$7 million. Overall some \$144 million of the increase is trade diversion from previous destinations and leaves a global increase of only \$44 million overall. Increases in vegetable oils and fats (\$70 million) and wool (\$63 million) to India take place, while there are global reductions in exports of (a) vegetables, fruit and nuts and (b) other food products. For **imports**, there is a similar but slightly larger overall increase of \$92 million, driven mostly by increased imports from Brazil of \$76 million (other crops, other meats, and vegetable oils and fats).

The implication for the **BLNS countries** (Botswana, Lesotho, Namibia and Swaziland) are disquieting, as they see declines in their welfare. This mostly comes from terms of trade losses as the better access for South African non-agricultural goods into India consequently increases the relative prices for SACU imports from South Africa. Exports of sugar products (we presume from Swaziland) to India increase, but this is mostly at the expense of reduced exports to the EU overall. Exports from Botswana reduce marginally in the manufacturing

sector as their costs increase (also marginally). Imports from India increase, but almost all of this is a substitution away from the traditionally-based South African source. There are very low and insignificant changes in the trade flows with Brazil. In agriculture, there are no (or almost no) changes to trade flows other than the sugar exports to India.

Finally, we undertake some alternative scenarios around the unskilled labour market closure assumptions in the primary model. We expand from the standard assumption that employment is fixed and the adjustment is through the wage rate, to use the closure whereby unskilled labour supply is a function of the unemployment rates in each country, and the adjustment therefore varies between changes in employment and the wage rate depending upon that initial unemployment rate. We also simulate a scenario where the closure has the real wage fixed and all adjustments must come through the number of unskilled persons employed. **Here the results are striking:** employment is up by 2.83 percent, welfare more than doubles from the primary model results to \$3,006 million and the Consumer Price Index (CPI) is increasing by a lesser 0.43 percent. This dramatic result clearly highlights that if South Africa is serious about increasing both welfare and employment in the economy, the more policies move towards creating jobs rather than rewarding those actually in employment is a superior option for policy makers.

## **Introduction and background**

In recent months, the question of a closer trading relationship between India, Brazil and South Africa (the three IBSA partners) has received much media attention. The objective of this chapter is to focus upon the current merchandise trade and place this in perspective for a more cooperative approach. The analysis will extend to undertaking an advanced computer general equilibrium modelling study to assess what the gains may be from a trilateral FTA between the partners. The chapter will note here at the beginning that such an FTA is conceptual only, as both Brazil and South Africa are members of their own FTAs – Mercosur and SACU respectively – and a country cannot be a member of more than one customs union. Nonetheless, an FTA sets the outer boundaries for an enhanced trading regime, and in recognition of South Africa's membership of the Southern African Customs Union (SACU) we will consider the implications of the IBSA agreement for the fellow SACU members of Botswana, Lesotho, Namibia and Swaziland (BLNS). All data in this first section of the paper is sourced from the commercially available World Trade Atlas<sup>3</sup> (Dr John Brasher), which is in turn sourced from the country's official sources.

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<sup>3</sup> World Trade Atlas at [www.gtis.com](http://www.gtis.com).

The analysis will concentrate upon using the respective partners' import data, as this is generally more reliable than export data. Two points must be made here, however. The first is that imports are usually assessed using CIF (the value of the goods plus the costs of freight and insurance transporting them from the export dock to be unloaded at the import border) while exports are assessed as FOB (free on board, or the actual value of the goods at the export dock). This means that we are in effect inflating the import value as compared with the export value by including freight costs, and in the case of some bulk products, this is significant. However, it is important to note that South Africa is one of the few countries in the world that both reports on and assesses duty for imports without adding the costs of shipment and insurance. The second point is that export and import values seldom if ever agree, and we will introduce a reconciliation exercise to explore some reasons for this, with the CIF versus FOB values as just one reason. All data is expressed in US dollars.

Overall all three partners share important and somewhat equal trading relationships.

Firstly, **South Africa's** major exports to the world are concentrated in minerals and related products. The major global exports by the general HS 2 Chapter<sup>4</sup> has been precious metals and stones, etc. (platinum, gold and diamonds), followed by iron and steel products, mineral fuels and motor vehicles, and these four products made up 55.6 percent of the total exports during 2005. The main export to India during 2005 was the one-off aircraft, followed by inorganic chemicals, iron and steel products and again precious metals and stones. These top four accounted for 65.5 percent of the total South African exports to India, and in addition we would note that Indian import data shows that precious stones, metals and minerals, etc. may be underreported in the export data as South Africa does not generally disclose its export destinations for gold. Our analysis suggests that these exports face an average tariff of some 15.88 percent using Indian import data. The main exports to Brazil were iron and steel, organic chemicals, general machinery and mineral fuels, with these four comprising 63.3 percent of the total. Again, tralac analysis suggests that these products faced an average duty of 8.95 percent during 2005, and that the proposed SACU/Mercosur FTA would make little difference to this rate.

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<sup>4</sup> Where HS is the Harmonised System of merchandise trade classification that operates in a sequentially more detailed level from internationally harmonised (hence the name) HS 2 to 4 and 6 levels, and often down to even HS 10 for individual countries. For example, the HS6 classification scheme contains about 5000 product groups, and this and often more detailed levels are used for specifying tariff schedules.

Secondly, **India's** main exports to the world are precious metals and stones, mineral fuels, clothing and organic chemicals, with these four making up a lesser 36.3 percent of the total. There is a direct linkage between India's exports of precious jewellery and South Africa's base metal exports, as India has become the main processing and trading centre globally for these often South Africa-sourced raw materials. Exports to South Africa were concentrated in mineral fuels, vehicles, cereals and iron and steel products, with these exports making up 52.9 percent of the total. Indian exports to Brazil were mineral fuels (49.6% of the total), organic chemicals, pharmaceuticals and miscellaneous chemical products, with the top four comprising 71.3 percent of the total.

Finally, **Brazilian** global exports are even more diversified than India's, with the top four of vehicles, machinery, iron and steel and ores, etc., comprising 32.0 percent of the total. Exports to South Africa are concentrated in vehicles and parts (31.8%), machinery, meats (poultry) and sugars. In fifth place is soya bean oil and in sixth place is tobacco, reaffirming the importance of Brazil for South African agricultural imports. Exports to India feature sugars, soya bean products, aircraft and beverages, with these making up 63.2 percent of the total. In agriculture, Mercosur in general provides around one-quarter of the global imports, and Brazil is highly competitive in the crucial beef, pig meat and poultry sectors with all three (along with sugar cane) receiving virtually no government supports.

It is noticeable that iron and steel products and vehicles and their associated parts feature in the top four global exports from both Brazil and South Africa, and these are ranked sixth and eighth respectively from India. There appears to be a degree of intra-industry trade among the three partners in these products as well, leading to the general conclusion that the gains from cooperation here may not necessarily be in 'new' trade but in more sophisticated linkages in existing products. Brazil, as a major agricultural exporter, will remain a valuable source of both food for direct consumption in South Africa and imports such as soya beans to provide the feedstuffs for the livestock sector.

### **The automobile sectors**

Of particular interest to South Africa has to be the **automobile sector**, where the new international 'buzz word' acronym is 'BRIC' for Brazil, Russia, India and China. Analysts consider that the biggest breakthrough in global growth will come from these BRIC countries. They will shortly account for more than 40 percent of forecast global light vehicle assembly increases and represent around half of the industry's forecast global capacity expansion. Consequently, nearly all major global automakers are pursuing a BRIC strategy in some form



as they attempt to gain competitive advantage by linking a presence into these emerging markets<sup>5</sup>. South Africa could be poised to gain an advantage over several competitors should some form of preferential and cooperative trading agreement be formulated between IBSA.

The Brazilian sector in particular is very competitive, despite currently facing excess capacity, high rates of taxation and interest and a weakening consumer demand. However, its technology in the flex-fuel engines which run on gasoline, ethanol or any blend of the two is likely to create a huge demand for this technology should global oil prices stay high. Similarly, India's annual automobile sector growth has been the highest in the world in recent years, with this accentuated by the shift in automobile production from the US and Western Europe to Asia, with India and China taking the lead. Consequently, India has become the largest manufacturer of tractors in the world, the second largest manufacturer of three-wheelers and two-wheelers, third largest manufacturer of commercial vehicles, and fifth largest manufacturer of cars. International companies are scrambling to establish themselves in this market in particular, and that presence includes establishing design and research centres in addition to India's more traditional lower cost production.

### **The agricultural sectors**

Since the early 1990s **India** has undergone considerable economic policy reform, although agricultural reform has lagged behind other sectors. The general pattern of agricultural protection (as measured by the Producer Support Estimate (PSE)) is for support to rise when world prices are low and decline when they are high, making analysis very complex. Depending upon the method used to calculate these PSEs, they were near their highest in 2002 at 11.0 to 19.2 percent overall, while in 1996 they were negative (i.e. taxing the sector) at similar rates.

Agricultural exports have been a very minor part of South Africa's exports to India: during 2005 they were some 1.8 percent of the South African exports to India, a similar figure to the 1.9 percent of 2003 but below the 2004 figure of 3.5 percent when a larger export of sugar was made. Indeed, some 87 percent of the agricultural exports during 2005 were either sugar (50.2%) or wool (36.8%), while fresh fruits and cotton provided another 4.7 percent and 2.0 percent respectively. This pattern has changed little over the last ten years. Sugar appears to have potential for increased imports from South Africa under a less distorted regime, notwithstanding the fact that India is the world's second largest producer of sugar

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<sup>5</sup>[Online]. Available:  
<http://www.pwc.com/Extweb/ncpressrelease.nsf/docid/7C7BE1A291BB6BD5852572040082059C>.

after Brazil with around 15 percent of the global production. Between 2001 and 2003 India was a large exporter of sugar, but in 1999, 2004 and 2005 it has been an importer. Brazil is certainly more internationally competitive in sugar than India and even probably South Africa. Meanwhile, India's sugar regime is highly regulated, with an import duty of 100 percent plus a possible countervailing duty of another 850 rupees per ton, the sugar levy obligations, the sugar release quota system and other domestic regulations. Thus, there seems to be some scope for cooperation in this agricultural market in particular.

**Brazil** has virtually replaced Australia as the international champion for agricultural free trade globally. Its potential is enormous, with good land exceeded only by China, the US and Australia, and a policy regime that has both contributed to and benefited from the radical economic reforms in Brazil over the last 15 years. Support to the sector is now minimal (PSE of around 3%, a figure even lower than South Africa's and not much above the radical agricultural reformers of New Zealand and to a lesser extent Australia). Overall production has similarly increased following the economic reforms, with technological change a key driver in this expansion, an expansion that has recently led to concerns about the environmental consequences of agriculture moving into new lands. Brazilian agricultural exports have increased to the extent that they are now around 30 percent of total exports, and they moved dramatically away from the traditional tropical products of coffee and orange juice to being major global suppliers of soya beans, sugar and the grain-soya bean feed for chickens, cattle and pigs.

The structure of the chapter is as follows. The first section will examine the current bilateral relationships sequentially, starting with (a) South Africa and India before examining (b) South Africa and Brazil and then (c) Brazil and India. This section will be shortened, and the reader is referred to Sandrey and Jensen (2007<sup>6</sup>) for a fuller discussion on these trading relationships, including more details on assessed tariffs, growth rates and market share to put this trade in perspective before examining the future with a 'trade chilling' analysis of potential trade products based on the current trade patterns for the respective partners. The second section of the chapter will use the Global Trade Analysis Project (GTAP) international computer model to simulate the impacts of an FTA between the partners under different scenarios.

## **Section 1: The trading relationships**

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<sup>6</sup> Sandrey, R. & Jensen, H. 2007. *Examining the India, Brazil and South African (IBSA) Triangular Trading Relationship*. tralac Working Paper 1. [Online]. Available: [www.tralac.org](http://www.tralac.org).

## The big picture

South Africa, India and Brazil are emerging globally in that Brazil and India have both become crucial players in the world trading arena while South Africa is the important 'bridge' between the developed world and developing Africa. In terms of economic power, the World Bank ranks Brazil 10th, India 12th and South Africa 27th by traditional GDP, but all are higher by the more useful Purchasing Power Parity (PPP or what your money will buy) index. As a measure of import openness, Brazil collected import duties equivalent to 8.4 percent of total merchandise imports, while the similar figures for India and South Africa were 14.1 and 2.7 percent respectively. Thus, South Africa could be regarded as being very open on average (with motor vehicles and clothing distorting that average) while India is relatively highly protected. Brazil is a major agricultural exporter with one-third of its total exports classified as agriculture (compared to India at 11.3% and South Africa at 7.9%), while agricultural imports range between 6.2 to 7.0 percent in all three cases.<sup>7</sup>

All three partners are also part of what may be described as 'second rung' trading nations, and all rank relatively closely together, with world ratings between 24th for both Brazil in world exports and India in world imports, and 37th for South Africa in world exports. Examining the World Trade Atlas data shows global exports from Brazil, South Africa and India of \$118 billion, \$52 billion and \$100 billion respectively during 2005, and similarly, imports of \$74 billion, \$55 billion and \$138 billion for the same countries. An analysis of the WTO Annual Report shows very similar but not always identical data; for South African imports, for example, the WTO reports \$67 billion rather than \$55 billion. We would hypothesise that the difference is that the World Trade Atlas does not report intra-SACU trade for South Africa. Table 1 shows the general trading relationships between the three countries, along with the bilateral rankings based upon individual destinations/sources (i.e. with the EU countries ranked on their own). The data confirms that the respective partners are (not in a derogatory manner) 'second rung' but still important trading partners ranging from 11th for South African imports from Brazil to 36th for Brazilian imports from South Africa.

**Table 1: the bilateral trading relationships, US\$ million**

| Country                         | 2005 rank | 1999 | 2001 | 2003 | 2004 | 2005  |
|---------------------------------|-----------|------|------|------|------|-------|
| <b>South African exports to</b> |           |      |      |      |      |       |
| <b>India</b>                    | 14        | 386  | 379  | 394  | 574  | 1,169 |
| <b>Brazil</b>                   | 30        | 155  | 275  | 177  | 242  | 317   |

<sup>7</sup> WTO at [www.wto.org](http://www.wto.org).

| <b>South Africa imports from</b> |    |       |       |       |       |       |
|----------------------------------|----|-------|-------|-------|-------|-------|
| <b>India</b>                     | 13 | 247   | 243   | 419   | 712   | 1,102 |
| <b>Brazil</b>                    | 11 | 225   | 383   | 714   | 1,001 | 1,306 |
| <b>Indian exports to</b>         |    |       |       |       |       |       |
| <b>South Africa</b>              | 18 | 290   | 321   | 448   | 883   | 1,420 |
| <b>Brazil</b>                    | 25 | 128   | 227   | 383   | 542   | 976   |
| <b>Indian imports from</b>       |    |       |       |       |       |       |
| <b>South Africa</b>              | 15 | 1,777 | 1,395 | 1,933 | 1,767 | 2,651 |
| <b>Brazil</b>                    | 28 | 306   | 267   | 306   | 662   | 879   |
| <b>Brazilian exports to</b>      |    |       |       |       |       |       |
| <b>South Africa</b>              | 21 | 237   | 424   | 733   | 1,036 | 1,369 |
| <b>India</b>                     | 23 | 314   | 285   | 553   | 652   | 1,137 |
| <b>Brazilian imports from</b>    |    |       |       |       |       |       |
| <b>South Africa</b>              | 36 | 172   | 286   | 202   | 268   | 342   |
| <b>India</b>                     | 17 | 170   | 543   | 486   | 556   | 1,203 |

Source: World Trade Atlas

Table 1 hints at some differences in the trade data between the respective partners and suggests why import rather than export data is used to assess likely tariff rates, for example. This is not to say that one country's data is better than another, but rather that factors such as transshipment, adding the costs of freight and insurance to imports, and a general comment that imports are likely to be more scrutinised than exports all point towards using import data, especially when using the World Trade Atlas data for all three countries. Table 2 extracts the relevant data from Table 1 to enable this comparison to be made. For the South African export/Indian import data there are significant differences, and these are explored later in the chapter and in more depth in Sandrey (2006a<sup>8</sup>). Most other pairings are in the 'close enough' category. We would again note that, unlike most other countries, South Africa values imports and assesses the duty on what is called FOB basis rather than the more normal CIF. This can make a difference by increasing the value of imports by perhaps an average of around ten percent or more, but in many cases much higher depending upon relative efficiencies at the port and the costs of shipping costs relative to actual costs of bulk products like iron ore. Having noted these factors, since we are assessing the relationships from a South African perspective, we will concentrate upon the South African data in general except when assessing tariffs at the partner border.

<sup>8</sup> Sandrey, R. 2006. *South African Merchandise Trade with India*. tralac Working Paper No 10. Stellenbosch: US Printers.

**Table 2: The trade flow data from respective partners 2005, \$m**

|                       |                       |                       |                       |
|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>India exports</b>  | <b>Brazil imports</b> | <b>Brazil exports</b> | <b>India imports</b>  |
| 976                   | 1,203                 | 1,137                 | 879                   |
| <b>India exports</b>  | <b>RSA imports</b>    | <b>RSA exports</b>    | <b>India imports</b>  |
| 1,420                 | 1,102                 | 1,169                 | 2,651                 |
| <b>Brazil exports</b> | <b>RSA imports</b>    | <b>RSA exports</b>    | <b>Brazil imports</b> |
| 1,369                 | 1,306                 | 317                   | 342                   |

Source: World Trade Atlas

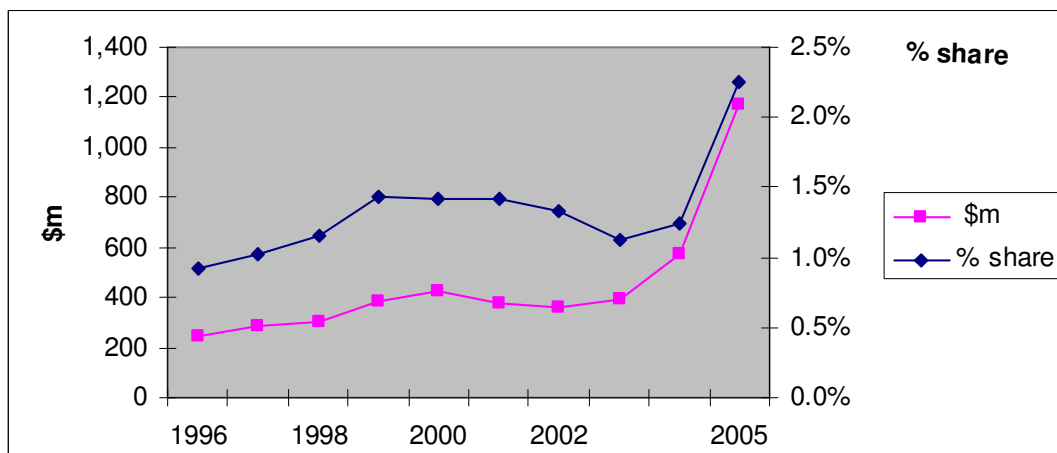
### **The South African/Indian relationship**

This section presents a summary and the main points reported in earlier tralac research by Sandrey (2006a), to which the reader is referred for more details.

#### **(a) South African exports/Indian imports**

During 2005, South Africa exported merchandise worth \$1,169 million to India, almost doubling the 2004 figure of \$574 million. This represented some 2.3 percent of South Africa's global exports during 2005, a figure that similarly doubled from the previous year (and basically the ten-year average). This is shown in Figure 1, with the big increase in 2005 obvious. Not shown is that India ranked as South Africa's 14th most important export destination, just behind Italy and Zimbabwe but ahead of France, Mozambique and Korea.

**Figure 1: South African exports to India, \$ million and % share**



Source: World Trade Atlas data

The increase in 2005 was mostly aircraft (\$248 million), virtually a new export line as only in 2003 (\$4.8 million) had aircraft previously featured at all. Other main exports at the HS 2-chapter level were inorganic chemicals (\$179.7 million), iron and steel (\$170 million), precious stones (\$168 million) and fuels (also \$168 million). Other than inorganic chemicals, all of these exports more than doubled from their 2004 values. Of particular importance are the exports of HS 28, inorganic chemicals. These exports are shown as predominantly HS 2809, diphosphorus pentoxide, phosphoric acid, etc., and they comprise 91.2 percent of the total global exports of these chemicals from South Africa.

During 2005, the mirror of **imports into India from South Africa** totalled some US\$2,651 million, a figure that increased by 50.1 percent from 2004. In 'real' terms, this represented 1.9 percent of Indian global imports, a figure that has shown a downward trend over the last seven years. By commodities, the main imports were gold (\$1,846 million), coal/oil/gas ((\$171 million), and pentaoxide chemicals (\$149 million). The average duty on these imports, calculated using the Indian Tariff Schedule, was 15.88 percent. These imports into India are highly concentrated, with the top four lines at the HS 2-chapter level accounting for 90.8 percent of the total trade, and in some of the main imports at the more detailed level, these imports held a significant share in the Indian market. South Africa is doing relatively well into India, with some 45.0 percent of the imports (the 'Stars') gaining market share in Indian import sectors that are themselves growing.

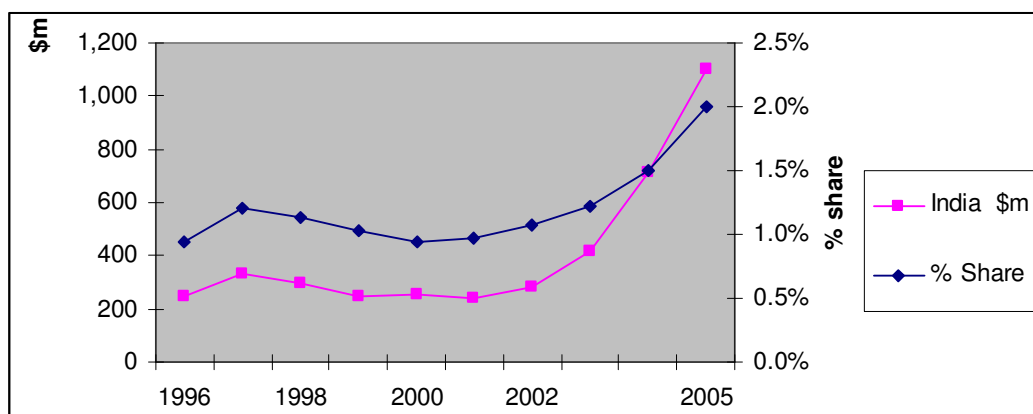
Data reconciliation shows that, as expected with South African imports into India valued at over double the reported exports from South Africa to India, there is little coherence in

reconciling the trade flows to India. Some of this may be accounted for in the transport costs of the bulkier exports such as iron and steel products, given that imports are valued at CIF and exports at FOB, while another large difference is that there are no reported exports of gold from South Africa but this is the major import into India. In addition, the largest export from South Africa (aircraft) is not reported in Indian import data. If we ignore this gold and aircraft trade then the overall reconciliation is remarkably accurate.

### (b) Indian imports into South Africa

**Indian imports into South Africa** by December 2005 were \$1,102 million or 2.0 percent of the total global South African imports, with the latter figure increasing dramatically over the last three years (Figure 2). These Indian imports are not as highly concentrated as South African imports into India, with the top five HS chapters of motor vehicles, fuels, cereals, organic chemicals and pharmaceuticals making up a lesser 47 percent of the imports. Although 49.9 percent of the trade enters duty-free, the average duty that would have been assessed on these imports in the absence of any rebates was 11.01 percent. These duties are mostly paid by the 30 percent of the imports that enter where the duties are assessed at 20 percent or more, a grouping that contains motor vehicles and their parts, and textiles, clothing and footwear.

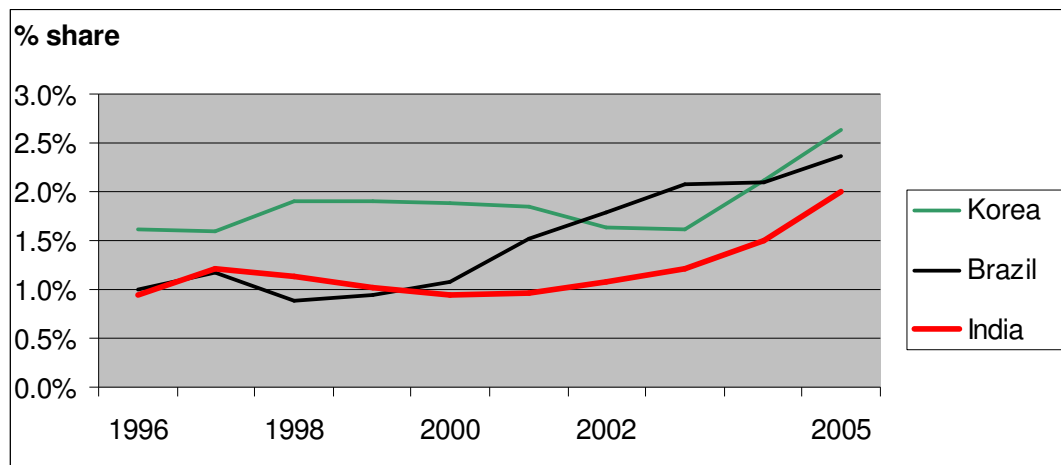
**Figure 2: Indian imports into South Africa, \$ million and % share**



Source: WTA

To set the scene for later analysis, India's performance in the South African market relative to Korea and Brazil is shown in Fig 3. India and Brazil were both slow starters, with a one percent share in 1996, but since 2000 Brazil has been consistently ahead of India. Korea has been consistently above India over the period.

**Figure 3: Relative performance of India into South Africa, % market share**



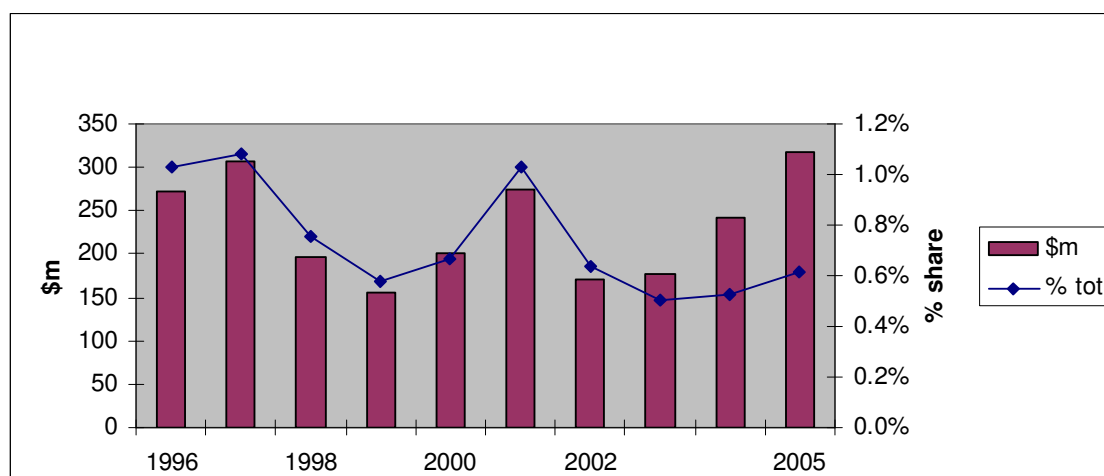
Source: World Trade Atlas

### The South African/Brazilian trading relationship

#### (a) South African exports/Brazilian imports

During 2005, South Africa exported merchandise worth \$317 million to Brazil, a figure that has fluctuated over the last ten years but is very similar to the earlier 1997 figure of \$307 million. This represented some 0.6 percent of South Africa's global exports during 2005, a figure that similarly fluctuated but generally trended downwards over the period. This is shown in Figure 4, with US\$ million values on the bars using the left-hand scale and the percentage share of South African global exports destined for Brazil shown with the lines set against the right-hand scale. The graph is interesting in that from 1996 through to and including 2002 the relationship between the value of the exports to Brazil and their relative share of South African global exports stayed almost exactly the same. From 2003 this close relationship was broken as the values grew faster than the percentage, highlighting just how fast South African global exports were increasing.



**Figure 4: South African exports to Brazil, \$ million and export share**

Source: World Trade Atlas

Table 3 shows the main products that are exported to Brazil by the HS 4 level general category, with the list ranked by total exports over the last ten years. Coal/oil/gas has been the most consistent product, followed by the top 2005 export of ferroalloys, a product whose exports have consistently increased in the most recent two years, and the relatively consistent insecticides. Others such as ethyl alcohol and phosphoric acid were important in the early years, while still others such as aircraft and nickel plates have been more of a one-off or less consistent trade. An analysis of the export data reveals that there are only two instances where exports to Brazil at the HS 4 level are (a) above \$10 million and (b) represent at least 10 percent of South African exports. These are (i) HS 2934 nucleic acids, \$13.21 million and 45.8 percent of the exports and (ii) HS 5402 synthetic yarns, \$11.44 million and 13.2 percent of the exports. The tariffs that are faced by these products at the Brazilian border are examined later using Brazilian import data.

**Table 3: South African exports to Brazil, \$ million**

| Description/Year  | 1996       | 1997       | 1998       | 1999       | 2000       | 2001       | 2002       | 2003       | 2004       | 2005       |
|-------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Total</b>      | <b>272</b> | <b>307</b> | <b>197</b> | <b>155</b> | <b>200</b> | <b>275</b> | <b>171</b> | <b>177</b> | <b>242</b> | <b>317</b> |
| Coal/oil/gas      | 35.7       | 49.7       | 51.5       | 37.1       | 29.8       | 34.8       | 28.4       | 22.5       | 26.9       | 29.1       |
| ferroalloys       | 9.5        | 9.1        | 6.7        | 5.2        | 8.9        | 12.7       | 12.5       | 25.3       | 50.3       | 50.6       |
| Insecticides, etc | 13.2       | 20.2       | 12.5       | 12.9       | 23.6       | 33.9       | 21.3       | 19.9       | 11.3       | 7.9        |
| ethyl alcohol     | 73.7       | 60.0       | 0.0        | 1.2        | 5.7        | 0.2        | 0.0        | 0.0        | 0.0        | 0.0        |
| aluminium plates  | 0.0        | 0.0        | 0.4        | 3.8        | 12.5       | 16.7       | 8.7        | 15.3       | 13.7       | 17.3       |
| phosphoric acid   | 22.8       | 27.5       | 17.2       | 5.0        | 3.3        | 5.0        | 0.7        | 0.0        | 0.0        | 0.0        |
| aircraft          | 0.0        | 0.0        | 0.3        | 1.4        | 0.0        | 66.1       | 4.7        | 0.0        | 0.0        | 0.4        |

| Description/Year | 1996       | 1997       | 1998       | 1999       | 2000       | 2001       | 2002       | 2003       | 2004       | 2005       |
|------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Total</b>     | <b>272</b> | <b>307</b> | <b>197</b> | <b>155</b> | <b>200</b> | <b>275</b> | <b>171</b> | <b>177</b> | <b>242</b> | <b>317</b> |
| synthetic yarn   | 3.3        | 9.7        | 5.3        | 4.6        | 7.2        | 6.5        | 6.0        | 6.4        | 8.4        | 11.4       |
| nickel plates    | 0.0        | 0.0        | 8.1        | 14.2       | 17.7       | 6.9        | 6.2        | 0.0        | 0.0        | 1.5        |
| ketones          | 4.0        | 1.8        | 1.0        | 2.9        | 3.7        | 2.3        | 3.2        | 6.0        | 7.7        | 10.5       |
| engine parts     | 0.0        | 0.1        | 0.3        | 0.1        | 1.1        | 3.0        | 3.0        | 13.5       | 10.4       | 10.6       |
| stainless steel  | 5.3        | 6.5        | 4.2        | 2.2        | 4.3        | 4.9        | 5.9        | 2.1        | 1.6        | 0.5        |
| hydrocarbons     | 0.4        | 1.0        | 0.8        | 0.9        | 2.2        | 3.9        | 2.9        | 3.5        | 6.2        | 12.4       |
| nucleic acid     | 2.9        | 3.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 5.5        | 13.2       |

Source: World Trade Atlas

As mentioned above, reconciliation of trade data is often a problem, so we have provided an alternative Brazilian view with its imports from South Africa over recent years. The annual totals by product are surprisingly consistent, with one notable exception. That exception is the reported imports of platinum, Brazil's second major import and a consistent import over the years, which is not matched by reported exports from South African data. An examination of Brazilian data shows that between 30 to 40 percent of the platinum imports over the last three years have been from South Africa with almost all the remainder from the EU. We would hypothesise that this is transshipment through Europe to Brazil.

**Table 4: Brazilian imports from South Africa, \$ million**

| Description     | 1997       | 1999       | 2001       | 2003       | 2004       | 2005       | total        |
|-----------------|------------|------------|------------|------------|------------|------------|--------------|
| <b>Totals</b>   | <b>351</b> | <b>172</b> | <b>286</b> | <b>202</b> | <b>268</b> | <b>342</b> | <b>2,318</b> |
| Coal/oil/gas    | 73.2       | 39.8       | 28.5       | 27.0       | 31.3       | 32.5       | 379.4        |
| Platinum        | 21.0       | 23.9       | 73.8       | 19.1       | 29.0       | 33.8       | 274.5        |
| ferroalloys     | 9.7        | 4.5        | 11.8       | 20.9       | 38.2       | 56.9       | 170.5        |
| insecticides    | 17.4       | 12.3       | 24.7       | 11.8       | 6.3        | 7.2        | 119.5        |
| ethyl alcohol   | 71.3       | 2.7        | 2.9        | 0.0        | 0.0        | 0.0        | 85.7         |
| aluminium       | 0.0        | 2.3        | 15.7       | 14.9       | 13.3       | 13.1       | 83.5         |
| nucleic acids   | 8.9        | 0.0        | 11.7       | 7.8        | 13.7       | 13.2       | 81.8         |
| phosphoric acid | 32.3       | 8.0        | 7.5        | 1.0        | 0.0        | 0.0        | 73.1         |
| synthetic yarn  | 10.3       | 5.6        | 6.8        | 6.2        | 9.5        | 9.2        | 69.9         |
| nickel          | 1.0        | 16.5       | 14.6       | 0.0        | 0.0        | 2.8        | 68.3         |
| engine parts    | 0.0        | 0.0        | 2.4        | 12.5       | 10.0       | 8.0        | 36.2         |
| ketones         | 1.5        | 2.0        | 2.3        | 4.0        | 7.7        | 9.5        | 36.1         |

Source: World Trade Atlas

## Tariffs at the Brazilian border

We start this analysis by assessing the potential impact of the SACU/Mercosur FTA upon the tariffs using the limited data that is available. This analysis shows that during 2005 only 16.6 percent of the reported South Africa imports would be afforded tariff preferences, with almost all of this a complete elimination of the relevant but very selected tariff line. The products concerned are almost exclusively coal/oil/gas (duty-free anyway), hydrocarbons and the nucleic acids. Thus, the preferences under the SACU/Mercosur FTA seem very restricted at best<sup>9</sup>.

The more complete analysis of South African tariffs faced at the Brazilian border presented below is based upon Brazilian import data and the Brazilian tariffs as supplied from the MacMaps database - with all analyses at the HS 6 line level. We note that the MacMaps tariff data is for 2001, but it is unlikely that much would have changed since then. The data shows that over three years (2003, 2004 and 2005) and using the 2001 tariff, duties on South African imports into Brazil would have been 8.07 percent, 7.81 percent and 8.95 percent respectively on average. Coal/oil/gas, the main import by value, is duty-free and furthermore it is the only import line of the top 59 lines with import values of at least \$1,000,000 that is duty-free. The details for the main imports are shown below in Table 5 by HS 2-chapter. Duties range from 0.2 percent for coal oil gas to 16.2 percent for man-made fibres. Not shown is that some of the HS 2-chapters face higher tariffs; beverages at 23.2 percent is the highest, while toys, etc., other fibres, shoes, clothing, leather and clocks, etc. all face rates between 20.0 and 21.5 percent.

**Table 5: Main South African imports into Brazil, \$ million and duty faced (%)**

| HS 2 | Description       | Imports \$ million |      |      | 2005 Duty |
|------|-------------------|--------------------|------|------|-----------|
|      |                   | 2003               | 2004 | 2005 | Av %      |
| 72   | Iron/steel        | 25.5               | 43.5 | 82.1 | 9.5%      |
| 29   | Organic chemicals | 20.6               | 33.3 | 42.8 | 9.9%      |
| 27   | Coal/oil/gas      | 38.0               | 41.3 | 36.0 | 0.2%      |
| 84   | Machinery         | 15.2               | 17.0 | 34.8 | 16.0%     |
| 71   | Precious stones   | 19.1               | 28.0 | 33.9 | 3.5%      |
| 76   | Aluminium         | 14.9               | 13.9 | 16.7 | 11.3%     |

<sup>9</sup> We agree with Stern and Flatters (2005) who are particularly scathing on this agreement. They write that Mercosur conceded improved access into South Africa for 46 of their currently traded product lines, and that South Africa's imports of these products from Brazil and Argentina in 2004 'was a miserly R26 million'. Overall, they considered that it would be hard to construct a less meaningful agreement.

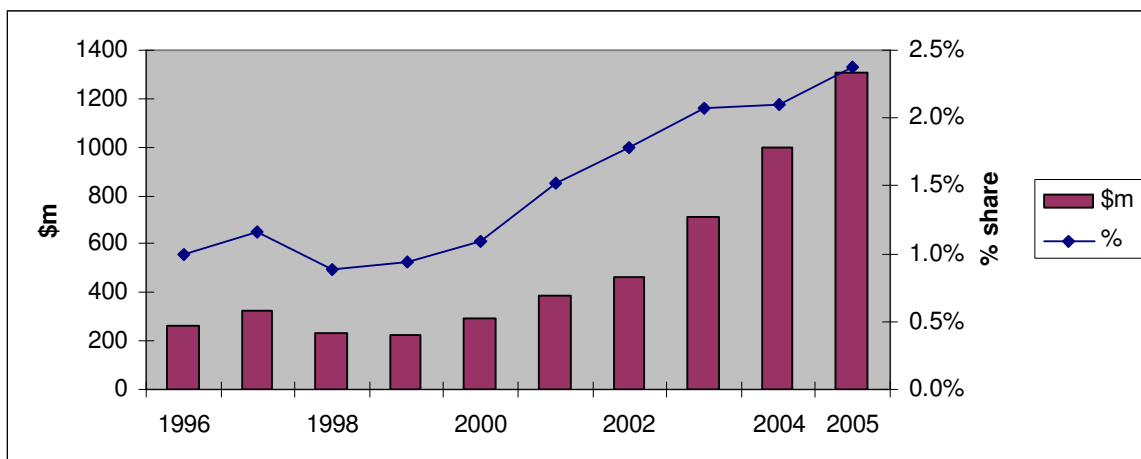
| HS 2 | Description        | Imports \$ million |      |      | 2005 Duty |
|------|--------------------|--------------------|------|------|-----------|
|      |                    | 2003               | 2004 | 2005 | Av %      |
| 26   | Ores, etc          | 4.8                | 14.2 | 16.7 | 3.5%      |
| 38   | Chemical products  | 14.0               | 11.3 | 10.7 | 10.3%     |
| 81   | Base metal product | 5.2                | 7.1  | 9.9  | 6.0%      |
| 54   | Man-made fibres    | 6.2                | 9.5  | 9.3  | 16.2%     |

Source: World Trade Atlas data and MacMaps tariffs

### (b) Imports from Brazil into South Africa

Brazil was South Africa's 11th main individual country source of imports during 2005, one place ahead of Australia and two ahead of India. These imports have climbed from \$225 million in 1996 to \$1,306 million in 2005, or in 'real' terms from 1.0 percent to 2.4 percent. The data is shown in Figure 5, where the increase from 2000 can be seen.

**Figure 5: South African imports from Brazil, \$ million and % market share**



Source: World Trade Atlas

Table 6 shows that the increases in imports have been driven by the top three products of motor vehicles (HS 9801, with other vehicles also included in the table in the HS 87 codes), poultry meat and soya bean oil. During 2005, ignoring rebates, an average duty of 14.86 percent would have been assessed on these imports, with the total (theoretical) duty bill being \$194.03 million. This duty is heavily influenced by the high rates on vehicles, although poultry meat, sugar confectionery and tobacco products all face high duties.

**Table 6: South African imports from Brazil, \$ million and assessed duty %**

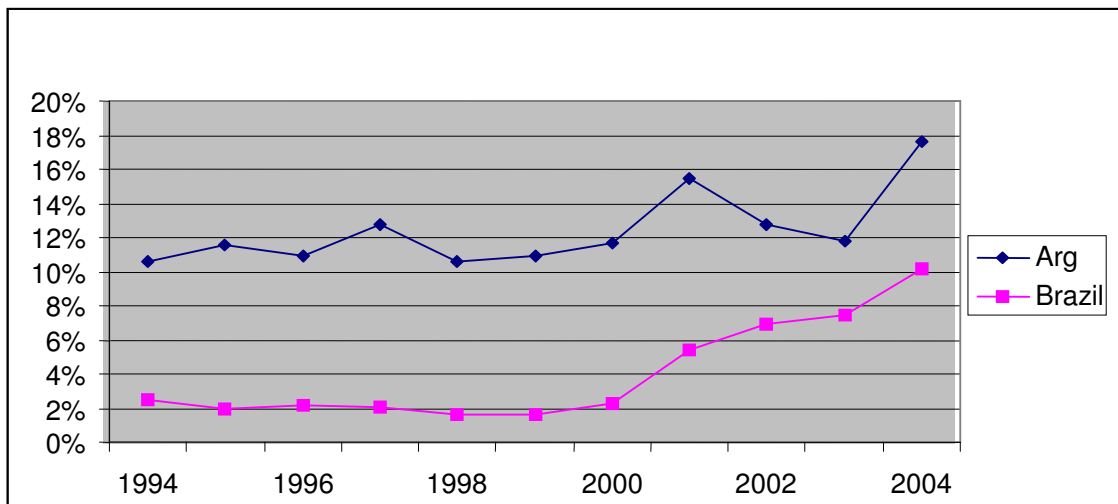
| <b>Descrip/yr</b> | <b>1996</b> | <b>1998</b> | <b>2000</b> | <b>2002</b> | <b>2003</b> | <b>2004</b>  | <b>2005</b>  | <b>Duty%</b> |
|-------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| <b>Total</b>      | <b>262</b>  | <b>230</b>  | <b>292</b>  | <b>467</b>  | <b>714</b>  | <b>1,001</b> | <b>1,306</b> | <b>14.9</b>  |
| vehicles          | 39.35       | 45.36       | 57.12       | 89.38       | 210.24      | 264.65       | 353.62       | 26.0         |
| poultry           | 1.48        | 3.12        | 8.61        | 18.47       | 37.04       | 88.75        | 111.04       | 17.9         |
| soya bean oil     | 0.57        | 3.10        | 0.47        | 15.37       | 39.16       | 47.67        | 67.68        | 10.0         |
| iron products     | 0.00        | 3.14        | 13.49       | 17.15       | 20.65       | 23.16        | 34.30        | 0.0          |
| buses, etc.       | 3.41        | 1.63        | 2.41        | 14.74       | 20.42       | 24.72        | 31.35        | 22.5         |
| pork              | 0.00        | 0.00        | 0.76        | 0.04        | 7.74        | 17.96        | 30.94        | 4.5          |
| confectionary     | 0.04        | 0.66        | 3.02        | 3.37        | 9.38        | 19.55        | 27.50        | 25.0         |
| vehicle parts     | 4.73        | 4.33        | 5.99        | 5.42        | 9.02        | 13.15        | 25.38        | 18.1         |
| tractors          | 9.09        | 14.40       | 5.01        | 10.11       | 17.04       | 24.79        | 20.14        | 6.5          |
| motor cars        | 0.18        | 0.01        | 0.07        | 0.06        | 0.01        | 0.18         | 19.96        | 31.1         |
| tobacco           | 9.42        | 10.24       | 5.99        | 10.05       | 15.74       | 40.38        | 17.03        | 15.0         |
| vehicles          | 0.02        | 0.00        | 0.00        | 2.41        | 2.10        | 8.41         | 15.84        | 18.4         |
| computers         | 0.01        | 0.02        | 0.01        | 0.01        | 5.53        | 21.50        | 15.79        | 0.0          |
| bulldozer, etc.   | 2.45        | 0.42        | 8.73        | 10.93       | 12.09       | 13.70        | 15.74        | 0.7          |
| engine parts      | 7.98        | 5.50        | 10.13       | 11.58       | 11.56       | 12.62        | 15.30        | 0.0          |
| <b>Subtotal</b>   | <b>79</b>   | <b>92</b>   | <b>122</b>  | <b>209</b>  | <b>418</b>  | <b>621</b>   | <b>802</b>   |              |

**Source:** World Trade Atlas data and tralac calculations

A feature of the South African **agricultural** imports in recent years has been the dramatic rise in imports from South America, and the percent share of these agricultural imports from both Argentina and Brazil are shown below in Figure 6. The imports from Brazil are mostly the soya bean products and poultry meats, although pork and beef in the meat products and sugar confectionery have made dramatic increases over the last three years<sup>10</sup>. Agricultural imports from Argentina are focused on soya bean oilcakes, wheat and soya bean oil.

<sup>10</sup> On the last three, we would not deny that there has been double-digit growth in the South African imports of sugar products and pork over the period 1996 to 2005, while the imports of beef actually declined by 1.4 percent over the same time. This suggests that the beef is merely import displacement.

**Figure 6: Brazil and Argentina, % of South African agricultural imports**



Source: South African Revenue Service data

SACU and Mercosur have recently negotiated a preferential trade agreement, and this marginally reduces some of the duties on imports into South Africa/SACU. Calculations by tralac show that overall this agreement would have reduced the duties assessed at the South African border by a modest \$6.88 million to an average of 14.33 percent. Detailed analysis reveals that these reductions are focused (in order of duty reductions) on refrigerators, plastic sheets, generators, dental products, pork, coffee, food preparations not specified, nuts, ceramic tiles and engine parts. These products in total account for 64 percent of the tariff reductions, and the scope and magnitude of these reductions suggests that the SACU/Mercosur trade agreement cannot be heralded as a major trade policy breakthrough.

As in the case of exports to Brazil, we again examined imports to assess where imports from Brazil at the HS 4 level are (a) above \$10 million and (b) represent at least ten percent of South African imports. The first two products on the list are poultry products and soya bean oils, where there are both significant imports and Brazil has a dominant market share, while the third, a particular line of iron products, is sourced exclusively from Brazil. Thus, Brazil is again by this measure more important to South Africa as an import source than an export destination.

**Table 7: Brazilian share of South African imports, % share and % million**

| product/yr    | Brazilian share RSA imports |       |       | Brazilian imports \$m |       |        |
|---------------|-----------------------------|-------|-------|-----------------------|-------|--------|
|               | 2003                        | 2004  | 2005  | 2003                  | 2004  | 2005   |
| poultry       | 49.8%                       | 78.0% | 75.4% | 37.0%                 | 88.8% | 111.0% |
| soya bean oil | 60.0%                       | 47.0% | 61.5% | 39.2%                 | 47.7% | 67.7%  |
| iron products | 92.5%                       | 99.4% | 99.8% | 20.6%                 | 23.2% | 34.3%  |
| buses         | 66.5%                       | 64.6% | 33.9% | 20.4%                 | 24.7% | 31.3%  |
| pork          | 42.9%                       | 53.9% | 65.4% | 7.7%                  | 18.0% | 30.9%  |
| confectionary | 42.5%                       | 40.8% | 56.2% | 9.4%                  | 19.6% | 27.5%  |
| tractors      | 8.5%                        | 10.7% | 11.3% | 17.0%                 | 24.8% | 20.1%  |
| tobacco       | 20.3%                       | 34.6% | 21.9% | 15.7%                 | 40.4% | 17.0%  |
| tiles         | 28.0%                       | 24.6% | 20.6% | 10.7%                 | 14.5% | 15.2%  |
| generators    | 11.0%                       | 10.8% | 12.3% | 8.8%                  | 10.8% | 14.4%  |
| frozen beef   | 40.8%                       | 52.0% | 45.9% | 3.5%                  | 10.4% | 13.6%  |

Source: World Trade Atlas

### The Indian/Brazilian trading relationship

Table 8 replicates the relevant parts of Table 1 to show the aggregate data for this relationship. As this 'triangular' trading relationship is of lesser importance to South Africa we report only the general picture here. It is replicated here to remind the reader of the relative importance to both Brazil and India of their bilateral trade flows and thus place the potential FTA in perspective for these two countries.

**Table 8: The bilateral trading relationships, US \$ million**

| Country                             | 2005 rank | 1999 | 2001 | 2003 | 2004 | 2005  |
|-------------------------------------|-----------|------|------|------|------|-------|
| <b>Southbound – India to Brazil</b> |           |      |      |      |      |       |
| India export                        | 25        | 128  | 227  | 383  | 542  | 976   |
| Brazil import                       | 17        | 170  | 543  | 486  | 556  | 1,203 |
| <b>Northbound – Brazil to India</b> |           |      |      |      |      |       |
| India import                        | 28        | 306  | 267  | 306  | 662  | 879   |
| Brazil export                       | 23        | 314  | 285  | 553  | 652  | 1,137 |

Source: World Trade Atlas

### Indian imports from Brazil

Table 9 shows the main Indian imports from Brazil at the HS 4 level. Three agricultural products are at the top: sugar, soya bean oil and ethyl alcohol. Sugar imports have varied,

while soya bean oil has been consistent and ethyl alcohol a new import. Many of the next major imports are ores and chemical products, although there are some manufacturing products such as pumps and refrigerators as well.

**Table 9: Indian imports from Brazil, \$ million**

| Description       | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total</b>      | <b>305.6</b> | <b>181.2</b> | <b>266.8</b> | <b>332.5</b> | <b>306.4</b> | <b>661.9</b> | <b>879.1</b> |
| sugar             | 96.2         | 35.2         | 0.0          | 0.8          | 0.0          | 127.9        | 186.5        |
| soya bean oil     | 97.2         | 23.0         | 104.0        | 145.9        | 121.1        | 151.4        | 179.1        |
| ethyl alcohol     | 0.0          | 0.0          | 0.0          | 2.1          | 5.1          | 99.6         | 147.3        |
| iron ores         | 2.5          | 0.0          | 5.0          | 9.4          | 14.9         | 37.3         | 27.9         |
| pumps             | 0.5          | 0.8          | 0.5          | 0.9          | 1.1          | 6.8          | 23.7         |
| nickle            | 0.9          | 6.4          | 8.7          | 21.4         | 8.9          | 9.2          | 18.7         |
| precious stones   | 5.6          | 6.5          | 4.1          | 8.6          | 8.0          | 11.8         | 17.0         |
| asbestos          | 8.6          | 7.4          | 5.0          | 5.8          | 5.3          | 6.8          | 14.8         |
| hydrocarbons      | 7.5          | 0.0          | 1.9          | 0.0          | 6.7          | 6.3          | 14.2         |
| rubber            | 1.3          | 3.4          | 1.5          | 5.2          | 9.3          | 13.5         | 12.7         |
| nitrile compounds | 0.8          | 0.0          | 10.1         | 11.5         | 8.3          | 5.5          | 10.7         |
| hydrocarbons      | 1.1          | 0.0          | 0.1          | 0.5          | 3.2          | 0.2          | 10.5         |
| special           | 0.4          | 1.4          | 10.0         | 1.7          | 0.0          | 1.9          | 10.0         |

Source: World Trade Atlas

### Brazilian imports from India

The main products imported into Brazil from India are shown in table 10 below, again at the HS 4 level. These products are also concentrated in the fuels and chemical products, with oil being the dominant import.

**Table 10: Brazilian imports from India, \$ million**

| Description    | 1997 | 1999 | 2001  | 2003  | 2004  | 2005  |
|----------------|------|------|-------|-------|-------|-------|
| Total          | 216  | 170  | 543   | 486   | 556   | 1203  |
| oil            | 0.0  | 0.0  | 249.8 | 212.7 | 162.9 | 618.0 |
| medicants      | 0.5  | 1.6  | 20.5  | 27.1  | 40.5  | 48.9  |
| nucleic acids  | 0.5  | 2.4  | 19.2  | 11.1  | 19.4  | 46.3  |
| synthetic yarn | 3.8  | 2.2  | 3.0   | 16.7  | 28.0  | 38.9  |
| antibiotics    | 11.1 | 10.2 | 11.7  | 22.9  | 30.7  | 37.5  |
| heterocyclic   | 8.8  | 16.5 | 16.4  | 17.8  | 24.0  | 27.6  |



| Description       | 1997 | 1999 | 2001 | 2003 | 2004 | 2005 |
|-------------------|------|------|------|------|------|------|
| polyether         | 0.0  | 0.0  | 0.5  | 2.2  | 2.3  | 18.4 |
| coloring agents   | 5.7  | 6.5  | 7.5  | 12.8 | 15.7 | 17.8 |
| plastic sheets    | 2.0  | 4.1  | 6.1  | 3.8  | 8.4  | 15.1 |
| coal/oil/gas/coke | 0.0  | 0.0  | 0.0  | 0.0  | 8.2  | 14.7 |
| carboxyyamide     | 0.9  | 1.2  | 33.9 | 5.3  | 5.6  | 13.2 |
| amine comps       | 6.5  | 5.0  | 7.3  | 8.2  | 8.1  | 11.1 |
| cyclic alcohols   | 2.7  | 1.3  | 2.2  | 4.5  | 10.3 | 9.4  |

Source: World Trade Atlas

### Data reconciliation

In this chapter we have so far only reported on the import data for each partner, and this short section will comment upon the relationships between this import data and the export data as supplied by the other partner. Depending upon how the value of transport and insurance associated with getting goods to market is assessed, we would expect that imports would be 10 percent or more above the relevant export figure. This is the case for southbound (Indian exports to Brazil – Brazilian imports from India) trade but not northbound trade (the converse – Brazilian exports to India and Indian imports from Brazil).

For the southbound trade (Indian exports, Brazilian imports), the value of imports at \$1,202.7 million is some 27 percent above the Indian export figure of \$976 million as shown above. Brazilian imports of HS 29, organic chemicals, are vastly underreported as exports from India to Brazil, and this seems to be a big factor in influencing the overall total.

For northbound trade (Brazilian exports, Indian imports) the Indian import figure is only 77 percent of the Brazilian export figure. Examination of the data reveals that two of the five main exports from Brazil, aircraft and fuel, represent some \$210 million of exports but are not reported as imports into India. This makes a big difference in rectifying the overall data. We would note that aircraft are not an infrequent cause of data problems, as sometimes confusion may exist between one country classifying the transaction as an exports and another as a lease, with the latter not included in merchandise trade data<sup>11</sup>. Of the other main exports, sugar is underreported into India (or over-reported from Brazil?) while soya bean oils are also inclined that way, but the ethyl alcohol trade seems correct. We have not examined quantity data.

<sup>11</sup> We understand that this is probably what happened. In 2005, SAA leased an almost brand-new Airbus to an Indian airline.

## Overall conclusions

All three partners share important and somewhat equal trading relationships.

Firstly, **South Africa's** major exports to the world are concentrated in minerals and related products. The major global exports by the general HS 2-chapter has been precious stones, etc. (platinum, gold and diamonds), followed by iron and steel products, mineral fuels and motor vehicles, and these four products made up 55.6 percent of the total exports during 2005. The main export to India during 2005 was the one-off aircraft, followed by inorganic chemicals, iron and steel products and, again, precious stones. These top four accounted for 65.5 percent of the total South African exports to India, and in addition we would note that Indian import data shows the precious stones, metals and minerals, etc., may be underreported in the export data. Our analysis suggests that these exports face an average tariff of some 15.88 percent using Indian import data. The main exports to Brazil were iron and steel, organic chemicals, general machinery and mineral fuels, with these four comprising 63.3 percent of the total. Again, tralac analysis suggests these products faced an average duty of 8.95 percent during 2005, and that the proposed SACU/Mercosur FTA would make little difference to this rate.

Secondly, **India's** main exports to the world are precious metals and stones, mineral fuels, clothing and organic chemicals, with these four making up a lesser 36.3 percent of the total. There is a direct linkage between India's exports of precious jewellery and South Africa's base metal exports, as India has become the main processing and trading centre globally for these often South African sourced raw materials. Exports to South Africa were concentrated in mineral fuels, vehicles, cereals and iron and steel products, with these exports making up 52.9 percent of the total. Indian exports to Brazil were mineral fuels (49.6% of the total), organic chemicals, pharmaceuticals and miscellaneous chemical products, with the top four comprising 71.3 percent of the total.

Finally, **Brazilian** global exports are even more diversified than India's, with the top four of vehicles, machinery, iron and steel and ores, etc., comprising 32.0 percent of the total. Exports to South Africa are concentrated in vehicles and parts (31.8%), machinery, meats (poultry) and sugars. In fifth place is soya bean oils and in sixth place is tobacco, reaffirming the importance of Brazil for South African agricultural imports. Exports to India feature sugars, soya bean products, aircraft and beverages, with these making up 63.2 percent of the total.

It is noticeable that iron and steel products and vehicles and their associated parts feature in the top four global exports from both Brazil and South Africa, and these are ranked sixth and eighth respectively from India. There appears to be a degree of intra-industry trade among the three partners in these products as well, leading to the general conclusion that the gains from cooperation here may not necessarily be in 'new' trade but are more sophisticated linkages in existing products.

For the agricultural sector, Brazil is a major agricultural exporter and will remain a valuable source of both food such as poultry, pork and beef for direct consumption in South Africa, and imports such as soya beans to provide the feedstuffs for the livestock sector. As the world's major cane sugar producer, Brazil will also set the benchmark for South Africa's aspirations in the global market place, and as an unsubsidised agricultural producer this statement becomes more critical and can be extended to the agricultural sector in general for South Africa (witness the increases in red meat exports, for example). India remains a relatively higher protected agricultural producer and suffers from internationally competitive pressures as a result. It consequently may become a more important market for South Africa should meaningful preferences be negotiated, but is unlikely to expand much as an agricultural imports source. There are, however, intriguing potential dynamics for all three countries in the sugar market as the world's main producer (Brazil) is potentially linking with both India and South Africa, two other major producers, and in the case of India, a periodic importer in a trilateral where the protectionist markets of India and South Africa may be opened.

### **The BLNS countries**

### **The current trading relationship**

These trading relationships are shown in Table 11, using the Indian and Brazilian trade data for 2005. We have found in other trade data analyses that (a) the BLNS data is not generally as up-to-date as the World Trade Atlas data, and (b) there is a degree of consistency using BLNS country data but not really a good one-to-one mapping. We have therefore used the Indian and Brazilian data only, but recognise, of course, that imports in particular are entering the BLNS countries via South Africa.

**Table 11: India/Brazil trade with BLNS, \$ million and main HS 4 lines 2005**

|          | Indian Imports from    |                               | Indian exports to    |                              |
|----------|------------------------|-------------------------------|----------------------|------------------------------|
|          | \$ million             | Main lines                    | \$ million           | Main lines                   |
| <b>B</b> | 0.4                    | radar equipment, machines     | 11.7                 | medicine, rubber, aluminium  |
| <b>L</b> | 0.0                    | none                          | 16.1                 | fabric, tractors, pumps      |
| <b>N</b> | 3.2                    | scrap iron, engines, balloons | 14.1                 | medicine, motorcycles        |
| <b>S</b> | 3.7                    | gold, electrical parts, acids | 4.0                  | medicine, chemical,          |
|          | Brazilian imports from |                               | Brazilian exports to |                              |
| <b>B</b> | 0                      | na                            | 2.3                  | tyres, stoves, ceramics      |
| <b>L</b> | 0.05                   | T-shirts                      | 1.3                  | fabric (only exp)            |
| <b>N</b> | 0.02                   | car parts                     | 12.9                 | furniture, cement, bulldozer |
| <b>S</b> | 0.31                   | converters machinery          | 0.5                  | pump, tubes, confectionery   |

Source: World Trade Atlas

Direct imports into Brazil from the BLNS are very low, while the comparable imports into India are also very low to modest (\$3.7 million being the highest). Indian exports to BLNS are higher, with medicines and vehicles being prominent, while Brazilian exports to Namibia are the only significant trade in that direction. Trade data from the BLNS is somewhat consistent with these figures, although Botswana's exports to India are reported to be some \$12.1 million for 2005 (mostly gold).

In general, these direct reported flows are low, but, of course, there is no way of knowing what the value of imports in particular into BLNS that are transiting through South Africa may be. These low reported values will almost by definition ensure that an IBSA trade agreement will have limited direct gains for the BLNS.

## **Section 2: The simulation**

### **Introduction**

The objective is to simulate the impact of possible multilateral market access reforms resulting from an FTA between SACU, India and Brazil. The analysis is undertaken using a variant of the GTAP model as discussed in Chapter 2, a discussion that includes the data used, the assumptions and limitations of the model. In particular, note that in the process of updating the Indian MFN tariffs it was observed that South Africa exports of coal/oil/gas was classified as import under HS6 code 270112 Bituminous coal/oil/gas in the initial 2001 MacMaps HS6 digit tariff data, while in 2001 to 2005 South Africa was not reporting exports

under this code. Therefore the initial MacMaps databases MFN tariff on South African coal/oil/gas exports to India was adjusted to reflect South Africa's reporting of HS6 digit codes on coal/oil/gas exports.

The FTA **primary** scenario entails the result from the removal of trade barriers between India, Brazil and the member countries of SACU as measured in the year 2015 in a world shaped by the **baseline** scenario. This implies that all *ad valorem* tariffs and *ad valorem* equivalent of specific tariffs between participating countries India, Brazil and SACU (IBSA) are abolished. Differences between the so-called **baseline** scenario and this so-called **primary** scenario are therefore the results of implementation of the IBSA FTA. Note that we are not modelling reductions in either services or any non-tariff barriers. In addition, it is always possible to do an almost endless number of 'what if' scenarios. For this study we have limited these to two basic assumptions/possible outcomes. One is that there will be a successful conclusion to the Doha Development Round of the WTO, while the other is that the IBSA negotiators will fail to negotiate a fully comprehensive FTA, and we have proxied this possibility by assuming the outcome will be a 50 percent cut in bilateral tariff rates. In reality, it is more likely that sensitive sectors for either party will be isolated from any final agreement, but we have opted for this blanket 50 percent option. To complete the picture we have combined the latter two scenarios into a combined one of a successful WTO Doha round increasing multilateral market access and the bilateral IBSA FTA.

Operationally, these are represented as follows:

- Firstly, scenario S1 (the **primary** scenario) is run to simulate the effects of the comprehensive FTA in a post-UR environment where all other known international commitments are fully implemented;
- Scenario S2 implements the partial FTA with a 50 percent reduction in applied *ad valorem* equivalents (AVE) tariffs between the IBSA countries;
- Scenario S3 is then run. This is an implementation of a stylised outcome of a possible DDA round of the WTO using the assumptions outlined above;
- Next, Scenario S4 extends S3 by also including the post-Doha FTA between IBSA countries with a 100 per cent removal of AVE tariffs between the FTA countries.

In order to find the isolated effects of creating the FTA in a post DDA round, scenario S3 is subtracted from scenario S4, quantifying the effect of the FTA. Therefore the results shown later for the FTA (in an environment where the DDA has been completed) are technically the results of scenarios S4 – S3.

Before we introduce the results of the simulations, we will present Table 12 with the tariffs faced by South Africa into both India and Brazil and by both India and Brazil into South Africa to give a perspective of the relative protection levels by GTAP sectors. This information is reproduced in Annex Tables A1 and A2 along with the changes in trade flows as a result of IBSA. Note that these tariff rates are as used within the GTAP model, and reflect the composition differences in individual products within a particular GTAP sector from a particular source at 2001, and therefore may not be directly comparable with the actual tariffs on recent imports into South Africa as discussed earlier in the chapter. Note also that we have not displayed the tariff levels for paddy rice, cane and beet sugar, and raw milk, as these products are effectively non-traded. The table highlights that there are several sectors in all countries that have relatively high initial levels of tariff protection.

**Table 12: Initial tariff levels as at the baseline by GTAP sector (%)**

|  | Tariffs faced, South Africa into |        | Tariffs faced into RSA by |        |
|--|----------------------------------|--------|---------------------------|--------|
|  | India                            | Brazil | India                     | Brazil |
| Primary                                |                                  |        |                           |        |
| Wheat                                  | 100.0                            | 5.8    | 2.0                       | 2.0    |
| Other grains                           | 70.0                             | 5.4    | 9.1                       | 30.1   |
| Vegetables/fruit                       | 45.4                             | 11.5   | 4.3                       | 0.5    |
| Oil seeds                              | 31.3                             | 5.2    | 8.6                       | 0.0    |
| Plant fibres                           | 5.0                              | 8.1    | 5.6                       | 14.5   |
| Other crops                            | 32.3                             | 9.1    | 6.2                       | 14.0   |
| Cattle                                 | 31.0                             | 0.0    | 0.0                       | 0.0    |
| Other agricultural products            | 0.0                              | 4.5    | 0.0                       | 0.0    |
| Wool                                   | 15.0                             | 9.5    | 0.0                       | 0.0    |
| <b>Secondary and natural resources</b> |                                  |        |                           |        |
| Beef/sheep meat                        | 35.0                             | 11.2   | 20.0                      | 17.4   |
| Other meat                             | 30.0                             | 7.5    | 23.5                      | 8.8    |
| Vegetable oils                         | 51.6                             | 11.0   | 3.0                       | 9.8    |
| Dairy products                         | 30.0                             | 15.5   | 53.3                      | 0.0    |
| Processed rice                         | 75.0                             | 14.3   | 0.0                       | 0.0    |
| Sugar                                  | 60.0                             | 17.5   | 0.0                       | 0.0    |
| Other food                             | 39.6                             | 13.4   | 12.6                      | 17.0   |
| Beverage, tobacco                      | 41.0                             | 21.7   | 31.4                      | 145.8  |
| Fish                                   | 30.0                             | 10.3   | 5.9                       | 0.0    |
| Forestry                               | 5.7                              | 8.2    | 0.3                       | 0.0    |
| Coal/oil/gas                           | 15.0                             | 0.0    | 0.0                       | 0.0    |
| Other minerals                         | 8.6                              | 4.5    | 0.1                       | 0.0    |

| Primary                          | Tariffs faced, South Africa into |        | Tariffs faced into RSA by |        |
|----------------------------------|----------------------------------|--------|---------------------------|--------|
|                                  | India                            | Brazil | India                     | Brazil |
| <b>Manufacturing</b>             |                                  |        |                           |        |
| Textiles                         | 16.1                             | 16.7   | 21.5                      | 15.1   |
| Wearing apparel                  | 15.0                             | 17.4   | 39.1                      | 11.1   |
| Leather goods                    | 23.8                             | 16.3   | 12.4                      | 13.2   |
| Wood products                    | 13.0                             | 11.3   | 16.8                      | 8.4    |
| Paper products                   | 10.5                             | 13.6   | 4.8                       | 5.4    |
| Petroleum, coal/oil/gas products | 12.9                             | 2.5    | 4.2                       | 2.0    |
| Chem rubber plastic              | 14.9                             | 9.6    | 3.6                       | 3.0    |
| Mineral products (oth)           | 15.0                             | 11.6   | 7.8                       | 13.7   |
| Iron steel                       | 19.9                             | 11.1   | 3.9                       | 1.2    |
| Other metals                     | 15.0                             | 6.6    | 4.0                       | 0.7    |
| Other metal products             | 15.1                             | 17.3   | 9.9                       | 8.1    |
| Motor vehicles, etc.             | 16.3                             | 17.5   | 15.9                      | 23.6   |
| Other transport equipment        | 6.8                              | 1.2    | 0.1                       | 0.0    |
| Electrical goods                 | 2.1                              | 10.0   | 8.6                       | 18.9   |
| Other machinery                  | 12.7                             | 14.8   | 4.2                       | 4.6    |
| Other manufactures               | 15.0                             | 16.3   | 5.5                       | 13.3   |

## Results: the implications of the IBSA FTA

### The big picture

Table 13 shows the changes in welfare from the FTA assuming a complete 100 percent reduction in merchandise tariffs, with the data expressed in US\$ million as one-off increases in annual welfare at the assessed end point of 2015. South Africa's gains are \$1.448 million, a figure very close to Brazil's \$1,514 million but nearly 50 percent above India's \$1,022 million. Note that both Botswana and Rest of SACU actually lose in welfare terms, and this results mainly (a) because there is little reported trade between these SACU partners<sup>12</sup> and either India or Brazil in order to generate increases (with this reflected in the terms of trade losses) and (b) there is a considerable downside for these countries in that tariff revenue is being lost for the SACU pool<sup>13</sup>. The biggest loser in dollar terms is the EU,

<sup>12</sup> A well-known weakness of a trade model is that it is not able to provide any insights into potential new areas of trade (or changes in trade from a very low base) that may develop from an FTA, for example, and this development of new trade (or increased trade from that minimal base) has been shown to be an important part of the potential gains from an FTA.

<sup>13</sup> We note that this revenue loss is incompletely covered in our version of the model and therefore the welfare losses may represent an underestimate of the potential losses to the BLNS given their reliance

with all other countries/regions except Nigeria (NGA) losing. The gains to South Africa are spread across the contributing factors of increased allocative efficiency (\$338 million), employment (\$173 million), capital stock (\$467 million) and the terms of trade gains from better relative prices between exports and imports. Note in particular that, for the labour markets, South Africa has the highest total contribution for any of the countries shown – this is because of the labour market closure which is a function of the available unskilled labour proxied by the unemployment rates. This aspect of the results will be discussed in more detail later in the chapter.

**Table 13 Change in welfare (EV of income) due to IBSA, \$ million at 2015**

|                      | <b>Total</b> | <b>Allocative<br/>Efficiency</b> | <b>Labour</b> | <b>Capital</b> | <b>Term of<br/>Trade</b> |
|----------------------|--------------|----------------------------------|---------------|----------------|--------------------------|
| <b>South Africa</b>  | 1,448        | 338                              | 173           | 467            | 470                      |
| <b>Botswana</b>      | -18          | 1                                | -1            | -5             | -14                      |
| <b>Rest SACU</b>     | -19          | 0                                | -2            | -5             | -12                      |
| <b>Nigeria</b>       | 40           | 3                                | 1             | 6              | 30                       |
| <b>Rest Africa</b>   | -25          | -24                              | 1             | -26            | 24                       |
| <b>EU</b>            | -1,295       | -412                             | -40           | -435           | -407                     |
| <b>US</b>            | -342         | -111                             | -33           | -51            | -147                     |
| <b>India</b>         | 1,022        | -274                             | 37            | 1,495          | -236                     |
| <b>China</b>         | -262         | -31                              | -11           | -88            | -132                     |
| <b>Brazil</b>        | 1,514        | 411                              | 72            | 574            | 457                      |
| <b>Japan</b>         | -287         | -68                              | -14           | -57            | -147                     |
| <b>Rest of World</b> | -925         | -356                             | -42           | -638           | 111                      |
| <b>Total</b>         | 850          | -524                             | 139           | 1,237          | -3                       |

Source: GTAP results

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

- South Africa's gains of \$1,448 million overwhelmingly come from gains through better access into India of \$1,306 million, followed a long way back by better access into Brazil of \$110 million, while Brazil's access into South Africa results in gains to South Africa of \$51 million. There are losses to South Africa from India's enhanced access into both Botswana and Rest of SACU of \$8 million and \$76 million respectively.

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on the SACU tariff pool for total government revenues. For an in-depth discussion of this aspect of South African/SACU trade policy, see Sandrey et al. (2006) and Sandrey (2006b).



- India's gains of \$1,022 million are dominated by gains of \$714 million from increased imports from South Africa into India. This story is 'pure gold' and will be discussed later. India also gains \$177 million from better market access into South Africa and \$512 million from better access into Brazil (and \$18 million from better access into Botswana), but loses some \$400 million from better Brazilian access into India (in direct contrast from gaining from South African penetration of its market).
- The story for Brazil is different in that most (\$1,225 million) of its gains of \$1,514 million result from better market access into India. South Africa is less important as far as Brazil is concerned, although it does gain \$220 million from better access into South Africa. Other than gains of \$63 million from India gaining access to Brazil and a lesser \$8 million from South Africa gaining better access to India, the other values (including the impact of South African access to Brazil) are close to zero.
- The EU loses some \$1,295 million, with \$4116 million of this as a result of South Africa displacing the EU in India (in the sectors where South Africa makes gains into India) and another \$640 million from Brazil displacing it in the same Indian marketplace. It also loses another \$63 million and \$87 million as firstly India and then Brazil displace it (the EU) in the South African market (recall that this is post-TDCA).
- Most (\$224 million) of China's \$262 million loss results from Brazil displacing it into India, although it also loses \$18 million and a lesser \$10 million as Brazil and India respectively gain better access to South Africa (note that the latter figure is small despite India making a large increase in clothing trade into South Africa).
- The Rest of the World (RoW) loses mainly because of Brazil displacing it in the Indian market.
- Botswana's losses are mostly from a \$35 million loss from South Africa's gaining better access into India, increasing South Africa's export prices, which result in a term of trade loss for Botswana, thus changing the relative position for Botswana – although it gains some \$154 million in compensation as India obtains better market access into Botswana.
- For XSC (Rest of SACU, or Namibia, Lesotho and Swaziland combined) the \$19 million loss is from a loss of \$21 million as South Africa gains increased market access into India increasing its export prices resulting in a terms of trade loss also for the Rest of SACU.
- For the total, GTAP is showing that IBSA is welfare-enhancing for the world, as world welfare increases by \$850 million (and, as shown in Table 13, this is mostly from

increased capital stock in that the IBSA FTA increases regional income, which increases savings/investments, resulting in increased global capital stocks).<sup>14</sup>

Before moving on it behoves us to say more about the ‘**golden story**’. As mentioned above, both South African and Indian gains are dominated by gains from allowing better access from South Africa into India. Examining both the GTAP output and bilateral trade flows in detail allows us to trace this through this effect to one of allowing South African gold to enter India duty-free as distinct from the 15 percent duty that it would normally carry. Looking at Indian import data for 2005, we find that gold is the second main import behind fuel, with an import value of \$11.74 billion. Of this, some \$5.97 billion is from Switzerland<sup>15</sup>, followed by \$2.13 billion from South Africa and \$1.84 billion from Australia. Thus, given the huge 15 percent advantage to South Africa, there is a doubling in trade here, and, as the Indian Input-Output (I-O) table that drives GTAP shows, this import has a large flow-on effect through Indian production and, consequently, jewellery exports. As jewellery (HS 7113) is the fourth main export globally from India with a 3.19 percent share (diamonds are the main export with a 11.12 percent share) this gives a massive boost to Indian trade in jewellery. Overall, the gains for India of \$1,022 million are dominated by gains of \$660 million from the metals not elsewhere classified (n.e.c.) sector, and examining the Indian capital flows in detail confirms this as the main point of interest in the IBSA.

**From a policy perspective, this is a win-win situation for both South Africa and India, and if trade negotiators have to focus on one key point, lowering the tariffs for South African gold into India is that one point.** Here is a meeting of one of the world’s main gold producers with the major jewellery producing and exporting nation. In the GTAP database and model, South Africa is exporting the aggregated GTAP commodity non-ferrous metals (NFM, metal n.e.c.) to India which is mainly gold metal in some form. The South African NFM industry uses minerals mined in South Africa as an input into its production of metals which come from the GTAP mining sector OME (minerals n.e.c.). In the analysis undertaken in this paper we have not extended the GTAP analysis to review exactly what natural resources

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<sup>14</sup> With the creation of the IBSA FTA regional income will initially increase through possible allocative efficiency, terms of trade and increased employment gains in the economy. This increased income causes savings and investments to increase in the economy, which result in an expansion of the capital stock. This increase in capital stock causes regional income to increase even further. The model finds a new equilibrium capital stock where the marginal return to capital is equal to the depreciation rate of capital. At this point, regional income would fall if the economy expands its capital stock further.

<sup>15</sup> We would note in passing that there are few people actually digging gold out of the ground in Switzerland, and as a leading global gold producer the effective transfer of gold from South Africa to India is likely to be higher than Indian imports show. During 2005 South Africa was the leading individual country in gold production with an 11.8 percent share. See: <http://www.goldsheetlinks.com/production.htm>.

(minerals) other than gold are being mined in South Africa. Gold certainly dominates, although other minerals such as platinum are included which do not feature in either South African exports to India or Indian imports from South Africa. In the model, the amount of natural resources being mined is fixed exogenously, so there can be no change in the quantity, and this model closure does not make any distinction as to what type of mineral is being mined - gold or iron ore in the OME GTAP sector. Therefore the expanding NFM (metals n.e.c.) sector in South Africa is pushing up the price of natural resources (minerals), and increasing the cost of production in other South African sectors/commodities like the motor vehicle sector. If South Africa chose to mine a larger quantity it would lower the price of natural resources (minerals) in South Africa, lowering the production cost in both the NFM sector but also other sectors which use OME (machinery and equipment n.e.c.) as inputs into their production (e.g. motor vehicles). This would of course increase the production of NFM and exports to India even further. This necessitates changing the structures of the GTAP model that we are using, and, even then, changing the amount of mining done opens up further questions about the maximisation of resources in the ground through time: more minerals from the mine today or wait until some time in the future? We consider that this wider analysis is beyond the scope of the present study.

Table 14 expands upon the welfare gains to show on the left-hand side what the actual changes are, while the right-hand side provides some insights into where the contributions to these welfare changes are coming from. In column 3 (real GDP) South Africa gains by some 0.90 percent, while both Botswana and the Rest of SACU lose by around 0.10 percent (both India and Brazil gain by around 0.2%). These results flow in large part from Table 13 above, as the allocative efficiency, labour and capital contributions are essential components of the real GDP changes with resources being better used within the economy. South Africa gains more in percentage terms as, although the welfare gains are similar in dollar values, the relative sizes of the three main economies are not. The same applies to the terms of trade (TOT), expressed as dollar millions above in Table 13 but in percentage terms in Table 14 below.

**Table 14: Percentage change in terms of trade, real GDP and factor income, 2015**

|          | TOT   | Real GDP | Total factor income | Of which contributions come from |                  |                |         |                   |
|----------|-------|----------|---------------------|----------------------------------|------------------|----------------|---------|-------------------|
|          |       |          |                     | Land                             | Unskilled labour | Skilled labour | Capital | Natural resources |
| RSA      | 1.04  | 0.90     | 2.05                | 0.03                             | 0.72             | 0.34           | 0.65    | 0.31              |
| Botswana | -0.49 | -0.09    | -0.22               | 0.01                             | -0.09            | -0.05          | -0.11   | 0.01              |
| RSACU    | -0.28 | -0.14    | -0.12               | 0.07                             | -0.10            | -0.05          | -0.06   | 0.02              |
| India    | -0.20 | 0.17     | 0.33                | -0.01                            | 0.11             | 0.03           | 0.17    | 0.03              |
| Brazil   | 0.53  | 0.21     | 0.71                | 0.13                             | 0.20             | 0.13           | 0.26    | 0.00              |

Source: GTAP output

On the right-hand side of Table 14 the relative contributions to total factor income are shown, and indeed these must add to equate with the total factor income percentages shown. Thus, for South Africa's 2.05 percentage increases in total factor income, 0.03 percent is derived from better land use, 0.72 percent from enhanced unskilled labour, 0.34 percent from skilled labour, 0.65 percent from capital, and the final 0.31 percent from the natural resource base. Note that for land, skilled labour and natural resources, the quantities are fixed in the GTAP model, so the increases result from price increases as their values are bid up, while for both unskilled labour and capital where the quantities are not fixed, there is both a price and a quantity effect. The unskilled labour issue will be examined in more detail later under alternative model closures, as these policy options for (a) holding unskilled labour fixed and raising the wage rate, (b) holding the wage rate fixed and increasing the people in employment and (c) some intermediate position, are crucial policy questions for South Africa. Currently we are using a closure of (c) as discussed earlier.

### Changes in trade flows

The details of changes to South Africa's trading patterns are shown in Annex A, with exports in Annex Table A1 and imports in Annex Table A2 respectively. These tables split the GTAP sectors into primary and secondary agriculture, natural resource and manufacturing before displaying (a) the AVE or the initial pre-FTA average *ad valorem* tariff facing either South African exports in the partner market for exports or partner tariffs into South Africa for imports, and (b) the change in either South African exports or imports into or from the respective country/regions in response to reducing these border tariffs to zero. These trade flow changes are given in both US dollar values and percentage changes from the base to put them in perspective. The markets for exports from and sources of imports into South Africa are provided as India, Brazil, the Rest of SACU (with Botswana and XSA combined)

and the Rest of the World with all others combined rather than the RoW used in the model. There are also two columns on the right-hand side showing the total overall changes by value and percentage change.

Table 15 shows the aggregate overall changes to trade flows for the partner countries in 2015, expressed as percentage changes for both exports and imports and then in US\$ million for the trade balance. The clear gainer is South Africa, with increased exports globally, once all markets are accounted for, of \$253 million, while India and Brazil face losses of some \$389 million and \$59 million respectively as increased exports are less than the import changes. Botswana has a deteriorating trade balance of \$4 million<sup>16</sup>, while the change for the Rest of SACU, while negative, registers on the table in terms of a trade balance of \$1 million.

**Table 15: Percentage change in the quantity of total imp\exp and trade balance, 2015**

|                                   | South Africa | Botswana | RSACU | India | Brazil |
|-----------------------------------|--------------|----------|-------|-------|--------|
| <b>Exports</b>                    | 2.1          | -0.2     | -0.2  | 2.3   | 1.0    |
| <b>Imports</b>                    | 3.7          | -0.7     | -0.5  | 2.9   | 1.6    |
| <b>Trade balance US\$ million</b> | 253          | -4       | 1     | -389  | -59    |

Source: GTAP results

Table 16 extends this analysis to look at the agricultural sector changes. Recall that the factors of production of land, skilled labour and natural resources are fixed, while unskilled labour and capital can increase in both price and quantity. We can see that for all SACU partners the impacts upon agricultural factor income are positive, and in particular, for both South Africa and RSACU. Land prices are increasing here in all SACU, and unskilled labour prices are increasing in South Africa and RSACU. Thus, IBSA benefits the SACU agricultural sector. Brazilian land prices are increasing by nearly two percent (as a result of better access into India rather than South Africa), while India's marginally declines.

<sup>16</sup> Note that Table 13 refers to a deteriorating terms of trade (ToT) for Botswana, while Table 15 shows the actual trade flows. They are different concepts, as ToT is the relative indicator price of exports and imports.

**Table 16 Percentage change in primary agricultural factor income, 2015**

|              | Agricultural factor income | Of which contributions come from |                  |                |         |
|--------------|----------------------------|----------------------------------|------------------|----------------|---------|
|              |                            | Land                             | Unskilled labour | Skilled labour | Capital |
| South Africa | 1.16                       | 0.57                             | 0.45             | 0.01           | 0.14    |
| Botswana     | 0.24                       | 0.22                             | 0.00             | 0.00           | 0.02    |
| RSACU        | 0.68                       | 0.56                             | 0.05             | 0.00           | 0.07    |
| India        | 0.02                       | -0.03                            | 0.05             | 0.00           | 0.00    |
| Brazil       | 2.48                       | 1.87                             | 0.24             | 0.01           | 0.36    |

### The specific sector results

This section will discuss the production, trade and relative prices changes in the GTAP sectors. **The following series of tables examining the changes to South African trade flows is largely drawn from the Annex tables.**

We will start with the agricultural and natural resource sectors to keep the analysis manageable, and these are shown in Table 17. Keep in mind that these are percentage changes, and some of these may be off low bases. Further analysis of the results (see Annex Table A1) shows that in the **agricultural sector**, South Africa increases **exports** to India by \$182 million and Brazil by a much lesser \$7 million, but overall some \$140 million of this is at the expense of exports to other SACU (\$2 million less) and the Rest of the World. Thus, the total increase is only \$44 million. Of the total increase, most is in vegetable oils and fats (\$68 million) and wool (\$30 million) where big increases to India take place, while there are global reductions of \$16 million each in exports of (a) vegetables, fruit and nuts and (b) other food products. For imports, there is a similar but slightly larger overall increase of \$92 million, driven mostly by increased imports from Brazil of \$76 million (other crops, other meats and vegetable oils and fats). In the **natural resources** sector, there is an increase of \$189 million globally, dominated by coal, oil, gas products of \$178 million as the percentage changes shown in coal oil gas are off large bases. Exports of coal/oil/gas to India increase by some \$824 million (over 500%) as the duty rates of 15 percent are slashed, and this necessitates imports into South Africa from the Rest of the World as South Africa's relative price increases domestically<sup>17</sup>. **In summary, there is little action in either exports or imports in the agricultural sectors, and therefore limited production changes, while only coal/oil/gas products show increased trade in the natural resources sectors.**

<sup>17</sup> Once again the quantity of coal/oil/gas being extracted from the mines in South Africa is fixed exogenously in the model, therefore the increased demand of coal/oil/gas by India increases the South African coal/oil/gas price but with no change in the quantity mined.

The interpretation of Table 17 follows, using wheat as an example. The table shows that real wheat prices actually increase by 0.7 percent (right-hand column). This, however, does not seem to be enough to attract resources into wheat production as other sectors (in both agriculture and non-agricultural market access) become relatively more profitable. Consequently, imports of wheat rise by 1.9 percent and exports decline by 3.0 percent. This leads to a final decline of 1.4 percent in South African wheat production as a result of IBSA.

**Table 17: Relative changes in the South African agricultural and natural resource sectors, %**

|                         | Change<br>in quantity<br>output | Change<br>quantity of<br>exports | Change<br>quantity of<br>imports | Change in<br>Real price<br>of output |
|-------------------------|---------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| Paddy rice              | 0.3                             | 2.3                              | 2.4                              | 1.1                                  |
| Wheat                   | -1.4                            | -3.0                             | 1.9                              | 0.7                                  |
| Cereals grains          | -0.2                            | -1.5                             | 6.2                              | 0.9                                  |
| Vegetables, fruit, nuts | -0.9                            | -1.7                             | 1.2                              | 0.8                                  |
| Oil seed                | 0.9                             | -2.4                             | 5.5                              | 1.1                                  |
| Sugar cane & beet       | -0.9                            | -3.3                             | 0.2                              | 0.8                                  |
| Plant based fibres      | -1.7                            | -1.9                             | 1.1                              | 0.5                                  |
| Crops nec               | 0.4                             | 2.9                              | 4.5                              | 1.0                                  |
| Bovine cattle           | 0.6                             | -2.5                             | 1.9                              | 1.0                                  |
| Animal products nec     | 0.1                             | -1.9                             | 0.6                              | 0.9                                  |
| Raw milk                | 0.2                             | -6.2                             | 3.4                              | 0.9                                  |
| Wool, silk cocoons      | 14.1                            | 18.8                             | 10.6                             | 3.4                                  |
| Fishery                 | 0.0                             | -2.8                             | 1.8                              | 1.3                                  |
| Forestry                | 0.3                             | 2.3                              | 1.9                              | 1.2                                  |
| Coal/oil/gas products   | 0.0                             | 1.5                              | 2.9                              | 1.5                                  |
| Minerals nec            | 1.0                             | -4.2                             | 6.5                              | 3.1                                  |
| Beef                    | 0.5                             | -2.8                             | 4.2                              | 0.9                                  |
| Other meat              | -1.1                            | -3.8                             | 11.3                             | 0.8                                  |
| Vegetable oils          | 7.8                             | 67.0                             | 7.4                              | 0.7                                  |
| Milk                    | -0.2                            | -4.0                             | 3.7                              | 0.8                                  |
| Processed rice          | -0.3                            | -1.5                             | 1.8                              | 0.8                                  |
| Sugar products          | -1.3                            | -2.8                             | 2.0                              | 0.8                                  |
| Other foods             | 0.1                             | -2.1                             | 3.3                              | 0.8                                  |
| Beverages, tobacco      | 0.5                             | -1.1                             | 1.8                              | 0.7                                  |

Source: GTAP results

Of particular interest from Table 17 is the sugar sector, as Brazil and India, and to a lesser extent South Africa, are major global players. South African production declines by 1.3 percent as resources are displaced to slightly more profitable sectors (in both agricultural but more particularly non-agricultural sectors as we shall see next). Analysis of the detailed GTAP trade data results shows imperceptible changes to the trade flows here despite the high sugar tariffs into India. However, South Africa has no initial trade with India in the GTAP database, so the removal of the 60 percent tariff may have a large percentage increase in the quantity of exports to India, but, as the base is nearly zero, the change in value of exports is minimal. Our earlier trade chilling analysis suggested that this sector held potential for South African exports to India, and this highlights the need to undertake trade analysis 'outside of the model'.

We now turn our attention to the **manufacturing** sectors, where the account is completely different and there is a large response for South Africa. This is shown in Table 18, where the 'golden story' of the large response in other metals dominates. Note that Table 18 is best read in conjunction with Table 19, which shows the bilateral changes to South African manufacturing exports as a result of IBSA. While the same data is available for South African imports, it is not shown but rather discussed for the main sectors impacted by imports.

**Table 18: Relative changes in the South African manufacturing sectors, %**

|                                 | Change in quantity output | Change quantity of exports | Change quantity of imports | Change in real price of output |
|---------------------------------|---------------------------|----------------------------|----------------------------|--------------------------------|
| Textiles                        | -1.1                      | 2.5                        | 6.0                        | 0.6                            |
| Wearing apparel                 | -11.0                     | -1.5                       | 16.0                       | 0.0                            |
| Leather                         | -3.0                      | -2.5                       | 6.3                        | 0.6                            |
| Wood products                   | -1.6                      | -4.4                       | 3.5                        | 0.9                            |
| Paper products                  | -0.1                      | -1.4                       | 2.9                        | 0.8                            |
| Petrol, coal, oil, gas products | 0.3                       | -1.1                       | 2.9                        | 0.7                            |
| Chemicals, rubber, plastic      | 1.6                       | 6.2                        | 3.5                        | 0.9                            |
| Other mineral products          | -1.2                      | -2.5                       | 4.0                        | 1.0                            |
| Iron/steel                      | -1.4                      | -0.4                       | 2.6                        | 1.1                            |
| Other metals (gold)             | 15.7                      | 17.2                       | 14.2                       | 1.1                            |
| Metal products                  | -1.8                      | -4.1                       | 7.3                        | 0.8                            |
| Motor vehicles                  | -1.6                      | -1.6                       | 4.3                        | 0.4                            |
| Other transport                 | -2.4                      | -4.1                       | 2.1                        | 0.8                            |
| Electronics                     | -5.3                      | -7.5                       | 1.5                        | 1.0                            |
| Machinery equipment             | -2.7                      | -4.6                       | 3.0                        | 0.9                            |
| Other manufactures              | -6.7                      | -7.7                       | 3.4                        | 1.1                            |
| Services                        | 1.1                       | -3.5                       | 3.1                        | 1.0                            |

**Source:** GTAP results



Table 19 shows that manufacturing exports to India increase by a huge \$2,752 million, with \$2,210 million of this in the metals n.e.c. (mostly gold) sector as exports to India double. Other big gainers are the chemical, plastics and rubber sector where exports to India increase by \$312 million. The lesser gains of \$238 million to Brazil are more dispersed, but concentrated in the metals n.e.c. sectors again: chemicals, rubber and plastics; machinery and equipment; and textiles (possibly wool?). The big increases in exports to India are responsible for South Africa's increasing its global exports of manufacturing goods by \$1,617 million despite declines to other destinations. Note on the right-hand column of Table 18 (and also Table 17) that the resource price in all sectors is increasing by at least a small positive amount and most around one percent.

**Table 19: Changes in South African bilateral exports for manufacturing products, \$ million and %**

|                                  | To India      |                                 |                                    | To Brazil     |                                 |                                    |
|----------------------------------|---------------|---------------------------------|------------------------------------|---------------|---------------------------------|------------------------------------|
|                                  | AVE<br>tariff | change<br>value<br>US\$ million | % change<br>quantity<br>of exports | AVE<br>tariff | change<br>value<br>US\$ million | % change<br>quantity<br>of exports |
| <b><i>Manufacturing</i></b>      |               |                                 |                                    |               |                                 |                                    |
| Textiles                         | 16.1          | 13.6                            | 194                                | 16.7          | 22                              | 198                                |
| Wearing apparel                  | 15.0          | 0.3                             | 183                                | 17.4          | 0                               | 209                                |
| Leather products                 | 23.8          | 4.8                             | 418                                | 16.3          | 1                               | 219                                |
| Wood products                    | 13.0          | 0.3                             | 120                                | 11.3          | 2                               | 99                                 |
| Paper products, publishing       | 10.5          | 20.5                            | 71                                 | 13.6          | 9                               | 104                                |
| Petroleum, coal oil gas products | 12.9          | 19.6                            | 62                                 | 2.5           | 0                               | 8                                  |
| Chemical, rubber, plastic        | 14.9          | 311.6                           | 133                                | 9.6           | 63                              | 70                                 |
| Mineral products n.e.c.          | 15.0          | 5.9                             | 111                                | 11.6          | 3                               | 77                                 |
| Ferrous metal                    | 19.9          | 91.7                            | 170                                | 11.1          | 18                              | 71                                 |
| Metals n.e.c.                    | 15.0          | 2,209.8                         | 99                                 | 6.6           | 70                              | 50                                 |
| Metal products                   | 15.1          | 8.4                             | 169                                | 17.3          | 13                              | 194                                |
| Motor vehicles and parts         | 16.3          | 10.6                            | 104                                | 17.5          | 15                              | 142                                |
| Transport equipment n.e.c.       | 6.8           | 0.2                             | 66                                 | 1.2           | 4                               | 3                                  |
| Electronic equipment             | 2.1           | 0.2                             | 11                                 | 10.0          | 0                               | 112                                |
| Machinery and equipment          | 12.7          | 48.3                            | 144                                | 14.8          | 17                              | 181                                |
| Manufactures n.e.c.              | 15.0          | 6.0                             | 162                                | 16.3          | 1                               | 185                                |
| Total Manufacturing              |               | <b>2,751.7</b>                  |                                    |               | <b>238</b>                      |                                    |

Source: GTAP results

Not shown is the companion table to Table 19 for imports. Here the two big changes are in (a) clothing imports of an increased \$257 million from India and (b) increased imports of \$240 million in motor vehicle imports from Brazil. If we look at Table 18 we see that clothing production in South Africa declines by a large 11.0 percent from IBSA, and it is Indian imports that are driving this reduction. Not shown is that imports into South Africa from SACU are also displaced by India, (and India is making inroads into SACU) and this is the largest overall change in that trade profile. **These changes in the clothing sector resulting in an overall decline for South Africa are a lesser replication of the results from a China FTA as discussed in Jensen and Sandrey (2006), and confirm the possible expansion of Indian imports into South Africa as discussed in Sandrey (2006c) in response to the restrictions recently placed upon Chinese imports into South Africa.**

There are several factors at play with respect to the South African motor vehicle (MHV) sector. Global **imports** increase by \$151 million, mostly through increases from Brazil (\$240 million) and India (\$46 million); this increase is in response to South African tariffs on current trade of 23.6 and 15.9 percent for Brazil and India respectively falling to zero. This new IBSA trade displaces some \$131 million in imports from the Rest of the World. Conversely, since the initial **export** values to India and Brazil were low, there are limited compensating exports to India of \$11 million and to Brazil of \$15 million that do not match the declines of \$38 million to the Rest of the World. Overall **production** in the motor vehicle sector declines by 1.6 percent, as shown in Table 19. Importantly, the main cause of this 1.6 percent decline (and of course declines in the other manufacturing sectors as well) is the increased export (production) of NFM to India pushing up the price of the intermediate inputs (especially OME) and endowments (labour capital) into the MHV sector which then reduces MVH production by 1.3 percent. This leaves a reduction of a lesser 0.3 percent by other effects. This increased price of the intermediate inputs and endowments in the MVH sector increasing production prices in South Africa also explains the reduction in exports to the Rest of the World due to increased production costs. This does not necessarily mean that the South African MVH industry is less efficient than India's or Brazil's, but rather that the industry now has to pay a higher price domestically for inputs.

### **The labour market closure and alternative scenarios**

We believe that this particular section of the GTAP analysis of IBSA potentially makes an important contribution to the nexus between trade policy and welfare redistribution in South Africa. The results in this paper are driven from the labour market assumption as displayed in rows (B) in Table 20 below, with the mathematical derivation of the equation

shown in an annex to Chapter 4 to ensure readers that it is both mathematically correct and economically sensible.

The simulation results as presented above are those given in section (B) of Table 20, where the welfare gains for South Africa are some \$1,448 million and the increased real GDP is 0.90 percent. Not shown earlier is that, all other things held constant, IBSA will contribute a further 0.65 percent to South Africa's CPI. This, of course, has an impact upon the whole economy and results in South Africa losing some competitive advantage globally. The key employment issue is that shown in the centre of the table under ZAF, where the South African story on unskilled labour is told (recall that the supply of skilled labour is held fixed). Under this closure whereby the unskilled labour supply is a function of the unemployment rate, the employment of unskilled labour increases by 0.46 percent and the real wage rate by 1.27 percent. To the right of this we see that both employment and the wage rate decline in both Botswana and Rest of SACU, while employment increases only marginally in India and Brazil – but the wage rate increases by 0.38 percent in India and 0.52 percent in Brazil as there is much less reported unemployment in these two countries.

**Table 20: Unskilled labour market closure, percentage change employment/real wage**

| South Africa |      |       |              |                   |       |          |              |       |        |
|--------------|------|-------|--------------|-------------------|-------|----------|--------------|-------|--------|
| EV           | QGDP | CPI   |              |                   | ZAF   | Botswana | Rest of SACU | India | Brazil |
| US\$ million | %    | %     |              |                   |       |          |              |       |        |
| 1,145        | 0.66 | 0.693 | Fixed        | Employment        | 0.00  | 0.00     | 0.00         | 0.00  | 0.00   |
| (A)          |      |       | employm      | Real wage         | 1.52  | -0.21    | -0.21        | 0.393 | 0.541  |
| <b>1,448</b> | 0.90 | 0.65  | <u>U</u>     | <b>Employment</b> | 0.46  | -0.052   | -0.08        | 0.017 | 0.05   |
| (B)          |      |       | <b>(1-U)</b> | <b>Real wage</b>  | 1.27  | -0.17    | -0.15        | 0.377 | 0.516  |
| 2,360        | 1.62 | 0.52  | R. Wage      | Employment        | 1.847 | -0.467   | -0.51        | 0.336 | 0.402  |
| (C)          |      |       | CPI          | Real wage         | 0.52  | 0.07     | 0.17         | 0.102 | 0.339  |
| 3,006        | 2.13 | 0.43  | Fixed        | Employment        | 2.83  | -0.24    | -0.12        | 0.452 | 1.08   |
| (D)          |      |       | R. Wage      | Real wage         | 0.00  | 0.00     | 0.00         | 0.00  | 0.00   |

Source: GTAP results based upon alternative closure assumptions

Section (A) in Table 20 shows what may be thought of as a general COSATU position seeking to protect those already in employment. In this extreme position the level of employment is fixed and all adjustments must take place within the wage rate. This is, as

expected, good for those who are employed, as their wage rate increases by 1.52 percent. It is not so good for either those not employed or the economy, as the welfare gains reduce to \$1,145 million and GDP is a lesser 0.666 percent higher while the CPI increases to 0.69 percent.

At the other extreme we have section (D), where the real wage is fixed and all adjustments must come through the number of unskilled persons employed. **Here the results are striking:** employment is up by 2.83 percent, welfare more than doubles to \$3,003 million or 2.13 percent of real GDP, and inflation is a significantly lower 0.43 percent. This is a dramatic result which clearly highlights that if South Africa is serious about increasing both welfare and employment in the economy, then the more policies move towards creating jobs rather than rewarding those actually in employment is a superior option for policy makers.

This is confirmed by alternative (C), where the real wage rate is pegged to the CPI (recognising of course that the CPI is itself a function of the labour market closure). Here the welfare gains are some \$2,360 million or 1.62 percent of real GDP with the real wage increase set at the inflation rate of 0.52 percent. The employment increase of 1.85 percent is similarly around a half-way position between the closure that we are using and the extreme position of fixing the real wage.

## **Other sensitivity scenarios**

### **The 50 percent reduction**

Another scenario was undertaken to simulate an across-the-board 50 percent reduction in all IBSA tariffs to assess one variant of a less than comprehensive FTA.

The welfare results for South Africa are now \$625 million (43% of the original), while those for India are also \$625 million (a greater 62% of the original), but Brazil's gains shrink to \$444 million or just 30 percent of the original. For South Africa, all the gains/losses are of a similar magnitude to the 43 percent overall figure (including the main gain from better access into India) except for the \$3 million loss from better Indian access into South Africa which now turns into a modest \$19 million gain for South Africa (although the Indian gains from better access into South Africa remain at 52 percent of the original). At the sector level the reduction in South Africa's clothing sector is now 2.95 percent, only 34 percent of the full reduction of 8.7 percent, while the reduction in motor vehicle production is 0.66 percent or

41 percent of the original reduction. In the 'golden sector' South African production of other metals is up by 6.80 percent or 44 percent of the increase from the full FTA.

For India, much of the relative gain over the full FTA is that Brazil now makes limited inroads into India, and the large loss resulting from this is almost neutralised. And for the same reason Brazil's overall gains are reduced by more than a straight-line 50 percent as its gains in the Indian market are sharply reduced from \$1,216 million to \$307 million with partial access into India.

### Post-Doha IBSA analysis

The general assumptions and results regarding a possible Doha Round outcome have been outlined earlier in Chapters 5 and 6 for agriculture and non-agricultural market access (NAMA) respectively. These results will not be duplicated here.

The general welfare changes to IBSA following a modest but successful Doha outcome are shown below in Table 21. The welfare gains for South Africa are reduced by 11 percent from \$1,448 billion to \$1,288 billion. A cursory analysis of the results shows that the 'golden sector' output still increases, but by a lower 13.96 percent (15.5% before), but apparel production declines by a lesser 6.8 percent (8.7% before), and vehicles are practically unchanged with a decline of 1.53 percent (1.6% before). From the model we can see that in agricultural products South Africa is deemed to be sheltering its sensitive/special products of sugar and milk products in agriculture, and textiles/apparel and motor vehicles in the NAMA sectors.

**Table 21: IBSA, post- versus pre-Doha outcome EV in \$ million and % difference**

| Country      | Initial IBSA EV \$ million | Post-Doha EV \$ million | Difference, \$ million |
|--------------|----------------------------|-------------------------|------------------------|
| South Africa | 1,448                      | 1,288                   | -\$160m or 11%         |
| Botswana     | -18                        | -15                     | \$3m or 19%            |
| Rest of SACU | -19                        | -14                     | \$5m or 26%            |
| India        | 1,022                      | 859                     | -\$163m or 16%         |
| Brazil       | 1,514                      | 1,253                   | -\$261m or 17%         |

Source: GTAP results

Thus, while all gains are lower, South Africa loses relatively less than India and Brazil, and the other SACU partners are better off.

## The IBSA Implications for the BLNS countries

Table 22 replicates the relevant parts of Table 13 with the results for the BLNS countries. As discussed, Botswana is a country in its own right, but Lesotho, Namibia and Swaziland are aggregated into one region (XSC) in the GTAP model. Thus, we are really unable to make definitive statements about XSC as their economies are totally different. Nonetheless, we can say that IBSA leads to welfare losses for both Botswana and XSC.

**Table 22 BLNS Change in welfare (EV of income) due to IBSA, \$ million at 2015**

|              | Total | Allocative<br>Efficiency | Labour | Capital | Term of<br>Trade |
|--------------|-------|--------------------------|--------|---------|------------------|
| <b>2 BWA</b> | -18   | 1                        | -1     | -5      | -14              |
| <b>3 XSC</b> | -19   | 0                        | -2     | -5      | -12              |

Source: GTAP results (Table 14)

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

- Botswana's losses are mostly from South Africa's gaining better access into India, increasing South Africa's export prices, and resulting in a term of trade loss for Botswana, thus changing the relative position for Botswana – although it gains some compensation as India obtains better market access into Botswana.
- For XSC, Rest of SACU or Namibia, Lesotho and Swaziland combined, the loss is from South Africa's gaining increased market access into India. This is increasing South African export prices, resulting in terms of trade loss also for the Rest of SACU. As for Brazil, there is a limited effect from having Brazil in the FTA.

### Lesotho, Namibia and Swaziland (XSC)

For XSC, increased trade with India is the main issue, where **exports** increase by \$11.5 million in sugar products and \$13.0 million overall. Elsewhere, exports increase to Brazil by \$1.6 million but decline to South Africa by \$2.9 million and decrease by \$3.0 million to the Rest of the World. The main increases in exports to South Africa are in paper and paper products (possibly wood pulp from Swaziland), NFM, and cattle, while the main decreases in exports to South Africa are in textiles and wearing apparel. Overall, this translates into increased exports of sugar (1.5%), NFM (3.8%) and wood pulp and paper products (1.5%), with decreases of 3.4 percent in wearing apparel. Relating these and other export changes back to dollar values, sugar increased by \$7.5 million (mostly to India), pulp

and paper by \$4.5 million (to South Africa), NFM by \$3.2 million (to South Africa) and live cattle<sup>18</sup> by \$1.3 million (to South Africa).

For **imports**, many sectors change marginally, with few sectors standing out. Overall however, imports increase by \$3.8 million, with this hiding increases from India of \$37.8 million, Brazil of \$4.1 million, but a large decline of \$50.5 million from South Africa as that source is displaced. The biggest change in value is in metal products where an increase of \$2.9 million takes place once increases to India of \$17.2 million are set against declines to South Africa of \$11.8 million. Other increases are \$1.1 million in petroleum and coal/oil/gas products and \$0.5 million in NFM (South Africa's 'golden' sector), while losses take place in reduced textile imports of \$1.8 million as India displaces some of the domestic apparel production. Slight increases in agricultural prices result in increases of \$0.2 million in both wheat (from the US) and fruit and vegetables (from South Africa).

The end result of the trade changes is that **production** of wearing apparel declines by 3.4 percent in the face of increased Indian competition while sugar production increases by 1.4 percent and non-ferrous metals by 2.5 percent.

### **Botswana**

Here the account is one of less direct change in **exports**, with an overall loss of some \$9.2 million. Overall, this derives from three sectors: clothing (\$4.9 million), vehicles and their parts (\$3.3 million), and, surprisingly, as resources move marginally into other sectors and Botswana's costs increase very marginally – the manufactures n.e.c. (down \$5.3 million), a sector that contains diamonds and makes up nearly three-quarters of Botswana's global exports. For clothing and vehicles and parts, the exports to South Africa reduce, while for diamonds the reduction is to the almost exclusive EU market. Changes in the agricultural sector are minor, but include an increase of \$0.65 million in milk exports to India and around \$0.3 million in beef and other meats to South Africa and India respectively.

For **imports**, the picture is that overall increases of \$44.3 million from India and \$1.6 million from Brazil largely displace South African imports (down by \$49.8 million) for a small overall change of \$5.1 million less than without IBSA. Much of this change takes place in the general machinery and other equipment sector, where India and, to a lesser extent, Brazil displace

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<sup>18</sup> Cattle meat (beef) is a different sector from live cattle, and in CMT (beef) there is a reduction of \$0.66 million in imports overall as increased exports of \$0.69 million to South Africa only partially offset the reduction of \$1.17 million in beef to the EU. This translates to a reduction of 0.7 percent in production but an increase in price of 0.4 percent once all the relationships are cleared.

South African imports. India generally makes some inroads into most of the manufacturing sectors, with this at the expense of not only South Africa but also the EU, China and the Rest of Africa. There are no changes of interest to the agricultural imports other than a decline in milk products from South Africa that match the increase to India (a change that results in no extra production).

The **production** of both motor vehicles and their parts and clothing is down (by 4.3% and 14.6% respectively). Very modest increases are seen in most other sectors with the exception of the crucial diamond sector (manufactures n.e.c. – although as mining production is fixed in the model, this may be somewhat misleading in a similar manner that the gold story in South Africa is complex, as discussed earlier).

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Annex Table A1: South African Changes in Exports with IBSA FTA, Initial average tariff and changes in exports by \$ million and percentage

|                          | India      |                              |                              | Brazil     |                              |                              | Rest SACU (inc Botswana) |                              |                              | RoW                            |                              | Total                        |                              | RoW        |
|--------------------------|------------|------------------------------|------------------------------|------------|------------------------------|------------------------------|--------------------------|------------------------------|------------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|------------|
|                          | AVE tariff | Change in value US\$ million | % Change quantity of exports | AVE tariff | Change in value US\$ million | % Change quantity of exports | AVE tariff               | Change in value US\$ million | % Change quantity of exports | Change in value US\$ \$million | % Change quantity of exports | Change in value US\$ million | % Change quantity of exports | AVE tariff |
| <b>Primary</b>           |            |                              |                              |            |                              |                              |                          |                              |                              |                                |                              |                              |                              |            |
| 1 pdr                    | 80.0       | 0.1                          | large                        | 11.1       | 0                            | 178                          | 0.0                      | 0                            | -1.9                         | 0                              | -9.2                         | 0.1                          | 2.3                          | 3.7        |
| 2 wht                    | 100.0      | 4.5                          | large                        | 5.8        | 0                            | 57                           | 0.0                      | 0                            | -3.9                         | -10                            | -4.8                         | -5.7                         | -3.0                         | 132.9      |
| 3 gro                    | 70.0       | 0.2                          | 279                          | 5.4        | 0                            | 14                           | 0.0                      | 0                            | -0.6                         | -2                             | -1.8                         | -1.8                         | -1.5                         | 43.8       |
| 4 v_f                    | 45.4       | 6.2                          | 289                          | 11.5       | 0                            | 48                           | 0.0                      | 0                            | -0.6                         | -23                            | -2.2                         | -16.2                        | -1.7                         | 6.5        |
| 5 osd                    | 31.3       | 0.0                          | 258                          | 5.2        | 0                            | 58                           | 0.0                      | 0                            | -0.9                         | -1                             | -2.5                         | -1.0                         | -2.4                         | 8.8        |
| 6 c_b                    | 0.0        | 0.0                          | -4                           | 9.5        | 0                            | 61                           | 0.0                      | 0                            | -0.6                         | 0                              | -3.8                         | 0.0                          | -3.3                         | 0.9        |
| 7 pfb                    | 5.0        | 0.1                          | 25                           | 8.1        | 0                            | 48                           | 0.0                      | 0                            | -1.7                         | -1                             | -2.2                         | -0.6                         | -1.9                         | 0.9        |
| 8 ocr                    | 32.3       | 27.3                         | 460                          | 9.1        | 4                            | 70                           | 0.0                      | 0                            | -1.9                         | -15                            | -5.2                         | 16.0                         | 2.9                          | 10.6       |
| 9 ctl                    | 31.0       | 0.0                          | 183                          | 0.0        | 0                            | -2                           | 0.0                      | 0                            | -1.5                         | 0                              | -3.4                         | -0.4                         | -2.5                         | 3.5        |
| 10 oap                   | 0.0        | 0.0                          | -2                           | 4.5        | 0                            | 11                           | 0.0                      | 0                            | -0.8                         | -2                             | -2.1                         | -1.7                         | -1.9                         | 2.6        |
| 11 rmk                   | 0.0        | 0.0                          | -6                           | 0.0        | 0                            | -2                           | 0.0                      | 0                            | -5.6                         | 0                              | -6.3                         | -0.4                         | -6.2                         | 0.0        |
| 12 wol                   | 15.0       | 63.1                         | 294                          | 9.5        | 0                            | 142                          | 0.0                      | 0                            | -21.5                        | -33                            | -32.9                        | 29.6                         | 18.8                         | 1.0        |
|                          |            | <b>101.5</b>                 |                              |            | <b>5</b>                     |                              |                          | <b>-1</b>                    |                              | <b>-88</b>                     |                              | <b>17.9</b>                  |                              |            |
| <b>Secondary</b>         |            |                              |                              |            |                              |                              |                          |                              |                              |                                |                              |                              |                              |            |
| 17 cmt                   | 35.0       | 1.6                          | 771                          | 11.2       | 0                            | 118                          | 0.0                      | 0                            | -3.0                         | -3                             | -5.6                         | -1.6                         | -2.8                         | 54.7       |
| 18 omt                   | 30.0       | 1.0                          | 765                          | 7.5        | 0                            | 81                           | 0.0                      | -1                           | -1.8                         | -5                             | -5.9                         | -4.4                         | -3.8                         | 10.5       |
| 19 vol                   | 51.6       | 70.0                         | large                        | 11.0       | 0                            | 111                          | 0.0                      | 0                            | -1.1                         | -2                             | -3.2                         | 68.3                         | 67.0                         | 11.4       |
| 20 mil                   | 30.0       | 1.3                          | 534                          | 15.5       | 0                            | 177                          | 0.0                      | -1                           | -2.8                         | -7                             | -5.3                         | -6.7                         | -4.0                         | 26.2       |
| 21 pcr                   | 75.0       | 0.0                          | large                        | 14.3       | 0                            | 94                           | 0.0                      | 0                            | -0.6                         | 0                              | -3.4                         | -0.3                         | -1.5                         | 10.5       |
| 22 sgr                   | 60.0       | 1.4                          | 887                          | 17.5       | 0                            | 133                          | 0.0                      | 0                            | -3.5                         | -12                            | -3.1                         | -10.3                        | -2.8                         | 30.6       |
| 23 ofd                   | 39.6       | 4.8                          | 267                          | 13.4       | 0                            | 63                           | 0.0                      | -2                           | -1.5                         | -20                            | -2.8                         | -16.2                        | -2.1                         | 16.1       |
| 24 b_t                   | 41.0       | 0.4                          | 117                          | 21.7       | 1                            | 55                           | 0.0                      | 0                            | -0.8                         | -4                             | -1.4                         | -2.9                         | -1.1                         | 21.2       |
|                          |            | <b>80.6</b>                  |                              |            | <b>2</b>                     |                              |                          | <b>0.0</b>                   | <b>-4</b>                    |                                |                              | <b>26.0</b>                  |                              |            |
| <b>Natural resources</b> |            |                              |                              |            |                              |                              |                          |                              |                              |                                |                              |                              |                              |            |
| 13 fish                  | 30.0       | 0.0                          | 88                           | 10.3       | 0                            | 24                           | 0.0                      | 0                            | -1.2                         | -1                             | -2.9                         | -1.5                         | -2.8                         | 8.1        |
| 14 for                   | 5.7        | 9.7                          | 26                           | 8.2        | 0                            | 42                           | 0.0                      | 0                            | -1.6                         | -4                             | -5.0                         | 5.6                          | 2.3                          | 3.4        |
| 15 coal oil gas          | 15.0       | 823.2                        | 549                          | 0.0        | -11                          | -17                          | 0.0                      | -1                           | -13.2                        | -676                           | -17.3                        | 135.0                        | 1.5                          | 1.6        |
| 16 omn                   | 8.6        | 9.9                          | 10                           | 4.5        | 0                            | 2                            | 0.0                      | 0                            | -1.8                         | -41                            | -4.7                         | -30.4                        | -4.2                         | 0.5        |
|                          |            | <b>842.9</b>                 |                              |            | <b>-11</b>                   |                              |                          | <b>0</b>                     |                              | <b>-723</b>                    |                              | <b>108.6</b>                 |                              |            |
| <b>Manufacturing</b>     |            |                              |                              |            |                              |                              |                          |                              |                              |                                |                              |                              |                              |            |
| 25 tex                   | 16.1       | 13.6                         | 194                          | 16.7       | 22                           | 198                          | 0.0                      | -7                           | -8.6                         | -14                            | -4.2                         | 14.9                         | 2.5                          | 7.2        |

|              | India      |                              |                              | Brazil     |                              |                              | Rest SACU (inc Botswana) |                              |                              | RoW                          |                              | Total                        |                              | RoW        |
|--------------|------------|------------------------------|------------------------------|------------|------------------------------|------------------------------|--------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------|
|              | AVE tariff | Change in value US\$ million | % Change quantity of exports | AVE tariff | Change in value US\$ million | % Change quantity of exports | AVE tariff               | Change in value US\$ million | % Change quantity of exports | Change in value US\$ million | % Change quantity of exports | Change in value US\$ million | % Change quantity of exports | AVE tariff |
| 26 wap       | 15.0       | 0.3                          | 183                          | 17.4       | 0                            | 209                          | 0.0                      | -5                           | -4.8                         | 0                            | 0.3                          | -3.9                         | -1.5                         | 7.8        |
| 27 lea       | 23.8       | 4.8                          | 418                          | 16.3       | 1                            | 219                          | 0.0                      | -2                           | -3.7                         | -9                           | -4.8                         | -5.3                         | -2.5                         | 3.9        |
| 28 lum       | 13.0       | 0.3                          | 120                          | 11.3       | 2                            | 99                           | 0.0                      | -2                           | -2.2                         | -33                          | -5.0                         | -33.2                        | -4.4                         | 2.3        |
| 29 ppp       | 10.5       | 20.5                         | 71                           | 13.6       | 9                            | 104                          | 0.0                      | -2                           | -1.5                         | -36                          | -4.2                         | -7.9                         | -1.4                         | 4.7        |
| 30 p_c       | 12.9       | 19.6                         | 62                           | 2.5        | 0                            | 8                            | 0.0                      | 1                            | -0.4                         | -35                          | -2.1                         | -14.2                        | -1.1                         | 7.6        |
| 31 crp       | 14.9       | 311.6                        | 133                          | 9.6        | 63                           | 70                           | 0.0                      | -3                           | -1.4                         | -116                         | -5.2                         | 255.3                        | 6.2                          | 5.9        |
| 32 nmm       | 15.0       | 5.9                          | 111                          | 11.6       | 3                            | 77                           | 0.0                      | -1                           | -1.9                         | -15                          | -5.2                         | -7.8                         | -2.5                         | 6.6        |
| 33 i_s       | 19.9       | 91.7                         | 170                          | 11.1       | 18                           | 71                           | 0.0                      | -1                           | -2.1                         | -95                          | -5.6                         | 14.3                         | -0.4                         | 3.1        |
| 34 nfm       | 15.0       | 2,209.8                      | 99                           | 6.6        | 70                           | 50                           | 0.0                      | -2                           | -11.9                        | -521                         | -8.2                         | 1,757.8                      | 17.2                         | 0.9        |
| 35 fmp       | 15.1       | 8.4                          | 169                          | 17.3       | 13                           | 194                          | 0.0                      | -15                          | -7.9                         | -41                          | -5.8                         | -34.2                        | -4.1                         | 4.2        |
| 36 mvh       | 16.3       | 10.6                         | 104                          | 17.5       | 15                           | 142                          | 0.0                      | -5                           | -1.7                         | -58                          | -2.4                         | -37.5                        | -1.6                         | 5.2        |
| 37 otn       | 6.8        | 0.2                          | 66                           | 1.2        | 4                            | 3                            | 0.0                      | -1                           | -4.9                         | -18                          | -6.3                         | -15.2                        | -4.1                         | 2.1        |
| 38 ele       | 2.1        | 0.2                          | 11                           | 10.0       | 0                            | 112                          | 0.0                      | -5                           | -6.4                         | -17                          | -8.3                         | -21.5                        | -7.5                         | 6.2        |
| 39 ome       | 12.7       | 48.3                         | 144                          | 14.8       | 17                           | 181                          | 0.0                      | -39                          | -6.1                         | -166                         | -6.6                         | -138.5                       | -4.6                         | 3.7        |
| 40 omf       | 15.0       | 6.0                          | 162                          | 16.3       | 1                            | 185                          | 0.0                      | -3                           | -5.8                         | -111                         | -8.2                         | -106.4                       | -7.7                         | 2.0        |
|              |            | <b>2,751.7</b>               |                              |            | <b>238</b>                   |                              |                          | <b>-90</b>                   |                              | <b>-1283</b>                 |                              | <b>1,616.7</b>               |                              |            |
| 41 srv       | 0.0        | -0.9                         | -3                           | 0.0        | -1                           | -3                           | 0.0                      | -2                           | -3.8                         | -125                         | -3.7                         | -128.6                       | -3.5                         | 0.0        |
| <b>Total</b> |            | <b>3,775.8</b>               |                              |            | <b>233</b>                   |                              |                          | <b>-97</b>                   |                              | <b>-2,271</b>                |                              | <b>1,640.6</b>               | <b>2.1</b>                   |            |

Annex Table A2: South African Changes in Imports with IBSA FTA, Initial average tariff and changes in exports by \$ million and percentage

|                          | India      |                              |                              | Brazil     |                              |                              | Rest SACU (inc Botswana) |                              |                              | RoW                          |                              | total                        |                              | RoW        |
|--------------------------|------------|------------------------------|------------------------------|------------|------------------------------|------------------------------|--------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------|
|                          | AVE tariff | Change in value US\$ million | % Change quantity of imports | AVE tariff | Change in value US\$ million | % Change quantity of imports | AVE tariff               | Change in value US\$ million | % Change quantity of imports | Change in value US\$ million | % Change quantity of imports | Change in value US\$ million | % Change quantity of imports | AVE tariff |
| <b>Primary</b>           |            |                              |                              |            |                              |                              |                          |                              |                              |                              |                              |                              |                              |            |
| 1 pdr                    | 0.0        | 0                            | 2.3                          | 0.0        | 0                            | -9.1                         | 0.0                      | 0                            | 0.5                          | 0                            | 2.7                          | 0                            | 2.4                          | 0.0        |
| 2 wht                    | 2.0        | 0                            | 21.1                         | 2.0        | 0                            | 15.0                         | 0.0                      | 0                            | 0.9                          | 3                            | 1.9                          | 3                            | 1.9                          | 2.0        |
| 3 gro                    | 9.1        | 0                            | 19.6                         | 30.1       | 4                            | 84.6                         | 0.0                      | 0                            | -5.1                         | -2                           | -4.6                         | 3                            | 6.2                          | 6.3        |
| 4 v_f                    | 4.3        | 0                            | 18.4                         | 0.5        | 0                            | -0.3                         | 0.0                      | 0                            | 0.3                          | 1                            | 1.4                          | 1                            | 1.2                          | 5.2        |
| 5 osd                    | 8.6        | 0                            | 60.8                         | 0.0        | 0                            | -4.8                         | 0.0                      | 0                            | 4.1                          | 1                            | 5.4                          | 2                            | 5.5                          | 0.6        |
| 6 c_b                    | 0.0        | 0                            | 1.4                          | 0.0        | 0                            | -3.6                         | 0.0                      | 0                            | -2.1                         | 0                            | 1.6                          | 0                            | 0.2                          | 1.2        |
| 7 pfb                    | 5.6        | 0                            | 26.3                         | 14.5       | 3                            | 77.0                         | 0.0                      | 0                            | -3.7                         | -2                           | -3.3                         | 1                            | 1.1                          | 8.1        |
| 8 ocr                    | 6.2        | 0                            | 43.5                         | 14.0       | 22                           | 112.3                        | 0.0                      | 0                            | -5.2                         | -9                           | -3.6                         | 13                           | 4.5                          | 4.8        |
| 9 ctl                    | 0.0        | 0                            | 3.2                          | 0.0        | 0                            | -1.3                         | 0.0                      | 2                            | 1.9                          | 0                            | 2.9                          | 2                            | 1.9                          | 0.0        |
| 10 oap                   | 0.0        | 0                            | 0.5                          | 0.0        | 0                            | -1.8                         | 0.0                      | 0                            | 0.2                          | 1                            | 0.8                          | 1                            | 0.6                          | 0.3        |
| 11 rmk                   | 0.0        | 0                            | 2.8                          | 0.0        | 0                            | -5.9                         | 0.0                      | 0                            | 0.8                          | 0                            | 3.5                          | 0                            | 3.4                          | 0.0        |
| 12 wol                   | 0.0        | 0                            | 11.8                         | 0.0        | 0                            | -45.3                        | 0.0                      | 0                            | 7.5                          | 2                            | 10.6                         | 2                            | 10.6                         | 0.1        |
|                          |            | 1                            |                              |            | 30                           |                              |                          | 2                            |                              |                              | -6                           |                              | 26                           |            |
| <b>Secondary</b>         |            |                              |                              |            |                              |                              |                          |                              |                              |                              |                              |                              |                              |            |
| 17 cmt                   | 20.0       | 1                            | 316.5                        | 17.4       | 1                            | 236.4                        | 0.0                      | 1                            | 1.6                          | 2                            | 3.7                          | 4                            | 4.2                          | 22.3       |
| 18 omt                   | 23.5       | 3                            | 548.9                        | 8.8        | 15                           | 86.9                         | 0.0                      | 0                            | -6.9                         | -4                           | -4.6                         | 13                           | 11.3                         | 9.8        |
| 19 vol                   | 3.0        | 0                            | 22.9                         | 9.8        | 16                           | 69.8                         | 0.0                      | 0                            | -2.2                         | -1                           | -0.8                         | 15                           | 7.4                          | 12.6       |
| 20 mil                   | 53.3       | 0                            | 2216.2                       | 0.0        | 0                            | -1.2                         | 0.0                      | 0                            | 2.1                          | 2                            | 3.7                          | 2                            | 3.7                          | 33.8       |
| 21 pcr                   | 0.0        | 1                            | 1.5                          | 0.0        | 0                            | -0.9                         | 0.0                      | 0                            | 2.2                          | 3                            | 2.1                          | 4                            | 1.8                          | 0.0        |
| 22 sgr                   | 0.0        | 0                            | 2.5                          | 0.0        | 0                            | -0.1                         | 0.0                      | 0                            | 0.9                          | 2                            | 2.8                          | 3                            | 2.0                          | 0.0        |
| 23 ofd                   | 12.6       | 3                            | 61.8                         | 17.0       | 12                           | 85.5                         | 0.0                      | 1                            | 0.5                          | 5                            | 1.0                          | 22                           | 3.3                          | 4.9        |
| 24 b_t                   | 31.4       | 0                            | 89.4                         | 145.8      | 1                            | 691.8                        | 0.0                      | 0                            | 0.8                          | 2                            | 1.2                          | 3                            | 1.8                          | 4.6        |
|                          |            | 8                            |                              |            | 46                           |                              |                          | 2                            |                              |                              | 10                           |                              | 66                           |            |
| <b>Natural resources</b> |            |                              |                              |            |                              |                              |                          |                              |                              |                              |                              |                              |                              |            |
| 13 fish                  | 5.9        | 0                            | 15.7                         | 0.0        | 0                            | 1.2                          | 0.0                      | 0                            | 1.6                          | 0                            | 2.0                          | 1                            | 1.8                          | 5.0        |
| 14 for                   | 0.3        | 0                            | 2.1                          | 0.0        | 0                            | -1.0                         | 0.0                      | 0                            | 1.1                          | 0                            | 2.5                          | 0                            | 1.9                          |            |
| 15 coal oil gas          | 0.0        | 0                            | 4.1                          | 0.0        | 0                            | 2.4                          | 0.0                      | 1                            | 1.3                          | 177                          | 2.9                          | 178                          | 2.9                          |            |
| 16 omn                   | 0.1        | 0                            | 7.4                          | 0.0        | 1                            | 6.3                          | 0.0                      | 1                            | 5.8                          | 8                            | 6.6                          | 11                           | 6.5                          |            |
|                          |            | 0                            |                              |            | 1                            |                              |                          | 2                            |                              |                              | 185                          |                              | 189                          |            |

|                      | India      |                              |                              | Brazil     |                              |                              | Rest SACU (inc Botswana) |                              |                              | RoW                          |                              | total                        |                              | RoW        |
|----------------------|------------|------------------------------|------------------------------|------------|------------------------------|------------------------------|--------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------|
|                      | AVE tariff | Change in value US\$ million | % Change quantity of imports | AVE tariff | Change in value US\$ million | % Change quantity of imports | AVE tariff               | Change in value US\$ million | % Change quantity of imports | Change in value US\$ million | % Change quantity of imports | Change in value US\$ million | % Change quantity of imports | AVE tariff |
| <b>Manufacturing</b> |            |                              |                              |            |                              |                              |                          |                              |                              |                              |                              |                              |                              |            |
| 25 tex               | 21.5       | 96                           | 301.8                        | 15.1       | 6                            | 163.6                        | 0.0                      | -3                           | -5.5                         | -48                          | -6.2                         | 52                           | 6.0                          | 14.6       |
| 26 wap               | 39.1       | 257                          | 445.8                        | 11.1       | 0                            | 1.5                          | 0.0                      | -17                          | -51.6                        | -172                         | -52.1                        | 68                           | 16.0                         | 25.5       |
| 27 lea               | 12.4       | 30                           | 139.8                        | 13.2       | 15                           | 147.2                        | 0.0                      | 0                            | -7.8                         | -22                          | -6.7                         | 23                           | 6.3                          | 10.5       |
| 28 lum               | 16.8       | 4                            | 187.8                        | 8.4        | 5                            | 71.8                         | 0.0                      | 0                            | 1.0                          | 5                            | 1.3                          | 13                           | 3.5                          | 3.8        |
| 29 ppp               | 4.8        | 2                            | 35.3                         | 5.4        | 2                            | 36.9                         | 0.0                      | 5                            | 1.9                          | 16                           | 2.7                          | 26                           | 2.9                          | 1.4        |
| 30 p_c               | 4.2        | 1                            | 21.3                         | 2.0        | 0                            | 9.9                          | 0.0                      | 0                            | 1.3                          | 1                            | 1.5                          | 3                            | 2.9                          | 3.7        |
| 31 crp               | 3.6        | 36                           | 30.1                         | 3.0        | 11                           | 22.7                         | 0.0                      | 3                            | 1.3                          | 95                           | 2.5                          | 145                          | 3.5                          | 1.9        |
| 32 nmm               | 7.8        | 10                           | 55.6                         | 13.7       | 22                           | 108.8                        | 0.0                      | 0                            | -0.2                         | 4                            | 0.4                          | 35                           | 4.0                          | 3.7        |
| 33 i_s               | 3.9        | 15                           | 24.7                         | 1.2        | 1                            | 4.5                          | 0.0                      | 0                            | -1.2                         | -4                           | -1.1                         | 12                           | 2.6                          | 1.4        |
| 34 nfm               | 4.0        | 3                            | 68.2                         | 0.7        | 1                            | 18.9                         | 0.0                      | 4                            | 13.2                         | 116                          | 13.9                         | 123                          | 14.2                         | 0.2        |
| 35 fmp               | 9.9        | 72                           | 99.0                         | 8.1        | 2                            | 68.6                         | 0.0                      | 0                            | -4.6                         | -24                          | -4.1                         | 49                           | 7.3                          | 4.1        |
| 36 mvh               | 15.9       | 46                           | 119.8                        | 23.6       | 240                          | 210.7                        | 0.0                      | -4                           | -4.7                         | -131                         | -4.1                         | 151                          | 4.3                          | 26.1       |
| 37 otn               | 0.1        | 0                            | 3.2                          | 0.0        | 0                            | -0.3                         | 0.0                      | 0                            | 1.8                          | 22                           | 2.3                          | 22                           | 2.1                          | 0.2        |
| 38 ele               | 8.6        | 12                           | 110.7                        | 18.9       | 9                            | 352.5                        | 0.0                      | 0                            | 0.7                          | 22                           | 0.8                          | 43                           | 1.5                          | 1.4        |
| 39 ome               | 4.2        | 87                           | 44.6                         | 4.6        | 27                           | 42.1                         | 0.0                      | 0                            | 0.6                          | 55                           | 1.0                          | 170                          | 3.0                          | 1.7        |
| 40 omf               | 5.5        | 25                           | 50.2                         | 13.3       | 3                            | 148.0                        | 0.0                      | -1                           | -1.3                         | -4                           | -0.6                         | 24                           | 3.4                          | 4.2        |
|                      |            | 697                          |                              |            | 344                          |                              |                          | -14                          |                              | -69                          |                              | 957                          |                              |            |
| 41 srv               | 0.0        | 1                            | 2.8                          | 0.0        | 0                            | 1.6                          | 0.0                      | 0                            | 3.1                          | 148                          | 3.1                          | 150                          | 3.1                          | 0.0        |
| <b>Total</b>         |            | 707                          |                              |            | 421                          |                              |                          | -8                           |                              | 267                          |                              | 1,388                        | 3.7                          |            |

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