



Identifying regional trade potential between selected countries in the Tripartite Free Trade Area

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1. Introduction

- One of the most compelling arguments for regional trade and integration in Africa is made on the basis that the African market is the most fragmented region in the world (Deloitte, 2012).
- According to the African Union (2012), only about **10 to 13 per cent of Africa's total trade is with other African countries**, compared to North America's 40 per cent and Western Europe's 70 per cent.
- Although there has been some progress, Africa's RECs has done very little in recent years to promote and drive intra-regional trade.



1. Introduction continued

- Africa could soon witness an important milestone on its path towards trade integration with the implementation of the **Tripartite Free Trade Agreement (TFTA)**.
- Covering 26 countries, representing almost half the population of the African continent and a total Gross Domestic Product (GDP) of approximately US\$1.3 trillion, will make the TFTA the agreement with the broadest regional impact globally (UNCTADstat, 2015).
- The TFTA will merge three of Africa's existing Regional Economic Communities (RECs), the Common Market for Eastern and Southern Africa (**COMESA**), East African Community (**EAC**) and the Southern African Development Community (**SADC**).



Introduction: Status of regional integration

A step towards a continental free trade area

Tripartite Free Trade Area

Links 3 regional blocs

- COMESA Common Market of East and Southern Africa
- SADC South African Development Community
- EAC East African Community

- countries 26
- population 625 million
- total GDP \$1 trillion
- aim boost trade between African countries

COMESA + SADC

- D. R. Congo
- Zambia
- Malawi
- Zimbabwe
- Swaziland
- Madagascar

COMESA + EAC

- Uganda
- Kenya
- Rwanda
- Burundi

SADC + EAC

- Tanzania
- Comoros

Seychelles

Mauritius

Intra-regional trade as a share of the region's total exports (2007-2011)

Africa 11%

Latin America/Caribbean 21%

Developing Asia 50%

Europe 70%



	COMESA	EAC	SADC
COMESA	7.0	14.4	5.4
EAC	2.2	11.1	1.0
SADC	6.8	9.3	10.9

1. Introduction continued

- The main objective of the TFTA is to strengthen and deepen economic integration in Southern and Eastern Africa and build on Africa's existing RECs, as will the Continental Free Trade Agreement (CFTA),
- However, the effectiveness of these agreements will depend on the depth of integration achieved in each of the RECs and although many African countries have already embarked on ambitious integration programmes, the results have been disappointing (ICTSD, 2016).
- In addition, Africa is in a very fortunate and unique position in that it has the chance to trade with an untapped market: itself.
- For this reason this paper aims to support regional trade promotion by identifying specific un-utilised intra-regional trade opportunities on an importer-product-exporter level in the TFTA region.



2. Literature overview

BENEFITS OF REGIONAL TRADE AGREEMENTS (RTAs)

Kritzinger-van Niekerk	2003	<ul style="list-style-type: none">• Within a small market, there may be a trade-off between economies of scale and competition.• Market enlargement removes this trade-off and makes possible the existence of larger firms with greater productive efficiency and economies of scale.
Zamfir	2015	<ul style="list-style-type: none">• A much larger market with free flow of goods and services will contribute to maintaining an economic growth rate of 6 per cent to 7 per cent annually. If this happens, it is projected that Africa's combined GDP will reach \$29 trillion by 2050.
Juma & Mangeni	2015	<ul style="list-style-type: none">• One of the biggest reasons for the shortfall of investment in infrastructure in Africa has been poor coordination between the different trading blocs.• The TFTA will serve as an incentive to attract investment for Africa's cross-border infrastructure development and contribute to job creation.
Marinov	2016	<ul style="list-style-type: none">• Prospect of improved infrastructure development and bigger markets will encourage industrial development.• This will not only contribute to job creation, but diversify Africa's economies that are largely dependent on natural resources
Schiff & Winters	2003	<ul style="list-style-type: none">• RTAs contribute to enhanced credibility and developing a cooperation incentive of common economic and political purpose.

2. Literature overview

BARRIERS TO REGIONAL TRADE

UNECA	2010	<ul style="list-style-type: none">• Although African countries impose steep tariffs on imported goods, literature has shown that non-tariff barriers (NTBs) are the real concern preventing deeper integration.• The costs of NTBs are higher than the costs of tariffs.
Mbekeani	2013	<ul style="list-style-type: none">• Africa's "thick borders" creates restrictive customs procedures, administrative and technical barriers; limitations in productive capacity; inadequacies of trade-related infrastructure, lack of market integration.• The red tape forms 10 per cent of the value of exports in developing countries.
El-Sheike	2016	<ul style="list-style-type: none">• Nearly all African countries are party to more than one regional agreement and this can often cause complex entanglement.

3. Research method

INTRA-REGIONAL TRADE OPPORTUNITIES

Import demand – 26 TFTA countries

Import country (i) – HS6 product (j)

Using filter 2 of the DSM:

- Market size large $\geq 2\%$ of world imports per product;
- Short and long term growth \geq world average per product;
- For five consecutive years (2010-2014).

(Cuyvers *et al.*, 1995)

MATCHES
(importer-product-exporter)

Export supply – 26 TFTA countries

Export country (n) – HS6 product (j)

Using the Revealed Comparative Advantage (RCAj)

$$RCA_j = \left(\frac{X_{n,j}}{XW_{,j}} \right) / \left(\frac{X_{n,tot}}{XW_{,tot}} \right)$$

- Only products in which the exporting country has a $RCA \geq 1$ was considered.
- For five consecutive years (2010-2014)

(Balassa, 1965; Cuyvers *et al.*, 1995)



3. Research method

- To distinguish between **existing and new matches**, the intra-regional trade opportunities were classified into four categories namely; increase, decline, extinct and zero.
- This has been done by calculating how the values of existing exports have changed between 2010 and 2014 (*Interchangeably referred to as intra-regional trade opportunities or matches in this study*)

Increase	$\text{Value}_{2014} > \text{Value}_{2010}$	increase in existing trade flows
Decline	$\text{Value}_{2014} < \text{Value}_{2010}$	decrease in existing trade flows
Extinct	$\text{Value}_{2010} > 0 \ \& \ \text{Value}_{2014} = 0$	the relationship has become extinct
Zero	Trade = 0	no trade relationship

Source: Matthee, Idsardi & Krugell (2015)

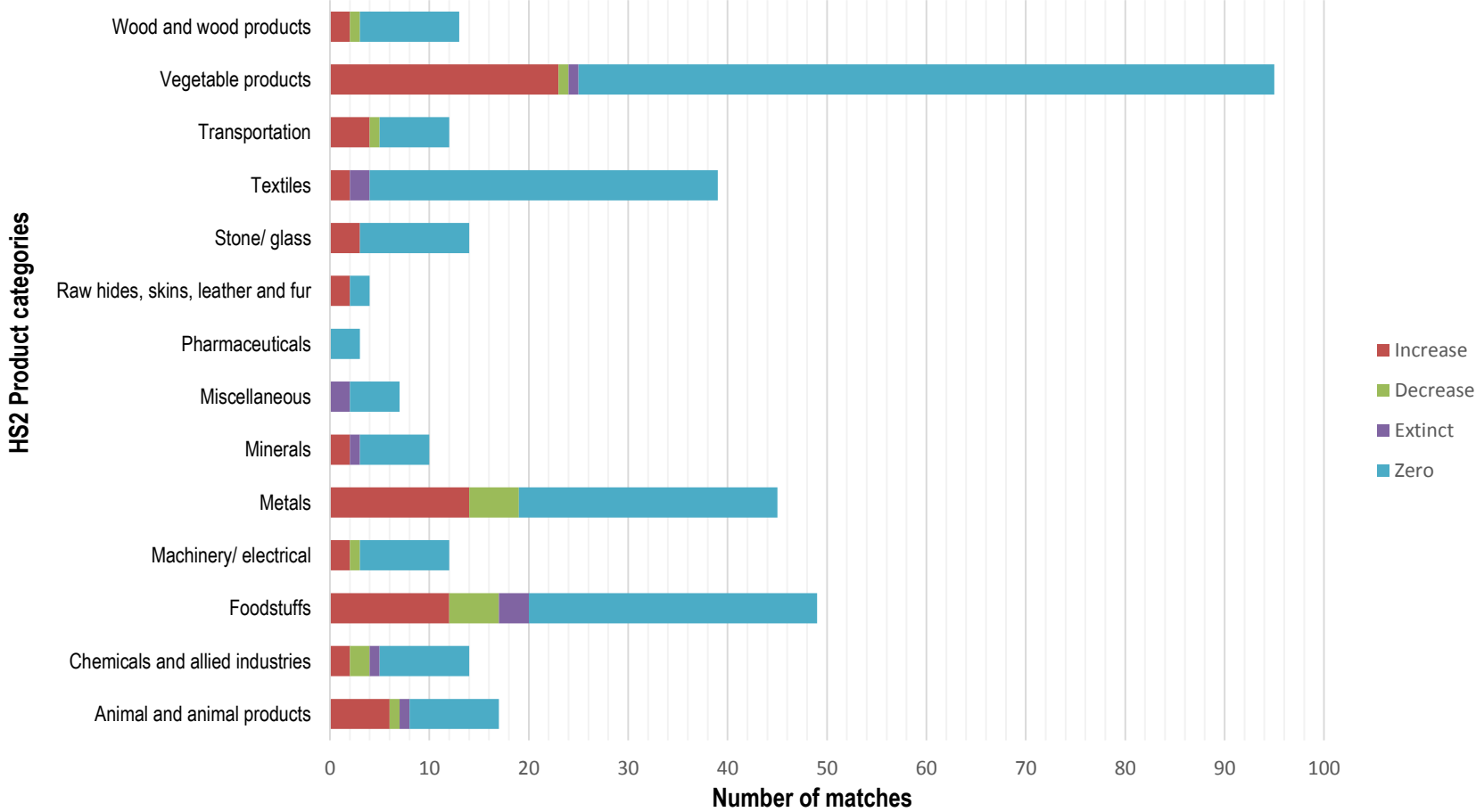


4. Results: Potential export opportunity matches between TFTA countries

HS2 PRODUCT CATEGORY	TOTAL	INCREASE	DECREASE	EXTINCT	ZERO
Animal and animal products	17	6	1	1	9
Chemicals and allied industries	14	2	2	1	9
Foodstuffs	49	12	5	3	29
Machinery/ electrical	12	2	1	0	9
Metals	45	14	5	0	26
Minerals	10	2	0	1	7
Miscellaneous	7	0	0	2	5
Pharmaceuticals	3	0	0	0	3
Raw hides, skins, leather and fur	4	2	0	0	2
Stone/ glass	14	3	0	0	11
Textiles	39	2	0	2	35
Transportation	12	4	1	0	7
Vegetable products	95	23	1	1	70
Wood and wood products	13	2	1	0	10
TOTAL	334	74	17	11	232



4. Results: TFTA intra-regional trade opportunities: utilisation and product category analysis



4. Results: Top importer-product-exporter matches with an increase in trade: 2010-2014

Importer	Product code	Product description	Exporter	Weighted avg import value (US\$ thousand)
Angola	110100	Wheat or meslin flour	Egypt	218 712.30
Libya	40630	Processed cheese, not grated/powdered	Egypt	98 927.36
Angola	30379	Fish, not elsewhere specified, frozen	Namibia	75 855.72
Egypt	71350	Broad beans & horse beans, shelled, whether or not skinned or split, dry	Ethiopia	70 587.66
Angola	110220	Cereal flour; of maize (corn)	South Africa	60 057.82
Angola	110313	Cereal groats and meal; of maize (corn)	South Africa	44 598.89
Tanzania	871631	Tanker trailers & tanker semi-trailers	South Africa	32 860.92
Libya	690710	Unglazed ceramic tiles, cubes & similar articles; unglazed,	Egypt	28 384.21
Angola	121020	Hop cones, fresh/dried, ground/powdered/in the form of pellets; lupulin	Namibia	27 753.9
Mozambique	340220	Surface-active preparations, washing preparations	Botswana	19 304.56

Total of 74 matches

Biggest importers

Angola, Mozambique, Zambia

Biggest exporters

South Africa and Egypt

Products

Vegetable products and metals

4. Results: Top importer-product-exporter matches where trade has declined: 2010-2014

Importer	Product	Product description	Exporter	Weighted avg import value (US\$ thousand)
Angola	840999	Engines; parts for internal combustion piston engines	Namibia	47 564.30
Egypt	721990	Flat-rolled prods. of stainless steel, of a width of 600mm	South Africa	37 219.23
Tanzania	871631	Tanker trailers & tanker semi-trailers	Kenya	32 860.92
South Africa	230610	Oil-cake & other solid residues, whether or not ground/in pellets	Zimbabwe	28 340.88
Mozambique	481910	Cartons, boxes & cases, of corrugated paper/paperboard	Zimbabwe	16 131.51
South Africa	722880	Hollow drill bars & rods of alloy/non-alloy steel	Botswana	14 042.42
Uganda	170410	Chewing gum, whether or not sugar-coated	Egypt	10 642.21
Angola	330520	Preparations for permanent waving/straightening the hair	South Africa	9 812.11
Angola	30420	Fish fillets, frozen	Namibia	4 650.92
Ethiopia	722880	Prepared glues & other prepared adhesives	South Africa	4 124.56

Total of 17 matches

Products

Machinery/ electrical and transport

4. Results: Top importer-product-exporter matches where trade has become extinct: 2010-2014

Importer	Product	Product description	Exporter	Weighted avg import value (US\$ thousand)
Zimbabwe	260500	Cobalt ores & concentrates	Congo	87 978.60
South Africa	40630	Processed cheese, not grated/powdered	Egypt	15 305.82
Mozambique	940360	Furniture; wooden, other than for office, kitchen or bedroom use	Egypt	14 211.00
Zimbabwe	210390	Sauces & preparations; mixed condiments & mixed seasonings	Botswana	7 559.83
South Africa	210130	Chicory, roasted & other roasted coffee substitutes; extracts, essences	Botswana	5 104.68
Libya	200510	Vegetable preparations; potatoes, prepared or preserved	Egypt	1 456.97
Mozambique	91099	Spices, not elsewhere specified	Kenya	1 351.44
Tanzania	950490	Articles for funfair/table/parlour games (excl. playing cards)	Kenya	963.83
Zimbabwe	610610	Women's/girls' blouses, shirts & shirt-blouses, knitted or crocheted	Mauritius	604.14
Zimbabwe	610442	Women's/girls' dresses, knitted or crocheted, of cotton	Mauritius	253.00

Total of 11 matches

Products	Minerals/ animals and animal products and miscellaneous goods
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4. Results: Top importer-product-exporter matches with zero trade (new-intra regional trade opportunities): 2010-2014

Importer	Product	Product description	Exporter	Weighted avg import value (US\$ thousand)
Angola	110100	Wheat/meslin flour	Lesotho	218 712.30
Angola	110100	Wheat/meslin flour	Mauritius	218 712.30
Angola	160100	Sausages & similar products of meat/meat offal/blood; food preps.	Kenya	142 947.51
Angola	160100	Sausages & sim. prods., of meat/meat offal/blood; food preparations	Lesotho	142 947.51
Egypt	210690	Food preparations, not elsewhere specified	Botswana	115 860.51
Egypt	210690	Food preparation, not elsewhere specified	Lesotho	115 860.51
Angola	150790	Soya bean oil, other than crude, & fractions thereof	Egypt	97 082.66
Zambia	260500	Cobalt ores & concentrates	Congo	87 978.60
Libya	151529	Maize (corn) oil, other than crude, & fractions thereof	Kenya	84 507.76
Angola	30379	Fish, not elsewhere specified, frozen	Kenya	75 855.72

Total of 232 matches

Biggest importers	Angola, Mozambique
Biggest exporters	Botswana, Egypt and Lesotho
Products	Vegetable products, foodstuffs, metals and textiles

4. Results: Top importer-product-exporter matches with zero trade (new-intra regional trade opportunities): 2010-2014

- Un-utilised trade opportunities for intra-TFTA trade exist over all of the product categories. However 99 of these matches are in the foodstuffs and vegetable products (as seen above).
- Africa has approximately 27 per cent of the world's total arable land which could be used for agricultural production. Africa has the potential to meet its own food demands.
- However, African countries continue to import food and agricultural products from countries outside the continent.
- African exports are often concentrated in commodities which is subject to fluctuating world prices.
- Though, the TFTA countries clearly has very strong potential for intra-regional trade in sectors like food and agricultural goods that are sustainable in the long run and not linked to fluctuating commodity prices.

5. Conclusion

- One of the objectives of this paper was to show that African countries have a unique opportunity to trade with an untapped market: itself.
- For this reason the article identified specific under- and un-utilised intra-regional trade opportunities to increase intra-regional trade on an importer-product-exporter level in the TFTA region.
- Greater intra-African trade within these sectors could lead to higher growth and development in the countries concerned.

5. Conclusion

- However, further research now needs to be done on the reasons why these opportunities are un(der)utilised.
- This may include:
 - strong existing trade relationships with countries outside the region,
 - quality and quantity requirements,
 - trade barriers such as infrastructure time,
 - documentation requirements,
 - transportation cost,
 - border inefficiencies etc.
 - It might also be that these countries are not aware of the opportunity to trade within the region

5. Conclusion

- One of the main challenge faced by the Tripartite policy makers is how to make the envisaged FTA work better than the existing RECs.
- This study contributes valuable information on intra-regional trade opportunities amongst the TFTA countries by identifying specific importer-product-exporter matches within the region to contribute to intra-regional trade among the TFTA countries.



Thank You
Any Questions?



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