

*Pellervo Economic Research Institute  
Working Papers  
Pellervon taloudellisen tutkimuslaitoksen  
työpapereita*

**N:o 112 (December 2008)**

**FREE TRADE AGREEMENT (TDCA)  
BETWEEN SOUTH AFRICA AND THE EUROPEAN  
UNION - AN EXEMPLAR FOR THE ECONOMIC  
PARTNERSHIP AGREEMENTS**

**Kalle Laaksonen**

**Helsinki, December 2008**

ISBN 978-952-224-005-7 (PAP)  
ISBN 978-952-224-006-4 (PDF)  
ISSN 1455-4623 (PAP)  
ISSN 1796-4784 (PDF)

Pellervon taloudellinen tutkimuslaitos PTT  
Pellervo Economic Research Institute PTT  
Eerikinkatu 28 A  
00180 Helsinki

Helsinki 2008

**KALLE LAAKSONEN. 2008. FREE TRADE AGREEMENT (TDCA) BETWEEN SOUTH AFRICA AND THE EUROPEAN UNION - AN EXEMPLAR FOR THE ECONOMIC PARTNERSHIP AGREEMENTS.** Pellervo Economic Research Institute Working Papers 112. p 39. ISBN 978-952-224-005-7 (PAP), ISBN 978-952-224-006-4 (PDF), ISSN 1455-4623 (PAP), ISSN 1796-4784 (PDF).

**Abstract:** The Republic of South Africa is both economically and politically measured the most significant Sub-Saharan African country. The gross domestic product of South Africa constitutes one third of the total sum of the GDPs of that region. The economy of South Africa is, however, in many ways divided. The reason for the splitting of society and economy is mostly the long apartheid era, when the population was separated according to race. In spite of the changes in trade markets, the economic development of South Africa has during the last decade not been as strong as expected after apartheid. Free trade between the EU and the Republic of South Africa is considered to be some kind of an exemplar also to those free trade agreements that will be implemented according to the Cotonou Convention between the EPA areas and the EU. There are not very strong signs of trade diversion to trade between the EU and South Africa on the cost of trade with the rest of the world.

**Key words:** *South Africa, free trade, growth of trade, EPA*

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**Tiivistelmä:** Etelä-Afrikan tasavalta on taloudellisesti ja poliittisesti Saharan eteläpuolisen Afrikan keskeisin maa. Etelä-Afrikan kansantuote on kolmannes tämän alueen kansantuotteesta. Etelä-Afrikan talous on kuitenkin monella tavalla jakautunut. Osa taloudesta on modernia, huipputeknologiaan perustuvaa liiketoimintaa. Yhteiskunnan ja elinkeinoelämän jakautuminen johtuu suurelta osin pitkästä apartheid-politiikan kaudesta. Etelä-Afrikan talouskehitys ei ole kuluneen vuosikymmenen aikana lunastanut täysin niitä odotuksia, joita siihen apartheidin päättymisen jälkeen asetettiin. Vapaakauppaa EU:n ja Etelä-Afrikan välillä pidetään esikuvana myös niille vapaakauppahankkeille, joita toteutetaan Cotonou-sopimuksen mukaisesti EPA-alueiden ja EU:n välillä. EU:n ja Etelä-Afrikan välisessä kaupassa ei ole nähtävissä kovin vahvoja merkkejä, jotka kertoisivat siitä, että kauppaa olisi siirtynyt EU:n ja Etelä-Afrikan väliseen kauppaan muun kauppavaihdon kustannuksella.

**Avainsanat:** *Etelä-Afrikka, vapaakauppa, kaupan kasvu, EPA*



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## **YHTEENVETO**

Etelä-Afrikan tasavalta on taloudellisesti ja poliittisesti Saharan eteläpuolisen Afrikan keskeisin maa. Etelä-Afrikan kansantuote on kolmannes tämän alueen kansantuotteesta ja viidennes koko Afrikan kokonaistuotannosta. Etelä-Afrikka on tärkeä kansainvälisen kaupan kannalta sekä maantieteellisen sijaintinsa, merkittävien luonnonvarojen että myös afrikkalaisittain varsin kehittyneen taloudellisen rakenteensa vuoksi. Etelä-Afrikkaa pidetään Afrikassa edelläkävijämaana.

Etelä-Afrikan talous on kuitenkin monella tavalla jakautunut. Osa taloudesta on modernia, huipputeknologiaan perustuvaa liiketoimintaa. Näin on erityisesti monilla palvelualoilla. Toisaalta suuri osa väestöstä on heikosti koulutettua ja köyhää, ja elää lähellä toimeentulon alarajaa. Yhteiskunnan ja elinkeinoelämän jakautuminen johtuu suurelta osin pitkästä apartheid-politiikan kaudesta, jolloin väestö jaettiin rodullisten rajojen mukaan.

### **Apartheidin jälkeen alkoi kaupan liberalisointi**

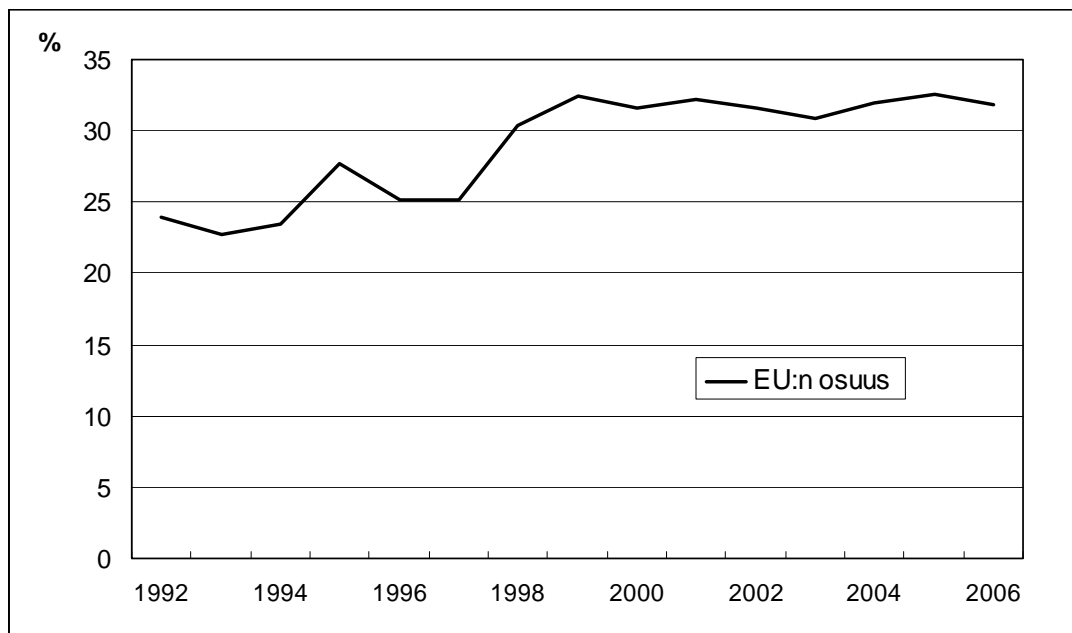
Apartheid-politiikalla oli merkittävä vaikutus myös kauppasuhteisiin, koska Etelä-Afrikka määrättiin YK:n päätöksellä kauppasaartoon. Ulkomaankaupan kasvu oli näinä vuosikymmeninä vähäistä, mikä heijastui myös muuhun taloudelliseen kehitykseen maassa. Apartheid päättyi vuonna 1994, minkä jälkeen ulkomaankauppaa alettiin liberalisoida. Etelä-Afrikka on ollut WTO:n jäsen vuodesta 1995 alkaen. Etelä-Afrikan uusien kauppasuhteiden luomiseen liittyi vapaakauppasopimuksen solmiminen Euroopan unionin kanssa vuonna 1999. Etelä-Afrikka liittyi lisäksi erityisjärjestelyin Euroopan unionin ja AKT-maiden vuonna 2000 allekirjoittamaan Cotonou-sopimukseen.

Taloudellisen ja kaupallisen toimintaympäristön muutoksista huolimatta Etelä-Afrikan talouskehitys ei ole kuluneen vuosikymmenen aikana lunastanut täysin niitä odotuksia, joita siihen apartheidin päättymisen jälkeen asetettiin. Talouskasvu on ollut vuosina 1995 - 2003 keskinkertaista, ja paljon alle esimerkiksi Aasian nopean talouskasvun maiden BKT:n kasvun. Vuosina 2004 - 2006 Etelä-Afrikan talouskasvu nopeutui ja nousi vuositasolla yli 5 prosentin. Talouskasvun nopeutumista auttoi kuitenkin ehkä eniten maailmantalouden hyvä kehitys, jonka seurauksena raaka-aineiden hinnat kansainvälisessä kaupassa kohosivat tuntuvasti. Etelä-Afrikan viennissä metallien ja mineraalien sekä niiden jalosteiden viennillä on keskeinen sija.

## Vapaakauppa EU:n kanssa vaikuttaa vielä vähän

Euroopan unioni ja Etelä-Afrikka allekirjoittivat vuonna 1999 kauppaa ja kehitystä koskevan sopimuksen (Trade, Development and Co-operation Agreement (TDCA)), jonka olennainen osa on vapaakauppa maiden välillä. Vuoden 2000 alusta voimaan tullut vapaakauppa sisältää kuitenkin siirtymäajan niin, että sopimukset tulevat täysimääräisesti voimaan Etelä-Afrikan viennille Euroopan unioniin vuoteen 2010 mennessä ja EU:n viennille vuoteen 2012 mennessä. Vapaakaupan piiristä on joko kokonaan tai osittain tariffikiintiöillä suljettu pois herkkiä tuotteita siten, että Etelä-Afrikan vienti on 95 prosenttisesti vapaa tulleista ja vastaavasti EU:n vienti 86 prosenttisesti. Vapaakaupan ulkopuolelle suljetut tuotteet ovat pääasiassa erilaisia maataloustuotteita. Etelä-Afrikan viennissä EU-alueelle teollisuustuotteet ovat käytännössä täysin vapaakaupan piirissä.

Vapaakauppaa EU:n ja Etelä-Afrikan välillä pidetään eräänlaisena esikuvana myös niille vapaakauppahankkeille, joita toteutetaan Cotonou-sopimuksen mukaisesti EPA-alueiden ja EU:n välillä. Tarkoitus on, että AKT-maat muodostavat kuusi maaryhmää, joista koostuvien talousalueiden kanssa EU tekee myöhemmin vapaakauppasopimukset. Vaikka maaryhmät, joita Afrikassa on neljä, poikkeavat maantieteelliseltä, taloudelliselta ja yhteiskunnalliselta kehitysasteelta paljon Etelä-Afrikasta, Etelä-Afrikan vapaakaupan kehityksestä voi saada kokemusta myös tulevien vapaakauppa-alueiden toimivuudesta.



**Kuvio 1.** Euroopan unionin osuus Etelä-Afrikan viennistä 1992 -2006, viennin arvon perusteella laskettuna

Source: South African Department of Trade and Investment



Tarkasteluperiodi, vuodesta 1995 vuoteen 2005, osoittautui kuitenkin liian lyhyeksi todellisten vaikutusten havaitsemiseksi. Tämä johtuu myös siitä, ettei vapaa-kauppasopimus ole vielä vuonna 2005 kuin osittain voimassa. Vapaakaupan kauppaa luova vaikutus ei tarkasteluperiodilla vielä juurikaan näy, koska Etelä-Afrikan vienti EU-alueelle kasvoi vuosina 2000 - 2005 heikosti (vrt. Kuvio 5).

Kauppatilastojen mukaan EU:n ja Etelä-Afrikan välisessä kaupassa ei ole nähtävissä kovin vahvoja merkkejä, jotka kertoisivat siitä, että kauppaa olisi siirtynyt EU:n ja Etelä-Afrikan väliseen kauppaan muun kauppavaihdon kustannuksella (Kuvio 1). Etelä-Afrikan viennin volyymilukujen perusteella vienti EU-alueelle kasvoi kuitenkin nopeammin kuin maan koko vienti (Kuvio 8). Etelä-Afrikan vienti Aasian maihin kasvoi vuosina 2000 - 2005 vielä EU-vientiäkin nopeammin. Etelä-Afrikan kauppaan vaikutti viennissä metallien ja muiden raaka-aineiden hintojen nousu sekä tuonnissa Aasian maiden, etenkin Kiinan viennin kasvu Etelä-Afrikan markkinoille.

Toisin kuin viennissä Euroopan unionin osuus Etelä-Afrikan tuonnissa aleni tuntuvasti vuosina 2000 - 2005 (Kuvio 12). Tuonnissa öljyn hinnan nousu nosti Lähi-idän maiden osuutta Etelä-Afrikan kokonaistuonnissa. Voimakkaimmin osuuttaan Etelä-Afrikan tuonnista nostivat Kiina ja Aseanin maat sekä lähialueen maat, eli SADC-alueen maat.

### **Suomen kaupassa muutokset vähäisiä - paitsi telekommunikaatiotuotteissa**

Katsauksessa tarkastellaan erikseen Suomen ja Etelä-Afrikan kaupan kehitystä vuosina 1995 - 2005. Merkilläpantavaa on, että Suomen ja Etelä-Afrikan koko ulkomaankauppa, vienti ja tuonti, ovat lähes yhtä suuria. Itse asiassa Suomen ulkomaankauppa on ollut vuosina 1991 - 2006 hieman suurempaa kuin Etelä-Afrikan (Kuvio 2). Vuonna 2006 Etelä-Afrikan tavaravienti (merchandise exports) oli 58,4 miljardia dollaria ja tavaratuonti (merchandise imports) vastaavasti 77,2 miljardia dollaria, eli kauppavaihto yhteensä oli 135,6 miljardia dollaria. Suomen vastaavat luvut olivat viennissä 77,0 miljardia dollaria ja tuonnissa 68,9 miljardia dollaria, eli yhteensä 145,9 miljardia dollaria (WTO 2007).

Suomen ja Etelä-Afrikan välisessä kaupassa ei vapaakaupan vaikutusta voi juurikaan havaita. Tuonti Etelä-Afrikasta Suomeen on pysynyt määrältään hyvin pienenä ja myös kasvua on ollut hyvin vähän. Etelä-Afrikan vienti Suomeen keskittyy perinteisiin elintarvikkeisiin kuten hedelmiin, viinirypäleisiin ja viiniin.

Suomen kauppa Etelä-Afrikan kanssa on ollut koko tarkasteluperiodin ajan voimakkaasti Suomelle ylijäämäistä. Vienti Etelä-Afrikkaan on ajoittain ollut jopa kuusinkertainen tuontiin verrattuna.

Suomen viennissä Etelä-Afrikkaan, toisin kuin vastaavassa tuonnissa, on ollut huomattavaa vaihtelua myös tarkasteluajanjaksolla. 1990-luvun puolivälistä vienti yli kaksinkertaistui vuoteen 2005 mennessä. 2000-luvun alussa viennissä tapahtui notkahdus, mutta jo vuodesta 2003 alkaen viennin kasvu on jatkunut nopeana. Viennin kehityksen vaihtelu on johtunut lähes kokonaan telekommunikaatiotuotteiden viennin kehityksestä. Tämä tuoteryhmä kattaa nykyisin noin puolet koko Suomen viennistä Etelä-Afrikkaan. Telekommunikaatiotuotteiden viennin muutokset ovat olleet suuria kuluneen kymmenvuotisperiodin aikana.

## **SUMMARY**

The Republic of South Africa is both economically and politically measured the most significant Sub-Saharan African country. The gross domestic product of South Africa constitutes one third of the total sum of the GDPs of that region and one fifth of the combined gross domestic products of Africa. In view of international trade, South Africa is substantial because of its geographical situation, natural resources and well developed economic structure. The Republic of South Africa is considered to be a leading nation in Africa.

The economy of South Africa is, however, in many ways divided. Part of the economy is modern business based on high technology. This is the case especially in many service branches. On the other hand, a great part of the population has low education and is poor, living at subsistence level. The reason for the splitting of society and economy is mostly the long apartheid era, when the population was separated according to race.

### **Liberalization of trade post apartheid**

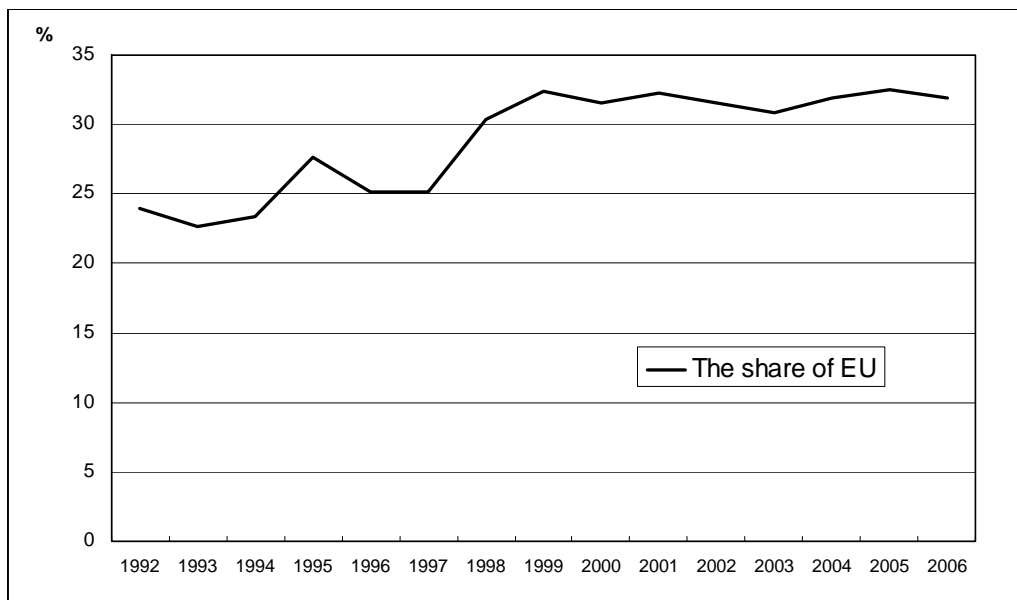
Apartheid also influenced greatly trade relations, because The Republic of South Africa was in trade embargo by UN resolution. During that blockade of trade, the growth of foreign trade was modest, which also reflected on the whole economic development in the country. Apartheid came to an end in 1994, after which the liberalizing process of foreign trade was started. Since 1995, South Africa has been a member of the WTO. A part of creating new trade relations was establishing a free trade agreement in 1999 with the EU. In addition, South Africa joined with special arrangements the Cotonou Convention signed in 2000 by the EU and the ACP countries.

In spite of the changes in trade markets, the economic development of South Africa has during the last decade not been as strong as expected after apartheid. During 1995 - 2003, the economic growth has been moderate, and a great deal poorer than the GDP growth of the fast growing Asian countries. In 2004 – 2006, the economic growth of South Africa became more rapid and the annual growth rate climbed over five percent. However, maybe the biggest boost to economic growth in South Africa was the progress in the global economy, because of which the raw material prices in international trade became significantly higher. Metals and minerals and their refinery products have a central position in South African export.

## Free trade with EU has little influence thus far

In 1999, the EU and the Republic of South Africa signed the Trade, Development and Co-operation Agreement (TDCA), of which fundamental part is free trade between the countries in question. Free trade was implemented from the beginning of 2000, but it comprises a transition period so that the agreement is fully implemented for South African exports to the EU countries by 2010 and for EU exports to South Africa by 2012. Sensitive products are excluded from free trade entirely or partially by tariff rate quotas (TRQ) so that 95 % of South African export is tax free and 86 % that of EU export respectively. Products not included in free trade are mainly various agricultural products. Of South African export to the EU nations, industrial products are basically fully within free trade.

Free trade between the EU and the Republic of South Africa is considered to be some kind of an exemplar also to those free trade agreements that will be implemented according to the Cotonou Convention between the EPA areas and the EU. The aim is for the ACP countries to establish six country groups that construct trade areas with which the EU will later sign free trade agreements. Even though the country groups, which there are four in Africa, are in geographical, economic and social development stage point of view greatly different from South Africa, the South African free trade development can provide knowledge also considering the success of upcoming free trade areas.



**Figure 1.** *EU share of South-African export between 1992 - 2006, based on export value.*

Source: South African Department of Trade and Investment.

The research period, from 1995 to 2005, proved, still, to be too short a time to verify factual influences. This is also due to the fact that the free trade agreement was in 2005 only partly implemented. The trade creation effect of free trade does not much show in the examined period, because the South African trade to the EU area grew weakly during 2000 – 2005.

According to trade statistics, there are not very strong signs of trade diversion to trade between the EU and South Africa on the cost of trade with the rest of the world (Figure 1). Nevertheless, based on South African export volume figures, export to the EU area grew faster than the total export of South Africa. South African export to Asian countries during 2000 – 2005 grew even faster than its EU export. South African trade concerning export was influenced by the price rise of metal and other raw materials.

Unlike in export, the share of the EU in South African import was significantly lower in the time period of 2000- 2005. When import is concerned, the rise of oil price increased the share of the Middle East countries of the total import of South Africa. What comes to import, the most influential to South African trade was the export growth of Asian countries, especially that of China, to South African markets. The biggest risers in South African import were China and the ASEAN countries and the nearby countries, i.e. the SADC area countries.

### **Changes in Finnish trade minimal – except in telecommunication products**

Trade development between Finland and the Republic of South Africa during 1995 – 2005 is also examined. Influence of free trade can scarcely be distinguished in trade between Finland and South Africa. Import from South Africa to Finland has remained very small in value and there has also been very little growth. Export from South Africa to Finland is concentrated in traditional food trade, such as grapes, other fruits and wine.

Finnish trade with South Africa has throughout the reported period shown strong surplus for Finland. The Finnish export to South Africa has from time to time been six times greater than the import.

Finnish export, unlike import, to South Africa has also varied remarkably during the reported period. From the mid-1990s export more than doubled by 2005. There was a downfall in export in the beginning of the century, but since 2003, export growth has continued to be strong. Changes in export development have almost entirely been caused by the development in telecommunication product export. Today this product group embraces approximately half of all Finnish export to South Africa. Changes in telecommunication product export have been great in the past decade.

# I INTRODUCTION

## **Trade policy focus shifts from multilateral to bilateral trade agreements**

The WTO trade talks that commenced in November 2001 – also known as the Doha Development Agenda – have proceeded awkwardly, and the outcome of the negotiations was still unclear at the end of 2007. With multilateral negotiations going through a difficult period, the focus of trade policy agreements and arrangements has shifted towards bilateral or regional agreements. The number of regional or bilateral agreements has already been growing very quickly since the mid-1990s. Since 1992, more than 200 Regional Trade Agreements (RTAs) have been concluded and notified to the GATT/WTO (WTO website: Regional Trade Agreements: Facts and Figures).

However, many RTAs have not entered into force or have been inactive. According to the WTO, there were a total of 194 RTAs in force in 2007 (WTO website). In September 2007, the European Union was party to a total of 20 Free Trade Agreements (FTAs), one customs union and an economic partnership agreement with Mexico. Among the EU's FTAs, six were with the Mediterranean countries: Morocco, Algeria, Egypt, Israel, Jordan, Lebanon, Syria, Palestine and Tunisia. It is, of course, an objective of the European Union to establish free trade throughout the whole Mediterranean area. The EU already has a customs union in place with Turkey.

The European Union is also negotiating free trade arrangements in Latin America with the Mercosur<sup>1</sup> countries and in Asia with ASEAN<sup>2</sup>. The FTA between the European Union and South Africa entered into force at the beginning of 2000. This agreement with Sub-Saharan Africa's most important economy has far-reaching implications. By the end of 2007, the Cotonou Agreement between the EU and the ACP countries (African, Caribbean and Pacific) will expire in accordance with WTO rules. In lieu of the Cotonou Agreement, the EU is offering the ACP countries an Economic Partnership Agreement (EPA), which in Africa consists of four free trade areas with which the EU will later enter into an FTA. The EPA arrangement complies with the WTO's free trade rules.

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<sup>1</sup> Mercosur member states: Argentina, Brazil, Paraguay, Uruguay and Venezuela, and the associate members Chile, Bolivia, Colombia, Ecuador and Peru.

<sup>2</sup> ASEAN member states: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

## **What is a Free Trade Area and what are their consequences?**

A Free Trade Area is an agreement that grants each participant country/region free access to its partners' markets but maintains sovereign trade policy towards non-participants. Many current FTAs seek to address two classes of trade barriers: 1) tariffs, customs duties, tariff rate quotas, etc, and 2) transparency, legal protection, intellectual property rights, etc (Kenneth Baltzer, Søren E. Frandsen and Hans G. Jensen, 2007).

According to economic and classic trade theory, regional trade liberalisation leads to welfare-enhancing trade creation as well as trade diversion, which adversely affects welfare.

The net balance of trade creation and diversion impacts, and therefore the calculation of the gains from establishing a free trade area, depend on:

- a) the size and extent of trade barriers prior to entering the free trade agreement;
- b) the trade shares of each country as a trading partner in a liberalised trade situation;
- c) the degree to which the effect of removing barriers to trade between members results in more or less access overall by trading partners to the free trade area; and
- d) the degree to which trade diversion occurs, ie the extent to which a reduction in trade barriers between the partner countries causes industries to expand that are relatively high cost on a global scale (Kenneth Baltzer, et al.,2007, p. 11).

## **The case of South Africa**

The FTA between South Africa and the EU was the outcome of long negotiations. The European Union wanted to provide strong support to South Africa's strive for economic growth, eg by increasing foreign trade and liberalising trade policies after the long years of apartheid. The present study provides an early review of the development of trade between South Africa and the European Union at the outset of the free trade era. Although the agreement is not yet in full effect, some trade creation effects may already be apparent halfway through the first decade of the new century.

The present decade has already seen many changes in international trade that influence South African trade even more strongly than free trade with the EU. Increases in the price of oil, raw materials and other basic commodities dominate the trade picture in African countries. The underlying reason is the rapid development of the Chinese economy and other rapidly emerging Asian countries, which also boosts demand in Africa.

The case of South Africa also serves as pointer to trade developments between the EU and potential new trading areas when the agreements eventually enter into force. On the other hand, South Africa is an economic superpower in comparison with other countries in Sub-Saharan Africa. Development and changes in these other countries are likely to be much slower than in South African trade (see Annex 1).

### **Contents of the present study**

A great change in the economic and political development of South Africa took place in 1994 when the country moved from apartheid to democracy. The first democratic elections were held in April 1994. In terms of trade policy, this meant that a UN-backed embargo was replaced by normal foreign trade. Therefore, any review or analysis of trade should be mainly limited to the post-apartheid era, ie from 1995 onwards.

Chapter II looks into South African economic structures and economic developments, particularly after the apartheid era in the 1990s and the early years of the new millennium. A key part of this review is to assess the changes in economic structures while South African trade and trade policies were being liberalised after the mid-1990s. Chapter II also makes reference to barriers to South African trade that are not directly related to trade policies or their liberalisation.

Chapter III looks into the contents of the Trade, Development and Cooperation Agreement between the European Union and South Africa, and its impacts on the development of trade between the parties.

Chapter IV takes a detailed look at trade between South Africa and Finland in 1995–2005. During this period, Finland was already an EU Member State and therefore affected by EU trade agreements. The purpose of this chapter is to assess whether the trade agreements between South Africa and the EU are reflected in trade between South Africa and an individual Member State.

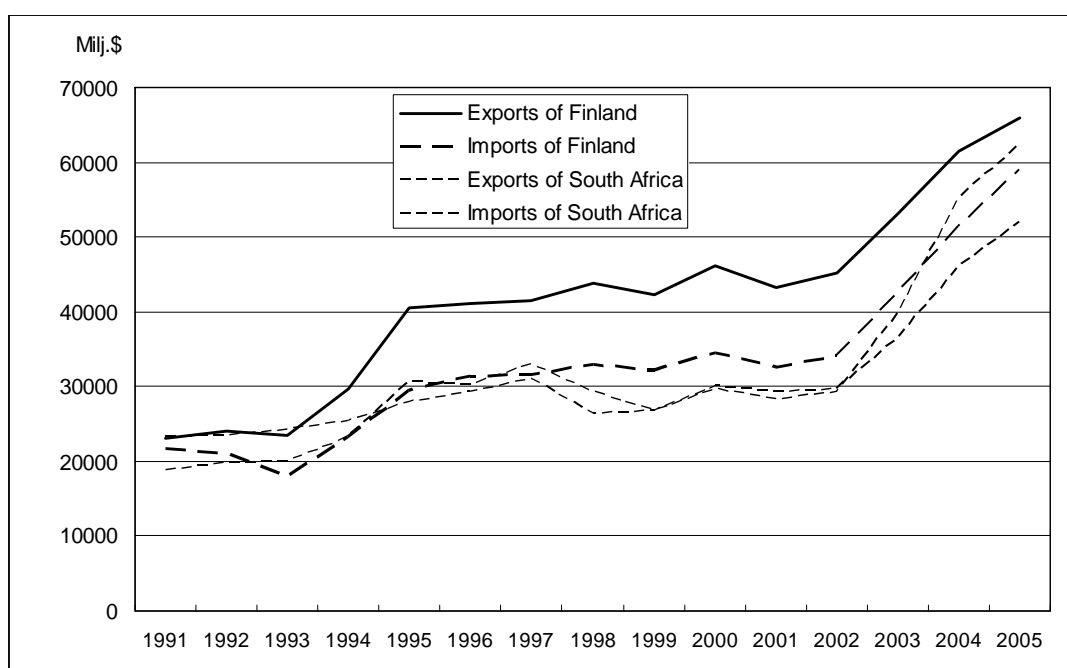
Chapter V presents conclusions drawn on the basis of the reviews in the other chapters.



## II DEVELOPMENT OF SOUTH AFRICAN GOODS EXPORTS AND ECONOMY IN THE 1990s AND THE EARLY 2000s

The Republic of South Africa is one of the wealthiest countries in Africa. In 2006, South African gross domestic product (GDP) amounted to about US\$ 255 billion (IMF), making up a third of Sub-Saharan Africa's total GDP. For Africa as a whole, South Africa accounts for a good fifth of total GDP. South African foreign trade is also considerable in comparison to other African countries. During 2000–2006, South African exports grew by 12% annually. In Africa as a whole, however, the biggest exports gains have been achieved by the oil-exporting countries<sup>3</sup>. South Africa's share of the exports of non-oil-exporting African countries in 2006 was about 40%, and of corresponding imports about 37%.

Although South Africa is an economic superpower by African standards, its share of the world economy is relatively minor. In 1991–2005, its total exports were much lower than Finland's (Figure 2). South African imports, in contrast, were on a par with Finnish imports.



**Figure 2.** Finnish and South African total exports and imports in 1995–2005

Source: WTO Trade Statistics

<sup>3</sup> Algeria, Cameroon, Chad, Congo, Equatorial Guinea, Gabon, Libya, Nigeria and Sudan.

In 2005, South Africa accounted for 0.49% of global goods exports and 0.57% of goods imports (WTO: World Trade Statistics 2006). In services trade, South Africa's share in the same year was 0.44% of exports and 0.50% of imports.

Both Finnish and South African trade experienced solid growth after 2002. This was related to the global economic upswing that began in 2003. This, in turn, was based on the strong growth of world trade. This time, global economic growth also gave an exceptionally strong boost to the demand for raw materials, which was reflected in both world market prices and the export income of African countries.

### **Economic liberalisation**

As previously pointed out, South Africa's economy and economic policies were until the mid-1990s dominated by apartheid. Its consequence was a UN-imposed trade embargo. Economic policies therefore focused on import substitution and self-sufficiency. Foreign trade and the economy grew fairly slowly in 1971–1990. In 1971–1980, exports grew by 0.9%, and imports by 1.9% annually. In the 1970s, economic growth had been about 3.4% annually. The raw materials boom of the 1970s supported trade and the economy.

In the 1980s, South African integration with the international economy deteriorated further. Exports grew in 1981–1990 by about 1.4%, and imports by 0.3% annually. Annual economic growth waned to 1.5%. The standard of living fell (Lawrence Edwards and Robert Lawrence, 2006).

South Africa began to liberalise its foreign trade in the 1990s, particularly after the regime change in 1994. Import protection still remained high in 1994. The average import tariff was 21.9%. By 2003, however, the MFN tariff had fallen to 11.3% on average (Lawrence Edwards and Phil Alves, 2005).

South Africa has since sought deeper integration with the international economy. In addition to the lowering of tariffs and simplification of the tariff structure, it has entered into numerous trade arrangements with its trading partners. The country has been a WTO member since 1995. Furthermore, the customs union SACU (Southern African Customs Union) with the neighbouring Namibia, Botswana, Swaziland and Lesotho received renewed momentum after South Africa's political reorientation.

Another economic and political alliance, the SADC (Southern African Development Community), was in fact established in 1980 to oppose South Africa's apartheid policy. Now South Africa is an SADC member along with Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique,

Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. The SADC is a somewhat looser economic union than the SACU.

South Africa and the European Union conducted long trade negotiations in the latter half of the 1990s. As a result, an FTA was concluded in 1999. It entered into force already on 1 January 2000, but transitional periods extend up to 2012.

Liberalisation of trade policies began to be reflected in an opening of the South African economy. Exports and imports as a proportion of GDP, which had decreased from the 1970s up until the end of the 1980s, began to pick up. The GDP ratio of exports increased notably in the 1990s, as did imports. Export growth was particularly striking in industrial products (Lawrence Edwards and Phil Alves, 2005).

### **Agricultural products play a minor role – industrial products increase their share**

In South Africa, in contrast to many developing economies, the proportion of agricultural products in economic output is not very high. Their share of GDP is about 3% and of employment a good 4%. The most important agricultural products are maize, cane sugar and wheat. The most important agricultural export products are citrus fruits, sugar and, above all, wine. Agricultural products currently account for less than 5% of South Africa's total exports, and the proportion is slowly decreasing.

The South African farming sector is, as a reflection of the apartheid era, clearly bipolar. On one hand there is the developed commercial agriculture, with a good 40,000 farms accounting for a majority of South African agricultural production. The commercial farms also hold about 87% of the cultivated area (Johann Kirsten, 2006). The remainder of the cultivated area is shared by about 2.5 million small farmers. Their production is essentially at the level of self-sufficiency.

In the 1970s and 1980s, the proportion of industrial products in South African exports remained at less than a third (Lawrence Edwards and Phil Alves, 2005). As a result of the opening of the economy and economic development, this has, however, increased rapidly (Table 1).

**Table 1.** Proportions of different sectors in South African exports in 1994–2005, %

	1992	1995	2000	2005	2006
Agriculture	3.6	4.2	3.7	4.6	3.6
Mining	54.0	44.1	38.0	31.1	32.6
Manufacturing	40.2	50.2	57.8	64.1	63.7
Other Trade	2.2	1.5	0.4	0.2	0.1

Source: South African Department of Trade and Investment

In the period 1994–2005, the structure of South African exports changed materially. At the beginning of the 1990s, mining activities still accounted for more than a half of exports. By 2005, the proportion of industrial products had already risen to almost two thirds. Correspondingly, the proportion of the mining sector had decreased below a third.

Industrial products have gained ground in South African exports, as they have in the foreign trade of many emerging economies. A few industries based on mid-level technologies, such as the automotive industry, have raised their share. The proportion of high-technology products is still low in South African exports.

When the EU concluded an FTA with South Africa, EU's import tariffs were reduced on a front-load basis so that South Africa could improve the diversity of its industry and the structure of its industrial exports. There has been little sign of such developments in the early years of the present decade.

### **Production and exports slow to diversify**

Although the proportion of industrial products in South African exports has risen considerably and already stands at about two thirds, exports are still not very diversified. The largest industrial product export groups in 2005 were iron and steel, precious metals, non-ferrous metals, jewels and jewellery. Over a third of industrial product exports were based on the manufacture of basic metals and minerals (Table 2).

Motor vehicles and motor vehicle components also take a relatively high proportion of South African exports. Along with aircraft components, they accounted for a good third of industrial product exports. The rest were spread across a very high number of sectors. In addition to exports of various equipments, appliances, chemicals and plastics, a significant share consisted of foodstuffs refined from agricultural products.

**Table 2.** *South African industrial product exports by product group in 2006, ZAR bn and %*

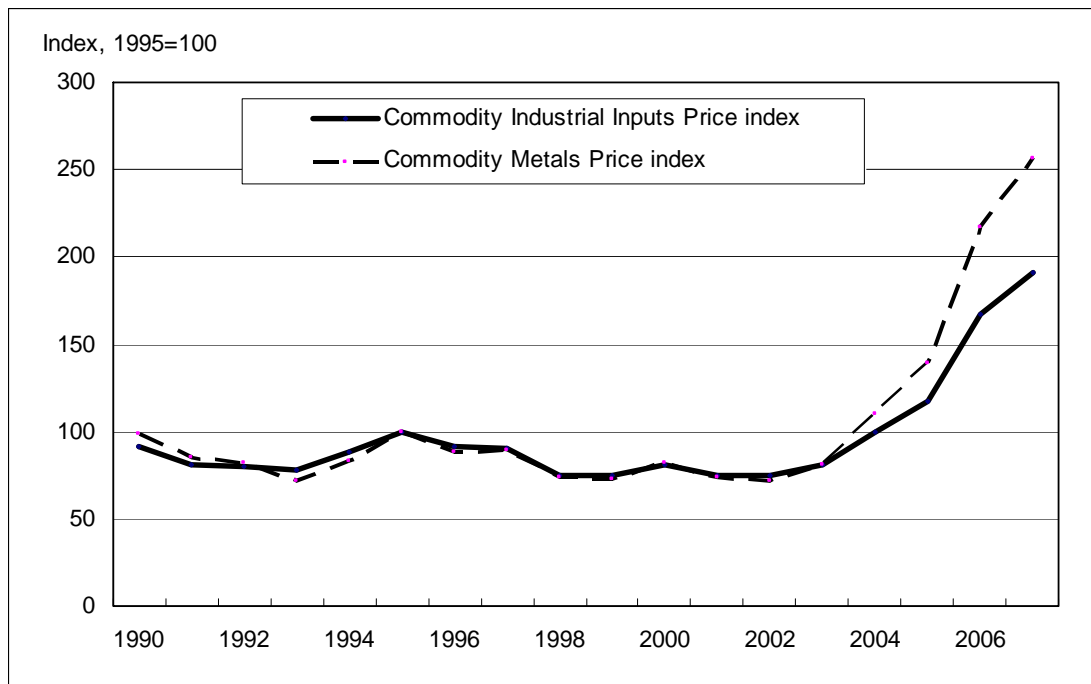
<b>SIC</b>		<b>Exports</b>	<b>%</b>
3510	Basic Iron and Steel	41,3	16,4
3520	Basic Precious and Non-ferrous Metals	38,5	15,2
3810	Motor Vechiles	29,6	11,7
3569	Other General Purpose Machinery	17,4	6,9
3341	Basic Chemicals, Except Fertilizers etc.	14,0	5,5
3320	Petroleum Refineries/Synthesisers	9,2	3,6
3231	Pulp, Paper and Paperboard	6,1	2,4
3830	Parts and Accessories for Motor Vechiles	5,7	2,3
3921	Jewellery and Related Articles	5,6	2,2
3951	Recycling Metal Waste and Scrap N.E.C.	5,5	2,2
3051	Distilling, Rectifying and Blending of Spirits	4,7	1,9
3860	Aircraft and Spacecraft	4,4	1,7
3910	Furniture	3,3	1,3
3574	Machinery for Mining, Quarrying and Constr.	3,0	1,2
3359	Other Chemical Products N.E.C.	2,9	1,1
3343	Plastic in Primary Form and of Synt. Rubber	2,7	1,1
3559	Other Fabricated Metal Products N.E.C.	2,6	1,0
3541	Structural Metal Products	2,4	1,0
3013	Processing and Preserving of Fruit and Veget.	2,3	0,9
3012	Processing and Preserving of Fish and Fish Pr.	1,9	0,8
	All of the above, total		80,4
	Total manufacturing exports	252,5	100,0

Source: South African Department of Trade and Investment

### **Obstacles to South African economic development**

South Africa is an economic superpower in Sub-Saharan Africa. However, economic growth has not been as fast as, for instance, in the rapidly growing economies of Asia. In fact, growth remained slow in 1991–2000, at only 1.9% annually on average. The pace has picked up since the turn of the millennium and in 2001–2004 already stood at 3.2% a year (Lawrence Edwards and Robert Lawrence 2006).

In 2004–2006, South African growth was already high by African standards, at about 5%. Growth and economic development were boosted by the rapid increase in world market prices for commodities, particularly minerals and metals.



\* Copper, Aluminium, Iron Ore, Tin, Nickel, Zinc, Lead, Uranium

**Figure 3.** *IMF commodity and metal\* price indexes, 1995 = 100*

Source: IMF: World Economic Outlook Database for October 2007

Despite the liberalisation of trade, opening of markets and strong performance of the commodities markets, the South African economy has not flourished quite as its natural resources, or geographical location at the crossroads of trading routes, would suggest. This is due to the legacy of the apartheid era and the heightening of demographic problems.

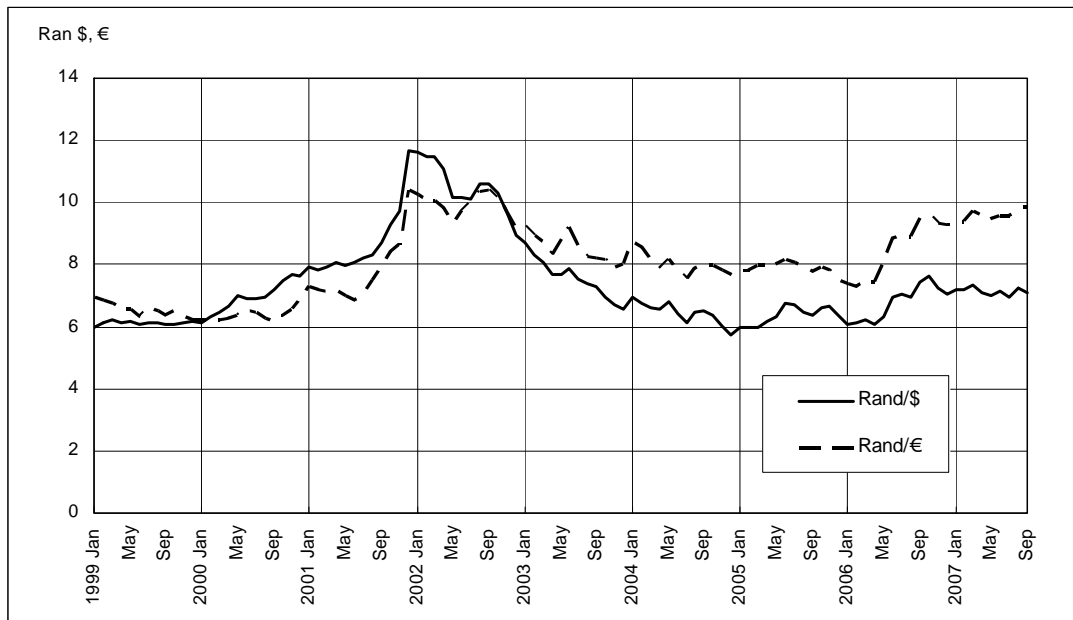
One legacy of the apartheid era is that the South African population and economy are seriously divided. A large proportion of the black or coloured population is badly educated and poor. A variety of social problems, including crime, cast a very large shadow. Despite a population of 47 million, the country lacks an educated labour force, which is why high-technology production has failed to emerge to any significant degree. South Africa is still concentrating on exploiting its natural resources through farming and mining, and the refinery of related products. The industry that has emerged consists mainly of low- or medium-level technological sectors. Furthermore, the textiles and clothing industry has, particularly since 2005, suffered from the competitiveness of Asian production, which is superior in comparison to South Africa.

Economic and general social development in South Africa are overshadowed by the HIV/AIDS pandemic. Over 10% of the population have already contracted HIV. Hundreds of thousands of people die every year of complications caused by AIDS. The disease is mainly affecting people of prime working age. Among the farming and

mining labour force, tens of percents are infected with HIV. It has been calculated that HIV/AIDS is already slowing economic growth by 0.5–1% a year. The situation may worsen further in the years ahead.

### Exchange rate changes are reflected in foreign trade

The value of the South African currency, the rand, has weakened over the review period 1995–2005 against both the euro and the dollar. This is reflected in the value of South African imports and exports when developments are assessed in rand terms. Therefore, foreign trade developments are reviewed below also in terms of trade volume and the most important currencies, the dollar and the euro. When reviewing a change in the structure of foreign trade, the development of proportions is affected by exchange rate changes if they deviate significantly between different currencies.



**Figure 4.** Exchange rate of the South African rand against the euro and the dollar in 1995–2007

Source: South African Department of Trade and Investment

The rand depreciated very steeply against both the dollar and the euro in 2001–2002. In 2002–2005, in contrast, it appreciated against both currencies. Since 2006, it has depreciated much more against the euro than against the dollar, due to the decline in the value of the dollar against the euro.

### **III FREE TRADE BETWEEN SOUTH AFRICA AND THE EU**

Soon after the end of apartheid South Africa joined the Lomé Agreement under special arrangements in 1997, so work began on establishing trade relations between the European Union and South Africa. On 11 October 1999, an extensive Trade, Development and Cooperation Agreement (TDCA) was signed. This entered into force at the beginning of 2000. The agreement has become the cornerstone of trade relations between South Africa and the EU. In 2000, South Africa also signed the Cotonou Agreement, which includes 78 ACP countries.

The TDCA between South Africa and the EU has been an important model and precursor when negotiating Economic Partnership Agreements (EPAs) with the ACP countries to supplement the Cotonou Agreement. The purpose of these EPAs is to establish free trade areas with which the EU will later enter into an FTA. The EPA period has been set to begin in 2008.

Although the South African TDCA is sometimes considered an exemplar for FTAs between the EU and Africa, including EPAs, there have not been many studies on their practical relationship. One of the key preliminary conclusions, however, is as follows: 'Free trade alone is not enough to ensure attractiveness of any FTA, the EPA negotiators will have to focus strongly on issues of investments and development cooperation.' (The TDCA, 2004.)

The TDCA has been in force only for a short time, so any observations on its impacts are still very tentative. Perhaps conclusions can only be drawn in the 2010s.

#### **Contents of the free trade agreement between South Africa and the European Union**

The main part of the TDCA between South Africa and the EU consists of a free trade agreement whose application began in 2000. Following a transitional period, in 2012, South African exports to the EU area will be 95% duty free. Correspondingly, EU exports to South Africa will be 86% duty free. However, these estimates are based on the distribution of goods in foreign trade prevailing in the 1990s. Over the years, the structure of foreign trade may change. Over time, additional tariff reductions may also be negotiated. At any rate, the agreement meets the WTO requirement that a very significant proportion of trade falls within the scope of free trade.



The main features of the agreement are as follows:

1. *Asymmetry and Differentiation*: In recognition of South Africa's economic restructuring efforts, the EU will open up its market faster and more extensively for South African products than it will ask South Africa to do for EU products. The EU will liberalise about 95% of its South African imports within 10 years, while the respective figures on the South African side are around 86% in 12 years.
2. *Support for Regional Integration*: The EU and South Africa have committed themselves to designing the free trade agreement in a way that will support the process of regional economic integration ongoing in the Southern African Region.
3. *WTO Compatibility*: The free trade agreement is in full compliance with the rules of the WTO and will cover 'substantially all trade' between the two parties, without excluding any significant sector.
4. *Protection for sensitive sectors*: Both partners have excluded certain products from the free trade agreement in order to protect vulnerable sectors. On the South African side, products which are of specific interest to Botswana, Namibia, Lesotho and Swaziland, all of which are in a customs union with South Africa, have also been excluded.
5. *Integration of South Africa into the global economy*: The apartheid era left South Africa economically isolated from both its neighbours in the SADC region and the world at large. The free trade agreement will assist South Africa in its integration into the world economy by helping to promote increased growth and competitiveness, liberalising trade and encouraging investment.

The schedule for reduction of EU customs duties has been set so that exports of South African industrial products are almost duty-free on a front-load basis. Tariffs on South African industrial exports will, in effect, be almost completely removed.

**Table 3.** Coverage of duty-free trade in imports between South Africa and the EU

	<b>Agricultural</b>	<b>Industrial</b>	<b>Total</b>
South Africa	81,0 %	86,5 %	86,3 %
European Union	61,4 %	99,98 %	94,9 %

Source: European Commission (1999)

### **Sensitive products**

The agreement specifically lists the goods that do not fall within the scope of free trade. On the EU side, these are almost exclusively agricultural products and foodstuffs. A total of 304 tariff items corresponding to about 3%, were left completely outside tariff

reductions in EU imports from South Africa. The South African list of exceptions includes a total of 120 tariff items, including agricultural products, foodstuffs and industrial products.

**Table 4.** *Original product groups ('sensitive products') left outside the scope of tariff reductions*

<b>European Union's list of products</b>	<b>South Africa's list of products</b>
Beef	Beef
Sugar	Sugar
Certain dairy products (incl. milk, butter)	Certain dairy products (incl. milk, butter)
Sweet maize	Sweet maize
Maize and maize products	Maize and maize products
Rice and rice products	Barley and barley products
Starch	Wheat and wheat products
Certain cut flowers	Starch
Certain fresh fruits	Chocolate
Tomato products	Ice cream
Fruit products and juices	
Vermouth	
Ethyl alcohol	
Certain fish products	
Non-refined aluminium	Oil and oil products
	Certain chemicals
	Certain textiles
	Automotive vehicles

Source: European Commission (1999).

### **Tariff rate quotas**

Tariff rate quota concessions are implemented for some of the products that are excluded from the overall liberalisation process (Table 5).

**Table 5. Tariff quotas conceded by the EU and South Africa**

<b>Main TRQ conceded for imports to the EU</b>	<b>Main TRQ conceded for imports into South Africa</b>
cut flowers (1 600t, half duty)	cheese and curd (5 000 t, half duty)
strawberries (250 t, half duty)	
several canned fruits (60 000 t, half duty)	
several fruit juices ( 5 700 t, half duty)	
some wines (32 million litres, duty free)	

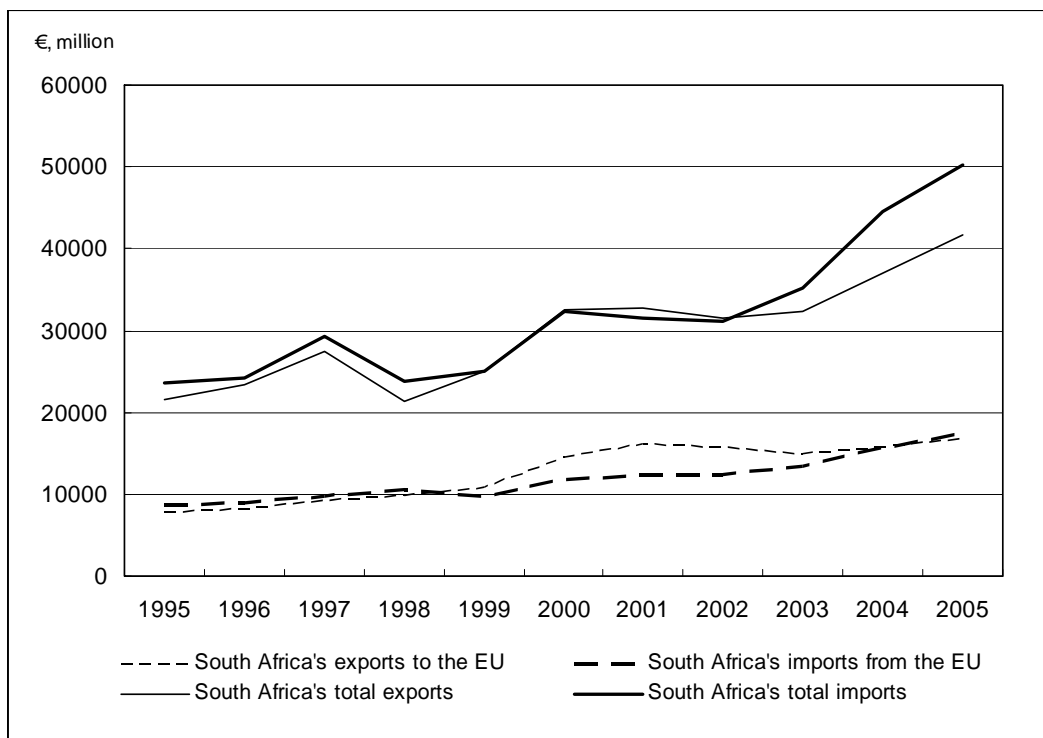
Source: Ecdpm: Comparing EU free trade agreements, In Brief No. 6A - July 2004

As in the other agreements, important products are excluded from tariff reductions in the TDCA. Market access for a limited amount of those products is granted by TRQs.

### Trade at the beginning of the 21st century

The FTA will enter fully into force in 2012. By that time, customs duties will have been abolished to the agreed extent, ie – as mentioned above – South African goods imported into the EU area will be 95% duty free and EU exports to South Africa correspondingly 86% duty free.

Despite the front-loaded abolition of trade barriers, South Africa’s exports into the EU area have not increased very significantly. According to Figure 1, the EU’s share of South African exports rose clearly at the end of the 1990s but has remained almost unchanged thereafter.

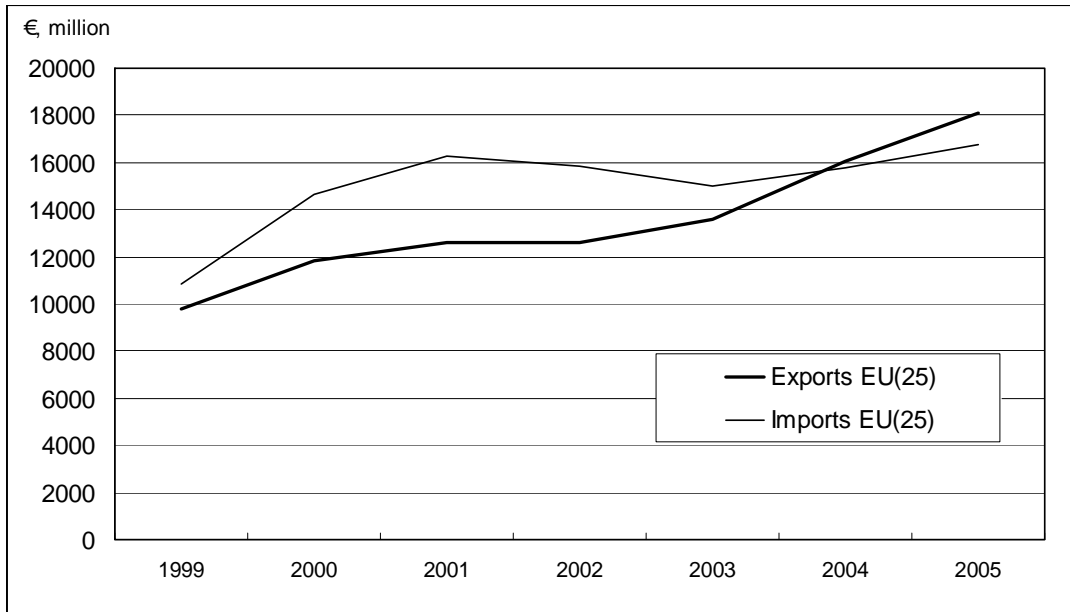


**Figure 5.** *South Africa’s total exports and imports and trade with EU(15) countries in 1995–2005*

Source: Comext

The picture of trade developments depends to some extent on the currency used for observation purposes (Figure 4). According to Figure 5, South African trade with the EU, and particularly exports, increased in dollar terms fairly slowly over the first years of the new millennium. A similar picture also emerges when South African exports to

the EU area (EU25) are measured in euro terms (Figure 6). After the turn of the millennium, South African exports to the EU were treading water.



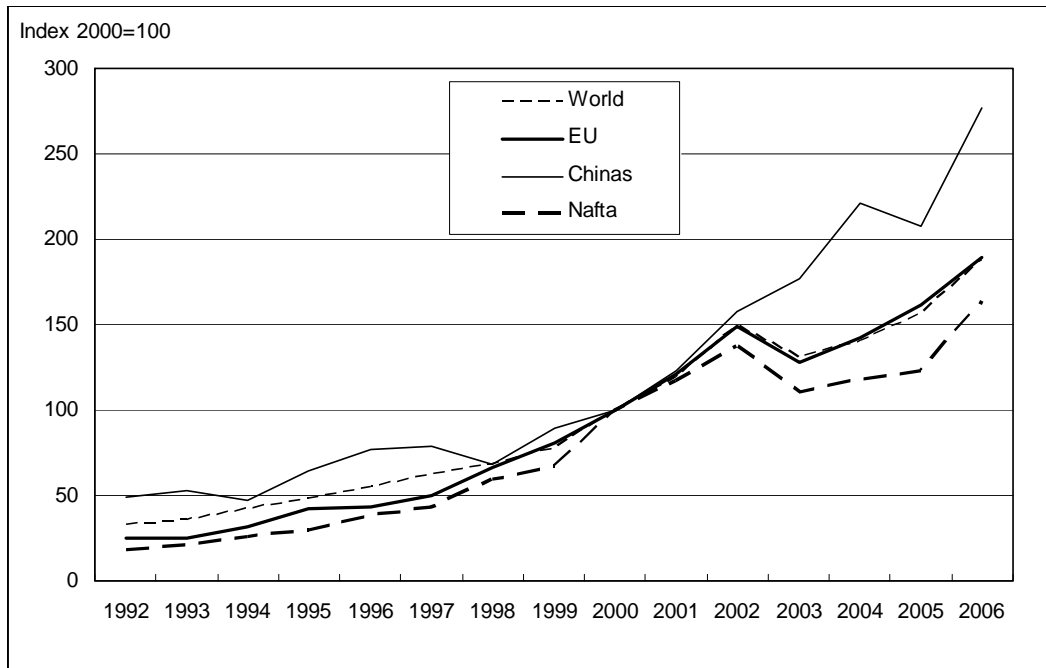
**Figure 6.** *Development of trade between the European Union (EU25) and South Africa in 1999–2005, exports and imports*

Source: EU Commission, Trade Statistics

South African exports to the EU area increased in 1999–2005 by 54%, but in 2000–2005 by only 14%. The same applies to exports of industrial products from South Africa to the EU25. In 1999–2005, growth amounted to 57%, but in 2000–2005 to only 12%. In practice, South African exports to the EU remained stable long after 2000, which is perplexing in the sense that customs duty reductions were supposed to boost South African exports already in the early years of the century.

### **South African EU exports increased**

When South African exports are assessed in the country’s own currency, the rand, the picture changes somewhat. In rand terms, exports have grown in 1992–2006 every year except for 2003.



\* Chinas = China, Hong Kong, Taiwan

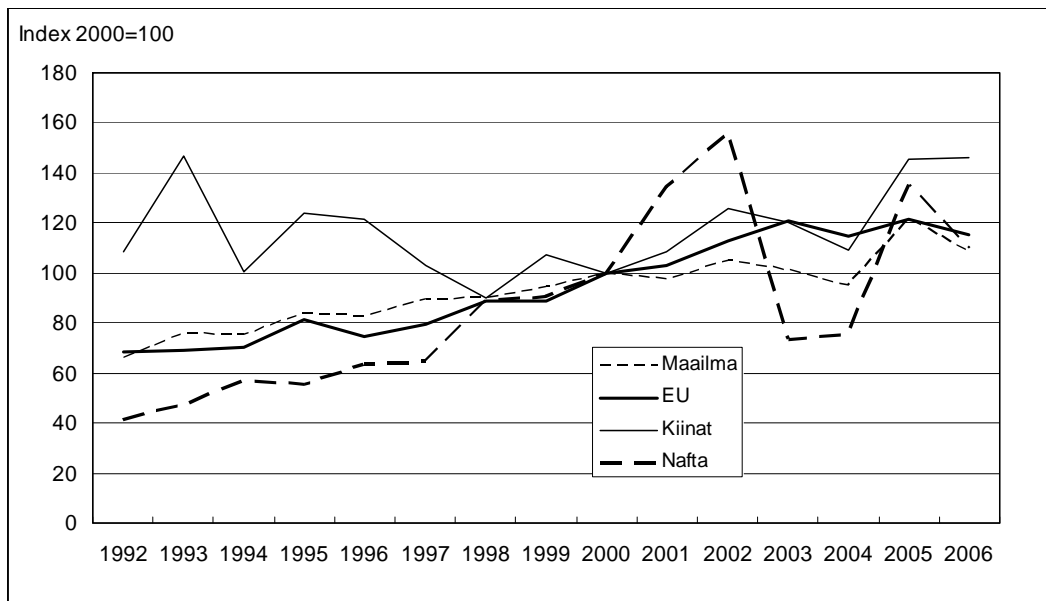
**Figure 7.** *Development of South Africa's export value index (rand) in 1992–2006, 2000 = 100*

Source: South African Department of Trade and Investment

According to the export value index (Figure 7), South African exports to the EU have grown almost apace with South African total exports. This was the case particularly in the first years of the new century. In contrast, exports to China increased at this time much faster than other trade. At the same time, the value of exports into the North American NAFTA countries – the United States, Canada and Mexico – grew slightly more slowly than average.

When assessing the corresponding volumes of South African exports to the above-mentioned groups of countries and the rest of the world, we can see that in the early years of the 21st century, the South African export volume index (Figure 8) with respect to the EU area rose slightly more than with respect to the rest of the world. However, the development of South Africa's total exports in the early years of the century was sluggish. In fact, export volume growth was almost zero in 2000–2004.

The volume of exports to China rose faster than average in the early years of the century. In contrast, the volume of exports to NAFTA fluctuated strongly.



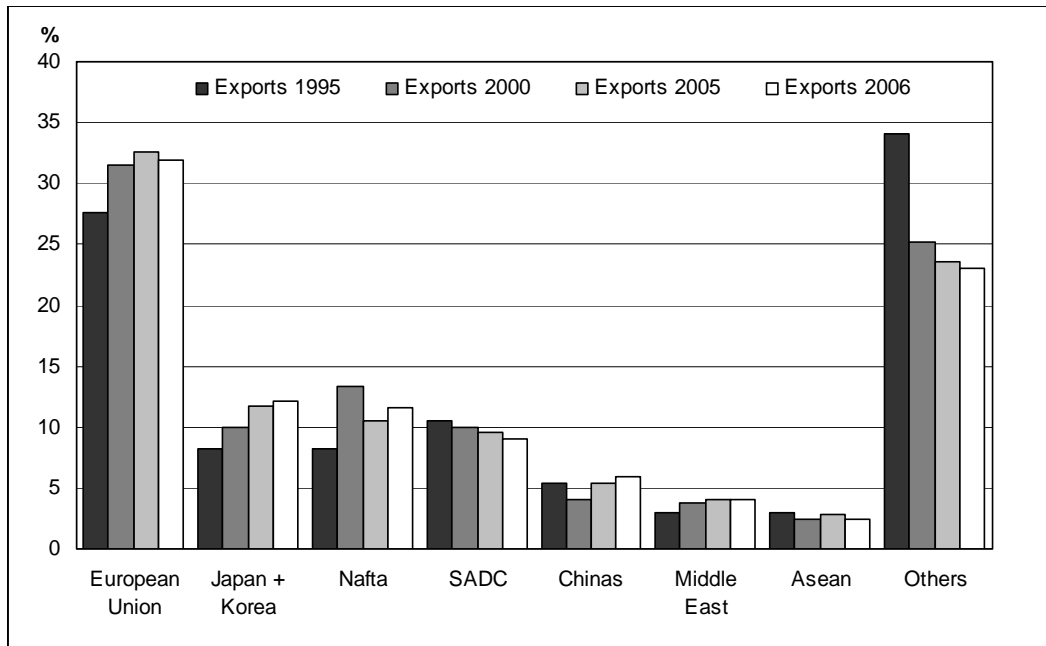
**Figure 8.** *Volume index of South African exports to major trading partners, 2000 = 100*

Source: South African Department of Trade and Investment

### **Changes in the regional structure of South African exports**

When the developments shown in Figures 7 and 8 are assessed in terms of changes in the regional structure of South African exports (Figure 9), the picture is particularly interesting with respect to EU countries. The European Union’s share of South African exports rose significantly in 1995–2000, as was also illustrated by Figure 1 on page 4. The EU’s share of South African exports has been about a third since the turn of the millennium.

The biggest proportional gains over the review period have been by the Asian economies, particularly Japan and Korea in Figure 9. In contrast, the proportion of ‘Other countries’ fell materially towards the end of the 1990s. The proportion of South Africa’s neighbouring region, the SADC countries, has diminished somewhat over the review period.



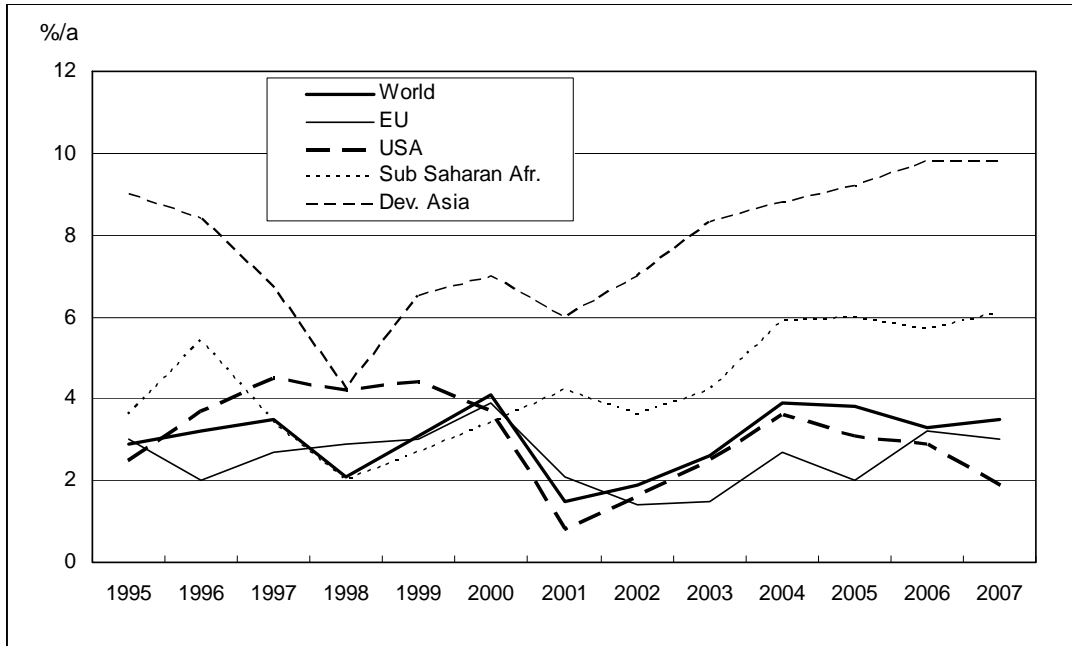
**Figure 9.** *Regional structure of South African exports (value) in 1995, 2000, 2005 and 2006*

Source: South African Department of Trade and Investment

### **Role of economic growth in different market areas**

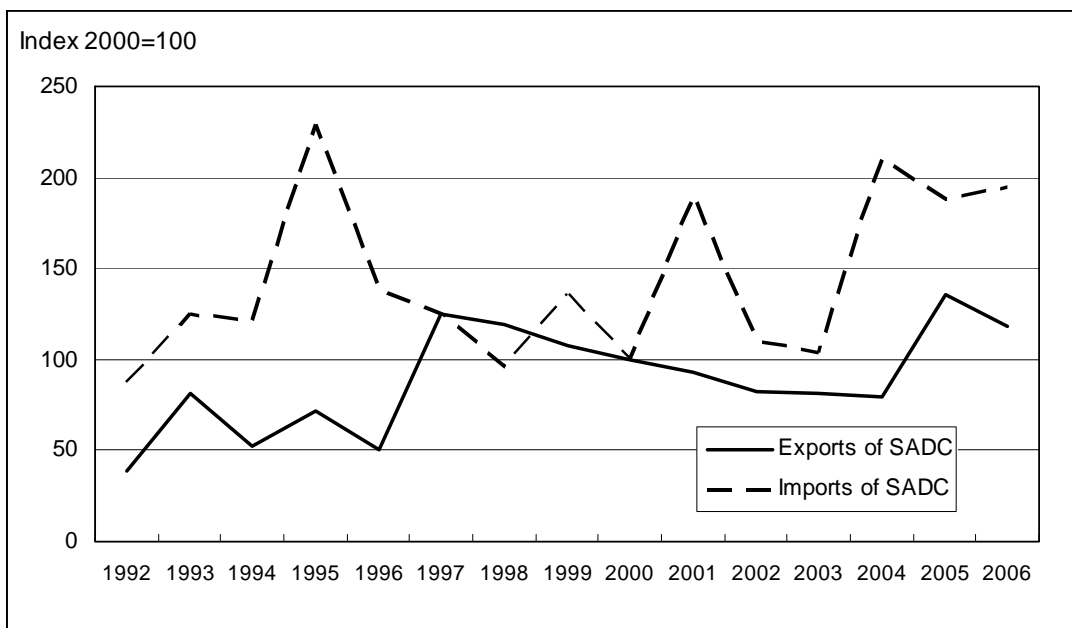
According to the export volume index, South Africa's total exports trod water in 2000–2004 (Figure 8). Development was weaker than growth in the export markets would have suggested. However, the growth rate of South African exports and regional focus of growth mainly follow the economic development of the export areas, ie the markets. Economic growth in the emerging Asian economies, particularly China, India and the ASEAN countries, has been rapid over the last decade (Figure 10). Thus South Africa's export markets have also grown faster in Asia than in the traditional industrial economies.

In contrast, economic growth in the industrial economies, the US as well as the EU area, was sluggish in the early years of the century. Economic growth in the European Union remained slow in 2001–2003 when EU markets were opened to South African industrial exports in accordance with the free trade agreement.



**Figure 10.** Regional GDP growth, constant prices

Source: IMF: World Economic Outlook Database for October 2007



**Figure 11.** South African trade with the SADC area in 1992–2006

Source: South African Department of Trade and Investment

**No trends in neighbouring region trade**

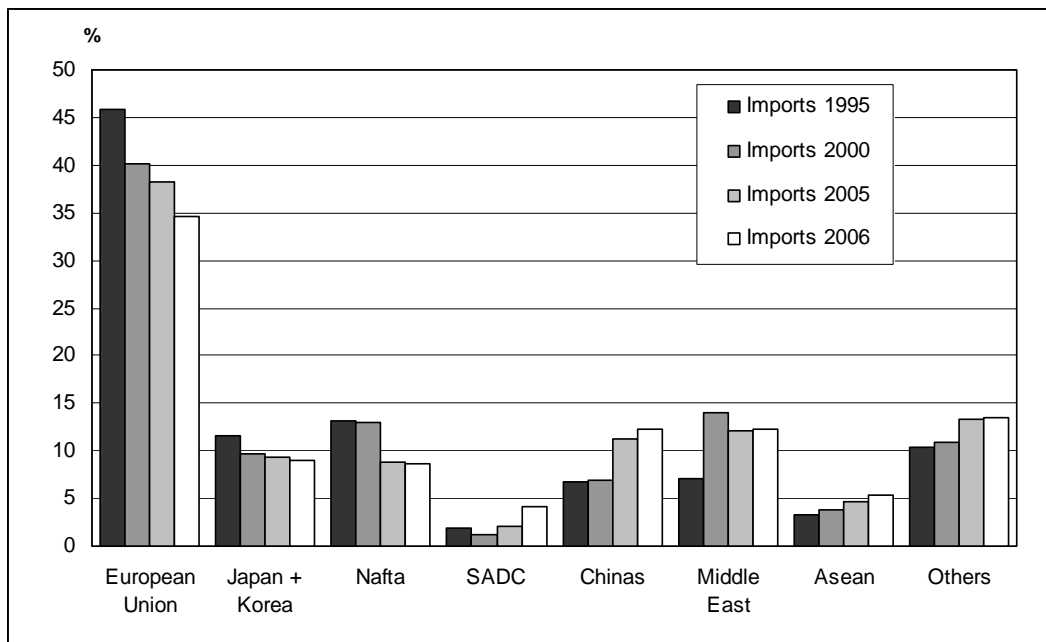
The SACU countries and, on a larger scale, the SADC countries comprise South Africa’s neighbouring region, with which it has ever deepening economic relations.



According to Figure 11, based on trade volume developments, South African imports or exports show no clear trend in 1992–2006. Exports would seem to follow a slightly upward trajectory, but imports from the SADC countries vary greatly year by year.

### EU loses market share in South African imports

Since the turn of the millennium, imports to South Africa from other countries have grown much faster than imports from EU countries. EU countries’ share of South African imports has fallen considerably in the period 1995–2006 (Figure 12), from a good 45% to less than 35%, ie by 10 percentage points. North America’s (NAFTA) share of South African imports has also declined. In contrast, the proportion of imports from China, the ASEAN countries and the SADC area has increased.

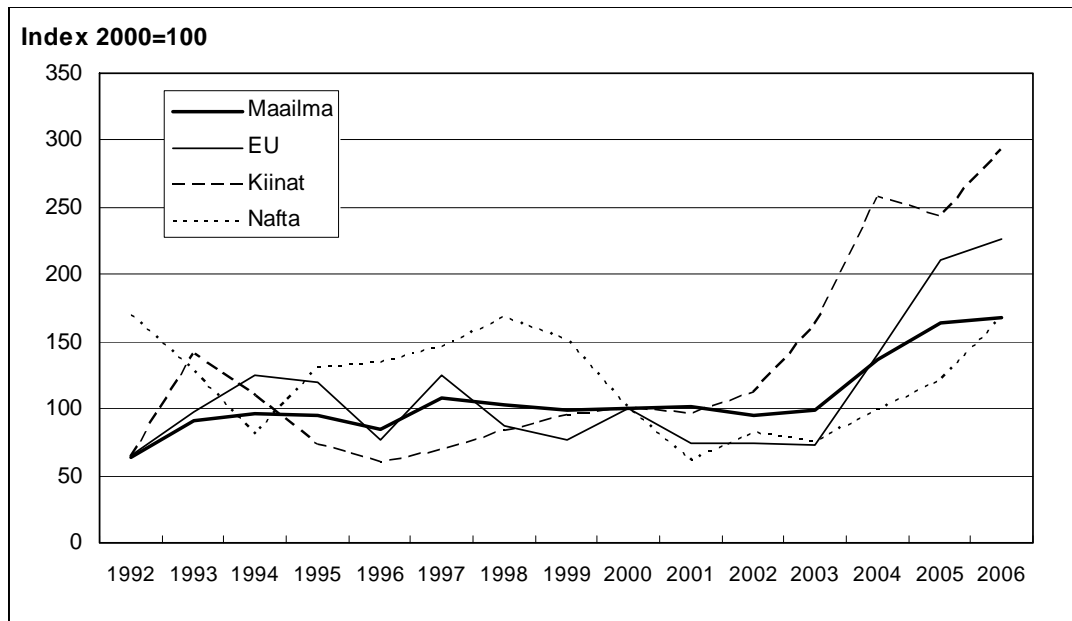


**Figure 12.** Shares of different groups of countries in South African imports

Source: South African Department of Trade and Investment

China seems to be gaining ground in South African markets from both Europe and North America. Similarly to the EU, the US and the whole NAFTA area have lost market share somewhat in South Africa. Imports from China amounted to a good 12% already in 2006. South African imports from the SADC area are also growing considerably, although their share still remains fairly low in comparison to the main trading partners. The Middle East’s share of South African imports has also increased somewhat in the 21st century, but this is mainly due to an increase in international oil prices.

Similar developments are also shown in the development of South Africa's import volume index. The volume of imports from China and the ASEAN countries has increased very steeply in the new millennium (Figure 13). Economic growth in China and certain other rapidly industrialising countries has been largely based on export growth. China in particular is gaining market share in world markets. This is also reflected in South African trade. The volume of imports from China (ie China, Hong Kong and Taiwan in the figures) to South Africa grew threefold in 2001–2006.



**Figure 13.** South African import volume index from major economies, 2000 = 100

Source: South African Department of Trade and Investment

The structural change in South African imports is well illustrated by the growth figures from the early years of the new century. Imports from South and East Asian countries have grown strongly, at about 40–50% annually. Imports from the SADC countries have grown at a similar pace, 48% annually in 2003–2006. Imports from the EU area, North America and also from the rest of Western Europe grew at a pace well below average.

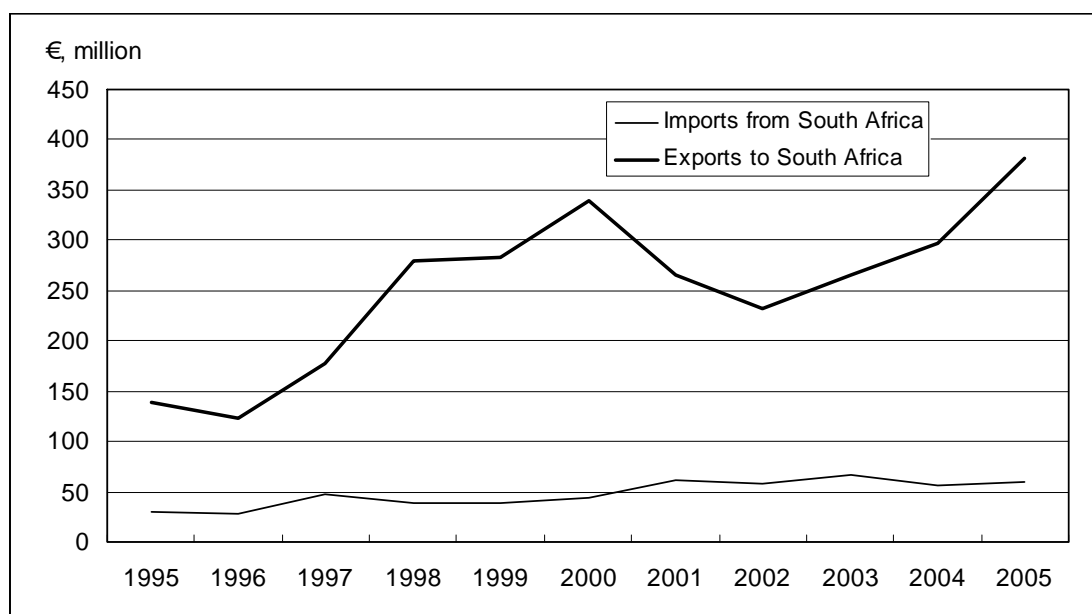
Based on the early years of the new century, emerging economies, particularly those in Asia, but also certain African countries, seem to be gaining markets in South Africa. In contrast, South African exports to industrial economies are growing at an average or slightly higher rate. Based on trade statistics, trade between the European Union and South Africa does not seem to be growing despite the free trade, although the review period, when transitional periods are still in effect, is clearly too short for any far-reaching conclusions.

## IV TRADE BETWEEN FINLAND AND SOUTH AFRICA IN 1995–2005

### Trade balance

South Africa's share of Finnish foreign trade is very small. In 2005, imports from South Africa to Finland totalled EUR 59.0 million, which was just 0.1% of Finland's total imports. Similarly, exports from Finland to South Africa totalled EUR 382.3 million, amounting to about 0.7% of Finland's total exports. Thus, the trade balance showed a considerable surplus for Finland. In 2005, exports were over 6 times larger than imports (Figure 14). Finnish exports to South Africa have varied in the review period 1995–2005 between a good EUR 150 million and slightly below EUR 400 million. Finland's export surplus has persisted over the entire review period in 1995–2005.

South Africa's total foreign trade is not as large as Finland's. The total exports of the Republic of South Africa amounted in 2005 to about EUR 46.3 billion, while Finland's exports were about EUR 52.4 billion. Imports to South Africa were EUR 48.3 billion in the review year, while Finland's total imports were EUR 46.8 billion. Hence, South Africa's imports were slightly higher and exports lower than the corresponding Finnish figures. Finland's proportion in South African foreign trade was fairly minor. Out of South Africa's total exports, exports to Finland accounted for only 0.1% in 2005, and correspondingly imports from Finland were just 0.8% of the total.



**Figure 14.** Finland's foreign trade with South Africa, total imports and exports, EUR million

Source: National Board of Customs

## South African exports to Finland

Although South African exports to Finland have remained fairly low in the review period 1995–2005, there has been some growth in both euro terms and relative terms. In 1995, imports from South Africa to Finland totalled EUR 30.5 million. By 2000, this figure had already risen to EUR 43.1 million, ie by 41%. In 2005, imports from South Africa to Finland totalled EUR 59.0 million, 37% more than in 2000.

### Distribution of South African exports by product groups

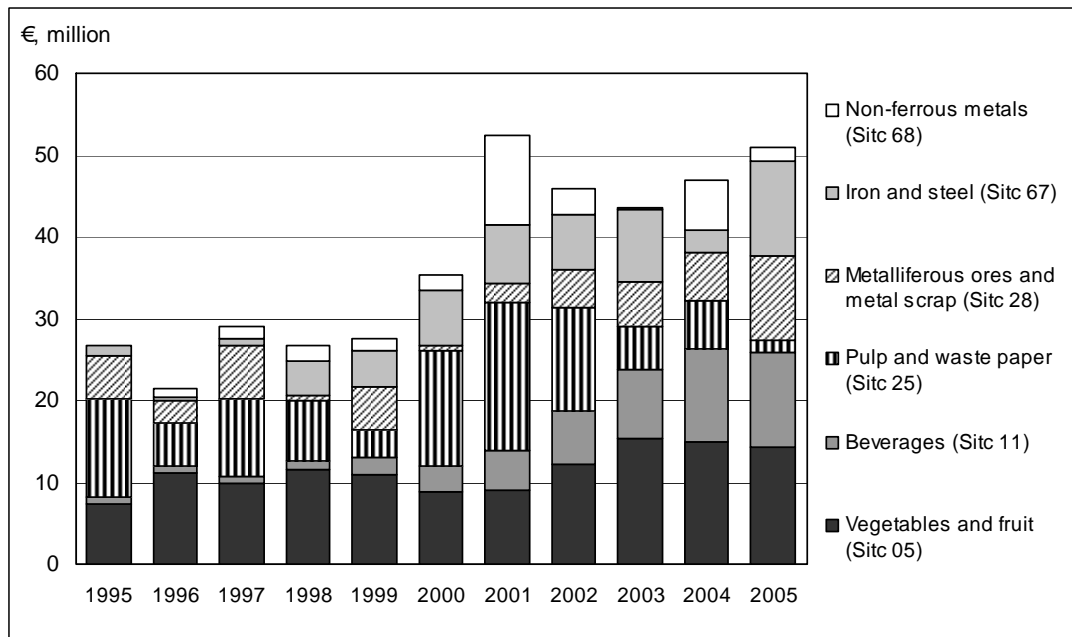
South African exports to Finland are concentrated on a few product groups. However, there have been some changes in their relative proportions during the past decade. The group showing the most constant growth in exports to Finland has been fruit and vegetables. Imports of fruit and vegetables to Finland have grown steadily over the whole period (see Figure 15).

Imports of beverages, in practice wines, from South Africa have shown the most rapid growth in the 21st century. In 2005, the proportion of beverages was already second highest after fruit and vegetables (Table 6). In contrast, imports of raw materials, including metals, have varied year by year. The proportion of raw materials and metals in South African exports to Finland has remained significant over the entire review period.

**Table 6.** *Proportions of main product groups in South African exports to Finland in 1995–2005, %*

%	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Vegetables and fruit	24,3	39,4	21,0	30,1	28,7	20,4	14,9	20,8	23,0	27,0	24,4
Beverages	2,6	2,5	1,7	2,6	5,2	7,2	7,7	11,1	12,8	20,5	19,7
Pulp and waste paper	39,3	19,0	20,0	18,9	8,9	32,9	29,7	21,7	7,8	10,6	2,4
Metalferrous ores, scraps	17,4	9,9	13,7	2,1	13,6	1,6	4,1	7,7	8,4	10,4	17,5
Iron and steel	3,9	1,4	1,5	10,9	12,0	15,3	11,5	11,8	13,2	4,9	19,7

Source: National Board of Customs: Foreign Trade, Monthly Bulletin, December 2005



**Figure 15.** *Main product groups in Finnish imports from South Africa in 1995–2005, SITC*

Source: National Board of Customs

### Main export products

If we take a slightly more detailed look into South African exports to Finland, we can see that the goods can be broken down into two main groups. The largest group in 2005 consisted of fruit, grapes and grape wine. Wine alone made up a fifth of all imports to Finland. Grapes and fruit also accounted for a fifth of total imports.

Imports of iron and steel also accounted together for almost a fifth. Ores or their concentrates also made up almost a fifth of total imports. The most important concentrates were cobalt, titanium and chromium. When refined, these are used in the production of stainless steel. All in all, more than 80% of Finland's imports from South Africa were either fruit, grapes or wines, plus iron, steel and raw materials used in the production of steel.

**Table 7.** Imports of major goods from South Africa to Finland in 2005

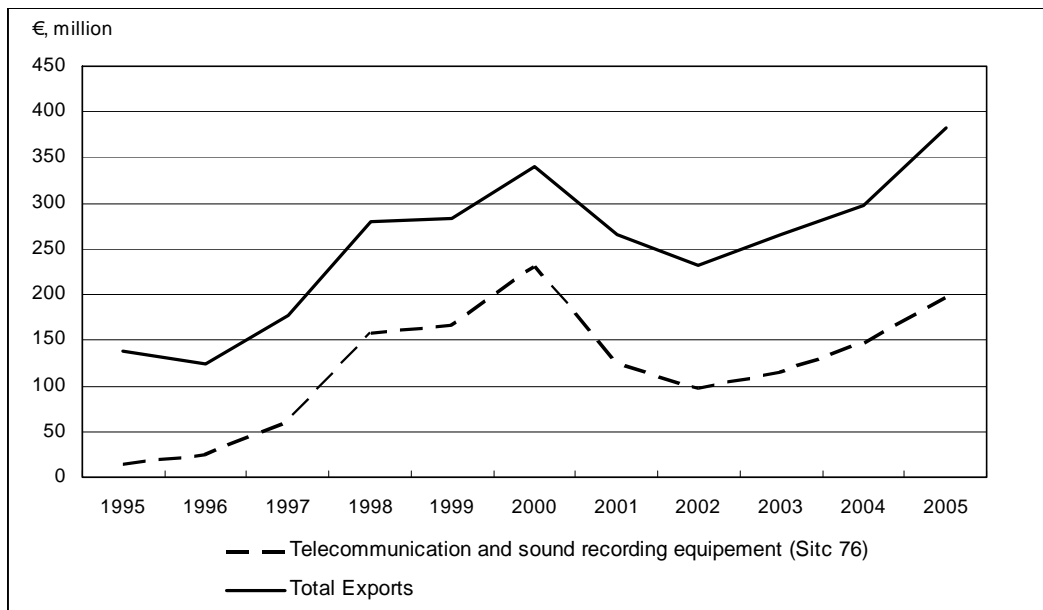
CN	Goods	€million	%
2204	Wine of fresh grapes, including fortified wines	11.5	19.5
0806	Grapes, fresh or dried	5.6	9.5
0805	Citrus fruits, fresh or dried	4.7	8.0
0808	Apples, pears and quinces, fresh	0.6	1.0
2008	Fruit, nuts, and other edible parts of plants, otherwise prepared, etc	2.1	3.6
0601	Bulbs, tubers, tuberous roots, crowns and rhizomes, etc	0.6	1.0
7202	Ferro-alloys	6.0	10.2
7219	Flat-rolled products of stainless steel	5.3	9.0
2605	Cobalt ores and concentrates	4.5	7.6
2614	Titanium ores and concentrates	4.1	6.9
2610	Chromium ores and concentrates	1.5	2.5
8105	Cobalt stone and other intermediate goods in the production of cobalt, cobalt and cobalt goods	0.8	1.4
7605	Aluminium wire	0.8	1.4
	<b>All of the above, total</b>	<b>42.1</b>	<b>81.5</b>
	<b>Total imports</b>	<b>59.0</b>	<b>100.0</b>

Source: National Board of Customs.

### **Finland's exports to South Africa**

Finland's exports to South Africa in 2005 were over six times larger than the corresponding imports. The development of exports also deviated from import development in the review period, although the variation in growth showed similarities. Exports grew rapidly in the latter half of the 1990s, plateaued after the turn of the millennium and rose rapidly again in 2003–2005 (Figure 14). The reason underlying this bipolar development is variation in the exports of a single product group, telecommunication products.

Finland's exports to South Africa totalled about EUR 138.4 million in 1995 and EUR 339.3 million in 2000. Hence, exports grew in 1995–2000 by about 145%, ie more than double. In contrast, total exports in 2005 were only 10% higher than in 2000, although compared with 2002, which was the trough of the present decade, they had grown 65% in three years.



**Figure 16.** *Telecommunications and total exports from Finland to South Africa in 1995–2005*

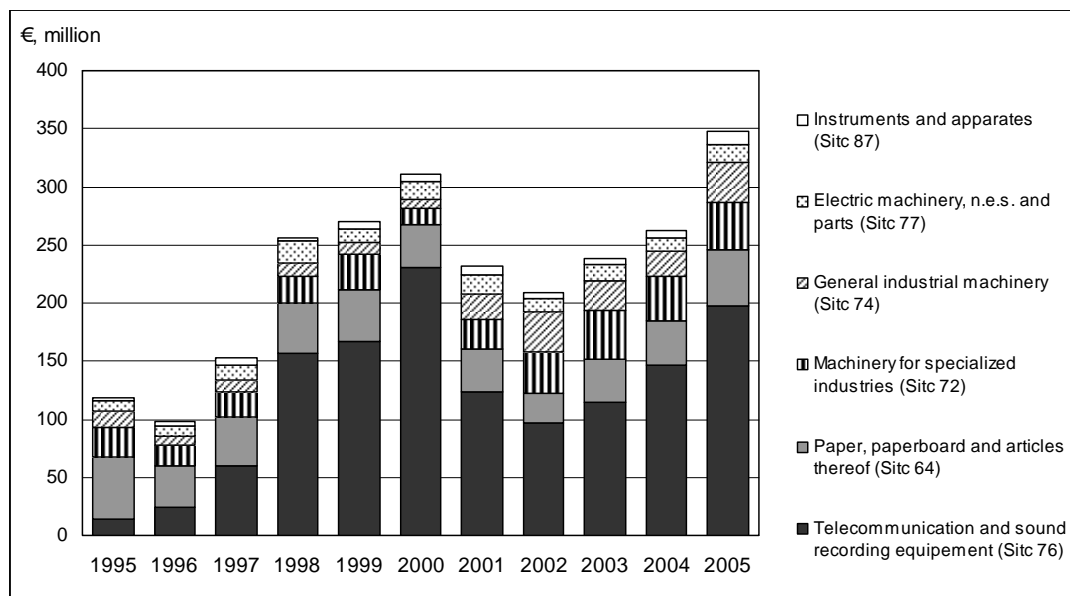
Source: National Board of Customs

Figure 16 illustrates that the development and variation of Finnish exports is materially influenced by exports of telecommunications products. More than a half, and at the turn of the millennium almost two thirds, of Finnish exports consisted of telecom products.

### **Exports by product groups**

Finnish exports to South Africa consist practically entirely of industrial products. The proportion of agricultural products and food industry products is very marginal. Their proportion varies in the range of a few percent.

As shown above, the largest export product group by far is telecommunications and other equipment. Various machines and equipment, including mobile phones, account for over three quarters of Finland’s exports. Finland’s traditional export sector, paper industry products, have remained fairly constant in volume terms over the review period, but as other exports have grown their proportion has decreased to about a tenth of total exports (Figure 17).



**Figure 17.** Major product groups of Finnish exports to South Africa in 1995–2005

Source: National Board of Customs

Mobile phones and other equipment related to wireless communications alone exceeded 42% of Finland’s exports to South Africa in 2005 (Table 8). Traditional export products – paper, paperboard and related products – only accounted for a tenth of total exports.

**Table 8. Main goods in Finland’s exports to South Africa in 2005**

CN	Goods	€million	%
8525	Transmission apparatuses	162.3	42.5
8517	Telephone sets, including telephones for cellular networks or other wireless networks etc	34.6	9.1
4810	Paper and paperboard	31.6	8.3
8429	Self-propelled bulldozers etc	12.9	3.4
8426	Ships derricks, cranes etc	12.6	3.3
8504	Electrical transformers, static converters	6.8	1.8
8441	Other machinery for making paper and paperboard	6.7	1.8
4811	Paper, paperboard etc	5.4	1.4
9018	Instruments and appliances used medically, surgically etc	5.2	1.4
8481	Taps, cocks, valves etc	5.1	1.3
8421	Centrifuges	5.0	1.3
	Above product groups, total	283.2	75.4
	<b>Total exports</b>	<b>382.3</b>	<b>100.0</b>



## V CONCLUSIONS

The free trade agreement between South Africa and the EU has been in force from the beginning of 2000. The EU has lowered customs duties on a front-load basis in accordance with the agreement to the effect that a majority of South African imports to the EU area were duty free already by 2005. In South Africa, the reduction schedule is slower.

In 2000–2005/6, South African foreign trade did not grow very rapidly. In 2004 and 2005, however, both export and import growth accelerated. Growth in trade with EU countries has not picked up significantly during the early years of the transitional period of free trade.

The development of South African trade and its structure has, however, shown clear changes over the review period 1995–2005/6. The most significant changes are as follows:

1. The European Union's share of South Africa's exports increased in 1995–2005/6.
2. Asian countries' share of South Africa's exports increased over the review period. Gains were most pronounced in exports to Japan and Korea.
3. South Africa's neighbouring region, the SADC area, saw its share of South Africa's exports decrease.
4. Of South Africa's imports, the share of the European Union decreased materially.
5. The biggest gains in South African imports were achieved by China and the ASEAN countries.
6. The SADC area's share of South African imports also increased in 1995–2005/6.

Over the early years of the 21st century many factors have had a concurrent impact on South African trade. The most important trade policy factors were free trade with the EU area and deepening integration with near neighbours in the SACU and SADC countries. South Africa is also one of the African countries with which the United States has concluded the AGOA<sup>4</sup> agreement promoting trade and development.

Changes in the world economy that have had an impact on South African trade at the beginning of the new millennium include:

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<sup>4</sup> AGOA = African Growth and Opportunity Act.

1. Economic growth in China and other Asian countries partly based on the export success of these countries.
2. The rise in raw material and energy prices in 2003–2007. Rising oil prices have boosted Middle Eastern countries' share of South African imports. Increases in the prices of raw materials, particularly metals and precious metals, have increased the value of South African exports.

The significance of free trade between South Africa and the EU is difficult to pinpoint in the overall trade picture during the early years of the new century, since there have been many other very significant changes in the operating environment, including the economic rise of Asia and the increase in raw material and energy prices. Furthermore, 2001–2003 happens to be a weak period for economic development in both the European Union and South Africa. Therefore, import demand in the EU area was not very high in the early years of the century.

Despite these changes in the operating environment, the EU's share of South African exports increased in both 1995–2000 and 2000–2005. There is reason to assume these developments were positively affected by the establishment of free trade in 2000.

When assessing trade between Finland and South Africa in light of the statistics, we cannot deduce any significant impact on trade developments from the establishment of free trade. In fact, South African exports to Finland remained very low over the entire review period 1995–2005. There was no material growth even in the early years after 2000. In euro terms, South African exports to Finland showed no growth at all from 2000 to 2005, varying in the range of EUR 50–60 million annually.

South African exports to Finland are mostly concentrated on two main product groups: on the one hand fruit, including citrus fruit, grapes and wine, and on the other hand raw materials of the metals industry. Due to an increase in metal prices, their share of Finland's imports from South Africa increased, although the total value of imports showed practically no growth.

Exports from Finland to South Africa are dominated by electronics products, and particularly telecommunications. The sector is one of the strongest Finnish export sectors. Telecommunications exports to South Africa varied significantly in 1995–2005, and this was clearly reflected in Finland's total exports to South Africa. Exports of traditional paper and metals industry products from Finland to South Africa continued to be relatively steady in 1995–2005 without any large variations in relative shares.

APPENDIX 1\*



\* The Trade, Development and Cooperation Agreement with South Africa = TDCA

Source: EU website: EU-Africa Summit 2007

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## PELLERVON TALOUDELLINEN TUTKIMUSLAITOS PTT

Pellervo Ekonomiska Forskningsinstitutet  
Eerikinkatu 28 A, 00180 Helsinki, Finland  
puh. (09) 348 8844, telefax (09) 3488 8500  
sähköposti: [econ.res@ptt.fi](mailto:econ.res@ptt.fi), kotisivut: [www.ptt.fi](http://www.ptt.fi)

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