The SACU-USA Free Trade Agreement: What is in it for Namibia?

Since the Free Trade Area (FTA) between South Africa and the EU, named “Trade, Development and Cooperation Agreement” (TDCA) came into force, enterprises from third countries have faced a disadvantaged access to the South African market in comparison to European firms. This resulted in corresponding offers towards the SACU from the USA, the European Free Trade Association (EFTA), MERCOSUR, India, China, and Nigeria. The SACU responded positively to these offers and is currently negotiating FTAs with the USA and the EFTA, while exploring negotiation options with the latter ones.

SACU’s trade with the USA has grown by more than 300% since 1994 and has accounted for 10.2% in 2001 (DTI 2003:2). In 2002, SACU received US imports accounting for around US$ 2.9 billion and exported commodities of around US$ 4.8 million to the USA. The lion’s share of SACU’s trade with the USA was realised by South Africa, which was responsible for 89% of exports and 96% of imports in 2002. Namibia on the other hand, trades relatively little with the USA. In 2002 it shipped 3% of its total exports to the USA, and sourced 0.9% of its imports from the country. In recent years, Namibia has predominantly had trade deficits with the USA, and achieved only a slight trade surplus of US$ 37,000 in 2002 (US Department of Commerce 2003). This improvement was due to its classification as a “Lesser Developed Country” under the AGOA initiative in 2002 that allows Namibia to utilise third country inputs to manufacture eligible wearing products until September 2004. Thus Namibia expects a growing trade surplus with the USA in the coming years.

Regarding the type of trade, a complementary trade structure can be stated: more than 90% of Namibia’s exports to the USA are primary mineral and agricultural products, whereas it imports mostly capital- and knowledge-intensive goods from the USA, such as transport equipment and electronic products.

**Table 1: Namibia’s trade pattern with the USA**

<table>
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<tr>
<th>Export volume in thousand US$ and in % of total exports</th>
<th>Export products and their percentage in total exports to the USA</th>
<th>Import volume in million US$ and in % of total exports</th>
<th>Import products and their percentage in total exports to the USA</th>
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<td>57.4 (3%)</td>
<td>Agriculture (33%) *, Minerals and metals (32%), Energy-related products (29.9%), Textile and apparel (0.3%) **</td>
<td>53.7 (0.9%)</td>
<td>Transport equipment (70.7%), Special provisions (19.9%), Electronic products (4.1%), Agriculture (2%), Chemicals (1.7%)</td>
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* 11.3% in 2002.
** 11.7% in 2002.

What benefits can SACU expect from its trade relations with the US? According to economic theory, this depends primarily on the volume and structure of trade. Positive effects are more likely the more the countries were trading with each other before entering into an FTA, and the more the countries stand in direct competition to each other - i.e. the more they have to show a substituting production structure (Viner 1950). Relating to the volume of trade, it can be stated that the USA is of only minor relevance to Namibia. As regards the structure, it becomes obvious that no intra-industrial trade between Namibia and the USA takes place (see table 1). Trade patterns between Namibia and the USA are characteristic for trade relations between developing and industrialised countries. So, Namibia’s exports to the USA are dominated by primary and labour-intensive manufactured goods, and its import products are predominately capital-intensive manufactures. This different factor endowment is likely to limit the options for trade creation, such that the static effects of regional integration are going to be very low. Although one could argue that the different comparative advantages allow the division of labour so that Namibia might benefit from outsourcing processes of labour-intensive US-industries, one should not forget the relevance of proximity in trade (Krugman 1991). The US neighbour Mexico also has cheap labour costs but incurs lower transport costs than Namibia and is, moreover, able to deliver quickly as it is relatively close.

Further to static effects, there are several dynamic effects of trade integration, such as attraction of FDI, that might be reaped by the SACU economies when entering into an FTA with the USA. However, ‘might’ is the operative word, as factors such as market size and proximity of export markets, productivity of labour and capital, infrastructure services, tax regime etc. are other important determinants of FDI. An FTA is therefore a positive but not sufficient step to reap FDI (WTO 2003).

Besides the attraction of FDI, Namibia might benefit from cheaper, high technology inputs and cheaper consumer goods, as the competition in the SACU market is likely to increase. However, as Namibia receives almost all it imports via South Africa it is not assured that these benefits are passed to Namibia, on account of transport costs and additional levies. Only the direct import of goods would guarantee consumers’ and producers’ benefits.

As well as hoping to benefit from FDI and cheaper consumer and input goods, Namibia also seeks to enhance its current market access to the USA, most of all for agricultural products. The USA is, like the EU, very restrictive regarding agricultural and – most of all – value added agricultural products. Namibia must therefore try to ensure that the export regulations for its potential export products to the USA, such as grapes, herbal cosmetics and processed meat and fish products, are not too restrictive, so that enhanced market access is not frustrated by various non-tariff barriers. Another risk for Namibia is that the USA seeks to dump subsidised agricultural products and genetically modified organisms (GMO) into the SACU market (Padayachee 2003). Subsidised US agricultural commodities that are also produced in Namibia, such as beef, lamb, poultry and dairy products should be excluded from the agreement, as long as the USA is not ready to reform its agricultural policy. The topic of GMO has lead to manifold disputes between the EU and USA and has not yet been settled. As the EU requires the declaration of genetically modified food, and European consumers are very sceptical towards GMO, it is highly risky for Namibia to allow the import of GMO from the USA, as it is likely to constrain its export options to the EU. It should therefore be determined categorically whether SACU allows the import of certain (processed) genetically modified products, and the issue as to how this could hamper its agricultural exports to the EU fully explored.

A further problem for negotiating a SACU-USA FTA is the comprehensive negotiation agenda the USA seeks to push through, including services, investment, intellectual property, competition law and government procurement. Taking into account Namibia’s limited capacities as well as internal challenges within SACU (implementation of the 2002 Agreement), the comprehensive negotiation agenda is likely to overextend the country. Extensive bilateral trade agreements increasingly substitute multilateral liberalisation efforts under the WTO. Though bilateral proposals offer the option to negotiate specific concerns of single countries, the enormous inequality between the SACU countries and the USA also carries the risk that SACU faces decreasing power.
The USA has made it clear that it is highly interested in negotiating an FTA with the SACU countries, following the example of the EU. SACU should therefore try to use the competition between the USA and the EU to its advantage concerning issues of fundamental interest, such as an improved market access, generous rules of origin that allow extensive cumulation, clearly-formulated health and safety standards and the provision of technical assistance to meet these standards.

In addition to the enforcement of these controversial subjects, there are several points Namibia needs to realise in order to ensure it benefits from the SACU-USA FTA. To formulate a SACU position and realise a bottom-up approach, consensus-building within the SACU is necessary. This requires the involvement of the business community, trade unions, consumer groups, NGOs and academics in the negotiation process. Although negotiations are at Ministerial level they must offer the opportunity to influence and to address needs and concerns. However, this requires an immediate and proactive approach of the different interest groups. In this respect the following points should be addressed:

**Detailed evaluation of Namibia’s trade flows with the USA**

Which goods are currently delivered to the USA? Which sectors could benefit from a SACU-USA FTA? What are the current problems in exporting these goods to the USA (tariffs, non-tariff barriers, capacities)?

**Realisation of Namibia’s export potential to the USA**

What kind of support is needed to increase and expand Namibia’s export range to the USA? The technical assistance required should be specified and must form part of the negotiations.

**Protection of sensitive industries**

Namibia has industries of national interest, such as the beef and beer industries, dairy products and certain vegetables, that are not able to compete against subsidised US imports. However, producers’ losses and consumer benefits must be considered carefully.

**Options to attract FDI**

To realise the attraction of FDI from the USA, the motivations for FDI in Namibia and the hindrances must be addressed. In which sectors could Namibia attract US investment? Where does the country offer advantages for potential investors, besides the traditional field of mining?

**Build up linkages with local firms**

In which sectors could Namibia build up linkages with US-firms? How can Namibia increase its profits in the textile and apparel industry and build up backward and forward linkages with local suppliers? When a SACU-USA FTA helps the country to upgrade its products and processes, Namibia must try to ensure that a significant value-added process of production occurs in its economy.

"Trade, not aid" is the general motto (not only of the current US government) for relations between developing and industrialised countries. However, "trade", namely improved market access and generous rules of origin, is not enough to integrate Namibia into the world economy. Trade-related "aid", which means manifold assistance in the areas of customs procedures, capacities, finance, human capital, technical standards etc., is essential for Namibia to benefit from an FTA with the most powerful country in the world. Therefore, the SACU-USA FTA should provide for an asymmetric liberalisation schedule, taking into account the huge differences between the USA and the SACU countries and containing a strong development component that applies to a close, long-term cooperation.
Policy Recommendations

- Improved market access for all products. This requires less the reduction of (already low) tariffs than the guarantee that SACU countries do not face non-tariff barriers to trade, such as numerous technical standards and food safety requirements. Necessary quality and product standards should be clearly formulated in advance. The USA should provide financial and technical assistance to meet any product and quality requirements. The comprehension of this assistance should be part of the agreement.

- Asymmetry in the liberalisation schedule in both, time-frame and content. To address the extremely divergent development status of the USA and the SACU economies it is necessary that SACU opens its market to a lesser degree and has more time for market liberalisation than the USA. Asymmetry in liberalisation should include each single sub-sector.

- Support to address supply-side constraints. This is particularly important for small- and medium-sized enterprises (SMEs), which represent the majority of enterprises within SACU. SMEs need assistance to upgrade products and services in order to diversify their exports and to improve the added value. So, the provision of technical assistance by the USA should also be a part of FTA negotiations.

- Generous rules of origin that allow extensive cumulation. The rules of origin valid for "Lesser Developed Countries" under AGOA should be maintained for the BLNS countries.

- The undertaking of a detailed trade flow analysis is crucial for the SACU countries, identifying export options and addressing sensitive industries and concerns regarding non-tariff barriers. Technical assistance that is needed to meet health and safety requirements should be clearly formulated. Options to attract FDI and build up joint ventures with US firms should be explored by including the private sector into negotiations.

References and further reading

Padayachee, Lee (2003), "Update: SACU Trade Negotiations with other countries". Tralac Trade Briefs 27/05/2003.
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