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by Taku Fundira

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An analysis of Africa's export performance and export similarity for select countries within the Tripartite Free Trade Area market

by Taku Fundira

Background

Significant efforts towards regional economic integration are under way in all regions of the world, involving developing and developed countries alike. Africa is no exception to this trend. Efforts to integrate the economies of African countries can be traced back to 1910 when the Southern African Customs Union (SACU) was established. While SACU's conception was not driven by sovereign states per se but rather by a decision from the colonial rulers – the British Empire – to facilitate economic engagement, the importance of trade integration cannot be overemphasised. On a continental basis, the establishment of the Organisation of African Unity in 1963, which was disbanded and replaced by the African Union (AU) in 2002, attests to Africa's drive to secure a long-term economic and political future.

Motivated by a consensus that by merging its economies and pooling its capacities, endowments and energies, the African continent could overcome its daunting development challenges, the Abuja Treaty (1991) laid the groundwork for the creation of the African Economic Community (AEC), with the regional economic communities (RECs) serving as the building blocks. The RECs are expected to merge into the African Common Market between 2019 and 2023 (AfDB, 2011).

The United Nations (UN) (2010) notes that economic diversification in Africa can deliver the improved utilisation of the continent's vast agricultural and mineral resources. Africa's economic prospects can be greatly improved through minerals processing, the expansion of manufacturing activities, the production and export of non-traditional agricultural and industrial products, and the further development of services sectors such as tourism. To capitalise on these opportunities, however, African countries must become integrated into the world economy and develop stronger and more sophisticated export sectors in order to maintain and achieve sustained growth.

Despite the numerous efforts to integrate, very few successes have been attained. The African continent has been lagging behind in terms of global competitiveness although it has enormous growth potential. Indeed, the relationship between economic growth and trade liberalisation has been the

subject of considerable study and analysis, with the majority suggesting a positive correlation between the two (Baldwin and Venables, 2004). For Africa, regional integration remains the key strategy for African governments to 'accelerate the transformation of their fragmented small economies, expand their markets, widen the region's economic space, and reap the benefits of economies of scale for production and trade, thereby maximizing the welfare of their nations' (UNECA, 2010).

A common understanding in Africa is that this objective can be achieved by fostering intra-African trade and unifying each regional marketplace through the progressive removal of artificial trade barriers on the continent. Therefore, RECs are forming free trade areas (FTAs) or customs unions to integrate national economies, giving them large enough internal markets with the aim of achieving production efficiency levels comparable to those in the industrialised countries. The FTA or customs union generates important spin-off effects associated with the enlarged market (UNECA, 2010)¹.

The objective

It is against this background that this study aims to discuss the issues of Africa's export performance and more specifically export competition for South Africa and Kenya² in the envisaged COMESA-EAC-SADC³ Tripartite Free Trade Area (TFTA) which was launched on 12 June 2011 at a summit in Johannesburg, South Africa.

The motivation behind this analysis is based on the premise that the apparent objective behind the trade strategies being adopted by African countries is to achieve a number of goals such as to create a competitive environment and achieve sustainable economic growth and development, with emphasis being placed on increasing exports. In this process, the TFTA will be the continent's biggest FTA comprising 26 countries spanning from Cape Town to Cairo with an estimated market potential of US\$ 1 trillion.⁴

¹ See also Sandrey et al. (2011).

² Our focus on South Africa and Kenya when looking at export competition is based on the fact that they are the major importers and exporters of goods within the TFTA. Earlier analysis conducted by tralac using the GTAP model confirms that amongst the winners of a successfully established TFTA are South Africa, Kenya and Egypt more especially for manufactured goods (Jensen and Sandrey, 2011).

³ This refers to the southern and eastern regional economic communities of the Common Market for East and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC).

⁴ See Fundira (2011).

Methodology

This study investigates the degree of South Africa and/or Kenya's (RSA-Ken) export similarity with those of various exporters to the TFTA market. Calculating export similarity is useful in determining the similarity or dissimilarity of countries in terms of their export compositions. To achieve this, the Export Similarity Index (ESI) proposed by Finger and Kreinin (1979) is used. The various countries considered in this analysis include both developing and developed countries.

This comparison serves two purposes: (i) analysing the similarity of RSA-Ken's exports with those of other major developing countries provides a measure of how directly these countries compete with RSA-Ken in the TFTA market; and (ii) the comparison with developed countries offers an indication of the level of sophistication of their exports (Erlat and Ekmen, 2009).

According to Erlat and Ekment (2009), "[E]xport similarity" is not a concept directly related to competitiveness. Evaluating the relative competitiveness levels of two countries with very different trade patterns (and especially with very different export structures) would not make much sense. In order to be meaningful and indicative for shaping future trade policies, competitiveness of a country should be analyzed relative to another country which has more-or-less a similar trade structure'. Finger and Kreinin (1979) note that one advantage of using the ESI over other measures is mainly because it uses readily available standardised international trade data.

The remainder of this paper is structured as follows. The next section provides an overview of Africa's export performance both externally and within the continent. This is then followed by a review of the concept of export similarity. This is followed by an analysis of South Africa and Kenya's export similarity with various major competitors in the TFTA market. The paper concludes with some policy implications and recommendations.

Africa's export performance and Foreign Direct Investment in perspective

Historically, Africa's export performance has typically been portrayed as poor compared to other developing regions. In the past decade Africa has become a new frontier of economic and other opportunities. Furthermore, it is host to some of the fastest-growing economies in the world. Real Gross Domestic Product (GDP) of Africa increased by 5.2% annually in the past decade, compared with 2.3% in the 1990s (WEF, 2011).

There seems to be consensus among African leaders that a strong export performance is typically a prerequisite for reaching robust, sustained and shared growth if one considers some of the regional integration initiatives that are currently being implemented within the continent. Blanke et al. (2011) note that in Africa strong export performance does not only mean high export growth, but also increased export diversification from low value-added activities to higher value-added ones. By diversifying, countries are better able to lower the volatility of growth through a reduced vulnerability of exports to external shocks. Exports of services are also critical and can play an important role in this regard.

African policymakers have also recognised the positive role that Foreign Direct Investment (FDI) can play in promoting growth, productivity, and development in their economies. According to Blanke et al. (2011), FDI can be particularly beneficial for export sectors, as foreign companies help integrate developing countries into the global economy by easing access to foreign markets and including local enterprises in global production chains. The remainder of this section looks at export trends and initiatives currently undertaken by African countries to attract FDI.

a) Export trends

Although the growth of African economies as a whole accelerated in the past decade, their export growth rates continued to lag behind those of other developing regions, thus further widening the gap between Africa and the rest.

Latest available 2011 data reveals that African exports constitute a mere 3% of world export share, with a value of approximately US\$594 billion. Top exporters with their market share include Nigeria (18%); South Africa (16%); Algeria (12%) and Angola (11%).⁵

A six-year review of Africa's performance reveals that out of the top 10 African exporters, only Ghana (44%), Congo (17%), Nigeria (8%), South Africa (7%), Angola (7%) and Egypt (6%) were gaining market share in the world market (growth rates above world average growth of 5%).

⁵ Statistics are based on the author's calculations using the ITC TradeMap database.

Table 1: Trade indicators for African exports

Exporters	Trade indicators			
	2011 US\$ (millions)	Compound annual growth in value (2007-2011) (%)	Annual growth in value (2010-2011) (%)	Share in exports (%)
World	17 855 727	5	19	100
Africa	593 984	12	20	3.3
Nigeria	109 116	8	37	18.4
South Africa	92 976	7	30	15.7
Algeria	73 436	1	29	12.4
Angola	66 150	7	25	11.1
Egypt	30 782	6	17	5.2
Morocco	21 796	3	22	3.7
Libya	18 740	-18	-62	3.2
Ghana	18 401	44	252	3.1
Tunisia	17 847	2	9	3.0
Congo	16 071	17	132	2.7
Rest of Africa	128 669			21.7

Source: ITC TradeMap

A closer look at Africa's export product portfolio reveals that growth in exports has been mostly driven by primary products mainly in mining and mineral products, which accounted for a 72% share of exports.

Blanke et al. (2011) note that mining represented 73% of export growth between 1995 and 2008, the highest of all regions. Vulnerability to external shocks remains a major concern, mainly attributed to the lack of production and export diversification – in terms of both goods and partners.⁶

Reversing Africa's marginalisation in global trade, diversifying its exports, and moving them up on the technology ladder are therefore key policy priorities. Table 2 below highlights the top exported products and top exporters' share of the particular product.

⁶ In general, Africa's main exports to its traditional trading partners, in particular the EU and the US, constitute an average of 57% of total exports. However, China in particular and Asia in general are also increasingly becoming important export markets for Africa.

Table 2: Top Export products and top exporters (2011)

HS Code	Description	2011 (US\$ million)	% share	Top exporters (%share)
TOTAL	All products	593 984		
'27	Mineral fuels, oils, distillation products, etc.	348 045	59	Nigeria (30%); Algeria (20%); Angola (19%)
'71	Pearls, precious stones, metals, coins, etc	40 908	7	South Africa (51%); Ghana (11%); Botswana (11%)
'26	Ores, slag and ash	23 536	4	South Africa (61%); DRC (7%); Mauritania (7%)
'85	Electrical, electronic equipment	12 055	2	Tunisia (37%); Morocco (29%); South Africa (14%)
'74	Copper and articles thereof	11 284	2	Zambia (60%); DRC (18%); South Africa (7%)
'72	Iron and steel	10 671	2	South Africa (75%); Egypt (9%); Zimbabwe (3%)
'87	Vehicles other than railway, tramway	8 936	2	South Africa (81%); Tunisia (4%); Morocco (4%)
'84	Machinery, nuclear reactors, boilers, etc.	8 760	1	South Africa (71%); Tunisia (6%); Guinea (3%)
'18	Cocoa and cocoa preparations	8 560	1	Côte d'Ivoire (49%); Ghana (27%); Nigeria (12%)
'89	Ships, boats and other floating structures	7 200	1	Congo (41%); Gabon (15%); Angola (13%)
	Other	114 030	19	

Source: ITC TradeMap

b) Towards creating an enabling environment for investment in Africa⁷

Working towards creating an enabling environment to attract foreign direct investment has become a common phenomenon among African countries at both the national and regional level. In the past few decades, Africa has made significant strides toward democratic governance, transparent economic systems, and the elimination of some of the crippling bureaucratic barriers to trade and investment. Since 2005, of the 53 regulatory changes observed by the United Nations Conference on Trade and Development (UNCTAD) in Africa, four-fifths (42) were favourable to FDI, while 11 made the environment less favourable (WIR, 2006).

⁷ For a more detailed analysis, see an earlier discussion note by the author, available at <http://www.tralac.org/2011/11/30/towards-creating-an-enabling-environment-for-investment-in-africa-highlights-of-the-comesa-investment-report/>

The positive outcomes of some of these efforts can be seen in countries like Angola, Ethiopia, Mozambique and Rwanda which recently saw inflation-adjusted growth rates higher than those of India, Russia or Brazil. The World Bank rates Mauritius a better place to do business than Germany, and South Africa ranks above Chile. Botswana, Tunisia, Rwanda, Ghana, Namibia, and Zambia all offer a more favourable entrepreneurial environment than China (de Vignemont and Smallwood, 2011).

Privatisation, long viewed as generally improving the output and efficiency of the organisations that are privatised, continues across Africa. Algeria, Angola, Comoros, Congo, Côte d'Ivoire, Kenya, Libya, Mauritius, Morocco, Nigeria, Sierra Leone and Tunisia either privatised specific sectors or introduced plans to enhance cross-sectoral liberalisation. The industries affected included utilities, telecommunications and tourism. Some programmes attracted Trans-National Corporations (TNCs) from developing countries. In Angola, for example, the privatisation agency approved Telecom Namibia's bid to become the first private operator of Angola's fixed-line network. Egypt pursued a policy aimed at opening up its markets in activities where it had a clear advantage (e.g. tourism) as well as in some manufacturing (WIR, 2006).

Another set of favourable changes concerns attempts to improve the investment climate. Recognising that an investor-friendly admission phase has a beneficial effect on the subsequent relationship between host and investor, a number of countries have reformed their admission procedures by introducing one-stop shops. A number of African countries, such as Egypt, Ghana, Senegal and South Africa, have reformed their tax systems, often reducing corporate income taxes. Some have eased operational conditions for TNCs. For example, Egypt is facilitating the entry and residence of foreigners (WIR, 2006).

These developments have not only occurred at the country level, but also at the regional level, where RECs have developed mechanisms aimed at harnessing investments into the region. In eastern and southern Africa, COMESA and SADC are examples of RECs that have put in place a regional investment policy aimed at promoting the region as an attractive destination particularly for markets seeking FDI. For the former, regional investment policy is embodied in the COMESA Common Investment Area (CCIA) while the latter is enshrined in the SADC Investment and Finance Protocol. The only REC which is yet to develop mechanisms for a common investment area is the EAC, although as a result of multiple overlapping memberships, we note that four out of five EAC states are part of the CCIA, and one country, Tanzania, is part of the SADC Investment and Finance Protocol.

An interesting trend to note with regard to recent investments in Africa,⁸ which is different to the nature and type of investments that Africa has traditionally received from the global players, is the fact that investments are diversified and focus is less concentrated on primary resource-based investments. Evidence suggests an increase in investment in services. Sectors receiving special investment attention include telecoms (towers, broadband services), financial services (commercial banks, insurance, ancillary services such as ATMs), agribusiness, infrastructure, oil and gas (marginal fields, oil field services, gas development), mining, and electric power (energy infrastructure, energy services). South Africa continues to play a significant role in terms of intra-African FDI. According to the World Investment Report (2011), the share of African host countries in the outward stock of South African FDI increased from less than 5% before 2000 to 22% in 2008, reaching almost \$11 billion.

Export similarity and competition

The Export Similarity Index, developed by Finger and Kreinin (1979), is intended to measure the similarity between exports of any two countries to a third market. The more similar the export profiles are, the more likely that economies are competitors in global markets. High similarity indices may also indicate limited potential for inter-industry trade with a regional trading arrangement.

By definition, the ESI is the sum over export categories of the smaller of the sectoral export shares (as a percentage) of each country under study. The ESI takes a value between 0 and 100%. A value of zero indicates no overlap in the export profiles (the countries are not competitors), a value of 100 indicates perfect overlap. Mathematically this can be represented as follows:

$$ESI(ij, w) = \left[\sum_k \text{Min}\left(\frac{X_{iw}^k}{X_{iw}}, \frac{X_{jw}^k}{X_{jw}}\right) \right] * 100\%$$

Where

X_{iw}^k is the amount of export to the target market of products k of country i ;

X_{iw} is the total value of export to the target market of country i ;

X_{jw}^k is the amount of export to the target market of products k of country j ;

X_{jw} is the total value of export to the target market of country j .

⁸ This is mainly intra-African investments: See the COMESA Investment Report 2011.

We note that ESI is also not affected by the relative sizes of the exports. According to Finger and Kreinin (1979: 906), '[S]ince the index is intended to compare only patterns of exports across product categories, it should not be influenced by the relative sizes or scales of total exports'.

The major limitation of the ESI is that it is sensitive to the chosen level of data such that its value increases with the higher level of aggregation and vice versa. By keeping this in mind in interpreting the results, we make our calculations at a relatively disaggregated level in order to see the heterogeneities across/within industries.

The analysis: data issues

Export figures of South Africa, Kenya, and Brazil, Russia, India, and China (the BRIC countries) as well as of the European Union (EU), Japan and the United States of America (US) are analysed in the target market of the TFTA.

Two trade data sources are used in the analysis: the Global Trade Atlas (BRICS and Japan) and the International Trade Centre (ITC) TradeMap database (Kenya, the EU and the US) at the four-digit Harmonised System⁹ (HS) level of classification. We note the limitations of trade data, and, for this section especially, access to reliable African trade data, as it does impact on the analysis. Furthermore, as trade data may be distorted or simply not reported for a given year, we only considered a review period for the years where data was available; in this case the majority had available data for a five-year period (2006-2011, with 2011 the latest available year for data sourced from ITC TradeMap for countries under review). We must therefore treat the analysis as indicative of trade flows over the review period.

We would further caution that this analysis is one that, while perhaps providing some useful pointers, does have limitations as highlighted already. Limitations include the fact that there may be non-tariff barriers operating; tastes and preferences may be a factor; and trade classifications of products at a detailed level may not be strictly comparable.

Therefore export figures of the TFTA from countries in our sample can only provide meaningful and indicative ESI at the four-digit (HS4) level of trade as opposed to the ideal relatively more disaggregated six-digit (HS6) level. At the HS6 level, our initial analysis indicates a high level of

⁹ The Harmonised System is a merchandise trade classification that operates in a sequentially more detailed level from internationally harmonised (hence the name) HS2 to 4- and 6-digit levels, and often operates down even to HS10 for individual countries.

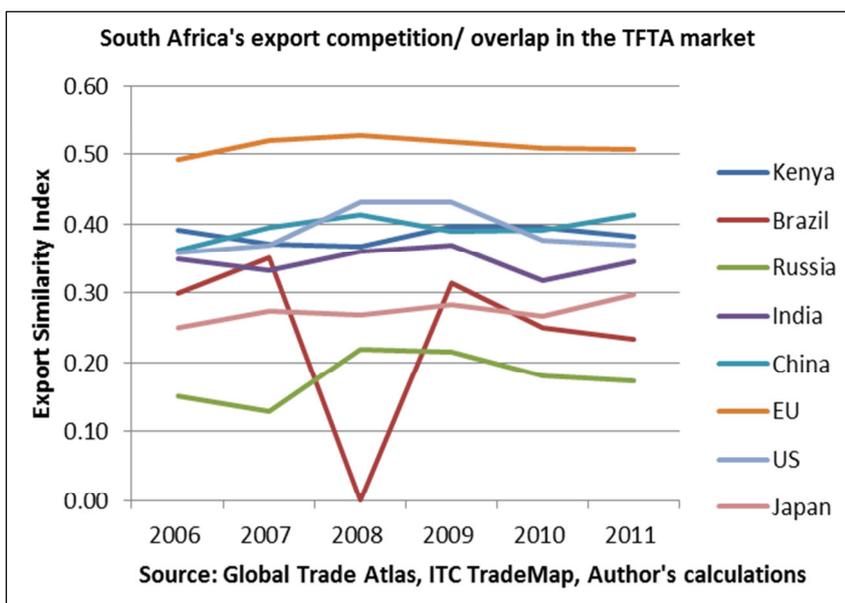
heterogeneity and is thus interpreted as implying no competition among the countries in our sample. Thus, by comparing the ESI at the HS4, some level of similarity is observed for certain specific sectors or product groups.

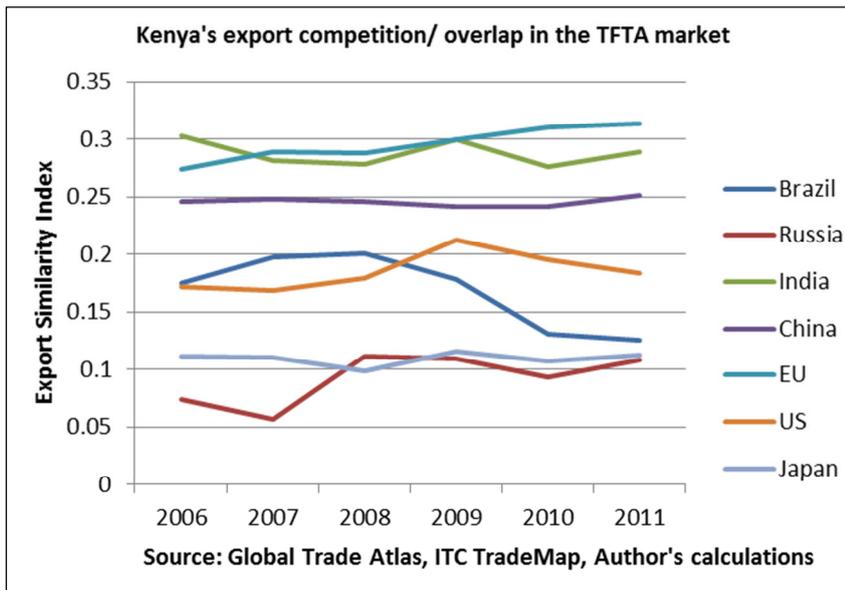
The analysis: results

Figure 1 presents the graphical results for South Africa and Kenya's ESI with select partner countries from 2006 to 2011. As already noted, an ESI takes a value between 0 and 1. Therefore if, for example, country 'i' and country 'j' export similar goods to the TFTA market, ESI equals 1; if exports of the two countries are absolutely different, then ESI equals 0. If the index takes on an ascending trend over the review period, we can conclude that the two countries share more and more similar export structures, that is, they compete more and more fiercely in the TFTA market.

In Figure 1, the two graphs represent South Africa and Kenya's ESI with each other and other developing and developed countries. Generally, for each of the paired countries, the ESI is relatively low – below 50% for all countries under review with the exception of the South Africa-EU ESI that is over 50% for most of the period under review. Thus, given these ESI figures, the notion of fierce competition for the TFTA market is not yet prevalent now.

Figure 1: South Africa's and Kenya's Export Similarity indices with select countries for the TFTA market





The South Africa and Kenya ESI

For South Africa, the EU has the highest ESI over the review period. The main trends are the relative increasing ESI of South Africa and all the countries under review up to the 2008/2009 period with the exception of Brazil.¹⁰ Post-2009, the trends are somewhat mixed. First, a relative declining trend is observed for South Africa's ESI with the EU, Kenya, US, Brazil and Russia, and secondly Japan, India, and China revert to the pre-2008 relative increasing trend. The main reasons are as follows:

- Firstly, on gross trade volume level, the TFTA countries are negotiating FTAs and preferential agreements not only with South Africa but also with the other countries under review such as the ACP-EU Economic Partnership Arrangements (EPAs). Where there are no formal negotiations, cooperation agreements through initiatives such as the Forum on China-Africa Cooperation (FOCAC), the India-Africa Summit and the Brazil-Africa Summit have made these countries potential suppliers into the TFTA market. Therefore, the closer trade-partner relationships developed have positive effects on their exports to the TFTA market. All these initiatives would cause a disadvantageous environment for South African products into the TFTA market.
- Secondly, on a product level (see Table 3), South Africa competes relatively more with countries that have a relatively diversified export portfolio in the TFTA market, although this

¹⁰ We note the anomaly in the RSA-Brazil ESI for 2008, which indicates no overlap of exports in that year, which may be partly attributed to competition in substitutes in the TFTA market.

may not be evident in the top 10 exports¹¹ to the TFTA of the respective countries. The main competitors, which are also traditional trading partners of Africa, include the EU and the US, but also the emerging giant – China.

For Kenya, export overlap is much lower with maximum ESI not exceeding 35%. Furthermore, the main trends are somewhat different to that of South Africa in the TFTA market although the EU has the highest export overlap (ESI= 35%). Over the review period, the ESI trends fall into three categories: i) relatively increasing or stable over review period (EU, Japan and China); ii) relatively increasing and then declining (Brazil and the US); and iii) fluctuating (India and Russia). Export-product composition indicates that Kenya does not export similar products (low export overlap) to other countries under review.

¹¹ The top 10 products do not show any homogeneity between South Africa and its competitors.

Table 3: Top 10 export commodities for select countries to the TFTA market at HS4 level (US\$ millions)

RSA				Kenya				EU			
Total All Commodities		2006	2011	Total All Commodities		2006	2011	Total All Commodities		2006	2011
		1 454	3 359			1 345	2 603			54 904	78 470
HS	Description			HS	Description			HS	Description		
1001	Wheat and meslin	379	1 772	0902	Tea	168	254	2710	Petroleum oils, not crude	1 697	4 521
4407	Wood sawn or chipped	254	296	2710	Petroleum oils, not crude	96	169	8703	Cars (including station wagon)	2 995	3 339
2710	Oil (not crude)	4	172	2523	Cements, portland	45	117	8517	Electric appliances for line telephony	807	2 817
1512	Sunflower seed, safflow	41	139	1511	Palm oil & its fraction	24	104	3004	Medicament mixtures	1 485	2 651
8802	Aircraft, powered; spacecraft	0	122	3401	Soap	19	94	8708	Parts & access of motor vehicles	1 978	2 468
4412	Plywood, veneered panels	48	92	7210	Flat-rolled products of iron or non-al/s	77	94	9999	Commodities not elsewhere specified	1 640	2 027
3105	Fertiliser	9	76	3923	Plastic packing goods	46	81	8802	Aircraft (helicopters, aeroplanes)	712	1 470
7208	Fl-rl iron & na steel	33	57	2402	Cigars, cheroots, cigarillos & cigarettes	41	70	7102	Diamonds, not mounted or set	706	1 264
7203	Spongy ferrous products & iron	0	53	3004	Medicament mixtures	31	64	8471	Automatic data processing machines	1 068	1 043
8704	Motor vehicles for transport of goods	32	44	2403	Pipe, chewing & snuff tobaccos	0	58	8704	Trucks, motor vehicles	1 076	1 022
	Other	654	536		Other	799	1 499		Other	40 738	55 848

Table 3 continued

US				Japan				Russia			
<u>Total</u>		2006	2011	<u>Total</u>		2006	2011	<u>Total</u>		2006	2011
All Commodities		12 120	18 347	All Commodities		6 740	7 639	All Commodities		1 454	3 359
HS	Description			HS	Description			HS	Description		
9999	Commodities not elsewhere specified	698	2 320	8703	Motor cars & vehicles for transporting persons	1 719	1 464	1001	Wheat and meslin	379	1 772
1001	Wheat and meslin	351	1 186	8704	Motor vehicles for transport of goods	934	1 094	4407	Wood sawn or chipped	254	296
1005	Maize (corn)	504	713	8708	Parts & accessories for motor vehicles	538	501	2710	Oil (not crude)	4	172
8431	Machinery part	882	690	8408	Compression, internal combustion piston engines	247	498	1512	Sunflower seed, safflow or cottonseed oil	41	139
7108	Gold unwrought or in semi-manufactured forms	0	530	8702	Motor vehicle for transport	251	390	8802	Aircraft, powered; spacecraft	0	122
8704	Trucks, motor vehicles	189	409	8429	Self-propelled bulldozers, graders	234	342	4412	Plywood, veneered panels	48	92
2710	Petroleum oils, not crude	96	406	4011	New pneumatic tyres, of rubber	145	224	3105	Fertilisers	9	76
8701	Tractors	195	393	7208	Fl-rl iron & na steel	39	209	7208	Fl-rl iron & na steel	33	57
8703	Cars (including station wagons)	338	386	0000	Special HS CI/JP/KR/MX/NO	82	132	7203	Spongy ferrous products & iron	0	53
7204	Ferrous waste and scrap iron & steel	115	383	8406	Steam turbines & other vapour turbines, parts	5	107	8704	Motor vehicles for transport of goods	32	44
	Other	8 753	10 933		Other	2 546	2 678		Other	654	536

Table 3 cont.

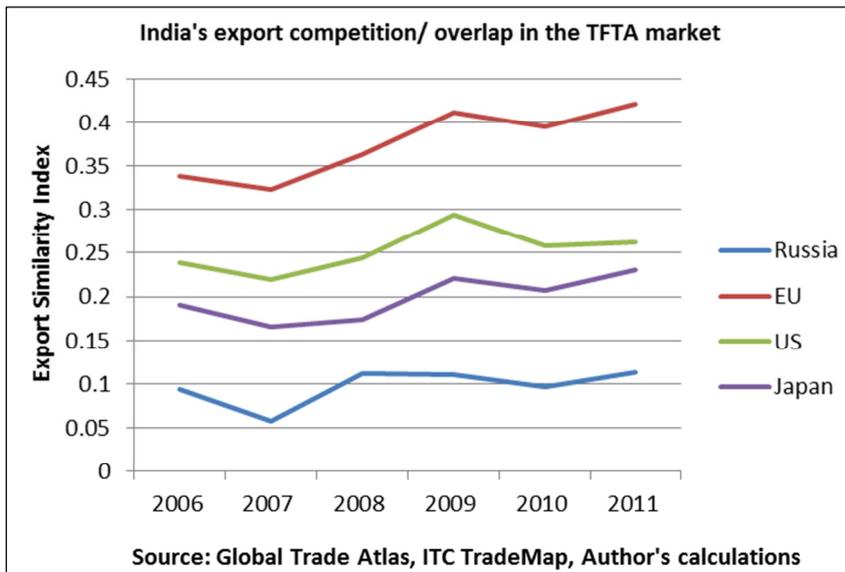
Brazil				India				China			
<u>Total</u>		2006	2011	<u>Total</u>		2006	2011	<u>Total</u>		2006	2011
All Commodities		4 188	6 241	All Commodities		6 618	16 128	All Commodities		14 714	36 896
HS	Description			HS	Description			HS	Description		
1701	Cane Or Beet Sugar	577	1 388	2710	Oil (not crude)	2 246	4 739	8517	Electric apparatus for line telephony	294	1 642
0207	Meat & Ed Offal Of Poultry	232	574	3004	Medicaments	314	993	6402	Footwear	325	902
2601	Iron Ores & Concentrates,	383	567	8703	Motor cars & vehicles	227	782	6104	Women's or girls' suits	248	807
0202	Meat Of Bovine Animals, Frozen	422	465	1701	Cane or beet sugar	16	433	4011	New pneumatic tyres, of rubber	231	745
1507	Soybean Oil	37	215	8517	Electric apparatus for line telephony, etc., parts	2	391	4202	Travel goods, handbags, wallets	171	742
1001	Wheat And Meslin	9	190	0202	Meat of bovine animals, frozen	78	305	8471	Automatic data process machines	269	722
8701	Tractors	145	173	2818	Artificial corundum	18	296	5407	Woven fabric of synthetic fil yarn	302	570
1005	Corn (Maize)	11	154	7210	Fl-rl iron & na steel	182	291	6103	Men's or boys' suits	169	513
8704	Motor Vehicles For Transport Of Goods	204	130	5205	Cotton yarn (not sewing thread)	124	235	9403	Furniture nesoi and parts thereof	93	443
8708	Parts & Access For Motor Vehicles	175	128	7208	Fl-rl iron & na steel	82	202	8429	Self-propelled bulldozers	135	435
	Other	1 993	2 257		Other	3 329	7 461		Other	12 477	29 375

Brazil, India and China ESI

We noted that in the TFTA market trade data used in the analysis indicates relatively low levels of export overlap/similarity ($ESI \leq 0.5$) for all countries under review. It is worthwhile to analyse how other emerging markets especially Brazil, China and India are competing against a) each other in the TFTA, and b) against Africa's traditional partners from the north (namely the EU and US). Japan and Russia are also interesting countries to analyse as all of them have shown significant interest in the African market over the past decade (Fundira, 2012a). Figure 2 below provides a graphical illustration of ESI trends for Brazil, China and India in the TFTA market.

Figure 2: Export Similarity Indexes for Brazil, China and India with select countries in the TFTA market





The following can be inferred from Figure 2 above:

- For Brazil, competition relatively increased up to 2008 for all countries under review. This was then followed by a period of decline which prevailed until 2011 for some countries (the EU, China and Japan), while we also see an increasing trend for other countries from 2010 (Russia, India and the US). The 2008 financial crisis partly explains the decline; another contributing factor is the fact that Brazil's current export portfolio has increasingly become dominated by mainly agro-based manufactured products as compared to other emerging markets and developed countries which are exporting mainly manufactured industrial goods (see Table 3). In 2011, the US had the highest ESI with Brazil.
- For China, the main competitor (or country with the highest ESI) over the review period is the EU although this has been declining since 2008. This may partly be attributed to the EU's waning influence as an important trading partner for African countries and to the rise of the emerging markets of the south that are increasingly gaining market share. Apart from this, similar ESI trends as observed with Brazil also feature in the case of China; however, India in particular is increasingly becoming a competitor against China for the TFTA market.
- A look at India's ESI reveals relatively increasing export overlap with the developed countries for the TFTA market, with similar trends across the review period of 2006-2011. ESI increased relatively higher with the EU, reemphasising the point already made of the EU's waning influence or declining market share not only in the TFTA market but also in the African market in general.

Conclusion

This paper reviewed Africa's export performance and the export similarity of South Africa, Kenya and also other select countries (BRIC, EU, the US, Japan) in the target TFTA market. It is undeniable that other factors exist – with the exception of tariffs – that weaken the trade effects on South Africa and/or Kenya in the TFTA. These include competition in the substitutes between South Africa and/or Kenya and TFTA members; competition from other countries signing FTAs; preferential agreements; or even increasing trade partnerships with TFTA members in the TFTA market. Such factors cannot be ignored.

It is undoubtedly true that in the future the TFTA market will be an important market, not only for the member countries whose objective is to increase intraregional trade, but also for third-party countries such as the emerging markets of the south and also the traditional partners of the north. In this context, the ESI was used to analyse the level of competition in the TFTA market. We conclude that from the current analysis we cannot state with any degree of confidence the extent to which South Africa and/or Kenya face competition for the TFTA market from third-party countries such as the BRIC countries, the EU, the US or Japan. The ESI calculated for any particular competing countries for the TFTA market was low (less than 50%) implying relatively low competition/overlap.

However, the indications are that there will be fierce competition for the TFTA market, more especially as African countries such as South Africa and/or Kenya among others diversify their export base. In the current environment, there is still space for South Africa or Kenya and other African countries not considered here to optimise their export structure so as not to lose existing or potential market share in the TFTA market. While other variables can also exert a significant influence on trade volume and trade flows in the TFTA market, the envisaged TFTA provides more opportunities for the African countries if properly structured and implemented. It is up to the TFTA members to ensure that such opportunities are harnessed.

Recommendations: What can African countries do to enhance their competitiveness?

This question is not a new one. It has been resonating among researchers and policy makers alike. It is one that has no one-size-fits-all approach. It is one that requires a step-by-step approach and a review of past experiences and lessons learnt. We leave these important topics for future research.

However, there is one important topic on which there is consensus regarding its role in enhancing competitiveness amongst African governments and that is the approach to regional integration. Despite the numerous efforts to integrate, very few successes have been attained. The African continent has been lagging behind in terms of global competitiveness although it has enormous growth potential.

Time for a new culture, a new ideology¹²

A new culture and a new ideology amongst African countries are necessary in order to complete effective economic integration. The fact that the African Union ceased recognising new RECs and encouraged the consolidation of existing RECs to which governments are complying demonstrates a strong political commitment on the part of the partner states. However, the existing RECs still have to overcome major challenges. The main challenge is the gap between the commitments and their implementation.

At this early stage, there are important lessons to be learnt and consideration to be given as to what would contribute to a successful regional economic integration arrangement. Within the building blocks – the RECs – there is firstly a need to provide the regional institutions and mainly the secretariats with a clear mandate to make independent decisions guided by the agreements. Furthermore, to function effectively, these regional institutions and secretariats should be provided with adequate resources both in terms of financial and human capital. The recent introduction of a community levy in CEMAC, EAC and the Economic Community of West African States (ECOWAS) is a first step to address these financial difficulties.

What will mark a turning point for African integration is the commitment of member states to the development of a comprehensive rules-based integration arrangement within the consolidated RECs. This implies that they will implement the provisions of the agreement and subscribe to effective monitoring of compliance and sanctions for non-compliance. The remedy lies in the outcome of the political economy that operates differently and is distinct from the past.

¹² For a full discussion see Fundira (2012b).

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