Evolution of Trade in Swaziland from 1968 to 2015: A Developmental Perspective

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SEPARC

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ABSTRACT

Using time series data, from 1968 and 2015, this paper assessed how trade in Swaziland has evolved taking into account: the institutional frameworks that have been put in place in an effort to promote trade. The paper examines the trends of selected economic indicators such as the current account and the trade to Gross Domestic Product ratio. The study provides evidence that even though the country has put in place institutional frameworks to facilitate trade, the current account has been mostly negative for the most part of the review period, the export basket and export destinations have experienced minimal changes, imports sources showed insignificant changes, and trade to Gross Domestic Product ratio has remained below 20%. Based on these observed trends, it is apparent that Swaziland had not been able to take advantage of the trade agreements, at least not to their full potential. Given that trade targets at, among other things, fostering economic growth, it is apparent that Swaziland has, in the past decade, failed to take advantage of the full potential of trade since the balance of payment has remained largely negative over the review period.

Keywords: Trade, Exports, Imports, Trade-Gross Domestic Product Ratio
1. Introduction

According to empirical studies, trade provides greater incentives for investment, the benefits of economies of scale and competition, limits rent-seeking activities favoured by trade restrictions, and promotes innovations (Berg and Krueger, 2003; Grossman and Helpman, 1991; Lucas, 1988). Furthermore, trade allows economies to expand the range and quality of their products as well as diversify their export markets (Evenett and Venables, 2002; Hummels and Klenow, 2005).

Moreover, trade benefits the consumer segment of the population through economies of scale, which decreases prices. Trade also promotes greater efficiency in resource allocation, specialisation in production, dissemination of knowledge and technological progress, which favours economic development and growth (Goff and Singh, 2013). Empirical work provides evidence that trade stimulated rapid economic growth in Brazil, Chile, China, Malaysia, South Korea, and South Africa (Wiig, 2007). However, Haltiwager (2011) and McMillan and Verduzco (2011) argue that benefits accruing from trade depend, largely, on national institutional settings. In other words, for trade to yield the desired benefits, it needs to be backed by the appropriate social, production, and investment policies, such as complementary trade reforms that enhance the flexibility of markets and facilitate the creation of markets that will benefit the poor (Williamson, 2011 and Winters, 2000).

In an effort to create a trade-enabling environment by integrating into the global economy and maximise the benefits accrued from trade, Swaziland has indeed put in place several institutional frameworks (World Trade Organisation (WTO), 2009). Furthermore, government has developed infrastructure, including power plants, road networks, and factory shells in an effort to increase the country’s competitiveness in the world market. Additionally, government established organisations that provide finance to local producers, as well as an institution that solely works to attract foreign direct investment. Despite all of these efforts, the country’s current account (exports minus imports) has been mainly negative, indicated in figure 1.1 below. The negative current account restricts the benefits that the country could accrue from trade, including sustainable economic growth and development through trade. Furthermore, it negatively affects the country’s Gross Domestic Product (GDP), which is often used as a proxy for economic growth.

It is against this backdrop that this paper investigates whether there have been significant changes in the country’s basket of export commodities, the direction of exports, as well as imports and their sources as a result of the institutional frameworks put in place to facilitate trade.
The overarching question is how has Swaziland’s trade evolved over time in terms of exports, export destinations, imports and sources of imports. This is in light of the various institutional arrangements and infrastructure developments aimed at promoting trade in the face of other macroeconomic variables. To answer this question, this study assesses the evolution of trade since the country’s independence in 1968, specifically, in terms of the composition of exports, direction of exports, imports and import sources covering the period 1968 to 2015 has been developed.

The composition of export and import commodities will assist local producers to identify goods they can produce; alternatively, policy makers would be able to develop policies that will enhance the production of goods, particularly exports goods; and potential investors will be informed about the potential industries in which they can invest. The composition of the country’s imports will signal local producers of the gaps in the local industries, and the goods that can be produced; policymakers will know which industries need protection. The direction of exports will assist policy makers to identify policies that could support the direction of the country’s exports; industry and potential investors will know the markets that could be exploited. Import sources will assist the industry and policy makers to identify where the country’s imports originate from, and formulate policies to diversify the sources of imports or even establish local production for those imports in high demand.

The next section, section 2 presents the trade environment, both institutional environment and the natural environment. Section 3 presents data and data sources. Section 4 presents the results and discussions and finally, Section 5 presents the conclusion and recommendations.

2. SWAZILAND’S TRADE

2.1. Pre-independence era at a glance

Swaziland has always recognised the importance of trade on economic growth and development. In 1910, Swaziland became a founding member
of the Southern African Customs Union (SACU) together with Botswana, Lesotho, and South Africa.

During the colonial era, the country’s major industries were in agriculture and mining. Agriculture constituted of sugar, beef and veal, wood pulp, citrus fruits, and canned fruits. Mining sector outputs were iron ore, asbestos, and coal. Swaziland was (i) an exporter of primary commodities and raw materials, (ii) a supplier of cheap labour to foreign capital, and (iii) an importer of manufactured goods. The country received foreign direct investment (FDI) in which was mainly channelled towards the mining and agricultural sectors. For example, in 1945, the Anglo-American Corporation - a mining company - invested in the coal mine at Mpaka as well as an iron-ore mine at Ngwenya. This was followed by the Commonwealth Development Company (CDC) investment in agriculture. CDC bought 106,000 acres in the Northern Lowveld of the country to plant tobacco, cotton and timber (Daniel, 1982). These investments enabled British investors to take advantage of the Commonwealth Agreement/Imperial Preferences offered by the British government to its colonies (Henniggar, 1947).

As a result of the Commonwealth Agreement/Imperial Preferences and investments, the United Kingdom (UK) was Swaziland’s single largest export destination, absorbing 29.27% of the country’s total exports followed by South Africa at 16.43%. Agricultural products formed 48% of total exports. Sugar was the country’s leading export product, accounting for 23.05% of total exports. Minerals, accounted for 38% of total exports. Machinery and transport equipment were the leading import products, accounting for 30% of total imports. About 91.21% of the country’s imports originated from South Africa. Trade as a percentage of GDP was 10.9%.

2.2. Trade environment

2.2.1. Institutional frameworks and their associated impact, since 1968

Over the years, Swaziland has put in place numerous institutional frameworks aimed at enhancing trade and creating an attractive macroeconomic environment favourable to investors, both local in international. Over and above fostering economic growth, trade is expected to drive employment creation, poverty reduction, food security, and reduction of income inequalities (United Nations, 2015). The question is, has Swaziland been able to realise these benefits from trade?

One of the first initiatives aimed at promoting trade was the establishment of the Matsapha industrial area, which was gazetted in 1969, although it had been Swaziland’s main industrial park since 1965. In 1970, Swaziland signed an agreement with Japan which covered all iron ore exports to that country for the lifetime of the mine (Commonwealth, 1970). The agreement increased iron ore exports by 59.5% (CSO, 1971).
Realising the need to reinvigorate and diversify the country’s industrial base, in 1971 government established the National Industrial Development Company of Swaziland (NIDCS). NIDCS was intended to provide funding and lease factory space to investors. Indeed, the establishment of NIDCS diversified the country’s production and export base, by adding textiles and clothing (CBS, 1973).

In 1975, Swaziland became a signatory to the Lomé Convention. This was followed by a 56% increase in sugar exports. In the same vein, beef exports increased by 68%. During the same year, the country’s total exports increased by 46%, raising trade to GDP ratio to 11.1%. The UK absorbed 48% of total exports. On the other hand, imports increased by 25.6% (CSO, 1977). Lomé Conventions II, III, and IV signed in 1980, 1985, and 1990, respectively, succeeded the first Lomé (I) Convention (Faber, 2004).

In 1978, Swaziland stopped mining iron ore because the high-grade ore deposits were exhausted at the Ngwenya mine (CBS, 1978). Asbestos and coal remained the country’s mineral exports.

Following increase in sugar demand, His Majesty King Sobhuza II, on behalf of the state, commissioned the construction of a mill at Simunye (the country’s third sugar mill) which became operational in 1980 (CBS, 1981). The operationalisation of the sugar mill, increased sugar production by 22.33%. However, during that year, the drought decreased beef exports by 26%, while exports of textiles and clothing increased by 165%. The net effect the country’s total exports was an increase of 21% (CSO, 1982).

During that year (1980), Swaziland became a founding member of the Southern African Development Coordination Conference (SADCC) which was established as the ‘economic pillar’ whose main objective was to drive development in the various states of Southern Africa through building economic and infrastructural security (Schoeman, n.d.). In 1988, a soft drink concentrate plant was established in Matsapha, the only one of the kind in Africa (CBS, 1988). In 1989, imports of machinery and transport equipment increased by 166%. During that year total imports increased by 42% (CSO, 1990).

In 1990, the Swaziland Industrial Development Company Limited (SIDC) became functional. SIDC took over most of NIDCS’s assets (CBS, 1991). During the same year, government established two credit schemes, namely (i) the Export Credit Guarantee (ECG) Scheme and (ii) the Small Scale Enterprise Loan Guarantee (SSE) Scheme, housed in the Central Bank of Swaziland. In 1991, government established the Trade Promotion Unit (TPU) under the Ministry of Commerce, Industry, and Trade (MCIT). Despite these efforts, total exports declined by 1.82% and the balance of payment account remained negative (CSO, 1994).

In 1993, Swaziland ascended to the General Agreement on Trade and Tariffs (GATT), which became the World Trade Organisation (WTO) in 1995 (WTO, nd.). This membership enabled the country to trade with other GATT Member States under the Most Favoured Nation (MFN), and
National Treatment. Associated with this agreement, the country’s exports increased by 9.62%, while FDI increased by 4.68% (CSO, 1994).

In 1994, the PTA was transformed into the Common Market for Eastern and Southern African States (COMESA), with the aim to promote full market integration within the Area. Unlike the other COMESA member states, Swaziland could not participate in some aspects of the Treaty, namely customs union, as the country was already a SACU member state, since no one country can be a member of more than one customs union. As a result, Article 4 of the COMESA Treaty granted Swaziland a derogation enabling the country to receive non-reciprocal preferential market access in other COMESA Member States (COMESA, 1994). Following the COMESA treaty, the country established the Swaziland Development Finance Corporation (FINCORP) in 1995, aimed at financing and promoting the development of Swazi-owned enterprises.

In 1996, SADC member states-including Swaziland-signed the SADC Protocol on Free Trade. During the same year, the construction of the Ngwenya-Manzini highway started. The highway was intended to improve trade facilitation by reducing the time it takes to transport export goods, including perishables, from Matsapha industrial area to Ngwenya border post to South Africa (CBS, 1997). Also, the Ngwenya-Manzini highways connects the two major cities in Swaziland, Mbabane and Manzini.

In 1998, through an Act of Parliament, government established the Swaziland Investment Promotion Authority (SIPA) to enhance efforts to attract FDI into the country. In 1999, the Swaziland Water and Agricultural Development Enterprise (SWADE) was established to facilitate the planning and implementation of the Komati Downstream Development Project (KDDP), Lower Usuthu Smallholder Irrigation Project (LUSIP), and any other large water and agricultural development project that government may assign. Following the establishment of SWADE, the acreage under sugarcane farming in individual tenure farms increased by 9.5%; increasing sugar exports by 3.3%.

In 2001, the EU banned beef imports from Swaziland following the outbreak of the foot and mouth disease (FMD) in these countries. The ban decreased Swaziland’s beef exports by 91.24%. In the same year, Swaziland qualified for the African Growth Opportunity Act (AGOA) initiative. Despite the decrease in mineral exports and the EU’s ban of Swazi beef, in 2001 total exports increased by 25%. This increase may be attributed to increase of export of miscellaneous edibles which increased by more than two fold, by 204%.

In an effort to improve the movement of sugar cane from smallholder sugar cane farms to the Mhlume sugar mill, in 2005 government started the construction of the Mliba-Mshweni and the Madlangempsi-Tshaneni roads. The construction of these roads, among other development programmes, could be associated with the 78.56% increase in sugar exports realised that year.
In 2008, a SADC Free Trade Area (FTA) was established under the guidance of the SADC Protocol on Trade, and Swaziland became a party to it. The FTA was aimed at phasing out all tariffs on goods imported from within the SADC region. During the same year, SACU countries signed a Trade Agreement with European Free Trade Area (EFTA) countries. Under the SACU – EFTA agreement, Swaziland was granted a beef quota of 500 tonnes per year. The quota increased beef exports by 76.32%. Further, during the same year, SACU countries signed the Trade, Investment, and Development Cooperation Agreement (TIDCA) with the USA.

Recognising the impediments affecting the business environment in the country, in 2009 government established the Investor Roadmap Unit (IRMU) under the Ministry of Commerce, Industry and Trade. Also, the government established the Lower Usutu Smallholder Irrigation Project (LUSIP) to improve households’ income around the Siphofaneni area.

In 2013, in an effort to hedge against weak economic growth in the country’s main export markets and the impact it had on the country’s economic growth, government revived NIDCS, which was to serve as a catalyst for industrial development. Government transferred ownership and responsibility of factory shells to NIDCS (GoS, 2013).

In 2014, the government realised the critical need to formulate a trade policy. The policy was aimed at creating an enabling environment to diversify the country’s trade pattern, as it was highly concentrated on one partner (South Africa). South Africa accounted for 87% of the country’s total exports in 2014, and 61% of imports. Also, government started developing the National Industrial Development Policy (NIDP), which aims to transform Swaziland into a dynamic and competitive economy, with value addition and export diversification allowing the trade sector to serve as an engine for sustainable growth and prosperity.

2.2.2. The natural environment

Swaziland has experienced several natural disasters since 1968. These include the 1980 drought which is associated with a 25% decrease in the country’s beef and veal exports, while, imports of food and live animals increased by 19%. Cyclone Domonia in 1984 decreased beef exports by 43.23%, while sugar exports decreased by 9.54% in 1985. The 1992 drought decreased total agricultural exports by 11.44%. In 2000, Cyclone Eline decreased agricultural exports by 20.8%, exports of citrus fruits decreased by 63.12% while sugar exports decreased by 10%.

3. DATA AND DATA SOURCES

To understand the trends associated with developments described in section two above, the study uses secondary data, from 1968 to 2015. Data on trade (exports, imports export product range, export destination and sources of imports) over the study period and other economic indicators of interest were sourced from: The Swaziland Annual Statistical Bulletin.
published by the Central Statistical Office (CSO), the Central Bank of Swaziland (CBS), and the Swaziland Revenue Authority (SRA). All monetary data used in this study was deflated to 2015 prices. The study employs descriptive approach (bar charts, tables and graphs) to visualise the trend of the economic indicators.

4. RESULTS

Figure 4.1 below shows that at the beginning of the period under review, the top three export commodities were sugar, minerals, and wood pulp which accounted for 32.88%, 19.93%, and 17.02% of total exports, respectively. The UK was the country’s largest single export destination, absorbing 29% of the country’s exports. On the import side, the top three import commodities were machinery and transport equipment, manufacture goods, and minerals fuels, which accounted for 30%, 19%, and 12% of total imports, respectively. South Africa was the largest single source of import, accounting for 92% of the country’s imports.

Figure 4.1: Commodity Imports, Exports, Direction of exports and Sources of Imports

Source: Central Statistics Office (CSO)
Notes: Data presented are averages of the period mentioned in the figure
Figure 4.2 below shows that between 1981 and 1992, South Africa absorbed 41.83% of the country’s exports, while 13.82% were destined for the UK. This may be associated with the fact that Swaziland had gained independence from the British. Although the share of Swaziland’s imports from South Africa averaged 86.83%, between 1980 and 1992, of the country’s imports total import, South Africa remained the single largest source of imports.

Figure 4.3 below shows that between 1993 and 2004, miscellaneous edibles accounted for 20.64% of total exports, becoming the country’s leading export product. Sugar exports were 11.44% of the total export basket during this period. Textiles and clothing were 7.74% of total exports, as indicated in figure 4.3. With regards to export destination, South Africa absorbed 63.99% of the country’s total exports, while the UK accounted for 4.62% of total exports. Mozambique and Zimbabwe accounted for 2.92% and 0.3%, respectively.

The leading import commodity was machinery and transport equipment, which accounted for 27% of total imports. This was an increase of 2.68% from the previous period. This increase could be associated with the rise in imports of machinery required in the textiles sector, as well as imports of second-hand cars from Asia. Regarding import sources, 83.84% of total imports originated from South Africa. The USA and the UK accounted for 1.43% and 3.25%, respectively, as indicated in figure 4.3 below. Furthermore, imports of chemicals increased by 6.25%, which could be associated with increases in sugar cane farming mostly caused by, among other things, farmers being able to access finance from FINCORP, as well as the irrigation water from Maguga Dam. Imports of manufactured goods accounted for 19%, while imports of food and live animals accounted for 16% of total imports.
Between 2005 and 2015, miscellaneous edibles was the leading export commodity, accounting for 50.13% of total exports followed by sugar, which accounted for 18.28% of total exports. Textiles and clothing accounted for 8.25%. Minerals, which were the country’s second largest export product in 1968, decreased to 1.62% between 2005 and 2015, as shown in figure 4.4 below. With regards to exports destination, South Africa accounted 59.16% of total exports. The UK and the USA accounted for 1.28% and 3.10%, respectively. In terms of imports, South Africa accounted for 88.67%. India accounted for 0.32%, while the USA and the UK accounted for 0.82% and 0.52%, respectively, as shown in figure 4.4 below.

On the import side machinery and transport equipment were 19.59% of total imports. Imports of mineral fuels increased by 5.33% during this period under review. Imports of manufactured goods and chemicals accounted for 18.6% and 15.53% of total imports, respectively. Food and live animals accounted for 15.85% of total imports, as reflected in figure 4.4 below. Concerning import sources, South Africa remained the largest single source of the country’s imports, accounting for 88.67% of the country’s imports.
4. CONCLUSION AND RECOMMENDATIONS

4.1. Conclusion

Over the 47 years period under review in this study, the UK was the largest single destination of the country’s export until 1981 when South Africa became the largest single destination of Swaziland’s exports. With regards export commodities, Swaziland’s export basket has been composed of a limited number of export products with very little change in the type of export commodities. Sugar has been one of the country’s exports since 1968, accounting for 20.53% of the country’s exports in 2015. Soft drinks concentrate which started being produced in the country in 1988 accounted for more than 50% of total exports in 2015. It appears that Swaziland had been able to take advantage of the trade agreements that concerns the trade of sugar. This is the only export commodity that has stood the test of time. On the other hand, the Beef protocol of the Lomé Convention seem to be underutilised.
The limited number of export commodities (mainly agricultural products) renders the economy vulnerable to climate related shocks among others. For instance, the 1980 drought, saw a 25% decrease in the country’s beef and veal exports, while, imports of food and live animals increased by 19%. Cyclone Domonia in 1984 decreased beef exports by 43.23%, while sugar exports decreased by 9.54% in 1985. The 1992 drought decreased total agricultural exports by 11.44%. In 2000, Cyclone Eline decreased agricultural exports by 20.8%, exports of citrus fruits decreased by 63.12% while sugar exports decreased by 10%. Besides being limited, most of the country’s export products seem to have room for value addition.

With regards to imports, machinery and transport equipment, manufactured goods, as well as food and live animals have always been the country’s top three (3) import products. South Africa has traditionally been the largest single source of imports for Swaziland over the entire period under review accounting for at least 80.24% (an average of period 1996 to 2000) of Swaziland’s import and as high as 92% (an average of period 1968 to 1980). This exposes the economy to exogenous shocks taking place in the South African economy. Moreover, this is an indication that the country is not exploiting the preferential market access it receives from the various trade configurations to which it is a signatory.

Given that one of the aims for promoting trade is fostering economic growth, among a range of reasons, it goes without saying that in the past two decade Swaziland had not managed to take advantage of trade since the country had not been able to realised economic growth of more than 2%.

### 4.2. Recommendations

- Finalise and implement National Trade Policy and the National Industrial Policy;
- Develop Export Oriented Strategy;
- Reduce dependence on imports;
- Reduce reliance on rain fed agriculture;
- Identification of Core Economic Challenges;
- Increase and diversify the national export basket;
- Diversify export markets and take advantage of existing preferential market access;
- Increase value addition in agricultural sector
- Identify opportunities in the industrial sector;
- Promote vertical integration, especially in the agriculture sector;
- Establish a source of affordable and dependable energy;
- Encourage the production of food items that could be produced locally.
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