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Evolution of trade in Eswatini from 1968 to 2015: A developmental perspective

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Abstract

Using data from 1968 to 2015, this paper presents an assessment of the evolution of trade in the Kingdom of Eswatini, tracking changes in the composition of both import and export commodities. These changes are viewed in light of the institutional development, trade relations, and infrastructure development in the Kingdom of Eswatini. The paper examines the trends of selected economic indicators such as the imports, exports, and trade balance. The paper also presents changes in shares of different commodities to total exports or imports. Significance of trading partners, in terms of how much commodities they provide to or absorb from Eswatini, is also presented. The study provides evidence that, even though the country has put in place institutional frameworks to facilitate trade, trade balance has been negative for the most part of the review period, the export basket and export destinations have experienced minimal changes, and imports sources showed insignificant changes. Based on these observed trends, it is apparent that Eswatini had not been able to take advantage of most of the trade agreements, at least not to their full potential. It is therefore a recommendation of the study that efforts to improve the country's comparative advantage should match the strides to build trade relations for trade arrangement to benefit the economy. Increasing investment into research and development is one of the strategies that the country can employ in order to widen the range of commodities in which it has comparative advantage.

Keywords: Trade Evolution; Trade-Gross Domestic Product ratio; Trade balance.

1. Introduction

Trade provides greater incentives for investment, economies of scale, competition and promotes innovation among economies (Berg and Krueger, 2003). It is known that increased competition motivates 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). Good trade arrangements promote specialisation which spur increased efficiency, economies of scale, and competition benefits the consumer segment of the population through lower prices (Goff and Singh, 2013).

Although trade has a potential to present an array of opportunities, for small economies which usually have comparative advantage in limited commodities, it can pose serious threats. Limited comparative advantage results in overreliance on few commodities – a phenomenon that guarantees catastrophe when demand for those commodities falls, also encouraging high imports. Import of commodities also implies exportation of jobs which in the short-term can create structural unemployment for the importing country (Edge, 2010). Furthermore, in most developing countries benefits from trade accrue largely to multinational companies gauging that particular country's economic growth, without addressing income inequality issues (Nugent, 2002). Obeng-Odoom (2018) explains this in the context of Marxist theories which recognises that transitional corporations often result in social and economic inequality, however such theories support nonviable alternatives such as autarky. Furthermore, protectionist policies do not necessarily translate to improvement in trade balance since there is no direct link between protectionism and savings or investment (Gosh and Ramakrishnan, 2012). Obeng-Odoom (2018) argues that the Georgist remedy, which promotes trade but captures the surplus benefit of it for the public, is a superior approach towards avoiding adverse effects of international trade.

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; Winters, 2000).

In an effort to create a trade-enabling environment by integrating into the global economy and maximise the benefits accruing from trade, Eswatini has indeed put in place several institutional frameworks (World Trade Organisation (WTO), 2008). Along these institutional frameworks, government has developed infrastructure, including power plants, road networks, and factory shells in an effort to increase the ease of doing business and increase the country's competitiveness in the world market. Moreover, government established organisations that provide finance to local producers, as well as an institution that solely works to attract foreign direct investment, the Eswatini Investments Promotion Agency (SIPA). Despite all of these efforts, the country's trade balance (exports minus imports) has been mainly negative. The negative current account restricts the benefits that the country could accrue from trade, including sustainable economic growth and development through trade. As a result, 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 government's institutional frameworks deliberately put in place to facilitate trade.

The overarching question is how has Eswatini's trade evolved over time in terms of exports, export destinations, imports and sources of import? This is an important question in light of the various institutional arrangements and infrastructure developments aimed at promoting trade in the face of other macroeconomic variables. Besides, existing studies have concentrated on the impact of colonialism on African economic development (Heldring and Robinson, 2012; Settles, 1996), migration of small traders (Cissé, 2013) not on answering this crucial question. In the context of Eswatini, the dearth of empirical evidence is particularly acute when it comes to changes in trade patterns in light of the various trade agreement the country has entered into since independence. In exploring this subject, the current study builds on similar studies which are however wider in scope (Cissé, 2013; Heldring and Robinson, 2012; Mutambara, 2013; Park *et al*., 2016; Settles, 1996).

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, presents the trade environment, both institutional environment and the natural environment. Section 3 data sources and methods. Section 4 presents the results and discussions and finally, Section 5 presents the conclusion and policy recommendations.

2. Eswatini's trade

2.1. Pre-independence era

Eswatini has always recognised the importance of trade on economic growth and development such that in 1910, the country became a founding member of the Southern African Customs Union (SACU) together with Botswana, Lesotho, and South Africa. Established during the colonial era, SACU is a customs union aiming to provide free trade in goods and a common external tariff among member states. Free trade in this context meant the elimination of tariff duties and quantitative restrictions on importation and exportation, thus expanding growth in many industries and the economy of Eswatini, however this will be discussed further in the next subsection. However, there is evidence in the literature that the reduction in tariffs is often matched by an increase in non-tariff measures (Kalaba *et al*., 2016).

Prior to independence, 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. Eswatini 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) 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, 1980). These investments enabled British investors to take advantage of the Commonwealth Agreement/Imperial Preferences offered by the British government to its colonies (Hennigar, 1947).

2.2. Trade environment

2.2.1. Institutional development

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 Eswatini's main industrial park since 1965. Realising the need to reinvigorate and diversify the country's industrial base, in 1971 government established the National Industrial Development Company of Eswatini (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 (CBE, 1973).

In 1990, the Eswatini Industrial Development Company Limited (SIDC) became functional. SIDC took over most of NIDCS's assets (CBE, 1991). SIDC was formed to promote investment in financially viable projects on several sectors of the economy including industry, property development, mining, agribusiness, tourism, commerce, services, and SME's (SIDC, 2011). 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 (SSELG) Scheme, housed in the Central Bank of Eswatini. In 1991, government established the Trade Promotion Unit (TPU) under the Ministry of Commerce, Industry, and Trade (MCIT).

Following the Common Market for Eastern and Southern African States (COMESA) Treaty, the country established the Eswatini Development Finance Corporation (FINCORP) in 1995, aimed at financing and promoting the development of Swati-owned enterprises. In 1998, through an Act of Parliament, government established the Eswatini Investment Promotion Agency (SIPA) to enhance efforts to attract FDIs into the country. In 1999, the Eswatini Water and Agricultural Development Enterprise (SWADE) was established to facilitate the planning and implementation of large water and agricultural development project that government may assign. The National Development Strategy (NDS) explains that development would be driven through agriculture, particularly for rural Eswatini, hence the need to establish a parastatal that would focus on the implementation of the agriculture FDIs, and the implementation of large water and agricultural development projects (Government of Eswatini, 1999). Since the establishment of parastatal (SWADE), it had been facilitating the development of agricultural projects including the Komati Downstream Development Project (KDDP) and the Lower Usuthu Smallholder Irrigation Project (LUSIP).

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).

2.2.2. Trade relations

In 1970, Eswatini signed an agreement with Japan which covered all iron ore exports to that country for the lifetime of the mine (Commonwealth, 1970). In 1975, Eswatini became a signatory to the Lomé Convention, which was between the nine European Economic Commission (EEC) countries[1] and the 46 Members States of the African Caribbean and Pacific (ACP) Group of States, which were former colonies of some of the EEC countries (Faber, 2004). The Lomé Convention fused trade and development aid instruments. The Lomé Convention had four Commodity Protocols (sugar, beef and veal, bananas, and rum) and Eswatini was a member of the Sugar and the Beef and Veal Protocols. Under the Sugar Protocol, the Community committed to importing 1.3 million metric tonnes of a sugar quota each year from ACP sugar producers-including Eswatini-at guaranteed prices-higher than world market prices. While, under the Beef and Veal Protocol six countries, including Eswatini, were offered the opportunity to export a total of 52,100 tonnes of beef and veal to the EU with a 92% reduction on the full import duty (Laaksonen *et al.,* 2010).

In 1980, Eswatini became a founding member of the Southern African Development Coordination Conference (SADCC). The SADCC 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 1993, Eswatini ascended to the General Agreement on Trade and Tariffs (GATT), which became the World Trade Organisation (WTO) in 1995 (WTO, nd.). GATT commitments include reducing tariffs on goods, liberalising market access in services, and reducing, with the aim of eventually eliminating, all non-tariff barriers (NTBs) (WTO, nd.). Eswatini's membership to GATT enabled

[1] West Germany, France, Belgium, Netherlands, Luxemburg, Italy, United Kingdom, Portugal and Spain.

the country to trade with other GATT Member States under the Most Favoured Nation (MFN)[2], and National Treatment[3].

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, Eswatini 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 grants Eswatini a derogation which enabled the country to receive non-reciprocal preferential market access in other COMESA Member States (COMESA, 1994). The derogations recognises the unique situation of Eswatini and other similar states such as Lesotho and Namibia within the context of the Common Market and to grant temporary exemptions from the full application of specified provisions of the Treaty. Unlike the PTA, COMESA embodies a free trade area with free movement of goods and services produced within the common market and the removal of all nontariff barriers; a customs union and the adoption of a common external tariff on imports from non-COMESA countries; and free movement of persons (www.comesa.org).

In 1996, SADC member states-including Eswatini-signed the SADC Protocol on Free Trade. The SADC Protocol of Free Trade aimed to liberalise inter-regional trade in goods and services, ensure efficient production within the Area, and enhance economic development (SADC, 1996). Five year after the SADC Protocol of Free Trade, following the amendment of the Industrial Relations Act, Suppression of Terrorism Act, and Public Order Act, to mention a few, Eswatini met the benchmarks set by the American government for the African Growth Opportunity Act (AGOA) initiative eligibility. Consequently, in January 2001 Eswatini was designated as the 35th AGOA eligible country.

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[2] With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation and with respect to all rules and formalities in connection with importation and exportation, any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

[3] The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

In 2008, a SADC Free Trade Area (FTA) was established under the guidance of the SADC Protocol on Trade, and Eswatini became a party to it. The FTA was aimed at phasing out all tariffs on goods imported from within the SADC region (SADC, n.d). During the same year, SACU countries signed a Trade Agreement with European Free Trade Area (EFTA) Countries (Iceland, Liechtenstein, Norway and Switzerland). Under the SACU – EFTA agreement, Eswatini was granted a beef quota of 500 tonnes per year. The objectives of this Agreement include: to liberalise trade in goods; increase investment opportunities in the free trade area; and establish economic relations amongst parties to the agreement (Fundira, 2007).

2.2.3. Infrastructure development

To ease the movement of goods within the country and across the border, the country invested in road infrastructure. The construction of the Ngwenya-Manzini highway started in 1996. 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 connecting Eswatini and South Africa (CBE, 1997). 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-Msahweni and the Madlangempisi-Tshaneni road.

Responding to the increase of sugar demand as a result of the second generation of the Lomé Convention (Lomé II), His Majesty King Sobhuza II on behalf of the state commissioned the construction of the Simunye Sugar Mill which became operational in 1981 (CBE, 1981). In a bit to promote income generation and wealth creation by smallholder Swati farmers, in 1999 the government through SWADE established the Komati Downstream Development Project (KDDP) and the Lower Usutu Smallholder Irrigation Project (LUSIP) in 2009. The main objective of these irrigation projects was to aid farmers in transforming from subsistence to commercial agriculture.

In a bid to provide water for various used (including domestic, irrigation, and hydroelectricity generation), the government made investment in dam infrastructure. This include but not limited to the Luphohlo Dam which was built in 1984, Maguga Dam which was built in 2001, and the Lubovane Dam which was built in 2008.

3. Data and data sources

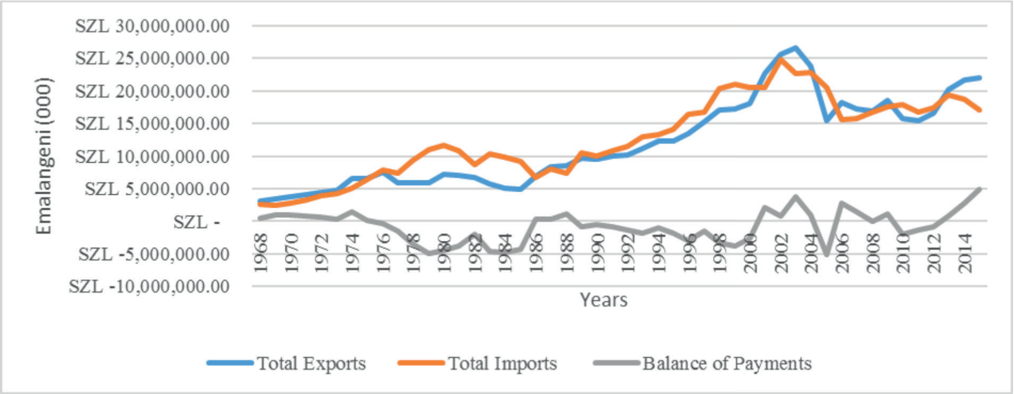
To understand the changes in trade patterns associated with developments described in section two above, the study uses secondary data from 1968 to 2015. Data on trade (exports, imports export product range, export destination and sources of imports) over the study period and other economic indicators of interest were sourced from: The Eswatini Annual Statistical Bulletin published by the Central Statistical Office (CSO), the Central Bank of Eswatini (CBE), and the Eswatini Revenue Authority (SRA). All monetary data used in this study was deflated to 2015 prices. Using time-steps (1968-1980, 1993-2004, and 2005-2015) the study assess the changes in average share of trade commodities well as trade partners of the Kingdom of Eswatini. The study employs descriptive approach (pie charts and graphs) to visualise the changes of the economic indicators and present share of different commodities to total exports or imports. Similarly, to highlight the significance of different trade partners, their share of either exports or imports over the review period are presented.

4. Results

4.1. Trade performance

Figure 2 shows that for the most part, the country had been importing more than it's been exporting. As a result, the trade balance remains largely negative over the review period. This is despite all the efforts (institutional, trade relations, and infrastructure development) aimed at promoting local production and trade. This implies that trade agreements that affords a country quota free and duty free access are necessary but not sufficient condition to promote export oriented production in an economy. It also confirms that for a small economy, limited comparative advantage will result in more imports than exports. This implies that disposable income for the citizens of Eswatini increase aggregate demand outside the country's borders. In those economies where demand increases, employment opportunities also increase in order to increase production and keep up with the increasing demand.

Figure 1: Eswatini's Trade Balance (1968 -2014)



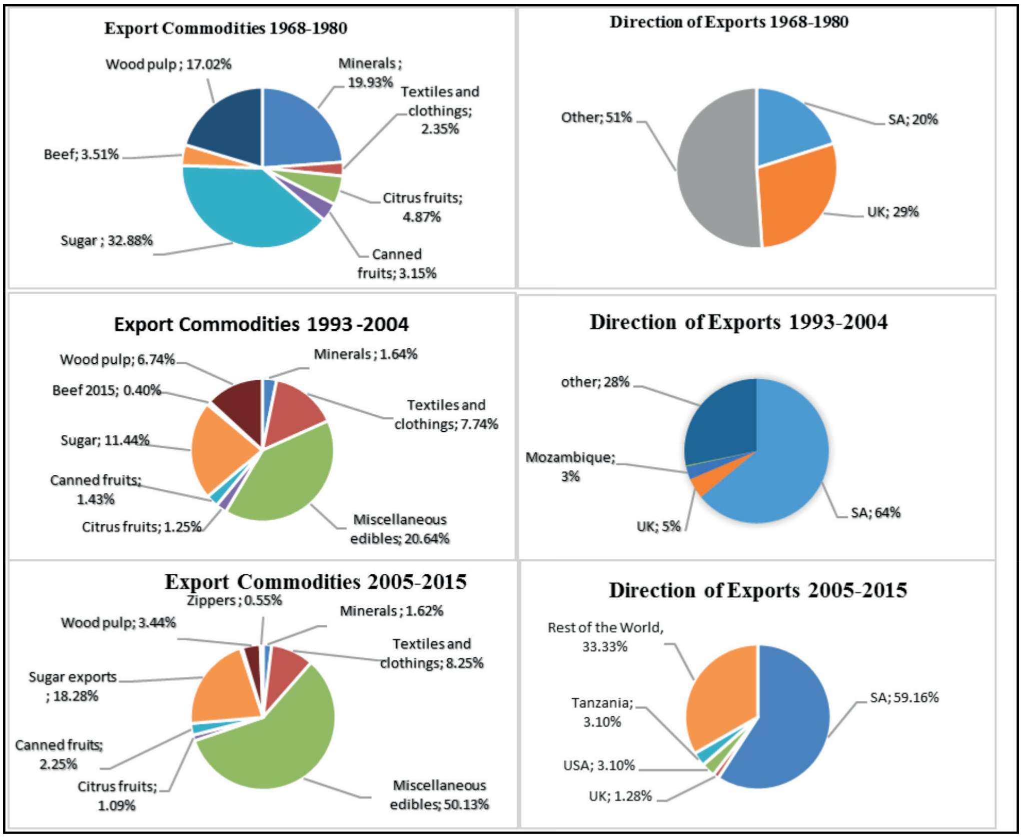
Source: Central Statistics Office and Eswatini Revenue Authority

4.1.1. Exports

Figure 2 below shows that at the beginning of the period under review (year 1968 to 1980) 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. Between 1993 and 2004, the top three export commodities were miscellaneous edibles, sugar, and textile and clothing. Between 2005 and 2015, the top three export commodities were still the same as in the previous period (1993 to 2004) however, miscellaneous edibles had grown to 50.13% from 20.63%. Despite the Beef and Veal Protocol of the Lomé Convention signed in 1975, beef export decreased from 3.51% (average export for period 1968 to 1993) to 0.4% (average export for period 1994 to 2004) and it was not among the top eight export commodities between 2005 and 2015. This shows that trade arrangements without comparative advantage are not sufficient to promote trade. Eswatini should embrace innovation in order to be capable of producing goods and services more efficiently (lower opportunity cost) than other countries. Grossman and Helpman (1991:311) view innovation as "deliberate outgrowth of investment in industrial research by forward-looking, profit-seeking agents". Creating a conducive environment for building human capital through learning-by-doing can also increase the country's productive capacity (Lucas Jr, 1988).

With regards to exports destination, the UK was the country's largest single export destination between 1968 and 1980, absorbing 29% of the Eswatini's exports. Despite the country's close proximity to South Africa, only 20% of exports were absorbed by South Africa. It is apparent that this trade pattern was influenced by the pre-independent trade institutional arrangement since 25 years after independence the UK was absorbing, on average, only 5% of the country's exports reducing even further (1.28%) between 2005 and 2015. On the other hand, exports to South Africa grew to 64% between 1994 and 2004 making South Africa the largest single export destination for Eswatini's commodities. Despite being part of several regional blocks including SADC, SACU, and COMESA Eswatini exported primarily to South Africa.

Figure 2: Commodity Exports and Destination of Exports



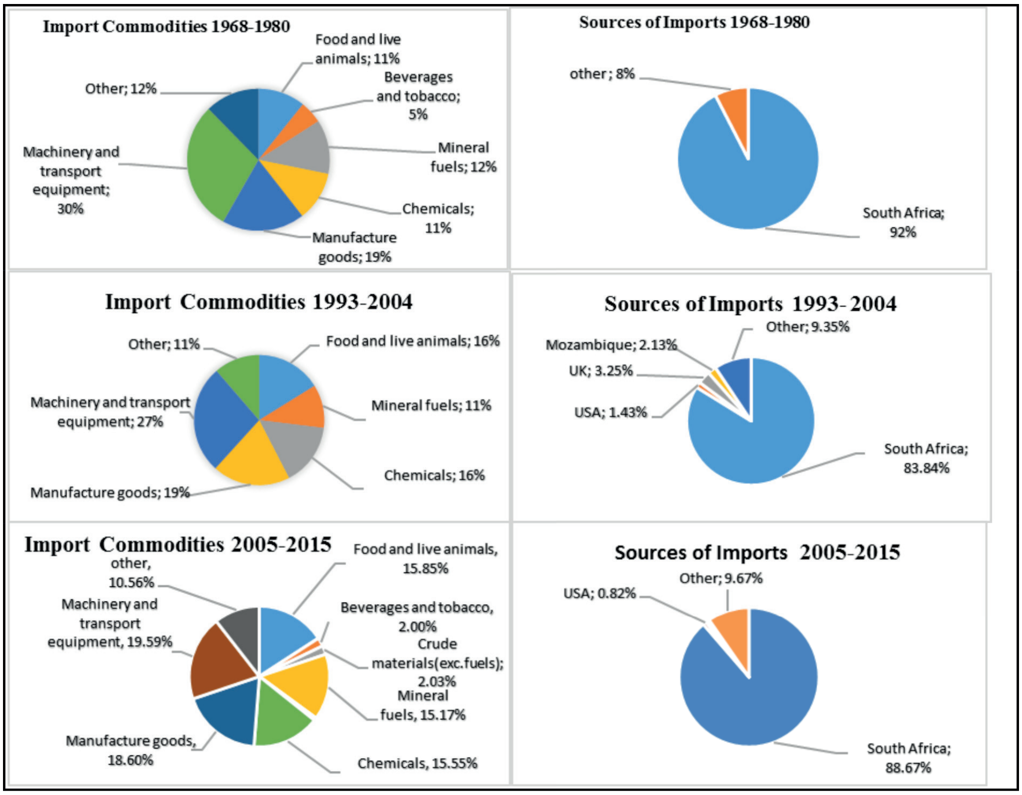
Source: Central Statistics Office (CSO)

Notes: Data presented are averages of the period mentioned in the figure

4.1.2: Imports

Between 1968 and 1993, the top three import commodities were machine and transport equipment (30%), manufactured goods (19%), and mineral fuel (12%). Between 1994 and 2004, mineral fuel was replaced by chemical (which accounted for 16% of the country's imports) in the top three and this can be attributed to increase in sugarcane production. Between 2005 and 2015, chemicals were out of the top three whilst food and live animals became the country's third largest import commodity accounting for 15.85% of total imports. The imports of machinery and transport equipment, between 1968 and 1993, could be attributed to the development of the Matsapha Industrial site which was gazetted in 1969. On the other hand increase of chemicals could be as a result of increase in sugarcane plantation following the establishment of SWADE. It is worth noting that not all the import goods are final consumption goods. Some are used as intermediate goods in the production of export goods. For instance, fertiliser is used in the production of sugarcane which is milled into sugar a bulk of which is exported. Conco Limited also imports some of its raw dairy products and produces soft drink concentrates and supply to different bottling companies across Africa.

Figure 3: Commodity Imports and Sources of Imports



Source: Central Statistics Office (CSO)

Notes: Data presented are averages of the period mentioned in the figure

With regards to sources of imports, South Africa has traditionally been the Eswatini's largest single source of import, accounting for 92% to total imports between 1968 and 1993, decreasing to 83.84% between 1994 and 2004, and increasing to 88.67% between 2005 and 2015. However, between 1993 and 2003 there were traces of imports from UK (3.25%), Mozambique (2.13%), and the USA (1.43%).

5. Conclusion and Recommendations

5.1. 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 Eswatini's exports. With regards to export commodities, Eswatini's export basket has been composed of a limited number of export products with very little change in the range and composition 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 Eswatini had been able to take advantage of the trade agreements that concerns the trade of sugar. This is the only export commodity that seem to have 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 mostly been the country's top three (3) import commodities. South Africa has traditionally been the largest single source of imports for Eswatini over the entire period under review, ranging from 83.84% (an average of period 1994 to 2004) of Eswatini's import to 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 Eswatini had not managed to take advantage of trade since the country had not been able to realised economic growth of more than 2%.

Although the literature suggests that there has been a surge in intra-Africa trade, the reality for Eswatini is different. Despite Eswatini being a member of several regional blocks in Africa including SADC, SACU, and COMESA the level of trade with other member of the different regional block, apart from South Africa, is minimal. Similar to other developing countries, Eswatini's export basket consists mainly of primary products whilst the import basket consists of manufactured goods. It is apparent from the results that Eswatini is less likely to benefit from the international agreements such as the Economic Partnership Agreement (EPA) (European Union, 2016) as well as the African Continental Free Trade Area (AfCFTA) (African Union Commission, 2018). Given that the country already has several preferential trade agreement yet the trade balance remains largely negative, it is crucial to identifies and manipulate the factors that prevent meaningful beneficiation from previous international trade agreements.

5.2. Recommendations

Since sugar has proven to be grounded in a robust system as evidenced by the long lasting vibrancy of the industry, it is worthwhile to pin-point the factors that have afforded the industry such resilience. Such understanding is crucial when extending the business model to other commodities or even other sectors of the economy. Efforts to improve the country's comparative advantage should match the strides to build trade relations for trade arrangement to benefit the economy. Since both theory and empirical evident suggests that trade favours economies with comparative advantage, Eswatini needs to focus on interventions that will increase technical efficiency of local firms. By so doing the range of commodities in which the country has comparative advantage will increase. This include but not limited to increased investment in research and development in order to improve competitiveness which will in turn increase the range of the export basket in reduce reliance on imports. As well, the country needs to create incentives that will encourage value addition to the export primary commodities. Research and development can also create value addition opportunities. Value addition within the sugar/agriculture industry can help diversify local commodity production leading to diversification of Eswatini's export basket.

Biographical Notes

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