WORLD TRADE ORGANIZATION

RESTRICTED

WT/TPR/G/447

20 September 2023

(23-6238)

Page: 1/63

Trade Policy Review Body

Original: English

TRADE POLICY REVIEW

REPORT BY

SOUTHERN AFRICAN CUSTOMS UNION (SACU)

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by SACU is attached.

Contents

SOUTHERN AFRICAN CUSTOMS UNION

1 INTRODUCTION

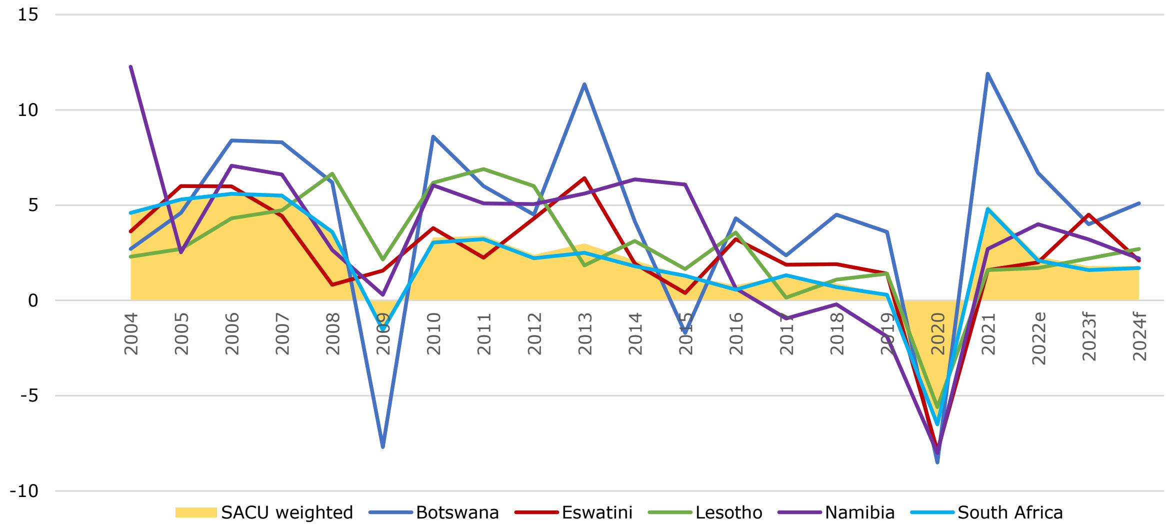
1.1 Regional economic context

1.1. Since the last joint Trade Policy Review in November 2015, the Southern African Customs Union (SACU) region comprising of the Republic of Botswana, Kingdom of Eswatini, Kingdom of Lesotho, Republic of Namibia, and the Republic of South Africa, has continued to foster growth and development despite the numerous challenges it has faced. Over the past two decades, the global economy experienced two large negative shocks: the global financial crisis (GFC) in 2009, and the COVID-19 pandemic in 2020-21. These two shocks have caused growth to be erratic, with global recessions in 2009 and 2020. In addition, they have posed major challenges for economic management, as attention has been focused on crisis management and recovery, diverting attention and resources from long-term growth needs. The global economic environment has a critical impact on the efforts of the SACU member States to achieve accelerated industrialization and economic recovery.

1.2. The SACU region is largely an open economy that benefits from growth in global trade but also vulnerable to external shocks. The overall weighted growth in the region is therefore, estimated to have contracted by 6.5% in 2020 down from 0.3% in 2019 amid recent growth revisions by the member States. Growth later recovered to an estimated 5.0% in 2021 but declined to 2.3% in 2022 and is forecast at a lower 1.8% in 2023. Figure 1 below shows actual and projected growth rates for the member States.

Figure 1.1: Economic growth rate in SACU

(Annual % changes)



Source: Member States Budgets (2023).

1.2 The SACU Customs Union

1.3. The SACU Headquarters is based in Windhoek, Namibia, where the SACU Secretariat is based.

1.4. The SACU Agreement, 2002, (as amended in 2013) sets out a broad framework for enhanced integration with clear mandate, objectives, institutions, financing procedures and joint decision-making by the SACU member States. The member States form a common customs territory in which customs duties on trade between the member States are eliminated. In addition, the member States apply a Common External Tariff (CET) to goods imported into the common customs territory. Furthermore, a Common Revenue Pool (CRP), into which all customs, excise and additional duties collected in the Common Customs Area are paid, is in place. The CRP is managed by South Africa on behalf of the SACU member States.

1.3 SACU Institutions

1.5. **Summit of Heads of State or Government:** The Summit was established in April 2010 whilst the amendments to the SACU Agreement to incorporate the Summit were signed in April 2013 and entered into force on 16 September 2016. The key role of the Summit is to provide political and strategic direction to SACU. The Summit considers reports presented to it on strategic matters by the Council.

1.6. **Council of Ministers:** The Council is responsible for decision-making on policy matters in SACU. The Council has been meeting quarterly or as agreed otherwise by the Ministers.

1.7. **SACU Commission:** The Commission is responsible for the implementation of the SACU Agreement; coordinates the implementation of the decisions of the Council and supervises the work of the Secretariat.

1.8. **Technical Liaison Committees (TLCs):** Five (5) TLCs have been established as per the Agreement with the Finance TLC being established through a decision of the Council in 2008. The role of the TLCs is to support the Commission in its work by undertaking technical analyses on assigned matters.

1.9. **Secretariat:** The Secretariat is responsible for the day-to-day administration of SACU; implementation of the decisions of the Institutions of SACU; coordinating trade negotiations; coordinating Meetings and serving as the depositary of all records for SACU. The Secretariat has four Directorates namely: office of the Executive Secretary; trade facilitation and revenue management; policy development and research; and corporate services.

1.10. **SACU Tariff Board:** Article 11 of the Agreement provides for the establishment of the SACU Tariff Board, which would govern tariff administration in SACU. The Board has not been operationalized and as such the tariff matters are currently being handled by the International Trade Administration Commission of South Africa (ITAC) as an interim arrangement, based on a decision of the Council taken in 2006.

1.11. **National Bodies:** Article 14 of the SACU Agreement, 2002 provides that the member States shall establish specialized, independent and dedicated National Bodies or designated institutions. The National Bodies shall be responsible for carrying out preliminary investigations and recommending any tariff changes necessary to the Tariff Board. In addition to ITAC of South Africa, Botswana has also established its National Body, the Botswana Trade Commission (BOTC), while Eswatini, Lesotho and Namibia are at different levels of developing their National Bodies.

1.12. ***Ad Hoc* Tribunal:** is established in terms of Article 13 of the Agreement to settle any dispute regarding the interpretation or application of the SACU Agreement, or any dispute arising thereunder. A Draft Annex on the SACU Tribunal was developed to operationalize the *ad hoc* Tribunal, but its finalization remains pending the decision of the Council on the jurisdiction of the Tribunal. The draft Annex provides details, *inter alia*, on (i) the contentious and advisory jurisdiction of the Tribunal; (ii) the modalities on the establishment and composition of a pool from which to constitute the Tribunal; (iii) implementation of the decisions of the Tribunal; and (iv) procedures necessary for the functioning of a tribunal. The Council has recognized the need for a mechanism for dispute settlement on tariff setting matters in SACU. The Council will consider whether access to the Tribunal should be granted to economic operators at the mid-term review of the Strategic Plan.

1.4 Common policies

1.13. The SACU Agreement, 2002, recognizes the need to develop common policies amongst the member States in the areas of industrial development, agriculture, competition and unfair trade practices policies.

1.14. In pursuance of this objective, member States have agreed to focus on industrialization, the development of regional industrial value chains and thus agreed on priority sectors. The work undertaken will leverage from progress made under SADC as guided by the SADC Industrialization Strategy.

1.5 Common External Tariff

1.15. As a Customs Union, SACU maintains a Common External Tariff (CET) on imports from outside of the Customs Area. Changes to the CET are made through a consultative process among the member States, with South Africa taking the lead role.

1.6 Unified engagements with third parties

1.16. SACU member States have established a common negotiating mechanism (CNM) for the purpose of undertaking negotiations with third parties. Although the CNM has not yet entered into force, SACU member States have pursued a unified approach to negotiations with third parties.

1.17. Since 2002, SACU member States have concluded several trade negotiations as a bloc with some key trading partners. These include the (i) Free Trade Agreement between SACU and the European Free Trade Association (EFTA), whose members are (Norway, Iceland, Switzerland and Liechtenstein), entered force in 2008; (ii) Economic Partnership Agreement between SADC- EPA States and EU, entered force in October 2016; (iii) SACU-MERCOSUR Preferential Agreement, entered force in April 2016; (iv) Africa Continental Free Trade Agreement, entered force in May 2019; and (v) SACU, Mozambique and UK Economic Partnership Agreement; entered into force in January 2021.

1.18. All SACU countries are Members to the Southern African Development Community (SADC) Protocol on Trade, which entered into force in 2000. SACU has submitted a common/uniform offer under this Protocol. In addition, SACU member States in July 2008, signed a Trade, Investment and Development Cooperation Agreement (TIDCA) with the United States. The Cooperation Agreement provides the framework for formal interaction between the two parties and four areas of cooperation had been identified which include: (i) sanitary and phytosanitary measures (SPS); (ii) technical barriers to trade (TBT); (iii) customs cooperation and trade facilitation; and (iv) trade and investment promotion activities where further cooperation can be achieved through bilateral agreements or Memorandums of Understanding.

1.19. These trade agreements, provide for market access opportunities for the member States. SACU member States are still engaged in ongoing trade negotiations with the following (i) SACU -India Preferential Trade Agreement; and (ii) Review of the SACU-EFTA Free Trade Agreement.

1.20. **Trade in Services:** the SACU Agreement, 2002 does not provide for Trade in Services. SACU member States advance their trade in services agenda within the context of the SADC Protocol on Services of which all SACU member States are signatories. SACU member States are negotiating Trade in services in the context of the EU-SADC EPA, Tripartite FTA and AfCFTA negotiations.

1.7 The SACU Strategic Plan 2022-2027

1.21. The SACU member States adopted a Strategic Plan in 2022, which is structured around five (5) core strategic pillars that are supported by a sixth pillar that relates to effective SACU Institutions. Further, the pillars themselves are underpinned by a set of cross-cutting issues, comprising governance and accountability and institutional arrangements, that will ensure that the necessary conditions are in place to facilitate the SACU region's implementation of the Strategic Plan. The core strategic pillars being (i) industrialization, export and investment promotion; (ii) trade facilitation and logistics; (iii) implementation and leveraging on AFCFTA opportunities; (iv) trade relations/unified engagement with third parties; and (v) finance and resource mobilization.

1.22. **Industrialization** Pillar: SACU identified industrialization as an overarching objective to deepen regional economic integration through the development of regional value chains. The vision for industrialization, was approved in September 2020, namely: "*to build a diversified, competitive, sustainable and equitable industrial base that supports structural transformation and the economic integration of the SACU region*". Investment attraction and export promotion are identified as supporting pillars to attain the industrialization aspirations. to deepen the regional industrial base and position the region to take advantage of the opportunities arising from the AfCFTA. Industrialization focus area is consistent with SACU's broad principle to align the regional industrialization initiatives with the SADC Industrialization Strategy and Roadmap (2015-63), as an overarching framework for economic, industrial and trade-related activities in the region.

1.23. SACU's priority sectors were identified and endorsed in 2020/21. These include agro-processing (fruits and vegetables, meat and meat products and leather and leather products), textiles and clothing and pharmaceuticals and cosmetics and essential oils.

1.24. **Trade Facilitation and Logistics Pillar:** the SACU Trade Facilitation Programme has evolved over the years and has yielded tangible results which continues to enhance the free flow of goods within the Customs Union. As part of the refocused work programmes, the SACU Trade Facilitation and Logistics Programme was adopted in April 2021 to support the industrialization and trade agenda in SACU. It is a framework that outlines six (6) broad parameters for cooperation and collaboration on trade facilitation and logistics in SACU namely: customs cooperation; border coordination, behind the border issues (standards, sanitary and phytosanitary standards; non-tariff barriers; technical barriers to trade); transport and logistics; support to trade negotiations and implementation of trade agreements; and cross-cutting policy issues. The Programme will also be supported by a Capacity Building and Gender Mainstreaming Plan to upskill and create technical capacity for officials and private sector in the respective areas of focus.

1.25. In parallel, SACU continues to implement a Customs Modernization Programme with priorities set on Authorized Economic Operator (AEO) Programme and IT Connectivity. This Programme is being streamlined and rationalized to align to the refocused SACU Trade Facilitation and Logistics Programme. Some of the tangible results emanating from implementation of the SACU Customs Modernization Programme include development of the following tools and frameworks: (i) SACU Customs policy; (ii) Annex to the SACU Agreement 2022, on Customs mutual administrative assistance; (iii) manual single administrative document (Customs declaration form that replaced multiple forms used for declaration); (iv) regional frameworks on IT connectivity, Authorized Economic Operator Compliance Programme (formerly named Preferred Trader Programme) and the Regional Authorized Economic Operator Programme including compliance, safety and security; (v) Bilateral and Regional Framework for Automated Exchange of Customs information; (vi) regional customs strategies for risk management and compliance; Regional Arrangement between SACU member States on Mutual Recognition of Customs Accreditation Programmes Aligned to the WCO Safe Framework and the SACU Regional AEO Programme; (vii) roadmap for migration from Harmonized System (HS) 2017 to HS 2022; (viii) manual monitoring and evaluation framework, and subscription to an open-source digital platform for monitoring and evaluation; (ix) manual system to manage tariff rate quotas under the SADC-EU-EPA; and (x) guidelines for traders and customs Officials to simplify implementation of the SACU-EFTA FTA.

1.26. In addition, the tools and frameworks developed under the Customs Modernization Programme were streamlined and implemented. The successes attained from practical implementation of the tools and frameworks include the following: (i) Botswana, Eswatini, Lesotho, Namibia have connected their respective customs management systems with South Africa and are automatically exchanging customs information; (ii) all member States have established and are implementing the National AEO Compliance Programmes, formerly known as Preferred Trader Programme; (iii) the region has registered a total of one hundred and seventy-six (176) Authorized Economic Operators under the AEO Compliance Programme; (iv) all member States simultaneously migrated from HS 2017 to HS 2022; (v) training and capacity building for more than 1,500 Customs officials, partner government agencies, and private sector on various elements of the Customs Modernization Programme, including novice technologies; (vi) Provision of technical customs and trade facilitation support for World Trade Organization Trade Policy Reviews; and (vii) provision of technical support on Customs, Rules of Origin, and Trade Facilitation for the negotiations and implementation of the AfCFTA, SADC-EU EPA, SACU-EFTA FTA, SACU-MERCOSUR PTA, and Tripartite (EAC, COMESA and SADC) FTA.

1.27. **Regional financing mechanisms:** SACU has recognized the need to address financing and mobilization of resources to support SACU's industrialization agenda. In this regard, work is underway to consider issues related to financing for industrialization especially the identification of financial resource requirements and to propose options for funding the regional value-chain projects and infrastructure development in SACU.

1.28. **Implementation of the AfCFTA:** The Agreement Establishing the AfCFTA presents SACU an opportunity to diversify its manufactured and services exports as well as integration into continental value chains. The AfCFTA is an opportune pathway for SACU's drive towards export market diversification and enhancement of its industrial capacity. To maximize benefits, it has been highlighted as imperative to develop national and SACU-level implementation strategies to leverage AfCFTA opportunities.

1.29. **Trade Relations/ Unified Engagement with Third Parties**: Strengthening trade relations with third parties plays an important role in creating opportunities to promote regional industrialization and economic growth through market expansion and diversification, as well as industrial development. The aim is to ensure unified engagement of the SACU member States in all negotiations and implementation of Trade Agreements with third parties, in order to preserve the integrity of the Customs Union in accordance with Article 31 of the SACU Agreement.

BOTSWANA

1 INTRODUCTION

1.1. This report aims at providing information on Botswana's national trade and trade-related policies implemented during the period 2015 to 2022. The report highlights Botswana's macroeconomic policy developments as well as trade and trade-related policy developments. The report further discusses trade opportunities for the country to drive its economic growth. This report is prepared at a time when Botswana like many other countries has been adversely affected by the COVID-19 pandemic resulting in harsh spotlight on socio-economic issues such as high unemployment and incidences of poverty, among others.

1.2. The national economic growth and development objectives are established in Vision 2036 and the National Development Plan (NDP 11) whose theme is "Inclusive Growth for the Realization of Sustainable Employment Creation and Poverty Eradication". NDP11 mid-term review revealed a declining economic growth, a deteriorating fiscal position, the need to diversify exports and the economy, mitigating uncertainties around the diamond industry's future and high unemployment.

1.3. Botswana Vision 2036 aligns with AU and UN sustainable development goals, to ensure that the country pursues the national aspirations in a way that enables Botswana to meet global and regional goals.

1.4. Due to the effects of COVID-19 pandemic, Botswana has developed the Economic Recovery and Transformation Plan (ERTP) in order to support the restoration of economic activity and incomes, accelerate economic transformation and build the resilience of the economy. It is recognized that there is devastation to productive capacity and subsequent loss of income from companies and individuals especially in sectors such as mining, agriculture, trade, hotels and restaurants and the informal sectors. The ERTP therefore envisions actions on the stated sectors also including ICT, education, health, and the creative sector, in a bid to take Botswana to high-income status by 2036 (Vision 2036 objective).

2 BOTSWANA'S MACROECONOMIC POLICY DEVELOPMENTS

2.1 Gross domestic product

2.1. According to Bank of Botswana 2022 Annual Report, Botswana's economy (GDP) grew by 6.4% in the year ending September 2022, sustained by a 9.2% recovery of the mining sector, while there was broad-based positive growth across the non-mining sectors. As a result of the recovery of the diamond trade, the balance of payments reported a surplus of BWP 8.5 billion in 2022, positively impacting foreign exchange reserves. Foreign exchange inflows, in particular, surpassed outflows resulting on a net flow of BWP 3.3 billion.

2.2 Fiscal Policy

2.2. Macroeconomic developments in Botswana are guided by Vision 2036, a transformational agenda that defines the national aspirations and goals. It aims at transforming Botswana from an upper-middle income country to a high-income country by 2036. The eleventh National Development Plan (NDP 11) was the first medium-term Plan towards the implementation of the country's second vision – Vision 2036. NDP 11 theme is "Inclusive Growth for the Realization of Sustainable Employment Creation and Poverty Eradication". Which was implemented through six national priorities, namely: developing diversified sources of economic growth; human capital development; social development; sustainable use of national resources; consolidation of good governance and strengthening of national security; and implementation of an effective monitoring and evaluation system. The National Development Plan was aligned with global, continental and regional initiatives such as; the UN's Sustainable Development Goals, AU Agenda 2063, and the Revised SADC Regional Indicative Strategic Development Plan.

2.3. With NDP 11 implementation having ended in March 2023, the country is currently implementing a two (2) year (2023/24 – 2024/25) Transitional National Development Plan whose fundamental objective is to archive diversified private sector-led growth, building on the NDP 11 fundamentals of archiving inclusive growth, creation of sustainable environment and poverty eradication. The Plan identified six (6) national priorities being: digital transformation; business environment reform; infrastructure development; value-chain development; sustaining livelihoods; and climate change.

2.4. Fiscal strategy in 2023/24 and beyond will continue to be strengthened to achieve the objectives of running surpluses and re-building buffers. For medium to long-term sustainability. There will be focus on strengthening fiscal prudence and discipline; enhancing revenue mobilization; improving the efficiency of public spending, restoring government's net financial assets and debt sustainability.

2.3 Monetary Policy

2.5. Bank of Botswana (BoB), the Central Bank, in its implementation of the monetary policy, aims to achieve a low and sustainable level of inflation. In 2022, the Central Bank conducted the monetary policy in the context of projected elevated inflation associated with upward adjustment of administered prices, a modest recovery was realized in domestic demand resulting from the easing of containment measures due to deployment of effective COVID-19 vaccines and relatively high foreign inflation These conditions provided scope for a contractionary monetary policy stance in support of the attainment of the Bank's price stability objective of 3–6%.

2.6. BoB is also responsible for implementing the exchange rate policy. In 2022, the Pula basket weights were maintained at 45% and 55% for the South African rand (ZAR) and the IMF's Special Drawing Rights (SDR), respectively, reflecting Botswana's trade pattern and financial relationships with the external world.

2.7. The Bank implemented an annual downward rate of crawl of 2.87% with a view to enhancing domestic industry competitiveness. In 2022, the trade-weighted nominal effective exchange rate (NEER) of the Pula depreciated in line with the rate of crawl of the Pula exchange rate. The real effective exchange rate (REER) appreciated by 2.1% in the same period because of a higher positive inflation differential between Botswana and the trading partners than the 2.87% downward rate of crawl, and this suggested loss in international competitiveness of domestic firms.

2.4 Economic outlook

2.8. Botswana economy showed strong resilience as the country emerged with one of the fastest recoveries from the impact of the COVID-19 pandemic. The economy grew by 11.8% in 2021, the fastest growth rate in sub-Saharan Africa. It got off to a strong start in 2022, as economic growth averaged 6.5% year-on-year, during the first three quarters of the year. This growth is mainly due to better-than-expected performance of both the mining and non-mining sectors – particularly diamond trading, manufacturing, water and electricity, ICT, wholesale and retail, as well as public administration.

2.9. Regarding inflation, domestic prices remained skewed to the upside as prices of basic commodities and manufactured goods escalated during the 2022. Annual inflation had risen to 14.6% by August 2022, which was the highest rate since November 2008. There has been temporary reduction in VAT from 14% to 12% rate and zero rating of some food commodities, as well as a reduction in global and domestic fuel prices.

2.10. National real GDP grew by 11.9% in 2021 after contracting by 8.7% in 2020 due to the effects of COVID-19 pandemic. The broad-based 5.8% growth in 2022 was driven by a diamond market rebound, consumption-supportive government policies, and an effective vaccination drive (over 67% of the population has been vaccinated). Inflation average 12.2%, in 2022, which was above the Bank of Botswana's medium-term objective of 3%–6%, reflecting the domestic pass-through of high global commodity prices arising from the Russian Federation-Ukraine conflict. The Government temporarily reduced the value-added tax rate to 12% from 14% and zero-rated cooking oil and gas to ease living costs, this was from the 1 April 2022 till 31 March 2023. The Bank of Botswana raised the policy rate to 2.65% in August 2022 from 1.65% in May 2022.

2.11. There was fiscal deficit of 9.5% of GDP in 2020/21, 2022/23 experienced a 1.0% deficit of GDP and the deficit was financed through borrowing and reserves drawdown. The current account surplus of 2.2% of GDP in 2022 signalled rising diamond sales and receipts from the Southern African Customs Union. International reserves stood at USD 4.6 billion in November 2022 (9.7 months of import cover), compared with USD 4.8 billion at end-2021 (9.9 months). The banking sector's capital adequacy ratio averaged 19.1% from November 2021 to November 2022, above the 12.5% prudential requirement. The non-performing loans ratio fell to 3.8% in November 2022 from 4.3% in December 2021. Botswana had a low poverty headcount ratio, 20.8% in 2021, but high unemployment, 25.4%, driven by youth unemployment of 39.9% in 2022.

2.12. Botswana's economy is expected to realize enhanced growth on the margins of anticipated performance of the liberalized beef sector, higher diamond prices, and ramped-up copper and vaccine production, amongst others.

3 TRADE AND TRADE-RELATED POLICY DEVELOPMENTS

3.1 Trade policies and strategies

3.1. Botswana's National Trade Policy defines the "Complete Framework of Laws, Regulations, International Agreements and negotiation positions as well as Government's Guidelines and Pronouncements on Trade which define how the country will conduct bilateral, regional and multilateral trade with partners". The National Trade Policy elaborates the country's vision towards providing local producers and consumers with access to the widest choice of international inputs, goods and services. The Policy, aligned to supporting policies, contributes to the provision of a conducive environment for industrial development, economic diversification, export-led growth and economic integration.

3.2. Botswana's Industrial Development Policy (IDP) was approved by the National Assembly in July 2014, with the aim of facilitating diversified, sustainable and globally competitive industries. The policy is implemented through six (6) strategic policy thrusts namely: industry creation and development; industry promotion and facilitation; industrialization and citizen and economic empowerment; development of infrastructure and industry relevant skills; private sector capacity development; and other fundamentals (industry financing, research and development, Intellectual property, environment, health and safety standards).

3.3. The industrial policy has recorded some notable successes in the areas of industry facilitation, citizen economic empowerment, small and medium enterprises (SMEs) development and promotion, private sector capacity development, and industry financing. These include elimination of certain requirement for licensing especially requirement for businesses which do not have health hazard. Despite these successes, challenges still remain due to ineffective coordination; lack of a proper monitoring and evaluation framework; inadequate analytical capacities within Government and the private sector; inadequate financing and resource mobilization; and low investment in research and development.

3.4. The Policy, now due for review, will address the following:

a) Develop export-oriented industries with a view to overcoming the limitations of Botswana's small domestic market and the concomitant small industrial base;
b) develop a roadmap to close the gap between Botswana and the emerging market economies, the newly industrialized countries and the industrialized countries – industry by industry, sector by sector and firm by firm;
c) promote resource-based industrialization in order to optimally exploit and use the country's abundant natural resources;
d) Promote service-led industrialization with a view to overcoming Botswana's challenges associated with being landlocked;
e) Unlock business opportunities for the private sector;
f) Promote the development of regional strategic industries and find a niche in regional value chains;
g) Promote the development of strategic rural industries according to each region's comparative and competitive advantages;

h) Promote citizen participation in all the opportunities opened by industrial development; and
i) Promote effective stakeholder coordination and collaboration.

3.5. Botswana's Revised Economic Diversification Strategy (2023–2028) was developed to improve Botswana's competitiveness in the global economic space. The Strategy will facilitate lower production costs; remove economic distortions; as well as enable trade, investment and innovation in the identified sectors. The Strategy anticipates a doubling of the volume of investment as measured by Gross Fixed Capital Foundation (GFCF) and domestic investment by 2030, as well as increased portfolio inflows by 50% by the same period. Its strategic objectives are:

a) Growing the contribution of the private sector and private investment to the Botswana economy;
b) Supporting the development of strategic sectors, with a focus on economic diversification and external competitiveness;
c) Upgrading the investment ecosystem through, amongst others, new sustainable and innovative financing for investment, and improving livelihoods across the country; and
d) Expanding and upgrading the country's hard infrastructure and expanding access to high-speed internet connectivity.

3.6. Regulatory Impact Assessment (RIA) system for Botswana was approved through a Presidential Directive in November 2019 for a pilot phase of three years focusing on issues that affect the doing business environment. Its implementation is carried out with technical assistance from the UNDP. During the pilot phase, government was to produce three (3) RIA projects every six (6) months. However, due to the outbreak of COVID-19, implementation was greatly undermined, and the UNDP continued providing technical support beyond the three-year pilot phase. The Ministry of Trade and Industry also developed the Better Regulation Strategy with the aim of removing regulatory hurdles to businesses and reducing the cost of doing business in the country.

3.7. Since the implementation of the RIA, only three (3) projects were undertaken, two were completed while the other one is yet to be completed. The Ministry of Trade and Industry has however taken a decision to undertake RIA on all the review four (4) acts, one (1) policy and two (2) statutory instruments.

3.8. Botswana's trade policy is also complemented by the National Export Strategy (NES). The Strategy is implemented by, among other stakeholders, the Botswana Investment and Trade Centre (BITC) through trade development and investment promotion in the identified priority sectors.

3.9. The Special Economic Zones Act was adopted in 2015 for the establishment, development and management of special economic zones with a view to creating a conducive environment for local and foreign investment. To date six economic zones have been identified in the areas of: international diamond hub; financial services; beef and leather; biogas park; integrated coal value addition; and mineral beneficiation.

3.10. Several investment and trade facilitation measures are undertaken to improve the cost of doing business in the country. The Transport Master Plan has been developed to aid the Government in modernizing its entire transport network system. The Plan aims to enhance the transport system efficiency in order to reduce the cost of doing business. The masterplan advocates for financing through a Private Public Partnership mechanism.

3.11. Botswana has also set up the SmartBots Programme whose objective is to drive digital innovation across the economy, government and society. One of its deliverables is to increase digital connectivity nationally. Software applications were developed for farmers, SMMEs, primary school education services in order to increase their efficiency.

3.12. Botswana is at preliminary stages in the development of an automated Transit Management System. The system will simplify, harmonize and streamline border crossing procedures. The system is expected to support the establishment of a National Single Window, which is still at infancy stage. The WCO will be instrumental in assessing relevant institutions' readiness to implement the Single Window.

3.13. The BURS Customs Management System and the BOBS Permit Processing System have been integrated to improve efficiency for their customers. Furthermore, the Ministry of Finance has established One-Stop Boarder Posts (OSBPs) for effective boarder management. This has resulted in reduced clearance times at borders. The Kazungula Bridge OSBP (with Zambia) is operational, while the Mamuno and Tlokweng OSBPs are under development. There are also considerations to establish more OSBP crossings at various ports of entry and exit in strategic places in Botswana. The OSBP facility is critical is supporting a sustainable transit system.

3.2 Multilateral, regional and bilateral trade arrangements

3.14. Botswana continues to promote trade by pursuing free trade agreements/arrangements with strategic trading partners in a bid to attract investments. To date, the country is party to the following trade agreements: SACU; SADC Protocols on Trade and in Services; the SACU-MERCOSUR Preferential Trade Agreement; the SACU-EFTA Free Trade Area; SACU and Mozambique-UK Economic Partnership Agreement (UK-SACUM EPA); the EU-SADC Economic Partnership Agreement; and the WTO. Botswana is also a beneficiary under AGOA. Of recent Botswana deposited its instrument of ratification to the African Continental Free Trade Area.

3.15. The UK-SACUM EPA entered into force in January 2021. The Agreement, concluded after the UK left the EU, mirrors the effect of the EU-SADC EPA. Its negotiations were intended to secure the regional market access enjoyed when UK was still part of the EU. Currently the process for WTO Factual Presentation on the Agreement is ongoing.

3.16. Botswana also signed the AfCFTA Agreement on 10 February 2019 and ratified the Agreement on 19 February 2023, completing by SACU members. To support implementation of the Agreement, Botswana in collaboration with UNECA is developing a National AfCFTA Implementation Strategy. The Strategy would assist in identifying opportunities that Botswana can leverage from agreement.

3.17. The SADC Protocol on Services entered into force in January 2022 after conclusion of negotiations of phase I services, namely: communications, tourism, construction, finance, transport and energy. The region is currently at the initial stages of negotiators for the second phase services, covering: business; distribution; environmental; educational; health; and recreational, cultural and sporting services. At AfCFTA level services negotiations are ongoing for business, communication, finance, tourism and transport.

3.18. The National E-commerce Strategy was developed through technical assistance from the United Nations Conference on Trade and Development (UNCTAD) and funded through the EU/SADC-Trade-Related Facility. The Strategy was launched on 21 October 2021. Capacity building on the strategy for the different stakeholders is ongoing.

3.3 Intellectual Property and Copyrights

3.19. The Copyright and Neighbouring Rights Act (Act No. 6 of 2006) is under review. The objective of the review is to bring the Act in alignment with the Marrakesh VIP Treaty as well as covering other Intellectual Property and Copyrights issues that are not provided for in the current version, including but not limited to artist resale right and expressions of folklore.

3.20. In February 2022, the Parliament of Botswana approved the Botswana Intellectual Property Policy (BIPP) 2022. The main objective of the Policy is to enable Botswana to use its intellectual property (IP) potential towards the realization of a knowledge-based economy and to diversify the economy to create prosperity for all. The Policy envisions that, "Botswana will be an IP driven economy by 2036". The Companies and Intellectual Property Authority (CIPA) launched the Policy in November 2022.

3.4 Government procurement

3.21. The Botswana Public Procurement Act was adopted by Parliament in July 2021. The Act led to the repeal of the former Public Procurement and Asset Disposal (PPAD) Act, as well as the Local Authorities Procurement and Asset Disposal (LAPAD) Act. It also introduces a "Single Law" governing all public procurement in Botswana, i.e. procurement activities undertaken by entities within central government, local authorities, state-owned entities, land boards, NGOS, trusts, and any other entities where government is a significant contributor. The Act further establishes the Public Procurement Regulatory Authority (PPRA) whose operations began in 2022. The Act also seeks to:

a) Continue the PPAD Board as the PPRA Board and revises its functions to improve efficiency and effectiveness in the regulation and management of the public procurement process;
b) Remove the asset disposal function by procuring entities from the Act and provides for it under the Public Finance Management Act;
c) Make procuring entities fully accountable for all procurement activities;
d) Maximize economy and efficiency in procurement;
e) Promote participation of citizens in public procurement;
f) Promote competition among suppliers and contractors;
g) Provide for fair, equal, equitable treatment of all suppliers and contractors;
h) Promote the integrity of, and fairness and public confidence in the procurement process; and
i) Achieve transparency in procedures relating to procurement.

4 SECTORAL POLICY DEVELOPMENTS

4.1 Manufacturing sector

4.1. The manufacturing sector has been identified as an engine for employment creation and diversification of the economy. As a result, there has been a number of initiatives both at the national and regional levels aimed at developing the sector. Regardless of these initiatives, the manufacturing sector has underperformed. According to Statistics Botswana and the World Bank reports, the sector's contribution to GDP was 8.5% in 2010 but dropped down to 5.7% in 2020. Regarding employment, manufacturing accounted for 7.7% of formal employment in 2020 according to the new Quarterly Multi-topic Household Survey.

4.2 Agriculture sector

4.2. While agriculture is important for subsistence farming, its contribution to GDP remains negligible. For Botswana, the agriculture sector is dominated by arable farming and livestock production. Of the two, livestock production, especially cattle, contributes a higher percentage to the agricultural GDP. Since the beginning of the COVID-19 pandemic, the Government has made a conscious effort to build resilience in food supply chains and reliable domestic production that will help improve food security and self-sufficiency. In a bid to develop the agricultural sector and diversify the economy, farmers have access to funding from the National Development Bank (NDB) and the Agricultural Credit Guarantee Scheme. In addition, the Integrated Support Programme for Arable Agriculture Development (ISPAAD), was reviewed to address challenges facing farmers and the low productivity in the arable sub-sector.

4.3 Mining sector

4.3. Botswana did not have a mineral policy before and have in 2022 adopted a Minerals Policy, whose objective is to maximize national benefit from minerals development while providing a competitive environment for investors. The Government will ensure adherence to the environmental and other related policies for sustainability in accordance with the best international practices. The policy provides a framework for minerals development in light of the following challenges:

a) Dependency Botswana's economic on minerals, more especially diamonds;
b) Increasing competition for investors with other countries as more and more mining jurisdictions improve their policies and mineral potential;
c) The need for maximization and equitable distribution of benefits such as revenue, employment generation and local supply of goods and services;
d) The need to develop local upstream and downstream linkages to add value to minerals development in Botswana; and
e) The high-end consumer sensitivity to the issues of climate change, the environment and ethics.

4.4. The Policy aims to achieve the following:

a) Maximization of economic benefits to the nation while enabling private investors to earn competitive returns;
b) A competitive environment to stimulate private sector investment in mineral developments;
c) Improved linkages with the wider economy in generation of local employment opportunities;
d) Sustainable mineral development that supports environmental conservation and protection;
e) Increase opportunities for citizens to directly participate in mining, whether as contributors of capital, labour, goods or services, to the greatest extend possible consistent with the maintenance of commercial conditions attracted to minerals investment;
f) Diversification within the mineral sector;
g) Strategic and responsible management of geological and minerals related information;
h) Creation of a conducive environment for women participation in the mineral sector;
i) Value addition and beneficiation; and
j) Strengthening of local capacity for participation on mineral development.

4.5. The Mines and the Mineral Act is currently under review to incorporate policy objectives.

4.4 Energy

4.6. Botswana adopted National Energy Policy (NEP) in April 2021 whose objectives are to create an energy system that would secure a reliable supply of modern energy services for all the sectors of the economy and to significantly reduce energy-related atmospheric emissions by the year 2040. The Policy seeks to provide energy security for the country and to improve access to reliable and adequate supply of energy in order to facilitate a sustainable and low carbon economic development.

4.7. This Policy is anchored on three main principles: economic development, equity and environmental responsibility. In order to drive economic development, NEP ensures that adequate modern energy services and products are accessible for commercial activities. Energy will be used to generate income for the economy as a key driver of economic diversification by powering the country's economic development activities. This Policy also ensures equitable distribution to all.

4.8. The Botswana Energy Regulatory Authority (BERA) Act, which was approved in 2016, establishes the Botswana Regulatory Authority. The mandate of BERA is to regulate the energy sector. Following commencement its operations, the Authority developed regulations for the products under their rule. Prior to the BERA Act most of these products were partially regulated by the Department of Energy with the main focus on price regulation. According to the BERA Act licensing is required for any entity that undertakes commercial activities relating to the petroleum and gas sector. Government also amended the Electricity Supply Act in 2016 to align it to the BERA Act.

5 TRADE–RELATED TECHNICAL ASSISTANCE

5.1. Trade-Related Technical Assistance (TRTA) is still very important for Botswana to build capacity on international trade issues to leverage optimise her participation in the global trading system. Some of the areas where technical assistance is still sought include:

a) Mainstreaming gender and youth in trade;
b) Trade and sustainable development;
c) Trade in services;
d) Fisheries;
e) Trade policy formulation;
f) Technical regulation and standards (Technical Barriers to Trade, Sanitary and Phytosanitary;
g) Monitoring and evaluation of the implementation of trade agreements;
h) Analysis/ interpretation of trade agreements;

i) Trade Negotiations skills; and
j) Government procurement.

6 CONCLUSION

6.1. Botswana still performs at a lower level in terms of contribution to the multilateral trading system. Economic performance is also low, and this has even been exacerbated by COVID-19 and geo-political issues. Her production and trade are still associated with primary goods; hence diversification agenda is still relevant.

6.2. Government remains committed to the multilateral trading system and will ensure that the trading rules or disciples are observed. However, to actively and effectively participate in global trade, Botswana is of the view that continuous technical assistance from the WTO is necessary. As a landlocked developing country, knowledge in developing the trade in services is vital to support the economic development.

ESWATINI

1 ECONOMIC AND TRADE ENVIRONMENT

1.1 Eswatini's economic environment

1.1. Eswatini is a landlocked country bordering Mozambique to the northeast and South Africa to the north, west, south and southeast. The country's main trading partner is South Africa with over 60% of exports going to South Africa and over 80% of imports coming from South Africa. Eswatini is a member of the Common Monetary Area (CMA) together with Lesotho, Namibia and South Africa where the Lilangeni (domestic currency) is at par with the South African Rand, which is also a legal tender in the country.

1.2. In 2022, Eswatini's Gross Domestic Product (GDP) declined to an estimated 4.0% from 7.9% in 2021, partly reflecting the impact of pressures on domestic demand and the weak performance in agriculture. The poor performance of agriculture and agro-processing sub-sectors, mainly the sugar industry, depicts the impact of higher input costs, below average rainfall and arsons attacks. A positive growth was recorded in electricity, tourism, professional, administrative and support services.

1.3. The Kingdom of Eswatini faces a number of challenges that need to be addressed to ensure economic growth and stability. During the current Trade Policy Review, covering the period 2016-22, fiscal deficit increased to 5.5% of GDP in the financial year 2022/23 from 4.6% of GDP in the financial year 2021/22 and this has largely been driven by an increase in the wage bill and the decline in Southern African Customs Union (SACU) revenue. The goal of the Government of Eswatini is to bring the fiscal deficit and debt to GDP ratio to sustainable levels.

1.2 Trends in foreign trade

1.4. During the review period, the trade balance turned positive with merchandise trade exports depicting a growth rate of 17.6%. The services balance continued to register a deficit, mainly against the backdrop of the national shut down brought about by the COVID-19 restrictions which subdued inbound tourism demand resulting to a deterioration in travel.

1.5. The total value of merchandise exports from Eswatini increased to USD 2,060 million in 2021 from USD 1,812 million in 2015.

Table 1.1: Total merchandise trade

(USD million)

	2005	2010	2015	2021
Merchandise exports	(e) 1 770	(e) 1 800	1 812	2 060
Merchandise imports	(e) 1 900	(e) 1 960	1 412	1 936
Merchandise trade balance	(e) -130	(e) -160	401	124

Source: UNCTAD.

Table 1.2: Total Trade in services

(USD million)

	2005	2010	2015	2021
Services exports	203	258	75	(e) 64
Services imports	403	671	199	(e) 228
Services trade balance	-200	-413	-124	(e) -165

Source: UNCTAD.

2 ESWATINI'S INTERNATIONAL TRADE RELATIONS

2.1 The Multilateral Trading System

2.1. Eswatini remains committed to maintaining and strengthening the multilateral trading system, which is the corner stone of global trade. Since the last Trade Policy Review in 2015, Eswatini continues to fully engage in bringing about progress in the world trading system under the World Trade Organization (WTO).

2.2. On 6 December 2005, WTO Members approved changes to the WTO's Intellectual Property (TRIPS) Agreement in order to make permanent a decision on patents and public health originally adopted in 2003. This was formally built into the TRIPS Agreement after acceptance of the Protocol amending the TRIPS Agreement by two thirds of the WTO's Members. The amendment took effect on 23 January 2017 and replaced the 2003 waiver for Members who have accepted the amendment. Eswatini accepted the Protocol amending the TRIPS Agreement on 25 May 2022.

2.3. Eswatini has also, on 21 November 2016, accepted the Protocol of Amendment to insert the WTO Trade Facilitation Agreement into Annex 1A of the WTO Agreement (the Protocol).

2.2 The African Continental Free Trade Agreement (AfCFTA)

2.4. The AfCFTA entered into force on 30th May 2019, and became operational on 1 January 2021, with the main goal of creating a liberalized continental market for goods and services, facilitated by free movement of persons with a view to better integrate African economies.

2.5. Eswatini ratified and deposited her instrument of ratification in April 2018 and continues to participate in the ongoing trade negotiations on trade in goods, trade in services, investment, competition, intellectual property rights, digital trade and women and youth in trade.

2.3 Preferential Trade Agreements

2.6. Eswatini is a beneficiary of the GSP scheme and the countries that grant GSP include the United States, Australia and the Russian Federation. A wide range of export products from Eswatini enjoys market access through the GSP scheme.

2.4 SADC-EU-EPA

2.7. In June 2016, Eswatini together with other SADC countries, Botswana, Lesotho, Mozambique, Namibia and South Africa signed an Economic Partnership Agreement (EPA) with the European Union (EU) which allows all Eswatini's products to enter the EU market duty-free and quota free, except for arms and ammunitions.

2.8. However, Eswatini's capacity to utilize benefits offered under the EPA is limited by several factors including insufficient production capacities; narrow export base and lack of competitiveness; limited information about the EU market; inadequate and inappropriate quality and standards' infrastructure and technology among others. Utilization of the Economic Partnership Agreement has also been hampered by high cost of back-bone services such as energy, communication and transport, less than optimal business environment, low competitiveness ranking which is repulsive to new domestic and/or foreign investment, transit related delays and fees across borders, inability to meet quality standards by SMMES, and to provide required quantities.

2.5 SACU – EFTA FTA

2.9. As a member of SACU, Eswatini is also a signatory to the SACU – EFTA Agreement. The Free Trade Agreement between SACU and the European Free Trade Association (EFTA) States of Iceland, Liechtenstein, Norway and Switzerland was signed on 26 June 2006. Negotiations commenced in May 2003 and the Agreement entered into force on 1 May 2008, to be phased in over a period of 10 years, which elapsed in 2018. The Agreement covers trade in goods and lays the foundation for a further engagement of the Parties with regard to intellectual property, investment, trade in services, and public procurement. A Joint Committee was established for the supervision and administration of the Agreement in July 2011, and provisions are included for consultations and dispute settlement procedures.

2.6 SACU – Mercosur Preferential Trade Agreement

2.10. The Southern Common Market (Mercosur) consists of Brazil, Argentina, Uruguay and Paraguay. The negotiations to conclude the Preferential Trade Agreement commenced in December 2002. The SACU-MERCOSUR Agreement was subsequently signed in December 2008 and was the first agreement that SACU concluded in accordance with the provisions of the 2002 SACU Agreement. This Agreement was also the first agreement that SACU concluded with another developing regional trading partner. The Agreement laid out a framework for formal trade relations and included a built-in agenda to finalize the negotiating process on some outstanding issues including customs cooperation, the automotive industry, sanitary and phytosanitary issues, and rules of origin.

2.11. The Preferential Trade Agreement between the Southern Common Market (Mercosur) and the Southern African Customs Union (SACU) was signed on 15 December 2008, in Salvador, Brazil; and on 3 April 2009 in Maseru, Lesotho. After being ratified by all signatory parties, the Mercosur-SACU PTA entered into force on 1 April 2016.

2.7 COMESA free trade area

2.12. The Common Market for Eastern and Southern Africa (COMESA) was established in 1994 and it aims to promote regional integration and boost economic development through various strategies and initiatives. With 21 member States, including Eswatini as a founding member, COMESA plays a critical role in shaping trade, investment and economic policies within the region.

2.13. Eswatini continues to trade under derogation, and this has been linked to the conclusion of negotiations under the Tripartite Free Trade Area (TFTA). Eswatini has ratified and deposited the instrument of ratification for the TFTA. By becoming a Member, Eswatini gained access to a wide range of benefits that have positively impacted the economy. Some of the key benefits are:

a) Enhanced market opportunities: Eswatini benefits from a larger market access with reduced trade barriers. This has allowed Eswatini-based businesses to expand their reach across member States, tapping into a consumer base of over 500 million people.
b) Trade facilitation: COMESA promotes streamlined processes and procedures for cross-border trade, making it easier and more efficient for Eswatini to import and export goods and services. This has positively impacted Eswatini's trading activities, fostering economic growth and stability.
c) Investment promotion: COMESA encourages Foreign Direct Investment (FDI) by providing a conducive business environment. Eswatini has witnessed an increase FDI inflows, as investors recognize the country's potential and benefits of operating within a larger regional market.
d) Economic diversification: Membership to COMESA has encouraged Eswatini to diversify her economy, reducing reliance on a few industries and stimulating growth in sectors with untapped potential. This has resulted in job creation and increased revenue streams for the nation.
e) Capacity building and technical assistance: COMESA provides various training programs, capacity building initiatives and technical assistance. Eswatini has leveraged these resources to enhance its institutional and regulatory frameworks, contributing to improved governance and economic development.

2.8 SADC FTA

2.14. Eswatini is a member of SADC and have ratified the SADC Protocol on Trade. There are multiple benefits for Eswatini as a member of SADC and some of the key advantages are:

a) Economic integration: SADC promotes regional economic integration, which can lead to increased trade and investment opportunities for Eswatini. It provides for a platform for Eswatini to negotiate and establish trade agreements with other member States, leading to improved market access and economic growth;

b) Infrastructure development: SADC emphasizes infrastructure development, including transportation, energy and telecommunications. This facilitate Eswatini's connectivity with neighbouring countries and support the development of cross-border infrastructure projects, enhancing trade and regional connectivity;
c) Resource sharing: SADC Members benefit from sharing resources, experiences and knowledge. Eswatini continues to tap into expertise of other countries within the region to develop her own industries, improve productivity and enhance competitiveness; and
d) Health and social welfare: SADC collaborates on various health and social welfare initiatives and Eswatini benefits from such collaboration in areas such as healthcare, education and social development.

2.9 COMESA-EAC-SADC Tripartite-FTA negotiations

2.15. The COMESA-EAC-SADC Free Trade Area was launched in June 2015. A number of countries, including Eswatini, signed the Agreement. As a member of SADC, Eswatini is expected to access a Tripartite Free Trade Area market of around 600 million consumers with a combined Gross Domestic Product of USD 1.3 trillion. This initiative would serve as an opportunity for our business persons and exporters of goods to access a free African market with opportunities for growth and employment creation. Lot of efforts would have to be put in place in order to benefit from these economic integrations. The need to expand our industrial base now more than ever, should become an important policy output hinging on the Public Private Partnership relationship taking into account our own adopted industrial policy.

2.16. As a member of SADC, Eswatini has signed and deposited the instrument of ratification for the COMESA-EAC- SADC Tripartite Free Trade Agreement on 17th November 2022; an agreement which is expected to provide diversified market access for Eswatini exports as well as alternative competitive sourcing for industrial inputs. The Tripartite Free Trade Area represent an integrated market of 26 countries with a combined population of over 600 million consumers and a combined Gross Domestic Product of USD 1.3 trillion.

2.10 Africa Growth Opportunity Act (AGOA)

2.17. Eswatini also benefits from the African Growth and Opportunity Act (AGOA), which was enacted on 18th May, 2000, as Public Law 106 of the 200th United States (US) Congress. AGOA originally covered an eight-year period (October 2000 to September 2008), but legislative amendments signed into law by US President George W. Bush in July 2004 extended it to 2015. Upon completion of its initial 15-year period of validity, the AGOA legislation was extended on 29 June 2015 by a further 10 years, to 2025, through the AGOA Extension and Enhancement Act (AEEA).

2.18. The major purpose of the Act is to enhance market access to the United States for qualifying sub-Saharan African (SSA) countries by offering incentives for African countries to continue their efforts to open their economies and build free markets. AGOA is non-reciprocal and offers eligible SSA countries duty-free access to the US market. It extends the number of tradable products beyond the Generalized System of Preferences, which specifies 4,600 items, to more than 6,400 items. The current ten-year extension of AGOA from 2015 to September 2025 recommends that each AGOA beneficiary country develops an AGOA utilization strategy to maximize export trade and investment from US companies.

2.19. Eswatini has been an AGOA beneficiary since 2001, however, the country was suspended from the program in 2015 and reinstated in 2017. In January 2018, Eswatini's AGOA benefits were fully restored; hence, the Ministry of Commerce, Industry and Trade (MCIT), in the spirit of private- and public-sector partnership, undertook the development of a national AGOA Utilization Strategy and Action Plan which was eventually launched in February 2021.

3 NEW TRADE REFORMS

3.1 Industrial Development Policy

3.1. Eswatini finalized its Industrial Development Policy (IDP) for the period 2015-22 which sets out what the country intends to achieve (the vision, mission, objectives, policy interventions and strategies) in the area of industrial and trade development. Of note is that Eswatini has had no industrial policy before; and, over the past decade, economic growth, investment, and exports have slowed down, while the business environment has at best stagnated, unemployment has risen, production and exports have not diversified.

3.2. The objectives of the IDP are as follows:

a) To enhance manufacturing and services sectors contribution to GDP to be above 50% and increase manufacture exports by 5%;
b) To promote diversification of the country's industrial activities and increase employment in the manufacturing sector by 5% per year;
c) To increase utilization and beneficiation of local and regional raw materials in the production of goods for domestic and export markets by 50%; and
d) To promote broad-based industrialization path by increasing the participation of SMMEs in the manufacturing sector by 10%.

3.3. It focuses on a wide range of strategic areas that have been derived from stakeholder consultations, sector consultations, benchmark studies and policy framework.

Value addition and beneficiation of primary products (resource-based industrialization)

3.4. The government of the Kingdom of Eswatini will promote value addition and beneficiation of local primary products into high value processed products and the development of national, regional and global value chains in key sectors.

Human capacity and skills development

3.5. The government of the Kingdom of Eswatini will increase and strengthen human capacity and skills development for industrialization.

Standards, technical regulations and quality infrastructure. regulatory and quality infrastructure (standards, metrology, quality assurance, accreditation and technical regulations)

3.6. The government of the Kingdom of Eswatini will ensure industrial support in the regulatory and quality infrastructure areas, i.e. standardization, metrology, quality assurance, accreditation and technical regulations for a competitive industrial development.

Promoting industrial upgrading through innovation, technology transfer and research & development.

3.7. The government of the Kingdom of Eswatini will promote research and development and innovation to increase the manufacturing base.

Liberalization of trade in services to accelerate industrialization

3.8. The government of the Kingdom of Eswatini will liberalize the trade in services sector for economic transformation.

Industrial cluster development

3.9. The government of the Kingdom of Eswatini will form cluster and sector driven industrialization, through agglomeration of interlinked production activities.

Industrial financing

3.10. The government of the Kingdom of Eswatini will increase opportunities for access to finance for domestic investors within the industrial sector.

Industrial infrastructure development programme

3.11. The government of the Kingdom of Eswatini will continue the development of quality infrastructure to support industrialization.

Investment promotion

3.12. The government of the Kingdom of Eswatini will improve the investment climate to encourage both domestic and foreign investment.

Small medium and micro enterprise development and inclusive growth

3.13. The government of the Kingdom of Eswatini will create an enabling environment to support development of small medium and micro enterprises.

Inclusive industrial development

3.14. The government of the Kingdom of Eswatini will create an enabling environment for the participation of women, youth, and people living with disabilities.

Sustainable industrial development

3.15. The government of the Kingdom of Eswatini will create a sustainable environment for industrialization.

Competition

3.16. The government of the Kingdom of Eswatini will encourage fair competition to enhance both efficient and cost-effective marketing.

Trade for Industrialization

3.17. The government of the Kingdom of Eswatini will support the liberalization of goods and services.

3.18. For a successful industrial development, the government recognizes the importance of harmonizing policies through aligning the industrial policy and mainstreaming it into other sectoral, national and regional programmes.

3.2 Special Economic Zone Act

3.19. The government of the Kingdom of Eswatini has, in 2018, enacted an Act to provide for the establishment of Special Economic Zones, Special Economic Zones Committee, Special Economic Zones Tribunal and incidental matters.

3.20. The Special Economic Zones Act, 2018 has, as of October 2022, designated two sites as SEZs and they are the Royal Science and Technology Park and King Mswati III International Airport.

4 TRADE – RELATED TECHNICAL ASSISTANCE

4.1. Eswatini has benefited from several technical assistance and capacity building initiatives offered by the WTO. During the period under review, two officials benefited from the French and Irish Mission Internship Programme and one official participated in the Advanced Trade Policy Course. Eswatini has also benefited from the Young Professional Programme offered by the WTO. Several other short-term training programmes and seminars have also been extended to both our Mission in Geneva and Capital based officials.

4.2. Eswatini joins other developing countries and least developed countries to encourage developed countries to continue providing technical assistance towards building capacities of our countries.

Eswatini further wish to request for more technical assistance for the implementation of her category "C" commitments under the WTO Trade Facilitation Agreement.

4.3. Eswatini is also in the process of reviewing her National Export Strategy and this will be through support from the United Nations Development Programme. The NES is aimed to achieve the following policy objectives, which are:

a) To expand the export base and ensure an increased mix of exports, thus reducing the burden on the sugar industry as the main foreign exchange earner;
b) To strengthen the existing relationships with current markets to ensure that Swaziland takes full advantage of preferences offered by these markets;
c) To enhance market access for exports from Swaziland through branding and improved product quality;
d) To improve trade facilitation through the establishment of strong public-private partnerships; and
e) To pave the way for technological innovations that will enhance the competitiveness of Swaziland's exports by ensuring the use of low cost production methodologies that do not compromise the national objective of employment creation.

5 CONCLUSION

5.1. The Government of the Kingdom of Eswatini remains committed to the sustenance of the multilateral trading system and will continue to ensure that the trading rules or disciplines are observed. Eswatini believes that the multilateral trading system remains the relevant global platform that provides equal opportunity to all its members in the elaboration and execution of WTO rules regardless of their economic status.

LESOTHO

1 INTRODUCTION

1.1. The 5th Trade Policy Review outlines Lesotho's trade policy developments during the review period of 2016-22 in pursuit of her WTO obligations. These developments were anchored on both the National Strategic Development Plan (NSDP) I (2012/13 – 2016/17) and NSDP II (2018/19 – 2022/23).

1.2. The NSDP II is a blueprint for all development efforts and emphasizes on the private sector development. It builds on the achievements and lessons drawn from the implementation of the NSDP I. The emergence of the COVID-19 pandemic hindered progress towards achieving the NSDP II objectives. Lesotho has not been immune to external trade shocks including effects of COVID-19, lingering geo-political tensions and inflationary pressures which affect her developmental aspirations.

1.3. The report further provides details on the initiatives undertaken to improve the trade and investment climate in Lesotho, and interventions that the Government of Lesotho has made to address these challenges. The Government of Lesotho implemented various mitigating strategies such as supporting agricultural and financial sectors as well as the private sector. In addition, Lesotho developed the National Trade Policy Framework in 2020 towards implementation of the NSDP II.

2 MACROECONOMIC DEVELOPMENTS

2.1 Gross domestic product

2.1. After experiencing significant supply and demand shocks caused by the pandemic in 2020, economic activity improved in 2021-22 with GDP growth recovering to 1.8% from a negative 6% in 2020-21. The increase was mainly supported by an improvement in private sector and household spending following opening of the economy. Meanwhile, investment activity profited from continued capital spending on large-scale infrastructure projects. External demand also provided additional support to Lesotho's textiles exports.

2.2. Economic recovery continued in the first half of 2022. Growth in the first quarter expanded by 1.4%, supported by strong growth of 52.6 per centin mining and quarrying sector and construction which expanded by 17.3%. However, growth was offset by poor performance in agriculture sector which contracted by 11.9%. Growth in the second quarter slowed to 0.4% as a result of weak economic performance.

2.2 Fiscal policy

2.3. For the period under review, Lesotho has not been able to adequately grow to realize anticipated employment creation and poverty reduction. Growth has always been volatile, nonetheless, major economic growth was anchored by significant injection of capital into the economy to support massive projects that have specific lifespan and after completion would leave a gap in economic growth. The downward trend in public expenditure increases alongside buoyant SACU transfers but fails to be pared back when they fall. A reduction in receipts typically leads to a fiscal adjustment and contractions in domestic absorption, weakening short-term economic growth, worsening fiscal and external balances while increasing government debt, and lowering international reserves.

2.4. Fiscal restraint had been exercised for the period under review, serving to halt the upward trend in overall spending and restoring fiscal sustainability, albeit temporarily. Wage spending remains the largest component of overall expenditure and has been on an increasing trend over time. In 2016-17 through 2019-20 government operations recorded overall deficits ranging from 1.3 to 7.6% of GDP. The deficits were attributable to continued volatility of SACU receipts and slower growth of nominal GDP over the reference period.

2.5. The total revenue including grants and SACU receipts grew slightly at an annual average of 1.7% from 2016-17 to 2019-20. The sluggish growth in total revenues was a result of poor performance of tax revenue, which grew at a slower pace than the growth rate of nominal GDP and CPI with exception of 2018-19 where it grew by 20.6%.

2.6. Expenditure continued to be driven by high wage bill, which averaged 17.1% of GDP and made-up 32.9% of the total expenditure between 2016-17 and 2019-20.

Table 2.1: Lesotho: Growth and fiscal operations 2016-17 – 2021-22

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
National accounts (real sector)	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**	**Act.**
Nominal GDP at market prices	**31,010.4**	**31,508.2**	**34,171.1**	**35,111.6**	**34,911.0**	**33,123.6**
Nominal GDP growth	2.2	1.6	8.5	2.8	-0.6	-5.1
Real GDP at market prices	**22,331.4**	**21,720.9**	**21,437.8**	**21,015.2**	**20,195.3**	**20,519.0**
Real GDP growth (%)	1.9	-2.7	-1.3	-2.0	-3.9	1.6
Change in GDP deflator (%)	0.3	4.5	9.9	4.8	3.5	-6.6
Inflation (annual average) (%)	6.2	5.8	4.7	4.9	5.4	5.7
Government accounts						
Revenues	**14,051.7**	**14,914.4**	**16,013.7**	**16,257.6**	**18,632.8**	**17,569.4**
% of GDP	45.3	47.3	46.9	46.3	53.4	53.0
Revenue without SACU	9,532.7	8,760.2	10,471.4	10,031.4	9,652.2	11,561.4
% of GDP	30.7	27.8	30.6	28.6	27.6	34.9
Taxes	6,397.4	6,314.3	7,616.8	7,346.5	6,778.6	7,756.5
% of GDP	20.6	20.0	22.3	20.9	19.4	23.4
Taxes on income, profits and capital gains	3,726.5	3,487.3	4,313.1	4,052.1	3,722.1	4,087.9
% of GDP	12.0	11.1	12.6	11.5	10.7	12.3
Taxes on goods and services	2,669.0	2,826.2	3,299.6	3,294.4	3,056.4	3,668.5
% of GDP	8.6	9.0	9.7	9.4	8.8	11.1
Excise taxes	388.0	406.8	393.2	372.6	420.1	596.7
% of GDP	1.3	1.3	1.2	1.1	1.2	1.8
Grants	1,229.0	822.1	1,076.8	1,255.9	1,049.0	1,756.6
% of GDP	4.0	2.6	3.2	3.6	3.0	5.3
Non-tax revenue	1,906.3	1,623.8	1,777.8	1,429.0	1,824.7	2,048.3
% of GDP	6.1	5.2	5.2	4.1	5.2	6.2
SACU Revenue	4,519.0	6,154.2	5,542.2	6,226.2	8,980.5	6,008.0
% of GDP	14.6	19.5	16.2	17.7	25.7	18.1
Expenditures	**16,780.7**	**15,566.5**	**17,629.2**	**18,935.1**	**16,749.7**	**19,171.5**
% of GDP	54.1	49.4	51.6	53.9	48.0	57.9
Expenses	12,622.7	12,113.0	13,102.7	13,521.0	12,835.7	13,583.8
% of GDP	40.7	38.4	38.3	38.5	36.8	41.0
Compensation of employees	5,277.4	5,436.1	5,994.7	5,890.6	6,029.7	6,130.2
% of GDP	17.0	17.3	17.5	16.8	17.3	18.5
Use of goods and services	3,465.8	2,667.3	3,112.5	3,161.1	2,330.5	2,152.5
% of GDP	11.2	8.5	9.1	9.0	6.7	6.5

Source: Ministry of Finance and Development Planning.

2.7. In 2020-21, Lesotho's fiscal policy was fixated on reprogramming public expenditure and mobilizing additional external resources to contain the COVID-19 pandemic while mitigating the negative economic shock associated with pandemic containment measures. Government also shouldered the population and various economic activities by supporting agricultural and financial sectors as well as private sector. Further to this, social protection measures, softer monetary policy, tax exemptions and tax holidays were implemented. The fiscal performance of 2020-21 was better than expected as a result of savings realized due to suspension of other governmental operations during 2020-21.

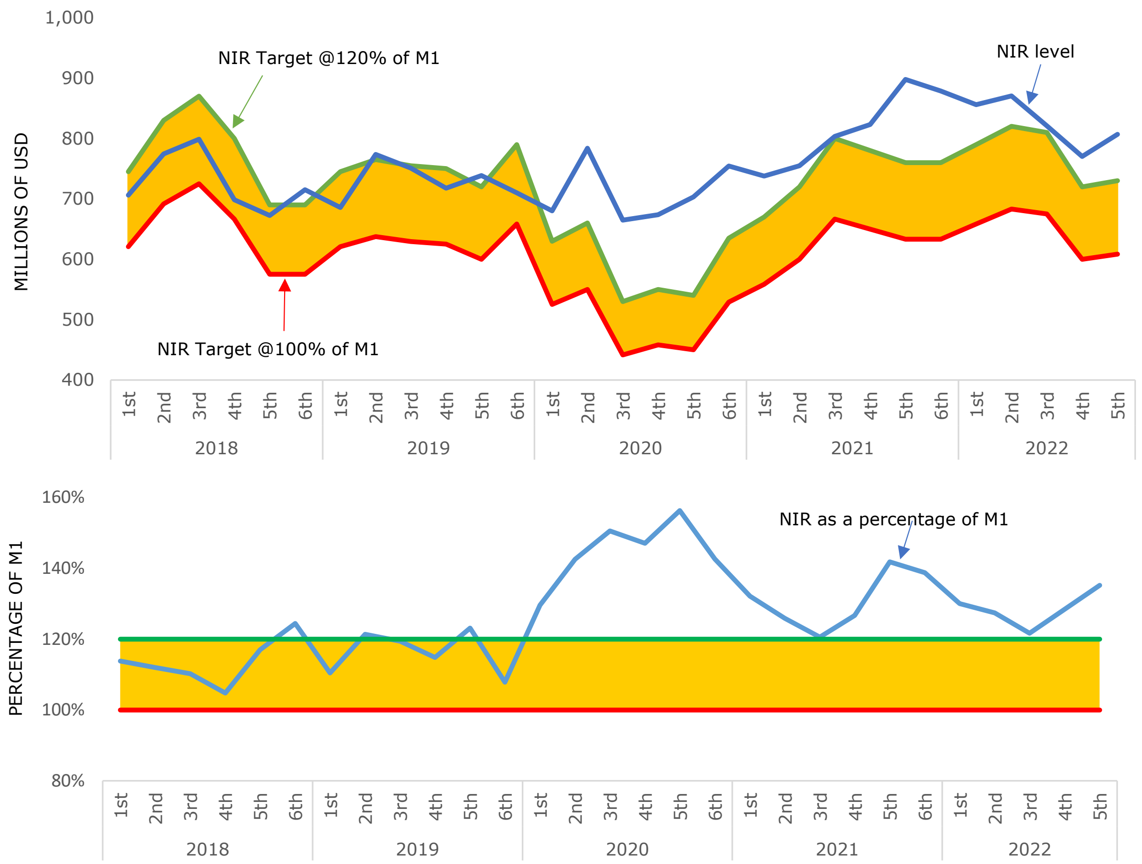
2.8. Nevertheless, Lesotho will continue to monitor the various economic risks and effectively manage any external shocks that may affect the wellbeing of the nation. The medium-term priority is to implement structural reforms by among others: increasing inclusive and sustainable economic growth; private sector job creation; strengthening human capital and enhancing transparency as well as accountability of public institutions; promoting regional collaboration to ensure resilient infrastructure development and energy provision.

2.3 Monetary policy

2.9. The Central Bank of Lesotho (CBL) implements and oversees the monetary policy in Lesotho. The CBL is mandated to maintain price stability. The primary objective of maintaining price stability is attained by preserving Net International Reserves (NIR) at a level that is consistent with the country's exchange rate policy, that is, the parity between the Loti and the South African Rand. The NIR target floor (expressed in U.S. dollars), is determined as the level that covers 120.0% of narrow money (M1). This provides for full coverage of M1 liabilities and provides an additional 20.0% cushion over the 100% for unexpected shocks.

2.10. The NIR hovered between 100.0 and 120.0% of M1 in 2018 and 2019. In nominal terms, NIR averaged around USD 730 million. In 2018, the government incurred a sizeable spending on procurement of services, which led to a significant dent in NIR position. The effects of that spending filtered into 2019 as NIR struggled to recover, despite a growth of 6.3% in SACU receipts. From 2020 onwards, NIR remained above the 120% of M1 mark, benefiting mostly from an increase of 36.9% in SACU receipts in 2020, emergency assistance from the IMF through Rapid Credit Facility and Rapid Financing Instrument, and Special Drawing Rights (SDR) allocation in 2021. NIR rose by 9.1% between 2018 and closed the review period at an average of USD 770 million, which is equivalent to 128% of M1.

Chart 2.1: NIR as a percentage of M1



Note: Figure 1: NIR as a percentage of M1.

Source: Central Bank of Lesotho.

2.11. The Bank operationalizes the monetary policy decision through conduct of open market operations (OMOs), which influences the discount rate on treasury bills (T-Bills) (intermediate target) in line with developments in the Common Monetary Area (CMA), particularly South Africa. Regionally, competitive discount rates are expected to enhance the attractiveness of the government of Lesotho securities relative to foreign securities, and concurrently curb, as far as possible, the capital outflows.

2.12. Overall, domestic T-Bills discount rates continued to remain within the desired range in comparison to the South African counterpart rates. In 2020 and 2021, domestic T-Bills rates experienced a substantial decline as CBL reduced the policy rate in a quest to support economic activity following the COVID-19 pandemic induced economic slump. In 2022, the T-Bills discount rates surged following the global policy rate hikes aimed at haltering the soaring inflation stemming from Russia-Ukraine war. Nonetheless, the auctions carried out during the period under review were successful and oversubscribed. The oversubscriptions signal the structural liquidity surplus facing Lesotho, given limited avenues for investment.

2.13. **Regulation of the Financial Sector:** As the Regulator of the financial sector, the Bank continually reviews existing laws and proposes new ones in order to address the changing needs of the sector. The following pieces of legislation were gazetted during the review period:

- Security Interests in Movable Property Act was enacted and the implementing regulations were published in 2020. The Act and the regulations, in essence, lay down a legal framework which is intended to make it possible for registration of movable assets as collateral for borrowing. This will improve access to finance for both households and businesses consequently has a huge potential to reduce the costs of borrowing;
- Subsequent to the enactment of the Pension Funds Act in 2019, the Pension Funds Regulations were promulgated in order to implement the Act in 2020. The Act and the regulations strive to protect the interests of people who make contributions with the aim of building a fund from which they will draw when they reach their retirement age and develop the domestic capital market by requiring that a portion of the pensions fund contributions be invested in Lesotho;
- Insurance (Registration and Licensing Requirements for insurers) Regulations 2021. This law outlines the application process and requirements for obtaining a license to carry on insurance or re-insurance business in Lesotho under the Insurance Act, 2014;
- Financial Institutions (Know your Customer) Guidelines, 2021. These supersedes the Financial Institutions (Know Your Customer) Guidelines, 2007;
- Money laundering and financing of terrorist activities are now regulated under a more modern regime, namely: the Money Laundering and Proceeds of Crime Act, 2008, as amended in 2016; and the Money Laundering and Proceeds of Crime Regulations, 2019; and
- Insurance (Qualification Requirements for Insurance Intermediaries) Notice, 2021. This law prescribes the minimum qualifications which insurance intermediaries and principal officers should hold in order to qualify to lawfully conduct insurance business in Lesotho. It applies to insurance agents, insurance brokers, and principal officers.

2.4 Tax policy

2.14. Lesotho's Tax Policy objective is to collect adequate revenue necessary for delivering government policies and priorities in an efficient and equitable manner. This is achieved directly through improvement in tax policy-making process. The Lesotho Tax Policy is based on four strategic principles: to enable economic growth and development; to provide stable resources for development; to pursue fairness and distributive equity and; simplicity, certainty and clarity.

2.15. The Revenue Services Lesotho (RSL) formerly known as the Lesotho Revenue Authority (LRA) is principally responsible for implementation of the Tax Policy in Lesotho. It was re-named following the enactment of the Revenue Services Lesotho Act 2022 with a view to enhance brand reputation and build a service brand to emphasize that organization strives to be more service oriented entity. There are two main domestic tax categories; Tax on Income and Profits and Value Added Tax.

2.16. Taxes levied under the Income Tax Act are:

- Company/Corporate Income Tax (CIT) currently 25% (10% for manufacturing and commercial farming sectors);
- Pay As you Earn; rates range from 20% and 30%;
- Withholding Tax charged 5% for residents and 10% for non-residents. Withholding taxes are levied on supply of services and are applicable on both resident and non-resident suppliers; and

- Fringe Benefit Tax charged 40%, imposed on the employer, based on the employers' fringe benefit taxable amount afforded to the employee. This has to be filed for every quarter of the financial year.

2.17. Value-added tax is the main consumption tax in Lesotho and is imposed on every taxable supply in Lesotho and on all imported goods and services. The standard rate is 15% effective from 2018-19 financial year, there are however other substandard rates of 0% for selected items considered to be basic commodities and exports out of Lesotho and 10% for electricity and Telecoms increased from 12% to 15% with effect from April 2020.

2.5 Economic outlook

2.18. Consistent with projected GDP growth of 1.9% in 2022-23, the overall fiscal operations are expected to remain elevated at 7.7% of GDP, due to reduced SACU revenue shares which fell by M608.5 million against the M6.01 billion received in 2021-22. However, in 2023-24 government operations are projected to record a surplus of 2.5% of GDP at the back of improved SACU revenue shares. The Government wage bill is projected to grow marginally by 2.9% for the 2022/23 financial year.

2.19. Investment spending is projected to slow to 15.2% of GDP in 2022-23 before picking up by 14% of GDP in 2023/24 and is projected to average 14% of GDP between 2024-25 and 2025-26.

2.20. Over the medium term, the Government will reinforce a long-term fiscal sustainability plan while providing buffers to safeguard against domestic and external shocks. To achieve this, Lesotho will reduce her dependence on volatile SACU revenues and ensure that recurrent expenditure is covered by domestic tax and non-tax revenues. The development component of SACU revenue will be used to finance development spending.

3 OVERVIEW OF TOP ECONOMIC SECTORS

3.1 Agriculture, fisheries

3.1. Agriculture is one of the key sectors in terms of contribution to the sustenance of livelihoods of Basotho. Efforts to increase productive capacity in the sector have been undertaken including increase of livestock and livestock products as well as food production. Farming of animals is the largest contributor to the sector performance. The contribution of the Agricultural Sector to GDP has been on the decline during the review period. The sector contribution was 4.9% in 2016 and 4.2% in 2021, generally the average contribution was 4.6% during this period.

3.2 Mining

3.2. The mining sector in Lesotho has registered minimal growth from 4.6% to 5.1% contribution to GDP between 2016 and 2021 at current prices. The mining sector recorded an increase of 3.3% in 2020, as a result of increase in mining activities, opening of the economy and diamond exports. However, the sector declined by 3.4% in 2021. However, most of the mining activities are high capital intensive and have recorded low employment. Initiatives for value addition in the sector are in the pipeline.

3.3 Manufacturing

3.3. Manufacturing sector in Lesotho is one of the main employers in Lesotho. Its contribution to GDP is relatively high, however, its contribution has declined during this period. Although it has declined from at 17.6% in 2016 to 7.7% 2021. Manufacturing sector recorded a decline of 9.1% in 2020 as a consequence of the COVID-19 pandemic. The traditional export markets were therefore affected as the borders were closed and this led to drastic loss of business and jobs. Additionally, the supply chains were disrupted leading to closure of almost all manufacturing industries as they were not producing essential goods. Textiles, clothing, footwear and leather industries are the largest contributors to manufacturing. The sector has since recorded a 7.7% growth in 2021 buoyed by the easing of the restrictions due to COVID-19 and the recuperated manufacturing activities leading to increase in exports.

3.4 Services sector

3.4. Services trade has been the largest contributor to GDP for last 10 years inclusive of the period under review. The services sector contributed 60% to GDP in 2021, however, some sectors such as Tourism were adversely affected in 2020 recording a decline of 42.6% in 2020 due to movement restrictions in both domestic and international markets. Financial services` contribution to GDP has recorded negative growth from 2016 to 2021 with recorded contribution ranging between of -9.2% and -3.1%. The sector performance has been volatile further registering; -3.9, -1.9%, 51.5%, and 6.3% in 2017,2018, 2019 and 2020 respectively. Public administration makes a large component of the services sector recording 17.3% in 2016 and 22.3% in 2021. Information and Communication averaged 4.1% during the review period. There is still a lot of scope for the growth in the services trade and certain sectors have been identified to increase job creation and economic growth.

4 EXPORT AND IMPORT TRADE

4.1. Total export value has been increasing albeit at a slow pace between 2016 and 2021, recorded figures are: M8,9 billion, M8,7 billion, M10 billion, M13,3billion, M13,9 billion and M13,8 billion respectively.

4.2. On the other hand, imports remained much higher than exports in the same period. The recorded imports from 2016 to 2021 are M21.5billion, M27.5 billion, M20.9 billion, M25.0 billion, M22,7 billion and M26,9 billion respectively. As a result, there was a trade deficit was maintained on the negative side during this period. Imports declined by 9.3% in 2020 to M22.7 billion.

4.3. **Exports**: regional partners play an important role for Lesotho's exports, the same goes for North America and Europe. In 2021 export value of/in major markets constituted 99.1% of the total exports. Exports destined to South Africa were 45.4%, followed by United States of America and Belgium with 32.1% and 19% respectively. Eswatini, Germany, Canada, Botswana, Egypt, Mexico and United Kingdom contributed 3.5% of exports in 2021. Main export products were: clothes, footwear and textile; diamonds; wool fine or coarse animal hair; bulk water; food and beverage; and electricity machinery and parts.

4.4. **Imports**: the majority of top sources of imports for Lesotho were South Africa and the Asian Countries. In 2021 imports from South Africa were 76.0%, followed by China with 9%, Chinese Taipei with 5.3%. The main imported products were: petroleum products, miscellaneous manufactured articles; machinery and transport equipment; chemicals and related products and manufactured goods.

5 TRADE AND TRADE-RELATED POLICY DEVELOPMENTS

5.1 Trade policies and strategies

5.1.1 National Strategic Development Plan II (2018-19 – 2022-23)

5.1. The second 5-year National Strategic Development Plan (2018-19 – 2022-23) – with the theme, "***In pursuit of economic and institutional transformation for private sector-led job creation and inclusive growth***" was a blueprint for all development efforts in Lesotho and served as a basis for the National Trade Policy Framework.

5.2. The NSDP II emphasizes private sector development and gives priority to pursuing people-centred development. The Plan identifies four key strategic goals, referred to as key priority areas, to foster job creation and inclusive growth and to further reduce poverty:

- Enhancing Inclusive and Sustainable Economic Growth and Private Sector-led job creation;
- Strengthening Human Capital;
- Building Enabling Infrastructure; and
- Strengthening National Governance and Accountability.

5.3. The NSDP II targets economic growth of 5% annually, anchored on the four productive sectors: agriculture, manufacturing, tourism and creative industries, and technology and innovation.

5.4. The COVID-19 pandemic negatively affected the growth projections due to delays in implementation of the projects and high job losses as a result of deteriorating economic growth prospects. The NSDP II will be revised and extended for the next five years to 2027-28 Fiscal Year, the revision will incorporate resilience measures to external shocks in order to stabilize growth.

5.1.2 National Trade Policy Framework (2021-25)

5.5. Lesotho formulated a comprehensive National Trade Policy Framework to provide policy direction towards achieving sustainable economic growth as identified in the NSDP II anchored by manufacturing, services and development of requisite infrastructure for job creation and sustainable development. Launched in December 2020, the National Trade Policy Framework provides transparent guidelines for implementing Lesotho's trade agenda. This policy framework embraces Lesotho membership and participation in regional and international trade.

5.6. Lesotho's National Trade Policy is built on nine (9) thematic areas:

- Domestic market infrastructure and trade;
- Trade agreements;
- Regional integration and export competitiveness;
- Trade in services;
- Trade facilitation;
- National quality infrastructure;
- Intellectual property;
- Competition and consumer protection; and
- Trade and sustainable development.

5.1.3 National Trade Strategy

5.7. The National Trade Strategy, which is an integral part of the National Trade Policy Framework, orients the country's trade development to address challenges and identify strengths and opportunities for export development in Lesotho. The trade strategy aims to improve the capacity of Lesotho's private sector to compete in regional and international markets, enhance the business ecosystems and strengthen the country`s ability to use trade as an engine for growth. The Strategy identifies three priority sectors namely, horticulture, textiles and apparel, and light industry.

5.8. Under the theme **"*Export competitiveness for sustainable growth*"** implementable within five years, the trade strategy identifies three strategic objectives:

- Strengthening the competitiveness of the business ecosystem and improving trade facilitation;
- Intensifying existing trade relationships and diversifying the range of export destinations; and
- Expanding the national productive capacity and diversifying the export basket.

5.9. Through implementation of the strategy Lesotho will be in a position to exploit all preferential regional and international markets.

5.2 Quality infrastructure development

5.10. The Lesotho Standards Institution (LSI) was established in 2021 through the legal notice No. 131 of 2021. The legal notice implements the Lesotho Standards Institution Act, 2014. The LSI is mandated to:

- develop and publish Lesotho Standards;
- carry out conformity assessment services (testing, certification and inspection); and
- offer training services and house the WTO/TBT Enquiry Point.

5.3 Comprehensive National Agricultural Policy

5.11. Lesotho is in the process of developing a comprehensive National Agricultural Policy. The comprehensive Agriculture Policy follows two principal policy frameworks that guided the agriculture sector for over 16 years, namely the Agriculture Sector Strategy and Lesotho Food Security Policy and Strategic Guidelines 2005. The major objectives of the policy include:

- building of sustainable infrastructure for Agriculture;
- improved management of rangelands;
- building capacity of farmers;
- improving production of high value crops and livestock products; and
- development of value chains in agriculture.

5.12. The National Agriculture Policy is inspired by the need to develop an overarching agricultural sector policy that will provide strategic direction to agricultural sub-sectors and all programmes relevant to agriculture. The policy will further ensure sustainability of commercial agriculture and food security.

5.3.1 National Irrigation Master Plan

5.13. Development of irrigated Agriculture in Lesotho gains topmost priority for combating hunger, food security, poverty and creation of employment opportunities. The National Irrigation Masterplan in Lesotho focuses on developing irrigation infrastructure and increasing acreage under irrigation from 2021 to 2050.

5.3.2 Livestock policy

5.14. The Policy has four pillars, these broadly focus securing access to basic production of inputs, strengthening institutional capacity and support services and promoting gender mainstreaming and the youth. The implementation of the Policy began in 2021 and will pave way to modernize legislation.

5.4 Trade facilitation

5.15. Lesotho submitted her instrument of ratification of the WTO Trade Facilitation Agreement in January 2016. The National Trade Facilitation Committee (NTFC) was established in September 2017, to coordinate all trade facilitation activities in Lesotho. The NTFC has facilitated the development of National Trade Facilitation Roadmap in 2019 which outlines the trade facilitation agenda for five years.

5.16. In recent times, Lesotho has embarked on several initiatives constituting a strong base for customs modernization and trade facilitation, including roll out of ASYCUDA World system in 2016, which was subsequently upgraded in 2019. In addition, the reforms included upgrading of the Lesotho Trade Information Portal in 2021. The implementation of the National Single Window System is underway having started in 2021. Phase I of the National Single Window, connecting two Government agencies, was launched in June 2022.

5.17. The second phase of the project will roll out the National Single Window to connect ten more government agencies and implementation will begin in 2023. Once fully commissioned the Single Window will lead to reduction of transaction costs for businesses, faster clearance and release of goods, increased transparency and predictability. Lesotho is implementing a Coordinated Border Management System.

5.5 Industrial policy

5.18. The Lesotho Industrial Policy developed in 2015 is currently under review. The review will among other key areas emphasize:

- Development of entrepreneurship and business linkages;
- Increased value addition;

- Diversification of export products; and
- Improvement of the Standards and Quality infrastructure.

5.6 Investment policy

5.19. The Investment Policy of 2015 is also under review. Its objectives are to create a conducive investment environment for investment promotion and facilitation and to connect foreign and domestic investment for economic transformation.

5.7 Competition legislation

5.20. Lesotho has made strides towards the establishment of a body to regulate competition issues during the period under review. The Competition Bill provide for promotion and protection of competition by establishing a Competition Commission, prohibiting restrictive agreements and the abuse of dominant position as well as establishing a system for control of mergers was developed and has been approved by Cabinet. The Commission will be an overseer of all competition issues with powers to monitor, regulate and control acts or behaviour likely to adversely affect competition. The Bill is going through the final stages of enactment.

5.8 Intellectual property rights

5.21. Lesotho has made a number of notable developments in relation to intellectual property rights. These entail automation of the Industrial Property Registry System (IPAS4.0) in 2022. The system automates the processing of trademarks, patents and industrial designs applications, examinations and gazette publication. Furthermore, five technology and innovation support centres were established.

5.8.1 National Intellectual Property Policy and Strategy (NIPPS)

5.22. The review of national development policies, strategies and plans was undertaken in 2022. Lesotho is in the process of developing the policy and strategy. Upon the completion of the NIPPS, Lesotho's IP Laws will be revised and updated as they are currently outdated.

5.9 Government procurement

5.23. Government Procurement is an important development tool for Lesotho. The Public Procurement Policy was developed in 2018, among others to improve transparency, development of policies, legislation and public procurement processes. The Policy envisages the establishment of the Public Procurement Authority that will be responsible for monitoring, regulating procurement activities and harmonizing processes.

5.10 Lesotho energy policy

5.24. The Electricity Master Plan 2018-2028 was developed to improve electrification rate in line with the Sustainable Development Goal 7 which states that energy will be accessible to all by 2030. The Plan foresees utilization and acceleration of sustainable energy resources, such as hydropower for energy generation. The Energy Policy 2015-2025 was also developed to reform the energy sector. In this context, the Energy Bill has been drafted and it will facilitate implementation of the Policy and effect the reforms once enacted. The proposed reforms include establishment of the National Energy Fund, Energy Investment Facilitation Unit and Rural Energy Agency.

6 REGIONAL AND MULTILATERAL TRADE RELATIONS

6.1 SACU, SADC, SACU-EFTA FTA, SACU–MERCOSUR PTA

6.1. Lesotho continues to pursue market access opportunities for goods and services through her Membership to SACU and SADC. The SACU Agreement forms the basis for engagement with third parties. Since 2021, SACU has embarked on the industrialization path to improve economic development in all member States and has prioritized five sectors to attain this goal. The five sectors include: cosmetics; leather and leatherworks; meat and meat products; fruit and vegetables; and textiles and clothing. SADC is similarly implementing the SADC Industrialization Strategy and Roadmap that covers similar value chains.

6.2. The focus is on building regional partnerships and cooperation. Lesotho is in the process of developing the regional value chains for private sector to take advantage of the initiatives that SACU and SADC have initiated. Regional trade and investment promotion initiatives are also at the centre of her development agenda.

6.3. Lesotho as a member of SACU has concluded a number of trade agreements. SACU-EFTA Free Trade Agreement and SACU-MERCOSUR Preferential Trade Agreement are therefore such agreements under SACU. The purpose is to improve trade with these countries focusing on exports. The SACU-EFTA Free Trade Area is undergoing a review that started in 2016.

6.2 SADC-EU EPA, SACUM-UK EPA

6.4. The SADC-EU Economic Partnership Agreement (EPA) came into force in October 2016 (for Trade in Goods) following conclusion and finalization of 10-year trade negotiations. The SADC – EU EPA is development oriented in nature granting an asymmetric market access to SADC EPA States. Furthermore, the EU provides technical and financial assistance on identified areas to enhance trade. For Lesotho, the EPA provides a great opportunity for her products and is becoming one of the important markets to diversify exports. There is also scope to increase non-diamond exports into the EU market under this Agreement and efforts are underway to achieve this goal. The Agreement is currently under review after five years of implementation. Trade in services negotiations are on hold; therefore, the agreement covers trade in goods thus far.

6.5. The EU has also provided training on rules of origin specifically the application of diagonal cumulation. These training workshops were held regionally and nationally and Lesotho has benefited from the capacity building.

6.6. The UK was also one of the important markets in the EU for most SADC EPA States including Lesotho, with BREXIT in play SACU and Mozambique entered into a trade agreement essentially to maintain the market access preferences. The SACUM-UK EPA entered into force on 1 January 2021. The benefits accruing to the EPA are similar to those of the EU, since the EU-SADC EPA has been replicated for the SACU+Mozambique-UK EPA.

6.3 African Growth and Opportunity Act

6.7. The African Growth and Opportunity Act (AGOA) provides preferences for about 6,400 tariff lines to African countries. Itis set to expire on 30 September 2025, following an extension by the US Congress in June 2015.

6.8. Lesotho has benefited significantly under the AGOA dispensation especially in the textiles and clothing sector. The sector has become one of the highest employers in Lesotho since AGOA entered into force in 2000. Lesotho had developed the National AGOA Response Strategy and Action Plan but revised it for the period, 2019-25. The Strategy focuses on export diversification to increase her market share and take full advantage of AGOA by minimizing reliance on textiles and apparel products.

6.9. The implementation of the Strategy was affected by the COVID-19 pandemic from 2020. Lesotho hopes that AGOA is extended beyond 2025 in order to be able to implement this Strategy, at the least an arrangement with the same benefits would be beneficial to countries such as Lesotho given the significant economic development contribution AGOA made over the years.

6.4 African Continental Free Trade Area

6.10. The African Continental Free Trade Area (AfCFTA) Agreement is one of the important trade agreements for the African Continent and for Lesotho. This is one of major projects under the African Union's Agenda 2063. Its goal is to increase intra-African trade and reduce high unemployment across the continent. The AfCFTA brings together 55 countries of the African Continent to create a huge continental market of about 1.3 billion people with a combined GDP of USD 3.4 trillion for both goods and services. The AfCFTA entered into force in May 2019 with the operational phase of the AfCFTA launched in July 2019 while actual trading commenced in January 2021. The Agreement also covers investment, competition, intellectual property and dispute settlement which have recently been approved during the February 2023 Summit in Addis Ababa.

6.11. Lesotho deposited her instrument of ratification on the 27 November 2020, signalling her commitment to implement the agreement and participate in all initiatives brought including the industrialization efforts within the continent. For Lesotho, the AfCFTA paves a way to enter into new markets to advance trade in value-added production and sourcing of inputs across the continent on liberal terms. For trade in Goods, Lesotho is looking for enhanced market on agricultural products, textiles and apparel and general manufactured products.

6.12. Trade in services is essential to achieve the developmental aspirations for Lesotho and the AfCFTA provides a platform for development of more services for export.

6.5 Tripartite Free Trade Area

6.13. Lesotho is taking part in the Tripartite Free Trade Area (TFTA). It provides opportunities for trade in terms of exports and sourcing of inputs. The TFTA has a large combined market with a combined population of about 600 million and a combined GDP of over USD 1.3 billion. This provides latitude for export diversification and sourcing of inputs. Lesotho is in the process of signing and ratifying the TFTA to cement her commitment to trade with regional partners.

6.6 World Trade Organization

6.14. Lesotho has been a Member of the WTO since 1995. She participates in different groupings of countries within the WTO based on development and geographical interests. These include the Africa Group and African, Caribbean and Pacific Group of Countries as well as Least-Developed Countries (LDCs). Lesotho subscribes to multilateral trading system and acknowledges the importance of trade for economic transformation to achieve growth and prosperity which ultimately lead to poverty alleviation and sustainable development. There has been slow or no progress on the Doha Development Agenda (DDA) and many issues that are still pertinent and solutions are needed for levelling the playing field in the multilateral trading system. These include Agriculture and Development issues. The development pillar in the WTO remains relevant especially in times of great global trade shocks such as those brought by the COVID-19 pandemic in 2020-21.

6.15. The rules-based system works for all Members of the WTO and that the functional dispute settlement will improve global discipline in trade. The Trade Facilitation Agreement is one of the major strides in the WTO that is contributing to major reforms that are taking place in Lesotho.

6.16. Lesotho's membership in the WTO is meant to deliver multitudes of people out of poverty hence ensuring that the multilateral system works for all countries for them to be liberated from the socio-economic challenges that they are currently facing.

7 TRADE-RELATED TECHNICAL ASSISTANCE

7.1. Lesotho has benefited from technical assistance initiatives provided by development partners and the international organizations for the period under review. The support covered, among others, training workshops organized by the WTO focusing on Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) issues, Trade Facilitation and notifications.

7.2. Other international organizations such as UNCTAD provided training on Trade Facilitation by training the National Trade Facilitation Committee on various topics including how to use the Reform Tracker.

7.3. Lesotho further received support from the Enhanced Integrated Framework (EIF) tier 2 programme. The project provided funding for policy development; marketing strategies, SPS and TBT programmes.

7.4. With respect to the Trade-Related Facility, funding from the SADC Secretariat from the 11th European Development Fund supported various activities such as Trade Facilitation; upgrading Sanitary and phytosanitary measures and TBT systems; support for horticulture value addition;

development of the National Trade Policy Framework and capacity building on competition policy; strengthening the standards and quality infrastructure and operationalization of the Trade and Tariff Administration.

7.5. The Private Sector Economic Diversification Project had specific objectives which included improvement of the business environment, skills development for the private sector, improving access to finance, product development and diversification of export products under different sectors. Registrar General's Office received virtual and physical training on the effective and efficient use of the Industrial Automation System from the World Intellectual Property Organization (WIPO).

7.6. Additional support on, but not limited to: SPS; TBT; Productive capacity; Trade Facilitation and Institutional Capacity development is still required for efficient participation in the multilateral trading system.

8 CONCLUSION

8.1. Lesotho has undertaken significant reforms during the period under review to improve the economic landscape and livelihoods of the populace. Nonetheless, the major challenge is building productive capacity for successful economic transformation; this to some extent slows the pace of economic growth and development. Lesotho being a landlocked country is facing myriad challenges that limit her potential gain from trade. The cost of doing business is relatively high for LLDCs due to cross-border issues like lead-times, cumbersome procedures, and inefficient transport and logistics systems.

8.2. Lesotho is advancing her economic recovery agenda by undertaking much needed planning and investment prioritization. This will be achieved through implementation of the necessary reforms to promote healthy competition in the business ecosystem and improvement of trade facilitation to attract investments while maintaining existing ones.

NAMIBIA

1 INTRODUCTION

1.1. Namibia is strategically located on the southwestern coast of Africa and serves as a quintessential trade conduit with the rest of the world for landlocked neighbouring countries such as Botswana, Malawi, Zambia, Zimbabwe, and the Democratic Republic of Congo through the port of Walvis Bay. With a surface area of 824,292 square kilometers, Namibia is one of the most sparsely populated countries in the world with an estimated population of 2,64 million (World Meter of the UN).

1.2. Namibia is endowed with natural wind and sun resources and is amongst the most competitive destinations in the world with potential to become a producer and exporter of green hydrogen, reckoned to catalyse the decarbonization of the planet. In this regard, a green hydrogen Council has been established in November 2022 to spearhead the green hydrogen project. Namibia's primary infrastructure is well-developed and modern, with a good transport system whose road infrastructure quality is ranked the best in Africa, an efficient communication system with global cellular networks and globally competitive Broadband, as well as a sophisticated financial sector. The economy is mostly export – driven, with mining, tourism, fishing, and agriculture being Namibia's key sectors.

1.3. In the transport and logistics sector, Namibia is positioning as an International Logistics Hub[1], compared to other ports in the region, the congestion-free port of Walvis Bay offers shipping line time savings of up to five days to Europe and the Americas, and a springboard into the Southern African Development Community (SADC) trade block, with a market access of 330 million people.

1.4. Namibia is a founding Member of the World Trade Organization (WTO) in 1995 and continues to follow steps aimed at implementing consistent policies in the multilateral trading system. It is in view of the ***Preamble of the Marrakesh Agreement*** establishing the WTO that, Namibia attaches great importance and commits to accelerate the implementation of any WTO reform that considers development as a core priority of any negotiation outcome. Namibia is ranked amongst the world's most politically stable countries, characterized by a stable democracy with low or no political risks. However, continues to grapple with key socio-economic challenges such as poverty, a high unemployment rate and income inequality.

1.5. Namibia is also vulnerable to climatic conditions, such as severe drought and floods that has in the past effected some parts of the country causing extensive damage food supply, infrastructure and grazing for animals.

1.6. The COVID-19 pandemic emerged towards the end of 2019 posing challenges to the Namibian economy and its people. Timely policy interventions and measures were put in place to contain the spread of the COVID-19 to protect lives, support businesses as well as to contain all unanticipated socio-economic impacts of the COVID-19 pandemic. Moreover, measures that were put in place for the nationwide lockdown during the State of Emergency in 2020 had also negatively impacted the Namibian workforce especially those employed in the informal sector.

1.7. During the review period, a few reforms such as those related to institutional and tax reforms were initiated to formalize the economy, increase efficiency in the public and private sector as well as to improve the ease of doing business. The purpose of this 5th Trade Policy Review is to highlight Namibia's trade and trade-related policy developments as well as the macroeconomic policy developments transpired under review period.

2 MACROECONOMIC ENVIRONMENT

2.1 Monetary policy

2.1. Given its Common Monetary Area membership, the Bank of Namibia which is responsible for formulation of the monetary policy and ensure price stability in the interest of sustainable economic

[1] Viewed at: https://www.npc.gov.na/wp-content/uploads/2021/11/Logistics-Hub-Master-Plan.pdf.

growth reduced the repo rate by 2.75 percentage points during 2020 to mitigate the adverse effects of COVID-19. The repo rate remained unchanged in 2021 and was increased by 300 basis points during 2022, from 3.75% to 6.75%. The 3.75% repo rate was the lowest recorded in Namibia's history since the country gained its independence in 1990. The monetary policy stance was adopted to support the struggling economy, while safeguarding the exchange rate and pegging arrangement of the Namibian dollars to the South African Rand.

2.2 Inflation

2.2. On average inflation registered at 4.3% during the period under review (2016-21). Namibia has a limited scope over monetary policy discretion therefore it is unable to control imported inflation. Namibia's inflation rate rose to 3.6% during 2021 compared to 2.6% recorded in 2020. This was largely driven by an increase in inflation for transport, housing and food and non-alcoholic beverages and a rise in international oil prices. The highest inflation was recorded with 6.7% in 2016 whilst the lowest rate of 2.2% was recorded in 2020.

2.3 Fiscal policy

2.3. Political stability and sound economic management, and a sustained fiscal commitment to social programs helped Namibia to confront developmental activities however the challenging domestic economic environment continued to impact the fiscal policy. During the FY 2017/18 and 2018/19, the budget deficit was maintained at 5.4%, this was due to the higher SACU receipts and improved revenue collection from personal income and corporate tax compared to the budget deficit of 8.3% recorded in FY 2015/16. This further contributed to the decline in the deficit compared to the budget deficit of 6.9% recorded during the FY 2016/17. The downward revision was mainly a result of additional budgetary provisions to settle arrears and provision for critical services.

3 ECONOMIC GROWTH AND SECTORAL PERFORMANCE

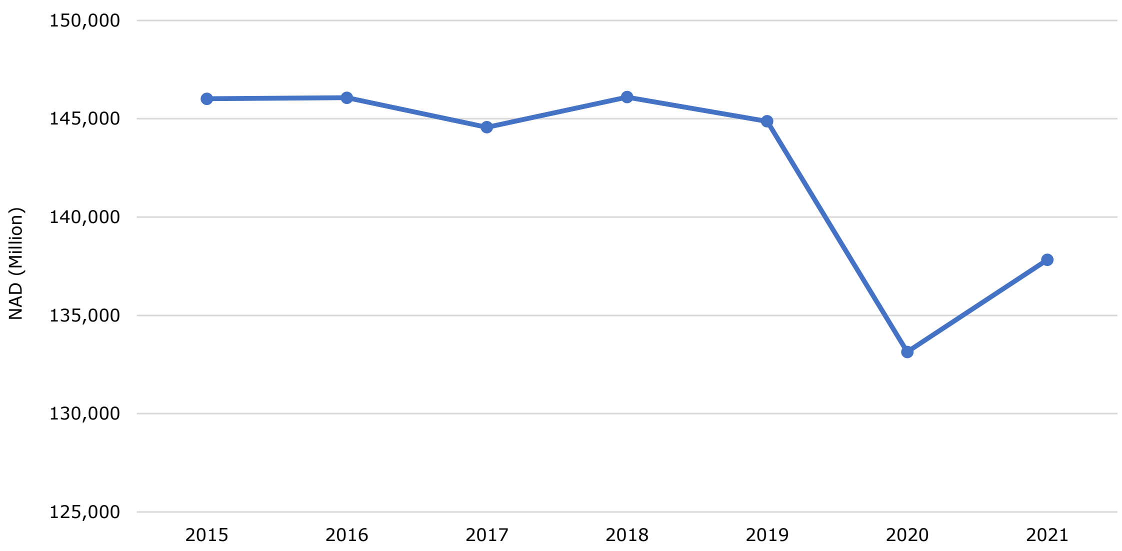
3.1. COVID-19 presented exceptional challenges for the Namibian economy, resulting in a sluggish growth which caused economic contraction of 8% in 2020, whilst economic growth improved to 2.7% in 2021. A negative growth of 8% was the biggest contraction recorded in the country's history. The Namibian economy was stagnant from 2016 to 2019.

3.2. Namibia's Gross Domestic Products (GDP) contracted by 1.6% in 2019 compared to a growth of 1.1% recorded in 2018. Such a slow performance in 2019 was mainly due to the primary industries that declined by 8.9% mainly caused by a decline performance recorded across all sub-sectors namely 'mining and quarrying with 11.1% and agriculture, forestry, and fishing 5.7%.

3.3. The mining sector accounted for 9% of GDP on average between 2015 and 2019 and contributed more than 50% of foreign exchange earnings. Furthermore, the growth of GDP growth in 2021, was mainly due to the improved performance in the primary and tertiary industries and attributed to a recovery in the production of diamonds and uranium, coupled with positive real value addition in the wholesale and retail trade, hotels and restaurants and information, and communication sectors.

3.4. Tertiary industries remained the main contributor to GDP. On average it accounted for 65% during 2017-21 while primary and secondary industries each contributed around 17% of GDP during period 2017-21.

Figure 3.1: Gross Domestic Product (GDP) at constant prices, 2015-21



Source: Namibia Statistics Agency, 2023.

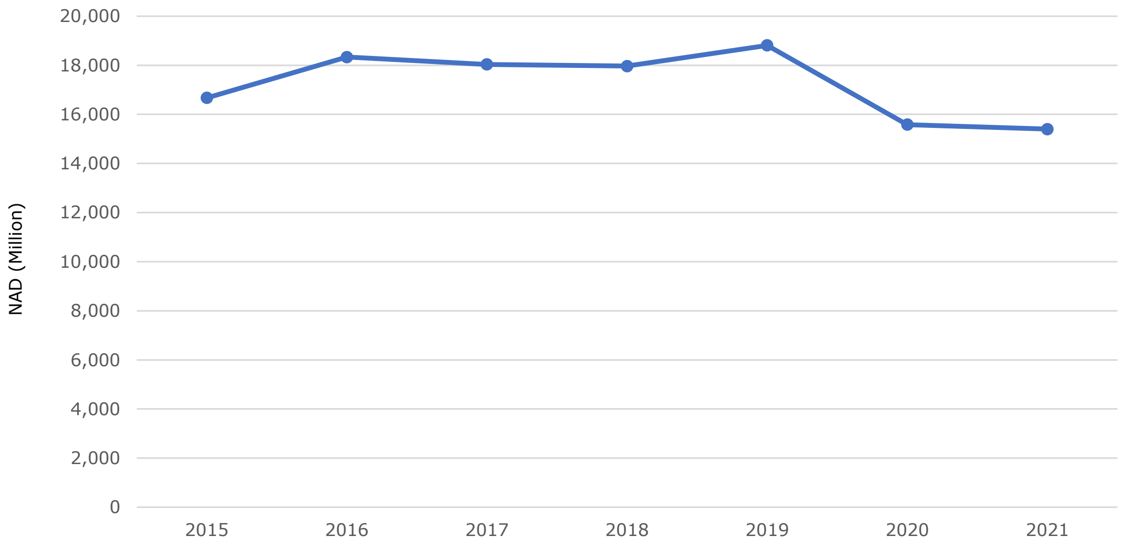
3.5. Agriculture is one of Namibia's most important sectors since around 70% of the country's population depends directly or indirectly on agriculture for their income and livelihood, mostly in the subsistence sector major crops. The agricultural sector is one of the largest employers in the country. The agricultural sector experienced massive challenges during 2021. Among others, the locust outbreak destroyed the grazing land in some of the regions in the country. During the period under review the sector was characterized by the up and down effects of natural disasters such as floods and drought as well as human and wild animal conflicts especially in the northern and western parts of the country.

3.6. Tourism makes a significant contribution to the Namibian economy and employment. The impact of COVID-19 which led to a subsequent travel restriction had a huge negative effect on the tourism industry and the Namibian economy at large. The number of international tourist arrivals in Namibia declined with 89% from 1,595,973 in 2019 to 169,565 in 2020. According to the 2018 Labour Force Survey, tourism industry employed 83,056 people, however when the COVID-19 pandemic hit the globe in 2020 it resulted in employment losses as over 80% of the surveyed businesses, reduced staff numbers and a reduction in wages and salaries. During the pandemic, tourism related businesses faced challenges of a reduction in demand and inability to repay loans. In addition, only 24% of the surveyed businesses have accessed the government stimulus support packages. Under WTO General Agreement on Trade in Services (GATS) Schedule, Namibia has no restrictions related to market access or national treatment with respect to any modes of supply for hotels and restaurants or travel agencies and tour operators' services in its Schedule of Specific Commitments as well there are no restrictions on foreign ownership of hotels and restaurants in Namibia.

3.7. **Manufacturing** Namibia manufacturers do no longer benefit from EPZ tax incentives. This was due to the amendments in the Income Tax Amendment Act, 2020 that repealed the provisions of the Export Processing Zone that was contained in the Income Tax Act No 24 of 1981. The phasing out of these base-eroding tax exemptions is now replaced by the introduction of the Sustainable Special Economic Zones. The National Policy on Sustainable Special Economic Zones Policy (SSEZ) aims to introduce a new framework to govern Namibia's approach to the industrial agglomeration strategy as well as to update and improve on the existing Export Processing Zones (EPZ) regime.

3.8. Since the inception of the Namibia EPZ regime, over 150 enterprises have been certified to operate as EPZ enterprises of which 29 were operating as at end of 2021. However, due to a mix of inhibiting factors, many of the approved investments never took off. In 2021, six (6) companies were granted EPZ status without any tax incentives following the amendment of the Income Tax Act which repealed Sections 5, 6, and 7 of the EPZ Act in December 2020. Production of the EPZ companies in the key sectors such as manufacturing, mineral processing, and vehicle assembling has declined to the value of ZAR 1.9 billion in 2021 compared to ZAR 2.4 billion recorded in 2020 with the COVID-19 pandemic having been one of the contributing factors. The mineral processing sector continues to be the largest employer in EPZ with a total number of 1,454 jobs created. The value of exports from the EPZ slightly declined by 0.24% from NAD 5,48 billion in 2020 to NAD 5,46 billion in 2021. On the other hand, imports increased by 1.45% to NAD 4,75 billion in 2021 compared to NAD 4, 69 billion recorded in 2020.

Figure 3.2: Total value-added by the manufacturing sector 2015-21



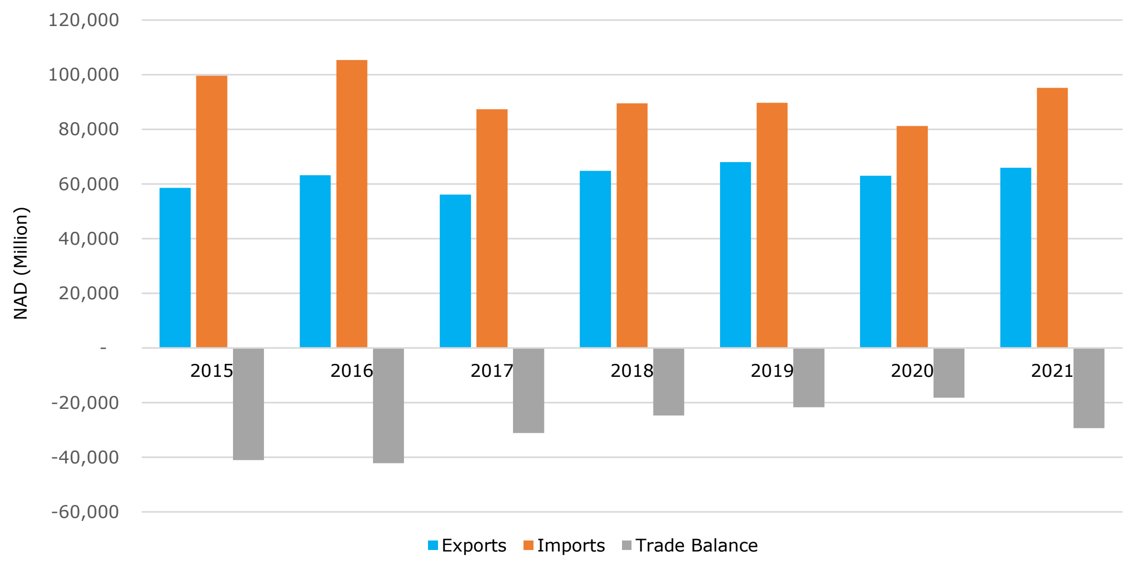
Source: Namibia Statistics Agency, 2023.

4 TRADE BALANCE

4.1. Namibia continues to be a net importer of goods and services over the period under review. Namibia, hence, recorded trade deficits for the periods 2015 to 2022 with the total trade recorded at NAD 224.7 billion for 2022. The country recorded imports valued at USD 128.3 billion in 2022, an increase of 34.8% when compared to the previous year, when the imports were recorded at NAD 95.2 billion. On the other hand, the country recorded exports to the value of NAD 96.4 billion during 2022, which is a significant increase of 46.3% in comparison to the NAD 65.9 billion recorded during 2021.

4.2. The main export destinations in 2021 were: South Africa 20.1%; China 17.9%; Botswana 12.6%; Zambia 7.3% and Spain 6.3%. Namibia sourced 49.1% of her products from South Africa, China 7%, India 4.7%, Peru 3.7% and United States 2.6%. Namibia imports of petroleum oils topped the list of products that Namibia sourced from the rest of the world in 2021 accounting for 12.7% of the total import followed by copper ores and concentrates 5.4; motor vehicles for transport of goods 3.1%, pearls and precious stones (diamonds) 2.8% and vessels 2.4%.

Figure 4.1: Total trade statistics 2015-21



Source: Namibia Statistics Agency.

4.3. The above is a graphical presentation clearly depicts the fluctuating trade statistics between Namibia and the rest of the world. It is also evident that the COVID-19 pandemic had a negative impact on the overall trade statistics of the country when compared to prior years. Furthermore, it can be observed that trade between Namibia and the rest of the world has started to pick up again after 2021.

5 INSTITUTIONAL REFORMS

5.1 Establishment of autonomous bodies

5.1. The following structural reforms were affected to formalize the economy activities, increase efficiency in the public and private sector as well as to bring some improvements in the ease of doing business:

5.1.1 Namibia Revenue Agency (NamRA)

5.2. Namibia established the Namibia Revenue Agency (NamRA) through the enactment of the Namibia Revenue Act 2017 (Act No. 12 of 2017). The Ministry of Finance has merged the Department of Inland Revenue and the Directorate of Customs and Excise into a semi-autonomous institution called Revenue Agency (NamRA). Since its establishment NamRA became an Agency of the State responsible for assessment and collection of State revenue. In addition, NamRA's mandate also includes providing customs and excise services that facilitate trade, maximize revenue collections and protect Namibian borders from illegal importation and exportation of goods.

5.1.2 Namibia Investment Promotion and Development Board (NIPDB)

5.3. The Namibia Investment Promotion and Development Board (NIPDB) was established under Section 21 of the Companies Act No. 28 of 2004 as an autonomous entity in the office of the Presidency. NIPDB took over some of the functions previously performed by its predecessor Namibia Investment Centre (NIC) a Directorate in the Ministry of Industrialization and Trade.

5.4. NIPDB serves as the first point of call for potential investors wanting to do business in Namibia. The aim is to make Namibia the investment destination of choice by improving the ease of doing business in Namibia by eliminating red tape and driving policy reforms. In addition, the Board promotes and facilitates investment by foreign and local investors as well as facilitates joint venture arrangements that contribute to economic development and job creation. The Ministry of

Industrialization and Trade (particularly the Investment Policy Division) has remained with functions of investment policies development. Due to the establishment of the NIPDB in 2021 and other factors, the Foreign Investment Act is being reviewed. Meanwhile, Namibia has put on a moratorium on the negotiation and signing of new bilateral investment treaties until such time that the revision of the Foreign Investment Act is finalized.

5.1.3 Namibia Industrial Development Agency (NIDA)

5.5. NIDA was established in 2018 through the enactment of the Namibia Industrial Development Act, 2016 (Act No. 16 of 2016) to merge the Namibia Development Corporation (NDC) and the Offshore Development Corporation (ODC). NIDA has a mandate to advance Namibia's industrialization agenda in line with the country's policies and developmental strategies. NIDA also aims to promote private sector driven industrialization by creating conducive investment in order to enhance local employment and export-oriented economic growth.

5.1.4 Business and Intellectual Property Authority (BIPA)

5.6. BIPA is established in terms of Section 3 of the Business and Intellectual Property Authority Act, 2016 (Act No. 8 of 2016), and became the competent authority which regulates, administers, and conducts registration of business and intellectual property rights in Namibia. The Authority has, since establishment in 2017, made concerted progress towards developing and enhancing its regulatory frameworks, both in the corporate business side and in the area of intellectual property right.

5.7. Business registration in Namibia is regulated through two (2) major legislations namely the Companies Act, 2004 (Act No. 28 of 2004) and the Close Corporations Act, 1988 (Act No. 26 of 1988). In 2019, the Ministry of Trade, together with BIPA conducted an assessment on the latter laws and pronounced the laws to be outdated and none-responsive to Namibia economic climate. A corporate law reform project was put into motion, with the development of a policy document, that aimed to ensure the review and ultimate reform on Namibia's corporate law landscape. However, due to the COVID-19 pandemic in the later parts of 2019, the project has not made much progress until 2022. The project is currently at advance stage and is envisioned to submit a draft bill to parliament in early 2024 and possibly have the law passed by the end of 2024.

5.8. BIPA remains a catalyst for business conduct in Namibia. Although the functions business registration was transferred to BIPA from the then Ministry of Trade, the systems remained manual and posed various challenges. One major challenge related to BIPA contributions towards the ease of doing business (EDB), specifically as it relates to the number of days it takes to start a business. In the World Banks 2020 (and last) report on the EDB, Namibia ranked 104 out of 190 economies. The low ranking, specifically on BIPA's contribution, rested on its manual processes for registering businesses, compared to its neighbors. BIPA has since 2021 adopted a new Integrated Business and Strategic Plan, in which its primary focus is automation and digital transformation. The Authority remains the only competent authority in the country to hold verified data on businesses registered, types of entities. BIPA's current business register have exceeded 200,000 legal entities.

5.9. **In terms of Intellectual Property Rights (IPR's),** Namibia has made significant progress in the area of IPR's over the review period. Although Namibia's primary IP law, namely the Industrial Property Act, 2012 (Act No. 1 of 2012) was passed in 2012, the Act only came into force on 1 August 2018, when the Minister of Trade gazette the regulations. This saw the introduction of a monthly IP Bulletin which publishes all proposed rights to be registered and may be opposed. The law also introduced a quasi-judicial body namely, the IP Tribunal, which was formerly put into operation in April 2022.

5.10. In addition to the Industrial Property Act, 2012 which registers and grants IP right in the areas of trademarks, utility models, patents and industrial designs, BIPA also administers the Copyright and Neighboring Rights Protections Act, 1994 (Act No. 6 of 1994). This Act has also been deemed outdated and as such a review process was set in motion in 2019. The amendment of the Copyright law is at an advanced stage, as it is currently undergoing constitutional scrutiny before being submitted for tabling in the Namibian Parliament.

5.11. Namibia is signatory to and has acceded to a number of international legal instruments. BIPA has been duly designated to lead negotiations in the current rounds of the AfCFTA IP Protocol negotiations.

5.2 Tax reforms

5.12. Namibia implemented some tax reforms to enhance the resilience of domestic revenue generation as well as promoting investment and revenue to support the successful implementation of the fiscal consolidation program and support higher and inclusive growth. Below are the tax reforms implemented during the trade policy review period:

5.2.1 Integrated Tax Administration System (ITAS)

5.13. An Integrated Tax Administration System (ITAS) was rolled out in 2020, its overall objectives are to improve service delivery to taxpayers. The system provides many online benefits such as 24/7 real-time access to a taxpayer tax account, taxpayer self-service facility, online filing and tax returns submission, single view of taxpayer's account and, accelerated processing of tax forms which real-time notification on outcome. The system is convenient, user friendly and cost-effective.

5.2.2 Export levy

5.14. Namibia implemented an export levy by imposing an export levy on certain goods in order to improve Namibia's value share in its resource base, to encourage further processing or beneficiation of or value addition to such goods, to support national or regional industrial development, to promote the development of regional value chains to meet revenue needs; and to provide for incidental matters.

5.15. Export levy is charged on exportation of minerals, forestry products, fish products, indigenous plants, animal hides and skins as well as live animals and animal products. Tariff rates are contained and listed in the Export Levy Act, 2016.

5.16. The coverage of the export levy was expanded to include other specific agricultural, forestry and game products and other mining products currently not covered by the export levy regime. As such, the export levy for dimension stones was increased from the current 2% to 15% and an export levy of 15% for timber was introduced.

5.2.3 Environmental levy

5.17. Namibia introduced the Environmental Levy in 2016 to steer the country towards a green economy and the sustainable exploitation of its natural resources and equally to increase the benefits of the exploitation of natural resources to the population as well as preserving the environment. Ultimately the goal is to ensure that Namibia sustainably manages its environment while making reasonable revenue from it.

5.18. The introduction of environmental levies is an important strategic focus in line with Namibia's fifth National Developmental Plan implementation.

5.19. Revenue generated through environmental levies is ploughed into National Waste Management and recycling, biodiversity, and ecosystem management and ultimately the reduction of carbon emission to the atmosphere by industry and automobiles. Environmental levy is charged at importation of plastic carrier bags, disposable batteries, car and truck batteries, electric filament lamps, new, used or retreaded pneumatic tyres and second-hand vehicles.

5.20. New Environmental Levy items are introduced under Schedule 1 to Customs and Excise Act, 1998 (Act No. 20 of 1998) on the importation of Lubricant oils, Plastic carrier bags and disposable batteries including car/truck batteries. These levies are as follows:

a) a levy on Lubricant oil of NAD 1.80 per litre; and
b) an environmental levy of 5% of the cost of battery cells.

5.2.4 Phasing out of the base-eroding tax exemptions

5.21. Income Tax of 24, 1981 was amended, by removing provisions of benefits for EPZ to phase out the current tax incentive for manufacturers and exporters of manufactured goods (as explained above under manufacturing).

6 NAMIBIA BOARD OF TRADE

6.1. In the last Trade Policy Review report, it was reported that Namibia was busy developing her Board of Trade. However, due to some challenges Namibia has not yet managed to establish the Board of Trade (Trade Management Commission). Namibia is currently busy with the Trade Management Bill that will create the establishment of the Board of Trade as well busy developing the legislative framework towards the establishment of the Board of Trade. Establishment of the Namibia Board of Trade is envisaged to provide for the administration and management of international trade, investigation of tariffs, safeguards, anti-dumping and countervailing duties, and import and export procedures in relations to SACU Agreement and management of international trade.

7 TRADE IN SERVICES

7.1. Trade in services and the service sectors in general are important economic activities to the Namibian economy. They are the fastest growing components of the Gross Domestic Product (GDP) and the largest component of foreign-direct investment in Namibia. Namibia 's involvement in Trade negotiations is always guided by WTO (GATS). Furthermore, Namibia has participated in negotiations of Trade in services at the level of SADC and AfCFTA.

7.2. At SADC level, the first round covered negotiations in the following service sectors: communication, construction, energy-related, financial, tourism and transport. After the adoption of Member States' Lists of Commitments in the first round, the SADC Committee of Ministers of Trade (CMT), at their 32nd meeting held in July 2021, adopted the Negotiating and Scheduling Guidelines for the Second of Round Negotiations. The second round of negotiations will cover all the remaining services sectors, namely business, distribution, educational, environmental, health, recreational, cultural and sporting services, and other services not included elsewhere as per W120 Classification list.

7.3. At AfCFTA level, Namibia is amongst State Parties whose Schedule of Specific Commitments on the priority sectors where adopted. These are business, communication, financial, tourism and transport services. Namibia is now expected to prepare trading under the Secretariat Guided Trade Initiative (GTI) for local companies to benefit under the GTI. The second round is still to commence.

8 TRADE FACILITATION

8.1. Implementation of WTO Trade Facilitation Agreement

8.2. Namibia is in the process of revitalizing its National Trade Facilitation Committee (NTFC) which was established in 2018 as the Trade Facilitation negotiating structure at the time, through reviewing and adopting the ToRs for the NTFC. The revised NTFC ToRs makes a provision for the establishment of a 3-tier governance structure (Secretariat, Technical and Steering), revised composition for the NTFC Secretariat, and development of a Communications Strategy.

8.3. Once revitalized and strengthened, the NTFC will be in better position to effectively monitor the progress in implementation of the WTO Trade facilitation through the online tool "Reformer Tracker" implemented by UNCTAD.

8.4. Currently, Namibia Revenue Agency serves as Chair of the NTFC while the Namibia Trade Forum under the auspices of the Ministry of Industrialization and Trade serves as Secretariat of the Committee. The Terms of Reference for guiding the Secretariat have since been developed and forwarded to UNCTAD for guidance.

8.5. Regarding the notification of Category B and C commitments under the WTO Trade Facilitation Agreement, Namibia has notified the WTO Committee on Trade Facilitation in February 2023 in accordance with Article 17 and Article 19 of the WTO Trade Facilitation Agreement. Namibia notified shifting Category B provisions to Category C.

8.1 Advance ruling programme

8.6. Namibia Revenue Agency (NamRA) step into the right direction by advancing with the implementation of advance rulings as their obligation towards the fulfillment of their international commitment of WTO Trade Facilitation Agreement (TFA).

8.7. Article 3 of TFA encourages member States to reduce time and cost of doing business across the borders of any country in international trade, whilst Standard 9.9 Revised Kyoto Convention sets the standards for and simplification and harmonization of customs procedures, processes, and fees. Therefore, NamRA's drive and mandate to cultivate the reforms, improve on quality service, enhance efficiency, and improve on revenue collection as well as adapting processes & system to meet best international standards.

8.8. To foster such an enabling business environment, NamRA as part of its ongoing efforts to facilitate trade and support economic operators developed a system of advance rulings that can is utilized by importers, exporters, or any other interested persons.

8.9. Advance rulings cover three areas, namely, Customs Classification, Valuation and Origin. (1) Advance rulings for classification provide information on the applicable commodity code and the rate of tariff duty on imported goods, (2) Advance rulings on valuation provide information on specific matters relating to the assessment of the Customs value of imported goods and (3) Advance rulings on origin provide information on whether imported goods are originating from a particular country.

8.10. Advance ruling system is an international proven trade facilitation tool for both traders and Customs administrations that enhance certainty and predictably of Customs operations. Traders can obtain precise information in advance of the actual transaction and for analogous future transactions for a specified period. Such information is issued in the form of a ruling, which is binding on the authority issuing it as against the applicant. This represents the safest approach for a trader to ensure that Customs clearance of the products covered by advance rulings is completed without delay and with predictability.

8.2 One-Stop Border Post with Botswana

8.11. Section 6A of the Customs and Excise Act 20 of 1998 as amended allows for the establishment of a One-Stop Border Post (OSBP) between Namibia and other SACU member States adjoining border countries. To date Namibia signed the OSBP Agreement with Botswana in 2022, the actual implementation of the OSBP is still pending. Once operational all clearances will be carried out on either the Namibian or Botswana side.

8.3 Namibia national single window environment

8.12. Namibia has embarked upon the establishment of a National Single Window with the aim to enable parties involved in trade and transport to lodge standardized information and documents with a single-entry point to fulfill all import, export and transit related regulatory requirements. Efforts on the establishment of National Single Window are ongoing.

9 TRADE POLICY FRAMEWORK

9.1. Namibia has started to develop its National Trade Policy Framework, which is currently at the final stage. The trade policy framework is developed in order to guide Namibia's trade relations with the rest of the world in engagements on trade in goods and services related matters at bilateral, regional, and multilateral level. The National Policy Framework is formulated within the scope of the country's long-term national development aspiring to take Namibia into a developed country status.

9.2. Since independence in 1990, Namibia's trade-related interactions with the rest of the world has made references to a myriad of national trade-related laws and regulations administered by various Ministries and government agencies; obligations and commitments related to the country's membership in the Southern African Customs Union (SACU), the World Trade Organization (WTO), and other bilateral trading arrangements.

9.3. The overall objective of Namibia's trade policy is to contribute towards Namibia's economic diversification by promoting and stimulating a competitive trade sector to increase exports of goods and services.

10 NATIONAL DEVELOPMENT PLAN AND VISION 2030

10.1. Namibia Vision 2030 is designed as a broad unifying vision which would serve to guide the country's Five-year Development Plans from NDP1 through to NDP6 and at the same time, provide direction to government ministries/offices and agencies, private sector, NGOs, civil societies, regional and local government authorities.

10.2. Namibia developed a short-term plan namely, Harambee Prosperity Plan (HPP) 1 in 2016 in order to complement the National Development Plans and Vision 2030. The HPP was a focused and targeted approach to achieve high impact in defined priority areas.

10.3. To date, Namibia has developed the 5^{th} National Development Plan (NDP5), which was implemented from the financial year 2017/18 up until 2021/22. This is the 5^{th} series of a total of six (6) NDPs that are aimed to implement and achieve the objectives and aspirations of Namibia's long-term Vision 2030. Efforts will be underway in the financial year 2023/24 to review the NDP5 (which is currently extended for 2 years) to enable completion of its programmes and projects. The review of NDP5 will supplement the findings and recommendations of the Vision 2030 review, in documenting its achievements, challenges, and recommendations across thematic areas and sectors for future consideration.

10.4. Cabinet directed for NDP6 to be developed covering the period 2025/26 to 2030/31 financial years and for HPP II programmes and projects to be accelerated.

11 TRADE AGREEMENTS

11.1 International and regional trade arrangements

11.1. Being an open economy, Namibia attaches great importance on trade, both at regional and global levels, as a means of securing and enhancing export markets and to foster strong regional international economic cooperation. Namibia continues to be a signatory to a number of regional and international trade agreements. These include the Southern African Customs Union (SACU), the Southern African Development Community (SADC), SACU-MERCOSUR, SADC-EU-EPA, SACU Mozambique-UK EPA, SACU-EFTA FTA etc.

11.2 African Continental Free Trade Area (AfCFTA)

11.2. At African Continental level, Namibia signed the AfCFTA on 2 July 2018 and ratified it on 25 January 2019. The instrument of ratification has been deposited with the African Union Commission on 1 February 2019. Namibia is committed to the full implementation of the AfCFTA, in this regard Namibia has launched a National Strategy for Implementation of the AfCFTA which provides an opportunity for Namibia to increase its intra-African exports and enhance the country's export-led manufacturing and services capabilities across the African continent.

11.3 Tripartite Agreement (SADC, EAC, COMESA)

11.3. Namibia signed the Tripartite Agreement (SADC-EAC-COMESA) on 10 June 2015 and ratified the Tripartite FTA on 29 October 2019. Namibia submitted her Trade in services offers in five priority service sectors such as financial, business, tourism transportation and communication services.

11.4 Namibia –Zimbabwe Preferential Trade Agreement

11.4. Namibia continues to cooperate with Zimbabwe on a Preferential Trade Agreement. This is the only preferential trade agreement Namibia has at bilateral level which is governed by rules of origin and subjected to a reciprocal duty-free treatment with Zimbabwe. The Agreement was jointly notified by the Parties to the WTO in 2021 in accordance with Article XXIV of the GATT.

11.5 Africa Growth Opportunity Act (AGOA)

11.5. Namibia is designated is an eligible Sub- Saharan African country benefiting from the Africa Growth Opportunity Act which provides preferential market access into the United State of America under a unilateral trade arrangement. Namibia developed and launched her AGOA utilization strategy on 10 May 2021. The aim of the Strategy is to increase Namibian exports to the USA. During the period under review Namibia traded under the AGOA arrangement, as a result products were exported to the United States market such as beef, charcoal, beer and marble granite.

11.6 World Trade Organization

11.6. Namibia has been a Member of the WTO Agreement since 1995. The Permanent Mission of Namibian to the WTO in Geneva, continues to coordinate activities related to the WTO matters in conjunction with the Ministry of Industrialization and Trade which is a national focal point on the WTO issues.

11.7 SACUM-UK EPA

11.7. The BREXIT necessitated the negotiations of the SACU+ Mozambique-UK Economic Partnership Agreement. This Agreement came into force on 31 December 2020, it was transposed from the SADC-EU-EPA Agreement in order to ensure that there were no disruptions of trade between the SACU countries and UK.

11.8 SACU-EFTA

11.8. One of the benefits for Namibia to be Party to the SACU -EFTA is secured market access for Namibia's products such as beef, which enjoy reduced customs tariffs for exports to EFTA and for other sources of imports. Namibia's goods are treated differently compared to other goods from those countries without a free trade agreement with EFTA. The COVID-19 pandemic has also affected the conclusion of the review process of the agreement.

11.9 SADC-EU-EPA

11.9. Namibia is also part of the Economic Partnership Agreement (EPA) between the SADC EPA Group and the European Union (EU). This Agreement entered into force fully on 28 February 2018. Namibia has been benefiting from this agreement by exporting beef and grapes to the EU.

11.10. In order for Namibia to fully implement the SADC-EU EPA, Namibia with EU technical support launched the National EPA Implementation Plan in 2022 in order to ensure that the potential benefits that can accrue from this instrument are fully utilized by the intended beneficiaries, such as the exporters, importers, consumers, and the entire business fraternity. As a party to the Agreement, Namibia also participates in the SADC-EU EPA review process currently underway.

12 WTO TECHNICAL ASSISTANCE

12.1. Namibia continues to benefit from the WTO's technical assistance and training through short courses training provided by the WTO. This includes an Advanced Trade Policy Courses (ATPCs) regional Intermediate Trade Policy Courses, regional seminars, workshops and training events on several trade topics. During the period under review, Namibia enhanced trade capacity needs for its officials on trade-related activities such as those that addressing the specific WTO agreements, i.e. on General Agreement on Services, General Agreements on Trade in Goods, the Agreement on Sanitary and Phytosanitary Measures, and the Technical Barriers to Trade Agreement, and other issues deal with a range of trade.

12.2. To almost a decade now, since 2012-19, Namibia was not benefiting from the 10months internship programme, however in 2020 Namibia commenced taking part in the internships programme, which resulted to four officials benefited from the WTO internship programme during 2020 to 2023.

13 CONCLUSION

13.1. As Namibia reviews the 5th Trade Policy, there are still steps to be taken for Namibia to accelerate economic growth, enhance local and foreign direct investment as well implore on opportunities to increase value addition of raw materials. The Government is continuing to adopt a much more expansionary fiscal and an accommodative monetary policy stance to support economic activities geared towards the alleviation of poverty.

13.2. Namibia continues to maintain its trade relations with trading partners and remain committed in support of free and liberal trade at the multilateral trading system.

SOUTH AFRICA

1 INTRODUCTION

1.1. The fifth Southern African Customs Union Trade Policy Review period (2015-23) is marked by multiple crises, including a steady global economic slowdown, the COVID-19 pandemic, the Russia-Ukraine conflict, and increasing climate-related disasters. These global developments have deepened the challenges of poverty, unemployment, and inequality that continue to confront South Africa. The challenges reflect in tepid economic growth, continued dependence on volatile global markets for South Africa's mineral production, and general underperformance including in the share of value-added production for exports. Increasing evidence of unilateral trade measures that have constrained access to important global markets has also marked the changed global environment.

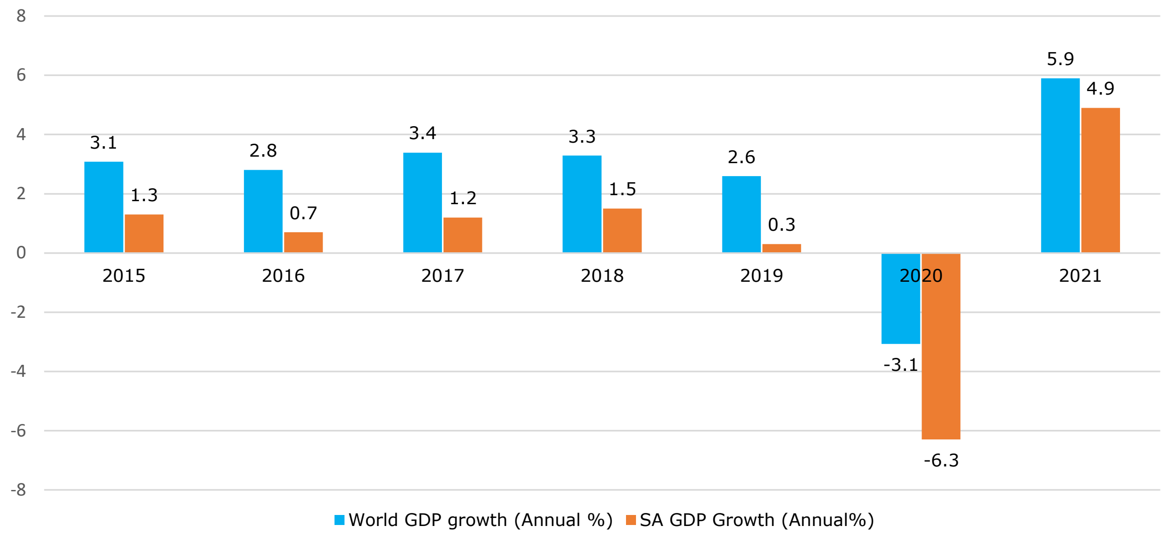
1.2. The SACU Trade Policy Review is an important instrument to reflect developments in the economic environment. Accordingly, deepening regional integration has culminated in significant reduction in tariff and non-tariff barriers.

1.3. South Africa remains convinced that efforts to industrialization, value-added manufacturing, increase in exports, and implementation of regional industrialization through programmes of the Southern African Customs Union (SACU), Southern African Development Community (SADC), and the African Continental Free Trade Agreement (AfCFTA) are fundamental to placing our economy on a new path of sustainable growth. The central task henceforth will be to ensure inclusive economic growth, transformation, and an increase in employment. This has a number of dimensions but requires, among other things, that our industrial policy impact be increased to the point that industrial development becomes a key driver of higher levels of growth along a qualitatively different new growth path. The elements of *"Higher Impact Industrial Policy"* include building on and expanding the infrastructure development programme, implementing a number of mineral beneficiation projects, pursuing active development integration on the African continent, and re-positioning South African manufacturing in a continent that seeks to industrialize.

2 GLOBAL AND SOUTH AFRICA'S ECONOMIC OUTLOOK

2.1. The outlook for the global economy has been improving over the last three decades; marked by volatile improvements for developing countries such as South Africa.

Figure 2.1: Global and South Africa economic outlook, 2015-22



Source: World Bank and South African Reserve Bank (SARB).

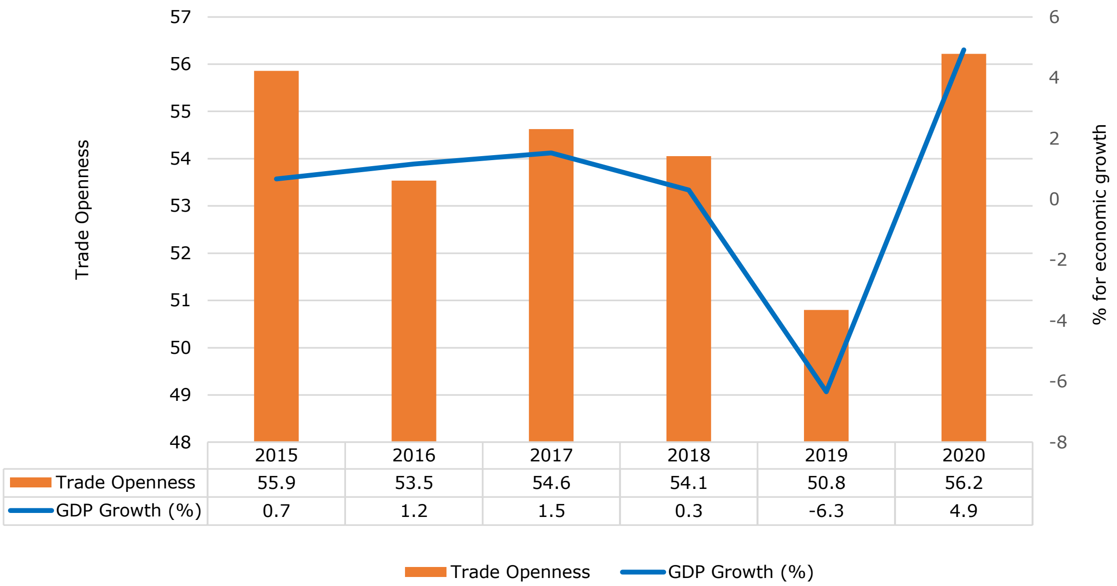
2.2. The average global growth between 2015 and 2022 was 2.6% while South Africa's economic growth was 0.5% during the period under review. South Africa's economic growth has been below the global economic growth rate since 2015 supporting the widely held view that South Africa's exports have grown at a much slower pace than the rest of the world. Additionally, South Africa has underperformed against the middle income and some sub-Saharan comparators. Following the COVID-19 pandemic in 2020, South Africa's real GDP growth contracted 6.3% from real GDP growth of 0.3% in 2019. In the same tune, World Real GDP growth slides by 3.1%. While COVID-19 contributed to the sharp decline of South Africa's real GDP in 2020, social unrest and contraction in manufacturing and mining output became significant factors in the waning real GDP.

2.3. The effect of the COVID-19 pandemic, coupled with continued inadequate electricity supply, reduced the potential for economic growth in South Africa, consequently undermining industrialization programmes to contribute meaningfully to employment creation, poverty alleviation, and resolving inequalities.

3 SOUTH AFRICA'S TRADE PERFORMANCE

3.1. South Africa's exports have lagged behind relative to exports from the rest of the world (some developing and developed countries) over recent decades, and this has likely constrained overall economic growth. There are multiple reasons for this trade performance, including the structure of the country's export basket (which remains dominated by commodity products), its dependence on a limited number of large but mature export markets, and the high cost and deteriorating competitiveness of the general business environment. South Africa's manufacturing trade with the rest of Africa is considerably increasing owing to the country's important role as a logistics and services hub in the region.

Figure 3.1: Global and South Africa economic outlook, 2015-22



	2015	2016	2017	2018	2019	2020
Trade Openness	55.9	53.5	54.6	54.1	50.8	56.2
GDP Growth (%)	0.7	1.2	1.5	0.3	-6.3	4.9

Source: World Bank.

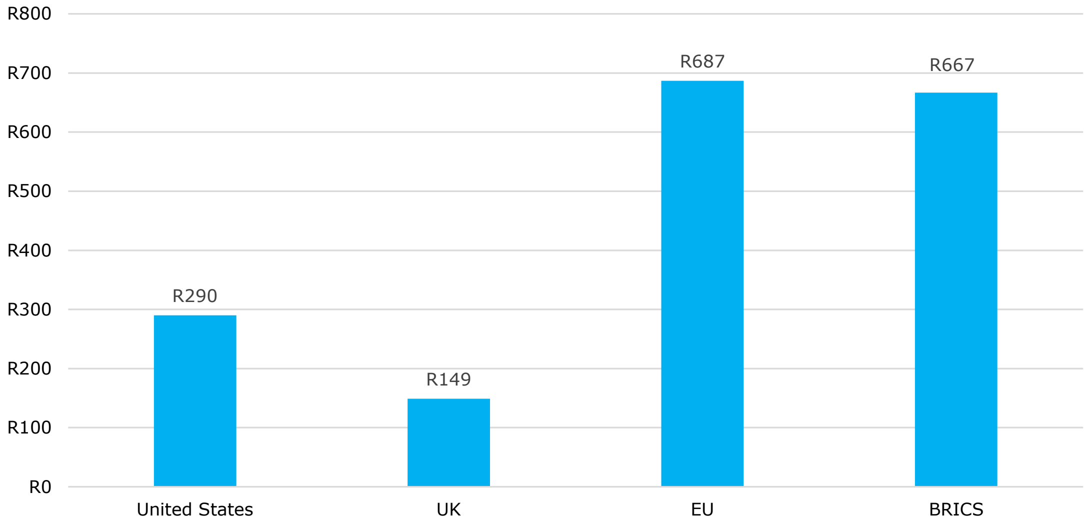
3.2. South Africa's trade openness appears to track GDP growth as indicated in Figure 2 above. South Africa recorded economic growth of less than 1.2% from 2015 up until 2018. In 2019, South Africa's economy contracted by 6.3%. Trade openness proved to be an important factor for South Africa economic trajectory. South Africa remained open during the COVID-19 period particularly to the importation of pharmaceutical products. Export expansion contributed to GDP, while moderate economic growth drew in increased imports. South Africa's future growth is therefore likely to be influenced by its ability to access inputs at competitive prices and its ability to expand its exports in new and existing markets.

4 SOUTH AFRICA'S TRADE WITH THE REST OF THE WORLD

4.1. There is significant trade between South Africa and the rest of the world. In particular with the European Union bloc, the BRICS countries combined, the United States of America, the United Kingdom and several countries in the Middle East. In Africa, Botswana, Namibia and Nigeria are important trade partners.

Figure 4.1: Trade with the EU, BRICS, United States and UK for 2021

(ZAR billion)



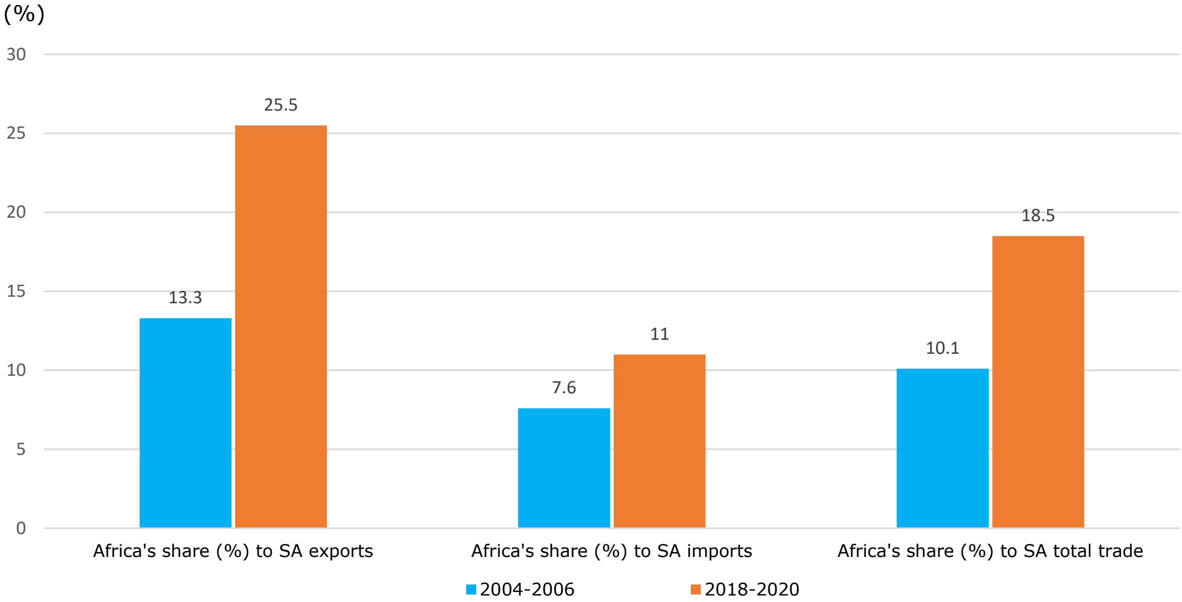
Source: The DTIC.

4.2. The European Union (EU) is South Africa's largest trading partner accounting for 22% (ZAR 687 billion) of the total trade in 2021. This is followed by the United States of America and United Kingdom with the following trade values of ZAR 290 billion and ZAR 149 billion respectively. Trade with these countries is supported by the preferential access to the EU, US and UK markets via the EU-SADC EPA, AGOA, and UK-SACUM EPA respectively. The total trade between South Africa and BRICS countries totalled R 667 billion with exports accounting for 41% and 59% accorded to imports.

5 SOUTH AFRICA'S TRADE WITH THE REST OF AFRICA

5.1. African integration remains important for African countries to overcome the limits of small and fragmented economies.

Figure 5.1: South Africa's trade with Africa



Source: World Bank.

5.2. For the period 2018 to 2020, intra-Africa exports stood at 16.3%. African markets were vital to African exporters, and the majority of the products were value-added manufactured products. In terms of South Africa's total global exports between 2018 and 2020, 25.5% went to Africa. South Africa's exports to Africa consisted of 64.3% manufactured products, in comparison to 43.9% in its global export basket. This was mainly value-adding trade, not commodities. Because of its huge percentage of oil imports, SA's trade balance with Africa – excluding the SADC – fluctuated between surplus and deficit.

6 NATIONAL DEVELOPMENT PLAN

6.1. The National Development Plan (NDP) spells out a vision of South Africa for 2030, characterized by higher levels of inclusive economic growth capable of reducing the triple scourges of unemployment, poverty, and inequality. The NDP is a national vision, where all stakeholders broadly share a government plan and is key in the transformation of the South African economy. To reach this vision, the NDP sets long-term targets for investment, growth, and employment creation, and provides a holistic plan for reaching these targets, drawing on other policies and programmes. Core themes in these strategies have been an accent on infrastructure both to support growth and bring about greater equality, the need for sector strategies to encourage diversification of the economy into more employment-friendly sectors, the imperative of improving basic education and skills development, and the recognition that African development is critical for South Africa's own growth.

7 POLICY DEVELOPMENT AND RESPONSE

7.1 Economic reconstruction and recovery plan

7.1. Against the challenges that emanated from the COVID-19 pandemic, South Africa introduced the Economic Reconstruction and Recovery Plan (2020) for the purposes of stimulating equitable and inclusive economic growth. The outbreak of COVID-19 pandemic found a vulnerable South Africa. At the time COVID-19 pandemic reached South Africa, the economy has experienced two consecutive quarters of recession as well as long-standing structural inequalities, unemployment and poverty.

7.2. Fundamentally, consensus amongst social partners is that generating growth and inclusive development, within the context of the South African historical trajectory, requires an exceptional form of state – a capable state. A capable state is an important enabling factor without which the

Economic Reconstruction and Recovery Plan will not achieve South Africa's determination to revive the economy.

7.3. The South African Economic Reconstruction and Recovery Plan has three phases namely:

- Engage and preserve, which includes a comprehensive health response to save lives and curb the spread of the COVID-19 pandemic;
- Recovery and reform, which includes interventions to restore the economy, while controlling the health risks; and
- Reconstruction and transformation that entails building a sustainable, resilient, and inclusive economy.

7.4. The South African Economic Reconstruction and Recovery Plan prioritizes (i) aggressive infrastructure investment, (ii) industrialization and investment promotion, (iii) resolving the energy crisis, (iv) supporting tourism growth, (v) ensuring inclusive growth in terms of gender equality including woman and youth participation, (vi) food security and (vii) massive employment interventions.

7.5. Institutional arrangements for the implementation of the Plan are put in place including monitoring the implementation of programmes identified in the Plan. The social compact aspect and the associated mobilization of resources are aimed at ensuring that there is cooperation and collaboration towards growing the economy, protecting the poor and vulnerable, transforming the patterns of ownership in the economy, and enhancing competitiveness.

7.2 Re-imagined industrial strategy and master plans approach

7.6. Since 2019, South Africa instituted its Re-Imagined Industrial Strategy as a significant step forward in scaling up its efforts to promote long-term industrialization and industrial diversification beyond its current reliance on traditional commodities and non-tradable services. It contributes to the structural changes needed by expanding production in value-added sectors with high employment and growth multipliers. The Re-Imagined Industrial Strategy accordingly places emphasis on more labour-absorbing production and services sectors, on increased participation of historically disadvantaged people and regions in the economy and aims to facilitate, in the medium term, South Africa's contribution to industrial development in the African region.

7.7. The RIS re-emphasizes the role of the state in changing the growth trajectory of the South African economy by supporting improved industrial performance, dynamism, and competitiveness. Therefore, the focus is on encouraging the upgrading of value-added, labour-absorbing industrial production and diversifying the economy away from an over-reliance on commodities and non-tradable services.

7.8. A key pillar of the RIS is the development of Masterplans and central to these Masterplans is the strong social compact between government, industry and organized labour, where each social partner commits to implement concrete interventions to transform and build the economy. Focused programs that include ongoing work on sectoral master plans to address competitiveness challenges, with an emphasis on localisation and beneficiation, together inform South Africa's trade policy. These efforts are essential to foster a more dynamic and inclusive economy that creates new opportunities for small businesses, women, and youth to participate as workers and entrepreneurs in the economy.

7.9. Masterplans outline the long-term vision, including the respective strategic pillars and objectives, of the various sectors. The sectors with Masterplans are agriculture, agro-processing, aerospace and defence, digital economy, forestry, health economy, oceans economy, renewable energy, tourism, automotive, furniture, steel, sugar, poultry, retail clothing, textile leather, and footwear. The RIS and its associated Masterplans aim to expand industrial output, save jobs and increase the level of employment in South Africa. A collaborative approach and strong partnerships between SMMEs and large firms will revitalize the economy and lead to effective re-industrialization.

7.3 Trade policy and strategic framework

7.10. The South African government, through the DTIC, pursues a strategic approach to trade policy, primarily geared to supporting South Africa's industrial development, employment growth, and economic growth. The policy is part of a broader strategy to accelerate growth along a path that generates decent jobs and reduces the poverty and the extreme inequalities that characterize our society and economy. As such, trade policy supports the objectives and programmes to diversify and upgrade industrial production for sustained and inclusive economic growth.

7.11. The Trade Policy and Strategy Framework (TPSF) was finalized in 2010 and revised in 2012; on both occasions, Cabinet approved it. The TPSF sets out how trade policy can contribute to government's economic development objectives. It seeks to improve South Africa's trade performance by increasing exports of higher value-added manufactured goods.

7.12. In 2021, a trade policy statement was released, *"Trade Policy for industrial development and employment growth"*. The Statement frames South Africa 's trade policy and its international trade engagements on South Africa's industrial policy objectives. It speaks to building industrial capacity, unlocking development across the Africa Continent, driving manufacturing exports and opening markets for South African goods, enhancing South Africa's role at the WTO and the future of the multilateral trading system (MTS) for resilience and building back better for the digital economy and for environmental sustainability. (See attached Minister of Trade, Industry and Competition: Trade Policy Statement (Annex 1)).

7.13. In its engagements with the rest of Africa, South Africa has worked to advance continental economic integration and industrialization. The priority is to focus on African development, industrialization, and integration. South Africa pursues developmental integration in SACU, SADC, T-FTA, and the AfCFTA. This approach, in contrast with the traditional linear integration model, combines market integration, industrialization and regional value chains, and infrastructure development.

7.14. Multilaterally, South Africa adopts a developmental approach that seeks to address existing imbalances in the rules; secure policy space to pursue industrialization, and ensure new challenges (e.g. pandemic, environment, and climate change) are addressed on the basis of fairness and equity. South Africa continues to advance a development outcome to the WTO's Doha Round.

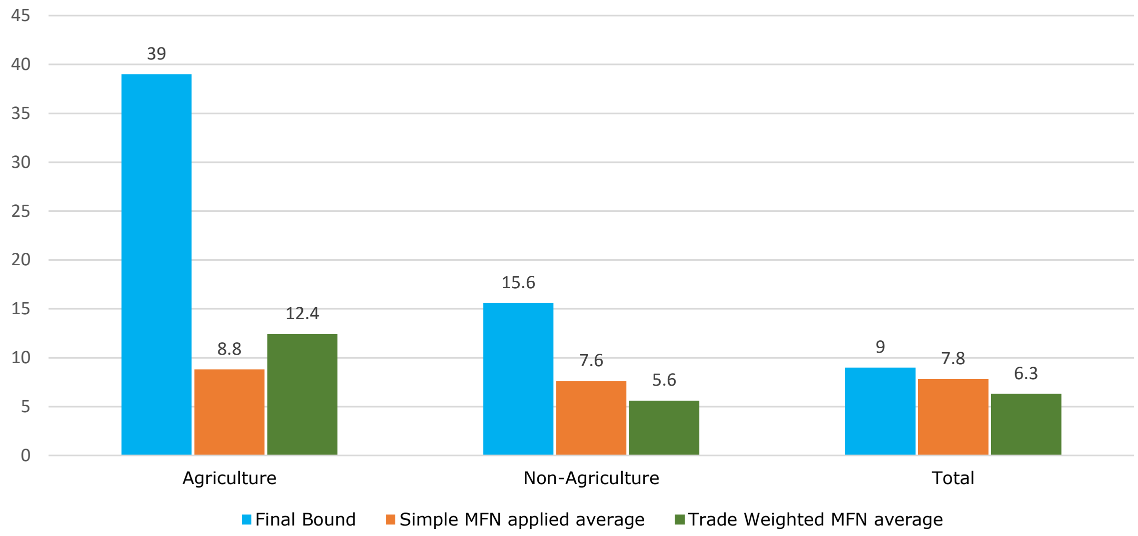
7.15. Trade and investment relations with industrialized economies are also an important aspect of our trade policy. Work to build industrial complementarities with the objective of shifting the structure of trade with dynamic economies of the South is ongoing e.g. with the BRICS countries.

7.4 Tariff policy approach

7.16. South Africa sees tariffs as instruments of industrial policy, an orientation that calls for developmental tariff setting: tariff setting must support industrial and employment objectives. This approach implies that tariff setting represents a purposeful intervention and a strategic approach to tariff policy to build production capabilities, investment in human capital, research and innovation & technology and support industrial and employment objectives. An evidence-based, case-by-case assessment informs changes to tariffs (i.e. no *a priori* position). The full range of trade policy tools and trade defence measures are utilized to promote industrial development: import duties, rebates and draw-back of duties; anti-dumping duties, countervailing duties, and safeguards; and import and export control. The International Trade Administration Commission (ITAC) plays a pivotal role in tariff investigations and trade remedies.

7.17. South African tariff policy has exerted a major influence on the composition and aggregate growth of trade. In the early 1990s, South Africa's average tariff was around 23%. It currently stands at 8.2%. The SACU Tariff Book as of January 2023 contained a total number of 8445 tariff lines, with 4545 lines (54%) duty 'free'. There has also been considerable simplification of the tariff regime. In 1990, the tariff schedule consisted of 13609 tariff lines of which 28% were subject to import control. By 2006, import controls were eliminated. The South Africa-EU TDCA, the SADC-Trade Protocol and the SACU-EFTA FTA have further reduced the overall incidence of tariff protection. The South African economy is now moderately protected by tariffs as indicated in Figure 5 below.

Figure 7.1: Tariff statistics, 2023



Source: WTO.

8 CONCLUSION

8.1. South Africa supports the MTS as it provides a rules-based approach and ensure predictability that enables economic operators to plan their business operations in the global arena. Continued participation in the MTS will contribute to South Africa's economic growth and thereby contribute to positive structural changes in the economy.

8.2. South Africa remains convinced that efforts to industrialization, increase in manufacturing value-added products, increased exports and implementation of regional industrialization through the programmes of SACU, SADC and the AfCFTA is fundamental to placing our economy on a new path of sustainable growth. The central task henceforth will be to ensure inclusive economic growth, transformation and increased employment. This has a number of dimensions but requires, among other factors, that our industrial policy impact be increased to the point that industrial development becomes a key driver of higher levels of growth along a qualitatively different new growth path. The elements of *"Higher Impact Industrial Policy"* include building on and expanding the infrastructure development programme, implementing a number of mineral beneficiation projects, pursuing active development integration on the African continent, and re-positioning South African manufacturing in a continent that is itself seeking to industrialize.

ANNEX 1 – SOUTH AFRICA TRADE POLICY STATEMENT

Trade policy for industrial development and employment growth, 20 May 2021

The context of trade policy

1.1. The South African government, through the DTIC, pursues a strategic approach to trade policy, primarily geared to supporting SA industrial development and employment growth. The policy is part of a broader strategy to accelerate growth along a path that generates decent jobs and reduces the poverty and the extreme inequalities that characterize our society and economy. As such, trade policy is informed by, and must support, the objectives and programs to diversify and upgrade industrial production for sustained and inclusive economic growth.

1.2. South Africa's level of unemployment, poverty and inequalities define the overall context within which economic policy – including trade – are conducted. The context is severe: by various measures, South Africa is among the most unequal countries in the world; the expanded definition of unemployment (including discouraged job seekers) was at 42.6% in the 4th quarter of 2020, and more than 50% of SA citizens live in poverty. Prior to the COVID-19 pandemic, the real unemployment level was over 30%. This has grown significantly as a result of the pandemic. Even during the Great Depression, industrialized economies did not experience this level of unemployment.

1.3. Fragile and uneven global trade growth since the 2008 financial crisis, largely due to persistently weak global demand, gave way to a precipitous fall in trade in the wake of the COVID-19 pandemic in 2020. The ensuing global public health and humanitarian crisis exposed vulnerabilities associated with an over-dependence on fragile global supply chains for therapeutics, diagnostics, PPEs, medicines and even food imports. Global policy-making has, in response, increasingly focused attention on rebalancing (shortening) global supply chains and addressing trade rules that inhibit efforts to strengthen national and regional manufacturing capacity.

1.4. In fashioning the economic recovery, we need to avoid a return to the "crisis before the crisis" and to build back better, including by restoring a more appropriate and sustainable balance between the objectives of trade growth and national industrial development. COVID-19 has also highlighted the need for more resilient production systems and a degree of "strategic autonomy" in the international production and trading system so that countries have the policy space to diversify their economies and add domestic value to production and exports.

1.5. This Statement frames South Africa trade policy and its international trade engagements on South Africa's industrial policy objectives. The next two sections in turn outline prominent features of South Africa's trade structure that inform the approach to trade matters in key priority engagements, and then highlight the importance of ensuring that trade policy benefits workers, women and communities. Subsequent sections consider South Africa's approach to trade in respect to African integration, bilateral engagements and the multilateral trading system. The final sections set out South Africa's broad policy approach to the trade aspects of three issues that are high on the international policy-making agenda: Boosting vaccine production to address the COVID-19 pandemic, digitisation and environmental sustainability.

A trade policy to build industrial capacity

1.6. Economic development requires the expansion and diversification of the industrial sector, which is still the main catalyst of productivity growth, rising wages, innovation and a key driver for service sector expansion. For this transformative process, capital goods need to be acquired and production must occur on sufficient scale, making trade a necessity. While imports can lower input costs and provide access to a range of products, trade is double-edged, as durable improvements of living standards require that domestic production and markets expand as well. These complexities require a carefully calibrated, balanced and strategic approach to trade.

1.7. South Africa is a comparatively small and open economy, accounting for 0.53% of world merchandise trade and approximately 0.28% of world services trade. International trade in goods and services is 60.4% as a percentage of GDP. Import growth tends to outstrip exports, resulting in a persistent deficit in goods trade. This was particularly evident in the period from 2000 to 2008 when South Africa enjoyed strong GDP growth. Since 2009, growth in South Africa has been subdued and while the trade balance has fluctuated year-on-year, trade in manufactured products is consistently in deficit.

1.8. While South Africa recorded its biggest trade surplus on record in 2020, largely off a sharp reduction in imports due to the economic downturn, the longer-term trend line must be reversed. In 2019, South Africa imported a significantly higher proportion of goods, measured as a percentage of GDP, than many other economies. While South Africa's imports accounted for 25% of GDP, Brazil stood at 9,6%, the United States at 12%, the EU at 14%, the Russian Federation and China at about 14,4% and India at just under 17%.

1.9. High levels of manufactured imports and a comparatively high import-propensity underscore not only the lack of diversified domestic production but also, if given appropriate focus and support, the possibilities for domestic industrial expansion. The Re-imagined Industrial Strategy encourages upgrading value-added, labour-absorbing industrial production and diversifying the economy away from an over-reliance on commodities and non-tradable services. Focused programs that include ongoing work on sectoral master plans to address competitiveness challenges, with the emphasis on localisation and beneficiation, together inform South Africa's trade policy. These efforts are essential to foster a more dynamic and inclusive economy that creates new opportunities for small business, women and youth to participate as workers and entrepreneurs in the economy.

1.10. As tariffs are a key instrument of industrial policy and because they have implications for capital accumulation, technology change, productivity growth and employment, changes to the tariff regime need to be carefully calibrated to the specificities of each sector. While there is no *a priori* position on the appropriate levels of duties, decisions on applications for tariff adjustments or rebates are determined on the basis of case-by-case, detailed investigation and analysis. Decisions may be accompanied by requirements for reciprocal commitments from applicants and firms that benefit from rebates or tariff adjustments. These may, for example, require undertakings to increase investment and jobs, introduce skills development programs or other productivity enhancements, and to ensure price stability in the domestic market. In short, tariff support should not blunt competitive pressures on firms.

1.11. While trade can contribute to growing the domestic industry and create jobs, fair competition must be maintained between domestic and foreign producers. South Africa will step up efforts to ensure that trade defence instruments are deployed effectively against unfair and injurious imports. In this regard we are reviewing the applicable legislation to streamline the application and investigation processes to enable swift and more effective action. We will also continue to strengthen coordination with SARS to eliminate illicit trade and the under-invoicing of imports that cause enormous damage to the economy in revenue, lost jobs and industrial capacity. These efforts also require stronger collaboration with the relevant authorities of our trading partners. The commitment by BRICS countries at the 2019 BRICS Summit Declaration on cooperation against under-invoicing require active follow-up and implementation.

A trade policy for workers, women and communities

1.12. Trade policy must promote and facilitate the development of inclusive economies. South Africans workers should expect that government policy and actions on the trade front should increase employment and promote decent work opportunities. Where workers are displaced by trade reform, policy should as far as possible seek to put in place measures to better manage adjustment costs through more effective safety nets and job (re-) training to enter growing sectors of the economy, as well as competitiveness enhancement actions for domestic firms. Employment sensitive sectors require a degree of support while reform measures through master plans (such as for example, poultry) are implemented to enhance overall competitiveness and performance. In previous rounds of tariff liberalization, the absence of adequate support measures resulted in devastating outcomes for many workers and communities. Many women workers in the clothing industry, for example, lost their primary means of livelihood.

1.13. Communities expect opportunities for young people, women and rural enterprises to grow and find opportunity in local and global markets. Trade policy measures encompass the range of actions from agreements at the WTO, to the use of trade instruments (decreasing or increasing duties applicable) and bilateral efforts to open markets.

1.14. The DTIC, will also seek to spell out opportunities for workers and communities in the conduct and outcomes of trade policy.

1.15. For the first time, South Africa is taking the deliberate and necessary step of pursuing a gender-sensitive and gender responsive trade policy. Women have been hardest hit by the COVID-19 pandemic, as a result of long-standing global structural inequalities pre-dating the crisis. Women make up over 50% of the population in South Africa and globally, yet remain the least economically active members of society.

1.16. Deliberate and targeted measures that deliver tangible and practical programs for the empowerment of women are an essential part of South Africa's trade policy to creating a better and inclusive world. Some of the steps needed include closing the gender gap in access to finance, building the export and manufacturing capacity of women-led business, creating market opportunities for women-led businesses through linkages to new buyers, and sector strategies to promote the emergence of women exporters in traditional and non-traditional sectors. This will include exploring regional value-chain opportunities and digital trade solutions, amongst others.

1.17. A gender-sensitive and responsive policy will need to carefully consider the distributive impact of South Africa's trade and economic policies on women and must nurture and protect sectors with large number of women workers and entrepreneurs.

1.18. These programs will also inform our engagements in the AfCFTA, in bilateral engagements and other strategic platforms. This stance coincides with the start of the new Decade of Women's Financial and Economic Inclusion and gives expression to the UN SGD 5 on Gender Equality. The 33rd Ordinary Session of the Assembly of Heads of State and Government of the African Union (AU) adopted the "New African Women's Decade" (2020-30), as the decade of "Women's Financial and Economic Inclusion".

A trade policy to unlock development across the African continent

1.19. South Africa subscribes to the developmental integration approach as elaborated in the AU "Agenda 2063: The Africa We Want". In this conception, free trade agreements in Africa are part of wider efforts to promote cross-border infrastructure development and industrial development cooperation. Indeed, constraints to intra-African trade are in many cases narrow productive capacity and inadequate infrastructure, not tariffs *per se*.

1.20. Industrialization must thus be at the heart of transformation of the African economy. With 17% of the world's population but just 3% of world manufacturing, Africa's path to prosperity lies in increased levels industrial production and there is some evidence showing that since 1990 manufacturing employment share has grown in a number of African countries, but with modest value-added growth. Countries can build on their acquired manufacturing experience to produce for markets on the continent as a step towards competing in other international markets in a range of industrial sectors. Further, apart from its obvious direct benefits, cross-border infrastructural development provides enormous opportunities for African firms to supply a range of industrial inputs for construction and maintenance of rail, road and ports.

1.21. The launching of the AfCFTA represents a significant milestone in the Africa's continental integration project. As a first step in stitching together existing integration projects across the continent, it will provide greater incentives for new investment to take advantage of a more open and integrated continental market. Final tariff reduction commitments with rules of origin that give preferences to "Made in Africa" products will boost manufacturing and industrial development in Africa.

1.22. In this context, South Africa will set out the case for rules of origin that increases the level of African value-add. The continent, and South Africa as part of it, must avoid the trap of simply becoming basic assemblers or finishers of product largely produced elsewhere in the world. This is essential to deepen industrial development and with it, growth, investment and good quality jobs.

1.23. In preparing for this transformation, the dtic is incorporating an AfCFTA Chapter in sector master plans and the district development strategy. In addition, we have begun consultations with other African countries on the development of cross-border value chains covering a range of industries. Dedicated discussions focusing on these sectors are already underway with SACU member States and we will expand the discussion with others over time.

A trade policy to drive manufacturing exports and open markets for South African goods

1.24. South Africa's bilateral engagements are focused on expanding opportunities for higher value-added exports and encouraging inward investment to support our industrial policy objectives. The details of such engagements depend on the trade and investment profile of the partner country, whether the relationship is underpinned by binding or cooperative trade agreements and the interests of the partner. In each engagement, South Africa advocates that our partners increasingly view Africa as an investment destination rather than simply a market for exports in light of the AfCFTA.

1.25. To illustrate the general approach, we take three examples of focus on engagements with key trading partners. The EU, as a block, remains South Africa's largest trading partner, with the SADC-EU EPA underpinning the relationship. Prior to the pandemic, bilateral trade had continued to grow but at a declining rate. South Africa consistently ran a deficit, driven primarily by manufactured imports from the EU. Over the past two years, this has begun to change but the composition of trade still needs to shift to greater export by South Africa or manufactured and other value-added products. As part of our ongoing bilateral engagements, including in the upcoming review of the SADC-EU EPA, we will seek to expand exports of manufactured goods and higher value-added agricultural products.

1.26. China is South Africa's largest single country trading partner and Chinese investment in SA has been increasing. Through cooperative efforts we aim to promote inward investment to support our industrial development. There is agreement to change the basket of South African exports to China, now dominated by minerals, to include a greater portion of higher value-added manufactured and agricultural products.

1.27. Trade with the United States has in general been balanced. The U.S. runs a surplus in manufactured goods and services, agricultural trade is balanced and South Africa runs a surplus in mineral exports. While bilateral trade grew significantly in the first decade of the millennium, it has declined steadily over the past decade, particularly in South Africa's value-added exports under AGOA. In future engagements with the new U.S. administration, we will seek to correct this decline. Such discussions should also encompass the future of AGOA and removal of barriers to South African exports of high value-added products and agriculture.

1.28. Opening market opportunities at the product level are also important to expand South African exports. For example, South Africa is now the world's second largest exporter of citrus but is limited in some markets through sanitary and phyto-sanitary measures that South Africa does not believe is justified. More engagement with trading partners will be held on products such as fruit (citrus, avocadoes, and others), steel and aluminium, vehicles and beverages.

A trade policy to enhance South Africa's role at the WTO and the future multilateral trade system

1.29. South Africa supports the principles of a rules-based multilateral trading system where independent arbitration rather than power relations resolves disputes. Like many other developing countries, however, we have expressed concern at the imbalances and inequities in WTO agreements that prejudice our trade and development interests. These imbalances are evident in rules on trade-distorting agricultural support, the selective approach to prohibiting industrial subsidies and constraints to technology transfer that can support development. South Africa's treatment as a developed country during the Uruguay Round (during the Apartheid era) is a source of considerable concern as the tariff reduction commitments contributed significantly to de-industrialization. This historic injustice has unduly limited South Africa's policy space to use trade to support its industrial development.

1.30. These considerations inform South Africa approach to ongoing discussions on WTO reform. We advocate an approach premised on the principles of inclusivity and development. The keys to the legitimacy and sustainability of the WTO lie in its ability to advance developmental interests of developing countries that will constitute new sources of global growth and prosperity in the world economy. Meeting this challenge will serve to strengthen the multilateral, rules-based trading system, enhance its legitimacy and also create the basis for economic growth from which all WTO Members can benefit.

1.31. Inclusivity would require, at a minimum, preserving consensus decision and the multilateral character of the WTO. It would also require recognition of the value of economic and institutional diversity, including through reaffirmation of the principles of special and differential treatment and the right to regulate in the public interest. African industrialization must be enabled, not inhibited in WTO policies. Reform should, in short, enshrine the right of states to pursue national development strategies within the broad framework and principles of a rules-based system.

A trade policy for resilience and to build back better

1.32. The COVID-19 pandemic exposed the vulnerabilities of limited industrial capabilities and an over-dependence on fragile global supply chains. South Africa, like many other countries, particularly in Africa, was unable to access or produce sufficient supplies of essential medical products at the start of the pandemic. While the country was able to overcome some constraints through extraordinary efforts to repurpose existing capacity and produce medical grade face-masks, hand sanitisers, ventilators and more recently vaccines, the lack of preparedness pointed to inadequate levels of prior investment in research and development and manufacturing capabilities. For greater economic resilience, now and in the future, South Africa's trade and industrial policy must focus on building more diversified production centres both in South Africa and across Africa.

1.33. The WTO has a vital role to play in addressing the global public health crisis wrought by the COVID-19 pandemic. The immediate and urgent challenge is to scale up the production of vaccines and to distribute them in an equitable manner to citizens around the world. South Africa and India, with growing support amongst WTO Members, parliamentarians and across civil society, have proposed a temporary waiver on intellectual property rights for certain products required to fight the spread of COVID-19 (including vaccines) to ensure that the requisite technology and know-how is widely shared in order to boost global vaccine production.

1.34. In the context of the deadly pandemic, intellectual property should be understood as global public goods, particularly in light of the enormous public funding that went into the research and development of the vaccines. The discussion on this matter continues at the WTO. More broadly, we have proposed a package of related measures that include deeper levels of cooperation to expand production of medical essentials; new protocols to enhance transparency of contracts and price stability in undertakings between governments and pharmaceutical companies; a global commitment to avoid vaccine nationalism; and a WTO provision to deal with future pandemics that provides automatic rights of use and obviates the need for special arrangements and waivers in future.

A trade policy for the digital economy

1.35. South Africa is considering how best to respond – in a comprehensive and integrated manner – to the challenges and opportunities arising from digital transformation. There are clearly many opportunities that arise from the application of the new technologies to work and society, including new products and services, easier communication and production or distribution efficiencies. At the same time, challenges must be addressed, including the persistent and growing digital divide, the impact of digitisation on net employment levels, increasingly concentrated markets and anti-competitive practices. In particular, the impact of concentration on smaller businesses can have negative distribution effects in society. The resulting high levels of concentration in digital trade also severely constrain e-commerce's potential to deliver sustainable and beneficial outcomes for developing countries.

1.36. In this context, many developing countries have observed that it is premature to develop WTO rules that could have far reaching consequences for development, including the risk of "locking in" current imbalances and foreclosing options to address many of the evident challenges. Further assessment is required on a range of matters including overcoming the digital divide, the implications of customs duties on electronic transmissions on revenue and industrial policy; the role of data management for development; and technology transfer, amongst others.

A trade policy for environment sustainability

1.37. South Africa is committed to environmental sustainability as part of the overall UN Sustainable Development Goals. Meeting these objectives will require significant transformation in patterns of global production, consumption and distribution. The Paris Treaty sets out a coherent framework to effect a green transition and reduce greenhouse gas emissions. It requires that advanced economies undertake and meet their nationally determined reduction commitments and also provide finance and technology to assist countries with less capability and resources to undertake the needed economic transformation.

1.38. While there are considerable opportunities for a range of green industrialization initiatives, forging greater coherence between the UNFCCC framework and WTO rules will be essential. Multilateral discussions are required on a range of matters including on intellectual property, technology transfer, subsidies as well as the application of product standards and labelling to ensure that measures are mutually supportive and do not unduly shift the burden of adjustment to developing countries.

1.39. Unilateral trade measures, such as border adjustment taxes on the carbon content on imports, could undermine coherence in multilateral climate policy-making. Border taxes that penalize already resource and financially constrained economies will make their economic transformation more challenging and it would be difficult to justify such measures if they are imposed on countries that have taken on – and are meeting – their national commitments under the UNFCCC. These measures also risk a spike in trade frictions and legal challenges.

1.40. In order to avoid such outcomes, the contours of such trade measures – how they are calculated and how they would comply with WTO rules – need to part of the multilateral dialogue. To maintain a coherent multilateral framework to enable climate action, trade measures should be carefully calibrated, timed and sequenced with green technology transfer and financing for many developing countries to effect the green transition. As global public goods, the challenges of environmental sustainability and their trade-related aspects need to be addressed multilaterally, through international cooperation and dialogue for legitimacy and for sustainability.

1.41. A conclusion of negotiations on fishery subsidies at the WTO can contribute to our environmental sustainability objectives. The outcome should ensure countries that provide the largest subsidies that result in over-capacity and over-fishing undertake significant reduction commitments while providing space for developing countries to support artisanal, subsistence and commercial fishing in a sustainable manner.

Conclusion

1.42. Trade policy must support South Africa's industrial development objectives to drive sustainable growth, to generate decent well-paying jobs and to widen economic inclusion, including for women and youth. In response to a decade of low growth, growing inequality, unemployment and increasing job insecurity, policy making around the world is undergoing a shift with greater attention to striking a more appropriate balance between trade and building national industrial capabilities.

1.43. For South Africa, the imperatives of trade growth and expanding national production capabilities require a carefully calibrated strategic trade policy based on ever-closer collaboration and coordination between government, business, labour and communities.

1.44. African economic integration, structural transformation and industrialization lie at the heart of South Africa's trade policy agenda. African prosperity, growth and development industrialization, market integration and cross-border infrastructure development should create a dynamic for greater prosperity from which all African economies should benefit. Our engagements beyond the continent should support these objectives, both for Africa and South Africa, and should be geared to steadily correcting the manufacturing deficit in our international trade profile.

1.45. Multilateralism remains vital to address transnational challenges. The public health crisis brought on by the COVID-19 pandemic and environmental challenges, including climate change, underscore the necessity for strengthened multilateral cooperation and dialogue. Global trade policy can play an important and positive role in addressing these challenges if it is framed by the principles of fairness, equity, inclusivity and development.