SUMMARY

1. Since the last Review in 2009, economic performance has fluctuated in the five countries of the Southern African Customs Union (SACU), i.e. Botswana, Lesotho, Namibia, South Africa and Swaziland, with a downward trend in their consolidated (total) GDP growth rates. The highest growth of their consolidated GDP (3.4%) was recorded in 2011 and the lowest (-1.7%) in 2009; it has been around 2.5% per year since 2012. This performance has largely resulted from the global economic crisis and its impact on the mining and manufacturing sectors. Economic growth has been uneven within SACU but the overall (consolidated) performance largely reflects South Africa's as the latter accounts for about 91% of the region's total GDP.

2. In 2009, SACU countries individually recorded their lowest economic growth, negative in Botswana (-7.8%) and South Africa (-1.5%), but positive albeit weak in Namibia (0.6%) and Swaziland (1.3%). With annual GDP growth rates of respectively 3.4-7.8%, 0.6%-6% over the period, Lesotho and Namibia were the only SACU countries to weather the crisis rather well, without recording negative growth; the growth rates of Botswana and Namibia rebounded sharply after their poor performance in 2009 and have remained high since then. Swaziland's economic performance has been positive albeit moderate (1.3%-3% per year) over the period.

3. As a result, the socio-economic features of the SACU countries have not changed significantly since 2009. Their economies remain dominated by their relatively large services sector (about 60% of their consolidated GDP). However, inequalities between and within the countries are still an issue and continue to be the focus of policy efforts. Botswana and South Africa remain upper middle-income countries – they have been joined by Namibia; Swaziland, a lower middle-income country; and Lesotho, a least developed country. South Africa's highly diversified economy contrasts with the narrow-based ones of its regional counterparts: diamonds and other minerals in Botswana and Namibia; textiles and clothing in Lesotho; and sugar in Swaziland. Intra-country inequalities within SACU are among the highest in the world, with unemployment and poverty common challenges; relatively high inflation during the review period, due to currency depreciation, high food and fuel prices, as well as an increase in the VAT rate in Botswana, has not helped.

4. The SACU agreement does not provide for harmonization of macroeconomic policies. However, by virtue of the membership of Lesotho, Namibia, and Swaziland of the Common Monetary Area (CMA), their currencies are pegged to the South African Rand, and their monetary policies are largely aligned on the policy pursued by the South African Reserve Bank (SARB).

5. SACU countries source some 13% of their imports in the region, and supply the region in the same range. As the largest economy, South Africa is the main investor in the other SACU countries and also dominates regional trade, with over 95% of commercial flows within the customs union involving it as a destination or source. Extra-SACU imports originate mainly from the EU, China, and the United States, which are also among SACU's main export markets. EU countries, United States and China are also the leading investors in the region.

6. All SACU countries are members of SADC and signatories to its Trade Protocol. They have RTAs with the members of the European Free Trade Association (EFTA) and a reciprocal trade agreement, signed but not in force, with the MERCOSUR countries. In 2008, SACU members signed a Trade, Investment, and Development Cooperation Agreement (TIDCA) with the United States, which entered into force immediately. Negotiations with the EU on a SADC-EU Economic Partnership Agreement (EPA) were completed in July 2014.

7. Some SACU countries also maintain bilateral trade agreements, and their consensus to negotiate new trade agreements as a group has not refrained some of them from individually launching bilateral trade negotiations with third countries. Swaziland is the only SACU country that is also a member of COMESA, where it enjoys unilateral preferential market access. SACU members continue to benefit from non-reciprocal preferential treatment under the Generalized System of Preferences (GSP); and, with the exception of Swaziland (since January 2015), under the U.S. African Growth and Opportunity Act (AGOA).

8. The applied MFN customs tariff, excise duties, duty and tax concessions (rebates, refunds and drawbacks), customs valuation, rules of origin, and contingency trade remedies remain

harmonized within SACU. For the time being, in the absence of a regional body, the International Trade Administration Commission (ITAC) of South Africa is responsible for managing the SACU common external tariff (CET); it is also mandated to recommend all rebates, refunds, and drawbacks in SACU. Efforts are ongoing within SACU to facilitate trade by further streamlining customs procedures and documentation.

9. The simple average applied MFN tariff (SACU CET) rate is 8.3% in 2015, slightly up from 8.1% in 2009. The tariff remains complex, still comprising ad valorem, specific, mixed, formula (variable) duties, and their combination; non-*ad valorem* duties represent about 3.8% (up from 3.2% in 2009) of total tariff lines. Tariff rates display relatively high dispersion from zero to 624% (an *ad valorem* equivalent). The modal rate (the most frequently applied) is zero and applies to about 57.5% of all tariff lines on, *inter alia*, live animals, products of animal origin, ores, fertilizers, cork, pulp of wood, silk, some minerals (e.g. nickel, lead, and zinc), and other base metals. The highest *ad valorem* rate (96%) applies to 14 tariff lines, including mainly dairy products; and the highest *ad valorem* equivalent (624%) applies to worn clothing and worn textile articles.

10. Agriculture (WTO definition) remains the most tariff-protected sector (9.9% on average, slightly down from 10.1% in 2009), while tariff protection for non-agricultural goods is 8% (slightly up from 7.8% in 2009). Under ISIC (revision 2), manufacturing is the most tariff-protected sector (8.7%, slightly up from 8.5% in 2009), followed by agriculture (3.5%, slightly down from 3.7% in 2009), and mining and quarrying (0.1%, down from 0.8% in 2009). The presence of tariff escalation indicates higher effective protection for processed products.

11. Namibia, South Africa and Swaziland have identical binding commitments (96.6% of all tariff lines), while those of Lesotho (on 100% of its tariff lines) and of Botswana (on 96.6%) are different. All tariff bindings by SACU members are *ad valorem*. Therefore, the imposition of non-*ad valorem* duties under the SACU CET does not ensure compliance with the binding commitments. Contrary to the other SACU members, South Africa's market access commitments include tariff quotas on 53 product groups which actually enter the country at the in-quota tariff rates.

12. Contrary to excise duties, the VAT is not harmonized within SACU, and the taxation bases and the rates are different: the rate is 14% in Lesotho, South Africa and Swaziland; 12% in Botswana; and 15% in Namibia. Namibia is the only SACU country to impose export taxes/levies on selected products (e.g. unprocessed diamonds, raw hides and skins, and goat skins).

13. In addition to duty and tax concessions (rebates, refunds and drawbacks) provided for by the SACU Agreement, country-specific rebates on wheat and dairy products are used by Botswana, Lesotho, Namibia and Swaziland (BLNS). During the review period, the Automotive Production Development Program replaced the Motor Industry Development Programme, and the Textile and Clothing Industry Development Programme was discontinued. National legislations also provide for investment incentives aiming at economic and export diversification in BLNS, and at promoting exports and addressing social concerns in South Africa.

14. As of end 2014, South Africa (on behalf of SACU) maintained definitive anti-dumping measures on imports from 13 WTO Members. In November 2012, the ITAC initiated a safeguard investigation on imports of frozen potato chips, on which it imposed a provisional safeguard measure in July 2013 and a definitive safeguard measure on 11 December 2013.

15. During the period under review, Botswana, Namibia and Swaziland fully enforced their national competition regimes; except for Lesotho, all SACU countries have by now their national competition policies in place. However, a regional competition regime is yet to be adopted. None of the SACU countries is party to the WTO plurilateral Agreement on Government Procurement; their government procurement legislations provide for price preferences to local suppliers/products. Except for Namibia where a new Industrial Property Act was passed in 2012, the national regimes on intellectual property rights in SACU countries have not significantly changed.

16. Although the 2002 SACU Agreement calls for harmonization of agricultural and industrial policies, this has not yet materialized. Therefore, except for customs-related issues, sectoral policies remain country-specific.

17. In Botswana, sectoral policies aim at sustainable economic growth, to be led by diversified production by the private sector which is expected to play an enhanced role in a more competitive environment. The diversification efforts have not been successful as Botswana continues to rely heavily on the mining sector, specifically on diamonds exports (82.3% of total merchandise exports (including re-exports) in 2013). Moreover, the intervention of the State in Botswana's economy continues to be significant. For instance, Botswana's two major export products (diamonds and beef) are traded by state-owned companies. Indeed, Debswana, the diamond mining company (50% state ownership), holds a de facto monopoly over exports of rough diamonds, and the Botswana Meat Commission (BMC), which is fully state-owned, has a statutory monopoly on beef exports. Agriculture remains one of the most important economic activities. Even though the sector's contribution to GDP has decreased from over 40% in 1966 to 2.4% in 2014, it remains the mainstay of the rural economy, where it is the major source of livelihood, and thus plays a major role in poverty reduction. In addition, livestock's contribution to exports is substantial; meat and meat products accounted for 70.3% of the country's agricultural exports. Agriculture continues to be highly protected (by tariff and non-tariff measures) on food security grounds (according to the authorities), one of the country's main socio-economic goals.

18. Lesotho's economy relies mainly on apparel industry (59% of total exports), and on agriculture, the backbone of the rural economy and the main employer. Mining, electricity and tourism have been identified by the government as activities facing significant challenges but with great potential for growth. Accordingly, during the period under review, Lesotho enacted many new laws to modernize its institutional and legal framework on, inter alia, telecommunications, electricity and financial services; their implementation is mostly ongoing. In 2010, it reformed its land system by allowing foreigners to hold a land title subject to certain conditions. In the mining sector (dominated by diamonds) the Government reserves the right to acquire at least 20% ownership in any large-scale mine. Currently, all mines are jointly owned by the state and a foreign company, with the state's participation ranging from 20% to 30%. Although Lesotho has a strong potential for the generation of electricity because of its relatively abundant water, it is obliged to import power from Mozambique and South Africa, its current infrastructure being very limited. The performance of the tourism sector also remains weak due to poor or inexistent infrastructure, poor brand image, and a limited marketing and communication strategy.

19. Namibia's economy is highly dependent on exports of mining products, particularly diamonds. Livestock and fish are also important earners of foreign exchange. In the agricultural sector, Namibia aims to stimulate downstream agro-industries, improve competitiveness of agricultural industries, and increase local products' share of the domestic market and the contribution of agriculture to the national economy. Based on Vision 2030, the industrial policy promotes value addition: it outlines the specific principles and objectives that will guide manufacturing in terms of production structure and standards. Namibia has updated its information and communication technology framework since 2008 in response to growing demand. The penetration rate of telephones has more than doubled since 2008, with the main source of growth being mobile telephony. Namibia has one of the most developed financial systems in Africa, though significant limitations remain. It is among the world's fastest growing tourist destinations and tourism makes a significant contribution to its GDP and employment.

20. South Africa has the most technologically advanced and diversified economy in Africa, with a large services sector generally open to foreign investment. Agriculture is characterized by its dualism, i.e. the coexistence of a well-developed export-oriented system and a subsistence production one. The mining policy has not changed since the last Review; the performance of the sector has been negatively affected mainly by repeated workers strikes. Automotive and textiles are the main manufacturing industries and absorb most of Government incentives. Manufacturing is further protected by the escalatory structure of the SACU CET. However, recent frequent power outages are a challenge to the sector and to the whole economy. South Africa maintains a solid and relatively stable financial services subsector. Tourism is a key foreign exchange earner.

21. In Swaziland, sugar and sugar-based products make up almost 50% of merchandise exports. The country is a net importer of food, fuels and services. Agriculture still provides the livelihood for 80% of the population. The Government seeks to ensure food security, increase productivity, and diversify and enhance commercial agriculture. Land fragmentation, high input costs, poor infrastructure and insufficient access to credit remain major challenges. Swaziland is a net importer of energy and electricity is more expensive than in any other SACU country. Mining has expanded in the past years owing to new iron ore production and improvements in coal

production; this has resulted in increased mineral exports. Under the Mines and Minerals Act passed in 2011, a 50% cap applies on foreign investment in mining activities. Manufacturing remains focused on value-added sugar products (confectionery and soft drinks). In the telecommunications subsector, new legislation was passed in 2013 and an independent regulator was established. This should enable market access for new entrants, thereby promoting competition and price reductions.