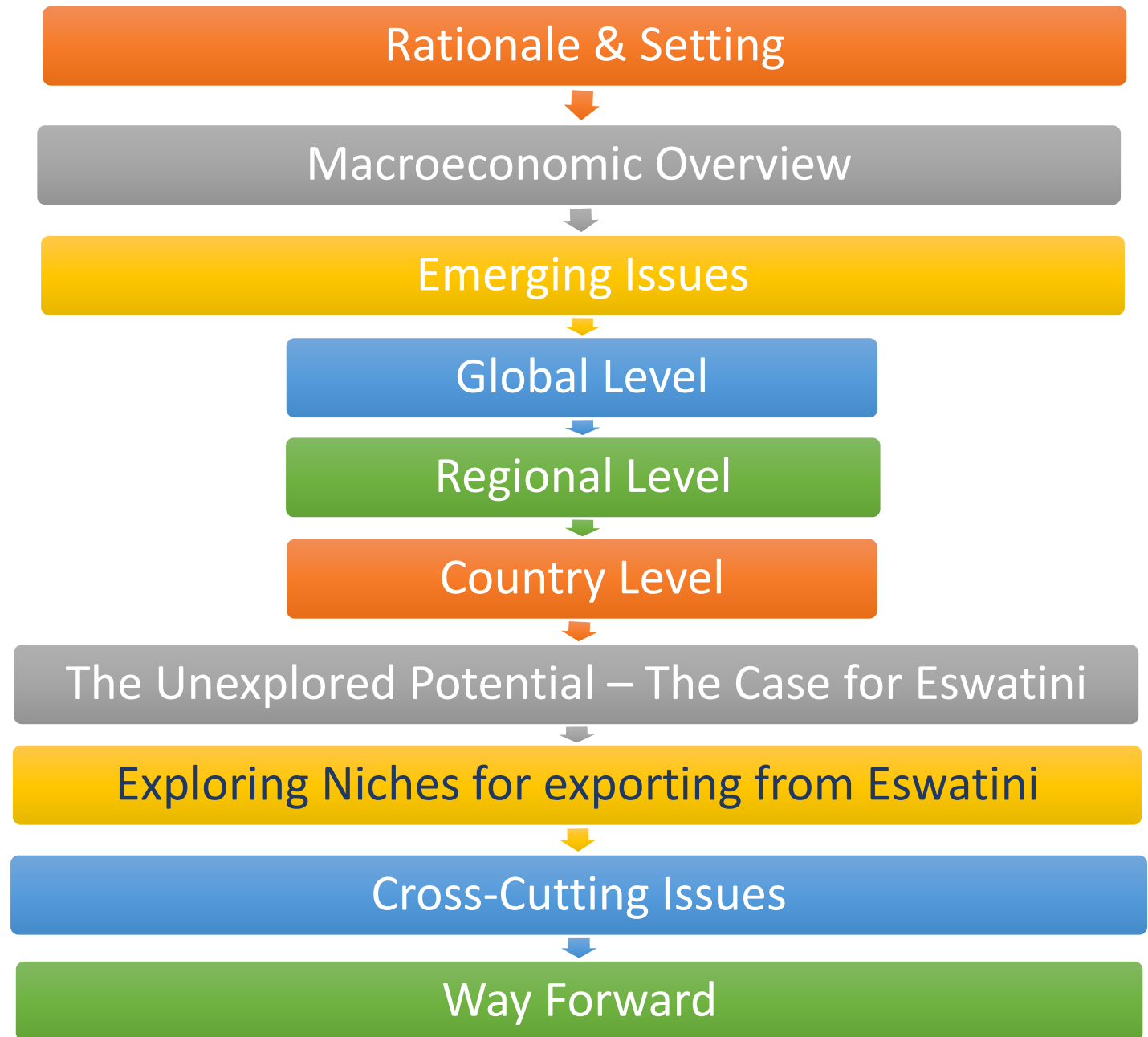




Eswatini National AfCFTA Forum

3 November 2022 | Mountain View, Mbabane | Eswatini

Presentation Menu



From Eswatini to the World



Mbongeni Fakudze

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Rationale & Setting

2 July
2018

Eswatini one of the first countries to ratify the AfCFTA agreement.

The Agreement includes the *Protocol on Trade in Goods*, the *Protocol on Trade in Services* and the *Protocol on Rules and Procedures on the Settlement of Disputes*.

How do we move from commitment to implementation.

The AfCFTA National Implementation Strategies are aimed at supporting countries with a view to maximize the benefits of the Agreement while minimizing potential induced adverse effects.

Rationale & Setting

Today's forum is part of a wide stakeholder consultative process to get inputs from key stakeholders.

Strategy must be alive and respond to the opportunities, challenges and constraints that exist relating to Eswatini export potential and capabilities.

Ultimately private sector is the user and beneficiary of such instruments that have major potential to transform the national economy.

Your active participation, contribution and ideas would go a long way in creating a practical, action-oriented strategy for the country.

Objectives of
AfCFTA
Implementation
Strategies

Identify where comparative advantages, lie for each country for diversification.

Identify priority value chains to be developed in order to support economic diversification.

Maximize trade potential in the context of the AfCFTA Agreement.

Eswatini's national strategy should facilitate the identification of key value addition and trade opportunities and constraints, measures and capacities required for the country to take full advantage of national, regional and global markets within the context of AfCFTA.

Bilateral Meetings

Private sector, Government,, academia, think-tanks, civil society (youth groups, women) & development partners.

To uncover key areas deserving deeper analysis and provide consultants an opportunity to collect a wide range of documents, data and other resources for consideration and review.

Roundtable discussions

National AfCFTA Forum

Validation Workshop

Stakeholder
engagements





Macroeconomic Review

Context: Macroeconomic framework, production & trade

Macroeconomic

- Eswatini is one of the world's most trade-dependent economies, with South Africa being main trading partner.
- Member of SACU, SADC, COMESA, AfCFTA, SACU-MERCOSOUR, SACU+M – UK EPA, SADC – UK EPA.
- Common Monetary Area provides a nominal anchor for monetary policy, and Eswatini's inflation generally mirrors that in South Africa.
- Current debt to GDP ratio at 43% on average compared to the region's average at 60% of GDP

ESWATINI ECONOMIC SNAPSHOT

Slow Economic Growth

Limitations of growth model based on government consumption. Economic crisis worsened by Covid-19 and unrest.

1.7%

Average real GDP growth between 2014-19, compared to 2.6 percent for Sub Saharan Africa (SSA) in the same period

Declining Investment

Low private investment and FDI, and weakened exports

Year	Inflows, US \$	% of GDP
2020	\$0.04B	1.11%
2019	\$0.13B	2.87%
2018	\$0.03B	0.67%
2017	\$-0.06B	-1.31%
2016	\$0.03B	0.70%

High Youth Unemployment & Informality

Private sector not creating enough jobs to reduce unemployment and skills mismatch.

58.1%

Youth unemployment in Eswatini

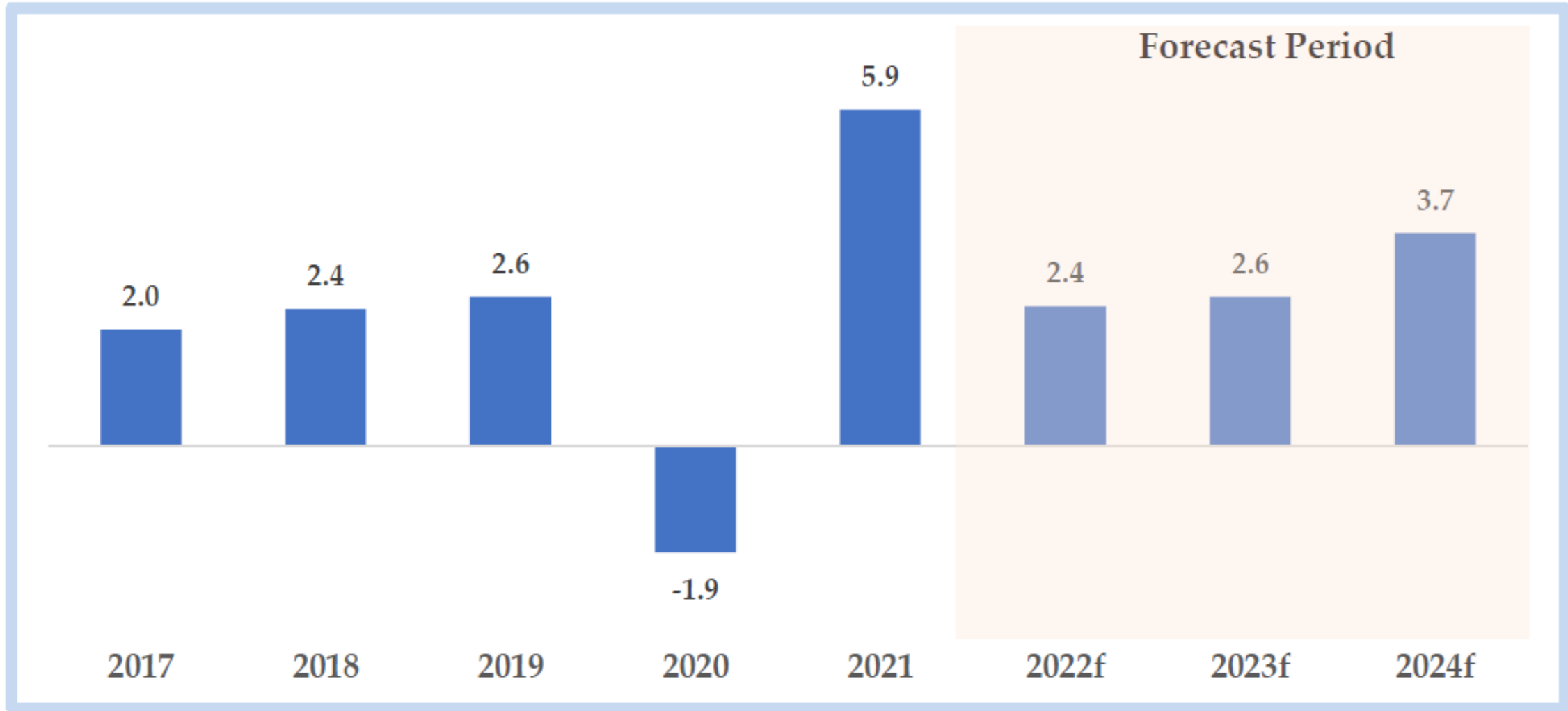
Vulnerabilities to External Shocks

Recurrent droughts are a threat to key export sectors and are likely to worsen with rising temperatures

7%

Cost to government expenditure as a result of 2015/16 drought as a share of GDP

Overall Real GDP Growth (%) *Estimates (2017 - 2020) & Forecasts (2021 - 2024)*



Source: NDP, 2023/24 – 2027/28

Heavy Reliance on SACU: Fiscal Revenues (% GDP)

Estimates as of March 2022	2017/18 actual	2018/19 actual	2019/20 actual	2020/21 actual	2021/22 out turn
Total Revenue & Grants	28.20	25.10	27.50	28.80	25.30
Domestic taxes	14.40	14.50	15.40	15.10	15.60
<i>CIT</i>	2.30	2.30	2.60	2.20	2.60
<i>PIT</i>	5.10	5.20	5.40	5.40	5.20
<i>VAT</i>	4.20	4.60	4.50	4.90	4.90
<i>Other income tax</i>	0.70	0.80	0.70	0.90	0.70
Excise					
<i>Fuel levy</i>	1.70	1.90	1.90	1.80	1.80
<i>Other (sum of all the other small lines)</i>	1.00	0.50	1.30	0.60	0.50
Grants	0.90	0.70	0.80	0.40	0.20
Taxes on International Trade and transactions					
SACU	12.00	9.30	9.70	12.60	8.90

Source: MoF MTF March 2022

- Eswatini engaging on AfCFTA under SACU.
- Major focus on SACU revenue protection.
- How substantial is SACU Offer?
- Can Eswatini/SACU afford to offer more?
- What are the cost implications?

Trade in Services

Ms. Khangezile Dlamini



National African Continental Free Trade Area (AfCFTA) Forum for the Kingdom of Eswatini

THEME:

Development of Eswatini Implementation Strategy for AfCFTA

Stakeholder consultation and Media engagement

3rd-4th November, 2022

Mountain View-Mbabane

Presentation outline

- Brief and anticipated outcome
- Rationale and setting
- *The economy of Eswatini*
- Emerging issues : Global, Regional and Country level
- Unexplored potential
- Cross cutting issues
- Way Forward

Brief and anticipated outcomes

- Collect relevant national data on the service sectors
- Assess the capacity and competitiveness of the services sector in Eswatini and its connectedness with other regional and international service providers
- Identify specific regulatory barriers to trade in the twelve priority services sectors



Anticipated outcomes

- National AStrategy on trade in goods and services
- National implementation plan

Rationale and setting

Rationale for the exercise:

- ❖ Promote (starting at national) the harmonization of appropriate policies, strategies & measures for the agreement to be fully implemented
- ❖ In order to derive utmost potential and capacities of Swati service suppliers, there is need to have a structured approach.
- ❖ To ensure implementation and enforcement
- ❖ It is believed that the protocol is very much in sync with national policy objectives, other noble goals and aspirations like poverty reduction, job creation etc. So why not harness this opportunity?

Setting

- In my view, this exercise could not have come at a better time, the environment we are in right now needs ‘all hands on the deck’ in the context of:-
- Worsening fiscal deficit, which stood at 8.6 of GDP in 2020 from 5.3% in 2019
- Gross public debt (including domestic arrears) rose to nearly 48% of GDP from 38% in 2019
- Inflation increased from 2.6% in 2019 to 4% in 2020
- On the banking sector non performing loans increased.
- So clearly this backdrop is begging for urgent action.

Emerging issues: Globally, regionally & nationally

- **Globally:**At a global level , The COVID-19 pandemic resulted in unprecedented pressures on supply chains. Logistic disruptions and rising energy prices have further contributed to supply shortages and spiralling shipping costs.
- Policy factors are showing that in recent months, significant tensions have emerged in global trade, encompassing several major economies.
- The resultant atmosphere of uncertainty could cause multi-national enterprises to cancel or delay investment decisions until the trade and investment climate is more stable.
- *(It is estimated that services are the largest recipients of international investment flows, accounting for just over half of global outflows in 1999, Services comprised about one fifth of worldwide trade in balance of payments terms)*

Emerging issues: Globally, regionally & nationally

- Trade in services has now expanded both in breadth—to encompass more professions and industries—and in geographical reach, made possible through business process outsourcing and offshoring practices.
- The United Nations Conference on Trade and Development (UNCTAD) (2018) suggests that the world is at the dawn of a fourth industrial revolution, propelled by frontier technologies and robotization advances that make production better, cheaper and faster than ever before.
- Services industries are experiencing a radical transformation alongside technological improvements, information technology services in particular—even emerging areas such as environmental consulting and engineering services—are increasingly contributing to developing countries' export diversification and economic development strategies.

Emerging issues regionally

- The private sector is the cornerstone of most economies on the continent.
- SMEs in particular have *an increasing potential in facilitating trade in services* and hence, the development of value chains in Africa. They represent about 90 per cent of enterprises in the region and employ about 60 per cent of the workforce (International Trade Centre, 2018).
- Emerging areas such as environmental consulting (with climate and environmental issues) and engineering services—are increasingly contributing to developing countries' export diversification and economic development strategies.

Emerging issues regionally

- The Covid-19 pandemic has exposed the continent to the fundamental deficiencies in African economies regarding infrastructural services be addressed in order to greatly enhance connectivity and develop businesses on digital networks further, the crisis is gave rise to greater attention on online supply in sectors such as retail, health, education, telecommunications and audio-visual services; and there can be opportunities for African service suppliers in these areas.
- Increasing labour mobility (Mode 4)
- New sunrise services activities in developing countries such as creative industries (music, dance, online entertainment, film, virtual internships) are on the rise.
- These activities are particularly attractive to youths and can add value to the tourism product in all African

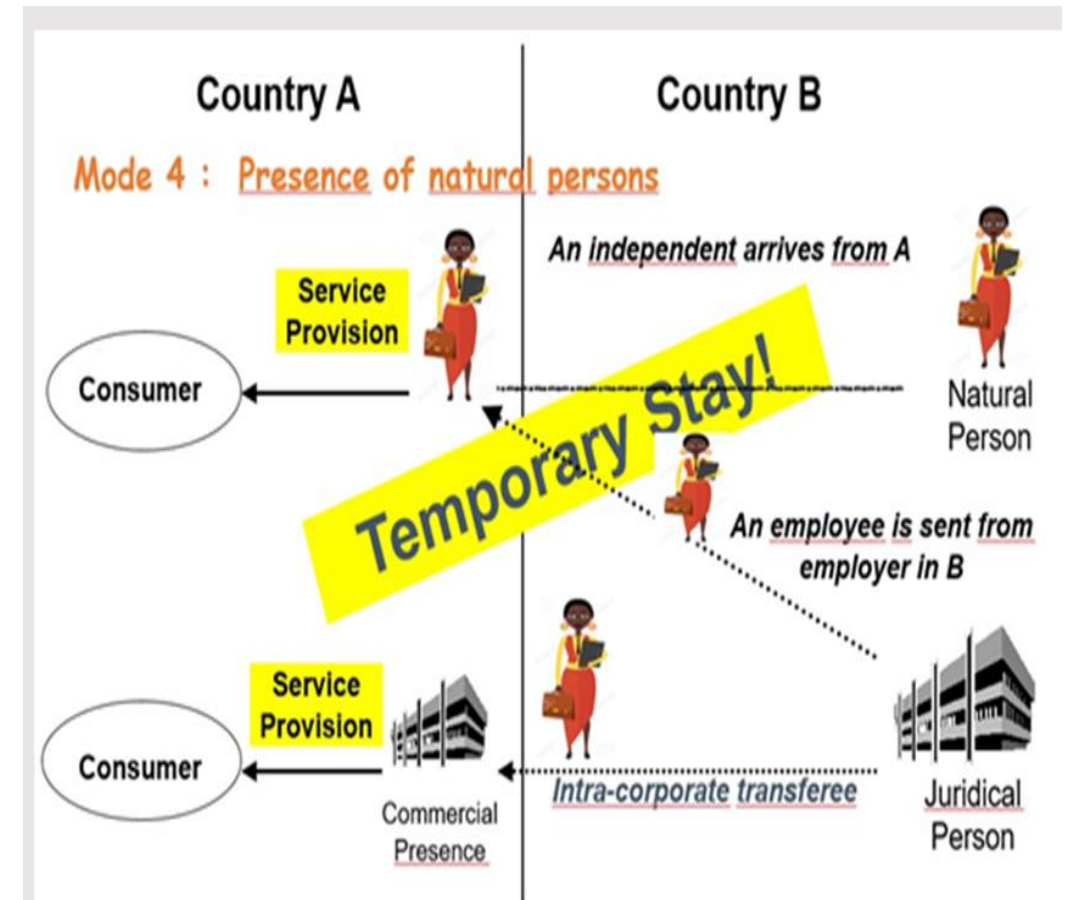
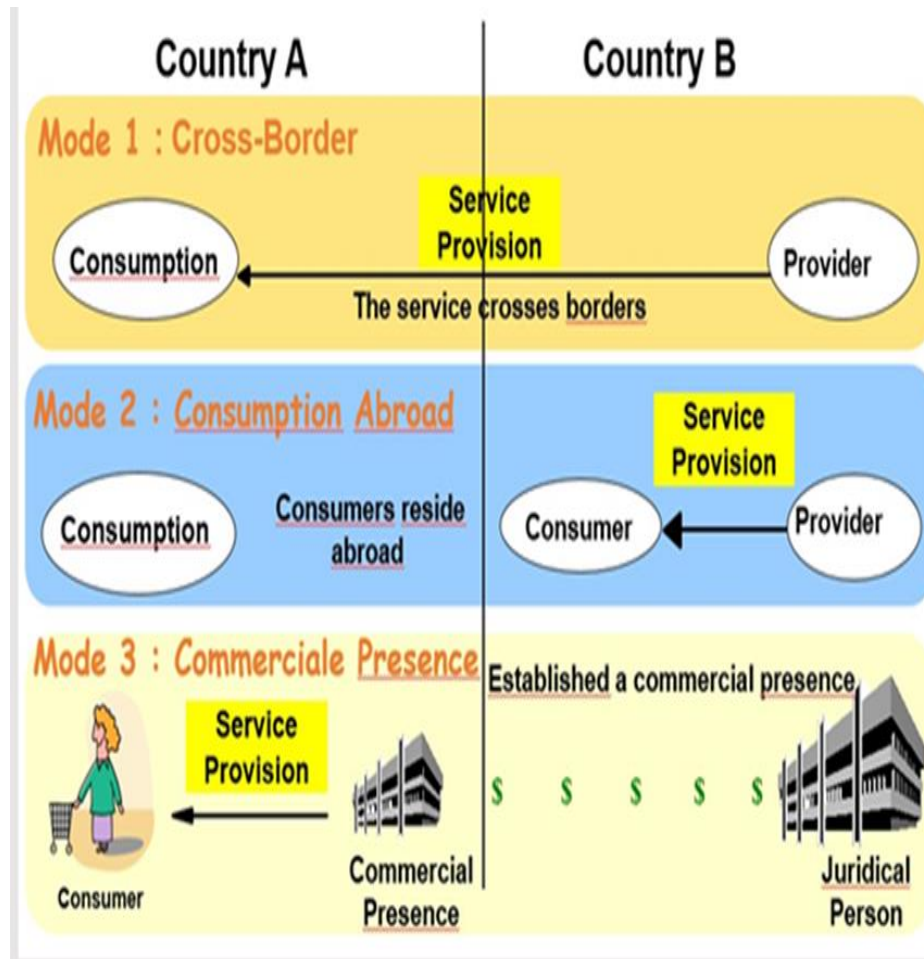
Emerging issues-Country level

- The widening gap between the wealthy and the poor and its persistence over the years, deepening economic and social challenges, including youth unemployment .
- Governance and political uncertainty to some level, as it relates to power relationships, power concentration, power imbalances and conflicts of interest within and between families, communities and the wider Eswatini.
- Digitization of trade is fast gaining momentum, as a consequence of the pandemic. It is fast paced bringing along challenges as well as opportunities.
- Increased focus on value chains approach
- Knowledge economy ambitions, increasing focus on IP Rights & Protection.




Unexplored potential

Modes of supply



Cross cutting issues

- Gender, youth, PWD and other groups – equal participation and inclusion continue to be elusive.
 - Environmental sustainability, climate change and the Green economy
 - Human rights and equal access to productive resources
 - Information, technology, innovation.
 - Data and or statistics
 - Regulatory framework
- 

Thank - you for listening!



Emerging Issues

Global Perspective

- High levels of state support and protection remain in key sectors
- Fair international competition is hindered by continuing high barriers and state support
- Agro-food products overall face higher trade barriers than industrial goods.
- Rising government support across a range of industrial sectors



Global Perspective

- Rapid internationalisation of state-owned enterprises (SOEs).
- Digitisation of Trade and e-commerce (policy options & frameworks).
- Fragmentation of global value chains (GVCs).
- Climate change.





Regional Perspective

Russia – Ukraine war, high fuel prices resulting in high transport costs.

Increasing number of global suppliers *shifting* from GVCs to RVCs.

Inadequate infrastructure, transport and logistics.

Evaluate and Re-Engineer Trade with Traditional Partners (US and EU).

African exports of goods and services have been growing in past decade, but volumes remain low at just 3% of global trade.

Diversity of AfCFTA Member States

- Need for consideration of different economic realities and degrees of economic development;
- Consideration of cultural & social dynamics;
- Different resource endowments and
- Different levels of institutional capacity & development present in Member States



**Regional
Perspective**

Regional Perspective – AfCFTA Guided Initiative

Africa imported about 85% of its food (2016-2018) from outside the continent, amounting to \$35bn and is expected to reach \$110bn by 2025.

(UNCTAD)

Vehicles.

Computers and IT products.

Pharmaceuticals.

Food.

Electronics.

Automobile Spare Parts

Clothing And Fashion Accessories

Stationery (Dubai?)

Machinery & Engineering Products

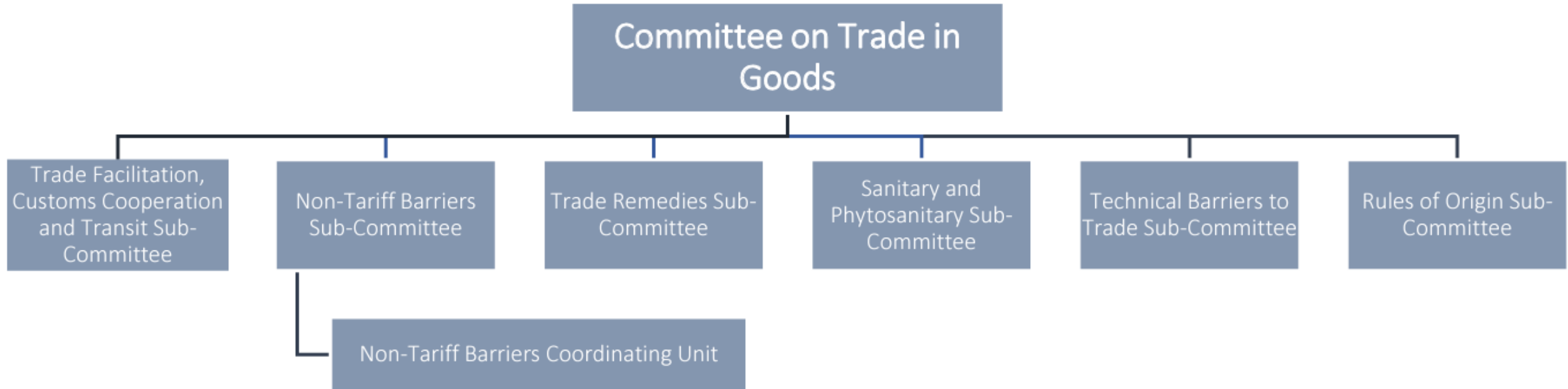
Chemicals



Regional Value Chains

- UNDP Futures Report
- Report developed with AU and AfCFTA and identifies key value chains for Africa's revolution based on country offers and tariff structures
- Value Chains identified include *Automotives; Leather and Leather Products, Cocoa; Soya; Textiles and Apparel; Pharmaceuticals; Vaccine Manufacturing; Lithium - Ion Batteries; Mobile Financial Services; and Cultural and Creative Industries.*

AfCFTA Committee on Trade in Goods





Country Perspective

Benefits of AfCFTA to Eswatini

- Firstly, domestic supply constraints are the primary factor inhibiting the accelerated growth of Eswatini's exports.
- Secondly, Eswatini has become tied to the economic structure and performance of SACU (i.e. South Africa).
- Thirdly, the bulk of exports outside of SACU are closely tied to preferences, exposing the Eswatini economy to the dangers of preference erosion and the removal of preferential access.
- Fourthly, creating economies of scale for small, landlocked economies like Eswatini.
- Lastly, AfCFTA will help resolve overlapping memberships and create certainty around Eswatini's preferences.

What are some of the constraints?

- Some constraints sector specific, and require an understanding of the unique challenges that confront producers, investors and exporters in key industries.
- But most of the constraints to competitiveness cut across all sectors and will require an ***economy-wide response*** and ***bold institutional, regulatory and policy reforms***.
- Country has put in place policies, regulations and structures in support of trade facilitation measures, but a lot need review and update.
- International Best Practice & Regional Harmonisation.



National Trade Facilitation – Institutional Arrangement





Eswatini National Trade Facilitation Committee (NTFC)

- Established in 2013 & reconfigured in 2018, approved by Cabinet & gazetted in 2019
 - To support national implementation efforts relating to WTO Agreement on Trade Facilitation (TFA)
 - Secretariat hosted by the Ministry of Commerce, Industry and Trade together with the Eswatini Revenue Authority
 - NTFC is co-chaired by the Principal Secretary of the Ministry of Commerce, Industry and Trade (MCIT), the Commissioner General of the Eswatini Revenue Authority (SRA) and the Chief Executive Officer of Business Eswatini
 - Gender: Percentage of female in the committee: Currently 5 of 26 members are women (19%).
-


Improving Trade Facilitation

- VAT Refunds vs Duty Free entry of raw materials – review VAT refund processes and consider status for firms exporting outside SACU.
- Upgrade legal & institutional framework on competition to strengthen capacity to enforce anticompetitive behavior.
- Bureaucratic and outdated processes: Fast-track eGovernment initiatives to implement single window to automate procedures for trade licenses, permits, certificates, etc.




Trade Structure


Merchandise Exports – Main Export Products

 **Scented Mixtures** 1


HS4 ID	3302
Exports Value	\$530M
Percentage	27.4%

 **Raw Sugar** 2

HS4 ID	1701
Exports Value	\$397M
Percentage	20.5%

 **Industrial Fatty Acids, Oils and Alcohols** 3


HS4 ID	3823
Exports Value	\$206M
Percentage	10.7%

 **Sawn Wood** 4


HS4 ID	4407
Exports Value	\$60.4M
Percentage	3.12%

 **Non-Knit Men's Suits** 5


HS4 ID	6203
Exports Value	\$53M
Percentage	2.74%

 **Non-Knit Women's Suits** 6


HS4 ID	6204
Exports Value	\$47.4M
Percentage	2.45%

 **Alcohol > 80% ABV** 7

HS4 ID	2207
Exports Value	\$32.3M
Percentage	1.67%

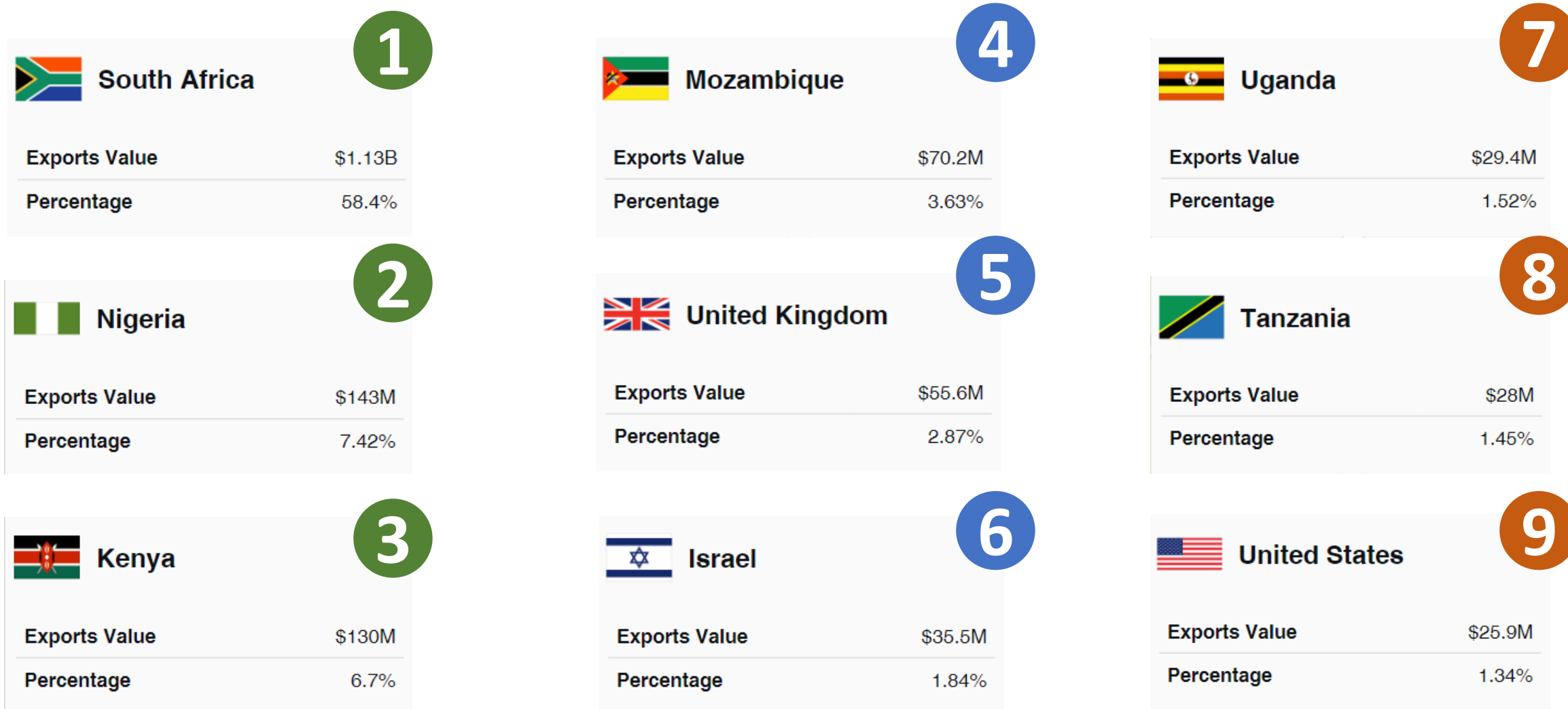
 **Cars** 8

HS4 ID	8703
Exports Value	\$26.1M
Percentage	1.35%


 **Other Sugars** 9


HS4 ID	1702
Exports Value	\$24M
Percentage	1.24%


Merchandise Exports – Main Export Markets





Merchandise Imports – Main Import Products


	Oil & Mineral Fuels	1
HS 2 ID	27	
Import Value	297,589,307	


	Elec. Machinery	4
HS 2 ID	85	
Import Value	89,663,644	


	Cereals	7
HS 2 ID	10	
Import Value	89,663,644	


	Cars	2
HS 2 ID	87	
Import Value	128,502,397	

	Plastics	5
HS 2 ID	39	
Import Value	69,889,788	

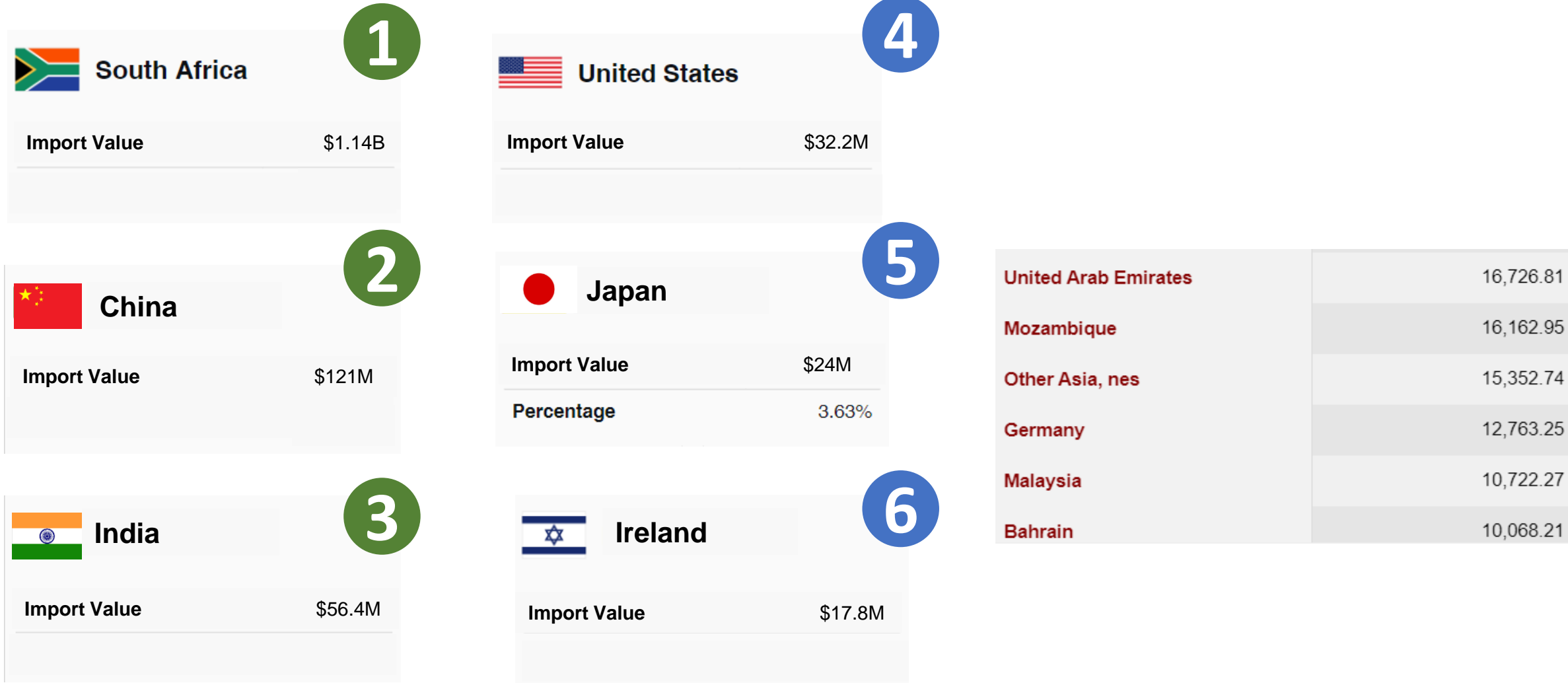
	Cosmetics	8
HS 2 ID	33	
Import Value	89,663,644	

	Elec. Machinery	3
HS 2 ID	84	
Import Value	119,561,608	

	Cotton	6
HS 2 ID	39	
Import Value	69,499,635	

	Cosmetics	9
HS 2 ID	33	
Import Value	89,663,644	

Merchandise Imports – Source Countries

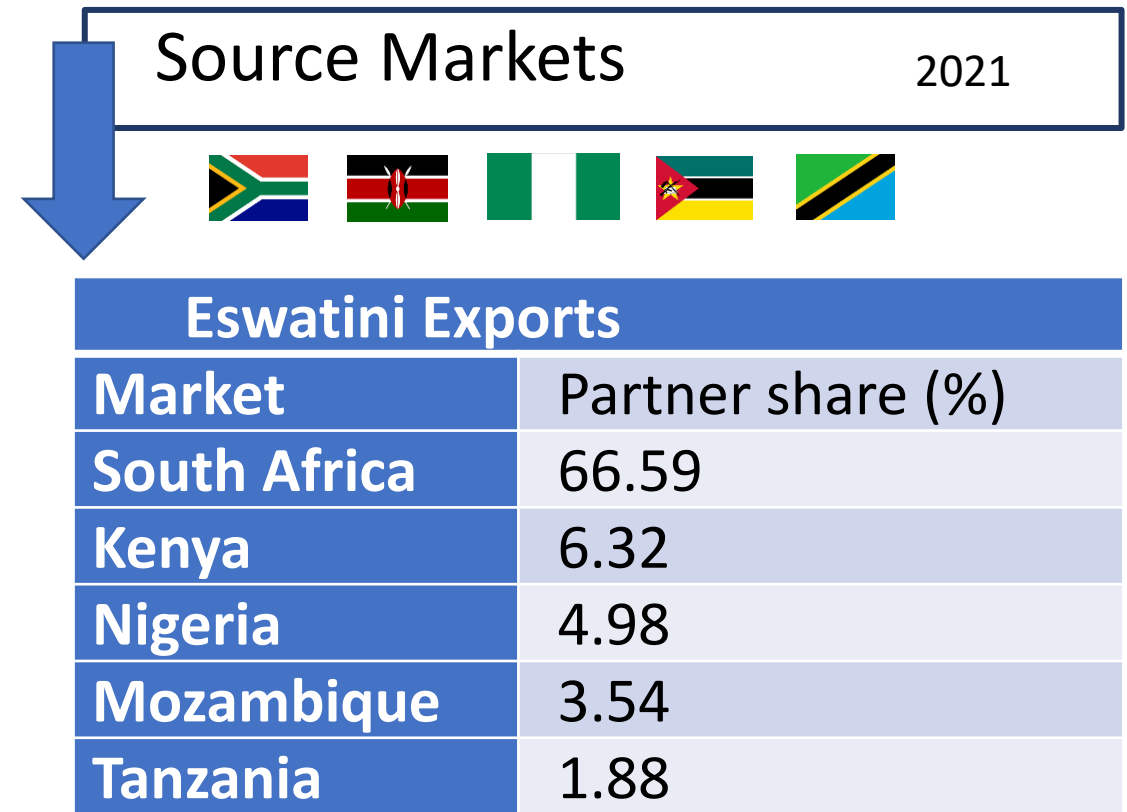
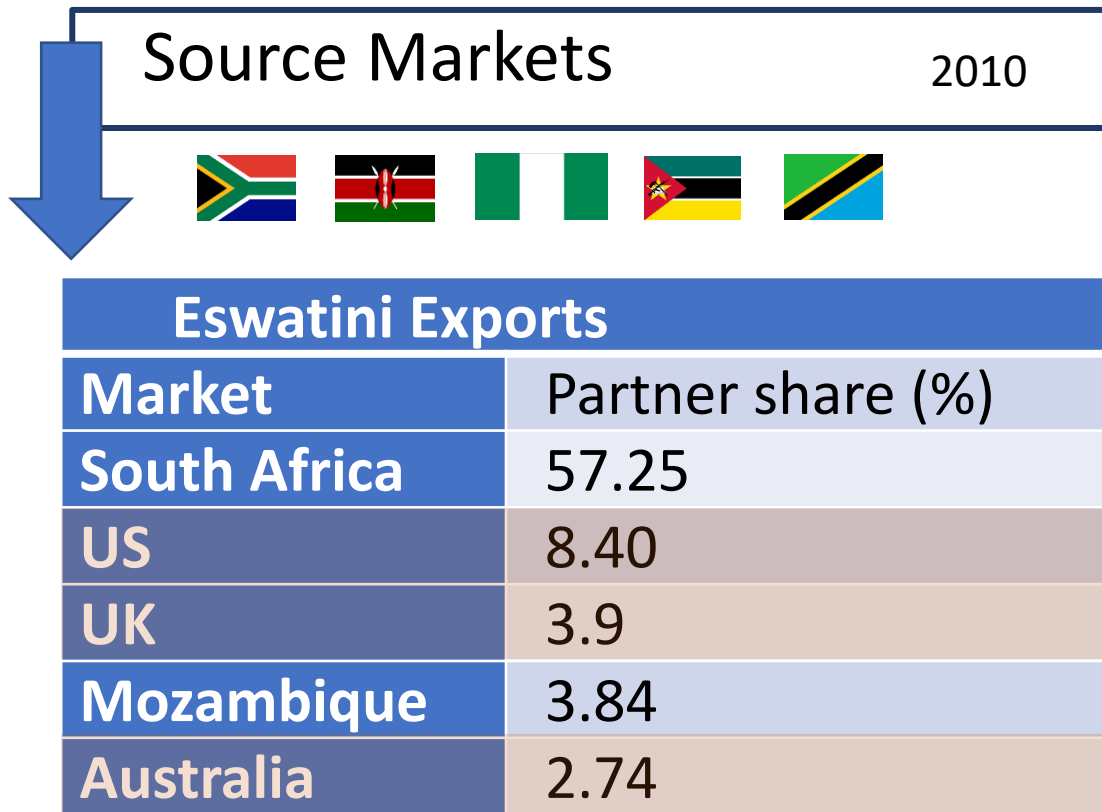


Trade Summary

Related	Last	Previous	Unit	Reference
Balance of Trade	-362.30	1179.00	SZL Million	Mar 2022
Current Account	-754.00	1533.00	SZL Million	Mar 2022
Current Account to GDP	7.40	7.00	percent of GDP	Dec 2021
Imports	7854.20	7702.90	SZL Million	Mar 2022
Exports	7491.90	8882.30	SZL Million	Mar 2022

Source: World Bank, WITS

Trade Structure: Rise in Regional Exports



Decreasing intensity of trade between Africa and its historical partners reflects the acceleration of globalization and new trade corridors in the developing South-South cooperation.

Trade Structure - Imports



Eswatini Imports	
Importer	Partner share (%)
South Africa	89.04
China	2.24
India	1.68
Other Asia	1.36
UK	0.62

Eswatini Imports	
Importer	Partner share (%)
South Africa	72.97
Kenya	6.32
Nigeria	4.98
Mozambique	3.54
Tanzania	1.88

Decreasing intensity of trade between Africa and its historical partners reflects the acceleration of globalization and new trade corridors in the developing South-South cooperation.

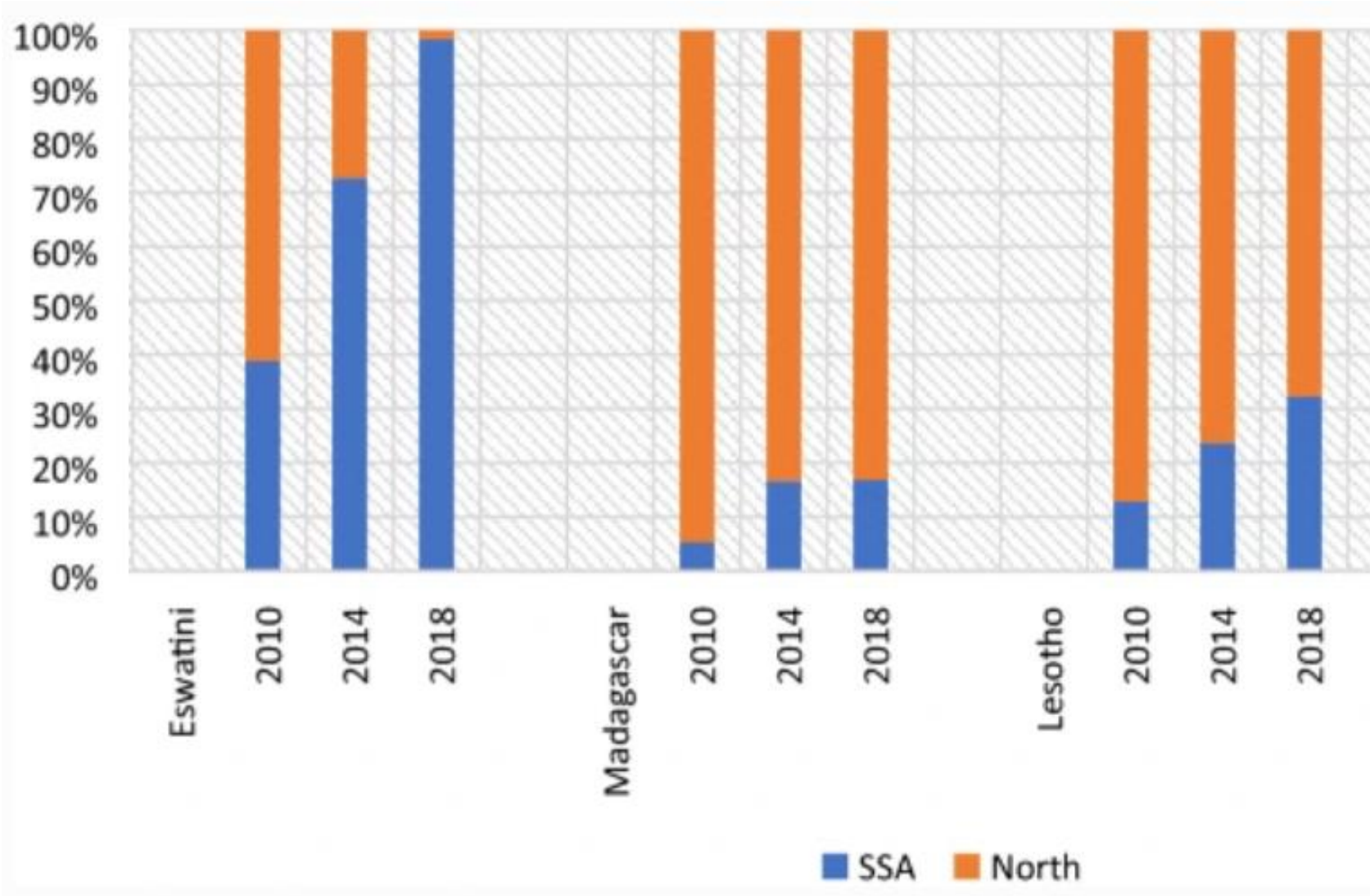


**The Eswatini
Textile Story –
Lessons for
AfCFTA**

What can we learn from Eswatini's Textile Sector?

- Initially attracted by improved market access to the US;
- Extension of 3rd country fabric provisions under AGOA spurred exports.
- Increasing pressure for Eswatini to improve on governance issues.
- Loses AGOA Status and some firms leave Eswatini.
- Most due to Diplomatic relations between Eswatini & Taiwan stayed.
- Increased emphasis on regional (SA) buyers and exports to SA.
- Slowly at first and by 2017 bulk of Textile exports to SA.
- Expansion into regional markets is possible.

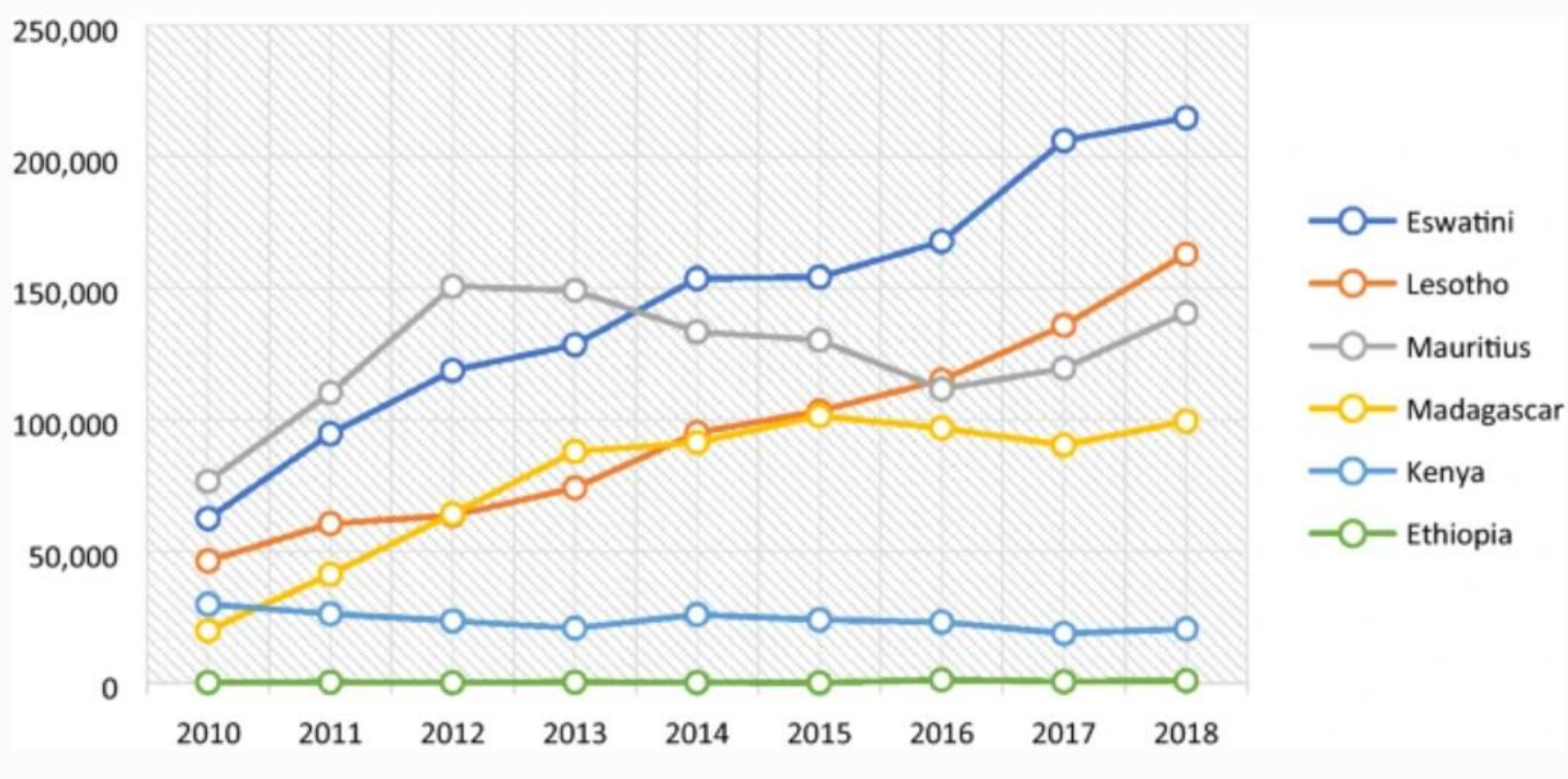
Textile Exports – Changing Markets



Exports to SSA and the North by top SSA exporting countries (share).

Source UN-COMTRADE.

Regional Textile & Clothing Exports



Exports to SSA by top SSA exporting countries - South Africa is omitted since 96.4% of its exports is constituted by re-exports

Source UN-COMTRADE.



Value Chain work in Eswatini

In supporting the country various studies focusing on value chain development have been undertaken in Eswatini covering various key value chains.

- SADC
 - COMESA
 - World Bank, CPSD
 - Economic Recovery Strategy & Action Plan
 - NPD 2023/24 – 2027/28
-



Facts

- Eswatini has a small domestic market and Eswatini producers are failing to meet demand even on basic commodities.
 - The target cannot be the small domestic market that we are currently failing to serve.
 - As a small, land-locked country, the economic and export success of Eswatini will depend on its ability to raise production and move exports and imports in and of the country as smoothly as possible.
-

Cross-Cutting Issues

Gender
Mainstreaming

Inclusion of
Youth

Climate
Change issues

Digital
Transformation

Intellectual
Property

Competition
Policy

Human Rights

Urbanisation
vs Rural
Development

END

Increasing production capacity of MSME's

- Improving access to finance.
 - supply chain financing
 - FINTECH
 - Promote guarantee schemes
 - Dedicated development finance
- Development of export readiness programme for MSME's
 - Training on exports, export requirements
 - Standards, labelling & packaging
 - International Marketing and Trade Shows
- Encourage increased value addition and export of value-added products
- Diversify export basket to expand export base and improve resilience
- Improve access to land for productive purposes, e.g., agriculture.
- Market Linkages, especially within AfCFTA