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**TRADE POLICY REVIEW**

**SWAZILAND**

**Report by the Government**

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 the Government of Swaziland is attached.

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**Note:** This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Swaziland.



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## I. INTRODUCTION

1. The Kingdom of Swaziland is situated in the southern part of Africa. It is bordered by the Republic of South Africa in the south, west and north and by the Republic of Mozambique in the east. Swaziland has an area of 17,000 square kilometres with an estimated population of 912,876 as of May 1997.

2. As a small country with a limited domestic market, Swaziland relies heavily on export-oriented industries. Consequently, the country is highly dependent on world-wide growth trends and commodity prices. During the 1980s the country saw a huge influx of foreign direct investment, especially from neighbouring South Africa, which was at the time suffering the effects of economic sanctions imposed on it. During this time, industrialization in the country reached unprecedented heights and the economic growth rate shot up to about 9.5%. In recent years however, growth has slowed down considerably and Swaziland has been experiencing huge fluctuations in the growth rate. A number of factors have contributed to this: unfavourable climatic conditions (drought); the world recession; the positive political changes in Mozambique and South Africa; and the recession in South Africa, which affected the demand for exports by that country. It should be noted that South Africa imports about 30% of Swaziland's products.

3. Since the economy is predominantly based on agriculture and therefore dependent on climatic changes, such fluctuations in growth experienced in Swaziland are to be expected. In 1993/94 the agriculture sector accounted for 9.8% of GDP at 1985 factor prices. Although in 1994/95 the manufacturing sector expanded by 4.7% compared to 0.9% the previous year, most of the manufacturing industries are agro-based. A large proportion of the manufacturing sector's value-added contribution originates from only five export-oriented industries: unbleached wood pulp; processing of soft-drink concentrate; fruit canning; refrigerators; and sugar processing. Other important industries which are agro-based include sweets and food processing.

## II. ECONOMIC PERFORMANCE IN THE 1990s

### (i) Economic Situation

4. The 1990s saw a substantial decline in economic growth with a low of 1.2% in 1992/93 and a slight recovery thereafter. Overall, GDP growth in the 1990s has averaged around 2-3%.

5. As a result of the slow-down in foreign direct investment in the 1990s, the dynamic growth of the Swazi economy has been greatly reduced. The stagnation in the contribution of manufacturing to GDP coincided with the recession in South Africa, which resulted in a low demand for exports. The recession did not only hit the southern African region but the whole international market. This resulted in a slump in most commodity prices. The domestic economy during this period was hit by a series of droughts, which resulted in low performance in the agriculture sector. Reduced production in the sectors that were heavily affected by the drought was offset by growth in other sectors such as construction, irrigated agriculture and the government sector. The situation improved slightly in 1994 as countries started coming out of the recession and world commodity prices started improving.

6. In relative terms, inflation has not been a serious problem for Swaziland. In the last five years it has averaged around 11%. This partly reflects the tight monetary policy that has been followed by the Republic of South Africa in recent years, which has a direct impact on the monetary policy in Swaziland, both being part of the Common Monetary Area.

7. In summary, the country's main economic problems have been: slow growth of the economy caused partly by the drought and the recession; high population growth; persistent increases in the public-sector deficit; and the slow-down in foreign direct investment. To this end, the Government is putting together a long-term National Development Strategy which reviews all sectors of the economy, identifies problems and tries to outline feasible long-term solutions. At the same time, the Government has embarked on an internal adjustment programme, the main element being a Public Sector Management Programme. This measure is aimed at improving the efficiency of management of public resources by directing them towards clear development objectives and priorities.

(ii) Developments and Trends in Trade

(a) Exports

8. Swaziland's export sector has continued to expand into new markets and has diversified the product base. The traditional agricultural exports of sugar, wood pulp and citrus, and exports from the mining sector have experienced slower growth than the more vibrant manufacturing and processing sectors. The current highest revenue earner is soft-drink concentrates. Receipts from these exports brought in substantial revenues as a result of the depreciation of the rand. The depreciation effects largely offset the low commodity prices experienced on the international markets.

9. Growth in the export-oriented manufacturing sector was 25% in 1996. Apart from the agro-based industries, the manufacturing sector produces refrigerators, appliances, zippers, textile fabrics, clothing, shoes and security appliances, which are all destined for consumption in either the SACU or SADC markets. The other agricultural exports, namely sugar, wood pulp and citrus are destined for the European Union and the United States under special trading arrangements. Sugar in particular, benefits in terms of favourable prices from trade with the European Union under the Lomé Convention.

(b) Imports

10. Imports to Swaziland grew at an average of 10-15% on a year-to-year basis from 1990-95. More than 85% of the imports are from South Africa, the country's major trading partner. Imports into Swaziland can be categorized as: 20% for food, beverages, animals and edible oils; 25% for chemicals, fuels and crude materials; while 55% relates to machinery and manufactured goods.

### III. TRADE POLICY FRAMEWORK

(i) Trade Policy Developments

11. Over the past five years the major developments in Swaziland's trade policy have been the unilateral lowering of tariffs agreed under the Uruguay Round, the beginning of negotiations to restructure the Southern African Customs Union, and the negotiations of the Southern African Development Community Trade Protocol.

12. Swaziland is a member of the SACU, therefore its external trade policy is governed by the common external tariff (CET). the CET is currently set by South Africa and administered by a South African statutory body - the Board of Tariffs and Trade.

13. Swaziland benefits from its membership of the Lomé Convention and from its official classification as a developing country in terms of its duty-free access to the European Union and its qualification for GSP status.

(a) Unilateral tariff reform

14. The unilateral tariff reform, implemented as part of the commitments under the Uruguay Round, is part of a SACU policy aimed at encouraging a more efficient allocation of resources, reducing anti-export bias and encouraging countries to develop in sectors in which they have a comparative advantage.

15. Swaziland is a signatory to the Cross-Boarder Initiative which encourages cross-border investment and unrestricted trade within the region.

(b) Regional integration

16. Swaziland is a member of both the SADC and COMESA.

17. Swaziland is a signatory to the SADC Trade Protocol which aims at establishing a WTO-compatible free-trade area within eight years of the entry into force of the agreement. The SADC implementation schedule is still under negotiation. Swaziland will submit a joint offer with its fellow SACU members.

18. Swaziland remains a member of COMESA, which is committed to removing all tariffs on direct trade between member States by the year 2000. Swaziland is unable to implement any tariff reductions due to its obligations under the SACU, although it can implement changes in administrative measures aimed at reducing the transaction costs of trade.

(c) Southern African Customs Union

19. In November 1994 Swaziland, along with all its customs union partners, began to renegotiate the 1969 Agreement with the aim of restructuring it to take account of the changed international trading environment and the radically changed political and economic realities within the region.

20. Swaziland supports the broad principles of reducing the number of tariff bands and narrowing the spread of tariffs and will continue to support such policies within the SACU. Swaziland also supports the phasing-out of tariff exemptions for commercial imports that are destined for the SACU market. However, the negotiations have stalled over the precise structure of a new institutional dispensation.

(d) Swaziland and preferential trade agreements

21. Foreign trade plays an important role in Swaziland's economy, accounting for a higher percentage of its GDP. Swaziland currently qualifies for preferential market access to the European Union under the Lomé IV Convention signed between the 15 European member States and 70 ACP (Africa, Caribbean and Pacific) States in 1989, as well as the Generalized System of Preferences (GSP) under which developed countries grant preferences to developing countries.

22. Swaziland will be affected by the impending free-trade agreement between the European Union and South Africa. This is expected to be finalized by mid-1998.

(ii) Domestic Laws and Regulations

(a) The Customs and Excise Act

23. The Customs and Excise Act is the instrument that enables relevant Departments and Ministries to implement the provisions of the Southern African Customs Union Agreement. The Agreement provides that South Africa determines the external tariff in consultation with the BLNS.

(b) The Cereals Control Act

24. This Act controls the purchasing, importing and production of malt, and the milling of cereals for commercial gain. It makes it a requirement for anyone wishing to engage in any of the listed activities to have a licence. Authority to grant licences rests with the Ministry for Agriculture and Co-operatives.

25. The present move in the agriculture sector is to liberalize the marketing and processing of cereals in general, and maize in particular. For instance, since the early 1990s, milling licences have been issued freely on request and a number of new millers have come into operation, thus offering consumers a wider choice in maize products.

(c) The Dairy Act

26. This Act aims at regulating and developing the dairy industry. The regulation is done through the Swaziland Dairy Board (SDB) and its main focus is advising on product prices; prescribing handling, testing and grading standards; maintenance of public health standards; provision of market information; and industry and market development. Anyone wishing to import dairy products must obtain an import permit from the Swaziland Dairy Board but permits are issued freely. The Dairy Board is a parastatal, however the Government has plans to streamline the Dairy Board into a regulatory and a commercial arm, which will be independent of each other. The intension is to provide a conducive environment for the private sector to eventually take over the commercial functions of the Board.

(d) The Citrus Board Act

27. This Act establishes the Swaziland Citrus Board, which is a body aiming at the development of the citrus industry, as well as in marketing its produce. It is the single channel Swaziland has to enforce quality and standards on all fruit exports from the country. The Board is entirely a private-sector initiative. The Government is considering reviewing this Act.

(e) The Sugar Act 1967

28. The Sugar Act established the Swaziland Sugar Association, which regulates the production, marketing and distribution of sugar. The Government regulates the price of sugar domestically. The Act is being reviewed to keep it in line with the developments and changes in regional and global markets.

(f) Draft Competition Act 1997

29. This is an act designed to promote commercial competition in the economy of Swaziland. It defines certain restrictive trade practices and prescribes ways to deal with them. It also prohibits



business acquisitions that result in market dominance. It is expected that this draft legislation will become law and start operating early in 1999.

(g) Draft Fair Trading Act

30. This draft act seeks to prohibit misleading and deceptive conduct, false representations and unfair practices in trade. It will run parallel to the competition act which is expected to enter into force at the same time as the fair trading act.

(h) The Standards and Quality Bill

31. This is a legal instrument that will establish the Swaziland Standards Authority and its various organs. The act will provide for the establishment of national standards and the certification of products and quality systems. The Standards Authority will ensure that products conform to regional and international standards and will become effective before the end of 1998.

(i) The National Agricultural Marketing Act

32. This Act aims at facilitating the production, processing, storage, transportation, distribution and sale of strategic agricultural products, such as maize and maize products; rice; wheat and wheaten products; some fresh fruit and vegetables; and poultry. Permits for these products are administered by the National Agricultural Marketing Board (NAMBoard) which normally charges a levy for them. The Government is moving towards liberalization in this area.

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