

Contents

Abbreviations	13
Summary	15
I The Removal of Trade Barriers and Changing Pattern of Trade Flows	23
1 Introduction	23
1.1 Overview of the Economy and Recent Economic Policy	24
1.2 Problem Statement, Objectives and Structure of the Analysis	32
2 Reform of Trade Policy	34
2.1 Multilateral Liberalization of Trade	34
2.1.1 Sectoral Differences of Tariff Reductions	37
2.1.2 Effective Rates of Protection	39
2.1.3 Trade-related Measures	40
2.2 Regional Integration and Bilateral Preferential Trade Agreements	41
2.2.1 Regional Integration in SADC	42
2.2.2 The Bilateral Trade Agreement with the EU	45
2.3 Conclusions on the Implications of Recent Shifts in Trade Policy for the Pattern of Trade	47
3 South Africa's Changing Position in Global Trade: Descriptive Evidence of the Evolution of Trade Flows	48
3.1 Recent Shifts in the Geographical Distribution and Composition of Trade	51
3.2 Inhibited Trade in the <i>Apartheid</i> Era	54
3.3 Indications of Increasing Trade Openness and Structural Shifts in the Post- <i>Apartheid</i> Period: Descriptive Evidence	59
3.4 Conclusions from the Descriptive Evidence	63
II The Impact of Trade Openness on the Pattern of Specialization: What Theory Predicts	65
4 Introduction	65
5 Comparative Advantage Theory: Heckscher-Ohlin and the Relative Abundance of Factors as the Main Determinant of Trade	67
5.1 The Impact of Trade Liberalization on Relative Factor Prices	70
5.2 Relaxing the Assumptions of the Heckscher-Ohlin-Model	73
5.2.1 Sector-Biased Technological Differences	73
5.2.2 Specific Factors	74
5.2.3 Complete Specialization	74
5.3 Trade Openness, Wages and the Case of a Non-Clearing Labour Market	75

5.4	More Factors, More Goods, More Countries	80
5.5	Conclusions and Implications of Comparative Advantage Theory	84
6	Scale Economies, Market Size and Distance Between Trading Partners as Determinants of Trade and Specialization	85
6.1	Economies of Scale, Monopolistic Competition, and Market Segmentation	86
6.2	Intra-Industry Trade and Vertical Specialization: The Role of Factor Endowments Again	88
6.3	Intra-Industry Trade, Trade Liberalization and the Labour Market	90
6.4	Conclusions and Implications of the New Trade Theory	91
7	Regional Trade Integration and Free Trade Arrangements: Potential Effects for the Pattern of Trade and Specialization	92
7.1	Trade Diversion, Trade Creation and Beyond	93
7.2	Different Types of Trading Blocs and Potential Implications of 'Hub-and-Spoke' Arrangements	96
7.3	The Potential of Regional Spill-Over Effects	97
7.4	Free Trade Arrangements and Regional Trade Integration: Implications of Theory	99
8	Hypotheses for the Empirical Analysis: What Theory Predicts	100
III	The Emerging Pattern of Trade: Empirical Analysis	104
9	Introduction	104
10	Quantitative Analysis I: A Gravity-Approach to South Africa's Changing Pattern of Trade	105
10.1	Background	105
10.2	Theoretical Backing of the Gravity-Approach	106
10.3	Recent Applications of the Gravity Model and Implications for the Present Analysis	107
10.4	Model Specification and Estimation	111
10.4.1	Estimation Results	114
10.4.2	Post-Trade Simulation and Predictions from the Gravity Model	119
10.4.3	Implications from the Model Estimations and Conclusions	126
11	Quantitative Analysis II: Statistical Evidence on the Evolving Pattern of Trade and Specialization in South Africa	128
11.1	The Changing Factor Intensity of South Africa's Pattern of Trade and Specialization	128
11.2	Composition and Factor Intensity of Trade with Respect to Different Trading Partners	134
11.2.1	The Composition of Trade by Broad Commodity Groups	136

11.2.2	Trade in Manufactures by Factor-Usage and Trading Partners	139
11.3	Shifts in the Pattern of Trade as Indicated by Revealed Comparative Advantage	139
11.3.1	General Approach and Findings	141
11.3.2	Revealed Comparative Advantage in Manufacturing	145
11.3.3	Conclusions and Limitations of the Approach	147
11.4	Changing Patterns of <i>Inter</i> - and <i>Intra</i> -Industry Trade	150
11.4.1	Empirical Measure and General Findings	153
11.4.2	Levels of IIT in Bilateral Trade and in a Regional Perspective	157
11.4.3	Conclusions and Implications for the Emerging Pattern of Intra-Industry Trade	159
12	The Regional Pattern of Trade and Specialization and Potential Implications of South Africa's Free Trade Agreements with SADC and the EU	159
12.1	Stylised Facts on Trade and Production in the SADC Region	159
12.2	Recent Shifts in the Regional Pattern of Trade and Specialization	160
12.3	Trade Creation, Trade Diversion, and Potential Dynamic Effects of Trade Agreements: Review of Previous Literature and Implications	163
12.4	The Role of Comparative Advantages, Scale Economies, and Implications for the Location of Industries	167
12.5	Implications of South Africa's Free Trade Agreements with SADC and the EU	169
IV	Conclusions and Policy Implications	172
13	Summary of Findings on South Africa's Emerging Pattern of Trade and Specialization	172
14	Implications of the Emerging Pattern of Specialization for the Labour Market	176
15	Policy Implications and Outlook	178
	Bibliography	181
	Annex	197