

A SACU-India Free Trade Agreement and Its Economic Impacts: A Computable General Equilibrium Approach

Introduction

Regional Trade Agreements (RTAs) have become more prevalent since the establishment of the world trade organization (WTO). As of 2026, there are 380 RTAs that are in force (WTO, 2026). The burgeoning appetite to facilitate trade within the global value chains, to liberalize and to remove non-tariff barriers (NTBs) in international trade has been the driver of the recent RTAs. The RTAs have become a resort to the delayed negotiations in the Doha development round of WTO which has not been fully finalized (Baker, 2015). The RTAs have become deeper, more extensive, broadening their scope beyond areas that the WTO's Doha development Agenda covered to incorporate investment, competition, intellectual property rights (IPR's), workers' rights and government procurement processes (Baker, 2015).

The governments of Southern African Customs Union (SACU) member States (Botswana, Lesotho, Namibia, South Africa and Eswatini) and India announced a mutual interest of preferential trade agreement (PTA) (Tralac, 2015) (Soko, 2006). The motivation for negotiation SACU-India PTA grew out of a meeting between South Africa's trade and industry minister and India's commerce and industry minister in 2000. Formal negotiations began in 2008, with signing of Memorandum of Understanding (MoU) and so far, 5 rounds of negotiations have been held. India has submitted a request list of goods to be liberalized. For SACU to consolidate its negotiations position on the request sent by India has invited economic operators to make submissions regarding their economic sectors of interest (Tralac, 2015). There was an understanding between SACU and India that these negotiations were meant for the implementation of limited tariff liberalization in goods in the initial stage with an intention to broaden the coverage and scope of the agreement into a full-blown Free Trade Area (FTA) later (Soko, 2006).

SACU aims to benefit from the agreement given India's burgeoning economy and consumer market and India's gradual declining tariff barriers (Soko, 2006). South Africa specifically, stand to gain from this trade agreement due to subsequent elimination of protectionist barriers that hinders South Africa's potential exports to India ((Soko, 2006). Even though this study predates the recent developments, the situation may have improved marginally due to growing South Africa's relationship with India through BRICS however, a study conducted by Indian Institute of foreign trade found that South Africa's exports to India face significantly more tariffs than India's exports to South Africa (Soko, 2006). From India's perspective, forging a trade agreement with SACU is a crucial part of India's policy to advance their government reforms to liberalize the Indian economy. FTAs are also important to India strategy to strengthen their exports and increase India's share of global trade (Jensen and Sandrey, 2006)(Soko, 2006).

There has been a considerable rise in bilateral trade between SACU and India over the past two decades, especially the first half where the total value of SACU exports increased from \$567 million to \$5.3 billion and increasing by 31% between 2015 and 2024. SACU mostly export mining products like mineral fuels and oils, ores, slag and ash etc., edible fruits and nuts and organic chemicals. South Africa account for a significant share of SACU's exports to India, In 2024 it accounted for 89% of total value of goods exported by SACU to India. India's exports to SACU follows the same trend, the total value of exported goods increased from \$943 million to \$5.93 billion between 2004 and 2014 and it doubled between 2015 and 2024 from \$4 billion to \$8.5 billion.

Despite long standing and prolonged negotiations towards this trade agreement, there is an insufficient and outdated empirical evidence on the economy wide effects of a potential SACU-India FTA. Existing studies were largely conducted before the recent changes in global trade dynamics, tariff structure and non-tariff measures (NTMs), therefore there is no guidance of the potential effect of liberalization.

The following section(s) will cover methodology, database, policy simulation and expected results.

Methodology

To analyze the effects of a potential FTA between SACU and India we use the standard GTAP model, a static general equilibrium model that analyses economic factors while disregarding improved technology and economies of scale over time and has become a widely used model for analyzing trade policies and economic shocks (Kitetu et al, 2023). Nyhodo (2009) describes the CGE model as a numerical model based on general equilibrium theory. In that CGE models are capable of illustrating a complete view of an economy (single country or multicountry) as the interconnected activities of economic agents (commodities, activities, endowments, households, government investments/savings, enterprises and the rest of the world) (Nyhodo, 2016). The economic agents follow a classical model assumptions where producers maximize their profits while consumers are maximizing their welfare in a perfectly competitive market (Kitetu et al, 2023).

To calibrate the effects of a possible SACU-India FTA, we use the GTAP database version 11 (with 2004, 2007, 2011, 2014 and 2017 as the base years) and has data from South Africa's supply and use table. There are 141 regions in 65 sectors and five factors of production i.e., natural resources, land, capital, skilled and unskilled labour (Hertel, 1997). For this study, the database was aggregated into 4 regions and 18 sectors. The aggregated regions are SACU, South Africa, India and the rest of the world.

Policy Simulations

The policy shocks in this study involves full liberalization between SACU and India. In the Indo-Thai FTA, India submitted a list of sensitive items to be exempted from tariff reduction, amongst other commodities the list included agricultural products, auto-cars and textile (India trade portal, 2026). In the schedule of tariff concessions submitted by SACU to the African free Continental Trade Area (AfCFTA) secretariate, vehicle, clothing and textile have been categorized as sensitive goods. Another policy simulation will cover the exclusion of sensitive products. These policy simulations will be accompanied by the reduction in NTMs. Before the simulations, the database will be updated, we will also incorporate AVE NTMs estimates.

A summary of Policy Simulations:

- Full bilateral liberalization
- Liberalization with exclusion of sensitive goods
- Full liberalization with reduction in NTMs

Expected Results

For this study, it is expected that full bilateral liberalization will benefit both SACU and India, GDP, welfare, employment and production are expected to increase. It is expected that sensitive industries e.g., Clothing and textile industry in SACU will be negatively affected by full liberalization. India's agricultural sector will also be negatively affected by full bilateral liberalization. SACU financial services and India's manufacturing sector are expected to realize significant gains from liberalization. Exclusion of sensitive industries is expected to cushion these industries from foreign competition. Lastly, reduction in NTMs is expected to further enhance GDP, welfare, employment and production increase.

References

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