WHAT CAN HONG KONG DELIVER TO SOUTH AND SOUTHERN AFRICA?

An Analytical Overview of the SAIIA Roundtable discussion

Jan Smuts House, 14 October 2005

The principal aim of the first roundtable in our pre-Hong Kong series was to assess what South and Southern Africa can realistically expect from the WTO Ministerial in Hong Kong at the end of the year. Two presentations helped to inform the discussion. This report is an analytical overview of the issues raised in the presentations and discussions with a view to clustering them, and as such is not a faithful representation of the views expressed by the presenters.

The first presentation, by SAIIA Trade Research Fellow Peter Draper, centred on South Africa's overall trade strategy, and what it would like to see happen in Hong Kong. **South Africa** is pushing forcefully for rapid and effective *liberalisation of agricultural trade*. This is the most heavily protected—and thus distorted—sector in global trade, and its liberalisation holds many (long-term) positives for impoverished African countries.

South Africa is a competitive commercial farming nation, and is a member of the Cairns Group and the G20. The latter is a recently-formed developing country coalition seeking the elimination of export subsidies including disciplines on food aid; greatly reduced domestic support payments subject to tighter disciplines; and reductions of import duties. Contrary to conventional wisdom South Africa has some emerging defensive agricultural concerns centered on an emerging class of black farmers associated with its land reform process.

Non-agricultural market access (NAMA) negotiations represent another vital component of the negotiations. Here South Africa's position is more subtle. It has substantial defensive concerns in light manufacturing activities such as clothing, textiles, and autos, but strong offensive interests in heavy chemicals, basic iron and steel, and other resource-intensive manufactures. The 'targets' in this instance are not necessarily the developed countries, whose tariffs and other trade barriers are generally very low. It is large, relatively protected developing economies such as India and Brazil where the biggest market access gains would be seen. However, the actual tariffs applied by many developing countries are lower than their bound tariffs as reflected in their schedules of commitments in the WTO. As such even if Hong Kong results in reductions of tariffs in NAMA these are unlikely to be substantial enough to lower applied tariffs.

South Africa is most defensive on *services trade*. This might be due to an underdeveloped set of positions in all forms of trade negotiations, bilateral, regional or in the WTO, but may also be due to the fact that in financial services, for example, South Africa's market is more or less entirely open. Furthermore, the economy would no doubt benefit from increased foreign competition in telecommunications and transport (particularly air). And last, there are substantial offensive interests that are largely being ignored, particularly in Africa. Services trade is not part of the SADC Trade Protocol, nor does the Southern African Customs Union cover them. The WTO is currently South Africa's only means of opening these markets.

Of the four *Singapore Issues* raised at the 1996 Singapore Ministerial, South Africa is clearly in favour of trade facilitation. It is neutral on, or opposed to, the other three, namely trade and investment, trade and competition, and transparency in government procurement.

The second presentation, by Shehnilla Mohammed, Oxfam GB South Africa's Regional Media and Advocacy Co-ordinator, focused on **Southern Africa's interests**. A key question is what should be done to ensure a tangible success for African countries in Hong Kong. As was pointed out, many African countries already enjoy substantial market access in the EU and the US. Yet none seem able to take advantage; in instances where quota restrictions do apply, they are not filled. Taiwan and Hong Kong were famous for buying up some of Africa's quotas in US and European markets for clothing exports.

Africa's problems in world trade are therefore linked more closely to weak economies, supply-side constraints (including physical capital and infrastructure, and human capital), poor governance and weak public institutions, and so on. As such, Hong Kong and the broader WTO process must not be viewed as either a cause of all of Africa's problems, or as a potential panacea. It is but one (small) part of a terribly complex problem, and one whose solutions lie at home more than anywhere.

Southern Africa, perhaps much more so than South Africa, needs the developed world to liberalise *agricultural trade* as this is the region's principle comparative advantage. Yet there are significant complexities involved. First, for most Southern African countries, market access is not the issue. A number of unilateral initiatives implemented by the US and EU already guarantee if not free, then substantially better access to African producers than other developing countries. This preferential access will be eroded if the market access component of the agriculture negotiations progresses.

For Southern Africa, domestic support measures and export subsidies are the most important. These depress world prices to the point where many African farmers simply cannot compete. And such has been the case for so long now that significant changes will bring significant pain to many poor countries (not just in Africa). For if subsidies are cut substantially, world prices for many agricultural commodities will rise. This is good for developing country farmers, but bad for (poor) consumers, and may cripple net-food importing countries. As such movement here must be coupled with adjustment assistance to the less competitive developing countries in Africa and elsewhere.

On *NAMA* much less can be said. From the narrow mercantilist standpoint of the WTO Southern African economies are generally much less competitive than South Africa in manufacturing, and thus generally much more defensive. Therefore one view is that these countries have good reasons to push for generous special and differential treatment in the DDA, and would do well to exempt themselves from any reduction commitments. A different view holds that from a trade policy and consumer welfare perspective they would do well to liberalize their tariff regimes unilaterally as import substitution policies in the context of tiny domestic markets make little sense.

Southern African countries have ill-defined positions on *services* trade. The generic response is negative and protectionist. Again this has much to do with a lack of bureaucratic capacity that could be directed to understanding better the nature and dynamics of international services trade and the negotiations surrounding it. From an outsider's viewpoint, it seems clear that Southern African countries would benefit from services liberalisation, at least in core infrastructure and commercial activities (social services are another matter entirely). Allowing more efficient financial service providers and construction companies, for example, to help develop the basic business infrastructure would go a long way to aiding development, and could represent a genuine "development outcome" in this Round.

It is therefore fairly clear that South and Southern Africa's interests, seen within the narrow mercantilist prism of the trade negotiator, are not the same. Yet South Africa is easily Southern Africa's loudest and most well-equipped negotiator in the WTO. It is also an important member of the G20, which represents Southern Africa's best shot at a balanced liberalisation of agriculture. In general, *Southern African countries must leverage South Africa's well-known ability to "punch above its weight*". This may require some compromise, but if Hong Kong is to deliver anything, such sacrifices must be made.

Southern Africa also has much common with the large group of poor countries collectively known as the G90. Given its membership *the G90* is understandably not a powerful offensive negotiating force, choosing rather to react where necessary and protect preferences and concessions as much as possible. However it is a large coalition in a consensus based process, and in that sense holds some bargaining chips. This must be leveraged to ensure that the DDA remains on track to deliver truly developmental outcomes. There is however always the danger that too much blocking will lead to impasse, causing the Ministerial to fall apart as it did in Seattle and Cancun.

That is not to say that just any outcome is better than none. But two things must be realised. The WTO remains the best and most effective forum for voicing Southern Africa's (and Africa's) concerns about the current state of the international trading system. Rules written on a bilateral basis will almost certainly be more detrimental.

But the relevance of the WTO depends on its ability to move multilateral trade liberalisation forward. Delays and failed Ministerials clearly do not help in that regard. And the whole process could be stopped in its tracks if the United States' Trade Promotion Authority expires in 2007. Hence a deal of some sort, even if it is just a detailed framework for completing the modalities, is needed now, in this Round. The

Hong Kong Ministerial must therefore deliver something of use that keeps the process on track to conclude at the end of 2006.