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South Africa's Trade Preferences Under Threat

The Generalised System of Preferences (GSP) affords exporters in selected developing countries preferential (duty-free) access to developed country markets for a wide array of products. First implemented by 19 developed countries during the late 1970s, the scheme is intended to aid the development of exporting industries, and hence economic growth, in poorer, less competitive countries.

It is implemented unilaterally by preference-giving countries—no commitments made are legally binding. Therefore, the GSP, and who qualifies for it, can be altered or reviewed by the preference-giver at any time. The United States, South Africa's second most important export market, is currently reviewing its GSP programme, up for renewal (or expiration, depending on the country) at the end of this year. South Africa and 12 other developing countries have been identified for 'graduation' out of the programme.

In 2005, 133 countries benefited from the US's GSP programme, which currently covers about 3,450 products, but excludes almost all textile and apparel products. Nevertheless, in 2005, the US imported over $26bn under the GSP programme.

Qualification for the US GSP is subject to a mix of economic and other criteria. Included amongst the latter is whether or not the candidate country adequately protects labour standards and intellectual property rights. South Africa is not at risk on either of these points. But in this review, the following three economic criteria are also being used to decide which countries should graduate from the scheme:

- exports to the US under the programme have exceeded $100m in 2005, and
- the country is classified by the World Bank as upper middle-income, or
- their total exports exceeded 0.25% of all global exports in 2005, according to WTO statistics.

Countries meeting these criteria are Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey and Venezuela. By the beginning of 2007, they may all be joining Hong Kong, South Korea, and other developing countries that have graduated in years gone by.

What has motivated this move? What might it portend for the stalled US-SACU FTA negotiations? And does South Africa's graduation represent a significant threat to our economic interests? After all, some have argued that the 'revocation of benefits is likely to have a serious detrimental development impact on the review countries, and particularly on vulnerable populations within them, such as women and low-skilled workers.'[a]

The US Congress's central argument in favour of graduating these 13 countries is that they grab the lion's share of benefits from GSP trade, reducing the benefits on offer to a larger number of poorer countries. According to US Trade Representative Susan Schwab, 'Our goal is for more countries to benefit from the program and use trade in support of their economic development.'[b] The US also argues a more general point: that the GSP, which has not been subject to a substantial review for 20 years, no longer reflects important new global realities.

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However, powerful figures in Congress have suggested there may be additional considerations behind the proposed move. For example, Senator Charles Grassley, chair of the Senate Finance Committee, which would have jurisdiction over any GSP-related legislation, has questioned why the US should continue to treat favourably countries that have actively resisted US initiatives in the current Doha Round of WTO negotiations.

Arguments *against* graduating these 13 countries are manifold; we focus narrowly on whether or not doing so would a) in fact benefit

INSIDE

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All amounts are in US$ unless otherwise stated.
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SA's Trade Preferences... from pg 1

a larger number of poorer countries, as suggested by the USTR; and b) have no negative consequences for the graduates, as is implied by the proposed action.

Concerning the latter, it is highly likely that the 13 countries mentioned above will suffer market share losses in the US should they have to face MFN tariffs. In some cases the losses could be substantial. India in 2005 exported to the US more than $4.2bn under the GSP. The corresponding figures for Brazil, Thailand, and Indonesia were $3.6bn, $3.6bn, and $1.6bn, respectively.[c] Despite being awarded GSP benefits only in 2003, by 2005 they already accounted for about 15% (about US$700m) of South Africa's total exports to the US.[d e]

Should poorer countries not be afforded these benefits too? The answer is surely yes, but bringing that about need not necessarily require penalising these countries. This is because the GSP programme's own limitations are the *real* impediments to broader use by more developing countries.[f] The reason why poorer countries export very little to the US under the GSP is not because bigger developing countries get there first. Rather, it is because the GSP does not cover many of the products that are the major exports of less developed countries. The prime example is textiles and clothing. By simply expanding its coverage, more GSP benefits could easily be delivered to least developed countries *as well as* those countries already benefiting.

Furthermore, research shows that the countries most likely to benefit from the removal of preferences for the 13 developing countries mentioned above are not poor, least developed countries, but other large developing countries and developed, industrialised countries. South Africa is a good example. South Africa's top GSP export to the US is a specific set of aluminium alloy products. The nine other biggest suppliers to the US of those products are Canada, Germany, Russia, Greece, Indonesia, Brazil, Romania, China, and Austria. The list of alternative suppliers for most of the other countries and products reads similarly.[g]

Switching tacks, one must ask how the threat of losing GSP benefits might affect South Africa's thinking on the stalled US-SACU Free Trade Agreement negotiations. These talks broke down over substantive differences between the two parties on a range of important issues. Nevertheless, one of the primary arguments in favour of pursuing an FTA with the US is that it offers the opportunity to bind, in a set of legally enforceable contracts, the market access South Africa currently enjoys (under the GSP and AGOA). Indeed, it offers the opportunity to *improve* on that access, as well as address certain other problems identified in the two preference schemes, such as restrictive rules of origin. The risk that the US would ever revoke some of the preferential market access it has afforded South Africa has turned out to be much larger and more imminent than ever imagined.

In conclusion, the prospective 'graduates', South Africa included, have reason to be concerned with the US's intentions in this review of its GSP programme. The preferential market access afforded by this scheme amounts to billions of dollars of annual export earnings, which most of these countries could ill afford to lose, even if only partially. However, given the weaknesses in the US's arguments, there seems ample ground for resistance to the proposal. Come 31 December 2006, will economic logic have prevailed?

Endnotes

[a] Joint submission to the US Trade Representative by the Carnegie Endowment for International Peace; the German Marshall Fund of the United States; Oxfam America; and the Women's Edge Coalition. See http://www.carnegieendowment.org/files/USTR_Comments.pdf.

[b] US Trade Representative Susan Schwab, quoted in "U.S. Orders Review of Trade Preferences to Benefit More Countries," US State Department International Information Programme, 8 August 2006. See http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2006&m=August&x=20060808165332SAikceinawz0.7043421.

[c] *Ibid.*

[d] Netshitomboni N, Stevens C, and Kennan J, (2005), "Identifying export opportunities for SACU in the US Market", SAIIA Trade Policy Report No. 9, pg. 3.

[e] A similar programme, the African Growth and Opportunity Act (AGOA), is also important to South Africa, as it allows a further 22% or so of South Africa's exports to the US to enter duty free.

[f] Joint submission to the US Trade Representative by the Carnegie Endowment for International Peace; the German Marshall Fund of the United States; Oxfam America; and the Women's Edge Coalition, pg. 3.

[g] *Ibid.*

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Putin's Safari: Better late than never?

The state visit of President Vladimir Putin of the Russian Federation to Africa, and South Africa in particular on 5 and 6 September 2006, the first ever by a Russian head of state, marked the start of a new phase in relations between Russia and Africa.

A combination of Russia's more confident role as a re-emerging superpower with the global responsibilities that entails and, like China, a realisation of the importance of Africa as a source of the resources – the minerals it needs – motivate this new interest in Africa.

With its aspiration to occupy a permanent UN Security Council seat, if and when one is created for Africa, its forthcoming non-permanent seat on the UN Security Council, its already established role as speaking for Africa at forums such as the G8 that Russia chairs at present, its membership with Brazil and India of the IBSA Dialogue Forum, its promotion of the African Agenda, and its active role in issues of global governance, South Africa has been identified by Russia as a country with which it should be building a closer relationship, a strong strategic partnership.

The positive political atmosphere that the visit generated also creates opportunities and the framework for strengthening the business and investment ties between the two countries and their respective regions. Putin himself characterised the visit as a business trip.

Russia today

Under Putin, Russia is once again a major world power, thanks mainly to its huge reserves of oil and natural gas and strategic and precious minerals. Exports of these have enabled it to pay off its apparently unmanageable foreign debt and made a few of its citizens extremely

Continued on pg 3

South African Foreign POLICY MONITOR

Putin's Safari... from pg 2

rich. Its growing economic clout has given it increasing influence in world affairs. Putin has curbed the lawlessness in the Russian economy and society and though some worry that his measures threaten Russia's democracy, Russia today is more prosperous and more free than it has ever been in its entire history and more law-abiding than it has been for at least 20 years. Russian markets and banking are now strictly regulated and its tax regime has been simplified and made more transparent. Russian membership of the World Trade Organisation will further regulate its economic and trade structures and bring them into line with international best practice. Since 2000, Russia has seen a massive inflow of foreign investment and a property boom.

"The positive political atmosphere the visit generated creates the framework for strengthening the business and investment ties."

South Africa's relations with Russia

Meanwhile, South Africa – a very different country from Russia in almost every way – is also enjoying more political and economic stability and although both countries have many problems to overcome, they are ready to move into a new phase.

Before 1990, the USSR was probably the ANC and SACP's most important foreign supporter and sponsor. The USSR was a major player in Africa, which was a sphere of confrontation between Soviet and Western interests, but there were no official relations between the apartheid government of South Africa and the Soviet Union from 1956 to 1992.

In the past few years, relations between the South African and Russian governments have become much warmer and more active. However, while former president Nelson Mandela visited Russia shortly before retiring from office and President Mbeki has been there on more than one occasion, Putin is the first Russian president to come to South Africa. Ministerial and inter-governmental visits in both directions have become common and agreements on cooperation have set the scene for closer cooperation in many fields. The Joint Inter-Governmental Commission on Trade and Economic Cooperation (ITEC) meets regularly, either in Russia or in South Africa.

Inter-governmental agreements facilitate trade and investment and in 2003, Russia accorded South Africa preferential trade status, reducing its import tariffs by 25%.

Business relations

Apart from the big South African minerals players like De Beers, there was until relatively recently minimal interest from South African business in Russia. One exception was Standard Bank, which opened a representative office in Moscow in 1995 and has conducted full investment banking operations in Russia since 2003.

South African companies, some registered in other countries, are, however, now well represented in Russia. The two companies that immediately spring to mind are Bateman and Barloworld. Barloworld holds the Caterpillar franchise in Siberia, while Bateman provides engineering services to the mining and oil and gas industries. But they are not the only ones. SABMiller, Anglo Plats, Anglo American Corporation, SAPPI, Mondi, and perhaps more surprisingly, Protea Hotels and Sun International, already have a presence in Russia. CapeSpan's largest market worldwide is in Russia and the CIS.

Until now few Russian businesses were seriously interested in South Africa, or Africa as a whole.

Russia's Vneshekonombank, which specialises in providing financial support for intergovernmental agreements on large-scale infrastructure projects, opened an office in South Africa in 2000. It is the only Russian bank with an office in Africa.

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In 2005, Viktor Vekselberg, chairman of Renova and reputed to be Russia's fourth richest man, in a significant development, became a member of President Mbeki's International Investment Forum (IIF). The SA government has been a warm supporter of Vekselberg's pursuit of investment opportunities in SA and elsewhere in Africa.

There has been significant activity in Russian mineral acquisitions in South and southern Africa since 2000, especially in manganese and vanadium, both of which are used in steel making. Vekselberg's Renova Investments opened a Johannesburg office 2004 with a BEE partner, Pitsa ya Setshaba. Renova controls the SUAL Group, Russia's second largest Russian aluminium producer, which is headed by Brian Gilbertson (ex-Billiton). It also owns gold mines, aluminium smelters, alumina refineries and bauxite mines in Russia.

Renova has earmarked more than R1 billion for investments in southern Africa and is also actively pursuing manganese interests, most spectacularly a 49% share in United Manganese of Kalahari (UMK), which is exploring the world's largest manganese deposit in the Northern Cape. This deposit could produce two million tonnes a year and a ferro-alloy plant could be built to process the ore in situ. Renova is looking at other African possibilities further from its Johannesburg offices as far afield as Gabon, for PGMs, uranium and manganese.

Another long-running story is the possible purchase of Anglo American's 79% interest in Highveld Steel and Vanadium by Evraz (Russia's leading steel producer) for $678 million.

The balance of trade is greatly in South Africa's favour and the single most important export group is vegetable products, including fruit, which constitute over a quarter of total trade. SA exports to Russia grew in value from R254,000 in 1993 to R599 million in 2003. Russian exports to SA have not done so well. One of Russia's main exports, after energy, is armaments, but Russian concerns failed to tender successfully for any of South Africa's arms requirements.

Future prospects

Although political relations between Russia and South Africa are not a top priority for either side, they are set to become warmer, especially since in the global arena, both countries lie to play leading roles that demonstrably are not subservient to western interests. However,

Continued on pg 4

Putin's Safari... from page 3

it is in trade and investment that their relationship is likely to be the most active.

Two-way trade

South Africa maintains a surplus in trade with Russia and should focus on developing those areas of its exports which have been the most successful, namely vegetable products, machinery and electrical equipment and base metals and articles thereof. These three categories at present constitute 80% of its exports to Russia and have all shown positive growth since 1994.

Minerals

Russia almost certainly sees South Africa and Namibia (minerals) and Angola (oil and minerals) as the key Sub-Saharan countries. Russia will continue to depend on ferromanganese imports for its huge steel-making enterprises. Evraz (see above) is Russia's principal steel-maker. Owned by Vekselberg's former partner Alexander Abramov, Evraz is estimated to need 2.7 million tonnes of manganese for its steel-making – and there are other major Russian producers also looking for sources. Vanadium is also needed for steel and for the aerospace industry. South African reserves are large, and SA produced 42% of the world's total production.

Russian oil and gas for SA?

SA is highly dependent on OPEC for exports (78% in 2003), with Saudi Arabia and Iran (64%) as its leading suppliers. Nigeria supplies 16%. In 2005, DTI data show that Russia ranked only 35th as a supplier to South Africa of mineral fuels and other oil products, which made up only 0.06% of South Africa's requirements.

Areas of potential cooperation

Russian enterprises are clearly interested in using South Africa as a base from which to do business and invest in other countries in southern Africa or further afield in the continent. South Africans with experience and contacts in Africa could do worse than explore developing joint ventures with their Russian counterparts in the continent, in particular, in Namibia and Angola. Russia's main interests in the region are in diamonds, offshore oil, possibly uranium and in the construction of gas pipelines, as well as in sources of base and precious metals. Russia will become an increasingly important business and investment player in southern Africa and further into Africa. There are already examples of cooperation, such as PetroSA's 10% stake in Namibian oil/gas exploration venture alongside Russia's Sintezneftegaz. Angola, where LUKoil (Russia's largest producer and exporter) is negotiating concessions, is another potentially fruitful field for joint ventures.

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Other possibilities for cooperation include:

- Aid and infrastructure development in Africa from a South African base, e.g. air transport, especially helicopters.
- Co-operation in astronomy, science and technology.
- Tourism in both directions. Luxury safaris are being sold in Russia and there is some potential for attracting the growing Russian mass-tourist market. South Africans are travelling to Russia in considerable numbers.
- Cultural – music, ballet, sport exchanges

There is clearly considerable potential for Russian-South African trade and an increasing keenness on the part of both governments to encourage this. While the investment flow has until recently been almost exclusively from South Africa into Russia and other CIS countries, Russian enterprises are likely to commit substantial resources to South and southern Africa in the years ahead and this will benefit the region's economy and its enterprises.

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Achievements of the visit

The atmosphere in which the state visit took place was very positive. The speech by President Mbeki at the dinner in honour of his Russian guest reflects this, almost to the point of obsequiousness.

The official delegation was accompanied by a large delegation of key Russian business leaders who signed a series of agreements with their South African partners under the approving gaze of the two heads of state. One of the most important contracts signed concerns the provision of nuclear fuel for South Africa's nuclear power plants to 2010.

Several intergovernmental agreements were also signed:

- Treaty of Friendship and Partnership between the Government of the Republic of South Africa and the Government of the Russian Federation;
- Agreement on Cooperation in the Exploration and Use of Outer Space for Peaceful Purposes;
- Agreement on the Continued Airworthiness between the Civil Aviation Authorities of the Republic of South Africa and the Russian Federation;
- Agreement on Co-operation in the Field of Health Care and Medical Sciences;
- Agreement between South Africa and the Russian Federation on Cooperation in the Sphere of Water Resources and Forestry;
- Agreement on the Reciprocal Protection of Intellectual Property Rights related to Defence-Industrial Cooperation; and
- Protocol on Cooperation in the Fields of Arts and Culture between the Governments of the Republic of South Africa and the Russian Federation.

Political endorsement having been given and the legal structures put in place, it is now for officials, parastatals and business people, on both sides to ensure that practical effect and content are given to the various agreements signed.

Success will be measured in the years ahead largely by the growth of trade and investment, as reflected in the statistics produced by both parties.

Sara Pienaar and Tom Wheeler, with additional material by Elizabeth Sidiropoulos and Phil Alves