

SOUTH AFRICA AND THE WTO

Development Through Trade Project

South African Institute of International
Affairs



The South African Institute of International Affairs

"South Africa's window on the world"

OVERVIEW

- A. Economic Policy Foundations
- B. South Africa's Trade Interests
- C. South Africa and the WTO

A. Economic Policy Foundations

1. Domestic Challenges
2. Post 1994 Economic Policy Thrust
3. Industrial Strategy
4. SACU - Global Integration Platform

1. Domestic Challenges

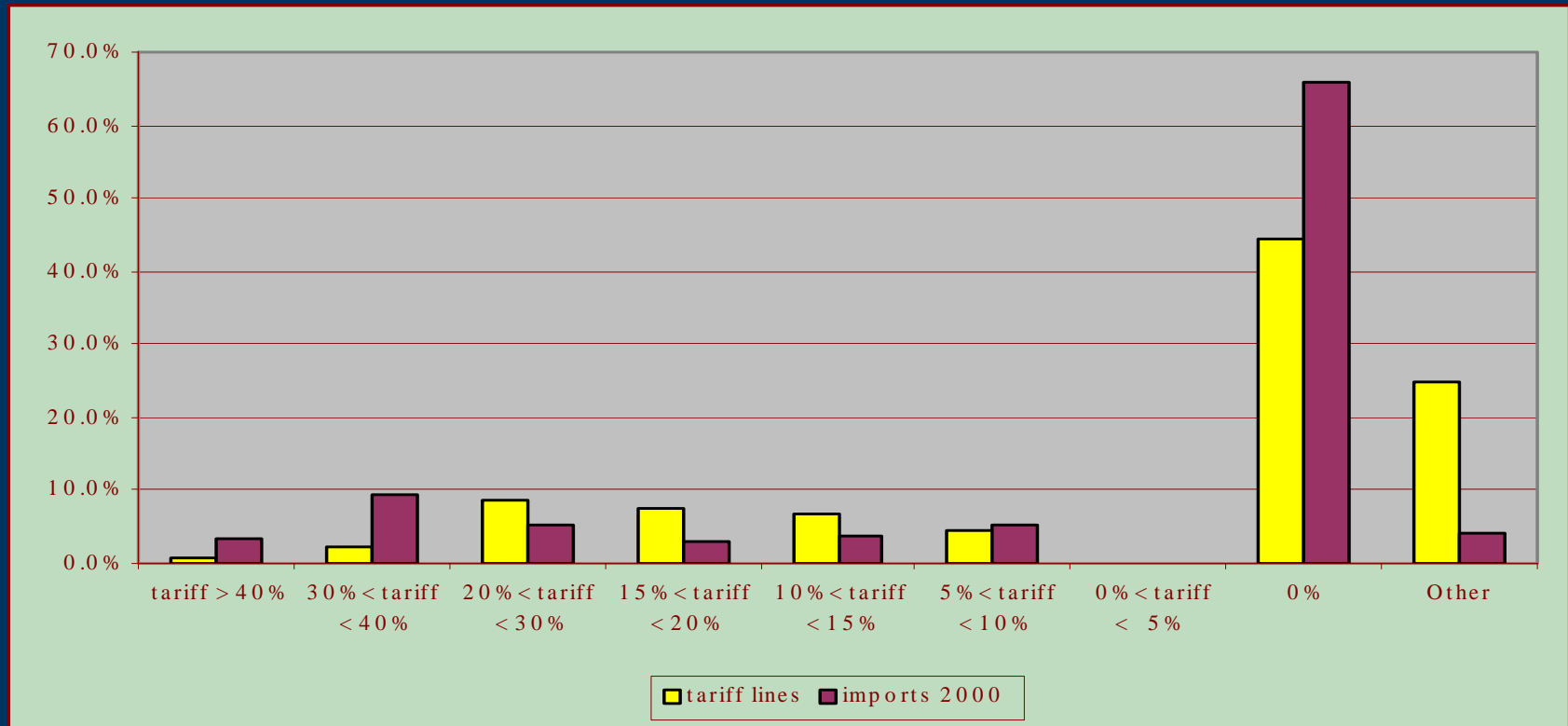
1. “Typical” middle income economy
 - i. Resource-based manufacturing still dominant
 - ii. Some diversification evident in recent years – largely owing to trade liberalisation?
2. Growth path insufficient to absorb surplus labour
 - i. High unemployment rate
 - ii. Historical dependence on capital inflows
 - iii. But these have been insufficient for three decades now
 - iv. Domestic investment is the key, but has been slow
3. Apartheid legacy very much in evidence
 - i. Education system
 - ii. Income inequalities (“two nations”)

2. Post 1994 Economic Policy Thrust

1. Financial Sector:
 - a. Substantial financial sector liberalization
 - b. Combined with orthodox macroeconomic policy
 - c. And tax reductions with reorganization of the revenue base
 - d. Successful macroeconomic stabilisation has set the stage for growth and further liberalization
2. Trade
 - a. Post-1994 substantial tariff reductions, rationalization and quota abolition owing to Uruguay round commitments
 - b. Wholesale reorganization and liberalization of system of agricultural protection
 - c. But tariff regime remains complex with a number of peaks
3. Foreign policy: "walking on two legs"
 - a. The North
 - b. The South
 - c. But also strong emphasis on multilateralism
 - d. And regional integration

Tariff Schedule & Imports, 2000

Tariff lines (July 2000) and corresponding import values (2000).



Source: TIPS (www.tips.org.za)



...Post 1994 Economic Policy Thrust

4. Privatization and deregulation
 - a. Initial focus on privatization shifted now to active reorganization of state-owned enterprises to deliver on cost reduction agenda
 - b. Labour market regulation tightened and strong unions defend this
 - c. "Black economic empowerment", whilst socially and politically necessary is introducing more labour-market distortions and raising concerns over nurturing entrepreneurship
5. Current discourse is over establishing a "development state"
 - a. Which "model"?
 - b. What does this portend for the liberalization trajectory?
6. The stakes in the current leadership succession struggle are high

3. Industrial Strategy

1. New framework being developed includes:
 - a. Critique of orthodox macroeconomic policy, ie possibly prioritising industrial interest over financial (low interest rates; competitive currency)
 - b. Large firms: Discipline (performance requirements; competition policy) combined with incentives (directed finance)
 - c. Taking advantage of current WTO provisions (subsidies; tariffs) whilst preserving policy space
 - d. Building institutional capacity to carry out this programme
2. Some issues:
 - a. Current macroeconomic policy and trade liberalization have not failed
 - b. But in light of the "dutch-disease" effect associated with China and India's secular expansion currency alignment is a major long-term concern

...Industrial Strategy

3. Some questions:
 - a. Is this broad approach appropriate in a mature industrial economy?
 - b. In other words, is the industrial sector likely to be the engine of future job creation?
 - c. If not then a systematic assessment of the costs of such an approach to the economy needs to be undertaken.
 - d. Such costs could include potential:
 - i. State capture by powerful sectoral interests
 - ii. Inefficiencies in promoted sectors especially where protection is proffered
 - iii. Anti-export bias owing to taxes on imports used for export processing
 - iv. Higher prices for consumers thus undermining poverty alleviation and the consumer-led boom
 - v. Possible consequences of government failure
 - vi. Inhibiting future growth areas by raising the domestic cost structure
 - e. Does the DTI have the capacity to coordinate across government and implement this approach?
 - f. What about our SACU partners?

Commission of Senior Officials

National
Institutions

recommendations

SACU
Tariff Board

recommendations

Council
of Ministers

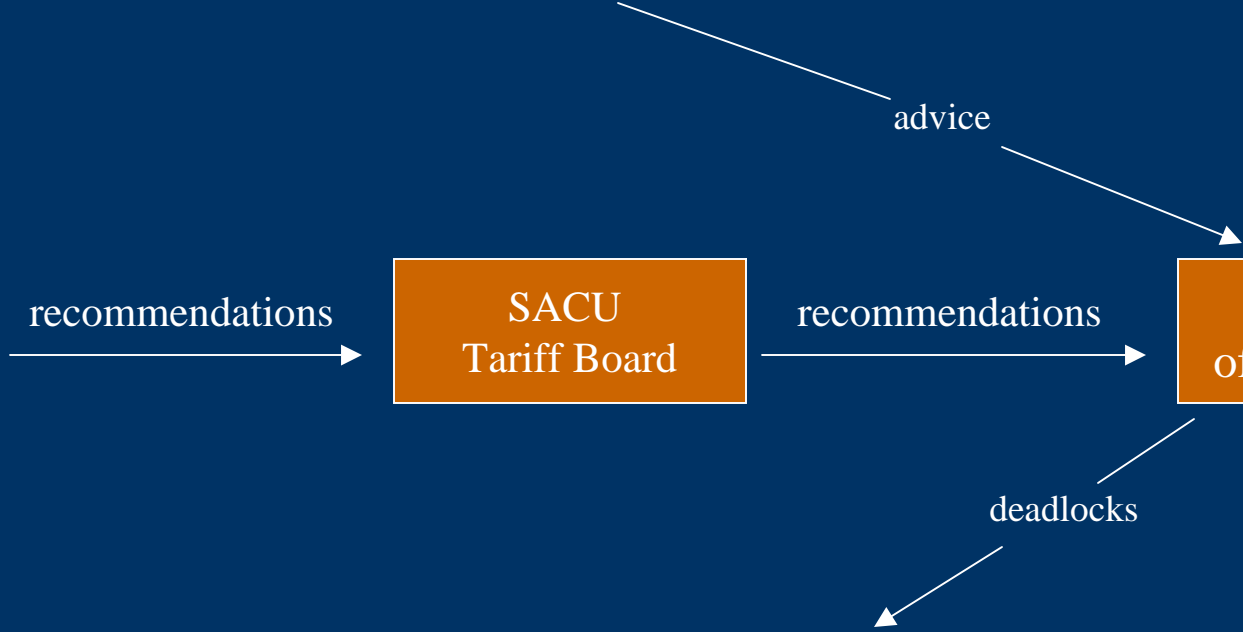
advice

deadlocks

Tribunal

SACU Secretariat (administrative support)

“South Africa’s window on the world”

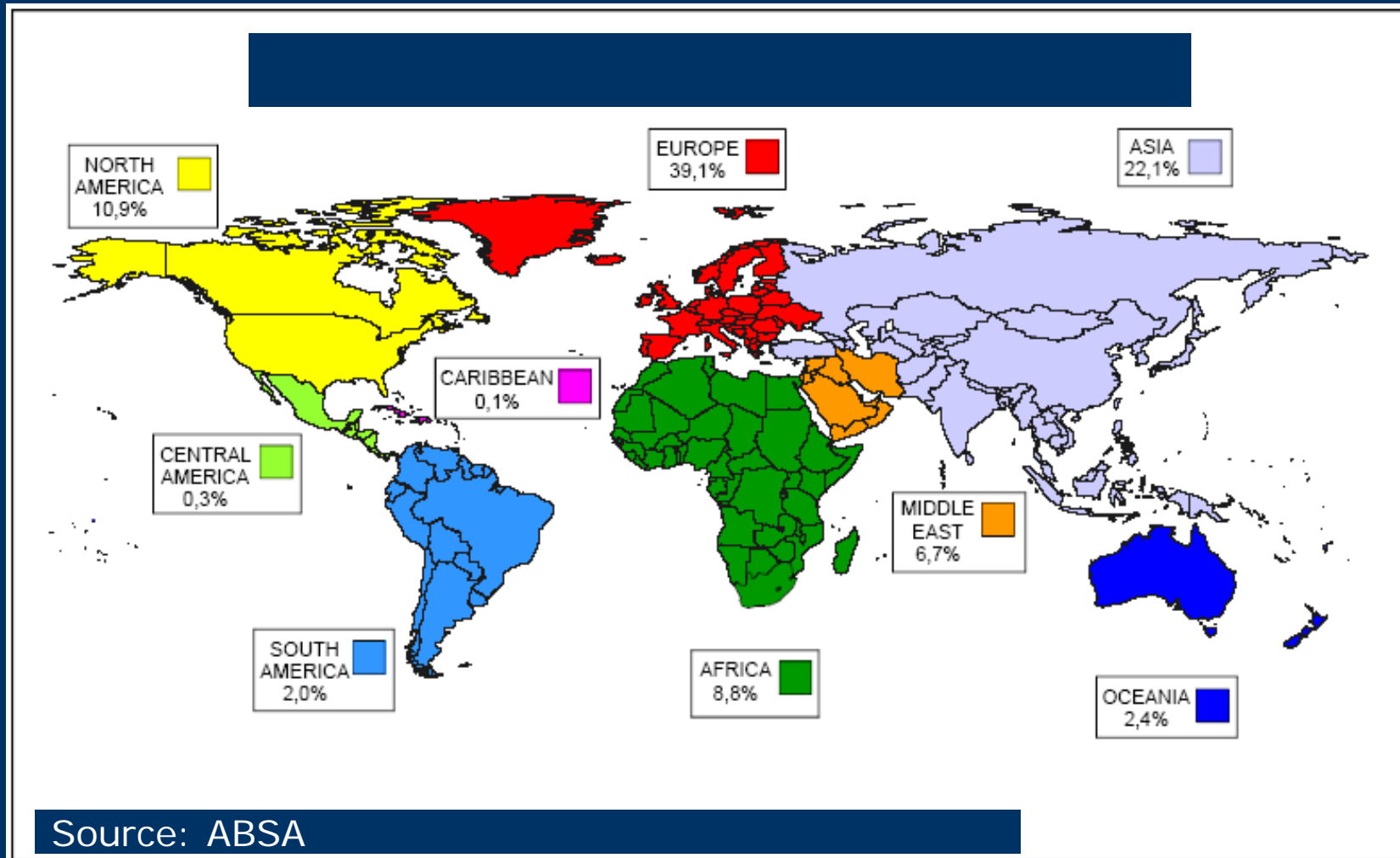


4. SACU - Global Integration Platform

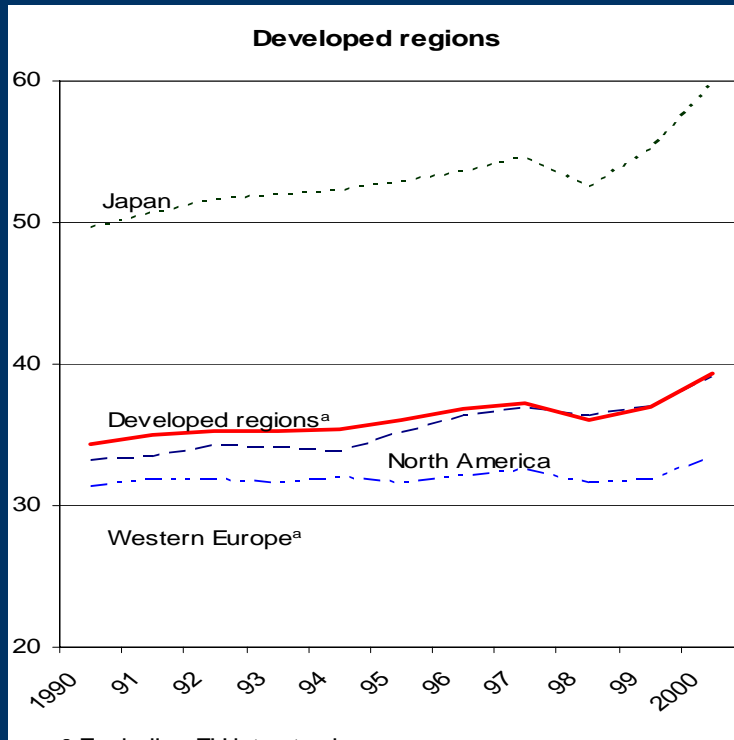
1. Collective negotiating strength
2. But reconciling different interests is difficult
3. So SA has to reconcile conceding trade strategy autonomy with democratising SACU
4. Tariff Review Process – complications ahead?
5. Trade remedies – ditto?
6. New institutions still have to be established
7. SACU doesn't cover trade in services, nor does it have common policies in a range of areas
8. Yet SACU is negotiating FTAs as a group
9. And may expand soon (subject to “spaghetti bowl” dynamics)
10. Whilst FTAs are contributing to a proliferation of rules of origin and tariff schedules

B. South Africa's Trade Interests

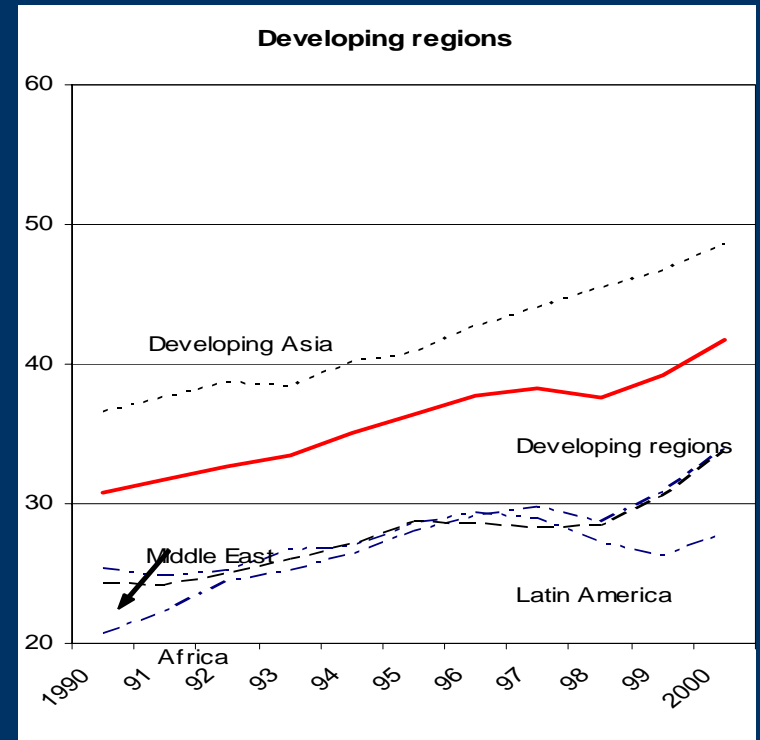
SA's total trade by region, 2003



Share of developing countries in merchandise imports of selected markets, 1990-2000



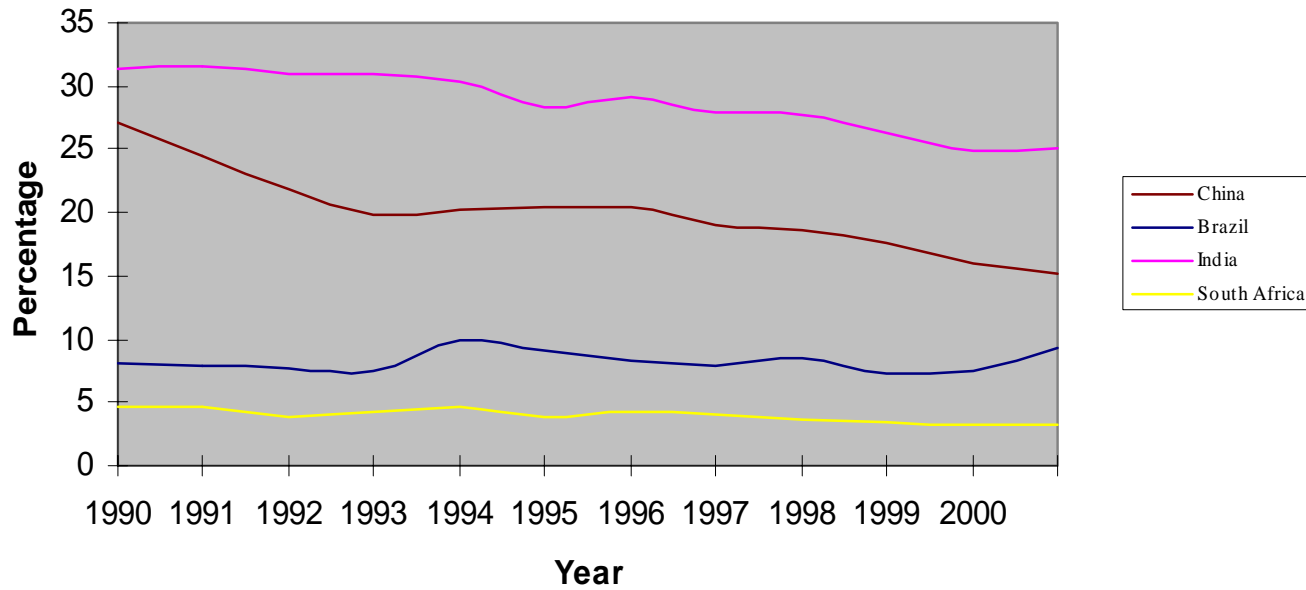
^a Excluding EU intra-trade.



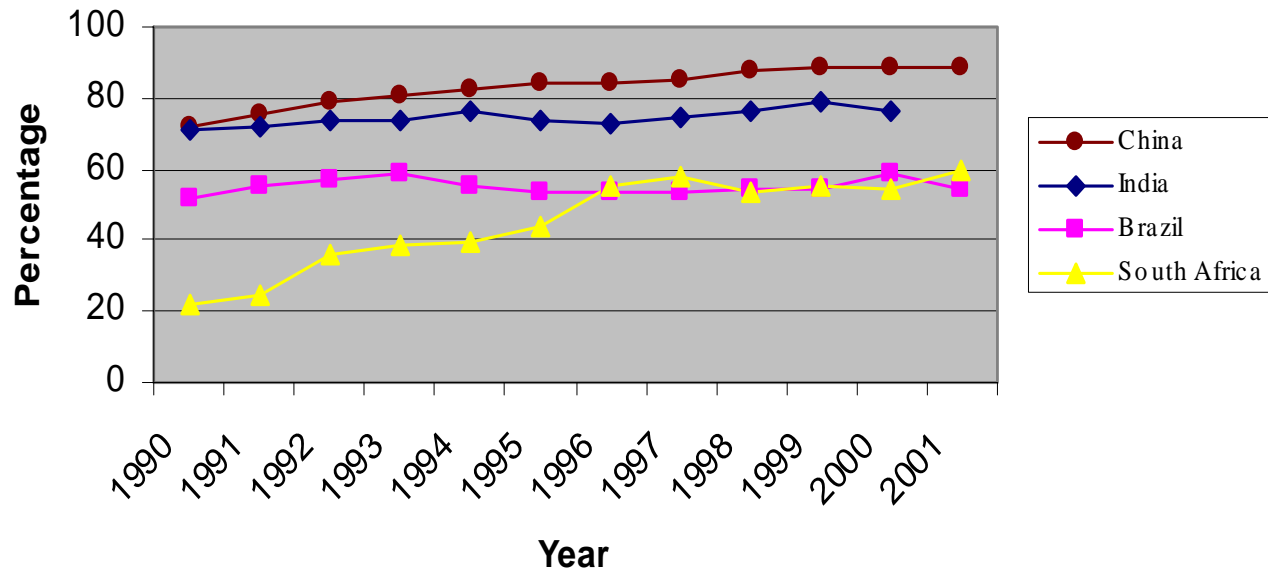
Source: WTO



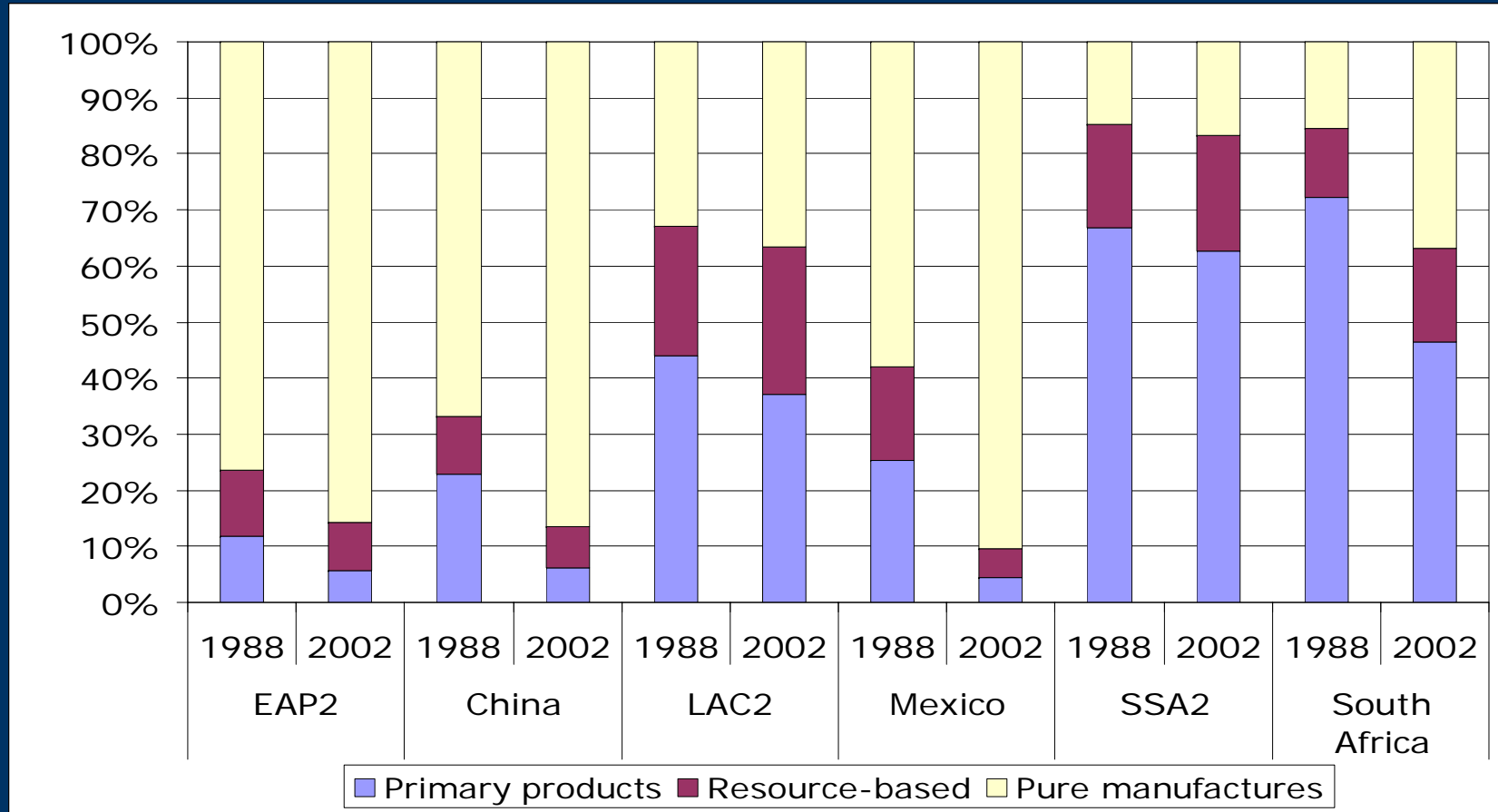
Agriculture Value Added to GDP, 1990-2000



Manufactures: Percentage of Merchandise Exports



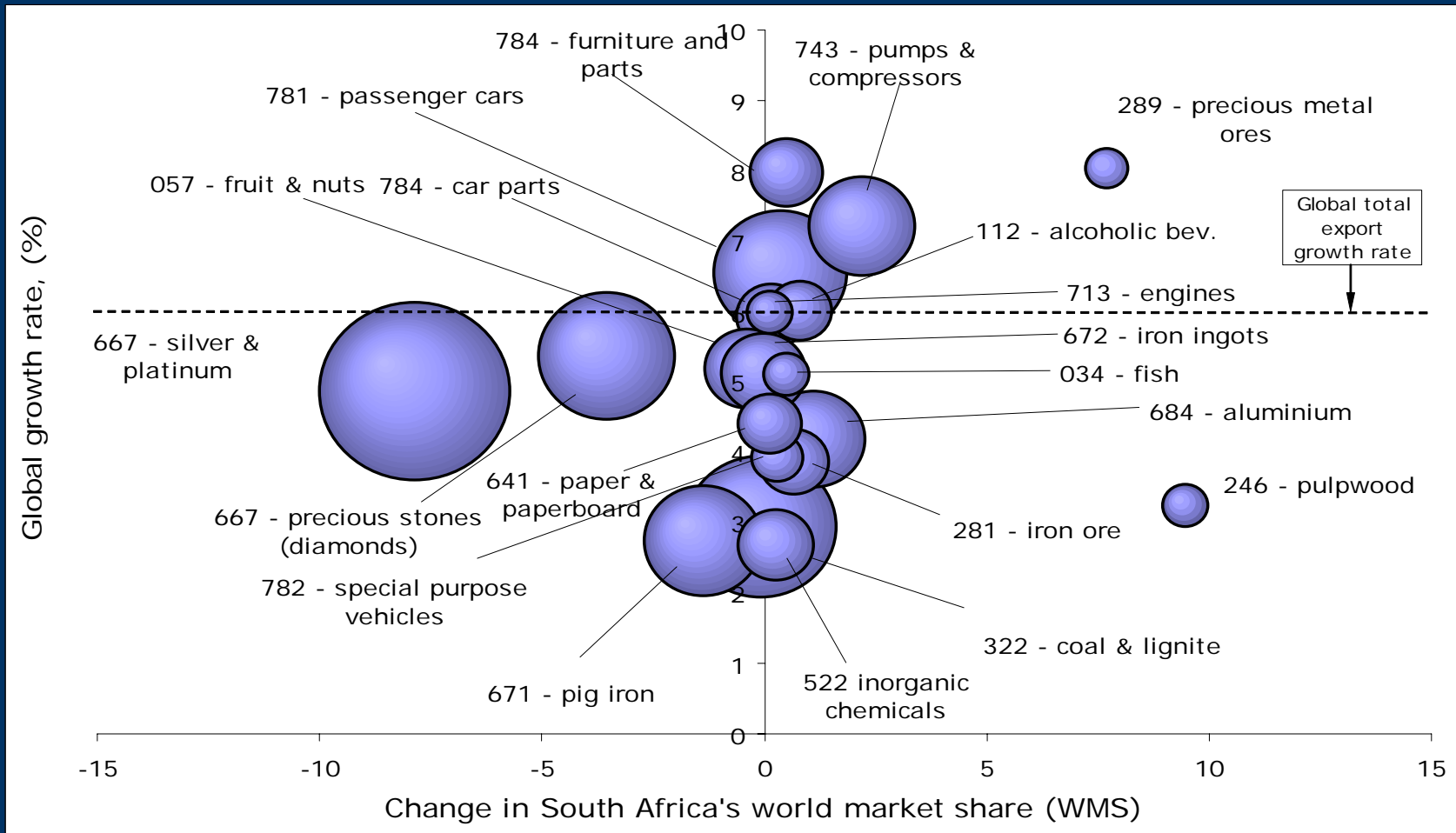
Changing export structures by major developing region/country



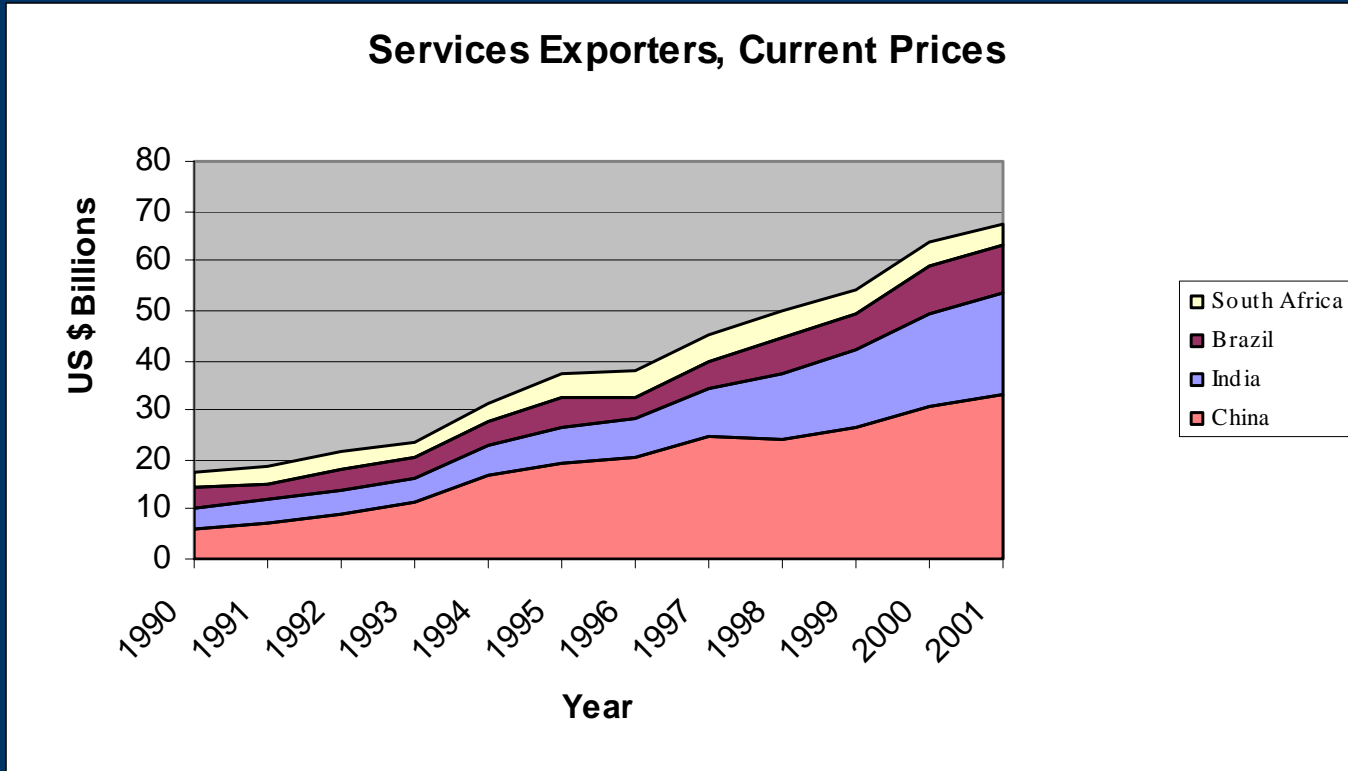
SA's market shares of manufactured exports by technology category, 2002 (%)

	Developing Countries			World		
	1988	2002	% change	1988	2002	% change
Total manufactures	1.7	1.1	-38.0	0.30	0.32	6.7
Resource based	4.3	2.6	-38.1	0.76	0.7	-7.9
Agro-based	2.8	2.0	-26.8	0.50	0.54	8.0
Minerals-based	6.6	3.5	-46.1	1.16	0.94	-19.0
Low tech	0.9	0.7	-26.7	0.28	0.28	0.0
Fashion cluster	0.3	0.3	-7.2	0.15	0.18	20.0
Other	1.9	1.1	-42.7	0.39	0.36	-7.7
Medium tech	2.1	1.8	-16.3	0.23	0.39	69.6
Automotive	0.9	2.4	151.6	0.05	0.36	620.0
Process	4.6	2.6	-43.6	0.74	0.73	-1.4
Engineering	0.7	1.0	50.3	0.08	0.24	200.0
High tech	0.3	0.2	-41.1	0.04	0.06	50.0
Electronic	0.2	0.1	-32.4	0.03	0.05	66.7
Other	1.3	0.8	-41.8	0.07	0.07	0.0

SA's market positioning (top 20 exports in 2002)



Services Exporters, Current Prices



Major trade trends during the 1990s and early 2000s

1. Some restructuring away from primary products
2. Europe, Asia and N. America largest export markets, but Africa is more important than Latin America, the Middle East, or Australasia
3. The EU bloc is our biggest trade partner
4. Overall, manufactured export growth slow –market share losses (particularly of developing country exports)
5. Only automotives and some machinery buck the trend
6. Services difficult to measure, but substantial outward FDI points to potential

C. South Africa and the WTO

1. South Africa's Objectives
2. Can Hong Kong Deliver?
3. Implications for South Africa's Trade Strategy

1. South Africa's Objectives

1. Agricultural trade liberalization
 - a. Subsidies (export; domestic support)
 - b. Tariff peaks
 - c. Hence membership of the G20 (subsidies) and Cairns group (tariffs)
 - d. But actual agricultural exports are not so significant
 - e. Whilst defensive concerns associated with land reform are on the horizon
2. Substantial interest in industrial goods market access (NAMA)
 - a. Recall export diversification
 - b. Formula driven (targeting high tariffs; tariff peaks; tariff escalation)
 - c. Based on bound tariffs (therefore unlikely to deliver much liberalisation)
 - d. Medium-term timeframe (if ultimately successful)
 - e. Therefore bilateral route remains important (to the extent it delivers substantial market access)
 - f. But unilateral liberalization and tariff rationalisation arguably of greater importance
 - g. Yet this is not remotely on the agenda.

... South Africa's Objectives

3. More defensive on the services agenda (largely because it is not well understood)
 - a. Furthermore services liberalization is voluntary (positive list)
 - b. And in the WTO it is moving very slowly (linked to breakthroughs in agriculture and NAMA)
 - c. Yet SA has key services export interests in Africa and arguably elsewhere
4. Singapore issues:
 - a. In favour of trade facilitation (obvious relevance to African trade)
 - b. Neutral on:
 - i. Investment (SA outward FDI)
 - ii. Government procurement (provided it is confined to transparency)
 - iii. and competition policy (SA has robust competition policy institutions)

2. Can Hong Kong Deliver?

1. Substantial movement on agriculture is discernible
 - a. US Proposal
 - b. EU response (and don't forget Japan, G10)
 - c. G20 conditions
 - d. G33 conditions
 - e. Preferences
2. Fixing developed country distortions should not be "concessional", but will be
3. So what further movement is required?
 - a. NAMA (formula; sector negotiations; bindings)
 - b. Services (further commitments; "benchmarking" proposal)
 - c. Rules (geographical indications; TRIPS, including traditional knowledge)
 - d. Trade facilitation
4. With the possible exception of (c) these are issues requiring unilateral attention in any event
5. If consensus is achieved on agriculture then the scene will be set for a race to the finish by the end of next year.
6. Early 2007: The sword of Damocles in the form of expiration of TPA in the US

3. Implications for South Africa's Trade Strategy

1. Agriculture:
 - a. SA agriculture is supply-constrained, and has emerging defensive interests
 - b. Better market access will help, but will erode preferential access into the EU (under GSP and TDCA) and US (GSP; AGOA)
 - c. So review of the TDCA is important, and the FTA negotiations with the US
 - d. Greater SADC/African liberalization is unlikely
 - e. So partnership agreement negotiations with the EU (and potential US African FTAs) must be watched for competitive threats
 - f. But in the medium term these could be partially offset by export subsidy phase-outs and disciplines on food-aid
 - g. But expanding supply will largely depend on productivity improvements, hence GM technologies could be key
 - h. Yet this is a hotly contested issue on the regional and global stage.

...Implications for South Africa's Trade Strategy

2. Industrial Goods (NAMA):
 - a. Formulas will be based on bound levels
 - b. Across the world, but especially in developed countries there is substantial "water in the tariff"
 - c. So actual liberalization is unlikely to occur
 - d. Yet the lack of actual liberalization will reinforce trade diversion effects arising from our current FTAs (EU TDCA; SADC; EFTA; Mercosur)
 - e. Thus undermining economic efficiency by discriminating against sourcing from potentially less competitive producers (US; Japan; China; other East Asian countries)
 - f. Unilateral liberalization should come back onto the agenda.
 - g. And sectoral negotiations in areas of export interest to SA could be beneficial
 - h. Appropriately managed this would lower production costs, reduce consumption costs, and provide an overall boost to growth and, ultimately, employment.

...Implications for South Africa's Trade Strategy

3. Services:

- a. Pressure is mounting for SA to make a substantive offer
- b. This is in our economic interests and should be done without reference to the WTO in any event (eg: telecoms; transport)
- c. It should not compromise provision of social services, although market provision is arguably more efficient and sustainable
- d. Currently (and for the foreseeable future) SA lacks the capacity to develop a strategic agenda for services liberalization in the context of trade negotiations
- e. And is prioritising harmonization (including rules) in the SACU context – which will delay and complicate unilateral processes
- f. It will also delay bilateral processes, notably those with the US and EU
- g. So it is unlikely that much will be forthcoming
- h. Yet services is a key long-term interest for SA
- i. And African markets are important destinations for our “exports” but they will likely remain relatively closed through this round
- j. So a regional/bilateral agenda for services, encompassing our major trading partners, the continent and the domestic reform agenda, is necessary

...Implications for South Africa's Trade Strategy

4. Rules:

- a. Trade facilitation negotiations probably won't deliver much
- b. So customs reform, especially in our neighbours and developing country markets must remain on the agenda
- c. And there is added danger in the form of unilateral measures implemented by the US in its "War on Terror"
- d. These are best disciplined through the WTO
- e. Similarly disciplines on FTAs should be tightened to minimise the "spaghetti effect" of FTA proliferation
- f. SA has not given much thought to this issue
- g. But the politics are complicated so discretion will remain
- h. This could still be further complicated by other issues in the TRIPS domain (especially GIs)
- i. And trade remedies (especially anti-dumping) could prove equally contentious.
- j. So SA has an interest in greater rules harmonization, although not in areas where there is no discernible interest but substantive threat (especially GIs)
- k. Crucially, these should only be addressed in the WTO context.