

Trade Policy and Strategy Framework

AN OVERVIEW

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to SAIIA

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Introduction

- Trade Policy and Strategy Framework emerges in the context of broad national development strategy.
- Need to address key structural challenges in the domestic economy.
- Dynamic changes in the regional and global economic environment requires a strategic integration approach.

National Challenges

- Domestic structural challenges: widespread poverty; severe inequalities; high levels of unemployment; and stunted growth.
- Production and employment patterns - capital intensive and high skills-bias.
- Export profile - highly resource-intensive and commodity-based.
- Apartheid growth path placed emphasis on capital intensive production industrial policy.

National Objectives

- The objective of SA development strategy is to promote & accelerated economic growth along a path that generates greater number of decent jobs.
- Trade policy must support industrial development and upgrading, employment growth & export of sophisticated value-added products.
- We have adopted a strategic trade policy: calibrated and sequenced to ensure a developmental approach to tariff reform.
- Trade policy should determine the terms of engagement in international trade negotiations to secure policy space to pursue developmental objectives.

Changes in Global Trade

- The nature of global competition has changed.
- Comparative advantage not only determinate for success in international trade.
- We now require purposeful intervention to build and deepen production capabilities, investment in human capital, research and innovation & technology.
- Managing this requires strategic collaboration between government and business.

Changes in Global Trade

- Fastest growing exports in world trade are non-resource based manufacturers, with medium and high-tech predominating.
- Trade increasingly intra-industry rather than inter-industry character.
- Emergence of global supply-chains for manufacturing & services as a result of production unbundling and growing trade in intermediate products.
- As a group, developing countries' exports growing faster than the world average. Asian countries dominate.

Changes in Global Trade

- International experience demonstrates that developing economies that have broken out of underdevelopment have adopted, as part of their strategy, a strategic approach to tariff policy.
- Ensured that tariff policy is informed by industrial policy, and pursued gradually and selectively to support industrial development.
- Such a “strategic” trade policy aims to shift structure of prod & exports away from commodity dependence towards sophisticated, value-added production (content of exports matter).

SA Trade Reform Experience

- SA has undertaken significant tariff reforms since 1994.
- In Uruguay Round, SA undertook tariff commitments as a developed country rather than a developing country.
- Simple average of bound rates is 20.9% (Agri-43.5%, and Industrial -18.1%).
- Simple average MFN applied rates declined from 15% in 1997 to 8.2 % in 2006. (Aver tariff for inputs is 5.4%).
- Considerable simplification: 1990, tariff schedule – 13609 lines; by 2006 – 6420.
- SA has 54% duty free tariff lines.
- TDCA and SADC Protocol have further reduced incidence of tariff protection.

SA Trade Reform Experience

- Trade liberalisation experience since the 1990s occasioned significant trade growth, with both imports & exports growing as % of GDP.
- However, the pattern content of trade have not changed significantly.
- Capital and high skills intensive manufactured exports expanded through trade.
- Labour intensive production has contracted by import penetration especially leather, footwear, textiles, clothing.
- Rapid opening led to contraction of certain labour-intensive sectors, with dire employment consequences.



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SA Trade Reform Experience

- Liberalisation in the 1990s deepened comparative advantage in capital intensive production based on the extraction of mineral wealth.
- Accumulation of capital assets & technical knowledge in these sectors have made them more competitive than labour-intensive sectors.
- Liberalisation in SA reinforced a capital & high skill-intensive growth path exacerbating bias against low-skilled labour-intensive production.

SA Trade Reform Experience

- SA is considerably outwardly oriented: trade to GDP ratio has risen from below 40 % in 1993 to over 60% in 2006.
- SA exports constitute around 0.5% of world merchandise exports (lag behind China, Brazil and India).
- Ranked 24th among developing countries; and 47th overall in terms of presence in exports of dynamic products.
- Commodity products continue to dominate SA's exports: the top 25 export categories are mineral products (precious metals; base metals; and other minerals).
- Further tariff liberalisation, without purposeful intervention in the economy, is likely to perpetuate this trend.

Future Directions of Tariff Policy

- We have chosen a development path aimed at accelerated and inclusive growth to address poverty & inequality.
- Requires purposeful intervention in the industrial economy to achieve dynamic, competitive advantages.
- Tariffs are instruments of industrial policy and have implications for capital accumulation, technology change, productivity growth and employment.
- Changes to tariff regime need to be carefully calibrated to the specificities of each sector and production upgrading possibilities.
- We will pursue a ‘strategic developmental tariff policy’ approach that supports the Government’s broad industrial and employment objectives.

Future Directions of Tariff Policy

- General guideline: tariffs on mature upstream input industries could be reduced or removed to lower the input costs for the downstream, more labour creating manufacturing.
- Tariffs on downstream industries, particularly those that are strategic from an employment or value-addition perspective, may be retained or raised to ensure long-term sustainability, and job creation.
- These determinations will be conducted on the basis of case-by-case, detailed investigation and empirical analysis.
- No *a priori*

Future Directions of Tariff Policy

- Tariffs assessed on investigation and evidence and the impact on economic output and employment across the value chain.
- Consultations and public comment are essential elements of the process.
- Where it is demonstrated that reducing tariffs improves performance of firm and industry, then we should implement
- When evidence shows the need to raise tariffs, we must have the capacity and will to raise tariffs
- We do all this in context of our international obligations

International Trade and Administration Commission

- Mandate defined by the ITAC Act 2002.
- Has a sophisticated and rigorous methodology that includes firm and industry level investigations.
- Sets tariffs on cost-and-benefit analysis, guided by evidence and responding to imperatives of industrial policy: Competitive position of the product; whether the product or substitute is manufactured in SACU; effective rate of protection; value chain implications; and macro-economic & social impact.
- Deals with applications for tariff changes and remedies.
- Evidence based methodology in ITAC must be preserved

Strategic Integration into the Global Economy

- Global integration strategy operates along several dimensions:
 - **African Agenda**

Strategic Integration

SACU and SADC



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SACU

- Future value of SACU will lie in its ability to be used as a vehicle for advance & deepening developmental integration in the region, and as an anchor for SADC regional project.
- This requires SACU members to forge common trade & industrial policies
- Requires common views on the direction of future trade relations and on the content of trade agreements
- SACU can be an important nucleus for deeper SADC integration and a crucial platform to facilitate beneficial global integration.

Strategic Integration

SADC

- Aims to combine market integration through trade protocol with policy coordination & sectoral cooperation in a broad development project.
- Free trade negotiations concluded in 2000, and implementation of tariff reduction began that time. By 2008, 85% of goods – duty free; by 2012 this will be 99%.
- Challenges remain: including with Rules of Origin, development of region-wide standard-setting capacity, and work on trade facilitation.
- Promising signs in T&C and sugar sectors. But SADC production structures are still undeveloped.
- Consolidating FTA and addressing real economy capacity constraints is a priority.
- Focus of future work should be on consolidating the SADC FTA (completing the built-in agenda) and should extend FTAs in Africa, notably through the tripartite COMESA-EAC-SADC FTA.

Strategic Integration

Economic Partnership Agreements

Ongoing engagement with EC to address all outstanding issues and limit damage to SACU common external tariff



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Opportunities for South-South Trade

- Need for enhanced trade & investment linkages among Southern economies.
- Developing countries share of international trade continue to grow, acc for around 37 % of world trade in 2007; aver growth rates of 18% in goods, and 13 % in services – much higher than those recorded in OECD countries – 13% and 8% respectively.
- Center of gravity is shifting towards emerging powers of the South.
- South-South trade increase at an annual rate of 11 percent; with services trade on the rise.

Opportunities for South-South

- These are high growth economies with consumer needs diversifying.
- Offer possibilities for export diversification for other developing countries.
- Construct focused PTAs on the basis of relative strengths and avoid destructive competition.
- New possibilities for sectoral cooperation for industrial development, FDI and technology sharing etc.

Relations with countries of the North

- SA's relations with key countries of the North remains vital. These are major sources of investment & technology.
- TDCA offers the basic framework for trade & investment expansion with EU.
- In 2008 SACU-European Free Trade Association entered into force – offering SACU duty & quote free access on industrial products.
- AGOA and the SACU-US Trade, Investment, Development & Cooperation Agreement (TIDCA) constitute basis for building trade relations with US.

World Trade Organisation & Doha

- SA is a proponent of multilateralism to manage globalisation and interdependence.
- Continued imbalances in multilateral rules that prejudice developing countries' interests.
- Global reform should ensure greater transparency & inclusiveness, and re-balanced in favour of developing countries.
- SA's support for the Round premised on overcoming the imbalances and securing a developmental outcome for developing countries.

Doha Round

SA's negotiating objectives aim to:

- Enhance market access for products of export interests to developing countries;
- Renegotiate rules that perpetuate imbalances in international trade regime;
- Ensure appropriate policy space for developing countries to pursue development objectives through meaningful implementation of the principle of S&DT.

Doha Round: Current Trajectory

- In the Doha Round witnessed an erosion of the developmental mandate: lowering ambition to reform agriculture, but growing pressure on emerging economies to open their industrial and services markets.
- The demand on SA harsh: SA obtains little in agriculture but required to take deeper and wider industrial tariff cuts than any other WTO member.
- Perpetuate the historic injustice of the Uruguay Round, and not an outcome that is developmental, fair or balanced.
- US position on concluding the Round unclear and prospects for successful conclusion based on development mandate appears remote.

Conclusion

- Trade Policy complements industrial policy and seeks to contribute to growth, industrial upgrading, export diversification, and employment creation.
- Defining terms of integration in the global economy on beneficial basis is a vital component of trade policy at regional, bilateral, and multilateral levels.
- Trade policy has to make a meaningful and positive contribution towards desired developmental outcomes.