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**Speaker's Meeting addressed by the Honourable Minister of Trade and Industry of the
Republic of South Africa – HE Minister ROB DAVIES on**

“Trade Policy and Economic Growth”

Lombardy Estate, Pretoria

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By Memory Dube

Introduction

The debate around the future direction of economic policy in South Africa continues. Trade policy is a key component of plans to increase growth and expand employment. Building on the events that SAIIA has hosted in previous years to discuss South Africa's trade policy, this meeting aimed to contribute to the current debate through the discussion of topical issues that impact on the trading environment globally, in the region and at a domestic level. This was also an opportunity for SAIIA to present to the Minister some of the work done on the subject of trade policy.

The meeting was opened by an address by Catherine Grant-Makokera of SAIIA who highlighted some of the issues presented at a recent dialogue on trade policy reform in South Africa, including issues around the global trade policy environment, looking specifically at the WTO Doha Development Round; services trade liberalisation from an international, regional, and domestic (SA) perspective, such as the employment and poverty reduction impacts in South Africa; as well as the issue of how to grow South Africa's exports through the use of trade zones or IDZs. This work was supported by the British High Commission and was undertaken in partnership with Business Unity South Africa, the University of Cape Town Graduate School of Business, Business Leadership South Africa and the Mail & Guardian.

Accelerating Growth and Industrial Policy

In his opening remarks, the Minister made reference to South Africa's economic development strategy. Government aims to accelerate growth and industrial development along a path that generates decent jobs. In this regard, tariffs shall be used as a tool of industrial policy and emphasis should be placed on the fact that it not 'the' policy but 'a' policy, to be used in conjunction with other tools. A strategic approach means that there shall be no *a priori* approach to either tariff increases or decreases. Where tariffs are to be increased or decreased, this will be based on independent, evidence based, case by case assessment by the International Trade Administration Commission. There is evidence already of current mature industries that benefitted from tariff reduction in the past. All tariff changes will be based on the evidence presented.



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Turning to South Africa's trade strategy, the Minister emphasised the view that the global economy must be supportive of the development objectives of developing and least developed countries. South Africa has specifically chosen to anchor its external engagements in the context of regional integration. On this, it must be noted that there is an ongoing process to transform SACU from a relationship of convenience centred on the revenue pool to a more development integration approach. There are also efforts to build and consolidate existing regional integration initiatives such as the SADC Free Trade Area as well as the Tripartite FTA.

South Africa is also strengthening its relationship with the faster growing developing economies and is now a member of the BRICS group of countries.

The Doha Development Agenda

With reference to the current WTO Doha Round, the Minister started off by highlighting the Uruguay Round negotiations, which is one of the background influences on South Africa's current negotiating position. In the Uruguay Round, South Africa was regarded as a developed country and treated as such when it came to the tariff reductions required. Although South Africa succeeded in getting some tariff concessions in key industries, the obligations it undertook were that of a developed country. As a result, South Africa's bound industrial tariffs are lower than those of other emerging economies and comparable countries. In addition to this, the Uruguay Round also introduced other issues to the WTO rules, issues such as intellectual property and investment, and developing countries were made to make commitments in those areas. But, agriculture still remains very much subject to distortions, tariffs and high subsidies and there is a huge volume of literature that points to the considerable disadvantages these trade barriers create for developing countries.

The Doha Development Agenda is developmental in character and the Doha mandate seeks to reduce or eliminate tariff barriers and non-tariff barriers, in particular on products of export interest to developing countries. Also, for the first time, under Doha, agriculture would be subject to substantive reforms. Overall, the needs and interests of developing countries are supposed to dominate the Doha Round.

South Africa's negotiating position is not maximalist, for example, South Africa has not called for the total elimination of the trade distorting subsidies in agriculture. To illustrate, the reduction in ceilings on the 'blue box' subsidies would leave the overall ceiling for the United States at \$14,5 billion, which is significantly above the current spending. The US currently spends about \$11 billion on these 'blue box' subsidies and hence its current programmes would not be affected by the proposed ceiling. The agricultural text also contains a lot of carve-outs that are to the benefit of developed countries.

On manufacturing, the Minister reported that a linear tariff cut system had been adopted through the Swiss formula. The Swiss formula adopts a 'one size fits all' approach to tariff cuts and targets tariff escalation, tariff peaks and high tariffs. As a rule, the Swiss formula targets high tariffs more. The implications of the current text for South Africa would be that if there was a co-efficient of 22,



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along with the flexibilities afforded to developing countries, then 23% of tariff lines would take cuts of 30% or more at applied rates after the application of half cut flexibilities. To make matters worse, the 2008 text introduced the anti-concentration clause which requires full formula cuts in at least 20% of each chapter in the tariff book.

No agreement was reached in 2008 as a result of a number of issues, although the Special Safeguard Mechanism in the agriculture negotiations has been portrayed as the immediate cause. Nonetheless, the 2008 package is supposed to be the basis of a new deal in 2011. South Africa believes the 2008 text was unbalanced but is willing to work with the rest of the membership to try and broker a deal in 2011. The United States, however, believes that the 2008 deal is not commercially beneficial for it and is therefore unwilling to cooperate until it can secure some additional commercial benefits for its industries that can be sold to Congress (given there is currently no Trade Promotion Authority in place). The 2008 deal has no commercial benefit for SA as well, the benefits will come from the systemic reform in agriculture trade and some broader benefit for Africa. On sectorals, the US has demanded greater commitment from developing countries, and is seeking to make a voluntary process mandatory. For key emerging economies particularly, the US has demanded participation in mandatory sectorals such as chemicals, a sector where the US has a comparative advantage. If issues of sectorals in agriculture are raised (as suggested by Brazil) then the US says the agriculture negotiations are closed and should not be reopened. What this says is that the US is not willing to pay for the concessions it demands of the emerging economies in industrial products with any further movement on agriculture in particular.

Much has been said about the 'window of opportunity' to conclude the Round by the end of the year. There is thus a process of intense engagement to find agreement in 2011, with a goal to have revised texts by Easter. As the Easter deadline looms, there is pressure on the Director-General to prepare a text despite huge gaps between members, making the likelihood of reaching agreement very slim. Such issues as the voluntary nature of the 'sectorals' cannot be compromised on. The Minister believes there will not be any progress by Easter and that the window for 2011 is fast closing.

It is time to ask fundamental questions such as whether the Doha Round is dead. There are two choices in essence: it is either the Round goes nowhere and is abandoned; or if it does conclude, developing countries pay a packet more and get nothing in return.

There is need for the developed world to accept the 21st century realities such as that of the seismic shift in the world economy and the faster emerging economies becoming dynamic forces in the world economy. If a developmental round cannot be achieved then there shouldn't be an outcome at all in the view of South Africa.

The Tripartite Free Trade Agreement

Turning to the issue of the Tripartite Free Trade Agreement (T-FTA), the Minister mentioned how SADC issues have not been progressing and that not enough people know exactly what is going on.



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There is a need to understand the fundamental differences between the Southern African region and the EU. Southern Africa cannot follow the traditional linear approach to regional integration as the conditions are different and there are not enough complementarities between the countries. Only when conditions are in place can the region move up the ladder in terms of integration. The T-FTA is a way out, including of the challenge of overlapping memberships. There are practical issues that are common to both SADC and COMESA, including ambitions towards becoming customs unions, which complicates issues because a country can only be a member of one customs union because of the common external tariff. The T-FTA presents serious possibilities of taking regional integration further. With 26 countries, with a combined \$264 billion GDP and a combined population of between 500 to 700 million, the T-FTA will broaden the regional market. This is especially as, individually, the country populations in the region are small domestic markets. If there is no movement with the T-FTA, then it has to be accepted that the EU will be trading on better terms with some of the subsets of this initiative than the countries of the region do among themselves. There is a fairly good understanding among the countries on the issues as well as the challenges and countries have set a realistic time frame with realistic ambitions as far as the T-FTA is concerned.

Such issues include that of trade infrastructure. The New Growth Path presentations allude to the railway line set-up in Africa, where all the railway lines lead to the coast, and there is a missing middle. The plan is to improve the transport infrastructure to facilitate trade among the countries in the region and fill in the 'missing middle'.

The 2010 McKinsey report, 'Lions on the move' talks about Africa being the next growth opportunity after the BRIC due to the minerals boom as well as the growth in the internal economy. There are possibilities therefore to deepen and consolidate the trade strategy within the continent.

The question and answer session raised the following issues which the Minister responded to during the discussion:

In the event of a failure of the Doha Round, will there be a deliberate push by South Africa to pursue bilateral trade agreements?

The issue used to be that if there was a failure at the multilateral level then the fear was that developing countries would end up having agreements pushed at them by stronger countries, agreements that would be to their disadvantage. With the shifts in the global political economy, the situation is not the same as it was before and the failure of the Doha Round would not be the end of the world nor would it spell doom for the developing countries. There are still such avenues as creative bilateral routes.

Anecdotal evidence shows that the processes to encourage regional integration have been stagnant and the Tripartite FTA would get the same cynicism on that basis, especially from business. What makes the T-FTA process any different from the others?



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Part of the agenda in the T-FTA is to address trade facilitation issues in a broader framework which are of direct interest for business. It is still the same challenges that the regional integration processes faces in SADC and COMESA but at least something is being done at a broader and inclusive level. It is basically a choice between doing something and doing nothing. It should also be emphasized that tariffs are not the only story or the end of the story when it comes to regional integration but they are part of the process. Other issues are also very important and will be dealt with accordingly.

What is the government's perception on the importance of services in the Doha Round?

There are some parts of the world, particularly in the developing world, where South Africa trades services and the services negotiations are important from that perspective. However, there is not so much that can be achieved on services that would encourage acceptance of an unbalanced deal in manufacturing as there are too many jobs on the line for South Africa. Also, there are some significant imbalances in the services negotiations, for example in Mode 4 where developed countries refuse to give developing countries greater access.

The issue of tariff escalation in developing countries is also of significant concern, particularly in the advanced developing economies. Is this an issue that will be taken up by South Africa in the BRICS discussions?

In quantitative terms, trade with the BRICs has been increasing but there is need to change the nature of this trade as SA currently exports primary products and imports end products. Both the BRIC and SA recognize that and there are discussions on how to improve this situation. For example, SA has signed a Comprehensive Strategic Partnership with China which fosters cooperation around industrialization issues and a commitment on the part of China to invest in mineral beneficiation. This will assist in creating value add in the exported products.

Some of the G33 concerns in the agriculture negotiations, on special products and the special safeguard mechanism would put SA at a distinct disadvantage as SA is an agriculture exporting country. What is SA's position in view of this and especially as it seeks to advance developing country concerns?

SA seeks to emphasise developmental outcomes in the Doha and will not be mercantilist about the outcomes and hence will advance developing country concerns, including the positions put forward by the G33.

The real constraint when it comes to trade with the BRIC countries is in the non-tariff barriers. Is there anything being done to address this?

SA is trying to develop a dialogue with the BRIC countries on the issue of non-tariff barriers so as to try and give each other some space. This dialogue will emphasise the complementarities that make these non-tariff barriers a detriment to both parties.



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Has the government set out the likely scenarios if Doha fails? What are the likely implications for the multilateral trading system and what are the impacts for South Africa?

The SA government has not yet looked at the possible scenarios but it is probably now when it should start thinking about this. SA does not want to see any irreparable damage to the multilateral trading system because of the Doha Round. The system does have its advantages and ought to continue even in the absence of Doha. As for the impacts on SA in the event of the failure of Doha, SA has long been doing things anyway and this will not be affected and the *status quo* will continue.

On the issue of regional integration and infrastructure development, is anything being done to ensure the ability of South African companies to build these requisite roads and railways etc?

The Industrial Policy Action Plan sees an important advantage in capital goods industries for South Africa. There are also a number of spatial development initiatives (SDIs) in place, e.g. Transcunene which connects Angola, the DRC and Namibia and creates a road and rail network that extends beyond Luanda. There are also infrastructure projects taking place in every country in the region. South African companies have to realize as well that they are in competition and it is the companies with the competitive advantage that will be building these roads and rails.

What exactly is meant by 'broadening regional integration'?

SA seeks to see the broadening of regional integration at a free trade level and is not aiming for a customs union for SADC. Issues of rules of origin will be a challenge in the T-FTA negotiations.

What is the government considering in the review of IDZs?

The government is still working on the legislation and will review the governance issues around IDZs. There are a few proposals for new IDZs but the bigger and broader question is how to promote industrial decentralization in South Africa.

Angola and the DRC seem to be outliers in the regional integration process. Is anything being done to encourage their more active participation in the regional integration process?

Angola seems to be moving closer to SADC while the situation with the DRC is largely dependent on the outcome of the upcoming elections.