

# **Presentation to the South African Institute of International Relations**

## **South Africa's Trade Policy and Strategy With Reference to the Doha Round negotiations and the Tripartite SADC-EAC-COMESA FTA**

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4 April 2010**



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# National Economic Objectives

- SA economic development strategy aims to accelerate growth and industrial development along a path that generates decent jobs
- Trade policy must support industrial development and upgrading, employment growth and increased value-added exports
- We adopt a developmental approach to tariff reform in support of these objectives
- Our trade strategy/international engagement must also support these national objectives

# Approach to Tariff Reform

- Tariffs are instruments of industrial policy and have implications for capital accumulation, technology change, productivity growth and employment
- We adopt a strategic approach to tariff reform that supports industrial and employment objectives
- An evidence-based, case-by-case assessment will inform changes to tariffs (no *a priori* position) – Vital role for ITAC
- Tariffs on mature upstream input industries could be reduced or removed to lower the costs for downstream, labour creating manufacturing
- Tariffs on downstream industries with employment or value-addition potential retained or raised to ensure sustainability and job creation (observing international trade obligations)

# Trade Strategy

- Premise: a global economy supportive of development is in the interests of South Africa
- Consolidate and extend regional integration in Southern and Eastern Africa (SACU, SADC, SADC-EAC-Comesa FTA)
- Build trade and investment relations with key countries in Africa; focus on building production capacities; and cross-border infrastructure (spatial development initiatives)
- Consolidate links with key economies in the North, and build industrial complementarities with dynamic growing economies of the South to support our industrial development and shift structure of trade

# Doha Round

- South Africa supports multilateralism and seeks strengthened rules based trading system in the WTO.
- South Africa, like others, supported launch of Doha Round on an agreed mandate placing the interests of developing countries at the centre.
- We have seen repeated attempts to erode the developmental mandate.
- On the core development issue of agriculture, the emerging deal offers comparatively moderate reduction in subsidies that distort agricultural trade and undermine the development in developing countries, including in Africa.

# Doha Round

- At the same time, developing countries confront excessive demands to open markets for industrial products and services.
- Demands are unfair, anti-development, un-mandated and will perpetuate inequities in the global trade rules.
- The deal is particularly harsh for South Africa.
- South Africa gains very little additional market access in agriculture due to the flexibility for industrial countries,
- But required to make the deepest and widest industrial tariff cuts of all WTO Members.
- This is a result of South Africa's peculiar tariff structure as the outcome of the Uruguay Round, where we were treated as a developed country.

# Impact of NAMA Formula on SA

| Tariff | Coeff 22 | + Flex (10% tariff lines half cut) |
|--------|----------|------------------------------------|
| 45     | 15       | 30                                 |
| 40     | 14       | 27                                 |
| 30     | 13       | 21                                 |
| 20     | 10       | 15                                 |
| 10     | 7        | 8                                  |

Reductions in ten equal cuts over ten years

Would cut 23% of lines by 30% or more at applied rates after applying half cut flexibilities



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# Doha Round

## Additional demands:

- Anti-Concentration Clause would require full formula cuts in at least 20% of each chapter in tariff book
- US also demanded mandatory Sectorals commitment from “advanced” developing countries
- Demand is for basket of products with zero for zero and some zero for x tariff outcome – series of bilateral engagements between US-China and US-India
- Increased demands not matched with reciprocity either in NAMA or in agriculture
- SA position July 2008: 14% half cuts and 7% no cuts, as well as right to exclude 3 chapters from Anti-Concentration Clause. In December we proposed 16% half cut, 3% no cut.



# Doha Round

- No convergence- bilateral engagements have failed
- DG proposed that Chairs prepare new texts by Easter
- Suggests that sectorals are a “gateway” to progress
- Given the wide gaps on many issues, this is ill-advised
- Key members advise DG not to prepare new texts
- This is high risk strategy that could derail all progress
- For SA, a development outcome is more important than an early conclusion
- South Africa requires additional flexibilities in industrial tariff negotiations.

# T-FTA

- Since 1994, South Africa has pursued regional integration in Southern Africa
- Objectives are set out in the New Growth Path, the Trade Policy and Strategy Framework and the African Agenda component of our foreign policy.
- Regional economic integration is vital to South Africa's industrial development and to employment
- South Africa's export profile to other regions is dominated by commodities, while exports to Africa are mainly higher value-added manufactured goods.

# T-FTA

- Intensifying competition for Africa's resources and markets
- Improved growth prospects in Africa
- Requires accelerated efforts at integration to ensure that African countries trade with each other on terms at least as favourable as other competitors.
- T-FTA potential is considerable: market of 26 countries with GDP of US\$ 624 billion, and a population of approximately 700 million people.
- A larger, integrated and growing regional market would attract foreign investors.
- T-FTA would circumvent the difficult decision of having to 'chose' between the different regional projects.

# T-FTA

- SA to host the next Summit in the first half of 2011.
- The Summit will likely launch FTA negotiations.
- We have argued for a goods-only focus,
- New generation trade issues-services, IPR, competition- will complicate progress
- Free movement of business people to be considered on a separate track
- Industrial policy development in at AU level (CAMI)
- Separate track for infrastructure development under SDI programme and the North-South corridor.

# T-FTA

Guiding principles could include:

- Reciprocity
- Flexibility to protect sensitive sectors
- Consolidate existing tariff liberalization under the RECs
- SACU as a single customs jurisdiction
- Offers based national and regional consultations; it is not a mechanical exercise.
- Conditions of entry other than merely tariffs have to be properly assessed.



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