SOUTH AFRICA'S TRADE AGREEMENTS AND RELATIONS WITH DEVELOPED COUNTRIES: A STRATEGIC PERSPECTIVE

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Overview

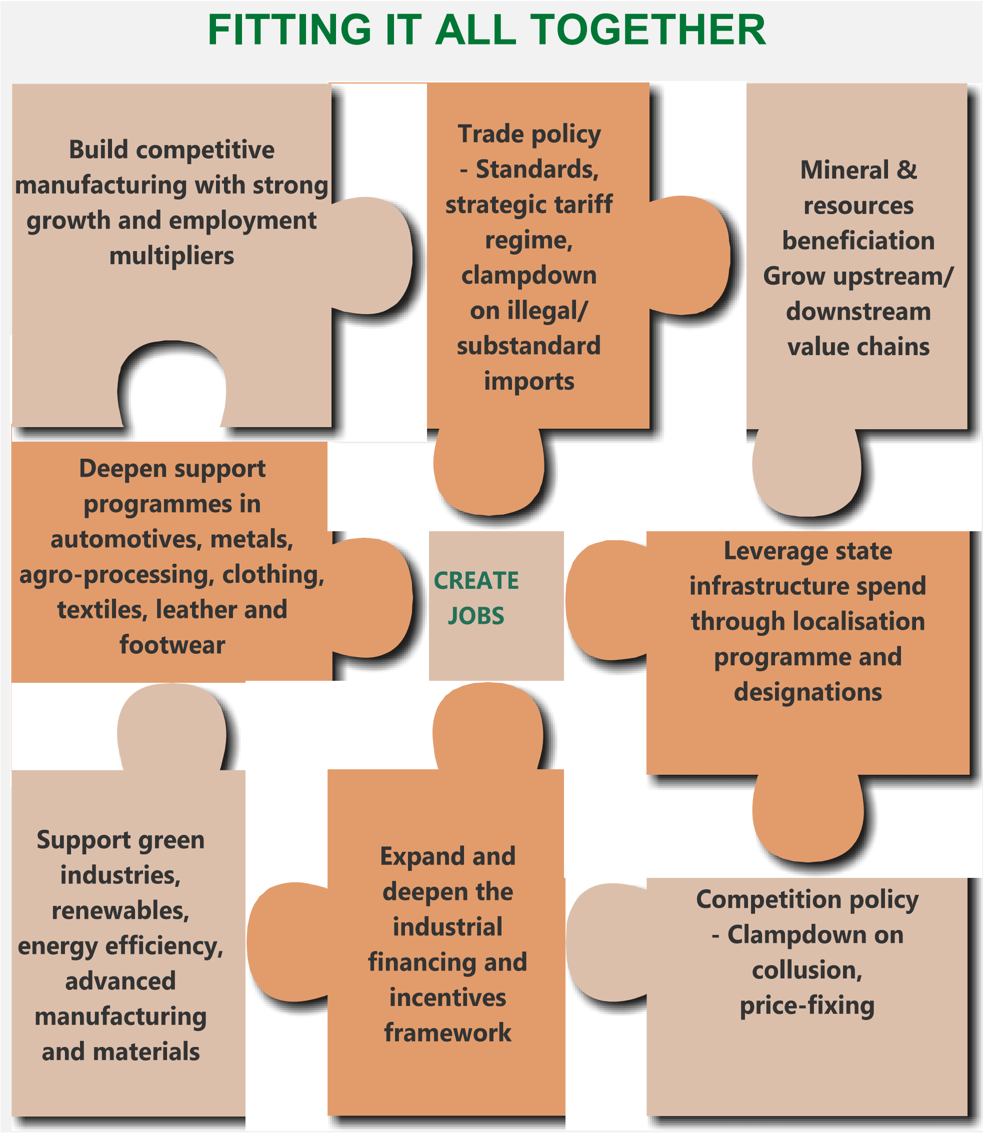
1. Domestic context: Trade Policy Rooted in Industrial Policy
2. Global context and debates
3. Implications for SA Trade Negotiations and Relations with Developed Countries

DOMESTIC CONTEXT: TRADE POLICY ROOTED IN INDUSTRIAL POLICY

South Africa’s Trade Policy Framework

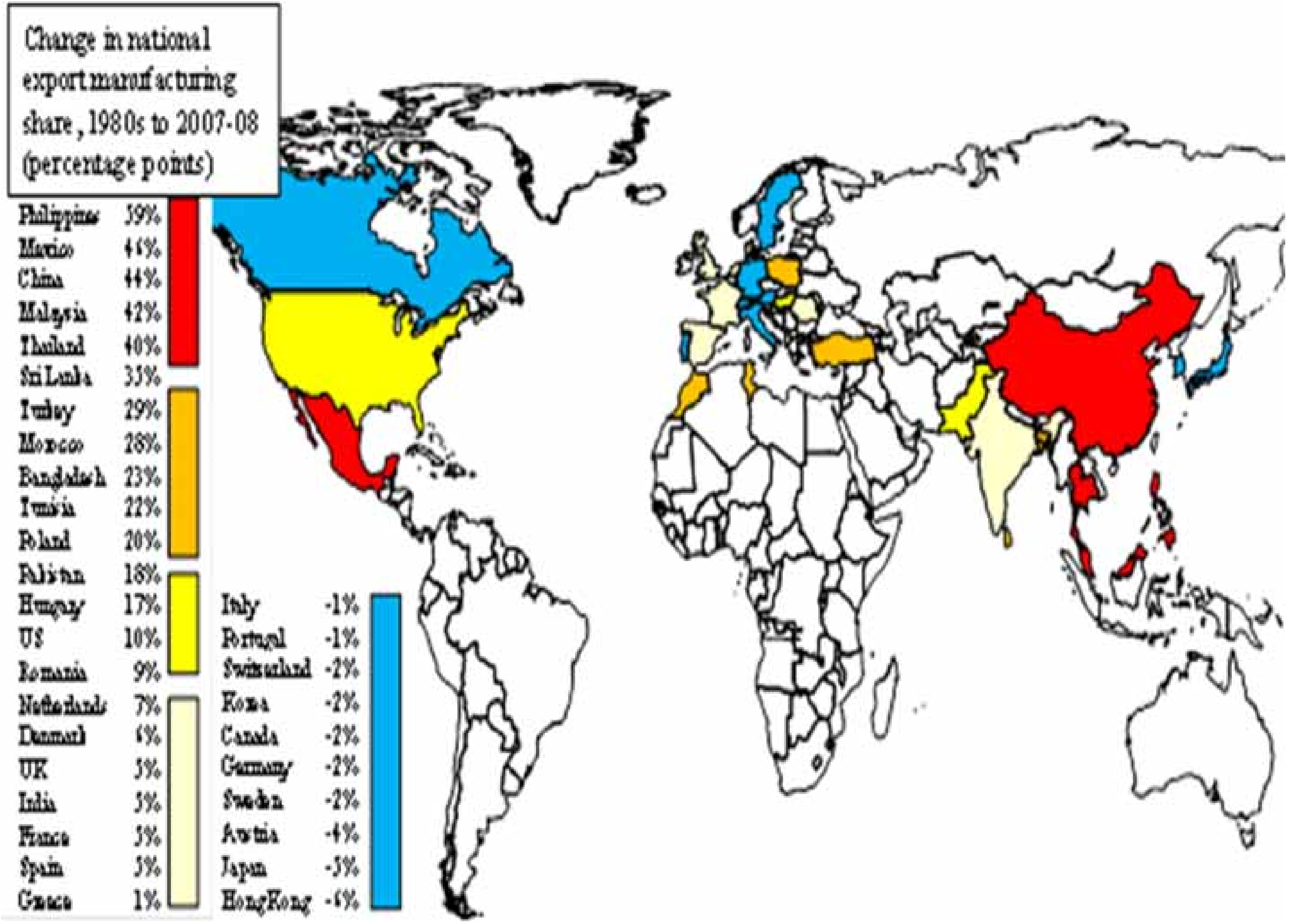
- The DTI’s Trade Policy Framework says that unilateral trade liberalization has failed everywhere, and in SA (unemployment; diversification)
- Therefore decisive state intervention required to shift the growth path away from commodity dependence
- Trade to “serve” industrial policy, especially design of tariffs on sector basis
- In other words “strategic tariff policy”
- Manufacturing, particularly value-added products, the central thrust
- Services are notably not prioritized

Trade Policy Rooted in the IPAP 5



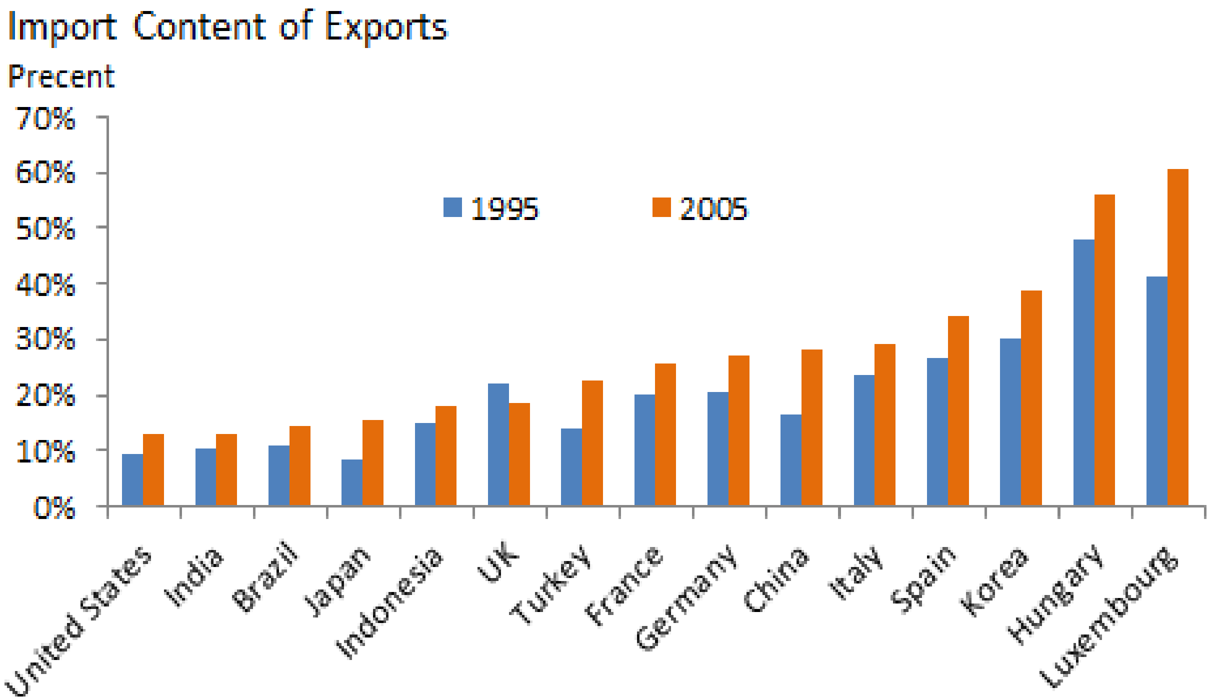
GLOBAL CONTEXT AND DEBATES

Shifting geographic concentration of manufactured exports: Triad plus east Asia



Source: Baldwin and Lopez-Gonzales

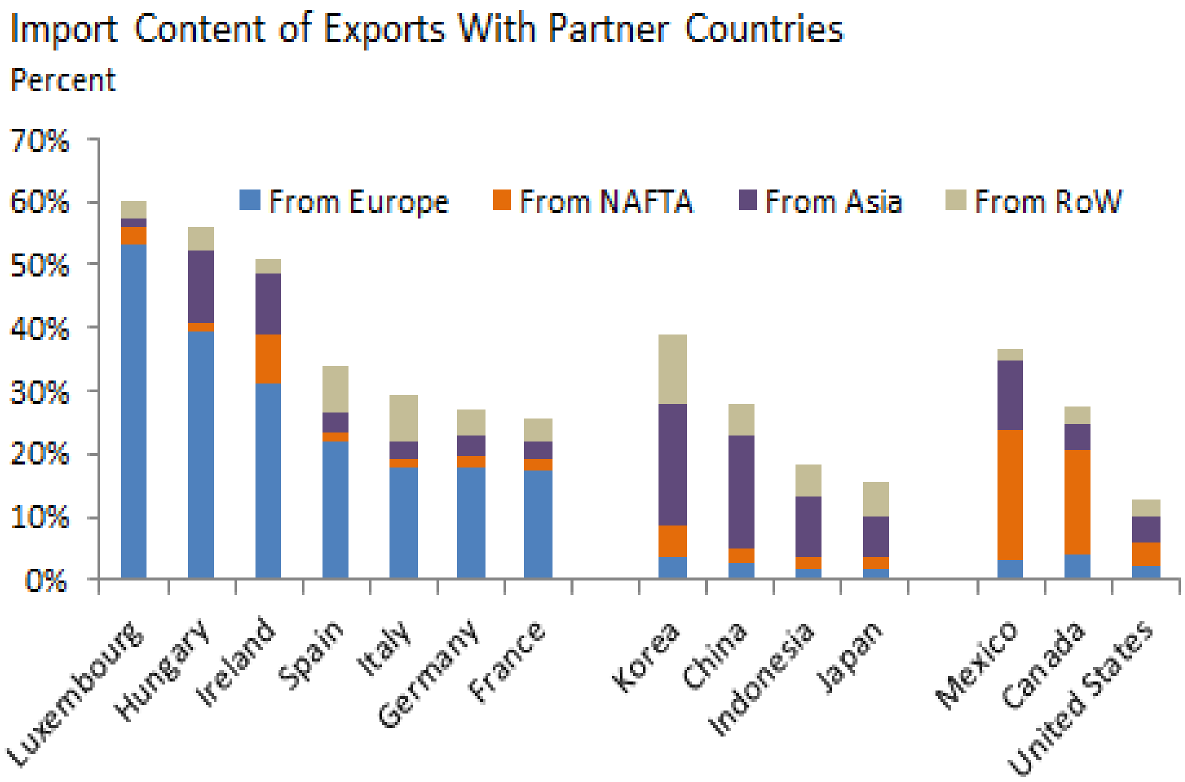
Intermediate product trade is increasingly central



Source: OECD Input-Output Database.

With exception of the UK (finance centre) imported intermediates consistently increased for OECD countries

Proximity to one of the triad economies matters



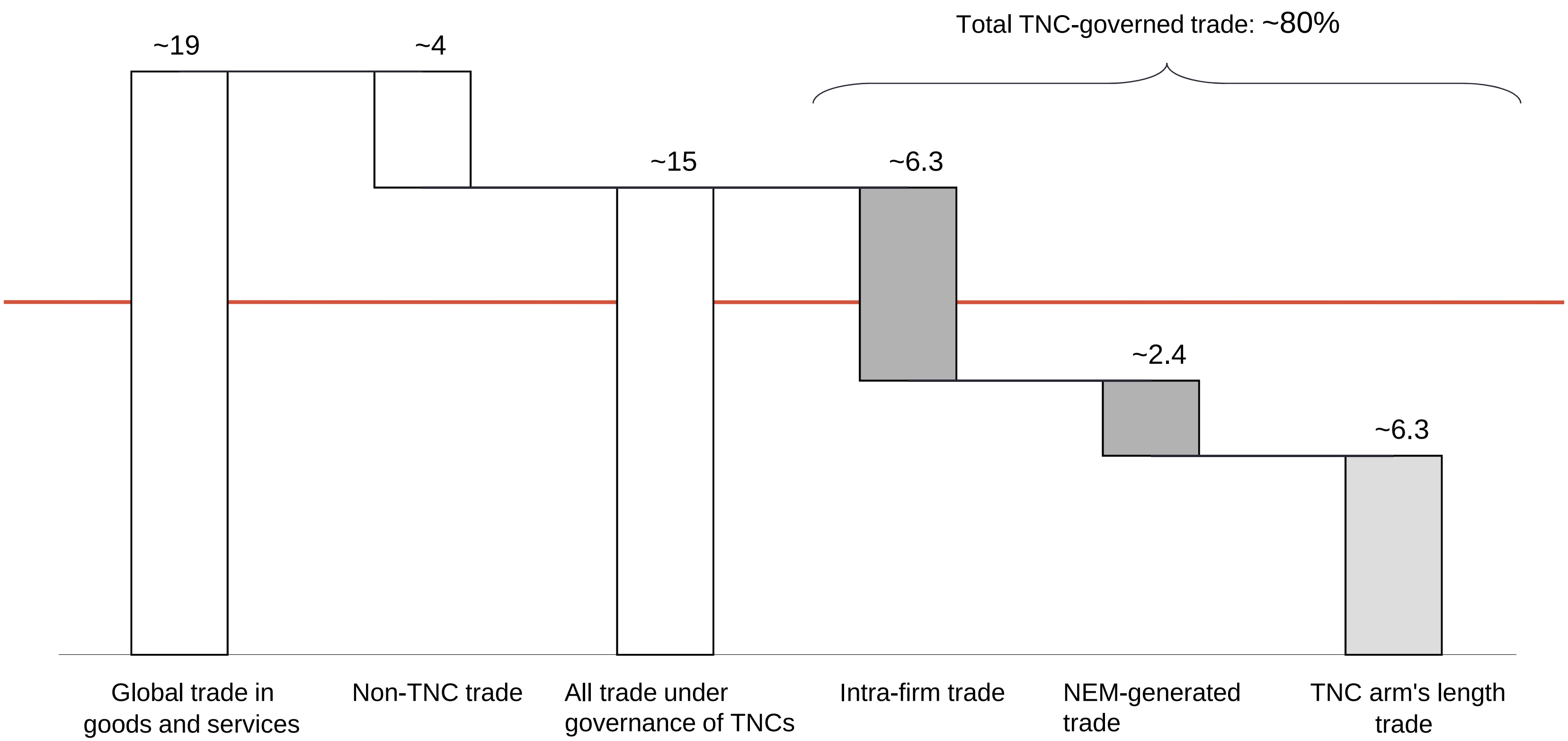
Source: OECD Input-Output Database.

This implies developing countries need to be more open to FDI and trade since we are equally far from the triad economies and our immediate neighbours don't have much to offer beyond resources

This trade is dominated by TNCs, which account for some 80% of global trade now, via their global value chains (GVCs)

Global trade (exports of goods and services), by type, 2010, $ Trillions

ESTIMATES

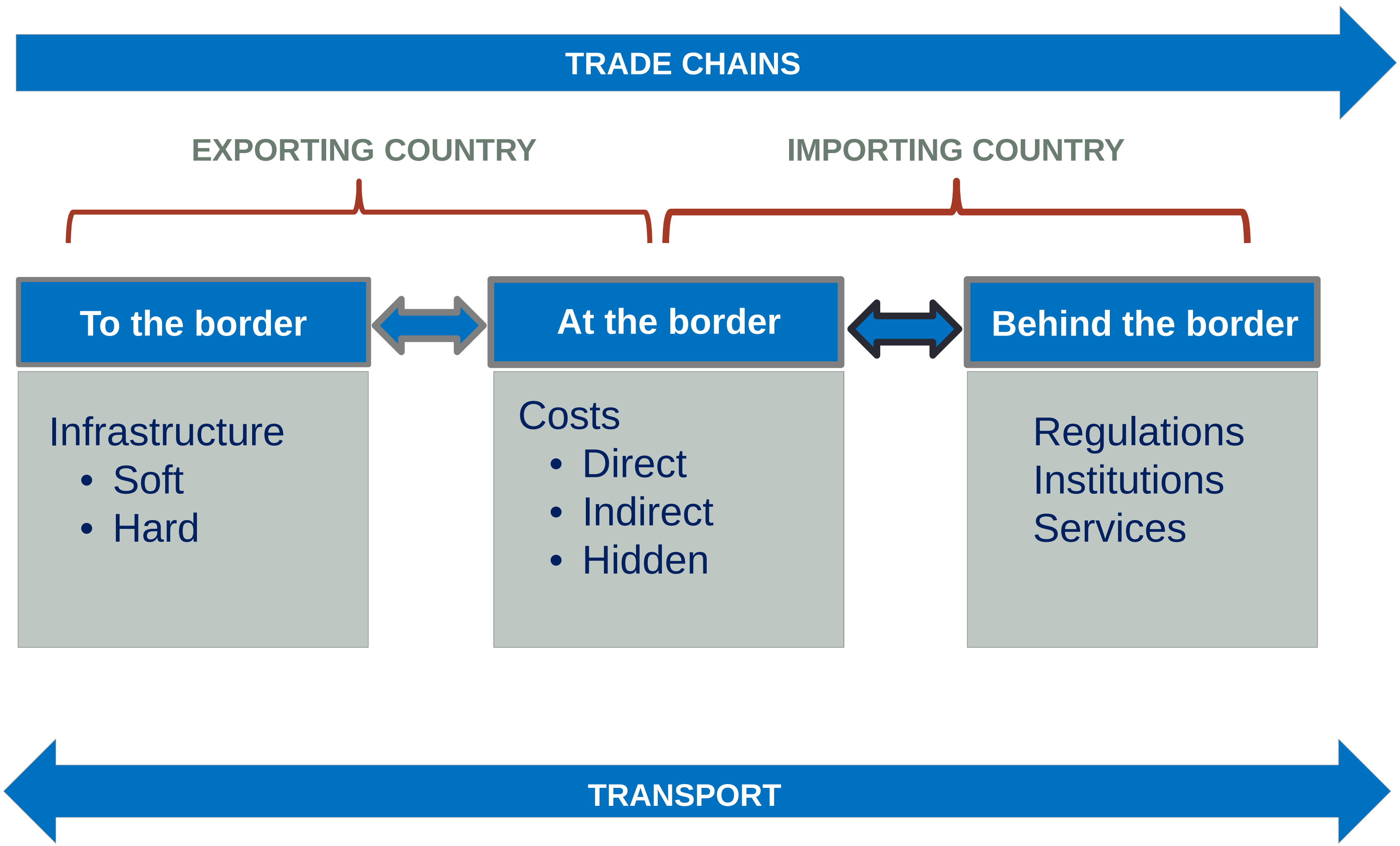


Source: UNCTAD estimates, based on WIR12 (table I.8); BEA; EFIGE.

Promoting manufacturing: ‘Task perspective’

- Shifting geography of global value chains creates opportunities for developing countries
- Drivers:
  - Resource cost pressures (energy; transport; carbon abatement; competition; export restrictions)
  - The ‘China price’ (wages; land; domestic demand)
  - Declining IT costs (competition)
  - Shifting demand (European stagnation; emerging market growth)
- How will these drivers combine to drive value chain relocations?
- What needs to be done to benefit?

Address an array of ‘transactions costs’



Source: OECD

Promoting manufacturing: ‘Task perspective’

- Developing countries/companies should aim to plug in to and develop competitive advantage in specific ‘tasks’ rather than drive the value chain per se
- Then aim to move up the value chain in time
- Fundamentally it is about niches and broadening the division of labour, or increasing specialization
- Trade agreements, especially with triad economies, can serve these objectives well

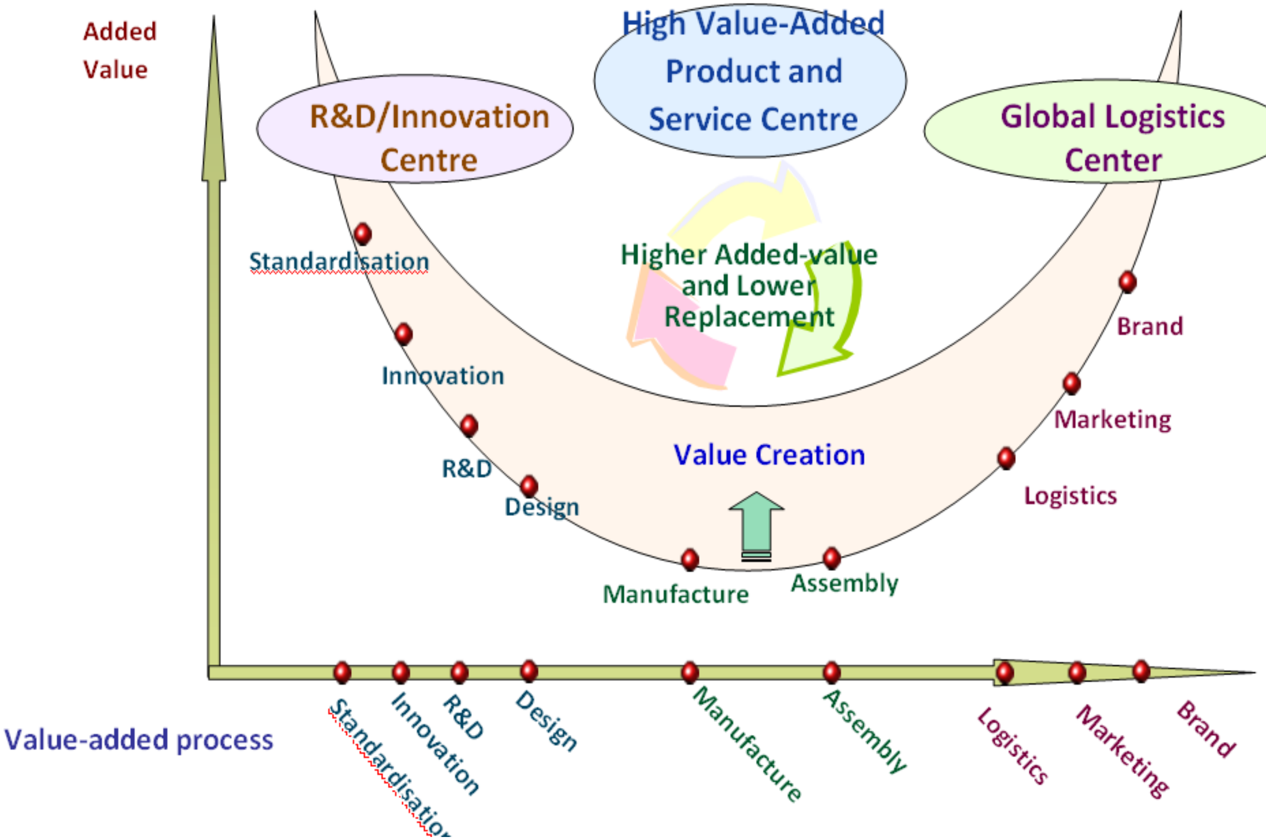
Importance of services

- Many services support manufacturing activity and need to be available on location or be easily accessible at affordable prices
  - Network services are particularly important (energy; finance; telecommunications; transport)
  - A range of others matter a great deal (eg: professional; education; logistics; distribution; etc.)
- Such services are often best provided on location, meaning openness to FDI is important
- Scholars are now researching services value chains as value chains in their own right, increasingly independent of manufacturing and containing higher value-added activities

Services value-added in relation to manufacturing

"Smiley Face": conceptual model of the shift to a high value added, globally integrated, services economy

(*Source:* Business Week International online extra, May 16, 2005, Stan Shih on Taiwan and China)



The “Mega-regionals”

TPP

12 countries

40% of world GDP

Over a quarter of world trade

TTIP

28 countries

45% of world GDP

Almost a third of world trade

39 countries

60% of world GDP

Over 50% of world trade

Source: Dadush (mimeo)

The Promise

- Tighter Alliances (Liberal Democracies)
- Improved Security
- Leadership of “the West”
- Uniform, advanced, global standards
- More open trade and FDI
- Stronger intellectual property rights
- A boost to competitive liberalization

The Reaction: BRICS?

- Counterweight to the G7
- Some broad convergence on international security questions
  - But significant divergence on UNSC reform
- Some convergence on international financial regulation and macroeconomic harmonization
  - Eg: decision to establish a BRICS-led Development Bank
  - But substantial differences, eg currency management
- Some convergence on WTO negotiations
  - Eg: resist plurilateral negotiations
- But substantial divergences on intra-BRICS trade relations, and currently no meaningful agenda in areas of SA strength

The Reaction: BRICS?

- Overall a limited ‘contract zone’ beyond shared desire to block some western prerogatives
- Therefore heads of state want to focus on issues on which they can agree
  - High politics: international coordination in key negotiating forums
  - Low politics: cooperation and mutual facilitation rather than competition

IMPLICATIONS FOR SA TRADE NEGOTIATIONS AND RELATIONS WITH DEVELOPED COUNTRIES

South Africa’s Trade/Industrial Policy Framework

- Where does SA stand in the comparative/competitive advantage, and manufacturing potential, matrix?
- Dangers of generalization, nonetheless:
  - Our comparative advantage still lies in resources
  - Our competitive advantages are centered mostly on resources and services
  - Manufacturing experienced Chinese-style growth rates in the 1960s, and is very unlikely to do so again
  - Therefore job creation is not going to come from this sector
  - State-directed development has its limitations, especially in our institutional and societal contexts
- So we need to dramatically improve our approach to attracting TNC investments in GVCs

Current Mindset: SA Inc Under Siege

SA's Trade Relations with Developed Countries

- They are the source of TNCs, still
- Their competitiveness is oriented increasingly around services
- By and large they don't export labour-intensive manufactures
- But through FDI and exports do promote technology transfer and value addition
- And studies consistently show that they are the best employers to work for, ie they provide 'decent work'

Implications for SA's Trade Relations with Developed Countries

- Currently we only have a trade agreement with the EU, which doesn't cover services and soon investment won't be covered either
- While we have good, duty free access to the US market, this is not likely to be sustained indefinitely
- We have no Asia strategy, apart from a very 'light' potential trade agreement with a highly labour-intensive country, India. What about Japan?
- The challenge in all these cases is to overcome current defensive mindsets, rooted in domestic political economy realities
- Since these countries have very demanding approaches to trade agreements