South Africa’s Trade Policy and Trade Agreements

Presentation to the Parliamentary Portfolio Committee on Trade and Industry

Dr Rob Davies, MP
Minister of Trade and Industry

9 September 2014
Cape Town
SA Policy Context

• SA Government’s broad national development strategy aims to accelerate growth along a path that generates sustainable, decent jobs to address apartheid legacies.

• Elaborated in the National Development Plan and New Growth Path.

• National Industrial Policy Framework (NIPF) and Industrial Policy Action Plan (IPAP) are central components of this strategy and seek to encourage and upgrade value-added, labour-absorbing industrial production.

• Trade Policy and Strategy Framework (TPSF) was adopted in 2010 following an extensive review and consultations including Parliament.

• TPSF sets out that trade policy is an instrument of industrial policy and trade policy must support industrial development and upgrading, employment growth and increased value-added exports.
SA Trade Policy: Setting the Scene

- SA is a relatively open economy, only “moderately” protected by tariffs.
- Simple average MFN applied tariff: 7.7% (down from 23% in the 1990s).
- 56% duties are set at 0%
- Compared to our partners, the tariff regime is transparent and not overly complex (e.g. comparatively few NTBs).
- Services sectors open: WTO Services commitments exceed some OECD countries.
- SA amongst the most open jurisdictions for FDI in the world and provides strong protection to investors in line with high international standards.
SA Trade Reform Experience

• Extensive tariff liberalisation since 1994.
• BUT while SA exports increased significantly, the basket of export goods, with some notable exceptions, remains largely unchanged.
• SA exports continue to be dominated by commodities, except to Africa.
• Labour-intensive production has contracted due to imports.
• Bias towards capital and high skill-intensive growth.
• Hence NDP, NGP and IPAP call for “developmental” trade policies” to encourage and upgrade value-added, labour-absorbing industrial production.
• Improving SA’s export performance requires strengthening productive capacity, exporter development, export promotion and marketing.
• New National Export Strategy being developed by the dti.
## SA’s Top 15 Trading Partners: 1994 and 2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17,720,760,507</td>
<td>Germany</td>
<td>1</td>
<td>China</td>
<td>270,805,136,564</td>
</tr>
<tr>
<td>16,018,191,319</td>
<td>United Kingdom</td>
<td>2</td>
<td>Germany</td>
<td>144,553,250,856</td>
</tr>
<tr>
<td>15,954,930,057</td>
<td>United States</td>
<td>3</td>
<td>United States</td>
<td>129,902,631,814</td>
</tr>
<tr>
<td>13,694,512,201</td>
<td>Japan</td>
<td>4</td>
<td>Japan</td>
<td>93,162,680,107</td>
</tr>
<tr>
<td>8,275,716,749</td>
<td>Switzerland</td>
<td>5</td>
<td>India</td>
<td>80,864,944,753</td>
</tr>
<tr>
<td>5,026,286,415</td>
<td>Italy</td>
<td>6</td>
<td>Saudi Arabia</td>
<td>80,091,800,857</td>
</tr>
<tr>
<td>4,805,751,717</td>
<td>Taiwan</td>
<td>7</td>
<td>United Kingdom</td>
<td>64,153,954,483</td>
</tr>
<tr>
<td>4,484,807,611</td>
<td>Belgium</td>
<td>8</td>
<td>Botswana</td>
<td>49,521,276,279</td>
</tr>
<tr>
<td>4,178,455,241</td>
<td>Netherlands</td>
<td>9</td>
<td>Namibia</td>
<td>47,590,888,426</td>
</tr>
<tr>
<td>3,926,189,907</td>
<td>France</td>
<td>10</td>
<td>Netherlands</td>
<td>45,585,898,595</td>
</tr>
<tr>
<td>3,508,601,614</td>
<td>Zimbabwe</td>
<td>11</td>
<td>Nigeria</td>
<td>42,701,394,871</td>
</tr>
<tr>
<td>3,232,718,577</td>
<td>Hong Kong (China)</td>
<td>12</td>
<td>Mozambique</td>
<td>39,577,890,016</td>
</tr>
<tr>
<td>2,976,188,804</td>
<td>South Korea</td>
<td>13</td>
<td>Italy</td>
<td>36,435,940,544</td>
</tr>
<tr>
<td>2,298,057,872</td>
<td>Singapore</td>
<td>14</td>
<td>Switzerland</td>
<td>31,830,088,523</td>
</tr>
<tr>
<td>2,170,122,515</td>
<td>Iran</td>
<td>15</td>
<td>France</td>
<td>31,680,526,356</td>
</tr>
</tbody>
</table>
Major SA exports to the rest of Africa, US$, 1988-2013, by major manufacturing sector
Key Policy Parameters for Negotiations

- Informed by and support to national development objectives set out in NDP, NGP and IPAP.
- Provide opportunities to increase exports of value added products.
- Should not unduly limit development policy space.
- Should support regional integration.
- National consultation at intra-governmental level (DAFF, SARS, ITAC), and with business and labour in NEDLAC.
- SACU consultations to protect common external tariff.
- Focus areas: exchange of tariff concessions and related rules of origin; related legal provisions.
Regional Integration

• Africa’s growth prospects much improved.
• But current growth path based on consumption and mineral exports is not sustainable.
• Africa requires structural transformation for value addition, diversification and inclusive growth.
• Development integration in Africa is SA priority.
• Market integration, cross-border infrastructure development, industrial development and economic diversification needed – move up GVCs.
• Pursue this in SACU, SADC, T-FTA and C-FTA.
Trade Agreements in Africa

• Southern African Customs Union (SACU) Agreement: Focus on revenue sharing, industrial and infrastructure development, and common positions in trade negotiations.

• Southern African Development Community (SADC) FTA, together with SADC Protocol on Trade in Services.

• Tripartite FTA (T-FTA) – negotiations underway.

• Memoranda of Understanding for technical cooperation.
• Progress to be discussed in a separate PC presentation.
Trade Agreements with Rest of World

- SA-EU Trade, Development and Cooperation Agreement (TDCA) that has now revised as part of the SADC-EU Economic Partnership Agreement – initialled

- SACU-European Free Trade Association (EFTA) FTA

- SACU-Mercosur Preferential Trade Agreement (PTA) – not yet entered into force due to outstanding ratifications on Mercosur side

- SACU-India PTA – under negotiation

- Memoranda of Understanding for economic collaboration.
Tripartite SADC-EAC-COMESA FTA

• T-FTA negotiation underway: behind schedule (2014 deadline).
• Principle: Negotiations are among members with no preferential arrangements in place.
• SACU will negotiate tariffs with non-SADC members of T-FTA (notably EAC and Egypt).
• Agreed Modality for offers: 60% of tariff lines duty-free at entry into force; 25% to be negotiated; 5-8 years implementation.
• Key challenge: Rules of Origin must ensure benefits of preferences accrue to T-FTA Partners, not third countries.
• SA has developed offers and requests, and texts, through NEDLAC, as basis for the SACU position.
• Work underway on N-S Corridor and industrial development.
SADC-EU EPA

- Improves on TDCA access for SA agricultural exports, notably wine, ethanol and sugar.
- EU to eliminate agricultural export subsidies to SACU.
- Reclaimed some policy space on export taxes.
- Stronger safeguard for surges in imports (agric safeguard).
- New Rules of Origin to assist clothing exports and for regional cumulation.
- Agreement on Geographical Indicators (GIs) – including wine, “Rooibos”, “Honeybush” and “Karoo Lamb”.
- Non-binding cooperation on new generation trade issues.
SACU-India PTA

- PTA negotiations since 2007 with progress made on legal texts (Main Agreement and Safeguards).
- Dispute Settlement text agreed.
- Market access requests exchanged in December 2011.
- Concerns from constituencies include India’s request in sensitive sectors (clothing and chemicals) and that NTBs will diminish value of Indian offer.
- Ministers agreed in January 2013 to a reduced level of tariff exchange (level to be agreed).
- PTA to be building block to incrementally grow trade.
- Preparation of SA offer re-started in NEDLAC.
African Growth and Opportunity Act

- AGOA has assisted in growing trade between SA/SSA and the US, and has generated goodwill.
- SSA calling for a 15-year extension of AGOA beyond expiry in September 2015.
- Bipartisan and Administration support in US to extend.
- Some questions about SA and idea of graduation.
- We advocate to build on existing arrangement, avoid any adjustment that would undermine relationship.
- AGOA should be strengthened to support Africa’s regional integration agenda more directly.
- Priority is to build a virtuous cycle of trade and investment.
BRICS Forum

• BRICS membership since 2011 has become a vital element of SA’s global economic strategy.
• BRICS account for about 20% of SA’s total trade.
• Major priority is to shift the structure of trade and promote more value-added exports from SA to support IPAP.
• As Chair, SA coordinated Joint Trade Study to this effect.
• SA and China also agreed to promote 10 value-added products and 10 investment projects.
• Other areas of cooperation: trade and investment promotion, e-commerce, SMEs, technology.
• Business Forum and Business Council play key role.
• Need to harness BRICS support to advance Africa’s structural economic transformation and infrastructure development.
World Trade Organisation (WTO)

- SA supports multilateralism to manage interdependence.
- WTO sets rules for world trade, with dispute settlement.
- Existing rules often prejudice developing country interests.
- Doha Round aimed to rebalance rules in favour of developing countries.
- Mandate steadily eroded: Reform of agriculture moderated but increased pressure to open emerging country markets in industry and services.
- For SA, no new market access but significant market opening.
- Effective resistance to an unfair deal by BICS, Africa Group, G20 and G90 contributed to impasse since 2008.
World Trade Organisation (WTO)

- WTO MC9 in Bali delivered first outcome of Doha Round following prolonged impasse.
- MC9 imbalanced: demand for Trade Facilitation Agreement by industrial economies was met while issues of concern to developing countries postponed indefinitely.
- Imbalance in process lead to deadlock on 31 July 2014 when Members were to incorporate TFA in to WTO Agreement.
- SA will continue to build alliances with BICS, Africa Group, G20, G90 to champion balanced outcomes on the issues.
- SA can implement TFA but will support African countries requirement for technical/financial support as prerequisite to accepting obligations.