Are South Africa's trade, industrial, and investment policies appropriate for our domestic challenges?

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Overview

1. The ‘new’ global debate over trade, industrial, and investment policies
2. One side of the coin: mega-regional trade agreements
3. Is this approach best suited to our political-economy realities?
4. Recommendations for South Africa’s approach to trade and investment agreements
The ‘new’ debate over trade, industrial, and investment policies

- Context: rapid growth of cross-border value chains (GVCs), integrating trade and investment through activities of multinational corporations (MNCs)

- Emergence of “Factory centres” coordinating these GVCs
  - Factory America (NAFTA)
  - Factory Europe (EU)
  - Factory Asia (Japan; China?)
  - Rise of services as key integrators of GVCs

- Question: whether to integrate into these “Factories”? 
  - Policy choices, particularly concerning orientation towards MNC investments and trade 
  - Role of trade and investment agreements
## GVCs policy approaches and critiques: A selective review

<table>
<thead>
<tr>
<th>Adherents</th>
<th>Critics</th>
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<tbody>
<tr>
<td>• Upgrading in GVCs through investments in horizontal enablers</td>
<td>• Upgrading in GVCs through selective industrial policies targeting MNC technologies</td>
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<td>• “Behind the border reforms” to strengthen trade rules</td>
<td>• “Policy space” to condition FDI</td>
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<td>• Tariff liberalization (intermediates)</td>
<td>• Import protection in order to “own the value chain”</td>
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<td>• Relaxed rules of origin</td>
<td>• Tighter rules of origin</td>
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Issue 1: Fear of entrapment in comparative advantage

**Pros**
- Upstream in GVC process attracting potential FDI.
- Invest rents into network services.

**Cons**
- Does not capture sufficient value for the economy.
- Potential to be caught in a resource trap.

Diversification out of resource extraction is key, but into what?
Issue 2: Fear of iniquitous outcomes

Pros
- Labour intensive, creating employment.
- Upgrading possible if right horizontal conditions in place.

Cons
- Value is captured by MNCs.
- Footloose nature of FDI in developing countries.
### Issue 3: Impact on the fiscus and regulations

<table>
<thead>
<tr>
<th><strong>Pros</strong></th>
<th><strong>Cons</strong></th>
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<tbody>
<tr>
<td>Incentives may attract FDI investment eg. manufacturing sector.</td>
<td>Incentives packages perforate fiscus.</td>
</tr>
<tr>
<td>Could lead to ‘race to the top’ through policy competition to attract FDI.</td>
<td>Could lead to ‘race to the fiscal bottom’ and inappropriate liberalization.</td>
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Issue 4: Focus on regional value chains?

**Pros**
- Less onerous requirements for participation in value chains.
- Potential for increased regional economic stability.

**Cons**
- Weak regional firms.
- GVC logic applies to RVCs. Liberal policies attract capital.
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One side of the coin: mega-regional trade agreements
TPP and TTIP stand out…

<table>
<thead>
<tr>
<th>TPP</th>
<th>TTIP</th>
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<tbody>
<tr>
<td>- 12 Countries</td>
<td>- 28 countries</td>
</tr>
<tr>
<td>- Different levels of development</td>
<td>- Different levels of development</td>
</tr>
<tr>
<td>- 40% of world GDP</td>
<td>- 45% of world GDP</td>
</tr>
<tr>
<td>- Over a quarter of world trade</td>
<td>- Almost a third of world trade</td>
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</tbody>
</table>

39 countries
60% of world GDP
Over 50% of world trade
One side of the coin: mega-regional trade agreements

• Negotiation of mega-regional agreements are different from negotiations of other bilateral and regional agreements:
  • Three economies party to the agreement are hubs in GVCs (as evidenced by their share of trade in intermediate goods and tasks in the region)
  • Forging new rules to govern “GVCs trade and investment” is an explicit goal
  • Coverage goes deeper and beyond existing WTO rules, RTAs and BITs (addressing a minimum of areas and regulatory reform essential to 21st century world markets)
  • Parties to the agreement are engaged in multiple RTAs with third-party economies and enjoy extensive trade and investment exchange with a significant number of non-members (Hubs and spokes)
  • Assuming successful outcomes (opinions are divided on this) non-parties will be pressured to conform through “competitive emulation”
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Structural issues any South African economic plan has to engage with

• South Africa’s relationship to the global economy
  • Continued commodity dependence
  • Manufacturing in relative decline
  • Labour-intensive Asian competitors
  • “Gateway” (to Southern Africa) status still has some way to run
  • Strong services base, relative to regional competition

• Global financial crisis:
  • Concentrated on the capitalist core
  • Implications for neoliberal economic policies

• Relative success, until recently, of state capitalist ‘alternatives’
  • Especially China
  • Brazil (‘Lula moment’)
Structural issues any economic plan has to engage with

- SA’s dualistic domestic economy
  - Urban-rural divide
  - Agriculture constrained by climate and land reform challenges
  - Rich-poor divide (largely along racial lines)
  - Huge skills gap linked to past educational endowments
  - Enduring inequality – notwithstanding gains since 1994

- Ongoing labour market disruptions and issues associated with bargaining regimes

- Deteriorating governance and institutions, linked to the ANC’s evolving internal crisis
Locating the policy swings and roundabouts

NGP
- Growth through redistribution
- Left academia and think-tanks
- COSATU
- SACP

GEAR
- Growth with redistribution
- Liberal academia & think tanks
- Big business
- ANC centre right

RDP

ASGISA

NDP
Growth plans pulling in opposite directions since 1994

Labour market tightening
- BEE
- LEA

Goods market liberalization
- Trade liberalization
- SOE privatization
- Deregulation of agriculture

Loosening property rights
- Minerals
- Land
- FDI

Policies moving in opposite directions

Poverty, inequality, unemployment
Required: A Resolution – but how?

• Our domestic political crisis is deepening and likely to get worse
• Populist politics is on the rise, and will make the confused economic policy situation worse – potentially much worse
• Criminal and patronage networks are extending their reach in the state
• The solution is not likely to come from the ANC
• The alternatives are scary to contemplate (although ultimately unavoidable and could be positive)
• Are external solutions, even if only partial, conceivable?
Could this be the solution? It would require a focused “GVCs friendly” effort…

Factory Southern Africa?
SACU in Global Value Chains

Summary Report

November 2015

WORLD BANK GROUP
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Many developing countries look to “lock-in” certain economic policies through trade agreements with powerful external partners. Take three relevant to South Africa’s context:

- Formerly communist East European countries joining the EU
- China joining the WTO
- Malaysia and Vietnam signing up to the TPP (consider the implications for government procurement and SOEs, respectively)

External constraints have already proved important in South Africa, most recently:

- The fracas around AGOA renewal (with due apologies to poultry producers this is about much more than chicken)
- The long-delayed signature of the Private Security Industry Regulatory Authority Amendment Act

Recommendations for South Africa’s approach to trade and investment agreements
**Recommendations for South Africa’s approach to trade and investment agreements**

- Adopting an explicit “GVCs-friendly” approach would leverage the “Factory SACU” proposition.
- Most gains would be in services, but high-end manufacturing and assembly could benefit too.
- Exporting this policy approach into the region could export regulatory stability, and enhance the regional investment environment for South African firms as well as MNCs.
- This requires embracing the GVCs policy package, and tailoring it to South African realities, for example:
  - Stronger property rights in general, or at least capping the erosion of property rights.
  - Stronger protections for foreign investors.
  - Building regional services value chains and emphasising this in negotiations.
  - Strong trade facilitation focus, especially border procedures and logistics.
  - Regional tariff liberalization – requiring compromises on domestic/SACU tariff liberalization (especially for intermediates such as steel).