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

Adherents

- Upgrading in GVCs through investments in horizontal enablers
- "Behind the border reforms" to strengthen trade rules
- Tariff liberalization (intermediates)
- Relaxed rules of origin

Critics

- Upgrading in GVCs through selective industrial policies targeting MNC technologies
- "Policy space" to condition FDI
- Import protection in order to "own the value chain"
- Tighter rules of origin

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

Pros

- Incentives may attract FDI investment eg. manufacturing sector.
- Could lead to 'race to the top' through policy competition to attract FDI.

Cons

- Incentives packages perforate fiscus.
- Could lead to 'race to the fiscal bottom' and inappropriate liberalization.

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


WORLD ECONOMIC FORUM

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Global Agenda Council on Trade & Foreign Direct Investment

Mega-regional Trade Agreements

Game-Changers or Costly Distractions for the World Trading System?

July 2014

TPP and TTIP stand out…

TPP

- 12 Countries
- Different levels of development
- 40% of world GDP
- Over a quarter of world trade

TTIP

- 28 countries
- Different levels of development
- 45% of world GDP
- Almost a third of world trade

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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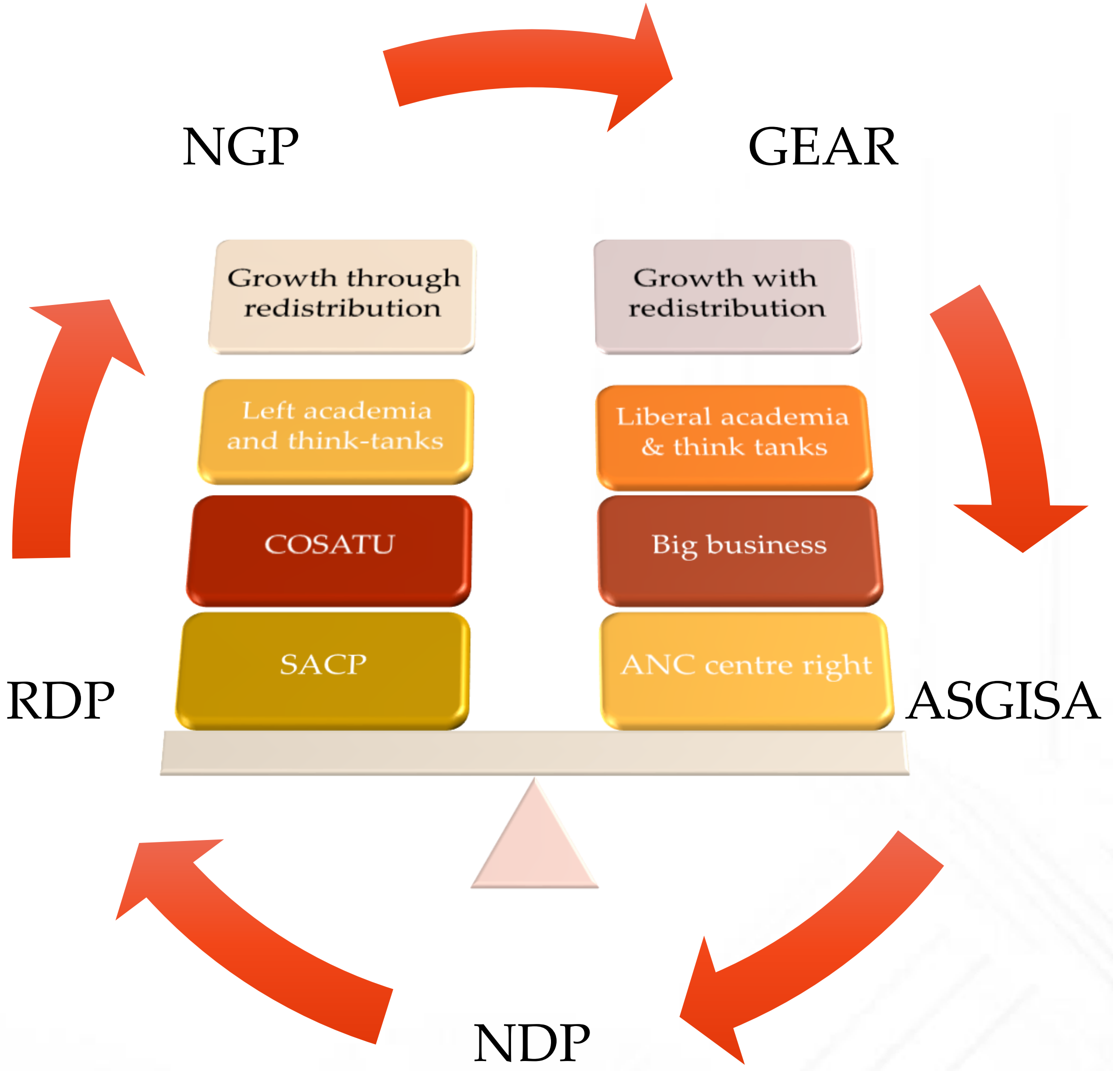
Structural issues any South African economic plan has to engage with

- 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')

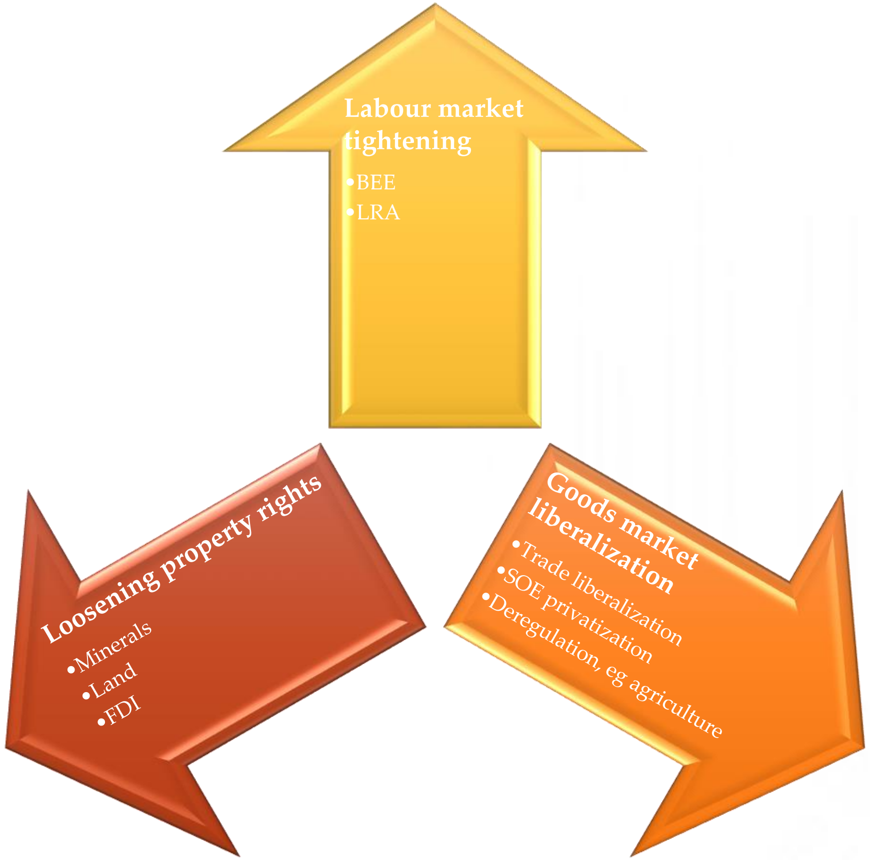
Structural issues any economic plan has to engage with

- 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



Growth plans pulling in opposite directions since 1994



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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Recommendations for South Africa's approach to trade and investment agreements

- 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

- 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)

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