



Update on South Africa's Trade Negotiations and future outlooks

Presentation to NEDLAC

by

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2 November 2018

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South Africa's Trade Policy: TPSF Priorities

- Informed by policy objectives in NDP, NGP and IPAP
- Trade Policy is critical to support industrial development:
 - Improve access to other markets – create economies of scale and improve SA competitiveness;
 - Carefully identify and protect SA sensitivities.
- Provide opportunities to increase value added exports and encourage labour-absorbing industrial production.
- Should not unduly limit development policy space.
- Should support regional integration – implementation of development integration to change the structure of trade.
- Maintain trade and investment relations with industrial economies.
- Work to build industrial complementarities and shift structure of trade with dynamic economies of the South, e.g. BRICS.

Approach to tariff setting

- ***Tariffs are instruments of industrial policy and call for developmental tariff setting***
- Tariff setting must support industrial and employment objectives
- An evidence-based, case-by-case assessment will inform changes to tariffs (no *a priori* position) – vital role for ITAC
- Implies:
 - Reduce tariffs on mature upstream input industries → lower the costs for downstream, labour creating manufacturing
 - Raise tariffs on downstream industries with employment or value-addition potential → ensure sustainability and job creation (while observing international trade obligations)
- Common External Tariff with SACU countries.

Global developments

- Multilateral trading system is facing unprecedented challenges.
- Impact of globalization has been uneven accompanied by rising inequality, leading to backlash against globalisation and trade agreements.
- US seeking partisan review of trade agreements such as USMCA (previously NAFTA), prefers bilateral agreements and is implementing unilateral measures under the auspices of national security (some problematic under WTO rules).
- Emergence of trade wars.
- At the centre of this is the demand to rebalance trade rules to benefit of US and curb rise and influence of China (subsidies on industrial, agriculture and 4IR) – first started by the US, now supported by the EU and Japan.
- “War by mastery over the 4IR” (Clause Schwab) and China’s Made in China 2025.
- Increased use of standards and NTBs, especially in developed country markets.
- Underscores importance of regional economic integration – AfCFTA, TFTA.



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SA-US relations

- Total trade has increased from R129.9 billion in 2013 to R161.4 billion in 2017.
- SA exports to the US grew from approximately R67 billion in 2013 to R88.6 billion in 2017. US exports grew from R63.0 billion to R72.8 billion in 2017.
- US imposed Section 232 measures on the basis of national security provisions of the GATT – no jurisprudence in the WTO.
- Section 232 duties affect SA exports of steel (25%), aluminium (10%), autos and components still subject to investigation.
- Poultry TRQ of 65000 tons subject to SA still benefiting in AGOA based on the same terms - SAPA's court case an important leverage.
- US-Mexico-Canada Agreement (USMCA) an indication of a new trade agreement standard.



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SA-US relations

- USMCA key provisions:
 - Rebalances trade to support manufacturing in USA;
 - Strengthens product-specific rules by requiring 75% percent of auto content be made in the US and Mexico and stronger rules for other industrial products such as chemicals;
 - Re-shore vehicle and parts production in the US;
 - Creates new labor value content rule requiring that 40-45% of auto content be made by workers earning at least \$16 per hour. Prohibits the importation of goods produced by forced labor;
 - Establishes procedures that streamline certification and verification of rules of origin and that promote strong enforcement -new cooperation and enforcement provisions that help to prevent duty evasion;
 - ISDS will be eliminated between Canada and the US, and scaled back between Mexico and the U.S to only claims related to direct expropriation, post-establishment national treatment and investors must also first try to resolve the disputes through domestic courts;
 - Prohibits use of export subsidies and WTO special agriculture safeguard;
 - Includes issues such as IP, services, digital trade, environment, labour.



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WTO

- Disabling of AB in WTO accompanied calls for WTO reform and modernisation mainly driven by the US and now supported by EU and Japan.
- Aims to update the WTO rulebook to 'fill in' gaps to level the playing field.
- Proposals mainly cover six issues aimed at:
 - Narrowing the scope and application of S&DT- S&DT will only be limited to time period but effectively same commitments;
 - Adjusting the principle of consensus decision making;
 - Regularising plurilateral agreements;
 - Tightening rules on industrial subsidies, SOEs and IPRs;
 - Strengthening rules on transparency and notification; and
 - Enhancing the role of the Secretariat in negotiations.
- All these ultimately reduce/eliminate differentiation.



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Regional Integration

- Regional integration and aspirations of Agenda 2063 entrenched in SA national priorities.
- In 2015 WTO provided a comparative analysis of intra-regional trade as follows:
 - ❑ intra-Africa trade at 18%;
 - ❑ intra-Asian trade at 52%;
 - ❑ intra-North American trade at 50%; and
 - ❑ intra-EU trade at 70%.
- Africa's share of world trade estimated to be at 3%. This proves that Africa needs to do more to expedite market integration.
- South Africa is the largest contributor to intra-Africa trade, accounting for over 24.9% percent of intra-Africa trade, with its trade with the rest of the continent increasing by 8.6% to US\$31.92 billion (R478.8 billion) in 2017.



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Approach to Africa Regional Economic Integration

- Recognizes that the much advocated linear integration model is not suitable for countries of very different levels of economic development.
- Argues that major barriers to intra-regional trade are often inadequate infrastructure and underdeveloped production structures, rather than tariffs or regulatory barriers



**Development
integration**

- Market integration - FTAs
- Industrial development
- Infrastructure development



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Importance of Africa REI to SA

- In the context of global trade wars and general upheaval, integration in the Continent becomes even more important.
- African market is important for SA manufactured goods and services:
 - Destination for 30% of total SA exports (R311 bn and 63% manufactures).
- Significant imports into SA: oil, electricity and gas and water.
- Development of value chains to increase trade and investment:
- Investment-led approach to build industrial capacity in RoAfrica;
- Competition in the RoAfrica is increasing; SA competitiveness is critical;
- Preferential trade already taking place: SACU, SADC
- Frameworks in place for broader FTAs (AfCFTA and TFTA)



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Southern African Customs Union (SACU) Review

- SACU review underway.
- Resistance from BELN.
- Key issues include:
 - reviewing the architecture on tariff setting and administration
 - identify public policy interventions and tools to promote RVCs;
 - Strengthening cooperation on trade facilitation to improve border efficiencies and address behind the border issues such as SPS measures;
 - Exploring new ideas regarding the revenue sharing arrangement (RSA);
 - SA to continue to be the manager of the CRP) due to its advanced financial markets and it being the economic hub of the region.
 - Assessing the feasibility of establishing a regional financing mechanism (RFM) for regional industrial and infrastructure projects.



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Southern African Development Community (SADC)

- 13 SADC MS have established a Free Trade Area (FTA) – Angola, DRC and Comoros still to join the Trade Protocol.
- Zimbabwe have applied for a special dispensation. South Africa is engaging on this with Zimbabwe. Have indicated concerns raised by private sector. This includes the fact that the number of lines applied for is too much (995) and the period of 8 years should be reviewed.
- All 15 countries in SADC have signed the Services Protocol - negotiations in transport, financial, telecommunications and tourism finalised. Negotiations in energy and construction services still ongoing.
- Regional Industrial Development strategy approved



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Tripartite Free Trade Area (TFTA)

- Key focus is to unlock industrial development through the RVCs and promote intra-regional investments
- The T-FTA have been signed by South Africa and ratification processes have been finalized. South Africa's instrument of ratification will be now be deposited.
- Tariff negotiations between SACU-EAC are very advanced and the next round of negotiations are aimed at conclusion.
- Negotiations with Egypt have been delayed but commitment from all the parties to reenergize the negotiations.
- Potential Benefit for SA
 - Access to dynamic and new markets
 - TFTA countries are among the fastest growing economies in the continent, i.e. Rwanda, Ethiopia, Tanzania etc.
 - South Africa will build on its current share of the African market and have access to a larger, more integrated, and growing regional market.
 - This has the potential to stimulate industrial development, investment and job creation.



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African Continental Free Trade Area (AfCFTA)

- The AfCFTA creates a single market for goods and services in Africa.
- Objective is to expedite continental integration and enhance intra-Africa trade and investment.
- According to UNECA, AfCFTA promises to unlock intra-Africa trade to grow by 52% by 2022.
- 49 members of the AU have signed the agreement.
- SA signed on 1 July 2018 on the margins of the 38th Session of the Ordinary Session of AU Assembly of HoS and Governments.
- Entry into force requires 22 member states to deposit instruments of ratification.
- 7 countries have ratified the AfCFTA: Kenya, Rwanda, Ghana, Niger, Chad, eSwatini and Guinea Conakry.
- SA's ratification process is far advanced and the aim is to submit South Africa's instrument of ratification by the next AU Summit in January 2019.



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Economic Partnership Agreement (EPA)

- EU as block remains SA's biggest trading partner.
- The SADC-EU EPA Agreement is now in 3rd year of implementation.
- Total trade between SA and EU increased from R150bn to R 588 billion between 2000 and 2016. SA exports to the EU increased from R 64 billion to R250 billion.
- SA exports to the EU led by vehicles which contributed 26% in 2016.
- The EPA offers new opportunities mainly for SA exports of ag products.
- Key challenges include:
 - Poultry safeguard for the EU;
 - Vehicles with engine capacity of 1000cc and below;
 - Wheat – “first come first served”;
 - Implementation of safeguard measure on SA steel by EU contrary to the EPA;
 - Trade in agriculture products for both parties;
 - Discussing a package to be agreed by the SA-EU Summit.



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Rollover Agreement with United Kingdom(UK)

- The UK is South Africa's 2nd biggest trading partner in the EU. For agricultural products, the UK is SA's biggest trading partner in EU.
- Brexit – discussions with UK advanced to roll over the EPA. “Hard Brexit” likely, important to conclude roll-over Agreement by March 2019.
- Aim to table Agreement in Parliament in February 2019 for ratification.
- Key areas being discussed:
 - TRQ for SA into the UK:canned fruit, frozen orange juice, apple juice, wine, citrus jam, dairy products, active yeast, isoglucose, sugar (raw and refined) and ethanol. Principle agreed to use current trade flows between SA and UK as basis;
 - Preserve the existing value-chains, requires negotiation of cumulation;
 - Transitional arrangement to ensure continued acceptance by the parties of certificates of origin, permits/licenses/certificates for imports issued by the EU before the UK officially exits the EU;
 - Build-in Agenda for issues that can't be negotiated before UK officially exits the EU.



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European Free Trade Association (EFTA)

- EFTA comprises of Iceland, Liechtenstein, Norway and Switzerland
- The agreement was signed in 2006 and entered into force on the 1st May 2008
- The trade balance between South Africa and EFTA has consistently been in SA's favour
- The Agreement has been due for review since 2013 but was postponed pending the conclusion of the EPA negotiations.
- The review has started and 3 negotiations rounds have been held so far.
- Improvement of SACU's access to EFTA will only be on basic and processed agricultural products.
- DFQF treatment is already applied to all non-agricultural products.
- Progress is being made and intention is to finalise review by mid 2019.



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MERCOSUR

- MERCOSUR comprises of Argentina, Brazil, Paraguay and Uruguay.
- The PTA is aimed at promoting trade between the two sides on over 1000 tariff lines on both sides.
- Offers preferential margins of between 10% and a 100%.
- The PTA entered into force on 1 April 2016.
- Private sector encouraged to take advantage of the Agreement.
- MERCOSUR interested to review the agreement and expand its scope and coverage.
- Agreement is to be reviewed after 2021 and that would offer an opportunity to identify areas for a review, including experiences of traders and assess the rational to expand its scope.
- Need to assess outcomes of elections in Brazil and implications for trade.



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INDIA

- PTA can boost south-south trade in a targeted manner.
- More focused approach to tariff preferences compared to FTA.
- Also provides legal-institutional framework to manage trade.
- Difficulty in finalising SA/SACU offer - Concerns raised with negotiations include NTBs in the Indian market and requests by India in sensitive sectors like textiles and clothing.
- Looking at reduced level of tariff exchange coverage and use the PTA as an incremental building block to enhanced trade in future.
- High Level meeting to be held between SACU and India to discuss way forward in the negotiations in light of the difficulties highlighted.



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