South Africa’s Trade Policy and Trade Agreements

Presentation to NEDLAC

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SA Policy Context

• SA Govt’s 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 and Industrial Policy Action Plan 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.

• 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.
• 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.
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 and vital to SA:
  - 3 out of top 15 SA trading partners are African countries (Botswana, Namibia, Mozambique).
  - Africa is our biggest market for manufactured exports
- But current growth path in Africa 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, infrastructure and industrial development: economic diversification
- Move up GVCs.
- Pursue this in SACU, SADC, T-FTA and C-FTA.
SACU

• SACU is the world’s oldest customs union- established in 1910 to serve British colonialism; after 1948, interests of apartheid regime.
• In 1994, SA initiated re-negotiation that were concluded in 2002 and new SACU Agreement entered into force in 2004.
• The new Agreement democratizes SACU; retains common external tariff (CET) for imports; retains a revenue sharing formula (RSF) favouring the BLNS.
• Seen as ‘compensation’ to BLNS for lack of policy discretion as SA contributes around 98%, BLNS receive around 55% of the proceeds.
• In 2013-14, total disbursement will be approx R70bn, of which BLNS will receive R48bn.
SACU ctd

• Agreement has enabling provisions for development of common policies and institutions.
• Key policy areas include industrial policy, and cooperation on competition and agriculture policy.
• Provisions provide for National Bodies and a SACU Tariff Board to make recommendations to SACU Council on tariffs, trade remedies (anti-dumping, countervailing and safeguard duties) and rebates.
• Until institutions established, functions are delegated to the International Trade Administration Commission (ITAC) in SA.
• For SA, key is to transform SACU into a development integration arrangement that stabilises the revenue pool and allocates a portion for regional infrastructure and industrial development projects.
**SACU ctd**

- Six-point, integrated plan agreed in 2010:
  - Review the RSA;
  - Prioritise work on regional industrial development;
  - Work to promote trade facilitation;
  - Develop SACU institutions;
  - Strengthen unified engagement in trade negotiations; and
  - Trade in services was added as sixth priority in 2013

- Progress is uneven:
  - Little meaningful progress on the review of the RSF.
  - Lack of institutional development due to divergences in policy perspectives.
  - Progress on trade facilitation and trade negotiations – however challenges with TFTA.
Policy debates in SACU

- BLNS seek co-determination on policy over industrial, trade and excise duties through establishment of the SACU Tariff Board (TB).
- SA views tariffs as instruments of industrial policy while tariffs are a major source of government revenue for others.
- SA deploys rebates to promote industry, BLNS see this as revenue foregone for which additional compensation is sought.
- Challenges arise when one member proposes cheap imports that undermines the industry of another.
- Central challenge is different economic needs due to differences in economic size and levels of development and compounded by consensus decision making.
Implications of a SACU TB

• SA will be required to cede decision making on tariff policy.
• Divergences will make SACU Tariff Board a site for horse-trading or gridlock, with serious implications for SA industry.

• Options for SA:
  – Establish the TB and cede policy.
  – Allow for BLNS representation in ITAC with risks on how ITAC functions.
  – Maintain the status quo with current revenue arrangement, and SA retains tariff policy discretion with enhanced consultations on tariff amendments, alongside cooperation cross-border industrial and infrastructure projects.
SADC

• 12 SADC MS have established a FTA – priority is the consolidation of the FTA rather than establishment of CU .
• Seychelles is in the process of acceding.
• Non-adherence with commitments by Zimbabwe, Malawi and Tanzania- possibly Zambia.
• Little progress despite continuous engagement with these MS bilaterally and through SADC.
• The 2014 Summit theme focused on industrialization and resource beneficiation.
• SA supports MS industrialisation efforts but within the rules outlined in the TP and not at SA expense to the benefit of third countries.
Tripartite SADC-EAC-COMESA FTA

• TFTA has the potential to significantly increase SA’s trade and investment.
• 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 under pressure on double stage transformation - need to be proactive and explore options: eg. open where SA has no production; consider quotas.
Economic Partnership Agreement

- 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.