CONGRESS 2016
FIT FOR THE FUTURE

agbiz
agricultural business chamber
the way to prosperity
70 years 1946 – 2016

PO Box 76297, Lynnwood Ridge, South Africa, 0040

Grain Building, 1st Floor, 477 Witherite Street
The Willows, Pretoria, South Africa, 0184

Tel. +27 12 807 6686, Fax. +27 12 807 5600
admin@agbiz.co.za, www.agbiz.co.za

Vat nr. 4920204684

10 June 2016

Media release

Clear, focused trade policy a must

South Africa has to find its path among the complexities of the so called "new" debate over trade, industrial and investment policies. The question is if the country should protect itself with strict measures dictating foreign investment and trade or allow the multinational companies to invest and update the rules of the game.

This is the view of Peter Draper, managing director of TUTWA Consulting, who discussed the intricacies of local trade developments at the Agbiz congress.

Draper said that South Africa has to keep the boat afloat among very complex agreements against the background of internal conflicting policies and needs.

Factory centres

The context of the debate is the rapid growth of cross-border value chains (GVCs), integrating trade and investment through activities of multinational corporations (MNCs) and the emergence of "factory centres" coordinating these GVCs. These are:

- Factory America (NAFTA)
- Factory Europe (EU)
- Factory Asia (Japan, and possibly China in future)

Services such as finances, logistics, distribution and education as key indicators of GVCs are gaining importance in international trade.

"The question from a South African point of view is whether to integrate into these regional 'factories', how to do it, what the right kind of policy must be and what the rules and agreements must be to become part of that trade," Draper said.

"Promoters say one should try to become part of these value chains. Once you have become part, the possibilities for upgrading increase and new capabilities and new technologies will come to your country."

Draper pointed out that participation requires a set of "behind the border reforms" to strengthen the trade and investment rules about what these multinational companies want. These include, for example, protection of investment, infrastructure and logistics.

"It also means relaxed trade rules of origin. The stricter they are, the more difficult it is to ship goods around the region. Critics on the other hand argue that the way to upgrade into these value chains is through selective industrial policies."

This is the view of South Africa's department of trade and industry and the economic development department, Draper said. "Generally speaking, I would say the ideological approach is to be sceptical to foreign investors and to condition foreign investment in your market. For example, to expect from investors to give up their technology or intellectual property rights.

"You also need import protection to own the value chain. This is the view of the department of trade and industry these days. Rather than relocate part of investors' value chains we try to reproduce them."

Draper said that central issues to the debate are a fear of entrapment in comparative advantage (resources), a fear of iniquitous outcomes ("exploitation"), the impact on the fiscus of generous incentives and tax breaks, and whether the focus must rather be on regional value chains.

Mega-regional trade agreements

"The other side of the coin is mega-regional trade agreements that are shaping the debate. There are already two of these agreements."

The one is the Trans Pacific Partnership (TPP). It consists of 12 countries at different levels of development. The US and Japan are central to the partnership. China is not part yet. TPP members account for 40% of the world's GDP and they are responsible for over a quarter of world trade.

The Trans Atlantic Trade Investment Partnership (TTIP) consists of 28 countries at different levels of development, and they account for 45% of world GDP and almost a third of world trade. America is part of the agreement and also countries such as Greece. The TTIP is still under negotiation.

“These are significant processes,” Draper said. “They are different kinds of agreements than those we saw before, both qualitatively and quantitatively. They include three key developed economies, the US, Europe and Japan, and they try to extend their policy preferences across the world. They are forging new rules to govern GVC trade and investment. This is their explicit goal. Non-parties will be pressured to conform through ‘competitive emulation’.

“South Africa will, for instance, have to respond when Europe puts the agreement on the table. The same goes for the US when AGOA expires nine years from now and the US wants a free trade agreement.”

Draper pointed out that import tariffs are a relatively small part of these agreements. A bigger part is about the rules. “Is South Africa’s very regulation intensive approach appropriate to South Africa and our region? The train is coming.”

Structural issues

Draper highlighted the following South African economic structural issues in relation to the global economy:

- Its continued commodity dependence;
- Manufacturing is in relative decline in the light of stiff competition from countries such as China. Real growth globally is in services;
- The gateway to Southern Africa status still has some way to run but has a limited shelf life;
- Our edge is our strong services base such as our strong financial sector and logistics, relative to regional competition;
- The global financial crisis has shifted the debate and it is difficult to put neo-liberal policies in place;
- By contrast relative successes, until recently, of state capitalist “alternatives” such as China and Brazil are not doing that well;
- South Africa’s dualistic domestic economy;
- The urban-rural divide;
- Agriculture is constrained by climate and land reform challenges;
- The rich-poor divide (largely along racial lines);
- The huge skills gap linked to past educational endowments;
- Enduring inequality – notwithstanding the gains since 1994;
- The ongoing labour market disruptions and issues associated with bargaining regimes; and

• Deteriorating governance and institutions, linked to the ANC’s evolving internal crisis.

Opposite directions

Where does this leave economic policy?

“Growth plans in South Africa are pulling in opposite directions since 1994,” Draper explained. “On the one hand we saw the labour market tightening. On the other hand we have liberalised the goods market, e.g. we dropped tariffs and deregulated agricultural marketing boards. Furthermore, individual property rights, the foundation stone of a market economy, are in danger.”

These policy contradictions inhibit a definite direction. “We do not have a clear, focussed policy approach. This is, however, also the case with many other countries. In my view, with policy directions moving in different directions, poverty, inequality and unemployment are getting more deeply entrenched. We need a consistent policy.”

Draper warned that SA’s domestic political crisis is deepening and is likely to get worse. “Populist politics is on the rise and will make the confused economic policy potentially much worse. Criminal and patronage networks are extending their reach in the state and the solution is not likely to come from the ANC. The alternatives are too scary to contemplate, although they are ultimately unavoidable and could be positive. Are external solutions, even if only partial, conceivable?”

Recommendations

He made the following recommendations:

• Many developing countries look to “lock-in” certain economic policies through trade agreements with powerful external partners, for instance the former communist countries joining the EU and China joining the WTO;

• External constraints have already proven important in South Africa, such as the fracas around the AGOA renewal. The US wants a whole set of regulatory changes in South Africa;

• The Private Security Industry Regulatory Authority Amendment Act, stating that 51% shares must go to locals, will create all sorts of problems for foreign investors, but would require major concessions from South Africa in the WTO should government proceed with it;

• Adopting an explicit “GVCs-friendly” approach would leverage the “factory SACU” proposition. This will encourage multinational companies to set up shop here;
• Most gains to the country would be in services, but high-end manufacturing and assembly could benefit too;
• Exporting this policy approach into the region could ensure 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, and stronger protections for foreign investors;
• Building regional services value chains and emphasising this in negotiations;
• Strong trade facilitation focus, especially border procedures and logistics; and
• Regional tariff liberalisation. This will require compromises on domestic/SACU tariff liberalisation, especially for intermediates such as steel.

Enquiries
Dr John Purchase
E-mail: john@agbiz.co.za
Mobile: 082 447 2308

Written by Derick van der Walt for Agbiz
Greenpepper Communication