Trade and regional integration in South Africa’s National Development Plan

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Introduction

The serious observer of the South African economic policy scene cannot help but notice the multitude of official policy documents and strategies that appeared in recent years. There are the National Industrial Policy Framework (NIPF), and its related Industrial Policy Action Plans (IPAP) that now has its third version in the policy arena; the South African Trade Policy and Strategy Framework; the New Growth Path (NGP); and most recently the National Development Plan 2030 (NDP) of the National Planning Commission (NPC). We appear to be very good at drafting plans and strategising in South Africa, while waiting with bated breath for dedicated implementation and positive outcomes.

My brief today is to focus on the NDP as a potential force in trade and regional integration. I will, given the time constraint, be selective in the topics addressed.

A first point to consider is the principal objective of the NDP, that is, the economic rationale of the document and what it seeks to achieve. It should be noted that the NDP has been given an exalted status by Government as the “plan and strategy” that will be a corner stone of national economic transformation. The Plan has the ambitious goal of eliminating poverty and reducing inequality by 2030. This is to be achieved through, amongst others, faster economic growth in ways that will benefit all South Africans; in this respect it is reminiscent of the ‘redistribution through growth’ debate of the 1970s. In contrast to the NIPF and the IPAPs, which prioritise selective industrial growth as a force of economic development, and the NGP with its emphasis on job creation as guiding principle for economic policy, the NDP is a more broad-based development plan that covers many fields such as education, health care, social protection, rural economic development and environmental sustainability, all combined in an interrelated fashion to convert political emancipation into economic wellbeing for all citizens.

Global integration

The NDP, in its Chapter 7 on “Positioning South Africa in the World”, recognises the importance of the regional and global economy in creating the space and means for the enhanced wellbeing of South Africans. It is quite unambiguous in stating that “government’s global and regional policy-making stance should be South Africa-centric” (p. 216) in improving the country’s functional integration in
the region, continent, among developing countries, and in the world. In the African setting the NDP expresses the view that “policy-making should be less concerned by notions of ideological or political solidarity, and concentrate instead on specific aims to reduce poverty and inequality in South Africa” (p. 222). There is nothing wrong with pursuing national self-interest. In the international arena countries negotiate and enter into agreements with self-interest in mind, but sustainability of relationships requires this to be a win-win situation for all participants.

As far as global integration is concerned the NDP emphasises the importance of the shift in economic muscle to the fast-growing emerging market economies, and in this regard relations with Brazil, India and China are considered especially important, and in particular the need to encourage export diversification by growing the share of manufactures in the country’s export basket. This goal should be seen against the background of the declining share of manufacturing in South African GDP, from 23 per cent in the 1960s to the current level of about 12 per cent (market prices), a decline that will have to be reversed if rapid inclusive growth is to be achieved.

Diversifying the economy’s export base will require competitiveness in foreign markets. Government consistently acknowledges the difficulty to compete in low-skills manufacturing because of high cost structures but maintains that low-wage competition is not an acceptable policy option. Consequently, it is argued that industry should move up the value chain with the development of comparative advantages in higher-skilled manufacturing. Given the narrow and limited skill base of the South African labour force the solution is sought in investment in education and training.

This line of argument leaves us with an elephant in the room that may be described in the following terms:

- The large emerging market economies such as China and India are likely to be more competitive across the whole range of manufactures as defined by degree of sophistication.

- In the post-World War II period I can’t think of a single developing country that has industrialised rapidly by leap-frogging industrial development across low-skilled industries to high value-added goods. The story of the Asian NICs is one of first becoming competitive in labour-intensive, low-skilled industries, building experience and developing skills through investment in education and training while moving up the ladder of industrial sophistication and higher value added.
• In South African policy documents the remedial emphasis is placed on education and training, but experience has shown that significant segments of education in South Africa remain dysfunctional and only an eternal optimist can anticipate radical change and improvement within a reasonable time period.

Regional integration

As far as regional integration is concerned, the NDP sees benefits for South Africa in expanding trade in the region, not only by removing tariff barriers through formal integration arrangements but also by addressing crucial non-tariff barriers to trade. Investment in infrastructure, especially transport links, functional cooperation in cross-border projects and the easing of administrative constraints are emphasised. While benefitting from deeper and more extensive regional integration the relative size and level of development of the South African economy are also seen as important sources of benefits for the neighbouring countries. As the NDP puts it: “South Africa’s economic vibrancy is in the interests of the region as a whole” (p. 225).

I wish to make three observations on the NDP’s stance on regional integration.

The first is that the NDP does not see existing agreements as cast in stone. According to the Report: “To take full advantage of the realignment of global politics and trade, South Africa may need to redefine its existing agreements, starting with the Southern African Customs Union (SACU) and SADC partners. These agreements should be tested for their validity and coherence and, for global bilateral and multilateral partners, affiliations and commitments. This may entail hard bargaining and potential trade-offs involving short-term realignments, gains and losses” (p. 220). On the Southern African Customs Union specifically, the NDP notes that the SACU agreement is under review, stating that “(W)hile the weight of South Africa’s economy has effectively reduced potential risks in the customs union, its current structure is not necessarily the best option for South Africa or its neighbours” (p. 226).

The second observation deals with the well-known aspiration of African integration arrangements, namely monetary integration and the development of a common currency. Immediately following the argument in the NDP that the SACU Agreement needs to be restructured, the Commission then continues to argue in the same paragraph as follows: “An immediate priority is the development of more effective financial transaction mechanisms to facilitate physical trade. Bank letters of credit do not operate well between African countries, requiring most trade transactions to pass through a third,
non-continental currency” (p. 226). The Commission would seem to be unaware or at best not appreciative of the role that the Common Monetary Area (CMA) plays in effectively integrating Lesotho, Namibia and Swaziland into the South African money and capital market and of the close financial links between Botswana and South Africa. In a document of South Africa’s National Planning Commission one would expect more than references to the CFA franc experience and the selective expansion of existing regional monetary unions as building blocks towards a continental common currency (p. 225) and more reflection on the role and possible expansion of the CMA.

My final observation draws on the NDP’s conclusion that South Africa’s economic vibrancy is in the interest of the region as a whole. This undoubtedly is correct; most successful regional integration arrangements have at their core one or two larger and more vibrant economies. Understanding of the word ‘vibrant’ may differ but it could be argued that size and degree of diversification are not the only characteristics one would expect in a region’s leading economy. Fast average growth must be added. It is true that the NDP as a whole aims to improve the growth performance of the South African economy but in a chapter that addresses regional integration and the force than South Africa should be in this, one would expect some emphasis on the benefits for the region of having a fast-growing South African economy. Much is made, and rightly so, of Africa’s improved economic growth performance and prospects, but the continent’s largest economy is lagging in this respect.

**Conclusion**

In the final section of the NDP’s Chapter 7, the role of the NPC is considered. A question that the NPC sees it needs to address are the sources of power that lend South Africa the authority to lead efforts to promote regional integration and deepen South Africa’s presence in the world. Economic growth that exceeds the 2 to 3 per cent range and is linked to rapid industrial development must surely be one of these sources of power.

As a whole the NDP is a laudable and visionary document. I find it regrettable that more rigour, vision and imagination did not go into considering South Africa’s role in the global and regional economy.