

## A Trade Policy for Industrial Development and Employment Growth

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### The context of trade policy

The SA Government, through **the dtic**, pursues a strategic approach to trade policy, primarily geared to supporting SA industrial development and employment growth. The policy is part of a broader strategy to accelerate growth along a path that generates decent jobs and reduces the poverty and the extreme inequalities that characterize our society and economy. As such, trade policy is informed by, and must support, the objectives and programs to diversify and upgrade industrial production for sustained and inclusive economic growth.

South Africa's level of unemployment, poverty and inequalities define the overall context within which economic policy – including trade – are conducted. The context is severe: by various measures, SA is among the most unequal countries in the world; the expanded definition of unemployment (including discouraged job seekers) was at 42.6% in the 4<sup>th</sup> quarter of 2020, and more than 50% of SA citizens live in poverty. Prior to the Covid-19 pandemic, the real unemployment level was over 30%. This has grown significantly as a result of the pandemic. Even during the Great Depression, industrialised economies did not experience this level of unemployment.

Fragile and uneven global trade growth since the 2008 financial crisis, largely due to persistently weak global demand, gave way to a precipitous fall in trade in the wake of the Covid-19 pandemic in 2020. The ensuing global public health and humanitarian crisis exposed vulnerabilities associated with an overdependence on fragile global supply chains for therapeutics, diagnostics, PPEs, medicines and even food imports. Global policy-making has, in response, increasingly focused attention on rebalancing (shortening) global supply chains and addressing trade rules that inhibit efforts to strengthen national and regional manufacturing capacity.

In fashioning the economic recovery, we need to avoid a return to the “crisis before the crisis” and to build back better, including by restoring a more appropriate and sustainable balance between the objectives of trade growth and national industrial development. Covid-19 has also highlighted the need for more resilient production systems and a degree of “strategic autonomy” in the international production and trading system so that countries have the policy space to diversify their economies and add domestic value to production and exports.

This Statement frames SA trade policy and its international trade engagements on SA's industrial policy objectives. The next two sections in turn outline prominent features of SA's trade structure that inform the approach to trade matters in key priority engagements, and then highlight the importance of ensuring that trade policy benefits workers, women and communities. Subsequent sections consider SA's approach to trade in respect to African integration, bilateral engagements and the multilateral trading system. The final sections set out SA's broad policy approach to

the trade aspects of three issues that are high on the international policy making agenda: Boosting vaccine production to address the Covid-19 pandemic, digitisation and environmental sustainability.

### **A trade policy to build industrial capacity**

Economic development requires the expansion and diversification of the industrial sector, which is still the main catalyst of productivity growth, rising wages, innovation and a key driver for service sector expansion. For this transformative process, capital goods need to be acquired and production must occur on sufficient scale, making trade a necessity. While imports can lower input costs and provide access to a range of products, trade is double-edged, as durable improvements of living standards require that domestic production and markets expand as well. These complexities require a carefully calibrated, balanced and strategic approach to trade.

SA is a comparatively small and open economy, accounting for 0.53% of world merchandise trade and approximately 0.28% of world services trade. International trade in goods and services is 60.4% as a percentage of GDP. Import growth tends to outstrip exports, resulting in a persistent deficit in goods trade. This was particularly evident in the period from 2000 to 2008 when SA enjoyed strong GDP growth. Since 2009, growth in SA has been subdued and while the trade balance has fluctuated year on year, trade in manufactured products is consistently in deficit.

While SA recorded its biggest trade surplus on record in 2020, largely off a sharp reduction in imports due to the economic downturn, the longer-term trend line must be reversed. In 2019, SA imported a significantly higher proportion of goods, measured as a percentage of GDP, than many other economies. While SA's imports accounted for 25% of GDP, Brazil stood at 9,6%, the US at 12%, the EU at 14%, Russia and China at about 14,4% and India at just under 17%.

High levels of manufactured imports and a comparatively high import-propensity underscore not only the lack of diversified domestic production but also, if given appropriate focus and support, the possibilities for domestic industrial expansion. The Re-imagined Industrial Strategy encourages upgrading value-added, labour-absorbing industrial production and diversifying the economy away from an over-reliance on commodities and non-tradable services. Focused programs that include ongoing work on sectoral Master Plans to address competitiveness challenges, with the emphasis on localisation and beneficiation, together inform SA's trade policy. These efforts are essential to foster a more dynamic and inclusive economy that creates new opportunities for small business, women and youth to participate as workers and entrepreneurs in the economy.

As tariffs are a key instrument of industrial policy and because they have implications for capital accumulation, technology change, productivity growth and employment, changes to the tariff regime need to be carefully calibrated to the specificities of each sector. While there is no *a priori* position on the appropriate levels of duties, decisions on applications for tariff adjustments or rebates are determined on the basis of case-by-case, detailed investigation and analysis. Decisions may be accompanied by requirements for reciprocal commitments from applicants and firms that benefit from rebates or tariff adjustments. These may, for example, require undertakings to increase investment and jobs, introduce skills development

programs or other productivity enhancements, and to ensure price stability in the domestic market. In short, tariff support should not blunt competitive pressures on firms.

While trade can contribute to growing the domestic industry and create jobs, fair competition must be maintained between domestic and foreign producers. SA will step up efforts to ensure that trade defense instruments are deployed effectively against unfair and injurious imports. In this regard we are reviewing the applicable legislation to streamline the application and investigation processes to enable swift and more effective action. We will also continue to strengthen coordination with SARS to eliminate illicit trade and the under-invoicing of imports that cause enormous damage to the economy in revenue, lost jobs and industrial capacity. These efforts also require stronger collaboration with the relevant authorities of our trading partners. The commitment by BRICS countries at the 2019 BRICS Summit Declaration on cooperation against under-invoicing require active follow-up and implementation.

### **A trade policy for workers, women and communities**

Trade policy must promote and facilitate the development of inclusive economies. SA workers should expect that government policy and actions on the trade front should increase employment and promote decent work opportunities. Where workers are displaced by trade reform, policy should as far as possible seek to put in place measures to better manage adjustment costs through more effective safety nets and job (re-) training to enter growing sectors of the economy, as well as competitiveness enhancement actions for domestic firms. Employment sensitive sectors require a degree of support while reform measures through Master Plans (such as for example, poultry) are implemented to enhance overall competitiveness and performance. In previous rounds of tariff liberalization, the absence of adequate support measures resulted in devastating outcomes for many workers and communities. Many women workers in the clothing industry, for example, lost their primary means of livelihood.

Communities expect opportunities for young people, women and rural enterprises to grow and find opportunity in local and global markets. Trade policy measures encompass the range of actions from agreements at the WTO, to the use of trade instruments (decreasing or increasing duties applicable) and bilateral efforts to open markets.

The **dtic**, will also seek to spell out opportunities for workers and communities in the conduct and outcomes of trade policy.

For the first time, SA is taking the deliberate and necessary step of pursuing a gender-sensitive and gender responsive trade policy. Women have been hardest hit by the COVID-19 pandemic, as a result of longstanding global structural inequalities pre-dating the crisis. Women make up over 50% of the population in South Africa and globally, yet remain the least economically active members of society.

Deliberate and targeted measures that deliver tangible and practical programs for the empowerment of women are an essential part of SA's trade policy to creating a better and inclusive world. Some of the steps needed include closing the gender gap

in access to finance, building the export and manufacturing capacity of women-led business, creating market opportunities for women-led businesses through linkages to new buyers, and sector strategies to promote the emergence of women exporters in traditional and non-traditional sectors. This will include exploring regional value-chain opportunities and digital trade solutions, amongst others.

A gender-sensitive and responsive policy will need to carefully consider the distributive impact of SA's trade and economic policies on women and must nurture and protect sectors with large number of women workers and entrepreneurs.

These programs will also inform our engagements in the AfCFTA, in bilateral engagements and other strategic platforms. This stance coincides with the start of the new Decade of Women's Financial and Economic Inclusion and gives expression to the UN SGD 5 on Gender Equality. The 33rd Ordinary Session of the Assembly of Heads of State and Government of the African Union (AU) adopted the "New African Women's Decade" (2020-2030), as the decade of "Women's Financial and Economic Inclusion."

### **A trade policy to unlock development across the African continent**

SA subscribes to the developmental integration approach as elaborated in the AU "Agenda 2063: The Africa We Want." In this conception, free trade agreements in Africa are part of wider efforts to promote cross-border infrastructure development and industrial development cooperation. Indeed, constraints to intra-African trade are in many cases narrow productive capacity and inadequate infrastructure, not tariffs *per se*.

Industrialization must thus be at the heart of transformation of the African economy. With 17% of the world's population but just 3% of world manufacturing, Africa's path to prosperity lies in increased levels industrial production and there is some evidence showing that since 1990 manufacturing employment share has grown in a number of African countries, but with modest value-added growth. Countries can build on their acquired manufacturing experience to produce for markets on the continent as a step towards competing in other international markets in a range of industrial sectors. Further, apart from its obvious direct benefits, cross border infrastructural development provides enormous opportunities for African firms to supply a range of industrial inputs for construction and maintenance of rail, road and ports.

The launching of the AfCFTA represents a significant milestone in the Africa's continental integration project. As a first step in stitching together existing integration projects across the continent, it will provide greater incentives for new investment to take advantage of a more open and integrated continental market. Final tariff reduction commitments with rules of origin that give preferences to "Made in Africa" products will boost manufacturing and industrial development in Africa.

In this context, South Africa will set out the case for rules-of-origin that increases the level of African value-add. The continent, and South Africa as part of it, must avoid the trap of simply becoming basic assemblers or finishers of product largely produced elsewhere in the world. This is essential to deepen industrial development and with it, growth, investment and good quality jobs.

In preparing for this transformation, **the dtic** is incorporating an AfCFTA Chapter in sector Master Plans and the district development strategy. In addition, we have begun consultations with other African countries on the development of cross-border value chains covering a range of industries. Dedicated discussions focusing on these sectors are already underway with SACU Member states and we will expand the discussion with others over time.

### **A trade policy to drive manufacturing exports and open markets for SA goods**

SA's bilateral engagements are focused on expanding opportunities for higher value-added exports and encouraging inward investment to support our industrial policy objectives. The details of such engagements depend on the trade and investment profile of the partner country, whether the relationship is underpinned by binding or cooperative trade agreements and the interests of the partner. In each engagement, SA advocates that our partners increasingly view Africa as an investment destination rather than simply a market for exports in light of the AfCFTA.

To illustrate the general approach, we take three examples of focus on engagements with key trading partners. The EU, as a block, remains SA's largest trading partner, with the SADC-EU EPA underpinning the relationship. Prior to the pandemic, bilateral trade had continued to grow but at a declining rate. SA consistently ran a deficit, driven primarily by manufactured imports from the EU. Over the past two years, this has begun to change but the composition of trade still needs to shift to greater export by SA or manufactured and other value-added products. As part of our ongoing bilateral engagements, including in the upcoming review of the SADC-EU EPA, we will seek to expand exports of manufactured goods and higher value-added agricultural products.

China is SA's largest single country trading partner and Chinese investment in SA has been increasing. Through cooperative efforts we aim to promote inward investment to support our industrial development. There is agreement to change the basket of SA exports to China, now dominated by minerals, to include a greater portion of higher value-added manufactured and agricultural products.

Trade with the US has in general been balanced. The US runs a surplus in manufactured goods and services, agricultural trade is balanced and SA runs a surplus in mineral exports. While bilateral trade grew significantly in the first decade of the millennium, it has declined steadily over the past decade, particularly in SA's value added exports under AGOA. In future engagements with the new US Administration, we will seek to correct this decline. Such discussions should also encompass the future of AGOA and removal of barriers to SA exports of high value-added products and agriculture.

Opening market opportunities at the product level are also important to expand SA exports. For example, SA is now the world's second largest exporter of citrus but is limited in some markets through Sanitary and Phyto-Sanitary measures that SA does not believe is justified. More engagement with trading partners will be held on products such as fruit (citrus, avocados and others), steel and aluminium, vehicles and beverages.

## **A trade policy to enhance South Africa's role at the WTO and the Future Multilateral Trade System**

SA supports the principles of a rules-based multilateral trading system where independent arbitration rather than power relations resolves disputes. Like many other developing countries, however, we have expressed concern at the imbalances and inequities in WTO Agreements that prejudice our trade and development interests. These imbalances are evident in rules on trade-distorting agricultural support, the selective approach to prohibiting industrial subsidies and constraints to technology transfer that can support development. SA's treatment as a developed country during the Uruguay Round (during the apartheid era) is a source of considerable concern as the tariff reduction commitments contributed significantly to de-industrialization. This historic injustice has unduly limited SA's policy space to use trade to support its industrial development.

These considerations inform SA approach to ongoing discussions on WTO reform.

We advocate an approach premised on the principles of inclusivity and development. The keys to the legitimacy and sustainability of the WTO lie in its ability to advance developmental interests of developing countries that will constitute new sources of global growth and prosperity in the world economy. Meeting this challenge will serve to strengthen the multilateral, rules-based trading system, enhance its legitimacy and also create the basis for economic growth from which all WTO members can benefit.

Inclusivity would require, at a minimum, preserving consensus decision and the multilateral character of the WTO. It would also require recognition of the value of economic and institutional diversity, including through reaffirmation of the principles of special and differential treatment and the right to regulate in the public interest. African industrialization must be enabled, not inhibited in WTO policies. Reform should, in short, enshrine the right of states to pursue national development strategies within the broad framework and principles of a rules-based system.

## **A trade policy for resilience and to build back better**

The Covid-19 pandemic exposed the vulnerabilities of limited industrial capabilities and an over-dependence on fragile global supply chains. SA, like many other countries, particularly in Africa, was unable to access or produce sufficient supplies of essential medical products at the start of the pandemic. While the country was able to overcome some constraints through extraordinary efforts to repurpose existing capacity and produce medical grade face-masks, hand sanitisers, ventilators and more recently vaccines, the lack of preparedness pointed to inadequate levels of prior investment in research and development and manufacturing capabilities. For greater economic resilience, now and in the future, SA's trade and industrial policy must focus on building more diversified production centres both in SA and across Africa.

The WTO has a vital role to play in addressing the global public health crisis wrought by the Covid-19 pandemic. The immediate and urgent challenge is to scale up the production of vaccines and to distribute them in an equitable manner to citizens around the world. SA and India, with growing support amongst WTO members,

parliamentarians and across civil society, have proposed a temporary waiver on intellectual property rights for certain products required to fight the spread of Covid-19 (including vaccines) to ensure that the requisite technology and know-how is widely shared in order to boost global vaccine production.

In the context of the deadly pandemic, intellectual property should be understood as global public goods, particularly in light of the enormous public funding that went into the research and development of the vaccines. The discussion on this matter continues at the WTO. More broadly, we have proposed a package of related measures that include deeper levels of cooperation to expand production of medical essentials; new protocols to enhance transparency of contracts and price stability in undertakings between governments and pharmaceutical companies; a global commitment to avoid vaccine nationalism; and a WTO provision to deal with future pandemics that provides automatic rights of use and obviates the need for special arrangements and waivers in future.

### **A trade policy for the digital economy**

South Africa is considering how best to respond - in a comprehensive and integrated manner - to the challenges and opportunities arising from digital transformation. There are clearly many opportunities that arise from the application of the new technologies to work and society, including new products and services, easier communication and production or distribution efficiencies. At the same time, challenges must be addressed, including the persistent and growing digital divide, the impact of digitisation on net employment levels, increasingly concentrated markets and anti-competitive practices. In particular, the impact of concentration on smaller businesses can have negative distribution effects in society. The resulting high levels of concentration in digital trade also severely constrain e-commerce's potential to deliver sustainable and beneficial outcomes for developing countries.

In this context, many developing countries have observed that it is premature to develop WTO rules that could have far reaching consequences for development, including the risk of "locking in" current imbalances and foreclosing options to address many of the evident challenges. Further assessment is required on a range of matters including overcoming the digital divide, the implications of customs duties on electronic transmissions on revenue and industrial policy; the role of data management for development; and technology transfer, amongst others.

### **A trade policy for environment sustainability**

SA is committed to environmental sustainability as part of the overall UN Sustainable Development Goals. Meeting these objectives will require significant transformation in patterns of global production, consumption and distribution. The Paris Treaty sets out a coherent framework to effect a green transition and reduce greenhouse gas emissions. It requires that advanced economies undertake and meet their nationally determined reduction commitments and also provide finance and technology to assist countries with less capability and resources to undertake the needed economic transformation.

While there are considerable opportunities for a range of green industrialisation initiatives, forging greater coherence between the UNFCCC framework and WTO rules will be essential. Multilateral discussions are required on a range of matters including on intellectual property, technology transfer, subsidies as well as the application of product standards and labeling to ensure that measures are mutually supportive and do not unduly shift the burden of adjustment to developing countries.

Unilateral trade measures, such as border adjustment taxes on the carbon content on imports, could undermine coherence in multilateral climate policymaking. Border taxes that penalize already resource and financially constrained economies will make their economic transformation more challenging and it would be difficult to justify such measures if they are imposed on countries that have taken on - and are meeting - their national commitments under the UNFCCC. These measures also risk a spike in trade frictions and legal challenges.

In order to avoid such outcomes, the contours of such trade measures – how they are calculated and how they would comply with WTO rules – need to part of the multilateral dialogue. To maintain a coherent multilateral framework to enable climate action, trade measures should be carefully calibrated, timed and sequenced with green technology transfer and financing for many developing countries to effect the green transition. As global public goods, the challenges of environmental sustainability and their trade-related aspects need to be addressed multilaterally, through international cooperation and dialogue for legitimacy and for sustainability.

A conclusion of negotiations on fishery subsidies at the WTO can contribute to our environmental sustainability objectives. The outcome should ensure countries that provide the largest subsidies that result in over-capacity and over-fishing undertake significant reduction commitments while providing space for developing countries to support artisanal, subsistence and commercial fishing in a sustainable manner.

## **Conclusion**

Trade policy must support SA's industrial development objectives to drive sustainable growth, to generate decent well-paying jobs and to widen economic inclusion, including for women and youth. In response to a decade of low growth, growing inequality, unemployment and increasing job insecurity, policy making around the world is undergoing a shift with greater attention to striking a more appropriate balance between trade and building national industrial capabilities.

For SA, the imperatives of trade growth and expanding national production capabilities require a carefully calibrated strategic trade policy based on ever-closer collaboration and coordination between government, business, labour and communities.

African economic integration, structural transformation and industrialization lie at the heart of SA's trade policy agenda. African prosperity, growth and development Industrialization, market integration and cross-border infrastructure development should create a dynamic for greater prosperity from which all African economies should benefit.

Our engagements beyond the continent should support these objectives, both for Africa and SA, and should be geared to steadily correcting the manufacturing deficit in our international trade profile.

Multilateralism remains vital to address transnational challenges. The public health crisis brought on by the Covid-19 pandemic and environmental challenges, including climate change, underscore the necessity for strengthened multilateral cooperation and dialogue. Global trade policy can play an important and positive role in addressing these challenges if it is framed by the principles of fairness, equity, inclusivity and development.