Final Version: 8 September 2009

A SOUTH AFRICAN TRADE POLICY AND STRATEGY FRAMEWORK

SEPTEMBER 2009

Prepared by the International Trade and Economic Development Division of the Department of Trade and Industry, South Africa

77 Meintjies Street
Sunnyside 0001

TABLE OF CONTENTS

Foreword by Honourable Dr. Rob Davies, Minister of Trade and Industry, South Africa

Through the International Trade and Economic Development (ITED) Division, the Department of Trade and Industry (**the dti**) initiated a Review of South Africa's trade policy in mid-2007. Several considerations underpinned this undertaking. First, it was considered necessary to review and assess the experience and lessons of the trade reform process that had been undertaken in South Africa following the advent of the democratic transformation in 1994.

Second, it appeared necessary to better clarify and define the contribution trade policy can make to the South African Government's broad economic development strategy. These objectives include, amongst others, inclusive economic growth and development, industrial upgrading, poverty reduction through sustainable employment and the provision of decent jobs.

Third, with the adoption of South Africa's National Industrial Policy Framework (NIPF) in 2007, it has become increasingly important to specify with greater clarity how trade policy will complement and support South Africa's industrial upgrading and diversification objectives. The NIPF states that "our fundamental approach is that tariff policy should be decided primarily on a sector by sector basis, dictated by the needs and imperatives of sector strategies". In this context, the South African Trade Policy and Strategy Framework sets out the contribution trade policy should make to advancing industrial development, upgrading and diversification along a growth path that addresses structural constraints in the economy, including unemployment and poverty.

The Framework sets out the key principles and approaches to South Africa's strategy for global integration with respect to our engagements and negotiations at multilateral, regional and bilateral levels.

Acknowledgements by Xavier Carim, Deputy Director General, International Trade and Economic Development Division, the dti

This Trade Policy and Strategy Framework (TPSF) document is the outcome of a two-year consultative review process. Under the guidance of Deputy Minister, and then, Minister Dr. Rob Davies, a reference team – the Trade Policy Review Group (TPRG) - was established bringing together trade policy experts from within and outside government to review South Africa's trade policy and strategy since 1994 and to recommend an approach on policy and strategy in light of lessons learned, emerging challenges and in the context of the further evolution of the South African Government's broader economic development strategy. The TPRG was tasked with guiding the process of developing recommendations on trade policy and strategy that would support the Government's broader objectives. While trade policy and strategy have a range of inter-linkages to broader economic policy, this work programme has focused on an assessment of tariff reform in South Africa since 1994, and an overview of South Africa's trade performance since 1994 in order to lay the basis for making recommendations as to how tariff policy could support the wider objectives of industrial upgrading and employment.

The Framework offers policy guidance on trade and tariff policy and strategy over the medium term and provides greater clarity on the linkages between trade and tariff policy and industrial policy. It also sets out in a single document, the key principles and thrust of South Africa's strategy for global trade integration. The work on trade strategy draws extensively from a series of policy briefs and analysis prepared by ITED over the last decade.

Minister Rob Davies provided strong political oversight over the process of preparing the Framework. While his oversight assisted in drawing out the key linkages in between trade and industrial policy, he also provided detailed technical advice on key aspects of the work including on the trade strategy.

The first meeting was held on the 17 April 2007, where an outline of the work-programme was agreed and stakeholders identified. In all, the Group met five

times. Initially, it provided guidance on the structure and key substantive issues that needed to be covered. In further meeting, the TPRG offered guidance on the various iterations of the Framework document to consolidate and refine the evolving document. The first consolidated draft Report was considered on the 24 November 2008 where detailed changes were proposed both on the structure and the content of the work. The second draft was adopted on the 20 July 2009 with limited changes proposed on the structure.

The International Trade and Administration Commission (ITAC) and the Trade and Industrial Policy Secretariat (TIPS) played key roles in clarifying South Africa's tariff profile and providing an assessment of trade performance since 1994. Representatives from the Department of Agriculture, Forestry and Fisheries submitted substantive input on the agricultural sections of the Framework. Capacity was also built in the Office of the Deputy Director-General: ITED for research management and coordination through the process of completing the final document.

While the DTI takes full responsibility for any shortcomings and errors, the Framework was the outcome of this consultative process. We extend our sincere appreciation to those participants who gave their time and shared their expertise. Our gratitude goes to: Siyabulela Tsengiwe and Chris Arnold from ITAC; Elizabeth van Reenen and Ezra Steenkamp from the Department of Agriculture, Fisheries and Forestry; Marissa Fassler and Tanya Kandiero from the National Treasury; Neva Magketla formerly with the Presidency and now with the DBSA; Stephen Hanival and Ximena Gonzalez from the Trade and Industrial Policy Secretariat; Neo Chabane formerly with the Presidency and now with the Competition Commission; Catherine Grant from Business Unity South Africa; Nolundi Dikweni and Patrick Krappie from the Department of International Relations and Cooperation; Ravi Naidoo formerly with DTI and now with the DBSA; Nimrod Zalk, Faizel Ismail, Thabo Chauke, Wilhelm Smalberger, and Sureiya Adams, all from the DTI.

Special mention must be made of the role played by Mzukisi Qobo who took charge of managing this process from its onset. He prepared several drafts of the document, coordinating meetings and ensured the inputs from participants were incorporated into the final product. He prepared regular reports on the unfolding process and initiated a process to regularly update and draw in insights from other staff members of ITED and the DTI. He was ably assisted by the TPRG Secretariat that included Yvette Babb, Sandile Roro (posthumous), Joseph Senona, and Lindiwe Madonsela all from ITED.

Additional Consultations

In the course of developing the trade policy framework, a range of formal and informal consultations were undertaken. These consultations aimed to solicit wider views on the state of trade policy in South Africa, as well as to identify key challenges for future trade policy development. Emerging perspectives from the TPRG process were also tested with individuals and organisations that were consulted.

It became evident that there was a broad convergence on the need to place greater emphasis on strategic trade policies. This consultation took place against the background of growing emphasis on the role of the state in optimising economic growth and managing structural change. This convergence of views can be attributed to the perceived urgency to deal with the structural challenges plaguing the economy, and to which the standard text-book case of unilateral tariff reforms offered unsatisfactory response.

These consultations took place between February 2008 and May 2009 and included discussion with the following organisations and role-players:

- Business Unity South Africa (BUSA) Trade Policy Committee (Informal Briefing).
- NEDLAC Fridge Study Counter-Part Group on the relationship between trade and industrial policy.
- Select trade policy experts from academia and policy think-tanks.
- Chief Directorate: Industrial Policy at Enterprise and Industry Development (EID).
- Chief Directorate: Strategic Competitiveness at Enterprise and Industry Development.
- Chief Directorate: Export Promotion - Trade and Investment South Africa (TISA).

- Head: Economic Research and Policy Coordination (ERPC); and Directorate: Research Management Unit (ERPC).
- Consultations within the International Trade and Economic Development (ITED).
- Department of Foreign Affairs (and now the Department of International Relations and Cooperation).
- Chief Directorate: Economic Development: Gauteng Provincial Department of Economic Development.

Acronyms

AGOA	Africa Growth and Opportunity Act
APRM	African Peer Review Mechanism
AU	African Union
BEC	Bilateral Economic Forum
BLNS	Botswana, Lesotho, Namibia and Swaziland
BIT	Bilateral Investment Agreement
BF	Business Forum
BTA	Bilateral Trade Agreement
BNC	Bi-National Commission
BUSA	Business Union South Africa
COMESA	Common Market for Eastern and Southern Africa
CDC	Central Development Corridor
DSM	Dispute Settlement Mechanism
EAC	East African Community
EFTA	European Free Trade Association
EC	European Commission
EPA	Economic Partnership Agreement
EU	European Union
FOCAC	Forum for China-Africa Cooperation
FTA	Free Trade Agreement
HDP	Heilingendamm Dialogue Process
ITED	International Trade and Economic Development Division
IBSA	India-Brazil-South Africa Initiative
IRPS	International Relations, Peace and Security Cluster
ITAC	International Trade and Administration Commission
JCC	Joint Cooperation Council
JPCC	Joint Permanent Cooperation Council
JMC	Joint Ministerial Commission
JTC	Joint Trade Committees
MERCOSUR	Customs Union with Brazil, Argentina, Paraguay and Uruguay
MoU	Memorandum of Understanding
MMTZ	Malawi, Mozambique, Mauritius and Zambia
NAMA	Non-agricultural market access
NEDLAC	National Economic Development and Labour Council

NEPAD	New Economic Programme for African Development
NP WMD	Non-Proliferation of Weapons of Mass Destruction
OECD	Organisation for Economic Cooperation and Development
PGD	Partnership for Growth and Development
PoA	Programme of Action
PTA	Preferential Trade Agreement
REC	Regional Economic Community
RISDP	Regional Indicative Strategic Development Programme
RTA	Regional Trade Agreement
SABS	South African Bureau of Standards
SACU	Southern African Customs Union
SADC	Southern African Development Community
SPT	SADC Trade Protocol
SARS	South African Revenue Services
SDI	Spatial Development Initiatives
SDP	Spatial Development Programmes
SME	Small and Medium Enterprises
TDCA	Trade, Development and Cooperation Agreement
TICAD	Tokyo International Conference on African Development
TIDCA	Trade, Investment, Development and Cooperation Agreement
the dti	Department of Trade and Industry
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

Executive Summary

The South African Government's broad developmental strategy aims to promote and accelerate economic growth along a path that generates sustainable, decent jobs in order to reduce the poverty and extreme inequalities that characterise South African society and economy. The National Industrial Policy Framework (NIPF) is a central component of this strategy. The NIPF seeks to encourage value-added, labour-absorbing industrial production and diversify the economy away from its current over reliance on traditional commodities and non-tradable services and, in this way, catalyse employment growth. Broader-based industrialisation will assist growing the participation of historically disadvantaged people and marginalised regions into the mainstream of the industrial economy.

This South African Trade Policy and Strategy Framework outlines how trade policy and strategy in South Africa can make a contribution to meeting the objectives of upgrading and diversifying the economic base in order to produce and export increasingly sophisticated, value added products that generates employment. The Framework considers recent experiences of economic development, taking into account the changing basis of international competition as well as the trade and industrial policy ingredients for success in an increasingly competitive global economy.

Following a review of South Africa's trade performance and changed tariff structure since 1994, the Framework recommends a strategic and calibrated approach to future tariff setting as an essential component of improving South Africa's trade performance in future. Tariff policy is, of course, not the sole determinant of trade performance but as an important instrument of industrial policy, it requires dedicated attention.

The Framework then sets out the principles, approaches and key elements that should shape South Africa's strategy for integration into the global economy. In recognising the growing complexity of trade policy in a rapidly changing global environment, the Framework offers an agenda for future work on trade policy.

Tariff Reform and Trade Performance: A Review

Successful developing economies have adopted a strategic approach to tariff policy. They have ensured that their tariff policy is informed by industrial policy and that where trade liberalisation is pursued, it is done gradually and selectively to support broader programmes aimed at industrial development. By contrast, the many developing economies that embarked on rapid structural reform, including uniform and across-the-board liberalisation have tended to re-orient their industrial sector along static comparative advantage lines, except in those industries that were already mature and globally competitive.

This international experience resonates in South Africa. Since 1994, South Africa has undertaken significant tariff cuts and while exports in most sectors grew, manufactured exports continue to be heavily dominated by resource-based products. In other words, tariff reductions have not induced the necessary structural changes in the economy to significantly alter the export basket beyond the range of products that reflect South Africa's static comparative advantage. South Africa's strongest export performance in more sophisticated products has been in sectors that have been built up through past and present industrial policy.

In the early 1990s, South Africa's average tariff was around 23%. It now stands at 8.2%. In 2006, the proportion of zero-rated tariff lines rose to about 54%. There has also been considerable simplification of the tariff regime. In 1990, the tariff schedule consisted of 13609 tariff lines and 28% were subject to import control. By 2006, the number of tariff lines had been reduced to 6420, a decline of 53%, and import controls were eliminated. The South Africa-EU TDCA, the SADC Trade Protocol and the SACU-EFTA FTA have further reduced the overall incidence of tariff protection. The South African economy is now moderately protected by tariffs.

A Strategic Tariff Policy: Future Perspectives

The South African Government has chosen a growth and development path that prioritises industrial upgrading in more labour intensive sectors to generate sustainable and decent employment. Upgrading South Africa's industrial base in this way and to encourage the production and export of more sophisticated value added products, require purposeful intervention in the industrial economy aimed at achieving dynamic, competitive advantages. 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 and its production upgrading possibilities.

The Framework thus recommends a 'strategic tariff policy' approach. The NIPF is explicit: "… our fundamental approach is that tariff policy should be decided primarily on a sector by sector basis, dictated by the needs and imperatives of sector strategies". In the process of considering constraints to the advancement of any particular sector, the Customised Sector Programmes (CSPs) should consider the appropriate tariff position in respect of the production lines that make up the sector. Sectoral work is grounded on a 'self-discovery' process of engagement between government and stakeholder and will build in appropriate disciplines to meet industrial policy objectives.

As a general guideline, tariffs on mature upstream input industries could be reduced or removed to lower the input costs for the downstream, more labour creating manufacturing. Tariffs on downstream industries, particularly those that are strategic from an employment or value-addition perspective, may be retained or raised to ensure long-term sustainability and job creation in the context of domestic production capabilities/potentialities and the degree of trade and production distortions on these products at the global level. These determinations will be conducted on the basis of case-by-case, detailed investigation and analysis. There is no *a priori* presumption of the benefits or costs of maintaining either low or high tariffs, but the upper limits for tariff setting are, of course, set by the binding obligations South Africa has taken in the WTO and in other bilateral trade agreements.

The International Trade and Administration Commission (ITAC) implements and administers tariff policy in South Africa through clearly established legislation, regulation and procedure. Tariffs determinations and trade remedies are assessed on the evidence obtained at firm and sector levels through detailed investigations that consider the impact of proposed tariffs on, amongst other things, economic output and employment across the value chain. Consultations and public comment are essential elements of the process. ITAC may also conduct tariff reviews at a sector level, and submit recommendations to the Minister of Trade and Industry for decision. ITAC's consultative and evidence-based approach to tariff setting is an important bulwark against ill-advised proposals for across the board tariff liberalisation, and will need to be defended.

Recent experience has demonstrated the need to strengthen the implementation, administration and enforcement aspects of South Africa's trade policy. This includes strengthening our capacity to act expeditiously against both unfair trade (subsidised and dumped products) and surges in imports that threaten injury to local industries. It also requires we step up measures to enforce trade laws against illegal imports, customs fraud, transhipment, abuse of industrial support programmes, counterfeit goods and under-invoicing. These practices are unacceptable and in various ways undermine the local economy and result in job losses.

Agriculture

Over the past 15 years, South African agriculture has undertaken deep structural reform. This transformation has paved the way to enter global value chains and has increased private sector participation in the agricultural economy. Despite contending with global players many of whom are subsidised and protected, South African agriculture has developed resilience and has maintained its competitiveness particularly in fruit, sugar and wine.

The primary agricultural sector's strong indirect role in the economy is a function of backward and forward linkages to other sectors. About 70% of agricultural output is used as intermediate products. These linkages augment the contribution to the GDP to around 14%. Agriculture accounts for about 8% of formal employment. While farming is an important direct source of employment in the economy, these figures underestimate the employment effects of agriculture's linkages with the rest of the economy. The number of jobs created per unit of investment is higher in agriculture as compared to other sectors and suggest that growth in agriculture has a greater impact on employment creation and poverty alleviation.

The share of agricultural exports in the country's total exports was 6.9%, not unimpressive given the size of South Africa's total exports of minerals and other products. The share of processed agricultural products in the country's total agricultural export has increased to more than 50%. However, as South Africa has had a negative trade balance in processed agricultural trade since 2003 greater attention will be required to promote the development of this sub-sector. Support to emerging black farmers will also be required to overcome the range of difficulties they encounter in entering the commercial mainstream.

Given the strategic role of the sector for the economy, particular attention will need to be granted to the application of tariffs in agriculture given the highly distorted nature of international agricultural trade. Tariff policy for agriculture, as in industry, will need to be considered and applied on a case-by-case basis, supported by evidence, to maximise the potential for value addition and employment generation. We need to strike an appropriate balance between the profitability of farmers, on the one hand, which includes addressing supply side constraints and competition issues, and consumer prices, on the other. We will need to carefully consider the price raising effects of duties and the impact on our food security objectives, including access to food at affordable prices particularly for the poor.

Strategic Integration: A Trade Strategy for South Africa

South Africa will need to ensure that its ongoing integration into the global economy is pursued in a manner that more explicitly supports its national developmental objectives. 'Strategic integration' should aim to ensure that we preserve the policy space to pursue national objectives while leveraging the benefits of more integrated regional and global markets. The emergence of global trading system that is supportive of the developmental objectives and interests of developing countries would broadly favour national aspirations. While South Africa will therefore continue to align itself to the broad developmental objectives of developing countries, the precise terms of this developmental agenda will vary in the range of external engagements and negotiations in which we participate at bilateral, regional and multilateral levels.

On the African continent, South Africa plays an active role in strengthening continental processes that seek to diversify and build agriculture and industrial production in line with the objectives set out in NEPAD. Part of this process requires building regional markets and strengthening cross border infrastructure development. In the context of growing extra-continental interest in securing access to Africa's resources, a second dimension of the work is to ensure that such relations serve the developmental priorities defined by African countries. With respect to bilateral engagements with African countries, South Africa will continue to pursue cooperative arrangements to promote infrastructure development, intra-African trade and investment and technical assistance, with particular attention to efforts supporting the reconstruction and development of African countries emerging from conflict.

South Africa is deeply committed to development integration in Southern Africa that combines trade integration with infrastructural development and sectoral policy coordination. Our approach privileges the policy interventions required to build regional productive capacity and infrastructure as experience has demonstrated that the main barriers to increasing intra-regional trade are often not tariffs. Despite significant liberalisation, there is no discernible growth in intra-regional trade. As such, neither further liberalisation nor the construction of customs unions will necessarily lead to increased, mutually-beneficial and equitable, intra-regional trade. We will require purposeful interventions that address underdeveloped production structures and develop infrastructure and institutions across the region. Trade integration must therefore be complemented by sectoral cooperation and greatly enhanced policy coordination programmes to address real economy capacity constraints.

The regional agenda will also need to respond to the Economic Partnership Agreements (EPAs) between the European Union (EU) and SADC countries. As the EPAs will establish a series of different and sometimes incompatible trade regimes between the EU and members of SADC, it is likely to undermine deeper integration in Southern Africa. Member states of SADC and SACU will need to respond collectively to this new challenge to the region's integration and development strategy.

South Africa will continue to consolidate its economic and trade relations with the major economies in the North as they remain important markets for goods, services investment and technology. At the same time, recent developments suggest the emergence of a new economic geography in which key economies in the South, as major sources of global economic growth, are moving to the centre of global trade. South Africa will intensify engagement and cooperation with these emerging economies.

We have learned important lessons that will inform our future bilateral engagements. First, as compared to free trade agreements, more focused preferential trade agreements allows for a more strategic integration process among developing countries. Second, it is increasingly apparent that tariffs are not always the most important barrier faced in foreign markets and hence negotiating outcomes must deal more effectively with non-tariff barriers. Third, we will need to give attention to forging sectoral cooperation agreements to support South Africa's industrial development objectives.

South Africa is a strong proponent of multilateralism. We have seen multilateralism as the necessary inter-governmental response to the challenges of globalisation and deepening interdependence among economies and societies around the world. Established as an outcome of the Uruguay Round of multilateral trade negotiations in 1994, the WTO, having established extensive multilateral rules over global trade, has moved to the centre of an evolving system of multilateral institutions charged with global economic governance. While multilateral disciplines in the WTO reduce the scope for unilateral action by powerful nations, existing rules exhibit imbalances and inequities that prejudice the trade and development interests of developing countries.

South Africa's support for the launch of the Doha Round was premised on an assessment that negotiations opened up a possibility rebalance the global trading system more in favour of developing countries. South Africa's negotiating objectives aim to: i) enhance market access for products of export interests to developing countries; ii) eliminate industrial country subsidies and support to inefficient producers, particularly in agriculture; iii) re-negotiate rules that perpetuate imbalances in international trade; and iv) ensure policy space for developing countries to pursue developmental objectives through meaningful implementation of the principle of special and differential treatment.

Over the course of the Doha Round negotiations, we have witnessed an erosion of the developmental mandate. This has been manifest in the gradual lowering of the ambition of developed countries to substantially reform agriculture trade, alongside growing pressure on emerging developing countries to open their markets for industrial products and services.

The demand on South Africa has been particularly harsh. While obtaining very little, if any, new market access in global agricultural markets, South Africa would be required to take deeper and wider industrial tariff cuts than any other WTO member. This would severely reduce the scope to deploy tariffs to support industrial policy objectives, and it would further expose labour intensive industries to intense global competition with the prospect of further employment losses in South Africa. Such an outcome would perpetuate the historic injustice of the Uruguay Round, where South Africa was obliged to undertake tariff cuts as a developed country, and could not be considered an outcome that is developmental, fair or balanced.

Future Work

The Framework observes that the international trade policy agenda has moved beyond its traditional focus on tariffs to encompass a range of so-called ‘new generation’ trade issues such as trade in services, and the trade dimensions of investment, competition, intellectual property, government procurement, labour and the environment, amongst others. The widening ambit of negotiating issues reflects the integrated nature of economic policy and recognition that a variety of regulatory features affect market access and investment. Advanced economies have placed these issues on the international trade agenda and, as such, the terms of engagement have thus far tended to reflect their interests and commercial objectives. At the same time, developing countries confront a proliferation of 'behind the border measures' in the form of standards that impede their access to the markets of advanced economies.

South Africa, as with other developing economies, will need to develop a more proactive stance on these 'new' trade related issues to ensure that these do not impede access to international markets and that the rules are constructed in a manner that takes into account the concerns and interests of developing countries. The Framework sets out the broad principles and methodology for the future work programme on these issues. South Africa must seek to retain the policy space necessary to pursue its broad national development objectives, notably its industrial upgrading and employment objectives. We will also need to consider the relevant national legislative and regulatory frameworks as well as the processes and rules of multilateral institutions that have competence over these trade-related issues, including those on the environment, labour and intellectual property.

Trade reform and the structural changes it engenders, creates 'winners and losers'. To establish and maintain broad support for structural reform, programmes that cushion the costs of reform, particularly on workers that lose employment, are imperative. The linkages and adequacy of existing social safety nets and worker re-training programmes to a trade reform needs to be fully explored and developed. This must be the subject of future work on trade policy.

Future work will also need to strengthen institutional coordination that is necessary to enhance the quality and deepen the capacity to deliver on South Africa's trade policy and strategy in future. Improved institutional coordination on trade policy and trade-related issues is required within **the dti**, amongst Government Departments, with the South African Parliament, and between Government and civil society building on existing mechanisms and consultative processes. Enhanced outreach activities are also required to build the capacity in trade policy across South Africa in universities and research institutes in order to share the Government's perspectives on trade policy, to broaden and deepen the quality of debate on trade policy, and to build a cadre of new trade policy practitioners for the future.

SECTION 1

Introduction

1. South Africa's Trade Policy and Strategy Framework document emerges in the context of the evolution of a broad national development strategy that aims to address the key economic and structural challenges confronting South Africa. It also emerges against the backdrop of ongoing and profound changes in the global economy, including the onset of a severe global economic downturn precipitated by a crisis in the financial sectors of advanced industrial economies.

2. Between 1994 and 2002, growth in South Africa averaged around 3 percent annually. This accelerated to an average of over 5% for the five years ending in 2008. A virtuous combination of positive domestic sentiment and a favourable international environment created the basis for eight years of uninterrupted growth. However, over this period, growth was driven by a combination of strong commodity prices, portfolio capital inflows, strong domestic consumer demand and rising asset prices, and was thus susceptible to external shocks through commodity price volatility and a possible reversal in investment sentiment.

3. These vulnerabilities were exposed by the global economic crisis that began to impact on South Africa in 2008. The global crisis lead to sharp declines in the international demand and prices for commodities, and a reduction in global trade and investment flows. South Africa's overall economic performance has deteriorated, with significant losses in production and employment in manufacturing and mining. In February 2009, the Government and its social partners adopted the "Framework for South Africa's Response to the Global Economic Crisis" which sets out a series of interventions that aim to mitigate and manage the impact of the crisis.

4. Nevertheless, South Africa's economic challenges go beyond responding to the immediate effects of the global economic crisis. Deep seated structural challenges include pervasive, widespread poverty, severe inequality and high levels of unemployment. South Africa's unemployment rate remains one of the highest in the world and much existing employment is precarious and low-paid. High unemployment

is linked to inequality, and South Africa's level of inequality, measured by the Gini coefficient, remains amongst the most severe in the world. These structural constraints diminish South Africa's growth and development prospects over the longer term.

5. The adoption of the Accelerated and Shared Growth Initiative for South Africa (ASGISA) in February 2006 signalled the Government's intention to pursue a developmental strategy that will promote and accelerate economic growth along a path that generates sustainable and decent jobs. The National Industrial Policy Framework (NIPF), adopted in January 2007 seeks to encourage increased value-added production on a more labour-absorbing industrialisation path that can catalyse employment creation and diversify the economy away from its current over reliance on traditional commodities and non-tradable services. A broader-based industrialisation path should facilitate greater levels of participation of historically disadvantaged people and marginalised regions into the mainstream of the industrial economy.

6. While the role trade policy can play in this endeavour should not be exaggerated as other factors such as commodity prices, exchange rates, investment rates, and global and national demand can be more decisive in shaping the economic growth path, a supportive trade policy and an appropriate tariff reform programme can make a positive contribution to industrial development and upgrading, employment growth and the export of increasingly sophisticated, value added products. The South African Trade Policy and Strategy Framework outlines how trade policy and strategy can be designed to make this contribution.

7. The Framework considers the changing basis of competition in the global economy, and the trade and industrial policy ingredients for successful economic development in the context of intensifying global competition. Economic history is replete with lessons that tariff liberalisation on its own will not induce the structural changes necessary to promote sustained and inclusive economic growth and development, nor will it address poverty and inequality. Breaking out of poverty and underdevelopment requires nurturing industrial activities characterized by increased, rather than diminishing returns. This involves the identification and targeting of appropriate value adding activities, the deployment of public and private resources to

support innovation, entrepreneurship and infrastructure development. It also requires a judicious use of tariffs and other forms of protection and support. Judicious use of tariffs does not mean protection which allows permanent rent-seeking by inefficient industries, but creating the space and time to allow such industries to develop, and/or to restructure in the face of global competition.

8. Of the range of policy interventions that have a bearing on industrial upgrading, tariffs are one important instrument. South Africa’s NIPF considers tariffs in the following terms: “our fundamental approach is that tariff policy should be decided primarily on a sector by sector basis, dictated by the needs and imperatives of sector strategies”. This mandate directs that sector level strategies sensitive to employment and developmental outcomes must be decisive in shaping South Africa’s approach to tariff policy. Tariff policy must therefore be strategic, calibrated in terms of its pace and sequencing so that it supports industrial and agricultural upgrading, along a path that generates new employment possibilities.

9. Without appropriate pacing and sequencing, trade reform can destroy existing industries, including infant industries, without necessarily leading to the emergence of new ones. It is also necessary to recognise both the indeterminate time lag between liberalization and the emergence of new economic activities, and the complexity involved in sequencing and implementing the complementary regulatory and institutional policies that should underpin trade reform programmes. What is clear is that in the absence of a robust industrial policy, any new industry that may emerge through liberalization would be in line with static, rather than dynamic, comparative advantage, implying that the economy remains locked in the production and export of low value products, with diminishing prospects for upgrade.

10. In taking into account an increasingly integrated and networked global economy, trade policy and strategy must shape the terms and conditions of South Africa’s integration into the global economy in a manner that secures the policy space to pursue national economic policy objectives, while leveraging opportunities that emerge from global markets and flows of trade and investment. A global trading system that is supportive of, and conducive to, the developmental interests of developing countries would broadly favour our own national developmental objectives. South Africa will therefore continue to place the developmental agenda of

developing countries at the centre of its foreign economic policy. The specificities of this developmental approach will, of course, vary in the different engagements that are undertaken at bilateral, regional and multilateral levels.

11. The Framework also sets out an agenda for future work in key areas that are closely related to trade policy. Three areas are highlighted. First, the international trade agenda has moved beyond its traditional focus on tariffs to encompass a range of so-called 'new generation' trade issues such as trade in services, and the trade dimensions of investment, competition, intellectual property, government procurement, labour and the environment, amongst others. The Framework sets out the broad principles and methodology for future work in these areas. South Africa must be able to retain the policy space to pursue its broad national development objectives. We will also need to consider existing national legislative and regulatory frameworks as they relate to these issues as well as an assessment of the processes, rules and norms of multilateral institutions that have competence over these issues.

12. Second, it will be necessary to strengthen the institutional framework that ensures constituencies affected by trade reform actively participate in defining the terms and conditions of the structural adjustment process. This will ensure that the reform process retains both legitimacy and broad-based support. It is increasingly imperative that we design and build support programmes that can cushion the costs of reform, particularly for workers that lose employment as a result of trade liberalisation. The linkages and adequacy of existing social safety nets and worker re-training programmes to a trade reform needs to be fully explored and developed. This will be the subject of future work on trade policy.

13. Third, greater efforts will be needed to strengthen the institutional coordination necessary to enhance the quality of - capacity to deliver on - South Africa's trade policy objectives. Improved institutional coordination on trade policy and trade-related issues is required within **the dti**, amongst Government Departments, with the South African Parliament, and between Government and civil society. Enhanced outreach activities are also required to build the capacity in trade policy across South Africa in universities and research institutes in order to share the Government's perspectives

on trade policy, to broaden and deepen the quality of debate on trade policy, and to build a cadre of new trade policy practitioners for the future.

Outline of the Trade Policy and Strategy Framework

14. The Framework is structured as follows. The next section sets out the global context. It outlines key changes in the nature of global economic competition and draws out the trade and industrial experiences of economies that have succeeded in breaking out of poverty and underdevelopment.

15. Section three reviews South Africa's trade reform experience since 1994, focusing in the economy's trade performance and the changes to the tariff structure. Section four outlines the key elements of South Africa's approach to tariff policy making. It outlines central elements of South Africa's agricultural policy and highlights the special role of ITAC in trade, industrial and agricultural policy making processes. Section five sets out the principles and key elements that will guide South Africa's trade strategy with respect to the Africa Agenda; regional integration in Southern Africa; bilateral engagements with countries of the South and the North; and South Africa's participation in WTO and the Doha Round negotiations.

16. Section six considers a series of trade related issues that constitute an agenda for future work. This section outlines an overall approach to dealing with new generation trade issues, including trade in services, and the trade aspects of investment, competition, intellectual property, procurement, environment and labour. It provides the rationale for a work programme on accompanying policies that are required to support trade reform, and ends with a discussion of some of the challenges of institutional coordination in the area of trade policy in South Africa.

17. The final section summarises the key issues and recommends an agenda for future work on trade policy in South Africa.

SECTION 2

Changes in Global Trade: Re-Thinking Trade Policy

18. Conventional wisdom and its concomitant trade policy prescriptions are hard pressed to account for the determinants of economic growth and development in a dynamically changing global economy characterised by oligopolistic market structures, imperfect competition and global value chains. Traditional trade theory, with its emphasis on complementarities in factor endowments, does not explain the rapid growth of cross-border, intra-industry trade, nor does it adequately account for the high volume of trade between countries at similar levels of development. It cannot account for the dynamism of changes in production and export content, nor can it fully explain the role of technological change in economic development. Traditional theory also does not address the complex challenges of combining the drive for market efficiency, structural transformation and social stability that require intervention by the state.

19. The nature of global competition has changed. Countries can no longer sustain their global competitiveness on the basis of traditional comparative advantages such as cheap labour, primary exports or trade preferences. There is a structural shift in the value of world trade away from commodity production, raw material and simple manufactured exports, towards increasingly knowledge-intensive goods and services. Knowledge-intense production has been underpinned by a proliferation of product and environmental standards required for market entry, particularly into developed country markets that are driven both by government policy and consumer preference.

20. Evidence over the last two decades shows that non-resource based manufactures have outstripped growth in primary products and resource-based manufactures in world trade. Amongst non-resource based manufactures, medium- and high-technology manufactured exports have predominated, with the latter growing most rapidly. As a group, developing country exports have grown faster than the world average, as well as more rapidly the higher the level of skill and technology intensity of the products exported. However, two divergent trends emerge. First, developed countries have captured disproportionate gains from trade, notwithstanding the fact that their share in world trade has declined. Second, there is a wide divergence in

export performance amongst developing countries. Economies that have increased their share in world trade are the first- and second-tier East Asian tigers, coupled with selected economies from Eastern Europe, Latin America and South-East Asia.

21. International production and trade are increasingly shaped by global supply-chains for manufacturing and services. Global supply chains have blurred the nationality of finished products, especially as production unbundling has a propensity to increase trade, with intermediate inputs crossing borders several times during the manufacturing process. As manufacturing is increasingly transaction-intensive (storage, distribution, transportation), locations that have efficiencies in these tend to be favoured. Transnational corporations (TNCs), based largely in developed countries, have driven the establishment of these global production chains and they dominate both producer- and buyer-driven value chains, leading to vertical specialisation in various stages of production where firms, industries and even countries are increasingly only responsible for particular stages of production. Typically, research-intensive and marketing and distribution functions lie in developed countries, while the more labour-intensive elements of manufacturing are being outsourced to selected developing countries.

22. In the current environment, two forms of dynamism can be identified – demand-side or market dynamism and supply-side dynamism. Demand-side dynamism refers to products which have experienced high and sustained growth in world trade. Supply-side dynamism indicates the productivity potential of particular groups of products, based on the skill and technology intensity embodied in the final product. While vertical specialisation may blur these distinctions at a country level, the elements of high-technology value chains residing in developing countries are generally more labour-intensive, offering less scope for productivity upgrading.

23. As the traditional bases of comparative advantage decline, the ability to compete increasingly turns on the capacity to master technologies, to innovate and to address the precise needs of customers. Comparative advantage has thus given way to created competitive advantage including through investment in human capital, research and development (R&D) and innovation, in developing new forms of industrial organisations and in building strategic relationships between government and business. This is the essence of 'self-discovery' process.

24. When countries shift resources from agriculture and minerals into higher productivity activities, value-added manufacturing and knowledge based activities, significant economy-wide benefits are generated. What a country exports (content not volumes) does matter for growth. To avoid the 'curse of diminishing returns' an economy must diversify its industrial base and continually upgrade the sophistication of its products for export. Markets on their own will not necessarily create these new areas of competitive advantage. Strong states and institutional frameworks are required to address market failures and to establish incentives structures that encourage and facilitate new economic activities. As part of the toolkit, strategic trade policies can assist in shifting dependence from commodity-based production to manufactured value-added, from static comparative advantages to export of dynamic products, and to build mid- and high-technological capabilities.

25. Few countries would explicitly characterize their trade policies as 'strategic trade policies', yet trade policy practice in much of the globe assumes this character. Governments that advocate free trade and open markets tend to do so from a position of competitive strength but where they are losing competitive advantage they are also prone to deny market openings. In their modern form, strategic trade policies have been pursued by industrialised countries to promote high-tech sectors and to defend domestic market share against import penetration. Developed countries are fully cognizant of the strategic role of manufacturing in the economy. The view that OECD countries are 'post-industrial' is not supported by evidence as many seek to retain strong manufacturing bases. OECD countries employ strategic trade policies to enhance national economic competitiveness and, conversely, many provide protection for the domestic market against external competition, notably in agriculture.

26. The dramatic rise of emerging economies to positions of influence in the global economy can also be ascribed to strategic trade policy. In these countries, the state directed the process of industrial accumulation by funnelling capital into risky investments, enhancing the capacity of private firms to confront international markets and taking on functions directly through state-owned enterprises. Successful developing countries have adopted strategic and selective approach to tariff policy. In these economies, tariff policy has been informed by industrial policy, and trade liberalisation has been pursued gradually and selectively as industrial development advances. By contrast, those economies that embarked on rapid structural reform,

including uniform, across-the-board liberalization have re-oriented their industrial sector in accordance with static comparative advantage, except for industries that were near maturity.

27. International assessments suggest that, on balance, trade openings tend to generate positive income effects but clearly not all countries or groups within countries benefit to the same degree, and some stand to lose. Employment, distribution and poverty effects show even more mixed results, and outcomes are dependent on conditions in the economy under consideration, especially on its initial production structure and options for finding new specialisations. Even if welfare effects of trade liberalisation are positive, they tend to be small. To grow faster and to reduce poverty, a diversified higher value added export basket is necessary and this calls for more active industrial and other production sector development strategies to accompany and even precede trade liberalisation. In short, trade liberalisation is not a panacea for poverty reduction and, in many instances, it exacerbates inequality.

SECTION 3

Perspectives on South Africa's Trade Reform Experience

28. It is not possible to disentangle the impact of trade reform on economic performance from a range of other, often more decisive, factors such as exchange rate movements, changes in demand and growth rates in national and international markets, the supply response by national producers to such changes, changes in productivity and relative competitiveness, amongst others. While the range of variables and their interplay make it difficult to reach any conclusive assessment on the specific impact of trade reform, conflicting evidence can be brought back to specific assumptions, differences in methodology and a dearth of consistent and accurate data. Indeed, quantitative analyses of the impact of trade liberalisation are highly sensitive to basic modelling and parameter assumptions. Assessments of the economy wide impact of trade reform thus remain highly contested.

29. Mainstream theory posits that trade liberalisation and increased international competition will promote economic efficiency and yield welfare benefits as scarce resources are re-allocated across the economy from less to more competitive economic activities. As such, trade reform is seen as having a greater impact on the distribution of resources than on growth *per se*. This view, however, assumes that adjustment from uncompetitive to competitive activities takes place smoothly through the market mechanism, with perhaps an unspecified time lag. It tends to ignore how market imperfections and market failures impede structural adjustment processes.

30. As an economy with high unemployment and an abundance of unskilled workers, mainstream trade theory would suggest that South Africa has a comparative advantage in unskilled, labour intensive goods. Trade liberalisation would thus be expected to result in an expansion of the export of labour intensive product that would spur an increase in the demand for unskilled-labour, give rise to its price and result in increasing the wages and/or employment of unskilled labour. This should improve the distribution of income, and ameliorate income inequality and poverty.

31. South Africa's experience has not conformed to these assumptions. While trade liberalisation in South Africa since 1994 did occasion significant trade growth, with both exports and imports growing as a percentage of GDP, the pattern of trade has not changed significantly. Manufactured exports in capital and high skills intensive sectors and products have expanded through trade, but labour intensive production has tended to contract in the face of rapid import penetration growth in such sectors as leather, footwear, textiles and clothing.

32. South Africa is naturally resource rich, and most manufactured exports are resource based. Mineral extraction is capital-intensive. In this regard, three observations are pertinent. First, the liberalisation episode since 1994 has tended to deepen comparative advantage in capital intensive production based on the extraction of mineral wealth that benefited from significant government support during the apartheid era. Due to the accumulation of capital assets and technical knowledge, these capital-intensive sectors are more competitive than labour-intensive sectors which did not obtain similar advantages, and they continue to dominate the South African economy. Second, developed countries have advantages in skill- and capital-intensive production while many low-income economies that have comparative advantages in unskilled labour intensive production. South Africa's position as a "middle-income" economy has meant that it faces intensified competitive pressure both from high-income developed countries and low-income developing countries.

33. Third, since 1994, there has been a decline in production and employment in both agriculture and mining. A 'between-sector' shift away from primary sectors towards manufacturing and services sectors has been accompanied by 'within-sector' shifts in services and manufacturing towards more high skill and capital intensive production. Combined with the contraction in labour intensive sectors, an increasing high skills-bias in the domestic labour market has become evident. In sum, liberalisation in South Africa has tended to reinforce a capital and high skill-intensive growth path that has exacerbated the bias against low-skilled, labour-intensive production.

34. In these circumstances, further trade liberalisation is likely to continue to remain biased towards reducing labour demand in lower skilled, labour intensive industries, and is unlikely to increase employment for the poorer members of South African society. While there is some evidence that backward linkages from export growth and

the growth of services may alleviate the decline in the relative demand for labour in the manufacturing sector, it is clear the South African Government cannot rely upon trade growth alone to significantly generate employment, particularly for lower skilled workers, and so reduce poverty via employment creation.

South Africa's Trade Performance: A Brief Review[1]

35. South Africa is, to a considerable extent, outwardly oriented: the ratio of trade in goods and services to GDP has risen from below 40% in 1993 to over 60% in 2006. The manufacturing sector remains relatively large compared to other developing countries (with the exception of some middle-income developing countries) and the value-added by manufacturing exports have grown and contributed to domestic growth over the 1990s. While all exports have grown significantly since 1994, manufactured exports continue to be heavily dominated by resource-based sectors although the total share declined from 73.55% to 62.07% between 1994 and 2006.

36. South African exports constitute around 0.5% of world merchandise exports. Despite the surge in South African exports since 1992, growth has not kept pace with such developing countries as India, China and Brazil. South Africa's growth in exports has been at least 11% slower than these countries. South Africa is ranked 24th amongst developing countries and 47th overall in terms of its presence in exports of dynamic products in world trade that show the most sustained gains in world market share.

37. Efforts to restructure the industrial economy, to better deal with increased international competition, have generally been insufficient to induce the necessary structural change in the economy. Commodity-based products continue to dominate South Africa's exports. The top 25 export categories are dominated by mineral products.[2] In addition, the areas of successful manufacturing export were not caused *per se* by tariff liberalisation, but are a result of prior and ongoing industrial policy, notably in the automotive sector.

[1] For more analysis South Africa's trade between 1994 and 2008, by product category and destination, see Annexure A. For more analysis of South Africa trade's with African countries, between 1994 and 2008, by product category and destination, see Annexure B

[2] These include platinum, rhodium and palladium, gold, nickel, manganese, zirconium and copper.

38. The largest export category is precious metals, although the composition of this has changed over time from exports of gold to platinum. The next largest category is base metals which consist of resource-intensive manufactured goods, including ferroalloys, iron, steel and stainless steel products. Together with mineral products that include coal, briquettes, oil from petrol, and iron ores and concentrates, these three product categories generally represented over half of total exports, underlining the dominance of mining and basic processing in South Africa's export profile. Growth in advanced manufactured exports is accounted for by machinery and vehicles exports.

39. Most imports consist of advanced manufactures, with a marked increase in the share of total imports of these goods since 1996. Shares of imports of agricultural and basic processed goods have declined, while mining has increased. The share of total imports accounted for by mineral products has increased substantially since 1992, and is attributed mainly to increases in oil imports. Imports are primarily of manufactured goods, of which the majority are technology and capital intensive goods, including machinery, vehicles and scientific equipment. Imports of machinery are mainly driven by increased investments of local firms, although demand for consumer goods (white goods, consumer electronics) is also evident.

40. Overall, South African exports are dominated by basic, low-value added products, while most imports are of advanced manufactures. While there has been little change in the composition of the import and export baskets, the persistence of the deficit on the trade balance, reaching over 8% of GDP in 2008, has remained a source of macroeconomic vulnerability.

Tariff Reforms since 1994

41. South Africa has undergone considerable tariff reform since 1994 and is now "moderately" protected as compared to comparators. This is due to the fact that during the Uruguay Round of multilateral trade negotiations, South Africa was classified, and undertook obligations, as a developed country. Currently, the simple average of the final bound rate is 20.9%, with tariffs on agricultural products (WTO definition) bound at ceiling rates averaging 43.5%, and tariffs on non-agricultural products bound at ceiling rates averaging 18.1%. South Africa's simple average MFN applied rate declined from 15% in 1997 to 8.2% in 2006. The trade weighted average

is 7.4%; the average tariff for inputs is 5.4%; and the average tariff for final products is 20.2%. Using the WTO definition, tariff protection for agricultural products is 9.6%.

42. There has also been considerable simplification of the tariff regime. In 1990 the tariff schedule consisted of 13609 tariff lines and 28% of the tariff lines were subject to import control. By 2006, the number of tariff lines was reduced to 6420. Simple *ad valorem* rates apply to 6228 lines at the HS8 digit level, and non *ad valorem* (NAV) duties (compound and specific) are applied to 192 agriculture lines largely in response to distortions that remain in international agricultural trade. NAV duties do not fully shield agriculture from global distortions.

43. Compared to many other upper middle income countries, South Africa has a high WTO binding coverage (98%); the simple tariff average tariff is lower (8.2%); we have a significantly higher number of duty free lines (54%); a comparable number of non-*ad valorem* tariffs; and a comparable number of internationally-defined tariff peaks. The higher number of duty free lines results in a greater tariff dispersion rate. South Africa has around 20 more duty rates than other upper middle income countries.

44. The South Africa-EU TDCA and the SADC Trade Protocol have set additional parameters on our tariff regime for trade with those partners. South Africa's trade with the EU accounts for 40% of our total external trade and by the end of the transitional period in 2012, based on average annual trade flows for 1994-96, 94.9% of South Africa's exports to the EC, and 86.3% of the EC's exports to South Africa will be duty free. The SADC Trade Protocol entered into force in 2000 and, by 2005, 99% of tariff lines, consisting of 97% of imports from SADC, qualified for duty-free access to South Africa. Along with the SACU-EFTA FTA that entered into force in 2008, these agreements have further reduced the incidence of tariff protection in South Africa. The South African economy is now moderately protected by tariffs.

SECTION 4

Future Directions for Tariff Policy

45. South Africa has chosen a development path aimed at achieving accelerated and inclusive growth to address poverty and inequality. We have chosen to upgrade and diversify our industrial base as manufacturing generates positive-spill over effects across the entire economy, and contributes to skills development and technology upgrading. In general, manufacturing ensures wealth creation opportunities across a wider supply chain than services and the development of the service sector in South Africa has been directly and indirectly linked to the expansion of the manufacturing base.

46. Drawing on the global experience and against the background of South Africa's tariff reform experience since 1994, our future approach to tariff setting will be more strategic. Tariff reform will be considered against the measure of building a diversified industrial economy capable of producing increasingly sophisticated, higher value added products and generating employment opportunities. As tariffs have implications for capital accumulation, technology change, productivity growth, and employment, the tariff reform programme needs to be carefully calibrated with respect to its pace and sequencing, taking into account the specificities of each sector and its production possibilities.

47. South Africa's NIPF states: "our fundamental approach is that tariff policy should be decided primarily on a sector by sector basis, dictated by the needs and imperatives of sector strategies". This mandate directs that sector level strategies sensitive to employment and developmental outcomes must continue to be decisive in shaping South Africa's approach to tariff policy. The NIPF goes on to state: "Trade policy remains an instrument of industrial policy in a context of narrowing options under multilateral and bilateral trade arrangements. Trade policy will be informed much more closely by sector strategies, at both the negotiating and administrative levels. A particular focus will be on reducing input costs for labour-intensive and value-adding manufacturing sectors. Export and foreign direct investment will be more targeted."

48. A feature of South Africa's current industrial policy priorities is that we have chosen to focus not on upstream capital intensive projects, but on downstream more labour intensive, and employment creating activities. Our approach to tariff policy is not determined *a priori* nor can it be set out in a simplistic manner. South Africa has neither a high, nor a low tariff policy *per se*. Since 2007, the major initiatives in tariff policy arising from industrial policy have been to lower tariffs from formerly protected upstream, capital intensive industries, producing inputs that are important cost items for the downstream industries that we want to encourage and nurture. Investigations are currently underway in respect of the products of capital intensive upstream industries which produce products that are important inputs and cost items for downstream manufacturing industries.

49. If the evidence leads to the conclusion that it is necessary to reduce or even remove duties where this will benefit downstream industries and sectors, this will be pursued. At the same time, where processes of "self-discovery" and the development of sector strategies lead to the conclusion that some particular industry or sector requires tariff protection for a period of time, that support should be provided so long as it supported by a sector strategy and by clear evidence.

50. Some horizontal tariff-related issues that may be considered would include: i) the scope for further simplification of the tariff book; ii) the scope to eliminate nuisance tariffs (tariffs less than two percent); iii) the competitive and efficiency implications of tariff peaks, tariff escalation, as well as situations of negative rates of effective protection. Again, these questions cannot be usefully answered in the abstract. They need to be taken up in the context of a broader set of considerations in the development of CSPs. Such an approach would modulate applied industrial tariffs on particular product categories in accordance with their path for technological upgrading as a key instrument of sectoral policy.

51. The NIPF observes the relevance of the process of 'self-discovery' in the development of sector strategies. It is an approach through which the government with stakeholders in business, labour and civil society engage to identify the constraints or opportunities that require policy intervention. This process seeks to identify the key sectoral constraints and opportunities, and to propose actions to unblock constraints. In essence, it seeks to build those sectors that have the potential

to promote structural change in the economy through increases in labour-intensive employment, industrial upgrading, technology deepening, and productivity growth. The approach envisions that support offered by the Government to specific industries and firms are reciprocated in ways that advance national objectives.

52. Proposals for unilateral trade liberalisation, outside of a coherent industrial and trade policy, represent a fundamental misreading of the South African and international empirical evidence. The purported positive causation between trade liberalisation and export performance in South Africa's most dynamic group of post-apartheid exports (medium technology exports) is highly misleading. South Africa's "medium technology" exports comprise essentially two groups of products: resource-processing products such as steel, aluminium and chemicals; and automotive exports. Strong export performance in these industries has been a function of prior and current industrial policy. The resource-processing sectors emerged from a long period of state support under the apartheid regime with substantial restructuring tax allowances in the early 1990s. Automotive export performance has been driven by the MIDP.

53. Although there is a theoretical case for improving the relative profitability of exports relative to domestic production, the empirical evidence that this easily takes place through unilateral tariff liberalisation is extremely weak, both in South Africa and internationally. Across-the-board unilateral trade liberalisation will exacerbate the short to medium term current account deficit with little guarantee of long-term export competitiveness unless undertaken in a highly strategic and sequenced fashion.

54. The policy interventions to support structural change, including proposals for tariff adjustment will, of course, need to consider the commitments we have undertaken in the WTO and in other bilateral trade agreements. In particular, the WTO sets ceilings on tariff increases and while there are many tariff lines that could be increased, there are many tariff lines where the scope for increases is constrained. Furthermore, bilateral and regional agreements set specific tariff rates for imports from those countries with which we have concluded the agreements including, for example, the EU under the TDCA and SADC countries under the SADC Trade Protocol.

55. We need to also take into account that we operate in an environment of a global trend towards reduced tariffs generally. South Africa, as with most countries around the world, is involved in ongoing multilateral and bilateral trade negotiations. It is necessary to approach these negotiations strategically to defend the policy space needed to promote industrial development.

56. Export taxes are another important trade policy measure that can be deployed to add value to commodities, and to diversify production and exports. Again, the introduction of export taxes will be considered on the basis of an evidence-based cost-benefit analysis, including the implications for employment creation and the potential for long-term competitiveness of the downstream sector. Such consideration will also need to take into account South Africa's international obligations with respect to export taxes.

Agricultural Trade Strategy

57. Over the past 15 years, South African agriculture has undergone key reforms in the form of trade liberalisation and market deregulation. This structural transformation paved a way to enter global value chains and created space for increased private sector participation in the agricultural trade and marketing economy not previously possible. Despite contending with global players, many of whom are subsidised and protected, South African agriculture has developed a resilience to withstand competition and has maintained its competitiveness particularly in fruits, sugar and wine exports.

58. The primary agricultural sector's strong indirect role in the economy is a function of backward and forward linkages to other sectors. Its purchase of goods such as fertilizers, chemicals and implements forms backward linkages with the manufacturing sector, while forward linkages are formed through the supply of raw materials to industry in the food value chain. About 70% of agricultural output is used as intermediate products. These linkages augment the contribution to the GDP to around 14%.

59. Agriculture accounts for about 8% of formal employment. The fully commercial and developing agricultural sectors provide employment (including seasonal and contract

employment) to around 2 million farm workers, albeit often at low incomes. Some 3 to 4 million households derive some of their livelihood from agriculture. While farming is an important direct source of employment in the economy, these figures underestimate the employment effects of agriculture's linkages with the rest of the economy. The sector carries a responsibility to ensure food security as well as to create a basis for economic activity in the rural areas. To a large extent, the number of jobs created per unit of investment is higher in agriculture compared to other sectors of the economy. This implies that growth in agricultural output has a greater impact on employment creation and poverty alleviation.

60. The share of agricultural exports in the country's total exports was 6.9%, not unimpressive given the size of South Africa's total exports of minerals and other products. The share of processed agricultural products within the country's total agricultural export has increased to more than 50%, strengthening links to downstream industries. Targeted support measures and services are required, particularly at the beginning of the value chain to assist farmers to enter the mainstream of international trade. It is also evident that greater attention should be given to the development of the agricultural processing sector in South Africa. This will help over come the persistent deficit in its trade balance. Particular attention is also required to support black farmers' entry into the commercial mainstream in the agriculture sector.

61. Tariffs are a tool to be applied to promote sectoral growth, employment generation, investment attraction, productivity growth, food security and rural development. The sector is increasingly export orientated and tariffs along with other forms of support may be necessary to support exporters, including agro-processors. Tariff determinations in agriculture, as in industry, will be made on a case by case basis, and supported by evidence. Tariff determinations will also need to pay particular attention to the domestic impact of global distortions in international agricultural trade. We need to strike an appropriate balance between the profitability of farmers on the one hand, which includes addressing supply side constraints and competition issues, and consumer prices, on the other, given the price raising effects of duties and their impact on food security objectives, including access to food at affordable prices especially for the poor.

The International Trade Administration Commission (ITAC)

62. The International Trade and Administration Commission (ITAC) implements and administers tariff policy in South Africa through established legislation, regulation and procedure. ITAC is an independent body, subject to the Constitution of the Republic and domestic law, and to trade policy directives issued by the Minister of Trade and Industry. ITAC's structure and mandate are defined in the International Trade Administration Act of 2002 and its role in dealing with applications both for tariff changes and trade remedies is similar to tariff setting bodies existing in a number of other jurisdictions, both in the developed and developing world.

63. ITAC conducts investigations on receipt of applications, and makes recommendations on proposed tariff changes or the application of trade remedies to the Ministers of Trade and Industry and Finance. ITAC may also undertake a review of tariffs at a sectoral level. Tariffs determinations and trade remedies are assessed on the evidence obtained in detailed investigations at firm and sector levels that consider the impact on economic output and employment across the value chain. Consultations and public comment are essential elements of the process.

64. The strength of this methodology lies in its empirical "groundedness", specificity and evidence-based approach. In making its assessments, ITAC employs a set of criteria to evaluate requests for tariff changes. While the assessment criteria are standard, each application is evaluated on its own merits and specific circumstances, on a case-by-case basis. There is opportunity for public consultation and comment. This process of tariff setting is disciplined through transparent, established procedures and investigations routinely consider: i) the competitiveness position of the product concerned; ii) whether the product or a substitute is manufactured in the SACU; iii) the effective rate of protection; iv) the value chain implications; and v) the macroeconomic and social impacts.

65. ITAC's basic architecture as an independent commission capable of conducting sector and company level investigations and producing recommendations on tariffs and trade remedies needs to be preserved. The methodology embedded in ITAC that assesses requests for tariff increases or reductions as well as trade contingency

measures on the basis of evidence of the impact of those decisions on the real economy is essential to making informed decisions. This methodology is a bulwark against ill-informed approaches to tariff policy that are based on *a priori* assumptions about the supposed or theoretical benefits of either tariff protection or liberalisation.

66. Recent experience has demonstrated the need to strengthen the implementation, administration and enforcement aspects of South Africa's trade policy. This includes strengthening our capacity to act expeditiously both against unfair trade (subsidised and dumped products) and surges in imports that threaten injury to local industries. It also requires we step up measures to enforce trade laws against illegal imports, customs fraud, transhipment, abuse of industrial support programmes; counterfeit goods, and under-invoicing. These practices are unacceptable and in various ways undermine the local economy and result in job losses.

SECTION 5

Strategic Integration into the Global Economy

67. Trade policy lies at the nexus between the domestic and the global economy, and is both a tool for sustained economic development and a mechanism through which South Africa defines the terms and conditions for its integration into the global economy. In taking into account an increasingly integrated and networked global economy, our trade strategy must define the terms of global integration to both secure the policy space to pursue national economic policy objectives and leverage opportunities that arise from global markets and increasing flows of global trade and investment.

68. A global trading system with rules that are supportive of, and conducive to, the developmental interests of developing countries, would broadly favour our own developmental prospects. South Africa will therefore continue to place the developmental agenda of developing countries at the centre of its foreign economic policy. The specificities of this developmental approach may vary in the different engagements that are undertaken at bilateral, regional and multilateral levels.

The African Agenda

69. Since 1994, South Africa's foreign economic policy has placed emphasis on building trade and investment relations with countries across the African continent. The work has developed and unfolded in the context of the economic agenda of the African Union (AU) and the NEPAD and has involved intensive engagement at the sub-regional level, in SADC and SACU. All this work is underpinned by a strong bilateral country focus.

70. On the African continent, South Africa plays an active role in strengthening continental processes that seek to diversify and build agriculture and industrial production in line with the objectives set out in NEPAD. Work has aimed to rationalise regional integration projects, build effective regional markets and promote cross border infrastructure development. In the context of growing interest of securing access to Africa's resources, a second dimension of the work has been aimed at ensuring that extra-continental relations are leveraged to serve the developmental

priorities defined by African countries. This work has unfolded in such engagements as the Forum for China-Africa Cooperation (FOCAC), the Africa-South America Forum, the Africa-India Summit, the Africa-EU Strategy and the Tokyo Conference on African Development (TICAD).

71. With respect to our bilateral engagements with African countries, South Africa continues to work with partner countries to identify precise areas of cooperation countries including with respect to promoting trade and investment, establishing joint projects for infrastructure development, alongside offers to provide technical assistance for policy and institutional and policy development. Particular attention is, and will continue to be, paid to collaboration on the reconstruction and development of African countries emerging from conflict.

Spatial Development Initiatives (SDIs)

72. An important part of our work in Africa is on cross-border infrastructure development in which the SDIs have been prominent. The SDI methodology was developed in South Africa in 1996 as an integrated planning tool aimed at promoting investment in regions that were underdeveloped but had potential for growth. The methodology involves a process in which the public sector develops or facilitates conditions conducive to private sector investment and Public-Private-Community Partnerships. Typically, the SDI methodology is implemented on Development Corridors (DCs) in conjunction with host countries within an agreed institutional framework. This entails the conclusion of a formal agreement between participating States that describes the aims and objectives of the DC, the roles and responsibilities of the parties to the agreement, including the national and inter-state ministerial and technical committees that drive the SDI process.

73. The success achieved in deepening and extending SDIs in Southern Africa has laid the basis for extending the programme across Africa in collaboration with other governments and the NEPAD Secretariat and the African Development Bank (ADB).

Regional and Bilateral Relations

74. An important feature of the global environment is the proliferation of regional trading arrangements (RTAs) which already account for over 60% of global trade. Some observers point out the negative implications of the RTAs including the costs associated with trade diversion and the transaction costs of managing varying tariff reduction schedules, customs administration procedures and rules of origin (RoO). While the economic benefits of RTAs remain a subject of dispute, countries are compelled to pursue them if only to retain a competitive position in external markets. More positively, by promoting competitiveness at a regional level, RTAs can be stepping-stones for national firms to compete globally.

75. Regional integration is important for African development. In comparative terms, intra-African trade is only around 10% of total trade. This figure, however, hides important country variations. For most African countries, intra-African trade is considerably more important than the aggregate figures suggest. Indeed, a simple average of the share of intra-African trade in African countries' exports reveals that it is worth 21 per cent of total exports, a figure that is over twice as large as the aggregate figure for Africa. This makes Africa by far the second most important export market for most African countries behind Europe. Seven African countries count Africa as their main export market and 25 count it as their second most important export market.

76. The reason for the discrepancy between this finding and the low aggregate figure is simple. Many of the big exporters in Africa trade little with other African countries. This is notably the case with oil-exporting countries. There are also many countries in the region that depend on intra-African trade to a much greater extent. Five African countries have exports to Africa that are larger than half of their total exports; while a further 14 countries export more than a quarter of their exports to Africa. So, contrary to the impression given by aggregate figures, Africa represents a significant export market for many African countries. It is also important to note that over three quarters of intra-African trade takes place within regional trading blocs. This suggests that these RTAs represent relevant institutions that must be advanced as stepping stones for deepening intra-African trade.

77. South Africa has pursued regional arrangements in Southern Africa through the SADC Trade Protocol and the Southern African Customs Union (SACU), with the EU under the TDCA, through the SACU-EFTA FTA and through the SACU-MERCOSUR preferential trade agreement (PTA). We have learned important lessons that will inform our future bilateral engagements. First, as compared to free trade agreements (FTAs) more focused preferential trade agreements (PTAs) allows for a more strategic integration process among developing countries. Second, it is increasingly apparent that tariffs are not always the most important barrier faced in foreign markets and hence negotiating outcomes must deal more effectively with non-tariff barriers. Third, we will need to give attention to forging mutually beneficial sectoral cooperation agreements that can support South Africa's broader development objectives.

Southern Africa

78. Since 1994, South Africa has considered regional economic relations in Southern Africa an essential component of our wider international economic relations. The Government has repeatedly committed itself to promote regional cooperation along new lines that will correct imbalances in current relationships. This view was founded on two precepts. First, South Africa's democratic transformation, stability, security and economic development could not be assured if the region continued to confront underdevelopment, instability, poverty and marginalisation. Second, regional economic cooperation and integration offered an opportunity for regional industries to overcome the limits of small national markets, achieve economies of scale, and enhance competitiveness as a platform to participate in the global economy.

79. These considerations informed South Africa's engagement in two important regional processes in the immediate post-apartheid period: the re-negotiation of the SACU agreement and negotiations to consolidate the SADC. SACU enjoins South Africa with Lesotho, Botswana, Namibia and Swaziland in a customs union – the oldest in the world – where goods flow free of any tariff duties. South Africa, Lesotho, Swaziland and Namibia are further integrated through the Common Monetary Area where currencies are pegged and are freely convertible. Aside from strong cooperation on security, international relations, the SADC agenda has been shaped by the negotiation and implementation of the Trade Protocol in 2000.

The Southern African Customs Union (SACU)

80. The new SACU Agreement that entered into force in July 2004 represented several important departures. It: i) establishes a democratic, consensus decision making; ii) it foresees new supra-national institutions including a Tribunal to settle disputes, a SACU Tariff Board to determine changes to the common external tariff and a Secretariat; iii) as an enabling agreement, it envisions deeper integration through development of common SACU policies in, amongst others, industry, agriculture, competition and unfair trade practices; and iv) establishes a revenue sharing formula (RSF) that weights shares of customs revenue and excise taxes in favour of the BLNS, including through a development component.

81. SACU has the potential to move beyond an arrangement based on a common external tariff and held together by a revenue sharing arrangement. SACU's main value to South Africa is no longer as a "captive market" for exports, as it was under the apartheid regime. For South Africa, now, in the context of new global dynamics, SACU's value will lie in its ability to be transformed into a vehicle for advancing and deepening developmental integration at the sub-regional level, as an anchor in the SADC regional project, and as a platform for harmonised engagement in wider global trade relations. We have the elements that would allow us to advance to a common market and even monetary union.

82. Achieving this vision will however require that SACU Member States forge common trade and industrial policies. We will need to develop a work programme that overcomes current policy gridlock by devising a strategy to build production value chains across all Member States in agriculture and industry. This could be underpinned by a regional infrastructure development programme such as the SDIs.

83. A common policy vision is a prerequisite for strengthening SACU institutions, including the proposed SACU tariff board, Tribunal as well as an effective and well-resourced, Secretariat. Progressive harmonisation of various institutional arrangements and in the areas of competition policy and standards will also be required over time.

84. SACU can also be an anchor or nucleus for deeper integration in SADC through the concept of ‘variable geometry’. SACU could thus play a pivotal role in shaping wider processes of regional integration in SADC and beyond. SACU will need to consider the terms and conditions for new members accede to the customs union. For SACU to realize its potential, we also need common understanding on how to position ourselves in a rapidly changing global economy. Shifting patterns of global trade have seen the rise of new economies to the centre of the global trade relations. SACU will therefore need to forge a common approach both on the direction of future trade relations and on the content of future agreements, and move beyond immediate and over reliance on traditional trading partners when new centres of economic growth are emerging. We need to develop a common trade negotiation agenda based on agreed positions in multilateral trade negotiations, notably in the WTO Doha Round.

85. Without advancing along these lines, SACU runs the risks of being trapped in policy gridlock, remaining what it has always been - a customs union held together only by a common external tariff and a revenue sharing arrangement. In this scenario, SACU will inevitably be steadily rendered ineffectual by global developments beyond its control.

The Southern African Development Community (SADC)

86. The regional economic programme in SADC aims to combine market integration (free trade through the Trade Protocol or TP) with policy coordination and sectoral cooperation in a broad development project. The free trade negotiations - the SADC Trade Protocol - were concluded in 2000, and implementation of the tariff reduction obligations began at that time. By 2008, 85% of goods were traded duty free and SADC met the WTO-defined threshold for a free trade area. By 2012, 99% of intra-SADC trade will be duty free.

87. Despite this notable achievement, considerable work remains to consolidate the FTA. Several SADC Members have yet to fully join the trade agreement. Furthermore, several Members have experienced difficulties in meeting the tariff liberalisation obligations as set out in the Protocol. These issues will require ongoing efforts. Moreover, the mid-term review of the Trade Protocol set out an extensive work programme that is necessary to build the free trade area. This work programme includes continued negotiations on outstanding rules of origin, the development of

region-wide standard setting capacity and an extensive work programme on trade facilitation. Progress in each of the complex areas will encourage growth in intra-SADC trade.

88. The key policy issue that arises is that the region has not responded to improved market access in South Africa. South African imports from the region are increasing, but low value commodities drive most of the growth. Intra-regional trade is diversifying slowly. Major increases in trade have occurred in the textiles and clothing and sugar sectors, where special trade arrangements exist. Trade appears to be influenced more by the region's comparative advantage rather than improved market access. The most serious constraint to balanced regional trade remains undeveloped production structures in SADC countries. This is a challenge for the region's industrial policies: to expand the range of products that can be exported and to increase the value added of those exports. Against this background, it will be necessary to focus on consolidating the FTA, addressing the issues raised in the mid-term review, and developing a work programme to overcome real economy supply capacity constraints particularly through the development of a regional industrial policy.

89. We will need to align this process with ongoing initiatives that are structured around a possible Tripartite FTA between COMESA, the EAC and SADC. Such REC to REC FTAs are important steps to advancing to trade integration across Africa and ensuring that African countries are not forced to trade at a competitive disadvantage as compared to other, non-African trading partners.

The Economic Partnership Agreements and Regional Integration in Southern Africa

90. South Africa entered the EPA negotiations in an effort to build a harmonised set of trade relations between countries in southern Africa and the region's single most important trading partner, the EU. South Africa had hoped that the objectives of regional integration could be advanced at the same time as building a single trade regime the EU. We were under no legal obligation to do so as the TDCA had already been concluded and remains the basis for our trade relations with the EU. However, the emerging outcome runs contrary to our expectation. The Interim IEPA between seven members of SADC and the EC poses profound challenges as it will unduly limit the region's development policy space, hamper efforts at trade diversification, and undermine existing integration processes in SADC and SACU.

91. Under the EPA, SADC has at least five sets of separate trade relations and regimes with the EU and each vary considerably from one another. This will complicate – even foreclose - efforts to build a single trade regime in the region and between the region and the EU. The separate arrangements are creating a basis for a new generation of trade policy division in the region as they contain varying commitments in such new issues as services, investment, competition, and procurement. The EPA also threatens to weaken SACU - the oldest customs union in the world - as different commitments would undermine efforts to build common policies in new areas.

Opportunities for South-South Cooperation

92. Our common challenges and shared perspectives also suggested that we needed to elaborate a set of strategies to strengthen our trade and investment linkages to give greater meaning to south-south economic cooperation. We stand at the cusp of significant structural changes in the global economy. The steady, inexorable rise of emerging economies is amply demonstrated by the strength of competition from the South in agriculture, services and manufacturing.

93. Recent analysis shows that over the last decade, developing countries share of international trade has grown dramatically, accounting for around 37% of world trade in 2007. Moreover, developing country annual average export growth rates of 18% in the case of goods and 13% for services were much higher than the corresponding rates recorded for OECD countries, which stood at 13% and 8% respectively. Furthermore, almost all of this growth has been in trade among countries of the South, with over 46 per cent of developing country goods exports in 2007 destined for other developing countries. South-south trade has recently been increasing at an annual rate of 11 per cent, nearly twice the growth rate of total world exports, and South-South services trade is also on the rise, offering possibilities to diversify goods-dominated export structure.

94. The key points are that developing country trade is no longer at the periphery of the global economy, south-south trade is expanding most rapidly and that the major, new sources of growth in the global economy are in developing countries. These processes are, of course uneven amongst developing countries. While the argument

to continue to build south-south linkages remains compelling, we need to be mindful of the following considerations.

95. New types of relations should allow us to share experiences, to deepen our understanding of each others' economies, to identify the opportunities that lie therein, and to build on our respective strengths. Improved competitiveness for firms from developing countries can be underpinned by cooperative arrangements in the critical areas of, amongst others, transport, communication and technology sharing for industrial upgrading. Such arrangements also offer possibilities to attract FDI to each of our markets, and to pool human, institutional, technological and infrastructural resources.

96. We will also need to consider how best to construct trade agreements. Free trade agreements between countries of the south and north, unless properly constructed, will tend to lock developing countries into lower value added production and export. South-south agreements offer the opportunity for a more diversified and value added exports basket that allows us to develop new competitive possibilities particularly with respect to intra-industry trade. This is particularly important for South Africa as our export profile, even to countries of the South, continues to be dominated by low value added commodities that would be unsustainable in the longer run.

97. We need to be mindful that our development processes are at times fragile and, against the background of widespread poverty, unemployment and a host of other development problems, it can be difficult to open markets if it places pressure on domestic production or exacerbates unemployment. It is therefore important that we structure our trade agreements to foster complementarities in our industrial, agricultural and service sectors, and to avoid opening ourselves up to destructive competition. In this respect, preferential trade agreements that allow for a more strategic integration process may be the preferred route.

98. South Africa, together with its partners in SACU concluded a PTA with MERCOSUR. This agreement was signed in 2009. PTA negotiations with India are currently underway. While the immediate commercial value of the SACU-MERCOSUR PTA is limited, it creates a legal and institutional setting for resolving any trade friction that may arise in future between the two regions. Moreover, as an enabling arrangement,

the PTA lays the basis for pursuing deeper trade relations in future. South Africa has worked closely with China to develop and implement the Partnership for Growth and Development. This initiative aims to promote value added South African exports to China and increase inward investment from China for projects around mineral beneficiation. Our objective is to ensure the long term sustainability and mutual benefit in the relationship with this important trading partner.

Relations with Countries of the North

99. South Africa's relations with key developed countries remain vital. These economies are our primary source of investment and technology and they remain prominent trade partners. Accordingly, we will continue to build our trade and investment relations with these economies on the basis of existing institutional frameworks for engagement.

100. With Europe, the TDCA offers the basic framework for consolidating and expanding trade and investment relations with the EU and its Member States. The EU remains South Africa single most important investment and trade partner. The mid-term review of the TDCA in 2005 offered opportunities to deepen economic cooperation on a range of trade-related issues.

101. With the conclusion and entry into force in 2008 of the free trade agreement between SACU and the European Free Trade Association (EFTA), a legal and institutional framework has been established between our two regions. As this agreement is aligned to the TDCA, South Africa has established strong trade and investment frameworks with most European economies. The EFTA agreement creates a platform to increase trade and investment between the regions and establishes a mechanism to resolve any trade disputes that may arise. While the agreement is limited in terms of improved access in agriculture, it does offer SACU Members duty and quota free access on industrial products to these European economies.

102. While it was not possible to conclude a free trade agreement with the USA, South Africa's trade and investment relations with the USA are well served by both the non-reciprocal preferential trade arrangement the US offers all sub-Saharan Africa countries - the AGOA - and the SACU-USA Trade, Investment, Development and Cooperation Agreement (TIDCA) that was concluded in 2008. TIDCA establishes a

cooperative framework to address such non-tariff issues as standards and customs procedures. It also establishes commitments to enter into joint trade and investment promotion activities.

103. In Asia, Japan has consistently been in the top four of our largest trading partners and a source of substantial investment. Our relationship with Japan as well as with many other developed countries is pursued through ongoing bi-national cooperative agreements.

The World Trade Organisation and the Doha Round

104. South Africa is a strong proponent of multilateralism as the necessary inter-governmental response to managing globalisation and the deepening interdependence of national economies. The marginalisation of many countries in the global economy, particularly those in Africa, and the question of coherence in global economic policy-making constitute key challenges confronting the international community, in the context of an integrating global economy.

105. While multilateral rules are important, established rules are often imbalanced and prejudicial to the developmental interests of developing countries. This requires reform of current systems of global economic governance. Indeed, South Africa has argued that reform of global institutions should be aimed at ensuring greater transparency and inclusiveness in the workings and outcomes of these institutions. We have argued that keys to the legitimacy and sustainability of these institutions lie in ensuring that the developmental interests of developing countries are advanced as these regions will constitute the sources of global growth and prosperity in the world economy.

106. In this globalising world economy, the WTO has moved to centre stage in an evolving system of global economic governance. The establishment of the WTO marks the emergence of a strengthened rules-based international trading system that provides enhanced certainty and security for market access. The WTO reduces the scope for unilateral trade measures and aims to ensure that economic interactions, including the resolution of disputes, are governed by a system of rules, and not solely by the interplay of economic power. This is the essential contribution of the WTO to global

economic governance. Nevertheless, the outcome of the Uruguay Round responded mainly to the concerns and interests of developed countries. From the perspective of developing countries, WTO agreements exhibit a range of imbalances and deficiencies that are prejudicial to their trade and development interests. Further, the agreements, designed in the main by industrialised countries, reflect the concerns of sophisticated economies and presuppose an institutional, human and financial base that is often lacking in developing countries.

107. Developing countries have a direct interest in strengthening the system in a manner that promotes their development. Multilateral rules need to be designed - and re-designed - to become more responsive to the trade and development interests of developing countries and to ensure that issues of development are addressed decisively. Meeting this challenge will serve to strengthen the multilateral, rules-based trading system, enhance its legitimacy and create the basis for a new round of world economic growth from which all WTO members can benefit.

108. South Africa's support for launch of the Doha Round negotiations was based on assessment that negotiations opened up the possibility to decisively address issues of development in the world trading system. To achieve sustained global economic growth, developing countries must pursue industrialization in sectors where they possess comparative advantage. This conception has informed our positions in each of the areas under negotiations. South Africa's negotiating objectives in the WTO aim to: i) enhance market access for products of export interests to developing countries; ii) eliminate industrial country subsidies and support to agriculture; iii) re-negotiate rules that perpetuate imbalances in the international trade regime; and iv) ensure appropriate policy space for developing countries to pursue developmental objectives through meaningful implementation of the principle of special and differential treatment.

109. The prolonged impasse that has bedevilled the conclusion of the Doha Round, are symptoms of an imbalance between the legitimate claims for developmental reforms to the global trading system and mercantilist commercial interests of forces benefiting from the existing unbalanced global trading system. The steady erosion of the Round's developmental content has been manifest in the gradual lowering of the ambition of developed countries to substantially reform agriculture trade, alongside

growing pressure on emerging developing countries to open their markets for industrial products and services.

110. The demand on South Africa has been particularly invidious. While obtaining very little, if any, new market access in global agricultural markets, South Africa would be required to take deeper and wider industrial tariff cuts than any other WTO member. This would severely reduce the scope to employ tariffs to support industrial policy objectives, and it would expose labour intensive industries to intensified competition with the prospect of further employment losses. Such an outcome would perpetuate the historic injustice of the Uruguay Round, where South Africa was obliged to undertake tariff cuts as a developed country, and could not be considered an outcome that is developmental, fair or balanced.

Assessing the Trade Responses to the Global Economic Crisis

111. In the context of the global economic crisis, there have been repeated calls to avoid the resort to protectionism. The justification has been to avoid repeating the experience of the Great Depression in the 1930s where growing protectionism exacerbated the crisis and delayed the return to growth. Nevertheless, as the current global crisis has unfolded, we have witnessed intensified competition between counties to retain production and employment in their home countries: Economic nationalism has been evident.

112. 'Bail outs' and stimulus packages, though necessary to re-start economic growth, have had an impact on trade and investment flows as they have changed incentives structures and shifted the competitive environment to favour national industries and firms in developed countries. Support programmes have gone beyond neo-Keynesian policies of deficit funding of infrastructure programmes and public work programmes to include targeted support to national industries. It appears that competition is underway to determine which firms are supported and retained, and in which locations.

113. South Africa has argued that it is necessary to define protection broadly, not only as traditional trade and investment barriers but to include all national-specific measures

that countries take, within WTO disciplines and beyond, that impose costs on others and that distort international trade and investment flows. In this context, it is necessary to consider the scope of measures available to all countries, the quantum of support available for each country, and the scale of the impact of various national support measures on the global economy.

114. On all counts, it is clear that developing countries have recourse to fewer measures and, due to their weaker fiscal bases, the quantum of financial support they are able to deploy is considerably less than that available to industrial countries. Industrial countries must therefore provide leadership in resisting protectionist measures. Developing countries have a legitimate case in being able to use all WTO-compatible measures to provide support to their industries. Moreover, the systemic impact developing country measures are likely to have pale into insignificance compared to measures taken by industrial countries.

SECTION 6

An Agenda for Future Trade Policy Work

115. In recognising the growing complexity of trade policy and its impact on a broader range of policy domains, the Framework sets out an agenda for future work to address issues that now comprise the frontier of trade policy. This section briefly outlines the approach to future work in the areas of: i) new generation trade issues beginning with trade in services; ii) the need to build accompanying policies that will be necessary to ensure the legitimacy and support for trade reform in future; and iii) the elements required for strengthening the institutional capacity and coordination of trade policy in South Africa to deepen the quality and capacity to deliver on South Africa's trade policy and strategy objectives in future.

Trade in Services

116. Services and Trade in Services are increasingly important to global economic growth. Services account for around two-thirds of global output, 20% of global trade and two-thirds of foreign direct investment. Since the 1980s trade in services has grown rapidly. While most services trade takes place in business services, communications, finance, transport, energy, construction and tourism, trade in professional services is also growing rapidly. Industrial and developing countries respectively account for 75% and 25% of global services trade. Services trade is driving economic growth and the world's fastest growing developing economies are significant exporters of services.

117. The Uruguay Round of trade negotiations heralded the inclusion of services trade in the multilateral trading system. With the establishment of the WTO in 1995, international trade in services became subject to the rules set out in the General Agreement on Trade in Services (GATS). Despite the fact that many developing countries had opposed the extension of multilateral rules to services trade, the issue is now firmly on the multilateral trade agenda and increasingly part of bilateral and regional agreements.

118. In South Africa, the services sector makes a significant contribution to economic development. Services account for 74% of output and 72% of formal employment. The expansion of services is critical to efforts to promote growth, employment and equity. Enhancing competitiveness in finance, transport, energy and telecommunications is vital in two respects. These are significant sectors in their own right and they partly determine the competitiveness of the other sectors (agriculture, mining, manufacturing) they underpin. The structure of South Africa's services economy is relatively complex. Business services, for example, contribute more than 10 percent of GDP. In its disaggregated form this includes computing and data processing, professional services, marketing services, technical services, levying and renting, labour recruitment and operational services. South Africa's service sector is comparatively open and the level of commitments taken in the Uruguay Round places the country on par with those of developed countries. South Africa made its first WTO services commitments in 1994, and commitments in telecommunications and financial services were made in 1997 and 1998, respectively.

119. In future, South Africa will need to approach negotiations in services on the basis of well-considered research that identifies the development and export potential for key sectors. This requires, at the outset, addressing the severe lack of adequate accurate data and statistics on services, particularly on services trade. It is also necessary to determine South Africa's competitive strengths in services trade and to fully assess the trade dimensions of the regulatory environment.

120. It will also be necessary to establish a 'trade in services forum' where all stakeholders, Government, labour and private sector service providers, regularly consult and share information on how to strengthen this increasingly important economic sector. The forum could also focus on identifying the market access and addressing regulatory constraints private sector service providers confront in foreign markets which could constitute a basis for developing a more proactive services negotiating agenda.

121. Any consideration of trade in services would need to consider the 'developmental' principles set out in the GATS. These need to be safeguarded. Under the GATS, commitments are in general set out in a "positive list"; that is, commitments need to be specified explicitly. There is no obligation to allow the foreign supply of any

service, and governments retain the right to decide which services are to be opened to foreign-service suppliers. Moreover, where such commitments are made, government may limit the degree of market access and/or national treatment. Further, the GATS' safeguard provisions allow government policy discretion to ensure that negotiations do not impede access to vital public services. The right to regulate must be preserved as services are often regulated for legitimate public policy reasons.

122. Public services that are not provided on a commercial or competitive basis are not subject to the GATS. In other words, the scope of negotiations may exclude services provided by governments in such sectors as education and health, or other essential public utilities. For those services provided on a commercial or competitive basis, the Agreement does not require they be privatised or liberalised. There are no disciplines/restrictions on providing subsidies to the service sector although negotiations to do so are underway. These "safeguards" will need to be fully considered in elaborating a broad policy approach to services trade in future, particularly with respect to any future negotiations in the area of trade in services.

Approaching Other New Generation Trade Issues

123. The international trade policy agenda has moved beyond its traditional focus on tariffs to encompass a range of so-called 'new generation' trade issues including the trade dimensions of investment, competition, intellectual property, government procurement, labour and the environment, amongst others. The widening ambit of negotiating issues in part reflects the integrated nature of economic policy and recognition that a variety of regulatory features affect market access and investment. It also reflects the interests and commercial objectives of advanced economies that have managed to influence and shape the evolution of these global trade policy agenda on issues of particular importance to them.

124. At the same time, developing countries confront a proliferation of 'behind the border measures' in the form of standards that impede their access to the markets of advanced economies. South Africa, as with other developing economies, will need to develop a more proactive stance on these 'new' trade related issues.

125. South Africa must seek to retain the policy space necessary to pursue its broad national development objectives, notably its industrial upgrading and employment objectives. We will also need to consider the relevant national legislative and regulatory frameworks as well as the processes and rules of multilateral institutions that have competence over these trade-related issues, including those on the environment, labour and intellectual property.

126. In approaching these issues, South Africa must ensure that is able to: i) preserve policy space and flexibility to regulate in the public interest; ii) balance economic efficiency with socio-economic equity; iii) support the overall development path, in dynamic rather than static terms; and iv) enhance the competitiveness of our economy, and in a manner that supports long-term economic development.

127. The assessment of our strengths and weaknesses domestically, as well as an accurate evaluation of challenges and opportunities will guide the development of our trade strategy on these ‘new generation issues’. Our main objective is to ensure that we address these issues in ways that promote sustainable development and institutional development.

Accompanying Policies

128. Trade reform processes creates winners and losers. A crucial area for the future will be in the area of “accompanying policies”. There is a large body of evidence that rapid and indiscriminate liberalisation without adequate safeguards bring adjustment costs through rising unemployment and increasing poverty. The trade liberalization episode of the early 1990s in South Africa coincided with rising levels of unemployment. This period also witnessed structural shifts from skills- and capital-biased labour demand on the back of the expansion of capital-intensive sectors and the corresponding contraction of labour intensive sectors. The adjustment costs appear to have been disproportionately borne by the poorest sectors of the population. The evidence suggests that measures to cushion the costs of adjustment not only in the adjustment period but over the long run as well are a good policy practice, and a potent buffer against social instability.

129. Many countries address these issues through two broad responses. First, workers that lose their employment as a result of liberalisation, directly or indirectly, are

protected through a social safety net. This may involve counselling, training and financial support during the unemployment period to ease the strain of the adjustment period for those, generally poor and unskilled, affected workers. Second, re-training programmes to affected workers will be required to adjust to new labour requirements in the economy.

130. The linkages and adequacy of existing social safety nets and worker re-training programmes to a trade reform needs to be fully explored and developed. An institutional framework that ensures constituencies affected by economic reform programmes actively participate in defining the terms and conditions of the structural adjustment process is necessary to ensure that the reform process retains both legitimacy and broad-based support. This will be the subject of future work on trade policy.

Institutional Challenges

131. Having set out the outlines of South Africa's trade policy and strategic thrust, the challenge remains that of implementation. Coordination both within **the dti** and across government, as well as effective stakeholder management, will be vital for success. As trade policy is a dynamic instrument, having to respond to global changes and domestic economic imperatives, institutional mechanisms that enable rapid responses are essential. There is a range of institutional mechanisms already established in South Africa that will need to be strengthened to enhance coordination on trade policy matters and to ensure that its delivery is increasingly effective. This section outlines areas for consideration.

132. The institutional linkages and interface between the policies divisions in **the dti** including those responsible for industrial, trade and competition policy are areas for enhanced coordination. A mechanism to evaluate tariff adjustments (tariff policy) as it relates both to the industrial policy needs and those related to the reciprocal exchange of concessions in multilateral, regional and bilateral negotiations needs to be institutionalised. Enhanced coordination between the policy divisions and the administrative arms of government, notably ITAC and the South African Revenue Services, is another area of priority.

133. Improved coordination to align the trade and industrial policy priorities with the trade and investment promotion activities of Government, at strategic and operational levels, also requires attention. In enhancing exports to create sustainable employment and mitigate current account deficits, the CSP process could inform the development of more focused foreign direct investment (FDI) and export promotion strategies guided by industrial policy priorities. This will entail more targeted FDI promotion driven by the opportunities identified by the sectoral strategies, as well as a more focused export promotion strategy, based on detailed analysis matching domestic capacities with trade opportunities in foreign markets. Such improvements could be advanced through existing institutional mechanisms of clustering processes within **the dti**.

134. As noted earlier, trade policy has extended beyond traditional market access issues such as tariffs (industrial and agricultural), standards and trade remedies, and now include such 'new generation' issues as services, investment, competition, environment, and government procurement, amongst others. As the scope of this agenda extends beyond the direct competence of **the dti**, and impinges on regulatory responsibilities of many other government departments, closer coordination around the broadening trade policy agenda is imperative.

135. Departments such as National Treasury, and Agriculture, Forestry and Fisheries also have crucial roles to play in linking trade policy to specific macro-economic or sectoral objectives. Of growing importance are the linkages between trade and environment, particularly in the context of the climate change negotiations. As trade policy and foreign policy are increasingly inter-related as both are situated at the nexus between the domestic economic priorities and external engagement, it is necessary to strengthen strategic coordination, alignment, joint planning and execution between **the dti** and the Department of International Relations and Cooperation. This is particularly important in our engagements in Africa and in our efforts to promote South-South cooperation. The DG Cluster on International Cooperation, Trade and Security (ICTS) and the Permanent Trade Forum are important mechanisms to coordinate Government position on these issues.

136. **the dti** will need to increasingly draw on the views of business and labour stakeholders in NEDLAC in order to deepen the trade policy making process. As

these stakeholders are more directly involved in the day to day workings of the real economy, they can provide deep insights to enrich policy making. We will also need to build new collaborative relations with knowledge centres, including universities and research think-tanks. Such engagement can serve several purposes: to communicate the South African Government's perspectives on key trade policy issues as these evolve; to broaden and improve the quality of the debate on trade policy in South Africa; and to provide some guidance for research and analysis on trade policy issues. Such an engagement can help to generate wider interest in trade policy issues and, over the medium term, to build a cadre of future trade policy practitioners.

137. The South African Parliament is increasingly providing stronger oversight of trade policy and negotiation. This development is essential to ensuring that trade policy and negotiation serve the broader developmental objectives of the country. Such oversight and monitoring can also provide clearer guidance and mandate to trade policy practitioners in ways that strengthen the nation's leverage in trade negotiations and ensure that trade negotiating outcomes support broader priorities of Government.

138. Strengthening all these institutional linkages to enhance coordination and joint planning in the context of overall and integrated strategic and operation plans, should be part of the future work on trade policy. Of immediate interest, the institutional mechanisms should consider strategies, objectives and future work programme set out in this Framework. It should identify critical linkages between various policy instruments and relevant agencies, act on the advice of the relevant structures and stakeholders, and optimise the linkages between the domestic priorities and international economic relations.

SECTION 7

Summary and Recommendations

139. This policy framework sets out South Africa's approach to trade policy and strategy. It clarifies that our trade policies will be informed by South Africa's industrial upgrading and employment objectives. The Framework has specified that our approach to tariff policy is not determined *a priori*. South Africa has neither a high, nor a low tariff policy *per se*. Initiatives in tariff policy arising from industrial policy have been to lower tariffs from formerly protected upstream, capital intensive industries, producing inputs that are important cost items for the downstream, labour-intensive industries that we want to encourage and nurture. If the evidence leads to the conclusion that it is necessary to reduce or even remove duties where this will be of benefit to the industries and sectors, this will be pursued. At the same time, where assessments lead to the conclusion that some particular industry or sector requires tariff protection for a period of time that support should be provided so long as it is supported by a sector strategy and by evidence, within the proscribed limits of our international trade obligations.

140. The Framework has observed that trade policy lies at the nexus between the domestic and the global economy. In taking into account an increasingly integrated and networked global economy, trade policy and strategy must shape the terms and conditions of South Africa's integration into the global economy in a manner that secures the policy space to pursue national economic policy objectives, while leveraging opportunities that emerge from global markets and flows of trade and investment.

141. A global trading system that is supportive of, and conducive to, the developmental interests of developing countries would broadly favour our own developmental prospects. South Africa will therefore continue to place the developmental agenda of developing countries at the centre of its foreign economic policy. While we consolidate trade relations with key partners, we will seek to diversify our trade by geographical destination and to create opportunities for higher-value manufactured exports. We are keenly aware that the implementation of trade policy takes place under global conditions that pose complex challenges for South Africa. This reality

confirms the need to approach trade policy in a flexible, pragmatic and evidence-based manner.

142. The Framework has also identified areas that will require further work. This will include work on trade in services and other new generation issues, accompanying policies and strengthening institutional coordination on trade policy matters. In all this, we aim to ground trade policy in a clearly articulated development framework.

References

Government of the Republic of South Africa, (2005), "Accelerated and Shared Growth Initiative for South Africa", July.

Department of Trade and Industry, (2008), "Industrial Policy Action Plan", August.

Department of Trade and Industry, (2007), "The National Industrial Policy Framework", January.

Address by the then Deputy Minister (and now Minister) Rob Davies to the Oxford University-Geneva Lectures on "Global Economic Governance", Geneva, April 2009.

Address by the then Deputy Minister (and now Minister) Rob Davies on the 5th Anniversary of the International Trade and Administration Commission (ITAC), 16 October 2008.

Department of Trade and Industry (2001), "Note on South Africa's Approach to the WTO and Key Elements of a Negotiating Position", December.

Dr Rob Davies and Xavier Carim, (2005) "Reclaiming the Development Content of the Doha Development Round". Published on **the dti** Website, 17 November.

Dr Rob Davies, Dot Keet and Mfundu Nkuhlu, (1993) Reconstructing Economic Relations with the Southern African Region: Issues and Options for Democratic South Africa. MERG Publication, University of the Western Cape.

Faizel Ismail, (2007), Mainstreaming Development in the WTO: Developing Countries in the Doha Round, FES publication, Geneva, Switzerland.

Financial Times (2008) "Global free market capitalism died a long time ago", 28 March.

Giancarlo Ghislanzoni, Rusti Penttinen, and David Turnbull (2008), "The Multilocal Challenge: Managing Cross-Border Functions", The Mckinsey Quarterly, March.

Ha-Joon Chang, (1999), "The Economic Theory of Developmental State" in Meredith Woo-Cummings (Ed.), The Developmental State, Ithaca: Cornell University Press.

ITAC, (2007), "Tariff Review: South Africa's Tariff Structure and Recommendations for Future Dispensation", Issue paper by ITAC.

James A. Brander, (1985), "Strategic Trade Policy", National Bureau of Economic Research (NBER) Working Paper No. 5020, February.

Jeffrey R Frieden, (2007), Global Capitalism: Its Fall and Rise in the 20th Century. New York: Norton Publishers.

Kenichi Ohmae, (2005), The Next Global Stage. New Jersey: Wharton School Publishing.

Martin Wolf, (2008), "The Rescue of Bear Stearns Marks Liberalisation's Limit", Financial Times, 26 March.

Michael Porter, (2008), On Competition. Harvard, NJ: Harvard Business Review Books.

Mills Soko, (2007), "Global Trade Theory and Practice: Implications for South Africa", Thematic Report Commissioned by TIPS/**the dti**, December.

National Department of Agriculture, (2008), "Draft Agricultural Tariff Policy for South Africa", Prepared by NDA, February.

National Department of Agriculture, Forestry and Fisheries (2009), "Report on the Effects of the Credit Crisis on the South African Agricultural Sector", March.

Nimrod Zalk, (2004), "The Role of Dynamic Products in Global Integration- Implications for South Africa". TIPS Working Paper 2, June.

Philip Kotler, Somkid Jatusripitak and Suvit Maesincee, (1997), A Strategic Approach to Building National Wealth: The Marketing of Nations. New York: The Free Press.

Rob Vos (2007) "What we do and don't know about trade liberalisation and poverty reduction", DESA Working Paper No 50, UN Department of Economic and Social Affairs, August.

Robert C. Feenstra, (1998) "Integration of Trade and Disintegration of Production in the Global Economy", Journal of Economic Perspectives, Volume 12 No.4: pp31-50.

Samantha Dodd and Nicolette Cattaneo, (2007), "Theoretical Approaches to the Analysis of Trade and Poverty and a Review of Related Literature on South Africa", draft paper, Rhodes University, contribution to the Southern African Trade Policy and Poverty Project. (On file with the Author).

Medhi S. Shafaeddin (2004), "Who is the Master? Who is the Servant? Market or Government? An Alternative Approach: Towards a Coordination System", UNCTAD Discussion Paper No. 175, Geneva: Switzerland, August.

Medhi S. Shafaeddin (2005), "Trade Liberalization and Economic Reform in Developing Countries: Structural Change or De-industrialization", UNCTAD Discussion Paper No. 179, Geneva: Switzerland, April.

TIPS (2007), "The State of Trade Policy in South Africa" Published by TIPS, May.

UNCTAD (2009) Economic Development in Africa. Report 2009: Strengthening Regional Economic Integration for Africa's Development, Geneva, Switzerland.

UNCTAD (2004), World Investment Report, Geneva, Switzerland.

UNCTAD (2006), Trade and Development Report: Global Partnership and National Policies for Development, Geneva: Switzerland.

Victor K. Fung, William K. Fung and Yoram Wind, (2008), Competing in a Flat World: Building Enterprises for a Borderless World, New Jersey: Wharton School Publishing.

World Bank Independent Evaluation Group, (2006), Assessing World Bank Support for Trade: 1987- 2004", Fact Sheet, March.

Glossary of Terms[3]

Absolute advantage: A country has an absolute advantage if its output per unit of input, of all goods and services produced, is higher than that of another country.

African, Caribbean and Pacific (ACP) countries: Group of African, Caribbean and Pacific countries whose partnership with the EU has been defined in a series of agreements, from the Lomé Convention to the Cotonou Agreement and now the Economic Partnership Agreements.

Ad valorem tariff: Duty (tariff or charge) calculated as a percentage of the value of the dutiable item.

Anti-dumping duties: These duties may be imposed if export *dumping* causes injury to producers of competing products in an importing country. The duties should equal the difference between the export price and the normal value of the dumped good.

Applied tariffs/rates: The actual tariff/rate in effect at the country's border.

Autonomous liberalization: (Also referred to as ***unilateral liberalization***). This term refers to trade liberalization measures a country takes unilaterally, before or outside of WTO negotiations.

Balance of trade: The value of a country's exports minus the value of its imports. Unless specified as a balance of merchandise trade, it normally incorporates trade in services, including earnings on financial assets.

Bound rate: Refers to the specific level at which a tariff has been bound. By binding a tariff at a particular level, a country agrees not to raise the tariff above that level. In practice, countries' (particularly developing countries) applied rates are usually lower than the bound rate.

[3] From Web Based Glossary of Economics and Alan V Deardorff (2006) 'Terms of Trade: Glossary of International Trade', World Scientific Publishing Company.

Bretton Woods: Town in New Hampshire (US), where a 1944 conference led to the creation of the International Monetary Fund and the World Bank. These two institutions are known as the 'Bretton Woods Institutions'.

Ceiling binding: Commitment by countries not to raise certain tariffs above specific or bound levels.

Comparative advantage: The ability of one country, compared with another, to produce a good at lower cost relative to other goods. Under conditions of perfect competition and undistorted markets, countries tend to export goods in which they have comparative advantage.

Competition policy: Policies designed to protect and stimulate competition in markets by outlawing anticompetitive business practices such as cartels, collusion, market sharing and price fixing.

Competitiveness: Usually refers to characteristics that permit a firm to compete effectively with other firms due to low cost production or superior technology.

Cotonou Agreement: Agreement between EU and African, Caribbean and Pacific countries, signed in June 2000 in Cotonou, Benin. Replaces the Lomé Convention.

Customs union: Group of countries forming a single customs territory in which tariffs and other barriers are eliminated on most or all trade for products originating in these countries, and a common external trade policy (common external tariff) is applied to non-members.

Deep integration: Refers to economic integration that goes well beyond the removal of formal barriers to trade and includes various ways of reducing the international burden of differing national regulation.

De-industrialization: A decline over time in the share of manufacturing in an economy, usually accompanied by growth in the share of services. Typically also accompanied by an increase in manufactured imports; it may raise concerns that a country is losing valuable economic activity to others.

Doha Round: The name given to the WTO round of negotiations focused on development. The round was launched in Doha, Qatari in 2001.

Domestic content requirement: A requirement that goods produced in a country contain a certain proportion of domestic inputs. Same as local content requirement.

Dumping: Occurs when goods are exported at a price less than their normal value, generally meaning they are exported for less than they are sold in the domestic market or third-country markets, or at less than production cost.

Dumping margin: The amount by which the normal value exceeds the export price or constructed export price of the subject merchandise.

Economies of scale: Refers to the efficiency gained in a production process as the rate of production is increased. By sharing the costs of production, operating costs and cost per unit produced are decreased over time.

Effective rate of protection: Measures the protection provided to an industry through *tariffs* and other trade barriers on both inputs and outputs.

Enabling clause: The 1979 decision of the GATT to give developing countries 'differential and more favourable treatment, reciprocity and fuller participation'. As one of the so-called framework agreements, it enables WTO members to accord such treatment to developing countries without giving it to other contracting parties.

Everything but Arms: The name given by the EU to the package it offered to the least developed countries in 2001, which is expected to eliminate quotas and tariffs on all of their exports—except arms.

Exchange control: A governmental policy designed to restrict the outflow of domestic currency and prevent a worsened balance of payments position by controlling the amount of foreign exchange that can be obtained or held by domestic citizens. Often results from overvalued exchange rates.

Export Processing Zone (EPZ): Designated area or region where firms can import duty-free as long as the imports are used as inputs into the production of exports.

Export promotion: A strategy for economic development that stresses expanding exports, often through policies to assist them such as export subsidies.

Externality: Cost or benefit not accounted for in the price of goods or services. Beneficial effects are called positive externalities; harmful ones, negative externalities.

Foreign aid: The international transfer of public funds in the form of loans or grants either directly from one government to another (bilateral assistance) or indirectly through the vehicle of a multilateral assistance agency like the World Bank.

Foreign Direct Investment (FDI): A corporation's acquisition abroad of physical assets such as manufacturing plants and equipment, with operating control residing in the parent corporation outside the country where the acquisition occurs. Also includes mergers and acquisitions of corporations in one country with or by those in another country.

Free Trade: The importation and exportation of goods without any barriers in the form of tariffs, quotas, or other restrictions. Free trade has often been described as an engine of growth because it encourages countries to specialize in activities in which they have comparative advantages, thereby increasing their respective production efficiencies, and consequently their total output of goods and services.

Free trade area: A form of economic integration in which there exists free internal trade among member countries but each member is free to levy different external tariffs against non-member nations.

General Agreement on Tariffs and Trade (GATT): A multilateral forum for trade discussion and negotiation that aimed at encouraging trade between its members through the reduction of trade barriers. It led to a series of trade agreements, the first of which was in 1947. The *Uruguay Round,* completed in 1994, created the World Trade Organization which superseded the GATT in 1995. GATT 1994 contains some of the WTO's underlying principles and its initial agreements.

General Agreement on Trade in Services (GATS): WTO agreement concluded at the end of the *Uruguay Round*. It provides a legal framework for trade in services and the negotiated, progressive liberalization of regulations that impede this. It covers areas such as transport, investment, education, communications, financial services, energy and water services and the movement of persons.

Generalized System of Preferences (GSP): System through which high-income countries grant preferential access to their markets to developing countries.

Government procurement: Purchase of goods and services by governments and state owned enterprises.

Gross Domestic Product (GDP): The total value of goods and services produced by a nation over a given period, usually 1 year. Gross Domestic Product measures the total output from all the resources located in a country, wherever the owners of the resources live.

Gross National Product (GNP): The value of all final goods and services produced within a nation in a given year, plus income earned by its citizens abroad, minus income earned by foreigners from domestic production.

Import substitution: A deliberate effort to replace major consumer imports by promoting the emergence and expansion of domestic industries such as textiles, shoes, and household appliances. Import substitution requires the imposition of protective tariffs and quotas to get the new industry started.

Industrial Modernization: The transition from economic traditionalist to modernity.

Infant industry protection: Protection of a newly established domestic industry through various economic measures.

Local-content measure: Requirement that the investor purchase a certain amount of local materials for incorporation in the investor's product.

Market access: The extent to which a country permits imports to compete in its market. A variety of *tariff* and *non-tariff* trade *barriers* can be used to limit the entry of products from other countries.

Market failure: A phenomenon that results from the existence of market imperfections (e.g. monopoly power, lack of factor mobility, significant externalities, lack of knowledge) that weaken the functioning of a free-market economy; it fails to realize its theoretical beneficial results. Market failure often provides the justification for government interference with the workings of the free market.

Millennium Development Goals (Mugs): At the UN General Assembly in 2000, governments committed to achieving the following goals by 2015: eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, combating HIV/AIDS, malaria, and other diseases, ensuring environmental sustainability and developing a global partnership for development. These became known as the Millennium Development Goals.

Most-Favoured-Nation (MFN): A commitment that a country will extend to another country the lowest tariff rates it applies to any other country. All WTO contracting parties undertake to apply such treatment to one another under article I of the GATT. When a country agrees to cut tariffs on a particular product imported from one country, the tariff reduction automatically applies to imports of the same product from any other country eligible for most-favoured-nation treatment.

National treatment: Commitment to treat foreign producers and sellers the same as domestic firms.

Negative list: A list of items, entities, products and the like, to which an international agreement will not apply, on the understanding that the agreement applies to everything else. Contrast with *positive* list.

New Generation Issues: The four issues on which it was suggested that the 1996 WTO Singapore Ministerial Conference form working groups: trade and investment, competition policy, transparency in government procurement and trade facilitation. Only Trade facilitation was agreed to. See *Singapore Issues*.

Nominal tariff: The nominal protection provided by a tariff—that is, the stated tariff amount. Contrast with *effective rate of protection.*

Non-Tariff Barriers (Nabs): A catch-all phrase describing barriers to international trade other than *tariffs*.

Non-tariff measure: Any government action with a potential effect on the value, volume or direction of trade.

Nuisance tariff: A tariff so low that it costs the government more to collect it than the revenue it generates. Sometimes a tariff that does not have any protective effect — some countries defend this as necessary in order to raise revenues.

Origin rule: Criterion for establishing the country of origin of a product. Often based on whether production (processing) leads to a change in tariff heading (classification) or in the level of value added in the country where the good was last processed.

Poverty Reduction Strategy Paper (PRSP): Initiated by the boards of the World Bank and International Monetary Fund (IMF), this is a document describing a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty, as well as associated external financing needs. Preps are expected to be prepared by governments through a participatory process involving civil society and development partners, including the World Bank and IMF, and are required for countries seeking to obtain concessional lending and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative.

Policy space: Regulatory freedom advocated by governments in order to be able to adopt and promote policies adapted to their country's development needs. This demand for policy space arises as the increased liberalization of all sectors of the economy, and pressure by industrialized countries for the increasingly stringent and wide-reaching scope of WTO rules, leaves less and less room for countries to determine their own national policies.

Positive list: In an international agreement, a list of items, entities, products and the like to which the agreement will apply, with no commitment to apply the agreement to anything else. Contrast with *negative* list.

Production subsidy: A payment by government, perhaps implicit, to producers, encouraging and assisting their activities and allowing them to produce at lower cost or to sell at a price lower than the market price.

Prohibitive tariff: is a tariff so high that nearly no one imports any of that item.

Protective tariff: is intended to artificially inflate prices of imports and protect domestic industries from foreign competition, especially from competitors whose host nations allow them to operate under conditions that are illegal in the protected nation, or who subsidize their exports.

Quantitative restriction or quota: Measure restricting the quantity of a good imported or exported. Quantitative restrictions include quotas, non-automatic licensing, mixing regulations, voluntary export restraints and prohibitions or embargos.

***Revenue* tariff:** is a set of rates designed primarily to raise money for the government. A tariff on coffee imports imposed by countries where coffee cannot be grown, for example, raises a steady flow of revenue

Rules-based trade policy: Policy that adheres to accepted international rules and agreements on trade such as those embodied in GATT 1947 and the WTO.

Safeguard action or measure: Emergency protection to safeguard domestic producers of a specific good from an unforeseen surge in imports.

Sanitary and phytosanitary measures: Border control measures necessary to protect human, animal or plant life or health.

Singapore issues: The four issues on which it was suggested that the 1996 WTO Singapore Ministerial Conference form working groups: trade and investment, competition policy, transparency in government procurement and trade facilitation. Only Trade facilitation was agreed to. See also *New Generation Issues*

Single undertaking: Provision that requires countries to accept all the agreements reached during the *Uruguay Round* negotiations as a single package, rather than on a case-by-case basis. It has now been adopted in the WTO Doha Round.

Special and differential treatment: The principle in the WTO that developing countries be accorded special privileges, either exempting them from some WTO rules or granting them preferential treatment in the application of WTO rules.

Special and Differential Treatment (SDT or S&D): Preferential treatment that WTO rules accord to developing countries, and which can be manifested in different ways: developing country exports may enjoy preferential access to developed country markets, developing countries may not be expected to offer full reciprocity in trade negotiations (i.e. they may gain more than they concede), and developing countries may enjoy greater flexibility and longer periods of time to phase-in new commitments.

Specific tariff: A tariff rate charged as fixed amount per quantity, such as $100 per ton.

Tariff: A duty (or tax) levied upon goods transported from one customs area to another either for protective or revenue purposes.

Tariff binding: Commitment not to increase a rate of duty beyond an agreed level. Once a rate of duty is bound, it may not be raised without compensating the affected parties.

Tariff escalation: Higher import duties on semi-processed products than on raw materials, and higher still on finished products. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

Tariff equivalent: The level of *tariff* that would be the same, in terms of its effect, as a given *non-tariff barrier.*

Tariffication: Conversion of *non-tariff barriers* to their *tariff equivalents*

Tariff peaks: Relatively high tariffs, usually on “sensitive” products, amidst generally low tariff levels. For industrialized countries, tariffs of 15% and above are generally recognized as “tariff peaks”.

Tariff quota: The application of a reduced tariff rate for a specified quantity of imported goods. When quantities inside a quota are charged lower import duty rates, than those outside (which can be high).

Tariff-rate quota: A quota that is determined on the basis of the applicable tariff rate applied to imports. A predetermined amount of a good is allowed to enter at a reduced or zero tariff rate. After the quota has been filled, all subsequent shipments of that good during a specific period of time, such as a calendar year, are assessed a higher import tariff, usually the normal most-favoured-nation tariff.

Technical barrier to trade: Trade-restrictive effect arising from the application of technical regulations or standards such as testing requirements, labelling requirements, packaging requirements, marketing standards, certification requirements, origin marking requirements, health and safety regulations and sanitary and phytosanitary regulations.

Trade diversion: Trade displacement, as a result of trade policies that discriminate among trading partners of more efficient (lower-cost) sources and less efficient (higher-cost) sources. Can arise when some preferred suppliers are freed from barriers but others are not.

Trade integration: Process of reducing barriers to trade and increasing participation in the international economy through trade.

Trade liberalization: Reduction of *tariffs* and removal or relaxation of *non-tariff barriers*.

Trade policy review mechanism: WTO mechanism for periodic review of the trade policies and practices of members.

Trade-related technical assistance: Services financed or provided by donors and development agencies to strengthen trade-related institutions and build trade capacity in developing countries.

Uruguay Round: The last round under the GATT, which began in Uruguay in 1986 and was completed in 1994 after nearly eight years of negotiations. Its conclusion led to the creation of the World Trade Organization.

Variable levy: Customs duty rate which varies in response to domestic price criterion.

Voluntary export restraint: An agreement between importing and exporting countries in which the exporting country restrains exports of a certain product to an agreed maximum within a certain period.

WTO plus: Trade agreements that contain more stringent obligations than the WTO multilateral trade regime requires. Regional trade agreements sometimes contain WTO plus elements.

Annexure A

Trade Trends – 1994-2008

Table 1 – Top 10 Individual Trading Partners - Total Trade (R-million)

1994			2006		
Country	Total Trade (Rm)	Share of Total Trade	Country	Total Trade (Rm)	Share of Total Trade
Germany	17,414	10.5%	Germany	84,182	9.9%
United States	15,735	9.5%	United States	75,491	8.9%
United Kingdom	15,461	9.3%	Japan	71,177	8.4%
Japan	13,490	8.1%	China	60,360	7.1%
Switzerland	8,203	4.9%	United	54,351	6.4%
Italy	4,904	3.0%	Saudi Arabia	26,195	3.1%
Taiwan Province	4,543	2.7%	Netherland	24,873	2.9%
Belgium	4,375	2.6%	France	24,246	2.9%
Netherlands	4,109	2.5%	Italy	23,137	2.7%
France	3,876	2.3%	Iran (Islamic Republic of)	19,763	2.3%
2007			**2008**		
Country	Total Trade (Rm)	Share of Total Trade	Country	Total Trade (Rm)	Share of Total Trade
Germany	99,595	9.6%	Germany	127,241	9.4%
United States	95,016	9.2%	United States	122,201	9.0%
Japan	87,068	8.4%	China	115,567	8.5%
China	84,768	8.2%	Japan	106,111	7.8%
United Kingdom	61,462	5.9%	United Kingdom	69,027	5.1%
Netherlands	28,593	2.8%	Saudi	48,674	3.6%
France	27,822	2.7%	Netherland	36,909	2.7%
Saudi Arabia	27,640	2.7%	India	36,794	2.7%
Italy	25,852	2.5%	Italy	32,131	2.4%

Iran (Islamic Republic of)	22,339	2.2%	France	30,584	2.3%

Source: Quantec

Germany and the United States have consistently been South Africa's first and second most important trading partners respectively since 1994. However, their share of total trade has been decreasing over this period. China, and to a lesser extent, India, have grown in importance. While Japan remains an important trading partner, China has challenged this position in recent years.

Table 2 – Top 10 Key Trading Regions - Total Trade1994 - 2008 (R-million)

1994			2006		
Region	Total Trade (Rm)	Share of Total Trade	Region	Total Trade (Rm)	Share of Total Trade
European Union	56,757	34.2%	European	283,522	33.4%
Eastern Asia	25,785	15.5%	Eastern Asia	170,384	20.1%
NAFTA	17,532	10.5%	NAFTA	85,125	10.0%
SADC	9,417	5.7%	Western Asia	52,111	6.1%
Western Europe	8,250	5.0%	SADC	49,040	5.8%
South-eastern Asia	5,817	3.5%	South-central Asia	38,613	4.6%
Western Asia	3,836	2.3%	South-eastern Asia	34,036	4.0%
South-central Asia	3,544	2.1%	South America	21,881	2.6%
South America	3,211	1.9%	Australia and New Zealand	20,075	2.4%
Australia and New Zealand	2,047	1.2%	Western Africa	19,232	2.3%
2007			**2008**		
Region	Total Trade (Rm)	Share of Total Trade	Region	Total Trade (Rm)	Share of Total Trade
European Union	334,328	32.2%	European Union	410,591	30.2%
Eastern Asia	215,278	20.8%	Eastern Asia	273,273	20.1%
NAFTA	108,391	10.5%	NAFTA	137,178	10.1%
SADC	71,936	6.9%	SADC	110,090	8.1%
Western Asia	60,487	5.8%	Western	101,296	7.5%

South-central Asia	47,596	4.6%	South-central	69,250	5.1%
South-eastern Asia	39,248	3.8%	South-eastern	54,934	4.0%
South America	29,271	2.8%	South	34,938	2.6%
Western Africa	22,676	2.2%	Western	30,996	2.3%
Australia and New Zealand	22,007	2.1%	Australia and New Zealand	28,494	2.1%

Source: Quantec

The EU continues to be South Africa's most important regional trading partner, followed by Eastern Asia and then NAFTA. Although Eastern Asia accounts for a large portion of total South African trade, this appears to be declining, with trading relationships growing with other parts of Asia. Further, there are indications of more integrated trade within SADC as the proportion of total South African trade accounted for by this region has increased since 1994.

Table 3 – Top 10 Trading Partners by Imports 1994 - 2008 (R-million)

1994			2006		
Country	Imports (Rm)	Share of Total Imports	Country	Imports (Rm)	Share of Total Imports
Germany	13,259	17.0%	Germany	57,827	12.4%
United Kingdom	9,271	11.9%	China	46,712	10.1%
United States	9,141	11.7%	United States	35,156	7.6%
Japan	7,960	10.2%	Japan	30,260	6.5%
Italy	3,141	4.0%	Saudi Arabia	24,545	5.3%
France	2,934	3.8%	United Kingdom	23,059	5.0%
Taiwan	2,640	3.4%	Iran (Islamic	18,329	3.9%
Switzerland	1,975	2.5%	France	16,939	3.6%
Iran (Islamic	1,967	2.5%	Italy	13,885	3.0%
Netherlands	1,938	2.5%	Republic of Korea	11,873	2.6%

2007			2008		
Country	Imports (Rm)	Share of Total Imports	Country	Imports (Rm)	Share of Total Imports
Germany	65,562	11.7%	Germany	81,420	11.3%
China	60,270	10.7%	China	81,213	11.3%
United States	43,102	7.7%	United States	56,893	7.9%
Japan	36,975	6.6%	Saudi Arabia	45,955	6.4%
United Kingdom	27,241	4.8%	Japan	40,510	5.6%
Saudi Arabia	25,360	4.5%	United Kingdom	29,526	4.1%
Iran (Islamic	20,803	3.7%	Iran (Islamic	27,116	3.8%
France	18,839	3.3%	Angola	22,350	3.1%
Italy	15,604	2.8%	France	20,488	2.8%
Republic of Korea	12,616	2.2%	India	18,799	2.6%

Source: Quantec

While Germany has consistently remained South Africa’s top source of imports since 1994, its share of total South African imports has decreased over the past years. In contrast, China has replaced the United Kingdom as the second most important import source and its share is currently approaching Germany. It is likely that China will soon become South Africa’s top source of imports. Further, since 2008, India has grown as a source of imports for South Africa, as has Angola. In general terms, it would appear that South Africa is increasingly diversifying its imports away from traditional sources, mostly developed countries, towards non-traditional developing country partners.

Table 4 – Top 10 Key Trading Regions – By Imports 1994 - 2008 (R-million)

1994			2006		
Country	Imports (Rm)	Share of Total Imports	Country	Imports (Rm)	Share of Total Imports
European Union	36,350	46.7%	European Union	160,818	34.6%
Eastern Asia	14,501	18.6%	Eastern Asia	99,308	21.4%
NAFTA	10,293	13.2%	NAFTA	40,510	8.7%
South-eastern Asia	2,697	3.5%	Western Asia	38,624	8.3%
South-central Asia	2,552	3.3%	South-central Asia	30,449	6.6%
SADC	2,115	2.7%	South-eastern Asia	25,228	5.4%
Western Europe Rest	2,012	2.6%	South America	17,559	3.8%
South America	1,694	2.2%	SADC	15,845	3.4%
Western Asia	1,472	1.9%	Western Africa	11,601	2.5%
Australia and New Zealand	1,216	1.6%	Australia and New Zealand	10,479	2.3%
2007			**2008**		
Country	Imports (Rm)	Share of Total Imports	Country	Imports (Rm)	Share of Total Imports
European Union	189,306	33.7%	European Union	224,176	31.1%
Eastern Asia	120,697	21.5%	Eastern Asia	145,051	20.1%
NAFTA	50,433	9.0%	Western Asia	79,059	11.0%
Western Asia	44,556	7.9%	NAFTA	66,982	9.3%
South-central Asia	34,601	6.2%	South-central Asia	47,513	6.6%
SADC	29,999	5.3%	SADC	42,361	5.9%
South-eastern Asia	28,913	5.1%	South-eastern Asia	38,289	5.3%
South America	23,401	4.2%	South America	26,876	3.7%
Western Africa	12,916	2.3%	Western Africa	17,171	2.4%
Australia and New Zealand	11,335	2.0%	Australia and New Zealand	15,070	2.1%

Source: Quantec

By region, the EU has consistently been South Africa's key source of imports since 1994, though its share of total imports has decreased quite from almost 50% of total imports in 1994 to around 31% today. Eastern Asia is the second most important region with respect to South African imports, although its share of the total has also slightly decreased. Greater movements are observed with respect to the other regions in Asia, such as

Western Asia, which became a more important trading partner than NAFTA. A positive development has been the increased imports from SADC which now accounts for around 6% of total imports. It would also appear that in recent years South Africa is also increasing its imports from Western Africa. South America has also grown in importance as a source of imports during this period.

Top 10

Table 5 – Top 10 Individual Trading Partners – By Exports 1994 - 2008 (R-million)

1994			2006		
Country	Exports (Rm)	Share of Total Exports	Country	Exports (Rm)	Share of Total Exports
United States	6,594	7.5%	Japan	40,917	10.7%
Switzerland	6,228	7.0%	United States	40,335	10.5%
United Kingdom	6,190	7.0%	United Kingdom	31,292	8.2%
Japan	5,531	6.3%	Germany	26,355	6.9%
Germany	4,155	4.7%	Netherland	17,295	4.5%
Belgium	2,570	2.9%	China	13,648	3.6%
Zimbabwe	2,355	2.7%	Switzerlan	10,214	2.7%
Netherlands	2,172	2.5%	Spain	9,992	2.6%
Taiwan Province	1,903	2.2%	Belgium	9,904	2.6%
Italy	1,763	2.0%	Italy	9,252	2.4%
2007			2008		
Country	Exports (Rm)	Share of Total Exports	Country	Exports (Rm)	Share of Total Exports
United States	51,914	10.9%	Japan	65,601	10.3%
Japan	50,093	10.6%	United	65,308	10.3%
United Kingdom	34,220	7.2%	Germany	45,821	7.2%
Germany	34,033	7.2%	United	39,501	6.2%
China	24,498	5.2%	China	34,354	5.4%
Netherlands	19,598	4.1%	Netherland	26,890	4.2%
Spain	12,924	2.7%	India	17,996	2.8%
Belgium	12,099	2.6%	Belgium	16,130	2.5%
Italy	10,248	2.2%	Spain	15,435	2.4%
Australia	9,920	2.1%	Zambia	15,411	2.4%

Source: Quantec

Traditional trading partners, including European countries, particularly Germany, as well as the United States and Japan remain important destinations for South African exports. China and, recently India are growing in importance.

Table 6 – Top 10 Key Trading Regions – By Exports 1994 - 2008 (R-million)

1994			2006		
Region	Exports (Rm)	Share of Total Exports	Region	Exports (Rm)	Share of Total Exports
European Union	20,407	23.1%	European Union	122,703	32.0%
Eastern Asia	11,284	12.8%	Eastern Asia	71,076	18.5%
SADC	7,302	8.3%	NAFTA	44,615	11.6%
NAFTA	7,239	8.2%	SADC	33,196	8.7%
Western Europe	6,238	7.1%	Western Asia	13,487	3.5%
South-eastern	3,120	3.5%	Western Europe Rest	10,215	2.7%
Western Asia	2,364	2.7%	Australia and New	9,596	2.5%
South America	1,517	1.7%	South-eastern Asia	8,807	2.3%
Eastern Africa	1,044	1.2%	South-central Asia	8,164	2.1%
South-central	991	1.1%	Western Africa	7,631	2.0%
2007			**2008**		
Country	Exports (Rm)	Share of Total	Country	Exports (Rm)	Share of Total Exports
European Union	145,021	30.6%	European Union	186,415	29.3%
Eastern Asia	94,581	19.9%	Eastern Asia	128,222	20.1%
NAFTA	57,958	12.2%	NAFTA	70,196	11.0%
SADC	41,936	8.8%	SADC	67,729	10.6%
Western Asia	15,930	3.4%	Western Asia	22,237	3.5%
South-central Asia	12,994	2.7%	South-central Asia	21,737	3.4%
Australia and New	10,672	2.3%	South-eastern Asia	16,645	2.6%
South-eastern	10,335	2.2%	Western Africa	13,825	2.2%
Western Africa	9,760	2.1%	Australia and New	13,424	2.1%
Western Europe	8,803	1.9%	Western Europe Rest	12,449	2.0%

Source: Quantec

By region, the EU is South Africa's leading destination for exports. Unlike imports, however, the proportion of total South African exports accounted for by the EU has increased since 1994, though a slight decrease has been evident in recent years. In Africa, SADC has steadily become a more important export partner for South Africa, now accounting for almost 11% of total exports. South America does not account for a substantial proportion of South African exports but Asia appears to be an increasingly important export market, with Eastern Asia progressively increasing its share of total South African exports over the last few years. Western Asia and South Central Asia have also increased their share over this period, to a lesser extent.

Top 10 Individual Trading Partners – Composition of Trade

In 1994, across all 10 top import partners, including Germany, the UK and the US, the key imports were of machinery, electrical and electronic equipment, vehicles. By 2006, these categories still remained important, but China had become a key source of imports in apparel and footwear. These accounted for around 20% of total imports from China. However, machinery, electrical and electronic equipment are increasing their share of imports from China.

Over the past three years, we have witnessed growing oil imports from Iran, Saudi Arabia and Angola. Fuels with oil accounted for at least 90% of total imports from these countries. In recent years, there has been a significant increase in imports of motor parts from Germany, Japan and the UK under the MIDP. In 2008, India became a top 10 import source for South Africa for mineral fuels, electrical, electronic equipment, pharmaceutical products and vehicles.

With respect to exports, in 1994, the US, Switzerland, UK and Japan were South Africa's main export destinations. Exports to the US were predominantly iron and steel, chemicals, precious metal compounds, while exports to Switzerland were mostly precious stones and metals. Similarly, exports to the UK's were dominated by precious stones and metals, although exports of fruit, peel of citrus fruit, melons were also of importance. In 1994, Japan was a key export market with respect to cereals, and iron and steel.

Since 2006, Japan, the US, Germany, the UK and China are South Africa's key export destinations. Except for China, exports to these countries are dominated by precious stones and metals, although machinery and ores exports to Germany are also important. Exports to China include articles of iron or steel, and cork. European countries are also key destinations for South African exports of mineral fuels, iron and steel, precious stones, metals and machinery.

India is progressively becoming a key export destination for South Africa for chemicals, precious metal compounds, and mineral fuels. Exports to Zambia are predominantly of mineral fuels and machinery.

Key Trading Regions – Composition of Trade

As noted, the EU, Eastern Asia, NAFTA and Western Asia are the four most important regional sources of imports for South Africa. The composition of imports from the EU, Eastern Asia and NAFTA, include in declining order of importance machinery, electrical and electronic equipment and vehicles. From Western Asia, South Africa imports mineral fuels - a less diversified import basket than is the case for the other regions.

South Africa has increased its imports from the African continent, particularly from SADC countries. However, imports from SADC have become less diversified over time and are now dominated by minerals, precious stones, metals; and nickel. Imports from South America have been on the rise with mineral fuels and animal fodder being dominant.

The EU, Eastern Asia, NAFTA and SADC are of greatest importance to South African exports. Exports to the EU in the past were primarily precious stones, metals, mineral, and machinery. By 2008, exports of resins, vegetable extracts, animal fodder, manufactured articles and technical equipment are among the top export categories to the EU.

In the case of Eastern Asia, precious stones and metals have become increasingly more important, although ores, ash, iron and steel continue to remain important. With respect to NAFTA, iron and steel exports are still important, precious stones, metals and vehicles are an increasing share of the export basket.

South Africa's export basket to the SADC region remains largely unchanged since 1994: mineral fuels, machinery, and vehicles remaining as the top 3 export categories to this region. Exports of fertilizers have been growing in significance. With respect to Western

Africa the export basket is more diversified and is dominated by exports of vehicles and articles of iron or steel.

Asia, as mentioned previously, is an increasingly important export destination for South Africa. Western Asia and South Central Asia are increasingly more important than Eastern Asia. With respect to Western Asia, prior to 2008 exports were dominated by precious stones and metals, Iron and steel and mineral fuels; by 2008 the dominant categories were live animals; meat and fish. For South Central Asia, exports of chemicals, precious metal compound, mineral fuels, and iron and steel remain important.

Fastest Growing Trade Partners by Individual Country – Total Trade

Table 7 – Fastest Growing Trade Partners 1994 - 2008 (R-million)

Country	2006 (Rm)	2007 (Rm)	2008 (Rm)	Annual Average Growth Rate (%)
Yemen	852	1,217	10,967	258.81
Angola	6,403	16,532	29,080	113.10
Democratic Republic of the	2,499	4,412	8,055	79.54
Mozambique	6,344	11,059	16,333	60.46
India	16,128	21,736	36,794	51.04
Poland	2,691	4,013	5,976	49.03
Zambia	9,111	11,773	17,799	39.77
China	60,360	84,768	115,567	38.37
Sweden	8,783	11,013	16,364	36.50
Saudi Arabia	26,195	27,640	48,674	36.31

Source: Quantec

*** The cut-off used was R10 billion of total trade over the entire period**

South Africa's total trade with Yemen has exhibited the fastest highest growth in recent years, albeit off a low base. Total trade with some members of SADC has also grown robustly. Similarly, total trade with India and China has been increasing rapidly over the last 3 years. Significant growth in trade with Poland and Sweden is also evident.

Fastest Growing Trade Partners – By Imports - Individual Country

Table 8 – Fastest Growing Trade Partners by Imports 1994 - 2008 (R-million)

Country	2006 (Rm)	2007 (Rm)	2008 (Rm)	Annual Average Growth Rate (%)
Yemen	603	1,017	10,638	320.01
Angola	2,486	11,585	22,350	199.83
Canada	3,419	5,187	7,657	49.64
Sweden	5,875	8,109	13,052	49.06
United Arab Emirates	3,922	4,859	7,438	37.71
Saudi Arabia	24,545	25,360	45,955	36.83
Thailand	7,963	10,319	14,513	35.00
Indonesia	3,005	4,472	5,456	34.75
China	46,712	60,270	81,213	31.86
India	10,960	12,506	18,799	30.96

Source: Quantec

*** The cut-off used was R10 billion of total trade over the entire period**

As above, total trade with Yemen has increased most robustly in 2008, with imports accounting for most of this growth. Rapid growth is also evident with Saudi Arabia and Angola. China and India are also rapidly growing trade partners both in terms of value and rate of growth.

Fastest Growing Trade Partners – By Exports - Individual Country

Table 9 – Fastest Growing Trade Partners by Exports 1994 - 2008 (R-million)

Country	2006 (Rm)	2007 (Rm)	2008 (Rm)	Annual Average Growth Rate
India	5,168	9,230	17,996	86.60
Democratic Republic of the	2,450	4,357	8,005	80.77
China	13,648	24,498	34,354	58.66

Malaysia	2,319	2,806	5,298	51.15
Mozambique	6,025	8,670	13,026	47.04
Zambia	7,269	9,283	15,411	45.60
Hong Kong Special	2,577	4,519	5,134	41.15
Brazil	2,701	3,429	5,306	40.17
Zimbabwe	6,951	7,964	13,547	39.61
Kenya	3,060	4,367	5,683	36.28

Source: Quantec

*** The cut-off used was R10 billion of total trade over the entire period**

With respect to exports, India appears to be an increasingly important destination for South Africa, with China and Malaysia also showing rapid increases over the period. In value terms, again, China appears to be of greatest significance. Of interest is that certain African countries, mostly in the SADC region, are progressively growing their demand for South African exports. Beyond the continent, South African exports to Brazil have grown around 40% over the last 3 years.

Annexure B

Trade trends – Focus on Africa

Top 10 Individual

Table 10 – Import Partners – By Share of Total Trade 1994 - 2008 (R-million)

1994			2006		
Country	Value (R	Share	Country	Value (R	Share
Zimbabwe	1031	41%	Nigeria	9286	29%
Democratic Republic of the	360	14%	Zimbabw	4633	14%
South Africa*	270	11%	South	2689	8%
Malawi	189	7%	Angola	2486	8%
Côte d'Ivoire	120	5%	Libyan	2430	8%
Zambia	105	4%	Zambia	1842	6%
Mozambique	99	4%	Botswan	1803	6%
Egypt	91	4%	Gabon	1156	4%
Togo	62	2%	Liberia	1144	4%
Kenya	29	1%	Namibia	911	3%
2007			**2008**		
Country	Value (R	Share	Country	Value (R	Share
Nigeria	12480	28%	Angola	22350	36%
Angola	11585	26%	Nigeria	15744	25%
Zimbabwe	6034	14%	Zimbabw	6306	10%
South Africa*	3478	8%	South	3795	6%
Zambia	2490	6%	Mozambi	3306	5%
Mozambique	2389	5%	Zambia	2388	4%
Botswana	1539	3%	Botswan	1368	2%
Namibia	928	2%	Egypt	1116	2%
Malawi	647	1%	Malawi	972	2%
Mauritius	437	1%	Namibia	676	1%

Source: Quantec
***please refer to "Data notes" section at the end for details on this anomaly**

Whereas in 1994 Zimbabwe was South Africa's (SA) most important source of imports from the African continent, by 2006 imports from oil producers Angola and Nigeria had become more important. Imports from Zimbabwe in 2008 accounted for around 10% of SA imports from Africa, and whilst in 1994, SA appeared to source imports from across Africa, imports are increasingly from economies in close geographic proximity. With regards to composition, imports from Zimbabwe have become more concentrated in metals, while imports of cotton, wood and tobacco have been reduced. Imports of nickel, ore, and ash account for 77% of total SA imports from Zimbabwe. Imports from Mozambique have become less diversified since 1994, and SA imports less cotton, fish, oil seed and grain, and rubber. Imports from Angola, Nigeria, Mozambique and Egypt are at present entirely dominated by imports mineral fuels, oil, distillation products, etc, which account for between 80% and 98% of total imports from these countries. Namibia and Botswana have grown in importance as import partners compared to 1994. Today these countries feature among the top 10 import sources in Africa, although the import basket is concentrated almost entirely on imports of precious stones, metals, coins, etc.

Top 10

Table 11 – Top 10 Individual Export Partners – Total Trade 1994 - 2008 (R-million)

1994			2006		
Country	Value (R	Share	Country	Value (R	Share
Zimbabwe	2355	27%	Zambia	7269	15%
Mozambique	1696	19%	Zimbabw	6951	14%
Zambia	910	10%	Mozambi	6025	12%
Kenya	706	8%	Angola	3917	8%
Mauritius	697	8%	Nigeria	3845	8%
Malawi	628	7%	Kenya	3060	6%
United Republic of Tanzania	318	4%	Tanzania	2597	5%
Democratic Republic of the	299	3%	DRC	2450	5%
Angola	298	3%	Mauritius	1898	4%
Réunion	151	2%	Ghana	1623	3%
2007			2008		
Country	Value (R	Share	Country	Value (R	Share
Zambia	9283	14%	Zambia	15411	16%
Mozambique	8670	14%	Zimbabw	13547	14%
Zimbabwe	7964	12%	Mozambi	13026	13%
Angola	4947	8%	DRC	8005	8%
Nigeria	4559	7%	Nigeria	7086	7%
Kenya	4367	7%	Angola	6730	7%
Democratic Republic of the	4357	7%	Kenya	5683	6%
United Republic of Tanzania	2604	4%	Tanzania	3926	4%
Ghana	2176	3%	Malawi	3585	4%
Malawi	2026	3%	Ghana	3066	3%

Source: Quantec

Whilst SA imports from Africa are concentrated with a few key partners, SA export destinations are a more diverse. Zambia appears to have eclipsed Zimbabwe as the most important export partner, but in overall terms, the top 3 receivers of South African exports have remained the same since 1994. Zambia, however, is the only one who has increased its share since 1994, with both Zimbabwe and Mozambique seeing declining shares. Again comparing the trade situation to that of 1994 it is apparent that whilst most export destinations remain the same, Nigeria and Ghana have gained significance, with the Indian Ocean Islands of Réunion and Mauritius no longer featuring in the top 10.

With regards to composition of exports, in 1994 for the primary destinations, namely Zimbabwe, Zambia and Mozambique, the export basket was dominated by *HS84: Nuclear reactors, boilers, machinery, etc* and *HS87: Vehicles other than railway, tramway*, for the former two, and *HS27: Mineral fuels, oils, distillation products, etc* and *HS48: Paper & paperboard, articles of pulp, paper and board*, for the latter. By 2008, this has changed somewhat with exports of *HS27: Mineral fuels, oils, distillation products*, etc being the most prominent among the 3, except in the case of Zimbabwe where exports of *HS10: Cereals* have been marginally higher. Mozambique and Zambia are also an important source of demand for South African exports of *HS84: Nuclear reactors, boilers, machinery, etc;* and for the former, also of *HS72: Iron and steel.* In the case of the Democratic Republic of the Congo (DRC) and Angola, exports are primarily of *HS84: Nuclear reactors, boilers, machinery, etc*, though exports of *HS27: Mineral fuels, oils, distillation products, etc* and *HS73: Articles of iron or steel* feature as important, particularly in relation to the DRC, today South Africa's 4th most important destination of exports to Africa.

Top Individual Import Partners – By Growth

Table 12 – Top Fastest Growing Import Partners 2006 - 2008 (R-million)

Country	2006 Value (R mil) Imports	2007 Value (R mil) Imports	2008 Value (R mil) Imports	Annual Average Weighted Growth Rate (2006 – 2008)
Africa	32,112	44,359	62,195	39.17
Angola	2,486	11,585	22,350	199.83
Nigeria	9,286	12,480	15,744	30.21
South Africa*	2,689	3,478	3,795	18.80
Zimbabwe	4,633	6,034	6,306	16.66
Zambia	1,842	2,490	2,388	13.85

Source: Quantec (The cut-off used was R1 billion of trade in 2006)
***please refer to "Data notes" section at the end for details on this anomaly**

Angola is clearly South Africa's fastest growing source of imports from Africa. Again, this is predominantly of *HS27: Mineral fuels, oils, distillation products, etc*. A similar situation is evident in the case of Nigeria, which is currently South Africa's second fastest growing source of imports from the continent. Some growth in the imports of *HS71: Pearls, precious stones, metals, coins, etc* from Angola is evident over the period, though this is off a low base. For Nigeria, robust growth has been recorded in South Africa's imports of *HS85: Electrical, electronic equipment*. For the other countries significant growth markets appear to still be at low levels of trade, including HS24: Tobacco and manufactured tobacco substitutes for Zimbabwe and *H26: Ores, slag and ash* and *HS85: Electrical, electronic equipment* for Zambia. *HS26: Ores, slag and ash*, a key import from Zimbabwe is also growing at a healthy rate, however. Similarly, for Zambia, imports of *HS74: Copper and articles thereof*, which accounts for the greatest share of total SA imports from Zambia, have grown steadily over the period.

Top Individual Export Partners – By Growth

Table 13 – Fastest Growing Export Partners 2006 - 2008 (R-million)

Country	2006 Value (R mil) Exports	2007 Value (R mil) Exports	2008 Value (R mil) Exports	Annual Average Weighted Growth Rate (2006 – 2008)
Africa	49,957	64,213	98,713	40.57
Democratic Republic of	2,450	4,357	8,005	80.77
Malawi	1,591	2,026	3,585	50.09
Mozambique	6,025	8,670	13,026	47.04
Zambia	7,269	9,283	15,411	45.60
Zimbabwe	6,951	7,964	13,547	39.61
Ghana	1,623	2,176	3,066	37.44
Kenya	3,060	4,367	5,683	36.28
Nigeria	3,845	4,559	7,086	35.76
Angola	3,917	4,947	6,730	31.07
Algeria	1,092	869	1,827	29.32

Source: Quantec

It is apparent from the table above that the Democratic Republic of the Congo (DRC) is the fastest growing destination for South African exports to Africa. Exports of *HS84: Nuclear reactors, boilers, machinery, etc*; *HS27: Mineral fuels, oils, distillation products, etc* and *HS73: Articles of iron or steel* are key contributors to the total export basket, with the latter being one of the fastest growing export categories in the total export basket to the DRC. Of the 10 fastest growing African export markets for South Africa, six are SADC countries. With regards to the countries of Western Africa, namely Ghana and Nigeria, exports to the former are predominantly of *HS84: Nuclear reactors, boilers, machinery, etc*; *HS73: Articles of iron or steel* and *HS87: Vehicles other than railway, tramway*, whilst for the latter these are mainly of *HS87: Vehicles other than railway, tramway* and *HS73: Articles of iron or steel.* Exports to Kenya are principally of *HS72: Iron and steel*, followed by *HS10: Cereals*. In the case of Algeria, exports of *HS87: Vehicles other than railway, tramway* seem to dominate, and have also registered healthy growth over the period under review. Further specific analysis on the SADC countries is revealed below.

Trade trends – Focus on SADC

Top 5 Individual Import Partners – By Share of Total Trade

Table 14 – Top 5 Import Partners 1994 - 2008 (R-million)

1994			2006		
Country	Value (R	Share	Country	Value (R	Share
Zimbabwe	1031	49%	Zimbabwe	4633	29%
Democratic Republic of	360	17%	South	2689	17%
South Africa*	270	13%	Angola	2486	16%
Malawi	189	9%	Zambia	1842	12%
Zambia	105	5%	Botswana	1803	11%
2007			**2008**		
Country	Value (R	Share	Country	Value (R	Share
Angola	11585	39%	Angola	22350	53%
Zimbabwe	6034	20%	Zimbabwe	6306	15%
South Africa*	3478	12%	South	3795	9%
Zambia	2490	8%	Mozambiq	3306	8%
Mozambique	2389	8%	Zambia	2388	6%

Source: Quantec
***please refer to "Data notes" section at the end for details on this anomaly**

As is apparent from the Table above and previous analysis, Angola has become South Africa's predominant source of imports from both Africa and the SADC region. As mentioned previously such imports are primarily of *HS27: Mineral fuels, oils, distillation products, etc*. Imports from Zimbabwe, the second most important source of imports from SADC, include *HS75: Nickel and articles thereof* and *HS26: Ores, slag and ash*. This is a marked contrast to the past where imports where dominated by *HS52: Cotton* and *HS24: Tobacco and manufactured tobacco substitutes*, and the import basket was much more diversified than is the case today. Imports from Zambia are concentrated in the category *HS74: Copper and articles thereof*, whilst for Mozambique these are primarily of *HS27: Mineral fuels, oils, distillation products, etc*. Imports of cotton from Zambia have decreased markedly since 1994.

A certain amount of re-imports appear to be reflected in the trade structure, and these have remained predominantly of *HS71: Pearls, precious stones, metals, coins, etc* and *HS84: Nuclear reactors, boilers, machinery, etc* since 1994. Whereas in 1994 South Africa imported goods, mostly of *HS24: Tobacco and manufactured tobacco substitutes*, *HS62: Articles of apparel, accessories, not knit or crochet* and *HS61: Articles of apparel, accessories, knit or crochet*, today Malawi no longer features among the top 5 sources of imports fro South Africa. Furthermore, whilst in 1994 South Africa counted the Democratic Republic of the Congo as its second most important source of imports from SADC, which were mostly of *HS71: Pearls, precious stones, metals, coins, etc*, today this is no longer the case, with Angola gaining significantly in importance.

Top 5 Individual Export Partners – By Share of Total Trade

Table 15 – Top 5 Export Partners 1994 - 2008 (R-million)

1994			2006		
Country	Value (R mil)	Share (%)	Country	Value (R mil)	Share (%)
Zimbabwe	2355	32%	Zambia	7269	22%
Mozambique	1696	23%	Zimbabwe	6951	21%
Zambia	910	12%	Mozambiq	6025	18%
Mauritius	697	10%	Angola	3917	12%
Malawi	628	9%	Tanzania	2597	8%
2007			2008		
Country	Value (R mil)	Share (%)	Country	Value (R mil)	Share (%)
Zambia	9283	22%	Zambia	15411	23%
Mozambique	8670	21%	Zimbabwe	13547	20%
Zimbabwe	7964	19%	Mozambiq	13026	19%
Angola	4947	12%	DRC	8005	12%
Democratic Republic of the Congo	4357	10%	Angola	6730	10%

Source: Quantec

As noted, Zambia has become South Africa's most important destination for exports in Africa and in SADC, followed by Zimbabwe and then Mozambique. Whilst previously, in 1994, South Africa counted Mauritius and Malawi as among its top 5 export destinations in the region, today Angola and the Democratic Republic of the Congo (DRC) have gained in prominence. Exports to Mauritius had been mostly of *HS27: Mineral fuels, oils, distillation products, etc* and *HS72: Iron and steel*, whilst to Malawi exports of *HS87: Vehicles other than railway, tramway* and *HS84: Nuclear reactors, boilers, machinery*, etc were most dominant. Today, exports to the DRC and Angola of *HS84: Nuclear reactors, boilers, machinery, etc,* account for a greater share of South African exports as mentioned previously. In the case of Angola, exports of *HS22: Beverages, spirits and vinegar* account for around 11% of total South African exports to the country, the second largest share of the total export basket.

Top Individual Import Partners – By Growth

Table 16 – Top Fastest Growing Import Partners 2006 - 2008 (R-million)

Country	2006 Value (R mil) Imports	2007 Value (R mil) Imports	2008 Value (R mil) Imports	Annual Average Weighted Growth Rate (2006 – 2008)
SADC	15,845	29,999	42,361	63.51
Mozambique	319	2,389	3,306	222.15

Angola	2,486	11,585	22,350	199.83
Mauritius	260	437	537	43.85
United Republic of	305	371	607	41.00
Malawi	531	647	972	35.27

Source: Quantec

Mozambique and Angola are by far the fastest growing sources of SADC imports for South Africa. Key to this, as mentioned earlier, is the growing demand for imports of *H27: Mineral fuels, oils, distillation products, etc*. In the case of Mauritius, imports have been primarily of *HS61: Articles of apparel, accessories, knit or crochet* and *HS62: Articles of apparel, accessories, not knit or crochet*. Imports from Tanzania have been primarily of *HS71: Pearls, precious stones, metals, coins, etc*, whilst for Malawi imports of *HS09: Coffee, tea, mate and spices* and *HS62: Articles of apparel, accessories, not knit or crochet* have been prominent.

Top 10 Individual Export Partners – By Growth

Table 17 – Top 10 Fastest Growing Export Partners 2006 - 2008 (R-million)

Country	2006 Value (R mil) Exports	2007 Value (R mil) Exports	2008 Value (R mil) Exports	Annual Average Weighted Growth Rate (2006 – 2008)
SADC	33,196	41,936	67,729	42.84
Democratic Republic of	2,450	4,357	8,005	80.77
Malawi	1,591	2,026	3,585	50.09
Mozambique	6,025	8,670	13,026	47.04
Zambia	7,269	9,283	15,411	45.60
Zimbabwe	6,951	7,964	13,547	39.61

Source: Quantec

The Democratic Republic of Congo is South Africa's fastest growing export partner in Africa and SADC. Exports to the country are predominantly of *HS84: Nuclear reactors, boilers, machinery, etc*. It appears that whilst Malawi is no longer among South Africa's top destinations for its exports, as was the case in 1994, Malawi is among the fastest growing export markets. Like the DRC, exports of *HS84: Nuclear reactors, boilers, machinery, etc.* dominate the export basket, though exports of *HS87: Vehicles other than railway, tramway*; *HS31: Fertilizers* and *HS72: Iron and steel* are also significant. Mozambique, Zambia and Zimbabwe, which are the key export destinations South African exports to SADC also appear to be growing at a healthy rate.

Notes on data discrepancies

Intra-SA imports

South Africa's data has a problem of showing imports which appear to be originating from South Africa. This problem goes far back to the late 1980s. These imports account for a small share of total SA imports, i.e., less than 0.5% of total imports except in 2001 when this was 0.61% of total imports. The products that are mostly involved include HS 97 (Works of art, collectors pieces and antiques), HS 71 (Pearls, precious stones, metals, coins, etc), HS 86 (Railway, tramway locomotives, rolling stock, equipment) and HS 43 (Furskins and artificial fur, manufactures thereof). The share of imports for these commodities is more than 10% in some years. The highest is HS 97 which reached 67% in 2003.

Although the value of these imports is small relative to SA's total trade, it is substantial when compared to imports from SADC. In 2008 these imports were only second to Angola, and third in terms of all Africa imports, after Angola and Nigeria. An attempt to get an explanation from South African Revenue Services (SARS), Customs and Excise was unsuccessful (see below for an explanation). Quantec (a private institution that maintains and distributes comprehensive sets of data collections covering macro and regional socio-economic, industry and international trade data) suggested that is due to re-exports. We strongly suspect that some of it relates to trade with SACU partners, because re-exports would show on the South African exports and not on the import side. Although officially data between South Africa and SACU members is not supposed to be released, we think some of it gets through the cracks.

Imports from Malawi

In 2008, more than one third of SA's imports from Malawi were of one product, HS 880204: Fixed wing aircraft unladen weight 2,000 – 15, 000kg. This was worth over R350 million. However it is not the first time SA imported that product from Malawi. In 2005 imports of this product was just under R10 million, about R3 million in 2003 and just under R9 million in 2001. SARS was contacted for explanation, but they asked us to send a formal request using a five-page procedure for requesting data and additional information.

Malawi has also reported some exports of HS 88 to South Africa in 2008. The total exports by Malawi to SA was US$ 78 400, as reported by UNComtrade database, which is approximately R644 000 (Using the middle exchange rate of ZAR 8.25 to US$1, as reported by the South African Reserve Bank). Furthermore, when one looks further into the detailed product exported at the HS 6 digit, it differs from the one reported by SA. The HS 6-digit product reported by Malawi is HS 80330, Parts of aeroplanes/helicopters, other than propellers, rotors, under-carriages & parts thereof and not HS 880204: Fixed wing aircraft unladen weight 2,000 – 15, 000kg that was reported by SA. There is definitely a discrepancy with this data, and for now there is no sufficient explanation to clear it up.