

# **South Africa's strategy for Africa: Tripartite Free Trade Area, Continental Free Trade Area and how developmental integration comes together**

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# Africa is important...

- ...to the world:
  - 2<sup>nd</sup> fastest growing region in the world – average over 2001-2014 >5%
  - Enormous reserves of natural resources and arable land
- ...to Africa:
  - Intra-regional trade  $\pm$ 16%
  - BUT: for most countries other African countries are by far the 2<sup>nd</sup> most important export market
  - Intra-Africa trade is diversified and growing
  - Intra-Africa investment grew at 32.5% compound rate since 2007
- ...to South Africa:
  - Leading export destination for SA
  - SA X to rest of Africa: R9.7 bn in 1994 to >R300 bn in 2015
  - SA M from rest of Africa: R3 bn in 1994 to R114 bn in 2015 (peaked at R141 in 2014)
  - SA investment in rest of Africa grew at 57% compound rate since 2007
  - SA is biggest investor in some years; diversified investment – services, manufacturing, infrastructure, versus extractive sector



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# The world is changing

- Profound changes in global trading environment
- Backlash against trade liberalization, right wing populism in developed countries → anti-globalisation, anti-free trade
- Middle class feels threatened – jobs, economic security, living standards
- Technological changes & trade liberalization blamed; yet could have brought substantial benefit and opportunities; BUT, *in absence of inclusive growth*, their benefits were not spread, but rather winner-takes-it-all
- Need to move to inclusive progressive multilateralism: real cooperation and solidarity, sensitive to the needs of the poorest, recognise need for policy space, prioritise addressing developmental challenges
- But: developed world's backlash: could move the world to outright mercantilism – trade wars; or powerful economies seeking to prioritise perceived disadvantages to themselves
- Therefore: we still need a functional, rules-based multilateral trading system



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# Implications for Africa

- In this changing world, Africa will have to look toward itself; regional integration is now more important than ever before
- Rising threat of global protectionism → African markets more important
- Overly protective: risk being denied access to other markets
- Break trade rules: risk retaliation
- Must understand proposals made by others; say NO to those that would limit policy space/eliminate policy tools for industrialization
- Defend and advance our interests
- Build coherence and influence of Africa Group
- Expedite Africa's structural transformation; move up value chain and export value-added products
- **Overriding priority must be:** African regional economic integration; must underpin a sustainable growth path starting with industrialization



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# SA approach to TFTA & CFTA

- REI cannot narrowly focus on market integration – unsustainable
- African regional economic integration – elements pursued in parallel:
  - *Broaden* market integration (incl Services) – more expansive FTAs; generate economies of scale to unlock and support emergence of RVCs and enhance competitiveness of firms
  - Infrastructure – Africa loses 40% competitiveness through inefficient infrastructure
  - Address structural deficiencies - industrial development, to achieve economic and export diversification → resilience to economic shocks
- Attend to institution building
- SA outward investment drive
  - Must be mutually beneficial; technology & skills transfer; unlock productive capacity and emergence of RVCs
  - Guidelines for Good Business Practise by South African companies operating in the rest of the Continent; align Government and private sector in advancing the African developmental agenda



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# Contribution of TFTA & CFTA to Africa's development

- TFTA: 623 million people, \$1.3 trillion GDP
  - Framework agreements concluded
  - SACU close to concluding tariff schedule with EAC; progress with Egypt
- CFTA: 1 billion people; \$2.6 trillion GDP
  - Framework agreement being negotiated; possible conclusion in 2017
  - Services trade negotiated simultaneously
- These offer the larger markets essential to support RVCs and economies of scale for industrialization
- Trade/market integration + infrastructure development essential to underpin industrialization
- Economies of scale critical for competitiveness of RVCs
- Countries that benefit from trade are those that produce: industrialization must be & is the main drive; TFTA and CFTA offer meaningful support to this drive