# A South African Trade Policy and Strategy Framework

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**Physical Address:**
**the dti** Campus
77 Meintjies Street
Sunnyside
Pretoria
0002

**Postal Address:**
**the dti**
Private Bag X84
Pretoria
0001

**the dti** Customer Contact Centre: 0861 843 384

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# *Foreword by the Minister of Trade and Industry, Republic of South Africa*

The Department of Trade and Industry (**the dti**), through the International Trade and Economic Development (ITED) Division, 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 potential contribution of the South African trade policy on government's broad economic development strategy. The objectives of the strategy include, among 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 (TPSF) sets out the impact that trade policy should make to advancing and upgrading industrial development, as well as promoting economic diversification, along a growth path that addresses structural constraints in the economy, including unemployment and poverty.

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

**Dr Rob Davies**

Minister: Trade and Industry

# *Acknowledgements by the Deputy Director-General, International Trade and Economic Development Division*

The TPSF is the outcome of a two-year consultative review process. Under the guidance of the Minister of Trade and Industry, Dr Rob Davies (MP), a reference team – the Trade Policy Review Group (TPRG) – was established. Minister Davies provided strong political oversight over the process of preparing the TPSF, which assisted in drawing out the key linkages between the trade and industrial policies. Minister Davies also provided detailed technical advice on key aspects of the work, including the trade strategy.

The TPRG brought together trade policy experts from within and outside government to review South Africa's trade policy and strategy since 1994. The lessons learned were to be applied in recommending an approach to future policy and strategy, taking into account emerging challenges and the evolution of the South African government's broader economic development strategy. While trade policy and strategy are components of broader economic policy, the TPRG focused on an assessment of tariff reform in South Africa, and an overview of South Africa's trade performance since 1994. This allowed it to lay the basis for making recommendations on how tariff policy could support the wider objectives of industrial upgrading and employment.

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

At the first meeting of the TPRG, held on 17 April 2007, an outline of the work programme was agreed upon and the stakeholders identified. In all, the TPRG met on five occasions. Initially, the meetings provided guidance on the structure and key substantive issues to be covered. At further meetings, the TPRG offered guidance on the various iterations of the TPSF, to consolidate and refine the evolving document. The first consolidated draft report was considered on 24 November 2008, when detailed changes were proposed to both the structure and content of the work. The second draft was adopted on 20 July 2009, with limited changes being proposed on the structure.

The International Trade Administration Commission (ITAC) and Trade and Industrial Policy Strategies (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 TPSF. Capacity was also built in the Office of the Deputy Director-General (DDG): ITED for research management and co-ordination, through the process of completing the final document.

While **the dti** takes full responsibility for any shortcomings and errors, the TPSF was the outcome of this consultative process. We extend our sincere appreciation to those participants who gave of 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 Economic Development Department; Mills Soko, from the University of Cape Town Graduate School of Business; Stephen Hanival and Ximena Gonzalez, from TIPS; 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 Co-operation (DIRCO); Ravi Naidoo, formerly with **the dti** and now with the DBSA; and Nimrod Zalk, Faizel Ismail, Thabo Chauke, Wilhelm Smalberger and Sureiya Adams, all from **the dti**.

Special mention must also be made of the role played by Mzukisi Qobo, who took charge of managing this process from the onset. He prepared several drafts of the document, co-ordinated meetings and ensured that inputs from participants were incorporated into the final product. In addition, 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, which included Yvette Babb, the late Sandile Roro, Joseph Senona and Lindiwe Madonsela, all from ITED.

## Additional Consultations

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

It became evident that there was a broad consensus on the need to place greater emphasis on strategic trade policies. The consultations 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, a problem to which the standard textbook case of unilateral tariff reforms offered an unsatisfactory response.

The additional consultations took place between February 2008 and May 2009, and included discussions with the following organisations and role players:

- BUSA Trade Policy Committee (informal briefing);
- National Economic Development and Labour Council (NEDLAC) Fridge Study Counter-Part Group on the relationship between the trade and industrial policies;
- Select trade policy experts from acadaemia and policy think-tanks;
- Chief Directorate: Industrial Policy, at the Industrial Development Division (IDD);
- Chief Directorate: Strategic Competitiveness at IDD;
- Chief Directorate: Export Promotion – Trade and Investment South Africa (TISA);
- Head: Economic Research and Policy Co-ordination, and Directorate: Research Management Unit;
- Consultations within ITED;
- Department of Foreign Affairs (renamed DIRCO); and
- Chief Directorate: Economic Development, Gauteng Provincial Department of Economic Development.

In November 2009, Cabinet considered the TPSF and proposed specific recommendations. These have been included herein. Further consultations were undertaken within NEDLAC, with labour and business constituencies. Their comments have been accommodated in two ways. In some cases, specific comments, where appropriate, were included in the TPSF directly. In other cases, their comments have been included as issues to be taken up in the future work programme. The NEDLAC Report on the South African Trade Policy and

Strategy Framework, dated March 2010, confirms agreement on the document. The Parliamentary Portfolio Committee for Trade and Industry conducted public hearings on the TPSF. The Committee Report, dated 12 May 2010, endorses the TPSF and makes a series of recommendations that will inform its implementation.

**Xavier Carim**

Deputy Director-General: ITED, Trade and Industry

# *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 the South African society and economy. The 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-tradeable services and, in this way, catalyse employment growth. Broader-based industrialisation will assist in growing the participation of historically disadvantaged people and marginalised regions in the mainstream of the industrial economy.

This South African TPSF 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 generate employment. The TPSF is set out in the context of the development of an overall growth path for South Africa that seeks to accelerate economic growth and development, and generate decent jobs in the economy. The TPSF 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 TPSF recommends a strategic and calibrated approach to 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. Nevertheless, as an important element of South Africa's growth path and an instrument of industrial policy, it requires dedicated attention.

The TPSF 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 TPSF 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. In most instances, this has been based on a clearly defined growth strategy that sets objectives for structural transformation based on advancing industrial development and promoting value-added exports. 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 13 609 tariff lines, 28% of which were subject to import control. By 2006, the number of tariff lines had been reduced to 6 420, a decline of 53%, and import controls had been eliminated. The Trade, Development and Co-operation Agreement (TDCA) between South Africa and the European Union (EU), the Southern African Development Community (SADC) Trade Protocol and the Free Trade Agreement (FTA) between the Southern African Customs Union (SACU) and the European Free Trade Association (EFTA) 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. The upgrading of South Africa's industrial base in this way and the encouragement of 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 TPSF 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 in a 'self-discovery' process of engagement between Government and stakeholders 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 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 should be conducted case-by-case, based on 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 subscribed to under the World Trade Organisation (WTO) and other bilateral trade agreements.

The International Trade Administration Commission (ITAC) implements and administers the tariff policy in South Africa through clearly established legislation, regulations and procedures. Tariff determinations and trade remedies are assessed based on the evidence obtained at firm and sector levels through detailed investigations that consider the impact of proposed tariffs on, among 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 sector level, and submit recommendations to the Minister of Trade and Industry for decision-making. 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 to injure local industries. It also requires that 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.

## Agricultural Sector

Over the past 15 years, South African agriculture has undergone deep structural reform. This transformation has paved the way to entering global value chains and has increased private sector participation in the agricultural economy. Despite having to contend with global players, many of whom are subsidised and protected, South African agriculture has developed resilience and has maintained its competitiveness, particularly as regards 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 gross domestic product (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, suggesting 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 is approximately 7% – 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 promoting 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 and the highly distorted nature of international agricultural trade, particular attention will need to be paid to the application of tariffs in agriculture. 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 their 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 a 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 co-operative 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 co-ordination. Our approach strongly advocates 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 co-operation and greatly enhanced policy co-ordination programmes to address real economy capacity constraints.

The regional agenda will also need to respond to the Economic Partnership Agreements (EPAs) between the 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 its engagement and co-operation with these emerging economies. In pursuing relations with the South, it will be necessary to ensure an approach to trade that would strengthen South Africa and Africa’s efforts to develop an industrial base rather than continuing the current pattern of trade where exports of raw materials are exchanged for manufactured goods.

We have learned important lessons that will inform our future bilateral engagements. First, as compared to FTAs, more focused Preferential Trade Agreements allow 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 co-operation agreements to support South Africa’s industrial development objectives.

South Africa is a strong proponent of multilateralism. We have seen multilateralism as a necessary intergovernmental response to the challenges of globalisation and deepening interdependence among economies and societies around the world. Having established extensive multilateral rules over global trade, the WTO, which was established as an outcome of the Uruguay Round of multilateral trade negotiations in 1994, 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 to rebalance the global trading system more in favour of developing countries. South Africa's negotiating objectives aim to:

- Enhance market access for products of export interests to developing countries;
- Eliminate industrial country subsidies and support to inefficient producers, particularly in agriculture;
- Re-negotiate rules that perpetuate imbalances in international trade; and
- Ensure policy space for developing countries to pursue developmental objectives through the meaningful implementation of the principle of special and differential treatment.

Over the course of the Doha Round negotiations, we have witnessed the erosion of the developmental mandate. This manifested in a gradual weakening of the ambition of developed countries to substantially reform agricultural 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 access to 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.

## An Agenda for Future Trade Policy Research

An important area for future work will be to improve the quality, accuracy and consistency of trade data and statistics. Beyond this, the TPSF 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, among others. The widening ambit of negotiating issues reflects the integrated nature of economic policy and recognises 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 other developing economies, will need to develop a more proactive stance on these 'new' trade-related issues to ensure that they do not impede its 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 TPSF sets out the broad principles and methodology for a future work programme that takes account of 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 for workers that lose their employment, are imperative. The linkages of existing social safety nets and worker re-training programmes to a proposed trade reform need to be fully assessed, explored and developed. This must be the subject of future work on trade policy, and the Department of Labour will need to play a central role in both formulating appropriate support programmes and mainstreaming skills development into the process.

Future work will also need to strengthen institutional co-ordination to enhance the quality of, and deepen the capacity to deliver on, South Africa’s trade policy and strategy. Improved institutional co-ordination on trade policy and trade-related issues is required within **the dti**, among government departments, with the South African Parliament, and between the 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 institutions 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: Overview

## Introduction

1. South Africa's TPSF document emerges in the context of Government's new growth path, which aims to address domestic structural challenges and respond to global competitive challenges. The policy document 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. In such an environment, trade and industrial policies must be informed by and support the strategic objectives set out in the growth path to move towards high-value-added and labour-absorbing industrialisation. This seeks to address the key economic and structural challenges confronting South Africa and to manage structural transformation away from commodity dependence, as well as addressing the vulnerabilities associated with persistent trade balance deficits.

2. Between 1994 and 2002, annual growth in South Africa averaged around 3%. 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, which made it 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 led 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 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 of the 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 among the most severe in the world. These structural constraints, alongside the persistently racial-based wealth and skills profile of the South African economy, 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 would promote and accelerate economic growth along a path that generates sustainable and decent jobs.[1] In pursuing the goal of decent work, the Framework Agreement on the Social Clause agreed by the government, labour and business at NEDLAC should inform South Africa's trade policy. The 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-tradeable services. A broader-based industrialisation path should facilitate greater levels of participation by historically disadvantaged people and marginalised regions in the mainstream of the industrial economy supporting Broad-Based Black Economic Empowerment (B-BBEE).

6. The role trade policy can play in this endeavour should not be exaggerated. Other factors, such as commodity prices, investment rates, and global and national demand, can be more decisive in shaping the economic growth path. A stable and competitive exchange rate can play a particularly vital role in meeting our trade and industrial policy objectives. In view of this, trade policy should be developed as part of a broader set of policies that aim to establish a new growth path and create an environment that is conducive to economic growth. This requires addressing, among other things, infrastructure, regulation and a range of supporting services.

7. The Industrial Policy Action Plan 2010/11 – 2012/13 (IPAP 2), released in February 2010, sets out a range of horizontal and specific interventions aimed at promoting industrial development and upgrading in South Africa. This TPSF should be read in conjunction with IPAP 2. Of particular relevance are the actions specified to strengthen and enforce technical standards, the range of measures to enhance customs enforcement mechanisms and the measures designed to leverage government procurement for industrial development.

8. Nevertheless, 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 TPSF document outlines how trade policy and strategy can be designed to make a positive contribution to the country's emerging growth path.

9. The TPSF 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 address poverty and inequality. Breaking out of poverty and underdevelopment requires nurturing industrial activities characterised by increasing rather than diminishing returns. This involves the identification and targeting of appropriate value-adding activities, and the deployment of public and private resources to support innovation, entrepreneurship and infrastructure development. It also requires the judicious use of tariffs and other forms of protection and support. The judicious use of tariffs does not mean protection which allows permanent rent-seeking by inefficient industries; rather, it means creating the space and time to allow such industries to develop and/or to restructure in the face of global competition.

[1] The International Labour Organisation (ILO) defines decent work as opportunities for work, which are productive and deliver a fair income, provide security in the workplace and social protection for families, better prospects for personal development and social integration, offer freedom for people to express their concerns, organise and participate in the decisions that affect their lives, and deliver equality of opportunity and treatment for all women and men.

10. 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 – it must be calibrated in terms of its pace and sequencing so that it supports industrial and agricultural upgrading along a path that generates new employment possibilities.

11. 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 liberalisation 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 liberalisation 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 upgrading.

12. 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.

13. The TPSF also sets out an agenda for future work in key areas that are closely related to trade policy. An important area for future work is to improve the quality, accuracy and consistency of trade data and statistics in South Africa. It is also necessary to enhance market intelligence capabilities. This will form part of the future work programme.

14. Three additional areas are highlighted herein. 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, among others. The TPSF 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.

15. 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 their employment as a result of trade liberalisation. The linkages of existing social safety nets and worker re-training programmes to a proposed trade reform need to be fully assessed, explored and developed. This will be

the subject of future work on trade policy. The Department of Labour will be central in ensuring that support programmes and skills development are mainstreamed into the process.

16. Third, greater efforts will be needed to strengthen the institutional co-ordination necessary to enhance the quality of – and capacity to deliver on – South Africa's trade policy objectives. Improved institutional co-ordination on trade policy and trade-related issues is required within **the dti**, among government departments, with the South African Parliament, and between the government and civil society. Enhanced outreach activities are also required to build capacity in trade policy across South Africa in universities and research institutions, in order to share the government's perspectives on trade policy, broaden and deepen the quality of debate on trade policy, and establish a cadre of new trade policy practitioners for the future.

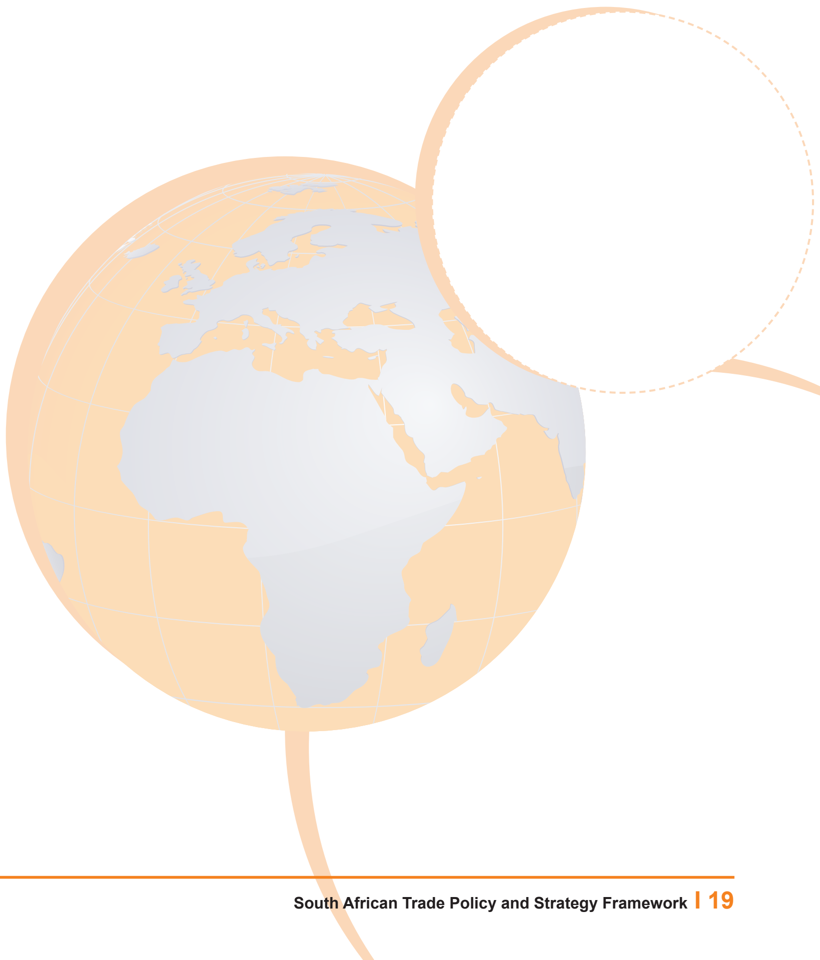
## Outline of the South African Trade Policy and Strategy Framework

17. The South African TPSF is structured as follows: The next section, Section 2, 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.

18. Section 3 reviews South Africa's trade reform experience since 1994, focusing on the economy's trade performance and 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 5 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 the WTO and Doha Round negotiations. This section also briefly reviews South African perspectives on the trade responses to the global economic crisis.

19. Section 6 considers a series of trade-related issues that constitute an agenda for future work. It begins by identifying the need to improve the quality, accuracy and consistency of trade data and statistics and then 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 co-ordination in the area of trade policy in South Africa.

20. The final section, Section 7, summarises the key issues and recommends an agenda for future research on trade policy in South Africa.



# Section 2: Global Trade, Production and Competitiveness

## Changes in Global Trade: Re-Thinking Trade Policy

21. 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, which require intervention by the state.

22. 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 by both government policy and consumer preference.

23. 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. Among 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. They have also grown more rapidly, the higher the levels 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 among 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.

24. 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. Trans-National Corporations (TNCs), based largely in developed countries, have driven the establishment of these global production chains. 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.

25. 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.

26. 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 creating competitive advantage through, inter alia, investment in human capital, research and development (R&D), and innovation; developing new forms of industrial organisations; and building strategic relationships between government and business. This is the essence of the 'self-discovery' process.

27. 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 production and from static comparative advantages to the export of dynamic products, as well as assisting in building mid- and high-level technological capabilities.

28. Few countries would explicitly characterise their trade policies as 'strategic trade policies', yet trade policy practice in much of the world 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-technology sectors and to defend domestic market share against import penetration. Developed countries are fully cognisant of the strategic role of manufacturing in the economy. The view that Organisation for Economic Co-operation and Development (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 their domestic market against external competition, notably in agriculture.

29. 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 economic functions directly through state-owned enterprises. Successful developing countries have adopted a 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 liberalisation, have re-oriented their industrial sector in accordance with static comparative advantage, except for industries that were near maturity.

30. International evidence suggests that, on balance, trade openings tend to generate positive income effects. Yet 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 the 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: Trade Reform

## Perspectives on South Africa's Trade Reform Experience

31. 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, variances in productivity and relative competitiveness, among others. While the range of variables and their interplay make it difficult to reach any conclusive assessment of 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.

32. 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.

33. Mainstream trade theory would suggest that South Africa, as an economy with high unemployment and an abundance of unskilled workers, 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 products that would spur an increase in the demand for unskilled labour, thereby increasing the latter's wages and/or employment. This should improve the distribution of income and ameliorate income inequality and poverty.

34. 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.

35. 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. 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.

36. 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 through employment creation.

## An Overview of South Africa's Trade Performance[2]

37. 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 that of other developing countries (with the exception of some middle-income developing countries), and the value added by manufacturing exports has 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.

38. 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 that of developing countries such as India, China and Brazil. South Africa's growth in exports has been at least 11% slower than theirs. South Africa is ranked 24th among 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.

39. Efforts to restructure the industrial economy in order to better deal with increased international competition have generally been insufficient to induce the necessary structural change in the economy. Commodity-based

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

products continue to dominate South Africa's exports. The top 25 export categories are dominated by mineral products.[3] 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.

40. The largest export category is precious metals, although the composition of this has changed over time from exports of gold to exports of 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, which include coal, briquettes, oil from petrol, and iron ores and concentrates, these three product categories generally represent 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 vehicle exports.

41. 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 may be 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.

42. 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

43. South Africa has undergone considerable tariff reforms since 1994 and is now 'moderately' protected as compared to other countries at similar levels of development. 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 most-favoured nation (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%.

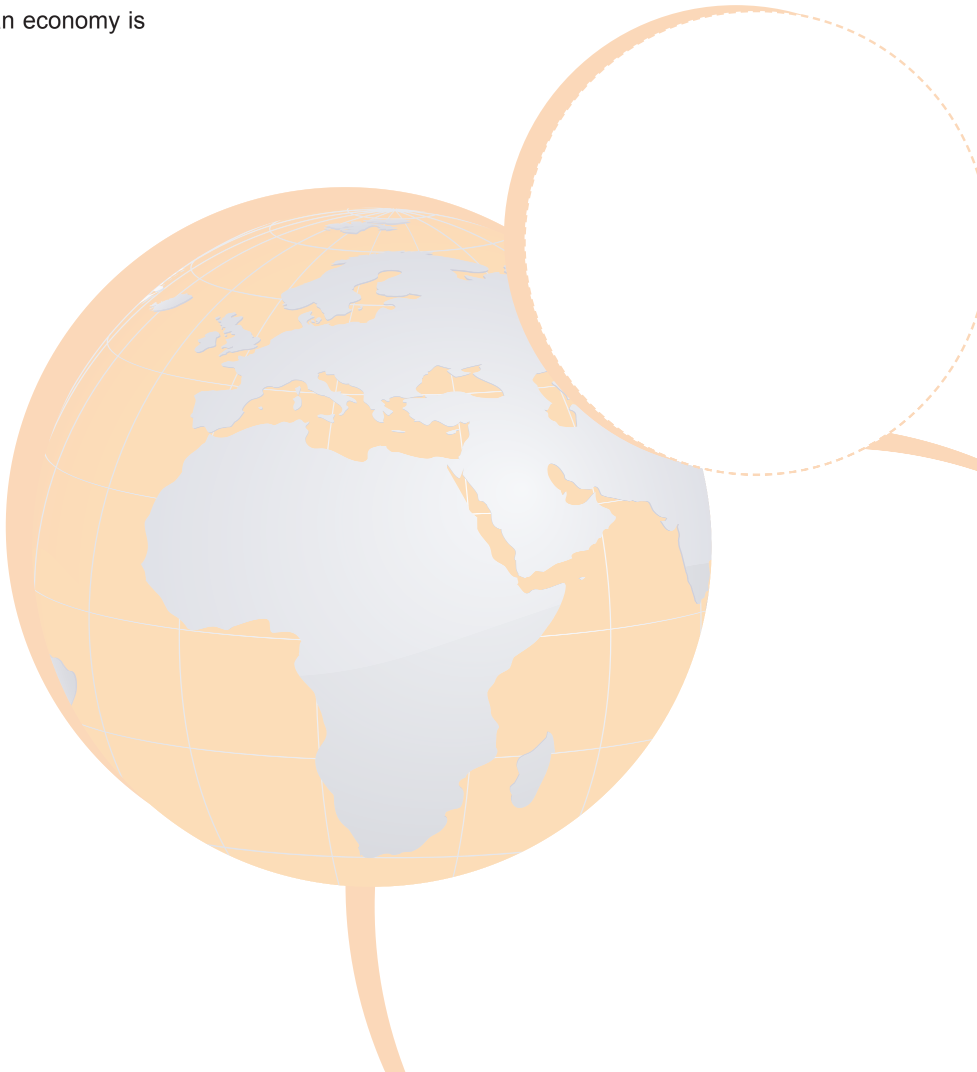
44. There has also been considerable simplification of the tariff regime. In 1990, the tariff schedule consisted of 13 609 tariff lines, with 28% of the tariff lines being subject to import control. By 2006, the number of tariff lines had been reduced to 6 420. Simple ad valorem rates apply to 6 228 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.

45. Compared to many other upper-middle-income countries, South Africa has a high WTO binding coverage (98%); a lower simple tariff average tariff (8,2%); a significantly higher number of duty-free lines (54%); a comparable

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

number of NAV 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.

46. 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 – 1996, 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 came into force in 2000, and by 2005, 99% of tariff lines, consisting of 97% of imports from the SADC region, qualified for duty-free access to South Africa. Along with the SACU-EFTA FTA that came 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:
# Tariff and Export Policy

## Future Direction of Tariff Policy

47. 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.

48. Considering the global experience and 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.

49. 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."

50. 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, 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. These industries produce inputs that are important cost items for the downstream, labour-intensive manufacturing industries that we want

to encourage and nurture. Investigations are currently underway in respect of these upstream cost items. These investigations must address problems associated with import parity pricing.

51. 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 is supported by a sector strategy and by clear evidence.

52. 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); and iii) the competitive and efficiency implications of tariff peaks and 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.

53. 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 engages with stakeholders in business, labour and civil society 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 will be reciprocated in ways that advance national objectives.

54. Proposals for autonomous or 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 industrial support programmes provided by government over many years.

55. Although there is a theoretical case for improving the relative profitability of exports 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 would 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.

56. The policy interventions to support structural change, including proposals for tariff adjustment, will need to consider the commitments we have undertaken in WTO and 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.

57. We need to also take into account that we operate in an environment experiencing a global trend towards reduced tariffs generally. South Africa, as is the case 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.

58. Export taxes are another important trade policy measure that can be deployed to add value to commodities and diversify production and exports. Again, the introduction of export taxes will be considered on the basis of an evidence-based cost-benefit analysis of, inter alia, the implications of such taxes 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. Trade remedies, including anti-dumping, countervailing and safeguard measures, are important instruments for ensuring that domestic producers and employment are protected from unfair trade and from surges in imports that can damage the national and regional economy, lead to job losses and hamper efforts to create decent work.

## Agricultural Trade Strategy

59. 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 the way for the country 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.

60. 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 fertilisers, 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%.

61. Agriculture accounts for about 8% of formal employment. The fully commercial and developing agricultural sectors provide employment (including seasonal and contract employment) to around two million farm workers, albeit often at low incomes. Some three to four 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.

62. The share of agricultural exports in the country's total exports is approximately 7%, 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 linkages 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 overcome the persistent deficit in the country's trade balance. Particular attention is also required to supporting black farmers' entry into the commercial mainstream in the agriculture sector.

63. 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. When making tariff determinations, we 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.

64. Aside from the tariff aspects of agricultural trade, non-tariff barriers and support programmes in major economies are at the heart of today's global agricultural market. The policies of our trading partners cause significant distortions, and we need to explore ways to address these to ensure that South Africa remains a competitive agricultural exporter.

## The International Trade Administration Commission of South Africa

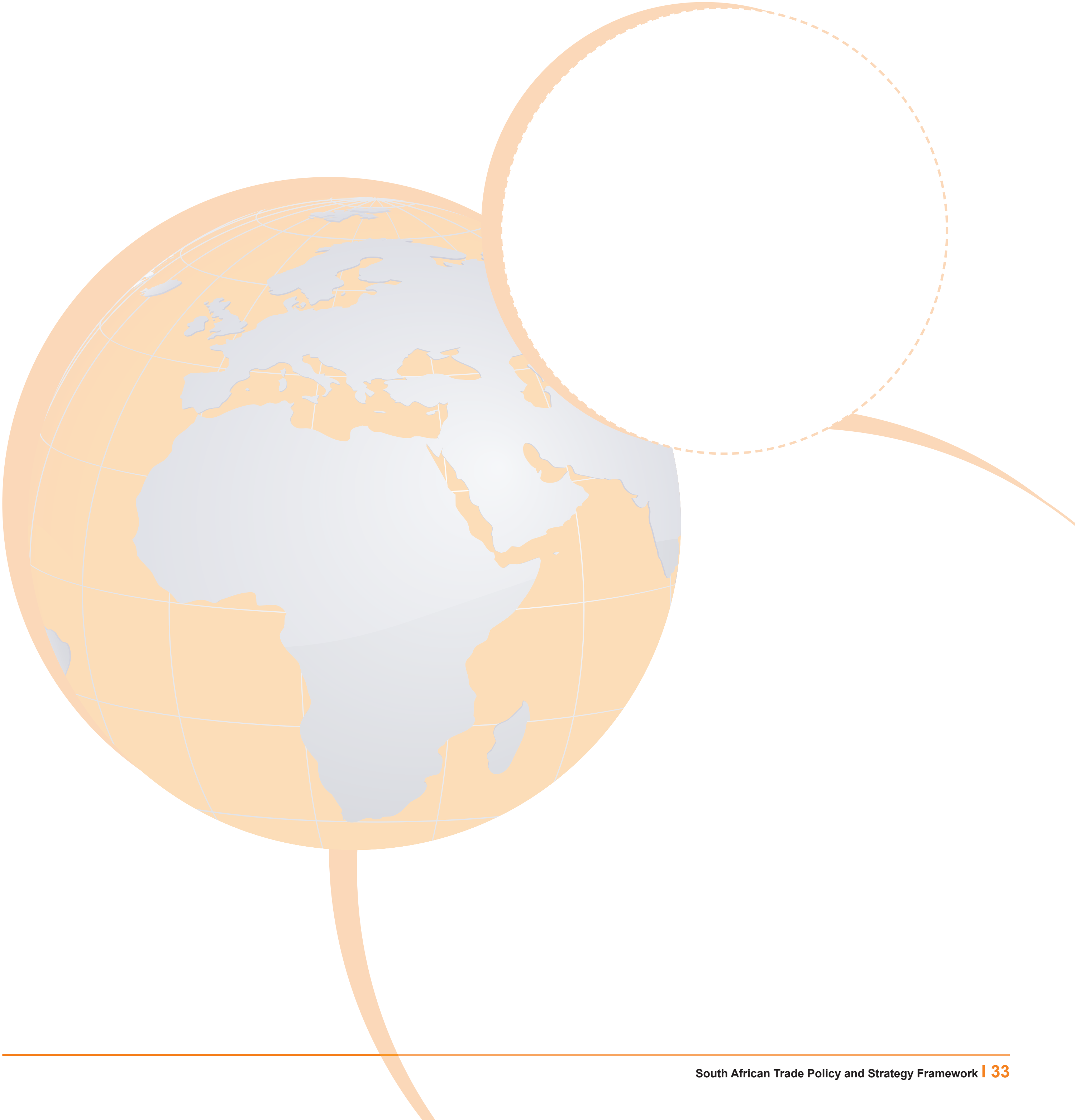
65. ITAC implements and administers tariff policy in South Africa through established legislation, regulation and procedure. ITAC is an independent body, subject to the Constitution of the Republic of South Africa and domestic law, and to trade policy directives issued by the Minister of Trade and Industry. ITAC's structure and mandate are defined in the International Trade Administration Act, 2002 (Act No. 71 of 2002). Its role in dealing with applications for both tariff changes and trade remedies is similar to that of tariff-setting bodies existing in a number of other jurisdictions in the developed as well as the developing world.

66. ITAC conducts investigations on receipt of applications. It makes recommendations to the Ministers of Trade and Industry and Finance on proposed tariff changes (including changes that address problems associated with import parity pricing) or the application of trade remedies. ITAC may also undertake a review of tariffs at a sectoral level, and may initiate its own investigations. Trade unions may furthermore submit applications to ITAC for tariff changes, and they have the right to participate in tariff and trade remedy investigations. Tariff determinations and trade remedies are assessed based on evidence obtained from detailed investigations, at firm and sector levels, that consider their impact on economic output and employment across the value chain. Consultations and public comment are essential elements of the process.

67. The strength of this methodology lies in its empirical 'groundedness', specificity and evidence-based approach. ITAC employs a set of criteria in making its assessments and evaluating 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, with the process of tariff setting being disciplined through transparent, established procedures. 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.

68. 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.

69. Recent experience has demonstrated the need to strengthen the implementation, administration and enforcement aspects of South Africa's trade policy. This includes strengthening ITAC's capacity to act expeditiously against unfair trade (subsidised and dumped products) and surges in imports that threaten injury to local industries, as well as to initiate investigations. It also requires that we step up measures to enforce trade laws against illegal imports, customs fraud, transhipment, counterfeit goods, under-invoicing and the abuse of industrial support programmes. These practices are unacceptable and in various ways undermine the local economy, ultimately resulting in job losses. The improvement of the quality of trade data will greatly assist ITAC in its work.



# Section 5: International Trade Strategy

## Strategic Integration into the Global Economy

70. Trade policy lies at the nexus between the domestic economy 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.

71. 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

72. South Africa's trade and investment with African economies are important. Already, South African companies are among the main investors in Africa. The continent is also an important destination for South African exports, around 20% of our total exports to the world. South African exports to the continent, as compared to exports to other regions in the world, are among the fastest growing. The country's exports to the continent are also more diversified, comprising higher-value-added manufactured products that support its industrial and employment objectives. South Africa remains committed to building mutually beneficial trade relations. Trade with Africa is more than just an opportunity for South African commercial interests; it must advance a wider developmental agenda across the continent.

73. 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 New Partnership for Africa's Development (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.

74. 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 in 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 Co-operation, the Africa-South America Forum, the Africa-India Summit, the Africa-EU Strategy and the Tokyo International Conference on African Development.

75. With respect to its bilateral engagements with African countries, South Africa continues to work with partner countries to identify precise areas of co-operation. This includes promoting trade and investment, and establishing joint projects for infrastructure development, alongside offers to provide technical assistance for institutional and policy development. Particular attention is being paid to collaboration on the reconstruction and development of African countries emerging from conflict. We will also need to work to ensure that the decisions taken are implemented. There is also significant scope to increase the involvement of other stakeholders, including the private sector, in such engagements in order to enhance their effectiveness.

## Spatial Development Initiatives

76. An important part of South Africa's work in Africa is on cross-border infrastructure development, a field in which spatial development initiatives (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 partnerships between the public sector and private communities. Typically, the SDI methodology is implemented in 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 and 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.

77. 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, the NEPAD Secretariat and the African Development Bank.

## Regional and Bilateral Relations

78. An important feature of the global environment is the proliferation of regional trading agreements (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. An assessment needs to be done of the impact of the proliferation of FTAs on South African exporters in markets where there is a risk of being shut out of these regions, particularly in Asia and Latin America. 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.

79. Regional integration is important for African development. In comparative terms, intra-African trade accounts for only around 10% of total trade. This figure hides important country variations, however. 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% of total exports, a figure that is more than twice as large as the aggregate figure for Africa. Seven African countries count Africa as their main export market and 25 count it as their second-most important export market, after Europe.

80. The reason for the discrepancy between this finding and the low aggregate figure is simple. Many of the big exporters in Africa have limited trade 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.

81. South Africa has pursued regional arrangements in Southern Africa through the SADC Trade Protocol and SACU, with the EU under the TDCA, through the SACU-EFTA FTA and through the Preferential Trade Agreement (PTA) between SACU and the Southern Common Market/ *Mercado Común del Sur* (Mercosur). We have learned important lessons that will inform our future bilateral engagements. First, as compared to FTAs, more focused PTAs allow 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 the negotiation of outcomes must deal more effectively with non-tariff barriers. Third, we will need to give attention to forging mutually beneficial sectoral co-operation agreements that can support South Africa's broader development objectives. Further consideration should be given to designing appropriate trade and economic arrangements that suit our economic objectives. This should include an assessment of investment treaties that impact on developmental policy space.

82. Importantly, our work on regional integration places emphasis on developing supply-side capacity that will enable countries in the region to diversify their economies and take advantage of opportunities for more dynamic and diverse exports. A more integrated development strategy that includes SDIs, investment promotion into the region, and region-wide industrial development linkages will give strong effect to the 'developmental regionalism' that South Africa pursues.

83. South-South economic co-operation offers new prospects for diversifying traditional trade relations. However, it will be necessary to ensure that, in pursuing these relations, we also begin to shift current trade patterns onto a more sustainable path. African exports, including exports from South Africa, to dynamic economies of the South continue to be dominated by commodities, while we import a growing range of higher-value-added manufactured goods. This is not sustainable in the longer term. The dynamism of the economic growth in the South can offer a new complementarity, and emerging trade relations with economies of the South should be appropriately structured to complement African economic strategies to promote diversification and industrialisation.

## Southern Africa

84. 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 promoting regional co-operation 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 co-operation 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.

85. 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 region. 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 co-operation on security and international relations, the SADC agenda has been shaped by the negotiation and implementation of the Trade Protocol in 2000.

## The Southern African Customs Union

86. The new SACU Agreement that came into force in July 2004 represented several important departures from the previous arrangement. First, it established democratic, consensual decision-making. Second, 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. Third, as an enabling agreement, it envisioned deeper integration through the development of common SACU policies on, among others, industry, agriculture, competition and unfair trade practices. Fourth, it established a revenue-sharing formula that weights shares of customs revenue and excise taxes in favour of Botswana, Lesotho, Namibia and Swaziland, including through a development component.

87. SACU has the potential to move beyond an arrangement based on a common external tariff and held together by revenue sharing. 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, and its function firstly as an anchor in the SADC regional project and secondly 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.

88. 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.

89. A common policy vision is a prerequisite for strengthening SACU institutions, including the proposed SACU Tariff Board and Tribunal as well as an effective and well resourced Secretariat. Progressive harmonisation as regards various institutional arrangements as well as competition policy and standards will also be required over time.

90. 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 to accede to the customs union. For SACU to realise its potential, we also need a common understanding of 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 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.

91. If it does not advance along these lines, SACU runs the risk of being trapped in a 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. It will be necessary to continually review and assess developments in SACU in light of the issues raised.

## The Southern African Development Community

92. The regional economic programme in SADC aims to combine market integration by means of free trade through the Trade Protocol with policy co-ordination and sectoral co-operation in a broad development project. This project will also require progressive convergence of the region's social and labour policies, among other things. The free trade negotiations, culminating in 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.

93. Despite this notable achievement, considerable work remains to be done in order 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.

94. 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 sector and in the sugar sector, where special trade arrangements exist. Trade appears to be influenced more by the region's comparative advantage than by improved market access. The most serious constraint to balanced regional trade remains undeveloped production structures in SADC countries. This poses a challenge for the region's industrial policies: to expand the range of products that can be exported and to increase the value added to 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 supply capacity constraints, particularly through the development of a regional industrial policy.

95. We will need to align this process with ongoing initiatives that are structured around a possible tripartite FTA between the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC. Setting up such FTAs between regional communities is an important step towards advancing to trade integration across Africa and ensuring that African countries do not trade at a competitive disadvantage as compared to other, non-African trading partners.

## Economic Partnership Agreements and Regional Integration in Southern Africa

96. 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 with 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 is running contrary to our expectations. The Interim Economic Partnership Agreement (IEPA) between seven members of SADC and the European Commission (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 the SADC and SACU regions.

97. Under the EPA, SADC has at least five sets of separate trade relations and regimes with the EU, each varying considerably from the others. This will complicate – and even foreclose – efforts to build a single trade regime within 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 relation to 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 Co-operation

98. Common challenges and shared perspectives among countries of the South suggest that we need to create a set of strategies to strengthen our trade and investment linkages, giving greater meaning to South-South economic co-operation. Significant structural changes are underway 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.

99. 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 countries' 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% of goods exported from developing countries in 2007 destined for other developing countries. South-South trade has recently been increasing at an annual rate of 11%, nearly twice the growth rate of total world exports, and South-South services trade is also on the rise, offering possibilities for diversifying the goods-dominated export structure.

100. The key points are that trade with and among developing countries is no longer at the periphery of the global economy; South-South trade is expanding most rapidly; and the major new sources of growth in the global economy are in developing countries. This does not, of course, apply in equal measures to all developing

countries. While the argument to continue building South-South linkages remains compelling, we need to be mindful of the following considerations.

101. New types of relations should allow us to share experiences; deepen our understanding of each other's economies; identify the opportunities that lie therein; and build on our respective strengths. Improved competitiveness for firms from developing countries can be underpinned by co-operative arrangements in the critical areas of, among others, transport, communication and technology sharing for industrial upgrading. Such arrangements also offer possibilities for attracting foreign direct investment (FDI) to each of our markets and for pooling human, institutional, technological and infrastructural resources.

102. As any efforts to build economic relations with the South will need to support national industrial development objectives, we need to consider how best to construct trade agreements. FTAs 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 profile of exports, even to countries in the South, continues to be dominated by low-value-added commodities that would be unsustainable in the longer run. Future trade relations should be structured to support industrial development and upgrading in South Africa.

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

104. South Africa, together with its partners in SACU, signed a PTA with Mercosur in 2009. PTA negotiations with India are also 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 furthermore 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 by China in projects around mineral beneficiation. Our objective is to ensure the long-term sustainability and mutual benefit of our relationship with this important trading partner.

## Relations with Countries of the North

105. 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.

106. As regards 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 co-operation on a range of trade-related issues.

107. With the conclusion and entry into force in 2008 of the FTA between SACU and EFTA, a legal and institutional

framework was established between the 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 from which 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 as regards agriculture, it does offer SACU members duty- and quota-free access on industrial products to these European economies.

108. South Africa's trade and investment relations with the United States of America (USA) are well served by both the non-reciprocal preferential trade arrangement the USA offers all sub-Saharan Africa countries under the Africa Growth and Opportunity Act (AGOA), and the SACU-USA Trade, Investment, Development and Co-operation Agreement (TIDCA) that was concluded in 2008. TIDCA establishes a co-operative framework based on which to address such non-tariff issues as standards and customs procedures. It also establishes commitments to enter into joint trade and investment promotion activities.

109. With regard to Asia, Japan has consistently been among 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 co-operative agreements.

## The World Trade Organisation and the Doha Round

110. South Africa is a strong proponent of multilateralism as a necessary intergovernmental 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 are some of the key challenges confronting the international community in the context of an integrating global economy.

111. While multilateral rules are important, established rules are often imbalanced and prejudicial to the developmental interests of developing countries. This requires the reform of current systems of global economic governance. Indeed, South Africa has argued that the 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 the key to the legitimacy and sustainability of these institutions lies in ensuring that the developmental interests of developing countries are advanced, as these regions will constitute the source of global growth and prosperity for the world economy.

112. In this globalising world economy with its evolving system of global economic governance, the WTO has moved to centre stage. 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.

113. 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.

114. South Africa's support for the launch of the Doha Round negotiations was based on the assumption that negotiations would open up the possibility to decisively address issues of development in the world trading system. To achieve sustained global economic growth, developing countries must pursue industrialisation in sectors where they possess comparative advantage. This conception has informed our positions in each of the areas under negotiation. South Africa's negotiating objectives in the WTO aim to: i) enhance market access to developed countries; ii) eliminate industrial countries' 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.

115. The prolonged impasse that has bedevilled the conclusion of the Doha Round is a symptom of the imbalance between the legitimate claims for developmental reforms to the global trading system and the mercantilist commercial interests of forces benefiting from the existing unbalanced global trading system. The steady erosion of the Round's developmental content has become 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 to industrial products and services.

116. The demand on South Africa has been particularly detrimental. While obtaining very little, if any, new market access to global agriculture 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.

117. To enhance the prospects for a developmental outcome, we will need to continue to work to strengthen the G20 group of developing countries, which has effectively changed the negotiating dynamic in the WTO and has, for the first time in the history of the global trade system, placed developing countries at the centre of negotiations. We will also need to strengthen the non-agricultural market access group of developing countries, or NAMA 11, a grouping that South Africa convenes, to ensure a developmental outcome in the industrial tariff negotiations.

## Assessing Trade Responses to the Global Economic Crisis

118. In the context of the global economic crisis, there have been repeated calls to avoid any resort to protectionism. The justification for this has been to avoid repeating the experience of the Great Depression in the 1930s, when 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.

119. 'Bail outs' and stimulus packages, though necessary to re-start economic growth, have had an impact on trade and investment flows in that 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, from which locations, will be supported and retained.

120. South Africa has argued that it is necessary to define protection broadly, including not only traditional trade and investment barriers but also 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.

121. 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 for being able to use all WTO-compatible measures to provide support to their industries. Moreover, the systemic impact that developing-country measures are likely to have pales into insignificance compared to measures taken by industrial countries.

# Section 6: Agenda for Future Research

## An Agenda for Future Trade Policy Research

122. In recognising the growing complexity of trade policy and its impact on a broader range of policy domains, the TPSF 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) improving the quality, accuracy and consistency of trade data and statistics; ii) new-generation trade issues, beginning with trade in services; iii) the need to build accompanying policies that will be necessary to ensure the legitimacy of and support for trade reform in future; and iv) the elements required for strengthening the institutional capacity and co-ordination of trade policy in South Africa to deepen the quality of and capacity to deliver on South Africa's trade policy and strategy objectives in future.

## Trade Data and Statistics

123. An important gap that will need to be filled is the lack of accurate, consistent and quality trade data, statistics and market analysis. Improving the integrity of trade data will require the improved co-ordination and reconciliation of data currently compiled by government agencies and departments in South Africa, including Statistics South Africa, the Industrial Development Corporation, the South African Revenue Services, **the dti** through the Economic Research and Policy Co-ordination Unit, as well as ITAC. We will also draw on international best practice to identify the appropriate methodologies and mechanisms for the collection of trade data and statistics. It would furthermore be important to assign an authoritative centre in Government as the source for and disseminator of trade data for the country as a whole.

## Trade in Services

124. 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 FDI. 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.

125. 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 forms part of bilateral and regional agreements.

126. 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. The structure of South Africa's services economy is relatively complex. Business services, for example, contribute more than 10% 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 services sector is comparatively open, and the level of commitments it undertook in the Uruguay Round is on a par with that of developed countries. South Africa made its first WTO services commitments in 1994, followed by commitments in terms of telecommunications and financial services in 1997 and 1998, respectively. The economic impact of South Africa's WTO services commitments will be the subject of further work.

127. In future, South Africa will need to approach negotiations on services on the basis of well-considered research that identifies the related 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.

128. It will be necessary, in addition, to establish a services trade 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 points of market access and addressing regulatory constraints that private sector service providers confront in foreign markets, which could constitute a basis for developing a more proactive services negotiation agenda.

129. It will be necessary to construct a robust engagement between Government and stakeholders to develop a broadly agreed approach to this area of work, which is complex and contested. There are genuine differences among internationally respected academics, lawyers, trade specialists and practitioners on the interpretation of key provisions in the GATS. South Africa should therefore adopt a cautionary approach when considering commitments to be scheduled under the GATS and at regional level.

## Approaching Other New-Generation Trade Issues

130. 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. The widening ambit of negotiation issues in part reflects the integrated nature of economic policy and the 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 agendas on issues of particular importance to them.

131. At the same time, developing countries are confronted with a proliferation of 'behind-the-border' obstacles in the form of standards and other non-tariff measures that impede their access to the markets of advanced economies.

South Africa, similar to other developing economies, will need to develop a more proactive stance on these 'new' trade-related issues.

132. 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 on the environment, labour and intellectual property. Particular attention will need to be paid to advancing trade facilitation work.

133. In approaching these issues, South Africa must ensure that it is able to:
   - Preserve policy space and flexibility to regulate in the public interest;
   - Balance economic efficiency with socio-economic equity;
   - Support the overall development path, in dynamic rather than static terms; and
   - Enhance the competitiveness of our economy in a manner that supports long-term economic development.

134. 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. It will also be necessary to give greater emphasis to the enforcement of South Africa's interests through building national capacity to participate in dispute settlement mechanisms at regional and multilateral levels.

## Accompanying Policies

135. Trade reform processes create winners and losers. A crucial area for the future will be that of 'accompanying policies'. There is a large body of evidence that rapid and indiscriminate liberalisation without adequate safeguards brings adjustment costs through rising unemployment and increasing poverty. The trade liberalisation episode of the early 1990s in South Africa coincided with rising levels of unemployment. This period also witnessed structural shifts away 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 the adoption of measures to cushion the costs of adjustment, not only in the adjustment period but over the long run as well, is a good policy practice and a potent buffer against social instability.

136. 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 workers that are affected. Second, re-training programmes are offered to affected workers to help them adjust to new labour requirements in the economy. The Department of Labour has a central role to play in designing these programmes and mainstreaming skills development in the economy.

137. The linkages of existing social safety nets and worker re-training programmes to trade reform need to be fully explored and developed and their adequacy assessed. An institutional framework which ensures that 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. A consistent and inclusive approach to social support, skills development and re-training will be the subject of future work on trade policy.

## Institutional Challenges

138. Having set out the outlines and strategic thrust of South Africa's trade policy, the challenge that remains is that of implementation. Co-ordination, both within **the dti** and across government, coupled with effective stakeholder management will be vital for success. As trade policy is a dynamic instrument that has to respond to global changes and domestic economic imperatives, institutional mechanisms that enable rapid responses are essential. A range of institutional mechanisms have already been established in South Africa. These mechanisms will need to be strengthened to enhance co-ordination on trade policy matters. This section outlines areas for consideration.

139. The TPRG, chaired by the Minister of Trade and Industry, will remain a key platform for reviewing and developing future policy responses pertaining to trade policy and strategy. The TPRG will continue to draw on expertise from across government departments as well as from trade experts among business and labour constituencies. In addition to the work geared to ongoing policy review and development, the TPRG will consider establishing a more appropriate and representative institutional mechanism to ensure the effective mainstreaming of trade policy into South Africa's overall economic development strategy and governance.

140. The institutional linkages and interface between the policy divisions in **the dti**, including those responsible for industrial, trade and competition policy, should be better co-ordinated. A mechanism to evaluate the policy on tariff adjustments as it relates to, firstly, industrial policy needs and, secondly, the reciprocal exchange of concessions in multilateral, regional and bilateral negotiations needs to be institutionalised. Enhanced co-ordination between the policy divisions and the administrative arms of Government, notably ITAC and SARS, is another area of priority.

141. Improved co-ordination to align the trade and industrial policy priorities with the trade and investment promotion activities of Government at both 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 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 that matches domestic capacities with trade opportunities in foreign markets. Such improvements could be advanced through existing institutional coordination processes within **the dti**.

142. There will be a need to develop research and policy capacity within **the dti** in order to ensure high-quality policy outputs, and policy implementation will need to be reviewed and assessed periodically. This research and policy capacity should possess a significant measure of trade data co-ordination and should be subject to frequent analysis and high-level modelling. Of even greater significance, though, is to ensure the integrity and quality of trade data across Government. This function will be intimately linked to the existing capacity dealing with trade policy and negotiations. The upgrading of this capacity will help in enriching policy development. Apart from issues of trade data, there are new frontiers of trade policy that are emerging and require cutting-edge expertise. **the dti** is currently piloting a skills development programme in the form of a tailor-made trade policy programme for government officials. This covers both the traditional and the current themes in trade policy, and also includes trade data-related issues. These processes will be further pursued.

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

144. 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 the environment, particularly in the context of the current climate change negotiations. Trade policy and foreign policy are increasingly inter-related as both are situated at the nexus between domestic economic priorities and external engagement, thus it is necessary to strengthen strategic co-ordination, alignment, and joint planning and execution between **the dti** and the Department of International Relations and Co-operation. This is particularly important in our engagements in Africa and in our efforts to promote South-South co-operation. The Director-General Cluster on International Co-operation, Trade and Security and the Permanent Trade Forum are important mechanisms to co-ordinate Government's position on these issues.

145. **the dti** will need to draw increasingly 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 enrich policy-making with deep insights. We will also need to build new collaborative relations with knowledge centres, including universities and research think-tanks. In addition, it will be necessary to consider ways of broadening representation so that wider sectors of South African civil society and communities are brought into the policy-making process. 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 on and analysis of trade policy issues. Such an engagement can help generate wider interest in trade policy issues and, over the medium term, build a cadre of future trade policy practitioners.

146. 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 a clearer mandate to trade policy practitioners in ways that strengthen the nation's leverage in trade negotiations and ensure that trade negotiation outcomes support the broader priorities of Government.

147. The strengthening of all these institutional linkages to enhance co-ordination and joint planning in the context of overall and integrated strategic and operation plans should form part of the future work on trade policy. Of immediate urgency is that the institutional mechanisms should consider the strategies, objectives and future work programme set out in this TPSF. They should identify critical linkages between the various policy instruments and relevant agencies, act on the advice of the relevant structures and stakeholders, and optimise the linkages between our domestic priorities and our international economic relations.

148. A comprehensive communication and media strategy is an important element in rolling out this TPSF. Since trade policy work is a specialised area, oftentimes our work is not projected in a manner that is well understood beyond the narrow policy community. Yet trade policy has implications for various groups of people in South Africa, and it is at the core of our growth strategy. The existing instruments

within Government, including the communications and marketing functions within **the dti**, will be brought much closer to the work that Government undertakes on trade policy and negotiations. The communication and media strategy for the TPSF will not simply focus on conventional media platforms, but will also extend to communities, business, labour, academic establishments and other knowledge sectors.

# Section 7: Conclusion and Policy Recommendations

149. 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 TPSF specifies 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. This will produce inputs that are important cost items for the downstream, labour-intensive industries that we want to encourage and nurture. If the evidence shows that it would be of benefit to industries and sectors to reduce or even remove duties, this will be pursued. At the same time, where assessments show 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 and provided it falls within the prescribed limits of our international trade obligations.

150. The TPSF has observed that trade policy lies at the nexus between the domestic economy 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.

151. 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.

152. The TPSF has also identified areas that require further work. These include the areas of trade data, trade in services and other new-generation issues, accompanying policies and the strengthening of institutional co-ordination on trade policy matters. In all this, we aim to ground trade policy in a clearly articulated development framework.

# Section 8: Supplementary Material

## Abbreviations and Acronyms

AGOA ........ African Growth and Opportunity Act

AsgiSA ........ Accelerated and Shared Growth Initiative for South Africa

AU ........ African Union

B-BBEE ........ Broad-Based Black Economic Empowerment

BUSA ........ Business Unity South Africa

COMESA ........ Common Market for Eastern and Southern Africa

CSPs ........ Customised Sector Programmes

DBSA ........ Development Bank of Southern Africa

DCs ........ development corridors

DDG ........ Deputy Director-General

DG ........ Director-General

DRC ........ Democratic Republic of the Congo

EAC ........ East African Community

EC ........ European Commission

EFTA ........ European Free Trade Association

EEDD ........ Enterprise and Economic Development Division

EPA ........ Economic Partnership Agreement

EU ........ European Union

FDI ........ foreign direct investment

FTA ........ Free Trade Agreement

GATS ........ General Agreement on Trade in Services

GDP ........ gross domestic product

IDD ........ Industrial Development Division

ILO ........ International Labour Organisation

IPAP 2 ........ Industrial Policy Action Plan 2010/11 – 2012/13

ITAC ........ International Trade Administration Commission of South Africa

| | |
|---|---|
| ITED | International Trade and Economic Development |
| Mercosur | Southern Common Market/*Mercado Común del Sur* |
| MIDP | Motor Industry Development Programme |
| MP | Member of Parliament |
| NAFTA | North American Free Trade Agreement |
| NAMA | non-agricultural market access |
| NAV | non-ad valorem |
| NEDLAC | National Economic Development and Labour Council |
| NEPAD | New Partnership for Africa’s Development |
| NIPF | National Industrial Policy Framework |
| OECD | Organisation for Economic Co-operation and Development |
| PTA | Preferential Trade Agreement |
| R&D | research and development |
| RTA | Regional Trade Agreement |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SARS | South African Revenue Service |
| SDI | spatial development initiatives |
| TDCA | Trade, Development and Co-operation Agreement |
| **the dti** | Department of Trade and Industry |
| TIDCA | Trade, Investment, Development and Co-operation Agreement |
| TIPS | Trade and Industrial Policy Strategies |
| TISA | Trade and Investment South Africa |
| TNCs | Trans-National Corporations |
| TPRG | Trade Policy Review Group |
| TPSF | Trade Policy and Strategy Framework |
| USA | United States of America |
| WTO | World Trade Organisation |

## Glossary of Terms[4]

**Ad valorem tariff:** Duty (tariff or charge) calculated as a percentage of the value of a 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 a country's border.

**Autonomous liberalisation (also referred to as unilateral liberalisation)**: This term refers to trade liberalisation 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.

**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.

**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.

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

**De-industrialisation**: 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.

**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.

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

**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 specialise 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 Organisation (WTO), 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 liberalisation 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.

**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 one 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.

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

**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 and lack of knowledge) that weaken the functioning of a free-market economy; it fails to realise its theoretical beneficial results. Market failure often provides the justification for government interference with the workings of the free market.

**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.

**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*.

**Non-Tariff Barriers (NTBs):** 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.

**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 liberalisation of all sectors of the economy, and pressure by industrialised countries for the increasingly stringent and wide-reaching scope of WTO rules, leave less and less room for countries to determine their own national policies.

**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 subsidise 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.

**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 a fixed amount per quantity, such as $100 per ton.

**Tariff:** A duty (or tax) levied upon goods transported from one customs area to another for either 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 peaks:** Relatively high tariffs, usually on ‘sensitive’ products, amidst generally low tariff levels. For industrialised countries, tariffs of 15% and above are generally recognised 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 liberalisation:** 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 criteria.

**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.

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# *Annexure A: Trade Statistics*

## 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 Kingdom | 54,351 | 6.4% |
| Italy | 4,904 | 3.0% | Saudi Arabia | 26,195 | 3.1% |
| Taiwan Province of China | 4,543 | 2.7% | Netherlands | 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 Arabia | 48,674 | 3.6% |

| | | | | | |
|---|---|---|---|---|---|
| France | 27,822 | 2.7% | Netherlands | 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.*

Between 1994 and 2008, Germany and the United States have consistently been South Africa's first and second most important trading partners, respectively. 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. In 2009, China emerged as South Africa's most important import and export market.

**Table 2: Top 10 Key Trading Regions – Total Trade 1994 – 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 Union | 283,522 | 33.4% |
| Eastern Asia | 25,785 | 15.5% | Eastern Asia | 170,384 | 20.1% |
| North American Free Trade Agreement (NAFTA) | 17,532 | 10.5% | NAFTA | 85,125 | 10.0% |
| SADC | 9,417 | 5.7% | Western Asia | 52,111 | 6.1% |
| Western Europe Rest | 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 Asia | 101,296 | 7.5% |

| | | | | | |
|---|---|---|---|---|---|
| South-central Asia | 47,596 | 4.6% | South-central Asia | 69,250 | 5.1% |
| South-eastern Asia | 39,248 | 3.8% | South-eastern Asia | 54,934 | 4.0% |
| South America | 29,271 | 2.8% | South America | 34,938 | 2.6% |
| Western Africa | 22,676 | 2.2% | Western Africa | 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. Furthermore, there are indications of more integrated trade within the 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 Province of China | 2,640 | 3.4% | Iran (Islamic Republic of) | 18,329 | 3.9% |
| Switzerland | 1,975 | 2.5% | France | 16,939 | 3.6% |
| Iran (Islamic Republic of) | 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 Republic of) | 20,803 | 3.7% | Iran (Islamic Republic of) | 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 between 1994 and 2008, its share of total South African imports has decreased over the past few years. In 2009, China became 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 dramatically 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 decreased slightly. 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 the SADC, which now account for around 6% of total imports. It would also appear that, in recent years, South Africa has been increasing its imports from Western Africa. South America has also grown in importance as a source of imports during this period.

## Top 10 Individual Trading Partners

**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% | Netherlands | 17,295 | 4.5% |
| Belgium | 2,570 | 2.9% | China | 13,648 | 3.6% |
| Zimbabwe | 2,355 | 2.7% | Switzerland | 10,214 | 2.7% |
| Netherlands | 2,172 | 2.5% | Spain | 9,992 | 2.6% |
| Taiwan Province of China | 1,903 | 2.2% | Belgium | 9,904 | 2.6% |
| Italy | 1,763 | 2.0% | Italy | 9,252 | 2.4% |