South Africa, The WTO and EPAs

Peter Draper

Development Through Trade Project

The South African Institute of International Affairs
"South Africa's window on the world"

OVERVIEW

A. South Africa and the WTO

B. South Africa and EPAs

B. South Africa and the WTO

1. South Africa's Objectives
2. Can Hong Kong Deliver?
3. Implications for South Africa's Trade Strategy

SAIIA

1. South Africa's Objectives

1. Agricultural trade liberalization
   a. Subsidies (export; domestic support)
   b. Tariff peaks
   c. Hence membership of the G20 (subsidies) and Cairns group (tariffs)
   d. But actual agricultural exports are not so significant
   e. Whilst defensive concerns associated with land reform are on the horizon
2. Substantial interest in industrial goods market access (NAMA)
   a. Recall export diversification
   b. Formula driven (targeting high tariffs; tariff peaks; tariff escalation)
   c. Based on bound tariffs (therefore unlikely to deliver much liberalisation)
   d. Medium-term timeframe (if ultimately successful)
   e. Therefore bilateral route remains important (to the extent it delivers substantial market access)
   f. But unilateral liberalization and tariff rationalisation arguably of greater importance
   g. Yet this is not remotely on the agenda.

… South Africa's Objectives

3. More defensive on the services agenda (largely because it is not well understood)
   a. Furthermore services liberalization is voluntary (positive list)
   b. And in the WTO it is moving very slowly (linked to breakthroughs in agriculture and NAMA)
   c. Yet SA has key services export interests in Africa and arguably elsewhere
4. Singapore issues:
   a. In favour of trade facilitation (obvious relevance to African trade)
   b. Neutral on:
      i. Investment (SA outward FDI)
      ii. Government procurement (provided it is confined to transparency)
      iii. and competition policy (SA has robust competition policy institutions)

SAIIA

2. Can Hong Kong Deliver?

1. Some movement on agriculture is discernible (but not enough)
2. Fixing developed country distortions should not be “concessional”
3. So what further movement is required?
   a. NAMA (formula; sector negotiations; bindings)
   b. Services (further commitments)
   c. Trade facilitation
   d. Aid for trade?
4. With the possible exception of (c) these are issues requiring unilateral attention in any event
5. If consensus is achieved on agriculture then the scene will be set for a race to the finish by the end of next year.
6. Early 2007: The sword of Damocles in the form of expiration of TPA in the US

3. Implications for South Africa’s Trade Strategy

1. Agriculture:

   a. SA agriculture is supply-constrained, and has emerging defensive interests
   b. Better market access will help, but will erode preferential access into the EU (under GSP and TDCA) and US (GSP; AGOA)
   c. So review of the TDCA is important, and the FTA negotiations with the US
   d. Greater SADC/African liberalization is unlikely
   e. So partnership agreement negotiations with the EU (and potential US African FTAs) must be watched for competitive threats
   f. In the medium term these could be partially offset by export subsidy phase-outs and disciplines on food-aid
   g. But expanding supply will largely depend on productivity improvements, hence GM technologies could be key
   h. Yet this is a hotly contested issue on the regional and global stage.

…Implications for South Africa's Trade Strategy

2. Industrial Goods (NAMA):

   a. Formulas will be based on bound levels
   b. Across the world, but especially in developed countries there is substantial "water in the tariff"
   c. So actual liberalization is unlikely to occur, except for some sensitive sectors (autos; clothing; textiles)
   d. Yet the lack of actual liberalization will reinforce trade diversion effects arising from our current FTAs (EU TDCA; SADC; EFTA; Mercosur)
   e. Thus undermining economic efficiency by discriminating against sourcing from potentially less competitive producers (US; Japan; China; other East Asian countries)
   f. Unilateral liberalization should come back onto the agenda.
   g. And sectoral negotiations in areas of export interest to SA could be beneficial
   h. Appropriately managed this would lower production costs, reduce consumption costs, and provide an overall boost to growth and, ultimately, employment.

…Implications for South Africa's Trade Strategy

3. Services:

   a. Pressure is mounting for SA to make a substantive offer
   b. This is in our economic interests and should be done without reference to the WTO in any event (eg: telecoms; transport)
   c. It should not compromise provision of social services, although market provision is arguably more efficient and sustainable
   d. Currently (and for the foreseeable future) SA lacks the capacity to develop a strategic agenda for services liberalization in the context of trade negotiations
   e. And is prioritising harmonization (including rules) in the SACU context – which will delay and complicate unilateral processes
   f. It will also delay bilateral processes, notably those with the US and EU
   g. So it is unlikely that much will be forthcoming
   h. Yet services is a key long-term interest for SA
   i. And African markets are important destinations for our "exports" but they will likely remain relatively closed through this round
   j. So a regional/bilateral agenda for services, encompassing our major trading partners, the continent and the domestic reform agenda, is necessary

…Implications for South Africa's Trade Strategy

4. Rules:

   a. Trade facilitation negotiations probably won't deliver much
   b. So customs reform, especially in our neighbours and developing country markets must remain on the agenda
   c. And there is added danger in the form of unilateral measures implemented by the US in its "War on Terror"
   d. These are best disciplined through the WTO
   e. Similarly disciplines on FTAs should be tightened to minimise the "spaghetti effect" of FTA proliferation
   f. SA has not given much thought to this issue
   g. But the politics are complicated so discretion will remain
   h. This could be further complicated by other issues in the TRIPS domain (especially GIs)
   i. And trade remedies (especially anti-dumping) could prove equally contentious.
   j. So SA has an interest in greater rules harmonization, although not in areas where there is no discernible interest but substantive threat (especially GIs)
   k. These should only be addressed in the WTO context.

C. Economic Partnership Agreements

1. General Considerations

2. SA's Interests and Concerns in a SADC EPA with the EU

1. General Considerations

a. Professed aim of EPAs is to beneficially integrate ACP with the global economy and to promote deeper regional integration

b. Negotiating agenda includes new issues – services, investment…

c. SA is a member of ACP but is not part of EPAs –already has an agreement with EU (TDCA).

d. The TDCA was negotiated because the EC did not want to offer preferential access to SA under the Lome/Cotonou preferences

e. However, the EU's negotiating mandate excluded SA's customs union partners (Botswana, Lesotho, Namibia, Swaziland) creating significant animosity and institutional problems for SACU.

2. SA's Interests and Concerns in a SADC EPA with the EU

A. SA's Broad Concerns In SADC

i. SA's regional foreign policy is ostensibly guided by the "we swim/sink together" notion.
ii. Wishes to promote regional integration – wants SADC to become a key pillar for economic development and a platform for cooperation with the rest of the continent.
iii. But because of problems in SADC this may be displaced to SACU
iv. SADC is an important market for SA exports – it has since 1994 promoted a strong regional export and investment drive.
v. SA seeks to mitigate its exposure to external shocks by diversifying its export markets away from an overdependence on the West – hence the increased interest in the region.
vi. Owing to its relative supply efficiency it currently enjoys favourable terms of trade with all its SADC counterparts.

… SA's Interests and Concerns in a SADC EPA with the EU

B. Threats

i. SA sees southern Africa as its backyard yet the EU is more dominant hence the contest for policy influence.
ii. Unlike SA the EU is a huge economic block and can afford to offer massive aid packages to the BLNS and other SADC minus countries.
iii. SADC EPA Negotiating group includes SA's SACU partners (BLNS) plus Tanzania, Mozambique and Angola
iv. How would an EPA in the region impact SACU? SA fears that BLNS can become "detached" from SACU because of the EPAs
v. If the status quo continues, it is possible for goods from SA to be re-routed via BLNS in order to take advantage of better preferential access to the EU market
vi. EPAs would open regional markets to EU exports thus generating competition for SA suppliers.
vii. Similarly EPAs cover services and might give the EU some competitive edge over SA in creating more opportunities for its business in ACP states

…SA’s Interests and Concerns in a SADC EPA with the EU

C. Potential Responses

a. Re-open the TDCA so as to introduce more flexibilities and bring BLNS on board
b. The review of this agreement provides one avenue of doing this, the EPAs another.
c. TDCA is a *de facto* SACU agreement, however officially incorporating BLNS is not an easy option. Though BLNS imports are already governed by the TDCA their exports still enjoy a better prefential margin than SA’s –benefits which they would want to keep.
d. SA may also wish to extend its sphere of effective influence by inviting non-SACU SADC minus countries to join the Customs Union
e. Mozambique has indicated an interest to join; Angola seems unlikely and Tanzania is a member of the East Africa Customs Union and geographically distant.
f. The success of such a strategy would depend on how revenue sharing was dealt with and whether SA is prepared to offer these countries lucrative preferential access to its market and underwrite their development via the revenue-sharing formula.

…SA's Interests and Concerns in a SADC EPA with the EU

- What Should SA do?

  i. The current situation where SA has a separate agreement with the EU that does not include the BLNS yet they are part of the same Customs Union is untenable – it is clearly counter to the EU's Cotonou objective of promoting regional integration in Africa though EPAs.

  ii. To resolve this, either the TDCA is re-opened through the review process to include the BLNS; or SA is included in the EPAs as an active participant and given equal market access to that of other SADC EPA countries.

SAIIA