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**SOUTH AFRICAN TRADE POLICY AND STRATEGY FRAMEWORK
SUBMISSION TO PARLIAMENT
PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY
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Executive Summary

Business Unity South Africa (BUSA) has participated actively in the process of developing the South African Trade Policy and Strategic Framework (the Trade Policy), including in recent discussions at NEDLAC. We are generally supportive of the document and do not disagree with any of the points set out in the Trade Policy. There are useful points of synergy between the Trade Policy and the Industrial Policy Action Plan 2, including on non-tariff barriers and standards. Tariffs can be used to indirectly support industrial development and ensure food security but they are only part of the tool box for creating an overall business environment which is conducive for growth. The “mechanics” of trade are just as important as the policy, including research and development, market analysis, border controls and customs procedures, transport infrastructure and costs, as well as access to information. We hope to see a greater focus on trade facilitation in the work programme designed to implement and refine the Trade Policy in the future.

The preference of BUSA would have been for a framework that is more forward-looking and critical in terms of dealing with the current challenges faced by South Africa. At the forefront of these are the challenges of the regional integration. BUSA is concerned about the lack of implementation of the SACU Agreement and the impact of the Economic Partnership Agreement (EPA) negotiations with the EU on region. In our view, a detailed cost-benefit analysis of South Africa’s ongoing membership of SACU would be timely, especially as it has a direct impact on our ongoing ability to implement both trade and industrial policy initiatives. BUSA supports the focus on strengthening the SADC Free Trade Area and working on its extension to our neighbours in Eastern Africa. We agree that the African Agenda must remain at the heart of our South-South focus and greater efforts should be undertaken to promote intra-continental trade.

BUSA welcomes the opportunity to address issues related to services trade and new generation matters, such as investment, as part of the Trade Policy. South Africa cannot afford to ignore these issues either in multilateral or bilateral negotiations. A key priority in coming years should be to improve the information and understanding of the trading activities of the South African services sector. This would enable us to enter into discussions from an informed position of strength. Capacity also remains a challenge and BUSA is pleased to see this specifically addressed in the Trade Policy. We will also be undertaking steps to improve the capacity of business to engage on these important matters.



Introduction

BUSA believes that the Trade Policy is a useful analysis of the approach taken by South Africa on a wide-range of trade policy issues, including the relationship with industrial policy. BUSA was consulted in the development of the document and, more recently, has been involved in the discussions at NEDLAC (a report to be submitted shortly). There are many points that BUSA supports but in some ways the document raises questions. BUSA is disappointed that the Trade Policy is not more forward-looking and critical in terms of dealing with some of the current challenges faced by South Africa. The following is a summary of our views on the key principles outlined in the Trade Policy and some suggestions for further consideration as part of the ongoing work programme on these matters.

Key Principles and Questions for Further Discussion

Tariff Policy

BUSA broadly agrees with the thrust of the tariff policy outlined in the Trade Policy. Tariffs are a tool that can be used to indirectly support industrial development and ensure food security. The sector-by-sector approach is appropriate and has to date worked relatively well. The point is made that tariff policy needs to be able to respond expeditiously in certain circumstances and this is supported by BUSA. Steps should be taken to ensure that the functioning of ITAC is efficient and not hampered and that recommendations made are considered timeously by decision-makers.

The Trade Policy does place a strong emphasis on the possible impacts of tariffs. BUSA contends that tariffs alone cannot be used to ensure long-term sustainability and job creation. Tariffs are but only one tool and may in some cases not be the most effective one to achieve the goals of industrial policy. Trade and industrial policies must be developed in such a way that an overall business environment is created which is conducive for economic growth. This requires the need to address issues that have an impact on competitiveness, such as infrastructure, regulation and supporting services.

Whilst we understand that this document is intended to deal with trade policy matters only, BUSA would like to see a greater emphasis placed on addressing the “mechanics” of trade as well. These include research and development, market analysis, border controls and customs procedures, transport infrastructure and costs, as well as access to information. We are looking forward to discussing in more detail trade facilitation concerns, as well as related strategies such as one for the promotion of exports, as part of the work programme to implement and refine the Trade Policy.

Agricultural Trade Strategy

The inclusion of a particular section on agriculture in the Trade Policy is welcomed by BUSA. It is important to recognise the unique circumstances in which trade in this sector takes place and the fundamental role agriculture has to play in addressing many broad socio-economic issues, especially

food security. We expect that following the NEDLAC process non-tariff barriers (NTBs) and support programmes will be specifically acknowledged in the Trade Policy. They are at the heart of today's global agricultural market. There are significant distortions caused by the policies of our trading partners and South Africa needs to be creative in the way that it addresses these. New ideas are always been put on the table, such as border tax adjustments proposals, that will have a significant impact on the ability of South Africa to remain a competitive agricultural exporter.

The African Agenda

BUSA supports the focus on strengthening the African market as part of our overall trade policy strategy. From the perspective of Business, Africa should remain at the heart of our South-South cooperation agenda. There are significant commercial opportunities available on the rest of the continent but also broader political and security concerns that have an impact on the business environment in South Africa. We would like to see South Africa continue to support all the engagement listed in the Trade Policy (such as the AU) but in a way that ensures that any decisions taken are implemented and that the political will demonstrated is harnessed into concrete outcomes. Follow through mechanisms and strong institutional support for such initiatives seems to be lacking. 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.

Regional and Bilateral Relations

The Trade Policy begins this section by acknowledging the proliferation of regional trading arrangements. It goes on to explore what this means in the African context but BUSA would like to see some further strategic thinking on what the impact of the growing number of RTAs and FTAs could be for South African exporters in markets in other parts of the world, including Asia and Latin America. Does South Africa run the risk of being shut-out of these regions if this trend continues?

BUSA is not convinced that the model of preferential trade agreement (PTAs) used by South Africa has allowed for a more strategic integration process among developing countries. To date the experience of PTAs is that they have not resulted in any real trade benefits and there has been little scope within the constructs of these PTAs to address issues beyond tariffs. We believe that a more creative approach to designing trade agreements which suit our needs as a developing country is necessary.

BUSA supports the emphasis placed on regional integration in Africa. Strengthening the SADC Free Trade Area and working towards its expansion to East Africa should be priorities for South African trade policy in the short to medium term. We agree that the region is not yet ready to expend the time and resources required to negotiate a Customs Union.

With regards to SACU, BUSA has in the past expressed its frustration with the lack of implementation of the new SACU Agreement and its key provisions. Based on the experience with the Economic Partnership Agreement negotiations with the EU, Business suggests that it is time to undertake a critical review of the future of SACU and to undertake a cost-benefit analysis of South Africa's

ongoing participation. We believe that South Africa's membership of SACU is currently limiting our trade policy options and would like the opportunity to debate this further with other stakeholders. Another question that is raised by the new SACU Agreement and the current circumstances in the region is whether a common trade and industrial policy vision possible or even desirable. We agree that SACU has the potential to be an anchor for deeper integration in SADC but do not see this potential being realised in the short-term.

World Trade Organisation

BUSA fully supports the analysis of the current status of the WTO and the Doha Round of negotiations. We agreed that there is much value for South Africa in supporting a strong multilateral trading system but that the current demands South Africa is facing in the Doha negotiations are putting us in a difficult situation. We would have liked to have seen more strategic thinking reflected in the Trade Policy on how South Africa can address this situation. This could include consideration of how to make the most of our alliances and membership of coalitions at the WTO. It could look at how we could better present our positions in order to achieve broad-based support as well as leverage our position in the region and on the continent. We would also like to see more emphasis being placed on enforcement of and protection of South Africa's interests in the WTO through building capacity within the government and industry to participate in the dispute settlement mechanism. This could also be useful in the regional context if the SADC and SACU Agreements are fully implemented. BUSA is keen to work with the government and Labour in order to strengthen our WTO participation and lobbying activities.

Services

In the past, BUSA has made it clear that it is willing to consider negotiations on trade in services at both the WTO and as part of bilateral agreements with the US and EC. We have made the point that services are an increasingly important sector for the development of the South African economy and for the creation of employment opportunities. South Africa has a number of world-class service providers that are competitive at a global level and an already relatively open regulatory environment. These factors combined have led BUSA to question the strong stance taken by government in the past against even engaging on services matters with our trading partners.

We were pleased to see some of the above points reflected in the Trade Policy and would like to add our voice in support of the need for well-considered research, more accurate statistics and information on services trade as well as an empirical assessment of our competitiveness. BUSA stands ready to work with the government on these proposals as we believe that they are the key to ensuring that we make the most of the potential benefits for increased services trade whilst minimising any associated risks.

Other New Generation Issues

BUSA fully supports the proposal for South Africa, together with other developing economies, to develop a more proactive stance on the “new” trade related issues, such as trade facilitation, investment, competition, intellectual property, government procurement, labour and environment. As is pointed out in the Trade Policy, the agenda on these issues has to date been largely driven by developed countries. BUSA believes that there is considerable space for South Africa to actively engage in the discussions on these matters at the multilateral and bilateral level without compromising national policy options. This is particularly the case with regards to investment, competition and intellectual property where South Africa has robust domestic policy regimes in place. BUSA suggests that South African can in fact make a real contribution in these areas and provide alternative models to those pushed by the traditional proponents.

Accompanying Policies

The recognition of the importance of appropriate “accompanying policies” to trade liberalisation is welcomed by BUSA. We believe however that these should be considered in the broader context of the relationship with industrial policy and economic development. It is neither easy nor effective in many instances to attempt to try and pre judge the “losers” from trade policy decisions. A consistent and inclusive approach to social support, skills development, re-training and labour market regulation is preferred by Business. There should also be an environment created that is conducive to ensuring that support is provided to the so-called “winners” that will enable them to continue to grow and take advantage of the benefits created by trade liberalisation. This can best be done through an ongoing cooperative approach that involves all stakeholders, including in export and investment promotion strategies.

Institutional Challenges

BUSA agrees that there is a strong need to ensure better coordination and cooperation across government agencies on trade policy issues. This has been a particular challenge with regards to implementation of some aspects of the IPAP, including those related to trade policy, and as a result the impact of the measures and policies identified has been weakened. There appears to be a particular gap between the dti, the Department of Economic Development and the National Treasury with regards to a number of trade policy related issues, including SACU, IPAP and investment in supporting infrastructure. BUSA urges the identification of specific mechanisms to improve interaction among government agencies and related departments on trade policy matters.

With regards to the relationship between government and other stakeholders on trade policy, BUSA acknowledges the commitment demonstrated by the dti to consult NEDLAC constituencies on a wide-range of issues. The Trade and Industry Chamber and Teselico, in particular, have proven to be useful platforms for the exchange of information and ideas on trade policy matters. BUSA supports the recommendation to increasingly draw upon the views of Business and Labour through the NEDLAC process.

Business also recognises its responsibility to ensure that it is prepared and willing to engage with government through building its own capacity on trade policy issues. BUSA has identified capacity building as an ongoing issue and is in the process of developing a specific training programme for Southern African business people to learn more about the basic principles of trade policy. This is just one initiative that might assist in increasing the pool of people able to engage and contribute to trade policy debates.

Issues for Future Consideration

BUSA would prioritise the following issues in any future work programme on the implementation and refinement of the Trade Policy:

- Implementation of activities to improve trade facilitation and address supply-side constraints (such as new product development, market research, access to information).
- Critical review of the future of SACU.
- Research and information collection on services trade.
- Development of a proactive stance on new generation trade issues, especially investment, competition and intellectual property.
- Analysis of the impact of the growing number of RTAs and FTAs on South African exports to Asia and Latin America.
- Further strategic thinking on how to get the most out of the WTO Doha Round of negotiations.
- Extension of the inclusive approach to WTO delegations to other trade negotiating teams on regional and bilateral agreements.
- Further consideration of the role which trade policy can play in enhancing the agriculture and agro-processing sectors.
- Support for firm-level analysis to understand South African exporters and their needs so as to determine the most useful mix of trade policy measures to support them.
- Comprehensive review of the trade and investment promotion activities of South Africa to ensure that they are supportive of the Trade Policy.
- Possible establishment of a permanent trade policy forum that uses new technologies (e.g. internet blogs, video conferencing) to regularly interact with a wide-range of South African stakeholders on trade policy matters.
- Mechanisms to allow easy access to accurate trade statistics and other related information, including rules of origin and trade agreements.