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South Africa and Australia: Competition or Co-operation?

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This is based on an address given at the SAIIA on 15 May 1996.

Since arriving in South Africa just over six months ago, I have been struck by the number of times I hear comments from Australians and South Africans such as:

'Why should we talk with the Australian Wine Industry? They are our competitors'.

'Why was Qantas allowed to increase its flights to South Africa when SAA was unable to do the same?'

'Why should Australia provide training to the South African Tourist Industry when it competes for the tourist dollar?'

'Why should we lower tariffs and allow you to ruin our market?'

'Why should we export our technology, particularly in the mining industry?'

Flowing through all of these statements are some incredibly inaccurate underlying assumptions. It is said that there are three major universal lies. One, the cheque is in the mail; two, of course I will still love you in the morning; and three, I'm from the government and I am here to help. Well, I hope to lay to rest this last one by correcting some of the fallacies which seem to cloud the relationship between South Africa and Australia.

Those four fallacies are:

1. Australia and South Africa are competitors with similar economies and therefore cannot do much business together.

2. And this is related to one, competition in trade is a zero-sum game - I win, you lose.

3. Countries like Australia and South Africa, with relatively small economies, cannot survive without tariffs and export incentives.

4. Australia and South Africa are farms and mines - they cannot manufacture.

Let me take them one at a time.

While we are major competitors, particularly in mining and some agriculture, and have similar economic profiles, why has Australia/South Africa trade grown by over 300% in four years? Why did our trade increase by over 40% in 1995 over 1994? The answer lies in the fact that our economies *are* very similar - we are, in fact, natural partners in many areas.

But let us look at some other facts to help destroy the myth that countries which are competitors cannot do business. Australia and New Zealand were and are similar economies. They once relied on exports of primary products and had very low manufacturing bases.

In comparison with New Zealand, South Africa's economy is closer in size to Australia's. South Africa's economy is about one-third the size of Australia's and 2.2 times bigger than New Zealand's.

How is it, then, that Australia-New Zealand trade is ten times greater than Australia-South Africa trade? Although these figures demonstrate that similar shaped economies can do a great deal of business together - destroying the myth number one - they also beg the question: why is there this great difference in Australia's trade with New Zealand compared with its trade with South Africa? The answer partly lies in myth number two concerning trade as a zero-sum game and myth number three concerning tariffs and other barriers to trade.

I do not know whey there is widespread belief, despite the evidence to the contrary provided as long ago as Adam Smith and David Ricardo, that trade is a zero-sum game - that in competitive trade there is a winner and a loser. All of the evidence points the other way - the more you trade the more advantages which flow through to your economy - the cheaper your produce and the more efficient you become. Let's look at automobiles - export to Australia of BMWs manufactured here in South Africa (using Australian leather in their upholstery), is one of South Africa's biggest export items to Australia. Toyota motor vehicle engines represent one of Australia's biggest export items to South Africa. And I'm sure the newly released Australian Ford Falcon motor vehicles will become even bigger. We are both doing very well out of the trade - the net effect is that consumers in both our countries have a greater choice of cars to choose from. There is no loser involved.

And let's examine the tariff myth. Australia's average overall rate of tariff has been reduced from 36% in 1970 to under 7% today. Outside of motor vehicles and TCF, no tariff will be over 5% by July this year. At the same time, our total exports have risen by over 30% in the past 5 years; elaborately transformed manufactures have grown by 17.5% per annum over the past 10 years; services exports have increased by 10% per annum since 1980 and total exports as a percentage of GDP have risen from about 13% in 1970 to over 20% today - that is, as we have reduced tariffs, we have almost doubled the percentage of exports making up our GDP.

A study recently conducted by the Economic Planning Advisory Committee in Australia looked at how differences in tariff and related policies influenced the relative growth performance of 14 OECD countries. The study concluded unambiguously that a reduction in tariffs leads to stronger economic growth. In the case of Australia the study estimates that as a result of our tariff cuts alone our GDP per capita is growing by about 0.5% each year in real terms. In addition, it has been shown that barriers to imports are often more harmful to the country imposing them than they are to other countries. And this, I might add, is very significant for South Africa because any barrier to imports is, through the working of the economy as a whole, also a barrier to you exporting more.

Before returning to this point, let us look at myth number four - Australia and South Africa cannot manufacture. The automobile story recounted above should lay that to rest. Over one-quarter of all of Australia's exports are manufactured goods; for South Africa the figure is higher - over one-third and increasing. In terms of our two-way trade manufactures figure prominently - from motor vehicles, telecommunications equipment, plastics, electrical machinery, computers and office machines, transport equipment, chemicals, industrial machinery, trailers. South Africa is, in fact, Australia's fastest growing significant market for elaborately transformed manufactures.

So, myths aside, why is Australia-South Africa trade so much lower than Australia-New Zealand trade? Some reasons are obvious - geographical proximity, similar history and, despite some underarm bowling by Australia, no trade sanctions. But there is more to it than that. There are important lessons in the Australia/New Zealand case which can and should be applied to Australia-South Africa trade. Let me list just three:

1. Closer trading arrangements and more comprehensive trading agreements will enhance overall trade.

2. Bilateral reductions in trade barriers will facilitate greater trade in manufactures and provide easier access for small and medium sized businesses, particularly because both markets are of similar dimensions. Reductions in barriers to trade, including tariffs, will have a beneficial effect on the economies of both countries.

3. Bilateral arrangements will reduce transaction costs, allowing for greater specialisation and economies of scale, and create larger markets for our goods.

Under Australia's closer Economic Relations Trade Agreement with New Zealand, Australia's and New Zealand's exports of manufactured goods to each other have grown faster than their exports to the rest of the world. In Australia's case, this has been by 12% per annum in the 5 years to 1993-94 compared with 7% for the rest of the world. And for New Zealand, by 10% per annum with Australia compared with 6% for the rest of the world. Manufactured goods now make up 70% of the merchandise trade between Australia and New Zealand (and this is in stark contrast to a reliance on exports of primary products which characterised our trade in the past).

It was said, not long ago, that this could not happen. Australia and New Zealand were too much alike in the form and structures of their economies.

They could not manufacture let alone be large trading partners. In New Zealand it was argued that because of Australia's comparative size manufacturing would cease as Australia swamped its market. What I hear about Australia/South Africa, therefore, has a familiar ring about it!

It is quite exciting to think that even if South Africa-Australia trade were half Australia-New Zealand trade, the total trade would be worth well over R15 billion, rather than its current level of about R3 billion.

So, what is needed between Australia and South Africa? Conclusion this year of a *Double Taxation Agreement* and *Investment Protection and Promotion Agreement* will help. But we need to look more widely at:

* How our customs procedures can be improved and co-ordinated to facilitate trade.

* Agreement for protection of patents and intellectual property should also be examined.

* We need to examine ways of harmonising our tariffs; creating trade and investment data bases; establishing agreed rules for services trade; harmonising our products standards; agreeing on packaging and labelling.

* And look at creation of some dispute settlement procedures.

* We need to know more about barriers to trade and investment between Australia and South Africa and how they can be eliminated.

And all of this can be some under a Joint Ministerial Committee, with input from the business communities of both countries - something proposed by Deputy President Mbeki some time ago.

While we have much in common - both southern hemisphere countries sharing the same latitudes, both vigorous, multicultural democracies, both using English in business and sharing the same sort of business practices and standards including in accounting, both having similar bodies of commercial law.

While we have this going for us, both South Africa and Australia also need to recognise that we are part of the global marketplace - market boundaries do not duplicate national boundaries and all governments and business must take this into consideration. There is no longer the option of protectionism. A closed economy will be closed from both within and without. Investment - now the key to trade - will simply go elsewhere. Now governments face very strict disciplines - they can no longer correct deficits by imposing tariffs or manipulating exchange rates. They are, in fact, part of the global market place with their policies, actions and words under international scrutiny. Exposure to international competition sharpens the incentive to deliver goods and services efficiently and to look closely at innovative ways of doing things. Because of this, now more than ever, governments need to talk with business so as to maintain a competitive edge and to develop markets.

And that is where South African and Australian business must come in. Government will need the help of the business community, as well as academia to realise the promise in the economic relationship between our two countries. It will be to all our benefit; but it cannot be done by government alone. In fact, what we need in both Australia and South Africa are strong business groups supported by academic research to lobby and pressure government so that this potential is unlocked.

One of my messages to Australian business has been to examine more closely the very real opportunities to invest and trade with this part of the world; to look at South Africa as a base for operations into the rest of South Africa for, aside from the enormous potential for increased trade, including most significantly in manufactures, we each offer access to our regional economies.

To South Africa, I say look more closely at Australia. Its economy is bigger than Austria's Belgium's, Sweden's, India's, Indonesia's, Argentina's, Taiwan's and growing at well over 3% per annum. Although a relatively small population, its GDP per head is high (over four times that of Malaysia; almost 20 times that of Indonesia, three times that of Saudi Arabia) It's a significant market. About 150 multinational companies call Australia their regional home - from Coca-Cola to IBM and American Express. We have an excellent skills base, high quality telecommunications, excellent support services, economic and political stability, internationally accepted business practices, commercial law and accounting standards. We are located on the edge of the fastest growing area of the world and have developed considerable understanding and expertise in dealing with the region - a region which, incidentally, is growing at a rate fast enough to absorb the increase in exports which South Africa needs to meet its development targets. Look at basing your Asian operations in Australia, just as hundreds of American and European companies have.

Let me pose some questions, which are very much related to what I have been saying about our economic relationship: if you were an Australian businessperson interested in investing in or importing from South Africa, where would you go for advice? I don't know the complete answer, but I can tell you, not to a South Africa trade official in Australia because South Africa does not have one such official in Australia. I am pleased to say that I understand that the situation is about to be corrected.

Why, in 1995, did Australia's exports to South Africa grow by 52% while South Africa's to Australia only by 25%? Similarly, why were the comparative figures for 1994/95 over 1993/94 for Australia 61% and for South Africa 15.3%? Perhaps the answer is related to the first question.

And, related perhaps to both previous questions, how much effort has South Africa put into its trade agreement with the European Union compared with its effort into trade with the Asia/Pacific region? Answer: Again I don't know, but it would be well worth examining.

Finally, let me conclude with an announcement and an appeal. I am pleased to announce today that for an unprecedented second year in a row, South Africa is one of the featured markets at the National Trade and Investment Outlook Conference (NTIOC) to be held in Melbourne from 3 - 6 December 1996. This Conference will bring together some of the most influential business people not just from Australia but also a dozen other dynamic economies such as China, Indonesia, Brazil and the United States. It is perhaps the largest conference of its kind in the southern hemisphere and in the Asia/Pacific region.

The benefits of attending are enormous. For example, at last year's NTIOC, 10% of attendee respondents expected to generate more business with South Africa - that means that about 140 business representatives attending the Conference expect to do more business with South Africa as a result of attending. The Conference session on South Africa was ranked third (below that of food processing and distributing and Hong Kong) in terms of quality. Total export potential for Australia arising out of NTIOC '95 is AUD2.024 billion with investment potential of AUD1.044 billion. But don't take my word for it that the benefits of attending are enormous. Ask Doug Band from the Premier Group, or Erik Molobi from the Housing Trust Forum, or Harold Serebro from Altron, or Bobby Godsell from Anglo, or the others who attended last year.

I make three appeals:

1. Try to attend this Conference.

2. Join together in promoting Australia-South Africa trade and investment, including in putting pressure on government in both countries to give greater priority to removing barriers and obstacles to business between Australia and South Africa.

3. Begin to look, at least some of the time, to the East for business and other opportunities.