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South Africa: Between regional integration and trade multilateralism

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Introduction

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Global trade is conducted through engagements bilaterally, regionally and inter-regionally and multilaterally. The most widely inclusive process is multilateralism, defined by the World Trade Organisation (WTO) as a system 'to help trade flow as freely as possible' and set out as its objective.¹ More discriminatory is trade regionalism – involving a number of countries who set barriers of trade for those falling outside their agreement. There has been an increasing proliferation of the discriminatory process in the form of Regional Economic Communities (RECs) as well as preferential trade agreements (PTAs)² that could suggest a frustration to the multilateral trade negotiations. This paper postulates multilateralism as a top-down approach to achieving the WTO's objective of a non-discriminatory global trade regime as the WTO works to create an obstacle-free, global environment conducive for liberalising global trade by facilitating negotiations.

South Africa's trade diplomacy

Alongside vigorous involvement in WTO forums, South Africa facilitates its trade by engaging in multiple preferential engagements that include negotiating to deepen regional integration (SADC); extending inter-regional trade (the COMESA-EAC-SADC³ Tripartite Free Trade Area); as well as negotiating preferential trade agreements with other regional blocs such as the European Union (EU). Extending regional trade by broadening preference to other

regional blocs is postulated, in this paper, as bottom-up approach to achieving the WTO's objective of a non-discriminatory global trade regime – a means to multilateralise regionalism.

The current multilateral trade negotiations in the WTO, the Doha Development Agenda (Doha Round), were launched in 2001 with the intention of rebalance the world trading system in favour of developing countries through greater market opening and new trade rules. It is generally agreed that inroads were made at the 9th WTO Ministerial Conference in Bali, Indonesia in December 2013, although some observers have pointed to a continued impasse in the most contentious issues. The outcome - the Bali Package - was a milestone emphasising trade facilitation by resolving “a series of decisions aimed at streamlining trade, allowing developing countries more options for providing food security and boosting trade in least developed countries”.⁴

This policy brief examines South Africa's consistent trade objectives in multilateral and preferential trade negotiations and interrogates the threats and opportunities presented by RECs to multilateralism. A welcomed focus to deepened regional integration that could ultimately lead to trade facilitation amongst larger, regional blocs – resulting in breaking the largely continued impasse in the Doha Round, is proposed. With a reference to regional integration in Southern Africa, an argument will be made particularly for RECs, as a conduit for deepening trade integration, instead of preferential trade agreements in general.

The multilateral trading system – facilitating trade

The multilateral trading system at the end of the preceding Uruguay Round and at the formation of the WTO was regarded as imbalanced, opaque and non-inclusive. Trade facilitation was regarded as advantageous to the developed countries, with the global balance of trade in their favour.

South Africa, alongside the developing world began to champion an emphasis on development in the then imminent Round, campaigning for a more equitable trading system. The then newly formed WTO – saw the launch of the Doha Development Round that has moved to rebalance world trade.

The outcome of the last WTO Ministerial Conference in December 2013 saw the first major deal between developed and developing members of the WTO, who have too often found themselves advocating from polar positions about how to break the impasse in the Development Round, that insists on absolute consensus. Simplifying procedures to allow trade to flow freely is, as an example, an objective that should be uncontested, yet took well over a decade to be agreed as a consensus in the form of the Bali Package. The general perception is that the package went as far as saving the WTO from collapse, but shifted only modestly in addressing the core issues that established the Doha Round.

Experts at the New Partnership for Africa's Development's (NEPAD's) Regional Integration and Trade Department see trade facilitation bottlenecks such as 'border crossing procedures, cumbersome documentation, regulations and other non-tariff barriers such as security checks' as of particular interest for Africa.⁵ Trade facilitation, as expressed in the package, is expected to reduce costs for traders, increase the continent's competitiveness and boost intra-African trade. There is apprehension on whether trade facilitation measures will continue to favour developed countries, who largely export value-added goods, while benefits for developing countries will remain marginal.⁶ The expected outcomes however, are consistent with the continent's own ambitions to stimulate economic development through industrialisation and regional cooperation.

The consistency lends credence to the assertion that dynamics outside the WTO make regionalism 'the most active mode of trade liberalization'.⁷ While trade from African countries remains on the margins of global trade flows, African countries continue to demonstrate the fervour to address the barriers that have limited intra-African trade.

Bali 2013 was regarded as a breakthrough, because agreements on trade at bilateral, regional and interregional level are generally complex and difficult to implement. At the multilateral level they become even broader and more cumbersome to consolidate. This is also complicated by the extension of WTO rules into areas regarded as non-trade areas such as investment, labour standards, the environment or competition led mostly by industrialised nations. The Doha Round is now in its 13th year and fast approaching the 18-year mark it took negotiations in the last Round (Uruguay, 1986–94) to finalise and it seems many more trade developments are taking place outside the WTO.

South Africa trade objectives – consistent with continental objectives

Trade facilitation is just as important in regional forums. Seamless movements of goods remains a challenge in Africa, despite the close proximity of neighbouring countries belonging to the same REC. Reducing transaction costs is also meted inter-regionally outside the WTO. For instance, African countries are in parallel regional negotiations as well as in negotiations with the EU on Economic Partnership Agreements (EPAs) i.e. the Southern African Development Community (SADC)-EU negotiations. Of particular exigency for Africans, while in these engagements, is the diversification of production in order to trade in goods and services that earn higher values and enjoy higher growth prospects. Through the African Union (AU), countries are progressively discussing liberalisation,

diversification, trade facilitation and boosting trade within and amongst RECs.⁸ For South Africa, it is important that all trade agreements support regional integration efforts, particularly in Southern Africa.⁹ Increasing the level of international trade is regarded as significant to domestic economic growth and development. Through the country's Trade Policy and Strategy Framework, the objective is advancing the development of higher value-added, labour-absorbing production.¹⁰ These goals compliment continental objectives.

At the 2013 WTO Ministerial, South Africa importantly pointed out that along with fellow African countries, the country has embarked on an ambitious 'development integration' process that informs an envisaged continental Free Trade Area. It was noted that these developmental objectives, that combine "market integration, cross-border infrastructure development and policy coordination in pursuit of diversified and higher value-added production," underpinned South Africa's approach to multilateral negotiations.¹¹ For South Africa then, outcomes of negotiations in the WTO should not undermine regional and continental integration plans. Indeed, while negotiations on trade facilitation were ongoing on the multilateral level at the WTO, RECs in Africa have been continuously negotiating means to cut transaction costs within and among themselves in order to boost intra-African trade

RECs: threats and opportunities for multilateralism

While the multilateral system has since inception, accommodated preferential trade agreements, the WTO World Trade Report 2011 discussed extensively whether the expansion of regionalism and PTAs compromised the concluding of multilateral negotiations and the quest for coherence between the limited and expanded forms of non-discriminatory trade.

It noted the fear of losing the preferential treatment that is presented by regionalism and PTAs as a contributor to the resistance of open trade presented by multilateral liberalisation.¹²

A number of threats presented by PTAs have been identified in trade scholarship. Among them:

1.) **Hindering of multilateralism:** where regional blocs maintain high external trade barriers, disadvantaging non-members. Partaking in regional engagements is also regarded as undermining multilateralism by diverting government resources from multilateral negotiations.¹³

2.) **Trade diversion:** where trade is diverted away from the most efficient global producers in favour of a regional partner.¹⁴

3.) **Preference erosion:** developing countries, in particular those that have been granted non-reciprocal preferential access to developed countries' markets have preference erosion concerns. Concerns are particularly raised where reduced advantages from preferential tariffs are not offset by the gains in market access due to tariff cuts on goods that do not receive preferences.¹⁵

4.) **Complicated web of PTAs:** the web of complication presented by being signatory to different preferential agreements is illustrated time and time again in bilateral and cross-regional agreements that could be averted by binding multilateral agreements. South Africa for instance has been party to the SA-EU Trade, Development and Cooperation Agreement (TDCA) since 2000. The country then entered into EPA negotiations as SADC with the EU. However, SADC in these negotiations is determined by the EU with other members of the SADC negotiating

as members of a Central Africa or Eastern and Southern Africa (blocs determined by the EU). From the South Africa perspective, both have presented challenges pertaining to the country's policy space for industrialisation as well as fractured priorities. What is prioritised for instance, South Africa's interests or regional SADC's interests? The latter presents difficulties in that SADC is not all of SADC, according to the EU. From the EU perspective, negotiations throughout are carried out as a bloc and they encounter no such difficulties. Expressions of priorities are presented by the bloc, for the bloc. Because all Southern African Customs Union (SACU) members are in the EU-designated SADC – it may be easier to negotiate as the SACU bloc with the EU as mutual interests are clearly defined.

Developments in regionalism in Southern Africa show that regionalism goes beyond tariff preferences and trade facilitation, they present membership greater opportunities relating to development and the political economy. The realisation of regional objectives can be correlated with goals to achieve the WTO's objective of a non-discriminatory global trade regime:

1.) **Deepened regional integration:** while regional integration in Africa is not without its obstacles, regional aspirations seem easier to conclude because they involve fewer parties. SADC's ambitions to deepen regional integration and harmonise trade have been realised in the regional Free Trade Area, spearheaded by SACU countries under the SADC Trade Protocol. Although member countries – Angola and the Democratic Republic of Congo - are yet to accede to the Protocol, 92% of products are now under duty-free trade.¹⁶ Consolidation of the FTA through

an ongoing elimination of barriers is priority in the region, with plans to progress to a Customs Union, then a Common Market and lastly an Economic Union, afoot. The SADC has also set out a Protocol on Trade in Services to liberalise intra-regional trade in services on the basis of equity, balance and mutual benefit.¹⁷ Consolidation on the liberalisation of trade in services goes beyond the negotiations at the WTO.

2.) **Continental integration:** the ambitions for continental integration emanate from a shared desire to create an African Economic Community. For South Africa, they are reflected as a starting point in a free trade zone from Cape Town, South Africa to Cairo, Egypt that is underway. The grand FTA brings together three RECs– the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the SADC with a vision to harmonise regional integration and overcome some challenges associated with overlapping memberships among the three RECs.¹⁸ The envisioned effect of the grand FTA will also augur well for more seamless trade facilitation and greater intra-African trade. The continent has the lowest intra-continental trade statistics in the developing world, despite increasing efforts on regional integration. Continental integration is also underpinned by the development of corridors that involve mega infrastructure initiatives.

3.) **Multilateralising regionalism:** Preferential trade agreements present a bottom-up approach to attain the same goal established in multilateral platform – to liberalise trade.

Multilateralism can be bolstered by building up from RECs. ‘Multilateralising regionalism’ is a concept credited to Richard Baldwin that promotes multilateralisation through the non-discriminatory extension of preferential trading arrangements to additional trading partners. It is suggested that “such extension can occur in two ways – either through the inclusion of new members in existing agreements, or by replacing existing agreements with new ones that extend to new members.”¹⁹ The latter is what is in progress with the Tripartite FTA that seeks to overcome the issue of overlapping memberships and ensure harmonised trade in East and Southern Africa.

There remains no agreement on whether preferential trade agreements complement or undermine multilateralism. The conclusion of the 2011 WTO report, that assessed co-existence and coherence, was that “regional and multilateral approaches to trade facilitation need not be incompatible, but neither can they be seen simply as substitutes”.²⁰ Both multilateral and regional engagements raise areas of concern in that they are cumbersome to conclude to various extents and agreements are often difficult to implement. Both approaches further rely on heavy political buy-ins and demand the investment of resources to facilitate trade more seamlessly.

Conclusion

Trade facilitation is accordant in both trade multilateralism and regionalism. The paper acknowledges that through trade facilitation, there is a clear commitment to concluding the on-going and slow paced multilateral negotiations in the WTO. To the same end, there is an even clearer commitment to deepen regional integration as advanced by the ambitions expressed by AU member states.

Globally, countries continue to reiterate their commitment to multilateral negotiations for liberalising trade, but also continue to negotiate in RECs and PTAs, which have been regarded as contradictory to the non-discrimination principle that is key to the agenda of the WTO. Despite the obvious challenges faced by preferential trade arrangements their expansion demands an interrogation as to whom the commitment to multilateral free trade, as advocated by the WTO lies, if not with its members. The difference, that is also a correlating factor for multilateralism and regionalism, is that the former is a top down approach while the latter a bottom-up approach to the goal of non-discriminatory global trade. RECs already submit to WTO rules and when there are binding deals within the WTO that give impetus to regional ambitions, such as seamless trade facilitation at the core of what was agreed at Bali 2013 – they should be welcomed.

PTAs in general, pre-date the multilateral trading system and continue to go against regionalism scepticism. Regional integration efforts should therefore be seen as complimentary to multilateral negotiations. It can be argued that there may indeed be moves to multilateralise regionalism, as the planned tripartite PTA of COMESA-EAC-SADC illustrates. Rather than frustrate multilateralism, deeper regionalism will build up to the multilateralising of trade through gradual non-discriminatory trade measures and opening-up of trade.

Policy Considerations

Privileging regional markets and improving industrial capabilities will result in significant developmental advantages for South Africa and the region.

Tangible advantages include infrastructure development and industrial development that is the centre of South Africa's economic policy. These outcomes correlate to the position advanced by South Africa through the WTO and are key to the development outcomes that developing countries seek to gain out of the Doha Development Round.

Consolidating regional integration presents the opportunity to share best practice policies amongst neighbours, capitalising on proximity as well as deterring fractured negotiations among regional players, as has happened with EU-EPA negotiations with members of the SADC. Deeper integration will not only discourage fractured negotiations, but will instead encourage a move towards a common external tariff that will be consistent with Africa's own economic integration aspirations.

South Africa's position to advance harmonisation of industrialisation and infrastructure development policies, among other trade related objectives within the SADC as well as cross-regional cooperation through the Tripartite FTA (COMESA-EAC and SADC), will reduce high transaction costs and present an opportunity for investors. Investors will view the larger region as attractive for potential investment, informed by the understanding that barriers would have been broken down and a foundation laid for expanded growth in the region.

Notes

- 1 In WTO affairs, “multilateral” also contrasts with actions taken regionally or by other smaller groups of countries. (This is different from the word’s use in other areas of international relations where, for example, a “multilateral” security arrangement can be regional.) – as at World Trade Organisation (WTO). 2014. ‘What is the World Trade Organization?’ in http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm. accessed 17 May 2014. Pg 1.
- 2 World Trade Organisation. 2011. ‘Foreword by the WTO Director-General’ in World Trade Report 2011: The WTO and preferential trade agreements: From co-existence to coherence. WTO. Pg 3
- 3 Common Market for Eastern and Southern Africa (COMESA) - the East African Community (EAC) and Southern African Development Community (SADC).
- 4 World Trade Organisation (WTO). 2013. ‘Ninth WTO Ministerial Conference’ in <https://mc9.org>, accessed 17 April 2014. Pg 1.
- 5 Kanyimbo, Patrick and Calvin Manduna. 2013. ‘Trade facilitation in the Bali Package: what’s in it for Africa?’ in <http://www.afdb.org/blogs/integrating-africa/post/trade-facilitation-in-the-bali-package-whats-in-it-for-africa-12698/> accessed 17 April 2014. Pg 1
- 6 Ibid. Pg 1.
- 7 Baldwin, Richard and Caroline Freund. 2011. ‘Preferential Trade Agreements and Multilateral Liberalisation’ in Jean-Pierre Chauffour and Jean-Christophe Maur ((Eds) Preferential Trade Agreement Policies for Development: A Handbook. World Bank. Washington, DC. Pg 121.
- 8 African Union Ministers of Trade Conference. 6th Ordinary Session. (2010). ‘Trade Liberalization, Investment and Economic Integration in African Regional Economic Communities towards the African Common Market and Economic Community.’ African Union. Addis Ababa, Ethiopia. Pg 4
- 9 Department of Trade and Industry. 2013. South Africa’s Trade Agreements. Pretoria. Pg 1
- 10 Government Communication and Information System (GCIS). 2013. ‘Economy’. South Africa Yearbook 2012/13. GCIS. Pretoria. Pg 152 -153.
- 11 Davies, Rob. 2013. ‘South African Statement to the 9th World Trade Organisation (WTO) Ministerial Conference’. Department of Trade and Industry. Bali, Indonesia. Pg 2
- 12 World Trade Organisation. 2011. World Trade Report 2011: The WTO and preferential trade agreements: From co-existence to coherence. WTO. Pg 166 - 187
- 13 Baldwin, Richard and Caroline Freund. 2011. Op.Cit. Pg 121
- 14 Ibid, pg 121.
- 15 World Trade Organisation. 2011. Op.Cit. Pg 166
- 16 Department of Trade and Industry. 2013. Op.Cit. Pg 2
- 17 Government Communication and Information System (GCIS). 2013. ‘Southern African Development Community (SADC) Protocol on Trade in Services’ in <http://www.gcis.gov.za/content/newsroom/media-releases/media-statements/sadc-16jul2013> accessed on 09 April 2014. Pg 1
- 18 Department of International Relations and Cooperation (DIRCO). 2013. Annual Report 2012-2013, DIRCO. Pretoria. Pg. 11
- 19 Baldwin, Richard and Patrick Low (Eds). 2009. Multilateralizing Regionalism: Challenges for the Global Trading System. Cambridge: Cambridge University Press. Pg 1
- 20 World Trade Organisation. 2011. Op.Cit. Pg 196



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