South African Trade Policy in a World of Megadeals

The impact of megadeals on excluded countries has been well studied, with mostly bad news. The headline estimate of a 0.07% decline in GDP for non-member countries perhaps understates the potential impact for Africa, which will see the erosion of preferences granted to the US under the African Growth and Opportunity Act, and the EU under the Economic Partnership Agreements and Everything But Arms. While there is some scope for non-member countries to benefit from megadeals – through non-discriminatory issues such as harmonising standards and trade facilitation – ultimately these seem unlikely to outweigh the trade diversion effects of the agreements. For advocates of trade liberalisation, these costs are evidence of the need for excluded countries to reassert the primacy of the multilateral system, as the only forum in which everyone has a seat at the table. The value of this logic is, however, predicated on the underpinning beliefs informing countries' approach to trade policy – beliefs which differ considerably in the developing world.

South Africa, like many parts of the developing world, takes a nuanced approach to trade liberalisation, and serves as a useful case study of the way in which trade policy strategy in the excluded emerging world might react to megaregionals. South Africa liberalised significantly in the Uruguay round and thus generally takes a more conservative approach to negotiations, wary of opening up more rapidly than comparator economies. Two concerns in particular underpin South Africa's cautious approach to trade policy. First is the fact of short-term impediments to competitiveness – most notably in the infrastructure deficit and skills shortage – and the subsequent fear that further international competition could undermine the development of otherwise competitive nascent industries. Second is the desire for greater diversification, in an attempt to manage the comparative advantages that will structure domestic economies in the wake of deeper trade opening. The development of industrial capacity is considered particularly important, offering unique benefits in term of employment and productive linkages to other sectors.

Both motivations embrace deep liberalisation, but only at some point in the future, at which domestic capacity is up to the challenge of the global market. In the short term, these motivations can complicate trade negotiations. The bargaining chip of improved market is restrained by concerns that exports are not yet adequately competitive for advanced markets, and additional imports are believed to threaten the development of long-term productive capacity. These motivations do not mean countries like South Africa are closed economies or unwilling to engage further on trade issues, but rather means that progress towards the level of agreement witnessed in TPP or TTIP is usually on an assessment of domestic economic conditions that suit more open markets. Evidence of this can be seen in the case of African regional integration, in which narrower competitiveness gaps amongst the leading economies has given rise to an enthusiasm for integration that is not witnessed at the multilateral or the bilateral level outside of the continent.

This starting point has important implications for the future of the global trading system in a post-megadeals world.

First, the impact of megadeals on the multilateral trading system might be more muted than initially believed. While the stalemate in the WTO look particularly intractable, the organisation benefits from a global economy characterised by increasingly narrowing competitive gaps. If infrastructure development and structural reforms in the emerging world work, then the multilateral system becomes progressively more beneficial for all member countries, as each has an adequately developed pool of competitive industry that could grow off the subsequent liberalisation. Megadeals' don't change the underlying logic of this scenario, but they do have the capacity to push back the point at which negotiations could bear fruit. By building exclusive zones of trade development, the competitive imbalances that characterise global trade are deepened for the bloc in question, and thus excluded countries might believe they are less able to competitively break into the global market. But while megadeals might weaken the incentive to liberalise trade, this incentive will remain large once domestic market conditions are able to take advantage of it, and thus the core motivation to pursue WTO negotiations seems unlikely to be undermined.

In light of this, the primary aim of the WTO over the next decade should be to survive until it becomes relevant again. While the next big deal will only happen in a more equitable world, plurilateral and critical mass agreements could offer some progress in the meantime. These approaches are met with scepticism in South Africa, largely because they are viewed as a means to avoid the core development issues of the Doha round, and because they awaken bad memories of exclusionary green room approaches to negotiations. Plurilaterals would thus have to be very transparent and open, balancing the desire to negotiate with like-minded countries with the need to maintain participation from more sceptical actors.

Second, while the focus thus far has understandably been on excluded countries access to megadeal markets, megadeals may also make it more difficult for their member countries to gain access to major growth markets. What is more deeply undermined by megadeals is the capacity of member countries to negotiate bilateral or regional agreements with the global growth poles of the future. While some might argue that megaregionals create an incentive for others to liberalise – in a race for market access with megadeal member countries – two forces may undermine this.

First, given that competitive considerations are the prime driver of trade policy for countries like South Africa, then bilaterals are clearly attractive so long as market access is limited to others and thus offers a competitive edge. With access under TPP and TTIP, trade deals with member countries are worth less because they are less exclusive, and offer less of a competitive edge.

Second, the highly advanced standard of deal in TPP and TTIP – embracing WTO Plus and Extra issues – might mean that countries entering into trade deals with megadeal members are still at a trade disadvantage to member countries. Many emerging countries are unable to implement such advanced agreements, and even more are unwilling to do so, either out of scepticism of their value or out of fear of losing bargaining chips at the WTO. Some issues – like restrictions on State Owned Enterprises and Government Procurement – can be left out with little harm, but other next generation issues will improve the competitiveness of trade within megadeals but not in bilateral deals, and again mean there is less to gain in bilateral deals with megadeal member countries.

An 800 million person market in TTP is clearly extremely impressive, but if it reduces the incentive for countries like (for example) India, Nigeria and Pakistan to enter into bilateral deals with member countries, then it might also mean a forgone market of 1.6 billion people. Given the deadlock in the global trading system, it is understandable that nations want to pursue a “coalition of the willing” on trade. But choosing partners based on willingness might mean you miss more suitable partners when considered in the cold hard light of economic rationale.

Third, if progress on the trade agenda is to be made, it is more likely to be through progress on a broader development agenda in the emerging world. So long as African firms remain uncompetitive, there are weak incentives to embrace deeper trade liberalisation. With sufficient infrastructure and more developed manufacturing capacity, firms can benefit more from a comprehensive approach to trade that facilitates export to rich markets and eases imports that are key to entering global value chains.

In the short term, the trade agenda thus might have to look beyond trade issues – and give primacy to core development concerns. It remains deeply uncertain when or if this would pay off. There is no clear objective point at which emerging country firms are competitive enough to benefit substantially from trade deals. This is an issue of belief amongst governments, of creating a complicated shift of political mind-set. But it is only through this difficult core consideration that a world of megadeals can give way to one of more substantial liberalised trade for all.

Finally, it should be noted that much of the discussion of a ‘response’ to megadeals by excluded countries is perhaps misleading. While there are many positive decisions these countries can make – including engaging in their own regional agreements, such as the Tripartite Free Trade Agreement in Africa – these are generally good economic decisions regardless of whether megadeals exist or not. A response would involve a policy decision that would not otherwise be taken in the absence of megaregionals, and that is not the case for most actions discussed as policy responses. Megadeals are simply another variable in an otherwise stable approach to global trade. They have the potential to delay the pace at which this logic gives rise to integration, and possibly to allow a forum for experimentation and norms development. But it is not yet clear they are game changers. The game is too deeply set by core economic characteristics – competitiveness above all.

Recommendations

1. Member countries in megadeals should maximise the global coverage of non-discriminatory measures, such as standards alignment and trade facilitation.
2. In the short term, the WTO should focus on practical and uncontroversial modes of engagement, until the development of base political and economic willingness of countries to engage in a major agreement on trade liberalisation.
3. Engagement must continue by all actors on improving competitive conditions in emerging countries, to build economies that are better able to take advantage of trade liberalisation.