# MEDIA RELEASE

## Big changes loom in Europe and Africa: How will South Africa be affected?

Two major developments, in Europe and Africa respectively, are poised to alter South Africa's trade dynamics with these two regions and possibly disrupt a number of longstanding trade partnerships. The likely impact of the long-anticipated (but still unresolved) Brexit and the recently launched African Continental Free Trade Area (AfCFTA) were among the issues debated at an **international trade conference held on the NWU campus in Potchefstroom on 12 March 2019**. Other topics included the importance of trade statistics for strategic planning and market development, and why export promotion has become increasingly challenging. The conference, which was organised under the auspices of the **NWU's WTO Chairs Programme in collaboration with Trade Advisory**, drew delegates from South Africa's national and provincial governments, other SACU member countries, academic institutions, development organisations and the private sector.

In the opening session, **Prof Raymond Parsons** from the **NWU Business School** traced the two-year history of the Brexit negotiations, highlighting what had gone wrong along the way and what the likely prognosis is for South Africa's continued trade dealings with Britain. Following the referendum that triggered the Brexit process, it became increasingly obvious that Britain's breaking away from the EU would be exceedingly difficult because it meant having to extract itself from a financial and regulatory framework that had been embedded for decades. Prof Parsons likened this to trying to 'get an egg out of an omelette'. Moreover, Brexit has polarised Britain, with calls for a 'hard' Brexit, a 'soft' Brexit and no Brexit all circulating at once and injecting much economic uncertainty into an already fraught political environment. One of the main mistakes that appear to have been made by Britain's Prime Minister, Theresa May, is that she activated the two-year deadline in which to leave the EU without knowing what the final outcome would (or even should) be.

What will be the impact of Brexit on South Africa's trade with Britain? The two countries have longstanding trade and investment ties and enjoy a fairly high level of regulatory consistency. Assuming Britain leaves the EU with no deal, it is likely that South Africa and Britain will negotiate a similar agreement to the EPA (Economic Partnership Agreement) which South Africa currently enjoys with the EU, with agricultural tariffs being negotiated afresh. A possible advantage to South Africa of a relatively hard Brexit is that Britain may be willing to admit some exports into its market at lower tariffs than those currently imposed by the EU. However, with Britain gripped by uncertainty and investment in some quarters clearly on the decline, the country risks going into recession which would negatively impact South African exports. Although the Brexit deliberations and eventual outcome are largely beyond South Africa's control, South African businesses should engage with their local industry chambers and associations to keep pace with developments so that they can determine the best way forward for their trade and investment dealings with British companies.

**Ms Claudia Furriel** from the **International Trade and Economic Development Division of the Department of Trade and Industry (dti)** provided a very interesting account of the newly launched African Continental Free Trade Area (AfCFTA) – including its rationale and objectives, the current trajectory of the negotiations, and how it could become a game changer in intra-Africa trade relations, particularly among non-traditional trading partners/regions. Although the

African market is vast and growing rapidly, it is not well integrated and therefore intra-regional trade is limited. According to the WTO (2015), intra-African trade stands at 18%. In contrast, intra-EU trade stands at 70%, intra-North American trade at 50% and intra-Asian trade at 52%. The rationale for the launch of the AfCFTA is to stimulate much more intensive trading activity on the continent by making it more attractive and easier to trade with regional trading partners. The AfCFTA essentially creates a single market for African goods and services, providing for the progressive liberalisation of tariffs and the removal of non-tariff barriers (including non-harmonised regulatory regimes and customs procedures, and infrastructural bottlenecks). It is also seen as a springboard to new forms of investment, which are needed to stimulate industrial development on the continent.

The business case for opening up the African market, explained Claudia, is very compelling, with the AfCFTA poised to become the largest free trade area in the world. A bigger market offers economies of scale, as-yet-untapped export opportunities in new regions, a more rules-based trading landscape and greater prospects of attracting investment. However, the ambitious nature of the initiative means that it is vulnerable to stumbling blocks and delays. Other potential threats include the transhipment of goods (third party imports accessed through neighoubring countries) and an influx of substandard goods. Stringent rules of origin, capacity-building and sharing of expertise at the institutional level will be crucial in deterring unsavoury trading practices. In the AfCFTA's favour, though, is the fact that the continent already has established regional economic communities (e.g. SADC, EAC and ECOWAS), which will form the cornerstones of the evolving, much broader trading network. Furthermore, countries' different levels of development will be recognised, with special and differential treatment (SDT) and other concessions being envisaged for countries in the LDC (least-developed country) category.

The Protocol on Trade in Goods (which forms part of the Phase 1 negotiations which are scheduled to be completed by 2020) includes rules of origin, tariff concessions, customs cooperation, trade facilitation, non-tariff barriers, SPS measures, transit arrangements and trade remedies. There is also a Protocol on Trade in Services. Still-to-be-launched Phase II negotiations will deal with issues such as competition, intellectual property and investment. The underlying agreement to the AfCFTA recently came into force on the strengths of the minimum number of ratifications, i.e. 22, having been obtained.

South Africa has long championed broader integration in Africa, stressing that the process should be developmental in nature with market integration, infrastructural development and industrialisation as key goals. A centrepiece of South Africa's approach to trade negotiations, which is informed by the country's National Development Plan (NDP), NGP (National Growth Path) and IPAP (Industrial Policy Action Plan), is that policy space should not be limited. South Africa accounts for nearly 25% of intra-African trade, with its main exports to Africa comprising minerals, machinery, chemicals, and iron and steel in 2017. South Africa's main export markets are Southern and East Africa, and so the AfCFTA could be a source of new market opportunities for its value-added goods.

**Prof Ludo Cuyvers** from the **Centre for ASEAN studies at the University of Antwerp** pointed out that if a country or region aspires to greater economic integration, it needs mechanisms in place to drive economic conversion. In South-East Asia, he remarked, there is a big development gap between developing and more advanced economies, with a proliferation of non-tariff barriers often being a stumbling block to successful integration. This is likely to be Africa's experience as well as it works towards adopting the single market concept. Taking active steps to bridge the divide and afford more countries the opportunity of becoming significant exporters will be a key factor in the AfCFTA's success. Effective export promotion is central to this process.

Prof Cuyvers, who has many years of experience working in different countries, offered his perspectives on why export promotion has become increasingly challenging. Export promotion defies a neat definition – it covers everything from creating awareness of exporting (through market research, seminars, training and match-making activities) as a growth and market expansion option to implementing financial incentives (in the form of grants, subsidies or tax concessions) to drive export activity in priority industry sectors. Those benefiting from export promotion efforts are surprisingly plentiful – exporters, non-exporters, failed exporters, first-time-exporters, expanding exporters, continuing exporters and many others. Despite its clear benefits, export promotion is regarded in some quarters as creating unfair competition and as a result is becoming increasingly regulated in different parts of the world. Another problem is that government and private sector export promotion efforts tend not to complement each other very well, either overlapping in an unhealthy fashion and confusing the market or focusing on different areas and diluting the overall impact.

'It is all too easy for a country's export promotion efforts to lack direction or depth,' said Prof Cuyvers. 'This is why the NWU's TRADE-DSM®, a market selection tool that pinpoints export opportunities using a systematic data filtering process, is such an important innovation.'

The TRADE-DSM® takes the guesswork out of choosing the right markets for different products, which allows the (often limited) human and financial resources making up an export promotion package to be allocated in an informed and thus prudent manner.

It is interesting that while African countries are embracing the single market and the AfCFTA with enthusiasm, Europe is showing signs of integration fatigue. It will be interesting to see how both scenarios play out.

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