



South Africa's way
ahead:

Lets samba!
tralac team &
NAMC



trade law
centre for
southern africa

The book

- This is third in series and follows 'Looking East' last year
 - Examines SACU/Mercosur economic and trading patterns and simulates an FTA
- Undertaken by tralac team with NAMC funding
 - So again emphasis on Agriculture

- **Introduction and Summary**
 - Ron Sandrey



Introduction

- Why? Because Mercosur is an important political “South-South” partner for South Africa on the global stage and is a major source of agricultural imports.
- We are conscious of SACU on one side and Mercosur on the other, but we concentrate on South Africa, Brazil and Argentina

- **Political Economy background**
 - Sean Woolfrey



MERCOSUR – The big picture

- Customs union comprising Argentina, Brazil, Paraguay and Uruguay
- Free trade & regional economic integration
- Common external tariff
- High tariffs on motor vehicles, clothing & textiles, footwear, alcoholic beverages, etc.
- Numerous agreements with third parties
- SACU-MERCOSUR PTA
- MERCOSUR combined population = approximately 250 million (Brazil = 199m, Argentina = 41m)
- Combined GDP at PPP of approximately US\$ 2.6 trillion (Brazil = US\$ 1.99 trillion, Argentina = US\$ 576 billion)



Brazil & Argentina

Brazil

- Commodity exporter
- Turbulent 20thC, but stability and growth under Lula
- Emerging power and champion of 'South-South' co-operation
- Trades mostly with EU, US, Argentina and China
- Major imports & exports

Argentina

- Historically similar to Brazil
- Strong recent growth masks economic challenges
- Trades mostly with EU, US, Brazil and China
- Major imports & exports

- **Agricultural Setting**
 - Ron Sandrey
 - Bonani Nyhodo

Agricultural setting

- Many similarities between three economies, but Brazil is bigger and is an agricultural powerhouse that exports beef, soybeans and chicken meat. Argentina exports soybeans, beef and wheat. South Africa exports wine and fruit and imports rice, wheat and soybeans
- Brazil in particular is becoming a very important player on the global policy scene (G20 - WTO)

- All three have mostly unsupported agricultural sectors and Argentina actually effectively taxes its sector. Brazil and Argentina increasing production – RSA not!
- Beef, chickens, cane, milk and maize in top-10 products for all three. Wine, grapes and apples in South African and Argentinean top-10
- Brazil is the world's leading producer of several agricultural products (sugar cane, coffee, oranges) and top-3 in soybeans, cattle, chicken



- **The trade analysis**
 - Taku Fundira



The agricultural & fisheries trading profiles

- **South Africa's** Global agric trade (imports and exports) were US\$11.2 billion in **2008**. Exports were 55% and grew by 25%; imports grew by 12% over 2007.
- Top 10 export destinations were 71% of agric exports; top 10 import sources had a 85% share.
- **Brazil's** Global agric trade were US\$66.6 billion in **2008**. Exports were 87% with growth of 12%. Note the huge trade surplus
- Top 10 export destinations were 72% of Brazil's global agric exports.

The agricultural & fisheries trading profiles

- **Argentina's** Global agric trade was US\$58 billion in **2007**. Exports were 97% and grew by 16%.
- Top 10 export products were 73% of agric exports. Again note the trade surplus.
- The **RSA-Brazil** agric trading : RSA <1% share of Brazil imports while exports from Brazil - 9% share of RSA imports
- The **RSA-Argentina** agric trading : RSA <1% share of Argentina imports while exports from Argentina - 9% share of RSA imports



- **Chile and SACU**

- Ron Sandrey
- Hans Jensen



Chile and SACU

- Because Chile is almost Mercosur and very similar to South Africa. Exports minerals (copper) and mainly fruit to EU and US. A major competitor, and (a) doing better at value-added and (b) has better access into EU and US

Chile - FTA

- FTA analysis shows
- Limited gains to both
- \$ 37m RSA; \$ 27m Chile
- \$ 11m to EU, small others
- RSA imp - \$ 35m (apparel)
 - Exp \$ 34m – iron and steel
- Nothing in agr at all

- **Extra analysis**

- Ron Sandrey and others



Selected Industries

- Sugar – Ron – important because
- (a) Brazil is the benchmark -has been exporting to South Africa – RSA import price above export price
- (b) the sector is highly protected in SACU. Only agr sector not liberalised in RSA
- Own legislation in SADC agreement. EPA exemption. Thumbs its nose to SACU. Unlikely to be WTO gains. Administered by dti



Selected Industries

- Swaziland – opportunity cost of using almost all the good irrigated land in a country with appalling rural statistics. EU partly to blame?
- Fish – snapshot
- Autos hopefully – late idea, but “BRICs” or “BRICSAM” new auto pace setters?

- **Non-tariff Barriers**
 - Taku Fundira
 - Willemien Denner



Non-tariff measures

- Real and meaningful market access requires a reduction in all types of barriers to trade.
- As tariffs have decreased the importance of non-tariff barriers (NTBs), used here interchangeably with non-tariff measures (NTMs), has increased.
- NTMs are important - they restrict trade and impose additional costs.
- We provide a comprehensive review of NTMs that have been reported in Brazil & Argentina. We also intend to look at NTMs facing exporters into South Africa.



Non-tariff measures

- Our initial review reveals that in agriculture (both Brazil & Argentina);
 - **Technical Barriers to Trade** (TBTs) especially SPS requirements are prevalent
 - **Customs procedures and administration practices** also increase the costs of trade
 - **Direct government participation in restrictive trade practices** (Taxation, SOEs, Government procurement, subsidies etc)
- *The findings presented here are from reports from the EU, US, Australia, New Zealand, The USITC database & the WTO TPRs*



- **GTAP**

- Ron Sandrey
- Hans Jensen



GTAP results

- Welfare gains of \$229 million to RSA or 0.11 % GDP
- \$12 m BLNS, Brazil \$840m, Argentina \$138m
- RSA losses are in agr production – down \$321m; but manufacturing up by \$388m and services \$194m

RSA gains because all agr prices decline – consumers – as CPI down by 0.17%

ALL RSA exports up as country becomes more internationally competitive

- FTA with China – RSA gained \$295 million but at cost of 40% of TCF sector. No comparable downside to Mercosur FTA.
- Agr – big increase in imports of oilseeds (ARG), other crops (Braz), chicken (Braz)
- Non-agr \$ 720m imp vehicles



- **“Extra Step” – Regional trade modelling**

- Ferdi Meyer
- Cecilia Punt



Detailed models

- The “extra step” looking at big-picture GTAP results and taking them to more detailed South African agricultural models. Cecilia Punt (Elsenburg) and Ferdi Meyer (Pretoria). Allows results to be traced right through to regions and specific representative households.
- Still undecided – possibly the sugar sector as not much else of real interest (this team has looked at wheat before – tariffs bad for consumers and this influenced policy))

- **Services, trade remedies and possibly investment**
 - Willemien Denner
 - Paul Kruger
 - Nicolette Cattaneo



Trade remedies

Objective

- Trade remedies in SACU, MERCOSUR and SACU-MERCOSUR PTA;
- FDI between South Africa and Brazil; and
- Scope for services trade between SACU and MERCOSUR

Trade Remedy Provisions in SACU and MERCOSUR

- SACU: The GATT 1994; WTO Agreements; domestic legislation
- MERCOSUR: Anti-dumping and countervailing: The GATT 1994; WTO Agreements; domestic legislation

Safeguards: Intra-regional prohibited since 31 December 1994

- SACU-MERCOSUR PTA: The GATT 1994; WTO Agreements; domestic legislation

Individual or customs-union based preferential safeguard

Services and investment

Trade remedy usage 1995 - 2008

	SG	CVD	ADA	Against MERCOSUR	2001-2008 totals
Argentina	6	3	241	19%	5.5%
Brazil	3	3	170	4.6%	4.8%
Paraguay	0	0	2	100%	0.05%
Uruguay	0	0	6	50%	0.21%
RSA	1	11	206	4.5%	3.0%

Investment

- FDI in production networks and other sectors for manufacturing
- Investment flows related to growth in services

Services

- Closer cooperation between SACU and MERCOSUR
- Current restrictions and conditions



- **BLNS**

- Ron Sandrey



- Almost nothing
- What does this mean for BLNS?
- Separate chapter or separate publication?
- Rest – LNS – sugar down



“South Africa’s way ahead: lets samba!”

- tralac and NAMC
- Follows “Looking East” to China and India - but we didn’t know what direction we were going in!