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SA Exporter

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Geekonomics

Frank Flatters and Matthew Stern

E-Mail article Print-Friendly

THE Geeks were not invited to the recent meetings of the World Economic Forum in Cape Town. But the trade and industry minister was there and he used this opportunity to explain his department's two-track approach to tariff policy.

The first is to press for progress in the Doha Round of multilateral trade negotiations, with the goal of seeking greater access for SA's products in key developed country markets. The second is to pursue greater trade integration in Africa.

Minister Mandisi Mpahlwa is quoted as regretting "that total trade among countries in the (Africa) region amounts only to 10% (of trade)." Why is trade within Africa so small?

The main reason is that African markets are small.

The entire Southern African Customs Union market is smaller than Finland. The Southern African Development Community (SADC) is smaller than Turkey.

The second reason is that African countries are generally reluctant to open their markets to trade. The most obvious symptom is the continued insistence of many African countries on "special and differential status" in trade negotiations — to allow them to avoid committing to binding multilateral tariff reductions and to continue to use tariffs and other forms of import protection to foster infant industries producing for local markets.

This reflects a mercantilist view of trade whereby the main benefits from trade liberalisation are perceived to accrue to other countries. When we lower our tariffs, we "lose" by opening our markets to foreign products. And when we succeed in forcing others to open their markets, we gain.

Evidence on the actual effect of trade liberalisation contradicts this view. By far the largest benefits from trade liberalisation accrue to the countries that open up their own markets. Furthermore, export success depends much less on special access to foreign markets than on the development of a competitive domestic export base.

A key requirement of competitive exporting is global access to raw materials. Not even China, is self sufficient in the raw materials needed to produce the majority of manufactured products traded globally. The so-called "export-led" growth of east and southeast Asia in the last quarter of the 12th century was just as much a story of import-led growth.

Without trade policies and institutions that provided ready and low-cost access to global markets, these countries never would have become world-class exporters. The same is true of Mauritius, the greatest export success story in SADC.

If we can gain most of the benefits of trade liberalisation by doing it ourselves, why do we need trade negotiations? Why not go it alone? There are two answers.

Trade negotiations are part of a system that creates and preserves stable international trading rules and institutions, and these are a "public good" for all countries that participate in trade.

And, binding international treaties that commit a country to free and open trade are useful in countering the attacks of domestic rent-seekers who would gain by preserving local monopolies that are unchallenged by international competition.

Other than that, we do not really need trade negotiations in order to accomplish most of the goals of trade liberalisation. The countries that have gained the most from trade liberalisation are those that have helped themselves.

What about regional trade agreements as a "first step" to more global trade integration?

Regional and other preferential trade liberalisation schemes suffer from two main problems — trade diversion and policy diversion.

The first of these is well known. Tariff preferences divert imports from low-cost nonmembers to higher cost sources in member countries. The second problem is less well known, but is critical in a policy making environment with limited policy resources.

Negotiating and implementing regional trade agreements is labour and time intensive. Devoting policy making resources to this activity reduces resources available to much more critical domestic constraints to growth.

Are there any lessons from Asia? The ASEAN Free Trade Area (AFTA) is one of the world's most successful regional free-trade initiatives as measured by shares of intraregional trade and investment.

AFTA developed as a result of the successes of Indonesia, Malaysia, the Philippines, Singapore and Thailand in integrating with and becoming successful exporters in the global economy. It was led by business interests.

Regional integration is not a short cut to or a substitute for global integration. Regional integration in Africa, if it happens, is most likely to occur if we follow policies and initiatives that open up the region to and increase its participation in global markets.

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