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2005/11/07 12:00:00 AM

Where's the beef on Sacu-Mercosur trade deal?

Matthew Stern and Frank Flatters

FREE trade agreements are seductive. A free trade agreement that involves countries like Argentina, Brazil, Uruguay and Paraguay (who together constitute Mercosur) is especially enticing.

It conjures images of trade negotiators huddled over bottomless cups of coffee and endless tariff lines in the corner of a steamy bar in Montevideo.

It is little wonder that the Southern African Customs Union's (Sacu) preferential trade agreement with Mercosur took six years to negotiate.

That's a lot of coffee. No doubt some pina colada. And a lot of air miles.

After all this time and effort it is important to evaluate the actual gains to South African exporters and consumers arising from this agreement.

Unfortunately free trade agreements, especially narrow preferential ones, almost always disappoint. This is for three main reasons.

First, they are usually driven by a strategic or political agenda, not economic interests. This is certainly the case of the Sacu-Mercosur negotiations. Trade between these regions is low and there is no compelling reason why it should be much higher.

Secondly, free trade agreements divert attention from the real constraints to trade at home. In SA, this includes infrastructure bottlenecks; skills and wage issues; distortionary sector specific interventions; and a complex system of tariff protection (more on these in future articles).

Finally, free trade agreements seldom create new trade. They are much more likely to divert trade flows from one region to another, tempting consumers to purchase lesser quality or more expensive goods from producers within the free trade area.

To deal with these problems, World Trade Organisation (WTO) rules require that free trade agreements encompass substantially all trade. This is an important hurdle designed to prevent a proliferation of narrow and disruptive international arrangements.

The purpose of trade liberalisation is to assist countries to integrate and become competitive in the global economy. Preferential trade agreements often do the opposite by delaying broader liberalisation and seeking trade-offs for special interest groups while protecting domestic markets from new and meaningful competition.

The WTO rules are meant to avoid this by promoting open regionalism and discouraging the creation of new regional fortresses of protected markets.

But WTO rules provide an exemption to developing countries that enables them to sign preferential trade agreements which incorporate very little trade. While such "special and differential treatment" provisions are provided at the insistence and allegedly for the benefit of developing countries, they usually

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hurt them by impeding necessary reforms.

This particular exemption has enabled negotiators from Sacu member countries (SA, Botswana, Lesotho, Namibia and Swaziland) and Mercosur to crawl beneath the legal hurdles of the WTO and conclude an agreement which is costly and irrelevant.

Our own analysis confirms that the preferences agreed to by Sacu and Mercosur negotiators are largely redundant. It would have been hard to construct a less meaningful agreement.

To start with, a tariff reduction of less than 5% is probably not enough to get South African traders out of bed, through a Spanish (or Portugese) language course, and across the Atlantic Ocean to peddle their goods in Argentina (or Brazil).

Of the over 10|000 goods listed in the relevant tariff books and the 962 products included in the initial agreement (we understand this preference list may be extended by another 100 or so products), about 85 products will see tariff reductions of 5% or more in Brazil; in Argentina it is just 19 products.

In 2004, there was positive and significant trade in just one of these products: nucleic acids.

But maybe there are products for which access barriers are sufficiently high to suffocate imports from SA? There are a number of products which constitute a significant share of South African world exports, but underperform in Brazil or Argentina.

There are also many products which face tariffs in excess of 20% in these countries in which there is little or no trade. Of these groups of products, just two will see meaningful liberalisation as a result of the Sacu-Mercosur trade deal: telephonic or telegraphic switching apparatus and apparatus for carrier-current or digital line systems.

SA's production of these items is probably restricted to a couple of companies and the actual gains from these preferences are likely to be narrow and small, at best.

The likely export gains to Argentina and Brazil (or import gains to SA) are a little less sparse. Negotiators from Mercosur did secure improved access for 46 currently traded product lines. SA's total imports of these products from Brazil and Argentina, in 2004, was a miserly R26m.

So, where is the beef?

Horse meat, rabbit and pig fat are included in the Sacu preference schedule. Beef is not.

More generally, where is the economic beef in this and other preferential trade deals that Sacu is so eagerly negotiating all over the world? Is it not time to use our negotiating skills to broker solutions to some of SA's real trade and industrial development problems — those at home?

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