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International Trade Barrier Index 2021

South Africa's Next Steps for Trade Liberalization

Case Study

COVERING 94% OF THE WORLD GDP AND 83% OF THE WORLD POPULATION

Abstract

The COVID-19 lockdowns that started in March 2020 (at time of writing, South Africa is at Level 1 of lockdown) devastated an already weak economy. Before the pandemic, more than 10 million people were unemployed – now it is more than 11 million. Using the expanded definition, the unemployment rate is over 42%.[1] The pandemic and lockdowns served to expose the extent to which the ill-considered ideological and policy positions of the government had hobbled people's economic fortunes.

South Africa's Next Steps for Trade Liberalization

By Christopher Hattingh[2]

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FREE MARKET FOUNDATION

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2. Deputy Director

I. Introduction

The COVID-19 lockdowns that started in March 2020 (at time of writing, South Africa is at Level 1 of lockdown), devastated an already weak economy. Before the pandemic, more than 10 million people were unemployed – now it is more than 11 million. Using the expanded definition, the unemployment rate is over 42%.[1] The pandemic and lockdowns served to expose the extent to which the ill-considered ideological and policy positions of the government had hobbled people's economic fortunes.

Writing in *Future Tense: Reflections on My Troubled Land*, former ambassador Tony Leon touches on a meeting he had with David Maynier, who at the time served as a member of the executive council (MEC) for finance in the Western Cape province after the 2019 election:

> At one of our regular Saturday coffee sessions, he provided a telling statistical update … if South Africa had achieved the 5.4 percent GDP growth promised but never sighted by the National Development Plan (NDP), a broadly market-sensible approach to eliminate poverty and reduce inequality by 2030, then average GDP per capita – generally regarded as a good measurement of a country's standard of living illustrating how prosperous each citizen feels – would have doubled in just thirteen years. Instead, the wrong policy path chosen had ensured a minuscule GDP growth, and meant it would take over seventy years before the same outcome could be achieved.[2]

Countries in North America, Europe, and parts of Asia, can expect a greater economic upswing, underpinned by relatively strong vaccine rollouts and a measure of fiscal stimulus. For many African governments, including South Africa, the former may prove to be elusive, and the latter very difficult to manifest.[3] For the 2021/22 financial year, South Africa's Treasury estimated the debt-to-GDP ratio to be 81.9% – this is expected to increase to 87.3% in 2023/24.[4]

Two of the biggest risks to South Africa's fiscal situation are the consistent calls and pressure by trade unions for increased wages and benefits,[5] and the perilous state of state-owned enterprises. With the latter, most notably the government-owned electricity provider, Eskom, has a debt approaching R500 billion (US$34,9 billion). The country's continuous credit rating downgrades make it all the more difficult for the government to borrow; which could facilitate its stated stimulus, support and infrastructure plans, and to repay interest on its ever-mounting debt burden. In November 2020, Moody's cut the nation's foreign and local-currency ratings to Ba2, two levels below investment grade; at the same time, Fitch had the nation's ratings at BB-, three levels below investment grade.[6]

1. In South Africa, the 'expanded' or 'broad' definition of unemployment includes those people discouraged from seeking work.
2. *Future Tense: Reflections on My Troubled Land*, Tony Leon, Jonathan Ball Publishers, March 2021.
3. The IMF marks up the global recovery, The Economist, 10 April 2021 edition.
4. SA economy: grow by 4% or face a debt trap, City Press, 28 March 2021.
5. NUM demands 15% pay hike from Eskom and a doubling of housing allowance, Daily Maverick, 15 April 2021.
6. What the latest rating downgrades mean for the average South African, BusinessTech, 22 November 2020.

What is hopefully clear is that, given the various pressures and constraints, the best path forward for the government is not adopt *more* regulation and attempt (and unfortunately fail) to provide more social goods, but to refocus its attention on improving service delivery for poorer citizens, while cutting back restraints that inhibit growth and the creation of wealth.

The country's economic prospects are brittle at best. In early April 2021, the International Monetary Fund forecast that the global economic growth rate will be 6%. South Africa's economy is projected to experience growth of 3.1% in 2021, and 2% in 2022. This falls short of sub-Saharan Africa's 3.4% for 2021 and 4.0% for 2022. All emerging market and developing economies will attain 6.7% growth in 2021 and 5.0% in 2022.[7] With the South African government on the verge of adopting a controversial amendment to the country's Constitution to enable government to confiscate property without compensation, it is likely that even these negligible growth projections will not be achieved as international and domestic investors scamper to safeguard their assets.

South Africa bears the legacy of colonial exploitation and the ravages of Apartheid; ignoring the policy failures of the government since 1994 however will only ensure that economic hardship and poverty endure. One of the vital areas in which the country needs to shift and improve its policy framework is trade. With the potential offered by the Africa Continental Free Trade Area (AfCFTA),[8] there exists momentum for South Africa and its African peers to pursue reforms and policies that will ease the flow of goods, services, and most importantly intellectual capital, across borders.

II. South Africa's Rank on the Index

In the 2019 edition of the Trade Barrier Index, South Africa was ranked at 42nd (out of 89 countries); 1st in the sub-Saharan Africa region. Following South Africa, in descending order in the region: Ghana (52nd overall), Nigeria (57th), Senegal (60th), Cameroon (66th), Côte D'Ivoire (70th), and Mali (75th).

That the country is ranked first in its region, but only 42nd overall, indicates firstly its importance for trade across the sub-continent, and secondly its massive potential that, with the necessary reforms, could spur growth both within and outside its borders. The country's Tariff rank was 14th, and its Non-Tariff Measures (NTM) rank was 68th. In terms of Service Restrictions, the country came in at 51st.

Per the Index, 'High-income economies' have fewer trade restrictions, whereas those countries that score poorer, generally are marked by "high tariff scores, weak facilitation of property rights, membership in few trade agreements, and market entry restrictions on foreign businesses."

7. Higher IMF forecast for SA growth contains a warning, BusinessDay, 6 April 2021.
8. Africa's New Free Trade Agreement Could Mark the Dawn of a New Era, FEE, January 2021.

There is a danger that, given some of the notable increased-interventions and increased-spending policies currently contemplated by the government, South Africa will send the wrong signal to the world – namely, the signal that doing business here, that trading and investing in the country, will come with the probability of higher risks and lower rewards. Especially within the context of recovering from COVID-19, those countries that have the most pro-investment policies will ultimately realise the most positive results in terms of the quality of life of citizens.

According to the African Export-Import Bank's 2020 *African Trade Report*, global trade was forecast to shrink by 9.2% in 2020 – African trade was expected to "contract significantly."[9] Informal cross-border trade (ICBT) was expected to take the most significant hit. The reforms that poorer countries implement after the pandemic will largely determine their economic prospects for years to come.

One particular area of progress could be that of agriculture.

Wandile Sihlobo, head of economic and agribusiness research at South Africa's Agricultural Business Chamber, notes that the rest of Africa is important for South African exports – on average, the region accounts for 40% of South African agricultural exports.[10] While a lot of products are imported from countries outside the continent, "there is significant scope to import some of these products from African countries." Sihlobo highlights measures in Ethiopia and Ghana specifically, that point in the right direction:

> A recent article by agricultural economist Tinashe Kapuya in Farmers Weekly magazine outlined the Ethiopian government's efforts to "exempt import levies and charges on specific agriculture inputs, which had an immediate impact on lowering the cost of equipment purchased by agribusinesses and farmers". We also see reforms in seed and fertiliser policies in Ghana, which have increased private sector involvement and prospects of investment in higher-yielding varieties.

With agriculture occupying such importance in African societies and economies, Sihlobo believes that the right interventions "should boost Africa's agricultural output and ensure the AfCFTA is beneficial for those countries that have products to trade." Taking this a step further, the hope is that increased economic activity will lead to improved economic development, and that African countries can become greater exporters of complex goods and services, instead of only exporting raw materials and importing the final product.

To improve its standing on the Index, South Africa should:

1. Abandon any notion of diluting all citizens' property rights through confiscation or expropriation without compensation, thereby strengthening said rights and sending the signal to internal – and most importantly external – businesses and investors that they should come to the country to build and grow for the long term;

9. *African Trade Report: Informal Cross Border Trade in Africa: Size, Composition and the Route to Formalisation in the Context of The AfCFTA*, African Export-Import Bank (Afreximbank), 2020.
10. African countries' agricultural reforms will ensure free trade deal benefits SA too, BusinessDay, 9 March 2021.

2. Immediately release high-frequency spectrum to facilitate the ease of e-commerce activity, especially mobile payments and connectivity in semi-rural to rural areas;[11]

3. Remove local barriers to trade, specifically protectionist measures that portend to 'prioritise' local companies in the area of medical equipment and pharmaceutical drugs. This will accelerate access to, amongst others, COVID-19 vaccines and COVID-19 treatment equipment such as ventilators. And, when the next pandemic arrives, where fewer barriers are present, citizens will have easier access to lifesaving, relatively cheaper equipment, services, and drugs;[12] and

4. Introduce a tax-exemption to those businesses, less than five-years old in existence, that use an e-commerce platform as their primary customer-facing method.

To move into the high-income cohort, the South African government needs to realise that, due to both its fiscal constraints and the simple facts of what are needed for economic and social progress, the country needs increased trade, and increased manufacturing and production. In *Our Long Walk to Economic Freedom* Johan Fourie writes:

> All 10 of the poorest countries on earth are in sub-Saharan Africa. According to the World Bank's 2019 estimates, sub-Saharan Africa has an average annual income of $1669 per person per year (in constant 2010 US dollars). The next poorest continent is South Asia, with an income of $1945 per person. The world average is $11,428.[13]

Poorer citizens are not going to be given a greater quality of life by brute increased government spending and welfare programs, but rather through having access to jobs, and cheaper goods and services.

V. Non-Tariff Trade Barriers (NTBs)

While the removal of traditional tariffs will help to unlock the potential that the Africa Continental Free Trade Area (AfCFTA) (and other forms of increased trade) brings, NTBs possibly represent even more serious – and difficult to remove – obstacles. A non-tariff barrier is any obstacle to international trade that is not an import or export duty. Examples can be import quotas, subsidies, customs delays, technical barriers, or other systems that prevent or impede trade. In the South African context, we must also include the scourge of corruption (most recently embodied in State Capture), as a form of NTB. Gerhard Erasmus, founder of the Tralac (Trade Law Centre) and Professor Emeritus (Law Faculty) at the University of Stellenbosch, points out that:

11. Media release: FMF launches Socio Economic Impact Assessment (SEIA); government ICT policy is harming consumers, Free Market Foundation, 13 April 2021.
12. Media release: To promote access to COVID-19 medicines, keep trade free and remove tax and regulatory obstacles, says international think tank coalition, FMF, 5 November 2020.
13. *Our Long Walk to Economic Freedom*, Johan Fourie, Tafelberg, April 2021.

> the benefits of freer trade will not materialize unless accompanied by procedures and rules to remove Africa's numerous NTBs. IMF studies show that even small improvements on this score are likely to have sizable effects. Improving customs services and other trade-related procedures could be more effective in boosting intra-African trade than tariff reductions. The reduction of NTBs will also improve the effectiveness of tariff liberalization, especially in landlocked and low-income countries.[14]

In mid-April 2021, President Ramaphosa visited Durban, specifically the Port of Durban precinct. According to the President, the expansion of the area will require an investment of R100 billion (just over $7 billion) over the next decade. Along with building and improving the facilities to handle larger, and more, vessels, the investment also aims to "create additional capacity for containers, and the development of a new container terminal in the Point Precinct."[15] Despite the vast sums of investment, much of it will be squandered if the precinct and improved facilities fall victim to the bureaucratic inefficiency that typifies most South African government services. The same port has in the past suffered slow turnaround times, truck congestion, and the poor maintenance of equipment.

In terms of resolving NTB-issues (within the AfCFTA framework), Erasmus explains that:

> the proposed AfCFTA mechanism is a good starting point. It will need considerable improvement before a rules-based, expeditious and binding arrangement will be in place. The national discretions remain too broad, dispute settlement between State Parties is optional (African governments never litigate against each other over trade issues), and the solutions will not be legally enforceable. The absence of private complaints to a judicial forum remains a deficit. And it is to be noted that complaints are dealt with on an ad hoc basis. This will not bring about permanent and systemic solutions: establishing binding precedents, legal certainty and more predictability. But it is a promising start. It should be supported and be strengthened.

A meaningful understanding of, and dedicated adherence to, the rule of law (most crucially where elected officials understand that they serve at the pleasure of citizens, and no one is above punishment when they break the law), is the kind of ideological shift that would aid in creating an environment where there is relatively less corruption. At the moment, for many both within and outside governments, the mass of bureaucracy and reams of irrational restrictions on business activity act as incentives for corrupt dealings. It has become the case that, to prosper, what matters most is who you know, instead of the quality of goods and services that you can provide to consumers.

14. Dealing with Non-Tariff Barriers under the AfCFTA: What are the Prospects?, tralac, 18 December 2019.
15. Expansion of Port of Durban to cost R100 billion, Ramaphosa says, Fin24, 19 April 2021.

VI. Expropriation Without Compensation (EWC) and the Hollowing Out of the South African Constitution

Given the importance that the Index places on property rights – specifically within the context of trade-related competitiveness and performance – this South Africa-focused case study must touch on expropriation without compensation.

As of April 2021, there are two bills making their way through the country's Parliament: the Constitution Eighteenth Amendment Bill and the Expropriation Bill. Martin van Staden, member of the FMF's Executive Committee and Rule of Law Board of Advisors, explains that:

> Both these interventions will, if enacted, turn back the progress made in the realisation of people's property rights, invariably chasing away potential investment and leading to an even greater exodus of wealth (at least 5,000 millionaires have left South Africa since 2017, according to New World Wealth). The prospects for historically disadvantaged individuals to become owners with protected rights will also be severely diminished. EWC, which is unconcerned with restitution (a matter of justice), is not the way forward.[16]

Those countries that tend to score higher on economic freedom and ease-of-doing-business indices tend to have stronger protections on, and recognition of, property rights. President Ramaphosa has at various public engagements used the platform to punt the importance of foreign direct investment (FDI), but, according to Ed Stoddard, the actual numbers behind the rhetoric make for grim reading:

> According to the United Nations Conference on Trade and Development (Unctad), foreign direct investment flows into South Africa in 2020 almost halved to $2.5-billion from $4.6-billion in 2019, which was a 15% decline from around $5.4-billion in 2018. So that's around $12.5-billion over the past three calendar years, which is far short of the $100-billion in new investment over five years that the government targeted in 2018.[17]

The mere discussion of the possibility of EWC – and the concomitant possible diluting of property rights (those of both citizens and possibly of foreign investors), as Business Leadership South Africa CEO Busisiwe Mavuso explains,[18] have already made weary some who were considering investing here. If the government moves ahead with EWC, the consequences for the people of South Africa – the majority of whom could only realise their property rights after the first democratic elections in 1994, after centuries of oppression and denial of these rights – will be a lot worse than simply following ever lower on all indices, including the Trade Barrier Index.

16. Reminding ourselves why EWC is unnecessary, FMF, 16 March 2021.
17. Smoke and mirrors: UN data shows Ramaphosa's investment drive is barely alive, Daily Maverick, 10 February 2021.
18. With red tape strangling the economy, can we be hopeful of a post-Covid economic recovery?, Free Marketeers podcast, 15 April 2021.

VII. The Potential of E-Commerce

During the initial stages of South Africa's COVID-19 lockdown, the Department of Trade, Industry, and Competition suspended e-commerce.[19] Instead of allowing a relatively low-risk industry to continue operating – providing at least some measure of economic activity and job-creation – the government chose the path of unilateral lockdown.

The pandemic has, for those who have greater access to data, changed consumer behaviour. After the harder lockdowns and adaptions to working from home, many people now buy their groceries (and other goods) online. They also increasingly turn to the online world for human connection (Zoom and Microsoft Teams) and for entertainment (Netflix, Amazon Prime, Showmax, etc). Aluwani Thenga, Executive Head: Merchant Services Growth at Rand Merchant Bank and First National Bank, says that, "The value of e-commerce transactions in South Africa is expected to surge 150% to R225 billion by 2025".[20] Spurred on by the pandemic and restrictions on movement, "68% of South African consumers reduced their frequency of visiting physical supermarkets, while 37% of South African consumers increased their online shopping activity."

Provided we see the release of radio frequency spectrum by the government – something that has been long-promised, but never actioned – there exists incredible potential for e-commerce growth, with the concomitant job creation and economic upliftment.[21]

19. Court showdown looms over unfettered e-commerce ban, ITWeb, 11 May 2020.
20. E-commerce to be worth R225bn in SA in 5 years as expectations change, RMB.
21. Spectrum policy flaws 'will alienate millions of South Africans', ITWeb, 14 April 2021.

VIII. Conclusion: Incentivising Trade to Flow Around the Cape of Good Hope

The *Ever Given* blockage in the Suez Canal during March 2021 served as a timely, physical manifestation of the great harm that is caused when avenues of trade are restricted. We must think of exorbitant taxes, corruption, onerous border-impositions, tariffs, and non-tariff trade barriers, in the same way: inhibitors on the flow of goods and services.

Having tried the ideas and policies of redistributionism, 'state-led growth,' and state-interventionism for decades, it is high time that South Africa chart a new, fundamentally different course. Increased trade, underpinned by the rule of law and robust property rights, can bring about the kind of transformative growth that the country and region desperately desire.

The momentum provided by the AfCFTA will, if channelled in the correct direction, spur the type of reform needed. This is to say, "if both tariffs and nontariff policy levers are used."[22] The AfCFTA 'bloc' has a potential market of 1.3 billion people and a combined gross domestic product of US$2.5 trillion. The untapped potential of trade across borders in Africa is huge and can, if allowed to flow relatively uninhibited, go some way toward alleviating poverty.

22. Chapter 3: Is the African Continental Free Trade Area a Game Changer for the Continent? Sub-Saharan Africa Regional Economic Outlook, April 2019.

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