UK International Development
Partnership | Progress | Prosperity

The South Africa - UK International Economic Partnership (IEP)

POLICY BRIEF

GETTING SOUTH AFRICA'S EXPORTS BACK ON TRACK

5 August 2024

Programme implemented by:
DNA Economics
Making economic sense of common problems
Ersa
Economic Research Southern Africa
ODI

AUTHORS

Lawrence Edwards (PRISM (UCT))

Jing Chien (PRISM (UCT))

Matthew Stern (DNA Economics)

DISCLAIMER

This material has been funded by UK aid from the UK government; however, the views expressed do not necessarily reflect the UK government's official policies.

DESCRIPTION OF THE SOUTH AFRICA – UK INTERNATIONAL PARTNERSHIP (IEP) PROJECT

The International Economic Partnership (IEP) is a programme which works through the global economic governance system to strengthen the influence of coalitions between South Africa, the UK and other low or middle-income countries, to bring about better pro-poor, inclusive policymaking, and a stronger economic recovery from COVID-19.

Specifically, the programme aims to forge new ways of collaboration between the UK and South African governments by supporting South Africa's G20 presidency in 2025, unlocking structural barriers to growth and promoting economic policy coordination.

The IEP is implemented by DNA Economics, Economic Research Southern Africa (ERSA) and the Overseas Development Institute (ODI) and runs until 2027. This policy brief has been delivered as part of this partnership.

GETTING EXPORTS BACK ON TRACK

1 The importance of exporting

South Africa's 7th administration is now largely settled, and the new multi-party Cabinet is expected to get down to work. A "basic minimum programme of priorities" was set out in the Government of National Unity's Statement of Intent. These priorities include the need to accelerate economic growth, fixed capital investment, industrialisation and job creation, amongst other objectives. There is no mention of exports or the role of international trade.

This early omission is of considerable concern. As a small open economy, exports are critical to South Africa's future growth and development. However, despite the stated emphasis on boosting export growth and diversification in prior national policy frameworks, the country has adopted a more inward-looking approach over the last decade and a half. This has included the halting of tariff reductions and the increased use of import-related interventions, including anti-dumping duties, safeguard measures and local content requirements.

More recently, industrial, trade and competition policies have been guided by the *Reimagined Industrial Strategy* that emphasises localisation, implementation of Master Plans, and a more assertive stance towards dealing with concentration by the Competition Commission. Except for some references to the African Continental Free Trade Area (AfCFTA), the strongly domestic orientation of this strategy has overshadowed policies focusing on boosting exports.

The Statement of Intent also commits the parties to "evidence-based policy and decision-making". Unfortunately, the available evidence suggests that the net impact of South Africa's recent trade and industrial policy interventions have been disappointing across multiple metrics:

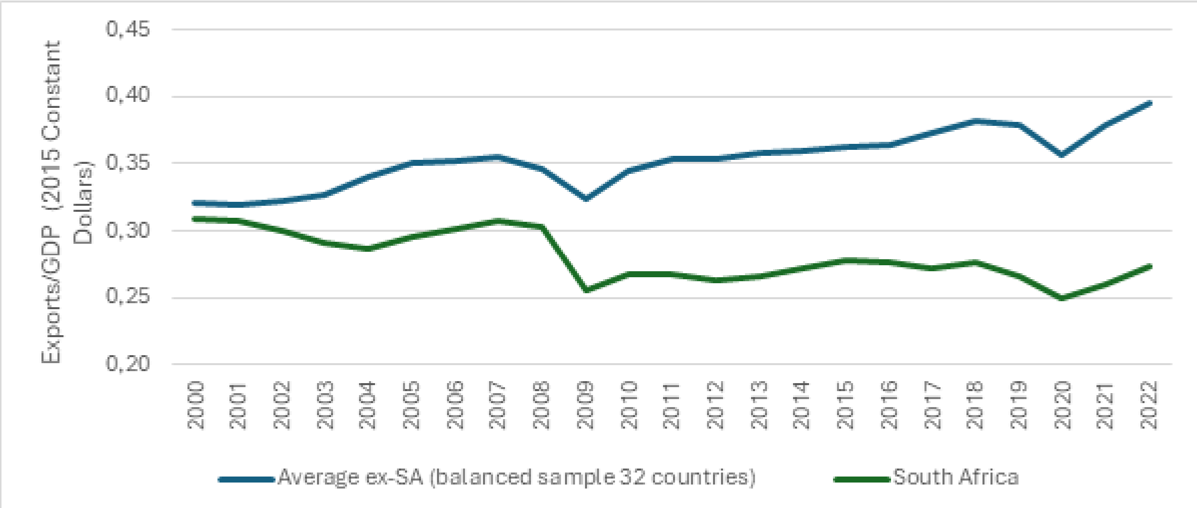
- From 2000, the pace of export growth slowed, despite the prevailing commodity boom, with export volumes falling as a share of GDP. By 2019, export volumes were only 3% higher than they were in 2008.
- South Africa's export performance has lagged that of comparator middle-income countries since 2000 (Figure 1). In most of these countries, growth in real exports acted as a positive stimulus to GDP growth. In contrast, slow export growth in South Africa from 2010 has served as a drag on the domestic economy.
- South Africa has experienced a decline in the number of products exported, together with a rising concentration of exports in its top destinations. The number of products with a revealed comparative advantage (at the 3-digit level of Standard International Trade Classification (SITC)) has fallen from 253 to 177 between 2000 and 2019.
- Commodity exports remain the main feature of South Africa's export bundle, with the share of primary and resource-based manufacturing in exports remaining at around 61%.

Firm export data reveals falling exporter numbers, driven by low levels of entry and declining survival rates of new exporters (Figure 2).

- According to the available data, services exports have performed much worse than goods exports. As a share of GDP, services trade has been relatively flat at around 5% since 2005 and is well below that of other regions, including in Africa.

South African exports to Africa appear to be the exception and Sub-Saharan Africa has emerged as the dominant market for South Africa's non-mineral exports. However, South African exporters to Africa are relatively small and less productive than firms exporting outside of the region. Exports to SACU and SADC are also shaped enormously by preferential access with a relatively large value of exports in goods with high preference margins.

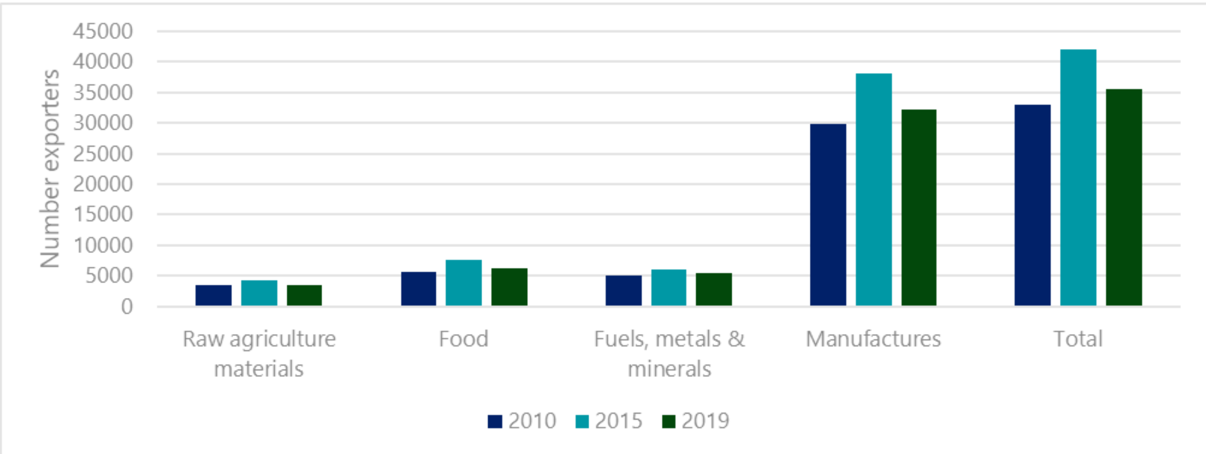
Figure 1: Real exports of goods and services to GDP – South Africa compared to upper-middle-income countries



Source: Own calculations using World Development Indicator data.

These export trends pose a significant challenge to achieving the country's wider development objectives. South Africa will not be able to raise economic growth, fast enough, to reverse rising levels of unemployment and inequality through domestic consumption or by expanding into the surrounding region. Rather, renewed efforts are needed to raise the competitiveness of South African firms, globally, and to shift the country back onto an export-led growth path. This will require an objective review of existing plans, programmes and constraints; and where appropriate, the development of new initiatives and accompanying reforms.

Figure 2: Number of exporting firms by major industry



Source: Own calculations using transaction level data.

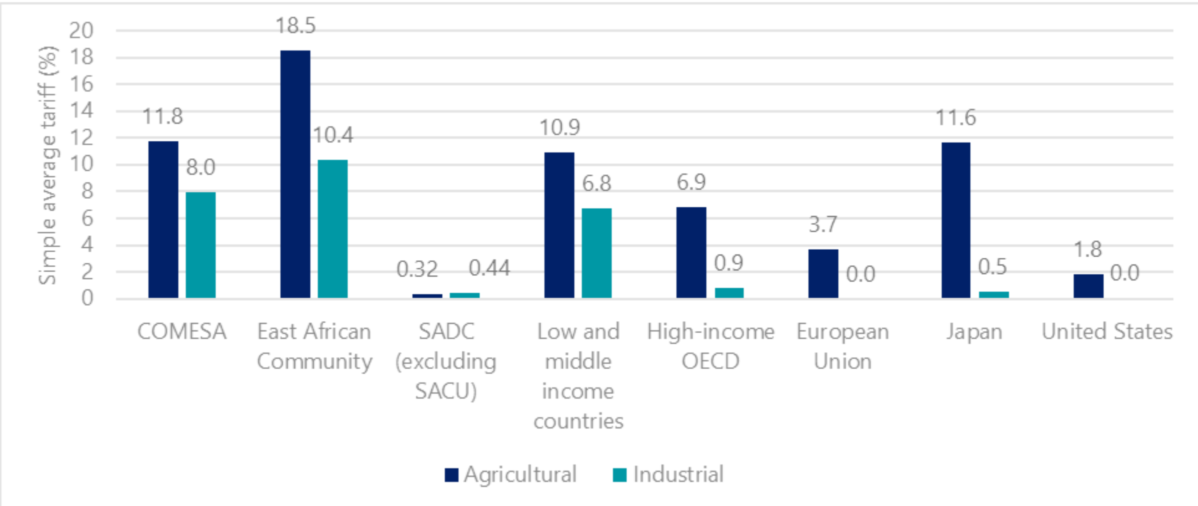
2 Unlocking South Africa's export potential

Based on a review of the available literature, there are a wide number of external and internal factors that influence South Africa's overall export performance. Government policies also play an important role in unlocking new opportunities, raising domestic competitiveness and addressing critical supply constraints.

2.1 External considerations

Improved foreign market access through free trade agreements with the European Union (EU) and Southern African Development Community (SADC) boosted exports of goods and the number of exporters, but Partial Scope Agreements, such as that with MERCOSUR, have been much less effective. Despite these preferences, South African firms are not fully utilising the available market access opportunities in the EU. Low tariff-rate quota utilisation rates, particularly for agricultural-based products, suggest considerable scope for policies to promote the uptake of these specific trade opportunities by raising compliance with international standards and dealing with regulatory barriers to accessing the EU market.

Figure 3: Simple average destination tariff on SA exports of goods, 2021



Source: Own calculations using Trade Analysis Information System (TRAINS) data sourced through the World Integrated Trade System. SADC includes countries that are part of the SADC Free Trade Area; COMESA covers 15 countries that are part of the COMESA Free Trade Area; the EU covers 27 member states; while Low- and middle-income countries cover 102 countries. Agricultural and industrial products are defined according to the World Trade Organisation classification.

The AfCFTA presents an enormous opportunity to grow exports, with high tariff barriers on SA agricultural and industrial exports constraining exports to African countries outside of SADC (Figure 3). However, improved access to African markets will depend critically on the Schedule of Tariff Concessions, specifically on what products are excluded from liberalisation; and the extent to which the Agreement will alleviate the severe logistical, infrastructural and non-tariff barriers that constrain the growth of exports into the region. The AfCFTA annexes on trade facilitation and non-tariff measures provide a clear avenue through which government can work at reducing these external barriers. Whereas the AfCFTA Protocol on Trade in Services is unlikely to open new opportunities for services trade, the associated protocols on investment and digital trade might prove more substantial.

The entry of China into the global trade arena boosted South African exports but exacerbated the commodity-intensity of South Africa's export bundle, and significantly increased competition in domestic labour-intensive industries. Economic and political developments in other large potential markets, such as India and the USA, have the potential to further impact on international trade patterns. South African exporters are also facing rising numbers of harmful import-related interventions, including non-tariff barriers and subsidies. The combined impact of these global trends on South African export performance is not known.

2.2 Domestic supply considerations

Trade and transport infrastructure, energy supply and administrative deficiencies pose significant domestic supply constraints to the growth in exports. Specifically, South African ports are considered amongst the worst-performing in the world, with port inefficiencies estimated to have cost the country approximately R150 billion in 2022; and electricity supply constraints have been particularly detrimental to production and export of metal products. These challenges can largely be traced back to governance and administrative failures across a number of South Africa's state-owned enterprises.

Import barriers that constrain access to a wide range of cheap intermediate inputs further reduce South African manufacturing firm productivity and export participation, competitiveness, diversification and survival. Low rates of business expenditure on R&D and poor productivity growth point to a growing innovation gap in South Africa relative to its peers. Access to imported technology, whether through foreign ownership, high-technology imports, or licencing agreements, is a key driver of manufacturing export growth, diversification and upgrading.

2.3 Economic policy considerations

A multitude of policies have been put forward by various agencies of government to boost South African exports. However, the coherence and implications of these often-overlapping policies are not clearly articulated. Moreover, there remains a lack of co-ordination and prioritisation when it comes international trade between state owned enterprises (rail, ports and electricity) and departments/ministries that affect the production and export of agriculture, commodities, manufactures and services.

A wide range of financial incentives, including tariff rebates, have been offered by the DTIC to firms, but more rigorous empirical evaluations of these policies are required to assess their effectiveness in yielding the desired outcomes, and to consider improvements to make them more effective. Likewise, the effectiveness of the many national, provincial and municipal institutions and agencies established to drive the country's export agenda (e.g., the National Export Advisory Council, South African Export Councils, National Exporter Development Programme (NEDP), Export Credit Insurance Corporation of South Africa) is uncertain.

3 New Trade Issues

The global trade agenda is expanding rapidly, and new policy hurdles are emerging. The Government has an important role to play in identifying and communicating South Africa's interests and enabling exporters to respond to these developments.

Notably, the EU Carbon Border Adjustment Mechanism and other environmental policies and directives pose a considerable threat to South African exports of iron, steel and aluminium, and potentially organic chemicals and plastics. Similar mechanisms will be introduced by other countries, including the UK. Estimates by the World

Bank rank South Africa as the 14th most exposed country to the EU CBAM. South Africa's carbon policies are still nascent and more needs to be done to better align itself with the global shift towards 'greener' trade.

Similarly, digital trade represents a unique opportunity for South Africa to develop and increase its export competitiveness as costs to access markets reduce. South Africa performs worse than average when it comes to policy restrictiveness for digital trade, although it does perform favourably relative to BRICS and other developing country groups. South Africa's public procurement and competition policies, as well as business mobility, are key areas for improvement to boost digital infrastructure and trade.

4 A trade research and policy agenda for the GNU

South Africa's stagnant export growth and concentrated export profile highlight the urgent need for new and more targeted policy interventions. Enhancing data collection, addressing infrastructural and logistical barriers, and rigorously evaluating existing policies and programmes are critical steps towards improving export performance. A coherent, unified and evidence-based export strategy that leverages new trade opportunities, addresses domestic constraints, and aligns economic policies is essential for positioning South Africa to achieve the growth and diversification goals set out in the NDP 2030. Some of the immediate policy and research questions that need to be considered in the development of a national export strategy, are outlined below.

4.1 Understanding export underperformance

Further research and wider engagement with industry is needed to develop a common understanding of why South African exports have underperformed and what can be done to reverse this trend. This includes firm-level analysis to explain:

- What drives the entry of South African firms into exporting, their exit and their survival?
- What strategies do firms pursue to diversify their export bundle by exporting new products and to new destinations?
- What role do firm-to-firm networks, and export intermediaries play in enabling firms to enter into exporting, or grow their exports?
- How do the available export finance, trade credit and insurance facilities enable firms, and particularly small firms and female-owned firms, to export?

There has been especially little engagement between policy makers, researchers and industry on South Africa's approach to trade in services. As a result, South Africa has generally adopted a conservative approach to regional services negotiations, despite the country's likely offensive interests in this sector. Further research is needed to identify opportunities for services trade and regulatory harmonisation through the AfCFTA. Exploratory discussions around the desirability and potential implications of bilateral trade in services agreements between South Africa and priority trading partners outside of Africa are also warranted.

Another area of focus should be on identifying new market opportunities for exporting. Barriers to market access, such as tariffs and non-tariff barriers, are a significant impediment to South African export growth, and there is evidence of the rising use of harmful trade barriers in destination markets. The AfCFTA provides an exciting opportunity to expand exports beyond the SADC market. However, more research is required to identify these opportunities. Key questions include:

- What barriers, incentives or subsidies impede South Africa's exports to its main export destinations and what can South Africa do to counter or mitigate against these measures?
- What barriers, including informational barriers, prevent firms, particularly small firms, from making use of tariff preferences to access the regional market?
- What are the new opportunities and challenges for South African firms from the AfCFTA, particularly from the Tariff Concessions offered by Member States?
- How has the AfCFTA impacted on trade costs and flows and what further governance structures and institutional capacities are required to support the implementation of the agreement?

4.2 Evaluating trade and industrial policies

A second area of immediate policy relevance is the contribution and impact of existing trade and industrial policies in driving export performance. The DTIC has recently published a review of industrial policies since 2019, where it calls for the deeper integration of industrial policy within a broader economic policy and greater alignment across government departments in implementing industrial policy (DTIC, 2024). This opens an opportunity for further engagement on how to guide this process around driving exports.

Currently, there is limited empirical evidence on the contribution and impact of existing trade and industrial policies on export performance. This includes analysis of what policies have worked, what policies have not worked, and consideration of what policies could work in driving export growth. Areas of focus should include, amongst others:

- How effective are South Africa's industrial policies and incentives in raising competitiveness and improving export performance?
- Which firms/sectors have benefitted most from these policies and incentives?
- What are the successes and lessons from the Black Industrialist Programme and the Black Exporter Network in boosting the entry of firms into exporting?
- How do South Africa's export support and promotion policies compare with those of similar economies and what lessons can be learned from the successes and failures of other countries?
- What internal and external factors impede the success of trade and industrial policies in enhancing export performance?
- What are the distributional and gendered effects of tariff policies and industrial incentives?
- What systems and processes should be adopted to enable credible evaluations of the effectiveness of trade and industrial policies?

4.3 Addressing new trade issues

Trade policy has to work in an environment of continuous change. The green transition, digital transformation, and rising geopolitical fragmentation and protectionism, pose major challenges and opportunities for export growth. Government requires a common, informed and sensible position ahead of regional, bilateral and multilateral discussions (including the AfCFTA and the G20) on these topics.

For example, the impact of CBAMs on different sectors in South Africa, and their interaction with national policies, has not been fully considered. Both costs and potential opportunities exist. On the one hand, CBAMs may lead to increased costs for exporters, reducing their competitiveness in international markets and causing shifts in trade and production patterns. On the other hand, South African exporters that can respond or adjust, might gain competitive advantages while also reducing their emissions domestically. The country's policy response needs to be supported by credible empirical analysis of the likely impacts of CBAMs on exports, the domestic tax system and broader society.

South Africa is also involved in multiple negotiations around digital trade, including the Digital Trade Protocol of the AfCFTA, and the recent World Trade Organisation negotiated moratorium (to 2026) on customs duties. Comprehensive research is essential to inform policy-making that facilitates the benefits of digital trade while mitigating its risks. Key areas of consideration include the collection of accurate data on digital trade, the distributional effects of digital trade (e.g., on employment by gender, youth, and the informal economy), the economic implications of digital trade restrictions, and opportunities for growth in digital trade through the AfCFTA.