

International trade and growth in South Africa

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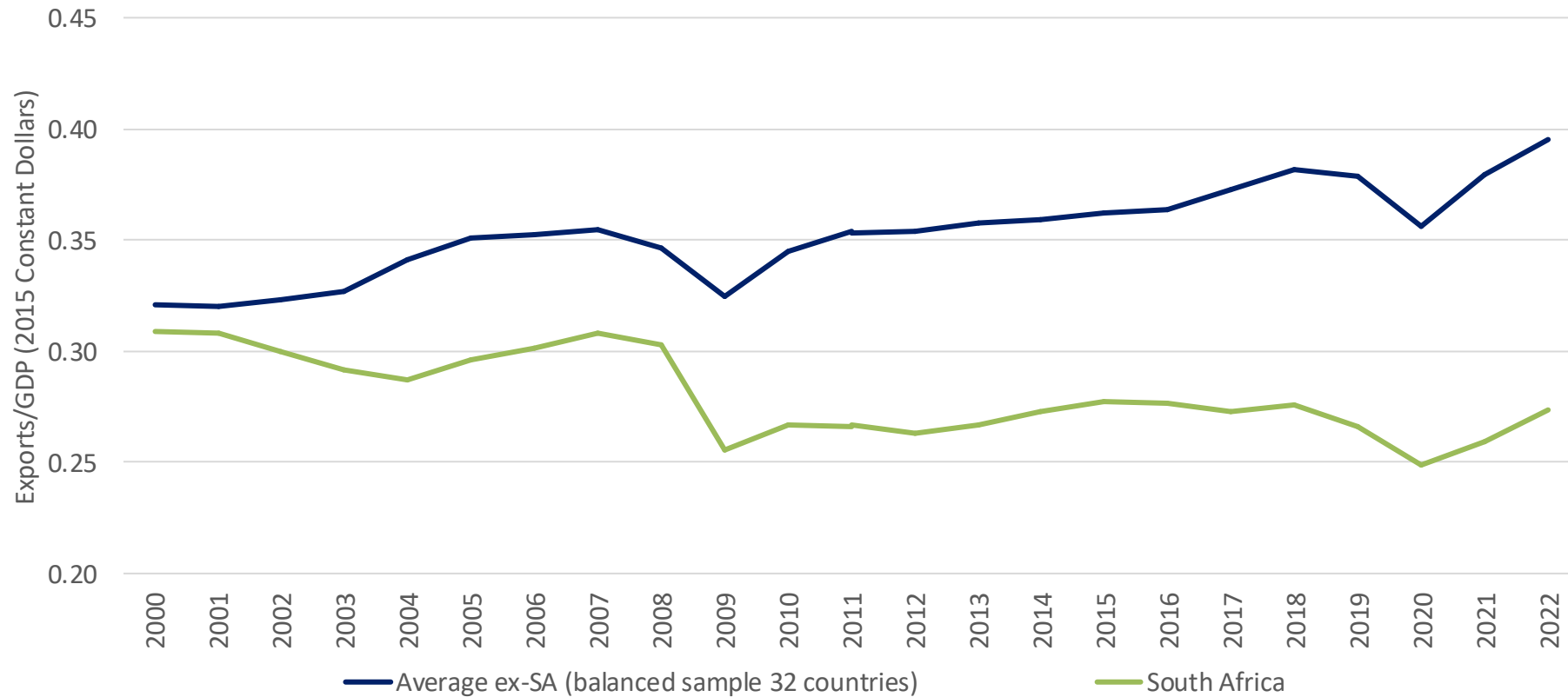


Presentation overview

- Structure the presentation around several questions
 1. Does SA face an export predicament?
 2. What are the sources of SA export decline?
 3. Why do we need to boost export growth?
 4. Is it still possible to embark on an export-oriented growth path?
 5. Is SA trade and industry policy fit for (export) purpose?
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Export crisis undermines growth

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



South Africa's export crisis

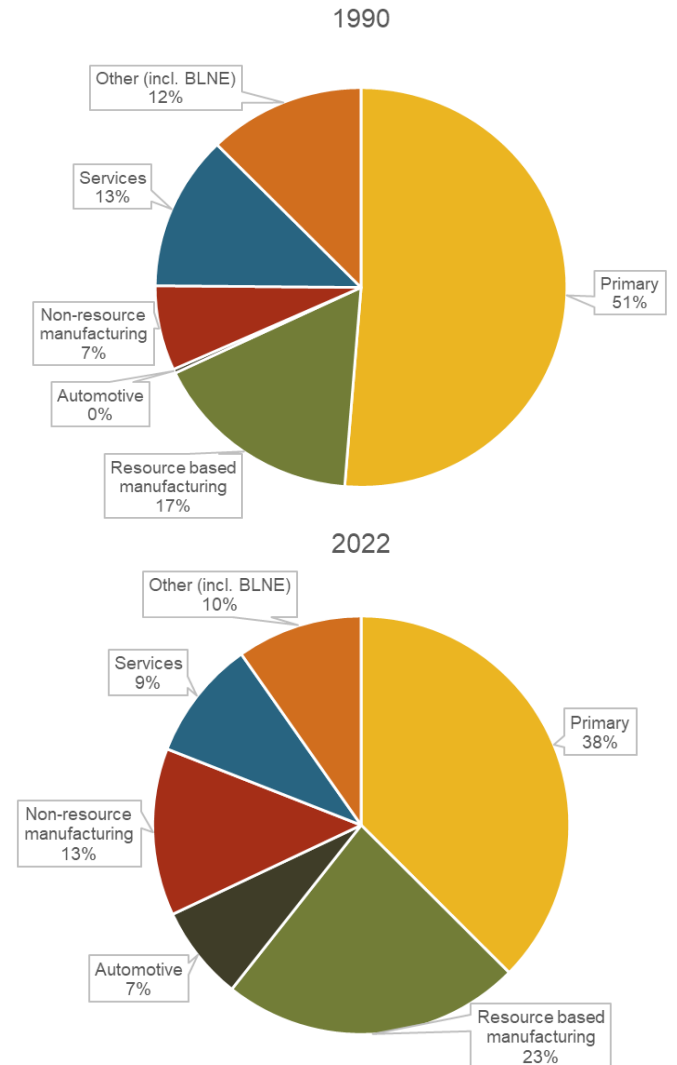
Slowdown in real export growth characterised by:

- Decline in the number of products with comparative advantage
 - 854 in 2010 to 714 in 2022
- Decline in share high-tech exports
- Declining sophistication and complexity
- Under-performance of services exports.
- Continued salience of minerals and metal exports

Exceptions:

- Yachts, citrus, Avos, Macadamia nuts
- Automotive ?
 - Investment incentives, custom rebate
- Exports to Sub-Saharan Africa?
 - Tariff preferences

Figure: Composition of South African exports of goods and services, 1990, 2000 and 2022



Sources of export decline

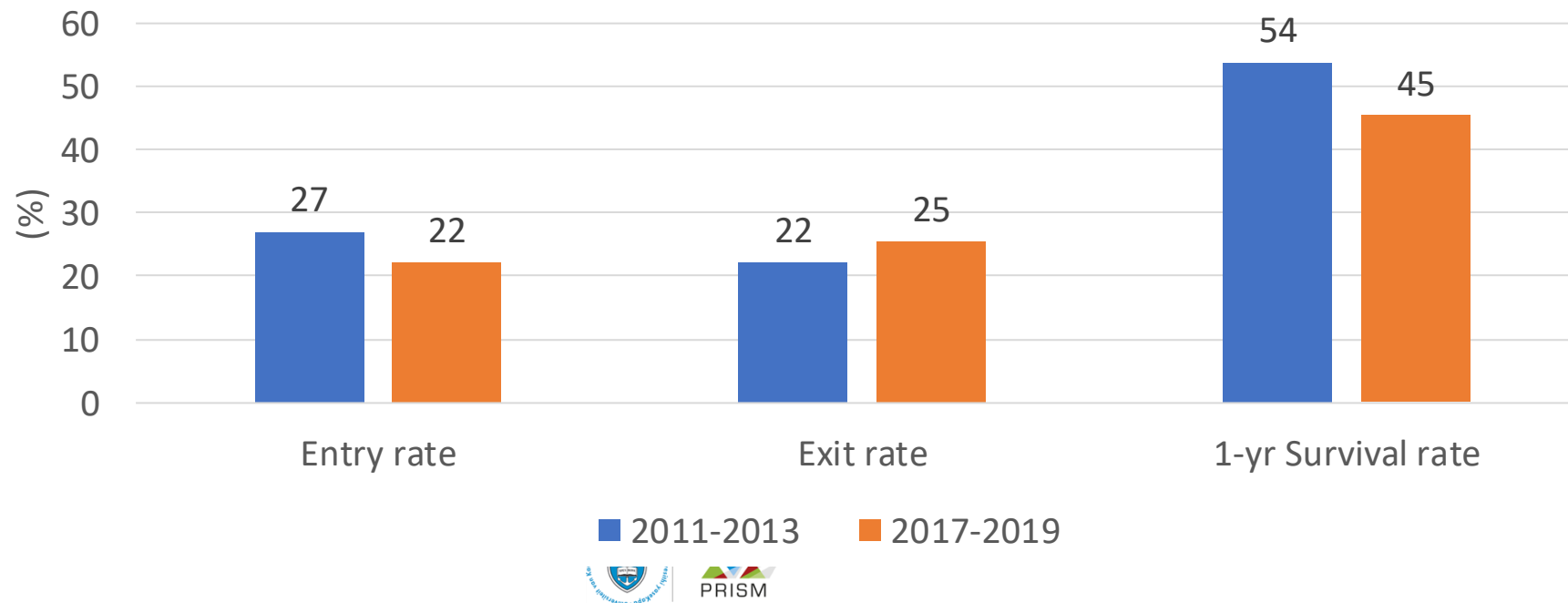
Note: Based on background work for World Bank (2024)
report *Unlocking South Africa's Potential*



Lack of export dynamism

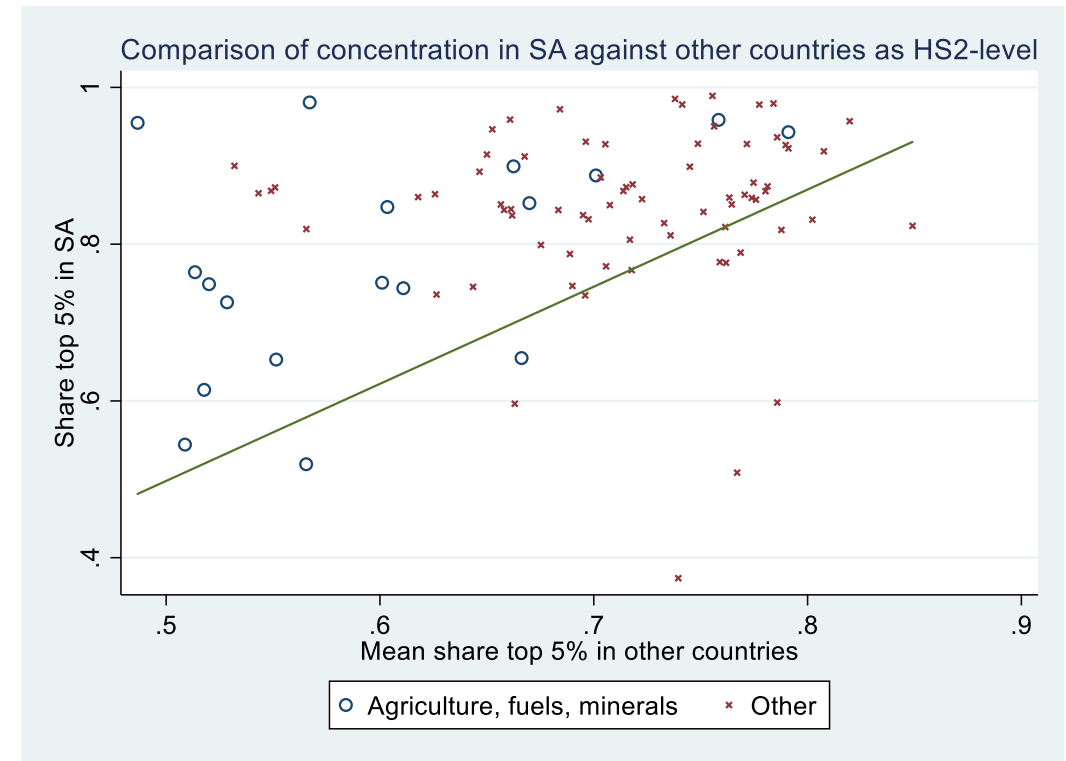
- Number of export entities declined from approx. 42 300 in 2016 to 37 300 in 2021, with declines across all major industries
- Driven by falling entry rates, rising exit rates and declining survival rates

Figure: Exporter entry, exit and survival rates



... reflected in stasis in export structure and persistent concentration

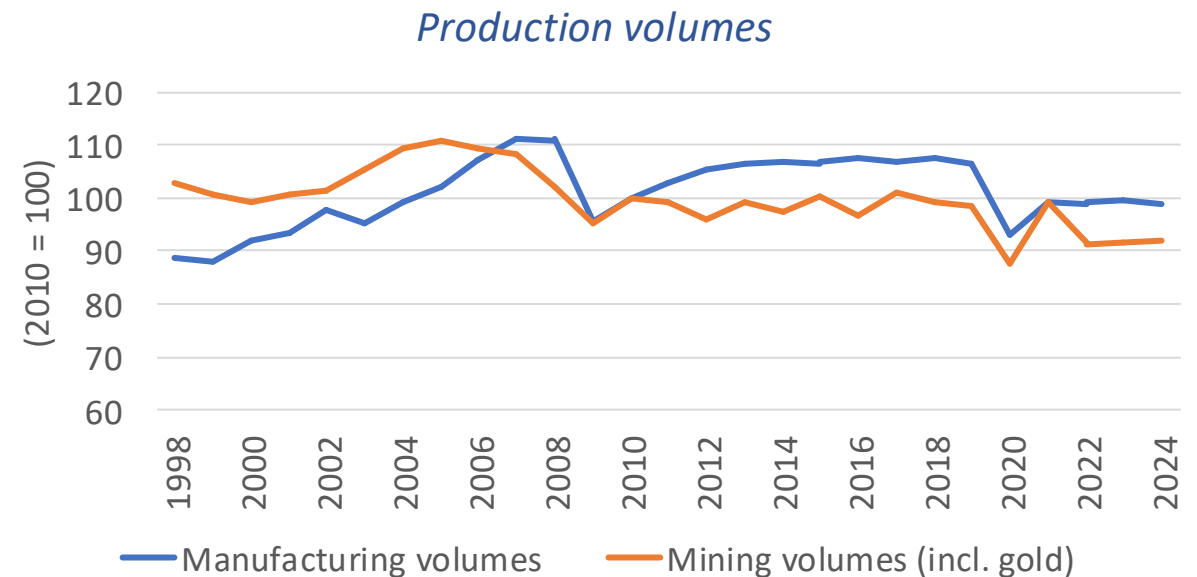
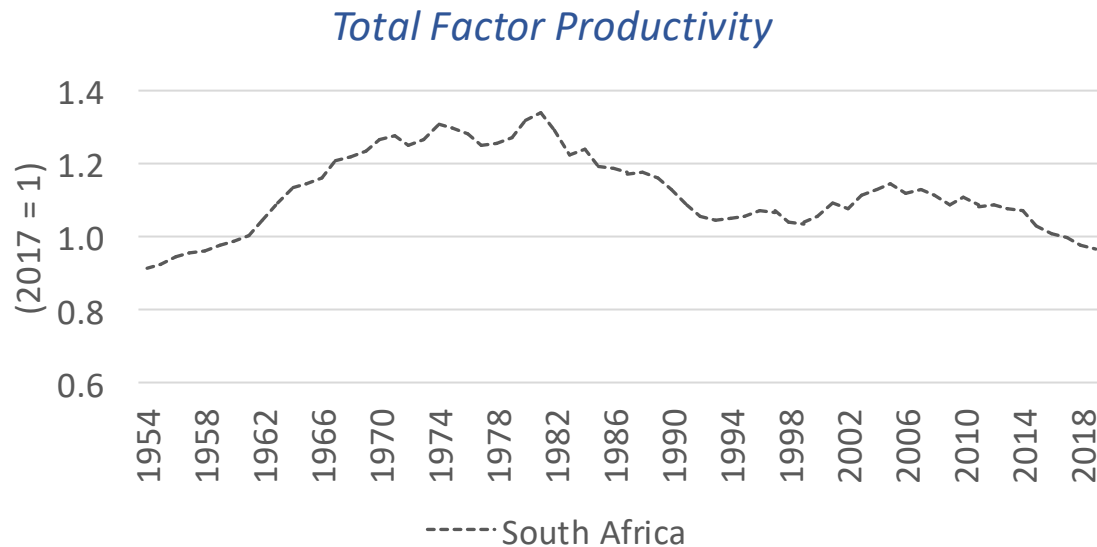
- Extensive margin and export growth
 - Stasis and 'missing middle'
 - Less than 1% in bottom 40% size group in 2013 become large (top 20% size group) in 2019
- Very high and rising concentration levels



Source: Own calculations using Exporter Dynamic Database data for 2012 covering 49 countries and 94 HS chapters.

What underpins this lack of export performance & dynamism?

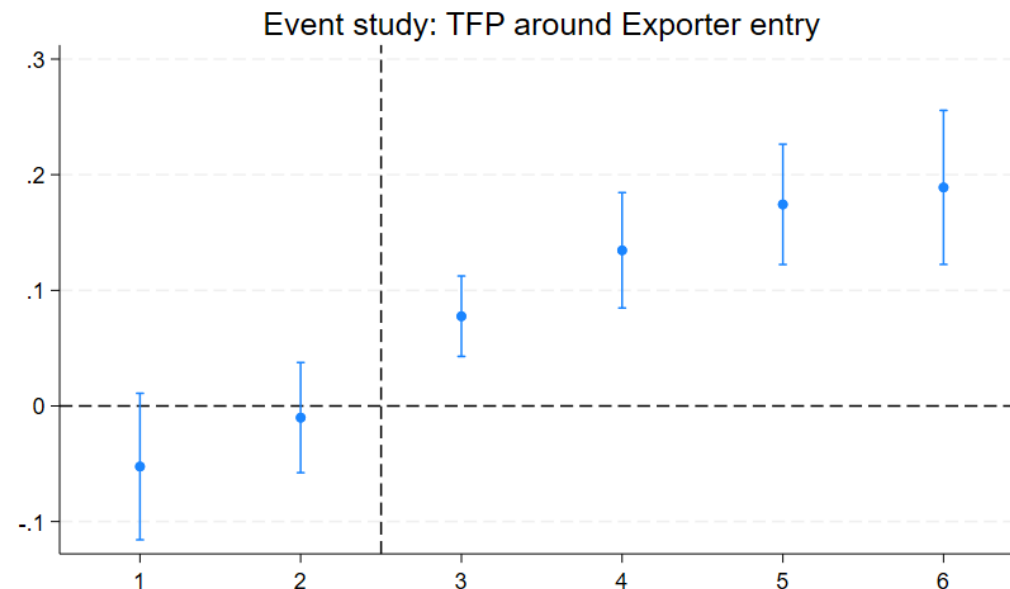
1. Demand headwinds
2. Constraint to exporting primarily about supply constraints
 - Flatlining manufacturing and mining production
 - Declining productivity
 - High cost of non-traded inputs (Municipal services, electricity, water, product market regulations)



Why do we need to boost
export growth?

Why do we need to boost export growth?

1. Avoid a foreign exchange constraint to growth
2. Raising long-run growth prospects through productivity gains
 - Rising productivity within firms (learning by doing, absorption of technology, upgrading in GVCs)
 - Re-orientation towards relatively productive firms: Firms that export and/or import grow faster and become more productive.

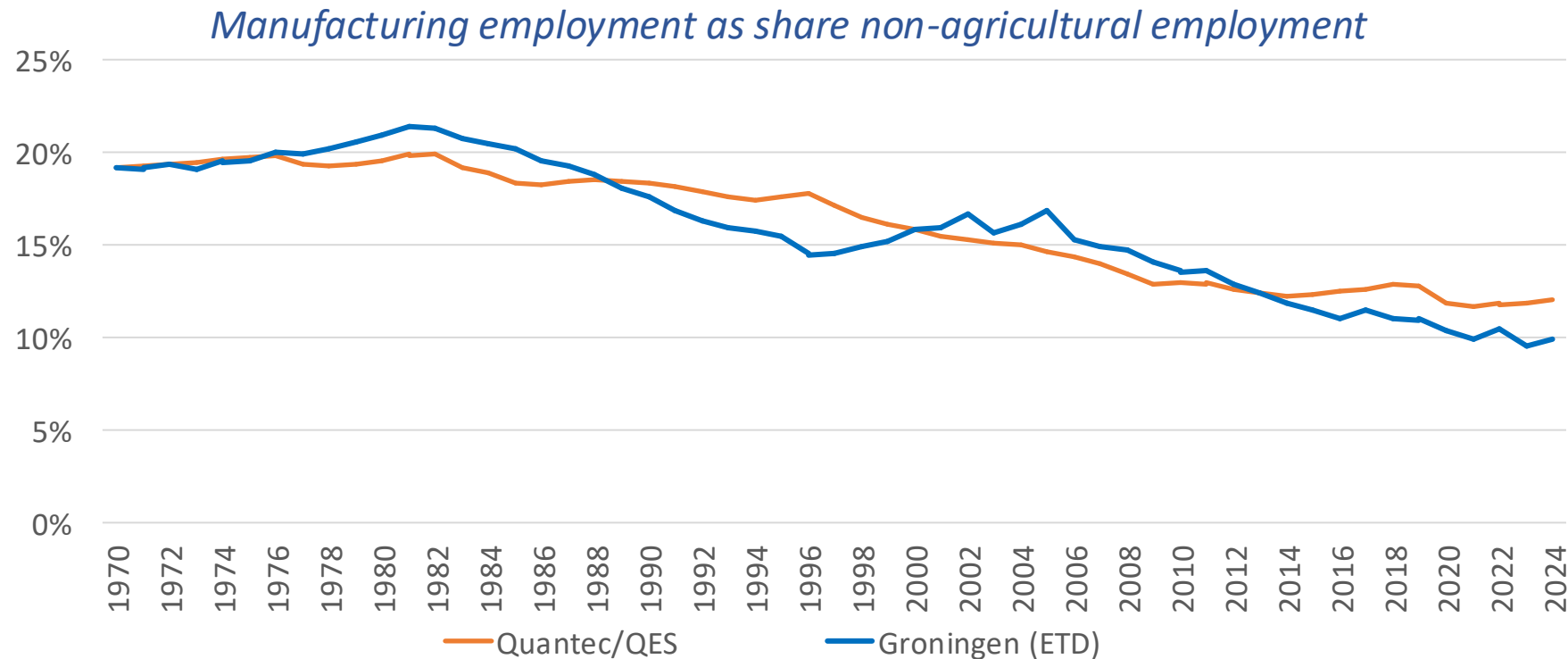


Source: Based on administrative tax data
for manufacturing firms 2010 – 22

Why do we need to boost export growth?

3. Resilience to de-industrialisation

- Distance from technology frontier, implies SA firms absorb labour saving foreign technology, without compensating export demand boost.
- Compounded by falling domestic investment & decline of mining



Why do we need to boost export growth?

4. Addressing the employment crisis ?

- Employment intensive export strategy: Centre for Development & Enterprise - “What if SA Had a Special Economic Zone That Was Actually Special?”
 - But
 - Exporters in SA rely intensively on skilled labour.
 - Automation, digitalization, AI and increasing skill requirement means window for labour-intensive manufacturing export growth has narrowed dramatically (Rodrik, 2018)
 - But, But
 - Indirect employment effects are still important (e.g. Services account for relatively high share of value added in exports)
 - Exporters employ more and pay higher wages
 - But, But, But
 - Employment growth should not necessarily be primary focus of export-oriented growth strategy.
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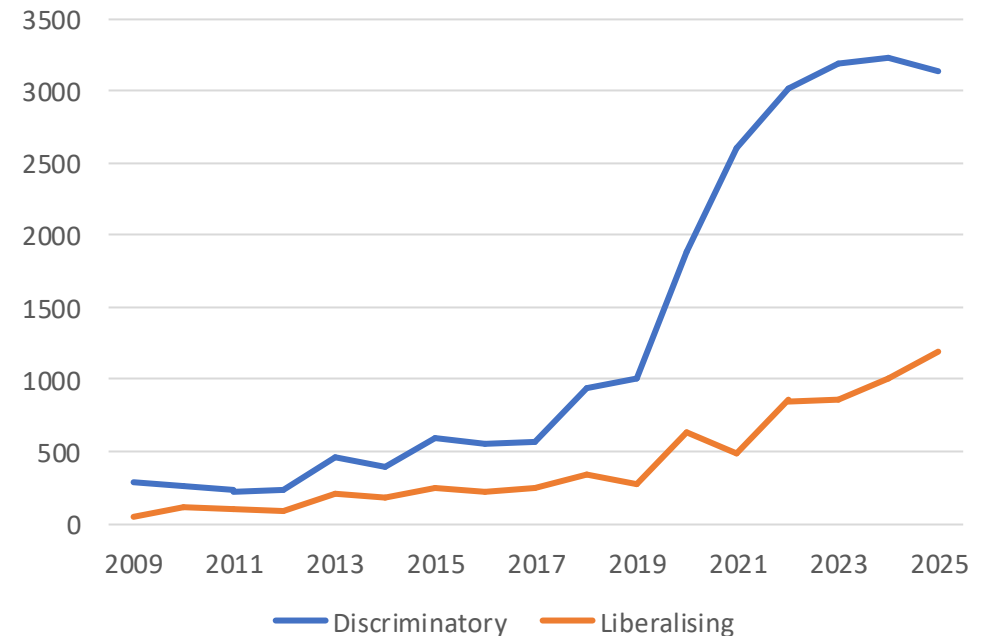
Is it still possible to embark on
export-oriented growth path?

Challenges to export-oriented growth path

1. Geopolitical tensions and global trade turbulence

- Unilateralism and weakening rules-based multilateralism
- Emblematic of these is:
 - America First trade policy,
 - But also, more broadly, rise in
 - Controls on technology transfer/trade in semi-conductors (US)
 - Restrictions on trade in critical minerals (China)
 - Climate-related trade and industry policies (CBAM)
 - Fragmenting global value chains, friend-shoring/de-coupling/de-risking of trade (Gopinath et al, 2025).

Figure: New trade and industrial policies per year, Global



Source: Global Trade Analysis

Challenges to export-oriented growth path

2. The opportunities for export-led growth have dramatically reduced

- Dani Rodrik in earlier years (2013)
 - Unconditional convergence in manufacturing
 - Inherent technological and learning spillovers make it a “escalator” sector for development.
 - Dani Rodrik in recent years (2016/18)
 - Premature deindustrialisation
 - Automation, digitalization, AI and increasing skill requirement means “window for labour-intensive exports has narrowed dramatically”
 - Relationship between export expansion, employment, and development is weaker and more conditional today.
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Challenges to export-oriented growth path

- Challenges do not negate importance of export-oriented growth, but mean it is more difficult, and requires a more nuanced approach
 1. Export-led — but not manufacturing-centric
 - Include agriculture, mining, services, digital services.
 2. Combine export growth with domestic demand
 - Relying exclusively on external markets may be fragile.
 3. Focus on employment intensity
 - Prioritise sectors that are both tradable and labour-absorbing.
 4. Accept slower and different form of structural transformation
 - Services as 'new' driver of productivity enhancing structural transformation (Newfarmer & Page, 2018; Baldwin & Forslid, 2025)
 5. Policies to spread the gains
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Is SA trade and industry
policy fit for (export)
purpose?

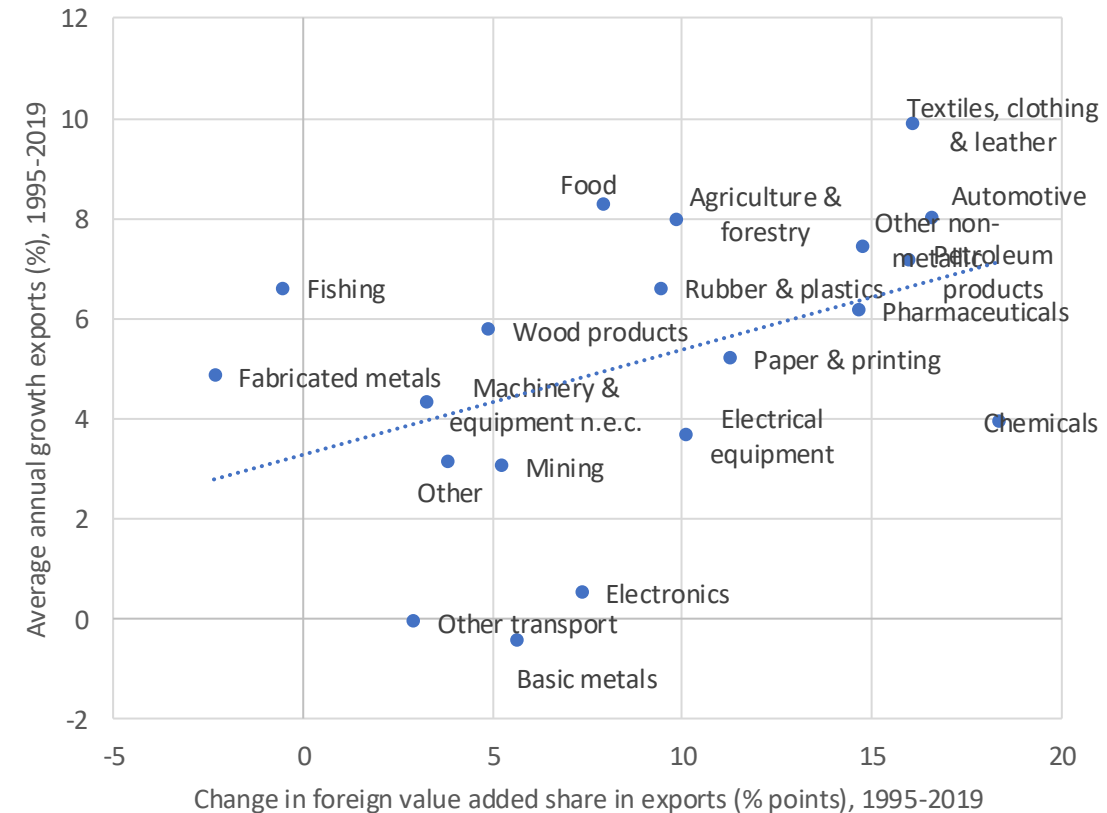
Horizontal vs vertical trade & industrial policy

- Revisit industrial policy goals
 - Long-term goal: Globally competitive and export-oriented manufacturing
 - Not inward focused protection/localization
 - Increase focus on horizontal policies that target skills/capabilities, innovation, infrastructure & trade costs (incl. trade facilitation) to benefit all exporters
 - Sector obsession in SA policy – IPAP, wage bargaining
 - Firms often vary more within than between sectors
 - GVCs – tasks and integration between firms across sectors matter
 - Exporting and importing not sector-specific
 - Innovation/capabilities also not sector-specific (role of SETAs)
 - Industrial policy as co-ordination: Re-orientate Master Plans towards improving competitiveness & innovation, not protection & subsidies
-

Re-think role of imports, incl. of technology, in driving growth and exports

- Global Value Chains (GVCs) depend on imports-export linkages
 - Successful SA exporters rely heavily on imported inputs
- Imports and imported technology key for manufacturing competitiveness
 - Faster growth in firm exports (participation, value, diversification)
 - And productivity
- Tariffs and infrastructure barriers to imports tax exporters twice
 - 'Tax' labour, particularly low wage workers

Figure: Growth in SA manufacturing exports and the change in foreign value added share, 1995 to 2019

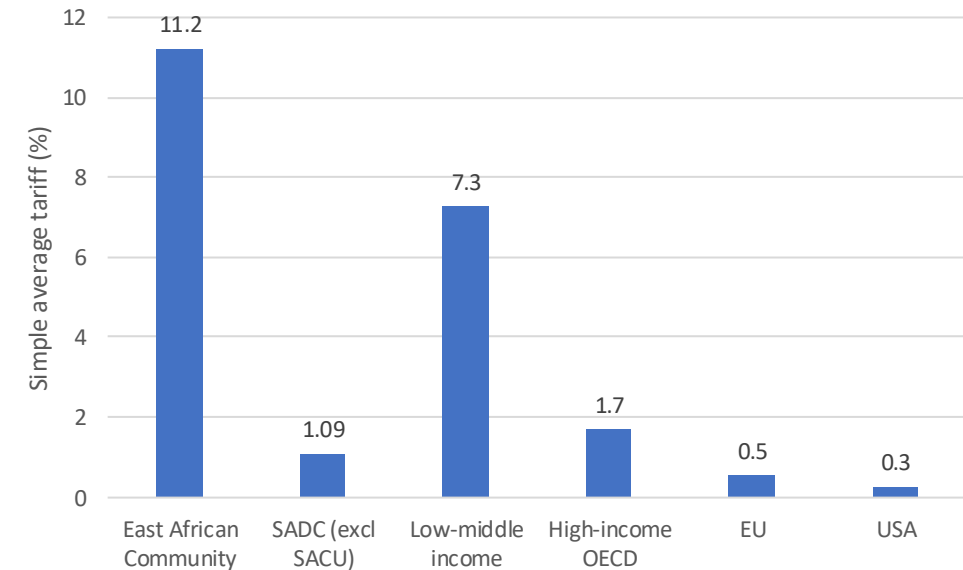


Source: Own calculations using data for South Africa from the OECD Trade in Value Added database.

Is tariff policy fit for purpose – External?

- Tariff barriers high on SA exports, particularly in emerging economies
- Market access through multilateral liberalization under WTO unlikely
 - Scope for plurilateral engagement, e.g. digital trade and e-commerce negotiations
- Deep and comprehensive preferential trade agreements (unlike SACU-Mercosur)
 - AfCFTA - Non-tariff barriers, logistics & services trade are crucial
 - Services trade agreements
- Rise in harmful foreign interventions (CBAMs, Green industry subsidies, NTBs)
 - Stronger role for government-to-government negotiations (e.g. Avo in China)

Figure: Average tariffs on SA exports of goods.



Resilience through African Continental Free Trade Area (AfCFTA): An appealing prospect?

“When trade becomes turbulent, neighbours matter.”

(UNCTAD Secretary-General Rebeca Grynspan, 2025)



Last updated: August 2024

Resilience through AfCFTA

1. Effective in boosting intra-regional exports
2. Aids product diversification, particularly manufactures
3. Expands/diversifies exporter base

But

- Exporters largely don't compete on basis of global competitiveness – target preference margins
- Tariffs high, but not largest barrier
 - 126 hrs border compliance in SSA vs. 20 hrs in Europe
- GDP of Africa is small
- Implication

“Regionalism doesn't replace multilateralism; it complements and reinforces it”

(UNCTAD Secretary-General Rebeca Grynspan, 2025)

Africa by GDP



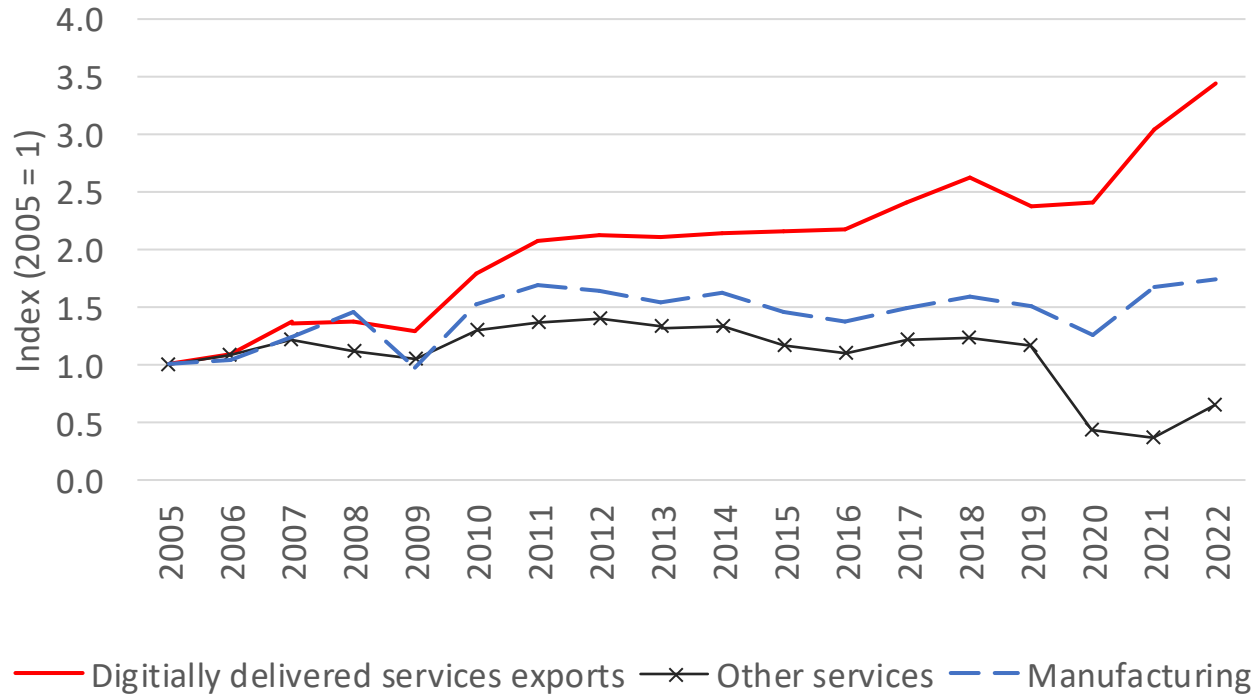
Africa by area



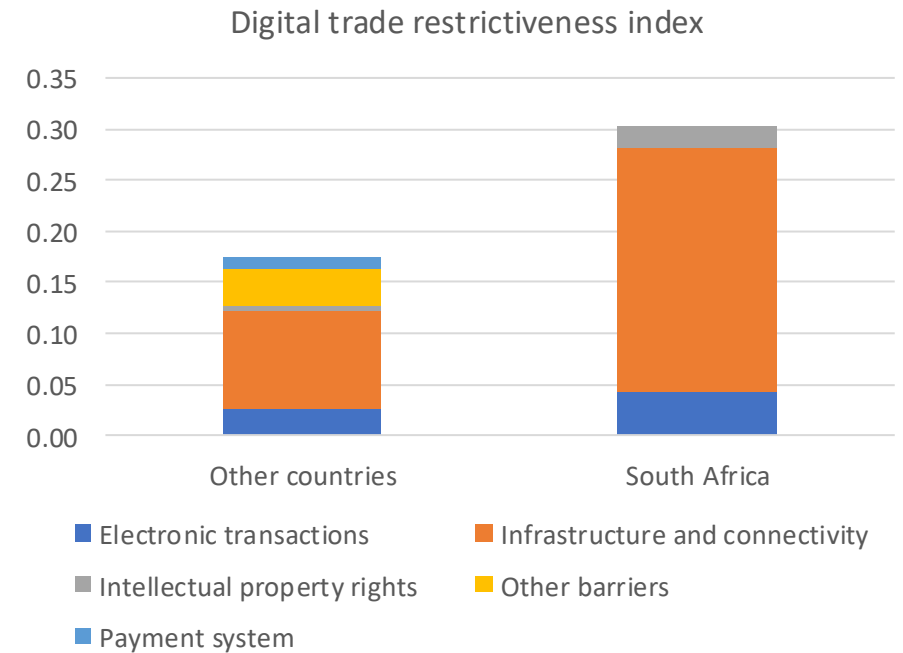
New trade issues

- Stop ignoring services trade
 - Productivity driver, trade enabler, new markets from digitalisation

Figure: Index of South African exports (2005 = 1)



Source: WTO



Source: OECD

Summary:

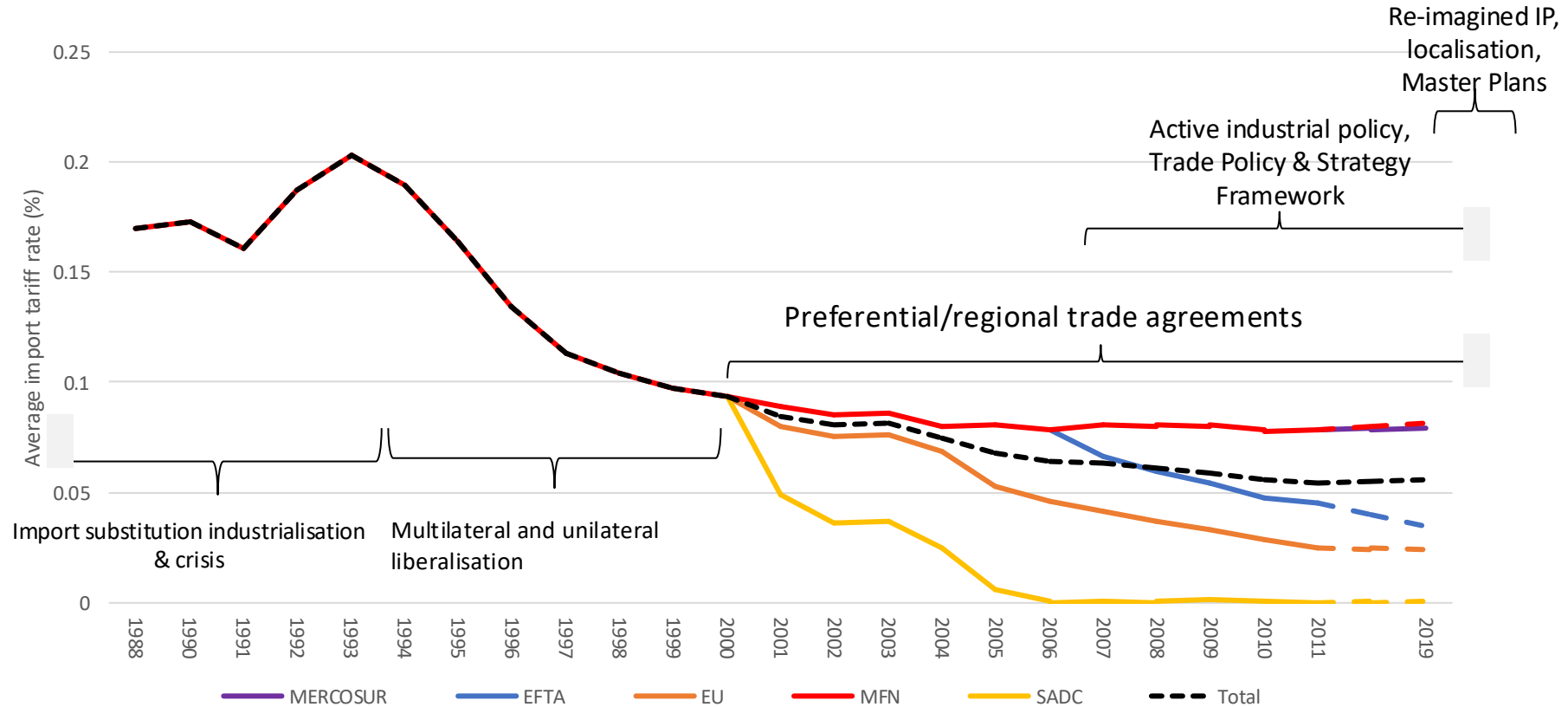
- SA faces growth and industrialization crisis
 - Export crisis undermines economic growth and industrialisation
 - Export-oriented growth path difficult, but still desirable
 - Policy shift required: international competitiveness and export-led, firm-oriented, horizontal support
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Thank you



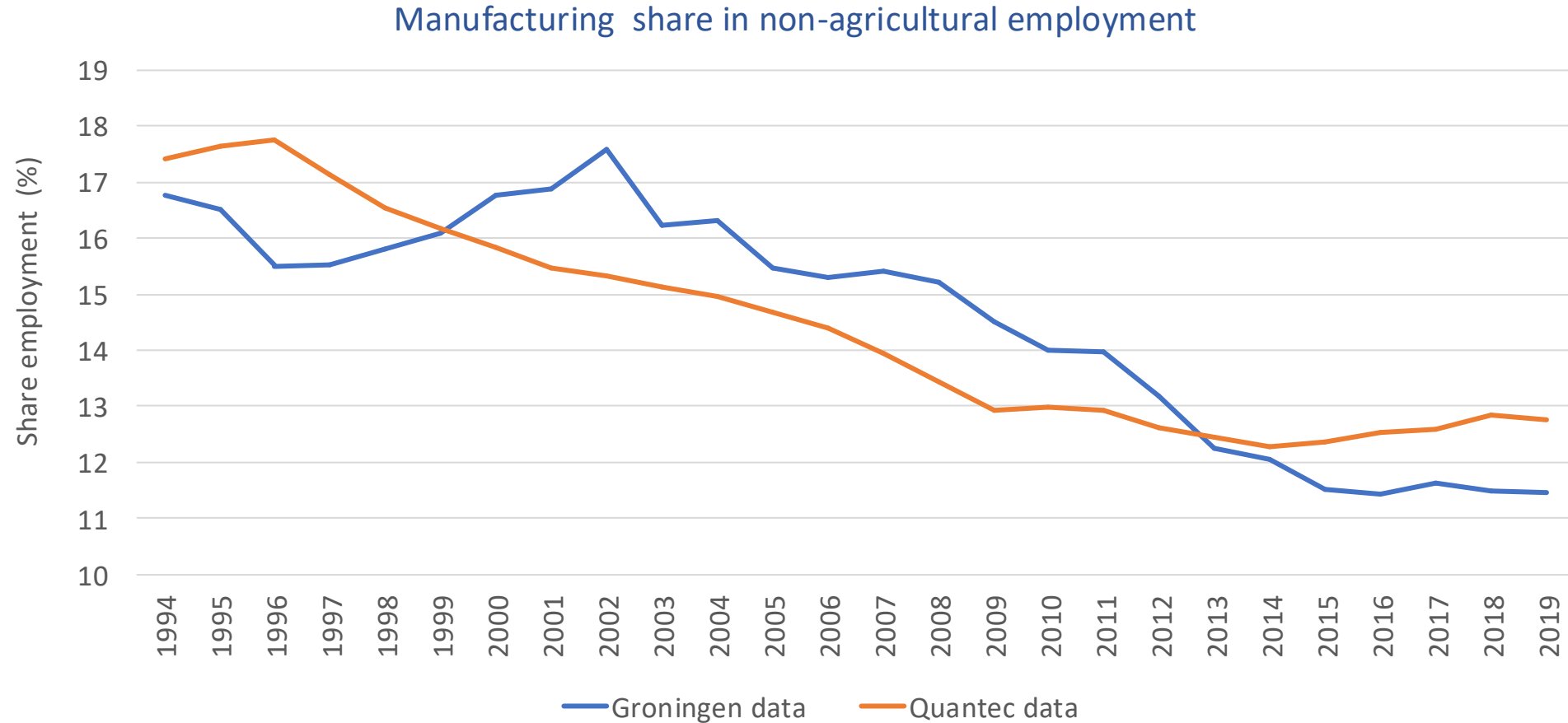
Context - South African trade policies

Figure: Simple average tariffs by preference agreement, 1988 to 2011



Source: Chien et al. (2024). Notes: The simple average of the 6-digit level of the Harmonized System (HS) classification eight-digit level tariff, inclusive of ad valorem equivalents and import surcharges in the early 1990s, is presented for each preference partner. The average total tariff is the weighted average of the Most Favoured Nation (MFN) and preference region tariffs using total imports from MFN countries and each preference region in 2000 as weights.

Challenge of de-industrialisation



Source: Own calculations. Real value added for manufacturing and non-agriculture are obtained from South African Reserve Bank Quarterly Bulletin statistics. Employment data are obtained from Quantec and Groningen Growth and Development Centre African Sector Database .

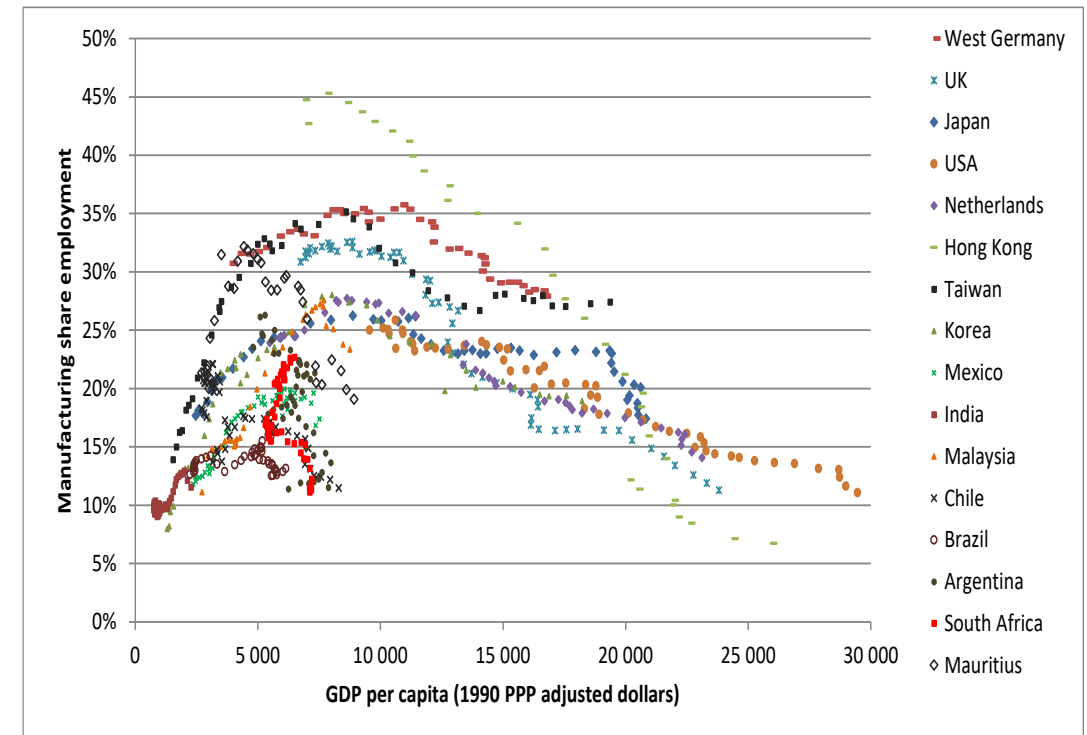
Query drivers of deindustrialisation

- Policy narrative blames import competition and tariff liberalisation
 - *“SA’s treatment as a developed country during the Uruguay Round (during the apartheid era) is a source of considerable concern as the tariff reduction commitments contributed significantly to de-industrialization” (DTIC, 2021: pg 6).*
- Solution: Central thrust of current trade and industrial policy is emphasis on localisation as means to (re)industrialise the SA Economy
 - Local procurement, the use of industrial funding, tax incentives, licensing, tariffs and others public measures to enable conditionalities to be placed for localisation, support for local beneficiation of minerals, the localisation of supply chains, and special measures linked to infrastructure investment plans.
post-COVID Economic Recovery and Reconstruction Plan (GoSA, 2020: 13-14).

(Premature) deindustrialisation

- Technological progress and demand as drivers of industrialisation patterns
- Emerging economies reaching lower peak shares of manufacturing in employment at lower income levels
- Rodrik (2016) : Premature de-industrialisation arises from combination of **(a)** globalisation exposing firms to international competition and **(b)** labour-saving technological change originating from advanced countries
 - Evidenced in declining shares of manufacturing in total employment AND output

Figure: Manufacturing share of employment and GDP per capita.

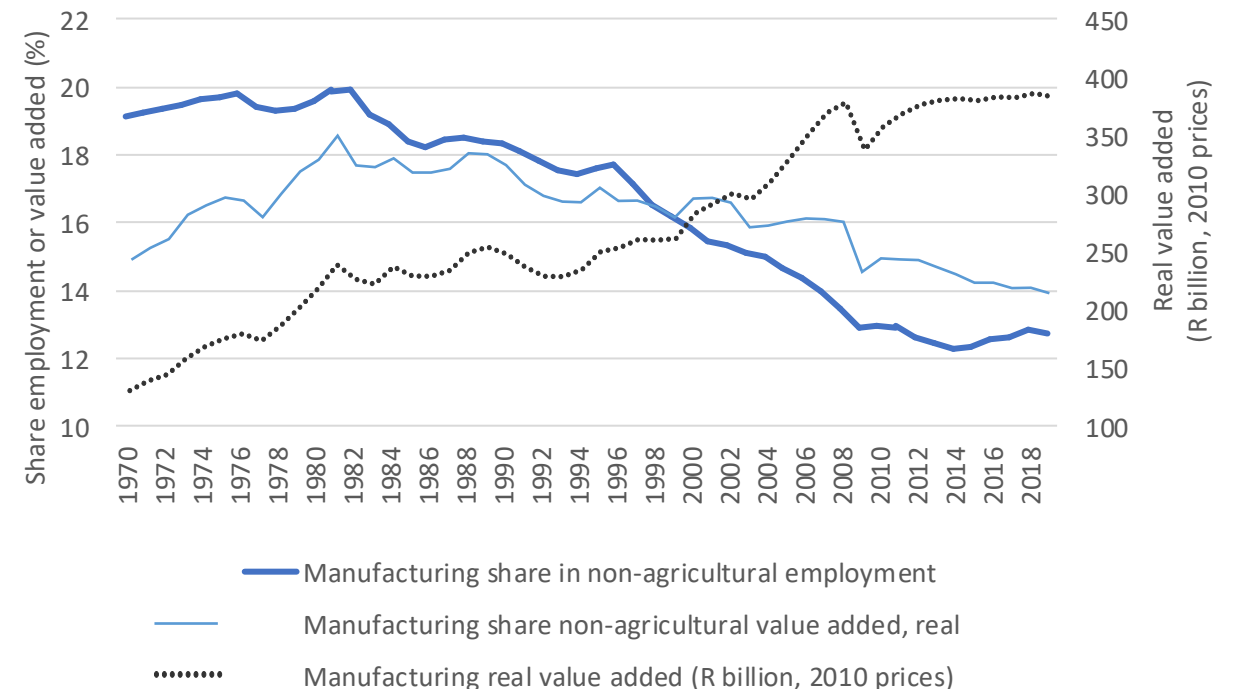


Source: Own calculations using data from Groningen Growth and Development Centre. For South Africa the share of manufacturing in non-agricultural employment is presented. The data from 2013-2019 is extrapolated using employment data obtained from SARB.

(Premature) deindustrialisation in SA

- Mis-diagnosis of industrial decline in SA
 - SA's deindustrialisation began in 1981
 - Mainly driven by a combination of technological change, falling domestic investment, decline of mining
 - Trade liberalisation not primary source of de-industrialisation
 - Import competition does matter – China
- Protectionist localisation policies that raise costs and generate inefficiencies may actually accelerate long-run deindustrialisation
- Failure to re-orientate economy towards trade and exports made sector vulnerable

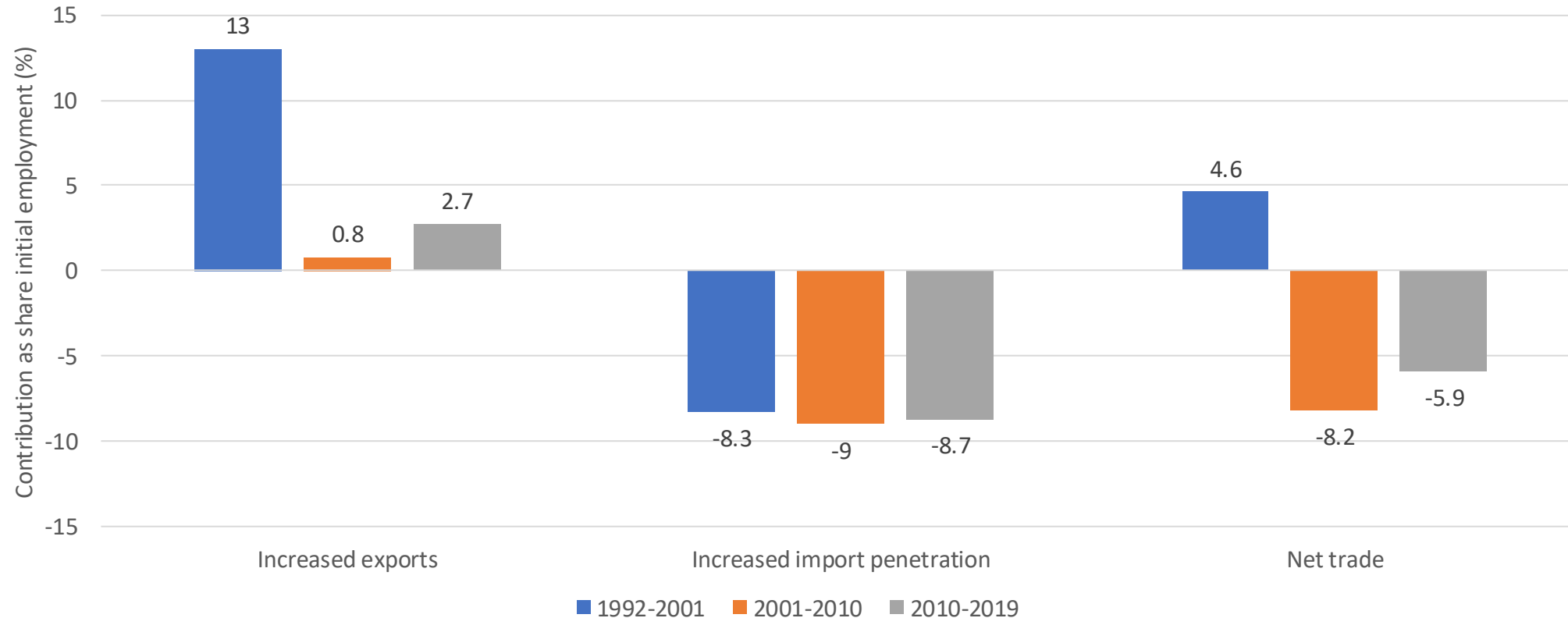
Figure: Manufacturing gross value added and manufacturing share in non-agricultural employment and gross value added



Source: Own calculations. Real value added for manufacturing and non-agriculture are obtained from South African Reserve Bank Quarterly Bulletin statistics. Employment data are obtained from Quantec.

Declining contribution of exports to manufacturing employment growth

Figure: Sources of employment growth in manufacturing, 1992-2019

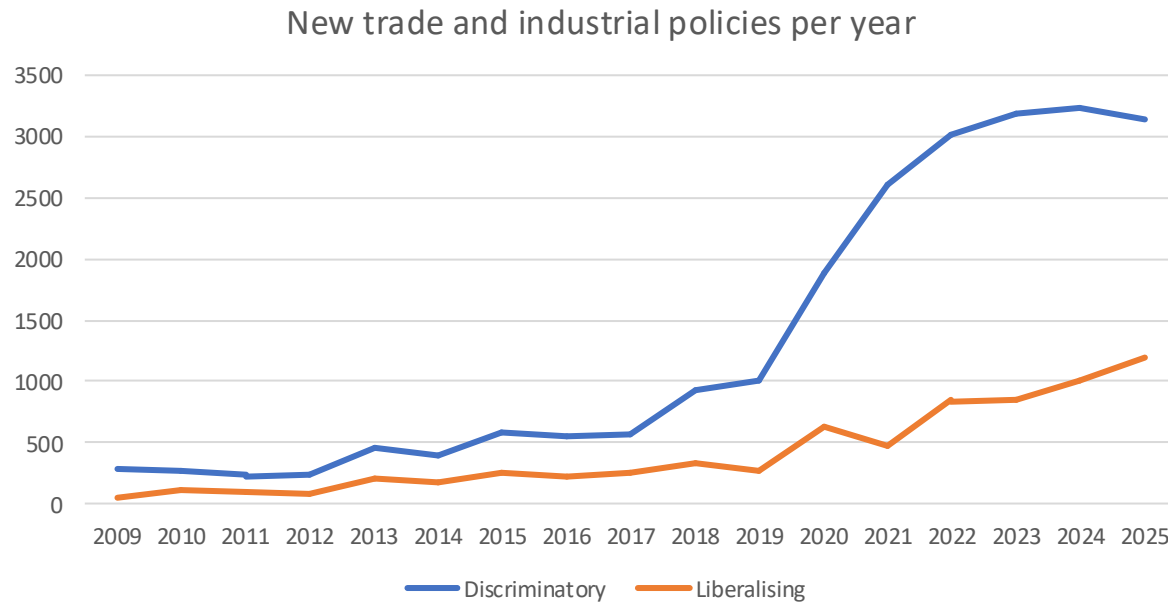


Notes: Based on 44 manufacturing industries at the 3-digit level of the SIC. Trade data are obtained from UNComtrade via World Integrated Trade Systems, and employment and output data are sourced from Statistics South Africa. Employment data from 2010 to 2019 are based on the Quarterly Employment Series, while the data prior to this is based on the Survey of Employment and Earnings.

Challenges to export-oriented growth path

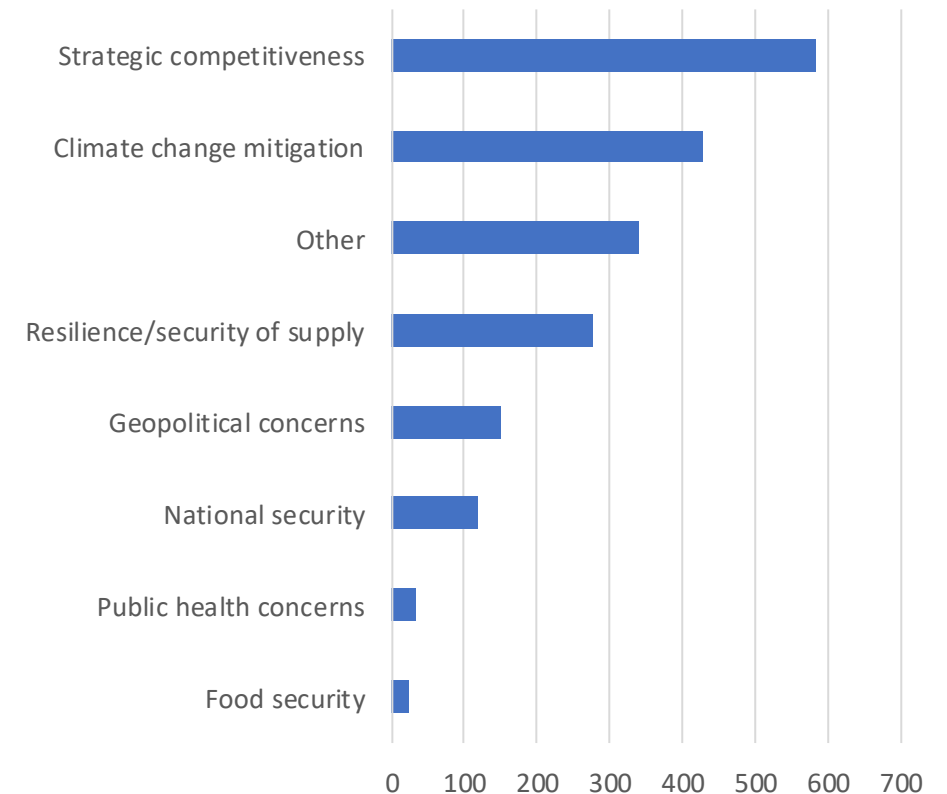
1. Rise in trade & industry distorting interventions

1. Geoeconomics, inshoring, friendshoring
2. Rise in global trade barriers (e.g. Trump tariffs)
3. Environmental taxes, e.g. CBAM



Source: Global Trade Analysis

Motives for distortive industrial policy interventions (2023)



Source: Own calculations using Global Trade Alert New Industrial Policy Observatory (NIPO) dataset, 2023

Trade policy fit for purpose - Internal

- Tariffs powerful instrument for industrial policy
 - Implicit 'subsidy' for producers, but 'tax' on consumers
 - Alignment with industrial policy critical
 - From 2010, "tariff decisions are to be "conducted on a case-by-case basis, taking into account the specific circumstances of the sector involved" (DTI 2010, 3).
 - Query whether current approach to setting tariffs will drive competitive domestic industry
 - Industrial policy is the exception, but what is the "rule"?
 - No "*a priori* position on the appropriate levels of duties..." (DTIC, 2021:2)
 - Lack of comprehensive review - tariff structure reflects historical policies/lobbying.
 - 93% of the tariff codes attracting duty in 2023 were last reviewed before 2003 (XA Global Trade Advisor, 2024)
 - Tariffs remain on goods not produced domestically
-

Tariff policy – Structural flaws

- Tariff structure complex compared to other countries
 - 41 distinct duties vs. 31, 19.8% share duties above 15% vs. 12.2% (in 2023)
 - Eat your vegetables! No clear rationale between level of protection and industrial policy objective
 - Fresh peas 15%, but 10% if frozen and 30% if dried and split,
 - Fresh bean 0%, but 10% if frozen and 15% if dried.
 - Fresh cauliflower, lettuce, and carrots 0%, Onions 10%, garlic 325c/kg with a max 37%.
 - Regressive, too little focus on consumers and domestic prices
 - Frozen bone-in poultry 62%, frozen chips 20% (both excl. Anti-dumping duties)
 - Inconsistencies
 - Consumer subsidy for solar panels in 2024, but 10% import tariff in 2025
 - Export ban/regulation of scrap, with price preference system subsidies mini-mills, but 'taxes' AMSA
 - Rise in use of temporary tariff rebates, rather than removing tariffs on goods not produced
 - Current policy remains subject to 'capture' by vested interest groups
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Reform of tariff policy- Considerations

- Simplification of tariff structure to few bands
 - Reduces administrative burden, transparent signal for resource allocation and less open to corruption and industry lobbying
 - Provides a norm against which industrial priorities can be set.
 - Facilitates trade negotiations
 - Extensive review of existing tariffs
 - Remove tariffs on goods not produced (**not** with temporary Schedule 4 rebates)
 - Evaluate price effects, particularly of food
 - Liberalisation of tariffs on inputs which may allow reduced tariffs on outputs
 - Provides benefits to consumers, Limits employment dislocation, Promotes exports
 - Tightly link tariff protection to competitiveness outcomes (e.g. exports)
 - More rigorous, regular and transparent reviews
-