

## ERSA-SARB CONFERENCE

*Finding a Path to Growth and Employment in South Africa*

5–6 March 2026 | Hazendal Hotel, Stellenbosch

### SESSION REPORT

## Session 6: International Trade and Growth

**Presentation:** Professor Lawrence Edwards, University of Cape Town

**Panellists:** Elizabeth van Renen (DTIC), Marianne Matthee (GIBS)

**Date:** Friday, 6 March 2026

*Note: This report synthesises the key arguments, ideas, and exchanges from the session. It reflects the substance of what was presented and discussed, not necessarily the settled views of all participants. Panellists participated in their personal capacity. Time constraints meant that not all points could be fully debated or responded to. By convention, individuals are identified only on the title page; arguments and ideas in the body of the report are not attributed to named speakers. Video recordings of the session are available on YouTube, where viewers may find nuance in the views expressed that a written synthesis cannot fully capture.*

## Key Takeaways

- South Africa faces a deep export crisis: real exports have lagged GDP growth since 2010, the export structure has hollowed out, and the number of firms actively exporting has declined - reflecting a broader lack of dynamism in the domestic economy.
- The primary constraints on export performance are domestic, not international. High costs of non-traded inputs - electricity, municipal services, transport, and regulatory compliance - erode the competitiveness of firms seeking to reach international markets.
- South Africa's tariff regime is largely unreformed: 93% of tariff lines have not been reviewed in over 20 years. Duties on intermediate inputs raise costs for downstream producers and effectively tax exporters twice - once on their inputs and again on their outputs.
- Industrial policy should shift its centre of gravity from sector-specific targeting and localisation toward cross-cutting improvements in productivity, innovation, and the business environment that benefit all firms.
- The African Continental Free Trade Area is an important part of the trade strategy but should not be treated as the primary engine of export-led growth. Its greatest potential lies in reducing non-tariff barriers, lowering trade costs, and facilitating regional value chains and services trade - not simply in tariff reductions.
- Services exports, including digitally delivered services, represent a significant and underexploited growth opportunity, but regulatory restrictiveness continues to hold South Africa back relative to international peers.

## The Anchor Presentation: South Africa's Export Predicament

The anchor presentation made a direct case that South Africa is on an export-retarding growth path. Since 2010, real export growth has been slower than overall GDP growth - the opposite of what upper middle-income countries have experienced on average, where exports have pulled economies forward. The divergence is stark: while comparator countries saw exports outpace GDP, South Africa's export-to-GDP ratio declined. When shocks hit - the 2008–09 financial crisis, COVID-19 - recovery was slower and left lasting level shifts rather than temporary dips.

The structural picture is equally concerning. The number of products in which South Africa holds a revealed comparative advantage has narrowed. The share of high-technology

exports has roughly halved. Export sophistication and complexity have declined, pushing the country further into the periphery of the global product space - away from the kinds of goods that the empirical literature associates with future growth potential. Services exports have been particularly weak, growing at just 0.4% per annum from 2010. The net result is that minerals and metals remain the dominant feature of the export bundle, and that bundle looks remarkably similar to what it was in 1990. There are exceptions - citrus, high-end yacht manufacturing in the Western Cape, macadamia nuts, and automotive exports, which have become the largest category of manufactured exports - but these remain islands in an otherwise stagnant landscape.

The presentation argued that the root causes are primarily domestic, not international. Most South African exporters sell the majority of their output into the domestic market, so their export performance tracks domestic production trends - and both manufacturing and mining output have flatlined. Declining productivity further erodes the ability to compete internationally. But the critical factor emphasised was the cost of non-traded inputs: electricity, water, municipal services, transport, and the regulatory environment all raise operating costs and undermine the competitiveness of firms that need to compete on price in global markets. An export policy, it was argued, cannot be separated from domestic policies to improve firm competitiveness.

A detailed analysis of firm-level dynamics reinforced the point. The number of firms engaged in exporting has declined since 2016, driven by falling entry rates, rising exit rates, and declining one-year survival rates. South Africa's entry and exit rates are low by upper middle-income standards, while survival rates are high - a pattern that was interpreted not as a sign of health but of a "missing middle." Too few firms enter, and those that do tend to be either very small or already large enough to survive. The transition from small entrant to medium-sized exporter to large-scale player barely occurs. Less than 1% of firms in the bottom 40% by size in 2013 had moved into the top 20% by 2019. The result is a super-concentrated export structure, with the top 5% of exporters accounting for a disproportionate share of export value relative to comparator countries.

The case for boosting exports rested on several pillars. First, the foreign exchange constraint: achieving 3% GDP growth would drive import growth of 4 - 5% and sustaining that over time without relying on foreign savings would require export growth of at least 4.5% - far above the current 1.5% rate. Second, exporting drives productivity: firm-level evidence shows sharp increases in productivity when firms enter export markets, and the reorientation of production toward more efficient exporting firms drives within-industry structural shifts that further raise aggregate productivity. Third, by enhancing aggregate productivity, exports can build resilience against deindustrialisation, which has been led by a collapse in demand and investment following the decline in the gold industry from 1980s, as well as the absorption of labour-saving technological change, without the offsetting effect of output growth.

On the employment dimension, the presentation was deliberately circumspect. Current exporters tend to be skill-intensive, and the skills they require do not match those of the unemployed. Automation and digitalisation have further narrowed the window for labour-absorbing manufacturing export growth. While exporting firms are larger and pay higher wages, and while services embodied in goods exports create indirect employment, the idea that exports can anchor an employment-led growth strategy was treated with caution.

The presentation closed with a direct challenge to the orientation of South African trade and industrial policy. It argued for a shift from localisation and protection - which confine firms to the domestic market and risk accelerating deindustrialisation - toward a focus on productivity, innovation, and competitiveness. It challenged the country's sector-specific approach, noting that the skills required across ostensibly different industries often overlap, that global value chains are inherently cross-sectoral, and that capabilities and constraints (e.g. transport infrastructure, electricity) are not sector-specific. The import side of trade was also emphasised: successful exporters depend heavily on access to intermediate inputs, and high trade costs and tariffs tax exporters twice - once on the inputs they need and again on the goods they sell. South Africa's digital trade restrictiveness was flagged as a further constraint on the fast-growing category of digitally delivered services exports.

## Panel Discussion

### *The Internal Dimension: Tariffs, Inputs, and Competitiveness*

One thread of the panel discussion was the state of South Africa's domestic tariff regime and its effects on firm competitiveness. Research was cited showing that 93% of tariff lines have not been reviewed in more than 20 years. Where local production no longer exists but duties remain in place, the effect is a tax on downstream producers with no offsetting benefit. The system encourages firms to apply for duty rebates rather than removing the duty itself, adding administrative complexity and cost. The argument was made that where protection is justified, it should be applied to downstream rather than upstream industries, and that tariff protection should carry sunset clauses to prevent indefinite application. A broader point was that protection without a conducive business environment does not generate competitiveness - it simply raises costs across the economy.

The discussion also addressed the complementary role of services in manufacturing competitiveness. Around 36% of value added in manufactured exports comes from embodied services - warehousing, packaging, finance, logistics, legal services, and design. Supporting export competitiveness therefore requires thinking about the scalability of higher-value manufacturing with service-integrated segments, not treating goods and services as separate policy domains.

### *Navigating the External Environment*

On the external front, the discussion acknowledged the growing headwinds confronting South African exporters: geopolitical turbulence, the erosion of multilateral trade rules, the proliferation of discriminatory trade policies globally, and the emergence of climate-related trade measures such as the EU's Carbon Border Adjustment Mechanism. These pressures were seen as making an already difficult export environment harder, but not as grounds for retreating from export orientation.

Practical challenges of trade negotiation were addressed directly. South Africa's trade negotiating capacity was described as limited - the country has strong but very few trade negotiators, and the negotiating capacity of the SACU partners is also constrained. While the African Continental Free Trade Area consumed significant negotiating bandwidth, with the near-completion of those negotiations a decision has now been taken by the SACU Trade Ministers to broaden SACU's trade engagements. Opportunities being actively explored

include China's offer of duty-free access under the CAEPA (China-Africa Economic Partnership Agreement) framework, as well as potential agreements with India, ASEAN countries, and the Middle East - a "butterfly strategy" in which Africa forms the body and established and emerging markets form the wings.

There was broad agreement that the AfCFTA is important but should not bear the full weight of South Africa's export strategy. Africa's GDP is roughly the size of France's, and the continent's vastness means that trade costs far exceed any tariff reductions the agreement might deliver. The greatest potential was seen in the AfCFTA's non-tariff provisions: trade facilitation, the digital trade protocol, services liberalisation, and investment and intellectual property protocols. But implementation challenges were noted, particularly the absence of a supranational body to enforce trade facilitation commitments - compliance remains dependent on bilateral government-to-government negotiations, which have historically proved slow and difficult.

### ***Regional Value Chains and the Role of the AfCFTA***

The discussion encouraged framing the AfCFTA as more than a market access strategy. The more compelling opportunity, it was argued, lies in the establishment of regional value chains - with goods flowing into South Africa for secondary processing as much as flowing out. South Africa's relative industrial maturity on the continent positions it to capture value from processing primary commodities currently shipped far afield. This reframes the AfCFTA as not just a trade agreement but a framework for regional industrial development, investment facilitation, and economic integration.

It was also noted that even preference-driven exports into the SADC region can serve a purpose: they allow domestic firms to build economies of scale that may eventually underpin genuine competitiveness. The discussion recognised that earlier phases of economic integration in southern Africa had deliberately combined market access with industrial development and outward investment facilitation, precisely because countries without a manufacturing base have little to gain from tariff liberalisation alone.

### ***Competitiveness, Skills, and the Limits of Trade Policy***

A recurring theme was the insufficiency of trade policy in isolation. Competitiveness depends on a range of factors well beyond tariff schedules: the availability and cost of utilities, skills levels, regulatory burden, and transport infrastructure. The desire to move up the value chain runs immediately into a skills constraint - and the education system cannot produce the required skills fast enough, which means alternative pathways for rapid upskilling need to be found. The discussion reframed labour-intensive exports: in the current environment, "labour-intensive" can no longer be equated with "unskilled-intensive."

The link between trade policy and industrial policy was explored through the lens of production capabilities. The product space literature was invoked to argue that diversification should build on existing capabilities: if a country can produce one product, it likely has the capabilities to produce related products nearby in the product space. This approach was contrasted with the sector-obsessed orientation of current policy, and a case was made for thinking instead about cross-cutting constraints, local value chains, and place-based clusters that reflect the actual composition of economic activity in different regions.

## Audience Discussion

The audience discussion extended the conversation in several important directions. A pointed question about the DTIC's own role in regulatory burden drew an honest acknowledgement that while work to simplify legislation is underway, the pace could be faster - constrained in part by the requirements of South Africa's legislative process.

The role of foreign direct investment received significant attention. Inward FDI was recognised as critical for transferring technologies and raising the innovation frontier. But the argument was also made for taking outward FDI more seriously — South African firms investing abroad, including into Africa, Europe, and elsewhere, generate technology transfer and services exports within companies that may not be captured in conventional trade statistics. This connected to a broader point about the importance of capital flows and the movement of people, not just goods, in understanding trade dynamics.

Informal trade emerged as a theme with both practical and equity dimensions. The scale of informal trade - including from China and the rest of Asia into South Africa's inner cities and onward into the region - was highlighted as economically significant but poorly understood and largely absent from policy attention. Research on trade from an entrepreneurial perspective, particularly among women entrepreneurs, showed that "suitcase exporters" make a substantial societal contribution but face prohibitive logistics costs. The point was made that reducing the cost of small-parcel logistics could unlock inclusive trade at scale, and that migration - particularly inward migration from the continent - plays an underappreciated role in facilitating these trade networks.

Intellectual property policy was raised as a constraint on export dynamism. The way South Africa manages IP was argued to affect the type of firms willing to engage with the country and to discourage patent registration domestically. Data from the Atlas of Economic Complexity was cited: in the past 15 years, only seven new products have entered South Africa's export basket, all in minerals, metals, agriculture, and textiles - none reflecting increased complexity. The response noted that South African firms increasingly purchase IP through in-licensing rather than developing it domestically, and that this pathway - absorbing foreign technology rather than generating it - may offer faster returns. The broader point was that complexity is an outcome of capabilities and the cost environment, not a target that can be pursued directly.

## Implications for Growth and Employment

This session crystallised a theme that ran through much of the conference: South Africa's growth problem is substantially a competitiveness problem, and the export crisis is both a symptom and an amplifier of it. The constraints that hold back domestic firms - expensive and unreliable network services, burdensome regulation, a stale tariff regime, inadequate skills - are the same constraints that prevent those firms from competing internationally. An export strategy that does not address these domestic fundamentals is unlikely to succeed.

The session also surfaced an important tension in how South Africa thinks about trade. There is a strong pull toward sector-specific industrial policy and a tendency to treat the AfCFTA as the centrepiece of trade strategy. The discussion pushed toward a different framing: one that prioritises cross-cutting improvements to the business environment,

embraces services as integral to manufacturing competitiveness, takes imports seriously as inputs to export success, and views regional integration as a platform for value chain development rather than simply a destination for goods.

For the growth and employment agenda, the most immediately actionable ideas to emerge included: launching a systematic review of the tariff book with sunset clauses for unjustified protection; reducing duties on intermediate inputs to strengthen downstream competitiveness; investing in trade negotiating capacity to pursue a diversified set of trade agreements beyond the AfCFTA; prioritising the non-tariff and trade facilitation dimensions of the AfCFTA over tariff reductions; removing regulatory barriers to services exports, particularly in digital trade; creating frameworks to support informal and small-scale cross-border trade; and reorienting industrial policy away from sector obsession toward the cross-cutting constraints - energy, logistics, regulation, skills - that determine whether any firm, in any sector, can compete.