

No To Free Trade With US

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Trade experts say the United States is demanding far deeper market access than South Africa is willing to give, particularly in the area of services that are covered by regulatory protection rather than tariffs.

South African business appears to be waking up late to the fact that the country may be walking away from a free trade deal with the US.

“It makes far more sense for South Africa to negotiate a free trade agreement with a high-wage country like the US than a low-wage country. The benefits to our economy would be huge,” says Philip Krawitz, CEO of Cape Union Mart and former member of the Bi-National Commission established under former president Bill Clinton to promote stronger ties between the US and South Africa.

The US would impose more onerous requirements than those demanded by the European Union, with which South Africa already has a free trade agreement, or indeed by the World Trade Organisation.

It would require South Africa to give ground by amending regulations in telecommunications, healthcare and other areas where the US could help bring down the cost of these services to consumers.

Telecommunications costs in South Africa are far above those of most comparable developing countries -- and, according to one study, swallow nearly 6% of gross domestic product -- because liberalisation has proceeded at a sluggish pace.

Frustrated at the lack of trade harmony among the members of the Southern African Customs Union (SACU), the US has shifted its attention to countries such as Colombia, Malaysia, South Korea and Thailand, all of which are expected to wrap up free trade deals ahead of the July 2007 deadline when the US Congress's trade promotion authority to sign such agreements expires.

Should South Africa miss this deadline, as now seems likely, it may have to wait for President George W Bush's successor to take office in 2008. Even then, there is no guarantee the offer will be repeated.

Steel and Engineering Industries Federation of South Africa economist Mike McDonald says it is still possible to secure a free trade agreement with the US.

“The reason negotiations got bogged down last year was because the US wanted to get

agreement first on side issues such as intellectual property and government procurement. We had a meeting at the National Economic Development and Labour Council [Nedlac] this week and we now think we will be able to go back to the US with a more concrete offer. Because we're a developing country, certain industries we will want to make no changes to at all, some we can drop tariffs to zero, and others we will want to lower more slowly."

South Africa is particularly concerned about textiles and automobile manufacture. "There's been too much focus on tariff levels in the past," says McDonald. "We need to start looking at how we can really compete globally, through niche products, better service, and so on." The US wants South Africa to agree to a list of restricted products that would not include yet-to-be-developed technologies -- something South Africa will not commit to. South Africa's negotiating position, heavily influenced by labour and sectoral interests within Nedlac, is protectionist and unyielding, one observer says.

Labour believes there is little to be gained from a free trade agreement with the US. About 94% of our goods already enter the US free of duty in terms of the Africa Growth and Opportunity Act (Agoa), so why negotiate a free trade agreement that would seem to be of far greater benefit to the US?

It's a question that many in the government have been asking.

Some argue that a free trade deal with the US would extend the benefits of Agoa and, by attracting stronger US investment, help the government achieve its 6% growth target.

"Agoa may cover 94% of our goods exports to the US, but the remaining 6% is probably where the real value lies, to say nothing of the technology transfer and intellectual property rights that would flow South Africa's way from a free trade deal," says Krawitz.

The SACU free trade agreement with Europe allows slower liberalisation of tariffs and certain exemptions -- known as special and differential treatments, or SDTs -- in deference to a region's developing status. The US is less forgiving, demanding more aggressive liberalisation on tariffs and services.

While Agoa is principally concerned with trade in goods, a free trade agreement with the US would cover trade in services and require South Africa to comply with stiff intellectual property rights. It would also have to modify its investment rules to suit US corporations.

A free trade agreement would also impose labour and environmental standards, though these are two areas where South Africa would have little difficulty in meeting criteria.

Unlike the free trade agreement between South Africa and Europe, the US leaves little room for negotiation. Its agreements are scripted according to a rigid template that the US, as the world's largest market, is able to impose on its trading partners.

“The real question is why did we enter into free trade negotiations with the US in the first place when we knew we would be asked to open up our markets to the US and to make uncomfortable concessions?” asks Peter Draper, research fellow at the South African Institute of International Affairs.

The initial momentum appears to have come from former US trade representative Bob Zoellick and former South African minister of trade and industry Alec Erwin. Both have since moved on to different portfolios, and the momentum appears to have gone with them.

One obstacle to a free trade deal is agricultural subsidies paid by the US to its farmers. The US is committed to negotiating these subsidies through the World Trade Organisation rather than through bilateral negotiations.

Another benefit of a free trade agreement is that it would make it easier for South African companies to tender for US government contracts, a potentially massive market. But it would also require that South Africa open its government contracts to US companies, and this runs into the issue of BEE set-asides.

A spokesperson for the US embassy in Pretoria says “we continue to work with South Africa on achieving a successful outcome for the Doha Development Agenda [aimed at reducing global barriers to trade], and would like to build on the success of Agoa to secure a more comprehensive and long-term trade partnership”.

The spokesperson says free trade negotiations started in June 2003, covering areas such as labour, environment, investment, intellectual property, government procurement and services. “However, SACU is still in the process of determining its internal policies, making it difficult to negotiate these chapters at this time. We are discussing with SACU governments possible next steps forward,” says the spokesperson.