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The implications of the South African International Trade and Industrial policy and the impact of WTO, NEPAD, EPA and SACU agreements on South Africa Labour

WTO

The Doha negotiations are designed to advance the interests of among others the US and EU in particular market access needs for their multinational corporations at the expense of developing countries' industries and workers.

Industrial goods or Non agricultural market access (NAMA).

The Doha negotiations on NAMA provides that negotiations shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. This approach does not consider nor give credit to past liberalization efforts by different developing countries.

The SA government reduced its applied rates quicker and deeper than required by WTO. For example, clothing tariffs should have been reduced to 45% in 2006 only and already in 2002 they have been reduced to 40%. Furthermore, clothing tariffs dropped by 52% in 7 years (84% in 1995 to 40% in 2002) and imports in the clothing sector grew by 1,575% since the conclusion of the Uruguay Round or 1994 and the subsequent tariff liberalisation from R0.4 billion to R6.9 billion. The proposed Doha co-efficient to cut tariffs would mean 63% of sensitive lines having to take a full cut. E.g. Clothing line with a 45% bound rate and 40% applied rate being reduced to 14%. The table below indicates the extent of the cuts on different sectors. The main result of the cuts would be to expose our industries to foreign competition and this could result in the domestic firms importing finished goods to detriment of local industrial capacity and jobs.

Swiss formula on a coefficient of 20

	Current applied	Current bound	New Bound SF 20	Reduction in applied SF 20
Textiles (fabric)	22	25	11	49%
Clothing	40	45	14	65%
Footwear	30	30	12	60%
Plastics (down-stream products)	20	30	12	40%
Automobiles	29	50	14	51%
Rubber (passenger	30	30	12	60%

tyres)				
Furniture	20	20	10	50%
Motor components	24	30	12	50%

The tariff cuts would inevitably result in de-industrialisation and loss of jobs. Already our manufacturing sector has been declining due to the economic crisis. For instance, the auto sector is already bleeding from the economic crisis due to low export volumes and low domestic and international demand. This has resulted in closure of factories and loss of jobs. The reduction in output in the sector would affect other sectors such as the auto components, rubber, glass, textiles, leather, plastics, electrical machinery, iron & steel, non-ferrous metals, metal products, machinery and equipment.

As a result of liberalization, the SA economy is more integrated in the world economy and more exposed to external shocks. More than 50% of tariffs are at a 0% duty with the exception of a few high tariffs to protect sensitive and labour-intensive industries, clothing auto sectors. The Current NAMA text requires developed countries to reduce tariffs by <30% while developing countries are asked to cut by >60% on average. This is contrary to the developmental objectives of the round and less than full reciprocity in tariff commitments. Furthermore ITUC studies have found that tariff cuts would lead to more job losses in the formal economy.

ITUC analysis on an ILO-WTO study found and recommended that
-trade and exports should not be the only main objectives of development as there is non direct link between employment and trade as many jobs are created in the informal sector.
-Furthermore, foreign direct investment has largely been in large developing economies such as China and India.
-Most of the poor countries in particular Sub-Saharan countries have been faced with divestments and disappearance of productive capacity.
-Trade liberalisation should allow for creation of domestic market through among others infant industry policies. Therefore, production should precede trade.
-Neglecting the manufacturing sector implies that our local sector would not be able to compete on world markets and this could destroy existing jobs.
-Focusing exclusively on export oriented industries would not assist unskilled labour which is particularly located in rural areas.

Furthermore, trade liberalization restricts government from using import duties or taxes as a sources of revenue. Most countries in SADC obtain at least 10% of their government revenue from import taxes which would be drastically reduced under Doha tariff cuts.

Trade and environment

Copenhagen should not erode industrialization objectives of developing countries. Most of the developing countries are at an early stage of development and they are likely to experience high carbon content. Failure to acknowledge the fact that developing countries at an early stage of development of industrialization which might destroy the environment might result in goods produced in SA and other developing countries being blocked and not being able to be exported because of the high carbon content. Therefore, there need to e a balance between commitment to reduce greenhouse gases and industrialisation and creation of decent work.

Agriculture

The Agricultural Agreement was drafted to address the interests and concerns of the US and the UK. The US protected its agricultural for more than 50 years. Agriculture is very important to developing countries because it represent almost 40% of their GDP, 35% of their exports and 70% of employment. Contrary to NAMA where developed countries are granted few options to shield sensitive products from tariff liberalization in Agriculture, developed countries have flexibilities to include as many sensitive products as possible. Furthermore, protectionist measures by developed countries in agriculture have contributed to the current food crisis whereby net-exporting food countries have become net importers of food products.

The Agreement on Agriculture requires member states in particular rich countries to reduce their domestic support to facilitate free trade. The latest Agricultural text addresses various issue including a reduction in domestic support or subsidies, reduction and phasing out of export subsidies and market access in particular sensitive products, special products that is products to be exempted from tariff cuts and subsidy reduction and commitments in order to achieve food sovereignty. One of the major disagreements which led to the 2008 deadlock and breakdown of the talks is the special safeguard mechanism (SSM). This mechanism would have enabled poor countries to impose a special tariff in the event of a surge in imports of agricultural products. Rich countries in particular the US are against the SSM and wanted it to be invoked only when imports reached a certain percentage level. A SSM is different from a normal safeguard because higher safeguard duties or tariffs can be triggered when imports rise above a certain level or if prices fall below a certain level, and it is not necessary to demonstrate that there is serious injury to the domestic industry.

Services

The objective of the General Agreement on Trade in Services e.g. water, energy is to ensure that there is no discrimination between foreign service providers or companies and domestic providers. The services agreement applies to all services and there is no prior exclusion of any services sector. The WTO dispute resolution body has decided that it would restrictively and rarely exclude sectors from the purview of GATS as the ultimate objective of GATS is full liberalization across all sectors.

Labour's biggest concern is on the opening of services that are traditionally considered as public goods and provided by the state. Although public service sector not provided in competition with private sector is excluded such exclusion cannot be provide any comfort to labour because only government-to-people –delivered-services are excluded from GATS. All forms of public services with exclusion of social security involve some kind of commercial or private sector participation. Furthermore, government procurement is not completely excluded from GATS rules. The Agreement provides that there must be an initiative of new talks on government procurement. This could eventually prevent the government from empowering local companies or developing local productive capacity.

Developing countries have been misled into believing that GATS is pro development, in particular mode 4 on movement of natural persons. This form of services has not succeeded merely because it is an immigration issue and should not have been part of WTO. Countries would always place restrictions on movement of persons for economic needs and other reasons. It is highly unlikely or impossible that rich countries would allow unskilled labour from developing countries in their markets. Already foreign labourers are subject to various forms of abusive labour practices such slave wages. Some of the British citizens have accused other European countries of taking their jobs. Therefore, it is highly improbable that the low skilled workers would ever be allowed to work in developing countries in greater numbers.

Allowing foreign companies to provide services in competition with local providers may result in the following
-Destruction of small business through takeovers and mergers and a consequent reduction in jobs
-Denial of access to services to the poor e.g. there are few banks in rural areas and in the outskirts and some have closed down their branches in the outskirts due to the economic crisis
-Make basic services expensive for the poor. Basic services such the provision of water is constitutional right and a public good which cannot be provided by the private sector without increasing prices for the poor. Therefore, only government can ensure that there is access to basic and essential services to the poor.
-Could lead to privatization of basics services
-liberalization of financial services in particular capital control or flows has resulted in the financial crisis in the US spreading to all economies of the world and with devastating results on the real economy and jobs.
-Furthermore, developing countries need an assessment of trade in services before negotiations on further liberalization could be concluded and that there should be a special safeguard mechanism to ensure that Foreign Service suppliers do not destroy local companies and jobs.
- SA should withdraw its offer on financial services in particular on the hedge funds and speculative investment such as derivatives. The London G20 agreed that this non regulation contributed to the financial crisis and should be re-regulated.

Intellectual property

Intellectual property was parachuted into WTO at the instance of the pharmaceutical companies. It is regulated under the Trade Related Intellectual Property Rights (TRIPS). The TRIPS agreement is also evidence of capture of WTO by multinationals. Intellectual property is dealt with by WIPO but was allowed to be incorporated in the WTO. One of the reasons for incorporation of the non trade issues within the WTO is the use of the powerful trade sanctions in the event of non compliance.

The TRIPS agreement places many restrictions on developing countries who are net importers of intellectual property in particular patents. The majority of registered patents originate from developed countries. Although some of the patents use biological material or inputs and indigenous knowledge from developing countries, the owners of these properties are not being asked for their consent for the use of their property and this amount to theft. The TRIPS agreement places restrictions on developing countries to provide access to affordable medicine. For instance, TRIPS provide that for a country to impose a compulsory license for production of generics such production can only be for the domestic market and for a reasonable fee to the patent holder. This limits local production as few countries might not produce due to the size of the market and might not be able to create technical skilled labour. Furthermore, this deprives developing small countries from developing productive capacity and diversifying their economies from production of raw materials to high value added products.

Enforceability of WTO rules: Trade sanctions
Trade sanctions are powerful as they are enforced by an individual country through among others imposing a higher tariff on imports of the guilty country or denying that country a preferential or lower tariff. Such an action may target any imported product from the guilty country.

EU-SADC EPA

The European Union negotiating mandate is based on the Global Europe Strategy to capture market access in developing countries for EU multinational corporations. It is exclusively about market access of multinationals to be achieved through among others a reciprocal trade agreement and reduction in tariffs. Furthermore, the EU intends to include WTO plus issues such competition policy and government procurement.

Export taxes are imposed by developing countries to protect their raw material such as minerals in order to encourage diversification and protection and preservation of these products. The EU and other developed countries such as Japan have been pushing hard for a prohibition on export taxes. In the latest SADC EPA text export taxes are outlawed in more than one place. Despite the declarations appended to the Final Act on negotiating text on export restrictions, the Agreement has already sealed text on export restrictions, other than on environmental grounds or for infant industries and not without consultation with the EC first.
-Under the SACU agreement member states excluding SA may impose an infant industry tariff to protect local industries against imports or foreign competition for a certain

period. Under the EPA's signatory parties will only use Infant industry for a specified period and in consultation with EU. This will severely limit the policy space of poor countries to pursue industrial development and diversification.
- The interim EPA provides for a single stage transformation for products in the textile and clothing categories. This will allow signatory countries in SADC to import raw materials for easier manufacturing and export to the EU. However, this might result in SADC markets being flooded with clothing and textile products from the EU to detriment of local companies and jobs. Therefore, there is a need to tighten the rules of origin to ensure that they support our industrialisation objectives.

-Subsidized imports from the EU may destroy local companies and jobs because they would resulting domestic goods being expensive relative to imported and this may result in loss of jobs.

2002 SACU AGREEMENT
The SA economy is intertwined with the SACU economies. Therefore, industrializing SA economy to exclusion of these countries economies poses not only an economic risk but a political and social risk. It should be noted that SA mining industry used workers from these countries as reserve labour on the mines. However, the EPA if it implemented may result in destruction of regional integration initiatives and may further exacerbate unemployment and poverty problems within the region.

SACU countries should not overly rely on aid to develop their economies. They should rather focus on creating regional linkages and developing productive capacity. Furthermore, the reliance on tariffs for government spending by the BLNS is not sustainable. The SACU revenue fund should be used and reinfenced for development in particular infrastructural development and creation of jobs.

NEPAD

The New Economic Partnership for Africa's Development is an integrated socio-economic development framework for Africa. The 37th Summit of the OAU in July 2001 formally adopted the strategic framework document for NEPAD. Tariff cuts reduced government revenue and could result in government being unable to finance social spending in particular infrastructure development projects. The New Economic Partnership for Africa's Development has a potential to insure that Africa develops and create jobs. However, this is hampered by lack of government revenues. However, a greater emphasize should be on harnessing funds to ppromote diversification of production, ad exports, particularly with respect to agro-industries, manufacturing, mining, mineral beneficiation and tourism and improvement on intra-African trade and improving access to markets of developed countries. There should be an establishment of a regional monetary fund to complement and replace IMF.

COSATU resolutions

The 9th COSATU National Congress of 2006 resolved among others that;

-developing countries should not be coerced into entering into bilateral agreements with rich and powerful countries,
-governments should not be forced to compromise on multilateral formulas for the reduction in tariffs with already negative effects of such trade liberalization and that the the offensive thrust of NAMA be blocked
-SA should defend its right to maintain external tariffs that are necessary to promote defence of jobs and industrial development and diversification.
-Furthermore, Governments should not make any offers to open up any public service to foreign commercial or privatized service providers either on a bilateral or plurilateral basis and campaign for the stopping of GATS altogether,
-there should be no compromise on the removal of agricultural export and production subsidies in the highly industrialized countries.

The above resolutions have been reinforced by the 2007 ANC Polokwane Resolution which provide among others that 'the position adopted by South Africa in global talks must continue to emphasise the need to retain policy space on tariffs and industrial protection for developing countries and avoid obligations to significantly liberalise our manufacturing or services sectors. The same position was repeated in the 2008 ANC-SACP and COSATU Alliance Summit. Furthermore, the 2009 ANC manifesto took these positions further by providing that the creation of decent work opportunities and sustainable livelihoods will remain at the heart of all economic policies including industrial trade and industrial policy.

9 Recommendations

The 2007 Polokwane resolution provides that industrial policy shall remain at the centre of all laws and policies in particular decent work.

- Industrial policy must support sectors that can create economic opportunities on a mass scale rather than prioritizing exports.
- Bias towards labour intensive industries in particular the light industries
- All trade agreements must be subject impact assessment on jobs
- Bilateral and multilateral trade agreements should ensure that there is policy space to protect and establish new industries in the future through among others tariffs and abstain from making commitments under GATS that might limit government 's ability to nature small businesses. .
- Increase in local procurement and local content to ensure that we build industrial capacity
- Amend the procurement policies to provide for creation of decent work and industrialization objectives in particular local procurement.
- Introduction of export taxes to protect raw material and discourage export of raw material without being beneficiated.
- A special safeguard mechanism to protect developing countries' infant industries. The SSM (under the Doha the SSM is limited to Agriculture) should not only be limited to Agriculture but should apply to all WTO agreements. This would give effect to the special and differential treatment and the unbalanced level of development between developed and developing countries. The traditional SSM is

too high for developing countries industries which are small and might find it difficult to prove that the import caused injury.