



Durban Export Week

How international trade and FDI contribute to regional value chains

Massimo de Luca
EU Delegation

05 October 2018



Why Regional Value Chains

Increased participation in regional and global value chains has become a must

Opportunity is now

- Increasing demand from the continent
- Trade turmoil – create a buffer
- Migration of parts of GVC following shift in competitive advantage
- Push from FTAs (AfCFTA)
- SDGs Agenda



Current situation

Mismatch between plans and reality

Intra - AFRICA trade

- Very low 9%
- SA leads accounting for a fourth
- Mainly oil

Intra – SACU trade

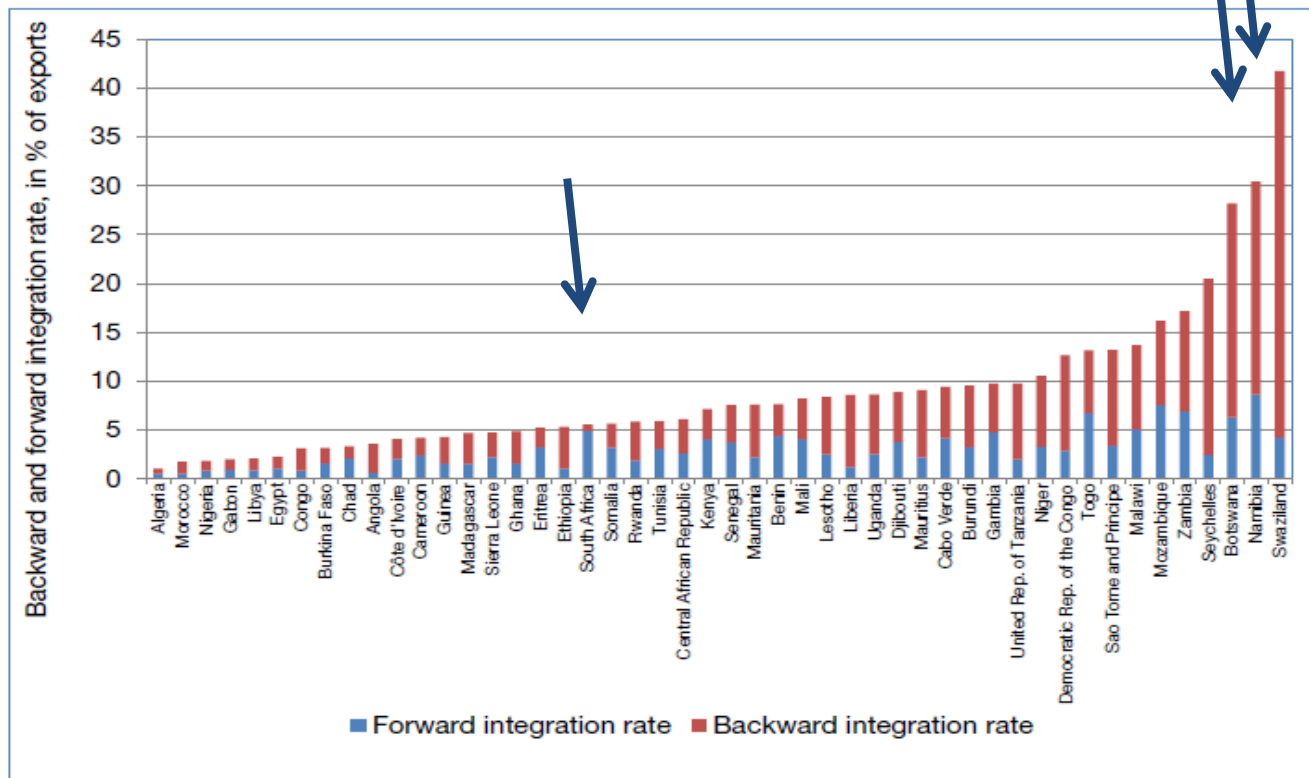
- 14% - higher than African average
- Imbalanced towards SA
- Opportunities in manufacturing and food



2. Backward integration

- *Southern Africa most integrated*

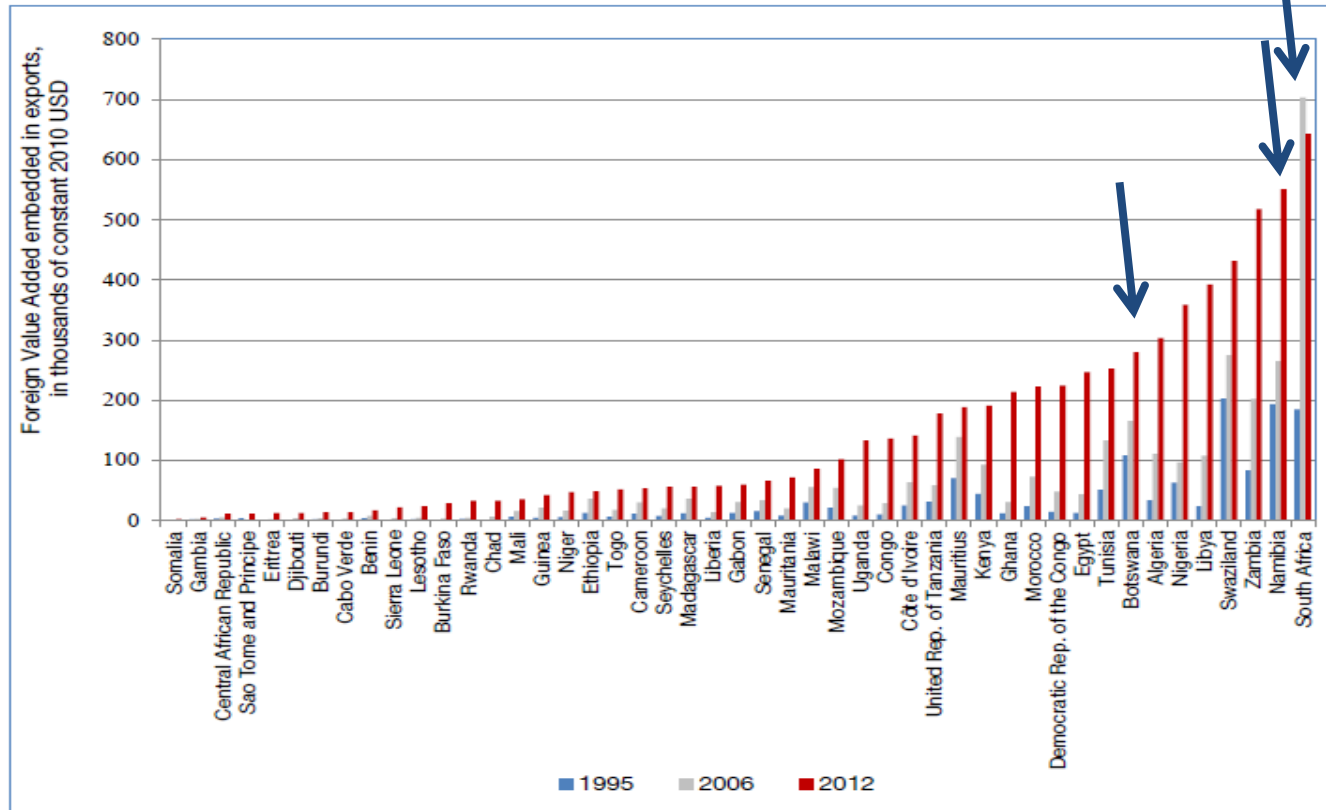
Figure 1. Participation in African RVCs, Backward and Forward Integration Rates, 2012





- *South Africa less integrated than before*

Figure 2. Participation in African RVCs, foreign value added in thousands of constant USD, 1995, 2006 and 2012



Source: Author's calculation based on Eora Database.



Connecting to RVC and GVC

Instruments exist:

- SACU
- SADC Protocols
- Tripartite FTA
- AfCFTA
- EPA
- AGOA



EPA, in particular

- Market access
- RoO
- Policy space
- Safeguards
- Dialogue and dispute resolution mechanisms
- Co-operation in SPS and TBT
- Stimulates investments and donors funding



SA TRADE WITH THE WORLD

	SA EXPORTS billion rands			SA IMPORTS billion rands			TOTAL TRADE
	2017	Var 2016 %	%/total	2017	Var 2016%	%/total	2017
WORLD	1 187	7.9%	100%	1 107	0.7%	100%	2 294
EU	262	4.8%	22.1%	338	0.0%	30.5%	26.2%
AFRICA	311	-1.4%	26.2%	110	-2.9%	9.9%	18.3%
BRICS	189	13.9%	15.2%	281	4.5%	25.4%	20.1%
USA	89	11.3%	7.5%	73	0.0%	6.6%	7.1%
MERCOSUR	9	-3.4%	0.8%	36	-18.6%	2.7%	1.7%

Source: DTI

- The EU remains South Africa's main trading partner accounting for 26% of all trade (22% of SA exports and 30% of its imports).
- Followed by BRICS (mostly China): in terms of exports only 15.2%. USA and Mercosur far behind
- Bilateral trade has kept increasing
- Still trade surplus enjoyed by the EU but shrinking



SA Exports to the EU

	SA EXPORTS to the EU billion rands		
	1 Sem18	Var 1Sem17	%/total
C17: Vehicles, aircraft, vessels, transport equipment (86-89)	35,0	-4%	28%
C14: Metals (71) – mainly platinum	22,9	8%	18%
C15: Base metals (72-83) – mainly aluminium and steel	12,9	-1%	10%
C02: Vegetable products (6-14)	12,5	11%	10%
C05: Mineral products (25-27) – mainly iron ore	12,1	-13%	10%
C16: Machinery & mechanical appliances; electrical equipment (84-	10,6	-7%	8%
C06: Products of the chemical or allied industries (28-38)	8,9	17%	7%
C04: Prepared foodstuffs; beverages, spirits, tobacco (16-24)	4,8	28%	4%
C01: Live animals	2,4	30%	2%
C07: Plastics & articles thereof; rubber & articles thereof (39-40)	1,4	8%	1%
C11: Textiles & textile articles (50-63)	1,4	-4%	1%
C10: Wood and paper (47-49)	1,0	-29%	1%
TOTAL	126	1%	

Source: DTI

- SA exports of agricultural and manufactured goods: >60% and increasing
- EU is a significant destination for SA's iron and steel products
- Deficit in manufacturing BUT they are mostly inputs for the sector



EU Agri Food trade with SA

EU Agri Food trade with: South Africa

2. Structure of EU Agri-food trade with South Africa, 2007 - 2017



Source: EU

- Agri-food trade shows a trade surplus: >€1bn
- Processed foods and beverages accounts for ¾ of trade



Results

- Increase in exports to the EU
- Diversification
- Trade-connected investments
- Development co-operation

Not enough....



TRQ uptake 2018 (October)

Order number	Product	Unit	Initial amount	Usage	Balance	Usage (%)
09.1801	Milk powder	KG	500,000	0	500,000	0%
09.1802	Butter	KG	500,000	0	500,000	0%
09.1804	Strawberries	KG	392,500	0	392,500	0%
09.1806	Sugar, raw and refined	KG	50,000,000	780,025	49,219,975	15.6%
09.1808	Sugar, raw	KG	100,000,000	99,994,297	5,703	99.9%
09.1818	White crystalline powder	KG	500,000	0	500,000	0%
09.1820	Citrus fruit jams	KG	100,000	0	100,000	0%
09.1822	Canned fruit	KG	56,176,000	19,453,002	36,722,998	65.3%
09.1824	Tropical canned fruit	KG	3,020,000	0	2,843,264	0%
09.1826	Orange juice, frozen	KG	1,078,000	1,078,000	0	100.0%
09.1829	Apple juice	KG	3,712,000	3,127,147	584,853	84.2%
09.1830	Yeast	KG	350,000	59,653	290,347	17.0%
09.1892	Wine (bottled)	L	78,482,600	4,7623,661	3,0858,939	60.6%
09.1893	Wine (bulk + bottled)	L	33,635,400	33,635,400	0	100%
09.1894	Ethanol	KG	80,000,000	9,933,878	70,066,122	12.4%



Same stumbling blocks for EPA and SACU/SADC Protocols

- Tariffs and Non-Tariff Barriers (NRCS in SA for example)
- Poor infrastructure and border delays (lack of customs co-operation)

Why?

- Industrial policy fundamentally based on an import substitution/market capture paradigm rather than RVC/GVC.
- Temptation to breach existing commitments too easily prevailing on a regional and global vision
- Resulting regulatory systems compete with each other (TBT and SPS in particular)

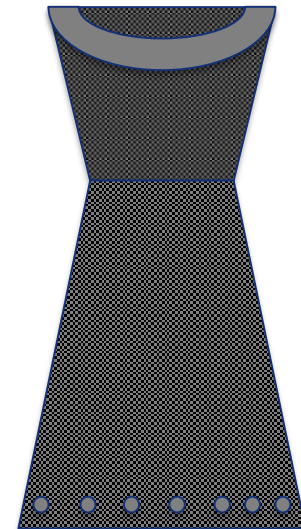
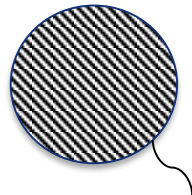


Can ROO contribute to developing RVC?

- Simplified processing requirements
- Cumulation
- Strengthening administrative cooperation



Textiles – what is single transformation?





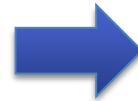
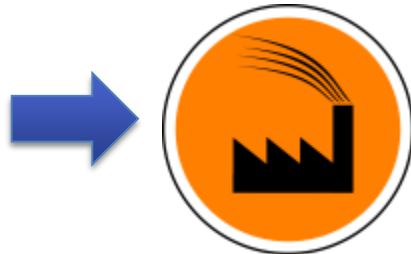
Is this a regional value chain?

- administrative cooperation and cumulation in action

Fabric from
Bangladesh



Preparatory
operations
in ZA or NA



Printing
in BW



EU



Printing accompanied by at least two preparatory or finishing operations (such as scouring, bleaching, mercerising, heat setting, raising, calendaring, shrink resistance processing, permanent finishing, decatizing, impregnating, mending and burling) where the value of the unprinted fabric used does not exceed 47,5 % of the ex-works price of the product



Cumulation – as easy as making jam?

Morula fruits (BW, NA)



Sugar (SZ)



Morula jam (BW)



Retailer (EU)



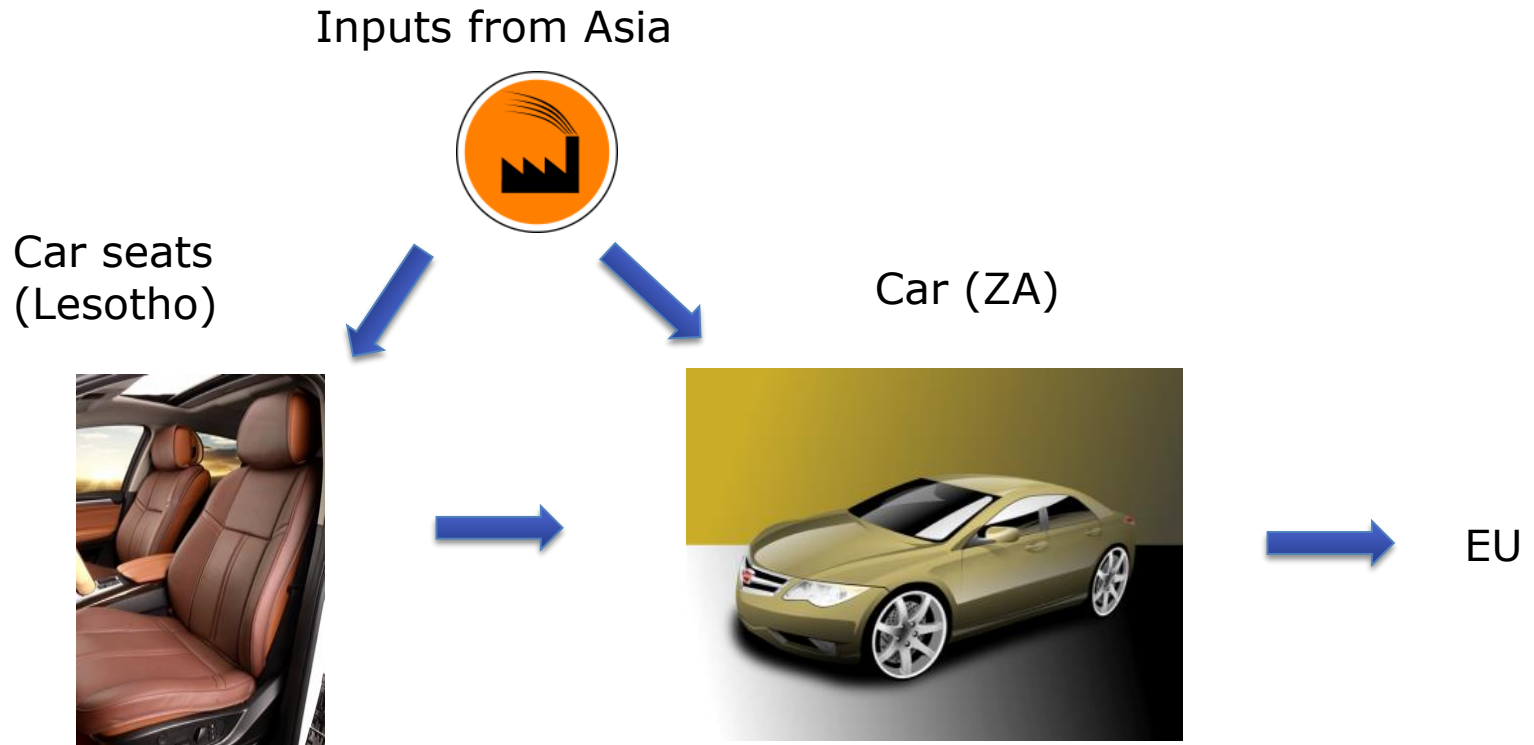
Rule of origin: HS 2007.99: Manufacture in which:

All the materials used are classified within a heading other than that of the product;
and

The value of any materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product



Cumulation at work?





Industrial policy needs to attract FDI

- Proactive industrial policy needs foreign investment: FDI has been the largest source of external finance for developing economies
- Not only a source of funds
 - ✓ builds and upgrades industries
 - ✓ Diversifies the economy
 - ✓ connects to international markets
 - ✓ drives essential innovation and competitiveness
 - ✓ package of assets that includes technology, skills and know-how,

In Southern Africa, FDI declined by 66 per cent to \$3.8 billion.

→ Commodity cycle only part of the reason

→ Policy uncertainty and inadequate investment policy tools



Proliferation of Industrial policies

BUT too focused on traditional models

Need effective interaction with investment policy

Table IV.1. Evolution in industrial policies and new themes

	Until the 1970s	1980s–1990s	Modern industrial policies	
			2000s and ongoing	Recent/emerging themes
Key features/themes	<ul style="list-style-type: none"> Industrialization and structural transformation 	<ul style="list-style-type: none"> Stabilization, liberalization, laissez faire 	<ul style="list-style-type: none"> Knowledge economy GVCs 	<ul style="list-style-type: none"> NIR Sustainable development
Policy goals	<ul style="list-style-type: none"> Creating markets, diversification 	<ul style="list-style-type: none"> Market-led modernization 	<ul style="list-style-type: none"> Specialization and increased productivity 	<ul style="list-style-type: none"> Modern industrial ecosystem development
Key elements	<ul style="list-style-type: none"> Import substitution Infant industry protection Sector development Gradual and selective opening to competition 	<ul style="list-style-type: none"> Limited government involvement More horizontal policies FDI opening Exposure to competition 	<ul style="list-style-type: none"> Targeted strategies in open economies Enabling business environment Digital development (IT) and ICT diffusion Participation in global production networks FDI promotion combined with protection of strategic industries SME support Skills development 	<ul style="list-style-type: none"> Technical capabilities development Innovation in production (OT) Learning economy SDG sector development Public-private knowledge/tech development institutions Acquisition of foreign technology Entrepreneurship development
Policy environment	<ul style="list-style-type: none"> High political legitimacy for national development strategies 	<ul style="list-style-type: none"> Low political legitimacy for interventionist development strategies Limitations to policy space through international commitments 	<ul style="list-style-type: none"> Regained legitimacy for national development strategies Moderate policy space in selected areas 	<ul style="list-style-type: none"> More policy space in new fields More emphasis on inclusiveness

Source: UNCTAD, adapted from Andriani (2016).

Note: ICT – Information and communication technology, IT – information technology, OT – operational technologies, SME – small and medium enterprise.



Investment policy

1. Incentives and performance requirements

- Effectiveness depends on the overall investment climate
- Cost based instruments more effective than tax holidays
- Local content and JV should not be the main tools

2. SEZs

- Mixed results: need to create clusters expanding both upstream and downstream – competitively

3. Investment facilitation

- Should be at the centre stage and not only focused on big projects/bring in SMMEs – Role of business associations and advocacy

4. Investment protection



WAY FORWARD

- Take advantage of changing trade dynamics
- Important policy shift: Regional and global trade as backbone of industrialisation. Political leadership required
- Implement customs co-operation as well as blueprint for SPS and TBT supporting cross-border trade
- Attract FDI (and donors' finance) towards sustainable/competitive value chains connected to markets
- Moderate use of trade distortive incentive and test their impact on general welfare



Useful links

SADC EU EPA Outreach: <https://sadc-epa-outreach.com/>

Export trade tools

Trade Helpdesk: <http://trade.ec.europa.eu/tradehelp/>

Duties in accessing the EU market

http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en

TRQ utilisation:

http://ec.europa.eu/taxation_customs/dds2/taric/quota_consultation.jsp?Lang=en

Trade Barriers in accessing SA by the EU

http://madb.europa.eu/madb/barriers_crossTables.htm?isSps=false#letter-s



Thank you for attention and questions

Massimo De Luca

massimo.de-luca@eeas.europa.eu

@EUinSA @civet.debiche #SADCEPA



CONTACT US

South Africa

ero_ited@thedti.gov.za

European Union

Delegation-S-Africa@eeas.europa.eu

FOR MORE ABOUT THE SADC-EU EPA

<https://sadc-epa-outreach.com>

[#SADCEPA](#)