BIZCOMMUNITY

Economists outline SA trade policy options

By Shaun Benton

10 Oct 2007

Economists at the Trade Law Centre for Southern Africa have recommended that India reduce its tariffs on gold imported from South Africa.

This is outlined in a new book entitled *South Africa's Way Ahead: Trade Policy Options*.

The reduction of gold tariffs would lead to mutual gains for both countries, says co-writer and leading Tralac economist Ron Sandrey. Dr Sandrey is a former chief economist at the New Zealand's Ministry of Foreign Affairs and Trade.

The book makes three key policy recommendations.

If South Africa can secure permanent duty-free access to the United States for apparels, this will go a long way to mitigating possible disruption to the sector from Chinese imports, said Dr Sandrey, referring to South Africa's struggling clothing and textile industry.

Increased imports of Chinese-made clothing over the past few years have led to a quota arrangement on this sector of imports being struck with China.

While local clothing manufacturers and associated unions have welcomed the introduction of theses quotas in 31 clothing product categories, these restrictions are temporary, ending on 31 December next year.

Dr Sandrey and co-authors Hans Grinsted Jensen, Nick Vink and Taku Fundira found that the motor vehicle sector has reached a point where it is internationally competitive and able to withstand most of the pressures that would result from free access to the South African market.

While potential pressure would come from the European Union, the India-Brazil-South Africa trilateral axis and the US, this provides economic support to the recent agreement to lower EU tariffs into South Africa for vehicles, the authors state.

Even if motor vehicle-related tariffs were stripped away, Dr Sandrey said, the industry would remain competitive.

The economists used economic modelling to project possible “welfare gains” from various trade agreements. Welfare gains are defined by Dr Sandrey as the extent to which a country would be better off.

Potential outcomes from various free trade agreements are also discussed in the book.

The major finding from this global trade analysis exercise is the surprise of massive gains for South Africa from access to the Indian market of gold at 0%, rather than the current 15%, duty.

India's second-largest export is gold jewellery, says Dr Sandrey, making this scenario “a happy juxtaposition of the world's leading gold producer with a large jewellery exporter that enables both partners to prosper since India's costs are reduced”.

“The policy implication is very clear: reducing the Indian tariffs on gold is a win-win situation,” say the authors of the IBSA chapter.

Dr Sandrey suggests that South Africa would also gain from a free trade agreement with the US, talks on which were started in July 2003.

He said a computer simulation of an agreement with the US found that South Africa would gain US$154 million from such an agreement. This would partly be derived from increased economic efficiency in South Africa's economy as a result of lowering its own tariffs.

The Global Trade Analysis Project (GTAP) computer model that the authors used found that a successful outcome to the possible Doha Development Agenda of the World Trade Organisation would lead to global welfare gains of about US$48.2 billion.

The book does, however, acknowledge that there winners and losers in trade liberalisation, and that this is an even more difficult issue when it occurs in a multilateral context.

Article published courtesy of BuaNews