MEDIA RELEASE

Trade experts share insights on how to mitigate the effects of the coronavirus and other global uncertainties

Within a few short weeks, the coronavirus (Covid-19) has spread across the world and become a global phenomenon. All countries are deeply concerned about it and all countries will almost certainly be seriously affected by it, with some governments resorting to extreme measures to try and limit its potentially devastating impact – from locking down entire cities or regions to suspending air travel. While the world has experienced many shocks over the years Covid-19 has pushed global instability and uncertainty to a new level.

It is in the face of a global health pandemic of this nature that the integrated nature of the global economy is brought into sharp focus, with production as well as trade and investment flows – the lifeblood of the global economy – thrown into disarray. How then should policymakers, trade promotion officials and business people be responding to the coronavirus and indeed other disruptions in the world?

This was the focus of the **International Trade & TRADE-DSM® User Group Conference** held in Potchefstroom on **12 March 2020**. The conference was convened under the auspices of the **North-West University's TRADE research entity** in collaboration with the university's spin-out company, **Trade Advisory**, and the **WTO Chairs Programme**. Among the 80 delegates were officials from South Africa's national and provincial governments, members of the business community and a number of academics. The impressive line-up of local and international speakers shared their views and experiences of a world that is witnessing unprecedented upheavals on many fronts: economic, geopolitical, health, climate and technological – all of which call for new and more sustainable ways of doing things.

"In amongst the many disruptions and uncertainties in the world today, Covid-19 has stolen the limelight," said **Francois Fouche** from Trade Advisory. "And attempts to kill the virus could ultimately kill the world economy, affecting everyone." He added that those countries with the mind-set and resources to adapt quickly to unexpected shocks in the short term and a (possibly) very different world order in the longer term will have the best chances of bouncing back.

Covid-19 is an extreme example of a crisis with the potential to inflict far greater damage on the global economy than the financial crisis of 2008–09. Yet other forms of instability in the world today are also putting many countries at risk – especially South Africa whose insipid growth and high levels of indebtedness make the country particularly vulnerable to external shocks.

Prof Raymond Parsons of the NWU Business School said that recent years have seen tectonic shifts in the world, including a rise in protectionism, major technological advances, climate change, growing inequality and mounting anger over economic setbacks. "Although the current disruptive politics in many countries are fuelled by economic disappointment and frustration, identity is often the tip of the spear," said Raymond. Identity politics (instead of economics) have, for example, been vividly on display in the trade war between the United States and China, in the ongoing tensions in the Middle East and also in Brexit, which has still not delivered a final outcome.

"It eventually became clear that Brexit would be a process, not an event," said Raymond. After protracted and complex negotiations, the UK left the European Union on 31 January 2020. This marked the start of an 11-month transition period in which the new relationship between the UK and the EU would be hammered out, with the current preference being for an FTA (free trade agreement). Until the new agreement comes into force, the UK will remain in the single market and continue to adhere to EU rules.

However, there are serious doubts about whether it is technically and politically feasible to complete the EU-UK negotiations by the end of 2020, which would result in more uncertainty after December for the UK and its trade and investment partners. The UK and South Africa enjoy a fairly even trade balance and regulatory consistency. The UK is South Africa's sixth largest trading partner and also a major investor in the country. South Africa would be seriously affected by a 'hard Brexit' (effectively no deal with the EU), particularly its automotive and agricultural export sectors. It could also be adversely affected by other bilateral deals that the UK negotiates with different countries, which could alter its (South Africa's) competitive position.

Raymond stressed the importance of South African businesses keeping abreast of the Brexit deliberations and communicating with clients and suppliers who will be affected by the new EU-UK deal. When there is uncertainty at the macro level, businesses needed to remain alert to risks and be flexible enough to change course if necessary. This is where the TRADE-DSM® can play such an important role, given its ability to quickly pinpoint new or under-exploited export market opportunities when traditional markets become costly or challenging. Traditional market selection can be very expensive and time-consuming, and is in any case under threat now that Covid-19 is making it more difficult for people to travel internationally.

Martin Cameron from Trade Advisory said that most companies – even in advanced countries like the Netherlands and Australia – do not use structured information when making market selection and investment decisions. When a crisis occurs, like Covid-19, and a country like China is 'literally' taken out of the equation (even if temporarily), it can have very serious consequences for trading partners if they lack an effective methodology for identifying alternative markets and sources of supply. Established global value chains are also disrupted when a dominant player like China is compromised. Given its strong trade and investment links with China, South Africa is very vulnerable at the moment.

"The world is extremely exposed to China as an export destination and supplier," said Martin. "Covid-19 may be a transient event but it will have a permanent impact on China's role in world production and trade. As a result of the crisis, many countries will realise that putting too many eggs in one basket (excessive reliance on China) is not an optimal strategy and they need to diversify going forward." While the trade in tangible goods is highly sensitive to upheavals in the supply chain, the trade in certain services seems to be less so. This has significant implications for business planning and policymaking in South Africa.

Although the UK has officially left the EU and the 'separation deal' is still a work in progress, South Africa should be able to look forward to ongoing, strong ties with the EU. According to **Roberto Cecutti** from the EU Delegation to South Africa, the EU (even without the UK) remains South Africa's main trade and investment partner. South Africa is the only 'strategic partner' of the EU in Africa and one of seven strategic partners globally. However, South Africa is under pressure to align its trade and investment policies to Europe's economic, energy and climate goals. Failure to do so could result in South Africa losing out to other African countries with more accommodating policies and greater economic momentum.

"There is scope to increase EU FDI in South Africa," said Roberto, "but various factors are potential deterrents to investors. These include local content requirements and policy uncertainty – particularly in connection with the Mining Charter, the Copyright Bill, the rollout of 5G, the Integrated Resource Plan and the role of independent power producers in the country's energy mix." Energy efficiency and a commitment towards a greener economy are among the key criteria for EU investment in South Africa. Yet, given South Africa's unstable energy sector and fiscal problems, these criteria are difficult to meet. Roberto added that climate change is of great concern and the EU is not prepared to compromise on its commitments under the Paris Agreement.

"The EU also subscribes to fair and rules-based trade," said Roberto. "Under the 'Trade for All' initiative, the EU advocates that the benefits of trade should be accessible to more people: consumers, workers, the self-employed, SMEs and citizens at large, as well as people in partner countries – particularly the poorest."

André Loozekoot from the Netherlands Embassy added that a serious impediment to Dutch investment in South Africa was the onerous visa system for business migrants, especially those applying under the 'highly skilled' category. He shared several case studies of major investment deals that had been scuppered because working visas had been denied by South Africa's Department of Home Affairs – often on the flimsiest of grounds or without reasons given. When visas *have* been granted, the Dutch applicants have in some cases had to wait several months to receive them, signalling excessive bureaucracy. The apparent reluctance on the part of the South African authorities to import skilled individuals into South Africa stands in sharp contrast to the Netherlands' open approach to foreign skills acquisition, including being a key destination for South African professionals wanting to work in Europe.

"A study conducted in the Netherlands showed that 400 000 expat workers created 1.5 million local jobs," said Andre, which helps to dispel the myth (and evidently the fear in South Africa's case) that foreign workers rob local citizens of work. "Because of the visa problem, South Africa is increasingly losing its status as a preferred country for business." If a country has serious economic development shortcomings but the necessary skills are in short supply at the domestic level, importing skilled people can be a sensible option because trying to build skills from the ground up can take too much time. Of course, that does not mean that local skills development should be abandoned; rather, an optimal balance is needed between foreign and local skills, as the latter should grow organically over time.

Whereas the European Commission is the supranational body in charge of policy for the EU, the absence of an overarching authority in the Southern African Customs Union (SACU) is one of the factors that has impeded SACU's development, explained **Anton Faul** of the Namibia Agricultural Trade Forum. Established in 1910, SACU is "a 110-year-old baby", said Anton, "which has not matured or achieved the goals it has set for itself." While the revenue-sharing component is well established and all member states (except South Africa) are heavily dependent on the collective customs revenue generated from trade, the SACU Secretariat has remained largely an administrative body, with no say in the determination of industrial, trade, investment, competition or agricultural policies. Although South Africa argues that members should tailor such policies to their particular circumstances, its own development agenda has tended to dominate, given the country's economic strength relative to the other four.

Another stumbling block to SACU's development is that the private sector plays no direct role in the policymaking process and so the interests and concerns of business are not taken into account. The SACU experience does not auger particularly well for the success of the African Continental Free Trade Area (AfCFTA), which likewise could be vulnerable to countries prioritising their own interests over those of the region.

Dr Maarten Smeets from the WTO in Geneva, speaking via a video link because of an international travel ban due to Covid-19, said that despite the quickening pace of digital trade and the growth of ecommerce in Africa (online shopping, for example, has grown by 18% in 6 years), trade costs on the continent are still very high. This is affecting countries' competitiveness and attractiveness as investment destinations. Intra-African trade also remains very low compared to other regions.

"Comparative trade advantage is being seen in a new light – increasingly, it is about lower trade costs," said Maarten. "The launch of the AfCFTA represents a big milestone for Africa, provided transaction costs can be reduced, since Africa's trade costs are the highest in the world." He cited Africa's infrastructural shortcomings, its dependence on commodity exports and the difficulty of moving up the value chain, which would create many more jobs, as some of the factors stalling countries' development. "The AfCFTA will bring about lower tariffs and help to remove non-tariff barriers. But tariff and non-tariff barriers are becoming less significant in global trade. Of greater importance are countries' institutions and their investment and competition policies, which influence market efficiency, the state of infrastructure and logistics, and digital readiness – all of which have cost implications."

Maarten said that a book will soon be launched under the auspices of the WTO Chairs Programme titled *Adapting to the Digital Trade Era: Challenges and Opportunities*. The book, to which the NWU's **Prof Wilma Viviers** and three other members of her WTO Chair research team have contributed a chapter, will explore the implications of the digital trade era for developing countries, while also presenting some regional perspectives (Africa, Asia, Middle East and Latin America) on how digital technologies can be leveraged to enhance trade performance and accelerate economic growth.

For more details about the work of the TRADE research entity at the NWU, contact Prof Danie Meyer at danie.meyer@nwu.ac.za; and to learn more about the WTO Chairs Programme, contact Prof

Wilma Viviers at wilma.viviers@nwu.ac.za. For more information on the identification of realistic export opportunities, contact Francois Fouche at francois.fouche@tradeadvisory.co.za.

From left to right: Francois Fouche, André Loozekoot, Roberto Cecutti, Prof Wilma Viviers, Prof Raymond Parsons, Prof Danie Meyer, Anton Faul and Martin Cameron