

DISCUSSION PAPER 9/2016

The Impact of Brexit on South Africa



Richard Gibb

Strengthening Africa's economic performance



The Impact of Brexit on South Africa



Contents

Executive Summary	3
Timeline to Brexit	4
How important is the UK to the South African economy?	7
The post-Brexit UK–EU relationship	9
The impact on South Africa	11
In conclusion	13
References	13

About the Author

Professor Richard Gibb has published several books and numerous articles on regional integration in both Europe and southern Africa. Previously Pro Vice-Chancellor at the University of Plymouth (UK) and Provost of Abu Dhabi University, he now acts as a consultant on international trade agreements. He is also an Associate of The Brenthurst Foundation.

Published in December 2016 by The Brenthurst Foundation
E Oppenheimer & Son (Pty) Ltd
PO Box 61631, Johannesburg 2000, South Africa
Tel +27–(0)11 274–2096 · Fax +27–(0)11 274–2097
www.thebrenthurstfoundation.org

All rights reserved. The material in this publication may not be reproduced, stored, or transmitted without the prior permission of the publisher. Short extracts may be quoted, provided the source is fully acknowledged.

Layout and design by Sheaf Publishing, Benoni.

Executive Summary

South Africa can be reasonably confident that by the end of 2019, at the latest, the UK will not legally be part of the EU, nor a signatory to the EU's myriad trade agreements, including the recently agreed Economic Partnership Agreement (EPA) between the EU and SADC. Of primary concern to South Africa's interests, especially exports, is the impact Brexit will have on the UK economy. The biggest threat to South Africa will be reduced export demand if the Brexit negotiations damage the UK economy. Predicting the impact of Brexit on South Africa is further complicated by the need, by 2019, to negotiate a new South Africa–UK trade agreement to replace the existing South Africa–EU agreements, which will no longer apply to South Africa–UK bi-lateral trade after Britain leaves the EU.

The scale of South African exports to the UK, standing at just 4 per cent, will limit the negative economic impacts of Brexit on the South Africa economy. In

addition, the initial estimates predicting the impact of Brexit to cut the potential size of the UK economy have been reduced significantly, with a consensus emerging at around the –2.5 per cent level by 2020. Brexit is unlikely to damage South African exports to the UK. It could even open up certain offensive opportunities for South Africa, especially in agriculture, after the UK leaves the EU's Common Agricultural Policy.

The threat to South Africa is that, by default, Brexit could lead to a worsening of its access to the UK market until such time as a new South Africa / SACU / SADC – UK trade agreement is negotiated. The priority for South Africa is to avoid this default position, and negotiate, even temporarily, a UK trade deal that is close to, or better than, the existing EU arrangement. A secondary priority would be to focus on identifying and supporting, both domestically and through trade agreements, trade interests which stand to gain from the Brexit change.

'Brexit will be terrible for Africa's largest economies'

Quartz Africa, 2016

'For South Africa, the implications (of Brexit) through direct trade links will be relatively minimal'

Daniel Mminele
Deputy Governor of South African Reserve Bank, 2016

On 23 June 2016 the United Kingdom (UK) voted to leave the European Union (EU). With more than 30 million people voting, representing a turnout of 72 per cent, 52 per cent of British voters chose 'Leave'. Given the gravity of this outcome and its far-reaching economic and geo-political implications, there has been speculation in the British media and elsewhere of another UK referendum to confirm this result. That is not going to happen. Britain is going to leave the EU. In the words of British Prime Minister Theresa May, who took over from David Cameron following his resignation the day after losing the referendum, 'Brexit means Brexit'.

If that much is certain, it is also true that the UK and the EU face a period of significant uncertainty and complexity. The process of how and when the UK leaves, the nature of the all-important post-Brexit UK–EU relationship and the impact of the post-Brexit agreement on Britain's national income are significant unknowns.

Of primary concern to South Africa's interests, especially exports, is the impact of Brexit on the UK economy. The most significant threat of Brexit to South Africa will arise from a reduced export demand if the UK economy is damaged as a result of leaving the EU. Predicting the impact of Brexit on South Africa is further complicated by the need to negotiate a new South Africa–UK trade agreement to replace the existing EU agreements, which will no longer apply to South Africa–UK bi-lateral trade after Britain leaves the EU.

In assessing the impact of Brexit on South Africa, three stand-out questions therefore arise:

1. How long has South Africa got (to plan) before the UK leaves the EU?
2. How important is the UK to the South African economy? And,
3. What impact will Brexit have on the UK economy and, in particular, South Africa's interests in the UK economy?

Timeline to Brexit

For the UK to leave the EU it has to invoke Article 50 of the Treaty on European Union (TEU), also known as the Lisbon Treaty. The British Government has to formally notify the European Council of its wish to leave the EU, and thereby invoke Article 50. This immediately triggers the formal negotiation process between the UK and remaining 27 EU Member States (see Map 1), with a timeline of just two years being allocated for the negotiations.

Although that may sound quite straightforward, it is not. Article 50 of the TEU is a very basic five-point plan, only 260 words long. It is vague, open to interpretation and, of course, has never been used before (see Box 1).

Nevertheless, British Prime Minister Theresa May initially confirmed that the UK Government will invoke Article 50 by the end of March, 2017. The UK will then be expected to leave the EU by the summer of 2019. Up to 2019, the UK will apply and be subject to all EU laws and regulations as normal. This timeline is subject to delay on several fronts, not least the decision by the British High Court on 3 November 2016 that Article 50 must get the approval of the British Parliament. Although the British Government has appealed against this decision to the Supreme Court, the need for an Act of Parliament could delay Brexit by as much as six months.



Map 1: EU Member States

If no post-Brexit agreement has been reached two years after Article 50 has been invoked, all EU rules, rights and obligations for the UK cease to exist. Negotiating the UK's exit within two years is going to be a herculean task.

Unpicking over 43 years of Treaties, Agreements and Regulations, covering thousands of different subjects at the very heart of British commercial activity (and more), is not an uncomplicated task. Everything from environmental protection, fishing quotas and fishing rights, to aircraft landing slots and agricultural subsidies, are subject to EU agreements and regulations. Importantly, external trade is at present governed by EU law that will no longer apply to the UK after it leaves the Union. The complexity of this

situation is not made any easier by the fact that no member state has ever left the EU before. Article 50 and leaving the EU is an untested process.

According to a recent BBC report, leading EU law professor Michael Dougan believes: 'The overwhelming consensus is that these things do not take two years to negotiate, the rough guide that we are all talking about in the field is around 10 years.'

So what might happen? Well, the initial two-year period may be focused on establishing a transitional agreement between the UK and EU, perhaps allowing more time to negotiate a post-Brexit trade deal, but that would require the approval and support of all the remaining EU27 states. Because a UK–EU trade agreement would cover areas extending beyond

Box 1: Treaty on European Union, Article 50

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.
2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it. A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.
5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

purely trade, it would be classified by the EU as a 'mixed agreement'. As a consequence, EU decision-making to ratify such an agreement would require 'unanimity' amongst all the 27 states, as opposed to a 'qualified majority'. That's important, as it gives each of the 27 Member States an effective 'right of veto'. Several countries are also likely to require a national referendum to ratify any UK–EU agreement.

The complexity of EU decision-making via 'unanimity' was graphically illustrated in October, 2016 when the comprehensive economic and trade agreement (Ceta) between the EU and Canada, which had already taken seven years to negotiate, was temporarily blocked by the Belgian regional parliament of Wallonia. Unanimity requires all EU28 Member States to support Ceta for the treaty to come into force, but the Belgian federal government was prevented from giving its consent because of opposition from its regional parliament in Wallonia. A last minute compromise, requiring a four page

text to be added to the existing 1 600 page treaty, ensured Wallonian, and therefore Brussels', support. What the EU–Canada agreement illustrates is the complexity of EU decision-making and the ability of sectoral interests to 'veto' a proposed agreement. The Brexit UK–EU negotiations are going to be both difficult and problematic.

At the moment, the Brexit process and timelines going forward are uncertain. However, South Africa can be reasonably confident that by the end of 2019, at the latest, the UK will not legally be part of the EU, nor a signatory to the EU's myriad trade agreements, including the recently agreed Economic Partnership Agreement (EPA) between the EU and SADC. What is less clear is the nature and character of the trading relationship the UK will have with the EU. Equally unclear is the nature and character of the post-Brexit trading relationship South Africa will have with the UK.

How important is the UK to the South African economy?

According to the most recent economic data, in 2015 South African merchandise trade, both imports and exports, to the 28 members of the EU amounted collectively to USD38.3 billion, representing approximately 26 per cent of South Africa's total merchandise trade (International Trade Centre, 2016). The EU28 is by far South Africa's largest trading partner, almost 40 per cent bigger than its second most important trading partner, the Southern African Development Community (SADC). The UK accounts for approximately 15 per cent of all South Africa's trade with the EU, representing 3.7 per cent of South Africa's global trade. Graph 1 provides a summary of South Africa's key trading partners in 2015.

In terms of exports, in 2015 South African merchandise exports to the 28 members of the EU amounted collectively to USD15.1 billion, representing approximately 20 per cent of South Africa's total exports (International Trade Centre, 2016). The UK received 20 per cent of all South Africa's exports destined for the EU, representing 4 per cent of South Africa's global exports.

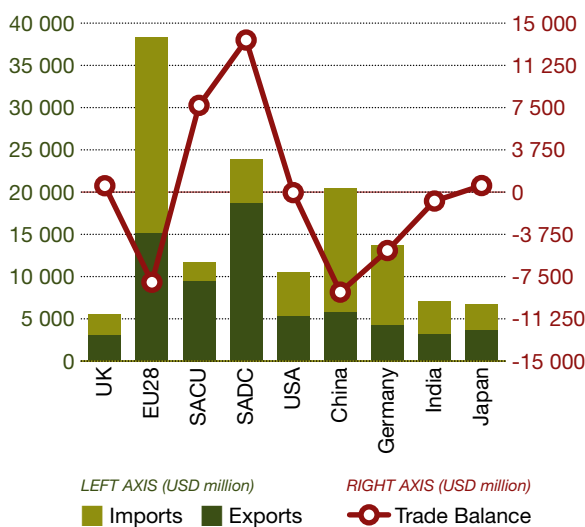
South Africa's exports to the UK are dominated by three key items: precious metals and stones (39 per cent of all exports to the UK); fruits and nuts, mainly

fresh fruit (16 per cent) and; vehicle and vehicle parts (15 per cent). These three HS4 bands, 71, 08 and 87 respectively, constitute 70 per cent of South Africa's exports to the UK. For certain items and regions, for example agriculture from the Western Cape, UK trade is important to the regional economy.

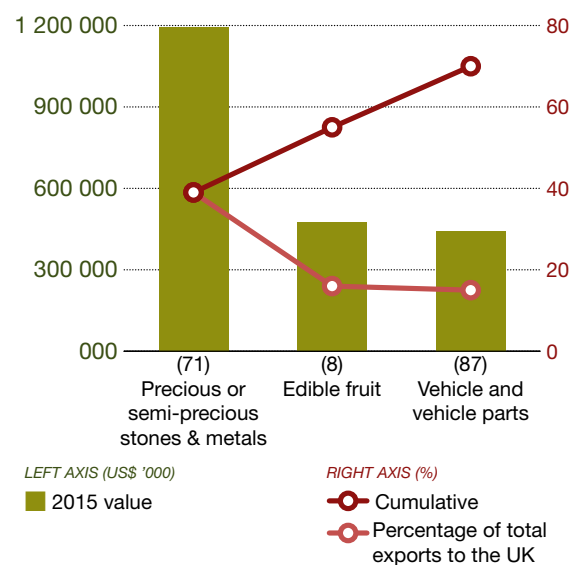
In 2015, the UK was South Africa's third most important export market for agriculture. In 2014, approximately 40 per cent of South Africa's exotic fruit exports, 30 per cent of all fruit exports and 25 per cent of wine exports were destined for the UK market. Clearly, high-value South Africa agricultural exports to the UK are important. Graph 2 provides a summary of key South African merchandise exports to the UK in 2015.

While significant, amounting to USD3 057 million in 2015, the importance of South African merchandise exports to the UK should not be exaggerated. In 2015, South Africa exported more to the rest of sub-Saharan Africa (USD18 652 million) than to the EU and more to India (USD3 136 million) than to the UK. South African exports to the Southern African Customs Union (SACU) were triple the value of those to the UK. In 2015, South Africa's exports to Botswana alone were approximately 15 per cent more than to the UK.

Graph 1: South Africa's key trading partners, 2015



Graph 2: Summary of key South African merchandise exports to the UK in 2015



Source: International Trade Centre (ITC); Palais des Nations; CH-1211 Geneva 10; Switzerland

South African–UK economic links extend far beyond merchandise trade. According to Moody's (2016), South Africa has been the largest recipient of British foreign direct investments (FDI) in Africa, standing at 30 per cent, with a particular focus on mining and financial services. According to the South African Reserve Bank (2016), a significant 46 per cent of South Africa's global direct investments originate from the UK, amounting to approximately USD54 billion, representing 60 per cent of all EU FDI in South Africa. South Africa's FDI in the EU is also disproportionately concentrated on the UK, standing at 30 per cent. In the area of FDI, finance and portfolio investments, the South Africa–UK relationship is significant.

Brexit therefore has the potential to impact South Africa on numerous fronts. The most obvious pathways are:

- Bi-lateral South Africa–UK trade, either positively or negatively. In particular, slower UK growth (as a result of Brexit) impacting South Africa's trade (and investments). Lower UK growth will lead to reduced UK imports which will, in turn, lessen South African exports to the UK.
- Access to the Single Market for British companies and South African companies located in the UK.
- South Africa–EU trade and collaboration agreements will in future not include the UK.

What impact will Brexit have on the UK economy and, in particular, South Africa's interests in the UK economy?

According to Moody's (2016), the biggest threat to South Africa will be 'reduced export demand' if the Brexit negotiations damage the UK economy. A key concern for the UK, South Africa and South African firms located in the UK is the level of access the UK will have to the EU Single Market after 2019 and how that level of access will impact the UK economy.

The UK is classified by the International Monetary Fund (IMF, 2016) as a 'Major Advanced Economy', being the 6th or 7th largest in the world, and has a GDP of USD2 691 809 million (World Bank, 2015). By way of comparison, South Africa's GDP for the same year stood at USD723 516 million. In 2015, the UK was the ninth-largest exporter in the world and the sixth-largest importer, and, globally, it has the second-largest stocks of inward

foreign direct investments and outward FDI, after the USA. In 2015, approximately 2.5 per cent of UK merchandise exports were destined for Africa.

The UK's most important, indeed dominant, trading partner is the EU. In 2015, the EU accounted for 44 per cent of Britain's goods and service exports (GBP222 billion) and 53 per cent of imports (GBP291 billion). In 2015, South Africa accounted for less than 0.5 per cent of UK merchandise exports (House of Commons Library, 2016). Clearly, given the dominance of the EU to UK trading transactions, the British Government in the next two years is going to focus, almost exclusively, on negotiating a new trading relationship with the EU. Bluntly put, South Africa, indeed sub-Saharan Africa and Africa, is not going to be a trade negotiation priority for the UK.

Before the EU referendum in June 2016, economists and most independent think tanks were unanimous in predicting that a vote to leave the EU would damage the British economy. As observed by the *Financial Times* (FT, 2016A): 'Economists overwhelmingly think leaving the EU is bad for the UK economy' and 'rarely has there been such a consensus among economists, as there is on the damage that Brexit will wreak on the British economy'. See Table 1 for a summary of forecasts made before the referendum on the negative impacts of a 'Hard'

Table 1: Summary of forecasts (prior to referendum vote) on negative impacts of 'Hard' Brexit on UK GDP

Forecasting institution	Percentage change in GDP compared to staying in the EU
London School of Economics (LSE)	-8%
HM Treasury	-7.50%
OECD	-5%
CBI/PwC	-3.50%
NIESR	-3%
Oxford Economics	-3%
Average negative forecast	-5%
*Economists for Brexit	+4%

Source: FT (2016A)

Brexit on UK GDP, which range from –8 to –3.0 per cent of GDP. However, many of these predictions were made for campaign use and as the FT states: ‘The warnings may turn out to be wrong – but it is difficult to ignore.’

In the financial quarter after the referendum Britain’s economy defied fears that it would be dragged into an immediate recession, with GDP rising 0.5 per cent in the three months between July and September, 2016. Britain’s dominant service sector grew by 0.8 per cent in the same period (*The Guardian*, 2016A). In the short-term at least, the negative impacts of Brexit on the UK economy appear to have been exaggerated in the pre-referendum projections. As observed by *The Guardian* (2016B):

‘The International Monetary Fund has predicted the UK will be the fastest growing of the G7 leading industrial countries this year and accepted that its prediction of a post-Brexit-financial crash has proved to be overly pessimistic’.

In the British Autumn Budget, on 23 November 2016, the UK Chancellor of the Exchequer observed that the ‘resilience’ of the UK economy since Brexit had ‘confounded commentators at home and abroad’. New British Government forecasts are predicting a worse-case scenario of a –2.4 per cent long-term impact of Brexit on the UK economy (*Financial Times*, 2016B).

The post-Brexit UK–EU relationship

The long-term impact of Brexit on the UK economy, which is South Africa’s primary concern with Brexit, will depend ultimately on the nature and character of the agreement designed to govern UK–EU trade, and in particular the level of access Britain will have to the SEM (see Box 2). For South Africa, a lot depends on how and on what terms the UK exits the EU.

Several reviews have already identified several complex scenarios (HM Government, 2016). However, it is best to conceptualise any future UK–EU agreement as being on a continuum between ‘Hard’ and ‘Soft’ Brexit. At one extreme, ‘Hard Brexit’, the UK would refuse to compromise on issues such as the free movement of people, taxation and environmental

legislation, adopting UK specific policies. The EU would then almost certainly refuse the UK access to the benefits of the SEM, and UK–EU trade would be governed by WTO rules, and in particular the Most Favoured Nation (MFN) Tariffs (similar to those now governing USA–EU trade).

Hard Brexit would represent a comprehensive break in the UK–EU relationship. UK companies, and all companies listed in London, would then be external to the EU27 economy and subject to MFN treatment. Somewhat paradoxically, ‘Most Favoured Nation’ status is often the least favoured tariff. The UK would also cease to be party to EU trade agreements and third countries would lose any preferential

Box 2: The Single European Market

The Single European Market refers to the EU as one economic territory without any internal borders or other regulatory obstacles to the free movement of goods and services. In theory, a functioning Single Market stimulates competition and trade, improves efficiency, raises quality, and helps cut prices. The European Single Market is one of the EU’s greatest achievements.

Importantly, the SEM is ‘protected’ or surrounded by a Common External Tariff Barrier, known as the Common

Customs Tariff (CCT). The CCT applies to the import of goods across all the external borders of the EU. The tariff is therefore common to all EU members, but the rates of duty differ from one kind of import to another depending on what they are and where they come from. External to the EU, different countries and different groups of countries can have a different CCT (free trade areas, EPAs and other trade agreements vary the EU’s MFN tariffs).

access to the UK market previously governed by EU Treaties.

At the other end of the spectrum, ‘Soft Brexit’, the UK would accept the basic principles enshrined in the 1957 Treaty of Rome, especially the free movement of people, goods, capital and services. Under this scenario, and similar to the agreement governing Norway’s trade with the EU, the UK would be a ‘*de facto*’ member of the SEM through the ‘EEA’ (the European Economic Area), although it would be excluded from formal EU decision-making.

The EEA (see Box 3) represents the closest external relationship to the SEM, guaranteeing products originating in the EEA circulate freely throughout the Single Market, unencumbered by either quantitative restrictions or tariffs. However, the EEA is based on recognising the four fundamental freedoms of movement enshrined in the Treaty of Rome: people, goods, services and capital. The EEA Agreement does not cover several core European common policies, including Agriculture, Fisheries, the Customs Union (the so-called common external tariff), justice and home affairs.

If the UK was part of the EEA it would still have to renegotiate its participation in EU trade agreements with countries outside the EU, which under any scenario will need to be renegotiated (alternatively they could also be replicated and then ratified separately, on a bi-lateral basis, based on the current agreements).

In between the ‘Hard’ and ‘Soft’ Brexit extremes there exists a number of other possible alternative trading relationships, based primarily on the use of ‘bilateral agreements’ to govern specific areas of trade.

None of these EU-bilaterals provide full access to the SEM for services or agriculture. Both Switzerland and Canada have successfully negotiated bi-laterals. In general, better levels of access to the SEM require third countries implementing or recognising EU rules in domestic legislation, adopting certain free movements and, in the case of Switzerland, making a significant contribution to the EU budget.

There is therefore considerable uncertainty about the nature and character of the post-Brexit UK–EU trading relationship. Indeed, in this period before Article 50 has been invoked, there has been much political posturing in the UK, the European Commission and European capitals. For the UK the stakes could not be higher. It needs to get a good post-Brexit deal, and the EU is fully aware of that fact. In addition, Article 50 is untested and there is a great deal of uncertainty, legally and politically, about how it will work. The process and procedures governing the UK’s exit from the EU are, quite literally, unprecedented.

It is not possible, therefore, to predict with any accuracy the long-term impact of Brexit on the UK economy. Not only is Article 50 untried, but the nature and character of the post-Brexit agreement, Hard, Soft or somewhere in the middle, is at this stage unknown. And, the post-Brexit agreement will be *the* determining factor. With 44 per cent of UK trade with Europe it is hard to conclude anything other than the UK economy is vulnerable to a poor post-Brexit deal, especially one that effectively restricts UK access to the SEM. The UK economy, especially investments and FDI, is also vulnerable to uncertainty.

Box 3: The European Economic Area

The European Economic Area (EEA), established on 1st January 1994, is the area governed by that EEA Agreement providing for the free movement of goods, people, capital and services, effectively extending the EU’s Single Market to all EEA members. The EEA Agreement specifies that membership is open to member states of either the EU or the European Free Trade Area (EFTA). Importantly, third country goods imported into the EEA are excluded as a result of rules of origin.

Member states (2016) include: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom and (EEA states) Iceland, Liechtenstein and Norway.

The impact on South Africa

The scale of South African exports to the UK, standing at just 4 per cent, will limit the negative economic impacts of Brexit on the South Africa economy. Estimates in the pre-referendum period of the long-term impact of Brexit on the UK economy ranged from –8 per cent to –3 per cent of GDP, with just one estimate, calculated by the ‘economists for Brexit’ (*Financial Times*, 2016A), predicting a positive impact of +4 per cent.

If the latter positive estimate is discounted, and noting that these estimates are based on evaluating the impacts of a ‘Hard’ WTO-Brexit, the average pre-referendum estimate of the economic impact on Britain of leaving the EU stands at approximately –5.0 per cent of GDP. This estimate would in turn be lessened if the post-Brexit trade negotiations successfully include some level of British access to the Single Market. Furthermore, the most recent forecasts used by HM Government (November 2016), based on independent forecasts by the ‘Office for Budget Responsibility’, predict the real effect of Brexit will be to cut the potential size of the UK economy by 2.4 per cent in 2020.

The most significant threat of Brexit to South Africa will arise from reduced export demand if the negotiations damage the UK economy. But with UK destined exports standing at just 4 per cent of South Africa’s total exports and a reasonable worst case scenario of the British economy shrinking between –2.5 and –5.0 per cent of GDP by 2020 if a Hard Brexit approach is adopted, the direct impact of Brexit on the South African economy is likely to be marginal. Whilst Brexit is not unimportant for the South African economy, its negative economic impacts on the South Africa overall are likely to be negligible.

Nevertheless for certain South African industries, especially agriculture (wine and fresh fruit, especially grapes), precious stones and motor vehicles, the UK economy is disproportionately important and these sectors are more vulnerable if the UK economy is damaged by the process and impacts of Brexit.

The Common Agricultural Policy

Whatever happens in the post-Brexit negotiations, the UK will not be part of the Common Agricultural

Policy (CAP). This is particularly important for South Africa, with its competitive and seasonally complementary agricultural industries. The UK’s very significant agricultural imports from the EU will almost certainly be reduced, due to trade barriers and the functioning of the CAP, opening up opportunities for South Africa to export more agricultural products to the UK.

The CAP lies at the very core of the EU’s political economy, accounting for almost 40 per cent of its entire budget. The EU spends approximately USD64 billion per annum subsidising its agriculture. The CAP subsidises heavily UK agriculture with an estimated GBP2.4 billion per annum being received by British farmers. Although the nature and character of subsidies have changed over the years, from production to environmental payments and wider rural economy payments, their core function remains the same: to subsidise European (and British) agriculture. In the long-term, the scale and size of subsidies received by British farmers will almost certainly be reduced. The well-respected Consultancy Agra Europe concludes: ‘what is certain is that no UK government would subsidise agriculture on the scale operated under the EU’ (Agra Europe, 2016).

Far from Brexit having a negative impact on South Africa, there may well be increased opportunities for South African agricultural exporters, especially of wine, fruits, beef and sugar. The impacts on South African agriculture will depend on the decisions the UK makes about its agricultural tariff regime, but that regime is almost certain to be less restrictive than the current CAP. This will mean additional opportunities for South Africa’s competitive agricultural exporters, that already have a high profile in South Africa’s exports to the UK. The level of access afforded to South African agriculture to enter the UK market, after the existing South Africa–EU trade regime no longer applies to the UK, will be critical.

The future South Africa–UK trading regime

Until South Africa’s first democratic election in April 1994, access to the EU market was governed by its MFN status, which is at the very bottom of the EU’s complex hierarchy of trade privileges. South Africa’s market access to the EU was therefore on terms

similar to the world's most powerful states, such as the USA and Japan. In November 1994, South Africa applied for Lome membership, an application that was rejected by the EU on the grounds of WTO compatibility and the need to promote reciprocity.

Currently, South Africa's trade relations with the EU (including, of course, the UK) are governed by a separate South Africa–EU Agreement: The Trade Development and Cooperation Agreement (TDCA), signed in July 1999. The TDCA established a free trade area that covers 90 per cent of bilateral trade between the EU and South Africa. The liberalisation schedules contained in the TDCA were completed by 2012.

However, this will soon be replaced following the signing (signed but not yet ratified) of the 'Economic Partnership Agreement between the European Union and the SADC EPA Group'. In February 2007, South Africa joined the Economic Partnership Agreement (EPA) negotiations as part of the Southern African Development Community Group. The SADC EPA, agreed and signed in June 2016, now needs to be ratified in the 28 EU Member States, the five SACU Member States and Mozambique, according to national ratification procedures. The SADC EPA guarantees Botswana, Lesotho, Namibia, Swaziland (BLNS) and Mozambique duty-free and quota-free access to the European market. South Africa's access, which is being enhanced from its current

position, is less favourable than the BLNS states and Mozambique. See Box 4 for a summary of the agreed trade liberalisation regimes.

South Africa's trade relations with the UK are, until such time as the UK legally leaves the EU, governed by South Africa–EU Agreements. The same is true for the BLNS and Mozambique. This affords South and southern Africa favourable and asymmetric access to the EU market, including the UK. However, the level of preferential access afforded to South African merchandise trade to enter the UK market, through European agreements, will be removed when the UK leaves the EU. The existing South Africa–EU trade regime, come 2019, will no longer apply to the UK.

A new South Africa (SACU / SADC) – UK trade and development agreement will therefore need to be negotiated, signed and ratified by 2019. The options are to:

1. Modify slightly the recently signed EPA to cover a transitional period.
2. Accept the existing EPA Agreement.
3. Negotiate a brand new South Africa–UK Agreement. A new South Africa–UK trade, tariff and quota regime would in all likelihood take more than two years to negotiate and the outcome would be uncertain.

Box 4: Summary of the Economic Partnership Agreement Between the EU and the SADC EPA Group

Degree of Trade Volume

	Customs duties Removed	Current customs duties that Remain
EU opening towards countries of SADC EPA Group, except South Africa	100% (not arms and munitions)	Arms and munitions
EU opening towards South Africa	98.7% (Fully for 96.2% & partially for 2.5%)	1.3%
SACU opening towards the EU products	86.2% (Fully for 74.1% & partially for 12.1%)	13.8%
Mozambique opening towards the EU products	74%	26%

4. Accept EPA but renegotiate agricultural access to the UK market, which will be fundamentally reformed by the UK leaving the CAP. Agricultural

access would appear to be one of the key issues for discussion and of significant interest to South Africa.

In conclusion

This paper begins with a quote from Quartz Africa (2016) stating that ‘Brexit will be terrible for Africa’s largest economies’. This outcome is by no means certain for South Africa. Indeed, it is doubtful. From the evidence presented here, Brexit is likely to have a marginal impact on the South African economy as a whole. Even under a worst case scenario of a ‘Hard’ Brexit, and the imposition of WTO MFN tariffs, UK GDP could fall by an estimated –2.4 to –5.0 per cent. This is unlikely to damage seriously South Africa’s exports to the UK. The observation made by South Africa’s Reserve Bank Deputy Governor, Daniel Mminele, that ‘for South Africa, the implications through direct trade links are expected to be relatively minimal’ is supported by this paper.

Nonetheless, if a substantial reduction of UK imports does take place it could have a significant negative impact on certain South African industries, especially agriculture. On the other hand Brexit could open up certain opportunities for South Africa, in the very same sectors identified as vulnerable to a significant reduction in UK imports. When the UK leaves the CAP, opportunities will almost certainly exist for South Africa to expand its agricultural exports. The scale of this opportunity will depend on the UK agricultural regime designed to replace the CAP.

Until the UK and EU27 are in a position to clarify their post-Brexit trading relationship, it is very difficult for South Africa to assess what it will need to prioritise in its trade negotiations with the UK (and perhaps even the EU). However, the UK will almost certainly prioritise negotiating its post-Brexit EU trading agreement, alongside renegotiating its membership of the WTO. After that, the UK’s priority will be focused on establishing trade agreements with its largest trading partners, especially the USA, Canada, India, Australia, China etc. With the UK’s current trade negotiating capacity being severely limited – it has not had to do this kind of work for over 40 years – South Africa is not going to be a priority trade agreement.

The threat to South Africa is that, by default, Brexit could lead to a worsening of its access to the UK market until such time as a new South Africa / SACU / SADC – UK trade agreement is negotiated. The priority for South Africa is to avoid this default position, and negotiate, even temporarily, a UK trade deal that is close to, or better than, the existing EU arrangement. A secondary priority would be to focus on identifying and supporting, both domestically and through trade agreements, offensive trade interests which stand to gain from the Brexit change.

References

Agra Europe (2016), ‘Preparing for Brexit’, (<https://store.agra-net.com/reports/eu15.html>).

BBC (2016), ‘Article 50: The simplest explanation you’ll find’, BBC (<http://www.bbc.co.uk/newsbeat/article/36634702/article-50-the-simplest-explanation-youll-find>).

Financial Times (2016A), ‘Brexit in seven charts – the economic impact. How growth, trade, migration will be affected by a split with the

EU’, *The Financial Times* (<https://www.ft.com/content/0260242c-370b-11e6-9a05-82a9b15a8ee7>).

Financial Times (2016B), ‘Rainy-day Chancellor puts 27 billion aside as a Brexit shock absorber’, *The Financial Times*, Thursday 24 November, 2016, p.1.

The Guardian (2016A), ‘UK economy grows by fastest rate since financial crisis – as it happened’, (<https://www.theguardian.com/business/2014/jan/28/gdp-data-uk-growth-recovery-osborne-business-live>).

- The Guardian* (2016B), 'Britain will be fastest growing G7 economy this year, says IMF', (<https://www.theguardian.com/business/2016/oct/04/britain-fastest-growing-g7-economy-imf-international-monetary-fund-brexit-vote>).
- HM Government (2016), 'Alternatives to membership: possible models for the United Kingdom outside the European Union' (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504661/Alternatives_to_membership_possible_models_for_the_UK_outside_the_EU_Accessible.pdf).
- House of Commons Library (2016), 'Brexit: impact across policy areas', Briefing Paper Number 07213, August 2016 (Brexit: impact across policy areas, Briefing Paper Number 07213, August 2016).
- International Monetary Fund (IMF, 2016), 'Country Information', (<http://www.imf.org/external/country/>).
- International Trade Centre (2016) 'Trade Maps', (http://www.trademap.org/Bilateral_TS.aspx).
- Mminele, D. (2016) 'Brexit impact on trade between South Africa, UK minimal', Reuters (<http://af.reuters.com/article/investingNews/idAFKCN0ZM115>).
- Moody's (2016), 'Impact of Brexit on Sub-Saharan Africa is limited, but South Africa is more exposed' (https://www.moodys.com/research/Moodys-Impact-of-Brexit-on-Sub-Sahara-Africa-is-limited--PR_351685); see also Smith, C. (2016), 'Why South Africa is most exposed to Brexit impact' (<http://www.fin24.com/Economy/why-sa-is-most-exposed-to-brexit-impact-moodys-20160708>).
- Quartz Africa (2016), 'Brexit will be terrible for Africa's largest economies', (<http://qz.com/715710/brexit-could-be-terrible-for-africas-largest-economies/>).
- South African Reserve Bank (2016), 'Full Quarterly Bulletin No. 280, June 2016', South African Reserve Bank' (<https://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=7336>).
- The Telegraph* (2016) 'What would Brexit mean for farmers and the Common Agricultural Policy?', (<http://www.telegraph.co.uk/news/2016/06/13/what-would-brexit-mean-for-farmers-and-the-common-agricultural-p/>).
- World Bank (2015), 'Overview: United Kingdom', (<http://www.worldbank.org/en/country/unitedkingdom/overview>).