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A framework for dumping-based economies during the Covid-19 pandemic: A case of South African economy

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Abstract. Maintaining economic supremacy has been a challenge for emerging countries due to the change in global outlook as imposed by the globalisation. Considering that the World Trade Organisation (WTO) refers to dumping as an economic approach to drive competitors for global market positioning, it is sometimes hard to prove since applying less price is a prerequisite market entry tactics only. Dumping-based economies are characterised by national practices and global influence that endanger local economic expansion such as more imports than exports, less protectionism practices, less foreign direct investment, unsuitable trade policies, less customer experience towards quality/price ratio and foreign exchange rate in addition to less government revenues. This study proposes a framework for dumping-based economies during the COVID-19 pandemic to guide nations towards economic development recovery. Transition economies should observe development of inclusive economies, corrective COVID-19 lockdown measures, convenient COVID-19 imports/exports regulations and sustainable anti-dumping measures to enhance domestic economies.

Keywords. Framework, COVID-19, Pandemic model, Dumped-based economies South Africa

1. Introduction and Background

The advent of the globalisation brought the concept of free trade between countries regardless of their existing economic-related challenges and their capacity in surviving the new approach. From politics to economies, developed countries still adopt unfair strategies to keep the gap while deteriorating developing nations. This time around, dumping-based economy has become the trade weapon of choice against poor economies. Dumping is a form of predatory trade practice that compromise domestic business emergence although some types of dumping can be advisable (Tao, 2006). Among dumping type of practice, cyclical dumping that applies during economic recession and the seasonal dumping that allows to balance sales price between seasons are manageable depending on their execution period (Obalade, 2014). The predatory and the persistent dumping techniques are the most unethical that respectively applied high and low prices in the international compared to the local prices (Obalade, 2014). Although persisting dumping is seen as the international price discrimination, it remains applicable when demand elasticity is different in the two markets located in different regions (WTO, 2021). Regarding the fact that the European Union (EU) blocks dumped steel from China to enter the region while they are responsible for 80% of the dumped chicken in South Africa, it appears that each country

should define their own trade protection techniques (Tao, 2006). Despite multiple economic agreements between countries, conditions differ from one country to another depending on the economic and regional inclusion levels in addition to the size of their domestic industries.

Developed nations applied several methods to oppress emerging economies through economic colonisation that maintain competition while securing monopoly market system model at a global level. However, some countries do implement anti-dumping practices as protectionism mechanisms that defend local economy expansion. South Africa is characterised by major macroeconomic imbalance like high unemployment rate, poverty, inequality and in addition to fiscal fragility, low investment and declining economic growth (Sibanda, 2014). The national state of disaster was announced on the 15th of March 2020 following surge in Covid-19 cases (DTI, 2021). Public gatherings and travel restrictions were immediately applied through lockdown scenarios. Evidence revealed that almost all economic sectors in South Africa are impacted by the dumping form of global economy measures. Products like sugar, chicken and steel are mostly affected by the dumping mechanism. In the Kwazulu-Natal province in South Africa, 1350 jobs have been lost due to foreign chicken dumping leading to local business breakdown (Tao, 2006). European countries have defined barriers to blocked steel from China just as the United States of America blocked import of discarded sugar from Mexico (WTO, 2021). Following guidelines raised by the World Trade Organisation (WTO), the dumping approach is to be reviewed to protect domestic improvement while enhancing recovery (Tao, 2006). Arrangements between the G20 countries provide members with the legitimate right of implementing trade defence techniques at the benefit of domestic economy enhancement (Sibanda, 2014). Although the WTO includes anti-dumping measures, it has not yet become part of the municipality laws since it is still to be promulgated by the South African parliament (WTO, 2021). However, when required, the court should interpret the legislation in accordance with the international law applicable in trading operations (DTI, 2021).

2. Literature review

From international trade to international finance, exports and imports generate the formation and the utilisation of funds for economic transformation. While enjoying products from foreign countries, the concern should be to have a surplus current account than a continuous negative current account balance as noticed in South Africa even before the pandemic (Tao, 2006).

2.1 Dumping as economic tool

Following the globalisation event and the agreements of free movement of goods and people between nations, dumping techniques have to shift from an attack tool to an economic tendency to deal with. This suggests that victimised countries are abandoned to themselves since GATT and WTO are limited to act as enforcement agencies to limited dumping consequences on emerging economies. According to the Anti-dumping agreement, countries should not only complaint against the dumping issues but rather provide corrective measures (Obalade, 2014). Following the GATT and WTO rules, countries' members should enhance free trade by removing non-tariffs or quotas barriers to their domestic economies (Obalade, 2014). Gilpin (2001) argued that dumping is catalysed by an unconcerned customer profile regarding product quality, foreign demand, trade policies, foreign exchange rate and local cost functions. Observations showed that a dumping-based economy is the main cause of imports and exports imbalance.

2.2 Foreign Direct Investment

Although countries should promote foreign direct investment, specific measures are required to well-manage the pros and cons of business competition. Sibanda (2014) argued that in the journey to protect local economies against global competition, anti-dumping duties and foreign competition laws have contravened foreign direct investment in the country (Kruger, 2012). At this level, the solutions reside in the implementation of adjusted trading measures that suit all business parties while considering local market size, natural resources capabilities as well as regional strengths and weaknesses. Since South Africa has an emerging economy, adopting drastic anti-competition and anti-dumping protection measures sounds appropriate to improve development of local industries dominated by small and medium companies. Freeing foreign competition will erase some economic sectors that are still in their starting phases. According to the use of the MOA and the General Agreement on Tariffs and Trade (GATT) regarding protectionism measures constitute a double remedies to solve the same issue of dumping penalties on local economy that actually kill foreign investment (Vinti, 2019).

2.3 Dumping in South Africa

The competition Act 89 of 1998 stipulate prohibition of practices affecting domestic economy. South Africa is a country member of the the International Trade Administration commission (ITAC) that adheres to anti-dumping practices for protectionsim purposes (Vinti, 2019). The country acceded to the GATT in 1947 with official promulgation published in the government gazette (Vinti, 2019). Despite the convention between South Africa and the World Trade Organisation whereby South Africa should level benefit between domestic firm growth and foreign competition, national security and business crisis have been predominant in the local market. Evidence showed that more than 20 000 employments were lost after the advent of chicken, textiles and steel dumping in the country (DTI, 2021). The poultry industry was therefore in decline causing economci shocks with comensurable consequences on households and firms regarding debt repayment. Local products price settle by the government happens to be more than the competititive price of foreign products. Such predatory practices are unfair since it augment local market positioning of foreign products at the inconvent of less market share for domestic products (Tao, 2006). From economic to social dumping, South Africa also experiences low-cost-labour offered by foreign countries compared to local labour that requires more workfore and labour fees (DTI, 2021). Inside the country, migrants whether legal or undocumented provide cheap labour compared to locals leading to the increasing unememployment rate (Tao, 2006). Talking about regulated labour market is a bit questionable regarding the unfair practices occuring in a country that adheres to a pure and parfait competitive market (DTI, 2021). The uncertainty of the Memorandun of Agreement (MOA) between the competion Act of South Africa and the International Trade Administration commission (ITAC) questions adoption of effective anti-dumping mechanisms (Vinti, 2019).

3. Research Findings

3.1 Characteristics of Dumping-based economies

Dumping-based economies are characterised by national practices and global influence that endanger local economic expansion namely: (a) more imports than exports, (b) less protectionism practices, (c) less foreign direct investment, (d) unsuitable trade policies, (e) less customer experience towards quality/price ratio and (f) foreign exchange rate. Most predominantly, government of transition economies lack financial resources to effectively achieve public administration because of heavy import tax and less production tax and less tax

collection on households and corporates due to job losses and low business productivity. In the complete impact scenario where the pandemic lockdown persists, local economy will endure several dumping shocks before engaging with moderate dumping performs during long-term recovery. From more imports to the lack of economic contribution by households and businesses, the growth development product (GDP) can only decrease over time. Although lockdown measures target people safety and life protection, they generate exponential economic downturn in the country. One year after the pandemic start, a bridge model is required to find an equilibrium between human health safety and their economic survival.

Even Though dumping is a global issue, the impact on South African economy remains a specific problem to solve. As the biggest components of the South African agricultural sector, the poultry industry has been inundated by foreign product killing local production while putting small producers out of business while decreasing operative performance of large companies leading to inner restructuration. Considering the currency exchange rate advantage, foreign countries easily push domestic companies to shut down and take control of the market with a high pricing power compared to locals. Knowing that South Africa suffers from a high rate of unemployment, the dumping form of economy worsen the situation and jeopardise national security due to widely open barriers without restrictions.

3.2 Dumping-based economies framework

A framework for dumping-based economies includes development of inclusive economies, corrective COVID-19 Lockdown measures, convenient COVID-19 Imports/Exports regulations and Sustainable Anti-dumping Measures as elaborated below.

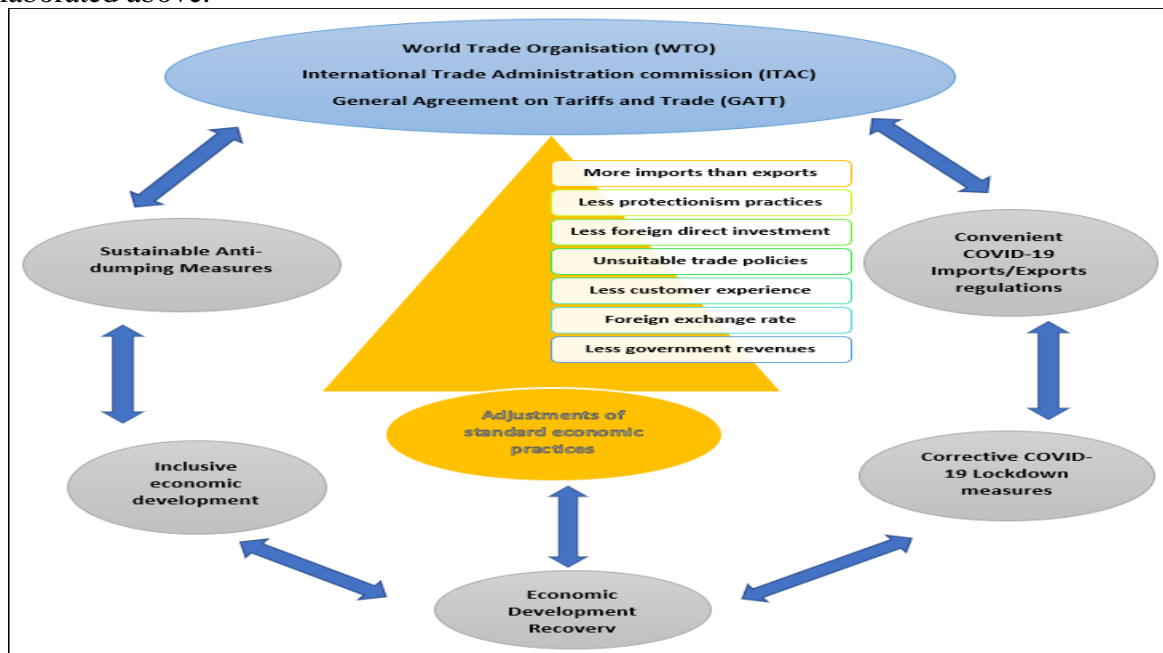
Inclusive economic development: The pandemic event has reminded the focus on an evidence-based economy where policy adjustments are strictly related to the existing requirements of building inclusive economic growth. Developing inclusive economy involves contribution of global stakeholders since the pandemic is global as well. In the South African settings, multilateral contributions between local and international parties encompass integrated economic and financial policies together with regional participation.

Corrective COVID-19 Lockdown measures: Observations showed that lockdown measures had a negative impact on the economy through large and drastic decline of alcoholic beverages, textiles, leather, wood products, tyres, rubber products, metal products like iron, steel as well as machinery and equipment and basic chemicals like paint and fertilizers among others (DTI, 2021). The pandemic has forced people and businesses to embrace digital innovations through online activities like e-commerce, e-teaching, e-communication platforms and e-system access. Following restrictions on social distancing, dumped open sources are the most used communication tools adopted for meetings or teaching. Even though local platforms can be slow and less effective, they have less opportunities to grow through customer experience. For e-commerce, global platforms like Amazon govern the international market at the detriment of local applications.

Convenient COVID-19 Imports/Exports regulations: Considering the productivity decline of manufacturing industries in the country during and after lockdown periods, pharmaceuticals, cleaning and hygiene products were in short to support high demand associated with the Corona virus spreading. Consequently, basic health protocols tools were highly imported into the country. The overall decline in manufacturing raw materials like non-metallic minerals, metal and wood products has open doors to intense importation for business survival. The closing borders scenario and the investment shocks have suspended potential exports. The sustainability of the current account deficit balance even before the pandemic has

been worsen with the lockdown measures. Also, currency depreciation during economic recession has negatively affected market price at the detriment of economies in transition.

Sustainable Anti-dumping Measures: Government should ensure guided economic recovery implementation through solidification of state capacity, resource mobilisation, skills development, boosting regulatory reforms, inclusive economy as well as enhancing communication and smart technologic innovations. Protectionism mechanisms should be implemented through tariffs, quotas and moderate discrimination rules on intellectual property rights: Copyrights, licenses and patents (Tao, 2006). Further restrictions can be applied to boost local consumption, limit illegal migrants, monitor foreign direct investment and review of international trade arrangements. To promote digital transformation, government should promote the use of local platforms and applications for local and international transactions. Figure 1 displays a typical framework for dumping-cased economies curing the COVID-19 as elaborated above.



Source: Own compilation

Figure 1: A framework for dumping-cased economies curing the COVID-19

4. Conclusion and Recommendations

Developing and transitions economies are dominated by unilateral dumping. Despite the arrangements between countries as promulgated by the World Trade Organisation (WTO) in fighting against dumping techniques, the core issue of economic oppression remains since they lack power of acting as enforcement agencies. To have recourse to contingent measures, countries must provide corrective domestic measures against dumping challenges without compromising the free trade agreement clauses. Dumping-based economies are characterised by national practices and global influence that endanger local economic expansion namely: more imports than exports, less protectionism practices, less foreign direct investment, unsuitable trade policies, less customer experience towards quality/price ratio and foreign exchange rate in addition to less government revenues. This study proposes a framework for dumping-based economies during the COVID-19 pandemic to guide nations towards economic development recovery. Transition economies should observe development of inclusive

economies, corrective COVID-19 lockdown measures, convenient COVID-19 imports/exports regulations and sustainable anti-dumping measures to enhance domestic economies.

As part of the recommendations, Victimised countries have to first attempt to cover local demand at low cost to limit global competition before setting anti-dumping measures for certain products. Municipalities should diversify anti-dumping campaigns to raise awareness of consuming quality-made product versus low price and social insecurity are highlighted. Additionally, guarantee scheme programmes should be raised to provide grants to SMEs and thus ensure competitive market price.

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