ECONOMIC COMMENTARY - By Francois Stofberg

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ARE WE REALLY RICH?

Until now the United States was using the World Trade Organisation's (WTO's) list, which determines whether a country is poor or rich, and based on these ratings are allowed preferential treatment in terms of trade. Previously South Africa, amongst other poor countries, was able to subsidise exports at a higher rate to more easily compete with the United States. China, Singapore, South Africa, Indonesia, India, Vietnam, Kazakhstan, and Malaysia (to list some of the more prominent names among the 20 that have been removed by the United States) will no longer be allowed to subsidise their exports to the United States as they previously did. The newly declared "rich" countries will have to compete on a more level playing field with the United States. This can be quite tough for South Africa.

This all started in 2019. President Trump Tweeted that the "WTO is broken", and later explained that he would ask his trade representatives to investigate if all the "poor" countries on the list were in fact still poor. The WTO's list was last updated in 1998, so it was clearly due for some review. But still, I believe many of these countries got a raw deal, because of how Trump and his representatives measure weather a country is rich or poor:

+ Using an absolute measure, that is, the size of the economy, South Africa is probably a "rich" country. In terms of GDP, measured in nominal USD terms, South Africa is about the world's 35th largest economy. China is the second largest. Using this measure, South Africa might be considered rich in terms of the list of 189 countries which is often cited. If, however we use a more comparable measurement (GDP which has been adjusted using purchasing power parity (PPP)) South Africa is in fact the 30th largest economy and China is the largest!

The sad thing is that using an absolute measure like GDP, you can only determine if a country is large, not weather it is rich, and especially not weather its inhabitants are rich. Even using a GDP per person measure, which shows that South Africans are only the 92nd richest in the world and Chinese citizens the 79th richest, is still not telling the whole story. This measure assumes that wealth is equally distributed between inhabitants, which we know isn't the case in most of these countries, which is definitely not the case in South Africa. Developing countries (should) use preferential treatment to reduce unemployment and inequality, and lift standards of living, amongst others, which they will no longer be able to do. That's why I believe, barring some obviously rich countries like Singapore and South Korea, the rest got a bit of a raw deal.

This week, Wednesday 26 February, Finance Minister Tito Mboweni will deliver his annual budget speech. Although I don't expect to hear about substantial reforms, I believe the budget will surprise doomsayers. Remember, it's not really about cutting spending on non-productive items, in absolute terms, but keeping them unchanged in relative terms, over time. Combining this with the President's drive for higher levels of investment, will have a surprisingly positive impact on our economy over the long term. This is how you combat sustainability issues like poverty, unemployment and inequality.

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