Meeting the Challenges of Past and Present: Post-Apartheid South Africa's Reintegration into the Global Political Economy, 1994-1997

by

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Declaration

I certify that no portion of this thesis has been submitted in support of an application for another degree or qualification at this or any other university.

List of Abbreviations

ACP	African, Caribbean and Pacific
AICs	Advanced Industrialised Countries
ANC	African National Congress
ASEAN	Association of South-East Asian Nations
BLNS	Botswana, Lesotho, Namibia and Swaziland
CAP	Common Agricultural Policy
COMESA	Common Market of Eastern and Southern Africa
CONSAS	Constellation of Southern African States
COSATU	Congress of South African Trade Unions
DRC	Democratic Republic of Congo
EAC	East African Community
EC	European Community
ECA	United Nations Economic Commission for Africa
ECLA	United Nations Economic Commission for Latin America
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIB	European Investment Bank
ESKOM	Electricity Supply Commission
EU	European Union
FDI	Foreign Direct Investment
FLS	Front Line States

FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GEIS	General Export Incentive Scheme
GNU	Government of National Unity
GSP	Generalised System of Preferences
HDI	Human Development Index (United Nations Development Programme)
IFIs	International Financial Institutions
IFP	Inkatha Freedom Party
IMF	International Monetary Fund
IOR-ARC	Indian Ocean Rim Association for Regional Co-operation
ISCOR	Iron and Steel Corporation
ISI	Import Substitution Industrialisation
JSE	Johannesburg Stock Exchange
LDCs	Less Developed Countries
Mercosur	Southern Cone Market in Latin America
MFN	Most-Favoured Nation
NAFTA	North American Free Trade Agreement
NEDLAC	National Economic Development and Labour Council
NICs	Newly Industrialising Countries
NIEP	National Institute for Economic Policy
NP	National Party
NTBs	Non-Tariff Barriers

OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
RENAMO	Resistencia Nacional Mozambicana
RDP	Reconstruction and Development Programme
SAACC	Southern African Aid Co-ordination Conference
SACP	South African Communist Party
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Co-ordination Conference
SAIIA	South African Institute of International Affairs
SAPs	Structural Adjustment Programmes
TDA	Trade and Development Agreement
TEC	Transitional Executive Council
TNCs	Transnational Corporations
TNS	Total National Strategy
TRIPs	Trade-Related Intellectual Property Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
UNITA	União Naçional para a Independência Total de Angola
VERs	Voluntary Export Restraints
WTO	World Trade Organisation
ZANU	Zimbabwe African National Union

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Summary

The end of apartheid presents South Africa with an opportunity to realise its full potential as an important member of the global political economy. This follows a period of three decades of progressive isolation from the global community. The major external challenge facing South Africa now is that the world it is trying to integrate with is much changed from the one it was previously part of. It is of vital importance that as an emerging nation it fully appreciates the nature of this changed world.

The global political economy has changed rapidly over the past decade. Mikhail Gorbachev became General Secretary of the Soviet Communist Party and after 1985 he gradually introduced the process of reconstructing the Soviet economy, known as *perestroika*. This, together with *glasnost*, began a process of rapid change culminating in the collapse of communism throughout Eastern Europe and the former Soviet Union and an end to the Cold War. Thus, western ideas of democracy became dominant and democratic regimes (although not necessarily liberal democratic) became the world's dominant form. Economically, the most important global trend has been that of liberalisation together with what the literature calls globalisation. Rapid advances in transport and communications technology, combined with the trend towards market deregulation have lowered the barriers between national markets; technology and skills, rather than natural resources and cheap labour have become the crucial enabling factors for competing in the global economy.

This thesis contends that such a background gives South Africa little choice but to integrate into the global system if it is to secure the best conditions for its economic, social and political development. It also argues, that as a middle-income developing country or economy in transition, the parameters within which it can achieve this integration are fairly narrowly defined.

South Africa is quite unique in the nature of its structural problems due to the legacy of apartheid. It remains a deeply divided society with great extremes of wealth and poverty. Its economy has a dualistic nature with a formal industrial sector and a large underdeveloped informal sector. To compete in the global marketplace South Africa must be able to attract additional production factors and resources from outside. Due to the high levels of protectionism inherited from the apartheid era there is a need for a reorientation of South Africa's trade policy. Relations with its principal trading partner, the European Union, will be crucially important here.

Finally, South Africa cannot avoid its geographical location in Africa. An underdeveloped and politically unstable Southern Africa would greatly reduce South Africa's chances of successful global integration. In contrast a stable, more integrated region, would be to the benefit of South Africa, not least in creating a regional bloc able to exert greater leverage at a global level. However, given that regionalisation may not be wholly compatible with greater global integration, at least in the short to medium term, South Africa faces some difficult policy choices ahead.

Chapter One

South Africa and Global Reintegration

1.1 Introduction

On 27 April 1994 the history of South Africa took a momentous turn when its citizens participated in the county's first multiracial general election. The admiration of those watching from outside was exceeded by the hopes and aspirations of South Africans who felt a sense of a new beginning for a country which could now make a fresh start after years marked by suffering and repression. Nelson Mandela recalls the indelible feelings he felt when the population went to the polls.

> The mood of the nation during those days of voting was buoyant. The violence and bombings ceased, and it was as though we were a nation reborn. Even the logistical difficulties of the voting, misplaced ballots, pirate voting stations and rumours of fraud in certain places could not dim the overwhelming victory for democracy and justice.[1]

The prospects were for a change in the lives of all South Africans. It seemed the future for South Africa would now progress uninterrupted along the lines outlined by the African National Congress (ANC) in its Reconstruction and Development Programme (RDP). The RDP argued that whilst economic growth was seen as a crucial objective of the new government, it should be understood that development

[1] Nelson Mandela, Long Walk To Freedom (London; Little, Brown and Company, 1994), p.611.

with social justice and human transformation was more important. Thus in the case of South Africa what was vital is the extension of access to basic human needs like water, electricity, health, education and housing. I agree with these aspirations but wish to highlight how the way in which South Africa conducts its affairs in the global political economy is central to it overcoming the problems inherited from the apartheid era.

In contrast to its isolated past, in 1994 South Africa found itself a full member of the community of nations. The global situation had undergone remarkable changes and this presented difficulties for the post-apartheid government in assessing South Africa's role in such changed circumstances. The debate over South Africa's foreign policy aspirations and the role it should play in the global political economy in the post-apartheid era was perhaps understandably overshadowed by the discussion over domestic issues discussed in Chapter Four.

In September 1995, Minister of Foreign Affairs, Alfred Nzo, put forward six guiding principles which underline South Africa's foreign policy approach to the new situation. These reflect a commitment to:

- the promotion of human rights;
- the promotion of democracy;
- justice and international law in the conduct of relations between nations;
- international peace and to internationally agreed-upon mechanisms for the resolution of conflicts;
- the interests of Africa in World Affairs;

- economic development through regional and international co-operation in an interdependent world.[2]

This government discussion document on foreign policy bordered on a wish-list of every possible international aspiration. However, the tone of the document did suggest a prioritisation of the Southern African region.

> The promotion of economic development of the Southern African region is of paramount importance as the economies of the countries in the region are intertwined to such an extent that, for South Africa to believe that it could enter a prosperous future in isolation without taking neighbouring countries with her, would be unrealistic and hazardous.[3]

The challenge for the new government was to devise a foreign policy position that satisfied the aspirations of the black majority but retained the support of the business community without which a satisfaction of these hopes could not be achieved. In contrast to these early views of the post-apartheid government the business community was sceptical about the benefits to be gained from economic integration and the African continent in general.[4]

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[2] Department of Foreign Affairs, South African Foreign Policy Discussion Document (Pretoria; Department of Foreign Affairs, 1996), p.11.
[3] *ibid.*, p.12.
[4] Peter Vale 'South Africa: Understanding the Upstairs and the Downstairs' in Andrew F. Cooper (ed.), Niche Diplomacy: Middle Powers after the Cold War (Basingstoke; Macmillan, 1997), p.210.

It is the contention of this thesis that such regional concerns have been increasingly relegated in the face of global pressures during the early years of the post-apartheid era. As the memories of the remarkable domestic transition fade the task for South Africa has been to come to terms with becoming

> . . . 'just another country', competing as best it can with other emerging markets for a place on the agenda of multinational companies and governments alike.[5]

South Africa's international position has changed dramatically over the past five years. With the end of apartheid and the first multiracial elections in April 1994, a new South Africa was welcomed back into the global political economy. What is the state of this global political economy today and how does South Africa adapt to it? South Africa cannot just be classified as another aspiring Newly Industrialising Country (NIC) due to the unique slant of its development and underdevelopment characterised by large inequalities in the distribution of wealth, namely that it is racially grounded rather than just on a social class basis. Also its geographical placement in Africa causes high expectations as many African states look to South Africa to lead an ailing continent out of economic decline.

Inevitably perceptions of South Africa are affected by the performances of the African continent as a whole. During the 1960s, when most African states achieved independence, their economies profited from high and stable export prices and also from the Cold War. This allowed African states to bargain with both superpowers and

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[5] J.E. Spence 'Introduction' in J.E. Spence (ed.), After Mandela: The 1999 South African Elections (London; Royal Institute of International Affairs, 1999), p.5.

extract concessions.[6] The decreasing importance of Africa in the world economy since this period is reflected in the fact that the continent's share of the world's non-oil primary produce exports fell from 7 per cent to 4 per cent from 1970 to 1985. Africa's attractiveness to investors also nose-dived as the returns on investment in the continent fell from 30.7 per cent to a meagre 2.5 per cent from the 1960s to the 1980s.[7]

This thesis is structured with these competing global, regional and domestic demands in mind. It is clear that the different levels - domestic, regional and global - are linked. For example, the attractiveness of South Africa to global investment is directly influenced not only by a stable South African economy, but also by the socio-political situation which is currently exemplified by a high and rising crime rate. Moreover, any trade agreement made with the European Union (EU) will have a direct impact on the surrounding region, especially the future of integration within the Southern African Development Community (SADC).

The objective of this thesis is to shift the focus of the South African transition to democracy, from the political negotiations that resulted in this historical breakthrough, to the broader context of the country's external political-economic relations. It analyses the nature and extent of South Africa's reintegration into the global political economy since the end of the system of apartheid in 1994 up until the end of 1997. The end of 1997 was chosen due to the difficulties involved in funding any further research trips to South Africa and the availability of primary sources.

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[6] Timothy M. Shaw & E. John Inegbedion 'The Marginalization of Africa in the New World (Dis)Order' in Richard Stubbs & Geoffrey R.D. Underhill (eds.), Political Economy and the Changing Global Order (Basingstoke; Macmillan, 1994), p.390.

[7] Christopher Clapham, Africa and the International System: The Politics of State Survival (Cambridge; Cambridge University Press, 1996), p.164.

Whatever has happened since the end of 1997 has not altered the basic arguments of this thesis. It maintains that the long-term development of South Africa is dependent on an improvement in its economic competitiveness in global markets which will thus enhance the chances of domestic political stability.

Although not all at the same level or in the same way, states world-wide are becoming increasingly integrated into the global economy which is emerging as a powerful force overlaying the international system of states. This trend is shown by the change towards policies aiming at export-generated development and openness to the global economy, in nearly all developing countries, away from the import-substitution strategies that were popular during the 1960s and 1970s.[8]

This is reflected in the increasing share of world exports originating from the developing countries, which include China. In 1970 they accounted for only 18.9 per cent of world exports, but by 1996 this had risen to 28.8 per cent.[9] Moreover, the developed economies accounted for an average of 98 per cent of the total world outflows of Foreign Direct Investment (FDI) in the years 1981-1985, but the developing countries have increased their share over recent years from 2 per cent during that period to 15 per cent in 1997.[10] This seems to confirm that whether via a

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[8] Thomas J. Biersteker 'The "Triumph" of liberal economic ideas in the developing world' in Barbara Stallings (ed.), Global Change, Regional Response: The New International Context of Development (Cambridge; Cambridge University Press, 1995), pp.178-179.
[9] UNCTAD, Handbook of International Trade and Development Statistics (New York; United Nations, 1999), p.24.
[10] UNCTAD, World Investment Report 1998: Trends and Determinants (New York; United Nations, 1998), p.9 and UNCTAD, World Investment Report 1994: Transnational Corporations, Employment and the Workplace (New York; United Nations, 1994), p.12.

voluntary decision or otherwise, autarky or high levels of protectionism are no longer viable options in today's international marketplace.

The period of South Africa's transition to democracy occurred at a time when the world political and economic system was also undergoing a period of major, and as yet unfinished, change itself. The end of the era of bipolarity and superpower rivalry changed the nature of security issues. The benign vision of a 'New World Order' expressed by US President George Bush in 1990 appears a somewhat mistaken prediction. Although the threat of superpower nuclear conflict has receded, new forms of security issues have developed. The threats to peace appear increasingly to come from extremist organisations and terrorism, whilst many nationalist sentiments have been revived leading to ethnically-based sub-state conflict in a number of areas of the globe.

The end of political confrontation between East and West has allowed the acceleration of the formation of regional and economic groupings. Many have been created or have expanded and moved along the path of co-operation and integration, including a larger and more closely integrated EU, the North American Free Trade Agreement (NAFTA), the Association of South East Asian Nations (ASEAN), and the radically altered SADC. It has also provided space for an extension of the promotion of global trade through the new World Trade Organisation (WTO), which began operating on 1 January 1995, and has greater powers and influence over the international trading system than its predecessor the General Agreement on Tariffs and Trade (GATT).

Pressures within this system are mounting for developing countries to be included as participants rather than as continuing dependants.[11] For example, from 1992 to 1997 international development assistance from the world's richest countries fell by 21 per cent in real terms and from 0.33 per cent of their GNP to an all-time low of 0.22 per cent.[12] Simply put the levels of aid and possibilities of trade preferences are being rapidly reduced. Financial liberalisation and the transnationalisation of production made possible by rapid technological developments, especially in telecommunications, have created a more unpredictable and increasingly global economy.

In short, the most important global trends have been economic and political liberalisation, with the two being inevitably inter-connected. Ideas of free trade and democratic political institutions are both spreading beyond their original home of the Advanced Industrialised Countries (AICs) of the West.

Running parallel to these developments South Africa has witnessed rapid domestic change in its political and economic situation. Hence Southall's assertion that those attempting to predict the future of the new South Africa's external relations are dealt a double whammy in that they also have to make assertions about the changing global order itself.[13] Due to international economic sanctions against the country and a spate of disinvestments during the mid- to late-1980s, coupled with South Africa's

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[11] Matthew Horsman & Andrew Marshall, After The Nation State: Citizens, Tribalism and the New World Disorder (London; Harper Collins, 1994), p.150.
[12] Figures from http://www.oecd.org/news_and_events/release/nw99-60a.htm
[13] Roger Southall 'The New South Africa in the New World Order: beyond the double whammy', Third World Quarterly Vol.15, No.1, 1994, pp.121-137.

increasing pariah status, it is only recently that the country has become fully exposed to the winds of change blowing throughout the world economy.

I argue that such a global background gives South Africa, a fairly minor player in global terms, little choice but to integrate into this global system if it is to secure the best conditions for its domestic social, economic and political development, required to begin to remove the legacy of the apartheid system. This is something the Government of National Unity has shown it understands and accepts. An illustration is a *South African Foreign Policy Discussion Document*, published by the Department of Foreign Affairs in June 1996:

> South Africa needs to develop a pro-active foreign policy approach, within its means, to achieve strategic objectives which benefit the people and the country in general as much as possible.[14]

Given this assertion, the interesting questions become what options South Africa has in this process of reintegration, how it should pursue its aims, and who or what is likely to provide limits to these options.

1.2 A new research agenda

A review of the South African literature situated in similar areas to this thesis reveals that this agenda is not something that many native South Africans have fully taken on board. Apart from a small number of notable exceptions, most of the writing

[14] Department of Foreign Affairs, *op. cit.*, p.10.

on the prospects for South Africa in the post-apartheid era takes a very introspective view. The commentators are either concerned largely with the political details of the negotiations and the processes of democratising a once racially ordered state, or they focus on the economic policies of the new ANC-led government and how the economy should be managed, but with little reference to the wider picture.

This may be partly explained by South Africa's period of isolation from the international system. By being shielded, to some extent, from some of the changes outlined in the following chapter, a lack of immediate awareness of their significance and likely impact may be understandable. An inward-looking mind-set can be traced back to the increasing marginalization of South Africa that occurred during the apartheid era. Thomas Scott suggests that

> Apart from the more obvious direct economic effects of sanctions and boycotts, there were possibly even more harmful indirect attitudinal effects. Amongst these were: a lack of global perspective and insights into global developments and their significance for South Africa; a lack of general understanding of what it takes to be a successful nation in the world; and an inappropriate national chauvinism born of isolation.[15]

The notable exceptions include the work of the South African Institute of International Affairs (SAIIA).[16] By publishing the results of two conferences held on

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[15] Thomas Scott 'An Overview of South Africa's Future International Economic Relations' in Greg Mills, Alan Begg & Anthoni Van Nieuwkerk (eds.), South Africa in the Global Economy (Johannesburg; South African Institute of International Affairs, 1995), p.201.

[16] See Antoinette Hadley & Greg Mills (eds.), From Isolation to Integration?: The South African Economy in the 1990s (Johannesburg; South African Institute of International Affairs, 1996) and Greg Mills, Alan Begg & Anthoni Van Nieuwkerk (eds.), *op.cit.*.

the issue of South Africa and its external political and economic relations, the SAIIA has shown that the importance of the changes occurring in the global political economy are being understood in certain quarters, including the new government. To illustrate, there are the arguments put forward by Rob Davies MP, stressing the

> . . . need to recognise globalisation and liberalisation as having created significant new realities. . . What may have been attempted domestically in a number of spheres that were previously relatively isolated from foreign policy concerns is now crucially dependent on developments in the international domain.[17]

Another exception is the recent study by Hein Marais.[18] This places South Africa's recent transformation in a more historical context not only in terms of the divided society that resulted from apartheid but also the internal historical developments that shaped the policies of the ANC and shaped the balance between the state and civil society in the new South Africa.

The aim of this thesis, therefore, is to show *how* South Africa is integrating into the global system and the resulting conflicts between objectives which lead to a requirement that difficult choices have already been made, and will have to be made in the future. It suggests what the limits are to this process and to what extent the terms are dictated by others.

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[17] Rob Davies 'Response' in Antoinette Hadley & Greg Mills (eds.), *op.cit.*, pp.47-48.
[18] Hein Marais, South Africa: Limits to Change: The Political Economy of Transition (London; Zed Books, 1998).

Moreover, South Africa is in somewhat of a unique position, as shown in Chapter Three. The historical legacy of apartheid has had major social consequences, in shaping what has been famously called the "mind" of the country.[19] This term was used by Allister Sparks to describe his analysis of the history of South Africa and how it has been shaped to a large degree by attitudes and the legal endorsement of racial division. The fact that such attitudes and beliefs have been passed down from generation to generation means they will not be changed overnight by the seismic political negotiations that led to the end of apartheid. It has also had major economic ramifications given the huge variations in wealth and opportunities that have always made South Africa a difficult country to classify alongside other states in Africa and beyond. This places extra burdens and constraints at the domestic level on South Africa's attempts at global reintegration.

As Chapter Three aims to make clear, South Africa has a history of dependence within the world economy. As Blumenfeld has suggested, despite the period of international political and economic isolation, the international dimension has been important from the very beginnings of the development of a modern economy in South Africa. He argues the major reasons for this are the limited size of the domestic market and the strong natural resource base for which there is demand on a world scale and which attracts foreign investment.[20]

[19] See Allister Sparks, The Mind of South Africa (London; Arrow Books, 1997).
[20] Jesmond Blumenfeld 'The international dimension' in Robert Schrire (ed.), Wealth or Poverty? Critical Choices for South Africa (Oxford; Oxford University Press, 1992), p.59.

1.3 Outline of structure of thesis

The thesis is structured according to the aims previously stated in this chapter. The first part identifies the two major exogenous variables that post-apartheid South Africa has had to deal with in its attempts at reintegration: the changing global political economy and the structural legacies of apartheid. Chapter Two provides an analysis of the key features that have defined the nature of the evolving global order and touches on some of the theoretical debates over the significance of these changes that seem most pertinent to the South African case. These major historical debates are outlined as the emergence of global financial markets, the transnationalisation of production, the future of ideology after the end of the cold war and the economic dominance of the triad of North America, the EU and Japan.

Chapter Three follows in a similar vein by detailing what I consider to be the most important historical legacies of the apartheid era and how these have acted as major constraints to how the new South Africa conducts its external affairs. Here the focus is both internal and external. On the domestic front by analysing the inequality prevalent in South African society, the human resource problem resulting from years of discriminatory education and the peculiar nature of workplace relations and the inherited unemployment problem. The external side is highlighted by a discussion of the historical nature of South Africa's relations with both the world economy as a whole, and more specifically its regional neighbours.

The second, and major part of the thesis begins with Chapter Four. It provides an analysis of the nature of post-apartheid South Africa's reintegration efforts sub-divided by each chapter into the various competing levels at which this has been carried out. Chapter Four provides a discussion of the domestic policies that have been implemented in the post-apartheid era. It follows logically from the previous chapter by discussing the means by which the government has aimed to arrest some of the distortions that resulted from the years of white minority rule. More specifically it is concerned with the role of the state in the formulation of macroeconomic policy and the impact of other constituencies such as organised labour and the business community. This chapter suggests that despite the socialist thinking in the ANC's initial economic policy discussions in the early 1990s, their performance in government has increasingly tended towards following a neo-liberal model. Economic policy has caused major splits amongst different constituencies of the ANC since the organisation's unbanning in 1990. Nattrass has argued that the development of ANC economic policy has been influenced to an extent by politically-driven compromises between different factions of the party.[21] Critical to the government's macroeconomic strategy, clearly outlined in June 1996, is the need to create an investment-friendly climate. It is argued that this path is unlikely to cure some of the major legacies described in Chapter Three and hence it will severely test the support of the poor majority of the population.

Chapter Five introduces the opportunities and constraints that South Africa has faced at the global level. It is linked to the previous chapter in that it stresses the

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[21] Nicoli Nattrass 'Politics and Economics in ANC Economic Policy', African Affairs Vol.93, No.372, 1994, p.343.

increasing importance that has been attached to outside influences in the domestic macroeconomic plan. Specific focus is placed on the new relationship that is being forged with the World Bank and the International Monetary Fund (IMF). Their involvement has centred on providing policy advice rather than direct lending. The impact of GATT obligations, foreign investment and other global pressures are analysed in the context of the domestic tensions discussed in Chapter Four.

Chapter Six analyses the negotiations between the EU and South Africa over a Trade and Development Agreement. The EU, is historically, South Africa's most important link to the world economy, and successful reintegration requires greater access to this very important market bloc. It also shows where and how South Africa fits into the North-South context of international relations. The South African government pressed its claims for full membership of the Lomé Convention arguing that the specific difficulties described in Chapter Three make it, in effect, a developing country. The EU, however, would only agree to partial Lomé membership with the provision of bilateral negotiations, centred upon a Free Trade Agreement.

Chapter Seven switches attention to South Africa's relations with its neighbours in the Southern African region. The focus is the SADC and South Africa's membership. South Africa's biggest export market is SADC and its inclusion in SADC since August 1994 has changed the dynamics of the organisation dramatically. The main argument here is that stability in South Africa is partly dependent on stability in the region. If we think beyond the short-term it is imperative that South Africa takes this view. Moreover, the regional economy is also part of the bigger picture in terms of ambitions further afield. Development of a regional economy, including the plans for free trade in the SADC Trade Protocol, will create a firmer base for achieving competitiveness on a wider scale.

The arguments are concluded in Chapter Eight which assesses the interaction of these competing pressures and offers an assessment of whether or not there is a trade-off between the necessities of the short-term and medium- to long-term. It also suggests what may happen if the major findings of this thesis are extrapolated into the future, and it offers some suggestions for further avenues of enquiry that are prompted by this research.

Chapter Two

Theories Concerning the Nature of the Global Political Economy that South Africa is Reintegrating Into

This chapter focuses on a review of the literature that deals with some of the most pertinent changes to have occurred in the global political economy in the last decade. Of course if one was being pedantic then the use of the term reintegration in this chapter's title should be qualified. This term implies a return to something that is constant but of course what South Africa is now integrating with is a new phenomenon. Much has changed during South Africa's period of progressive isolation, that began over thirty years ago. For reintegration efforts in the post-apartheid era to be successful, these aspects need to be appreciated fully and understood. Its purpose is to highlight some of the trends that have led to the still evolving new global environment. Hence it focuses on a selection of some of the theoretical contributions to the discussion of this changing global order, chosen in accordance with what I feel will most help illuminate the case of post-apartheid South Africa. By discussing some of the major global trends this chapter puts South Africa's reintegration into the international arena into context.

As the twentieth century draws to a close, the term 'globalisation' has quickly spread from the academic social sciences into more everyday usage. It is frequently used as an explanatory tool in the domains of economics, politics and sociology. Yet, as a concept it is often ill-defined and used with many different meanings. This chapter will touch on 'the globalisation debate' in an attempt to gain a better understanding of the world that South Africa is dealing with as it enters the post-apartheid era.

Higgott and Reich have classified the use of the term globalisation into four different definitions. First, the use of globalisation as a description of a specific time period in history. Beginning from the first moves towards compromise between the United States and the Soviet Union and the eventual demise of the Cold War, this historical period also represents the end of the dominance of Keynesian economic management reflected in the supremacy of the neo-liberal approach. Secondly, an economically driven definition of the term. Here the understanding is that economic activity has taken on a new phase in its intensity and location. Thirdly, is the view that globalisation is merely a euphemism for the victory of Western, or more specifically American, values and institutions. It is suggested that Fukuyama's *The End of History and the Last Man*, is the best example of this approach which claims the end of the Cold War represented a victory in an ideological battle that had been ongoing since the end of World War Two. Fourthly, is the idea that globalisation represents a new shift in economic activity and that this is the result of technological advances. Revolutions in technology and communications are said to have reduced the importance of time and space, therefore changing the nature of economic activity.[1]

The title to this thesis has been very carefully chosen. The term *global* rather than *international* political economy is used in an attempt to reflect the changing

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[1] Richard Higgott & Simon Reich 'Globalisation and Sites of Conflict: Towards Definition and Taxonomy', Centre for the Study of Globalisation and Regionalisation Working Paper No.1, February 1998.

nature of the economic and political world that post-apartheid South Africa is dealing with. The international economy describes a system where trade and investment is conducted between national economies and these processes are able to be controlled by national governments. Such a model has now been overtaken by a new framework. So 'the global political economy' is used because the international system of states has been increasingly overlapped by a global economy and hence trade, finance and investment is conducted by firms that operate transnationally, in other words across political borders.

This chapter is divided into a number of sections which aim to demonstrate a number of important issues that are relevant to post-apartheid South Africa's reintegration efforts. First, it discusses some of the most important historical developments over recent years and their impact. Secondly, the debate surrounding whether we are dealing with an *international* or *global* political economy is summarised focusing on a discussion of the possible impact of globalisation upon states. Thirdly, it looks at the possible impact upon states in the South, and how 'Southern' theories of International Political Economy (IPE) have attempted to respond to such developments.

2.1 Major historical developments

Surveying the literature on the nature of the international political economy since the end of the Second World War, and especially from the breakdown of the Bretton Woods system in the early 1970s, it is possible to identify certain historical developments and changes that have occurred in the system. It is my contention that these facts remain fairly indisputable. The arguments occur when we begin to discuss the importance and implications of such changes.

2.1.1 The emergence of global financial markets

Susan Strange's view, although contested, is that one of the four key structures that influences the distribution of power in the international political economy, is the financial structure. The other three being the security structure which is built around the state, the production structure which has become increasingly global and the knowledge structure which determines what discoveries are made and how these are communicated.

The ability to create credit is vital to the functioning of any advanced economy.[2] This importance of the global financial system to the entire global economy is emphasised by Dicken who cites two basic reasons. Firstly, that manufacturing and all other services in the economic system require finance. Put simply, "financial services are circulation services".[3] Secondly, the speculative nature of much of the new financial investments means that where a national economy has a fairly heavy dependence on such portfolio investment, then this country's government is, to a certain extent, at the whim of major shifts in these investments.[4]

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[2] Susan Strange, States and Markets (Second Edition) (London; Pinter, 1994), pp.90-93.
[3] Peter Dicken, Global Shift: Transforming the World Economy (Third Edition) (Liverpool; Paul Chapman, 1998), p.399
[4] *ibid.*, p.399.

The level of international financial flows and foreign currency exchanges has greatly increased over recent decades. During the decade from 1982 to 1992, the structure of world financial markets altered dramatically, as capital markets took the place of bank assets as the dominant share.[5] Relative growth in financial flows has been such that it is estimated that they now exceed trade flows thirty times over.[6]

The key point about the transnationalisation of finance concerns the shift in the relationship between the market for credit and the possibility of its control by national authorities. In fact the emergence of international capital markets was one of the contributing factors that led to the decline of the Bretton Woods system. For the very reason of governments facing problems due to their inability to pursue independent macroeconomic policies.

In a concerted effort not to return to the problems encountered in the inter-war years, the main aim of the agreement reached at Bretton Woods was to depoliticize the world economy. In fear of returning to the discriminatory trade blocks, operational during the 1930s, there was a commitment at Bretton Woods to a liberal trading system. As Helleiner has argued, it is very clear that there was not a complementary resolution to create a liberalised financial order.[7] Keynes and White, the chief British and United States negotiators respectively, argued that international capital controls were necessary to ensure the autonomy of the newly created welfare state. Moreover,

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[5] Yilmaz Akyüz 'Taming International Finance' in Jonathan Michie & John Grieve Smith (eds.), Managing the Global Economy (Oxford; Oxford University Press, 1995), p.61.
[6] Joan Edelman Spero & Jeffrey A. Hart, The Politics of International Economic Relations (Fifth Edition) (London; Routledge, 1997), p.27.
[7] Eric Helleiner 'From Bretton Woods to Global Finance: A World Turned Upside Down' in Richard Stubbs & Geoffrey R.D. Underhill (eds.), Political Economy and the Changing Global Order (Basingstoke; Macmillan, 1994), pp.163-175.

"there was also a consensus among the negotiators at the conference that a liberal financial order was not compatible with the stable system of exchange rates and liberal trading system they hoped to create".[8]

The emergence of a fully-fledged global financial market has its roots in the rapid rise of financial offshore markets. The inevitable consequence of the ending of capital controls in 1951 was that the rise of new capital markets would occur. Initially being US dollars held in European banks, especially British, this spread as markets for foreign currencies developed out of the controlling reach of the country that issued the currency.[9] This is what became known as the 'Eurodollar' market. The demand for these markets was the result of restrictions by the American government placed on US banks, allowing the interest to be paid on short-term deposits to be minimal. Achieving steady growth during the 1960s, the Eurodollar market exploded with the end of the fixed exchange rate system at the start of the 1970s. The growth between 1970 and 1984 was from $75 billion to $1 trillion ($1,000 billion).[10]

It is important to highlight the important role that the decisions of states played in the integration of national capital markets into a truly global market. The Advanced Industrialised Countries (AICs) were far from impotent bystanders as this process unfolded.[11] Although the economic changes in the system, described above, allowed the right sort of market conditions for the integration of financial markets, it needed

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[8] *ibid.*, p.165.
[9] Chris Brown, Understanding International Relations (Basingstoke; Macmillan, 1997), p.169.
[10] Susan Strange, States and Markets, p.107.
[11] See Geoffrey Underhill 'Markets beyond politics? The state and the internationalisation of financial markets', European Journal of Political Research Vol.19, 1991, pp.197-225.

certain positive decisions by states, together with a revolution in technology to allow such rapid change in the global financial system to occur.

Apart from the state support given to the Eurodollar markets, market operators were given much greater levels of freedom when the major powers began removing capital controls that had been in place since the Second World War. The United States in 1974 marked the start of this process, followed by Britain removing its forty-year long capital controls, overnight in 1979. By the early 1990s almost the entire advanced industrialised world had followed this lead creating a completely liberal financial order.[12] Market operators, in the light of such developments, created a number of new financial instruments, including what are commonly referred to as securities. This has meant that "virtually any economic or financial activity can be 'securitised' and traded internationally".[13]

Revolutionary changes in information technology and communications have helped to foster the global spread of financial transactions.[14] This has allowed trading on a twenty-four hour basis, as the major stock exchanges have become closely integrated. Technological advances have allowed funds to be moved electronically allowing instantaneous transactions. Information, which is of crucial importance, also now moves with greater speed and with improved accuracy.[15] These improvements should be seen, argues Strange, as a *necessary*, rather than *sufficient*, condition for the

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[12] Eric Helleiner, op.cit., pp.170-172.
[13] Chris Brown, op.cit., p.169.
[14] Joan Edelman Spero & Jeffrey A. Hart, op.cit., p.27.
[15] Peter Dicken, op.cit., pp.401-403.

global integration of financial markets.[16] Other factors, already outlined above, are also of vital importance.

2.1.2 The transnationalisation of production

The transnationalisation of production can be understood as being "the integration of production processes on a transnational scale, with different phases of a single process being carried out in different countries".[17] This can be seen in the rapid growth in the number of transnational corporations (TNCs), to the extent that they have become influential players in international relations. However, Strange argues we should not just focus our attention on the rise of TNCs. This process also alters the way smaller, nationally based firms operate, in that increasingly they are directing their production to a world rather than a domestic market. Their strategy has become global.[18]

This growing importance of TNCs can be shown by the rise in the levels of foreign direct investment (FDI). Outflows of FDI from all countries grew from $88 billion in 1986 to $225 billion by 1990.[19] These increases did slow down in the 1990s. Dicken suggests this was due to recession, and that "by the mid-1990s the upward trend had resumed".[20] By concentrating on FDI flows, however, we miss the wider

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[16] Susan Strange 'Finance Information and Power', Review of International Studies Vol.16, No.3, 1990, p.265.
[17] Robert W. Cox 'Social Forces, States and World Orders: Beyond International Relations Theory' in Robert O. Keohane (ed.), Neorealism and its Critics (New York; Columbia University Press, 1986), p.233.
[18] Susan Strange, States and Markets, p.65.
[19] UNCTAD, World Investment Report 1992: Transnational Corporations as Engines of Growth (New York; United Nations, 1992), p.14.
[20] Peter Dicken, *op.cit.*, p.42.

importance of TNCs in structuring international economic relations. They have created an increasingly internal nature to production. Production across territories but within co-owned firms, subsidiaries or via inter-sectoral collaboration.[21] The obligation of capital to remain in a country has been reduced.

This was soon clear in the case of South Africa when De Beers decided in 1990 that it was going to relocate part of its business to Geneva. This came soon after a statement by Nelson Mandela, made just after his release from prison, outlining that he still supported nationalisation of South African banks and mines.[22] This was significant as De Beers controls approximately two-thirds of the world's diamond mining.[23] It is a significant player in the South African economy as it is part of Anglo American which in October 1989 owned 45.3 per cent of the total market capitalization of the Johannesburg Stock Exchange (JSE).[24]

It is for these reasons that Dicken suggests we should widen the standard definition of a TNC.[25] To incorporate some of the other key roles and developments regarding the rising importance of the TNC, Dicken proposes the following definition,

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[21] John Ruggie 'At Home Abroad, Abroad at Home: International Liberalisation and Domestic Stability in the New World Economy', Millennium Journal of International Studies Vol.21, No.3, 1995, pp. 518-521.
[22] Jeffrey Herbst 'Africa and the International Economy' in Antoinette Hadley & Greg Mills (eds.), From Isolation to Integration: The South African Economy in the 1990s (Johannesburg; SAIIA, 1996), p.75.
[23] Allister Sparks, The Mind of South Africa (London; Arrow Books, 1997), p.120.
[24] Andrew Smith 'Income redistribution and competition policy' in Robert Schrire (ed.), Wealth or Poverty?: Critical Choices for South Africa (Oxford; Oxford University Press, 1992), p.476.
[25] For an example of such a definition see Robert Gilpin, The Political Economy of International Relations (Princeton; Princeton University Press, 1987), p.231.

> A transnational corporation is a firm which has the power to co-ordinate and control operations in more than one country, even if it does not own them.[26]

These changes have led some theorists to suggest that a new form of state-firm diplomacy is needed.[27] Whilst firms need access to markets, states want technologically-advanced corporations to operate within their territory. This leads to a bargaining situation between the TNC and the host government. Agreements concern areas such as the levels of new employment, the location of the new investment, possible tax concessions and the technology and management skills that a firm can offer. This is a different situation to the original TNCs which tended to be based in the extractive industries where cross-border activities were usually made out of necessity. For example, copper companies have to locate where there is copper.

2.1.3 Ideology and the end of the cold war

Some of the structural changes in finance and production, already described, should not be divorced from an understanding that there has been a change in the dominant economic paradigm governing the ideological basis of global economic relations. This principal theory of the prevailing system is usually termed economic or neo-liberalism. It suggests that to achieve development and prosper in the current

[26] Peter Dicken, *op.cit.*, p.177.
[27] See John Stopford and Susan Strange, Rival States, Rival Firms: Competition for World Market Shares (Cambridge; Cambridge University Press, 1992) and Susan Strange 'States, Firms and Diplomacy', International Affairs Vol.68, No.1, 1992, pp.1-15.

climate, governments must alter their domestic policies to a more market-orientated approach.[28]

Although there is no over-arching political authority in place to structure and regulate the global economy, it has been argued that there is a consensus of opinion that forms the basis of policy decisions taken by the governments of the major economic powers and big business.[29] This dominant vision of neo-liberalism favours the private over the public sphere. In many areas, especially in the developing world, the power of this desire for reform has been quite clear. The most obvious example being the introduction by the World Bank and International Monetary Fund (IMF), of Structural Adjustment Programmes (SAPs) as a necessary condition for the provision of development assistance. These are based on the belief "that national economies should be adjusted so that they will automatically respond to the incentives and adapt to the imperatives of the global market in an attempt to homogenise the law of value world-wide".[30]

The formation of this consensus is achieved both through official channels such as the IMF and the Organisation for Economic Co-operation and Development (OECD) and unofficial bodies like the Trilateral Commission.[31] Cox argues that "these shape the discourse within which policies are defined, the terms and concepts that

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[28] Joan Edelman Spero & Jeffrey A. Hart, op.cit., p.152.
[29] Robert W. Cox 'Global Restructuring: Making Sense of the Changing International Political Economy' in Richard Stubbs & Geoffrey R.D. Underhill (eds.), op.cit., pp.48-49.
[30] Mohameden Ould-Mey 'Global Adjustment: implications for peripheral states', Third World Quarterly Vol.15, No.2, 1994, p.319.
[31] The Trilateral Commission is an organisation comprising individual private citizens whose members come from North America, Western Europe and Japan. Its aim is to look at the common problems faced by these three areas.

circumscribe what can be thought and done".[32] What is clear is that the reaction to the breakdown of the Bretton Woods system led to a conscious string of political decisions and non-decisions to liberalise domestic structures, as Karl Polanyi argued occurred in Britain during the Industrial Revolution in the nineteenth century.[33] Gill has argued that this de-regulatory response to the ensuing crisis that occurred in the mid-1970s, can be seen as an attempt to replicate Polanyi's 'market society' on a global scale.[34]

Historical events have only served to strengthen the dominant position of neo-liberalism. The most important being the end of the Cold War. The collapse of nearly all of the centrally planned economies across the globe, that began in 1989, has created a position where capitalism, as a general principle, has become the dominant method of organising society. Many former Communist states have attempted to rapidly introduce 'market-based' reforms. In many such states, reforms have been carried out, "under the direct or indirect tutelage of international agencies imbued with an economic liberal, utilitarian view of the world".[35]

How we interpret these events is clearly open to debate. It definitely seems misguided to view the future of the post-Cold War world in the benign way most famously expressed by Fukuyama, who heralds the end of the century as being, "an unabashed victory of economic and political liberalism".[36] This view of the end of ideological conflict sits uneasily with analysts more concerned with the inherent

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[32] Robert W. Cox, Global Restructuring, p.49.
[33] This refers to Karl Polanyi, The Great Transformation (Boston; Beacon Press, 1957).
[34] Stephen Gill 'Knowledge, Politics, and Neo-Liberal Political Economy' in Richard Stubbs & Geoffrey R.D. Underhill (eds.), *op.cit.*, p.75.
[35] *ibid.*, p.76.
[36] Francis Fukuyama 'The End of History?', The National Interest Summer 1989, p.3.

instability of the current global political economy. Of the many examples, Kapstein's concerns for the insecure position of labour in the global economy and Gill's emphasis on the increasing inequality both between and within states, seem most relevant to the concerns of South Africa and this thesis.[37]

I would conclude, as Roger Tooze stresses, that in all discussions of neo-liberalism and current trends in the world economy we should remember that,

> Neo-liberalism is not a neutral description which generates a prescription for action - it is an ideology which serves particular interests and groups of people - and should be evaluated as such.[38]

2.1.4 The dominance of the triad

The neo-liberal assumption that globalisation is a purely progressive force is partly challenged by the fact that the world economy is actually becoming more concentrated in the triad.[39] Thus the effect of globalisation is unequal in different areas of the globe. This dominance can be demonstrated by a number of trends in economic activity.

In terms of FDI, in 1990, North America, Japan and Europe dominated the total flows both as a source and destination. They accounted for seventy-five per cent

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[37] Gill, *op.cit.*, pp.85-86 and Ethan B. Kapstein 'Workers and the World Economy', Foreign Affairs Vol.75, No.3, 1996, pp.16-37.
[38] Roger Tooze, 'IPE in an Age of Globalization' in John Bayliss & Steve Smith (eds.), The Globalization of World Politics: An Introduction to International Relations (Oxford; Oxford University Press, 1997), p.227.
[39] Usually defined as North America, Western Europe, and Japan or sometimes Japan plus the South-East Asian NICs.

of the accumulated stock and sixty per cent of the total flow.[40] This is of increasing importance, as I have already indicated that FDI as a whole has grown rapidly and become an increasingly important feature of the world economy (see Section 2.1.2). Another example of this phenomenon is the geographical concentration of interfirm alliances. The triad accounted for ninety-two per cent of the "4,200 interfirm strategic co-operation agreements that were signed by enterprises in the world in the period 1980-9".[41]

A similar picture also exists if we examine the geography of world manufacturing production and global trade. In 1994 four fifths of world manufacturing was located in the triad. However, this has fallen gradually from ninety-five per cent in 1953, with the developing countries, which include China, increasing their share from what must be remembered is a very small base point.[42] The triad also accounts for seventy-five per cent of global merchandise exports. Moreover, approximately "sixty per-cent of this trade is conducted within the core itself as trade between the developed market economies themselves".[43]

2.2 The *global* versus *international* debate

As early as 1986, Peter Drucker argued that the world economy had changed in a permanent, as opposed to cyclical way.[44] He argued that the likelihood was that this

[40] Paul Hirst & Grahame Thompson, Globalization in Question (Cambridge; Polity Press, 1996), p.63.
[41] Riccardo Petrella 'Globalization and Internationalization: The dynamics of the emerging world order' in Robert Boyer & Daniel Drache (eds.), States Against Markets: the limits of globalization (London; Routledge, 1996), p.77.
[42] Peter Dicken, *op.cit.*, pp.26-27.
[43] *ibid.*, p.35.
[44] Peter F. Drucker 'The Changed World Economy', Foreign Affairs Vol.64, No.4, 1986, pp.768-791.

change would prove to be irrevocable. Central to his argument was that, due to some major alterations in the functioning of the world economy, the assumption that is made by all forms of economic theory, that the national economy is the major unit of both analysis and policy, and that the world economy is at most a hindrance but not the major determining factor, has become increasingly hard to defend. He cites the fact that those countries whose policies have continued to reflect this assumption, for example Britain and the United States, have suffered economically, compared to those such as Japan and Germany, who have appreciated the increasingly important role that the world economy plays.[45] This argument for structural change in the world economy is further elucidated by Susan Strange. She argues that "the new reality is that the system of states is overlaid by a highly integrated, incompletely regulated, rapidly growing - but consequently somewhat unstable - world economy".[46]

Hirst and Thompson argue, by contrast, that there is nothing startlingly new about the development of the world economy since the breakdown of the Bretton Woods system in the 1970s. They suggest that the era of the gold standard that operated before the First World War was, in a number of ways, more open than what we are experiencing in more recent history, including the period from the late 1970s onwards. They suggest that this more open system was aided by much greater opportunities for labour migration than exist today. They conclude that "international trade and capital flows . . . were more important relative to GDP levels before the First World War than they probably are today".[47]

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[45] *ibid.*, p.791.
[46] Susan Strange 'Wake up Krasner! The world has changed', Review of International Political Economy Vol.1, No.2, 1994, pp.209-219.
[47] Paul Hirst & Grahame Thompson, *op.cit.*, p.31.

A point of caution here is to note the relative impacts of trade and FDI. Whilst trade is simply an exchange conducted across national borders, FDI involves a more permanent relationship between economic agents because it involves the creation of production units on a transnational scale. This difference has led to the importance placed on the growth of both parent corporations and foreign affiliates. Between 1991 and 1996 the number of parent corporations grew by 27 per cent from 35,000 to 44,508 whilst the number of foreign affiliates grew from 150,000 to 276,659, a rise of 84 per cent.[48]

One of the reasons why we are perhaps misled in our view of the world economy is that the constraints of economic data cause us to view the world economy as a set of neatly packaged national boxes.[49] Most sets of statistics are concerned with measuring flows of economic activity across the boundaries between national political units. The implication being, if the world economy is accurately reflected by such data, then the basic units are national economies and therefore the state and the international institutions designed by states still have the full capacity to control and organise the international economy.[50]

2.2.1 Globalisation and states

There is a lively debate in the literature as to how the role of the state has been affected by globalisation. At one end of the spectrum are the 'globalists' who suggest

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[48] Figures taken from UNCTAD, World Investment Report 1992, p.5. and UNCTAD, World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy (New York; United Nations, 1997), p.7.

[49] Peter Dicken, *op.cit.*, p.68.

[50] Roger Tooze, *op.cit.*, pp.220-221.

there is a terminal decline in the power and importance of states. This view is best expressed by Kenichi Ohmae. For Ohmae the process of globalisation is creating an inevitable shift towards what he describes as a 'borderless world'. His arguments are based on observing the behaviour of some of the major TNCs in the triad. He concludes that national boundaries are becoming meaningless and that the only role left for states to perform is to satisfy the needs of business by providing infrastructure and public goods at the lowest possible cost.[51]

At the other end of this spectrum are the arguments of those who believe that in many respects globalisation is a 'myth'. Hirst and Thompson conclude from their detailed analysis of the economic theories of globalisation that the state still has a central role to play. Although they accept that this role has changed, they argue it has never remained static and that the exclusive control of its population and territory coupled with the continued need for states, as building blocks, in any future supra-national governance, means they firmly oppose the view that we are witnessing the end of the nation-state. Hirst and Thompson's position is that,

> Nation states are now simply one class of powers and political agencies in a complex system of power from world to local levels, but they have a centrality because of their relationship to territory and population.[52]

It is suggested here that neither of these two ends of the spectrum adequately deal with role of the state in the changing global political economy. The state has had

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[51] See Kenichi Ohmae, The Borderless World: Power and Strategy in the Interlinked Economy (New York; Free Press, 1990) and Kenichi Ohmae, The End of the Nation State: The Rise of Regional Economies (New York; Free Press, 1995).

[52] Paul Hirst & Grahame Thompson, *op.cit.*, p.190.

to change considerably some of its functions and the prioritisation of its activities, but it is not in terminal decline. Globalisation and the state should not be placed in opposition. This process of state restructuring has been primarily a move "from the proto-socialist aspirations of welfarism and the pursuit of full employment, towards wholehearted support for private capital accumulation".[53]

We should see the impact upon the state as restrictive rather than destructive. One common theme is that increased capital mobility and global market structures undermine domestic regulation.[54] A similar line is argued by Horsman and Marshall who argue that the global economy places limits on a state's ability to deviate from the accepted consensus on capitalism.[55] As I have already hinted at in section 2.1.4 of this chapter, concerning the unevenness of the globalisation process, this restrictive nature is less apparent in the larger more developed countries, as they are better equipped to counter this loss of autonomy than smaller developing countries. However, "even the autonomy of the United States, Japan and the European Union is constrained in matters of macroeconomic policy by the globalisation of finance and production".[56]

All governments, for example, are experiencing increasing problems in being able "to tax capital, which has tended to shift the fiscal burden on to other factors of

[53] Hugo Radice 'Globalization and National Differences', Paper presented at the ESF-EMOT Workshop: Globalization and Industrial Transformation in Europe, Spain, 9-12 January 1997, p.4.
[54] Philip G. Cerny 'International Finance and the Erosion of State Policy Autonomy', RIES Research Paper No.21, January 1996, p.3.
[55] Matthew Horsman & Andrew Marshall, After The Nation State: Citizens, Tribalism and the New World Disorder (London; Harper Collins, 1994), p.xiii.
[56] Stephen Gill 'Globalisation, Market Civilisation and Disciplinary Neoliberalism', Millennium Journal of International Studies Vol.24, No.3, 1995, pp.412-413.

production, notably labour, and/or erode the tax base".[57] In order to attract FDI and become a popular destination for shifts in global finance, certain criteria need to be followed in order for a state's credit rating to be acceptable. Cox believes that the restrictive nature of these changes has meant that states now perform the role of "an agency for adjusting national economic practices and policies to the perceived exigencies of the global economy. The state becomes a transmission belt from the global to the national economy . . .".[58] Hence, states are becoming forced to adopt a measure of commonality in their policies, in order to meet the dictates of the global economy.

McKinley suggests that it is financial markets which have had the biggest impact on state autonomy. More so than TNCs he argues that they "have little commitment to any nation-state or national interest. Financial markets direct funds quite simply to where there are the most productive investments".[59] In some cases this means that the greatest opportunity for profit-making exists in the short-run and there is no incentive to consider commitment to the longer-term consequences. The pressure from currency markets and bondholders on states to maintain credible and accepted economic policies means that some of the problems resulting from the unevenness of globalisation, mentioned earlier, cannot be solved by policies at the national level. Kapstein argues that efforts need to be co-ordinated and conducted at the international

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[57] Charles P. Oman, The Policy Challenges of Globalisation and Regionalisation, OECD Development Centre, Policy Brief, 12 July 1995, p.11.
[58] Robert W. Cox, Global Restructuring, p.49.
[59] Robert McKinley 'Globalisation: Integration and Control in the World Economy' in Antoinette Hadley & Greg Mills (eds.), *op.cit.*, p.41.

level as any deviation by a single state will merely result in punishment from the financial markets.[60]

Nevertheless, the situation should not be viewed as a victory for international markets over states. Ohmae's vision of a world without borders may be one borne more of hope rather than reality. It must be stressed that there are not available multilateral bodies that can satisfactorily perform all of the functions that have long been provided by the state. Also, "people are not prepared to give up a state-centred nationalism altogether, even if they are prepared, increasingly to divide their loyalties".[61] The contribution that states have made to the process of globalisation is worth reiterating as well. Helleiner makes a point referred to earlier in section 2.1.1 of this chapter, arguing "that financial globalization has also been heavily dependent on state support and encouragement".[62] In short, the traffic is not simply moving in one direction; some of the causes of globalisation originate at the national and state level.

2.3 Southern perspectives on global developments

I now turn to some of the alternative views of the developments discussed in this chapter so far. This provides a balance to the Northern bias inherent in the preceding discussion. The 'South' is used as a descriptive term rather than the Third World, which has lost its meaning since the end of the Cold War. This is not to say that all countries in the South share the same concerns. Mono-crop and aid dependent

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[60] Ethan B. Kapstein , op.cit., p.17.
[61] Matthew Horsman & Andrew Marshall, op.cit., p.264.
[62] Eric Helleiner 'Post-Globalization: Is the financial liberalization trend likely to be reversed?' in Robert Boyer & Daniel Drache (eds.), op.cit., p.193.

countries like Ghana have different needs to large industrialising countries like India and Brazil. Here I adopt Chris Brown's contention that

> All-in-all, the term '*South*' seems the most appropriate, because it carries the least ideological baggage. . . Thus we can say that most Southern states are ex-colonies who achieved independence in the post-1945 period, most are composed of populations of non-European origin and culture, and most are poor relative to the Northern industrial countries.[63]

When the Bretton Woods system was still in place the criticisms from the South centred on the fact that it did not have a sensitivity to Southern concerns. This was the case for two simple reasons. Firstly, that at the time of the agreement there simply did not exist a 'South'. Colonial rule was still in place across vast areas of the globe. Secondly, amongst the major nations that constructed the agreement there was no feeling that specific solutions for the South were needed. The World Bank's initial role was to provide long-term loans to those developed countries whose economies had suffered during World War Two. It was only after the creation of the International Development Association in 1960 that the World Bank began to adopt its current role of providing loans to Less Developed Countries (LDCs).

From the 1950s and the beginning of the spread of decolonization, a group of independent countries that became known as LDCs emerged. The Northern responses to why these states were poor all rested on a liberal view of the world economy and a

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[63] Chris Brown, op.cit., p.188.

strong belief in the norms of the Bretton Woods institutions. One argument was that there was a lack of capital resulting in a savings gap and a foreign exchange gap and therefore development aid would enhance productive investment and so help to solve their difficulties in the long run. Another argument was that these countries suffered from having a 'dual economy'. Whilst part of the economy would be monetarised and part of the modern world, other parts, commonly rural agricultural areas would still be based on barter systems. The suggested solution, therefore, was to extend the capitalist economy, to remove this dualistic situation.

Such views did not express any reservations about the nature of the global system, and they suggested by successful adaptation to its requirements, LDCs could prosper. The first response from the South to such suggestions emerged in the 1950s. It was to propose that the relationship between North and South was structural and that this put constraints on the ability of LDCs to develop. Raul Prebisch was one of the pioneers of an approach that became known as dependency theory. He was an economist from Argentina, and was the inaugural director of the United Nations Economic Commission for Latin America (ECLA).

His concerns developed from a wish to explain why Argentina's economy had faltered so drastically during the twentieth century. His explanation of why the core of the world economy prevented the periphery from successful progress rested on an analysis of the nature of trade between the two. In general, the North traded manufactured products in exchange for primary products from the South. Prebisch argued this situation was undesirable as in the long-run the tendency is for the terms of trade to work against countries whose economies are based on primary commodities. His reasons for this belief were that the application of technology to primary products, to increase efficiency was far more difficult than in manufacturing. Secondly, demand for primary products remains relatively fixed compared to the demand for manufactured goods.

Whether there was sufficient evidence to support these claims is debatable; even so, the dependency argument had an immediate impact on the policies adopted by the governments of many Southern countries. The result was a policy called Import Substitution and Industrialisation (ISI). The new terms of trade argument ran counter to classical economic theory and the idea of comparative advantage. The South had a comparative advantage in agriculture and primary products but had to industrialise in order to avoid the damage predicted by Prebisch's argument. Thus ISI required protectionism and a programme of replacing imports of manufactured goods with those produced in the domestic industrial sector. In general, the view was that,

> the damaging effects of incorporation on a subordinate basis into the global political economy could only be contained by reducing one's exposure to international trade and capital.[64]

Despite a number of attempts to pursue ISI policies, especially in Latin America, "by the mid-1960s there was no sign that this policy was actually working".[65] The protection of domestic manufacturing from imports led to the spread of both poor

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[64] Christopher Clapham, Africa and the International System: The politics of state survival (Cambridge; Cambridge University Press, 1996), p.182.
[65] Chris Brown, *op.cit.*, p.191.

quality products and black markets, and the associated reforms such as changes in land ownership and a redistribution of wealth that were needed to continue momentum in the development of the domestic sector did not take place. Although the policy proposals of the ECLA were not fully influential, the ideas that they were based upon were built upon by others, particularly theorists.

Andre Gunder Frank expanded on the proposals of the ECLA and laid the foundations for what has become known as world-systems analysis. This was more overt in its claims. Frank's concern was with the relationship between the core and periphery and how this structure was inherent in the organisation of a capitalist world system. By providing analysis of various Latin American case-studies he argued that underdevelopment is caused by "the structure and development of capitalism itself".[66] The most important aspect of capitalism being the idea first introduced by Marx, that it has a natural tendency to centralise. On an international scale it is "this contradiction of capitalism [that] takes the form of polarisation into metropolitan centre and peripheral satellites".[67] The logical conclusion of Frank's argument was that in the LDCs only a socialist revolution to overthrow the capitalist system and transform relations with the international system would solve the problems of underdevelopment that he identified. This was a more extreme position than Prebisch and the supporters of ISI which was aimed at working within the confines of the global capitalist system to improve the relative position of the South.[68]

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[66] Andre Gunder Frank, Capitalism and Underdevelopment in Latin America: Historical Case Studies of Chile and Brazil (London; Monthly Review Press, 1969), p.xi.
[67] *ibid.*, p.8.
[68] Chris Brown, *op.cit.*, p.191.

This concern with the structural importance of capitalism was then explored by Immanuel Wallerstein to develop what is commonly referred to as world-systems analysis. This furthers the view that there is polarisation between countries in the world system. However, a new group of countries is identified, the semi-peripheral states, and Wallerstein argues that these are vital to the consolidation of the capitalist world economy. The essence of the world-systems perspective is that every domestic political struggle or economic difficulty should be viewed as part of the system as a whole.[69] Wallerstein suggests that historically there have been two types of world-system: world-empires and world economies.[70]

Semi-peripheral states are judged to be vital to the stability of the modern world system. In political terms, Wallerstein argues that all unequal systems have a natural tendency to become increasingly polarised and so need a middle sector to avert the possibilities of rebellion by the periphery. This is because the system needs somewhere for capital to relocate as the pressures for higher wages rise in the core. This is the main role of the semi-periphery.[71] Political stability is provided by the fact that many of these states have organised administrative structures relative to the periphery. In contrast to states in the periphery, those in the semi-periphery can have relative aspirations to enter the core. They often display authoritarian tendencies which allows them a degree of control over their labour markets thus keeping wages down.[72]

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[69] Immanuel Wallerstein, <u>The Capitalist World-Economy</u> (Cambridge; Cambridge University Press, 1979), p.53.
[70] Steve Hobden & Richard Wyn Jones 'World-System Theory' in John Bayliss & Steve Smith (eds.), <u>The Globalization of World Politics: An Introduction to International Relations</u> (Oxford; Oxford University Press, 1997), p.130.
[71] Immanuel Wallerstein, <u>op.cit.</u>, pp.69-70.
[72] Steve Hobden & Richard Wyn Jones, <u>op.cit.</u>, pp.137-138.

The world-systems approach would place South Africa as a semi-peripheral state. This has been recently attempted by Patrick McGowan. He assesses the 'new' South Africa's position in the modern world-system by analysis of its cultural, state and political, and economic strength.[73]

2.4 Globalisation and the 'South'

Much of the analysis of the global changes that have occurred over the last twenty years in the international studies literature has a strong 'North'-centrism. The first half of this chapter tends to conform to this reading of events. The aim of the second has been to detail whether the situation of states in the South can be understood differently, requiring attention to those theories used to explain the differentials between the South And the North. Much of the focus of such theories has been trained on the economic and political disparities between the North and South. However, as described overleaf, these disparities also extend to inequalities within the North - between core countries and also inside these countries. This had led to recent concerns that globalisation driven by markets and state forces will accentuate these differences and that a response, or globalisation-from-below, is needed to empower civil society on a global scale.[74]

One of the many effects of the changes in the global political economy described earlier in this chapter, is that the South has gradually become an increasingly

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[73] Patrick J. McGowan 'The "New" South Africa: Ascent or Descent in the World System?' in C. Roe Goddard, John T. Passé -Smith & John G. Conklin (eds.), International Political Economy: State-Market Relations in the Changing Global Order (London; Lynne Rienner, 1996), pp.191-212.
[74] Richard Falk, 'In Search of a New World Model', Current History Vol.92, No.573, 1993, pp.145-149.

diversified category. These changes have necessitated a revision of what has been described by Korany as our "conceptual geography". He argues that terms like the Third Word and the Non-Aligned Movement which were both used to group those states outside direct involvement in the Cold War are now increasingly irrelevant.[75]

Moreover, even the description of a simple North-South divide is also becoming increasingly untenable. This is a point expressed succinctly by Thomas and Reader.[76] They argue that the dominance of neo-liberal thinking in major Western states and the big multilateral institutions has increased the gap not just between rich and poor on a global scale but also within states in the South and North.

> Throughout the 1980s and 1990s it has become increasingly clear that large inequalities exist not only between the North and the South, but also within the North and the South themselves . . . today one can find large numbers of poor people in the North as well as significant numbers of extremely rich people in the South.[77]

State-based analyses of the share of global income can mask these changes. This level of analysis tells us nothing about the inequalities within societies, which is of special importance in the case of South Africa (see Chapter Three). Thus measurement of changes in the ratios of income going to the richest fifth and the poorest fifth of the worlds population highlights the widening inequalities that have occurred between 1970 and 1990 (see Table 2.1 overleaf)

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[75] Bahgat Korany 'End of History, or its continuation and accentuation? The global South and the "new transformation" literature', Third World Quarterly Vol.15, No.1, 1994, pp.7-15.
[76] Caroline Thomas & Melvyn Reader 'Development and Inequality' in Brian White, Richard Little & Michael Smith (eds.), Issues in World Politics (Basingstoke; Macmillan, 1997), pp.90-110.
[77] *ibid.*, p.95.

Table 2.1 Global Distribution of Income 1970-1990

Year	Share of global income going to the richest 20% (%)	Share of global income going to the poorest 20% (%)	Ratio of richest to poorest
1970	73.9	2.3	32:1
1980	76.3	1.7	45:1
1990	82.8	1.3	64:1

Source: L. Brown & H. Kane, Full House: Reassessing the Earth's Population Carrying Capacity (London; Earthscan, 1995), p.46.

There arise, however, a number of problems with the traditional Southern forms of analysis and the understanding of the developments described earlier in Section 2.1 of this chapter. The changes responsible for the choice of a *global* rather than *international* political economy as the framework in this thesis should not be treated merely as just one more in a series of stages in the long-running process of capitalist expansion. This is the position given in a more recent restatement of the world-systems perspective by Christopher Chase-Dunn. He argues that despite the numerous changes, summarised earlier in this chapter, "the more basic dynamics of the system have not changed".[78] But this is to ignore the qualitative over the many quantitative developments that have taken place.

[78] Christopher Chase-Dunn, Global Formation: Structures of the World Economy (Oxford; Blackwell, 1989), p.227.

The earlier sections of this chapter have attempted to show, the process has been controlled to a rapidly reducing degree by the inter-state system. Key decisions over the distribution of resources are increasingly being left to the market. This has impacted unevenly on the South and thus our dichotomised views of the world (whether North/South, core/periphery or rich/poor) are becoming increasingly irrelevant. David Potter suggests a better characterisation is that of a global manufacturing system where there are "what amount to national specializations in the international division of labour".[79]

Thus while 'Southern theories', and more specifically world-systems analysis, remain useful in explaining how systemic factors both determine and constrain the actions of states, the tendency to treat states as homogeneous bodies is unhelpful. In this respect the world-systems approach can be seen as too state-centric to deal with the changes outlined earlier in Section 2.1 of this chapter, especially in respect of South Africa, where massive inequalities in the population resulted from the policy of apartheid, over the period from 1948 to 1989.

Thus it is crucial to understand that South Africa's position is constrained both by external and internal factors. There is also a growing acceptance within South Africa of the importance of these external constraints. Moreover, the rules by which this system operates are becoming increasingly liberal in nature. The options that are made available to South Africa within the limits, and the consequences of any decisions

[79] David Potter 'The Autonomy of Third World States within the Global Economy' in Anthony G. McGrew, Paul G. Lewis *et al.* (eds.), Global Politics: Globalization and the Nation-State (Cambridge; Polity, 1992), p.225.

for the population of South Africa and in some cases for southern Africa as a region, are the subject of this thesis

Moreover, the claim that liberalism is dominant is not accepted by world-systems analysts. In fact Wallerstein believed in 1979 that "liberalism has come onto hard days - not least of all in the analysis of 'development'".[80] However, this is in sharp contrast to the practical experiences of the South in recent decades. For the international agenda for development is increasingly dominated by the position taken by governments in the North and intergovernmental organisations such as the World Bank and IMF, where their power predominates over the Southern members. The general trend has been a dominance of neo-liberal ideology and the belief that development problems arise as result of market forces being prevented from operating freely, within and between economies. Since 1973 the focus of the Bretton Woods institutions has shifted to a near exclusive concern with developing countries. Their roles have also become intertwined, and although they do not take identical positions on everything, what unites them is an agreement over the applicability of neo-liberal economic prescriptions. This has been referred to as the 'Washington consensus'.[81]

2.5 Summary

All in all, this chapter has argued that South Africa's transformation must be situated in the global context if the recent trends and emerging opportunities and their

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[80] Immanuel Wallerstein, op.cit., p.67.
[81] The originator of this label was John Williamson. See John Williamson 'Democracy and the "Washington Consensus"', World Development Vol.21, No.8, 1993, pp.1329-1336.

limitations are to be properly understood. To do otherwise would be to over-estimate the policy autonomy that is possible in the changing global political economy. Foreign capital, skills and knowledge are all vital to the domestic development of South Africa. Therefore it is firmly in its international political and economic relations that the fate of South Africa's future lies.

This chapter has touched on some of the major developments which have determined the evolving global environment. The latter sections have shown how there should be an appreciation of the link between global inequality and the resulting sites of political and economic power in the system and their impact on the domestic inequalities in South Africa. The following chapters are more empirical. They aim to highlight the growing acceptance of the global consensus on development during the early years of the post-apartheid era, and how this threatens adverse effects for the majority of the South African population.

Chapter Three

South Africa's Unique Position: The Historical Legacy of Apartheid

The profound changes that have shaped the global political economy and the impact this has had upon states was the concern of the previous chapter. It also suggested that the position of states in the South currently places limits and constraints on the choices available to those states outside the dominant Triad. The case of South Africa, however, requires further qualifications because of the unique position that the new government inherited in 1994 resulting from the historical legacy of apartheid. This chapter seeks to show that domestic inequalities and racial imbalances inherited from the apartheid era have made the early years of post-apartheid South Africa's reintegration into the global political economy more problematic than would otherwise be expected. Moreover, the history of South Africa's incorporation into the world economy and the previous conduct of its regional relations leaves a legacy which must be overcome.

Spending merely a day walking around the streets of one or two of the major urban centres in post-apartheid South Africa[1], reveals quite clearly two crucial factors that are likely to obstruct the path of the country's successful global reintegration. Firstly, the massive inequality and hardship suffered by many of the population. Secondly, that the racial divisions and organisation of society will not disappear overnight. These two statements underplay the enormity of the situation. The fact that

[1] The author's experiences refer to Johannesburg and Cape Town.

racial segregation deeply permeated all corners of society means that there is a history of racial hatred, injustice, inequality and prejudice that will not disappear overnight.

Marais has argued that South Africa resembles a 'Two Nation' society as a result of a number of historical developments. These began in earnest with the hastening of capitalist development that resulted from the introduction of gold and diamond mining in the second half of the nineteenth century.[2] One of the major challenges of the post-apartheid era is whether a black majority in power can overcome the historical scars that emerged from the implementation of racial segregation.

3.1 An outline of inequality

In crude overall terms South Africa does not look like a developing country. In 1994 it had a GNP per capita of US$ 3,040, which placed it ahead of ninety-two of the one-hundred and thirty-three countries assessed by the World Bank.[3] However, South Africa displays great disparities in the distribution of income across its population. In 1993 the richest 20 per cent of the population received just under two-thirds of the entire national income, whilst the poorest 40 per cent of the population only earned a share of 9.1 per cent. The distribution of national income across the population is shown in the table overleaf.

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[2] Hein Marais, South Africa: Limits to Change: The Political Economy of Transition (London; Zed Books, 1998), p.8.

[3] World Bank, World Development Report 1996 (Oxford; Oxford University Press, 1996), pp.188-189.

Table 3.1 South Africa's Percentage Share of Income in 1993

Section of Population	Percentage Share of Income
Lowest 20 per cent	3.3
Second quintile	5.8
Third quintile	9.8
Fourth quintile	17.7
Highest 20 per cent	63.3

Source: World Bank, World Development Report 1997 (Oxford; Oxford University Press, 1997), pp.222-223.

This makes South Africa one of the most unequal societies on earth. For the countries where figures exist, only Brazil with a figure of 67.5 per cent for its top twenty per cent of the population, Guatemala (63.0 per cent), Zimbabwe (62.3 per cent) and Kenya (62.1 per cent) are comparable.

A comparison with similar countries, deemed upper-middle-income by the World Bank is equally revealing.[4] A comparison of the gini indices (available for some of these countries) places only Brazil as a more unequal society.[5] See Table 3.2 overleaf.

[4] Upper-middle-income countries form part of the World Bank's classification of countries based on figures for GNP per capita.
[5] This represents the most common measure of the extent of deviation from perfect income equality. A figure of zero represents perfect equality and a figure of one hundred signifies perfect inequality.

Table 3.2 Gini Indices of Upper-Middle Income Countries

Upper-Middle-Income Country	Gini Index
Brazil	63.4
South Africa	**58.4**
Chile	56.5
Mexico	50.3
Malaysia	48.4
Slovenia	28.2
Hungary	27.0
Czech Republic	26.6

Source: World Bank, World Development Report 1997 (Oxford; Oxford University Press, 1997), pp.222-223.

One of the clear lines of inequality is along racial divisions. Although this trend began to become less important during the last decade of the apartheid era as the system weakened. The International Labour Organisation has calculated that of general earnings inequality, in 1980 the proportion attributed to racial inequality was 65 per cent; this had fallen to 42 per cent by 1993.[6] Nevertheless, there remains a strong racial bias in the breakdown of a number of social and economic indicators. For example, in 1988/9 whilst only 2.6 per cent of white households had a monthly income below Rand 400, the comparative figure for African households was 51 per cent. Similarly at the other end of the income scale (monthly income over Rand 2000), only 2.4 per cent of African households qualified, whilst 56 per cent of white households were above this mark.[7] A racial analysis of the human development index highlights these differences.[8]

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[6] Hein Marais, *op.cit.*, p.107.
[7] Colin Bundy 'Development and inequality in historical perspective', in Robert Schrire (ed.), Wealth or Poverty? Critical Choices for South Africa (Oxford; Oxford University Press, 1992), p.25.
[8] The realities of the apartheid regime unfortunately make it essential to use categories of race.

They range from 0.897 for whites to only 0.500 for blacks. This is shown in the table below.

Table 3.3 Human Development Index (HDI) of South African Population Groups (1991) and Selected Black African Countries (1992)

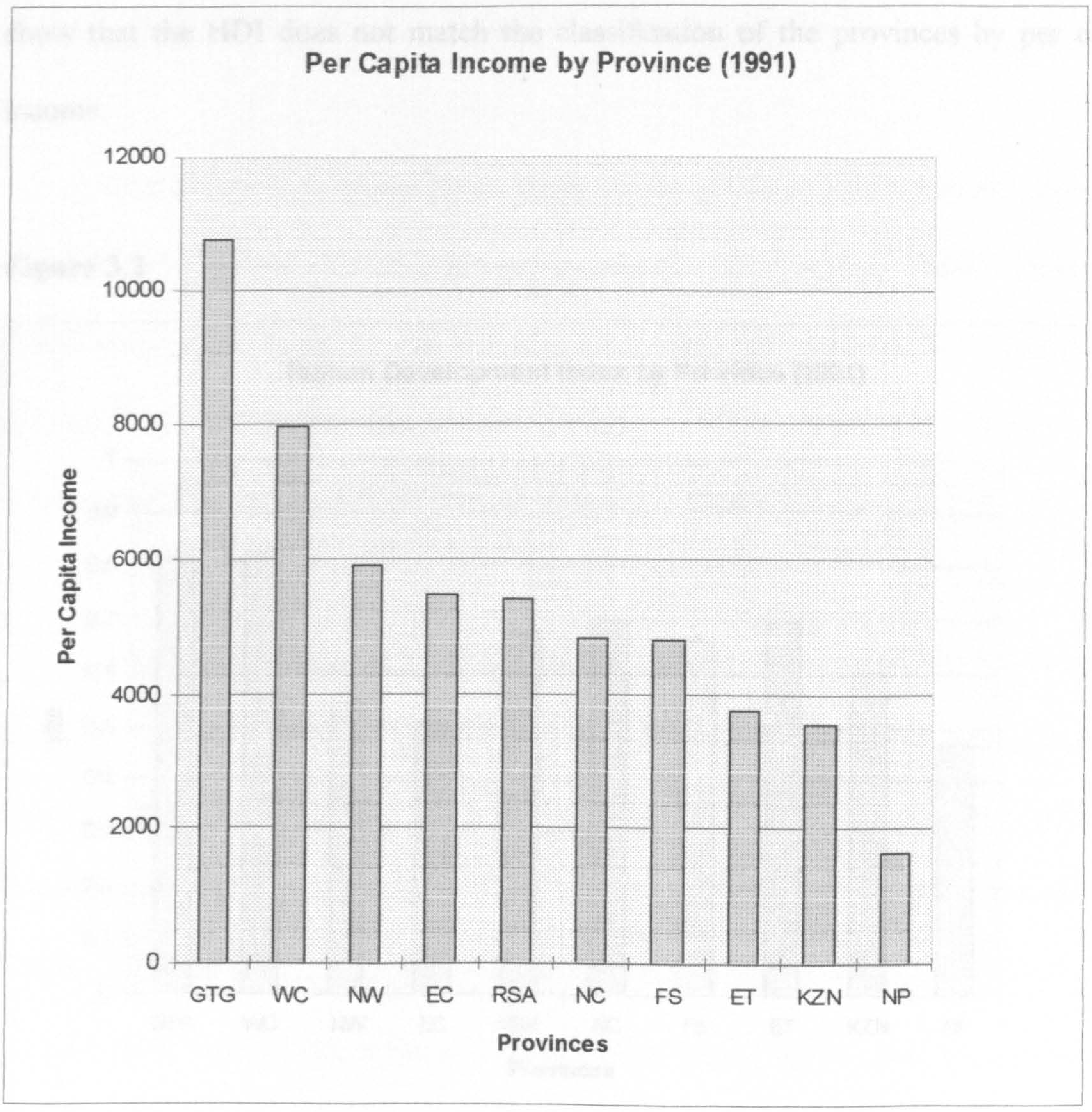
Population Group / Country	HDI
Whites (South Africa)	0.897
Asians (South Africa)	0.836
South Africa	0.677
Botswana	0.670
Coloureds (South Africa)	0.663
Swaziland	0.513
Blacks (South Africa)	0.500
Zimbabwe	0.474
Kenya	0.434

Source: Central Statistical Service, RSA Statistics in Brief 1995 (Pretoria; Government of South Africa, 1995), Section 3.14. and UNDP, Human Development Report 1994 (Oxford; Oxford University Press, 1994), pp.129-131.

These comparisons show how the black majority of the South African population is closer to countries like Zimbabwe and Kenya , rather than other members of its own population.

There are also striking differences if socio-economic indicators are analysed on a regional basis. If we compare both per capita income and human development indices for the nine new South African provinces there are some noticeable variations. The complete picture is shown in figures 3.1 and 3.2 below. These figures tend to fit the assertion that, "absolute poverty is largely a rural phenomenon".[9] Gauteng with a mostly urban population fares better than more rural provinces like the Eastern Cape and Northern Province. In both figures the value for the whole of South Africa is also included.

Figure 3.1



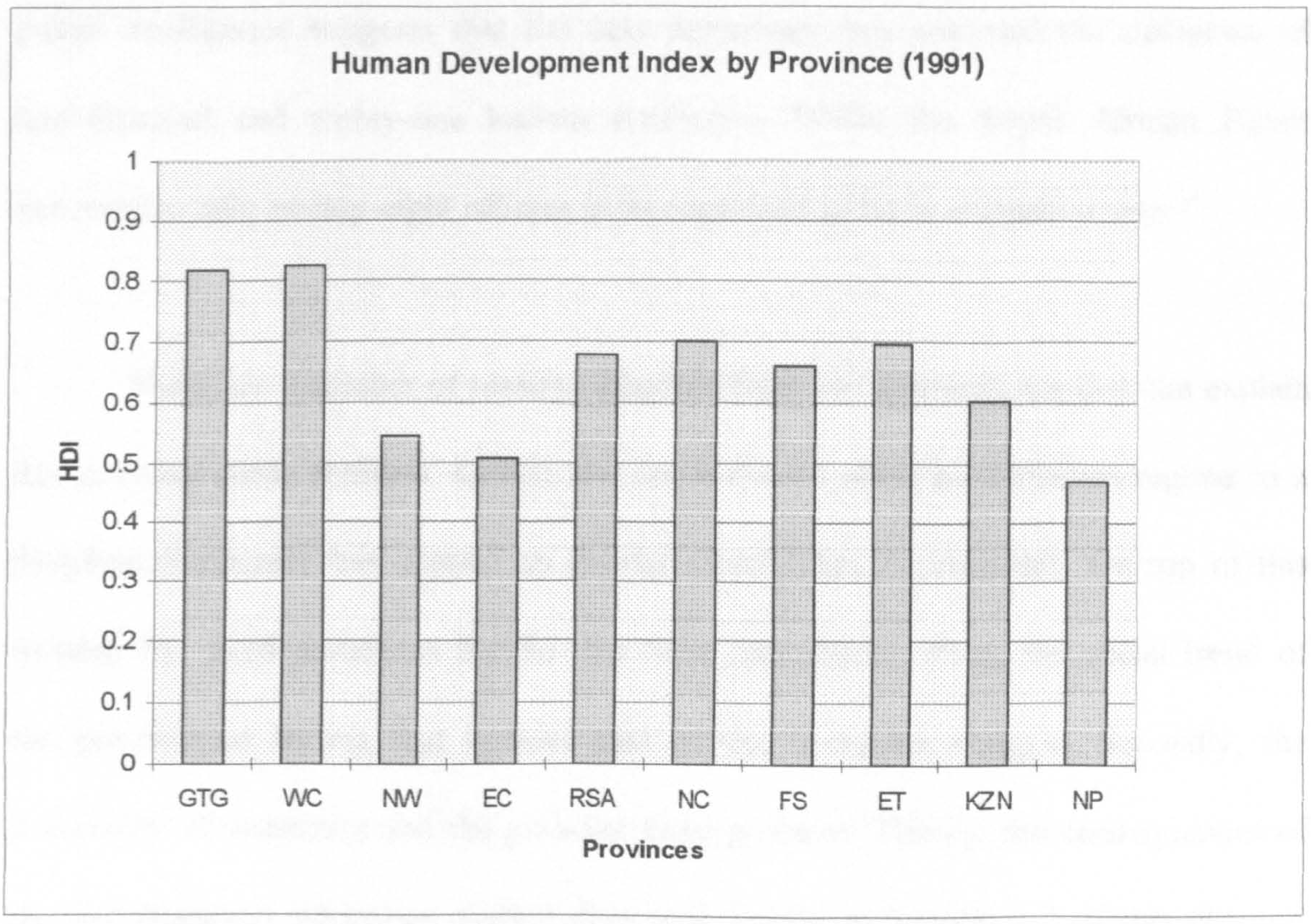
Source: C.W. Luüs & R. Oberholzer, Provincial Characteristics of South Africa (Halfway House; Southern Book Publishers, 1994), p.22.

[9] Hein Marais, *op.cit.*, p.107.

Key: GTG is Gauteng, WC is Western Cape, NW is North-West, EC is Eastern Cape, RSA is South Africa, NC is Northern Cape, FS is Free State, ET is Eastern Transvaal, KZN is Kwazulu Natal, NP is Northern Province.

Figure 3.2 below, shows the Human Development Indices for the various provinces. The ordering of the horizontal axis has been kept the same as figure 3.1 to show that the HDI does not match the classification of the provinces by per capita income.

Figure 3.2



Source: Central Statistical Service, RSA Statistics in Brief 1995 (Pretoria; Government of South Africa, 1995), Section 3.15.

With such high levels of inequality and hardship it is surely of little surprise that South Africa has acquired a reputation of suffering from a major crime problem. The statistics bear witness to this belief. The annual murder rate at the start of the post-apartheid era compared very unfavourably with other areas of the world. For South Africa it was ninety-eight per 100,000 people. This compares with figures of fifteen in Holland, ten in the United States and four in France and Germany. In measures of rape and serious assault South Africa is also an international leader.[10]

The statistical emphasis given above on the nature of South African crime fails to highlight the extent of what is termed organised criminal activity. Venter claims that police intelligence suggests that the new democracy has spawned the operation of four-hundred and eighty-one known syndicates. Whilst the South African Police Service has only twenty-eight officers in its organised crime investigation unit.[11]

There are a number of reasons inherited from the apartheid era that can explain this growing crime problem. Clearly the move from a strict authoritarian regime to a fledgling democracy has opened up greater possibilities for criminals. On top of this Adedeji has cited numerous factors that have contributed. First, the social trend of anti-government feeling that became part of the liberation struggle. Secondly, the availability of weaponry and the growing gang problem. Thirdly, the consequences of the discriminatory education system discussed further in Section 3.2 of this chapter. Fourthly, the problems of unemployment also detailed later in this chapter in Section

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[10] Leonard Thompson, A History of South Africa (Revised edition) (London; Yale University Press, 1995), p.257.
[11] Lester Venter, When Mandela Goes: The Coming of South Africa's Second Revolution (Johannesburg; Doubleday, 1997), p.214.

3.3. Fifthly, the inheritance of a poorly staffed and corrupt police force. Finally the massive income inequalities described above.[12]

The apartheid legacy in this area is concisely contained in a quote from *The Economist*.

> South Africa's recent history glorified violence. . . The government used it for repression, the liberation movements used it as a means of liberation. . . The line between political protest and violence was blurred.[13]

Venter highlights two of the areas where the crime problem could become a major constraint. It is likely that the constant overseas media emphasis is likely to heighten the negative effects that this will have on both levels of foreign investment in South Africa and also the prospects for international tourism.[14] Moreover, domestically it will have cultural effects in the way especially urban lifestyles develop. Already there has been a large growth in shopping mall developments as opposed to the development of local enterprises due, in part to people's fear of crime. This is best reflected in the Waterfront development in Cape Town's harbour area.

The extent of the inequality outlined in this section makes it clearer why there is a strong need for domestic redistribution of income and wealth. This is discussed in further detail in Chapter Four.

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[12] Adebayo Adedeji 'Towards a New African Order with a New South Africa?' in Adebayo Adedeji (ed.), South Africa & Africa: Within or Apart? (London; Zed Books, 1996), pp.225-226.
[13] The Economist 15-21 July 1995, p.54.
[14] Lester Venter, *op.cit.*, p.216.

3.2 Discriminatory education and a lack of skilled resources

Before the National Party (NP) came to power in 1948, the education of the black majority was left in the hands of the institutions provided by the missionaries. This system suffered both from the inadequate provision of resources and a lack of capacity to provide places for everyone. However, it was not for these reasons that the NP decided to take central control of the education of the black population.

Their incentives were twofold. First, the expanding and industrialising economy required a larger workforce that had a basic level of literacy. Second, and more importantly, the Bantu Education Act of 1953 was a direct attempt to suppress and control the nature of the education provided to the black population. In the eyes of the NP government the schools run by the missions were capable of giving the black population dangerous ideas. Hendrik Frensch Verwoerd, who was Prime Minister of South Africa from 1958 until 1966, is generally accepted as the man most responsible for the process of state organised segregation known as apartheid. During his time as leader control of Asian and Coloured education was also implemented. In his view the purpose of the control of black African education was simple,

> Native education should be controlled in such a way that it should be in accord with the policy of the state . . . If the native . . .is being taught to expect that he will live his adult life under a policy of equal rights he is making a big mistake.[15]

[15] Leonard Thompson, op.cit., p.196.

Allister Sparks' account of the psychological effects of this racially ordered education system are compelling. He describes a system that was devised with the specific aim of quashing ambition and helping to maintain the apartheid system. He describes the poor facilities, overcrowding and lack of training and inspiration of the teachers, all general problems associated with black schools. The suppressive nature of the educative process was heightened by the presence of soldiers or police who even attended classes sometimes.[16]

The Soweto crisis of 1976-7 was the result of direct resistance by members of the black population to this system of education. The catalyst was a "demonstration against a government edict that half of all classes in black schools be taught in Afrikaans".[17] The resultant social breakdown in virtually every township did cause some of the provisions of the Bantu Education Act to be removed, although this did not mark, in any tangible way, an end to state repression.[18]

Moreover, the Soweto crisis did not signify an end to discriminatory education, nor did it spawn an end to the inequalities prevalent in spending on education. In 1978 ten times as much government expenditure per head was directed to the education of white as opposed to African children.[19] Even by 1986, the balance was still in favour of white students by the ratio of seven to one.[20] These inequalities in spending levels were reflected by differences in graduation levels. Despite the fact that the gap in spending

[16] Allister Sparks, The Mind of South Africa (London; Arrow Books, 1997), pp.224-225.
[17] *ibid.*, p.302.
[18] T.R.H. Davenport, The Transfer of Power in South Africa (Toronto; University of Toronto Press, 1998), p.5.
[19] Leonard Thompson, *op.cit.*, p.196.
[20] *ibid.*, p.227.

in 1994 had fallen to Rand 2.40 spent on educating a white child for every Rand spent on a black child, the pass rate for the matric between 1990-95 for white pupils was 97 per cent as compared with 42 per cent for their black counterparts.[21]

As with many national statistics for South Africa, total expenditure on education, and the priority it is given in the national budget, hides the unequal way in which these resources have been allocated. Hence the need for the breakdown of the figures discussed above. Judged on a global scale the levels of expenditure suggest that education has been well-cared for in the past. Such a comparison is shown in Table 3.4 overleaf.

[21] Lester Venter, op.cit., pp.238-239.

Table 3.4 Top Twenty Developing Countries Measured by the Percentage of Total Government Expenditure Spent on Education (1993-1995)[22]

Developing Country	**Education as a Percentage of Total Government Expenditure (1993-1995)**
Senegal	33.1
El Salvador	31.0
Mexico	26.0
Ghana	24.3
Singapore	23.4
Morocco	22.6
Venezuela	22.4
St. Lucia	22.2
Swaziland	21.7
Belize	21.3
Namibia	21.3
Panama	20.9
Central African Rep.	20.9
Botswana	20.5
South Africa	**20.5**
Thailand	20.1
Haiti	20.0
Cape Verde	19.9
Costa Rica	19.9
Libyan Arab Jamahiriya	19.8

Source: UNDP, Human Development Report 1998 (New York; United Nations, 1998), pp.162-163.

The table shows that South Africa lies fifteenth in the top twenty developing countries, when they are ranked by the percentage of government expenditure directed to education. This does not show absolute levels of spending but gives an idea of the priority of education in national budgets as opposed to other areas of spending.

[22] The term developing countries refers to those countries ranked twenty-third or lower in the Human Development Index.

However, it is clear that, "South Africa possesses a deplorable lack of technically skilled, educated workers".[23] Education is vital to the economy for its role as a stimulus. The situation is exacerbated by the loss of skills through a steep rise in the numbers of people emigrating from South Africa. It is widely accepted that any figures for emigration are lower than the reality because citizens who depart from South Africa do not have to tell the state that they are emigrating. Nevertheless, the cost of emigration means it is the more highly-skilled who leave. A local study in Cape Town revealed the nature of the problem. It claimed that almost five hundred doctors had left the area within three years.[24] Largely because of this human resources problem, South Africa was downgraded in the World Competitiveness Report in 1993 from eighth place, the previous year, to eleventh place out of fifteen, non-OECD industrialising economies.[25]

This was soon acknowledged by the Government of National Unity (GNU) in the framework of the Reconstruction and Development Programme (RDP). One of the five major policy areas outlined in the RDP Base Document, was developing human resources. In the introduction to this section it is stated that, "The RDP is a people-centred programme . . . This will empower our people but an education and training programme is crucial".[26] The plan to solve the crisis in black schooling and vocational training was to amalgamate the different ethnic departments that existed in the

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[23] Greg Mills 'Waiting for the Fig Leaf to Drop?' in Greg Mills, Alan Begg & Anthoni Van Nieuwkerk (eds.), South Africa in the Global Economy (Johannesburg; South African Institute of International Affairs, 1995), p.9.
[24] Mail & Guardian 'Losing the middle class', 18 September 1998.
[25] Patrick J. McGowan 'The "New" South Africa: Ascent or Descent in the World System' in C. Roe Goddard, John T. Passé-Smith & John G. Conklin, (eds.) International Political Economy: State-Market Relations in the Changing Global Order (London; Lynne Rienner, 1996), p.199.
[26] ANC, Reconstruction and Development Programme: A Policy Framework (base document) (Johannesburg; Umanyo, 1994), p.7 (Section 1.4.4).

apartheid era into one single system to be administered via sub-departments at the provincial level.

There was also a commitment to an equalisation of spending levels and pupil-teacher ratios.[27] These are all necessary. However, earlier in 1992, an IMF report had made an assessment that, assuming the same proportion of government finance is spent on education as in 1990, even with annual growth of GDP at 4 per cent for the five years up until 1995, the level at which spending on education could be equalised would only be just above the level spent on black pupils in 1990. Thus average spending would be well below that spent on white, coloured and Asian pupils.[28] This prediction combined with the early evidence provided in Chapter Four of this thesis leads me to the tentative conclusion that a human resources problem and the skewed nature of education and training will continue to be features of the South African political economy in the medium to long-term.

3.3 Unemployment and workplace relations

Another of the historical legacies of apartheid which will not be easily overcome is the problem of unemployment and the dualistic nature of the labour market. By December 1995, official unemployment was 33 per cent, and it was also estimated that closer to 50 per cent, of the black community did not actually work in the formal sector.[29] It is also estimated that about half of those recognised as

[27] T.R.H. Davenport, *op.cit.*, p.82.
[28] Desmond Lachman & Kenneth Bercuson (eds.), Economic Policies for a New South Africa (Washington; IMF, 1992), p.23.
[29] Financial Times, 'Gloomy outlook for Jobless in booming South Africa', 7 December 1995.

unemployed are engaged in work in the informal sector of the economy which often produces low wages that fail to alleviate poverty.[30] The informal sector also operates outside regulatory frameworks, thus avoiding government taxes, and contributes to the lack of skilled resources in South Africa.

The unemployment problem is compounded by the high fertility rates present in South Africa and the resulting high levels of population growth. In 1992 South Africa's total fertility rate was 4.2. This compares with a world average of 3.4 and an average of 3,8 for all countries classified by the United Nations (UN) as developing.[31] Therefore it is not surprising that between 1981 and 1991 the size of the economically active population rose by 3.3 million. This increase was matched in the same period by an increase in jobs in the formal sector of only 186,000.[32]

The labour market in South Africa also has a history of structural duality that is directly attributable to government policies of the apartheid era and before. When the government implemented the 'civilised labour policy' in 1924 it set a course that would lead to great distortions in the labour market in later years. This policy was a response to pressure from Afrikaner nationalists who were concerned about the poor economic situation of a large number of their people, especially rural Afrikaner families. The aim was to provide jobs for unemployed whites at a high wage, which represented more than their productivity and was also higher than the wage paid to blacks who performed similar tasks.

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[30] Fred Anwireng-Obeng 'The State of the South African Economy' in Adebayo Adedeji (ed.), op.cit., p.129.
[31] UNDP, Human Development Report 1994 (Oxford; Oxford University Press, 1994), pp.174-175.
[32] Patrick J. McGowan, op.cit., p.195.

This policy was more actively pursued in the first two decades of the apartheid era. However, by the early 1970s the resulting dual structure was becoming apparent. The policy had contributed to the skilled market in jobs becoming massively under-supplied and therefore attracting very high wages, whilst the unskilled jobs market was over-supplied and drew wages unable to alleviate poverty.[33] Thus the policy was scrapped. However, its effects are showing signs of longevity. It is estimated that by the year 2000 the shortage of workers for skilled jobs will be 500,000 whilst the surplus of unskilled workers will be 2.4 million.[34]

3.4 Historical development of South Africa in the world economy

The nature of South Africa's position in the world economy was undeniably shaped to a major extent by the discovery of diamonds and gold and the introduction of their mining in 1867 and 1886 respectively.[35] This set the tone for two important features. First, that South Africa would become to a large degree a provider of primary goods to the world economy and also a host for foreign investment. Secondly, it left an indelible mark on the development of labour and social relations.[36]

By 1939 the gold-mining industry alone had become a major sector of the South African economy accounting for three-quarters of total exports.[37] The success of the mining industry depended crucially on the existence of a cheap and steady supply of labour. Working in the mines was a particularly unhealthy and dangerous

[33] Fred Anwireng-Obeng, , op.cit., p.138.
[34] Patrick J. McGowan, op.cit., p.198.
[35] Hein Marais, op.cit., p.8.
[36] *ibid.*, p.9.
[37] Leonard Thompson, op.cit., p.167.

occupation. During the period 1933 to 1966, accidents in mines resulted in the deaths of nineteen thousand gold miners.[38]

Crucial to the continued supply of cheap African labour were the policies of racial segregation employed soon after the inauguration of the Union of South Africa in 1910. The new Parliament wasted little time in extending the discrimination towards blacks and these decisions were partially driven by economic interests. In 1913 the Natives Land Act was passed. It detailed areas, amounting to about twenty-two million hectares in total, which were designated as African reserves. This was equivalent to only about 7 per cent of the geographical area of the country.[39] Blacks were then prevented by this new law from buying land that lay outside these designated areas.

The main reason for this massive project of forced eviction was to control and provide labour both for mining and for the white, mostly Afrikaner-based, farming community. It became an offence under the new law for any blacks, except servants, to live on white farms and those that did were unceremoniously evicted. This was an overt attempt to destroy what had become quite a successful and self-sufficient black peasantry.[40] In the absence of commercial agriculture, white farmers had leased some of their land to black tenants and in the Free State, especially, sharecropping agreements existed.[41] This system posed numerous threats to the white population. It

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[38] *ibid.*, p.168.
[39] *ibid.*, p.163.
[40] For a detailed account of the rise of the African peasantry see Colin Bundy, The Rise and Fall of the South African Peasantry (Second Edition) (London; James Currey, 1988), Chapter Three.
[41] This involved Africa farmers growing their own crops and using their own livestock, on the land owned by the white farmer and then splitting the profits equally.

meant the blacks were re-establishing a measure of independence, providing competition to white farmers, and reducing the stock of the cheap labour pool.[42]

The Land Act instantly added nearly a million blacks to the labour supply which helped to maintain the low-cost of supply.[43] The 1936 Natives Land and Trust Act legislated for a doubling of the size of land earmarked for reserves and this aided the obliteration of the African peasantry as they tended to be placed in areas of poor agricultural potential. The size of the African peasantry contracted in the decade from 1936 to 1946 from 2.5 million to just 832,000.[44] This allowed the mines to keep wages artificially low. There was a large oversupply of labour and this was fortified by "a legal framework that bound them to a single employer and allowed no security of tenure in the city except in his service".[45]

The rise in the international price of gold in 1933, coupled with the plentiful supply of cheap labour, marked a change in the nature of South African gold mining. It made it possible to profit from the extraction of low-grade ore. The profit margins on this type of gold extraction were fairly marginal and only the presence of very cheap labour made it viable. Similar standard gold ore would probably have been left in the ground in countries like the United States, Australia and Canada.[46]

A complex pass law system was extended to try and limit and regulate the inflow of African labour into the urban areas. Thus the native 'reserves' were burdened

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[42] Allister Sparks, op.cit., p.141.
[43] *ibid.*, p.141.
[44] Hein Marais, op.cit., p.9.
[45] Allister Sparks, op.cit., pp.142-143.
[46] *ibid.*, p.139.

with the costs of reproduction of labour.[47] These laws prevented the possibility of African workers being able to freely sell their labour around the country.[48] However, these laws were broken by vast numbers of Africans and the rural/urban divide was not as rigid as the administration had hoped. By 1946 there had been an increase of 36 per cent in the number of Africans living in urban areas.[49]

As manufacturing industry grew from its small base during the 1940s and agricultural production became increasingly mechanised, tensions grew between the different sectors of the South African economy. A major division was apparent over how South Africa should operate with the world economy. The mining sector advocated policies orientated towards free trade due to the international nature of its markets and the dependence on foreign investment. Whereas the agriculture and manufacturing sectors, which had grown under state protection and had relied on domestic investment, wished to maintain an inward-looking strategy.[50]

The position of the various sectors on the control of African labour and the reserve system was also in contrast. By the 1930s the reserve system had become increasingly unviable due to problems of overcrowding and poor environmental maintenance.[51] As Bundy suggests in a discussion on the nature of life in the reserves,

> . . . the details abound of infant mortality, malnutrition, diseases and debility; of social dislocation expressed in divorce, illegitimacy, prostitution and crime; of the erosion, desiccation and falling fertility of

[47] Hein Marais, op.cit., p.10.
[48] Allister Sparks, op.cit., p.191
[49] Hein Marais, op.cit., p.10.
[50] ibid., p.10.
[51] ibid., p.12.

the soil; and of the ubiquity of indebtedness and material insufficiency of the meanest kind.[52]

These problems heightened the trend of migration to urban areas. The manufacturing sector wanted this growing urban labour supply to continue growing via a softening of the pass laws and job colour bar. Mining, on the other hand, wanted to restore the 'reserve system' to preserve the supply of cheap migrant workers. The agricultural sector, meanwhile, wanted to stem the flow of workers to urban areas by tightening the laws regarding freedom of movement.[53]

When the NP came to power in 1948, its chief aim was to advance the interests of Afrikaners. It also accepted that the system had to be in concert with the needs of the capitalist class. Therefore it had to deal with some of the divisions that had developed between the different sectors of the economy described above. It adopted a fairly insular view with regards to its economic strategy. The plan was based around two key foundations. A policy of Import Substitution and Industrialisation (ISI) was adopted together with a strengthening of controls over the control of a cheap dependable African labour supply.[54] This was in keeping with the history of the Afrikaners who had developed a parochial frame of mind via their remote way of living and "incipient self-obsession that became such a consuming feature of Afrikaner nationalism".[55]

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[52] Colin Bundy, *op.cit.*, p.221.
[53] Hein Marais, *op.cit.*, p.18.
[54] *ibid.*, p.21.
[55] Allister Sparks, *op.cit.*, p.187.

The NP offered a firm and quick response to the problems that had been threatening the unison of the various sectors of the economy. The restoration of efforts to control the African population as a cheap supply of labour were coupled with a clamp-down on organisations representing the political interests of the black majority. The system of pass laws and influx control was made more rigorous and the job colour bar was strengthened.[56] Opposition to such measures was curtailed by sustained measures to prevent organised African resistance. Trade Unions were severely affected with sixty-six unions becoming non-existent between 1945 and 1951.[57] The 1950 Suppression of Communism Act which effectively led to the banning of the Communist Party of South Africa was another measure aimed at organised black interests.[58]

Thompson suggests that the South African economy was vulnerable to the vagaries of the world economy in three ways. First, in its need for high levels of foreign investment. Secondly, except for the mining sector, technologically inferior industry was required to rely heavily on imports for machinery and electronic equipment. Thirdly, without its own supplies of natural oil, South Africa was reliant on supplies from the countries that make up the Organisation of Petroleum Exporting Countries (OPEC).[59]

This importance of the international dimension is a result of the nature of the historical development of the South African economy. After World War Two, South Africa concentrated on developing what was a rapidly expanding manufacturing sector.

[56] John S. Saul & Stephen Gelb, The Crisis in South Africa (Revised edition) (London; Zed Books, 1986), p.69.
[57] Hein Marais, *op.cit.*, p.13.
[58] *ibid.*, p.20.
[59] Leonard Thompson, *op.cit.*, p.217.

The method established for this, as already mentioned, was an ISI policy. The aim was to use state intervention in the form of high tariffs and various non-tariff barriers to protect vulnerable industries from competitive foreign imports.[60] As trade sanctions increased over the years, such protective policies were extended making the South African economy highly protected. In table 3.5 below, total tariffs on various classifications of imports by mid-1990 are shown.

Table 3.5 Total tariffs on different groups of imports (mid-1990)

Type of imports	Total tariffs (%)
Primary Products	3.1
Processed Primary Products	14.5
Capital Goods	20.2
Material-intensive Goods	34.0
Manufactured Products	40.3

Source: Patrick J. McGowan 'The "New" South Africa: Ascent or Descent in the World System' in C. Roe Goddard, John T. Passé-Smith & John G. Conklin, International Political Economy: State-Market Relations in the Changing Global Order (London; Lynne Rienner, 1996), p.207.

The bias towards protection of the South African manufacturing sector is clearly highlighted by these figures. Such high levels of protection have drawn criticism from the world trading system in the shape of the General Agreement on Tariffs and Trade (GATT). This provides the post-apartheid regime with another pressing

[60] Hein Marais, *op.cit.*, p.21.

problem. This is discussed further in both Chapter Four and in Chapter Six in relation to trade negotiations with the European Union (EU).

The rise in the production of consumer goods resulted from the increased purchasing power of the whites who since the start of the apartheid system had enjoyed a rapid rise in real wages. This created the level of domestic demand necessary for the growth of this sector. The apartheid state's policies that resulted in the reaffirmation of a cheap dependable supply of labour and the protection from competition from imports made the South African economy a profitable arena for business in the decades up until the early 1970s. This made South Africa a prime target for international capital. Dependence on the international economy was assured by the dependence on foreign technology. A survey of South African manufacturers in 1973 showed that three-quarters of them relied on 90 per cent of their technology from abroad.[61]

The protection of the economy, especially in the manufacturing sector has accentuated South Africa's vulnerability to external factors: the price of gold and the availability of foreign currency to fund the import of capital goods.[62] Although the economy grew strongly during the 1960s these weaknesses were not overcome. With exports still dominated by gold and other primary products, the manufacturing sector remained uncompetitive abroad. As the domestic market became saturated there was no other outlet for South Africa's manufactured goods. By 1973 only 14 per cent of

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[61] John S. Saul & Stephen Gelb, *op.cit.*, p.75.
[62] Hein Marais, *op.cit.*, p.30.

South Africa's total exports were manufactured products, and the majority of these went to other states in Africa.[63]

The lack of natural oil in South Africa meant that an economic downturn was experienced after the world oil price shock of 1973. Political events soon after only increased these problems as the world's attention became more focused on South Africa. A climate of African nationalism was emerging and this was fuelled by events in the Portuguese colonies of Angola and Mozambique. The violent resistance to continued colonial rule in two of South Africa's near neighbours eventually led to a military *coup d'état* in Portugal and the eventual independence of these two states in 1975. Sparks is very clear over the impact of these events.

> Though it occurred five thousand miles away . . . in South Africa the Portuguese Revolution was an event of catalytic importance . . . it gave black South Africans a huge adrenaline shot.[64]

These events were soon followed by the Soweto crisis which spread nationally. Its impact and the brutal response by the South African state to this black insurrection sparked a culture of protest and resistance amongst the black population.[65] The result was a shift in world opinion, resulting in an increase of trade and financial sanctions. This heightened the protection of the South African economy from the changes that were occurring in the global political economy discussed in the previous chapter.

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[63] John S. Saul & Stephen Gelb, op.cit., p.75.
[64] Allister Sparks, op.cit., p.300.
[65] Leonard Thompson, op.cit., p.228.

Some of the problems that contributed to the downward fortunes of the South African economy are still present at the beginning of the post-apartheid era and hence form another legacy of apartheid. The continued dominance of the export profile of gold remains. In 1991 the share of total exports represented by gold was still 30.0 per cent. Moreover, another 28.3 per cent of exports came from base metals, mineral products and platinum.[66]

Recent developments have served to heighten the danger of a reliance on gold exports by South Africa. As governments have diversified their reserves the price of gold has fallen. The Bank of England's first, of a proposed five sales of gold by March 2000, in July 1999 saw the price of gold hit a twenty-year low. In all the Bank of England plans to sell more than half of the UK's gold reserves, in the medium-term.[67] The gold-producing countries themselves, including South Africa, have also reduced their gold reserves substantially. Until 1968 the price of gold was pegged at US$ 35 per ounce and was required as part of the exchange rate system. South Africa's gold reserves have fallen from a peak of 1,104 tonnes at this time, to 123 tonnes in 1999.[68]

This section has highlighted the domestic constraints that have resulted from the historical development of the South African economy. As shown in table 3.6 overleaf there has been a significant and prolonged crisis in terms of economic growth.

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[66] Patrick J. McGowan, *op.cit.*, p.207.
[67] Financial Times, 'Gold at 20-year low after UK sale: Auction a "disaster" for bullion market, says lobby group', 7 July 1999.
[68] Financial Times, Critics of UK gold sales come under fire', 27 July 1999.

Table 3.6 South Africa: Annualised Rates of Growth (in real gross domestic product at factor cost, 1919-1992)

Period	Growth Rate (%)
1919-1929	5.0
1929-1939	5.8
1939-1949	5.8
1950-1960	4.4
1960-1965	6.0
1965-1970	5.4
1970-1975	4.0
1975-1980	2.8
1980-1985	1.1
1985-1990	1.4
1990	-0.5
1991	-0.6
1992	-2.1

Source: Patrick J. McGowan 'The "New" South Africa: Ascent or Descent in the World System' in C. Roe Goddard, John T. Passé-Smith & John G. Conklin, International Political Economy: State-Market Relations in the Changing Global Order (London; Lynne Rienner, 1996), p.194.

The political instability since 1976 affected investor confidence and the protection of the manufacturing sector has meant a continued reliance on the primary sector to earn foreign exchange reserves. This led to the need for an emergency International Monetary Fund (IMF) loan in 1976 after a quarter of the country's reserves disappeared in three months.[69] As the discussion in Chapter Five suggests the

[69] Hein Marais, op.cit., pp.31-32.

need for a reversal of these economic fortunes is crucial to a peaceful and successful reintegration of South Africa into the global political economy.[70]

3.5 South Africa's regional relations

During the last decade the changes in South Africa's regional relations have moved at a rapid pace comparable to the speed of domestic change. This section focuses on the changing nature of these relations from the era of 'total strategy' to a position where SADC members look to South Africa as a catalyst for regional development.

3.5.1 Historical dominance

The political economy of the Southern African region has long been dominated by South Africa. The distinguishing event in history was the emergence of the mining industry which led to the establishment of a recognisable regional economy.[71] This domination continued after World War Two and was one of the key features that the Southern African Development and Co-ordination Conference (SADCC) attempted to overcome.

However, a simple reading of South Africa's regional relations as those of simple economic, political and military domination would fail to highlight some of the

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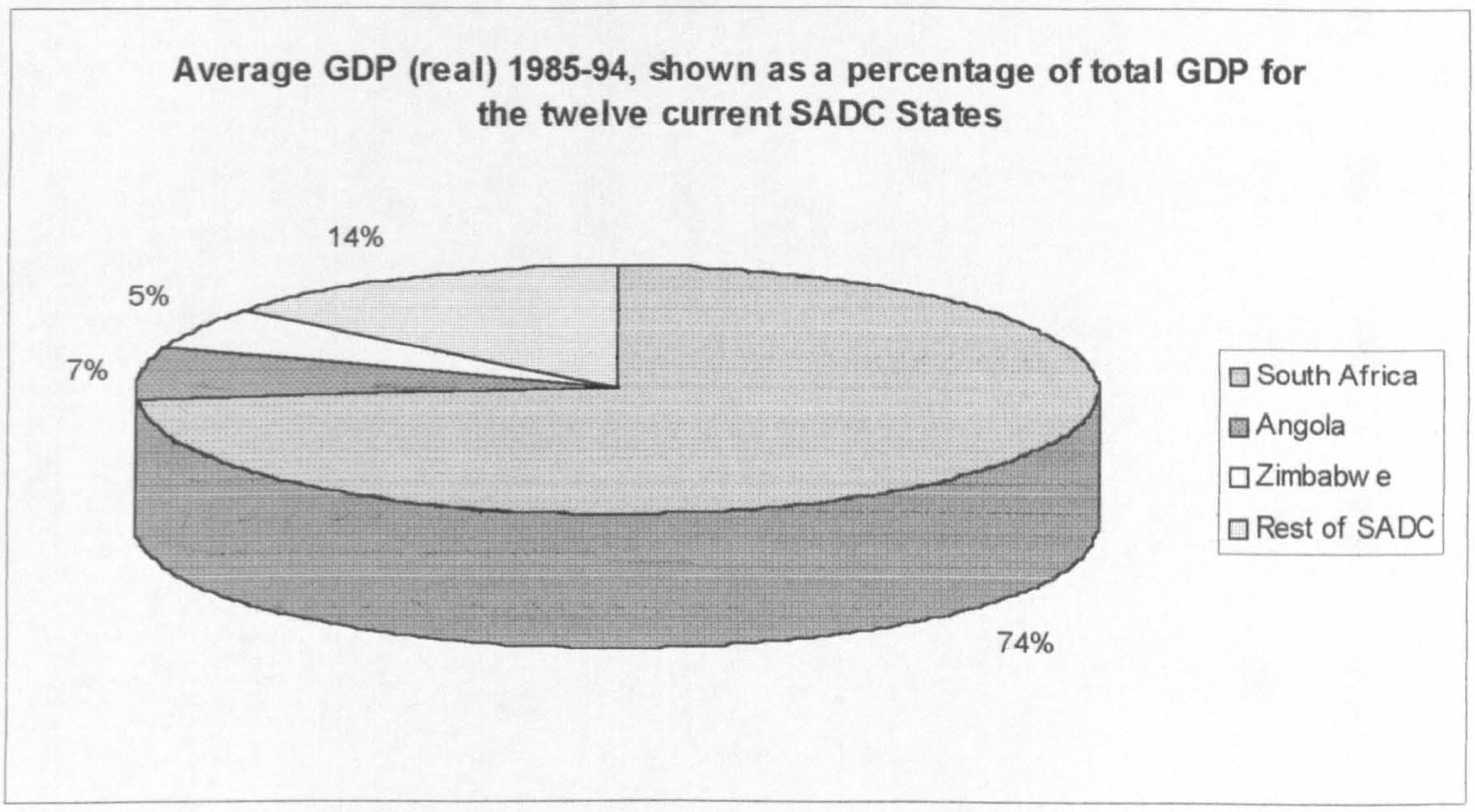
[70] The framework and importance attached to certain ideas used in this section are the result of the author's interviews with Dr. Elias Links (Brussels, 25 November 1997) and Keith Kruger (Northampton, 28 May 1998).

[71] Robert Davies 'South Africa's Economic Relations with Africa: Current Patterns and Future Perspectives' in Adebayo Adedeji (ed.), *op.cit.*, p.168.

reciprocal relations involved. Certainly no-one can doubt the economic domination of the region by South Africa (see Table 3.7 overleaf and Figure 3.3 below). Of the twelve current Southern African Development Community (SADC) members, calculated by Gross Domestic Product, Figure 3.3 below, shows that over the years 1985-94, South Africa made up 74 per cent of the total size of the region's economy.[72]

Figure 3.3



Source: World Bank, African Development Indicators 1996 (Washington, World Bank, 1997).

[72] It should be noted that in September 1997 the Seychelles and the Democratic Republic of Congo both joined the SADC. This took the total membership to fourteen states.

Table 3.7

Gross Domestic Product (real), for the twelve current SADC members 1985-1994

Source: World Bank, African Development Indicators 1996 (Washington, World Bank, 1997)

All figures in Millions of US dollars, constant 1987 prices

Year	South Africa	Angola	Botswana	Lesotho	Malawi	Mauritius	Mozambique	Namibia	Swaziland	Tanzania	Zambia	Zimbabwe	Total
1985	80392	7410	1318	349	1113	1506	1207	1762	507	3191	2194	5382	106331
1986	80437	7620	1418	350	1163	1660	1179	1850	546	3296	2197	5469	107185
1987	82071	8219	1543	370	1161	1831	1353	1934	586	3443	2265	5380	110156
1988	85502	8682	1786	421	1220	1956	1464	1941	608	3596	2386	5904	115466
1989	87672	8720	2017	473	1271	2044	1559	1986	630	3728	2365	6278	118743
1990	86790	8696	2137	492	1343	2191	1575	1995	652	3885	2372	6398	118526
1991	85917	8762	2327	503	1418	2281	1652	2128	646	4051	2362	6552	118599
1992	83697	8890	2479	516	1319	2422	1638	2276	660	4154	2364	6205	116620
1993	84746	6722	2474	542	1438	2557	1955	2247	679	4255	2421	6492	116528
1994	86775	7238	2574	637	1290	2675	2060	2375	695	4412	2330	6778	119839
Average for years 1985-94	**84400**	**8096**	**2007**	**465**	**1274**	**2112**	**1564**	**2049**	**621**	**3801**	**2326**	**6084**	**114799**

Yet South Africa relied on its African neighbours in providing a market for its manufactured products. Given the relatively small size of the African market, a relatively high proportion of South African manufactures were exported to Africa. See Table 3.8 below.

Table 3.8

Destination of South Africa's exports of manufactured goods 1986-92 (millions of US dollars)

Year	Africa	Rest of World	Total	% to Africa
1986	536	3304	3840	13.96
1987	787	3539	4326	18.19
1988	648	3935	4583	14.14
1989	850	4500	5350	15.89
1990	1026	5501	6527	15.72
1991	927	4975	5902	15.71
1992	1377	7746	9123	15.09

Sources: UNCTAD, Handbook of International Trade and Development Statistics 1990 (New York; UN, 1991); UNCTAD, Handbook of International Trade and Development Statistics 1993 (New York; UN, 1994); UNCTAD, Handbook of International Trade and Development Statistics 1994 (New York; UN, 1995).

With both technical and infrastructural advantages over its neighbours clear, the importance of regional markets was exploited, due to the lack of competitiveness of the South African manufacturing sector internationally. Here the massive South African state industrial corporations were to play an important role. Ronald Libby draws attention to the fact that the Iron and Steel Corporation (ISCOR) kept the price of steel fixed for eighteen years up until 1970, which obviously had a substantial impact on the production costs of the manufacturing sector.[73]

In the economic sphere South Africa exerted its dominance through the sheer size of its economy, the fact that it was the main trading partner for most of its neighbours and the strength of its transport network, of vital importance for those neighbouring states who are landlocked.

The idea of a common market in Southern Africa dates back as far as the late 1960s. Prime Minister Vorster in realising the potential of regional markets argued that the advantages of scientific skills and technical know-how, possessed by South Africans, should be passed on to their neighbours. These ideas were based on the realisation by domestic economists that South Africa could not stand alone. With an increasing balance of payments problem there was a need to expand earnings of foreign exchange, and hence a policy of 'economic co-operation' with neighbours was implemented.[74] It was clear that such ideas were still in keeping with the foreign policy objective of preserving and gaining international acceptance of the apartheid system.

Another significant aspect of the historical regional dominance of South Africa is the importance of migrant workers from the region, especially in the mining sector. See Table 3.9 overleaf.

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[73] Ronald T. Libby, The Politics of Economic Power in Southern Africa (Princeton; Princeton University Press, 1987), p.75.

[74] Ruth Weiss 'South Africa: The Grand African Economic Design', Africa Contemporary Record Vol.3, 1970-71, pp.A12-A13.

Table 3.9

Sources of labour in South African gold mines, 1931-82

Year	South Africans	Foreign Migrants	Total	% Foreign Migrants
1931	113,000	113,000	226,000	50.0
1951	113,092	173,596	286,688	60.6
1961	146,605	241,740	388,345	62.2
1971	86,868	283,679	370,547	76.6
1982	257,954	190,016	448,170	42.4

Source: This is an adapted version of a table in M. Lipton, Capitalism and Apartheid: South Africa, 1910-86 (Aldershot; Gower, 1986).

As the above table shows, the use of migrant workers in the South African mining industry was consistently important throughout the apartheid era. Even by 1984 other countries in the region supplied 280,000 migrant workers to South Africa and gained miners' remittances of Rand 538 million in 1983.[75] This hold over such a high level of regional jobs increased South Africa's dominance of the region.

Other aspects of South Africa's historical dominance included the domination of transport routes, both ports and railways, necessary for the delivery of the region's primary exports. Oil and electricity supplies were also controlled by South Africa. It was in the face of such domination that South Africa's neighbours created the SADCC which expressed clear concern over these aspects. The next section deals with how South Africa responded to the aims of the SADCC by mounting an explicit programme of destabilisation.

[75] Leonard Thompson, *op.cit.*, p.230.

3.5.2 Total Strategy and destabilisation

The 1974 Portuguese *coup d'état* and its aftermath radically altered the political balance of Southern Africa. The newly independent states left South Africa as an increasingly small blot on the tip of the continent. South African government fears of the hostility of neighbouring states were fuelled further with the shock victory of Robert Mugabe in the national elections in Zimbabwe in 1980.

A clear shift in Pretoria's view of the regional situation was partly the result of a change in Prime Minister. In September 1978 P.W. Botha came to office after Vorster's resignation. Botha had been Minister of Defence since 1966 and this led him to see the promotion of security issues as vital.[76] Whilst the over-riding foreign policy goal remained the preservation of the apartheid system the change in the presentation and emphasis was clear. This was best reflected by the concept of the Total National Strategy (TNS). This was Pretoria's response to what it perceived to be a 'total onslaught' on the western world, of which South Africa clearly wanted to be portrayed as part of, orchestrated from Moscow through the liberation movements of neighbouring black states.

This total onslaught, according to Pretoria, was composed of three primary sources.[77] First, the security threat of the liberation movement, present in many neighbouring states. Secondly, the more conventional military threat of the Soviet

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[76] James Barber & John Barratt, South Africa's foreign policy: The search for status and security 1945-1988 (Cambridge; Cambridge University Press, 1990), p.248.
[77] Robert M. Price 'Pretoria's Southern African Strategy', African Affairs Vol.83, No.330, 1984, p.12.

Union and Cuba, including their assistance to many Southern African regimes. Thirdly, the international economic threat including the possibility of boycotts, embargoes and the withdrawal of foreign investment in South Africa, which was vital to the well-being of the domestic economy.

The long-term objective of Pretoria's regional policy was a Constellation of Southern African States (CONSAS). This was a concept that dated back to the Vorster era but was incorporated directly into the notion of TNS. It was envisaged that an economic bloc including neighbouring states under black-rule and the independent 'homelands' could be created that would improve South Africa's position. This would be achieved by formalising and increasing the economic dependency of states in the region upon South Africa and reducing the pressure on international firms to campaign against the apartheid system.[78]

However, the election victory in Zimbabwe of the Zimbabwe African National Union (ZANU) led by Robert Mugabe shattered any hopes of such a constellation. It became confined, after such initial optimism, to merely South Africa itself and the 'homelands'.[79] Mugabe's victory was soon followed by the creation of the SADCC and the constellation idea faded fast. South Africa moved towards more hostile methods to achieve its regional dominance and the region moved into the era of destabilisation.

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[78] *ibid.*, p.15.
[79] James Barber & John Barratt, *op.cit.*, p.262.

Upon appreciation that regional opposition to apartheid was becoming ever more organised, Pretoria decided the best way to maintain the apartheid state and preserve domestic stability was to keep its regional neighbours and relations among them in a state of constant instability to prevent the successful development of liberation programmes. Anglin argues that there were three main techniques of destabilisation employed by Pretoria.[80]

First, in order to maximise and preserve South Africa's dominance of the regional transport structure, other competing routes were sabotaged. Two examples of such tactics were the closure by *União Naçional para a Independência Total de Angola* (UNITA) guerrillas (with some South African support) of the Benguela railway line in Angola in 1980; and the Beira-Malawi line's closure in 1982 due to the activities of Mozambique National Resistance (RENAMO) rebels.[81]

Secondly, as outlined in the above examples, Pretoria made use of rebel forces to undergo sabotage mainly aimed at targets of economic value. The main cases being that of Mozambique and Angola. In Mozambique RENAMO fighters received training and weapons from South Africa, whilst in Angola, UNITA forces also received strong support.[82] Thirdly, and only if the first two methods did not achieve Pretoria's aims, direct military involvement was used.

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[80] Douglas G. Anglin 'Southern Africa Under Siege: Options for the Frontline States', Journal of Modern African Studies Vol.26, No.4, 1988, pp.552-553.
[81] Baron Boyd Jr. 'South Africa and its Neighbours: Continuity and Change in the Post-Apartheid Era' in James Chipasula & Alifeyo Chilivumbo (eds.), South Africa's Dilemmas in the Post-Apartheid Era (London; University Press of America, 1993), p.144.
[82] Adebayo Adedeji 'Within or Apart ?' in Adebayo Adedeji (ed.), South Africa & Africa: Within or Apart ? (London; Zed Books, 1996), p.9.

The costs to South Africa's neighbours of this destabilisation campaign are well documented. Using two separate studies produced by the United Nations Children's Fund (UNICEF) and the United Nations Economic Commission for Africa (ECA) respectively, Green argues that SADCC members, between 1980 and 1988, suffered financially to the value of US$ 60,000m.[83] This is an estimate that has as its biggest component GDP lost due to higher defence spending and reduced investment. Green also outlines that about 75 per cent of this cost was borne by just Mozambique and Angola. Putting a financial cost on the campaign does not highlight the massive human cost, estimated at one million lives lost.[84]

There were however, negative aspects to the destabilisation policies for South Africa as well. Notwithstanding the increased defence costs necessary to support guerrilla movements, by causing major economic disruption to its neighbours, South Africa reduced the capacity of these states to import her goods, who as outlined earlier in this chapter, were an important market for manufactures especially.[85]

With the advent of democratic non-racial elections in April 1994, the regional as well as the domestic situation has changed. The implications and details of South Africa's post-apartheid regional relations are discussed later, in Chapter Seven.

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[83] Reginald Herbold Green 'SADCC: Into the 1990s: Achievement in Adversity and realistic Hopes', Africa Contemporary Record Vol.21, 1988-89, p.A39.
[84] Robert Davies *op.cit.*, p.170.
[85] *ibid.*, p.172.

3.6 Summary

This chapter has shown how South Africa's incorporation into the world system has not changed much over the period in review. It has been a net exporter of primary products (dominated by gold) and has had a reliance on the import side for foreign technology and capital goods. This makes South Africa especially vulnerable to global shifts. This vulnerability is complicated by the massive internal distortions and inequalities that are the enduring legacy of the system of apartheid. These cannot be ignored as this fledgling democracy looks to reposition itself in the global political economy.

It has also outlined the enduring legacies of apartheid which will hinder the attempts at this reintegration in the post-apartheid era. The most significant being the high levels of income inequality and human resources problems that were accentuated by the education system and unemployment problem that were inherited.

Chapter Four

Domestic Policy Formulation: Debates Over the Nature of the Political and Economic Transformation

This chapter addresses a number of issues that arise from the policy debate, and the development of policies in the first three and a half years of the post-apartheid era, that are aimed at dealing with the massive internal tensions and difficulties that resulted from the system of minority rule, described in the previous chapter. After the initial euphoria of achieving political equality, it soon became clear that devising a macroeconomic policy would create difficulty in balancing the need for growth and the fact that business remains white-owned, with trying to undo the damage caused in the apartheid era and the wish to become a globally competitive economy.

The main concern of this chapter is an analysis of how domestic policy has been formulated in the first four years of the post-apartheid era and the impact that external factors have had on this. The focus is the shift from the governments earlier policy, the Reconstruction and the Development Programme (RDP) to the Growth, Employment and Redistribution (GEAR) policy and the influence that various domestic constituencies have had on the development of domestic policy. There has been a radical shift in the government's position and it is argued that this is a result of the ambitions it possesses in its external relations, which are the subject of the remaining chapters of this thesis.

Although dealt with in much greater detail in the preceding chapter, it is important to reiterate the legacy of apartheid and the position from which the Government of National Unity (GNU) started in 1994, before launching into a discussion of the domestic problems and the development of domestic policy in the post-apartheid era. The political miracle, witnessed around the world, of the ending of forty-six years of National Party rule, provided the opportunity for South Africa's reintegration into the global political economy, but it will need a minor economic miracle if this reintegration is to realise its potential. With the liberation struggle over and the aim of political enfranchisement achieved, the pressures on the new South African government will be domestically dominated by the racially distorted economic inequalities and under-achievement of the economy that resulted from the apartheid system. Allister Sparks summarises the position succinctly,

> Apartheid has left the country with one of the world's widest gaps between rich and poor. This must be closed or it will become politically dangerous. At the same time South Africa is experiencing a population explosion . . . that means the economy must grow significantly faster than at any other time over the past twenty years if the already formidable unemployment rate of around 45 per cent . . . is not also to become a political time bomb.[1]

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[1] Allister Sparks, Tomorrow Is Another Country (London; Arrow, 1997), pp.234-235.

4.1 The Reconstruction and Development Programme

The RDP emerged at the end of the political negotiations in late 1993, as the African National Congress (ANC) began to prepare for the first multiracial elections to be held on 24-26 April 1994. During the liberation struggle the ANC was concerned mainly with the political issues surrounding the war against apartheid, and the RDP was a visible example of the shift of emphasis towards the economic realities that a new government would be faced with. The RDP became equivalent to the ANC's election manifesto, as it provided detail on how a new government would attempt to deal with the economic inequalities inherited from the apartheid era. Deputy President, Thabo Mbeki, made this position clear, by insisting in a speech made in 1995, that,

> durable national reconciliation requires . . . the fundamental transformation of the patterns of the ownership of wealth, the distribution of income, the management of society and the economy, and the skills profile.[2]

The *Reconstruction and Development Programme : A Policy Framework* document was released shortly before the April elections. Also known as the RDP Base Document it was the result of six previous drafts and "many months of consultation within the ANC, its Alliance partners and other mass organisations in the wider civil society".[3] Its wide-ranging nature is obvious from the six basic principles stated in the introduction. These cover social, macroeconomic and democratisation

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[2] Patti Waldmeir, Anatomy of a Miracle (London; Penguin, 1997), p.280.

[3] ANC, Reconstruction and Development Programme: A Policy Framework (base document) (Johannesburg; Umanyo, 1994), p.2 (Preface)

policies. The numerous proposals of the RDP are grouped into five major programmes aimed at, "meeting basic needs, developing human resources, building the economy, democratising the state and society, and implementing the RDP".[4]

In its conception, the RDP was an attempt by the ANC, to build a framework, around which, it could develop a five-year long programme of government. The emphasis was placed very heavily on making use of South Africa's greatest single resource: its people. As stated in the Base Document, "the people of South Africa must together shape their own future. Development is not about the delivery of goods to a passive citizenry. It is about active involvement and growing empowerment".[5]

The philosophy, adopted in the RDP, of how to achieve the balance described earlier in this chapter between growth and development with redistribution was one of simple Keynesian economics. It is stated that, "the key area where special measures to create jobs can link to building the economy and meeting basic needs is in redressing apartheid-created infrastructural disparities".[6] Such an infrastructural programme is then given more detail in the remaining sections of the Base Document. Some of the measures promised included:

1. to build a minimum of 1 million low-cost homes in five years, specifically intended for low-income households and to include rural areas;

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[4] *ibid.*, pp.6-7 (Section 1.4).
[5] *ibid.*, p.5 (Section 1.3.3).
[6] *ibid.*, p.13 (Section 2.3.5).

2. to provide all households, in the short-term, with a clean, safe water supply of 20-30 litres per capita per day within 200 metres, and an adequate/safe sanitation facility per site;
3. providing new access to electricity for 2.5 million households by the year 2000, thereby doubling access to 72 per cent.
4. to provide universal affordable access for all as rapidly as possible within a sustainable and viable telecommunications system;
5. to extend public transport and actively discourage car use through government intervention;
6. that as soon as possible, and certainly within three years, every person in South Africa can get their basic nutritional requirement each day;
7. to improve coverage and efficiency health care should be driven by a Primary Health Care approach, which emphasises community participation and empowerment, inter-sectoral collaboration and cost-effective care;
8. enable all children to have free education for 10 years whilst ensuring that class sizes are reduced to a maximum of forty by the end of the decade.

After the elections, the ANC as the major party in the GNU, honoured its pledge to commit the Base Document to a wider process of consultation. Everyone had a view on the RDP and, unsurprisingly, not all sections of South African society were entirely happy. Criticism emerged in South African business circles at the all-encompassing nature of the RDP, which could have legitimately described the entire government budget. The broadness of vision in aiming to mobilise resources from both government and civil society created the need for well-defined and structured co-ordination of the project if anything was to be achieved.[7]

After these initial reactions the GNU then released an *RDP White Paper* discussion document. This was more indicative of government policy than the RDP Base Document which was more concerned with aims and principles rather than details, and was the result of the national debate mentioned above. In fact,

> scores of submissions on the RDP White Paper were made in the weeks following the election. They came from different offices of the Government, parastatal agencies, multiparty forums, development institutions, organisations of civil society, business organisations and individuals.[8]

The RDP White Paper made concessions to those arguing that the Base Document was too ambitious, poorly costed and most importantly not encouraging enough to potential foreign investors. This shift in emphasis is best highlighted by two sentences added into the six basic principles of the RDP retained from the Base Document. Firstly, in describing the need for an integrated and sustainable programme, it was added that, "all levels of government must pay attention to affordability given our commitment to fiscal discipline".[9] Secondly, in showing how important an infrastructural programme was to linking growth and development, there was the crucial addition of, "for this process to be effective, attention will be paid to those

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[7] Weekly Mail & Guardian, 'A Restructuring Plan For All Seasons', 8 July 1994, [http://wn.apc.org/wmail/issues/940708/wm940708-3.html].
[8] Government of South Africa, RDP White Paper (Cape Town; Government of South Africa, 1994), (Preface 0.3).
[9] *ibid.*, (Section 1.3.2).

economic factors inhibiting growth and investment and placing obstacles in the way of private sector expansion".[10]

One of the criticisms of the early life of the RDP was the inevitable tension that arises from two of the central goals of the programme. The desire for the process to include civil society and incorporate one of South Africa's greatest assets, its people, and that the directives of how the RDP should evolve, come very much from the centre of government. This centralising tendency is understandable given that there was an acute need to re-prioritize public sector spending to move it in line with the aims of the RDP.[11] This tension is nicely portrayed in the National Economic Development and Labour Council (NEDLAC) Act. One of the four sections of society to be represented on the Council is organised community and development interests. The other three sections being government, organised labour and organised business. However, it was in fact a member of the government, namely the Minister without Portfolio, who was given the task of identifying and appointing these representatives. Moreover, the judgement should be made according to specific criteria, including that they "have a direct interest in reconstruction and development".[12] This seems to leave little chance of those highly critical of the programme, in general, of being appointed onto the NEDLAC.

With the benefit of hindsight it is possible to identify the early genesis of some of the proposals that emerged later in the *Growth, Employment and Redistribution: A*

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[10] *ibid.*, (Section 1.3.6).
[11] Robert Cameron 'The Reconstruction and Development Programme', Journal of Theoretical Politics Vol.8, No.2, 1996, pp.291-292.
[12] South African Parliament, National Economic Development and Labour Council Act, 1994, [http://www.polity.org.za/govdocs/legislation/1994/act94-035.html].

Macroeconomic Strategy (GEAR) policy document, within the RDP White Paper. This was reflected in areas of the White Paper which highlighted the importance of the need for fiscal and monetary discipline and the need to create a greater outward orientation in trade and industrial policies.[13] Moreover, the White Paper stated that,

> Appropriate tax reforms and a review of exchange controls along with fiscal discipline are all being addressed in order to facilitate growth.[14]

These were all issues which although only briefly mentioned in the White Paper, later came to have much greater significance in the GEAR strategy. Macroeconomic constraint was already being placed above redistribution as a priority, with constant references to the belief that the funding of the RDP should come from the better use of existing resources through prioritization of existing expenditure. Another early warning of the shift in economic policy to come, was evident in the removal of the option of nationalisation as a policy, present in the RDP Base Document, and the mention of the "sale of state assets", better known as privatisation, in the White Paper.[15]

These early changes in government policy, evident in the RDP White Paper, make the document itself somewhat lacking in coherence. Whilst the first seeds of a neo-liberal framework were sown, it also reiterated the 'basic needs' concepts that were pushed to the fore in the Base Document. Maybe this was to avoid political criticism from the left so soon after the elections. Certainly the responses from South

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[13] Government of South Africa, op. cit., (Section 3.3.1).
[14] *ibid.*, (Section 1.4.11).
[15] *ibid.*, (Section 4.1.1).

African business to the *RDP White Paper* suggest that there was a change in emphasis. After dismissing the Base Document as an idealistic wish-list the corporate sector showed more enthusiasm for the White Paper.[16]

The implementation of the RDP was to be overseen by a specially created position in government. Jay Naidoo was appointed as the Minister without Portfolio, responsible for giving the programme a central direction and re-orientating the targets of twenty-six government departments, including the priorities of millions of civil servants.[17] Naidoo took charge of the RDP Office, located in the President's Office, which was effectively supposed to be the 'manager' of the process. The appointment of Naidoo, who was the former general secretary of the Congress of South African Trade Unions (COSATU) and thus the top trade unionist in the old South Africa, was representative of the importance initially attached to the RDP by the ANC. Owing to the scale of the projects, implementation was to be concentrated at the much lower levels of provincial and local government.

The *RDP White Paper* outlined that the precarious fiscal position adopted by the GNU meant that the primary method of financing the RDP was through re-prioritization and reallocation of existing government expenditure. A specific RDP Fund was created but this was only to be a small proportion of the overall government budget. In 1994/5, R2.5 billion was allocated and this was to be increased to R5 billion in 1995/6 and by the same amount again in 1996/7. However, it should be made clear

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[16] Personal interview with Paul Runge (Director, South Africa Foundation).

[17] Weekly Mail & Guardian, 'The RDP Minister Who Would Like To Be Redundant', 19 August 1994, [http://wn.apc.org/wmail/issues/940819/wm940819-48.html].

that this was not really additional funds but money that had been removed from various government departments. This would then be reallocated by the RDP Office if departmental spending proposals were deemed to meet with the directives of the RDP.[18]

This was to form the major part of the work of the Minister Without Portfolio. Regular battles with government departments over the shifting of their budgets absorbed most of the energies of the RDP Office.[19] This became one of the problems that delayed the smooth implementation of the RDP in that, "predictably, the intransigence of incumbent officials caused problems."[20] It was hard to alter the priorities and functioning of the bureaucratic systems adopted from the apartheid era.

There were other perceived problems with the implementation of the RDP. As early as July 1995, Thabo Mbeki had conceded that it had been a mistake in the design of the RDP Office to believe that it could be possible for one cabinet minister to be able to dictate to other ministers how they should allocate their spending budgets.[21] Another crucial factor has been the continuing capacity problems in local government.[22] With the end of the apartheid system it was a huge and, in reality, impossible task to fill a vast number of government and bureaucratic positions from national right down to local level with representatives of the newly elected political

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[18] Robert Cameron, op. cit., p.285.
[19] Weekly Mail & Guardian, 'Zero Hour plus 235 days', 23 December 1994, [http://wn.apc.org/wmail/issues/941223/wm941223-1.html].
[20] Hein Marais, South Africa: Limits to Change: The Political Economy of Transition (London; Zed Books, 1998), p.190.
[21] Business Day, 'An RDP by any other name will have the same basic principles', 13 February 1997, [http://www.bday.co.za/97/0213/comment/c9.htm].
[22] Weekly Mail & Guardian, 'Is the RDP mutating . . .or just slow off the mark', 16 May 1997, [http://wn.apc.org/wmail/issues/970516BUS36.html].

parties, without initial difficulties. Unsurprisingly, these problems have tended to be most persistent at the bottom of the scale, at local government level.

A final difficulty arose from the twin attempts of the RDP to be, on the one hand, a people driven approach and therefore place great emphasis on community representation and participation, whilst on the other hand, a top-down programme with the RDP Office encouraging and monitoring re-prioritization of central government spending patterns. Certainly there is evidence to suggest that the inclusion of community representation through the creation of local development forums and the Community Constituency on NEDLAC has added to the bureaucratic delays in effective delivery of the RDP's goals.[23] Thus the view from the various government ministries is that the impact of wider participation has merely been another problem in the implementation process.

Eventually, without any prior warning, the RDP Office was closed in March 1996. This removal of the 'middle-man', to allow the specific line departments in government to progress more efficiently was welcomed by most. However, some on the left saw it as the final nail in the coffin of the government's increasingly weak commitment to the original grand plans of the RDP. By removing the central focus the driving force behind the ideas would be lost.[24] This is not to say that the RDP was a wholesale failure. Although the very ambitious targets initially set out in the Base Document have not been met, houses have been built, and homes had been connected to electricity albeit not on the scale originally envisaged. One of the major success

[23] Hein Marais, op. cit., p.190.
[24] Personal interview with Dale T. McKinley (SACP).

stories was the work of Water Affairs in the provision of new water supplies and sanitation systems.

4.2 The role of the state?

This section looks at how the debate over the role of the state has developed over the four years of the study and how policy has shifted towards a weaker role for state intervention.

One important addition from the business community to the debate over the role of the state came in the form of the *Growth for All* document, published by the South Africa Foundation in February 1996.[25] A privately funded pressure group, the Foundation is an alliance of some of South Africa's major multinational businesses and largest corporations. The essence of the argument in this paper was the call for the new South African government to follow a stringent neo-liberal agenda and thus position itself in line with many other developing countries who are implementing similar reform programmes. It makes little reference to the need to try to rectify the balance of power and wealth in the economy that was caused by the apartheid system, and thus prompted a direct response from COSATU in the form of their *Social Equity and Job Creation* document.

The key to the arguments of the *Growth for All* paper was that 'sound' policies are the key to both domestic growth and also for projecting the right impression of

[25] A full text version of the document can be found at http://www.safoundation.org.za/growth.html

South Africa into international markets. The suggested package of such domestic policies are based upon five key pillars. First, the need for a solid legal framework, with emphasis placed on keeping a lid on crime and making property rights secure. Secondly, a tight macroeconomic policy. Thirdly, more efficient government, via lower and more productive government spending coupled with reductions in taxation. Fourthly, to encourage the workings of the free market by implementing a privatisation programme and by reducing the powerful voice of trade unions in industrial relations, thus creating a more flexible labour market. Finally, a concerted effort to improve the export performance of South Africa, thereby helping to increase the international competitiveness of the economy. It is suggested that some of the policies already mentioned above, including lower taxes, privatisation, and a more flexible labour market would help this, together with other more specific measures which include lowering tariffs and removing exchange controls and export subsidies.

This ultra-conservative view on South Africa's economic problems, encountered some criticism. Rix makes the valid observation that the assessments of the *Growth for All* paper are possibly correct, but its prescriptions are extremely similar to those enforced by the International Monetary Fund (IMF) and World Bank in their Structural Adjustment Programmes (SAPs), which have realised extremely inconclusive results, to put it mildly, in many other developing countries.[26]

There are many who are sceptical of the benefits a privatisation programme would bring. In fact negative effects of such a programme are elucidated. One example

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[26] Stephen Rix 'A nightmare and a near miss', South African Labour Bulletin Vol.20, No.3, 1996, pp.30-33

is the apparent incompatibility of the privatisation of the major utilities and the aims and targets of the RDP. Makgetla illustrates this point by focusing on the Electricity Supply Commission (ESKOM).[27] Electricity prices have been consistently kept below the rate of inflation, thus keeping down profits to the benefit of all consumers. To increase profits after privatisation, ESKOM would have to reduce services to the poorer, usually rural communities, who are the exact target of the electrification programme that is part of the original plans in the RDP.[28] The only other option would be subsidisation from government.[29]

COSATU in an early response to the *RDP White Paper,* urged the government to clarify its position over privatisation. They questioned whether the 'sale of state assets' would include any assets that were of importance in the RDP.[30] In direct response to the South Africa Foundation's outline for the economy, COSATU then published its own paper, *Social Equity and Job Creation.* It reiterated some of the major structural weaknesses hindering progress in South Africa and was an attempt to try and rekindle the ethos of the RDP Base Document.

The COSATU paper suggests that if growth and development are to be achieved then the massive inequality in South African society has to be corrected and the strength of the very powerful business conglomerates that remain from the apartheid era has to be reduced. It is directly critical of the *Growth For All* paper

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[27] Neva Seidman Makgetla 'The new privatisation debate', South African Labour Bulletin Vol.19, No.1, 1995, p.69.
[28] ANC, *op. cit.,* pp.19-20 (Section 2.7).
[29] Neva Seidman Makgetla, *op. cit.,* p.69.
[30] COSATU, Submissions on the RDP White Paper to the Parliamentary Standing Committee on the RDP, 28 October 1994, [http://www.cosatu.org.za/docs/rdpwp94.html].

arguing that it is merely an attempt by the big business sector to hold on to its existing wealth and privileged position in society.[31] It proposes a much greater role for the state in seeking to redress these problems by taking an active role in the economy through fiscal measures, improving the rights of workers, and job creation through public works and housing, as suggested in the RDP Base Document. Frequent references are made to some of the East Asian tiger economies and how the state played a role in their development. This use of the East Asian tigers in suggesting their development has been achieved by developmental statism rather than neo-liberalism is part of a wider, keenly argued debate, on the true nature of their success.

The COSATU document suffered similar criticisms to the RDP Base Document. It provides an incisive analysis of the problems that South Africa has to overcome, but fails to deliver an over-arching macroeconomic policy plan to solve some of these problems. It remains vague on its suggestions for less fiscal restraint merely arguing for a review of the current policy and there is no co-ordination of monetary and fiscal policy.[32]

4.4 Who and what is leading policy changes?

There is general consensus that over the course of the first three years of the post-apartheid era there has been a significant shift in domestic macroeconomic policy.

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[31] COSATU, Social Equity and Job Creation, the key to a stable future, (Johannesburg; COSATU, 1996), p.8.
[32] Stephen Rix, *op. cit.*, p.35.

The biggest single piece of evidence of this was the publication of the GEAR policy document by the government in June 1996.[33]

Despite the deep concerns expressed by the government for democratic debate and inclusion of other policy élites, highlighted by the creation of specific bodies like NEDLAC, on the matter of the GEAR it was very clearly not the result of a domestic debate. It was presented as the government's stance on the issues which had already been addressed by the *Growth for All* and *Social Equity and Job Creation* documents described above. It was immediately declared 'non-negotiable' in terms of its general aims by Finance Minister, Trevor Manuel, even to the other members of the Tri-Partite Alliance (namely the SACP and COSATU).[34] In fact it became apparent much later after the event that the GEAR strategy had not even been fully debated within the ANC and that some senior party figures were not aware of the details when it was released in June 1996.[35] This confirms the clear lead the executive has played in this shift in policy. The policy was drafted by a small number of government-appointed economists and was the result of discussions only within the upper echelons of the ANC.

The decision by Cyril Ramaphosa to leave the ANC was symptomatic of this executive dominance. It is believed Ramaphosa received indications that he would be given the job of Finance Minister, ahead of Trevor Manuel, after he had finished his job of overseeing the smooth implementation of the new South African constitution. This

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[33] A full version of the document can be found at http://www.polity.org.za/govdocs/policy/growth.html
[34] Personal interview with Dale T. McKinley (SACP).
[35] Hein Marais, op. cit., p.160.

reflects the fact that the relationship between the ANC as a mass party, and the ANC in government was becoming increasingly uneasy.[36] The closing of the RDP Office, described above, again without warning or consultation, is further evidence of this.

The GEAR document, was little removed from the type of neo-liberal proposals found in numerous SAPs that have been recommended by the IMF and World Bank throughout much of the developing world. Although they have not always been implemented faithfully. It is concerned with the state providing an enabling environment, with the ambitious targets for jobs and growth to be almost wholly dependent on the performance of the private sector. The proposal of the GEAR document was that a strategy which pushed non-gold exports and private sector investment would ". . . provide sufficient impetus for GDP growth to climb to the targeted 6 percent by the year 2000".[37]

The neo-liberal nature of the framework is best demonstrated by a summary of the major policy proposals:

1. A tighter fiscal stance to reduce the budget deficit by 0.5 per cent of GDP each year, to achieve the target of 3.0 per cent of GDP by the year 2000. This is to be realised by a thorough audit of expenditure by government to decide which areas can absorb cuts without hindering the overall priorities of government.

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[36] Weekly Mail & Guardian, 'How Cyril was edged out by Thabo', 19 April 1996, [http://web.sn.apc.org/wmail/issues/960419/NEWS29.html].
[37] Department of Finance, Growth, Employment and Redistribution: A Macroeconomic Strategy (Pretoria; Department of Finance, 1996), p.6.

2. Policies geared towards long-term stability of the exchange rate. These include the gradual abolition of exchange controls and a host of measures directed specifically at both domestic and foreign investors.

3. Strict monetary policy to keep inflation low, to help enable long-term interest rates to come down.

4. Speeding up the restructuring of state assets, or privatisation as it is commonly known. Beginning with the sale of non-strategic assets and the creation of public-private partnerships in transport and communications.

5. Improve labour market flexibility by allowing the Minister of Labour discretion to extend or not to extend industrial agreements which reach across diverse firms, sectors or regions.

The nature of the responses to the GEAR strategy amongst the various sections of society was unsurprising given the nature of the suggested polices outlined above. In general, it received a positive response from business groups. This is unremarkable given that one of the foundation stones of the GEAR document was the call for, "a stable environment for confidence and a profitable surge in private investment".[38] To achieve the targets proposed in the governments policy document it was predicted that from 1996 to the year 2000, real private investment growth would have to increase at an average of 5.6 per cent.[39]

Within parliament the adoption of the GEAR strategy by the ANC was also welcomed by the Inkatha Freedom Party (IFP). Unlike the ANC which only began to

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[38] *ibid.*, p.2.
[39] *ibid.*, p.5.

construct economic policies in the early 1990s, the IFP has called for an economic policy that achieves development through the liberalisation of market forces, since the early 1980s.[40] The IFP economic committee chairman, Gavin Woods MP, was in general agreement with the range of polices covered by the GEAR document. His major criticism of the Finance Minister and his team was that they should explain more clearly the benefits of the new package of polices to the private sector.[41]

The economic theory behind the GEAR strategy was also supported by both the National Party (NP) and Democratic Party (DP). The NP was broadly supportive of the shift in domestic policy as it views global reintegration as essential to South Africa's future success, and that domestic policy should therefore be orientated towards creating the right economic environment to achieve this objective.[42] The DP believed that foreign investment and labour market flexibility are the key factors that will lead to growth in South Africa. The DP was also explicitly critical of the criticisms aimed at GEAR by COSATU.[43] Thus the broad thrust of the GEAR proposals met with little opposition within the South African parliament. This of course included lower-ranking ANC MPs who appeared to have accepted the non-negotiability of the policy. Other sections of the ANC rank and file were not so united. For example, the South African National Civic Organisation released a policy document in June 1996 entitled *Return to the RDP* which proclaimed how the GEAR represented a seriously damaging departure from the aims of the RDP.

[40] IFP, Policy Statements, [http://www.ifp.org.za/policy.htm].
[41] Business Day, 'Manuel "doing a pretty good job"', 12 September 1996, [http://www.bday.co.za/96/0912/news/news19.htm].
[42] Personal interview with David Graaf MP (NP) (Cape Town, 30 September 1998).
[43] Tony Leon (DP), 'Speech made on 7 March 1997', [http://www.dp.org.za/archiveitem.asp?archiveitem=294].

There was a surprising amount of ambivalence present in the initial reaction of the South African Communist Party (SACP), and criticism of the GEAR strategy, in the main, came from COSATU and the labour movement. In fact the initial official response of the SACP was in support of the GEAR plan.[44] Maybe this was because they had not had time to fully digest the implications of the document. It may also have been an attempt to show solidarity with their long-time alliance partner, the ANC. Whatever the reasons for this initial response, the SACP later came to view the introduction of the GEAR strategy as one of the biggest mistakes and obstacles to economic progress in the post-apartheid era.[45]

COSATU commissioned a study by the National Institute for Economic Policy (NIEP), to provide a response to the GEAR policy document, but this was never released to the public.[46] However, a newspaper article by Asghar Adelzadeh of the NIEP gives us a strong indication of the critical response to GEAR that resulted from this study.[47] In this article Adelzadeh is very critical of both the theoretical underpinnings of the proposed GEAR strategy and also the economic modelling and assumptions used to provide evidence that the suggested targets are achievable. The biggest single problem with the GEAR, he argued, is that after having correctly identified in the RDP Base Document that income inequality in South Africa is a major hindrance to growth, the GEAR strategy completely ignores direct policies of

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[44] SACP press statement, 14 June 1996.
[45] Personal interview with Dale T. McKinley (SACP) (Johannesburg, 6 October 1998).
[46] The NIEP was the nominal successor to the Macroeconomic Research Group (MERG) which was created by the ANC in 1991 to devise a new macroeconomic model for South Africa. Its suggestions were published in 1993, and contained a strong emphasis on the state, in providing both leadership in economic growth and direct intervention in certain key economic areas. See Hein Marais, op. cit., pp.158-160.
[47] Business Day, 'Governments economic plans "will undermine RDP objectives"', 11 September 1996, [http://www.bday.co.za/96/0911/comment/c1.htm].

redistribution, rather it argues this will inevitably result from growth and the creation of jobs. This assumption is disputed by Adelzadeh who argues that, "the complex linkage between better income distribution and growth is completely neglected."[48]

In direct contrast to the explicit proposals of the labour movement's *Social Equity and Job Creation* document, the GEAR strategy makes hardly any reference to the RDP. The COSATU paper wishes to see that the major proposals of the RDP, which it sees as "the central pillars of reconstruction . . . should now be given concrete expression."[49] However, a careful reading of the GEAR policy document, shows there are only a handful of references to the RDP. Yet despite this, it is claimed in the introduction that through job creation being the primary source of income distribution, the GEAR does remain in line with the original goals of the RDP.[50] This is perhaps indicative of a radical shift in policy thinking, in that there is little evidence of continuity and integration of the RDP's aims into the GEAR strategy.

The GEAR plan has also been criticised from both sides of the political spectrum for the methodology employed and the resulting assumptions it makes for various economic indicators. The optimistic predictions of the GEAR proposals were generated using four different economic models.[51] Patrick Bond argues that all of these are loaded in favour of neo-liberal policies and therefore create over optimistic assumptions about prospects for growth, job creation, wage restraint and other

[48] *ibid.*
[49] COSATU, Social Equity and job creation, p.1.
[50] Department of Finance, *op. cit.*, pp. 1-2.
[51] They were models created by the South African Reserve Bank, World Bank, Development Bank of Southern Africa and the University of Stellenbosch.

economic variables. This is because they treat the market as a reliable and efficient allocator of resources.[52]

Perhaps most telling was the criticism levelled by the Governor of the Reserve Bank, Chris Stals, despite the fact that the Reserve Bank model of the South African economy was one of the four economic models used. Whilst supportive of the broad thrust of the GEAR strategy, and believing that the package of measures will lead to a higher level of growth, the Reserve Bank did question the level of the predictions in the GEAR document, as too optimistic.[53]

By the end of 1997 it had also become evident that there was a growing line of criticism aimed at a perceived failure of the government to fully support its own policy document. This came from those supportive of the assumptions of the GEAR strategy and they blamed the failure to meet its own early targets on a less than fully committed government approach, rather than a weakness in the logical assumptions behind the idea. Certainly the mostly white, big business sector, has been critical of government when it has ignored the GEAR in many statements, claiming they are just trying to avoid political problems, but the result is a failure to give out strong enough signals to potential investors.[54]

Having outlined the nature of the GEAR strategy and how it represented a radical shift in the economic thinking of the ANC-led government, the important

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[52] Patrick Bond 'GEARing up or down?', South African Labour Bulletin Vol.20, No.4, 1996, p.23.
[53] Personal interview with Dr. Monde Mnyanda (Assistant Head, Economics Department, South African Reserve Bank).
[54] Personal interview with Paul Runge (Director, South Africa Foundation).

question that follows is what were the reasons for this radical shift? What pressures from either within or outside South Africa led to this major re-think?

A rather superficial reading of the shift in policy is to explain it by reference to the naiveté and lack of experience of the new regime. In discussing the RDP, Lester Venter, describes it as a fine example of how initial idealism becomes compromised by the realities of governance and the pressure to deliver promises.[55] Certainly this argument should not be discounted. The metamorphosis from a liberation movement with one clear goal in mind (the ending of the system of apartheid) to a formal political party is inevitably going to include a period of 'learning on the job'. However, this argument merely scratches the surface of some of the less obvious factors affecting the direction of macroeconomic policy.

The shift in policy direction can also be partly attributed to South Africa's experience of global pressures. The resultant change in attitude may have simply come from meeting with potential overseas investors and members of the global financial institutions. However the signals coming from global markets probably played as large a role as anything. The impact of investment rating agencies and international capital markets upon the nature of domestic policy is discussed further in Section 5.4 of the next chapter. It was these realities of the global political economy that helped to change government opinion on the shape and scope of domestic policies.

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[55] Lester Venter, When Mandela Goes: The Coming of South Africa's Second Revolution (Johannesburg; Doubleday, 1997), p.150.

Further reasoning behind the GEAR was an explicit attempt to improve levels of growth so that development would be matched by job creation.[56] In the first two years of the post-apartheid era, whilst South Africa did achieve moderate growth, there was a continuation of a lack of job creation. This is shown in Table 4.1 below which shows that total employment in the formal non-agricultural sector at seasonally adjusted annualised rates fell consistently from 1990 to 1995.

Table 4.1 Total non-agricultural employment 1990-1995

Year	Employment (Index 1990:100)
1990	100.0
1991	98.0
1992	96.0
1993	93.9
1994	93.5
1995	92.5

Source: South African Reserve Bank, Quarterly Bulletin March 1999 (Pretoria; South African Reserve Bank, 1999), p.S-130

This can be partly explained by the legacies of the economy under the apartheid system. Without being integrated into the world economy, South African business was shielded from the competitive pressures that result from integration. After 1994 and the re-entry of South Africa into the global system, in response to this lack of competitiveness, productivity was improved and in many cases this meant shedding jobs and incorporating more capital intensive production techniques. In a number of sectors, competition on a technological level is essential, and the majority of this is of a

[56] Department of Finance, *op. cit.*, p.2.

labour saving nature, making redundancy, especially of the least-skilled members of the South African workforce, all too common.[57]

The GEAR strategy aimed to achieve growth for a sustained period above the trajectory of about 3 per cent per annum that had been achieved in the first two years of the new government. The policy document predicted that this, in tandem with attempts to make the labour market more flexible, would then halt the predicted increases in unemployment.[58] The projections given in the GEAR policy document for growth in employment in the non-agricultural sector, were 1.3 per cent for 1996 and 3 per cent for 1997.[59] However, the reality was far less encouraging. The trend of a decline in jobs in both the private and public sectors continued throughout 1996 and 1997. This is shown in table 4.2 overleaf.

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[57] South Africa Foundation, The Job Summit: Some Observations (Johannesburg; South Africa Foundation, 1998), p.5.
[58] *ibid.*, pp.3-4.
[59] *ibid.*, p.8.

Table 4.2 Employment in the non-agricultural sectors of the economy (percentage change over one quarter at seasonally adjusted annualised rates)

Year	Quarter	Private Sector	Public Sector	Total
1996	1st	-5.7	-0.1	-3.8
	2nd	-3.3	3.6	-1.0
	3rd	-2.0	1.1	-0.9
	4th	0.3	-0.4	0.0
1997	1st	-3.5	-2.9	-3.3
	2nd	-2.9	-1.4	-2.4
	3rd	-2.1	-2.5	-2.2

Source: South African Reserve Bank, Quarterly Bulletin March 1998 (Pretoria; South African Reserve Bank, 1998), p.10.

A point that has been briefly mentioned in the discussion above but requires reinforcing is that of the internal tensions that are prevalent within the ANC. As a political party it represents a 'broad church' of opinions. It would be a mistake to treat them as a monolithic entity. Only months into the post-apartheid era there were reports of splits between the traditional left-wing section of the party and the 'pragmatic' camp, thought to include Thabo Mbeki, Joe Modise, Alfred Nzo and Trevor Manuel, and to be based mainly in the cabinet.[60] The accusations from the 'socialist' camp were that the pragmatists were colluding with both big business and other political parties to create a broad centrist political consensus to oversee the transition.[61]

[60] This group of ANC cabinet ministers had control in a number of important departments in the first cabinet of the Government of National Unity. Mbeki as Deputy President, Modise as Defence Minister, Nzo as Foreign Affairs Minister and Manuel as Trade, Industry and Tourism Minister.
[61] Weekly Mail & Guardian, 'Left and Right Tussle For ANC's Soul', 15 July 1994, [http://wn.apc.org/wmail/issues/940715/wm940715-21.html].

A further point follows from this discussion. This concerns the historical class roots of the majority of the current ANC leadership. Although ignored by most, it has been argued that the development of policy orientation within the upper echelons of the ANC, if we trace historically the class backgrounds of the majority of the ANC's leaders, can be seen as a return to their middle-class origins, despite the hostility from the majority of the ordinary ANC membership.[62]

4.4 As things stand - conclusions

By the end of 1997, the early indications were that the shift in government policy described earlier in this chapter had failed to bring about a change in fortune in the domestic economic situation. Certainly the ambitious predictions and targets outlined in the GEAR strategy were proving to be way off the mark. Apart from the failure to create jobs described earlier in this chapter, on the fundamental issue of raising the level of growth, the first year and a half of the GEAR policies failed to deliver. Growth in GDP was hoped to be 3.5 per cent in 1996 and 2.9 per cent in 1997.[63] Table 4.3 overleaf shows that the level of growth in 1997, apart from the second quarter, was substantially below these anticipated levels.

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[62] Personal interview with Dale T. McKinley (SACP).
[63] Department of Finance, op. cit., p.8.

Table 4.3 Real GDP (percentage change at seasonally adjusted and annualised rates)

1996					1997				
1st quarter	2nd quarter	3rd quarter	4th quarter	Year	1st quarter	2nd quarter	3rd quarter	4th quarter	Year
3½	4	3	3	3	-½	2½	½	½	1

Source: South African Reserve Bank, Quarterly Bulletin March 1998 (Pretoria; South African Reserve Bank, 1998), p.6.

The GEAR strategy has been attacked from two broad angles. First, by those who believe in its capability to achieve most of its ambitions, but go on to criticise the government for a lack of commitment to its stated policies and those who point to a poor and delayed record in its implementation. Lester Venter, for example, suggests that despite the progress made by the government in the reduction of the fiscal deficit this is not enough on its own to secure the progress anticipated by the GEAR strategy. He suggests that an analysis of GEAR shows that the success or failure of the policies is heavily dependent on creating the right economic conditions to enable and encourage a substantial increase in investment. For this to occur speedy progress on the removal of exchange controls and the privatisation programme are essential according to such a neo-liberal framework. However, exchange controls are almost certainly going to remain for the duration of the GEAR term and progress on privatising state assets has been fraught with delays and difficulties.[64]

[64] Lester Venter, *op. cit.*, pp.144-145.

Similar criticisms have come from the business sector.[65] The common theme running through such arguments is that the broad thrust of the GEAR strategy was right and the reasons for the disappointing results are to do with a failure on the government's part to get behind the policies with enough vigour. Comment from the political left however, is not concerned with misgivings over the perceived failures of implementation. They attack the very assumptions made by the GEAR document and hence the prescriptive policies it suggests. They question the applicability of the economic orthodoxy to deal with the unique requirements and historical legacies that South Africa faces.

The second line of criticism is aimed at the actual applicability of the GEAR strategy to an economy such as South Africa, and its ability to achieve the targets set out in the document. Patrick Bond has argued that the GEAR policy falls well short of the integrated approach needed in South Africa.[66] He argues that other issues such as social development, human resource development, transformation of the public sector, crime prevention and infrastructure investments need to be addressed simultaneously if real progress is to be made. This was attempted by the government earlier in February 1996, in the 'National Growth and Development Strategy' which was never released into the public domain for debate.

One of the more overt attacks at the assumptions and prescriptions made by the GEAR strategy, came from James Motlatsi, president of the National Union of Mineworkers (NUM). He said that labour would be committing suicide in agreeing to

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[65] Personal interview with Paul Runge (Director, South Africa Foundation).
[66] Patrick Bond, op. cit., p.30.

co-operate with big business, international finance and the government over the policy. He said GEAR represented 95 per cent of the views of 5 per cent of the population and 5 per cent of the views of 95 per cent of the population.[67]

It is difficult to see a reversal of the trends outlined in this chapter regarding the gradual shift in the governments position. It seems that key members of the ANC have fully accepted the neo-liberal assumptions of the current state of the world economy as the end of the decade approaches. The new ruling elite have shown no desire to question the interpretation of globalisation as being something that limits and constrains the possibility of state control in the economy. It seems clear that the adoption of this view of the current state of the global political economy has been a major factor contributing to the development of the pragmatic economic policies adopted in South Africa in the four years since the end of apartheid. Given the ANC's overwhelming dominance in the first democratic elections in 1994, it is with near certainty that we can assume that the 1999 elections will return another five years of an ANC-led administration and that Thabo Mbeki will be sworn in as the new President of South Africa. This means the only chance of a change in policy orientation in South Africa would be if another major shift occurred in the ANC's position, such as back towards where it has moved from.

Despite the confident predictions of Thabo Mbeki in early 1997, if a consistent path is followed and the results continue to be less than impressive, then a build of up of domestic tensions is highly likely. Mbeki remained confident that despite the

[67] Business Day, 'Labour "cannot afford to help implement Gear"', 13 March 1997, [http://www.bday.co.za/97/0313/news/n13.htm].

perceived lack of delivery by the government, in the provision of housing, for example, he did not feel there was a build up of, what he termed, 'explosive sentiment'.[68] However, it is possible that unless the major socio-economic problems of South Africa, especially the high unemployment rate are reduced, the patience of a population who in 1994 were on the crest of the liberation wave, will be tested to its limit.

Some important considerations seem to have been lost in the progression of the domestic debate within South Africa over what types of economic policies will lead to successful global integration and national development. As outlined in other chapters of this thesis, South Africa has a unique set of historical, local and developmental conditions that have resulted from the legacy of apartheid and its geographical location. Yet in devising an answer to these problems the trend has been in the direction of the adoption of the standard neo-liberal developmental model which does not have any provision for these uniquely South African problems.

[68] Weekly Mail & Guardian, 'Embarrassment of "filthy richness"', 13 March 1997, p.B3

Chapter Five

New Doors Open in South Africa's Global Relations

The end of apartheid in South Africa has both re-opened a number of doors and presented new opportunities in its global relations. Firstly, access to foreign financial assistance is much more readily available, both from the International Financial Institutions (IFIs)[1] and other sources. At the World Bank, South Africa is represented on the executive board in a constituency of twenty-three African countries. Similarly, at the International Monetary Fund (IMF), South Africa has become a formal member again, being added to a constituency comprising mainly English language-speaking African countries. Secondly, South Africa rejoined the world trading community as a full member with the signing of the Marrakesh Agreement of the General Agreement on Trade and Tariffs (GATT) on 13 April 1994. Thirdly, the investment community, including Transnational Corporations (TNCs) and global financial markets, do not view South Africa as politically sensitive anymore.

Such possibilities, as is the theme of this thesis, provide both opportunities and constraints for South Africa. By negotiating with the IFIs there are the possible constraints imposed through conditionalities which are increasingly being attached to their loans. By accepting the directives of GATT South Africa is both accepting rules which it had been allowed to work outside during the apartheid years and is facing the

[1] The term IFIs is used in the main to mean the International Monetary Fund and World Bank. South Africa also became a member of the African Development Bank on 13 December 1995.

new landscape of the global trading system reflected in the creation of the World Trade Organisation (WTO) in January 1995.[2] Also pressure to conform to an investment-friendly climate is provided through investment ratings by agencies like Moody's.

This chapter assesses the impact these global pressures have had in the early years of the post-apartheid era on how South Africa has confronted domestic issues, pursued relations with the European Union (EU) and its regional ambitions, discussed in other chapters.

5.1 The role of the International Financial Institutions

The liberalisation and pro-market forces consensus exerted by the World Bank and the IMF is one of the foremost global pressures facing South Africa. Whilst the end of apartheid has opened up the possibility of changing the nature of South Africa's insertion into the global political economy, the availability of foreign assistance often comes with conditions which do not seem to fit easily with the domestic pressures outlined in the previous chapter, that have resulted from some of the major legacies of the apartheid era. The weight attached to the view of the IFIs puts a definite constraint on the nature of South Africa's reintegration.

One of the few, possibly the only, positive features that the newly elected democratic government inherited from the old regime was the lack of major loan

[2] Alan Hirsch 'From the GATT to the WTO: The Global Trade Regime and its Implications for South Africa' in Greg Mills, Alan Begg & Anthoni Van Nieuwkerk (eds.), South Africa in the Global Economy (Johannesburg; South African Institute of International Affairs, 1995), p.52.

commitments to the IFIs and thereby the associated conditionalities. The last loan that South Africa received from the World Bank was one worth US$ 20 million, lent to the Electricity Supply Commission (ESKOM) in 1968. Shortly after this South Africa was disqualified from the World Bank because of the domestic political situation. It was not re-admitted until 1985.[3] The apartheid regime repaid all its loan obligations to the World Bank in 1976. A further loan received from the IMF in 1982, was cleared within five years.[4] Foreign debt, as a whole was a relatively small problem for the first democratic government. At the end of 1993 South Africa had a total foreign debt of Rand 86.735 billion. Expressed as a ratio to GDP this measured 21.8 per cent.[5] This proportion had risen only slightly by the end of 1994, to 22.9 per cent. In comparison to other developing countries this is a low proportion. Out of all Latin American and (ASEAN) countries only Chile and Singapore had a lower ratio.[6] Therefore it appears that the IFIs do not hold significant control directly over the South African government.

However, the role of these institutions was immediately brought into question when the Transitional Executive Council (TEC), the interim government before the first democratic elections, made an approach to the IMF for a loan of US$ 850 million, from its Compensatory and Contingency Financing Facility (CCFF), to alleviate the country's balance of payments difficulties. This loan was agreed by the IMF on 22 December 1993. The TEC which included members of the African National Congress

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[3] Business Day, 'The latest borrowing from the World Bank should ring no alarm bells', 4 June 1997.
[4] Hein Marais, South Africa: Limits to Change: The Political Economy of Transition (London; Zed Books, 1998), p.123.
[5] South African Reserve Bank, Quarterly Bulletin March 1998 (Pretoria; South African Reserve Bank, 1998), p.S-94.
[6] International Labour Organisation, Restructuring the Labour Market: The South African Challenge (Geneva; ILO, 1996), p.32.

(ANC), in signing a letter of intent, clearly accepted some of the major preconditions that are usually attached to IMF lending. These commitments included the elimination of import surcharges, the maintenance of a competitive tax structure, the restraint of government expenditure and the development of an export-orientated growth path.[7] Moreover, Padayachee suggests that the Finance Minister at the time, Derek Keys, confirmed that the ANC had definitely accepted the principle of wage restraint.[8]

The advisory role that both the IMF and World Bank have played in South Africa should not be overlooked. In many ways this had a more direct impact in the beginning of the post-apartheid era than their actual lending functions. The impact that the IFIs have had since the period of transition in the early 1990s appears to be significant. Since 1992 both IFIs have engaged in a high level of policy discussions with a number of interested constituencies in South Africa. Turok argues that this "subtle approach has been very effective and these organisations are now firmly ensconced as partners in policy formation with many institutions and organisations".[9]

At a crucial time in the country's history the IMF, in particular, was quick to offer its observations and suggestions. This was exemplified by the publication of an IMF Occasional Paper, in January 1992, entitled *Economic Policies for a New South Africa*. This paper was written by IMF staff and it argued in favour of the need for economic growth as well as redistribution of wealth. An objective that became implicit

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[7] Devan Pillay 'The global order and South Africa's transition to democracy', Global Dialogue Vol.4, No.1, 1999, p.25.
[8] Vishnu Padayachee 'Dealing with the IMF: dangers and opportunities', South African Labour Bulletin Vol.18, No.1, 1994, p.87.
[9] Ben Turok 'The Debate about Reconstruction and Development in South Africa' in Adebayo Adedeji (ed.), South Africa & Africa: Within or Apart? (London; Zed Books, 1996), p.149.

in the ANC's macroeconomic policy, GEAR, discussed in Chapter Four. Also a visit of ANC staff members to IMF headquarters in April 1992 and the acceptance of an offer to train future bureaucrats emphasises the scope for exercising influence.

The World Bank has also been responsible for direct criticism of government economic policy. In a draft study of the South African labour market, the World Bank made the assessment that high unemployment levels in South Africa were the result of the inflexibility of the labour market. It was argued that too many sectors of the labour market are covered by measures that regulate wages such as wage determinations and bargaining council agreements. Criticism was thus aimed at the government's Labour Relations Act (1996) which provided for the extension of such council agreements.[10]

It is worth stressing here that the extent of advice from the IFIs extends to a pair of World Bank economists being part of the panel that constructed the GEAR strategy. The nature of this macroeconomic blueprint represented a shift in ANC opinion and was openly welcomed by the IMF in its annual assessment:

> The course of the debate in South Africa on political economy has been extraordinary. Only eighteen months ago the discussion focused on government intervention, on public works programmes and nationalisation. Now the discussion is centred on fiscal discipline, on trade as the engine of growth and on privatisation.[11]

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[10] Business Day, 'World Bank criticises labour policy', 25 September 1997.

[11] Quoted in Michael Blake, 'Are the Poor Being Heard?' in Conrad Barberton, Michael Blake and Hermien Kotzé (eds.), Creating Action Space: the challenge of poverty and democracy in South Africa (Cape Town; David Philip, 1998), p.47.

This view that the advisory nature of South Africa's relationship with the IFIs has had a significant impact on domestic policy is suggested despite the protestations to the contrary by representatives of both the World Bank and the South African government. The World Bank's resident representative in South Africa, Judith Edstrom, has on more than one occasion tried to highlight the reciprocal nature of the relationship between the World Bank and South Africa.[12] As mentioned above, the basis of the World Bank's role has been in policy advice rather than through direct lending. So far South Africa has not had to negotiate a structural adjustment package with conditions. A similar view has been outlined by Maria Ramos, Director-General of the Department of Finance. Her opinion is that South Africa has been in the position of a *customer* rather than a *patient* in its relationship with the IFIs. Advice has been sought when necessary and funding has, and will only be requested, for specific government-designed packages. The more likely explanation is that the South African government knew that seeking advice from the IFIs, whether invited or not, would increase their chances of obtaining funds if they should ever need them in the future.

However, the announcement in September 1996 of negotiations over a proposed World Bank loan to South Africa, represented a reversal of the policy of the ANC. The US$ 46 million loan from the International Bank for Reconstruction and Development, a division of the World Bank, was approved by the Bank's board of directors in June 1997. The repayments were set for a fifteen year period with an initial three year holiday. The money is to be used to fund a number of programmes

[12] See for example, Weekly Mail & Guardian, 'World Bank Talks Back', 15 November 1996, [http://web.sn.apc.org/wmail/issues/961115/BUS4.html] and Weekly Mail & Guardian, 'Emphasis on Partnership', 14 February 1997, [http://web.sn.apc.org/wmail/issues/970214/BUS27.html].

established to help small businesses compete in the global market. First a competitiveness fund that will provide grants to help purchase outside support services to improve technology use and productivity. Secondly, a partnership fund providing grants to try and improve the competitiveness and productivity of the manufacturing sector. Thirdly, the provision of short-term finance to allow small enterprises to finance the shipment costs incurred in exporting goods.[13]

This despite the fact that Trevor Manuel, future Minister of Finance, said when in charge of the ANC's Economic Planning Desk in 1993 that, "we will certainly need foreign aid, but not from the International Monetary Fund or the World Bank".[14] The ANC's clear policy on this issue appears to have been abandoned. Apart from the impact of the conditions attached to loans upon South Africa's sovereignty, concern was also voiced over the level of interest rates and the danger of the Rand falling in value thereby increasing the relative cost of any repayments.[15]

The notion of a balanced relationship is brought further into question by the fact that reports arose, around the time of these negotiations, that both the World Bank and the IMF were increasingly moving beyond economic policy prescriptions for borrowing countries to attaching rules on good governance and even more politically-orientated conditions such as over human rights.[16]

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[13] Business Day, 'World Bank loan to SA approved', 2 June 1997, [http://www.bday.co.za/97/0602/news/n14.htm].

[14] The Campaign Against Neo-Liberalism 'The World Bank: beggaring South Africa?', South African Labour Bulletin Vol.20, No.6, 1996, p.23.

[15] Weekly Mail & Guardian, 'Manuel faces flak over World Bank', 11 October 1996, [http://web.sn.apc.org/wmail/issues/961011/NEWS47.html].

[16] Business Day, 'World Bank, IMF lay down "good governance" rules', 1 October 1996, [http://www.bday.co.za/cgi-bin/post-query.perl].

5.2 The world trading community

South Africa's reintegration into the multilateral trading regime marked the end of a period of at least a decade when it had been operating beyond the rules of the GATT. This had occurred because the imposition of sanctions, whilst implemented in the name of achieving political objectives, contravened the apolitical objectives of the GATT. Hence it was difficult for countries that were imposing sanctions to seek recourse against South Africa when they felt it was not operating within the GATT framework.

South Africa's return to the world trading community was made doubly complicated by the timing of its re-entry. This coincided with the completion of the Uruguay Round of the GATT which was achieved when the Marrakesh Agreement was signed by one hundred and twenty-two countries on 13 April 1994. Thus not only was there a return to the world trading community, but a return to a system that had just devised a whole new set of rules, extending the process of trade liberalisation.[17]

The Uruguay Round of the GATT was launched in September 1986. It is frequently claimed, in official channels, that everyone is set to gain from the agreement reached at the end of the negotiations. For example, the World Bank claimed that, "the Uruguay Round yielded real gains for traders in all countries".[18] However, there is other evidence that suggests that the North has merely cemented its position of power

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[17] Alan Hirsch, op.cit., pp.41-42.
[18] 'The Uruguay Round: winners and winners', World Bank Policy Research Bulletin Vol.6, No.1, 1995, p.1.

in the global trading system, and that the economic benefits from the agreement will certainly not be shared equally by all the member states or groups of member states.

It is clear that access to the markets of the developed world is crucial to the future of most Less Developed Countries (LDCs). South Africa is no different in this respect. These markets are far larger than the markets of other LDCs. It seems that the developing countries were aware of this when they ended the negotiations of the Uruguay Round. Their main wish was for greater market access via improvements in the Generalised System of Preferences.[19]

The explicitly stated, fundamental purpose of the GATT is to "achieve freer and fairer trade".[20] It is questionable whether the Uruguay Round settlement observed the latter of these two principles. It has been estimated that sub-Saharan Africa will actually lose about US$ 1.6 billion as a result of the agreement, compared with the pre-Uruguay terms.[21]

From its inception, the primary target of the GATT was the reduction of tariffs. As this has been gradually achieved we have seen the parallel development of non-tariff barriers (NTBs). Northern governments have used these to circumvent GATT disciplines. One example of NTBs has been the use of voluntary export restraints (VERs), where country A invites its trading partner, country B to *voluntarily* restrict

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[19] Phedon Nicolaides, 'The Changing GATT System and the Uruguay Round Negotiations' in Richard Stubbs & Geoffrey R.D. Underhill, Political Economy and the Changing Global Order (Basingstoke; Macmillan, 1994), p.235.
[20] Stephen Gill & David Law, The Global Political Economy: Perspectives, Problems and Policies (Hemel Hempstead; Wheatsheaf, 1988), p.282.
[21] Kevin Watkins 'GATT: A Victory for the North', Review of African Political Economy Vol.21, No.59, 1994, p.60.

its exports in a particular sector to country A by using the threat of trade sanctions if it does not comply. Although VERs are to be phased out after the Uruguay settlement, there remains enough ambiguity in the new GATT code to allow for similar tactics.

One of the most important new directions that world trade has taken in recent years is the internationalisation of production, as TNCs have internalised trade across political frontiers.[22] The rise of this TNC activity is clear in the beneficial nature of the decisions that were reached after the recent GATT round. The inclusion of intellectual property rights, financial services and investment on the GATT agenda was obviously to the benefit of Northern TNCs. Unsurprisingly, the majority of LDCs were vocally opposed to the inclusion of these items.[23]

An analysis of the global trading system, provides a useful microcosm of the overall trends of power and interest at work in the global political economy. For many African states, including South Africa, trade is particularly necessary for the survival of their national economies. There is a danger that the WTO will become an organisation representing the interests of the most powerful states in the world economy. South Africa, as chair of the United Nations Conference on Trade and Development (UNCTAD), has a role to play in trying to encourage partnership, rather than opposition, between these two organisations. I now turn my attention to the treatment of South Africa in the Uruguay GATT negotiations and its future under the WTO, as this is of vital importance.

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[22] Susan Strange, States and Markets (London; Pinter, 1994), p.177.
[23] Kevin Watkins, *op.cit.*, p.66.

South Africa's major obligations that resulted from the Uruguay agreement of the GATT can be summarised as follows:

1. To undertake a rationalisation of the existing tariff structure, simplifying it from over ten thousand categories to between five and six thousand over the five-year adjustment period.
2. Increasing the number of tariffs bound by GATT from about 58 per cent to 98 per cent of all tariffs. Authorisation must then be sought from the WTO to raise these tariffs and even if it is granted equivalent tariff liberalisation will be exacted on another line.
3. To replace all the remaining quantitative controls with *ad valorem* duties.
4. To reduce the upper tariff limit from 100 per cent to 30 per cent within five years. Significant exceptions to this are clothing and textiles which have a twelve year period to come down to a maximum tariff level of 45 per cent and the motor industry which has eight years to achieve a 50 per cent limit.
5. In complying with the ban on direct export subsidies, South Africa will have to dismantle the General Export Incentive Scheme (GEIS).[24]

Compliance with the new series of disciplines agreed in the completion of the Uruguay Round of the GATT will impose adjustment costs to South African industry and necessitate extra effort in government to guide the process of reform. However, after years of isolation and growing protectionism the post-apartheid regime has little alternative but to comply with this facet of the liberal international economic order.

[24] Alan Hirsch, op.cit., pp.51-52 and Richard Gibb 'Southern Africa in transition: prospects and problems facing regional integration', Journal of Modern African Studies Vol.36, No.2, 1998, p.297.

Hopefully the longer-term gains will eventually outweigh the fact that "some factories will close, some farmers will go bust, and many workers will lose out, either in employment or in real wage terms".[25]

In terms of its commitment to tariff reductions, South Africa has in some areas moved faster than required by its agreed conditions of the Uruguay Round of GATT. For example, the government decided that for the clothing and textile industries to survive, a seven-year rather than the stipulated twelve-year period of adjustment should be imposed. The argument that the government has used to defend this course of action is that the commitment to adapt to the demands of the WTO is non-negotiable. Whilst business has accepted in theory the need for the improvements in competitiveness that will result from these pressures, it has tried in some cases, understandably, to delay where possible. Government's response has been to suggest that South African industry only has a limited amount of time to restructure. If it adopts a minimalist approach to this process and follows its GATT obligations to the letter, then it will be merely delaying a process that is accepted as necessary. Moreover, such an approach would not create the right climate for investors.[26]

The painful cost of tariff liberalisation has been borne most heavily in the South African motor, clothing and textile industries. Approximately twenty thousand jobs were lost in the clothing industry in the five years up until 1996. A survey of the industry at this time suggested that it was on the brink of collapse. The reasons being

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[25] R.W. Johnson 'Rubbing along in the neo-liberal way', London Review of Books Vol.17, No.12, 1995, p.9.
[26] Personal interview with Dr. Rob Davies (Cape Town, 29 September 1998).

the pressures of tariff reform agreed in the Uruguay Round of the GATT, despite the specific concessions made to the industry, shown on page 127. Also the inefficiency of the Customs and Tariffs Department, has resulted in large amounts of finished garments entering South Africa unchecked and being dumped on the domestic market. In 1996 the Textile Federation of South Africa urged the government to match the funds that the industry had provided to try and help solve this problem of illegal imports. They also argued for stiffer penalties.[27]

There were still those in this sector in 1994 who felt that protection was necessary and should actually be increased. Clearly the demands of GATT were being ignored in calls for import duties and quotas to be raised. This may be explained by the history of ISI policies in the textile industry which date back to 1963.[28] But a growing appreciation of the reality of the GATT demands meant that only a year later in 1995 there was an acceptance by the Textile Federation of the government's arguments concerning the adoption of reforms sooner rather than later. In a report submitted to the government the Federation claimed the industry

> is gearing up to fundamentally remodel itself for international competition by committing to the reduction of duty levels faster, and to lower final levels, than the international community and GATT require.[29]

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[27] Portfolio Committee on Trade and Industry, Report to Parliament on Tariff Policy in the Context of Industrial Policy, [http://www.polity.org.za/govdocs/committees/trade/webdoc3.html], p.3.

[28] Weekly Mail & Guardian, 'Textiles still in need of unravelling', 15 July 1994, [http://web.sn.apc.org/wmail/issues/940715/wm940715-47.html].

[29] Quoted in Weekly Mail & Guardian, 'Tough time ahead for textile industry', 24 March 1995, [http://web.sn.apc.org/wmail/issues/950324/wm950324-50.html].

Criticism should rather be focused on the government's provision of measures to assist in the restructuring of industry. A report to the South African parliament by the Portfolio Committee On Trade and Industry in 1996 supported this view that in some cases the government should have provided supply-side measures to ease the pain of tariff reductions.[30] At the public hearings on 30 September 1996 that preceded this report, the Congress of South African Trade Unions (COSATU) were clear in their opinion on this issue,

> . . .tariff reduction should be a preceded by supply side measures; a National Restructuring Fund to overcome lack of competitiveness; a training levy for workers; competition legislation; active measures by government to market South African industry; a Social Plan Act to help workers adjust; reductions in interest rates.[31]

By placing a greater emphasis on the human resource problem outlined in Chapter Three, government could ease the problems caused by tariff reforms. Apart from improving the education system in general, this could be achieved through assistance in the use of new technologies, the training and retraining of workers and measures to address the lack of research and development. However, all of these would have required additional public expenditure at a time of budget stringency.

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[30] Portfolio Committee on Trade and Industry, op.cit..
[31] ibid., p.9.

5.3 The need for foreign investment and its implications

The shift in domestic policy outlined in Chapter Four has exacerbated the impact of international pressures upon South Africa. This is the result of a macroeconomic policy that pinpoints inwards foreign direct investment (FDI) and exports as the key. The GEAR policy hoped to achieve significant levels of FDI. It was argued that as part of the overall outward-orientated growth strategy, "international experience favours foreign direct investment as a more stable source of international finance".[32]

South African business has placed a high priority on foreign investment. It has been suggested that big business should have a greater say in the government's new development agency called Investment South Africa (ISA) that was created after the 1994 election.[33] ISA was established and is also funded by the Department of Trade and Industry and is responsible for investment promotion. Yet such arguments, appear slightly hypocritical when there is such a low level of domestic investment by South African capital. In early 1994, private sector (non-housing) fixed investment represented a paltry 10 per cent of GDP.[34] Increasing the level of domestic investment would be the most positive signal that business could make in the overall efforts to try and attract FDI.

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[32] Department of Finance, Growth, Employment and Redistribution: A Macroeconomic Strategy (Pretoria; Department of Finance, 1996), p.45.
[33] Personal interview with Paul Runge (Johannesburg, 6 October 1998).
[34] South African Reserve Bank, Quarterly Bulletin September 1995 (Pretoria; South African Reserve Bank, 1995), p.5.

South Africa remains a minor player in global terms with regard to foreign investment. It attracts a very small proportion of world investment, estimated to be under 1 per cent.[35] Whilst the level has been increasing, too much has been portfolio rather than direct investment. Total capital flows to South Africa between 1994 and 1997 are estimated to be Rand 40 billion. However only 25 per cent of this was in the form of fixed direct investment. The vast majority therefore was of the portfolio variety. These proportions are in exact reverse to those experienced by other emerging economies that are experiencing high levels of growth such as China and the Czech Republic.[36]

Portfolio investment into the Johannesburg Stock Exchange (JSE) can leave as quickly as it enters. Such a reliance on this type of foreign investment makes South Africa vulnerable to the financial turbulence experienced by a number of the world's emerging markets. The currency problems encountered by South Africa during 1996, described later in this chapter, highlight the short-term nature of such funds.

The foreign investment picture becomes even gloomier when the nature of the majority of the foreign direct investments is analysed. The most beneficial form of investment for South Africa is that which is in the form of large scale physical capital. In reality, much of the foreign investment in South Africa involves foreign companies setting up small operations and adopting a fairly cautious approach to long-term commitments. This is reflected in the fact that investments involving buying up market

[35] Financial Mail, 'Crumbs from the global investment table', [http://www.fm.co.za/topco99/zlfor.htm].
[36] Business Times, 'Sluggish growth stifles overseas investment', 27 September 1998.

share, purchasing South African resources for the export market and partnerships with local firms, represent a much larger proportion of FDI than the building of new factories.[37]

The relative position of South Africa in its external economic relations is interestingly portrayed by the key sources of FDI in the country and how these have changed during the early years of the post-apartheid era, shown in Table 5.1 overleaf. The derivation of capital flows "can provide important clues about forthcoming economic opportunities. . . Such flows can also provide some guidance as to the prevailing social and political climate in particular countries".[38] Thus they are useful as an indicator of the future economic prospects for South Africa's trade and investment partners.

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[37] Financial Mail, 'FDI essential for economic growth', [http://www.fm.co.za/Top100-97/forei.htm].
[38] South Africa Foundation, A Study of South Africa's Major Trade and Investment Partners (Johannesburg; South Africa Foundation, 1998), p.22.

Table 5.1 Sources of FDI in South Africa

Source of FDI	As of 31 December 1994 (Rand millions)	As of 31 December 1997 (Rand millions)
UK	11845	37345
Germany	4743	12278
Switzerland	3489	3981
Luxembourg	2189	378
France	1350	5330
Netherlands	3658	5390
USA	4771	12953
Africa	397	907
Asia	790	5833
Oceania	316	499
Other	2475	4272
Total	36023	89166

Source: South African Reserve Bank, Quarterly Bulletin March 1997 (Pretoria; South African Reserve Bank, 1997), pp.S-88-S-90 and Quarterly Bulletin March 1999 (Pretoria; South African Reserve Bank, 1999), pp.S-94-S-96.

As with the trade flows identified in Chapter Six, at the beginning of the post-apartheid era, Europe was clearly the most important source of FDI in South Africa. As figure 5.1 overleaf shows, the United Kingdom and Germany represented nearly half of the total FDI at the end of 1994.

Figure 5.1

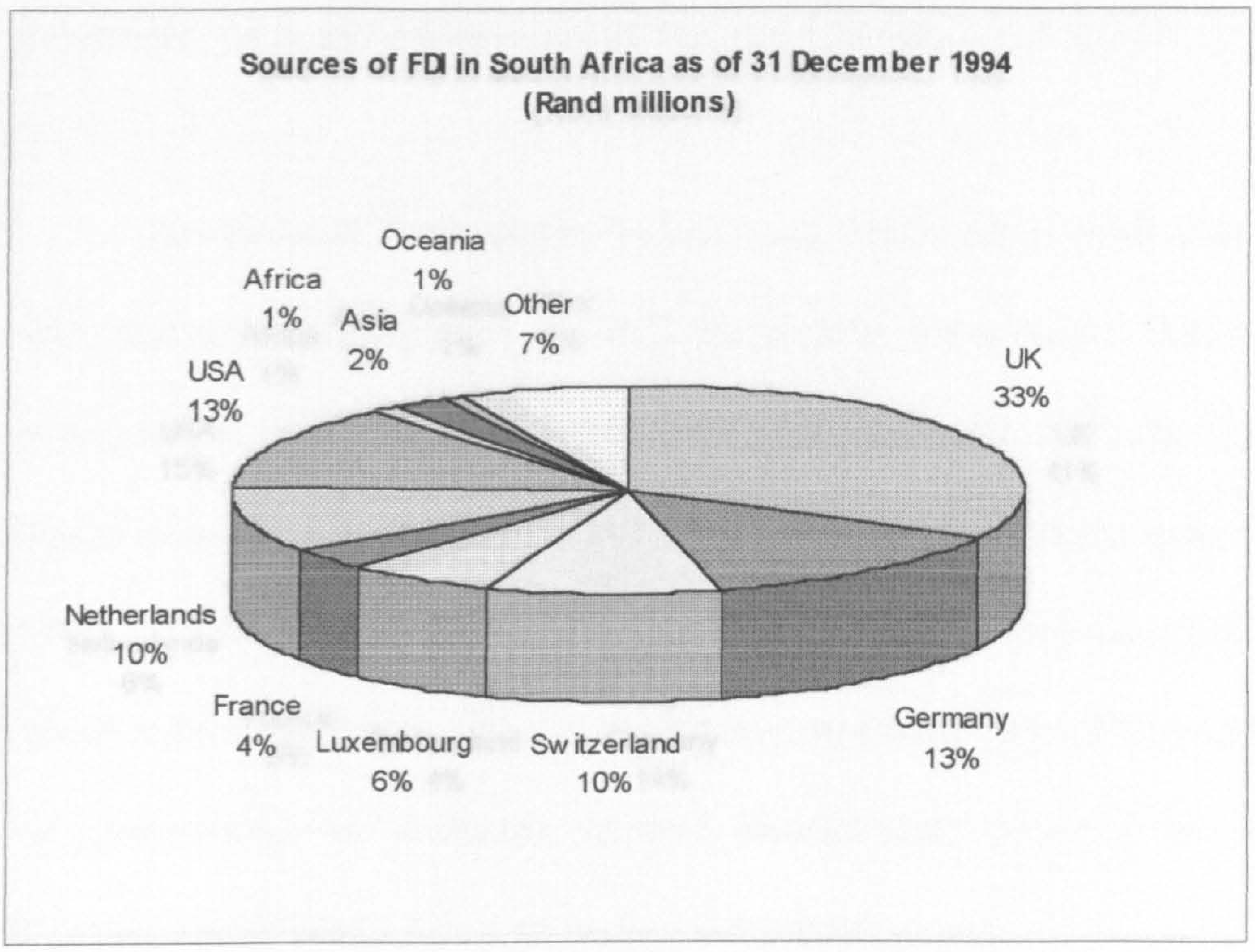
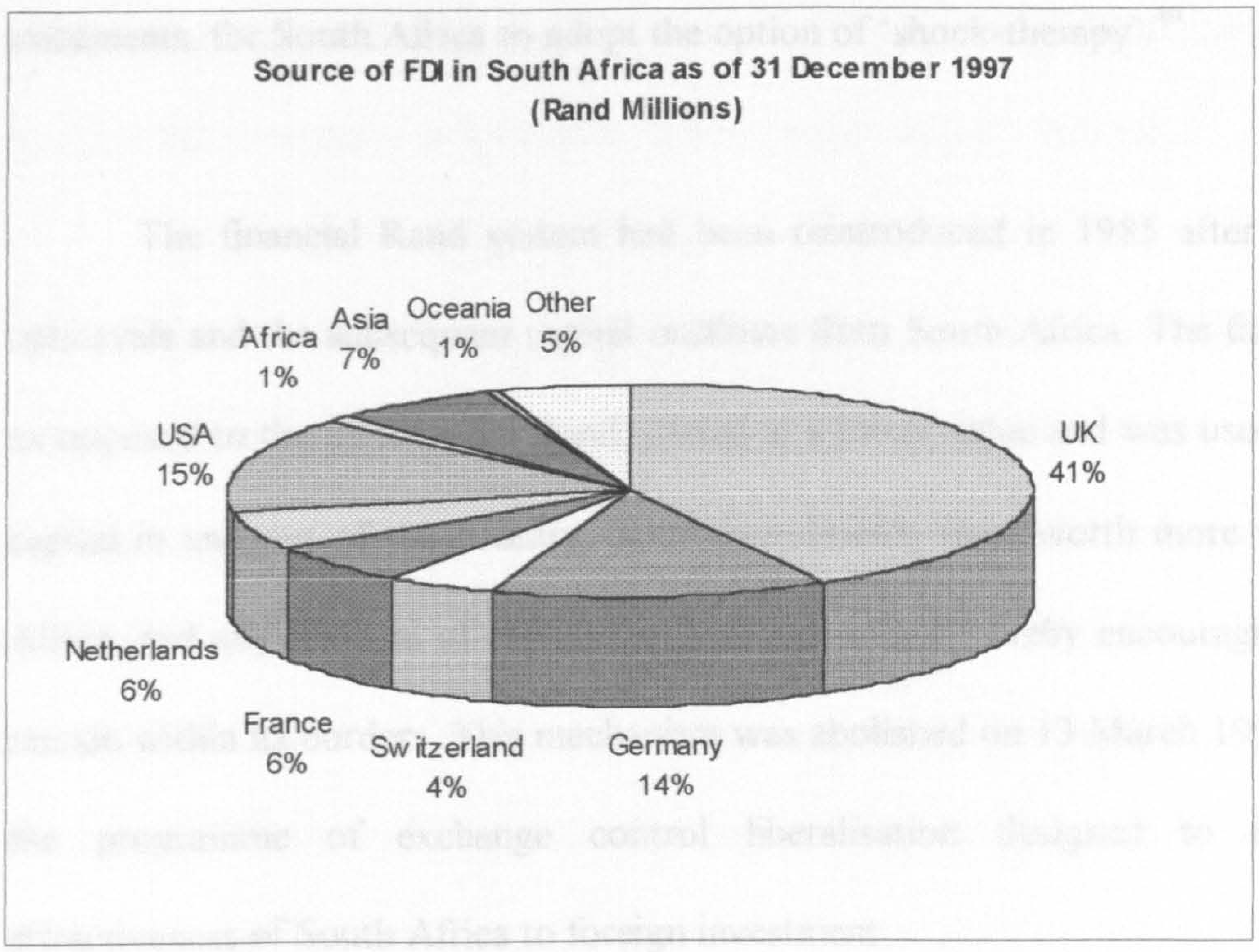


Figure 5.2 overleaf, shows that the situation in terms of the main sources of FDI in South Africa had not changed significantly by the end of 1997. The most important change to note is the increase in the contribution of Asia. This is because, since the end of 1994, Malaysia has been involved in two major investments. First, Telekom Malaysia together with SBC Communications of the USA acquired a 30 per cent share of Telkom SA. Secondly, Petronas Behad, the Malaysian national oil company purchased a 30 per cent stake in the South African energy company, Engen. Together the Malaysian proportion of these two investments was valued at approximately Rand 3.5 billion.[39]

[39] ibid., p.14.

Figure 5.2



Exchange controls and the existence of the two-tier currency system in South Africa have proved major initial impediments to the government's hopes for high levels of foreign investment. The global consensus on exchange controls is that they are negative and an impediment to the operation of the free market. This reduced the debate within South Africa to a choice over whether to adopt a gradual or alternatively a 'big-bang' approach to their removal, instead of focusing on whether their removal is beneficial or not. The ironic nature of the problem of exchange controls is that they provide a disincentive to foreign investment, but the Ministry of Finance, observing some of the difficulties encountered in Asia through over-rapid liberalisation, cannot afford to remove them until foreign reserves have been built up and the South African economy has become a financial magnet, all things that can only come about as a result of substantial foreign investment. It has therefore adopted a policy of piecemeal exchange control liberalisation despite direct encouragement from the IMF, via press statements, for South Africa to adopt the option of 'shock-therapy'.[40]

The financial Rand system had been reintroduced in 1985 after the political upheavals and the subsequent capital outflows from South Africa. The financial Rand, as opposed to the commercial Rand, traded at a lower value and was used for moving capital in and out of the country. Thus, investments were worth more within South Africa, and any removal of capital involved a discount thereby encouraging capital to remain within its borders. This mechanism was abolished on 13 March 1995, as part of the programme of exchange control liberalisation designed to improve the attractiveness of South Africa to foreign investment.

From July 1995, the South African Reserve Bank still wishing to maintain some protection of foreign exchange reserves, allowed for financial institutions to invest overseas provided that any such investments were matched by a foreign investment in South Africa that counterbalanced this investment abroad. A process known as asset swaps. This again reflects the government's cautious approach.

The slow lifting of exchange controls has contributed to the 'wait and see' approach adopted by potential foreign investors in South Africa. Numerous rumours on the possible removal of controls encouraged currency speculators to gamble on the timing of future changes. Trevor Manuel, Finance Minister, with whom final responsibility for any decision on exchange controls rests, was criticised for repeatedly

[40] Hein Marais, op.cit., p.130.

insisting that they would not be removed. It is argued that this actually causes the market to increasingly expect the opposite.[41] Hence, potential investors would have feared a fall in currency and therefore a drop in the value of their capital.

Another crucial factor that has hampered the attraction of foreign capital is the domestic crime problem in South Africa. A recent study, sponsored by Nedcor the banking group, published in 1996, suggested that crime was viewed by 45 per cent of the South African population as the primary problem in South Africa. The report also found that most corporations cited crime as one of the major factors deterring investment projects in South Africa.[42] Companies considering an investment in South Africa must take account of the practical consequences of their employees being affected by crime, such as injury, insurance claims and law-suits.

Ironically the re-entry of South Africa into the world economy has opened up new avenues for crime. The US assistant secretary of state for narcotics suggested at a conference in 1996 that the combination of poor border controls and a developed banking system and infrastructure have made South Africa one of the centres of the global trade in narcotics.[43]

Other key factors that affect the decision to invest in South Africa are productivity and efficiency, labour relations, taxation and regional political stability. The nature of South Africa's historical isolation from the world economy, described in

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[41] Weekly Mail & Guardian, 'Foreign investors adopt a wait-and-see attitude', 19 April 1996, [http://web.sn.apc.org/wmail/issues/960419/ARTS14.html].
[42] Financial Times, 'Death and drugs in the Cape: South Africans faced with a murder rate as high as in the US are taking the law into their own hands', 10 August 1996.
[43] *ibid.*

the previous chapter, makes South Africa comparatively poor in terms of efficiency when compared with other emerging markets. The strong, organised nature of South Africa's labour movement, and its tripartite alliance with the ANC and SACP, is a potential factor that may deter foreign investment. Also the perception of high comparative costs of labour, which the South African press does nothing to discourage, compared with other developing countries, such as India and Mexico, reduce the attractiveness of South Africa as a destination for FDI.[44]

Tax levels in South Africa compare equally unfavourably. This is despite the fact that the government has made limited efforts to reduce the tax burden on foreign investors by scrapping the non-resident shareholders' tax, which had meant that non-residents were taxed at a higher rate than domestic investors. Also the government has adopted tax incentives to try and attract foreign investment in the manufacturing sector. From 6 October 1996 a company considering a project solely based in manufacturing could apply to the Regional Industrial Development Board for a tax holiday, up to a maximum of six years.[45] However, when compared with other emerging markets South Africa looks a high tax destination. In 1995, Malaysia's corporate tax rate was 30 per cent compared with 48 per cent in South Africa.[46]

Finally, the level of political stability within South Africa and also the surrounding region will have an impact on foreign investment decisions, especially

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[44] Weekly Mail & Guardian, 'Globalisation means action, not words', 21 November 1997, [http://web.sn.apc.org/wmail/issues/971121/BUS30.html].
[45] Department of Trade and Industry, Guide To Investing In South Africa, [http://www.polity.org.za/govdocs/misc/investguide.html].
[46] Weekly Mail & Guardian, 'How to tempt foreign investors', 25 August 1995, [http://web.sn.apc.org/wmail/issues/950825/wm950825-20.html].

those of a direct and longer-term nature. As argued in Chapter Seven, if the region does not achieve political stability and relative economic prosperity then the problems of South Africa's close neighbours will visit South Africa itself. Foreign capital would be averse to investing in an area with an uncertain political and social future.

The relaxing of exchange controls and increased liberalisation in general, intended as a means to attract FDI into South Africa, has also had the effect of taking money out of the country.[47] A number of large South African conglomerates have moved offshore. Some have moved head offices abroad and Anglo American for example, has listed on a foreign stock exchange, a step beyond just buying assets overseas. Within the African continent South African investment maintains the trend of regional domination. Between 1995 and 1997, South African firms were involved in seventy-eight deals worth a total of US$ 4.9 billion.[48]

To conclude, the domestic policy for economic growth in South Africa has placed heavy reliance on the importance of FDI. Foreign investment cannot provide a sufficient answer to the country's investment needs. This has limited the way in which South Africa has been able to operate in global forums. Sending the right signals to the global economy and imposing a strict macroeconomic policy is no guarantee of success. As this section has shown a host of other factors affect decisions to invest. It also removes the burden on domestic capital to act as the catalyst for growth. A diversified and expanding economy with a strong internal market would help to create

[47] Personal interview with Dale T. McKinley (Johannesburg, 6 October 1998).
[48] Financial Mail, 'Crumbs from the global investment table', [http://www.fm.co.za/topco99/zlfor.htm].

the necessary climate to attract FDI but on recent evidence it is a mistake to think that FDI will appear before this position is reached and be the factor that triggers growth and expansion.

5.4 Global pressures to conform

So far this chapter has assessed the impact of global pressures on the nature of South Africa's reintegration into the global political economy. This final section seeks to highlight some of the more subtle ways in which pressures to conform have been exerted, which may not have been fully expected by the Government of National Unity (GNU) at the beginning of the post-apartheid era. These pressures come from international capital markets through currency pressures and investment rating agencies.[49]

A major precursor to the announcement of the GEAR strategy in June 1996 was the currency crisis in South Africa which began in mid-February. The speed and scale of the fall in the value of the Rand is shown overleaf in Table 5.2.

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[49] Personal interview with Dr. Rob Davies (Cape Town, 29 September 1998).

Table 5.2 Changes in the exchange rates of the Rand (per cent) from 31 May 1995 to 31 May 1996

	31.5.95 to 13.2.96	13.2.96 to 29.2.96	29.2.96 to 27.3.96	27.3.96 to 30.4.96	30.4.96 to 31.5.96	31.12.95 to 31.5.96
Weighted Average	5.5	-5.4	-2.4	-9.4	0.6	-15.1
US Dollar	0.5	-5.2	-2.9	-9.7	0.5	-16.4
UK Sterling	5.4	-5.3	-2.2	-8.9	-1.4	-15.8

Source: South African Reserve Bank, Quarterly Bulletin June 1996 (Pretoria; South African Reserve Bank, 1996), p.14.

The Rand fell fairly uniformly against all the major currencies and as the table shows the overall drop, against a weighted average of currencies for the first five months of 1996, was just over 15 per cent. The economy had performed consistently well in the months leading up to the crash and the slump was attributed to the spread of rumours without any hard facts. The first shock in February was attributed to the market reaction to the combined speculation about the health of President Mandela and the removal of exchange controls.[50] This lead to concern about the stability of the economy and once started, such concerns become hard to quell. The effects of the currency crisis were familiar. On top of a serious shortage in foreign exchange reserves, rising import costs have a negative effect on the upgrading of factories in the manufacturing sector.[51] In the export sector, on the other hand, goods gain in price

[50] Weekly Mail & Guardian, 'Randslide!', 12 April 1996, [http://web.sn.apc.org/wmail/issues/960412/BUS41.html].
[51] Hein Marais, *op. cit.*, p.130.

competitiveness and this was reflected in the fact that in 1996, as a whole, export volumes rose by 12 per cent, compared with 1995.[52]

There are those in the South African business sector that believe it took such an important event to prove to government policy-makers that South Africa is now part of a market-oriented world economy and that it must pursue appropriate polices to keep attuned to this system.[53] The World Bank and the IMF also gave the market-friendliness of the strategy their undivided support.[54] In short, the GEAR strategy represented a conscious effort to reassure potential investors in South Africa that despite the early proposals of the RDP, including possible nationalisation and a statutory minimum wage policy, for example, the government was now prepared to pay more than just lip-service to the forces of globalisation. It also reflected an appreciation that market forces and foreign investors make decisions based in terms of profit and not in terms of ideological considerations or out of sympathy.[55]

The GNU soon found that to be able to raise substantial amounts of money abroad at a manageable price, it was necessary for South Africa to obtain an international credit rating. This would allow the South African government to approach international capital markets to raise money through issuing large government bonds. Moreover, in relation to the previous section of this chapter, the chances of long-term funds flowing into the country would improve with the

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[52] Weekly Mail & Guardian, 'SA's big export surge', 27 March 1997.
[53] Weekly Mail & Guardian, 'COSATU in the firing line', 13 December 1996, [http://web.sn.apc.org/wmail/issues/961213/BUS23.html].
[54] Michael Blake, *op.cit.*, p.49.
[55] Weekly Mail & Guardian, 'Adjusting one's sights to fit South Africa', 24 December 1996, [http://web.sn.apc.org/wmail/issues/961224/BUS15.html].

achievement of such a rating. Therefore the government requested a sovereign credit rating and in October 1994, three of the most influential ratings agencies: Moody's, Standard and Poor's and Nippon Investor Services accorded to these requests and gave South Africa a rating.[56]

The extent of creditworthiness is affected to the greatest extent by the performance of the private sector. In November 1995, Moody and Phelps gave South Africa a rating of BBB+ in its ability to repay internal debt. This is a borderline rating and does not portray the country as a good credit risk.[57] A rating of BBB is judged as the minimum to attract investment.[58] The rating that South Africa receives determines the cost of the repayment of bonds. Again it is interesting to note the timing of the shift in the GNU's macroeconomic strategy which soon turned more towards the interests of business. This was reflected in the publication of the GEAR policy document in June 1996, discussed in the previous chapter.

By late 1997 it appeared that specific government attempts to improve South Africa's standing as an emerging market by conforming to the pressures of international capital markets were succeeding. JP Morgan included the South African domestic bond market in one of its flagship global bond indices for the first time. Also

[56] Financial Mail, 'International Rating: Eye of the Beholder', 6 October 1995, [http://www.fm.co.za/95/061095/EF.8.html].
[57] Financial Mail, 'Credit Ratings: An Unmistakable Warning', 1 December 1995, [http://www.fm.co.za/95/011295/LA.4.html].
[58] The very best rating is AAA, then AA, A, BBB etc. Distinctions are also made by the addition of a plus or minus.

the ratings agency Duff and Phelps gave South Africa's domestic currency debt an A-rating.[59]

5.5 Summary

This chapter has shown how South Africa has made numerous adjustments in gradually adapting its position to play by the new rules of the world economy. The time-frame of these shifts undertaken by the South African government have closely matched the changes in domestic economic policy discussed in the previous chapter. These adjustments have been difficult to bear at a time when there is an urgent need for domestic reconstruction and development. However, the paradox remains that without improving its position in the global political economy it will remain impossible to finance such a programme of restoration.

[59] Financial Mail, 'South Africa slowly sheds Third-World Status', 10 October 1997, [http://www.fm.co.za/97/1010/focus/bond.htm].

Chapter Six

The European Union: An Important Factor in South Africa's Reintegration

South Africa's relations, in the post-apartheid era, with the European Union (EU) are of crucial importance in its attempts at reintegration into the global political economy. The EU is economically important as it is South Africa's largest trading partner and biggest foreign investor. In 1995 the EU accounted for over 50 per cent of the total Foreign Direct Investment (FDI) into South Africa.[1] Table 6.1 below, portrays the importance of the EU as the main trading partner to South Africa.

Table 6.1 The European Union: South Africa's Main Trading Partner (1995)[2]

Trade Partner	Imports from (ECU million)	Percentage of total imports	Exports from (ECU million)	Percentage of total exports
EU	9.296	44%	5.836	28%
USA	2.505	12%	1.386	7%
Japan	2.091	10%	1.204	6%

Source: European Commission Directorate-General for Development, The European Union and South Africa: Building a framework for long-term co-operation (Brussels; European Commission Directorate-General for Development, July 1997), p.10.

[1] European Commission Directorate-General for Development, The European Union and South Africa: Building a framework for long-term co-operation (Brussels; European Commission Directorate-General for Development, July 1997), p.10.

[2] All trade data for South Africa actually refers to the SACU as individual member states' statistics are not available.

The EU's relationship with the new South Africa should provide a strong indication as to how the international community, specifically traditional North-South arenas, will deal with the uniqueness of the South African situation (discussed in Chapter Three). Regarding the issue of the options available to South Africa, and who might control these choices, the EU, certainly in the short- to medium-term, is likely to be a key factor.

This chapter is split into three major sections. The first deals with a brief review of how EU policy towards the apartheid regime developed, providing a historical context for the post-apartheid era. In terms of a common policy towards South Africa, the EU has historically shown a lack of commonality between its member states due to their differing interests. Although the European Commission now represents the EU externally, especially in international negotiations, it still requires detailed and agreed direction from the Council of Ministers. The second and most substantial section covers the backbone of EU-South African relations during the period of this study: the negotiations towards a long-term bilateral Trade and Co-operation Agreement, which was proposed by the EU soon after the first multiracial elections in April 1994. The final section looks ahead to future prospects regarding the issues discussed in this chapter and how expected developments such as the changing shape of the EU, for example, might alter the importance and the nature of the relationship.

6.1. Relations during the apartheid era

The bilateral focus of the majority of the literature on South Africa's foreign relations makes a summary of the relationship with the EU during the apartheid era difficult. An excellent book by Martin Holland, *The European Community and South Africa: European Political Co-operation Under Strain*, goes some way to filling this void as it deals with the period up to the late 1980s.

The origin of a European policy towards South Africa was strongly influenced by the UK's accession to the European Community (EC) in 1973. Gaston Thom, the President of the Council of Ministers made the first EC statement regarding South Africa on 23 February 1976, condemning the policy of apartheid.[3] The stated objective of EC policy was the promotion of economic independence for South Africa's neighbours, to be achieved through direct assistance to the Southern African Development Co-ordination Conference (SADCC), and the removal of apartheid.

In 1977 the first Community foreign policy initiative was implemented. This was a Code of Conduct for EC firms operating in South Africa. This was an adaptation of an existing UK Code of Practice.[4] The aim was to reconcile the difficulties between the political rhetoric of opposition to apartheid whilst justifying the continuing levels of EC-South Africa trade and investment. The Code had limited success and was seen as the lowest common denominator of EC opinion. The nature of the policy reflected the

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[3] Martin Holland, The European Community and South Africa: European Political Co-operation Under Strain (London; Pinter, 1988), p.31.
[4] Martin Holland 'The European Community and South Africa: Economic Reality or Political Rhetoric?', Political Studies Vol.33, No.3, 1985, p.411.

diversity of levels of European interest in South Africa. It could be interpreted in a number of different ways to suit various member states and was voluntary meaning European firms had no legally binding obligation to follow its provisions.[5] This problem of the diversity of European interests in South Africa has continued into the post-apartheid era and is reflected in the negotiations described later in this chapter.

Civil unrest within South Africa and the declaration of a state of emergency in 1985 by the apartheid regime did lead to renewed and strengthened measures by the EC which had, until then, maintained the Code of Conduct as the central feature of its collective South African foreign policy. These included a limited number of sanctions which prevented Krugerrands and certain iron and steel products being imported, and a decision to discourage any new direct investment in South Africa.[6]

However, the various EC policies implemented throughout the 1980s failed to alter the extensive economic links between Europe and South Africa. In 1992 and 1993 the European Union accounted for just over 40 per cent of all exports to South Africa and was also the major recipient of South African exports.[7]

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[5] *ibid.*, p.411.

[6] Martin Holland, 'Disinvestment, Sanctions and the European Community's Code of Conduct in South Africa', African Affairs Vol.88, No.353, 1989, p.530.

[7] Adrian Guelke, 'The European Union: A Most Important Trading Partner?' in Greg Mills, Alan Begg & Anthoni Van Nieuwkerk (eds.), South Africa in the Global Economy (Johannesburg; South African Institute of International Affairs, 1995), pp.89-90.

6.2 Negotiations with the EU

This section looks at the developments that have occurred between the EU and South Africa during the period of this study. It should be made clear, at this juncture, that the discussion of South Africa's relations with the EU should not be treated in isolation from the other chapters in this thesis describing the global, historical, and domestic pressures faced by the post-apartheid regime, and also the regional commitments described in Chapter Seven. Clearly trade preferences alone are not nearly sufficient for South Africa's successful reintegration, but together with some of the other political and economic adjustments described elsewhere, they will form a useful building block The internal process of restructuring the EU's relationship with the developing world requires additional acknowledgement.

6.2.1 Early EU measures and the background to the Trade and Co-operation negotiations

The EU first provided assistance prior to, and during, South Africa's first multiracial elections. This initial package of measures was adopted by the General Affairs Council on 19 April 1994. Along with the gradual removal of economic sanctions, and electoral assistance, including voter education, most interest was focused on the decision by EU foreign ministers to agree, in principle, to South Africa's addition to the Generalised System of Preferences (GSP). The GSP allows developing countries virtually tariff-free access to the EU market for their manufactured goods. The importance of this decision could be seen to be more symbolic than of actual benefit to South Africa. It showed a willingness to recognise the developmental nature of South Africa. However, the benefits gained through the GSP would be small, given the low level of South Africa's exports of finished goods.[8]

Before South Africa was formally admitted into the GSP in September 1994, discussion in the EU concerned the list of products eligible, and the threat to EU producers in certain sectors. France led these arguments suggesting that the paper and agricultural sectors be excluded. In an attempt at compromise, it was suggested that sensitive products should be subject to a tariff free quota rather than unlimited tariff free access accorded under the GSP.

The first moves towards a long-term bilateral agreement occurred on 10 October 1994 when Sir Leon Brittan, a vice-president in the EU Commission, and the South African deputy president, Thabo Mbeki, signed a Co-operation Agreement between the two parties. One of its stated aims was, ". . . to encourage the smooth and gradual integration of South Africa into the world economy".[9] It allowed the European Investment Bank (EIB) to begin lending to South Africa and set the legal basis for future talks.

The Council of Ministers had great difficulty in arriving at a position of consensus over the negotiating directives to be employed by the European Commission. They were responding to a framework constructed by Mr Joao de Deus

[8] Financial Times, 'Pretoria gets economic lift from Europe: Developing-nation status granted to S Africa on market access', 20 April 1994.
[9] European Commission Directorate-General for Development, *op.cit.*

Pinheiro, EU Commissioner for African, Caribbean and Pacific (ACP) countries, presented to EU foreign ministers in April 1995.[10] Eventually agreement was reached on 19 June 1995. The most fundamental problem was that,

> . . . a number of Mediterranean countries in particular had serious reservations about opening up European markets to what they thought could, in the long run, prove to be very threatening South African competition.[11]

Negotiations were then formally opened on 30 June 1995. This allowed the South African side to question the EU on its proposals before it decided whether to accept the invitation to start the process of bilateral trade liberalisation. In September 1995, the South African government announced it would accept the EU's offer, allowing the negotiations to begin in earnest.

6.2.2 The EU proposal and South Africa's response

The detailed proposals of the EU's offer were first presented in March 1996. Although most media attention has focused on the planned Free Trade Area, there were three different parts to this offer, representing the diverse approach that the EU anticipated would be necessary, to conclude a comprehensive long-term agreement with South Africa. It was suggested that the diverse nature of the proposal would be adequate to deal with the uniqueness of the South African case.

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[10] Financial Times, 'Survey of Investing in South Africa: Lome terms win partial welcome', 2 May 1995.
[11] Glenys Kinnock, European Parliament Working Document 'on the State of Negotiations between the European Union and South Africa' (Brussels, 1997), p.4.

First, the EU offered to accept South Africa as a qualified member of the Lomé Convention. This is a special relationship that the EU has with members of the ACP countries.[12] The ACP states are a diverse grouping that share a common history of being a former colony of one or more of the present members of the EU. A large proportion of the seventy members are African states and they receive development aid in the form of grants from the European Development Fund (EDF), and also low interest loans from the EIB. The agreement also offers unrestricted, non-reciprocal duty-free access for industrial products (including coal and steel), exemptions from the Multi-Fibre Agreement disciplines on the preferences granted for textiles and clothing, plus duty reductions and access based on quotas for agricultural products.[13]

Secondly, agreements for a number of specific fields were proposed. The first of these co-operation agreements to be signed was one covering science and technology, which was settled on 5 December 1996. The other suggested areas covered wines and spirits, and fisheries. The provisions of the agreement on science and technology will include,

> visits and exchanges of research workers, engineers and technicians; participation by experts in seminars, symposia and workshops; scientific

[12] A good summary of the history of the Lomé Convention can be found in Vincent A. Mahler 'The Lomé Convention: assessing a North-South institutional relationship', Review of International Political Economy Vol.1, No.2, 1994, pp.233-256. For more detail on Lomé IV, the current agreement, see Marjorie Lister 'Europe's Alliance with Africa: The Fourth Lomé Convention', Africa Contemporary Record Vol.22, 1989-90, pp.A38-A46.

[13] The Multi-Fibre Agreement imposes quotas on textile and clothing. Under WTO pressure these quotas are to be steadily increased and, after a transitional period, are to be abolished.

networks and training research workers; and exchange of information on practices and programmes.[14]

The third and most important part of the European proposal was the establishment of, after a transitional period, a Free Trade Area between the EU and South Africa. The aim being to deal with the all the issues not covered either in the offer of partial Lomé membership, or the specific co-operation agreements mentioned above. The reasoning behind this offer was that the EU felt this would satisfy South African demands for improved access to the European market, whilst encouraging and assisting the removal of South Africa's high levels of protection, thus assisting in its integration into the world economy.[15]

The basis of the Free Trade Agreement (FTA) was an agreement to initiate a process of tariff removal on both sides with South Africa getting a longer period of adjustment. The EU offer did also include provisions for non-tariff barriers. They proposed that no new import quotas should be introduced after the beginning of the negotiations on 30 June 1995. Also suggested in the offer was that discrimination through fiscal measures should be monitored and an anti-dumping clause in line with the provisions of the GATT should be included.

Meanwhile South Africa was in the process of drafting its own negotiating mandate. This process was not completed until 21 January 1997 when its position was

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[14] Talitha Bertelsmann, 'The EU-SA Free Trade Agreement and Southern Africa' paper presented at Conference on 'South and Southern Africa: Lessons from Emerging Markets', 16-17 July 1997, Johannesburg, pp. 2-3.
[15] European Commission Directorate-General for Development, op.cit., p.10.

formally presented in a document entitled "Outline of South Africa's Position on Negotiations with the European Union on an Envisaged Trade and Development Agreement". The reasons for this process taking so long were twofold. Firstly, the South African Government took time to consult various domestic policy élites to incorporate their views. The views of business, trade unions, trade organisations, the agricultural sector, etc., were all consulted so that the negotiators could then go back to the EU with a position that had the backing of what they have termed the 'South African constituency'.[16] Secondly, the South African Government had to respond to the various objections they had to the negotiating position that had been agreed and offered by the European Council.

6.3 South African reservations

South Africa was not completely enamoured with the EU proposal. The government wanted to gain full, rather than partial, access to the Lomé Convention and had a number of grievances in regard of the trade component. These reservations combined with a desire to consult various sectors of South African society led to ever more protracted negotiations. After initial optimism that a deal would be rapidly agreed, grave fears were expressed that, as time passed, South Africa would lose its newly found appeal and become just another country.

[16] This reflects the views expressed in a personal interview conducted by the author with the South African Ambassador to the EU, Dr. Elias Links (Brussels, 25 November 1997).

6.3.1 Debate over membership of the Lomé Convention

Part of the initial proposal by the EU for future relations with South Africa was that South Africa should be made a qualified member of the Lomé Convention. The EU felt that,

> The South African economy presents certain characteristics comparable with those of the ACP countries. However, given the strength of certain sectors of South Africa's economy . . . certain Articles of the Convention would not be applicable to South Africa.[17]

The offer did not therefore include the general trade arrangements that all other ACP states enjoy, nor did it incorporate the various special Protocols for trade in bananas, rum, beef and veal, sugar and coal and steel products. What South Africa stood to gain from its partial membership therefore, was mostly political benefit rather than economic. The chief economic benefits were the ability to tender for finance from the Eighth EDF which is used to fund projects in all ACP countries, and the benefits of the rules of origin clause. This allows products to qualify for duty-free access to the EU market if the manufacturer can show that a product is made from inputs from an EU or ACP country. The aid package offered by the EU was ECU 500 million for the four years leading up to the next general elections in South Africa in 1999. Rather than through the Lomé system, this was to be continued to be administered through the European Programme for Reconstruction and Development (EPRD). This was an

[17] European Council, 'Negotiating Directives for an Agreement for Trade and Co-operation between the European Community and the Republic of South Africa and a Protocol to the Lomé Convention covering the terms and conditions of the South African accession to the Convention' in European Commission Directorate-General for Development, op.cit..

additional benefit because this would equate to substantially more than South Africa could have hoped to receive within the Lomé provisions.[18]

However, the South African government were arguing that they should be given full access to all the benefits of the Lomé Convention. During an early negotiating trip to Brussels in 1994, Trevor Manuel, then South African Trade and Industry Minister, expressed the reasoning behind this desire for full, rather than partial, accession to the Lomé Convention.

> We made an appeal on the strength of South Africa being a developing country taking the full weight of GATT, with substantial industrial restructuring that will kick in only five years or more down the line, that preferential access is what we need to fulfil the needs of democracy.[19]

At the heart of the objections raised by the South African government to EU proposals for partial membership, was the belief that South Africa should be rightly classified in the same category as the rest of the ACP states, as a developing country. Analysis of statistics like the human development index (HDI) adds weight to such an argument. As Table 6.2 overleaf shows, South Africa, whilst above the average HDI value for the ACP group, ranks below sixteen other full-time signatories to the Lomé Convention. However, it is important to note that there are no continental African states above South Africa in the table. Given that by the early 1990s, EU members were already considering differentiating between the more and less developed regions

[18] Glenys Kinnock, *op.cit.*, p.6.
[19] Weekly Mail & Guardian, 'Opening doors for export', December 9 1994, [http://wn.apc.org/wmail/issues/941209/wm941209-32.html].

within the ACP grouping, this could help explain their reluctance to grant South Africa full Lomé membership.

Table 6.2 Human Development Index Ratings and Rankings for Selected ACP States (1994)[20]

ACP State	HDI 1994	HDI Ranking	ACP Ranking
Barbados	0.907	25	1
Bahamas	0.894	28	2
Antigua and Barbuda	0.892	29	3
Trinidad and Tobago	0.880	40	4
Dominica	0.873	41	5
Fiji	0.863	46	6
St.Kitts and Nevis	0.853	49	7
Seychelles	0.845	52	8
Grenada	0.843	54	9
St.Lucia	0.838	56	10
St.Vincent & the Grenadines	0.836	57	11
Mauritius	0.831	60	12
Belize	0.806	63	13
Suriname	0.792	66	14
Jamaica	0.736	83	15
Dominican Republic	0.718	87	16
South Africa	0.716	90	17
Average	0.507		

Source: UNDP, Human Development Report 1997 (Oxford; OUP, 1997), pp.146-148.

At the time of such debate South Africa also strengthened its ties with the region, via the Southern African Development Community (SADC). In August 1996 a Trade Protocol was agreed by the members of SADC, which aims to create a southern African Free Trade Area by 2004 (see Chapter Seven). It has been suggested that this

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[20] Five ACP states, namely, Liberia, Somalia, Kiributi, Tonga and Tuvalu were not included in the HDI rankings.

was a political exercise in trying to strengthen the claims to developing country status outlined above.[21]

Such objections to the offer of partial Lomé membership did not signal a complete opposition to the idea of a FTA. They were based on the view that in the short-term the protection offered via Lomé would better serve the South African economy through a necessary period of adjustment, than a FTA would. A similar conclusion was reached in a study conducted at the Institute of Development Studies at Sussex University.[22] After a detailed analysis of trade between the EU and South Africa, it was argued that full Lomé status was the most appropriate avenue for the South African economy given the massive domestic reconstruction required in the post-apartheid era, already discussed in Chapter Four.

However, organised business was not so united in its belief in the wisdom of full membership to the Lomé Convention. Both the South African Foreign Trade Organisation and the South African Chamber of Business expressed concerns, not least because full membership would bracket South Africa with the ACP group which includes some of the least developed countries in the world.[23] Such an economic classification, ". . . could hamper South Africa's access to capital markets and make foreign investors question the country's risk rating".[24]

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[21] Talitha Bertelsmann, op.cit., p.4.
[22] Christopher Stevens & Jane Kennan with Schalk Fischer, Glen Robbins and Robert Rudy, 'Trade between South Africa and Europe: Future Prospects and Policy Choices' IDS Working Paper 26 (Brighton; Institute of Development Studies, 1995).
[23] Weekly Mail & Guardian, 'Is Lomé the best deal for SA', 26 May 1995, [http://wn.apc.org/wmail/issues/950526/wm950526-41.html].
[24] Financial Mail, 'Now comes the horse-trading', 18 August 1995, [http://www.atd.co.za/fm/issues/180896/BUS.4.html].

In response to what became repeated claims for full membership, the EU agreed to delink the specific negotiations over the Lomé Convention from the overall trade and co-operation talks. However, this was the only concession that the EU made. They rebutted South African claims for full membership, putting forward a number of arguments defending their position. These included:

1. A reflection of the dual nature of the South African economy, which in some areas resembles a "developed" rather than a "developing" country, a position no other ACP country can claim. Although the EU had accepted that some features of the South African economy did display results more akin to a developing country it felt that the ACP states would be dominated if South Africa, a much larger economic partner than the rest of the group, were to be granted full accession.

2. The fear that South Africa would swamp the Lomé system reducing the benefits currently enjoyed by the ACP states. As shown in Table 6.3, overleaf, with regard to levels of trade over recent years, South Africa has exported to the EU more than a third of the value of exports for all the other seventy ACP countries in total.

Table 6.3: A comparison of exports to the EU from the fully qualified ACP states and South Africa (figures are in ECU billion)

Source of exports	1995	1996
ACP states	19.9	21.9
South Africa	7.8	8.2

Source: European Commission Directorate-General for Development, The European Union and South Africa: Building a framework for long-term co-operation (Brussels; European Commission Directorate-General for Development, July 1997), p.6.

3. The fear of challenge from other World Trade Organisation (WTO) members over the non-reciprocal nature if South Africa were to be included. Due to its non-reciprocal nature and the fact that only a number of Least Developed Countries (LDCs) are included, the Lomé Convention is not accepted by members of the WTO. Although it currently enjoys a waiver, this is due to expire at the end of 1999. If the decision had been reached granting similar benefits to South Africa it seems inevitable that this would have been challenged by other WTO members, especially other developing countries not included in the ACP group, such as Peru and Bangladesh and also other countries at a similar stage of development to South Africa such as Malaysia, Brazil and the Czech Republic

4. The possible threat to certain sectors of EU industry especially agricultural producers. Ultimately this may have reduced support for the continued non-reciprocal trade preferences enjoyed by the existing ACP states.

5. The possible slow-down in South Africa's liberalisation process if full benefits were granted. It was suggested that if full membership of the Lomé Convention was granted then the associated protection of markets would be a disincentive to the much needed process of liberalisation of the South African economy.

The decision over South Africa's membership was taken jointly by the EU and the ACP group. South Africa received the backing of the rest of the ACP group of states. They felt that South Africa's partial membership would increase the political weight of the group as a whole and would provide an important influence in the discussions over the future of the Lomé agreement. Eventually South Africa's partial accession to the Lomé Convention was agreed at a joint ACP-EU ministerial conference on 24 April 1997.

In September of 1997, South Africa had still not ratified its membership of Lomé. The difficulty arose over the *ad hoc* nature of the rules of origin clause. The agreement reached in April allowed only for a case by case assessment of whether exports to the EU from other ACP states, in southern Africa in particular, containing South African materials would be granted duty-free access under this clause.[25] Apart from undermining opportunities for South African investors this would reduce the chances of investment in the region, given the uncertain nature of the assessment. However, in a further concession to the EU over the region, later in the same month, South Africa begrudgingly accepted the rules of origin clause and ratified the terms of its accession to the Lomé Convention.

[25] Financial Times, 'S Africa delays entry to Lome', 3 September 1997.

A significant omission to much of the discussion over South Africa's application to the Lomé Convention regards more general considerations over the future of the agreement and the global trend towards ever increasing trade liberalisation. These are two connected factors which provide some perspective on why the EU refused full membership to South Africa and how any projected benefits may not have realised the South African government's initial high expectations.

As moves towards trade liberalisation have progressed under the auspices of the GATT, and now the WTO, it is clear that the relative benefits that the EU can offer to the ACP states, via Lomé, have been reduced. This may explain the steady decline in the share of EU imports that originate from the ACP group as shown in Table 6.4 below.

Table 6.4 EU Imports from the ACP Group (constant prices)

Year	EU imports from ACP (ECU billion)	Total EU imports (ECU billion)	Percentage of imports from ACP
1980	21	132	15.9
1990	20	155	12.9
1993	15	164	9.1

Source: European Commission Directorate-General for Development, Trade Relations Between The European Union and the Developing Countries (Brussels; European Commission Directorate-General for Development, 1995).

Multilateral pressures towards trade liberalisation, now resulting from the stricter WTO, also make the *carte blanche* trade concessions offered in the Lomé Convention increasingly hard to defend. Moreover, it has become clear that the ACP group has become increasingly diverse in the levels of development of the member states. The current agreement is due to expire in February 2000 and although it currently receives a WTO waiver, there is a growing appreciation that the current system cannot be maintained. South Africa will, in its partial membership, have full scope for contribution to the negotiations over the type of agreement that will be employed when the current one expires.

The debate over the possible options for the future of Lomé has been initiated by the European Commission. They have suggested four alternatives. The first involves relatively little change, keeping the agreement as an overall one with just a few minor alterations. Secondly, still keeping an overall agreement, but allowing for differentiation by also including bilateral deals. Thirdly, breaking up the current ACP group into smaller regional groupings that have more common interests. Fourthly, a special arrangement for the poorest members of the ACP group.[26]

It is the pressures on the future of Lomé and the impossibilities of defending South Africa's full admission to the WTO that was frequently used as an explanation by the EU. The timescale of the current agreement, and options for the future, mean South Africa may not have enjoyed the necessary economic protection that the government envisaged when it called for full membership. An admission by the chief of

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[26] European Commission, Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century (Brussels; European Commission, 1996), p.viii.

the South African Trade and Co-operation agreement negotiating team was that South Africa, despite its persistent calls for full membership, never really believed it would be granted.[27] The attempt may have been to point out the true nature of South Africa's position to the EU in an effort to influence the rest of the negotiations covering the FTA.

6.3.2 South African objections to the proposed FTA

South Africa had major reservations about the original negotiating mandate of the EU. These can be summarised as the following:

1. The exclusion from the negotiations of up to 39 per cent of South Africa's agricultural exports to the EU.[28]

2. The fact that due to current tariff coverage and levels, South Africa will have to lower tariffs on a much greater proportion of its imports than the EU.

3. The length of the asymmetrical adjustment period.

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[27] Personal interview conducted by the author with the South African Ambassador to the EU, Dr. Elias Links (Brussels, 25 November 1997).

[28] This list of products covers the following products: cut flowers, lemons, fresh apples and apple juice, fresh and preserved pears. fresh oranges and frozen orange juice, preserved asparagus, preserved apricots, preserved peaches, grape juice, pineapple juice, some mixtures of preserved fruits and mixtures of juices, and wines.

4. The negative regional impact of the agreement upon South Africa's neighbours in the Southern African Customs Union (SACU) and the larger Southern African Development Community (SADC).

The chief of the South African negotiating team made it clear that all of these reservations were important, but if one had to be prioritised then the exclusion of such a large proportion of South Africa's various agricultural products would be selected.[29] As discussed below, a substantial proportion of South Africa's exports to the EU already enter under duty-free access. Of the remaining items the majority are agricultural products and it is these that certain members of the EU are most sensitive over. France and the Southern European states are the most concerned over the impact of South African agricultural exports. One sector which made its own protestations was the European canned fruit industry based in the Mediterranean countries.[30] These states also have the least to gain through an FTA as they have a low level of trade with South Africa compared with Germany and the UK.[31]

A study by Stevens and Kennan, analysing the most policy-relevant South African exports to the EU, highlights the importance of the agricultural sector.[32] They showed that for the most recent data available at the start of the negotiations (1993

[29] Personal interview conducted by the author with the South African Ambassador to the EU, Dr. Elias Links (Brussels, 25 November 1997).
[30] Financial Times, 'EU's fruit canners fearful of new S Africa: Europe's already troubled processing industry is facing a fresh threat', 19 May 1995.
[31] Personal interview conducted by the author with Rob Rozenburg, part of Task Force South Africa at the EU Commission (Brussels, 15 December 1997).
[32] Christopher Stevens & Jane Kennan with Schalk Fischer, Glen Robbins and Robert Rudy, op.cit.. Products were deemed not to be policy-relevant if they entered the EU, or will do under obligations agreed under the Uruguay Round of the GATT, at a tariff level of less than 5 per cent.

exports), based on order of value of South African exports, only one of the top ten products was industrial, whilst seven were agricultural (see Table 6.5 below).

Table 6.5 Top ten policy-relevant South African exports to the EU in descending order of value

Exports to the EU, 1993 (all figures in ECU thousand)	Product Description
75,439	Fresh table grapes, 1 November-14 July (excl. Emperor variety, 1 December-31 January)
50,798	Fresh navels, from 16 May to 15 October, etc.
36,775	Fresh pears, from 1 April to 31 July
31,021	Granny Smiths, fresh from 1 April to 31 July
29,339	Silicon containing <99.99% by weight of silicon
25,459	Golden Delicious, fresh, from 1 April to 31 July
20,428	Frozen hake 'merluccius spp.'
17,094	Fresh or dried avocados, from 1 June to 30 November
13,416	Frozen fillets of hake 'merluccius'
12,925	Mixtures of fruits, prepared or preserved, no added spirit but added sugar, wt of no single fruit >50% of total wt. etc.

Source: Christopher Stevens & Jane Kennan with Schalk Fischer, Glen Robbins and Robert Rudy, 'Trade between South Africa and Europe: Future Prospects and Policy Choices' IDS Working Paper 26 (Brighton; Institute of Development Studies, 1995), p.5.

In the short-term, at least, agricultural products are of great potential interest to South Africa. The labour intensive nature of the agricultural sector means that more open export markets for all agricultural products would assist in providing employment for poorer black South Africans. Thus going some way to satisfying some of the domestic pressures outlined earlier in Chapter Four. This point was made in an article before the formal end of apartheid.

> South Africa faces serious discrimination on many of its agricultural exports, which are relatively labour-intensive and which therefore, a post-apartheid government may wish to encourage.[33]

Moreover, South African agricultural products only make up 1.7 per cent of the EU's total farm imports and cannot, therefore, be regarded as such a great threat to a European market that is already heavily assisted through the Common Agricultural Policy (CAP).[34] In fact due to the seasonal complementarity of South African farm products, they could help satisfy an important section of European consumer demand.

The EU have sought to defend the exclusions arguing that it is still offering the prospect of liberalisation on 61 per cent of its agricultural imports from South Africa. These commitments would include some products that are currently traded at very low levels, and although no specific products were suggested, this offers the prospect of an expansion of other sectors of South African agriculture other than the major areas such as wine and fruit.[35] Of course this is only a benefit that could be enjoyed in the longer term and does not satisfy the needs of the current agricultural sector in South Africa. Another line of defence is that this is the first time that the EU has considered any agricultural products in negotiations towards a FTA. Whilst the Most-Favoured Nation (MFN) tariffs to be kept on the excluded products range from between 10 and 25 per

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[33] Christopher Stevens, Jane Kennan & Richard Ketley 'EC trade preferences and a post-apartheid South Africa', International Affairs Vol.69, No.1, 1993, p.90.
[34] Glenys Kinnock, *op.cit.*, p.4.
[35] Personal interview conducted by the author with Rob Rozenburg, part of Task Force South Africa at the EU Commission (Brussels, 15 December 1997).

cent, South African exporters, it has been argued, have already shown that they can still export competitively to the European market in these products.

The South African negotiators seem most upset by the principle of the position adopted by the EU. Much of the rhetoric in the European proposals is aimed at the necessity and urgency at which South Africa must liberalise its economy and the need to be open to competition. However, it is the pressures of the CAP, an uncompetitive process of subsidisation, that contributes to the EU's sensitivity to the excluded agricultural products.

In terms of levels of tariff coverage, at the beginning of the negotiating process, 80 per cent of South Africa's exports currently enter the EU market duty free. In contrast only 44 per cent of European products enter South Africa without the imposition of a tariff. Under obligations agreed in the Uruguay Round of the GATT, by the year 2000, South Africa should have increased this level of duty free access to 54 per cent, whilst Europe is obliged to allow 83 per cent of South African products to enter without a tariff. According to rules outlined by the WTO on FTAs, "substantially all" trade has to be included for such an agreement to qualify.

However, the exact detail of what this terminology means is left to the interpretation of the negotiating parties. The EU interpreted this to mean approximately 96 per cent of its imports from South Africa, with the provision for a slightly less ambitious level of coverage on the South African side. The over-riding imperative in the EU proposal was that the agreement should satisfy WTO rules, to avoid the need for an annual waiver and any possible retaliatory measures from other WTO member states. However, the South Africans, partly in response to the agricultural exclusions described above, argued a FTA should be precisely that, and should include 100 per cent of trade. Whichever target is used, the figures show that the onus upon tariff reduction, in terms of the coverage of products, lies heavily at the feet of South Africa.

According to WTO rules on FTAs, the length of the period of adjustment can be up to ten years. There is also the provision for products of extreme sensitivity to be granted an extra two years. South African negotiators have pushed for the deal with the EU to include a twelve year period on all products, to give domestic industry the maximum time possible to adapt to the changing market, and specifically the threat of competition from EU exports.[36] The EU offer, however, only allowed for the negotiation of specific products to be granted this two year extension.

The offer included an asymmetrical bias in favour of South Africa, apart from for certain sensitive products or for products that South Africa has shown to be strongly competitive in on world markets. In these special cases adjustment should run parallel. For agricultural products the EU offer included an extra two groups of products to the provisions for non-agricultural products. This allowed for an extra one and three years grace above the maximum three year period that Europe has to implement the elimination of duties.

[36] When the EU concluded a FTA with Israel in 1974 the asymmetrical period of adjustment was set at fifteen years. It should be noted this was at a time when no such WTO-style rules existed.

The final major reservation South Africa had over the feasibility of the mandate presented by the EU, concerned the impact such an agreement would have on its neighbours. Understandably neighbouring states in the region expressed deep concerns about the negative impact it would have upon them. For the other four members of the SACU, namely Botswana, Lesotho, Namibia and Swaziland (BLNS), the impact of a FTA between South Africa and the EU will be directly felt. The SACU has a common external tariff which means that effectively when South Africa negotiates a package to reduce its own levels of duty with the EU, it is also negotiating on behalf of the BLNS states.

During the negotiations South Africa has demanded that the EU takes the fears of her neighbours seriously and has asked for a guarantee of compensation to allay the negative economic effects. The head of the South African negotiating team made it clear that he saw the EU, as the developed partner in the bargaining process, as having a duty to give such a guarantee. However, the EU has not budged on this issue, arguing that they already provide assistance to the other states in the Southern African region, via the provision of the Lomé Convention. The BLNS states apart from their request to the European Commission for an impact study, discussed below, have basically relied on South Africa to fight their corner. For the wider regional grouping, the SADC, a complaint was made at a SADC-EU ministerial conference that other SADC member states were not being consulted for their opinion on the negotiations between South Africa and the EU.[37]

[37] Independent Online, 'EU trade pact worries SA's neighbours', 18 October 1996 [http://www2.inc.co.za/Archives/9610/18/pin.html].

South Africa is also in the process of renegotiating the formula for the SACU. At present the SACU framework provides a common external tariff, determined solely by South Africa, who then administer the collection of excise duties and the distribution of the various shares of this revenue to the BLNS countries, based on a pre-determined formula. At present the economies of the BLNS states rely heavily on the income generated through the SACU agreement, and clearly any process of trade liberalisation with the EU, would greatly reduce the amount of available revenue to be distributed. The extent of this dependence is shown in Table 6.6 below.

Table 6.6 SACU receipts as a share of GDP and government revenue (1992)

Country	% of GDP	% of Revenue
Botswana	11.2	21.6
Lesotho	15.6[a]	47.2
Swaziland	14.0	40.3
Namibia	20.5	32.1

[a] Per cent of GNP

Source: Richard Gibb 'Regional Integration in Post-Apartheid Southern Africa: The Case of Renegotiating the Southern African Customs Union', Journal of Southern African Studies Vol.23, No.1, 1997, p.80.

The reduction of this vital source of revenue could then have spill-over effects upon the fragile industrial bases and the infrastructural development programmes of the BLNS states. In response to a request by Swaziland, on behalf of the four BLNS states, the European Commission did finance a study to try to assess the possible impact of the future FTA upon their economies. Although any precise figures are dependent upon the exact details of the final agreement, part of this study was devoted to analysing the potential fiscal shortfall from a lack of revenue in the customs pool. This shortfall was estimated to be anything between 5 per cent and 15 per cent of current custom revenue levels. It is unlikely that South Africa, with its own fiscal pressures surrounding the Reconstruction and Development Programme (RDP), would be willing, or even able, to put extra funds into the common revenue pool to alleviate this shortfall.

The second major concern of the BLNS states, especially, is that a bilateral FTA will result in cheap EU products flowing into the SACU and undermining some of the productive sectors in the BLNS countries. One example, which has already been hit indirectly by the EU beef crisis, is beef exports from Namibia, which cannot compete with the EU in the export market to South Africa. This is also a more general fear of other members of the wider grouping, the SADC. As border controls are so weak, they fear cheaper European products could filter through from South Africa, putting domestic producers out of business. The response from the EU to these fears, has been to highlight the fact that there is the option, within the negotiating framework, for South Africa to exclude any products that are sensitive to either themselves or their neighbours.

Finally the EU has claimed that through the cumulation of origin rules, that are set to apply to both the Lomé and FTA frameworks, regional economic integration in the region will be encouraged. This involves the exemption from European import tariffs of exports from South Africa's neighbours that include a level of South African materials. This could help encourage investment by South African business in new export industries in the region. However, there is no guarantee or guideline to follow, in fact the EU will only allow exemptions on an *ad hoc* basis. It is likely this *ad hoc* nature may deter such investment.[38] Moreover, the likelihood is that South Africa will attract FDI away from the SADC region, with its stronger and more stable economy and superior infrastructure, which will only be exacerbated by the opportunities presented by the completion of any FTA.

6.3.3 Moves towards consensus

In a detailed articulation of its position, after consultation with various sectors in the country, the South African government proposed an alternative Trade and Development Agreement (TDA) in January 1997. The main thrust of this suggestion was that the period of adjustment should be more asymmetrical both in terms of content and time. The South Africans disagreed with the EU's belief that this would fall foul of the WTO's rather unspecific rules on FTAs.

South Africa's proposal was that 65 per cent of its European imports should be duty-free by the proposed beginning of the agreement in 1999, with the rest being phased out by 2011.[39] In an attempt to minimise the costs of adjustment the TDA proposal argues that sensitive products should be excluded from the general process of tariff elimination. The suggested alternative is to create special development protocols

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[38] Financial Times, 'Unhappy South Africans sign up for Lome treaty', 25 September 1997.
[39] Financial Times, 'FT Exporter: Rich in optimism and opportunity: Africa', 11 December 1997.

for sensitive products. For the South Africans this includes exports from the motor industry as well as clothing, textiles and sugar. On the import side it refers to EU agricultural products because of their subsidisation through the CAP.[40] These would provide for a slower tariff phase-down period and built-in periods of review.[41]

At the end of the period of this study there was still no conclusion to the negotiations between the EU and South Africa. However, by the end of 1997, the South Africans had shown a willingness to arrive at an agreement. This change in attitude was witnessed by the European negotiators.[42] The constant delays have not helped the South African business community and also those outside considering investment projects. Before the start of the negotiations Stevens, Kennan and Ketley were quite clear on this issue. In discussing the necessary requirements of any trade agreement with the EU, of prime concern, they argued, was that it should be negotiated quickly to help the process of fostering confidence in the global business and financial communities.[43]

6.4 Implications of EU relations and future prospects

The basis of the EU argument, as explained earlier in this chapter, is that the proposed FTA with South Africa will allow bilateral trade to grow and hence this is bound to benefit the region, as South Africa will have the capacity to buy more from

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[40] Financial Mail, 'Can Alec keep door ajar?', 18 July 1997.
[41] Business Day, 'EU-SA trade talks hailed as a turning point by negotiating teams', 5 November 1997 [http://www.bday.co.za/97/1105/news/n17.htm].
[42] Personal interview conducted by the author with Rob Rozenburg, part of Task Force South Africa at the EU Commission (Brussels, 15 December 1997).
[43] Christopher Stevens, Jane Kennan & Richard Ketley, *op.cit.*, p.93.

its neighbours. In the following chapter discussing South Africa's regional relations, it is stressed that accepting its position in Africa could be vital to the success of South Africa's reintegration efforts. As Table 7.1 in Chapter Seven shows South Africa has imported only a small proportion of its goods from the region. With the reduced transportation and communication costs in today's global economy there is no definitive causal link to say that South Africa will spend the benefits from an FTA on imports from other members of SADC.

From early on in the negotiations South Africa has been very clear about the negative regional impact. In March 1995, the South African ambassador to the EU at the time, Neil van Heerden said,

> . . .a free trade area with the EU, as proposed by the Commission, could jeopardise South African efforts to restructure uncompetitive industries and develop an integrated regional trade regime.[44]

Yet such a view, whilst often repeated during the negotiating process, has not led to a radical change in the EU's position, but progress towards an agreement has still been achieved. It is ironic that whilst intra-regional trade in Africa as a whole remains low, one of the most significant developments as we approach the new millennium could merely further boost South-North trade instead.

South Africa's position in its negotiations with the EU are complicated further by the regional integration scheme of the SADC which it has expressed its commitment

[44] Financial Times, 'South Africans seek Lome terms', 30 March 1995.

to. It has to harmonise its position *vis-a-vis* Europe with negotiations for a SADC free-trade agreement and the renegotiations of the SACU (see Chapter Seven). The demands of South Africa and its fellow SADC members are not entirely synonymous. It has been argued that whilst South Africa has accepted that tariff liberalisation and the dismantling of economic protectionism is necessary for economic development, there is less agreement amongst other SADC members that this is the necessary path. The suggestion is that, "most members of the SADC look towards the community for protection from global movements."[45]

The SADC trade protocol includes a "most favoured nation" clause. Articles 27 and 28 stipulate that MFN status should be granted to every member country and that any trade concessions granted by a SADC member to a third party should also be extended to all its regional neighbours. Consequently, the result of a deal with the EU would mean that South Africa's neighbours would have to compete on a level playing field with highly competitive exports from the EU including some products that are subsidised through the CAP. This highlights another imbalance between the needs of South Africa and its neighbours in regard of any settlement with the EU.

As explained earlier, in the discussion of the major South African reservations to the EU proposal, a FTA will only improve access for a small percentage of South African exports. With a strong agricultural bias in the products that do still face barriers to trade, it is likely there could well be a sectoral impact on the South African

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[45] Sunday Independent, 'SADC barking up the wrong tree, US economist warns', 20 July 1997.

economy. The possible knock-on effect of this could be a gradual change in the composition of South African exports as the production structure is altered.

An FTA would also have an impact on South African relations with other OECD states. For example, there is substantial overlap in the commodity composition of South African imports from the EU and the USA. Stevens and Kennan calculated that of the one-hundred and ninety most important South African imports from the EU, one-hundred and fifty-two are also imported from the USA.[46]

As outlined in the first section of this chapter, prior to the post-apartheid era, relations between the EU and South Africa were driven by political developments within South Africa. Similarly it was the historic political progress in the 1990s, leading to the first multiracial elections, that opened the door for the EU to move into another phase in policy. However, future relations and the importance of the expected agreement discussed in this chapter, will now be affected by internal developments within Europe, as the key variable. With Austria, Finland and Sweden becoming new members at the start of 1995 it seems the size and importance of this most powerful trading bloc is only set to rise. The expansion plans for the long-run future of the Union seem set to possibly double the membership as the queue of former communist states in eastern and central Europe grows ever longer.[47]

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[46] Christopher Stevens & Jane Kennan with Schalk Fischer, Glen Robbins and Robert Rudy, op.cit., p.48.

[47] The next group of prospective EU members is made up of five East European applicants - Poland, the Czech Republic, Hungary, Slovenia and Estonia - and Cyprus. There are six more states who are deemed not yet ready for membership, including Turkey who are a distant prospect. If all these were to join the membership would rise to twenty-seven. There is also Norway, Malta and Morocco who have all applied in the past.

With countries such as Hungary and Poland expected to join the EU South Africa will be in direct competition with states at a similar level of economic development. These two countries have a similar mix of products in their exports and imports. Membership of the EU will bestow a number of advantages to these former eastern bloc countries and they may well make demands on both EU budgets and resources which may sideline the attention paid to South Africa.

Moreover, the limits to the flexibility of the EU, such as the strong agricultural lobby, combined with the unequalness in trade with South Africa between the various European states (Germany and the UK are the dominant partners), has been reflected in the negotiating process. In attempting to alter the EU position, South Africa is dealing with fifteen separate states who have varying levels of interest in the completion of a successful agreement. This strong rigidity is a common feature of negotiations involving the EU. Similar views were often expressed by politicians in the USA during the completion of the Uruguay Round of the GATT. The European Commission needs a detailed mandate from the Council to be able to negotiate and then has little scope to make concessions from this mandate.[48] This has been an important factor in the protracted nature of the negotiations with South Africa.

6.5 Conclusions

A common theme throughout the first three years of South Africa's reintegration into the global political economy has been the steep political learning

[48] Personal interview conducted by the author with Terry Wynn, MEP (St. Helens, 6 January 1998).

curve faced by the ANC. The methods and experiences of being a liberation movement are far removed from those needed to become a successful majority party in government. This has been highlighted in some of the approaches adopted in the negotiations with the EU. Bertelsmann suggests that it was in fact a mistake for the new government to decide to negotiate a trade deal with the EU so soon after the election in 1994. She argues that a deal with another regional trading bloc of less importance such as NAFTA would have avoided the regional complications, as SADC-NAFTA trade is minimal, and would have provided invaluable negotiating experience for South Africa whilst simultaneously strengthening its bargaining position.[49] However, taking this view would only have further delayed reaching an agreement with what I have already outlined is South Africa's major trading partner.

The legacy of apartheid and the isolation of the South African economy have meant that South Africa is dealing with issues regarding its relations with the EU, for example, in a much more visible way than other developing states have done in the past. Unfortunately, the international climate of opinion that it is operating in, is one much less in favour of preferential agreements between North and South, than was the case when existing deals, such as the Lomé Convention, were created.

The radical restructuring necessary for South Africa's successful reintegration into the global political economy is unlikely to be solved by any deal with the EU. Instead an agreement with Europe should be viewed as a window of opportunity that could be exploited if South Africa can adapt to the realities of the globalisation

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[49] Talitha Bertelsmann The European Union-South Africa FTA : Why Is There Still No Agreement? (Johannesburg; South African Institute of International Affairs, 1997).

process, the need to help create a more stable and prosperous Southern African region, and the domestic difficulties that it inherited from the apartheid regime. Whilst the EU has shown sympathies to the new South Africa and acknowledged the legacy of apartheid it has not allowed such feelings to dominate its more pragmatic economic concerns, namely the promotion of the interests of the EU and its member states.

Chapter Seven

South Africa and the Region: From Destabilisation to Leadership

The aim of this chapter is to analyse and explain the influential and changing role of South Africa in the regional political economy of Southern Africa. The main focus is the Southern African Development Community (SADC), formerly the Southern African Development Co-ordination Conference (SADCC), because South Africa has always been influential upon the aims of this grouping.[1] South Africa, throughout the period of this study, and before, has had a dominant role in the region. In the apartheid years it viewed the SADCC as a threat, now things have changed.

This chapter focuses on how South Africa's relations with the region have developed in the post-apartheid era. Two different attitudes to the region have appeared prevalent in the South African business community. One claims that South Africa has to become a "first world" player and become involved in global markets, and hence is less enthusiastic towards the importance of the region. The second champions South Africa's alleged role as an "engine of growth" in Southern Africa. It is my contention that neither of these is correct. The former fails to accept South Africa's location on the tip of the African continent. The latter results from a measure of arrogance and wishes to claim that mutual benefits will be achieved by what is effectively a preservation of historical South African hegemony.

[1] The membership of the SADC grew to fourteen in September 1997 with the addition of the Seychelles and the Democratic Republic of Congo. The other member states are South Africa, Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

I believe a wider view takes account of the important implications that a relatively peaceful regional environment, in which there is economic growth and development, will have for South African prosperity and peace. The scepticism of business people in South Africa may be partly explained by the fact that the SADC has been mostly government-driven with little input from the private sector. Therefore, SADC does not mean much to the average South African businessman.[2]

7.1 Historical background

In this first section I provide a brief account of the context of African regional integration in general, how the SADCC was innovative in its style of integration, and a history of the development of the SADC as it is today.

7.1.1 Brief history of African regional integration

Africa has been the site of a plethora of regional organisations over the last thirty years. Of these, many have been concerned with the aim of achieving economic development by overcoming obstacles via co-operation and integration.[3] However, the majority of groupings cannot boast of untold successes. It is in this context, of a multiplicity of regional bodies, that the SADCC was founded in 1979.

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[2] Personal interview with Paul Runge (Johannesburg, 6 October 1998).

[3] For a comprehensive list of all the African continental and regional organisations functioning during 1989-90 see Africa Contemporary Record Vol.22, 1989-90, pp.C70-C78.

Both the East African Community (EAC) and the Economic Community of West African States (ECOWAS) tried to develop integration along economic lines from limited beginnings. Also both contained a dominant economic member. In these respects they bear a similar resemblance to the SADC as it tries to economically integrate with South Africa, a regional hegemon.[4] The EAC collapsed in 1976 and one of the major reasons was the economic dominance of Kenya.

This much vaunted failure of the EAC in the 1970s did not prevent other African attempts at creating regional economic organisations. One of these was the ECOWAS which was officially established in 1975. The approach followed by ECOWAS was essentially the same as that of the EAC. Founded on Ricardian theories of comparative advantage, the route to economic integration was to be achieved, in a similar vein to European integration, via a number of stages. This approach has been described as the trade/market integration approach to regional integration.[5]

7.1.2. SADCC: an alternative approach

In contrast to the context described above, regional integration in Southern Africa as embodied by the SADCC followed a different path. Mandaza and Tostensen have argued that one of the reasons for this deviation from the historically popular

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[4] This is not the place to provide a comprehensive history of these two organisations. Detailed accounts can be found in A. Hazlewood, Economic Integration: The East African Experience (London; Heinemann, 1975), Peter Robson, Economic Integration in Africa (London; George Allen & Unwin Ltd., 1968) and Uka Ezenwe, ECOWAS and the Economic Integration of West Africa (London; C.Hurst & Co., 1983).

[5] Robert Davies 'Approaches to regional integration in the Southern African context', African Insight (Pretoria) Vol.24, No.1, 1994, p.12.

African approach, is the factors that contributed to the Southern African region having a distinct identity,

> First, there is the geographic formation that lends itself to an identifiable land mass with physical features. Second, a history of peoples who have mingled since time immemorial. . .Third, a colonial experience. . . Fourth, the struggle for national independence. . . Fifth, South Africa, which on the basis of both its historical genesis and its economic and military hegemony over the rest of the region, has also become a unifying factor in the definition and development of Southern Africa.[6]

Of all these contributing factors I would argue that the influence of South Africa in shaping the definition and development of the region is the most important.

The approach adopted by the SADCC highlights how important South Africa was. Throughout the 1980s most, if not all, of the policies and initiatives of the SADCC were centred firmly on the overall aim of a reduction in dependence on their apartheid neighbour. This along with advancing the cause of national liberation in Southern Africa and reducing dependence on the rest of the world in general was one of the major aims of the organisation. This is clearly stated in the Lusaka Declaration:

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[6] Ibbo Mandaza & Arne Tostensen, Southern Africa: In Search Of A Common Future. From the Conference to a Community (Gaborone; SADCC, 1994), pp.1-2.

> In the interest of the people of our countries it is necessary to liberate our economies from their dependence on the Republic of South Africa.[7]

The approach of the SADCC was strongly influenced by the unique regional relations of the region. In respect to other African regional integration efforts the SADCC devised a very different outlook. There was a clear emphasis on the organisation becoming a creation of its members and not adopting an approach devised from afar. Green argues that, in its creation, the unusual features were a positive attempt by the politicians to learn from mistakes made elsewhere in Africa.[8]

As mentioned earlier, ECOWAS and the EAC were based on the trade/market integration approach to regional integration. This is one of the two distinct approaches or paradigms outlined by Davies.[9] The other being integration for development approaches.

The trade integration approach views the integration process as a series of stages. The starting point is the creation of a Preferential Trade Area where member countries have a reduced tariff system for trade with each other. The culmination of the process is economic and political union where fiscal and monetary policies of co-operating partners are harmonised. The economic desirability of this approach is based

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[7] SADCC, Lusaka, Southern Africa: Toward Economic Liberation: A Declaration by the Government of Independent States of Southern Africa (London; SADCC, 1980).
[8] Reginald Herbold Green 'SADCC versus South Africa: Turning of the Tide?' Africa Contemporary Record, Vol.20, 1987-88, p.A25.
[9] Robert Davies, *op.cit.*, p.12.

on the premise that trade creation effects produced by the integration process outweigh the trade diversion effects.[10]

As Davies makes clear, this condition is most likely to occur when a high percentage of the trade of member countries is among the co-operating partners, or if there is strong complementarity in the goods produced in member states.[11] These 'optimum' conditions were not present in Southern Africa and therefore the SADCC used an approach that has been described as 'sectoral programming'. This was intended to concentrate on deepening integration via concentration on specific sectors rather than widening the integration process.[12]

Wagao provides a concise list of some of the ways in which the approach of the SADCC to integration was unique within such groupings of developing countries:

1. The SADCC is basically self-designed by member states.

2. There is harmony in identifying sectoral priorities without the sacrifice of frank dialogue.

3. The contents of the SADCC's programme of action is unusual. For historical reasons, it is based on priority sectors, notably the transport and communication sector.

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[10] Trade creation occurs when the production of goods in one member country is replaced by the purchase of those goods from another regional member who has a comparative advantage. Trade diversion occurs if the purchase of goods from a country outside the integration scheme is diverted to higher cost supplies from a fellow member state only because they enjoy an 'artificial' advantage via the tariff arrangements.

[11] Robert Davies, *op.cit.*, p.12.

[12] Derrick Chitala, 'The Political Economy of the SADCC and Imperialism's Response' in Samir Amin, Derrick Chitala & Ibbo Mandaza (eds.), SADCC: Prospects for Disengagement and Development in Southern Africa (London; Zed Books, 1987), p.13.

4. External support is considered to be critical to rapid enhancement of action to implement collective self-reliance amongst SADCC member states.

5. Absence of rhetoric is indicated by the fact that the SADCC did not endeavour to produce a written treatise.[13]

The priority given to transport and communication reflected the control of South Africa in this area. In order to reduce economic dependence alternative trade routes that did not rely on South African ports were essential. The SADCC also constructed a relatively small secretariat in an attempt to avoid creating the problem of a dominant bureaucracy. This put control back in the hands of the member states, hence the need for the sectoral approach.

The whole theoretical basis of the integration effort was development via the expansion of production which would be achieved through economies of scale.[14] This is in contrast to the emphasis on trade and the removal of tariffs that formed the foundation of previous integration schemes.

The development of the approach and the changes encompassed by the formation of the SADC in 1992 are dealt with in the next section that covers the complete history of the organisation.

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[13] Jumanne H. Wagao, 'Trade Relations among SADCC Countries' in Samir Amin, Derrick Chitala & Ibbo Mandaza (eds.) SADCC: Prospects for Disengagement and Development in Southern Africa (London; Zed Books, 1987), p.149.

[14] Reginald Herbold Green 'SADCC in 1985: Economic Regionalism in a War Zone', Africa Contemporary Record Vol.18, 1985-86, p.A104.

7.1.3. History of the SADCC/SADC

The original objective of the SADCC was founded in efforts by the Front Line States (FLS) consisting of Angola, Botswana, Mozambique, Tanzania and Zambia, to give support to the fight for political liberation in Zimbabwe and Namibia.

Initially in the late 1970s, with the independence of Zimbabwe imminent, the FLS developed the idea of a Southern African Aid Co-ordination Conference (SAACC), a one-off attempt to try and attract more aid and development assistance to the region. In a follow-up meeting to this idea in June 1979, Mozambique proposed the need for a clear plan to reap the full benefits of the SAACC and therefore the adoption of a declaration on regional co-operation was suggested.[15]

With Lesotho, Malawi and Swaziland joining intergovernmental discussion between the FLS and Zimbabwe achieving majority rule in 1979 the need for Mozambique's suggestion was secured. On April 1st 1980, in Lusaka, Zambia, the Heads of State and Government of the nine independent and majority-ruled states of the region met at a summit. This resulted in the adoption of the Lusaka Declaration, "Southern Africa: Towards Economic Liberation". The nine participating states declared their commitment, ". . . to pursue policies aimed at economic liberation and integrated development of our national economies."[16] The memorandum on the institutions of SADCC was subsequently signed in Harare on 20 July 1981 and after

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[15] Ibbo Mandaza & Arne Tostensen, *op.cit.*, p.11.
[16] SADC, SADC Handbook (Gaborone; SADCC, 1994), p.5.

gaining political independence, Namibia was admitted as the SADCC's tenth member in 1990.

The pursuit of economic liberation was most directly aimed at reducing economic dependence on the Republic of South Africa. A Programme of Action was also created which identified areas suitable for co-operation with transport and communications seen as the main priorities given the dependence upon South Africa of member states in these areas. The SADCC believed that this Programme of Action could be financed from the economic growth of member states.[17] With the benefit of hindsight it is clear that this was over optimistic as the majority of projects continued to be externally funded. This dependence on external finance was seen as one of the key weaknesses of the organisation.

Overall, the SADCC was established more through political rather than economic pressure.[18] Another organisation, the Common Market of Eastern and Southern Africa (COMESA), formerly known as the Preferential Trade Area for Eastern and Southern African States (PTA), was a deliberately more economically orientated grouping. The PTA was founded in 1982, only two years after the creation of the SADCC and they have existed in tandem ever since. It was designed as a larger grouping that included all the original SADCC members, except Botswana. In contrast to the SADCC, the PTA was based on the neo-classical free trade model of

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[17] Reginald Herbold Green 'SADCC: Into the 1990s: Achievement in Adversity and Realistic Hopes', Africa Contemporary Record Vol.21, 1988-89, p.A35.

[18] Paul B. Rich 'South Africa and the politics of regional Integration in Southern Africa in the Post-Apartheid era' in Paul B. Rich (ed.), The Dynamics of Change in Southern Africa (Basingstoke; Macmillan, 1994), p.38.

integration, whereby the intensification of trade relations naturally promotes economic growth and development.

Radical changes in the region in the late 1980s, including the prospect of liberation in South Africa becoming closer than expected, led to the decision to convert the SADCC from a loose, informal arrangement co-ordinating separate projects, into a development community based firmly upon a Treaty. This process of formalization of the organisation resulted from a consensus amongst member states that the SADCC should move beyond mere co-ordination of development projects towards deeper regional co-operation. The culmination of this process, occurred in August 1992, when the Heads of State and Government of SADCC members met in Windhoek, Namibia. Here a new declaration was adopted entitled "Towards the Southern African Development Community" and the Treaty of the SADC was duly signed. This took effect from 5 October 1992, following its ratification by all member states.

The aim of the SADC was to overcome some of the old failings of the organisation by making the lines of authority clearer and by providing provisions for imposing sanctions on any member state who persistently fails to fulfil the obligations of the Treaty.[19] Entering this new era it is clear that the SADC needed to be changed to become more flexible than its predecessor the SADCC. With the expected accession of South Africa confirmed on 29th August 1994, the strong unifying character of an opposition to apartheid, that was within the old organisation, was removed. This alone provides the need for a new approach.

[19] Balefi Tsie 'States and Markets in the Southern African Development Community (SADC): Beyond the Neoliberal Paradigm', Journal of Southern African Studies Vol.22, No.1, 1996, p.84.

As outlined earlier in this chapter the SADCC approach was one of functional integration. This is purely concerned with the development of project co-operation aimed at curing deficiencies linked to underdevelopment. However, the new approach adopted by the SADC is known as development integration which is a more wide-ranging approach with the requirement of political co-operation at an early stage stressed strongly.

In a theme document in 1992 the SADCC concluded that such a development integration approach was the best way to move forward.[20] It seems the SADC has learnt the important lesson that co-operation in infrastructure projects, the major concern of the organisation during the 1980s, whilst of some value, is insufficient for an integration programme to develop. Trade issues and the promotion of a higher level of political commitment are seen to be crucial to this new approach of the SADC.

It is clear from the first main section of this chapter how important South Africa has been in influencing the institutional response of the Southern African region. Now as the most developed member of the SADC it has an important role to play in the development of the organisation. The key issue in relation to the domestic political landscape of South Africa is how important do various interests within South Africa see its role in the region.

[20] SADCC, Toward Economic Integration: Theme document for 1992 consultative meeting (Maputo; SADCC, 1992).

7.2 The post-apartheid years and membership of the SADC

Soon after the Government of National Unity (GNU) took control of South African affairs it wanted to make it clear that it saw the SADC as a valuable organisation in achieving regional economic development. The Cabinet decided on membership on 3 August 1994 and at the Heads of State Summit in Gaborone on 29 August 1994, South Africa acceded to the SADC Treaty. In terms of sectoral responsibility South Africa was assigned the Financial and Investmènt Sector. With a clear lead in the technology of its banking system, for example, this was a wise move.

The shift in emphasis of the organisation is a major challenge to all its members. The major aim must be to try and achieve a balance between maintaining a semblance of continuity in regional relations whilst adapting to the very different regional and global contexts. Within such continuity however, the SADC has made it clear that its aims upon the admission of South Africa are vastly different to those of the original SADCC back in 1980. In fitting with the new international climate the SADC's rhetoric has become increasingly more liberal in tone. One example of such rhetoric being,

> the SADC Treaty aims to build a community of nations which together are politically and economically strong to compete in the world market place.[21]

[21] SADC, Handbook, p.22.

More recent events at the SADC Annual Consultative Conference of 1997, in Windhoek, show the continued development of this new approach. At a conference described by South African Foreign Minister, Alfred Nzo, as 'paradigm shifting', delegates discussed the major themes of productivity, trade liberalisation and increasing competitiveness.[22]

Clearly the admission of South Africa does not solve all the difficulties of the region. In fact, for the SADC as an organisation, it also poses new difficulties. Peter Meyns has argued that the defining issue in this new era is how relations are forged, bearing in mind the economic superiority of South Africa over her neighbours.[23]

The history of African regional groupings dominated by one superior member highlights some of the difficulties that the SADC needs to avoid. As outlined earlier in this chapter, Nigeria's domination of ECOWAS, and Kenya's unequal partnership in the EAC, hindered regional development and caused political resentment. One consideration to this argument is the rather unique nature of the South African economy. Despite the comparative dominance of the region, South Africa, like all the other SADC members, has to face up to the need for domestic restructuring in the face of the changing nature of the world economy. National comparisons of economic figures do not give the complete picture. As Mandaza and Tostensen make clear there is a greater complementarity of interests between South Africa and the other SADC

[22] Independent Online, 'A desire to join the fast fish of free trade', 20 February 1997, [http://www2.inc.co.za/Archives/9702/17%20Feb/sadcf.html].

[23] Peter Meyns 'Rethinking the Institutional Framework of Regional Co-operation in Southern Africa' in H.J. Spranger & P. Vale (eds.), Bridges to the Future. Prospects for Peace and Security in Southern Africa (Boulder; Westview Press, 1995), p.37.

member states than might initially be thought.[24] With prosperity concentrated amongst a very small proportion of the population, essentially, South Africa is another developing country which in world markets is still reliant on the export of primary products.[25] This is elaborated in Chapter Three.

The road to integration in Southern Africa will not be an easy one. As outlined in the previous section of this chapter, the apartheid system influenced foreign relations as well as the domestic situation. Some feel that it is future developments in the region that will be the best measure of how responsible an international citizen South Africa will be in the future.[26]

Another of the major debates that has emerged since South Africa's admission to the SADC concerns the relative balance between state and market that should be best employed in the region. The orthodox neo-liberal view, that is behind the policy prescriptions of the World Bank, whilst not as anti-statist as outlined in *Accelerated Development in Sub-Saharan Africa*, published in 1981, is still a market oriented approach. This view rests on the assumption of the rationality of economics and its applicability to any economy, regardless of the level of development.[27]

A World Bank study published in 1991, *Intra-regional trade in Sub-Saharan Africa*, concerned with the new regional integration efforts, concluded that the Bank

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[24] Ibbo Mandaza & Arne Tostensen, *op.cit.*, p.105.
[25] *ibid.*, p.105.
[26] Peter Vale 'Reconstructing Regional Dignity: South Africa and Southern Africa' in S.J. Stedman (ed.), South Africa: The Political Economy of Transformation (London; Lynne Rienner, 1994), p.164.
[27] Christopher Clapham, Africa and the International System: The Politics of State Survival (Cambridge; Cambridge University Press), p.169.

should be supportive. However this support rested on the belief that liberalisation at the regional level should be viewed as the first stage towards more general trade liberalisation.[28]

On the other side of the argument, there have been proposals offering an alternative to this neo-liberal orthodoxy. These show more concern for some of the barriers to integration that result from underdevelopment in the region and the unequal nature of members' economies. Here the state is given a role in balance with the market to further regional integration efforts.

One of the criticisms of the neo-liberal approach is the assumption made about the benefits to be gained from trade liberalisation. It has been consistently argued that due to the numerous similarities in the nature of the region's exports there is limited scope for intra-regional trade to be increased substantially. The World Bank itself concluded after a statistical analysis in 1995 that this was a valid argument.[29] John Weekes looks deeper into this idea and shows that if we look beyond manufactures and concentrate on agriculture the potential for trade is greater than assumed.[30] Expanding the analysis to Southern and Eastern Africa he provides details of a hypotheses test to show that through agricultural trade, in years of average rainfall, the region could become self-sufficient in grain.

[28] Robert Davies 'Approaches to regional integration', p.14.
[29] The details of the results of this analysis can be found in World Bank, Global Economic Prospects and the Developing Countries (Washington; World Bank, 1996), p.16.
[30] John Weeks 'Regional Co-operation and Southern African Development', Journal of Southern African Studies Vol.22, No.1, 1996.

It appears the evidence is inconclusive as to the possibilities for trade. What is clear is that focusing on trade liberalisation as the major aspect of integration is open to contention. Those who argue for a greater role for the state believe that allowing market forces a free reign fails to provide for social development and an attack on poverty which are necessary for a balanced and sustainable integration effort.

Balefi Tsie argues that there is a greater need to re-design the state rather than to remove it from the integration process.[31] He takes the examples of East-Asian developmental states such as South Korea and Taiwan as the models for this approach. Progress made in the area of democratisation in the region makes such ambitions more achievable as popular participation is necessary. What is needed argues Tsie is a greater link between new democratic groups and the SADC organisation.[32] Fostering a more harmonious relationship between state and market is especially necessary in the Southern African region given the undeveloped nature of local markets. As Tsie makes clear,

> In the absence of strategic state intervention of this kind, it is difficult to see how private capital can become 'the engine of economic growth' in the SADC region. At present it is just too weak to perform this role.[33]

Clearly the landscape of the region has altered dramatically in recent years. This last section has shown how the methods and aims of SADC have reacted to these

[31] Balefi Tsie, op.cit..
[32] ibid., p.96.
[33] ibid., p.98.

changes. The final section in this chapter looks in more detail at South Africa's role in SADC and concludes with an assessment of the region's potential.

7.3 The SADC and leadership

Since April 1994, South Africa has repeatedly reaffirmed its commitment to the Southern African region and the SADC in particular. However, relations have not been without difficulties and these are discussed in the following section. On a more positive note, the final section of this chapter deals with the potential of the region, seen by many as having the best foundations for progress in the whole of Africa.

7.3.1 Commitment questioned

President Mandela and the African National Congress (ANC) have been clear to be seen in favour of an extension of regional relations. They also outline the moral obligation that South Africa has to restructure regional relations to a more equitable position. This guarantee is still far from proven and one leading African academic, Adebayo Adedeji, questions the role of South Africa directly.[34] He outlines two distinct paths that South African interests could follow. Firstly, in line with the ANC's wishes, South Africa might pursue regional restructuring and thus help refute the growing isolation of Africa as a continent. Adedeji's concern is that there is also a strong possibility that South Africa, now freely exposed to globalisation, will become less focused on regional relations.

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[34] Adebayo Adedeji 'Within or Apart?' in Adebayo Adedeji (ed.), South Africa & Africa: Within or Apart? (London; Zed Books, 1996), pp.3-28.

This argument highlights the fact that the crucial factor in South Africa's regional calculations is ultimately likely to be domestic political pressures. Clearly the admission of South Africa to the SADC, on its own, will not reduce the levels of dependency and domination that reflect existing regional relations.

The reduction of the debate above to South Africa's role at the two extremes of possible involvement is rather too simplistically constructed. As suggested by Paul Rich, regional integration must complement some of the national goals of South Africa.[35] The development of an improved infrastructure network and the pooling of natural and human resources will be of benefit to every member of the SADC. Davies outlines three paradigms in the debate over South Africa's construction of economic relations in the post-apartheid era.[36] The first is based on the idea that South Africa can emulate the achievements of the Asian Tigers and become a Newly Industrialising Country (NIC). This would be achieved by vastly increasing export levels of manufactured goods to the North. Regional integration is therefore seen as an unnecessary diversion.

Second is the belief that a return to a period of South African hegemony is what should be pursued. The idea is that mutual benefit will be achieved simply because of South Africa operating as the "engine of growth" for the region. This argument ignores the fact that the rest of the region is still suffering as a direct result of South African destabilisation policies. The impact of these policies also rebounded on

[35] Paul B. Rich, op.cit., p.41.

[36] Robert Davies 'South Africa's Economic relations with Africa: Current Patterns and Future Perspectives' in Adebayo Adedeji (ed.), op.cit., p.168.

South Africa itself. Economic decline and violent conflict led to extremely high levels of illegal immigrants in South Africa,

The third perspective is that claimed to be the position of the ANC and the democratic movement in general. It urges the newly democratic South Africa to reconstruct regional relations on a more equitable basis by working closely with neighbouring countries.

South Africa's admission to the SADC has vastly changed the dynamics of the organisation. Immediately South Africa was elected into the Presidency and handed the responsibility of the important Financial and Investment Sector as its special area of responsibility. This change in dynamics was aptly summed up by one South African diplomat, just prior to South Africa joining the SADC, who preferred to describe the forthcoming event as 'SADC is going to join South Africa'.[37]

South Africa's admission has important ramifications for some of the stated key objectives and aims of the organisation. The SADC Treaty categorically aims for the provision of equity, balance and mutual benefit between members. A more direct exposition of these aims is to be found in the *Framework and Strategy for Building The Community*, which was adopted by the SADC in 1993. Included amongst a long list of points in this document is the following,

[37] 'South Africa: Looking north of the Limpopo', Africa Confidential Vol.35, No.15, 1994, p.5.

> SADC requires that the stronger member states assist weaker members, so that they too can benefit from opportunities afforded to them by regional integration.[38]

It was not envisaged at the time of course that South Africa would become the stronger member state. Whilst the entry of South Africa has given a boost to the long-term future of the organisation, it has also sharpened the desire of South Africa's neighbours to overcome its current dominance of the region's economy. This dominance has always been seen as undesirable and unacceptable but it now has a direct effect on the future direction and development of the region through the SADC. As has been shown in the past, regional integration between vastly unequal partners has proved to be a major problem. The demise of the EAC and the problems of ECOWAS described earlier in this chapter are testimony to this fact.

Since the start of the post-apartheid period in South Africa, the ANC-led government has been keen to make repeated and explicit statements outlining their commitment to the Southern African region. In his opening address to Parliament, on 17 February 1995, President Nelson Mandela said,

> . . . we will pay particular attention to the all-round development and strengthening of our relations with our neighbours in Southern Africa, especially within the context of the SADC. . . . At the same time, we are all aware of the tensions that are building up with regard to population movements within our region. We must treat this matter

[38] SADC, Framework and Strategy for Building the Community (Gaborone; SADC, 1993).

> with all due sensitivity, conscious of the history of our region, including the destruction caused by the policy aggression and destabilisation carried out by the previous regime.[39]

Other examples of such proclamations include part of a speech made by South African Minister of Foreign Affairs, Alfred Nzo, to the Foreign Affairs Portfolio Committee on March 1995, quoted on page 3.

There are, however, a number of reasons, mainly those of self-interest, that can be put forward to explain why there has been such statements of regional commitment.. In his description of various future scenarios for South Africa's regional relations, Baron Boyd Jr. suggests a number of factors that should influence South Africa in adopting what he terms a cosmopolitan approach. Firstly, the moral argument that a post-apartheid South Africa should not abandon those neighbouring states who supported the liberation struggle. Secondly, that the development of South Africa's economy will be helped by a more prosperous region, whereas regional chaos would be directly harmful. Thirdly, although political stability has spread through the region in recent years, allowing South Africa a "peace dividend", compared to the years of destabilisation, this could be unsettled by regional economic instability which would negate such benefits. Fourthly, if South Africa was to increase its economic dominance, at the expense of the rest of the region, there would be a strong threat of illegal immigrants.[40]

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[39] The full speech can be found at [http://www.polity.org.za/govdocs/speeches/1995/sp950217.html].
[40] Baron Boyd Jr. 'South Africa and its Neighbours: Continuity and Change in the Post-Apartheid Era' in James Chipasula & Alifeyo Chilivumbo (eds.), South Africa's Dilemmas in the Post-Apartheid Era (London; University Press of America, 1993), pp.147-149.

In general, South Africa does have an interest in assisting development within the rest of the SADC and encouraging investment within the whole of the region and not just South Africa. This is something that the South African Government has sometimes tried to stress. A recent speech by Trade and Industry Minister, Alec Erwin, made to an organisation of US companies who invest or trade with South Africa, advised them to channel their investment into the whole of the SADC region in line with SADC regional development aims.[41] As outlined above, if South Africa fails in this bid to attract investment throughout the region then it faces the serious threat of massive illegal immigration.

The central question is whether other pressures and opportunities will take precedence over this stated commitment to the region. Other writers are more sceptical of the future suggesting that other SADC member states should not be placing their faith in South Africa to deliver all its promises. Peter Meyns has argued that it would be against the countries of Southern Africa's interest to believe that South Africa will pursue a completely altruistic path in regional relations and that they should aim for self-reliance whilst simultaneously pursuing regional integration.[42] As I have argued earlier in this thesis domestic reconstruction and global relations, especially with the EU, may ultimately take precedence over the region despite the arguments that the furthering of regional relations appears to be in South Africa's self-interest.

[41] Independent Online, 'US urged not to invest in SA alone', 22 April 1997, [http://www2.inc.co.za/Archives/9704/Apr%2024/erwin.html].
[42] Peter Meyns, *op.cit.*, p.39.

As I have shown earlier in Chapter Three, the sheer size of South Africa's economy in comparison with the other SADC members, creates a climate where the chance for a very unequal influence in the creation of regional policy exists. Others have held a more optimistic view of the effects of a post-apartheid South Africa on the region. One example is that of Peter Vale, who says that the recent addition of a completely transformed South Africa, does open the door to the possibility of new ground-breaking regional initiatives. He does, however, qualify this opinion with the explicit requirement that to optimise such opportunities, South Africa will need to transform its international relations towards the universal goals of dignity, development and democracy.[43]

This economic imbalance is further strengthened by South Africa's vastly superior infrastructure. With more numerous and efficient transport routes, and a significantly more developed banking and business sector, it is not surprising that it is the most attractive investment target within the region. The short- to medium-term economic benefits that South Africa could hope to gain from the region are negligible. The regional market is extremely small due to the very low per capita incomes of the vast majority of the people living in neighbouring states. It could not hope to provide the growth necessary for South Africa to respond to the domestic and global pressures already discussed earlier in this thesis. Whilst the early part of this section has highlighted examples of a supposed commitment to the region, this economic disparity coupled with other pressures on the South African government has already brought into question how strong this commitment really is.

[43] Peter Vale, *op.cit.*, p.153.

It is definitely questionable whether or not South Africa is more interested in global markets than in co-operating with neighbouring states. Some observers have actually suggested that this is indeed the best track forward for South Africa in the post-apartheid era. At a conference in 1996 on 'South Africa in the Global Economy', organised by the South African Institute of International Affairs, Professor Jeffrey Herbst, argued that the key to growth in South Africa was for it to aim global and not regional. He added that the main reason being that the regional market is too small to become the main driving force behind domestic South African growth.[44] There are obvious tensions between the global and the regional. Many SADC members are currently involved in World Bank/IMF sponsored Structural Adjustment Programmes and it is debatable whether South Africa be willing to wait for its neighbours to catch up.

On top of these difficulties are the strong domestic pressures centred on the Reconstruction and Development Programme (RDP). It is feared that the ideological considerations in favour of a committed regional policy, outlined above, may be overshadowed by the imperatives of providing opportunities for the poor majority of the South African population. It is also likely that a regional free market could actually be created at the expense of South African job-seekers.

Over the last few years we have already seen numerous examples of how these various pressures have affected, and to some extent dictated, how South Africa has conducted its regional relations. As has been discussed in the preceding chapters of this

[44] Weekly Mail, 'South Africa should go global, not regional, 12 July, 1996.

thesis, over the last decade South Africa has been directly affected by developments from Europe and the advanced industrialised countries in general, and also more general developments in the global economy, in addition to regional occurrences.

The short history of regional relations in the post-apartheid era displays evidence of how the ANC's frequently espoused obligations to the region have been compromised by both domestic pressures connected with the RDP and South Africa's ambitions further afield. South Africa's election to the Chairmanship of the SADC for a minimum three year tenure is an indication of how the suspicions of South Africa's neighbours may have been partially confirmed. By awarding South Africa the chair the other SADC members could be adjudged to be trying to make South Africa see its future as being bound up with the region for fear that it might set its sights further afield. Moreover, at the time, South Africa was trying to convince the EU of its developing country status in its campaign for full membership of the Lomé Convention and this may have influenced South Africa's decision to align itself with the SADC.[45]

It is South Africa's continued stranglehold over the regional economy, as described above, that continues to be a source of tension for relations within the SADC. As Jeffrey Herbst argues "regional trade arrangements work best with countries at roughly the same level of development who can share in the gains from trade".[46]

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[45] This is contrast to a comment made by Sidney van Heerden of the South African High Commission during a conference presentation at 'The Marginalisation of Africa?' Conference on 17 December 1996, at Coventry University, UK. His paper argued that a common vision, between South Africa and its SADC partners, already existed regarding the future of the region and that by becoming chair, this was a concrete example of South Africa's commitment.

[46] Jeffrey Herbst 'South Africa and Southern Africa After Apartheid' in John W. Harberson & Donald Rothchild (eds.), Africa in World Politics (Second Edition) (Oxford; Westview Press, 1995), p.152.

One early indication concerned South Africa's regional energy strategy soon after the first democratic elections in April 1994. South Africa's oil companies, anticipating strong regional growth over the next decade were reported to be preparing to capitalise on their technological superiority and economies of scale, to allow complete domination of the Southern and Eastern African energy market. By scrapping their own subsidised fuel production, it was estimated that annual savings for states in these two regions could range from US$ 120 million to US$ 280 million. In addition to this the South African electricity corporation had outlined plans to extend its network both north-west into Zaire and north-east into Uganda.[47]

Another area of regional disharmony has been South Africa's trade relations with certain SADC members, most explicitly, with Zimbabwe. An ongoing bilateral dispute between South Africa and Zimbabwe has shown some of the stumbling blocks that need to be overcome before any regional trade accord can be implemented. Other SADC members, along with Zimbabwe, have registered complaints regarding the inability of their products to penetrate South Africa's often well-protected markets, whilst their domestic markets are flooded with South African products.[48]

The dispute between South Africa and Zimbabwe stems from the expiry of a 1964 preferential trade pact, between the two, in 1992. This allowed South Africa to impose tariffs such as 90 per cent on clothing and textiles, 45 per cent on fabrics and 32 per cent on yarn, making it very difficult for Zimbabwean manufactures to penetrate

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[47] 'South Africa: Imperial designs', Africa Confidential Vol.35, No.25, 1994, p.6.
[48] Independent Online, 'SA, Zim resume trade talks', 17 June 1997, [http://www2.inc.co.za/Archives/9606/17/sazim.html].

South African markets.[49] The impact of World Bank and IMF pressure, mentioned above, is a crucial factor here. Unlike its SADC neighbours, including Zimbabwe, South Africa is not following a Structural Adjustment Programme (SAP) with the associated requirements of tariff reduction and is therefore able to exploit the low level of other tariffs in the region.[50]

Five years since the end of the 1964 agreement there is still no comprehensive solution. Only a deal involving a reduction, not a removal, of tariffs for clothing and textiles has been agreed. Even so, encouraged by this bilateral agreement, other SADC member states including Zambia, Tanzania and Malawi have outlined their wishes for a favourable trading status with South Africa. However, South Africa has repeatedly called for the much hyped regional trade agreement to be the solution to any current difficulties. Partly this is in response to the dim view taken by the World Trade Organisation (WTO) over bilateral trade pacts.[51] However, it also acts as a useful protection against any further bilateral pressures similar to those from Zimbabwe.

The trade protocol was agreed at the 1996 SADC Summit in Maseru, Lesotho. It provides for the further liberalisation of intra-regional trade in goods and services with a view to the eventual creation of a free trade area. It is anticipated that all tariff and non-tariff barriers to trade will be eliminated within eight years. A schedule for these reductions, agreement over the specifics of infant industry protection are two key aspects to be agreed before the final treaty can actually be signed. Also vital to South

[49] Financial Mail, 'Guess who's coming to dinner?', 21 June 1996.
[50] 'South Africa: Which foreign policy?', Africa Confidential Vol.37, No.6, 1996, p.5.
[51] Financial Mail, 'Regional Trade: All in together', 23 August 1996.

African business will be the agreement over the levels of local content. To prevent producers outside the SADC region using South Africa's neighbours as a gateway to South African markets, under the protocol local processing must account for a minimum of 35 per cent of the final value of a product.[52]

It is possible to argue that the South African government has accepted the unequal patterns of trade with the region are unsustainable. As Table 7.1 overleaf shows, in the year from 1994 to 1995 there was a dramatic increase in South Africa's exports to non-SACU member states of SADC, whilst imports from this grouping remained constant.

Table 7.1 South Africa's exports to and imports from non-SACU SADC countries (1994-95)

Country	Exports 1995 (Rand)	% Change from 1994	Imports 1995 (Rand)	% Change from 1994
Zimbabwe	4 442 940 609	85	964 102 209	-6
Mozambique	2 237 168 969	59	203 409 558	10
Zambia	1 366 769 605	18	117 009 287	27
Malawi	696 067 179	12	95 186 010	-8
Mauritius	685 593 954	27	34 803 314	130
Tanzania	627 596 556	243	15 420 760	-3
Angola	490 233 808	57	3 487 962	-79
SADC	10 646 370 680	59	1 433 419 100	0
Total	100 657 466 241	13	97 362 538 123	29

Source: Department of Trade and Industry, South African Trade Statistics (Pretoria; Department of Trade and Industry, 1996).

[52] Independent Online, 'Tame the lion or cage it with the lambs?', 10 September 1996, [http://www2.inc.co.za/Archives/9609/10/sadc.html].

As the table above shows South Africa is running a huge trade surplus (Rand 9.2 billion in 1995) with the region. It also shows that from 1994 to 1995 the region became more important as a destination for South African exports compared with South African exports in total. However, the 29 per cent growth in imports into South Africa compares with a no-change situation with imports from SADC members. This highlights the fact that the South African relationship with the region is unequal and that these disparities are rising fast.

South Africa's acceptance of this unequalness is demonstrated in its offer of asymmetrical tariff reductions as part of the SADC trade protocol. However, this will only materialise in the medium- to long-term because at the end of 1997 only Tanzania and Mauritius had ratified the protocol. The agreement only comes into force following ratification by two thirds of the member states. Then the eight year period of adjustment begins. Therefore its completion is not anticipated until well into the first decade of the next century.

Moreover, a study by the African Development Bank has found that it is non-tariff barriers (NTBs) rather than tariff barriers that are the major impediment to the development of intra-regional trade.[53] The Protocol has no specific commitments or a timetable for the elimination of NTBs, just a general agreement to remove them. Article Six of the Protocol states that:

[53] Marina J. Mayer & Rosalind H. Thomas 'Trade integration in the Southern African development community: Prospects and problems', Development Southern Africa Vol.14, No.3, 1997, p.347.

> Member states shall, in relation to intra-SADC trade:- (a) adopt policies and implement measures to eliminate all existing forms of NTBs. (b) refrain from imposing any new NTBs.[54]

Many of these issues are complicated by the continued existence of the Southern African Customs Union (SACU). This links South Africa with Botswana, Lesotho, Namibia and Swaziland (BLNS) all of whom are also members of SADC. Current renegotiations are trying to solve some of the problems created by the last SACU agreement that dates back to 1969. During the period of total strategy and destabilisation, described in Chapter Three, the SACU was a contributory factor to South Africa's economic dominance of the region. It enabled Lesotho, Botswana and Swaziland to become integrated directly into the sphere of the South African economy.[55]

It is therefore understandable that such examples of economic policies developed during the apartheid era, are regarded by many voices within the SADC region as unacceptable post-apartheid.[56] The old agreement allowed for the South African Board of Tariffs and Trade, upon which the BLNS states had no representation, to adopt policies regarding tariffs and duties for the whole SACU area, which were clearly aimed directly at promoting the needs of the South African economy, first and foremost.[57] Apart from its incompatibility with the aim of a SADC

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[54] Sven Schwersensky (ed.), The Maseru Protocol on Trade (Johannesburg; Friedrich Ebert Stiftung, 1997), p.51.
[55] Leonard Thompson, A History of South Africa (Revised edition) (London; Yale University Press, 1995), p.230.
[56] 'Southern Africa: Still the boss', Africa Confidential Vol.36, No.17, 1995, p.4.
[57] Richard Gibb 'Regional Integration in Post-Apartheid Southern Africa: The Case of Renegotiating the Southern African Customs Union', Journal of Southern African Studies Vol.23, No.1, 1997.

Free Trade Area, the preservation of SACU seems to fit uneasily with South Africa's espoused commitment to the SADC region as a whole.

In concluding this section it is clear that South Africa's conversion to a democratic country has had a profound impact on the regional landscape in both economic and political areas. As one of many competing pressures upon the South African political economy it is questionable, even allowing for repeated government assurances how high a priority the region will be, given the level of domestic economic and political demands, and South Africa's aspirations of reintegration into the global economy. The final section of this chapter offers an analysis of the potential of the region.

7.3.2 The potential of the region

There have been many changes to both the regional and the global circumstances since the SADCC was first created in 1979. It is possible to view most of these as contributing to a healthier regional position regarding aspirations of regional integration. Whilst they offer an optimistic view of the future there are also some cautionary additions to be made.

For any regional integration project to be successful there must be some sense of regional identity amongst the populations of the participating states. Mandaza and Tostensen suggest that recent changes in the region have weakened the solidarity of the SADC members. One of the foundations of this regional cohesiveness was the fight against apartheid, which was the determining factor in the establishment of the SADCC in the first place. As the apartheid system has ended and the initial euphoria of independence, achieved by some members as late as the 1970s, has waned, it is argued that the regional identity portrayed by a sharing of common circumstances has to a large extent disappeared.[58] However, I would contend that the region still possesses a shared history, outlined earlier in this chapter, and that this, together with its own distinctive features, provides a framework solid enough for regional integration to be built upon it.

Economically the picture is also one of cautious optimism. The SADC itself acknowledges that as an individual states, its members do not have the resources or influence to compete in the global marketplace.[59] On the positive side, there is enormous potential given the abundance of natural resources. Virtually all industrially useful or precious minerals are to be found somewhere in the region, including oil, diamonds, coal, gold, platinum, and copper.[60] This economic potential needs to be placed in a global context. In an era of globalisation, already analysed in Chapter Two, the region, apart from its mineral enclaves has little to offer except cheap labour, and lacks the high technology skilled workforce needed to attract foreign direct investment. Of course any potential is reliant on South Africa continuing to remain suitably committed to the region as discussed in the previous section.

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[58] Ibbo Mandaza & Arne Tostensen, *op.cit.*, p.101.
[59] SADC, Handbook, p.2.
[60] Independent Online, 'SA's dreams for SADC countries', 12 September 1996, [http://www2.inc.co.za/Archives/9609/12/lipcol106.html].

Previously, in Chapter Five, South Africa's global position was examined. In terms of the region as a whole there is a danger that now that the moral crusade against apartheid has ended, attention may shift away from the region to other areas around the globe. It seems that the recent conclusion of the Cold War will only reinforce such an outcome. The beginnings of such a trend may be indicated by the fact that it has been reported that most donor countries are cutting back on their development assistance to the SADC programme. Belgium is the one of the few exceptions to this rule having recently increased its contribution to $10 million a year. This compares with its previous contributions since 1989 which have ranged from $4 million to $9 million per annum.[61]

One final concern I have regarding the potential of the SADC region is the perceived failings of the organisational structure of the grouping. The loose, sectoral approach, that was initially adopted by the SADCC, seems woefully inadequate for providing the aims of the new SADC in its quest for closer integration. The current system whereby the responsibility for various sectors is delegated to individual member states has been criticised on two main fronts. Firstly, that some states do not have the capacity or expertise to promote and succeed in their allocated areas of responsibility. Secondly, by relying so heavily on individual responsibility there is a lack of co-ordination between the various sectors.[62]

[61] Independent Online, 'Belgium increases its SADC support to R44-m a year', 20 March 1997, [http://www2.inc.co.za/Archives/9703/27%20Mar/bizsadc.html].
[62] Independent Online, 'SADC objectives being shackled', 20 February 1997, [http://www2.inc.co.za/Archives/9702/6%20Feb/sadc.html].

This organisational structure is under review. An internal SADC study conducted in 1997 suggested that rather than the current system of sixteen sectors, planning and co-ordination directorates should be created. Thus, the sole responsibility of individual member states to an area of SADC policy would be removed. It is envisaged that five directorates would be established.[63]

In conclusion, if the potential of the SADC region is to be truly realised then political stability, combined with a widespread publicity campaign explaining the activities of the organisation will need to be in place. For integration of the economies and societies of Southern Africa to be successful then there must be a desire among the people as well as the governments of the region. Two surveys of the mass public in South Africa and a group of opinion leaders showed that:

> Enthusiasm for Southern Africa as a focus in South Africa's foreign policy, and support for the principle of co-operation with Southern Africa, is much less widespread among mass respondents than it is among the elite.[64]

In this area the Organ for Politics, Defence and Security has an important role to play. This body was launched at the summit of SADC Heads of State and Government in Gaborone on 28 June 1996. Its current operations are limited to

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[63] See SADC Secretariat, Review and Rationalisation of the SADC Programme of Action (SADC; Gaborone, 1997). The five planning and co-ordination directorates would be arranged as follows: Human Resources, Science & Technology; Agriculture, Natural Resources & Environment; Infrastructures, Communications & Information Technology; Trade, Industry, Investment & Finance; Community Development, Culture & Information.

[64] Philip Nel 'The Foreign Policy Beliefs of South Africans: A First Cut', Journal of Contemporary African Studies Vol.17, No.1, 1999, p.137.

summit level which places restrictions on how effectively it can pursue these objectives.

The major South African fear, of an economically underdeveloped and politically unstable Southern African region is that the problems of their neighbours will cross their borders. South Africa is already over-stretched by the demands of the poor majority of its population, and any refugee flows or influxes of economic migrants could seriously compromise its ability to achieve its aims for domestic progress. It has already been suggested that

> the total number of citizens of neighbouring countries in South Africa is thought to be upwards of two million, meaning that clandestine or illegal migration to South Africa already involves many more people than legal migration to the mines.[65]

The analysis contained within this chapter shows how important South Africa will continue to be in shaping the future of the region. The test will be how other competing pressures both from within and outside South Africa, outlined in previous chapters, will affect South Africa's commitment to the region. If the SADC is to move forward South Africa, both as the most dominant member, and in its current capacity as chair of the organisation has a vital role to play.

[65] Robert Davies 'South Africa's Economic Relations with Africa', p.190.

Chapter Eight

Conclusions: A Rationalization of Competing Pressures

8.1 Summary of major findings

This thesis has shown how in the first four years of the post-apartheid era, there has been a shift, with South Africa's global reintegration initially having to be reconciled with domestic policies committed to an improvement in the living standards of the poor majority, given the unique historical legacy of apartheid. Increasingly domestic policies have taken the strain as global reintegration has taken priority. South Africa has not become merely a vehicle for the neo-liberal agenda of open markets and reduced state intervention. In the early months of the post-apartheid era it adopted essentially a social democratic response to the demands of its reintegration into the global political economy. However as time has passed, it has recognised some of the constraints imposed by the need to maintain competitiveness in a capitalist world economic system, and has thus moved closer to a neo-liberal path which has been one of the major themes of this thesis. Also the end of the Cold War and the associated failure of centrally planned economies has had the effect of reducing the possibilities available to developing countries like South Africa.

Yet the South African government has adopted an openly democratic approach to its political set-up. The creation of the National Economic Development and Labour Council (NEDLAC) being the symbol of this. By creating a statutory body that is designed to build a consensus between labour, government and business a fundamentally different approach is being taken to that of Brazil, another semi-industrialised economy opening up to international competition, where sectoral chambers for negotiation between constituencies have been dropped in favour of a less inclusive approach to pursuing a neo-liberal policy agenda.[1]

This section aims to provide a rationalization of the competing pressures discussed in the thesis. At times, despite its protestations over the importance of domestic development, including job creation, and the need to balance the reintegration process with the needs of the Southern African region, the South African government has failed to give these pressures the priority they deserve.

South Africa has to become integrated into the global political economy. This thesis does not attempt to question this assertion. However, two parameters above all have to be borne in mind: the legacy of apartheid and the fact that regional problems will permeate its borders. It is not possible to be an island of prosperity in a sea of poverty.[2] By placing too much importance on the global pressures from the International Financial Institutions (IFIs) and the investment community, there is a danger of a negative impact on the region and democracy within South Africa. There is little evidence to support the idea that the OECD democracies were going to *reward*

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[1] See Francisco G. Carneiro & Andrew Henley 'Wage Determination in Brazil: The Growth of Union Bargaining Power and Informal Employment', Journal of Development Studies Vol.34, No.4, 1998, pp.117-138.

[2] Personal interview with Dr. Rob Davies (Cape Town, 29 September 1998).

South Africa for its shift to democracy by substantially supporting the consolidation needed in the early post-apartheid years.

South Africa is conducting its reintegration into the global political economy at a time when the nature of this process is fairly limited. The democratic nature of the transition and the early years of the post-apartheid era coupled with the power and organised nature of labour make it difficult for it to replicate the success stories of the NICs. The portrayal of the South-East Asian economies as examples of the possibilities of achievement open to those who choose a restricted role for the state is openly contested.

The World Bank in its 1993 study *The East Asian Miracle* certainly concluded that the role of the state in these economies had been largely concerned with allowing the free operation of market forces. However, there have been strong arguments put forward that in actual fact the state has been highly influential, although in different ways, in these countries' development paths.[3] As Marais notes the undemocratic conditions that existed in the NICs are not present in South Africa. He argues that:

> Instead of an authoritarian regime able to suppress labour, South Africa has a democratic government that is committed at the level of rhetoric to consensus-building. It does not have the luxury of a weak capitalist class, nor a homogenous population or an even relatively favourable

[3] See S. Lall 'Industrial policy: the role of government in promoting industrial and technological development', UNCTAD Review 1994, pp.65-90 and M. Douglass 'The "developmental state" and the newly industrialised economies of Asia', Environment and Planning A Vol.26, 1994, pp.543-566.

income distribution (key elements of Taiwan and South Korea's successes).[4]

Yet the nature of this process of reintegration is vital to the future prosperity and peace of the country. There has been a clear shift over the period of this study, moving away from the primacy of an inwardly-focused development strategy that deals with the domestic pressures outlined in Chapter Four and the historical legacies of the apartheid era discussed in Chapter Three. This has been gradually replaced by an increasing adherence to the pressures coming from the global level and the demands for liberalisation of the economy. The South African government has concentrated too much on trade policy and external perceptions at the expense of internal requirements. The ideas of social transformation contained in the Reconstruction and Development Programme (RDP) have been increasingly sidelined. This is explained by the effect of external factors on internal South African affairs. The African National Congress (ANC), in its first four years of government has increasingly come to realise that these external realities place constraints on domestic policy autonomy.

The constraints to the process of South Africa's global reintegration in the short- to medium-term are mainly from global capital markets via currency pressures and investment decisions. Their impact has been exacerbated by the adoption of the Growth, Employment and Redistribution (GEAR) plan, discussed in Chapter Four. Reforms agreed with the World Trade Organisation (WTO) and later the European

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[4] Hein Marais, South Africa: Limits to Change: The Political Economy of Transition (London; Zed Books, 1998), p.131.

Union (EU) have had a greater influence than either the World Bank or the International Monetary Fund (IMF), whose roles have been mainly of policy advice rather than direct lending.

The understanding is that there is a growing belief within the South African government that competition will cure all South Africa's problems. This shift is evident in the macroeconomic policy, GEAR, adopted by the government in 1996, the increasing desire to make South Africa an attractive destination for foreign investment, the nature and speed of the implementation of tariff reductions agreed under the terms of the completion of the Uruguay round of the General Agreement on Tariffs and Trade (GATT) and the time and effort put into the completion of trade negotiations with the EU.

It is clear that global capital is more important to South Africa than South Africa is to the global political economy. Yet the shift in the integration path identified in this thesis has only heightened this unequal relationship. Too great a reliance on foreign investment in South Africa, as discussed in Chapter Five, is dangerous. A slump in the world economy would mean the G7 countries would begin by reducing their interest in emerging markets. South Africa requires a more stable foundation to its relations with the global political economy than this.

It is my contention that South Africa ignores the region at its peril. Chapter Seven argued that there has been a real prospect that the nature of the new regional integration project in Southern Africa will in fact merely re-establish a position of

South African dominance. In fact it is possible that developments at the regional level, may be able to replace some of the impetus lost in the domestic development strategy outlined in the early part of the post-apartheid era. It is not intended that the region should aim for a position of autarchy, due to the obvious limitations that this would pose.

However, viewed as a single group, there are numerous similarities in the needs of the various members of the regional grouping. Operating as an organised group of member states, as opposed to a loose collection of individuals, must enhance South Africa's chances of being able to resist where possible some of the most detrimental features of globalisation and to manage others to their best advantage. Therefore, it is suggested that South Africa should place more emphasis on its regional relations and restructure its position within Southern Africa to allow such regional unity to develop.

The government's regional policy has resulted from its particular reading of the global situation. South African capital has been allowed to dominate in other parts of the region. In fact the conduct of South African firms in the region has maintained South Africa's position as regional hegemon. Examples of the detrimental effect of such operations is provided by the influx of South African chain stores such as Nandos, Clicks and Pick 'n' Pay into Zimbabwe. These large South African enterprises have replaced many local businesses and their proliferation is not even employment-creating investment.[5] Also some South African mining corporations have expanded their

[5] Weekly Mail & Guardian, 'Closing the trade gap?', 23 May 1997, [http://web.sn.apc.org/wmail/issues/970523/BUS32.html].

operations into Zambia and the DRC, local breweries and bottling plants in Zimbabwe and Zambia have been purchased by South African breweries and Spoornet (the South African rail parastatal) is renovating lines in Tanzania.[6]

The expansion of the membership of the Southern African Development Community (SADC) has also contributed to the lack of regional progress. It is ironic that originally the smaller SADC was judged to be a more coherent grouping than the larger and more unwieldy regional grouping, the Common Market of Eastern and Southern Africa (COMESA). Yet SADC now appears to be treading the same path. The scrapping of the moratorium on new members at the annual summit of the heads of government of SADC in September 1997 has hindered the progression of the regional agenda. The acceptance of the Democratic Republic of Congo (DRC) does not fit easily with Nelson Mandela's pronouncements on the importance of democracy in the region.[7] In general the inclusion of the DRC and the Seychelles reduces the coherence of the grouping. For example, the Seychelles, a group of islands in the middle of the Indian Ocean, has little in common with the majority of the other SADC member states. Hence expansion of the membership is only likely to delay the provisions set in place for economic integration. The sense of regional identity, discussed in the previous chapter, has been reduced, especially over the problems in the DRC which has divided SADC member states.

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[6] Ian Taylor 'South Africa's Promotion of "Democracy" and "Stability" in Southern Africa: Good Governance or Good for Business', Paper presented at the 3rd Annual CSGR Conference: After The Global Crises: What Next for Regionalism?, University of Warwick, 16-18 September 1999, p.4.
[7] Business Day, 'Conflict of interests plagues SADC', 23 September 1997 [http://www.bday.co.za/97/0923/comment/c6.htm].

In short there are numerous reasons of enlightened self-interest as to why the South African government should pay more attention to the concerns of the region now, and not leave regional issues on one side for a later date. Even within its own vision of the importance of wider issues and the value attached to inward Foreign Direct Investment (FDI) in its macroeconomic blueprint there is an argument in favour of the region. By taking the lead in the regional economic developments to reduce internal barriers to trade and hopefully expand the size of the Southern African market, South Africa would also be improving the attractiveness of South Africa itself as a destination for FDI.

The domestic political situation in South Africa is ripe for the ANC to be able to take the medium- to longer-term view. With such a huge parliamentary majority and no major opposition party threatening this position, time is certainly on its side.

Politically, the new South Africa was welcomed back into the international arena with open arms. Support was made available through aid from a number of sources after the 1994 election. South Africa also returned to the international arena shortly after the election of the new government by means of its re-admission into a number of multilateral bodies from which it had been excluded from. These included the Commonwealth, the United Nations (UN), the G77, the Organisation of African Unity, the Non-Aligned Movement and the UN specialised agencies such as the World Health Organisation. These were not mentioned in earlier chapters as it is my contention that many if not all of them are of declining relative influence in the changing global order discussed in Chapter Two.

In short, in 1994 South Africa was at the forefront of people's minds. However, as this thesis has shown, over the first four years of the post-apartheid era any notion of a honeymoon period for the country soon gave way to the pressures of the international economic system.

8.2 Prospects

Most South Africans appear to be currently transfixed by the present. This is understandable given the momentous political change that has occurred in recent years. One of the reasons for writing this thesis was to try and extend these horizons to look further afield, and appreciate the importance of South Africa's external relations for its domestic prospects. In this section I try to determine what may happen if the trends outlined here are maintained. The reason for doing so is not to indulge in speculation, but to suggest an agenda for pursuing future inquiry beyond the boundaries of this stage of the research.

If the trend towards an increasingly neo-liberal approach to external affairs is maintained in future years then the patience of the poor majority of the South African population will be tested. The poor performance in the creation of jobs, discussed in Chapter Four is unlikely to be accepted indefinitely. The Presidential Job Summit organised by the South African government on 30 October 1998 was a clear acknowledgement of the importance of the problem of continuing jobless growth.

Evidence provided from a survey of the South African public also presses home the importance attached to problems of unemployment. Two surveys, one of a general representative cross-section of the public (mass) and a second of a carefully chosen group of opinion leaders (elite), were conducted. Both attached great weight to the employment problem in South Africa. When both groups were asked which problems they discussed most frequently with friends, colleagues and family, the most common answer from the mass survey was employment, with 40 per cent choosing this as the number one issue. In the elite survey employment was ranked second, behind crime.[8] The overall importance of the employment problem is shown in Table 8.1 overleaf.

[8] Philip Nel 'The Foreign Policy Beliefs of South Africans: A First Cut', Journal of Contemporary African Studies Vol.17, No.1, 1999, pp.129-130.

Table 8.1 Hierarchy of problems most often discussed by South Africans, 1997-98

	Most important problem	
	Mass	**Elite**
1	Employment	Crime
2	Crime	Employment
3	Housing	Education
4	Education	Housing
5	Illegal immigrants	Illegal immigrants
6	SA's position on land mines	Trade
7	Trade	SA peace-keeping
8	SA peace-keeping	SA's position on land mines

Note: Items 5-8 can be classified as minor concerns as only a small minority (less than 5 per cent) expressed them as their major concern.

Source: Philip Nel 'The Foreign Policy Beliefs of South Africans: A First Cut', Journal of Contemporary African Studies Vol.17, No.1, 1999, p.130.

However, the significantly dominant position of the ANC in domestic South African politics reduces the pressure to make quick progress on these issues. Although the patience of their supporters may be tested, the lack of a viable political alternative in the near future means they are likely to have a number of years in government yet. The results of the 1999 elections confirm this opinion. The ANC achieved 66.4 per cent of the vote in the election on 2 June 1999, giving the party two hundred and sixty-six seats in parliament. The Democratic Party became the official opposition with a mere 9.6 per cent and thirty-eight seats.[9]

[9] This compares with the first democratic, non-racial elections which were held from April 26-29, 1994. The African National Congress secured 62.7 per cent of the vote, whilst the National Party (NP) achieved 20.4% and the Inkatha Freedom Party (IFP) won a 10.5 per cent share. On 2 June 1999 the NP renamed the New National Party achieved only 6.9 per cent, and the IFP a reduced share of 8.6 per cent.

There are also few signs that the structural imbalances in South Africa's regional relations will be altered in the near future. The global context of South Africa's transition has meant that the ANC's options have been severely limited. External pressures have increasingly caused the South African government to adopt domestic policies (such as the GEAR) and foreign policies (such as export and investment promotion) that have remained attuned to the interests of South African capital. South African capital remains dominated by the white business community and it has no reason to strive for a restructuring of regional relations to a more equitable basis.

Attention also needs to be paid to the development of the major regional organisation the SADC. For the region to be a success then more equitable and increased economic relations between South Africa and its neighbours need to develop. The SADC Free Trade Protocol is of relevance here. This is because the region has to develop economically before you can create a regional political structure on top. Without the foundation below, of a sense of united purpose, then SADC itself will not have any meaning. To achieve the full potential of the Southern African region, the individual states need to become stable, democratic and peaceful. These are the necessary pre-conditions for the countries to develop. Then the institutional arrangements can follow.[10] In a similar way the EU developed economically as a region before generating the momentum for closer political union. However, the EU did not have the domestic political shortcomings that are present in most of Southern Africa.

[10] Personal interview with Anthoni van Nieuwkerk (Johannesburg, 5 October 1998).

The major positive regional developments have been limited to four new infrastructural development projects. First, the Lesotho Highlands Water Project which turns the flow of rivers in Lesotho back towards Gauteng in South Africa. Secondly, the reconstruction of a 1440 km power line between Guateng and the Cabora Bassa hydro-electric scheme in Mozambique. Thirdly, the completion of an all-weather road link crossing the Kalahari Desert in Botswana. This would join Lobatse in Eastern Botswana with Walvis Bay on the Namibian coast. Fourthly, the bilateral 'Maputo Corridor' project agreed between Mozambique and South Africa.[11] This Rand 35 billion development corridor will include the redevelopment of Maputo as a harbour. However, even some of these will enhance the centrality of South Africa within the infrastructural network of the Southern African regional economy".[12]

The situation in post-apartheid South Africa has not been helped by the Asian financial crisis of 1997. The devaluation of the baht, Thailand's currency in July 1997 led to currency crises and financial instability in Indonesia, Malaysia, the Philippines, Taiwan, Hong Kong, Korea, Estonia, Russia, Brazil, Australia and New Zealand.[13] The effect on the economies of South-East and East Asia was swift and severe. In Thailand economic growth fell to almost zero in 1997 from 6 per cent in 1996. Whilst Indonesia experienced a fall from 8 per cent in the third quarter of 1997 to a predicted decline of 5 per cent in 1998.[14] The outflow of capital experienced by these previously high-

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[11] Fred Ahwireng-Obeng & Patrick J. McGowan 'Partner or Hegemon? South Africa in Africa (Part One)', Journal of Contemporary African Studies Vol.16, No.1, 1998, pp.15-16.
[12] *ibid.*, p.15
[13] Robert Wade & Frank Veneroso 'The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex', New Left Review No.228, 1998, p.3.
[14] Eddy Lee 'The Asian financial crisis: Origins and social outlook', International Labour Review Vol.137, No.1, 1998, p.81.

performing economies prompted their authorities to try and reverse the capital outflow by tightening macroeconomic policies. The dependence on portfolio capital, discussed in Chapter Five, means that South Africa is especially vulnerable to such financial turbulence. The effect on emerging markets world-wide was negative as global investors sought "safer" destinations within the advanced economies.

What this crisis has done is puncture some holes in the Washington consensus. The IFIs have even begun to question the unregulated liberalisation of capital flows. This has caused some academics on the left to argue that,

> When influential voices at the World Bank and the *Financial Times*, joined by academic champions of free trade, begin to question the benefits of capital opening, the idea of a new Bretton Woods conference is not quite so far-fetched as at first it seems.[15]

In the future the effect of the Asian crisis may be to allow the South African government more manoeuvrability in its domestic macroeconomic policy.

8.3 Agenda for future research

It is anticipated that the themes of this thesis have widened the debates and analysis of South Africa's economic, political and social transition. The major aim has been to assess the nature of South Africa's external ambitions in the post-apartheid era. For this reason it is not claimed that it has been a detailed account of domestic

[15] Robert Wade & Frank Veneroso, op.cit., p.22.

developments. Chapter Four's assessment of domestic pressures is intended to highlight the interaction between external forces and domestic policy formulation.

The domestic political situation is another factor that will affect South Africa's reintegration efforts especially in the longer-term. One important issue here is the future of the historical alliance between the ANC, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). This tripartite alliance was created formally in 1990. However, it was never meant as an eternal bond and was mostly concerned with the processes of negotiating a political settlement leading to the removal of apartheid. The relationship between the SACP and the ANC dates back to much earlier this century. They ran night schools as the black working class in the cities grew, offering adult education and advice in trade unionism. The SACP welcomed black members, thirty years before any other white political party in South Africa.[16] COSATU aligned itself with the ANC when the Freedom Charter was adopted in 1956.

In the years leading up to the 1994 elections the input of the other two alliance members on policy development was significant. The RDP in its original guise, was originally prepared within COSATU. Since 1994 the nature of this alliance has changed. Marais notes that as the policies of the ANC government have developed, relations with COSATU and the SACP who have the priorities of the working class at heart have experienced increasing strain.[17] A COSATU discussion paper written at the

[16] Allister Sparks, The Mind of South Africa (London; Arrow Books, 1997), p.252.
[17] Hein Marais, *op.cit*, p.251.

end of 1996, noted that since 1994 there had been very few noteworthy meetings between the members of the tripartite alliance.[18] The nature of the formulation of the GEAR strategy highlights the declining influence of COSATU and the SACP. GEAR was presented by the government as a non-negotiable policy. The policy was formulated in secret within the Ministry of Finance by a group of economists. This secretive nature precluded any input from the other two alliance members.[19] This would seem to suggest that there has been a shift from the inclusiveness approach discussed at the start of this chapter towards the style adopted in Brazil.

It appears that if the trends outlined in these relations persist then a break-up of the formal alliance between the three groups may well occur. As Marais notes, if COSATU were to pull out then logically the SACP must follow. Otherwise the situation would be that a working class party (SACP) would be in alliance with the ANC who had been deemed opposed to the interests of the largest and most powerful working class organisation (COSATU).[20]

Another area not mentioned in this thesis but something that may become important in the future nature of post-apartheid South Africa's reintegration with the global political economy is the idea of South-South co-operation. In the time-frame covered by this study the major concerns of the South African government have been fixed on improving its economic relations with the North, notably the EU, and even

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[18] Tom Lodge 'Policy processes within the African National Congress and the Tripartite Alliance', Politikon Vol.26, No.1, 1999, p.18.
[19] *ibid.*, p.23.
[20] Hein Marais, *op.cit.*, p.254.

co-operation amongst its regional neighbours has been relegated in its importance below these other wider concerns.

However, the trends in the global political economy outlined in Chapter Two of this thesis do not limit the possibilities of extending South Africa's external relations with just the major trading blocs in the North and the Southern African region. There are clearly huge opportunities to be gained from economic and political integration with other areas that used to be called part of the South. Although the division of the world into 'North' and 'South' is becoming increasingly archaic and is not a true reflection of today's global economic order. It appears that South African businesses have already begun to take this on board. Between 1995 and 1996, South Africa's trade with Brazil increased by 64 per cent, with Argentina by 35 per cent and with Australia by 33 per cent.[21] Also the biggest single foreign investment made in South Africa since the election in 1994 is the Rand 5.5 billion purchase by SBC/Telkom Malaysia of a 30 per cent stake in Telkom SA, mentioned in Chapter Five.[22]

Further analysis of the possibilities of South-South co-operation could be gained from an investigation into the feasibility of the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC). This grouping could comprise twenty-two member states eventually, with a total population of approximately 1.5 billion.[23] This idea was first suggested by Pik Botha, then South African Foreign Affairs Minister in

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[21] Greg Mills 'Introduction: Changing our View of the World' in Jorge Heine, Greg Mills, Ian Porter & Antoinette Handley (eds.), Looking Sideways: The Specifics of South-South Co-operation (Johannesburg; South African Institute of International Affairs, 1998), p.2.
[22] Business Times, 'Sluggish growth stifles overseas investment', 27 September 1998.
[23] Financial Mail, 'Route to the East', 27 October 1995.

1993, whilst in Delhi, India. Mauritius joined South Africa and India in organising a government-level meeting on the idea in Mauritius in April 1994. These three together with Australia, Kenya, Singapore and Oman agreed to create a forum for further discussion and the pursuit of mutual co-operation.

In September 1996, fourteen countries met and devised an initiative to create a trade network.[24] Delegates representing business, government and academia drafted a charter for the (IOR-ARC), which is to be submitted to governments for signature. This network will be a loose association concerned with standardising trade regulations and upgrading port facilities. However, there is the potential in the future for the development of a larger and more integrated bloc.[25] Nigel Bruce, Trade and Industry spokesman for the Democratic Party in South Africa has recently called for South Africa to concentrate its efforts on forming an alliance with the Indian Ocean Rim and that it should abandon the SADC as it is comprised of faltering economies.[26] This does not avoid the dangers of a relegation of regional concerns already outlined in this thesis but it does highlight that the idea is definitely on the South African government's agenda.

South-South co-operation could also progress via the formalisation of links between the SADC and the Southern Cone Market in Latin America (Mercosur).[27] The

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[24] In addition to the states mentioned earlier were Indonesia, Madagascar, Malaysia, Mozambique, Sri Lanka, Tanzania and Yemen.
[25] Business Day, 'Indian Ocean nations seek to establish trade network', 19 September 1996, [http://www.bday.co.za/96/0919/news/news28.htm].
[26] Business Day, 'Faltering SADC has little to offer, says DP', 8 July 1999, [http://www.bday.co.za/99/0708/news/n17.htm].
[27] Mercosur has six members states: Argentina, Brazil, Uruguay, Paraguay. Chile and Bolivia are associate members.

two regions are in a similar position in the global political economy. Although the Mercosur countries are more developed than the African ones and have developed trading and financial relations with the US and are generally credited with brighter prospects. Mercosur's regional integration project is also more advanced than SADC. Tariffs were steadily removed from regional trade until 1994, then in 1995 a customs union was created, therefore establishing a common external tariff.

Brazil, as the regional leader in South America, shares similarities with South Africa. Apart from the economic reforms undertaken in both, these two countries also share the problem of extreme wealth differentials amongst their populations.[28] A joint SADC-Mercosur conference was held in Johannesburg in October 1998. The two regional blocs identified trade and investment possibilities, with the motor industry singled out as offering a unique potential for exports and technology exchanges.[29]

8.4 Finale

This thesis has shown how the nature of South Africa's reintegration into the global political economy has altered in the course of the first four years of the post-apartheid era. If the major trend outlined in the thesis of an increasing relegation of domestic political pressures in the face of global concerns is maintained then the question becomes how long the ANC can maintain its politically dominant position in

[28] Personal interview with Dr Greg Mills (Johannesburg, 2 October 1998).
[29] Business Day, 'SADC strengthens Mercosur trade ties', 23 November 1999, [http://www.bday.co.za/98/1123/special/x3.htm].

South Africa. There is a possibility that, given the different factions within the party, the ANC will sub-divide into a number of different political parties.

Also the failure by the South African government to significantly address the regional development project in Southern Africa and the continuing economic imbalance between South Africa and its neighbours coupled with the regional domination of South African business suggests that it may be that, mistakenly, South Africa will see its future elsewhere, such as part of the IOR-ARC for example. The agreement between the EU and South Africa makes it even less likely that the South African government will prioritise the development of the region.

South Africa is now in the middle, not the end, of its revolution. If the racial reconciliation that has been achieved so far is to endure then an economic transformation is necessary. Only by transforming the patterns of wealth ownership and the income distribution in the country will the political revolution be sustained. This needs to be achieved in a negotiated way similar to the political change that was achieved. Nevertheless, as Thabo Mbeki has admitted in a speech:

> If you handle transformation in a way that doesn't change a good part of the status quo, those who are disadvantaged will rebel, and then, goodbye reconciliation![30]

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[30] Quoted in Patti Waldmeir, Anatomy of a Miracle (London; Penguin Books, 1997), p.280.

Appendix One

A Note on Methodology

The main methodological approaches used in this thesis have been analysis of primary and secondary documents and a series of semi-structured elite interviews. A complete list of all interviewees is provided in Appendix Two. The main sources of documentation and the number of interviews were driven by the reality of studying South Africa whilst based at the University of Warwick in the United Kingdom.

Primary documentation has been acquired as the result of research interviews and also to a large extent has been found on the world wide web. Web sites exist for all the major political parties, trade unions and business organisations within South Africa. The post-apartheid government has contributed significantly to this availability of information by running a comprehensive web service that allows the user to obtain important documents such as The Reconstruction and Development Programme and Growth, Employment and Redistribution macroeconomic policy document.[1] I found the vast majority of interviewees to be most obliging regarding the provision of documentation. A special thanks should be apportioned to the team based at the South African Mission to the European Union in Brussels.

Similarly secondary documentation is available in vast quantities on the world wide web. All the major South African newspapers run Internet editions. Of these the

[1] The South African Government can be found at http://www.polity.org.za

Weekly Mail and Guardian runs the most comprehensive searchable database, which dates back to 1994. Other publications including *Business Day, Independent Online* and *The Financial Mail* have also proved to be invaluable sources of information.

In all I spoke to eighteen different people and in each case the meeting was what is commonly referred to as a semi-structured qualitative interview. This type of research technique allows much more scope for respondents to answer questions in their own terms compared to standard methods such as the use of surveys and questionnaires which provide limited frames of reference for responses. May describes what defines a semi-structured interview.

> Questions are normally specified, but the interviewer is more free to probe beyond the answers. . . Qualitative information about the topic can then be recorded by the interviewer who can seek both clarification and elaboration on the answers given.[2]

This form of research was chosen because it allowed me to ask questions, many of which were based around assessing opinions. They were conducted face-to face to allow for the maximum use of probing and following up interesting points and also to maximise the potential for collection of additional documentation.

Interviewees were chosen based on an attempt to ascertain comments from as many interested parties as possible. For example, in relation to Chapter Six that looks at the South African negotiations with the European Union, both sides were consulted

[2] Tim May, Social Research: Issues, Methods and Process (Buckingham; Open University Press, 1993), p.93.

as were interested observers. I approached all the interviews with a similar plan. I had a basic list of vital questions to be asked and worked from this as a foundation, depending on how the conversation flowed and where the special interests of the respondents lay.

A number of methods were employed to clarify my expectations of the interviewees and the purpose and main concerns of the research. Wherever possible I sent an outline of the topics to be discussed and a skeleton question plan to them in advance. At the very least a similar document was presented at the beginning of my meetings. This also allowed time for people to think about, and locate, any documentation which they felt was relevant.

The interviews followed a number of stages and in this respect they all followed a similar pattern. I began with a fairly informal chat that served as a general introduction together with an outline of the central concerns of the project. This approach was adopted in order to assist in the establishment of a rapport with the interviewee to hopefully make them more co-operative when answering later questions. The use of some probes rather than a complete list of direct questions was also used to reduce any possible hostility between me and the respondent. An example of such a probe was: *Two different attitudes to the region seem prevalent in the South African business community. One claims South Africa has to become a "first world" player and become involved in global markets, and is hence less enthusiastic towards the importance of the region. The second champions South Africa's alleged role as an "engine of growth" in the region. Is either correct?*

Another style of questioning which fitted the purpose of the research which was primarily concerned with canvassing opinions was to offer my own interpretation of why a particular set of events had occurred allowing the informant to either conform this opinion or offer a new set of ideas.[3] A sample question of this type was: *The GEAR macroeconomic policy appears to represent a shift in the nature of domestic policy. Do you agree?*

In general the interviews were carried out with a clear idea of what were the most important topics to be covered, within the time constraints. All were recorded onto tape machines with the blessing of the individual respondents to reduce the necessity of note-taking during the course of the conversations. They also allowed the recording of a number of interviews conducted in South Africa over a short period of time because "tapes keep until you get a chance to transcribe them".[4]

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[3] Robert G. Burgess 'The Unstructured Interview as a Conversation' in Robert G. Burgess (ed.), Field Research: A Sourcebook and Field Manual (London; Routledge, 1982), p.108.
[4] Herbert J. Rubin & Irene S. Rubin, Qualitative Interviewing: The Art Of Hearing Data (London; Sage, 1995), p.126.

Appendix Two

List of Research Interviews

- Dr Elias Links, South African Ambassador to the European Union, 25 November 1997, Brussels.
- Rob Rozenburg, South African Task Force at EU Commission, 15 December 1997, Brussels.
- Brian Ritter, Counsellor Responsible for Foreign Affairs at the South African Mission to the European Union, 15 December 1997, Brussels.
- Terry Wynn MEP, Labour Party Member of European Parliament, 6 January 1998, St. Helens.
- Keith Kruger, Director at Timken Rail Bearing Services (formerly Managing Director of Timken South Africa), 28 May 1998, Northampton.
- Dr Gavin Woods MP, Economics Spokesperson for the Inkatha Freedom Party, 28 September 1998, Cape Town.
- Dr Rob Davies MP, African National Congress MP and Chairperson of the Portfolio Committee on Trade and Industry, 29 September 1998, Cape Town.
- David Graaf MP, National Party MP, 30 September 1998, Cape Town.
- Dr Greg Mills, Director at South African Institute of International Affairs, 2 October 1998, Johannesburg.
- Talitha Bertelsmann, Standard Bank EU/SADC Research Fellow at South African Institute of International Affairs, 2 October 1998, Johannesburg.

- Claudia Mutschler, Latin American Research Fellow at South African Institute of International Affairs, 2 October 1998, Johannesburg.
- Garth le Pere, Executive Director at Foundation for Global Dialogue, 5 October 1998, Johannesburg.
- Anthoni van Nieuwkerk, Research Director at Foundation for Global Dialogue, 5 October 1998, Johannesburg.
- Rosalind H. Thomas, Manager of Risk Management Unit at the Development Bank of Southern Africa, 5 October 1998, Midrand.
- Dale T. McKinley, South African Communist Party, 6 October 1998, Johannesburg.
- Paul Runge, Director at South Africa Foundation, 6 October 1998, Johannesburg.
- Prof. Gerrit Olivier, Centre for European Studies at Rand Afrikaans University, 7 October 1998, Pretoria.

Dr Monde Mnyande, Assistant Head of Economics Department at South African Reserve Bank, 7 October 1998, Pretoria.

Appendix Three

A Concise History of South Africa

1652	Jan van Riebeeck lands at Table Bay, Cape Town on behalf of the Dutch East India Company and establishes the first European settlement.
1795	Annexation of the Dutch Cape Colony by the British.
1867	Diamond mining begins leading to the creation of Kimberley.
1886	Gold mining begins on the Witwatersrand.
1899-1902	Anglo-Boer War.
1910	Union of South Africa formed out of the British colonies of the Cape and Natal and the former Boer republics of Transvaal and Orange Free State.
1914	Formation of the National Party (NP).
1948	NP wins its first general election.
1950	South African Communist Party (SACP) banned.
1960	Peaceful protest at Sharpeville ends in massacre with sixty-nine people killed. The African National Congress (ANC) is banned.
1961	South Africa becomes a republic.
1964	'Rivonia' trial leads to the life imprisonment of Nelson Mandela and other ANC leaders.
1976-77	Soweto crisis.
1989	F.W. de Klerk elected as President.
1990	ANC and SACP are legalised.
1992	Whites-only referendum endorses reform with a two-thirds majority.

1993 (July) Agreement on election date is reached by the ANC and NP.

(Dec.) The Transitional Executive Council, a multi-party interim government, begins to operate.

1994 (Apr.) First democratic general election.

(May) Inauguration of President Mandela and formation of the Government of National Unity (GNU).

(June) South Africa rejoins the Commonwealth.

(Aug.) South Africa joins Southern African Development Community (SADC)

(Oct.) South Africa returns to the United Nations; the GNU launches its Reconstruction and Development Programme (RDP).

1996 (June) NP leaves the GNU; Government publishes its Growth, Employment and Redistribution (GEAR) macroeconomic policy document.

(July) RDP transferred to Vice-President Thabo Mbeki.

(Dec.) President Mandela signs new constitution.

1997 (Feb.) Parliament re-opens and the new constitution is adopted.

(Sept.) F.W. de Klerk retires from politics.

1998 (Oct.) Presidential Jobs Summit is organised.

1999 (Mar.) Negotiations with the EU over a FTA are concluded.

(June) ANC improves its share of the vote in the second democratic general election.

Appendix Four

The Late Conclusion of South Africa's Negotiations with the European Union

The negotiations between South Africa and the European Union (EU) discussed in Chapter Six came to a late conclusion on 24 March 1999. The Trade, Development and Co-operation accord is expected to be implemented on 1 January 2000. This Appendix provides a brief account of how the negotiations were concluded given that it occurred after the end of the period of this study.

In mid-1998 there was dismay from the South African side that there had still not been a resolution of the talks. It had been hoped that the UK's presidency of the EU in the first half of the year would speed up the process. The delay of an agreement meant costs to some sectors of the South African economy. One example was Langeberg Foods factory in Paarl. This firm produces canned fruit, one of the sectors in which some EU member states, especially Spain and Portugal feared South African competition. It had to shed two thousand jobs in September 1998. The continued EU protection, coupled with a loss of export incentives from the South African government, as part of its commitments from the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), made these products less competitive in Europe than during the apartheid era. In general the industry's exports of canned deciduous fruits to the EU has fallen by a third within months of the phasing out of the General Export Incentive Scheme (GEIS).[1]

There were three main stumbling blocks that delayed the conclusion of the Free Trade Agreement (FTA). First, Spain and Portugal argued for the agreement to include an undertaking by South African wine producers to phase-out the use of the generic terms *Port* and *Sherry* to describe their fortified wine products similar to those produced by their European counterparts. The use of names which indicate a geographic origin is governed by the Trade-Related Intellectual Property Rights (TRIPs) part of the rules of the new World Trade Organisation (WTO). It is questionable whether *Port* and *Sherry* satisfy the WTO conditions as neither is a place name, and neither of the products is actually produced in the associated towns of Oporto and Jerez.[2]

Secondly, there were the Spanish demands for South Africa to grant fishing quotas. Thirdly, was the need to satisfy WTO rules on achieving an average removal of barriers to trade between the two sides of 90 per cent, within a maximum of twelve years.

The deal that was finally struck in March 1999 differed little from the point which had been reached at the end of 1997. The exclusion of 39 per cent of South African agricultural products remains in place. Also the South Africans conceded on the use of the terms *Port* and *Sherry* and agreed to phase them out within twelve years.

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[1] Mail & Guardian, 'Human cost of EU talks', 25 September 1998.
[2] Business Day, 'EU is not entitled to the rights it pursues in wine industry', 5 October 1998.

The FTA will involve the EU removing tariffs on 95 per cent of South African exports to the EU within ten years. The asymmetry of the accord will allow South Africa an extra two years to reach a position where barriers to 86 per cent of imports from the EU are liberalised.[3]

The concessions made by South Africa in the latter stages of the talks may be explained by the relative importance of the agreement to both sides. With South Africa supplying only 1.4 per cent of the EU's total imports, compared with an EU contribution to South African imports of 44 per cent in 1996, clearly trade with the EU is of more importance to South African than vice-versa.[4]

For South Africa there are certain benefits in the medium- to long-term that a special relationship with the EU will confer. Europe is expanding and the advantages of access to current and future EU markets in a way that conforms with World Trade Organisation rules are numerous. Both investment opportunities and expanded trade possibilities will result from the agreement. However, there are still measures of European protection, especially the EU's Common Agricultural Policy which maintains a level of protection for agricultural products via the use of price supports and tariffs.

The agreement falls short of the initial hopes of the South African government when the EU proposed its support soon after the completion of the elections in South Africa in April 1994. Also the fact that the FTA had taken four years to complete means that the EU has not played such an important role in the reconstruction and

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[3] Business Day, 'EU deal may be done by January', 21 June 1999.
[4] Business Day, 'Much ado about very little in EU-SA free trade deal', 12 July 1999.

development of South Africa during the early years of the post-apartheid era as was initially expected. It is to be hoped that it is not too little, too late.

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