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**Re-engaging with the Global Trading System: The Political Economy of
Trade Policy Reform in Post-Apartheid South Africa, 1994-2004**

by

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**A thesis submitted in fulfillment of the requirements for the degree of
Doctor of Philosophy in Politics and International Studies**

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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

Abbreviations and Acronyms

AGW	Africa Group within the WTO
AGOA	Africa Growth and Opportunity Act
AIDS	Acquired Immune-Deficiency Syndrome
AIDC	Alternative Information Development Centre
ANC	African National Congress
BLNS states	Botswana, Lesotho, Namibia and Swaziland
BTI	Board of Trade and Industry
BTT	Board of Trade and Tariffs
CAP	Common Agricultural Policy
COSATU	Congress of South African Trade Unions
DA	Department of Agriculture
DDA	Doha Development Agenda
DD	Doha Declaration
DEP	Department of Economic Policy
DFA	Department of Foreign Affairs
DR	Doha Round
DTI	Department of Trade and Industry
EBA	Everything But Arms
EPAs	Economic Partnership Agreements
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade

GEAR	Growth, Employment and Redistribution Strategy
GEIS	General Export Incentive Scheme
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
HIV	Human Immuno-Deficiency Virus
ICSTD	International Centre for Trade and Sustainable Development
IBSA	India, Brazil and South Africa
IFIs	International Financial Institutions
IDC	Industrial Development Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
IPE	International Political Economy
ISCOR	Iron and Steel Corporation
ISI	Import-Substitution Industrialisation
LDCs	Least Developed Countries
LIEO	Liberal International Economic Order
LMG	'Like-Minded Group'
MAF	Multi-Fibre Agreement
MAI	Multilateral Agreement on Investment
MEAs	Multilateral Environmental Agreements
MIDP	Motor Industry Development Programme
MERCOSUR	Southern Cone Market in Latin America
MERG	Macro-Economic Research Group
MFN	Most Favoured Nation
MNC	Multinational Corporation

NAFTA	North American Free Trade Agreement
NAM	Non-Aligned Movement
NEDLAC	National Economic Development and Labour Council
NEF	National Economic Forum
NEPAD	New Partnerships for Africa's Development
NEM	Normative Economic Model
NICs	Newly Industrialised Countries
NIDL	New International Division of Labour
NIEO	New International Economic Order
NP	National Party
NT	National Treasury
OECD	Organisation for Economic Cooperation and Development
PCTI	Portfolio Committee on Trade and Industry
QRs	Quantitative Restrictions
R&D	Research and Development
RDP	Reconstruction and Development Programme
SACOB	South African Chamber of Commerce
SACP	South African Communist Party
SACU	Southern African Customs Union
SADCC	Southern African Development Coordination Conference
SADC	Southern African Development Community
SAIIA	South African Institute of International Affairs
STP	SADC Trade Protocol
SDT	Special and Differential Treatment
SME	Small and Medium-Sized Enterprise

TDCA	Trade and Development Cooperation Agreement
TRIPs	Trade-Related Aspects of Intellectual Property Rights
TPRM	Trade Policy Review Mechanism
UNCTAD	United Nations Conference on Trade and Development
UN	United Nations
UR	Uruguay Round
US	United States
WTO	World Trade Organisation

Abstract

The thesis examines the political economy of trade policy reform in post-apartheid South Africa. It challenges mainstream accounts of contemporary trade policy in South Africa, which have advanced a solely economic rationale to explain the policy choices made by the ANC governments since 1994. The thesis argues that, far more than these accounts concede, international and domestic political economy considerations have also played a central part in the ANC governments' calculations to undertake trade reform to the degree it has. Trade reform in South Africa has been the linchpin of a global adjustment strategy pursued by the domestic political elites by which they have sought to fulfill South Africa's global, regional and domestic political and economic objectives.

At the global level, the South African state has vigorously pursued trade liberalisation in order to shed its past image of international pariah and reintegrate itself into the global economy on the basis of outward-oriented growth. Restoring South Africa's international political respectability has been as important as reversing its economic marginalisation in the international division of labour. At the regional level, the South African state has used trade policy reform as a foreign economic policy tool not only to rebuild political and diplomatic relations with African countries – strained during the apartheid era – but also to advance its hegemonic ambitions, particularly in Southern Africa, as well as reinforce the region's ability to engage with the forces of economic globalisation. The extent to which South Africa's regional hegemonic ambitions can be achieved, however, lies ultimately with how adeptly the country can reconcile these regional aspirations with its domestic pressures.

At the domestic level, trade reform has been deployed by the decision-making elites not only to lock in the government's austere macroeconomic policy but also to curtail the power of domestic interests that have benefited from trade protectionism in the past. In return for their co-operation, the South African state has allowed these interests, notably business and labour, enhanced institutional representation in economic policymaking. In this sense trade policy has been employed to serve domestic as much as foreign political and economic policy ends.

Introduction

The re-acceptance of South Africa into the international community in 1994 represented a watershed in the country's trade history. By signing on to the Marrakesh Agreement of the General Agreement on Tariffs and Trade (GATT) in 1994, South Africa signalled its commitment not only to liberalise its trade policies in accordance with the rules-based international trading regime, but also to restore its trade rights and formalise its credentials as a fully-fledged trading nation following many years of operating beyond the GATT disciplines.¹ Through its membership of the World Trade Organisation (WTO), South Africa has committed itself to a systematic opening up its economy to foreign competition and promoting exports and inward investment to support growth and employment.

Most accounts of trade policy in post-apartheid South Africa have employed almost exclusively economic rationale to explain trade reform undertaken by the African National Congress (ANC) governments since 1994. This research examines the shortcomings of these economic analyses in understanding the reasons for trade policy reform in democratic South Africa. Although economic explanations are undoubtedly pertinent and germane, they do not tell whole story about South Africa's trade reform trajectory. It is to the elaboration of the central argument of the thesis this introductory chapter now turns.

¹ Alan Hirsch, "From the GATT to the WTO: The Global Trade Regime and its Implications for South Africa," in Gregg Mills, Alan Begg and Anthoni van Nieuwkerk (eds.), *South Africa in the Global Economy* (Johannesburg: South African Institute of International Affairs, 1995), p.41.

1. The Argument

This thesis challenges mainstream accounts of trade policy in post-apartheid South Africa.² These analyses overlook the importance of international and domestic political economy factors in explaining trade policy reform in contemporary South Africa. The focus of most economic studies on South African trade policy has been largely on “whether import substitution, export promotion, or inward industrialisation is the correct trade policy approach.”³ The debate has, therefore, placed a disproportionate emphasis on economic explanations of trade policy at the expense of other crucial considerations such as the role of power in the world economy, the dynamic interaction between domestic and international politics, the impact of globalisation on national policies and domestic economies, and the effects of domestic politics on strategies and outcomes.⁴ As such not only are these accounts vulnerable on theoretical and empirical grounds,⁵ they also fail to elucidate the role that has been played by international and domestic political economy factors in the trade policy choices made by the ANC government since the early 1990s.

² See for example Merle Holden, “The High Road to Trade Reform,” *Indicator South Africa*, vol. 10, no. 1, (Summer, 1992); Merle Holden, “The Choice of Trade Strategy,” in Nicoli Nattrass and Sampie Terreblanche (eds.), *The Political Economy of South Africa* (Cape Town: Oxford University Press, 1990); and Gunnar Jonsson and Arvind Subramanian, *Dynamic Gains from Trade: Evidence from South Africa*, IMF Working Paper 00/45 (Washington: International Monetary Fund, 2000); and Michael Bleaney, Alan Hirsch, Merle Holden and Carolyn Jenkins, “South Africa,” in Ademola Oyejide, Benno Ndulu and Jan Willem Gunning (eds.), *Regional Integration and Trade Liberalisation in Sub-Saharan Africa – Volume 2: Country Case Studies* (Basingstoke: Macmillan Press, 1999).

³ Graham A. Davis, *South African Managed Trade Policy – The Wasting of a Mineral Endowment* (Westport: Praeger, 1994), p.2.

⁴ See for example Susan Strange, *States and Markets* (London: Pinter, 1988); Jeffrey Frieden and David A. Lake (eds.), *International Political Economy: Perspectives on Global Power and Wealth* (New York: St. Martin’s Press, 2000); Richard Higgott, “International Political Economy,” in A.J.R. Groom and Margot Light (eds.), *Contemporary International Relations: A Guide to Theory* (London: Pinter, 1994); and Dani Rodrik, *The New Global Economy and Developing Countries: Making Openness Work* (Washington DC: Overseas Development Council, 1999).

⁵ See Susan Strange, “Protectionism and World Politics,” *International Organization*, vol. 39, no. 2, (Spring, 1985), pp.233-259; Paul Krugman, *Strategic Trade Policy and the New International Economics* (Cambridge: MIT Press, 1987); and Robert Wade, “Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective,” *New Left Review*, no. 217 (May/June, 1996), pp.3-37.

International experience has shown that sweeping trade policy reforms have been introduced following major crises. According to Rodrik:

If a period of macroeconomic instability is the worst time to undertake a trade reform, why are so many countries doing it? The main reasons are drawn from the broader domain of political economy. First, a time of crisis occasionally enables radical reforms that would have been unthinkable in calmer times. The second reason has to do with the role of foreign creditors, and of the IMF and World Bank in particular. The 1980s were a decade of leverage for these institutions vis-à-vis debtor governments, especially where poorer African countries are concerned. Cash-starved governments frequently with little conviction of their ultimate benefits adopted the trade policy recommendations of the World Bank⁶

Liberalisation of trade is often portrayed as an unwelcome policy that is foisted upon economies by the conditionalities imposed by international financial institutions (IFIs).⁷ This is not strictly so in the case of South Africa. Trade reform in South Africa, unlike in most African countries, has always been dictated by domestic considerations. This does not, of course, mean that the ‘crisis’ explanation of trade reform is not pertinent to the South African situation. Indeed, as argued in Chapter 3, the structural crisis that beset the country since the late 1970s has been a major catalyst in the economic policy changes that have been undertaken by the South African state in recent years. However, it is worth stressing that these changes have not been implemented as part of structural adjustment programmes sponsored by the IFIs. That is to say, notwithstanding the neo-liberal ideological offensive to which the ANC leadership was subjected to in the early 1990s (see Chapter 5), its economic

⁶ Dani Rodrik, “The Limits of Trade Policy Reform in Developing Countries,” *Journal of Economic Perspectives*, vol. 6, no. 1, (Winter 1992), p.89.

⁷ See J. Williamson (ed.), *The Political Economy of Policy Reform* (Washington, DC: Institute for International Economics, 1994); and Dani Rodrik, “Understanding Economic Policy Reform,” *Journal of Economic Literature*, XXXIV (March, 1996).

policies were ultimately the product of a home-grown and self-imposed structural adjustment programme, not imposed from outside.

Even so, a crucial question remains unanswered by the multitude of studies on South African trade policy carried out over the past decade: Given the relatively ample room for manoeuvre it had vis-à-vis the IFIs when it took power in 1994 why, then, did the ANC government embrace and even reinforce the trade liberalisation policies initiated by the apartheid regime in the late 1980s, especially in light of some evidence that trade liberalisation in South Africa had already reached an advanced stage by the end of the 1980s and that the key impediments to rapid export growth were unconnected to trade policy?⁸

This thesis argues that, far more than mainstream accounts of contemporary South African trade policy concede, international and domestic political economy considerations have played a central part in the ANC government's calculations to undertake trade reform to the degree it has. Trade reform in post-apartheid South Africa has been the linchpin of a global adjustment strategy pursued by the domestic political elites by which they have sought to fulfill South Africa's global, regional and domestic political and economic objectives. At the global level, the South African state has vigorously pursued trade liberalisation in order to shed its past image of international pariah, reintegrate itself into the global economy on the basis of export-led growth, and managing the forces of economic globalisation. Restoring South Africa's international political and diplomatic respectability has been as important as reversing its economic marginalisation in the international division of labour, which

⁸ See for example Trevor Bell, "Should South Africa Further Liberalise its Foreign Trade?" in Merle Lipton and Charles Simkins (eds.) *State and Market in Post-Apartheid South Africa* (Boulder: Westview Press, 1993), pp.83-127.

intensified during the apartheid era. Furthermore, trade reform has been promoted as part of a set of policy measures – including fiscal, monetary and foreign investment policies – designed to win the confidence of international and domestic financial markets, which were initially skeptical about the ANC government’s ability to manage the South African economy. ‘Playing the confidence game’ – appeasing market sentiment – has become as imperative as actual economic fundamentals themselves in driving policy.⁹

At the regional level, post-apartheid South Africa has made the pursuit of African economic rejuvenation – mainly through the instruments of regional trade integration – the keystone of its foreign economic policy.¹⁰ In this respect, the South African state has used trade policy reform as a foreign economic policy tool not only to rebuild political and economic cooperation with African countries (damaged during the apartheid era) but also to advance its hegemonic ambitions, particularly in the Southern African region, as well as strengthen the region’s leverage vis-à-vis multilateral institutions.¹¹ The extent to which South Africa’s regional hegemonic ambitions can be achieved, however, lies ultimately with how adeptly the country can reconcile these regional aspirations with its domestic pressures.

At the domestic level, trade reform has been deployed by the decision-making elites not only to lock in and entrench the government’s neo-liberal macroeconomic

⁹ For a fascinating discussion of how states have been forced to ‘play the confidence game’ under conditions of global financial volatility see Paul Krugman, *The Return of Depression Economics* (London: Penguin Books, 1999), pp.102-117.

¹⁰ Nkosazana Dlamini-Zuma, “South Africa’s International Relations 2002/3,” a report presented by the South African Minister of Foreign Affairs, Dr Nkosazana Dlamini-Zuma, to the South African Parliament, Cape Town, 23 March 2003, pp.1-2.

¹¹ See Patrick J. McGowan and Fred Ahwirang-Obeng, “Partner or Hegemon? South Africa in Africa,” *Journal of Contemporary African Studies*, 16 2 (1998), pp.166-195.

economic policy but also to curtail the power of domestic interests that benefited from trade protectionism in the past. In return for their co-operation, the South African state has allowed these interests, notably business and labour, enhanced institutional representation in economic policymaking, in addition to providing a wide array of supply-side measures – including institutional capacity-building, human resources development, lower company tax, appropriate exchange rate policy, and trade-related technical assistance – to mitigate the negative effects of competitive pressures. Indeed, the restrictive nature of corporatism in South Africa – which has tended to reduce the role of labour and business in economic policymaking to a purely consultative one – has enabled the decision-making elites to manage domestic tensions induced by their trade liberalisation policies. This does not imply, however, that capital and labour have been generally feeble, hardly so considering South Africa's (still) highly concentrated corporate structure and the massive social power wielded by the trade union movement. Rather, what is meant is that corporatism has provided the state, albeit within the limited confines of an institutional setting, with a leverage to bargain with its social partners over economic policy and with a breathing space to consolidate its economic reform agenda both at international and domestic levels. In this sense trade policy has been employed to serve domestic as much as foreign political and economic policy ends.

2. Explaining Trade Policy

Trade policy refers to a microeconomic policy that is generally aimed at achieving domestic economic objectives for domestic political motives. It can be employed either to shelter domestic industry and slow down the rate of its adjustment to global

economic change, or it can be used as a tool subject the national economy – especially its uncompetitive industrial sectors – to foreign competition and quicken its pace of structural change. In most developing economies trade policy is seen as a central ingredient of industrial policy. Industrial policy concerns those government actions designed to foster the development of strategic industries, while trade policy is one mechanism of altering the structure of the domestic economy in accordance with industrial policy objectives. Trade policy is, therefore, one pillar of a wider industrial policy, in addition to other microeconomic policies such as investment policy, research and development policy, technology policy, and skills development policy.¹²

Trade economists start from the premise that market conditions determine trade policies: trade responds only to market-driven differences in comparative advantage – namely factor endowments and capabilities. They believe that trade ought to be free: free trade is considered the ‘first-best policy’ because of its allocative efficiency – its ability to move limited economic resources to areas where they can be better exploited – and its positive effects on national welfare. Moreover, trade economists warn against the negative effects of protectionist policies and draw attention to the high costs of rent-seeking and corruption which have followed on inward-looking trade regimes.¹³ And they argue that there is a correlation between growth and trade orientation: countries that are more open and have fewer distortions in their trade policies grow faster.¹⁴ Even so, trade economists accept that certain circumstances justify state intervention for distributive purposes, for example in order to protect

¹² Davis, *South African Managed Trade*, pp.5-11.

¹³ See for example Jagdish Bhagwati, *Protectionism* (Cambridge, Massachusetts: MIT Press, 1988); and Anne Krueger, “The Political Economy of the Rent Seeking Society,” *American Economic Review*, no. 64 (June, 1974).

¹⁴ Sebastian Edwards, “Trade Orientation, Distortions and Growth in Developing Countries,” *National Bureau of Economic Research*, Working Paper no. 3716, 1991.

weak domestic firms threatened by liberalisation. This view, however, sees trade intervention as an exception to the general norm and as a policy tool of last resort.¹⁵

Many political scientists question the idea propounded by economists that there can be an objectively and unquestionably “best” trade policy. They maintain that choosing a trade policy is a complex process that demands a balancing of conflicting political, economic and ethical claims. According to Moon, three sets of dilemmas must be confronted before deciding on a trade policy: the distributional dilemma; the values dilemma; and the state goals dilemma. The distributional dilemma derives from the fact that not everybody gains from a chosen trade policy. Trade has a tendency to change income and wealth distribution, benefiting some individuals, groups, social classes and economic sectors at the expense of others. Governments are, therefore, invariably called upon to make painful decisions regarding whose interests their policies will benefit, and whose interests will suffer as a consequence of these policy choices.

The values predicament occurs when trade produces outcomes that clash with other societal values. In this context trade is essentially seen as a struggle to establish a trade-off between economic gain and other societal principles. This makes trade a highly contested domain where some citizens may object to the idea that economic prosperity is being pursued to the detriment of their cherished social and ethical values. The state goals dilemma centres on the conflict between trade and the state’s quest to achieve other objectives such as preserving its power, security and national sovereignty in the international system. These are important strategic goals pursued by most governments but which economic theories fail to account for because of their

¹⁵ Ibid., p.141.

sole preoccupation with issues of growth and efficiency.¹⁶ On the basis of these considerations it can be concluded that:

In sum, trade poses fundamental dilemmas involving choices between competing values, alternative income distributions, and disparate effects on state goals and capacities. For this reason, no single trade policy is unequivocally “best.” Further, economic theory alone cannot be a reliable guide to either the most appropriate choice or the most likely one. Instead, each nation resolves the dilemmas of trade in its own way, as it responds to prevailing theories, the state of markets, and the balance of political power.¹⁷

Trade policy is essentially about domestic politics. Given that it determines the relative positions of various social groups in the domestic political economy, trade policy is “also the subject of frequent and often highly charged domestic political conflict.”¹⁸ There is a propensity in economic theory to overemphasise the allocative aspects of trade policy and downplay its redistributive, political elements. This approach is deficient in that it fails to incorporate non-efficiency arguments for crafting trade policy. As Strange once admonished, “efficiency never has been, and never can be, the sole consideration in the choice of state policies.”¹⁹ According to Rodrik, a political economy analysis of trade policy ought to have four features. On the demand side, it must encompass *individual preferences* and the methods by which those preferences are *aggregated* to generate political demands. On the supply side, trade policy ought to explain the *preferences of policymakers* and the *institutional arrangements* in which they are operationalised.²⁰ In sum, in addition to efficiency

¹⁶ Bruce E. Moon, *Dilemmas of International Trade* (Boulder: Westview Press, 2000), pp.20-31.

¹⁷ *Ibid.*, p.31.

¹⁸ Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations* (New York: St Martin's Press, 1997), p.49.

¹⁹ Strange, “Protectionism and World Politics,” p.236.

²⁰ See Dani Rodrik, “What Does the Political Economy Literature on Trade Policy (Not) Tell Us That We Do Need To Know?,” Centre for Economic Policy Research, Discussion Paper no. 1039 (October 1994).

arguments trade policy must also account for the interests of the state machinery and the conflict among different internal social groups.

Another way of understanding trade policy is to see it as a tool of foreign policy. This mercantilist conception of trade policy views trade, and thereby wealth, as a source of state power. Trade is thus employed by one state as a weapon to alter the behaviour of other states and to advance particular strategic goals in the international system. A good example of a country that has used trade policy to advance foreign policy ends is the United States (US). Over the past decades successive American administrations have used threats of trade discrimination either to intimidate a competitor or to penalise an adversary. During the Cold War, the US imposed economic sanctions against developing countries considered supporters of or sympathetic to communist Russia.²¹ In recent years, the US has used trade as a mechanism to reward countries that have supported its foreign economic and security policies while punishing those that have opposed these policies. Political calculations have become as important as economic ones in the determination of US bilateral trading arrangements. In Chapter 6, it will be shown that the current Bush administration has rewarded countries that have backed its foreign economic and security policies while it has penalised those that have failed to support these policies.

One of the enduring puzzles about trade policy is whether there is a direct relationship between trade liberalisation and economic growth. It is now accepted by economists that trade reforms, judiciously executed, could yield positive efficiency outcomes in the long-term. Yet this does not imply a direct correlation between trade

²¹ For a comprehensive analysis of US foreign policy during the Cold War see Alan P. Dobson and Steve Marsh, *US Foreign Policy since 1945* (London: Routledge, 2001).

liberalisation and economic growth. In reality, it remains unclear if trade leads to growth and vice versa.²² International experience has shown that trade reform is not a panacea for economic problems. Trade policy does not create economic growth, but it can create an enabling environment for it to occur, for example by promoting an efficient allocation of economic resources and playing a supportive role during stabilisation through the mobilisation of resources for the government. Fostering economic growth requires an integrated strategy that locates trade policy in a wider development context that includes other pillars of industrial policy such as investment policy, entrepreneurship development policy, training and development policy, technology policy, research and development policy.²³

3. Why Trade Matters

Not only has trade played a pivotal role in cementing economic relations among nations, it has been essential to the development of international relations.²⁴ The history of trade liberalisation has shown that although trade is not necessarily the engine of growth, it can create conditions conducive to economic success. There is now ample empirical evidence that trade improves productivity, efficiency and economic welfare. Previous experience has shown that the world economy grows rapidly during periods of trade expansion and slows down when trade levels decline. World trade increased almost twice as fast as total world production since 1950, accounting for a quarter of all goods and services produced globally.²⁵

²² Moon, *Dilemmas*, p.3.

²³ See Dani Rodrik, "The Limits of Trade Policy Reform", pp.87-105.

²⁴ Robert Gilpin, *The Political Economy of International Relations* (New Jersey: Princeton University Press, 1987), p.171.

²⁵ Moon, *Dilemmas*, p.3.

As spelt out in detail in Chapter 1, the supremacy of an outward oriented trade strategy over that of import substitution industrialisation is now widely recognised. The post war-period demonstrated that countries that pursued an open trade policy experienced faster economic growth than those that did not.²⁶ The dynamic economies of East Asia – Singapore, Hong Kong, South Korea and Taiwan – registered exponential growth rates thanks largely to their open trade policies. In contrast, those economies (mainly in Latin America, Africa and the Middle East) that over-prolonged their inward-looking economic policies found themselves saddled with abysmal growth performance. Research has revealed marked differences in the significance of trade across nations. Bigger developed countries, which boast massive domestic markets of their own, tend to depend less on trade than smaller countries. In general, the sheer sizes of larger developed nations enable them to fulfill their economic and consumption needs. Smaller nations, however, are compelled to undertake higher degrees of trade as “they can neither supply goods to meet all their own needs nor provide a market sizable enough for many industries to produce in the large volumes required to be efficient.”²⁷ This explains why trade accounts for a significant share of the GNP in developing countries, catapulting trade to the heart of these countries’ political agendas.

The expansion of trade, induced by the need by societies to source from abroad goods not available at home, has culminated in a variety of outcomes including technological diffusion, a demand effect on the economy that generates economic growth, gains for individual firms deriving from economies of scale and market size

²⁶ Brian McDonald, *The World Trading System – The Uruguay Round and Beyond* (New York: St Martin’s Press, 1998), p.4.

²⁷ Moon, *Dilemmas*, p.5.

growth, a widening of consumer choice, and a decrease in input costs for raw materials and manufactured components. Trade has also had a notable cultural impact, affecting the values, ideas and behaviour of a society. Economic liberals have extolled the virtues of this cultural influence, highlighting the positive role that trade plays in disseminating new ideas and spurring technological progress. Economic nationalists, however, baulk at this cultural encroachment: they argue that trade undermines traditional values while bemoaning its corrosive social effects. Furthermore, trade has been a major factor in the evolution of international politics. Liberals regard trade as a source for good since they believe that it promotes a peaceful co-existence among nations, whereas nationalists view it as a source of political friction and a threat to economic sovereignty.²⁸

The globalisation of production has had a profound impact on trade. Globalisation has inspired a push for the liberalisation of world trade that transcends border issues to include matters previously considered by governments the domain of domestic policy.

As Higgott observed:

What can be said is that the WTO remit now intrudes more substantially into the domestic politics and economics of the contracting parties, including the United States, in a manner not fully appreciated during the Uruguay Round of negotiations. Under the WTO, in marked contrast to the GATT, all parties had to commit to full membership and a permanent, 'single undertaking' of the rules-based nature of the system. Governments that signed on to the WTO, in effect, took the whole package. Moreover, this extended beyond the traditional instrument of protection – the tariff- to cover a whole range of non-tariff barriers.²⁹

²⁸ Gilpin, *The Political Economy*, pp.71-172.

²⁹ Richard Higgott, "The Limits to Multilateral Economic Governance" a paper presented before the Council for Asia Europe Cooperation Task Force on Global Governance, Seoul, 26-28 September 2003, p.18.

As such, the global trade liberalisation agenda is no longer concerned solely with the elimination of tariff and non-tariff barriers to trade: it now entails a more ambitious agenda that seeks to impose disciplines on a range of issue areas encompassing trade and intellectual property rights, trade and the environment, trade and labour standards, trade and services, trade and investment, trade and competition policy, trade and public procurement, trade and technology, and trade and debt. Given this expansive trade agenda, it is not surprising that the WTO, the institutional embodiment of the global trade regime, has in recent years become a principal focal point of both the proponents and the opponents of globalisation. In sum, globalisation has created a situation where trade cannot be dismissed any longer (as, for example, Strange once asserted) as a secondary structure in the international political economy, subservient to the security, production, financial and knowledge structures.³⁰ Trade has become the fulcrum of the global political economy, with important future political, economic, social, technological and environmental implications.

4. A Note on the IPE Analytical Framework

The approach adopted in this thesis to illuminate trade policy borrows from a range of analytical insights found mainly in the disciplines of economics, international relations (IR) and international political economy (IPE). The notion of trade policy has been dissected at length in the literature. Yet it is astonishing that it is only in recent decades that various academic disciplines have begun to draw on each other's strengths – notwithstanding a great deal of turf fighting that has typified such interdisciplinary exchanges. As Odell averred:

³⁰ Strange, "Protectionism and World Politics," p.234.

During the 1980s, international trade problems multiplied and gripped attention in many countries. Although an extensive literature already existed, scholarship on trade policies and politics expanded in proportion to the problem: following a trend that began in the 1970s, many economists and political scientists turned their traditional tools to the subject. As a result, we now have a literature that coheres around a common question, but remains, or appears to remain, disparate in the theoretical answers it defends and the research methods it employs. Fragmentation of political-economic knowledge is not news; as we know, the two disciplines parted company during the nineteenth century. Even today, much of economics shows no signs of contact with political science, and vice versa. The good news is that a better, unified theory – combining elements of economics, political science, and history – is gradually emerging in the area of international trade policy and elsewhere.³¹

This study proceeds from the premise that no single theoretical position can explain and answer adequately the central questions posed by this study. In this endeavour due sensitivity has been accorded, as far as possible, to the perceptive observation of Fine and Rustomjee, keen students of the South African political economy, that “those wishing to understand the workings of the South African economy are faced with the problem of how to proceed methodologically. Perhaps more than any other economy, the difficulty is posed of combining abstract or general propositions and theoretical insights with those that are appropriate to the apparent uniqueness of the apartheid system.”³² The thesis contends that distinctive racial, political and economic peculiarities rooted in the history of the South African political economy call for what Strange termed ‘an eclectic approach’ to IPE, a theoretical approach that embraces and cuts across divergent insights and traditions.³³ In this respect it is inspired by Underhill’s caution against “...a tendency to reduce theoretical discussion in IPE to

³¹ John S. Odell, “Understanding International Trade Policies – An Emerging Synthesis,” *World Politics*, vol. 43, no. 1, (October 1990), pp.139-140.

³² Ben Fine and Zavareh Rustomjee, *The Political Economy of South Africa – From Minerals-Energy Complex to Industrialisation* (London: Hurst and Company, 1996), p.20.

³³ See Susan Strange, ‘An Eclectic Approach,’ in Craig N. Murphy and Roger Tooze (eds.), *The New International Political Economy* (Boulder: Lynne Rienner, 1991), pp.33-49.

competing and mutually exclusive, even irreconcilable, ideologies.”³⁴ And it echoes Hirschmann’s injunction to scholars to become more willing to ‘trespass’ into other social disciplines: to become more willing to transcend barriers imposed by their intellectual straitjackets and engage with other social disciplines. As he put it, “progress with some of the major puzzles in economic-political development requires considerable detours and forays into other areas.”³⁵

This thesis situates itself within the eclectic approach advocated by Strange and Hirschmann’s clarion call for trespassing. Anchored in what has become known as ‘new political economy’ model, the celebration of eclecticism in IPE has been evidenced by the upsurge in diverse yet complementary literatures over the past decade bent on repudiating, in various ways, theoretical ‘orthodoxy’ in IPE: the dominance of IPE by three competing theoretical paradigms (Liberalism, Realism, and Marxism) and the propensity to classify scholars according to the theoretical paradigm they are considered to be associated with.³⁶ The strength of the new political economy tradition resides with its desire to break away from and overcome the limitations of the analytical tools and methods used in traditional social sciences: it accepts that traditional social science instruments cannot deal adequately with the challenges presented by globalisation, especially the role that globalisation has played in breaking the distinction not only between the domestic and the international but also between the political and the economic; its intellectual spirit is multi-disciplinary and theoretical and yet it is rooted in history; its methodology eschews the previous dichotomies – between agency and structure as well as between states and markets –

³⁴ Underhill, “Introduction: Conceptualising the Changing Global Order,” p.7.

³⁵ Albert O. Hirschmann, *Essays In Trespassing – Economics to Politics and Beyond* (Cambridge University Press, 1981), p.vi.

³⁶ For a comprehensive survey of this genre of literature see Richard Higgott and Anthony Payne (eds.), *The New Political Economy of Globalisation – Volumes 1, 2 and 3* (Cheltenham: Edward Elgar, 2000).

that fractured classical political economy into discrete disciplines; it is propelled by a progressive normative agenda that is concerned with issues of social equality and justice in a globalising world economy.³⁷ Moreover, the new political economy paradigm recognises the salience of the notion of power in the global political economy, especially the role that power (depending on how it is distributed) plays in creating winners and losers in the global system.³⁸ It is worth noting, however, at this stage that while the central importance of theoretical reflection is recognised in this research, the strength of the study is its empirical narrative on South African trade policy and its contextualisation within an IPE framework.

5. The Contested Nature of IPE

In a seminal paper, Susan Strange questioned the artificial barriers which divorced the discipline of politics from that of economics, and which separated international politics from national politics in the study of IR.³⁹ She asserted that these barriers stemmed from the basic assumptions underlying the study of international relations, the most important of which is that world politics are conceptually different from domestic/national politics and therefore should be studied separately. Furthermore, she argued that the close interface of politics and economics in the developing international economy had necessitated an inter-disciplinary approach, drawing upon the combined insights of both disciplines, to the area of international studies. The influential contribution made by Strange's article to the evolution of the area study of

³⁷ Ibid., pp.ix-xvi.

³⁸ See Strange, *States and Markets*, especially pp.45-138.

³⁹ Susan Strange, "International Economics and International Relations: A Case of Mutual Neglect," *International Affairs*, vol. 46, no. 2, (April 1970), pp.304-315.

IPE is now accepted as a given.⁴⁰ In recent decades there has been a phenomenal growth in IPE literature.⁴¹ Yet there is no general consensus regarding what constitutes international political economy. This is partly due to the fact that the development of IPE has been characterised by epistemological differences, which have been manifested mainly in the differences between, on the one hand, problem-solving approaches rooted in behavioural-cum-positivist American IPE and, on the other hand, what Cox calls critical theory. Problem-solving theory is actor-oriented and it is based on fixed assumptions about the framework or parameters within its actions take place. Critical theory, on the other hand, is concerned with historically formed structures and operates from a normative framework.⁴²

American scholarship has traditionally followed the problem-solving approach to theory. This is underlined by its embrace of the neo-classical approach to international political and economic questions, which sees the individual actor as the agent of choice. This neo-classical approach, advocated by neo-realists and neo-liberals, has rested on two assumptions: the evolution of international public goods and the role of leadership, especially the hegemonic leadership by the USA, in the provision of these international public goods. But American scholarship in international political economy has been criticised for serving to distort the debate on power relations between the rich and the poor in the global economic order: its theoretical preoccupation with interdependence has helped to conceal the asymmetries

⁴⁰ See Robert W. Cox, "Take six eggs": theory, finance, and the real economy in the work of Susan Strange (1992)," in Robert W. Cox and Timothy J. Sinclair (eds.), *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), p.174.

⁴¹ Richard Higgott, "International Political Economy," in A.J.R. Groom and Margot Light (eds.), *Contemporary International Relations: A Guide to Theory* (London: Pinter: 1994), p.156.

⁴² Robert W. Cox, "Social forces, States, and World Orders: Beyond International Relations Theory," in Robert W. Cox and Timothy J. Sinclair, eds. *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), pp.88-89.

of power and wealth identified in radical theoretical approaches.⁴³ However, the dominance of American scholarship in IPE has been mitigated by the mushrooming of counter-hegemonic scholarship in IPE – rooted mainly but not exclusively in the new political economy tradition – that has spawned alternatives to American intellectual hegemony.⁴⁴

To sum up, a number of interrelated theoretical issues are important in the new political economy. First, it is necessary to understand the relationship between economics and politics in the global context. Second, attention must be paid to the issue of level of analysis – the relationship between economic and political structures within the domestic and international domains must be explained. Third, the role of the state and how it is located within the domestic and international contexts ought to be elaborated. Tied to this is the need to emphasise the role of politics, as opposed to structure, as a determinant of outcome. The politics that take place within the structure of the international system, rather than the structure itself, play an important role in illuminating the dynamics of power in the international political economy. Consistent with the new political economy approach, this thesis emphasises the inseparability of the political and economic domains in contemporary international society. It also stresses the importance of the relationship between the domestic and international domains of policy-making. Moreover, it challenges the orthodox assumption that depicts the institutions of the state and the market as inherently

⁴³ Higgott, "International Political Economy, p.158.

⁴⁴ *Ibid.*, p.166.

contradictory and conflictual rather than “...understanding markets and political authorities as part of the same, integrated ensemble of governance..”⁴⁵

6. Research Methods

This research undertaking was underpinned by a number of techniques. The principal methods of investigation were analyses of primary and secondary documentation, as well as semi-structured elite interviews. Primary documentation consulted for this research encompassed official government policy documents such as white papers, policy documents and parliamentary submissions prepared by civil society groups, regional protocols and treaties, documents detailing South Africa’s trade negotiation positions, ministerial statements and communiqués, annual reports of government departments, Hansard records, and archival records of various commission of enquiries appointed to investigate and make recommendations on aspects of South African trade and industrial policies. These sets of data were obtained directly from various sources, including the DTI, the national library of South Africa, the library of the South African Parliament, and non-state actors concerned with trade policy matters. Useful material was also culled from the official websites of government departments and regional organisations. All the information was available in English, the language used in the majority of countries in Southern Africa.

Secondary sources included books, academic journals and newspapers. Gaining access to South African newspapers was not difficult given that most of the country’s

⁴⁵ Geoffrey R.D. Underhill, “Introduction: Conceptualising the Changing Global Order,” in Geoffrey R.D. Underhill and Richard Stubbs (eds.), *Political Economy and the Changing Global Order* (Ontario: Oxford University Press, 1999), p.4.

newspapers operate Internet editions. A wide selection of newspapers was consulted but the bulk of the material deployed in the thesis was secured from three major publications: *Business Day* (national daily) as well as two national weeklies *Financial Mail* and *Mail and Guardian*. In addition, the research drew on articles published by international, mainly British-based newspapers such as *Financial Times*, *The Economist* and *The Guardian*.

A key source of primary data, the technique of a semi-structured elite interviewing was selected for two reasons. First, since it does not follow a rigid format, elite interviewing “permits greater scope for respondents to answer questions on their own terms,”⁴⁶ free from the restrictions imposed by data gathering methods used, for example, in survey research. Elite interviews, therefore, can inject a qualitative depth to the information that has been gleaned from other research sources. Second, elite interviews can help the researcher to understand “actors’ perceptions of the world in which they live, the way in which they construct their world and the shared assumptions which shape it...”⁴⁷ According to May, a semi-structured interview entails the following:

Questions are normally specified, but the interviewer is freer 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.⁴⁸

⁴⁶ Tim May, *Social Research – Issues, Methods and Processes* (Milton Keynes: Open University Press, 1993), p.93.

⁴⁷ Wyn Grant, “Elite Interviewing: A Practical Guide,” Institute for German Studies Discussion Paper no. IGS2000/11, p.16.

⁴⁸ May, *Social Research*, p.93.

Overall, thirty interviews were undertaken during the course of the research. (A full list of all interviewees, and the dates on which they were interviewed, can be found in Appendix A). Most interviews took place in Cape Town, Johannesburg and Pretoria, while a number of interviews were held with Geneva-based WTO officials too. All except five interviews were tape-recorded, and their duration ranged from forty-five minutes to one hour. The twenty-five respondents who agreed to be taped consented to this arrangement in advance of the actual interview session. The benefit of a taped interview is that “it enables you to concentrate more on what the interviewee is saying and, also, it provides you with a verbatim transcript of the interview.”⁴⁹ Generally, interviewees did not make requests for anonymity except in a couple of cases where sensitive information was disclosed ‘off the record.’ All taped interviews were transcribed and analysed and, in cases where additional clarity or information was required, subsequent communication with respondents was done telephonically or by electronic mail.

In order to ensure that the sample was as representative as possible, interviewees were divided into four categories. The first category consisted of interviews held with current senior government officials in the DTI, DFA and DA. A central objective of this thesis has been to illuminate the assumptions and calculations that shape the worldviews of South African trade policymakers relative to those of other actors in the country’s domestic and foreign trade policy environments. This is necessary if the researcher is to comprehend fully the *raison d’être* for political and economic decisions made by policymakers. According to Grant, elite interviewing “remains the

⁴⁹ David Richards, Elite Interviewing: Approaches and Pitfalls,” *Politics*, vol. 16, no.3, 1996, p.202.

most appropriate technique” to apply in illuminating the “the shared assumptions and meanings” which shape the “private worlds” of policy communities.⁵⁰

The second category was made up of interviews with non-state actors either involved in the South African trade policy milieu or concerned generally with trade policy matters, mainly organised business, organised labour and other civil society groups such as policy think tanks. The decision to include this group of interviewees was based on the understanding, now widely recognised in IPE, that participation in the globalising world economy is no longer the preserve of state actors but includes non-state actors as well.⁵¹ This is particularly relevant to South Africa where the domain of trade policy has been a theatre of fierce contestation among the government, business and labour.

Constituting the third category were interviews conducted with a few apartheid-era former politicians and government officials involved with trade policy. Insights gained from these interviews were used to supplement the historical sections of the thesis and, in particular, to throw light on motivations for some of the trade policy decisions (and non-decisions) that were made during the apartheid period. The fourth category entailed interviews done with selected trade officials from the WTO and, for a regional perspective, the director of the Southern African Trade Policy Research Network.⁵² The rationale for these exchanges was not only to seek clarity on how aspects of regional and global trade processes function but it was also to ascertain

⁵⁰ Grant, “Elite Interviewing,” p.17.

⁵¹ See for example Susan Strange and John Stopford, “States, Firms and Diplomacy,” *International Affairs*, vol.68, no. 1, 1992, pp.1-15.

⁵² SATRN is a regional network made up of at least one research or academic institution in each of the fourteen SADC countries. Collaborating institutions disseminate information and coordinate research at a national level, liaise with their governments, and undertake research on designated thematic studies; see <http://www.tips.org.za/satrn/partners/>

how South Africa, and its conduct in world trade since 1994, is being perceived by 'external' actors.

The advantages of elite interviews are numerous. For instance, they can assist in interpreting documents or reports, in interpreting the motives of decision-makers, and in yielding information not documented or available elsewhere.⁵³ Yet choosing elite interviewing as a method of data collection has its own drawbacks. One of the disadvantages is "whether the selection process *of respondents* [my emphasis] would correspond with the reality of the situation."⁵⁴ There is also the problem of the subjective nature of the accounts of interviewees, and the disputable reliability of the interviewee stemming from memory failure or political or ideological partisanship.⁵⁵ Another widely recognised concern has to do with access, particularly how to handle the issue of 'gatekeepers' who might make it difficult for the researcher to make direct contact with senior officials. However, given the acquaintance of the interviewer with most of the South African trade policymakers the issue of access did not present any significant problem. Other difficulties that have been identified include "receiving limited and selected data,"⁵⁶ a situation that might be triggered by a quest to maintain security or confidentiality. It is hoped that these problems, where they have may have arisen, have not adversely affected both the methodological and substantive aspects of the thesis.

Undertaking this study was a challenging venture. A significant portion of the first year of the research was spent grappling with what Burnham defines as the problem

⁵³ Richards, "Elite Interviewing," p.200.

⁵⁴ Vered Bartov, "Research Design – 'A Rough Guide,'" in Peter Burnham (ed.), *Surviving the Research Process in Politics* (London: Pinter, 1997), p.49.

⁵⁵ Richards, "Elite Interviewing," p.200.

⁵⁶ Ibid.

of “translating a broad interest into a manageable hypothesis which can become a guiding thread for a thesis.”⁵⁷ This is crucial to enabling the researcher to distinguish between a broad research area and a research hypothesis. Familiarity with a general area of study does not necessarily translate into a definable central research question. A central research question serves as the organising principle of research and its paramountcy resides with the fact that it helps the researcher to clarify the focus of their work, to ask pertinent questions, and to demarcate clearly the boundaries of research. In addition to framing a central argument for the thesis, the first year was used to conduct a review of literature germane to the research. The audit focused on two types of IPE literature: one which dealt with international dimensions of trade reform, and another which related specifically to debates about the political economy of trade liberalisation in South Africa. Scanning the literature helped the researcher to narrow the focus of the research and to produce a tentative chapter outline for the study. This was very useful because “it forces you to focus and think about the thesis as an integrated whole.”⁵⁸

Writing a doctoral thesis is an incredibly exacting enterprise, and it was tempting to defer the writing process until after the completion of the research. Yet it is important that writing is seen as an ongoing process that is carried out continually from the inception to the conclusion of the research. In this respect it is worth heeding Burnham’s advice that “the fast, effective completion of a thesis demands that writing is a habitual process carried on from the outset of research and is not to be

⁵⁷ Peter Burnham, “Method and Myth in Political Research: A Practical Guide for Research Students,” *Politics*, vol. 12, no. 1, (April 1992), p.3.

⁵⁸ Carla Koen, “Beginning Research: The First Year,” in Peter Burnham (ed.), *Surviving the Research Process in Politics* (London: Pinter, 1997), p.30.

stored until data has been consulted.”⁵⁹ The notion, propagated by conventional methodology texts, that conceives of research as a linear process in which the ‘writing-up’ stage can be disconnected from the ‘research stage’ is both flawed and misleading.⁶⁰

7. Concepts and Clarifications

The first part of this thesis’s topic – “Re-engaging with the Global Trading System” – may be interpreted to imply that South Africa had become a complete autarky during the apartheid era. This is not exactly the case. For while apartheid South Africa endured international notoriety, it did continue to trade with the world – albeit in an extremely hostile and unfavourable international climate. Of course, this does not mean that South Africa reaped the benefits of the exponential increase in world trade levels in the 1980s. On the contrary, South Africa’s share of world exports decreased from 1.3 percent in 1980 to 0.7 percent in 1989. Moreover, as discussed in Chapter 2, the economy’s relative openness had been constricted by its lopsided character, with gold constituting 73 percent of exports in 1980.⁶¹

The word re-engaging has been used in this context to allude to South Africa’s reintegration into the rules-based WTO system. South Africa was one of the 23 founding signatories to the GATT in 1948 (see Chapter 3). Yet many years of international ostracism caused by its apartheid policies meant that it was able to operate beyond the reaches of GATT disciplines: the country remained largely outside

⁵⁹ Peter Burnham, “Method and Myth,” p.5.

⁶⁰ See for example Derek S. Pugh and Estelle M. Phillips, *How to Get a PhD – A Handbook for Students and their Supervisors* (Milton Keynes: Open University Press, 1987).

⁶¹ Hein Marais, *South Africa: Limits to Change – The Political Economy of Transformation* (London: Zed Books, 1998), p.121.

the substantial liberalisation achieved in the successive pre-Uruguay Round negotiating rounds. As such, South Africa could afford to maintain relatively high tariffs and several quantitative restrictions on its imports to sustain its import-substituting industrial policies. Moreover, the imposition of trade and other sanctions against South Africa by its major trade partners allowed the country to conduct its trade policy with little regard to its obligations under the GATT. By signing on to the Marrakesh Agreement of the GATT in 1994, South Africa underlined its determination to liberalise its trade regime in line with WTO disciplines.

It is worth noting that although the periodisation of this study starts in 1994, the seeds of an outward oriented trade strategy were actually planted in the late 1980s. 1994, the year in which the ANC assumed office and South Africa became a democracy, heralded an intensification of trade reforms that had already been initiated by the last apartheid government. It is for this reason that the latter part of the third chapter accords a fair amount of attention to the reform initiatives that dominated the domestic trade policy landscape immediately prior to 1994. This thesis is about South African trade policy in the democratic era. As intimated earlier, trade policy is a microeconomic policy that forms an essential part of a broader industrial policy, which encompasses other microeconomic policies such as technology policy and research and development policy. But, as Davis notes, “trade policy and industrial policy have become so interdependent that trade policy is now almost a synonym for industrial policy. This is certainly the case in South Africa”⁶² A partially industrialised country such as South Africa needs more than a trade policy to attain its long-term economic ambitions: it requires an integrated industrial strategy that

⁶² Davis, *South African Managed Trade*, p.6.

anchors trade policy in a broader national developmental context. The research is sensitive, therefore, to the fact that in the South African context no clear-cut distinctions can be drawn between trade policy and industrial policy.

8. Thesis Chapter Outline

The thesis consists of seven chapters. Chapter 1 reviews relevant theoretical debates concerning the contemporary global trade system. Chapter 2 sketches a critical analysis of the historical development of South Africa's position in the global political economy. Chapter 3 analyses trade policy in South Africa during the apartheid era. Chapter 4 explores South Africa's role in the global trade regime within the context of the Uruguay Round of trade negotiations. Chapters 5, 6 and 7 elaborate on the central thesis of this study. Chapter 5 examines the trade policy reforms that have been implemented by the South African state since 1994 to restructure South Africa's previously isolated economy and facilitate its emergence as an outward-oriented manufacturing and trading nation. Chapter 6 undertakes a comprehensive assessment of South Africa's global trade strategy, focusing on attempts by the South African state to reduce the dependence of the country's trade on traditional developed country markets and to diversify it by forging trade relationships with new markets in Africa, Asia and Latin America. Chapter 7 examines South Africa's approach to the Doha Round of multilateral trade negotiations.

Chapter 1

The Global Trade System: A Theoretical Survey

This chapter reviews relevant theoretical debates concerning the contemporary global trade system. Situating South Africa in a wider global theoretical context is crucial not only in determining its location in the new international division of labour (NIDL) that has typified the global economic order in recent decades, but also in assessing meaningfully its prospects in the international political economy. As the discussion on the IPE analytical framework in the preceding introductory chapter has demonstrated, this thesis embraces the ‘eclectic approach’ to IPE advanced in the new political economy model. To reiterate, a number of crucial points of departure inform the new political economy paradigm. First, in studying international political economy the political and economic domains cannot be separated in any meaningful sense. Second, although economists see the market as an efficient mechanism for processing information to reach a market clearing price, the new political economy views it as not self-regulating but as a function of the social conditions in which it is embedded. Third, there is a close interface between domestic and international levels of analysis.

The new political economy has developed, in large measure, in response to the globalisation of the international economy – especially in the areas of finance and production – and the changing character of the inter-state system. From this has sprung up numerous fields of inquiry in the field of IPE that have attracted diverse theoretical approaches, tackling such themes as the relationship between security and

economics, the interface between power and gender, the consequences of economic globalisation for the environment, and the importance of technological change and its role in the rise of transnational crime. By concentrating on the frameworks or historical structures within human activity takes place, and the slow processes of change in these frameworks, the new political economy model has undermined the politics of international relations that were based on fixed assumptions about the nature of the state system.⁶³ Additionally, it has thrown light on the notion of structural power in the world order and how that power determines the relationship between authority and market. As such, although IPE was initially concerned with according primacy to economic foundations of power, it gradually changed the way of thinking about the world order and encouraged inquiry into other facets of the global order. It is the contention of this thesis that the key advantage of the eclectic approach is that it facilitates a cross-fertilisation of ideas among different theoretical and disciplinary traditions while enabling them to complement each other's strengths and compensate for each other's weaknesses. The thesis draws on pertinent theoretical insights, notably economic theories of trade, IPE theories, and globalisation theories.

1. The Liberal Theory of Trade

Historically, the idea of free trade has been predicated on the doctrine of economic liberalism pioneered by Adam Smith and subsequently elaborated by theorists such as

⁶³ Robert W. Cox, "Political Economy and World Order: Problems of Power and Knowledge at the Turn of the Millennium," in Richard Stubbs and Geoffrey R.D. Underhill (eds.) *Political Economy and the Changing Global Order* (Ontario: Oxford University Press, 1999), p.32.

David Ricardo and John Stuart Mill.⁶⁴ The liberal case for free trade derives from Ricardo's theory of comparative advantage, which argues that rather than seek to produce everything they needed countries ought to produce what they are best at. In this respect countries are urged to take advantage of their natural factor endowments such as land, climate, labour and capital. At the heart of the theory of comparative advantage is the principle of specialisation. By specialising, nations can produce mutually beneficial trade, even if one country is more efficient than the other in producing all goods.⁶⁵ The international division of labour is determined by comparative costs: countries are prone to specialise in those goods whose costs are comparatively the lowest. In other words, countries multiply their wealth by exploiting their comparative advantages rather than their absolute advantages. In terms of this worldview, international trade is seen a positive-sum game based on a harmony of interest.⁶⁶

Notwithstanding its attractiveness, the liberal theory of free trade is riddled with numerous shortcomings. Critics have argued that by assuming that comparative advantage is static, this theory could be interpreted in ways that serve to advocate the marginalisation of developing countries in the global economy. As McDonald observed:

The way it was sometimes interpreted, it was a recipe for not changing or not developing and had an unacceptable semi-colonial ring to it, with developing countries being relegated to specialisation in the

⁶⁴ Bruce E. Moon, "Ideas and Policies," in Brian Hocking and Steven McGuire (eds.), *Trade Politics – International, Domestic and Regional Perspectives* (London: Routledge 1999), p.41.

⁶⁵ Ibid.

⁶⁶ Gilpin, *The Political Economy*, p.174.

production of raw materials for use by the more sophisticated firms in developed economies.⁶⁷

As the discussion on strategic trade policy later in this chapter demonstrates, the liberal theory fails to recognise the dynamic nature of comparative advantage: comparative advantages do not derive exclusively from natural factor endowments; they can also be developed – but also damaged – by government policy and other artificial means. The liberal philosophy of trade is also undermined by a number of its assumptions including: its exclusion of transportation costs and its assumption that production factors were domestically mobile but internationally immobile; its exaggerated belief in the labour theory of value in that it argued that the amount of labour input is the key determinant of the cost of production; and the reliance of the law of comparative advantage on a two-country model.⁶⁸ Furthermore, the neo-classical trade theory failed to account for the phenomenal growth in the post-war period of inter-firm and intra-firm trade, the bulk of which took place between industrialised countries.

2. The Mercantilist Theory of Trade

The evolution of the nationalist theory of trade can be traced to the mercantile policies practised by the European nations – particularly by England with its Corn Laws that regulated the trade in agricultural goods – from the sixteenth to the nineteenth centuries.⁶⁹ One of the most celebrated works in the mercantilist tradition is Friedrich List's *National System of Political Economy*, in which he challenged the free trade theories propounded by the classical British economists. List questioned

⁶⁷ McDonald, *The World Trading System*, p.19.

⁶⁸ Gilpin, *The Political Economy*, pp.174-175.

⁶⁹ Moon, *Dilemmas*, p.34.

the notion of a natural and unchangeable international division of labour founded on the principle of comparative advantage. He argued that this labour division was a product of historical political and economic power struggles and that Britain, contrary to the arguments of free trade theorists, “had actually used the power of the state to protect their own infant industries against foreign competition while weakening their opponents by military force, and they only became champions of free trade after having achieved technological and industrial supremacy over their rivals.”⁷⁰ For List, therefore, the British were deploying the rhetoric of free trade to pursue their national economic interests and disguise their ambition to gain unfettered access to foreign markets. In his view free trade could be realised only when other countries acquired parity with Britain in terms of industrial strength.⁷¹

Although economic nationalists generally emphasise the need for the state to regulate international trade in order to safeguard the national interest, no universal, and coherent theory of mercantilism exists. Indeed, as Moon pointed out:

While liberalism contains an integrated body of precise premises, refined logical arguments, and universalistic policy conclusions, mercantilism has always consisted of fragmented practical wisdom derived from an eclectic mix of past policy successes, tactical judgements, and a smattering of theoretical ideas. In fact, it is awkward to identify the boundaries of mercantilism as a doctrine, because ‘mercantilism’ is a name applied after the fact to a compilation of diverse arguments in defense of the various commercial (i.e. mercantile) policies widely practised in Europe prior to the nineteenth century.⁷²

Still, there are certain core assumptions around which proponents of mercantilist policies coalesce. First, they disagree with economic liberals on the objectives of trade policy. Although liberals extol the allocative efficiency of trade, economic

⁷⁰ Gilpin, *The Political Economy*, p.181.

⁷¹ *Ibid.*, p.182.

⁷² Moon, “Ideas and Policies,” p.44.

nationalists are concerned about the implications of free trade for national autonomy and state power. Second, mercantilists are concerned not only about the impact of free trade on economic development, but also about its distributive effects. They question the liberal assumption that trade is a positive-sum rather than a zero-sum game, and dismiss as fanciful the dependence by liberals on Adam Smith's 'invisible hand of self-interest' as a distributor of economic wealth. For some mercantilists, therefore, the values of stability and equality take precedence over those of consumption and aggregate living standards championed by liberals. Third, economic nationalists prize a favourable balance of trade, which is central to strengthening the state and the domestic economy.⁷³

3. The GATT and the Liberal International Economic Order

The GATT was in part a product of the Keynesian revolution that shaped the post-1945 settlement. A substitute for the ill-fated International Trade Organisation, the GATT was set up as one of three Bretton Woods institutions – the other two were the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development – to restore “the conditions for an international system which would secure the combination of currency convertibility, capital mobility and free trade.”⁷⁴ It was agreed by the architects of the post-war pact that the creation of such conditions was contingent upon recognising that the institution of the market was not automatically self-regulating at the domestic level. For this reason it was considered necessary to have periodic state intervention in the economy to correct market imperfections. Likewise, it was accepted that government intervention at the

⁷³ Ibid., pp.44-45.

⁷⁴ Diana Tussie, *The Less Developed Countries and the World Trading System – A Challenge to the GATT* (London: Pinter, 1987), p.11.

international level was justifiable, although there was no agreement regarding the degree of that intervention.⁷⁵

The key aim of the GATT was to “achieve ‘freer and fairer trade’ through reduction of tariffs and elimination of other trade barriers.”⁷⁶ Operating on the basis of the rules of non-discrimination – in the shape of the Most Favoured Nation (MFN) and national treatment principles – and unconditional reciprocity among all contracting parties, the GATT played a crucial role in facilitating the progressive liberalisation of international trade over successive decades. Nevertheless, significant deviations were enshrined in these rules. For example, the GATT Agreement provided for a separate system for agricultural trade which “reflected the powerful influence of agricultural groups and the resultant policies of government intervention to protect domestic prices and producer incomes and to ensure food security.”⁷⁷

The GATT rules also made provision for an array of exceptions, including exceptions for preferential trade agreements (Article XXIV) and those for balance of payments difficulties (Article XVIII) that have been used by some developing countries. Exemptions from GATT disciplines could also be justified on the grounds of protecting human, animal and plant health (Article XX). Furthermore, a general safeguard clause (Article XIX) as well as anti-dumping (Article VI) provisions – which have been employed as tools of administrative protection – were also included

⁷⁵ Ibid.

⁷⁶ Gilpin, *The Political Economy*, p.191.

⁷⁷ Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations* (New York: St Martin's Press, 1997), p.53.

in the treaty.⁷⁸ These exemptions accorded with Ruggie's notion of 'embedded liberal compromise': countries could accept and implement GATT commitments – progressive tariff reductions – so long as these did not undermine their domestic economic goals.⁷⁹ In this context non-discrimination and multilateral free trade did not imply a complete elimination of national regulation. It could be argued, therefore, that the GATT represented a system of managed liberalisation rather than one of free trade.

Initially the GATT system worked extremely well “because the United States possessed sufficient economic and political power to enforce its vision.”⁸⁰ The US played a key leadership role in championing international trade liberalisation in the post-war period. At the end of the Second World War, most industrialised countries pursued trade policies that depended on high tariffs, quantitative restrictions, exchange control and bilateral trading arrangements. In part, this was a legacy of the Smoot-Hawley tariff and the virulent economic nationalism of the 1930s. Yet it was also a result of these countries' considerable demand for foreign exchange, which was essential to their securing the necessary materials for reconstruction.⁸¹ In contrast, the US came out of the war not only with its productive capacity unharmed but it also boasted an extremely open economy albeit with low levels of imports and exports. It was this liberal and open character of the American economy that shaped the country's trade policy. In many respects US trade policy mirrored the liberal

⁷⁸ Stephen Woolcock, “The Multilateral Trading System into the New Millennium,” in Brian Hocking and Steven McGuire (eds.), *Trade Politics – International, Domestic and Regional Perspectives* (London: Routledge, 1999), pp.26-27.

⁷⁹ See John Gerard Ruggie, “International Regimes, Transactions, and Change: Embedded Liberalism in the Post-War Economic Order,” *International Organization*, 36 (1982), pp.379-416.

⁸⁰ Robert Reich, “Beyond Free Trade,” *Foreign Affairs*, vol. 61, no. 4, (Spring 1983), p.778.

⁸¹ Anne O. Krueger, *American Trade Policy – A Tragedy in the Making* (Washington, DC: The AEI Press, 1995), p.26.

orientation of its domestic policy, with its emphasis on competitive and materialistic values. And, through the liberalisation of international trade, the US sought to remodel the global economy in its own liberal image. The US sponsored trade liberalisation across Western Europe in two ways: through the Marshall Plan and through its leadership of consecutive rounds of tariff reductions under the GATT. In particular, the Marshall Plan was an essential part of the US strategy to multilateralise the bilateral trade and payments system that underpinned the European reconstruction efforts.⁸² However, it is worth noting that notwithstanding its support for free trade the US maintained a protectionist domestic trade regime in agriculture as well as in clothing and textiles. This inconsistency can be traced to the agreement made by the major economic powers, mainly the US and the EU, at the inception of the GATT system that its rules would not apply to the agricultural sector: the ban imposed by the GATT agreement on import quotas and export subsidies was waived in recognition of the ‘specificity of the agricultural sector.’

Likewise the GATT created the Multifibre Agreement, which permitted industrialised nations to control textile imports either through the negotiation of bilateral quotas or through the application of flexible safeguard measures. Apart from a determination to avert a repeat of the devastation wrought by the economic mercantilism of the 1930s, foreign policy concerns also played a central part in the endorsement of a liberal international trade system by successive US administrations. By assuming the leadership of the open multilateral trading system, the US signalled that it was able and willing to underwrite the costs of providing international public goods to other states in return for their support and cooperation. During the Cold War the US

⁸² Ibid., pp.29-30.

employed trade as a tool of foreign policy in that trade sanctions were imposed against developing countries considered to be supportive of or sympathetic to communist Russia. Conversely, Cold War rivalry between the US and the Soviet Union led the former to prioritise the economic advancement of its allies and pledge to guarantee their security. The US-Japan relationship during this period is illustrative of this policy. In a quest to 'contain' the spread of Soviet communism, the US backed Japan in a number of ways, including: supporting Japanese economic growth and paying for its defence requirements; providing Japan with cheap technology transfers; and opening its markets to Japanese exports without demanding reciprocity.⁸³

For much of the post-war period many developed countries deemed it in their material interest to ensure that the GATT regime functioned smoothly because they stood to gain from the American-inspired economic success. Yet the GATT did not mean much to the developing countries, many of which were not signatories to the international trade system. For much of the post-war war period developing countries adopted a suspicious attitude towards the liberal international economic order (LIEO). Partly, this had to do with the import-substituting industrial policies that they pursued in the 1950s and 1960s, which were predicated on the post-war arguments of export pessimism and infant industry protection (see Chapter 2). But their wariness of the international trade regime was also symptomatic of a wider disillusion on their part with the workings of the world economy. Not only were developing nations dissatisfied with their position in the emergent post-war liberal economic order, they were also frustrated with the inability of the Bretton Woods

⁸³ See Alan P. Dobson and Steve Marsh, *US Foreign Policy Since 1945* (London: Routledge, 2001).

institutions to frame an adequate response to their perceived problems. Developing countries maintained that the Bretton Woods system perpetuated the interests and needs of the major political and economic powers, particularly the United States, at the expense of the concerns of the developing world.⁸⁴ And it led them to question the theoretical foundations of the GATT system. As Tussie explained:

LDC's objections to the rules of GATT have centred on the belief that the role envisaged for them is one of perpetuating their existence as exporters of primary commodities, while the more dynamic industrial occupations were reserved for the developed countries. The motive for this identification was the theory of comparative advantage which provided GATT's intellectual underpinning and which had traditionally been expounded in too static a framework.⁸⁵

The political perceptions of the GATT formed by most developing countries sensitised them to the fact that their common problems stemmed primarily from the underdeveloped nature of their economies and their peripheral location in the global economy. They also provoked the realisation that regime change could only be brought about by the application of concerted pressure. The creation of the United Nations Conference on Trade and Development (UNCTAD) by the Group of 77 (G77) developing countries in 1964 represented a turning point in their quest to enhance their participation in the international economic governance institutions and to improve their position in the global economy. The UNCTAD's institutional framework provided a platform for collective action by members of the Non-Aligned Movement (NAM) and the G77 to articulate Third World concerns and to agitate for regime change within the international economic institutions. The organisation was

⁸⁴ See Marc Williams, *International Economic Organisations and the Third World* (London: Harvester Wheatsheaf, 1999).

⁸⁵ Tussie, *The Less Developed Countries*, p.3.

instrumental, therefore, in championing the interests of developing countries and translating their grievances into collective action for transformation.⁸⁶

Although developing countries were reluctant participants in consecutive GATT negotiating rounds, their involvement in the international trade system increased exponentially in subsequent decades. This represented a significant departure from previous years when most developing nations regarded the GATT as ‘a rich man’s club’ that was concerned exclusively with the interests of developed countries. Four factors accounted for this change of stance. First, the realisation that special and differential treatment granted to poor countries in the mid-1980s did not improve their economic position significantly. Second, the rise of the newly industrialising countries (NICs) such as Korea, Hong Kong and Taiwan highlighted growing economic differentiation among developing countries, with the NICs showing a clear interest in an open trading system. Third, growing citizen exposure to information about the opportunities available in other countries. Fourth, heightened pressure placed by the IFIs on countries pursuing inward-looking trade strategies.⁸⁷

4. The ‘Myth’ of Free Trade

Neo-liberal institutionalism places a great deal of importance on the value of international regimes. Like neo-realism, neo-liberal institutionalism contends that states are the key actors in the global system. It argues that the extent to which states communicate and cooperate is dependent on “human-constructed institutions, which

⁸⁶ See Marc Williams, *Third World Co-operation – The Group of 77 in UNCTAD* (London: Pinter, 1991), pp.57-76.

⁸⁷ Rudiger Dornbusch, “The Case for Trade Liberalisation in Developing Countries,” *Journal of Economic Perspectives*, vol. 6, no. 1 (Winter, 1992), pp.69-70.

vary historically and across issues, in nature (with respect to the policies they incorporate) and in strength in terms of the degree to which their rules are clearly specified and routinely obeyed.”⁸⁸ Moreover, neo-liberal institutionalism is concerned about the effects of institutions on state action and about the causes of institutional change; institutions are important for the actions of states partly because they affect the incentives facing states – even if those states’ interests are defined independently. Formal and informal rules play a prominent role in the neo-liberal institutionalist account. In this context, an open international economic environment is considered to be conducive to peaceful behaviour because it provides incentives for mutually satisfying exchange under arranged sets of rules.⁸⁹ Central to the neo-liberal institutionalist arguments is the notion of ‘hegemonic stability’ theory. Hegemonic stability theory is based on the premise that the presence of a single dominant state, a hegemon, in the international system has beneficial effects for all states. An able and willing hegemonic power is central not only to preventing disorder in the international system but also to providing public goods for the weaker states.⁹⁰

Neo-liberal institutionalism has come under fierce criticism in IPE literature. Robert Cox considers international regimes problematic in that they take the existing order as given, not as something to be criticised and changed. He points out that regimes stress institutional co-operation but have less to say about attempts to change the structure of the world economy: their starting point is the co-existence of the state system and the world capitalist economy. As such regimes serve “to stabilise the world economy and have the effect of inhibiting and deterring states from initiating

⁸⁸ Robert Keohane, “Neo-liberal Institutionalism: A Perspective on World Politics,” in Robert Keohane (ed.) *International Institutions and State Power* (Boulder: Westview Press, 1989), p.2.

⁸⁹ *Ibid.*, p.11.

⁹⁰ See Robert Keohane, *After Hegemony* (Massachusetts: Harvard University Press, 1984).

radical departures from economic orthodoxy.”⁹¹ For Susan Strange, regimes obfuscate and obscure interests and power relationships in the international system and “serve as instruments of the structural strategy and foreign policy of the dominant state or states.”⁹² She also denounces regimes for being value-laden in that they assume that all states desire greater order and managed interdependence. Furthermore, she contends that regimes perpetuate a state-centred paradigm because they do not take into account the role of non-state actors in the global system. As such, regimes risk over-emphasising the positive aspects of international cooperation at the expense of those that are negative.⁹³

While conceding the pivotal role played by America’s hegemonic leadership in sustaining the post-war liberal international economic order, she points to a dilemma – the ‘hegemon’s dilemma’ – presented by this role in that by maintaining the global economic order the US sowed the seeds of its decline.⁹⁴ The decline of US hegemony originated in the enormous structural changes that reconfigured the global economy in the 1970s, palpably demonstrated by the resurgence of Europe, the emergence of Japan as a great economic power, and the ascendancy of the NICs.

These structural changes were marked by a fundamental realignment in the industrial hierarchies of the world that presented a severe challenge to the traditional GATT system and necessitated a review of the manner in which it had been operating. This challenge is summed up by Reich who points out that:

⁹¹ Robert W. Cox, “Multilateralism and World Order,” in Robert W. Cox (ed), *Approaches to World Order* (Cambridge: Cambridge University Press, 1999), pp.494-523.

⁹² Susan Strange, “*Cave! hic dragons*: a critique of regime analysis,” in Stephen D. Krasner (ed.), *International Regimes* (Ithaca: Cornell University Press, 1983), p.342.

⁹³ *Ibid.*, pp.344-349.

⁹⁴ Susan Strange, *Casino Capitalism* (Manchester: Manchester University Press, 1997), p.22.

During the 1970s trade accords became progressively less coherent or conclusive because the premises on which the post-war free-trade ideal had been founded were no longer applicable to large segments of industrialised economies. The GATT, which condones or condemns trade practices exclusively by reference to market standards, has little to say about the growing fraction of trade conducted largely outside market channels, such as transfers of raw materials and intermediate goods within multinational firms and issues concerning wholly or partly public enterprises.⁹⁵

The decline of US hegemony coincided with the erosion of support for the ideal of free trade on the part of the US and its major trade partners. According to Higgott:

The decline in the USA's position as hegemon of the LIEO would also appear to have been accompanied by a decline in its support for the principles and norms that have underpinned the LIEO – especially those principles and norms, enshrined in GATT, that have guided the international trading regime in the post-war period. The first of these was a commitment to a liberal and open approach to trade. Secondly, there was the US commitment to multilateralism as a way of reducing trade restrictions. Perhaps the third principle of US policy in this period should be noted. The US, again in contrast to European allies, favoured a legal-codified approach to regulating the international trading system whilst the Europeans favoured a negotiating approach which preserved their sovereign administrative discretion.⁹⁶

The resurgence of trade protectionism in the 1980s raised questions about the future viability of the liberal, multilateral international economic order in which the GATT was anchored. The idea that the GATT could de-legitimise defection from the liberal international trade system by ensuring cooperation and reciprocity between countries through the implementation of common rules and norms had been discredited by the increasing instances of defection from these regimes by the dominant economic actors, which found their multilateral commitments to be at odds with their national

⁹⁵ Reich, "Beyond Free Trade," pp.780-781.

⁹⁶ Richard Higgott *The World Economic Order: The Trade Crisis and Its Implications for Australia* (Canberra: Australian Institute of International Affairs), p.15.

interests.⁹⁷ The growing pursuit of narrow national interests at the expense of multilateral obligations vindicated the view that the notion of free trade was a ‘myth’ and that “efficiency never has been, and never can be, the sole consideration in the choice of state politics.”⁹⁸

5. The New Protectionism

The GATT system was severely tested by the rise of non-tariff barriers (NTBs) in the 1980s. Ironically, the rise of the new protectionism was a consequence of the tremendous success that had been achieved by the GATT in liberalising global trade. Given that the progressive liberalisation of trade undertaken under the auspices of the GATT meant that governments could no longer deploy tariffs and quotas as instruments of domestic economic policy, numerous states resorted to the use of non-tariff barriers – such as health and sanitary regulations, national standards, customs procedures and government procurement policies – to protect their economies from international competition.⁹⁹ In addition to NTBs, the new protectionism assumed the shape of voluntary export restraints (VERs), which “were developed as a response to pressure for protection from import-sensitive industries.”¹⁰⁰ The use of VERs was championed particularly by the US, which was concerned about the adverse effects that the surge of exports from Japan and other Asian NICs were having on its domestic economy. The growth of the new protectionism posed a serious threat to

⁹⁷ Ibid., p.34.

⁹⁸ See Susan Strange, “Protectionism and World Politics,” *International Organization*, vol. 39, no. 2, (Spring, 1985), p.236.

⁹⁹ Spero and Hart, *The Politics of International Economic Relations*, p.71.

¹⁰⁰ Ibid., p.72.

the GATT system in that the GATT had been set up to regulate import restrictions and tariffs, not NTBs and VERs.¹⁰¹

6. Strategic Trade Policy

The 1980s witnessed a strategic shift in economic thinking about trade policy, which was “due in part to the development of new analytical tools and in part to two trends in the post-war trading environment. One is the growth of economically weak countries to positions of influence comparable to that of the largest post-war powers. The other is the conglomeration and multinationalisation of corporate enterprise.”¹⁰²

The rise of strategic policy challenged the assumptions of orthodox trade theory and debunked the notion of free trade based on static comparative advantage, a central tenet of the liberal economic doctrine. Propounded by New Trade theorists such as Paul Krugman, strategic trade theory argues that the economic changes that have taken place in the international political economy over the decades have necessitated a departure from the economic analysis on which the idea of free trade has been based. The changing international economic environment is characterised mainly by oligopolistic competition and strategic interaction. This has created an imperfect trading environment and made comparative advantage arbitrary. In essence, strategic trade theory acknowledges that comparative advantage is no longer static: it can no longer be based solely on natural factor endowments but ought to take account of other factors. For Higgott, what is:

¹⁰¹ Ibid., p.73.

¹⁰² David J. Richardson, “The Political Economy of Strategic Trade Policy,” *International Organization*, vol. 44, no. 1, (Winter 1990), p108.

Particularly important is the manner in which changes in the international division of labour allow and encourage governments to help manufacture a comparative advantage based on such factors as capital's ability and willingness to relocate on the basis of state sponsored inducements or marginal leads in narrow technological races.¹⁰³

In a world of imperfect competition and dominance of oligopolistic firms, therefore, the ideal of perfect competition enunciated by liberal trade theory has remained impossible if not unrealistic.¹⁰⁴ As Gilpin explained:

In the perfectly competitive world of orthodox trade theory, the number of actors is too large and their individual size too small to determine economic outcomes; in such a market economic decisions are based principally on variables such as the price, quality, and characteristics of goods. A strategic environment is one composed of a relatively few large actors; in such an imperfect or oligopolistic market, powerful actors can significantly influence outcomes.¹⁰⁵

It is for these reasons that strategic trade theory advocates intervention by the state – through policy measures such as protection and subsidies – in order to influence the international strategic environment in ways that provide advantage to the home country's oligopolistic firms. By espousing an “activist trade policy,” strategic trade policy can benefit a country through a capture of the “rents” created by an oligopolistic trading situation.¹⁰⁶ The state has an incentive, therefore, to intervene in order to protect those industries which produce rents and which are considered to have strategic value for international competitiveness.

¹⁰³ Higgott, *The World Economic Order*, p.24.

¹⁰⁴ See, for example, Paul R. Krugman, *Strategic Trade Policy and the New International Economics* (Cambridge: MIT Press, 1986); Gene M. Grossman and J. David Richardson, *Strategic Trade Policy: A Survey of Issues and Early Analysis* (New Jersey: Princeton University Press, 1985).

¹⁰⁵ Gilpin, *The Political Economy*, p.215.

¹⁰⁶ Krugman, *Strategic Trade Policy*, p.12.

7. Transnationalisation of Production

The world economy has undergone far-reaching structural change over the past decades. This structural change has facilitated the rise of the New International Division of Labour (NIDL)¹⁰⁷ in the international economic system. The traditional international division of labour, which was characterised by the concentration of manufacturing industrial sites in Western Europe, the US and Japan, has been supplanted by the NIDL which has been typified by the relocation of segments of industrial production from industrialised to lower-wage developing countries. Advanced industrial processes, which previously were carried out domestically, have been increasingly enmeshed in global production chains. Production has become a transnational process – no longer a national phenomenon.

The germination of the NIDL can be ascribed to a combination of conditions in the historical development of the world economy, which have “brought into existence a world market for labour and a real world industrial reserve army of workers, together with a world market for production sites.”¹⁰⁸ These conditions have included, among other things, the limitless expansion of reserves of disciplined and low-wage labour in the developing countries which foreign companies have not hesitated to tap, the increasingly advanced subdivision of the production process which has made possible the execution of fragmented operations with relatively low levels of skill, and the

¹⁰⁷ For a detailed discussion of the concept of new international division of labour see James A. Caporaso, “The International Division of Labour: A Theoretical Overview,” in James A. Caporaso (ed.), *A Changing International Division of Labour* (Boulder: Lynne Rienner, 1987), pp. 1-41; Folker Frobel, Jürgen Heinrichs and Otto Kreye, *The New International Division of Labour: Structural Unemployment in Industrialised Countries and Industrialisation in Developing Countries* (Cambridge: Cambridge University Press, 1980).

¹⁰⁸ *Ibid.*, p.13.

growing sophistication of transport and communication technologies which have facilitated the entire or partial production of goods anywhere in the world.

The NIDL has entailed an increasingly internalised structure of production. Intra-firm trade – that is, cross-border transactions among the subsidiaries of the same multinational corporation (MNC) – has increasingly replaced arm's-length transactions. It has been estimated by the UNCTAD that intra-firm trade constitutes between a quarter and a third of total world trade.¹⁰⁹ Given that intra-firm trade is subject to the internal decisions of MNCs, and not to external market prices, it creates comparative advantages for MNCs due to market strategies such as domestic sourcing and transfer pricing – namely, the use of internal, rather than market, prices to conduct transactions among subsidiaries of the same multinational firm. As well as fostering differentiation among products, intra-firm trade has promoted economies of scale in production. Product differentiation has enabled firms to specialise in each segment of the production process and has helped them to deepen their penetration of global markets.¹¹⁰

A crucial aspect of the NIDL has been the growth of trade not only between developed and developing countries, but also among the developing countries. This can be ascribed largely to the increasing capacity of developing countries – whose erstwhile role in the world economy was restricted to exporting primary products – to produce manufactured goods as well as engage in trade in services. The impressive economic growth rates attained by East Asia's NICs – such as Singapore, Taiwan,

¹⁰⁹ See UNCTAD (1995), *World Investment Report 1995: Transnational Corporations and Competitiveness* (New York: United Nations, 1995).

¹¹⁰ David Held, Anthony McGrew, David Goldblatt and Jonathan Perraton, *Global Transformations: Politics, Economics and Culture* (Cambridge: Polity Press, 1999), pp. 174-175.

Hong Kong and South Korea – in the 1980s bear testimony to the success of their export-led trade strategies. Yet many developing countries, most of whose economies are still dependent on the export of primary goods, have failed to achieve the high levels of industrialisation and economic prosperity secured by the East Asian NICs and, to a lesser extent, Latin American NICs. It could be argued, therefore, that the incorporation of the NICs as exporters of manufactures in the NIDL has reconfigured the patterns of stratification of in the world economy: the world economy is no longer polarised between industrialised and developing economics, it also exhibits asymmetries and inequalities between the previously monolithic group of developing countries.

8. The New Regionalism

Coinciding with the NIDL has been the emergence of the new regionalism in the international political economy. Propelled primarily by the forces of globalisation, the new regionalism has been a crucial analyst in the disintegration of the old regionalism, a product of ideological rivalry between the capitalist and the socialist worlds.¹¹¹ Its distinctive characteristic has been a trend towards the ‘triadisation’ of the world economy – that is, the overwhelming concentration of trade and capital flows around the three growth poles of Europe, North America, and East Asia. This regional pattern has been underscored by the fact that seventy five percent of the total accumulated foreign direct investment (FDI) stock, as well as sixty percent of FDI flows, were located in the three regional blocs in the early 1990s.¹¹²

¹¹¹ Andrew Gamble and Anthony Payne, *Regionalism and World Order* (Basingstoke: Macmillan Press, 1996), p.259.

¹¹² See UNCTAD (1993), *World Investment Directory 1992* (New York: United Nations, 1993).

The triadisation of the global economy has ignited a debate on the relationship between the new regionalism and globalisation over the past years. Is the new regionalism an essential part of, or an alternative to globalisation? Does the new regionalism enhance or reduce commitment to multilateralism? Critics of regional integration see the new regionalism as a challenge to multilateralism. They argue that regionalisation strengthens disintegrative elements in the world economy, encouraging the emergence of protectionist blocs.¹¹³ They also maintain that regional integration projects discriminate against third parties because of the regional preferences – for goods, services and capital – prescribed by such integration agreements. Proponents of regionalism, on the other hand, view regional and multilateral processes as mutually exclusive. Regionalism, they contend, does not only complement multilateralism, but it is also a vehicle through which countries can engage meaningfully with the processes of globalisation.¹¹⁴ Regionalist projects are thus not seen as rivals to globalism, but rather as forerunners to wider liberalisation and multilateral co-operation. Moreover, supporters of regional integration espouse open regionalism, which means that policy is directed towards the elimination of obstacles to trade within a region – trade creation not trade diversion.

Whatever the merits or otherwise of the preceding arguments, it is clear that both the forces of regionalisation and globalisation have shaped the world economy since the inception of the last decade. It is this realisation that has spurred the proliferation of regional integration arrangements in the international economy, particularly in the

¹¹³ Cord Jakobeit, "The Theoretical Dimensions of Regional Integration: Have the Motives for Developing Countries Changed?," in Heribert Dieter (ed.), *The Regionalisation of the World Economy and Consequences for Southern Africa* (Marburg: Metropolis-Verlag, 1997), pp.9-17.

¹¹⁴ See Percy Mistry, "The New Regionalism: Impediment or Spur to Future Multilateralism?," in Bjorn Hettne, Andras Inotai and Osvaldo Sunkel (eds.), *Globalism and the New Regionalism* (Basingstoke: Macmillan Press, 1999), pp.116-154.

developing world. Developing countries committed to integrating their economies at the regional level have sought to fashion integration strategies that are responsive to their specific conditions and difficulties.

9. Regionalisation in the Age of Globalisation

The twin trends of globalisation and regionalisation are playing an increasingly important role in shaping the world economy.¹¹⁵ Both concepts describe different but overlapping processes. The process of globalisation has “accelerated an integration of national goods, services, as well as capital and financial markets into a single global market.”¹¹⁶ Globalisation trends tend to reduce both national autonomy and economic actors’ scope for action. As the functions of the national state are reconfigured, and in some cases diminished, problems are increasingly tackled at the supra-national level, where the approach can be both global and regional. Regionalisation, on the other hand, refers to those processes which “deepen the integration of particular regional economic spaces.”¹¹⁷ A number of factors are taken into account when measuring the extent and depth of regional integration, including trade flows, investment, aid and people. Like globalisation, regionalisation is usually uneven in its impact. As such, deepening integration might lead to growing polarisation if the issue of inequality and unequal development among regional states is not addressed.

¹¹⁵ Jakobeit, “The Theoretical Dimensions,” pp.9-10.

¹¹⁶ Held, McGrew, Goldblatt and Perraton, *Global Transformations*, pp. 3-5.

¹¹⁷ Gamble and Payne, *Regionalism and World Order*, p.258.

It is important to distinguish between policy-induced and market-induced regional integration processes. Policy-induced processes are arrangements based on treaties.¹¹⁸ In this context, regional integration projects are devised by policy-making elites in response to changes in the world economy. The resultant treaty codifies the economic framework that has been agreed upon through negotiation and bargaining. State-driven regionalist projects seek to manage the substance and direction of social change represented by the globalisation and regionalisation trends. Market-induced integration, on the contrary, produces an economic regionalisation that is driven mainly by private actors.¹¹⁹ Consequently, it can be argued that regional integration represents not only a reaction to the increasing globalisation of the economy, but also as a reaction to growing problems in specific policy areas. Regional integration represents an attempt to strike a balance between, on the one hand, exploiting the advantages of free trade and growing markets and, on the other hand, safeguarding the ability of the state to craft and implement social policies intended to mitigate the negative aspects of economic globalisation.

One of the notable features of the contemporary global political economy since the end of the Cold War has been the rise of the 'new regionalism.'¹²⁰ Propelled primarily by the forces of globalisation, the new regionalism has been a crucial catalyst in the breakdown of the old regionalism, which was characterised by the division between the capitalist and the socialist worlds. It has coincided with fundamental changes to the world economy. First, there has been a trend towards the triadisation of the world economy: the great majority of merchandise and capital

¹¹⁸ Heribert Dieter, 'Regionalisation in the Age of Globalisation: What Limits Are There to Economic Integration in Southern Africa?,' in Heribert Dieter (ed.), *The Regionalisation of the World Economy and Its Consequences for Southern Africa* (Marburg: Metropolis-Verlag, 1997), p.206.

¹¹⁹ Ibid.

¹²⁰ Ibid., p.201.

flows in the world economy take place between the three poles of Europe, North America, and East Asia. Second, the new regionalism has been typified by a growing integration of previously marginalised developing countries into the capitalist world economy – even though a large number of these developing countries are still excluded from the globalisation processes. Third, global economic actors have become more diverse. Participation is no longer confined to state actors - it includes non-state actors as well. In this regard, transnational corporations have played an increasingly prominent role in the world economy. Furthermore, integration projects in the new regionalism have been typified by trade strategies oriented towards the world market, rather than towards import substitution as was the case during the first wave of regional integration. This reflects the ascendancy of neo-liberal thinking, which has strongly influenced the operations of key international economic institutions such as the IMF and the World Bank.¹²¹

Over the past years, the debate on the relationship between globalisation and the new regionalism has become more pronounced. Is the new regionalism an essential part of, or an alternative to globalisation? Does the new regionalism enhance or does it reduce commitment to multilateralism? Critics of regional integration see the new regionalism as a challenge to multilateralism. They argue that regionalisation strengthens disintegrative elements in the world economy, leading to the emergence of protectionist blocs.¹²² They also maintain that regional integration projects discriminate against third parties because of the regional preferences - for goods, services and capital - prescribed by such integration agreements. The proponents of regionalism, however, point out that regional and multilateral processes are not

¹²¹ Gamble and Payne, *Regionalism and World Order*, p.249.

¹²² Jakobeit, "The Theoretical Dimensions," p.17.

mutually exclusive. Regionalism does not only complement multilateralism, but it is also a vehicle through which countries can engage meaningfully with the process of globalisation.¹²³ Regionalist projects are not seen as rivals to globalism, but rather as forerunners to wider liberalisation and multilateral co-operation. Furthermore, the supporters of regional integration advocate open regionalism, which means that policy is directed towards the elimination of obstacles to trade within a region, while ensuring that external tariff barriers to the rest of the world are not increased. They argue that the central goal of economic policy ought to be the maintenance and improvement of international competitiveness: the economy must not be insulated from foreign competition.

The parallel dynamics of globalisation and regionalisation have gained ground in both the industrialised countries and the developing world. However, the previous experience of regional integration in the developing countries has highlighted a need for integration approaches that are sensitive to their unique development problems.¹²⁴ It has drawn attention to the danger of relying exclusively on integration approaches that have been too narrowly focused on the Western European experience. Thus, there has been a growing recognition among developing countries seeking to integrate their economies at the regional level of the necessity to develop integration strategies that are responsive to their specific conditions and difficulties.

¹²³ See Percy Mistry, "The New Regionalism: Impediment or Spur," pp.116-154.

¹²⁴ Jakobeit, "The Theoretical Dimensions," p.12.

10. The State and Outward-Oriented Development

The remarkable economic achievements of East Asia's NICs in recent decades have awakened a scholarly interest in the role of the state in economic development. It is now widely recognised in the literature that the institution of the state has been a crucial factor in the success of outward-oriented development strategies pursued by countries such as South Korea, Taiwan and Japan.¹²⁵ In these countries, the state directed the process of industrial accumulation by "channelling capital into risky investments, enhancing the capacity of private firms to confront international markets, and taking on entrepreneurial functions directly through state-owned enterprises."¹²⁶ The success of East Asia's developmental states has been ascribed to two related factors. First, their powerful strength vis-à-vis societal interest has bestowed upon them a degree of autonomy that has enabled decision-making elites not only to define developmental goals independently but also to insulate themselves organisationally from societal pressures. Second, their relative autonomy provided them with the capacity to take advantage of their control over the production process to influence actor behaviour and mobilise social support for their policies.

The autonomy enjoyed by the East Asian NICs has been attributable mainly to their Weberian state institutions. The emphasis on highly meritocratic and selective recruitment of bureaucratic personnel has instilled a sense of commitment and corporate coherence. Corporate coherence has fostered conditions where the pursuit

¹²⁵ See, for example, M. Alam, *Governments and Markets in Economic Development Strategies: Lessons from Korea, Taiwan and Japan* (New York: Praeger, 1989); C. Lee and I. Yamazawa, *The Economic Development of Japan and Korea* (New York: Praeger, 1990).

¹²⁶ Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert R. Kaufman (eds.), *The Politics of Economic Adjustment – International Constraints, Distributive Conflicts, and the State* (New Jersey: Princeton University Press, 1992), p.158.

of corporate goals has been rewarded while the maximisation of individual self-interest has been discouraged. This has, in turn, enhanced the insulation of bureaucratic incumbents from societal influence. Yet the insulation of the bureaucratic apparatus from societal pressures in the NICs does not mean that these states have been disembedded from their social networks. On the contrary, the autonomy of the NICs has been based on informal social ties as it has been on formal bureaucratic structures. As Evans states, “it is an autonomy embedded in a concrete set of social ties which bind the state to society and provide institutionalised channels for the continual negotiation and renegotiation of goals and policies.”¹²⁷ These social networks have played a key role in imbuing the state apparatus with “an internal coherence and corporate identity that meritocracy alone could not provide.”¹²⁸

The experience of East Asia’s NICs has stood in sharp contrast to the pronouncements of advocates of market-oriented growth strategies such as the World Bank, who have always downplayed the role of the state in the rapid industrialisation of the newly industrialised countries. Although the World Bank has reluctantly conceded that the state can intervene, and has intervened successfully in some economies, it has suggested that “the pre-requisites were so rigorous”¹²⁹ that they were unlikely to be duplicated elsewhere in the developing world. Successful state interventions have been, therefore, depicted as “market-conforming,”¹³⁰ implying that they have produced similar results to those that would have been yielded by the market if it had been functioning flawlessly. Even if its analysis is open to debate, the World Bank has nonetheless been compelled to admit that the problems of its clients “may arise,

¹²⁷ Ibid., p.164.

¹²⁸ Ibid., p.153.

¹²⁹ World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993), p.6.

¹³⁰ Ibid., p.21

not just from bad policies, but from institutional deficiencies correctable only in the long-term.”¹³¹

The success of the NICs has attracted the interest of many developing countries, most of which have sought to emulate their policies. However, several international factors unique to the development East Asia’s ‘economic tigers’ are likely to make a replication of their experiences in other parts of the developing a very distant possibility. First, the NICs, especially Korea and Taiwan, used their geo-strategic significance during the Cold War to win preferential access to the US markets without having to reciprocate by opening their own markets. This provided a vast captive market for their export commodities. Second, in line with their roles as bulwarks against communism these states took advantage of US military and economic aid to bolster their domestic savings and low patterns of consumption. Third, they embarked upon export-led growth when most industrialising countries were still pursuing import-substitution policies. These special conditions provided a unique geopolitical and economic context in which the developmental goals of the NICs have been realised. It is unlikely, however, that this success can be attained elsewhere in the post-Cold War period. The end of the Cold War has implied that developing states cannot continue to enjoy preferential treatment – in terms of market access as well as economic aid – similar to that provided by the US to its client states during the Cold War. Moreover, the relentless pursuit of trade liberalisation on a global scale within the WTO since the early 1990s has meant that individual states will be under growing pressure to adopt more liberal trade and investment policies.¹³²

¹³¹ Evans, “The State as Problem and Solution,” p.141.

¹³² See Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996), pp.6-7.

11. The Global Push for the Liberalisation of Trade and Investment

The ascendancy of neo-liberal economic ideology in the 1970s and 1980s represented a decisive attack on the notion of ‘embedded liberalism,’ the normative framework that underpinned the interventionist economic practices of the post-war period.¹³³ The advocates of neo-liberalism, inspired by the ideas of economic thinkers such as Milton Friedman and Friedrich von Hayek, were critical of the Keynesian welfare state and blamed it for most of the problems afflicting the global economy. They sought to construct an international economic order that would “promote freer markets and more orthodox fiscal and monetary policies.”¹³⁴ In the domain of international financial markets, not only were the proponents of neo-classical economics opposed to the imposition of capital controls on financial movements, but they also admired the way international financial markets disciplined government policy and forced states to adopt conservative macroeconomic policies. Moreover, they argued that a liberal international order would “promote a more efficient allocation of capital by allowing capital to move across borders where it could be most productively employed.”¹³⁵

The mobility of financial operations has made it difficult to exercise political management over the liberal financial order.¹³⁶ This is because the liberal financial order, unlike the liberal trade order, is not subject to collective action problems – such as ‘prisoners’ dilemma dynamics and ‘free riding’ behaviour. It is these collective action problems that complicate efforts to reduce trade barriers. For example, in the

¹³³ Eric Helleiner, “Freeing money: why have states been more willing to liberalise capital controls than trade barriers,” *Policy Sciences*, vol. 27, no. 4 (1994), p.301.

¹³⁴ Ibid.

¹³⁵ Ibid., p.310.

¹³⁶ Ibid., p.303.

trade domain one of the crucial benefits of an open trading order – access to foreign markets – cannot be realised without collective action: that is, without efforts on the part of other states to reduce their trade barriers. The mobility of finance, therefore, ensured that it was competition and deregulation (the competitive deregulation dynamic) rather than cooperation that encouraged the emergence of an open, liberal international financial order in the 1970s and 1980s. It made it possible for the open financial regime to be implemented unilaterally through liberalisation and deregulation rather than through cooperation. What this point underscores is that it is pointless to regulate international trading system effectively if the benefits derived from trade liberalisation can be nullified by the volatility of international financial markets.

It is worth noting that it is national states – led by Britain and the US – that were the main driving political force behind the globalisation of financial markets.¹³⁷

According to Helleiner, states supported financial globalisation in the post-war era in three ways. First, by giving freedom to market actors. The resurgence of international capital mobility was partly a consequence of the leading role that American and British states played in removing controls on the international movement of private financial capital. Second, by putting in place mechanisms for the prevention of major financial crises. The growth of the unregulated Eurodollar market was instrumental in inspiring other foreign financial centres to follow the lead of Britain and the US by liberalising and deregulating their own financial systems. The drive towards financial liberalisation was, however, counter-balanced by the decision to make the state a lender-of-last resort in the event of severe international

¹³⁷ This assertion does not, of course, downplay the important roles that other factors such as international firms and technological innovation have played in propelling economic globalisation.

financial crises. This was demonstrated clearly by the intervention of the US Federal Reserve in the 1982 debt crisis, sparked off by Mexico's debt default, and in its subsequent decision to provide a rescue package to enable Brazil and Argentina overcome their liquidity crises. These actions played a crucial role in maintaining the momentum of financial globalisation. Lastly, by choosing not to implement more effective controls on financial movements. The reluctance to impose more effective controls on financial movements, following the collapse of the Bretton Woods system, was also a catalyst in the deregulation and liberalisation of international financial markets.¹³⁸

The exponential rise of transnational capital mobility between the late 1970s and the early 1990s laid the basis for the erosion of national financial barriers by offshore markets and the multinational firms.¹³⁹ The erosion of national financial barriers enhanced the capability of market operators to develop evasion and exit strategies.

As Pauly and Goodman elucidate:

Multinational structures enabled firms to evade capital controls by changing transfer prices or the timing of payments to or from foreign subsidiaries. The deepening of financial markets meant that firms could use subsidiaries to raise or lend funds on foreign markets. If controls in a country became too onerous, MNEs could also attempt to escape them altogether by transferring activities abroad, that is, by exercising the exit option.¹⁴⁰

The ever-present threat to exercise the exit option has increased the influence of firms in relation to economic policymaking and has strengthened the bargaining position of

¹³⁸ Eric Helleiner, "Explaining the globalisation of financial markets: bringing the states back in," *Review of Political Economy*, vol. 12, no. 2, (Spring 1995), pp.315-341.

¹³⁹ John B. Goodman and Louis W. Pauly, "The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets," *World Politics*, vol. 46, no. 1, (October 1993), p.58.

¹⁴⁰ *Ibid.*

firms vis-à-vis national governments. Parallel to the broader momentum towards financial globalisation was a rising trend towards greater trade openness, especially among the developing countries. The widespread skepticism about open trade that had prevailed among the developing countries for much of the postwar period made way for an enthusiastic embrace of neo-liberal free market policies. It underlined a recognition of potential benefits of a liberal international trading system to national economies. The growing acceptance of neo-liberal trade policies in the developing world was triggered by a number of global developments, including the debt crisis of the 1980s, the diminishing amount of official development aid, the collapse of former socialist economies, and the failure of inward-looking economic policies – whose deficiencies were exposed by the success of East Asia’s export-oriented economies. Accordingly most developing countries, both as part of a domestic strategy and under pressure from the World Bank and IMF undertook extensive policy reforms designed to reduce trade barriers and to open up their economies to foreign competition.

The notion of growth through trade assumed a status of orthodoxy in development circles during the 1980s. Based on neo-classical trade theory, particularly the Ricardian model of dynamic comparative advantage, growth through trade prescribed outward oriented or export-led development strategies for developing countries. It was touted by the World Bank as central to the successes of the NICs, primarily because “an outward orientation increases efficiency in the allocation of resources, competitiveness of goods produced, and flexibility to adapt to the ever-changing opportunities and constraints thrown up by the international economy – including

rapid adjustment to the severe external shocks of the 1970s.”¹⁴¹ The rise of export-oriented industrialisation (EOI) strategies represented a fundamental departure from the import-substitution industrialisation (ISI) development model that was pursued vigorously by most developing countries in the post war period. Predicated on the ideas of the NIEO programme propounded by Raul Prebisch in the 1950s, the ISI model advocated “measures of a comprehensive, integrated, and regulatory character, designed to manipulate and direct international economic activities in such a way as to produce outcomes considered to be more favourable to the developing countries than those produced by current international market mechanisms.”¹⁴²

The NIEO represented a challenge to the post-war liberal economic order as it articulated demands for a new international economic order that was responsive to the needs of the developing world. This challenge to the liberal international economic order attempted to achieve a number of objectives, including influencing the intellectual climate and canvassing support for certain ideas considered by the developing countries to be conducive to economic development, as well as increasing the influence of developing countries in decision-making by restructuring the international economic organisations. In this respect, the NIEO supported, amongst other things, preferential and non-reciprocal trade arrangements calculated to secure favourable terms of trade as well as bigger access to the markets of industrialised countries. The NIEO was thus an antithesis of the export-led growth strategies espoused by the World Bank in the sense that instead of supporting the integration of developing countries into the world economy in accordance with the principle of

¹⁴¹ John Gerard Ruggie, “International Interdependence and National Welfare,” in John Gerard Ruggie (ed.), *The Antinomies of Interdependence: National Welfare and the International Division of Labour* (New York: Columbia University Press), p.10.

¹⁴² *Ibid.*, p.11.

unrestricted free trade, it called for their integration “on a more planned basis, with redistributive principles directly guiding the allocation of resources.”¹⁴³

12. Economic Globalisation: The End of the National State?

The theoretical debate concerning whether globalisation has led to a decline of the national state remains inconclusive. In essence, arguments have revolved around three ends along a continuum. At one end of the continuum are ‘globalists’ such as the American business thinker Kenichi Ohmae, who suggest that there is an irrevocable decline in the power and importance of the state. For Ohmae the process of globalisation is creating an inexorable shift towards what he describes as a “borderless world.” Based on his analysis of the behaviour of some of the major MNCs, he draws the conclusion that national boundaries are becoming meaningless and that the only role left for states to perform is to appease the needs of business by providing infrastructure and public goods at the lowest possible cost.¹⁴⁴

A less globalist but still declinist argument is advanced by Susan Strange, who contends that structural changes in the international political economy have led to a diffusion of power and authority between states and other non-state actors, especially firms, in the world economy. She notes that:

the impersonal forces of world markets, integrated over the post war period by private enterprise in finance, industry and trade than by the cooperative decisions of governments, are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong. Where states were once masters of markets, now it is the markets which, on many crucial issues, are the masters over

¹⁴³ Ibid., pp.

¹⁴⁴ Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (New York: Free Press, 1990).

the governments of states. And the declining authority of states is reflected in a growing diffusion of authority to other institutions and associations, and to local and regional bodies, and in a growing asymmetry between the larger states with structural power and weaker ones without it.¹⁴⁵

Strange identifies the “accelerating pace of technological change” and the “salience of money in the international political economy” as the major causes of the shift in the state-market balance of power.¹⁴⁶ In her view, these structural changes have enhanced the importance of firms in the global economy, and have reconfigured the relationship between states and firms by ending competition for territory between states in favour of competition for shares in the world market for goods and services. Thus, it has become imperative for states to bargain with firms, and vice versa, for market shares and over the terms of foreign direct investment. This is due to the fact that although states still have resources to control the territory that defines the boundaries of a national market, they cannot exercise control over globalised production for world markets. As such, the change in the production structure has necessitated a triangular form of diplomacy that involves state-to-state exchanges, firm-to-firm exchanges and state-to-firm exchanges.¹⁴⁷

At the other end of the continuum are the arguments of scholars who believe that in many respects globalisation an exaggerated ‘myth.’ Spearheading this line of argument are Hirst and Thompson who, in their analysis of economic globalisation theories, conclude that the national state still occupies a central position in the international political economy. While they admit its changing role, they assert that the institution of the state has never remained static anyway. Moreover, they assert

¹⁴⁵ Strange, *The Retreat of the State*, p.4.

¹⁴⁶ *Ibid.*, p.7.

¹⁴⁷ See Susan Strange and John Stopford, *Rival States, Rival Firms: Competition for World Market Shares* (Cambridge: Cambridge University Press, 1991), pp.1-29.

that the fact that states still maintain exclusive control over their populations and territories, coupled with the fact that they remain central to any supranational governance, means that the state will continue to endure rather than wane. For Hirst and Thompson:

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.¹⁴⁸

Various other theoretical arguments have been marshalled in this analytical mode. For example, Sassen questions the tendency to define the nation-state and the global economy as mutually exclusive entities. She argues that it is the state that has actively created 'strategic spaces' where global processes take place. She maintains that these strategic spaces remain based within national territories in the sense that the legal mechanisms through which globalisation is implemented are often part of the state institutions. Likewise, the infrastructure that is used to facilitate capital mobility is located in the various national territories. The state, therefore, has been an active participant in globalisation processes even though it has emerged altered by its participation. Its' sovereignty remains part of the international system, but it is now located in various transnational institutions and regimes as well as in international human rights codes.¹⁴⁹

Furthermore, Sassen contends that globalisation and governmental deregulation do not suggest an absence of regulatory institutions and regimes for the governance of global processes. Instead, there have emerged private regulatory systems represented by powerful non-state entities such as debt security or bond-rating agencies – for

¹⁴⁸ Paul Hirst and Grahame Thompson, *Globalisation in Question: The International Economy and the Possibilities of Governance* (Cambridge: Polity Press, 1996), p.190.

¹⁴⁹ Saskia Sassen, *Losing Control? Sovereignty in an Age of Globalisation* (New York: Columbia University Press, 1996), pp.28-29.

example Moody's Investors and Standard and Poor's Ratings. These agencies wield significant clout relative to the state because of their "distinct gatekeeping functions for investment funds sought by corporations and governments."¹⁵⁰ In a globalising world, they have enormous power not only to determine countries where financial dealers should invest their funds but they also play a key role in promoting neo-liberal financial orthodoxy.

In the same vein, Scholte asserts that the state in the era of globalisation has been characterised by subtle interplays of continuity and change. Continuity has been maintained in the sense that inter-state relations still constitute the thrust of governance mechanisms in the globalising world. But there has also been noticeable change in the character of the state in terms its capacities, policy-making processes and constituencies. Although globalisation has contributed to the end of sovereign statehood as it is understood in conventional terms, it has also led to the growth of multilateralism and supranational constituencies, a decline in interstate warfare and the internationalisation of the state.¹⁵¹

The internationalisation of the national state does not, however, necessarily translate into the reduction of its power. Using the Latin American region as her reference point, Nicola Phillips shows that the national state has been simultaneously weakened and strengthened by the globalising forces.¹⁵² She calls this phenomenon the "paradox of state power," which means that "the power of the state is enhanced by the

¹⁵⁰ Ibid., p. 16.

¹⁵¹ Jan Aart Scholte, "Global Capitalism and the State," *International Affairs*, vol. 73, no. 3, (1997), p.428.

¹⁵² Nicola Phillips, "Globalisation and the "Paradox of State Power": Perspectives from Latin America," CSGR Working Paper No. 16/98 (November 1998), pp.1-28.

same processes which are assumed to undermine its authority.”¹⁵³ In the Latin American context, this happened when the internationalisation of the state made it simultaneously more and less powerful: globalisation reduced the policy-making autonomy of the state at international and regional levels while it enhanced it at national level. The engagement with the globalisation forces made it possible for the state to redefine its relations with societal interests – who were previously opposed to its macroeconomic management. Furthermore, international engagement enabled the state to ‘lock in’ domestic political and economic reforms through binding agreements with the IFIs – thereby removing the influence of domestic societal interests on policy-making. Based on this empirical evidence, Phillips questions the argument that the globalisation process has forced the state to retreat or has rendered it irrelevant. “Rather, the process is one of the reorientation of the national state, both institutionally and territorially defined. What is clear is that the condition and direction of the world economy in recent years poses a fundamentally new situation for governments...”¹⁵⁴ The nature of adaptation strategies that the national state deploys to respond to globalisation trends will to a large extent determine its position and fortunes in the international system.

Similarly, Higgott and Reich reject absolutist conceptions of the state, which assume that both authority and legitimacy reside in the state. They argue that the relationship between power, on the one hand, and authority and legitimacy, on the other hand, is not only fluid and varied in substance but it also contingent in form. Therefore, although globalisation poses a challenge to our accepted understanding of the relationship between authority and power it does not herald the end of the national

¹⁵³ Ibid., p4.

¹⁵⁴ Ibid., p.21.

state. “States are not passive actors, nor are they always in retreat, but their room for manoeuvre is always contingent.”¹⁵⁵ It could be inferred then that while globalisation has made it difficult for states to exercise exclusive national control over certain traditional policy instruments and functions, this does not imply that the state is no longer a central actor in the international political economy. Nor does it mean that the state has become irrelevant in the era of globalisation. Indeed, it is states that created the framework for globalisation.¹⁵⁶ States supported globalisation in the post-war era by giving freedom to market actors through their liberalisation programmes, by putting in place mechanisms for the prevention of major financial crises, and by choosing not to implement more effective controls on financial movements.¹⁵⁷

The resurgence of globalisation in the post-war period was partly a consequence of the “role that American and British leadership played in opening up financial markets.”¹⁵⁸ The growth of the unregulated Euromarket was instrumental in inspiring other foreign financial centres to follow the lead of Britain and the US by liberalising and deregulating their own financial systems. The drive towards financial liberalisation was, however, counter-balanced by the decision to make the state a lender-of-last resort in the event of severe international financial crises. This was demonstrated clearly by the intervention of the US Federal Reserve in the 1982 debt crisis, sparked off by Mexico’s debt default, and in its subsequent decision to provide a rescue package to enable Brazil and Argentina to overcome their liquidity crises.

¹⁵⁵ Richard Higgott and Simon Reich, “Globalisation and Sites of Conflict: Towards Definition and Taxonomy,” CSGR Working Paper No. 01/98 (March 1998), pp.42-43.

¹⁵⁶ Robert W. Cox, “Political Economy and World Order: Problems of Power and Knowledge at the turn of the Millenium,” in Richard Stubbs and Geoffrey R.D. Underhill (eds.), *Political Economy and the Changing Global Order* (Ontario: Oxford University Press, 1999), p.25.

¹⁵⁷ Eric Helleiner, “Explaining the globalisation of financial markets: bringing the states back in,” *Review of Political Economy*, vol. 2, no. 2 (Spring 1995), pp.320-328.

¹⁵⁸ Benjamin J. Cohen, “Phoenix Risen: The Resurrection of Global Finance,” *World Politics*, vol. 48 no. 1 (January 1996), p.277.

These actions played a key part not only in restoring stability in the emerging global financial markets but also in maintaining the momentum of globalisation. The reluctance to impose more effective controls on financial movements, following the collapse of the Bretton Woods system, was also a catalyst in the deregulation and liberalisation of international financial markets. Those states that benefited from financial openness were opposed to a restoration of capital controls.

The EU integration process exemplifies yet again the influential part played by national states in fostering economic liberalisation and integration. The creation of the European Community was primarily a political and state-driven project, designed to achieve peace and to secure the cohesion of Western Europe following the destruction caused by the two world wars.¹⁵⁹ It was believed that through functionalist inter-governmental co-operation states would gradually realise the benefits of economic integration – and ultimately of political union. In their analysis of the process of European monetary integration, Eichengreen and Frieden found no economic evidence that provides a clear case for or against monetary integration. On the contrary, they concluded that the push for monetary union was motivated by political considerations that had to do mainly with inter-state bargaining, linkage politics and domestic distributional issues.¹⁶⁰

All these factors have led Susan Strange to conclude that the creation of the Eurodollar market in London, and the subsequent emergence of what she calls a ‘global financial casino’ in the mid-1980s, was the culmination of a plethora of policy

¹⁵⁹ Kathleen R. McNamara, *The Currency of Ideas – Monetary Politics in the European Union* (Ithaca: Cornell University Press, 1998), p.166.

¹⁶⁰ Barry Eichengreen and Jeffrey Frieden, *The Political Economy of European Monetary Unification* (Boulder: Westview Press, 1994), pp.9-11.

decisions and ‘non-decisions’ made by the political authorities over the decades.¹⁶¹ These decisions and ‘non-decisions’ were based on political calculations that were designed to appease key domestic constituencies. National concerns, therefore, have always been influential in determining state strategies and approaches to globalisation and liberalisation.

13. Conclusion

This chapter has sketched a broad survey of the pertinent theoretical debates about the contemporary world trading system. To this end, it has drawn on economic theories of trade, IPE theories and globalisation theories. The analytical framework applied in this thesis is anchored in the new political economy paradigm. This is premised on several departure points. First, it maintains that in studying international political economy the political and economic spheres cannot be separated in any significant way. Second, while economists conceive of the market as an efficient mechanism for processing information to arrive at a market clearing price, the new political economy views it as an important part of the social and political conditions in which it is embedded. Third, it asserts that there is a close connection between domestic and international levels of analysis.

To a large degree, the new political economy has grown in response to the globalisation of the international economy – particularly in the areas of finance and production – and the changing nature of the inter-state system. This has thrown up several fields of inquiry in the IPE discipline that have attracted diverse theoretical

¹⁶¹ See Susan Strange, *Mad Money* (Manchester: Manchester University Press, 1998), pp.5-10.

approaches, dealing with an array of themes including the relationship between security and economics, the interface between power and gender, the ramifications of economic globalisation for the environment, and the significance of technological change and its role in the rise of transnational crime. Moreover, the new political economy has illuminated the notion of structural power in the global order, concentrating in particular on how the distribution of that power determines the relationship between authority and market. Having outlined the theoretical context in which South Africa's location in the international political economy and its prospects in the global trade system will be considered, this thesis now moves on to Chapter 2 which traces the historical development of South Africa's position in the global political economy.

Chapter 2

South Africa and the Global Political Economy: A Historical Analysis

This chapter sketches an analysis of the historical evolution of South Africa's position in the global political economy. In particular, it sets out to explain why a trading nation that once boasted consistently phenomenal economic growth rates – particularly during the initial phases of its post-war accumulation strategy in the 1960s – descended so precipitously into a marginal country on the periphery of the world economy. The general point highlighted by this chapter is that South Africa's location in the NIDL cannot be understood fully without reference to the country's historical economic vulnerabilities. It is argued that the roots of South Africa's present economic difficulties can be traced to the accumulation strategy, based on import-substitution industrialisation (ISI) and dependency on cheap labour, pursued by successive apartheid governments in the post-war period. Although it was touted as a strategy to reduce South Africa's economic dependence on Britain and foster international competitiveness, in reality the post-war growth model was aimed at safeguarding the economic interests of the country's white minority population.

In general terms, South Africa's industrial development was influenced by the growth models of advanced countries in that it was based on the Fordist logic of linking the extension of mass production with the extension of mass consumption. However, accumulation in South Africa differed in one crucial respect: both production and consumption were racially structured. The international political isolation of South Africa in the apartheid era encouraged self-sufficiency as the overriding aim of government policy. In line with this objective, the apartheid state aggressively

implemented a highly protectionist trade strategy (see Chapter 3) tailored to consolidate alliances with fractions of the capitalist class and promote employment and high incomes among the relatively skilled and educated white minority. Notwithstanding the impressive levels of industrialisation and economic growth rates it yielded – especially in the 1960s – this exclusionary accumulation regime has been harmful to South Africa’s long-term economic development. Not only has it beset South Africa with a structural economic problems from which it will take many decades to recover, but it has also jeopardised its possibilities in the globalising world economy.

1. Origins of Global Economic Incorporation

According to Bundy, pre-capitalist societies in South Africa were sucked gradually “into an expanding world economy, with commodities produced under slavery, peasant farming, and nascent commercial agriculture.”¹⁶² The discovery of diamonds in 1867 and gold in 1886, however, changed the pace and direction of economic development, launching South Africa on the path of modern economic development and integration into the global economy. Although diamonds led the way in South Africa’s rapid capitalist economic growth, it was gold mining that propelled the country’s industrial revolution, accounting for two-thirds of the exports from the country within twenty years.¹⁶³ British imperialist interventions played a pivotal role in the development of South Africa’s capitalist mining industry and its expanding linkages with the world economy. Primarily, these consisted of massive infusions of

¹⁶² Colin Bundy, “Development and Inequality in Historical Perspective,” in Robert Schrire (ed.) *Wealth or Poverty? – Critical Choices for South Africa* (Cape Town: Oxford University Press, 1992), p.26.

¹⁶³ Francis Wilson, “Minerals and Migrants: How the Mining Industry has Shaped South Africa,” *Daedalus* vol. 130, no. 1, (Winter 2001), p.101.

British capital into the mining industry, establishing mining as the flagship of the South African economy for the next century.¹⁶⁴

South Africa's spectacular industrial transformation shares certain attributes with other examples of rapid industrialisation in the late nineteenth century – such as Tsarist Russia, Imperial Germany, and Meiji Japan.¹⁶⁵ In true Gerschenkronian¹⁶⁶ fashion, capitalist development in South Africa evolved without the preliminary prehistory of accumulation and proletarianisation. Although South Africa had acquired high levels of foreign capital and technology, it did not have the requisite amount of workers to draw into wage labour. This necessitated political intervention on the part of the state in order to enforce the proletarianisation of the African peasantry.¹⁶⁷ As Trapido observed:

Incipient industry made the familiar complaint of labour shortage and the government, in attempting to make regular and manageable the supply of labour, both strengthened the industrial workers' ties with the rural area and increased the dependence of rural population upon employment in towns. Taxes were imposed on the village as a whole and internal passports were introduced to prevent evasion. While this device of course raised revenue, its major intention – and its major effect – was to ensure an urban labour force which remained rurally orientated, migrant and comparatively passive.¹⁶⁸

State intervention sought to ensure that industrialisation achieved one overriding goal: to generate rapid accumulation while extending protection to the white minority against competition from the black majority. To this end, in addition to European immigrant labour, which provided the semi-skilled and skilled labour required by the

¹⁶⁴ Bundy, "Development and Inequality," p.28.

¹⁶⁵ See Stanley Trapido, "South Africa in a Comparative Study of Industrialisation," *Journal of Development Studies* vol. 7, no. 3, 1971, pp.309-320.

¹⁶⁶ See Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962).

¹⁶⁷ Colin Bundy, "Development and Inequality," p.29.

¹⁶⁸ Trapido, "South Africa in a Comparative Study," p.312.

industry, a need for a steady supply of unskilled labour was identified. This laid the basis for the development of a racially fragmented labour force – consisting of skilled and semi-skilled white workers as well as unskilled African labour – created through the enforcement of repressive measures. The pivotal part played by coercive migrant labour – the lifeblood of capitalist mining – in moulding South Africa’s industrial transformation cannot be over-emphasised. Certainly, as Wilson stated, “there is no other country in the world whose urban industries, whether mining or manufacturing, have employed such a large proportion of oscillating migrants for so long a period of time”¹⁶⁹ The recruitment of black labour has since 1899 been carried out by the Chamber of Mines through monopolistic hiring practices that suppressed black miners’ wages for two generations. Underpinning the repressive labour regime was the compound system, which was employed to ensure that African miners – especially those recruited outside South Africa in the twentieth century – “move continually throughout their working life between their rural families and their all-male mining barracks.”¹⁷⁰ The key motive for this worker oscillation was to hamper the miners’ ability to gain urban political skills while weakening the social structure of the peasantry.

Over the next five decades, South Africa’s accumulation strategy was based on mining and, to a lesser degree, agriculture; manufacturing industry then constituted a peripheral aspect of the economy.¹⁷¹ At its embryonic stage, the mining sector was faced with two key needs, namely “a hefty flow of capital to establish and run mines,

¹⁶⁹ Wilson, “Minerals and Migrants,” p.103.

¹⁷⁰ Trapido, “South Africa in Comparative Study,” p.312.

¹⁷¹ Hein Marais, *South Africa: Limits to Change – The Political Economy of Transformation* (Cape Town: UCT Press, 1998), p.8.

and a reliable, cheap labour supply to keep the profit margin attractive.”¹⁷² The first requirement facilitated the integration of the South African economy into the world economy as a primary product exporter and net recipient of foreign investment, while the second one engendered a racialised model of social and labour relations. As such the advent of capitalist mining as the dominant feature of the South African economy was accompanied not only by the gradual removal of economic independence of the African peasantry, but also the imposition of systematic divisions in society.¹⁷³ The most striking facet of the industrialisation process in South Africa, which distinguishes the country from other late industrialisers, is that in spite of the massive amounts of capital it generated and attracted to finance industrial development it did not incorporate the dominant part of its proletariat into its social and political systems. Unlike other industrialising societies, which eventually integrated all their citizens within their legal and socio-political regimes, successive white South African governments systematically excluded black people from incorporation.¹⁷⁴

2. The Post-War Accumulation Strategy

Historically, the South African state has intervened considerably to influence industrial development.¹⁷⁵ State intervention in South Africa can be traced to the rise to power of the Pact government in the mid-1920s, a product of an electoral alliance between the socialist-inclined Labour Party and the nationalist-oriented National Party. Not only did the Pact regime’s ascent to office provide the first meaningful

¹⁷² Ibid., p.9.

¹⁷³ Ibid.

¹⁷⁴ Trapido, “South Africa in a Comparative Study,” p.313.

¹⁷⁵ See Merle Lipton and Charles Simkins, “Introduction,” in Merle Lipton and Charles Simkins (eds.), *State and Market in Post-Apartheid South Africa* ((Boulder: Westview Press, 1993), pp.1-34; For a comprehensive historical discussion of this question see F.J. Van Biljon, *State Interference in South Africa* (London: P.S. King and Son Ltd, 1969).

challenge to British colonial capitalism, it also coincided with a shift in the economic ideology of the government “from economic liberalism to economic nationalism in the form of increased state intervention and protective external policies.”¹⁷⁶ However, the ascendancy to power by the National Party (NP) in 1948 raised the degree of intervention to unprecedented levels. Under NP rule, state intervention was not confined to the regulation of the international flow of goods, capital and technology; it extended to domestic factors of production such as the mobility of labour and of capital, especially the allocation of property rights.¹⁷⁷

Two key domestic factors propelled the apartheid state towards its selection of accumulation strategy. The first was domestic politics: white minority rule applied pressure on policymakers to implement strategies that would improve white living standards. The other factor was the integration of the economy into the global economy as a mineral exporter, which facilitated the importation of the capital goods required to increase manufacturing.¹⁷⁸ From the outset, these terms of South Africa’s global economic incorporation – as a traditional commodity exporter (preponderantly gold) as well as an importer of capital goods and foreign investment – rendered the country susceptible to the vagaries of the world economy in three crucial ways. First, in its heavy dependence on foreign investment to fuel economic expansion. Second, the dominance of its export sector by gold, which has traditionally accounted for half the total value of exports, and other mineral products. Needless to say, such overwhelming reliance on precious commodities has been dangerous given volatile global market conditions. Third, the economy’s high dependence on imports of

¹⁷⁶ Sampie Terreblanche and Nicoli Nattrass, pp. 8-9.

¹⁷⁷ Lipton and Simkins, *State and Market*, p.1.

¹⁷⁸ Stephen Gelb, “South Africa’s Economic Crisis: An Overview,” in Stephen Gelb (ed.) *South Africa’s Economic Crisis* (Cape Town: David Philip, 1991), p.15.

capital goods and technology has exposed it to periodic balance of payment difficulties.¹⁷⁹

The post-war accumulation strategy was based on two crucial pillars: an industrialisation strategy based on import-substitution and reliance on cheap African labour. South Africa was one of the world's first middle-income countries to explicitly pursue ISI (see Chapter 3). Apart from being chosen as the means to facilitate South Africa's national economic development, ISI was designed "to assist with developing greater economic independence from Britain and with creating employment for whites in manufacturing."¹⁸⁰ The industrialisation path was influenced by the growth models of advanced countries, at least in so far as it was based on the Fordist logic of linking the extension of mass production with the extension of mass consumption. Yet accumulation in South Africa differed in one crucial respect: the expansion of mass production of consumer goods was linked to the growing consumption power of the white minority.

A central feature of the accumulation strategy, therefore, was that it was racially based. This prompted Stephen Gelb to characterise the post-war growth model as 'racial Fordism,' since "it focused on extending industrialisation by means of the production of (previously imported) sophisticated consumer goods primarily for the white South African market."¹⁸¹ Racial supremacy defined the structure of economic institutions: white people experienced a continual rise in their living standards, even as the economic position of blacks deteriorated. The growth model was buttressed by

¹⁷⁹ Marais, *South Africa: Limits to Change*, pp.120-121.

¹⁸⁰ Michael Bleaney, Alan Hirsch, Merle Holden and Carolyn Jenkins, "South Africa," in Ademola Oyejide, Benno Ndulu and Jan Willem Gunning (eds.), *Regional Integration and Trade Liberalisation in Sub-Saharan Africa* (Basingstoke: Macmillan Press, 1999), p.397.

¹⁸¹ Gelb, "South Africa's Economic Crisis," p.2.

gold exports and other precious commodities, which enjoyed stable prices on the global markets. The fixed international price of gold – based on a gold-exchange standard adopted at Bretton Woods in 1944 – acted as a stabilising influence on accumulation, minimising its fluctuations.¹⁸² It is this factor that distinguished South Africa's international situation during the post-war era from that of other exporters of primary commodities: for as long as world prices for precious metals remained stable, the state was not overly concerned about the inability of the South African manufacturing industry to become globally competitive and to develop meaningful export capacity.

Another remarkable facet of South Africa's post-war accumulation strategy was that the apartheid state did not emulate the example of East Asian NICs by adopting a direct role throughout the economy. As discussed in Chapter 1, the East Asian NICs propelled their industrial accumulation processes by intervening in investment and production decisions, as well as by funnelling indirect subsidies through the financial system in order to finance export-led growth. Focusing on the production of labour-intensive goods for the export market enabled the NICs “to absorb into industrial employment the ‘labour surplus’ moving out of the agricultural sector.”¹⁸³ The South African growth model, on the other hand, consisted of a ‘hands-off’ role for the state, focusing merely on fostering maximum circumstances for the achievement of industrial growth. Moreover, accumulation was capital-intensive, restricting the ability of the economy to soak up surplus labour.¹⁸⁴

¹⁸² Ibid.

¹⁸³ Ibid., p.15.

¹⁸⁴ Marais, *South Africa: Limits to Change*, pp.21-22.

The post-war accumulation strategy delivered unprecedented economic prosperity for South Africa's white minority, cementing a class coalition that kept white rule intact for decades. The state apparatus was used to dispense largesse – subsidies, loans and cheap labour – to the agricultural sector, the NP government's traditional electoral support base.¹⁸⁵ An extensive affirmative action programme was implemented to shore up the burgeoning Afrikaner capitalist class and to improve the social and economic status of the wider Afrikaner population, especially the working class. The apartheid state also interceded “with vigour to aid the survival of marginal capitalist enterprises (particularly in agriculture) and assist the birth of new, mostly Afrikaner-owned, ones.”¹⁸⁶ In sum, racialised corporatist arrangements were implemented to bolster the economic position of South Africa's white minority and secure its political support: As Schreiner explained:

Economic policy which focused on inward industrialisation and import substitution reflected a workable compromise between white labour, business and the state. With the economy buoyed by high foreign exchange earnings through gold sales, manufacturing capital was offered labour peace and relatively high profit margins manipulated through tariff protection arrangements. White labour settled for job reservation, high wages and access to a luxurious and diverse consumer market while the state, for its part, was guaranteed ongoing political support.¹⁸⁷

Furthermore, the propulsion of the Afrikaner capitalist class into the pinnacle of the mainstream economy – through the extension of Afrikaner participation in mining, industry and commerce, previously English-dominated economic sectors, and the intensification of interlocking directorates – induced a growing coalescence of interests and policy preferences between Afrikaans and English business. This

¹⁸⁵ Trapido, “South Africa in a Comparative Study,” p.317.

¹⁸⁶ Marais, *South Africa; Limits to Change*, p.138.

¹⁸⁷ Geoff Schreiner, “Beyond Corporatism – Towards New Forms of Public Policy Formulation in South Africa,” *Transformation* no.23 (1994), p.10.

rapprochement between the English and Afrikaans capitalist classes inaugurated a departure from the mutual suspicion that characterised their relationship during the Verwoerd era, making it easy for them to communicate shared positions to the government.¹⁸⁸ Although the growth model ushered in affluence for white South Africa, it imposed serious social, political and economic constraints on the African majority. As Marais eloquently stated:

In African communities, the effects were the reverse, with the great majority of Africans ruled out of the circuits of production, distribution, and even consumption. Access to skilled jobs was heavily restricted, through discrimination in the workplace and an education system, until the 1970s, was explicitly designed to equip Africans only with the rudiments required for entry into the lower ranks of the labour market. Class formation in African communities was curbed, flattening class differentiation in the townships. Some segmentation did occur within the African working class, as a semi-skilled urban layer emerged. The state had closed off access to most accumulatory activities and continued to drive African businesspeople from the central business districts...¹⁸⁹

3. The ‘Great Boom’: 1961 - 1965

At the height of South Africa’s post-war growth model, the economy registered a high GDP increase, averaging 6 percent between 1960 and 1969 (See Graph 1). During the period from June 1960 to June 1965 South Africa’s GNP rose from R5, 200 million to R7, 700 million – a 48 percent increase – making South Africa and Japan the highest growing economies in the world then.¹⁹⁰ This robust growth cycle continued until the early 1970s and generated massive infusions of foreign investment – most of which

¹⁸⁸ Louwrens Pretorius, “The Head of Government and Organised Business,” in Robert Schrire (ed.), *Malan to De Klerk – Leadership in the Apartheid State* (London: Hurst and Company, 1993), p.232.

¹⁸⁹ Ibid., p.29.

¹⁹⁰ Hobart D. Houghton, *The South African Economy* (Cape Town: Oxford University Press, 1967), p.198.

was funnelled into the manufacturing sector. By 1970 the manufacturing sector had become considerably diversified. As Black remarked:

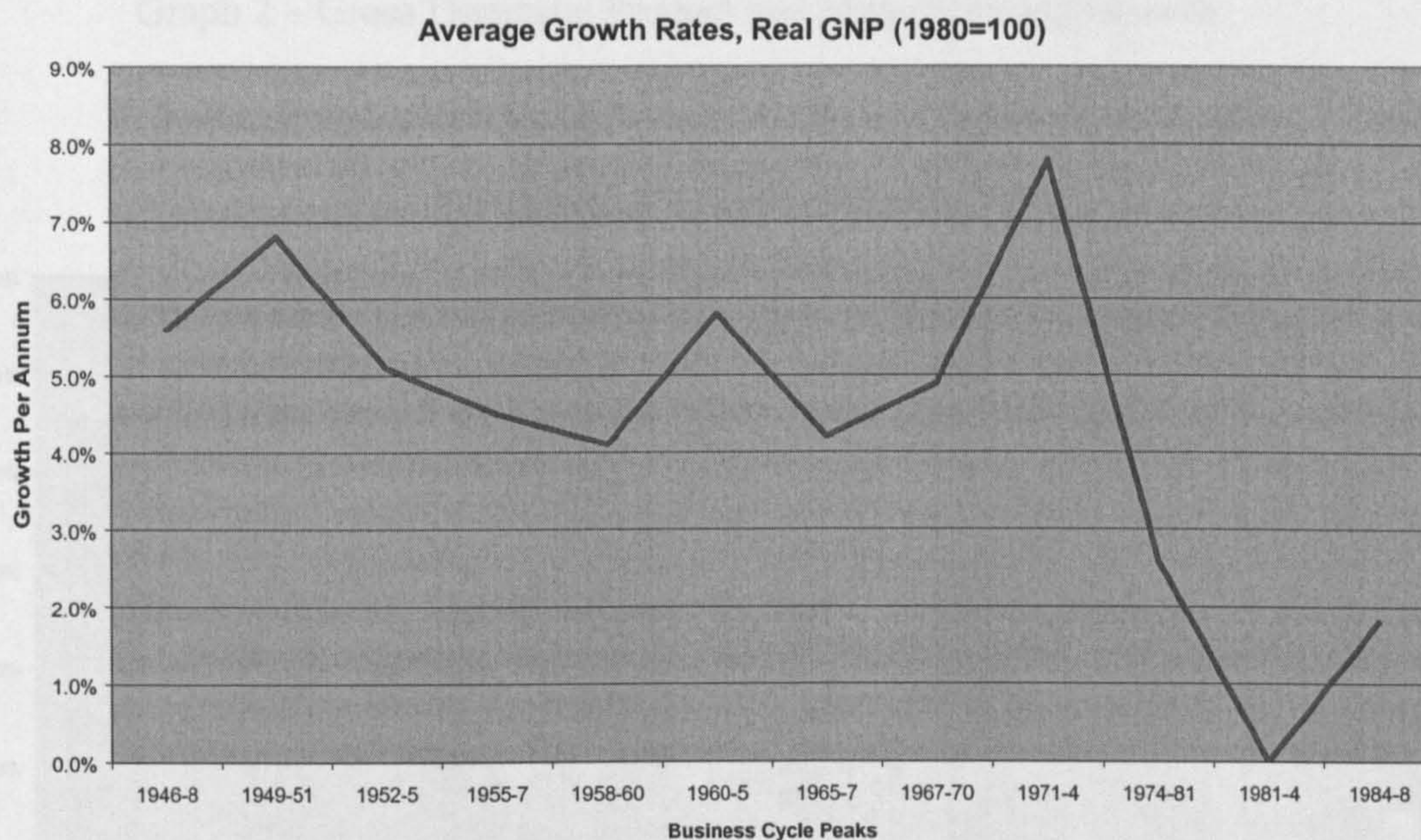
Manufacturing was also growing at this time in relation to total output. Its share of GDP rose from less than 13 percent in 1946 to over 23 percent by 1970. Thus in a period when manufacturing was growing rapidly and the process of import substitution was being accompanied by considerable diversification into more advanced sectors it was possible to argue in the mid-sixties that given the built-in propelling force of industrialisation on the one hand, and the positive national approach to modern economic development on the other, it appears that economic growth will not constitute a major problem in South Africa during at least the next twenty years.¹⁹¹

Yet the problem was that the bulk of the manufacturing sector was beset by structural deficiencies. First, growth was capital-intensive. This meant that the growth model was failing to absorb the growing rise in unemployment generated by the apartheid state's racial policies. Second, racially fragmented income distribution restricted the development of a wide mass market for domestically produced goods. Third, manufacturing did not become outward-oriented. As such, expansion of the manufacturing sector depended heavily on the importation of capital goods. A conspicuous aspect of South Africa's accumulation strategy was that notwithstanding the policies of import substitution, import intensity (imports as a proportion of GDP) in general did not change: imports still made up almost 24 percent of GDP in the late 1970s.¹⁹² This meant that only the profile, not the intensity, of imports changed.

¹⁹¹ Anthony Black, "Manufacturing Development and the Economic Crisis: A Reversion to Primary Production?" in Stephen Gelb, *South Africa's Economic Crisis*, p.151.

¹⁹² *Ibid.*, p.161.

Graph 1 – Average Growth Rates, Real GNP (1980=100)



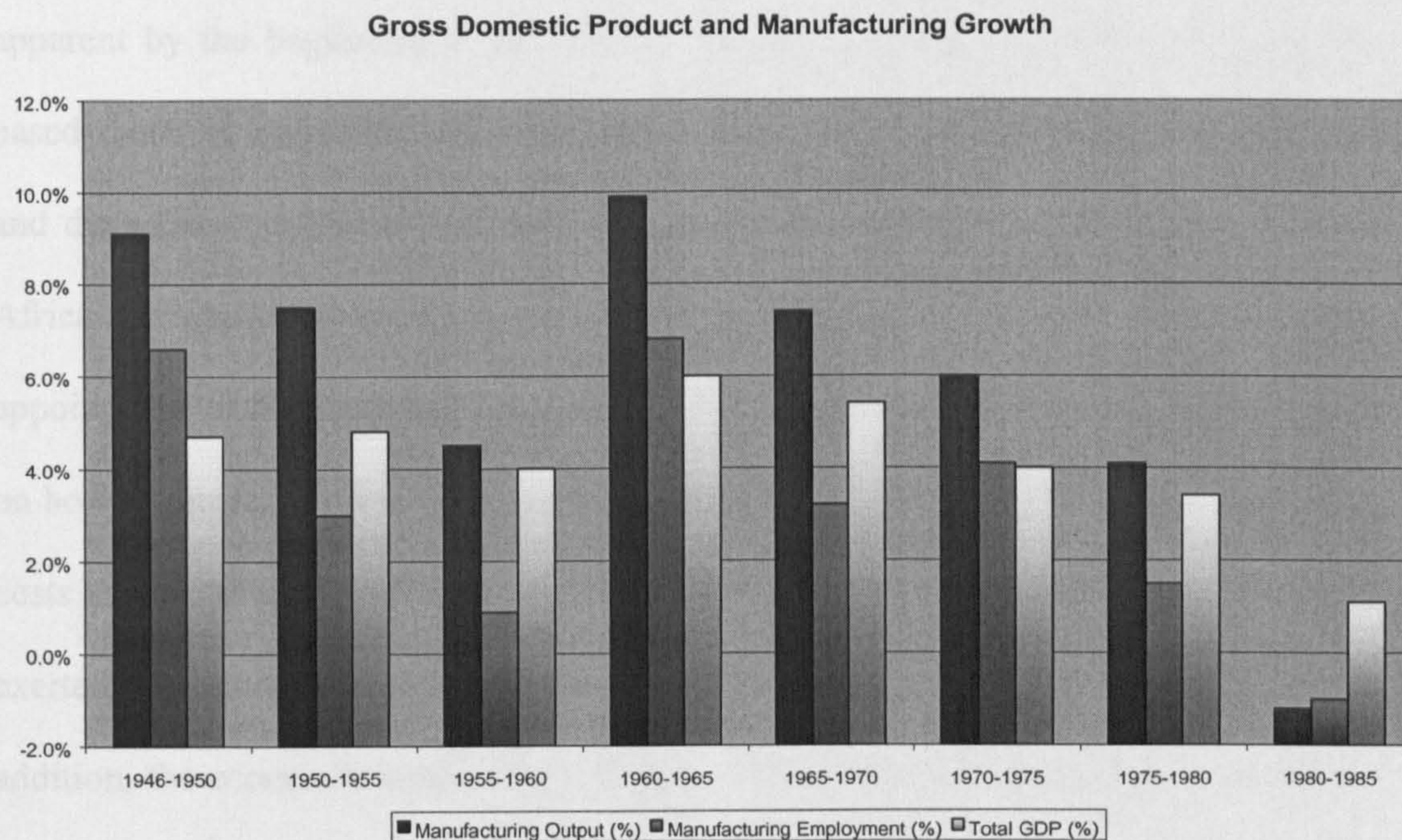
Source: Stephen Gelb, *South Africa's Economic Crisis* (London: Zed Books, 1991), p.4

Reliance on capital goods imports severely reduced the manufacturing sector's inability to access markets, thereby not only heightening the vulnerability of the economy to external pressures but also triggering chronic balance of payments of crises. Worse, the collapse in 1971 of the Bretton Woods system of fixed exchange rates, which provided for the convertibility of the dollar into gold at a fixed price, had adverse effects on export earnings as the price of gold began to fluctuate freely on the global market.¹⁹³ Fourth, whereas manufacturing's contribution to GDP in the early 1960s was virtually double that of the mining and agricultural sectors put together, it generated a miniscule share of foreign earnings (See Graph 2). By the mid-1970s, agriculture and mining constituted two-thirds of exports; a decade later mining,

¹⁹³ Gelb, "South Africa's Economic Crisis," p.21.

although accounting for 11 percent of GDP, contributed 70 percent of foreign exchange earnings.¹⁹⁴

Graph 2 – Gross Domestic Product and Manufacturing Growth



Source: Stephen Gelb, *South Africa's Economic Crisis* (London: Zed Books, 1991), p.157

4. The Accumulation Strategy Founders

The early 1970s witnessed a precipitous decline in South Africa's economic growth rate, shrinking per capita economic growth to less than zero. In the subsequent decade, the annual GDP growth rate decreased to 1.9 percent, while during the 1980s as a whole it averaged a mere 1.5 percent.¹⁹⁵ Mainstream accounts attribute the sharp

¹⁹⁴ Marais, *South Africa: Limits to Change*, p.30.

¹⁹⁵ Ibid.

economic downturn to constraints the apartheid system placed on free market enterprise and a world recession induced by the 1974 OPEC-led oil increases.¹⁹⁶ Yet a rigorous analysis of the underlying causes of the economic crisis shows that while the role of the oil price hike could not be ruled out, the fundamental problem rested with the structure of the economy. The pitfalls of racial Fordism had become apparent by the beginning of the 1970s. Partly, this was the result of the racially based mode of regulation, exemplified by a growing nexus between skill shortages and dwindling productivity growth.¹⁹⁷ A related problem was the failure of South Africa's manufacturing sector to create a significant export base, leading to the appointment of the Reynders Commission in 1972 to come up with recommendations on how to improve export trade performance (see Chapter 3). Furthermore, the rising costs of capital goods imports, coupled with growing instability in export earnings, exerted tremendous pressure on South Africa's balance of payments position. In addition, the economic boom of the 1960s – which had been driven by huge inflows of foreign investment – had begun to peter out, thanks to the growing outflows of capital set off by deepening domestic political instability. Lastly, South Africa was simply living beyond its means, consuming more than it was able to produce.¹⁹⁸

Towards the end of the 1970s it had become evident that the economic difficulties attendant to the apartheid growth model had reflected a serious structural crisis, connecting the economic, social and political aspects. The deliberate and systematic exclusion of the overwhelming majority of the population from the mainstream political economy set in motion a series of popular struggles calculated to challenge

¹⁹⁶ See, for example, Stuart Jones and Andre Muller, *The South African Economy 1910-90* (Basingstoke: Macmillan Press, 1992), pp.296-297.

¹⁹⁷ Gelb, "South Africa's Economic Crisis," p.19.

¹⁹⁸ *Ibid.*, p.210-211.

the legitimacy of the apartheid state. These popular resistance actions were propelled by a number of developments. The first was closely linked to the economic crisis. The exponential rise in unemployment levels, combined with steep inflation that economically strangled the African population, triggered a chain of damaging strikes in 1973. The second development was the advance of national liberation struggles in southern Africa. The attainment of independence in Angola and Mozambique in 1975 bolstered the morale of Africans while engendering a siege mentality among custodians of the apartheid state. Tied to this was the phenomenal growth and popularity of the Black Consciousness Movement, which mobilised the black majority against white racial supremacy.¹⁹⁹

Although it did not induce the collapse of the growth model, this multi-faceted crisis underscored the reality that the inward-looking growth strategy pursued by the South African state had become harmful; notwithstanding the impressive levels of industrialisation and rates of economic growth it had yielded. This is to not to suggest that ISI was not suited to South Africa's circumstances. However, the problem with South Africa's policy of import-substitution was that it was over-prolonged; it became an end in itself, rather than a means to an end. And this was particularly clear in the 1970s when the apartheid state, reeling from international pressure, tried to shift away from import-substitution to import-replacement – nearly moving the economy towards autarky.

A related problem with ISI was that it fostered massive inefficiencies, as well as unproductive rent-seeking behaviour and corruption. More importantly, the apartheid

¹⁹⁹ Marais, *South Africa: Limits to Change*, p.39.

policies that underpinned ISI sharply distorted labour markets and led to a poor distribution of skills and opportunities. The obsession with capital-intensive industrialisation meant that investment in human capital was ignored: this approach ran counter to the policies of newly industrialising countries – in East Asia and Latin America – which emphasised the centrality of human capital development to successful industrialisation. In sum, the post-war growth model was successful in terms of enabling the state to realise its socio-political political goals, even though it was less effective in accomplishing the objectives of international competitiveness and employment creation.²⁰⁰

5. Repairing the Damage?

A coalescence of factors, including growing fissures between the state and capital over the post-war growth model, mounting pressures exerted by popular organisations in the mid-1970s, as well as changes in the regional and global contexts, necessitated an urgent need to resolve the contradictions spawned by the post-war growth model. Faced with a deepening crisis, the South African state, with the support of capital, embarked upon reform initiatives “aimed at shoring up the two fundamental foundations of state power in capitalist society – coercion and consent – and at reshaping the spheres of production, distribution and consumption in order to resuscitate faltering economic growth.”²⁰¹ The post-war accumulation strategy had to be redesigned not only in terms of its economic dimensions but also in respect of its social and political foundations. Ultimately, it had been envisaged that economic and

²⁰⁰ See Anthony Black, “The Role of the State in Promoting Industrialisation – Selective Intervention, Trade Orientation and Concessionary Industrial Finance,” in Merle Lipton and Charles Simkins (eds.) *State and Market in Post-Apartheid South Africa* (Boulder: Westview Press, 1993), pp.203-234.

²⁰¹ Marais, *South Africa: Limits to Change*, p.41.

social reforms would engender a degree of legitimacy for the social order by creating a new basis for national consent. The first package of reforms focused on the trade and industrial policy aspects of the growth model. The second set of reform measures sought to restructure crucial aspects of the social relations undergirding the accumulation strategy – the labour regime and urbanisation policies. The third pillar of the reform policy concerned the economy's links with a changed international financial system and its consequences for South Africa's financial regime. Fourth, the reform plan entailed the elaboration of a regional policy geared to decentralising South Africa's political and economic problems. As pointed out earlier only the second, third and fourth sets of reforms are discussed in this chapter; the first raft of reforms is analysed at length in Chapter 3.

6. Labour and Social Policies

The late 1970s saw the apartheid state initiating what Morris and Padayachee described as a “selective Fordist” response to South Africa's multi-dimensional crisis.²⁰² Two commissions – namely the Riekert and the Wichahn Commissions – were specifically charged with the responsibility to reform the social relations upon which the accumulation strategy rested, while the De Kock Commission was tasked with reviewing monetary policy. (The Reynders and Kleu Commissions, which were set up to review export trade and industrial policy respectively, are discussed in the next chapter). In addition, the NP government introduced a regional policy calculated to ‘decentralise’ South Africa's economic and political ills.

²⁰² Cited in Patrick Bond, *Commanding Heights and Community Control – New Economics for a New South Africa* (Braamfontein: Ravan Press, 1991), p.40.

The Riekert Report set out “to underpin, on a new basis, territorial segregation by legislatively strengthening the division between urban and rural Africans.”²⁰³ To this end it recommended that Africans be broken up into two groups, namely those deemed eligible for urban citizens and those disqualified from such social status – the latter would be restricted to the Bantustans. In essence, the report sought to restructure societal divisions along class instead of racial lines: it was believed that the new rights and concessions extended to urbanised Africans would gradually distinguish them from their rural-based counterparts. This observation is echoed by Morris and Padayachee, who concluded that “it (the Riekert strategy) proposes to use urbanisation to increase competition between workers, not only to hold wage levels down, but principally to act as a process of class differentiation. Those black workers who are unable to secure steady employment, secure housing and services are hence forced out of the more stable urban townships.”²⁰⁴

The shift in policy was partly in response to “a growing realisation among some influential employers and government officials that the accommodation of African workers within the official labour relations system could not be indefinitely postponed.”²⁰⁵ Escalating labour militancy, coupled with the exponential growth of an independent, preponderantly African, trade union movement could no longer be ignored by managers of the apartheid state. But policy changes also “stemmed from industries’ need for a more settled and sophisticated semi-skilled African labour force, and the political hope that a layer of comparatively privileged urban Africans would emerge to douse the ardour of the masses.”²⁰⁶

²⁰³ Marais, *South Africa: Limits to Change*, p.42.

²⁰⁴ Cited in Bond, *Commanding Heights and Community Control*, p.41.

²⁰⁵ Louwrens Pretorius, “The Head of Government,” p.227.

²⁰⁶ Marais, *South Africa: Limits to Change*, p.43.

The Wiehahn Commission set out to achieve two specific aims, namely to review the regulation of black workers in the labour market as well as to fashion measures calculated to raise the productivity and purchasing power of an expanding, skilled African labour force.²⁰⁷ It emphasised the importance of containing growing black trade union militancy but cautioned against the use complete repression, which it feared “would undoubtedly have the effect of driving black trade unionism underground and uniting black workers – against the system of free enterprise.”²⁰⁸ As such the commission recommended the implementation of a wide array of policy measures designed to incorporate black trade unions into the mainstream of the labour relations regime. Morris and Padayachee conclude that:

The purpose of this new ‘reform policy’ was to ensure maximum division and differentiation of the popular classes: divide the black petty bourgeoisie from the working class by satisfying some of the former’s socio-economic aspirations; pacify the working class by granting trade union reform; divide the general black population by driving a wedge between ‘insiders’ (with access to urban residential rights) and ‘outsiders’ (with no urban residential rights).²⁰⁹

It is worth stressing that the reforms were introduced when the world economy was beset by a recession triggered by the 1979 oil crisis. In line with neo-liberal economic policies adopted by governments of advanced capitalist nations to stem the global recession, the South African authorities made a number of adjustments to the country’s economic policy, primarily the abolition of capital controls for non-residents and the strengthening of monetary policy. However “the liberalisation of South Africa’s economic links allowed for the easy transmission of the worsening international economic situation into [the] South African economy.”²¹⁰ This

²⁰⁷ Ibid.

²⁰⁸ Ibid., p.44.

²⁰⁹ Cited in Marais, *South Africa Limits to Change*, p.44.

²¹⁰ Ibid., p.45.

translated into growing inflation and escalating unemployment, undermining the envisaged labour market changes and sparking off political resistance to the reforms among the black working class. Nor were the measures recommended by the Riekert Commission a success. At the heart of its report was a quest to foist segregation between the urban and the rural sections of the African population. Yet thanks to structural changes in the South African political economy, the wall separating Africans banished to the Bantustans and those allowed to reside in the urban areas was not as permeable as apartheid architects calculated. A combination of factors – notably the migrant labour system – had ensured the blurring of spatial divisions. In reality, rather than entrench the state’s stranglehold over urban dwellers, “the reforms became the basis for renewed and reinvigorated protests as the beneficiaries pushed the reforms beyond the limits imposed by the state.”²¹¹ Despite their shortcomings, the recommendations of the Wiehahn, Riekert and De Kock Commissions represented a seismic ideological shift in terms of state economic policy for two reasons. First, the reports stressed the need to reduce the role of the state in shaping the economy and to strengthen the role of the private sector in economic policymaking. Second, they rejected the notion of race as a guide to government’ economic policy on the grounds that this threatened the free enterprise system. This sentiment was stridently voiced in the Wiehahn Commission report which pointed out that:

The Commission accepted the premise that full involvement, participation and sharing in the system of free enterprise by all population groups with as little as Government intervention as possible would not only give all groups a stake in the system, but would also ensure a common loyalty to both the system and the country.²¹²

²¹¹ Ibid.

²¹² Cited in Jill Nattrass, *The South African Economy – Its Growth and Change* (Cape Town: Oxford University Press, 1981), p.28.

7. Monetary Policy

The neo-liberal, monetarist economics adopted by advanced industrial countries in the 1980s was enthusiastically embraced by the De Kock Commission, the centrepiece of whose recommendations was liberalisation of South Africa's financial markets in accordance with prevailing international orthodoxy. The ascendancy of monetarism in economic management can be attributed to fears for the world economy sparked off by the exponential global increase in the cost of money, exemplified by high interest rates, in the 1980s. Monetarism sought to deploy interest and exchange rates as tools of economic policy in order to decrease the amount of money in circulation, thereby stabilise prices and the external balance.²¹³

The liberalisation of South African financial markets represented a boon for domestic financial interests. Indeed, as Bond noted, "local finance capital appeared to have a lot to do with shaping the local monetarist initiative, including the removal of interest rate ceilings and foreign exchange controls."²¹⁴ The shift to international monetarism dovetailed neatly with the worldview of domestic finance houses, which was premised on the notion that the growing value of mineral exports would lay the foundation for continued industrial development along the previous track, whereas enhanced integration into the international financial system would discard 'anomalies' such as negative real interest rates and 'overvalued' exchange rates.²¹⁵ The new international economic milieu delivered significant gains for South African business. South African companies took advantage of cheaper foreign money to borrow heavily from overseas banks. Buoyed by the ensuing domestic and international policy

²¹³ Bond, *Commanding Heights and Community Control*, p.46.

²¹⁴ Ibid.

²¹⁵ Gelb, "South Africa's Economic Crisis," p.25.

environments, both the private and state corporations invested heavily in new projects. In addition the liberalisation of the internal economy, notably the privatisation of state parastatals, bestowed a windfall on corporate investors mainly in the shape of hefty tax incentives.²¹⁶

Significantly, this liberalisation episode witnessed the introduction of the dual exchange rate system recommended by the De Kock Commission in 1978. This was in response to pressures for the easing of exchange controls imposed at the height of the instability that afflicted international currency markets in the 1970s. The dual exchange rate system was aimed at freeing the rand (the South African currency) by making it easy for people to move their capital out of the country while simultaneously encouraging foreign investment in the South African economy.²¹⁷

Nevertheless, even though the liberalisation of South Africa's financial market regime was greeted with high acclaim by various fractions of capital it encountered a political backlash from key sections of the South African populace – primarily the black working class which could no longer bear the brunt of the government's conservative, monetarist economic policy. The potential benefits promised by the reform measures subsequently fell prey to the social upheaval and political instability which engulfed South Africa during the latter part of the 1980s.

²¹⁶ Bond, *Commanding Heights and Community Control*, p.42.

²¹⁷ Nattrass, *The South African Economy*, p.266.

8. Decentralisation Policy

The regional policy pursued by the NP government in the 1980s essentially represented a continuation of the Verwoerdian dream of black ethnic balkanisation. It espoused the establishment of selected economic growth points bordering the black homeland territories, which would enable the apartheid regime “to combine its political goals with a manufacturing export strategy based on the familiar themes of cheap labour plus subsidies.”²¹⁸ To this end, massive state subsidies and incentives were awarded to companies willing to relocate to the Bantustans; subsidies rose from R90 million in 1970 to R1.4 billion in 1980, increasing further to R4.7 billion in 1985. In the early 1990s, around 4700 companies were beneficiaries of the state subsidy scheme.²¹⁹

Apart from economic considerations, the decentralisation strategy was geared to fulfilling numerous political goals. First, it was viewed as a mechanism to raise employment opportunities in the homelands “so as to retain a greater proportion of blacks within these areas while simultaneously ensuring that migration is geared more efficiently to the demands of the urban labour markets.”²²⁰ Second, it was an attempt to blunt popular struggles in the urban areas by relocating massive numbers of urban black dwellers to the homelands. Third, it was a device for fomenting class inequalities among black people by co-opting into the political system the nascent black technocratic stratum. Lastly, the decentralisation plan constituted an effort to make the government’s homeland policy acceptable to the international

²¹⁸ Bond, *Commanding Heights and Community Control*, p.42.

²¹⁹ Ibid.

²²⁰ Paul Wellings and Anthony Black, “Industrial Decentralisation under Apartheid: The Relocation of Industry to the South African Periphery,” *World Development* vol. 14, no.1, p.10.

community.²²¹ Notwithstanding claims by government policymakers about its success, the strategy was derided by critics as “entirely political, economically irrational and in contradiction to economic trends.”²²² In sum, the barrage of reforms initiated by the NP regime in the late 1970s was woefully inadequate: not only did the reforms tinker with the system but they also failed to address the fundamental ideological and social foundations of the structural economic crisis. As Gelb concurred:

In general, the state’s approach was adaptive and partial – ‘groping’ for solutions – in the sense that policy initiatives undertaken to reorganize specific aspects of the mode of regulation were carried out independently of each other. Moreover, the overall context remained the racial Fordist model, even while it was acknowledged that the problems faced were structural.²²³

The inability of the apartheid state to deal effectively with South Africa’s enduring structural economic crisis prevented the country from exploiting advantages induced by the structural changes that reconfigured the world economy in the 1970s. And it explains why although five decades ago South Africa appeared destined to attain the status of a semi-industrialised state endowed with a relatively diversified export base, its position in the contemporary global political economy is still fragile and precarious. It is to the analysis of South Africa’s location in the new international division of labour this chapter now turns.

²²¹ Ibid., p.11.

²²² Ibid., p.9.

²²³ Gelb, “South Africa’s Economic Crisis,” p.25.

9. South Africa in the New International Division of Labour

Notwithstanding the impressive industrialisation efforts of the past decades, South Africa's terms of incorporation into the world economy at the beginning of the twenty-first century have remained largely static: the country continues to be an exporter of traditional commodities (predominantly gold) and a capital goods and technology importer. The characteristic feature of South Africa's economy has been the overwhelming dominance of its exports by gold. During the mid-1980s, South African gold accounted virtually for two-thirds of world output and between forty and fifty percent of the country's exports, maintaining production levels that had prevailed throughout a large part of the twentieth century.²²⁴ In 1986 the gold mines, buoyed by exponential increase in the gold price at the start of the 1970s, employed 534 000 people.²²⁵

Nonetheless, a coalescence of plummeting prices and skyrocketing costs in recent years has precipitated a decline in the gold mining industry, with adverse consequences for the South African economy. First, the weakening in gold mining has led to a massive decline in state revenue. Whereas gold tax from 1981 to 1983 accounted for 16.7 percent of total government income, it decreased to 1.0 percent by 1994, dropping further to 0.7 per cent between 1994 and 1998.²²⁶ Tied to the loss of government income was the shedding of jobs. In 1991, overall employment in the gold mines dropped 21 percent from 534, 000 to 424, 000 people, with the number of migrant workers declining precipitously from 478 000 to 354 000, a 26 percent decrease. In the late 1990s, employment in the mining sector decreased by an

²²⁴ Wilson, "Minerals and Migrants," p.102.

²²⁵ Ibid.

²²⁶ Ibid., pp.113-115.

additional 40 percent, with 222 000 lost in the gold mining industry.²²⁷ From the 1980s to the mid-1990s, the spectacular decline in South Africa's gold exports was balanced by a growing share of manufactured exports. Nevertheless, the continued dominance of primary and semi-processed goods still confirmed South Africa's status as a weak exporter of manufactured products. Thanks to South Africa's over-prolonged import substitution policies, during this period manufactured exports per capita were lower in South Africa than in other upper-middle income countries save for Brazil.²²⁸

Although South Africa has been historically classified by the World Bank as a developed country, this categorisation is misleading.²²⁹ While, for example, in 1994 the country 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 – the distribution of income across its population has been marked by severe racial disparities.²³⁰ However, the applicability of this pattern of income distribution to post-1994 South Africa has been contested by Nattrass and Seekings who argue that:

In South Africa, black and white are no longer synonymous with rich and poor. Moreover, South African society cannot simply be divided into rich and poor, as if the distribution of incomes were bipolar. In the final decades of apartheid the deracialisation of formerly discriminatory policies, upward occupational mobility among black workers, and rising unemployment resulted in declining interracial inequality but rising intra-racial inequality, especially among the black population. In post-apartheid South Africa, inequality is driven by two

²²⁷ Ibid.

²²⁸ Cited in Patrick J. McGowan, "The 'New' South Africa: Ascent or Descent in the World System?," in C. Roe Goddard, John T. Passe-Smith and John G. Conklin, *International Political Economy- State-Market Relations in the Changing Global Order* (Boulder: Lynne Rienner, 1996), p.207.

²²⁹ The country is classified as developed because it conforms to the World Bank criterion that regards developed countries as those that have a per capita income of more than US\$ 2900 per annum. In the South African context this classification has been misleading because it historically was based on the living standards of the white minority population.

²³⁰ See World Bank (1996), *World Development Report 1996* (Oxford: Oxford University Press, 1996), pp.188-189.

income gaps: between an increasingly multiracial upper class and everyone else; and between a middle class of mostly urban, industrial, or white-collar workers and a marginalised class of black unemployed and rural poor.²³¹

Whatever the merits or demerits of these arguments, what is indisputable is that South African society continues to be characterised by vast racial, social and economic inequalities. In many ways South Africa fits neatly the Wallersteinian definition of a semi-peripheral state.²³² Partially industrialised, the country exhibits features of both developed and underdeveloped societies. Yet in spite of its semi-peripheral status South Africa has lagged far behind other semi-peripheral societies that benefited from the structural changes associated with the NIDL. The strategy of import-substitution industrialisation – while necessary in the early phases of industrial development – was over-prolonged, denying the country the opportunity to deploy trade as a tool of growth; in the same way as the East Asian and Latin American NICs did (see Chapter 3). In addition, trade sanctions imposed against successive South African apartheid regimes over past decades exerted considerable constraints on the country's international trading position.²³³ Not only did they cut off South African industry from large potential markets in the developing world, they also undermined its established trade relations with developed capitalist countries of the world. To its credit, the apartheid state, unlike most Latin American countries, did not try to spend its way out of trouble when its growth strategy ran into difficulties.²³⁴

²³¹ Nicoli Nattrass and Jeremy Seekings, " 'Two Nations'?: Race and Economic Inequality in South Africa Today," *Daedalus*, vol. 130 no. 1 (Winter 2001), p.47.

²³² For a detailed discussion of the concept of the semi-periphery, see Immanuel Wallerstein, "Semi-Peripheral Countries in the Contemporary World Crisis," *Theory and Society* no. 3 (1976), pp.461-483.

²³³ Richard Moorsom, "Foreign Trade and Sanctions," in Mark Orkin, *Sanctions Against Apartheid* (Cape Town: David Philip, 1989), p.264.

²³⁴ Marais, *South Africa: Limits to Change*, p.120.

Still, this cannot disguise the abysmal performance of the South African economy since the mid-1970s. The economy still relies on traditional commodity exports that are vulnerable to volatile price fluctuations on the global markets. Also, its mammoth dependence on secondary and tertiary goods has had an unfavorable impact on its balance of payments position. Moreover, South Africa entered the twenty first century beset by daunting economic problems: a low GDP growth rate, which declined from its 6 percent average during the 1960s to 1.8 percent in the 1980s, ultimately plummeting to -1.1 percent in the early 1990s; unsustainable levels of public debt; declining rates of gross fixed investment and high rates of capital flight; poor levels of private investment and declining competitiveness; high unemployment and shortage of skilled labour; low investment in research and development; a heavy bias against small and medium enterprises; and balance of payments constraints.²³⁵ In essence, the position of South Africa in the contemporary global political economy is insecure and vulnerable. In this respect South Africa's location in the NIDL is not dissimilar to those of many underdeveloped countries.

10. Conclusion

This chapter has attempted to clarify why a trading nation that once enjoyed consistently remarkable economic growth rates in the 1960s ended up as an insignificant player on the fringes of the global economy. South Africa's current economic problems are partly a legacy of the accumulation strategy, based on import-substitution industrialisation and dependency on cheap labour, implemented by consecutive apartheid governments in the post-war period. Although it was

²³⁵ Ibid., p.100.

originally presented as a strategy to reduce South Africa's economic reliance on Britain and promote international competitiveness, in reality the post-war growth model was aimed at protecting the economic interests of the white minority population. South Africa's industrial transformation mimicked the growth models of advanced countries in that it was based on the Fordist logic of linking the extension of mass production with the extension of mass consumption. Even so, accumulation in South Africa differed in one crucial respect: both production and consumption were racially ordered.

The adoption of the post-war growth model was influenced by two considerations: domestic politics (the political imperative to respond to the economic needs of the minority white population) as well as the incorporation of South Africa into the global economy as an exporter of primary products and an importer of capital goods. This pattern of global economic incorporation has made South Africa vulnerable to the whims of the global economy; through its dependence on foreign investment to drive economic growth, its reliance on gold and other mineral products, and its reliance on imports of capital goods and technology. South Africa's situation in the NIDL, therefore, cannot be understood completely without taking into account the country's historical economic vulnerabilities.

South Africa's international ostracism during the apartheid period catapulted self-sufficiency to the top of government policy priorities. In keeping with this objective, the apartheid state forcefully implemented an extremely protectionist trade strategy designed to consolidate coalitions with sections of the capitalist class and to provide employment and economic opportunities for the white minority. Yet despite

recording laudable levels of industrialisation and high economic growth rates in the 1960s, the post-war accumulation strategy was inimical to South Africa's long-term economic development. Apart from saddling South Africa with a structural economic crisis, it imperilled its prospects in the globalising world economy and entrenched the country's precarious position in the NIDL. This chapter has sketched a broad historical sweep of the nature and trajectory of economic development in South Africa over the past decades. This was intended to set the scene for the following chapter which focuses special attention on how trade policy – the immediate concern of this thesis – evolved in the apartheid era and how this fitted into the wider international political economy.

Chapter 3

Striving for National Self-reliance: Trade Policy in Apartheid South Africa

Post-apartheid South Africa's trade policy, which is discussed in Chapter 4, represents the latest chapter in a long history of trade policy initiatives undertaken by successive South African governments. This chapter analyses trade policy in South Africa during the apartheid era. It argues that South Africa's trade policy in the apartheid period evolved in response to the imperatives of the domestic economy. Trade reforms were implemented fitfully and haphazardly to address specific problems, not as part of a coherent economic strategy. The pre-eminent policy objective was the survival of apartheid in an unstable domestic situation and increasingly hostile international environment. Although the theoretical basis of free trade was eventually accepted, it was never the government's policy to undertake full-scale trade liberalisation; the promotion of exports was never matched by the liberalisation of the import regime. On the contrary, trade liberalisation was viewed as a tactical mechanism to ease economic difficulties, notably balance of payments problems, induced by the post-war growth model. However, various foreign exchange shocks in the 1980s (especially the debt crisis of 1985), and the ensuing economic crisis, forced South Africa to shift abruptly to an outward-oriented trade regime.

1. Import Substitution

Extensive policy intervention became a defining feature of economic management in numerous developing countries in the early part of the twentieth century. South Africa was no exception to this trend. It pursued a policy of import-substituting

industrialisation (ISI) since 1925, making it one of the first countries to explicitly embrace inward-oriented development strategies that were to be championed by structuralist economic thinkers such as Raul Prebisch and Hans Singer in subsequent decades.²³⁶ The theoretical arguments for ISI have been elaborated in detail in the first chapter but will be reiterated very briefly here. Based on the infant industry argument, ISI policies advocate protection for domestic industries with potential comparative advantage and seek to encourage competition for these industries by increasing the domestic price of imported goods. Consequently the ISI strategy prescribes the imposition of constraints on negative external influences (such as foreign manufactured goods) so as to promote self-sufficiency and internal development. Instead of importing manufactured goods, local manufacturing is actively encouraged. Promoting domestic enterprises requires strict controls on imported goods to reduce foreign competition. The state plays a pivotal role in regulating strategic industries, which are central to providing the necessary resource base for a manufacturing economy.²³⁷

As discussed in Chapter 2, in the case of South Africa ISI was expected to assist with developing greater economic independence from Britain and with creating employment for whites in manufacturing. As such in South Africa, like in most countries that pursued the ISI growth path, the issue of national sovereignty was at the heart of intervention. To eschew its colonial dependence, it was necessary for the country to overcome its status of an exporter of primary products and become a manufacturing economy capable of competing in the global markets. Five policy instruments propelled South Africa's early industrialisation. The first was trade

²³⁶ Colin McCarthy, "South African Trade and Industrial Policy," in Lennart Petersson (ed.) *Post Apartheid Southern Africa* (London: Routledge, 1996), pp.66.

²³⁷ *Ibid.*, p.67.

management underpinned by import restrictions and import tariffs, and subsequently combined with export promotion. Second, far-reaching government intervention in the industrialisation process resulted in the establishment of state-owned public corporations. Third, labour market policies designed to assist in the shaping of domestic industry were introduced. Fourth, a policy of industrial decentralisation was employed to foster 'separate development'. Finally, exchange controls were imposed to cope with balance of payments difficulties arising from the industrialisation process.²³⁸ During the apartheid era, trade policy evolved cautiously in reaction to specific economic needs and problems identified by policymakers. The paramount policy objective was the survival of apartheid, to which all other aspects of policy were subordinate. Trade and industrial strategies continued to place a premium on reducing reliance on Britain and generating productive employment for whites, but increasingly shifted "to search for a stimulus to economic growth after the easy stages of import-substitution industrialisation were completed, and to respond to the overriding necessity to ease pressures on the balance of payments."²³⁹

Yet industrial protection in South Africa did not go unchallenged. In the light of criticisms levelled at industrial protection by the Customs Tariff Commission in 1934 – which concluded that "protection was having a weakening effect on initiative, risk-taking and competitiveness"²⁴⁰ – the Nationalist government appointed in 1958 another commission (the Viljoen Commission) to review trade protection in South Africa. Deploying structuralist development arguments to justify its recommendations, the commission endorsed a continuation of ISI, albeit through the

²³⁸ Davis, *South African Managed Trade*, p.13.

²³⁹ Michael Bleaney, Alan Hirsch, Merle Holden and Carolyn Jenkins, "South Africa," in Ademola Oyejide, Benno Ndulu and Jan Willem Gunning (eds.) *Regional Integration and Trade Liberalisation in Sub-Saharan Africa* (Basingstoke: Macmillan Press Ltd, 1999), p.408.

²⁴⁰ Bleaney, Hirsch, Holden and Jenkins, "South Africa," p.397.

use of tariffs instead of quantitative restrictions and subsidies. The retention of the protection policy for domestic industry resulted in its considerable diversification, even though the overall import intensity of the manufacturing sector did not change significantly.²⁴¹

The adoption of a deliberate siege economic development strategy by the apartheid regime was influenced by a number of factors. First, owing to reasons of limited scale of domestic production, distance from key world markets, as well as growing industrialised country trade protectionism, South Africa had to overcome these formidable obstacles if it was to expand manufactured exports. Second, given its heavy reliance on primary product exports South Africa was highly susceptible to price fluctuations on the global markets. Third, in its quest to foster a replacement of imported goods by domestically produced substitutes South Africa had to use imported technologies that, ironically, increased reliance on intermediate and capital imports. Fourth, South Africa was uniquely faced with the additional pressure of dealing with international opposition to apartheid policies.

It is this international backdrop that informed South Africa's shift in the 1960s to strategic industry arguments as justification for protection. The development of an armaments industry, with strong spin-off effects in capital-intensive chemicals, metals and engineering industries, came to be regarded as important in an economy facing international isolation. Public investment went into creating or expanding strategic industries – such as the Iron and Steel Corporation (ISCOR), the Industrial Development Corporation (IDC) and the Moss gas off-shore gas and refinery project

²⁴¹ See Merle Holden, "The Choice of Trade Strategy: Past Reflections and Future Prospects," in Nicoli Nattrass and Elisabeth Ardington (eds.) *The Political Economy of South Africa* (Cape Town: Oxford University Press, 1990), pp.262-265.

deemed necessary to maintain the country's independence from the rest of the world.²⁴² The quest for national self-sufficiency was particularly pronounced during the governments of Prime Minister John Vorster (1966-78), which embarked upon a further drive to reduce dependence on strategic imports. Large subsidies were made available to import-competing industries. At the same time the government, in an attempt to stop the urbanisation of the Black population, provided subsidies if they would relocate to specified rural areas that lacked the infrastructure or resources for sustainable industrial growth.²⁴³ Even so, import substitution still did increase South Africa's dependence on foreign trade because of the need of the manufacturing sector to import capital and intermediate goods, necessitating export revenues to finance this. Between 1950 and 1970 the composition of imports changed, with capital goods as a proportion of imports rising from about 32 percent to 41.5 percent; a further 10 percent of imports was made up of industrial raw materials.²⁴⁴

The effects of the ISI strategy in South Africa were substantial. According to Nattrass, "the success of the industrialisation process allowed South Africa to escape the ill effects of economic imperialism that were concomitant of colonialism in so many instances on the African continent."²⁴⁵ To be sure, the proportion of manufacturing in South Africa's gross domestic product (GDP) increased from 7 percent in 1920 to 23 percent in 1970 (see Appendix B for the change in composition of manufacturing output). Much of this manufacturing activity can undoubtedly be

²⁴² McCarthy, "South African Trade and Industrial Policy," p.68.

²⁴³ See Sampie Terreblanche and Nicoli Nattrass, "A Periodisation of the Political Economy from 1910," in Nicoli Nattrass and Elisabeth Ardington (eds.), *The Political Economy of South Africa* (Cape Town: Oxford University Press, 1990), pp.16-17.

²⁴⁴ Charles Meth, "Capital Goods, "Dependence" and Appropriated Technology," in Sampie Terreblanche and Nicoli Nattrass (eds.), *The Political Economy of South Africa* (Cape Town: Oxford University Press, 1990), p.45.

²⁴⁵ Nattrass, *The South African Economy*, pp.162-163.

attributed to the industrialisation policy, which appeared to be particularly successful in the 1960s, during which South Africa's economic growth rate compared favourably with other developing countries.

But the negative effects of ISI in South Africa cannot be overlooked. Not only did it induce an increased anti-export bias in manufacturing, it promoted industrial expansion that was increasingly dependent on the continuing ability to import capital. Furthermore, the long-term benefit of industrialisation to the South African population (especially black people) was questionable. Real economic growth was high in the early phases of industrialisation, but its nature was not sustainable: originally easy, import substitution grew more difficult as opportunities became exhausted. Economic growth decreased from 5.5 percent in the 1960-74 period to 1.9 percent per year in the 1974-85 period. With a population growing in excess of 2 percent per year, per capita incomes dropped in the latter period of ISI – the number of jobs created annually in the formal sector declined from 157 000 to 64 000 over the same periods.²⁴⁶ In addition, industrialisation was capital intensive, and the import of capital-intensive intermediate goods created periodic balance of payments crises. The obsession with capital investment meant that investment in human resources – a crucial ingredient of policies of all newly industrialised countries that have pursued successful industrialisation programmes – was ignored.

²⁴⁶ Ibid., p.176.

2. South Africa and the GATT

South Africa was one of the 23 original signatories to the GATT in 1948. Having been an active participant in the shaping of the post-war international order – through participation in World War 2 on the side of the Western Allied forces and in the reconstruction efforts that saw the emergence of the Bretton Woods institutions – South Africa came to be treated (and to see itself) as a ‘developed country’ and part of the ‘Western bloc’ in the post-war geo-political and economic realignments.²⁴⁷ South Africa has historically pursued a policy of multilateral trade through the institutional mechanism of the GATT. Even so, the paramount question that exercised the minds of South African policymakers over successive decades was whether the country’s economic interests were adequately served by the GATT or not. This ambivalent attitude towards the GATT regime was starkly highlighted in submissions made by domestic commerce and industry to the Reynders Commission of Inquiry into South Africa’s export trade.²⁴⁸

While South Africa saw the GATT as a crucial tool of post-war policy to achieve international trade liberalisation, it was concerned that the concessions it was making in the international trade system were not matched by the benefits it was deriving. There were doubts over whether the GATT did take sufficient account of South Africa’s development needs and whether it was desirable, given these development imperatives, for South Africa to fulfill its GATT obligations to the same extent as industrialised countries. South Africa was also apprehensive about what it viewed as

²⁴⁷ See Sam C. Nolutshungu, “South Africa’s Position in World Politics,” in Vincent Maphai (ed.) *South Africa – The Challenge of Change* (Harare: Sapes Books, 1994), pp.129-136.

²⁴⁸ The Reynders Commission, *Report of the Commission of Inquiry into the Export Trade of the Republic of South Africa 1972*, Report no.69/72 (Pretoria: Government Printer, 1972).

double standards in the GATT system: the country was expected to maintain liberal conditions of entry to its markets for manufactured goods from industrialised countries, particularly its Western European trading partners, while these countries were allowed to impose an assortment of restrictions on South African agricultural exports. Although South Africa accepted that the kind of trade discrimination practised by the then European Economic Community (EEC) encompassed a recognised exception to the general principle of non-discrimination of GATT, it questioned whether this could in fact be reconciled with this principle. For South Africa the discriminatory provisions of the EEC, especially the mercantilist aims of its agricultural policies, spelled numerous disadvantages for its external trade against which the GATT provided no protection.²⁴⁹

Moreover, South Africa was concerned about the adverse effects Britain's accession to the EEC in 1974 would have on its agricultural exports, especially its sensitive products such as wine, fresh dried and canned fruit, fruit juices, jam and marmalades, maize and maize products, groundnuts, and wattle bark and extract.²⁵⁰ In terms of the Ottawa Trade Agreements of 1932, South African exports had enjoyed either duty-free entry or entry at a margin of preference to the British market. But these trade preferences were facing extinction as a result of Britain becoming a member of the EEC: South Africa would in future have to contend with the massive costs involved in adjusting to the EEC's common external tariff as well as its protectionist agricultural policies. Given that Britain was then South Africa's largest trade partner

²⁴⁹ Ibid., pp.74-75.

²⁵⁰ Ibid., p.80.

and export market, a termination of the trade preferential agreement was bound to have undesirable consequences for South Africa's foreign trade.²⁵¹

In some ways South Africa's anxieties about the GATT reflected the country's deeply ingrained suspicion of international institutions at the height of the apartheid era. Yet, more fundamentally, they also encapsulated South Africa's perception that GATT disciplines were unduly constraining its domestic economic objectives, particularly its quest for national self-sufficiency. In the late 1960s and early 1970s South Africa's economic profile resembled those of other so-called 'middle-zone' countries such as Canada, Australia and New Zealand. Neither a completely industrialised nor a fully-fledged developing country, South Africa depended extensively on exports of traditional commodities as well as intermediate and capital goods imports to foster industrial development. Not only was the country reliant for foreign exchange earnings on a limited range of primary goods – predominantly agricultural and mineral products – which were subject to rapid price fluctuations, its debtor nation status induced an enormous dependence on steady flows of foreign capital to fuel economic expansion. The resultant continuous pressure on foreign exchange reserves, in turn, exposed South Africa to chronic balance of payments difficulties, necessitating a frequent review of trade strategy to contain ensuing economic problems. It is these considerations that propelled South Africa to question the utility of the GATT to its economic interests. Notwithstanding South Africa's reservations about the GATT, the Reynders Commission strongly cautioned against the country withdrawing from this institutional arrangement: As the Commission's report stated:

²⁵¹ Ibid., p.84.

There is little doubt that the GATT has played a most important role in the destiny of South Africa's industrial development as well as its export trade and policies. For various reasons the country has a material interest in the expansion of world trade and it can, therefore, identify itself with the general objectives of the GATT to free and enlarge world trade. It should be recognised that for this purpose the nations of the world should accept and respect the formulation and application of a realistic code of behaviour in foreign trade. At the same time, many countries feel that the existing rules of behaviour of the GATT are deficient in a number of respects and do not, in fact, conform to the requirements of the modern world. Although this may be true, the Commission is of the opinion that it would serve no purpose for South Africa to dissociate itself from the GATT (thereby also giving more power to the attempts to isolate the country) but that it should rather endeavour to bring about a change in these rules and in their actual application.²⁵²

By taking heed of the Reynders Commission's counsel, the South African state committed itself to continuing its participation in the GATT as a developed country. But decades of international ostracism induced by its apartheid policies meant that it was able to operate beyond the reaches of GATT rules: the country remained largely outside the substantial liberalisation achieved in the successive pre-Uruguay Round negotiating rounds. As such, South Africa could maintain relatively high tariffs and several quantitative restrictions on its imports to sustain its import-substituting industrial policies. Moreover, the imposition of trade and other sanctions against South Africa by its major partners allowed South Africa to conduct its trade policy with little regard to its obligations under the GATT. South Africa's isolation from GATT processes over the decades, however, robbed the country of the benefits associated with structural changes in the global economy, typified by trends towards globalisation of production, investment, technology and trade flows. And this explains why the South African economy has lagged behind those its peers such as

²⁵² Ibid., p.78.

Australia and New Zealand, despite the fact that they were all more or less on the same level of development a few decades ago.

3. Unilateral Trade Liberalisation

South Africa's estrangement from GATT developments did not prevent consecutive apartheid governments from embarking on domestically inspired, unilateral trade reforms as a way of easing recurrent economic difficulties. Two episodes of trade liberalisation took place in South Africa during the apartheid period.²⁵³ The first began in 1972 following the publication of the report of the Reynders Commission. The second episode followed the publication in 1983 of the Kleu Report on industrial strategy, which recommended the replacement of quantitative restrictions with tariffs as trade protection policy. The current trade liberalisation process, the subject of the next chapter, could be thus said to represent a third liberalisation episode in South Africa.

A salient element of South Africa's trade liberalisation is that it did not entail any import liberalisation until 1995. Erstwhile liberalisation efforts concentrated on reducing the anti-export bias, combined with the substitution of quantitative restrictions with equivalent tariffs and duties on the import side. Significantly, the fact that trade reform was dictated entirely by domestic considerations meant that South Africa, unlike most African countries, was never pressured into making changes as part of structural adjustment programmes sponsored by multilateral

²⁵³ See Bleaney, Hirsch, Holden and Jenkins, "South Africa," p.396.

financial institutions such as the International Monetary Fund (IMF) and World Bank.²⁵⁴

4. Export Promotion

By 1970 South Africa was moving towards autarky and the failure of the manufacturing sector to develop a substantial export capacity, together with the recognition that ISI was no longer driving growth, had become a matter of serious concern. There was also a concern that South Africa was dependent on a single commodity: gold. Further, there was recognition that the export pessimism of the 1950s had given way to export optimism in light of the achievements of the newly industrialised countries of South East Asia, which had achieved rapid economic growth through outward-oriented economic strategies.

All these considerations prompted the establishment in 1971 of the Commission of Inquiry into the Export Trade of the Republic of South Africa into the Export Trade of the Republic of South Africa (known as the Reynders Commission after its chairman Hans Reynders) to:

enquire into and to report upon all matters and factors which discourage South African producers and manufacturers from participating on a continuing basis in the export trade, and from planning therefore; and to submit recommendations as to the steps which the government and private enterprise should take in order to contain these factors so as to promote a sustained increase of the Republic's export trade.²⁵⁵

²⁵⁴ Ibid.

²⁵⁵ Cited in A.E. Ratcliffe, "Export Policy in Perspective," *South African Journal of Economics* vol. 43, no. 1, (1975), pp.74-91.

The Reynders Report, which represented South Africa's 'first liberalisation episode, reached several conclusions on the basis of which it made a number of specific recommendations. First, it concluded that South Africa's export performance had to be improved if a total balance of payments crisis was to be averted. Second, it argued that South Africa's geographical distance from the key markets, its lack of access to trade preferences, and the subsidisation of exports required from South Africa "need a rethink on the questions of export awareness (by Government and a private sector), improved infrastructure, and the aggressive exploitation of export areas in which the Republic has a comparative advantage."²⁵⁶

The Reynders Report advocated the promotion of exports, particularly of the manufacturing sector, as the long-term panacea for future foreign exchange requirements. Strikingly, it argued for a shift towards a greater emphasis on the expansion of manufactured exports yet left intact the protective import regime. Although the report pointed out that import protection had hampered the competitiveness of domestic manufactures in global markets, it did not endorse the elimination of existing protection. In addition, it refrained from recommending exchange rate devaluation as a means of bolstering exports.²⁵⁷ In essence, the Reynders Report called for the expansion of exports without endorsing a full-scale strategy of export promotion. As such, protection of the domestic market continued, with import substitution proceeding in the production of intermediate goods. This trade strategy, although contradictory, was in fact consistent with the broad thrust of the government's strategic objective of survival. Given the international isolation of South Africa, the government was concerned about dependence on imports, and one

²⁵⁶ H.J.J. Reynders, "Export Status and Strategy," *South African Journal of Economics*, vol. 43, 1975, p.127.

²⁵⁷ Davis, *South African Managed Trade*, p.19.

of the most appealing policy instruments available for influencing import dependence was its highly protective and differentiated tariff regime. Also, since the government was unwilling to allow purely economic factors to influence the structure of imports, action on the export side was viewed as a more attractive option.²⁵⁸

Despite its comprehensiveness, the Reynders Report was not well received by economists and was “criticised for being incomplete in its analysis, inconsistent and poorly written.”²⁵⁹ A concern was also raised that the commission had failed to systematically investigate export problem, its primary mandate. There was also a suspicion that the move to embrace export promotion was “nothing more than a balance of payments fix and had no relation to export-led models of growth.”²⁶⁰ Notwithstanding these misgivings it nonetheless had been accepted that the report had initiated, albeit haltingly and in a qualified manner, a more outward-oriented trade strategy on the part of the government.

In line with government’s policy, South Africa’s import regime remained protectionist. Nonetheless, support for a more outward-oriented strategy was reiterated by the publication in 1983 of the Kleu Report on industrial strategy, which “attempted to find a more effective system of export incentives to favour higher value-added manufactured exports.”²⁶¹ Representing the second ‘liberalisation episode’ in South Africa, the report “recommended a move away from import replacement and criticised existing export incentives for neither favouring domestic

²⁵⁸ Ibid., p.18.

²⁵⁹ Ibid., p.19.

²⁶⁰ Ibid.

²⁶¹ Bleaney, Hirsch, Holden and Jenkins, “South Africa,” p.402.

intermediate inputs nor creating incentives for technological innovation.”²⁶² The government’s response to the report was lukewarm and the implementation of its recommendations unenthusiastic; it was clearly not supportive of entirely free trade. As its White Paper issued in 1985 declared:

The government wishes to make it very clear that it has never espoused any so-called ‘free trade’ policy. On the contrary, like all previous South African governments since 1924, and indeed earlier, it has decisively implemented a policy of protection for industry. Like previous governments, it has accorded protective customs duties, where justified, against competition from normally priced imports. This has continued to be done on a moderate and selective basis, in order to avoid the undue raising of costs and to ensure the optimal use of resources.²⁶³

Opposition to the Kleu Report reflected, in some ways, differences of opinion within the government on the importance, and means, of promoting exports. This demonstrated “a lack of clear decision-making authority in the economic bureaucracies as well as powerful vested interests which would resist a reduction in tariff protection.”²⁶⁴ Moreover, the imposition of sanctions also “militated against a serious export strategy and meant that the main thrust of policy interventions remained in support of strategic self-sufficiency.”²⁶⁵ However, the importance of manufactured exports as a policy objective was becoming firmly established by the mid-1980s. It was accepted that the exchange rate had historically been overvalued and that the gold price could no longer be the main determinant of the exchange rate level; exchange rate policy came increasingly to reflect the needs of manufacturing, particularly exports. There was also a growing consensus in government about the need for structural adjustment in order to reorientate industry towards foreign

²⁶² Ibid.

²⁶³ RSA (Republic of South Africa) (1985), *White Paper on Industrial Development Strategy* (Pretoria: Government Printer), p.402.

²⁶⁴ Black, “The Role of the State,” p.17.

²⁶⁵ Ibid.

markets. Even so, there were still huge differences of opinion regarding the means by which this was to be achieved.

5. Structural Adjustment

In 1988 the Board of Trade and Industry (BTI), a quasi-independent government agency responsible for formulating and administering South Africa's tariff regime, published a key policy document titled *A Policy and Strategy for the Development and Structural Adjustment of Industry*. The document espoused the idea of providing enhanced support on selective grounds to promote the structural adjustment of designated industries with the aim of encouraging exports. Drawing heavily on the East Asian experience, the document introduced concepts such as selectivity, dynamic comparative advantage, support measures on the supply side, and performance criteria for granting incentives. Although it acknowledged that South Africa could not emulate the Japanese experience, the document alluded to it positively:

The general pattern of the strategy is as follows: The home market is closed as part of a conscious strategy to establish an industry. Together, government and selected firms choose a few high-volume product lines for specialisation. With the help of government grants and loans, and the co-operation of the banking system, large new investments are made in advanced new production equipment. If the product is one requiring technological breakthroughs, research and development is funded by the government. Anti-monopoly laws are waived to smooth the way towards agreed objectives. An 'entering' wedge export drive, characterised by extremely aggressive pricing, is launched with the objective of obtaining market dominance. Then, once a beachhead is established in a broad commodity product area, the product ladder is scaled to obtain a commanding position in the market. Reluctantly, protection of the home market can be relaxed, as the major objectives have been achieved. This is sound strategy. It

worked in the competition between Japan and the United States to produce computer memory chips. Japan has won – so far.²⁶⁶

A key feature of the BTI report was its acceptance that “comparative advantage is not a static concept that can be created by countries and governments.”²⁶⁷ Referring to the case of the Japanese steel and engineering industries – which were lavished with government support in spite of the fact that they did not possess comparative advantage in natural resources such as iron ore, coal and cheap energy – it contended that “government policy should act in support of industries with actual or potential comparative advantage.”²⁶⁸ Given the dominance of basic commodities in South Africa’s manufactured exports, the document emphasised that there was a case “for moving away from an area of comparative advantage (for example export of ores) to an area where a future comparative advantage can be developed.”²⁶⁹

In response to the BTI report, the South African government devised a series of sectoral structural adjustment programmes, notably within the automobile as well the clothing and textiles sectors. Domestic producers in these industries were allowed to import duty-free inputs or finished goods if they exported a sufficient part of their output. However, this approach to redressing the anti-export bias was not universally popular within government. On the surface the reason for this seemed to be attributable to an institutional clash between the BTI and the Department of Industry (DTI), which in its Annual Report of 1989 launched an unusually caustic attack on the “complicated programmes that are not manageable as well as affordable”²⁷⁰ and

²⁶⁶ Cited in Black, “The Role of the State,” p.210.

²⁶⁷ Ibid., p.211.

²⁶⁸ Ibid.

²⁶⁹ Ibid.

²⁷⁰ Department of Trade and Industry (1989), *Annual Report* (Pretoria: Government Printer, 1989), p.2

claimed that they provided incentives for fraud in the form of fictitious exports. But in reality these concerns seemed to be rooted in the fact that the introduction of sectoral adjustment programmes coincided with a fundamental ideological and policy shift on the part of the government towards a more market-oriented direction – and less state economic intervention (see discussion below).

6. Export Performance

As indicated earlier the fundamental cause of the economic difficulties of the mid-1980s was a drastic decline in the foreign currency value of South Africa's exports in 1980-85. Table 1 shows that South Africa's total exports, measured in US dollars, rose at an average annual rate of 22.2 percent in the 1970s, but fell dramatically by 8.8 percent in 1980-85. The exports of all four major sectors of the economy (agriculture, mining, manufacturing and services) recorded huge decreases during 1980-85. Of particular significance, however, was the deterioration in the export performance of the mining industry – which accounted for 54.1 percent of South Africa's total exports in 1980 as opposed to 42.4 percent in 1990. This dramatic decline was due mainly to the sharp drop in the price of gold.

Table 1 - Exports of South Africa by Major Economic Sectors in Current US Dollars
1970-1990

% Share of Sector in Total Exports

	1970	1975	1980	1985	1990
Agriculture	6.1	6.3	4.1	1.5	2.4
Mining	44.6	46.6	54.1	53.2	42.4
Manufacturing	43.5	40.3	37.5	39.4	47.8
Services	5.7	6.8	4.3	5.9	7.5
TOTAL	100.0	100.0	100.0	100.0	100.0

Average Annual Rates of Growth (%)

	1970-75	1975-80	1970-80	1980-85	1985-0
Agriculture	21.9	13.1	17.5	-25.4	18.3
Mining	22.5	26.7	24.6	-9.1	3.6
Manufacturing	19.5	21.2	20.4	-7.9	12.7
Services	25.6	12.2	18.7	-2.8	13.8
TOTAL	21.4	23.0	22.2	-8.8	8.4

Source: Central and Economic Advisory Service (CEAS)

This decline in exports greatly reduced the country's ability to pay for imports. The decrease in import capacity was further worsened by the significant decline in foreign capital inflows from 1983. The South African economy is heavily dependent on imports, especially intermediate and capital imports. As Table 2 shows, during 1971-88 between about 76 and 82 percent of imports consisted of intermediate goods and capital goods. The reduced import capacity forced a reduction in imports.

Table 2 - Percentage Shares of Intermediate, Capital and Consumption Goods in South Africa's Total Imports 1971-1988

	1971	1975	1978	1981	1984	1985	1988
Intermediate goods	60.0	57.2	62.4	57.0	57.7	60.7	62.1
Capital goods	15.8	18.9	19.1	18.7	18.6	17.4	14.4
Intermediate and capital goods	75.8	76.1	81.5	75.7	76.3	78.1	76.4
Consumption goods	21.5	17.4	16.9	14.9	19.2	19.5	21.9
Residual	2.7	6.5	1.6	9.4	4.6	2.4	1.6
<u>TOTAL</u>	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Central and Economic Advisory Service (CEAS)

The 1980-90 decade saw South African external trade revert to the pattern of the 1960s and 1970s, when the growth of trade was slower than the growth of GDP.²⁷¹ In the 1980s external trade grew by 206.4 percent and the GDP by 326.7 percent – this implies that South Africa did not experience export-led growth during these years. In terms of the ratio of external trade to GDP, foreign trade had amounted to 59,3 percent of GDP in 1980 and it had fallen to 42.6 percent in 1990 (see Table 3). This decline in the relative importance of foreign trade is confirmed by the export and import prices. The price of exports rose from R19 957,8 million to R22 194,7 million, whereas imports declined from R14 418,8 million to R12 862,4 million: imports had declined by 10 percent. Partly, this was due to the collapse of the rand (the South African currency). In 1980, on average, a US dollar was worth 76 South African cents. By 1990 this had risen to R2, 59 – the rand's value had dropped by 244 percent.²⁷²

²⁷¹ Stuart Jones, "South Africa's External Trade in the 1980s," *The South African Journal of Economic History – Special Issue* vol. 9, no. 2, (September 1994), p.110.

²⁷² *Ibid.*, p.111.

Table 3 - External trade as a percentage of GDP 1980-90

	1980 (%)	1990 (%)	% Decrease (%)
Exports	34.4	24.7	28.0
Imports	24.9	17.9	28.1
Total	59.3	42.6	28.1

Source: South African Reserve Bank, Quarterly Bulletins

Trade sanctions also emerged as a crucial factor in South Africa's foreign trade in the 1980s. Although trade sanctions against South Africa had a long history – India imposed a total trade embargo in 1946 – the scope of these sanctions broadened in the period since 1985.²⁷³ For the first time, nearly all South Africa's Western trading partners imposed restrictions – albeit in most cases very limited ones – to show their displeasure at the apartheid regime's policies. It is debatable, however, whether trade sanctions had adverse effects on South Africa's economic performance in the 1980s; not only did exporters find other markets but they also employed intermediaries who helped them sell their goods through surreptitious channels.²⁷⁴ Though South Africa's dependence on foreign trade and on 'external linkages' rendered the country's economy vulnerable to trade sanctions, it was in fact international financial sanctions that imposed massive costs on the economy. It is worth stressing that even at the height of the international sanctions campaign against South Africa, the country's paramount economic problems did not concern export markets but were internal – the relatively small size and high costs of the protected manufacturing sector, the overwhelming concentration of subsidies and export incentives on capital-intensive industries, as well as the high levels of unemployment

²⁷³ Richard Moorsom, "Foreign Trade and Sanctions," in Mark Orkin (ed.), *Sanctions Against Apartheid* (Cape Town: David Philip, 1989), p.261.

²⁷⁴ Holden, "The Choice of Trade Strategy," pp.270-271.

In sum, the slower growth of external trade in the 1980s reflected a variety of problems, including the fall in the gold price, the domestic recession, the increasing pressure of the economic sanctions – financial sanctions – being employed against South Africa and the uncertain state of the international economy. The combination of these foreign exchange shocks had serious consequences for the South African economy, and probably triggered the most traumatic external shock of the period – the debt crisis of August 1985.

7. The Debt Crisis

In 1985 South Africa plunged into a serious debt crisis, which necessitated a further shift in trade policy. When political instability reached crisis proportions in the 1980s, it triggered net outflows of portfolio investment and direct investment. During 1982-88, capital flows reached more than US\$6 billion dollars, following the decision of about 40 percent of transnational firms to disinvest. To stem the tide of capital outflows, the South African monetary authorities responded by tightening exchange controls and imposing, in 1985, a unilateral moratorium on the country's short-term international debt. This move precipitated a dramatic collapse of international investor confidence in the South African economy, culminating in massive capital flight and a record 20 percent depreciation of the national currency.²⁷⁵

Outflows of long-term and short-term capital from 1985, together with the virtual cessation of inflows of both direct investment and loans, created a large and sustained

²⁷⁵ Alan Hirsch, "Sanctions, Loans and the South African Economy," in Mark Orkin (ed.), *Sanctions Against Apartheid* (Cape Town: David Philip, 1989), p.273.

deficit on the capital account of the balance of payments. This required action by the monetary authorities to turn the current-account deficit into a substantial surplus so as to enable the servicing of the foreign debt. To this end, the South African Reserve Bank reintroduced the dual exchange rate system it had abolished in 1983 as part of the government's policy to move towards a more market-oriented economy. Also, the value of the rand was allowed to fall against the currencies of all historically important trading partners, and deflationary policies to reduce domestic expenditure were implemented.

The sudden, massive flight of capital induced by the debt crisis "necessitated an equally large and abrupt increase in the surplus on the balance of trade."²⁷⁶ For South Africa, like for many other countries which had been subjected to debt shocks in the in the 1980s, the only way in which this could be achieved was through a drastic reduction in imports. To this end, the most pressing requirement for economic recovery was a massive increase in foreign exchange to pay for essential intermediate and capital goods. Given the absence of new capital inflows, this necessitated a dramatic increase in the growth rate of exports, especially exports of manufactured goods. Whatever objections there may have been to export-led growth in the past, various foreign exchange shocks in the 1980s (especially the debt crisis of 1985), and the ensuing economic crisis, forced South Africa to shift abruptly to an outward-oriented trade regime. The vigorous promotion of exports, to ease foreign exchange constraints, became the overriding aim of trade policy.

²⁷⁶ Bell, "Should South Africa Further Liberalise its Trade?," p.93.

8. Ideological Shift

The foreign exchange shocks of the 1980s coincided with a fundamental ideological shift on the part of apartheid regime, which again triggered a rethink of trade policy. This followed an acceptance by the Nationalist government of advice from three separate government-appointed commissions that the State should play a less important role in shaping the economy, and that the market should be left to operate as freely as possible.²⁷⁷ Partly, this ideological rethink was informed by changes in the intellectual climate in the late 1970s and early 1980s regarding the role of the state sparked off by the rise of the ideology of neo-liberalism. The ascendancy of neo-liberal economic ideology in the 1970s and 1980s represented an assault on the idea of ‘embedded liberalism,’ the normative foundation upon which the interventionist economic practices of the post-war period were constructed.²⁷⁸

Proponents of neo-liberalism, inspired by the ideas of economic thinkers such as Milton Friedman and Friedrich von Hayek, were critical of the Keynesian welfare state and blamed it for most of the problems afflicting the global economy. They sought to create an international economic order that would “promote freer markets and more orthodox fiscal and monetary policies.”²⁷⁹ In the domain of international financial markets, not only did they oppose the imposition of capital controls on financial movements, they also admired the way international financial markets disciplined government policy and compelled states to adopt conservative macroeconomic policies. Moreover, they argued that a liberal international order

²⁷⁷ This refers to the De Kock, Wiehahn and Riekert Commissions discussed in the second chapter.

²⁷⁸ Eric Helleiner, “Freeing money” p.301.

²⁷⁹ Ibid.

would “promote a more efficient allocation of capital by allowing capital to move across borders where it could be most productively employed.”²⁸⁰

In the trade domain, the notion of growth through trade assumed a status of orthodoxy in development circles during the 1980s. Based on neo-classical trade theory, particularly the Ricardian model of dynamic comparative advantage, growth through trade prescribed outward oriented or export-led development strategies for developing countries. It was touted by the World Bank as central to the successes of the NICs, primarily because “an outward orientation increases efficiency in the allocation of resources, competitiveness of goods produced, and flexibility to adapt to the ever-changing opportunities and constraints thrown up by the international economy – including rapid adjustment to the severe external shocks of the 1970s.”²⁸¹ The rise of EOI strategies represented a fundamental departure from the ISI development model pursued vigorously by most developing countries in the post war period.

These ideas had a huge impact not only on Western conservatives such as Reagan and Thatcher, but also on the policies and practices of the Bretton Woods institutions which were disenchanted with the outcomes of statist economic policies in the developing world. This accounts for the decisions of the IFIs in the 1980s to use their stranglehold over deeply indebted African and Latin American countries to push for internal policy reforms in line with neo-liberal prescriptions, including the reorganization of the state.²⁸² The new economic thinking propagated by the IFIs in the 1980s was not lost on the South African government. The NP presented the shift towards free market ideology as part of a process that required the ‘rolling back’ of

²⁸⁰ Ibid., p.310.

²⁸¹ Ruggie, “International Interdependence,” p.10.

²⁸² Lipton and Simkins, *State and Market*, pp.18-20.

the state. There was, however, another dynamic at play regarding why the apartheid regime set out to 'roll back' the state in the mid-1980s. The conversion of the NP — whose record for state interventionism was formidable — came as a surprise to observers, and raised the suspicions of the ANC, its potential successor in government. Coming on the eve of democratic change in South Africa, the ANC suspected that the NP's shift represented an attempt to restructure the post-apartheid state in ways that would benefit itself and its constituency, and which would curtail the ability of the future ANC government to pursue its agenda of social and economic transformation.²⁸³ Whatever the underlying motives of the NP, what is clear is that the emergence of a more market-oriented ideological direction was poised to have significant consequences for future South African trade policy.

9. The Beginnings of Export-Oriented Industrialisation

In the domain of trade policy, the NP's intellectual metamorphosis was underscored by the 1989 Department of Trade Industry's (DTI) annual report which declared that:

Economic growth, particularly export-led industrial growth, is of the utmost importance to the country with its rapidly increasing population. It has to be achieved in an international environment changing at a breathtaking pace, and with results which cannot everywhere be predicted with certainty. In this world of crumbling ideologies and shifting economic power centres, South Africa will have to design its strategy in a way that ensures meaningful access to capital markets and technology in the coming years. Our economic future can in no way be isolated from the larger scenario. The real economic growth declined during the seventies and evidenced a strongly downward trend during the eighties. It is generally realised that economic restructuring has become a necessity.²⁸⁴

²⁸³ Ibid. p.15.

²⁸⁴ Department of Trade and Industry (1989), *Annual Report*, p.1.

Moreover, the subsequent appointment as trade and industry minister of Kent Durr, an avid economic liberal plucked from the private sector, demonstrated the government's determination to close the door on the selective intervention advocated by the BTI. Durr presided over the introduction in 1990 of the General Export Incentive Scheme (GEIS) which "was aimed at countering the higher costs of protected inputs, which in turn raised the costs to exporters."²⁸⁵ The GEIS provided export incentives, related to value added and local content, as well as some protection against exchange rate fluctuations.²⁸⁶ The scheme was particularly designed to encourage the production and export of processed raw materials, although it was criticised for excluding producers of indirect exports and for overlooking the need to remove constraints on more labour-intensive exports.²⁸⁷

The introduction of GEIS was followed in June 1990 by the publication of a study undertaken by the Industrial Development Corporation (IDC), *Modification of the Application of Protection Policy*. Commissioned by Durr's predecessor, Wim De Villiers, the report arose out of the long held view that there was limited scope for import substitution and that a more export-orientated policy was necessary. In contrast to BTI structural adjustment, the report advocated a much more uniform and lower tariff structure, arguing that "the prevailing system was defective owing the cost-raising implications of a relatively high protective structure, as well as the misallocation arising from sectoral variations in protection levels."²⁸⁸

²⁸⁵ Black, "The Role of the State," p.213.

²⁸⁶ Department of Trade and Industry (1990) *Annual Report* (Pretoria: Government Printer, 1990), p.15.

²⁸⁷ Bleaney, Hirsch, Holden and Jenkins, *South Africa*, p.404.

²⁸⁸ Cited in Black, "The Role of the State," p.213.

Influenced heavily the World Bank's World Development Report of 1987, the IDC report also endorsed a "process of structural adjustment towards export orientation, which must be pursued with perseverance in order to achieve eventual success."²⁸⁹ The main instrument for achieving greater export orientation would be the lowering of protection. The report stressed, however, that reducing protection should be conditional on the implementation of a "package of measures designed to achieve macroeconomic stability, higher levels of domestic savings and a more appropriate tax structure."²⁹⁰ This implied that the expansion of exports would be encouraged through a package of supply-side measures including lower company tax, higher domestic savings, an appropriate exchange rate policy, and an improvement in the supply of skilled labour. It was anticipated that the reduction of tariffs would lead to lower subsidies under the GEIS and the phasing out of other export subsidies as well as tax concessions designed to favour exports.²⁹¹

10. Conclusion

This chapter has explored trade policy in South Africa during the apartheid era. It has contended that South Africa's trade policy in the apartheid period evolved in response to the imperatives of the domestic economy. Trade reforms were implemented sporadically and randomly to tackle specific concerns, not as part of a coherent economic strategy. The overriding policy objective was the survival of apartheid in an unstable domestic situation and increasingly harsh international milieu. Like other developing countries, South Africa pursued a policy of import-substituting industrialisation (ISI) since 1925. Not only was ISI expected to assist with

²⁸⁹ Ibid., p.214.

²⁹⁰ Ibid.

²⁹¹ Ibid., p.216.

developing greater economic independence from Britain, it was also anticipated that it would generate employment for whites in manufacturing. Domestic industry was protected by high tariff barriers, high exchange rate subsidisation and other demand-side assistance to industries that were generally uncompetitive. Through parastatals like the IDC and ISCOR, the government invested heavily in what was considered to be strategic intensive mega-projects, stimulating downstream industries. In turn, the high protection enjoyed by these parastatals resulted in high costs for downstream industries. Reinforced by an oppressive industrial relations system, this approach did not create a competitive manufacturing sector nor did it support desired job growth.

The effects of the ISI strategy in South Africa were substantial. It fostered a considerable diversification of the domestic industry, even though the overall import intensity of the manufacturing sector did not change significantly. Furthermore, it enabled the apartheid regime to pursue its goal of achieving national self-sufficiency and reducing dependence on strategic imports. However, worsening international economic conditions in the early 1970s - exemplified by the oil crisis, floating world currencies, as well as international monetary uncertainties - necessitated a review of South Africa's external trade policy.

Yet although the theoretical basis of free trade was eventually accepted, it was never the government's policy to implement full-blown trade liberalisation; the promotion of exports was never matched by the liberalisation of the import regime. Trade liberalisation was viewed as a tactical device to ease economic difficulties, notably balance of payments problems, induced by the post-war growth model. It was only in the 1980s that a combination of foreign exchange shocks in the 1980s, particularly the

debt crisis of 1985, and the ensuing economic crisis, that the South African government was compelled to move abruptly to an outward-oriented trade regime. The shift towards an export-oriented trade policy in South Africa coincided with the beginning of the Uruguay Round (UR) of multilateral trade negotiations in 1986 in which South Africa participated. What was the UR all about? Which countries were the key actors in it? What role did South Africa play in the UR? What was the outcome of the round? And what were the consequences of the UR outcome for South Africa. These crucial questions are explored in the next chapter.

Chapter 4

Thrown in at a Deep End: South Africa and the Uruguay Round of Trade Negotiations

The re-integration of South Africa into the multilateral trade system in the early 1990s marked the end of decades of international isolation induced by the country's apartheid policies. This chapter explores South Africa's role in the global trade regime within the context of the UR of multilateral trade negotiations. It argues that by signing the Marrakesh Agreement of the GATT in 1994, South Africa signalled its commitment not only to liberalise its trade policies in accordance with the rules-based international trade system, but also to formalise its credentials as a fully-fledged trading nation following many years of operating beyond the GATT disciplines. However, the restoration of South Africa's trade rights also imposed responsibilities. By embracing the strictures of the WTO, embodied in the negotiating outcome of the UR, South Africa committed itself to far-reaching changes to its economic policy and undertook to implement as a single undertaking all the agreements of the UR. The paramount challenge confronting South African policymakers is to reconcile the constraints entailed by the country's WTO membership with those arising from its domestic social and economic pressures.

The chapter is in two parts. First, it contextualises the UR of multilateral trade negotiations within a global historical setting to set the tone for the discussion of South Africa's role in it later. Second, it undertakes a comprehensive examination of South Africa's participation in the UR and its implications for the country.

1. The Uruguay Round in Global Context

The UR of trade negotiations came about as a result of a growing realisation across the world in the 1980s that the global economy was undergoing structural changes that necessitated a fundamental review of the manner in which the traditional GATT structure was operating.²⁹² It is this recognition that inspired the US to take the lead in calling for a new round of trade negotiations. The US initiative was supported by a wide cross-section of developed and developing countries. Although these countries were driven by diverse concerns, they shared a common objective to maintain the multilateral trading system and to make it more responsive to the economic problems they faced in their domestic economies.²⁹³ Given the wide scope of its agenda, the UR was expected, and proved to be, the most complex and ambitious GATT negotiation round ever undertaken.²⁹⁴

Developing countries played a central role in building momentum towards a new trade negotiation. This is largely because some countries previously classified as developing nations -- notably the newly industrialising nations such Taiwan, Singapore, Hong Kong and South Korea -- were assuming a greater role in the international trade system in the 1980s. Domestic considerations also made it imperative for most developing countries to seek a new negotiation round. Faced with a devastating recession and debt crisis, which precipitated a sharp increase in debt repayments and a consequent decline in imports, many developing country

²⁹² Gilbert R. Winham, "The Uruguay Round and the World Economy," in Richard Stubbs and Geoffrey R.D. Underhill (eds.), *Political Economy and the Changing Global Order* (Ontario: Oxford University Press, 1999), p.163.

²⁹³ Ibid.

²⁹⁴ For a detailed evaluation of the trade negotiating agenda dealt with during the Uruguay Round see Jeffrey J. Schott, *The Uruguay Round: An Assessment* (Washington, DC: Institute for International Economics, 1994).

governments recognised that they had a stake in expanded exports and in an open trade system.²⁹⁵

The significance of the UR rested with its aim to subject trade in agriculture and textiles to GATT rules and disciplines. It was also notable for its introduction of new issues into GATT negotiations – namely trade in services, investment, and intellectual property rights. It was largely around these issues that divisions between the developed and developing countries revolved during the pre-negotiation phase of the UR. Most developing nations were opposed to the inclusion of these new issues, fearing that “the GATT rules developed for the new issues could be used by the industrialised countries to overwhelm their fledgling industries and to undermine domestic policies that the developing countries considered critical to their national economic development”²⁹⁶ They wanted to ensure that if they were forced to make concessions in these areas, the developed countries would reciprocate by making real concessions on issues of importance to them such as textiles, clothing and agriculture. Ironically, the sectors on which developing countries sought concessions were precisely those that were considered ‘sensitive’ in the developed countries’ markets in terms of the GATT regulatory regime.

The GATT provided for an agreement – the Multifibre Agreement (MFA) – that “allowed the developed countries to restrain imports either through the negotiation of bilateral quotas or through the application of flexible safeguard measures.”²⁹⁷ It is worth emphasising that the MFA prohibited developed countries from imposing

²⁹⁵ Winham, “The Uruguay Round,” p.169.

²⁹⁶ Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations* (New York: St. Martin’s Press, 1997), p.84.

²⁹⁷ McDonald, *The World Trading System*, p.136.

quotas on imports from other developed countries – only the exports of developing countries were affected.

The issue of agriculture generated the most acrimonious disagreements among the negotiating parties during the UR. At the heart of the disputes were differences of opinion regarding the pace and amount of structural adjustment needed to reform agricultural policies, and regarding what required to be regulated.²⁹⁸ According to Moon, the difficulties experienced in agriculture highlighted not only the uniqueness of the agricultural sector in world trade but also the complex trade dilemmas which agriculture spawns. As he avers:

Agriculture presented a unique challenge because its special role in most political economies ensures that any liberalisation in this sector will induce extensive distributional consequences and uncomfortable trade-offs with other values. Nearly all nations are committed to sustaining a healthy agricultural sector, because a relatively large, geographically concentrated, and occupationally inflexible population is dependent upon it.²⁹⁹

To appreciate the nature of the agricultural conundrum it is important to examine it in its historical context. Since the founding of the GATT system, there has been a tendency on the part of industrialised countries not to accord serious attention to the liberalisation of trade in non-manufactured commodities, especially agricultural trade. Indeed, as Higgott noted, “since the mid-1960s especially, following the inception of the European Community’s Common Agricultural Policy (CAP), the benefits agricultural exporting countries might expect to gain under GATT have been seriously curtailed by a variety of non-tariff devices and outright protectionist

²⁹⁸ Ibid., p.206.

²⁹⁹ Moon, *Dilemmas*, p.105.

policies.”³⁰⁰ When the GATT system was instituted in the immediate post-war period it was agreed by the major economic powers, principally the US and the EU, that its rules would not apply to the agricultural sector: the ban imposed by the GATT agreement on import quotas and export subsidies was waived in recognition of the ‘specificity of the agricultural sector.’³⁰¹ However, in subsequent years the US changed its position and tried unsuccessfully during the Kennedy and Tokyo Rounds to have agriculture brought under the full disciplines of the GATT. This meant that serious bargaining on agriculture would be thus left to the UR.

The UR agriculture negotiations were influenced by a number of crucial factors including a crisis in the global agricultural system – exemplified by burgeoning trade disputes between the US and the EU – a recognition within the EU that its interventionist agricultural policy needed to be reformed to control an increasingly unsustainable agricultural budget, and a realisation that the success of the UR depended partly on the EU making agricultural concessions in order to accommodate the needs of its trade partners.³⁰² The key aim of the EU was to cut domestic subsidies to the level where supply and demand on the global market would be in equilibrium. Although the EU wanted to reduce the general level of domestic support, it nevertheless sought to maintain flexibility in the implementation of this provision, thereby allowing for domestic subsidies, border measures and export subsidies to be altered accordingly. The EU believed that cutting domestic support would lead inexorably to a reduction in border restrictions or export subsidies. For its part the US disagreed with the EU’s view that decreasing domestic subsidies would

³⁰⁰ Richard Higgott, *The World Economic Order: The Trade Crisis and Its Implications for Australia* (Canberra: Australian Institute of International Affairs, 1987), p.30

³⁰¹ McDonald, *The World Trading System*, p.206.

³⁰² Ibid.

automatically lead to a lessening of border controls or export subsidies and argued, instead, for an application of reduction measures to all the policy components.³⁰³ The US position enjoyed the support of the Cairns Group of low-cost agricultural exporters, a very influential coalition of developed and developing countries which pushed very hard for an end to agricultural protectionism in developed countries.³⁰⁴ The relative clout wielded by the Cairns Group in the UR agriculture negotiations is summed up aptly by Capling:

The Cairns Group was the most unusual, cohesive and effective coalition of countries ever seen in multilateral trade negotiations. Throughout the Uruguay Round it acted as a 'conscience' for the agriculture negotiations and fought to prevent the United States from giving in to the Europeans as it had done in the Tokyo and Kennedy Rounds, putting off agriculture trade reform in exchange for concessions on industrial products.³⁰⁵

Even so, the final UR Agreement on Agriculture represented a compromise between US and EU positions and did not go far enough to address the concerns of developing countries in respect of export subsidy reductions, trade-distorting forms of domestic support, as well as improved market access.³⁰⁶ Of all the issues considered in the UR of trade negotiations, agricultural reform was the most pressing for most developing countries. The key concern of developing countries was the high agricultural subsidy support provided by industrialised country governments to their farmers, which restricted access to developed country markets for products in which developing

³⁰³ Ibid.

³⁰⁴ The Cairns Group is made up of Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.

³⁰⁵ Ann Capling, *Australia and the Global Trade System* (Cambridge: Cambridge University Press, 2001), p.118; For an extensive analysis of the historical development of the Cairns Group see for example Diane Tussie, "Holding the Balance: The Cairns Group," in Tussie and David Glover (eds.) *The Developing Countries in World Trade: Policies and Bargaining Strategies* (Boulder: Lynne Rienner, 1993), pp.181-203.

³⁰⁶ Ibid., p.145.

countries had a comparative advantage. For most developing countries, the UR represented a major setback: they gained little or nothing from it, despite assurances made by developed countries to provide them with larger market access for their agricultural products and clothing and textile exports, as well as with the necessary technical assistance to implement their WTO obligations. This prompted Raghavan to surmise that the UR ushered in a new international division of labour that amounted to the recolonisation of the developing world, while at the same time reorganising the global economy in ways that entrenched the position of the US as a global superpower.³⁰⁷ Although it is debatable whether the UR occasioned the recolonisation of Africa, what is abundantly clear is that it sharply brought into focus the serious marginalisation of African countries in the global trade regime. Not only did the UR fall short of delivering meaningful results on issues of interest to poor countries such as providing greater market access for its agricultural exports as well as textiles and clothing products, it also failed to deal satisfactorily with systemic issues such as the GATT articles, safeguards, subsidies, multilateral trade negotiation agreements, special and differential treatment, and enforcement of rights and obligations.³⁰⁸

The least developed countries (LDCs), in particular, had to contend with new trade issues – trade in services, intellectual property rights, and investment – they did not understand and for which they were not adequately prepared to negotiate. In sum, the UR yielded a few winners, predominantly from the economically advanced nations, and many losers, mainly from the developing countries. The commitments

³⁰⁷ See Chakravathi Raghavan, *Recolonisation: GATT, the Uruguay Round and the Third World* (London: Zed Books, 1990).

³⁰⁸ Bade Onimode, *Africa in the World of the 21st Century* (Ibadan: Ibadan University Press, 2000), pp.185-187.

made by industrialised nations to provide greater market access to developing country exports remain unfulfilled. Furthermore, developing countries are still saddled with the onerous burden of implementing new WTO obligations. Resentment has been strongest among the least developed WTO members, whose share of world trade has deteriorated in spite of the UR's provisions on special and differential treatment as well as the GSP. If these countries are to undertake further trade liberalisation, they will need to be assured that this will not happen at a disproportionately high cost to them. It is this fault line between advanced industrial countries and developing nations that made it difficult for the WTO to agree on an agenda for its Seattle trade ministerial meeting in 1999 (see Chapter 5). At the conclusion of the UR, developing countries made market opening concessions that went further than the unilateral liberalising measures they were already undertaking, in exchange for the removal of developed country barriers to their exports and the legal enforceability and security of the resulting market access. In turn, the final UR agreement provided for the phase-out of the MFA and a removal of all quotas over ten years.

It also enunciated measures that would greatly liberalise trade in agricultural commodities in order to benefit developing countries that are net agricultural exporters. It committed all countries, with the exception of the LDCs, to eliminate all quantitative restrictions on industrial goods and agricultural imports. It enjoined developing countries to adopt appropriate protection for intellectual property rights, while ruling that trade in services be subjected to multilateral trade disciplines in the WTO.³⁰⁹ It stipulated new procedures for dispute settlement, and set up the Trade Policy Review Mechanism (TPRM) in terms of which trade policies and practices of

³⁰⁹ Stephen Woolcock, "The Multilateral Trading System into the New Millennium," in Brian Hocking and Steven McGuire (eds.) *Trade Politics – International, Domestic and Regional Perspectives* (London: Routledge, 1999), pp.32-34.

WTO member states are subjected to regular review within the organisation. Moreover, unlike the GATT Tokyo Round that ended in 1979 – with its additional voluntary Codes on subsidies and countervailing measures – the UR final agreement was negotiated as a single undertaking: this made the implementation of all its provisions compulsory and abolished erstwhile waivers and exceptions. Lastly it inaugurated significant institutional changes by providing for the establishment of the WTO, which would assume the functions of the old GATT. In line with the UR provisions, the WTO would concern itself not only with trade in goods but also with trade in services, trade-related intellectual property (TRIPs) as well as investment issues. In addition, the WTO would hold a biennial ministerial conference designed to infuse political direction and impetus on major trade policy issues.³¹⁰

2. South Africa and the Uruguay Round

As a founder member of the GATT South Africa participated in all the rounds of multilateral trade negotiations. However, decades of international ostracism meant that South Africa was able to remain largely outside the substantial liberalisation achieved in the successive pre-UR negotiating rounds.³¹¹ South Africa's international isolation coincided with, and marginalised the country from, newly emergent trends towards globalisation of production, investment, technology and trade flows, and the corresponding changes in external policy and regulatory environment centred on the GATT. Consequently, until the mid-1980s South Africa could maintain relatively high tariffs and several quantitative restrictions on its imports to aid its import

³¹⁰ McDonald, *The World Trading System*, pp.39-46.

³¹¹ Alan Hirsch, "From the GATT to the WTO: The Global Trade Regime and Its Implications for South Africa," in Greg Mills, Alan Begg and Anthoni van Nieuwkerk (eds.), *South Africa in the Global Economy* (Johannesburg: South African Institute of International Affairs, 1995), p.41.

substituting industrial policies. Although the limits to South Africa's import substitution industrial strategy had become apparent by the 1970s, increasingly adverse external conditions made the policy shift towards manufactured exports difficult to implement, and left South Africa trailing behind the NICs in terms of competitiveness and export growth. South Africa participated in the UR as a developed country and conforms to developed country rules. Two reasons account for this classification.³¹² The first one concerns South Africa's international role in the immediate post-war period. Having been an active player in the construction of the post-war settlement, South Africa became an essential part of Western strategic and economic coalitions that ensued after 1945. Second, the country is classified as developed because it conforms to the World Bank criterion which designates developed countries as those which have a per capita income of more than US\$2900 per annum – a figure previously based on the living standards of the minority white population.

The issue of classification of South Africa was debated during the review of the country's trade policy in 1993. In its opening statement, the South African delegation had mooted the possibility of having the country reclassified as a developing country. But this proposal was immediately rebuffed by the US, which reminded the South African delegation that as a founding member of the GATT South Africa had never been regarded as a developing country. For this reason the US refused to categorise South Africa as a developing nation; instead, the country was recognised as a transitional economy, which implied a degree of flexibility regarding the pace of trade

³¹² Ibid.

policy reform.³¹³ The US stance in relation to South Africa accorded with an increasingly uncompromising and unaccommodating attitude on the part of developed countries towards developing countries: in the course of the UR developed countries put enormous pressure on developing nations to reduce tariffs substantially, while the EU proclaimed that it would not treat Hong Kong, Singapore and South Korea as developing countries in its implementation of the commitments of the UR.³¹⁴

The designation of South Africa as an industrialised country implied that the country had little recourse to 'special and differential treatment' in the WTO environment. The possibility and desirability of South Africa claiming developing country status in the GATT has been a subject of intense domestic debate. For South Africa shares numerous attributes of semi-peripheral economies. On the one hand, its economy is characterised by a huge reliance on traditional commodity exports and imports of capital goods, as well as unequal income distribution and high unemployment levels. On the other hand, the economy is typified by highly competitive sectors – notably the financial sector – as well as world-class public infrastructure. Yet many of South Africa's economic sectors were massively protected from international competition in the past: policies aimed at achieving import substitution and self-sufficiency, aggravated by resource problems due to apartheid and sanctions, shielded domestic industry from competition and perpetuated a high-cost production structure (see Chapter 2). This explains partly why the post-1994 South African governments have been reticent to pursue the classification issue further within the WTO; a strong

³¹³ Department of Trade and Industry, *Annual Report 1993* (Pretoria: Government Printer, 1993), p.2.

³¹⁴ David Hartridge, "Implications of the Uruguay Round and the New GATT for South African Trade Policy," in Pauline H. Baker, Alex Boraine and Warren Krafchik (eds.), *South Africa and the World Economy in the 1990s* (Cape Town: David Philip, 1994), pp.175-176.

emphasis has been placed on creating an open, vibrant, competitive outward-oriented manufacturing economy (see Chapter 5).

South Africa supported the UR of multilateral trade negotiations from the outset. During the latter part of the 1980s the work of the Department of Trade Industry's (DTI) multilateral trade relations division was dominated by the UR negotiations.³¹⁵ However, faced with the bewildering scope and complexity of the UR agenda South Africa had little chance of influencing the outcome on many issues. South Africa's miniscule trade delegation in Geneva – consisting of three trade officials – was overwhelmed by the daunting negotiating agenda, and struggled to keep up with developments in the numerous important areas of parallel negotiations. Severely under-prepared, the country could thus not join the various issue-coalitions that were part of the negotiations such as the Cairns Group of agricultural exporters – where it had a palpable stake. As such South Africa's negotiating posture was very 'defensive.'³¹⁶ With the exception of organised commerce and industry, very little consultation did take place between the government and key domestic non-state actors in determining South Africa's initial tariff offer in the UR in 1990.

Overall, South Africa's participation in the UR proceeded virtually without domestic public attention and debate until at least until the final stages of negotiation round. This was in part a reflection of the sanctions-inspired secrecy that characterised the previous government's conduct of international relations. It was also a demonstration of the growing lack of legitimacy of the then government's economic policymaking, which was overshadowed by the escalating internal political crisis. The rejection by

³¹⁵ See for example Department of Trade and Industry, *Annual Report 1989* (Pretoria: Government Printer, 1989), pp. 11-12.

³¹⁶ Hirsch, "From the GATT to the WTO," p.45.

the GATT secretariat of South Africa's initial offer in 1990, on the grounds that it "did not provide an adequate base for a fundamental rationalisation of the tariff structure,"³¹⁷ coincided with the beginning of South Africa's transition to democracy and attendant calls by the ANC on the NP government to broaden the number of participants in the UR negotiations. Whereas only the private sector was consulted in putting together South Africa's initial offer, the revised offer was formulated in conjunction with the National Economic Forum (NEF),³¹⁸ a technical group of the Southern African Customs Union (SACU) as well as task groups of the automotive, textiles and clothing, and electronics industries. At the 1993 trade policy review, in which forty countries participated, South Africa's trade policy was subjected to intense scrutiny and questions were raised about "the complexity of the country's tariff structure, the high levels of certain import tariffs, export incentives and subsidies, local content programmes, import control and the surcharge on imports."³¹⁹

The final, revised offer committed South Africa to:

- Rationalising some 12 800 industrial tariffs into no more than 1000;
- Cutting industrial tariffs by an average 33 percent by 1999 - with maximum levels for consumer goods set at 30 percent, for capital goods at 15 percent and for raw materials at 5 percent;
- Cutting agricultural tariffs by an average 36 percent over 10 years;
- Scaling down textile tariffs over 12 years to a maximum of 25-45 percent, depending on the products;
- Phasing out local content measures in the automobile industry;
- Terminating its General Export Incentive Scheme (GEIS) export subsidies by 1997.³²⁰

³¹⁷ Department of Trade and Industry, *Annual Report 1993*, p.23.

³¹⁸ Made up of representatives from the state, capital and labour, the NEF was set up in 1992 to prevent a unilateral restructuring of the South African economy by the NP government.

³¹⁹ Department of Trade and Industry, *Annual Report 1993*, p.22.

³²⁰ Marais, *South Africa: Limits to Change*, p.129.

In 1993 South Africa scrapped all surcharges on imports ranging from 4 percent to 15 percent, while abolishing several quantitative restrictions. Furthermore, in 1994 the South African government proclaimed its intention to significantly lower tariffs in the clothing, textile and automobile industries beyond what was required under the GATT. In respect of telecommunications, the government sought to reduce tariffs to zero percent – as opposed to the 20 percent point demanded under the GATT and the WTO. In essence, South Africa's offer to the WTO in 1994 comprised a five-year tariff reduction coupled with the rationalisation of its more than 100 tariff bands to just six. This entailed reducing South Africa's average tariff from 11,7 per cent in 1994 to 4,9 per cent in 2002.

South Africa's accelerated trade liberalisation programme was initially criticised by sections of capital and labour, especially those in sensitive sectors such as clothing, textiles and the automotive sector who accused the government of adopting a "holier than GATT" posture that posed a serious threat to the long-term viability of their industries.³²¹ The labour unions had feared that massive job losses would result from a hasty liberalisation process, and were concerned that the government's liberalisation policies had failed to take into account the impact of trade reform on employment in South Africa. For its part, the government had retorted that the tariff reductions agreed to under the GATT had been a key element of South Africa's industrial policy designed to facilitate the emergence of South Africa as a dynamic, outward-oriented manufacturing economy – move the economy up the value chain and beneficiate domestic raw materials.

³²¹ Ibid.

South Africa also made market access commitments in the financial services sector – covering banking, securities and insurance sectors.³²² The WTO agreement on financial services encourages countries to open up their insurance, banking and securities sectors to foreign competition and enables them to challenge transgressors in the WTO dispute settlement system. South Africa's offer to liberalise financial services was based on three conditions. First, the protection of South African investors from “unscrupulous foreign entities selling financial products from offshore locations.”³²³ Second, regulations are needed to level the playing fields between domestic and foreign financial institutions that establish (or have already established) a commercial presence within South Africa's domestic market. Third, a change of regulations to ensure that domestic financial institutions are not hindered by local regulations in their attempts to become more internationally competitive; improving South Africa's ability to export financial services should be a key consideration when analysing the current system of regulations.³²⁴ Substantively, South Africa's offer on trade in services did not contain extensive liberalisation measures and was merely a confirmation of the status quo.

3. The Implications of the Uruguay Round for South Africa

By accepting the rules of the WTO, embodied in the negotiating outcome of the UR, South Africa committed itself to extensive economic policy changes. It agreed to implement as a single undertaking all the agreements of the UR. All countries taking part in the UR were exhorted to accept all of its agreements – including agreements

³²² For more details on South Africa's financial services offer see Samantha Anderson, “Liberalising the Trade in Financial Services: A Report to the Portfolio Committee on Finance,” South African Parliamentary Research Unit (February 1998), pp.1-27.

³²³ *Ibid.*, p.10.

³²⁴ *Ibid.*

on agriculture, rules of origin, pre-shipment inspection, investment measures, services, and intellectual property rights – as a package deal. In this respect the UR represented a key departure from the erstwhile Tokyo Round, which permitted many countries to exempt themselves from some of the Codes negotiated by GATT contracting parties; South Africa did not join the Tokyo Round on Subsidies and Anti-Dumping Measures.³²⁵

For South African policymakers, the UR represented an auspicious opportunity to discipline the country's trade policy and to signal to the international community that South Africa was serious about trade liberalisation. As the experiences of numerous countries in Africa, Latin America and the Middle East have shown, trade policy is notorious for its reversibility whenever a crisis ensues.³²⁶ Policy consistency is thus essential to successful trade reform. Trade reform in South Africa has succeeded to open up the country's trade policy by replacing quantitative restrictions (QRs) with tariffs; simplifying and rationalising the tariff structure and binding it (making it irreversible); phasing out GEIS; and abolishing import surcharges. The positive progress made in this respect is reflected in a number of economic variables, including increased total factor productivity and exports as well as low inflation³²⁷ Tariff reductions have had a positive effect on domestic prices, notwithstanding South Africa's devalued exchange rate policy. And thanks to reduced cost wage goods and the cost of inflation, it is estimated that the cost of food in South Africa today is far lower than it was eight years ago.

³²⁵ Hartridge, "Implications of the Uruguay Round," p.173.

³²⁶ See Dani Rodrik, "The Limits of Trade Policy Reform in Developing Countries," *Journal of Economic Perspectives*, vol. 6, no. 1, (Winter 1992), pp.87-105.

³²⁷ See Gunnar Jonsson and Arvind Subramanian, "Dynamic Gains from Trade: Evidence from South Africa," IMF Working Paper WP/00/45 (Washington, DC: International Monetary Fund, 2000), pp.1-34.

In an attempt to overcome its poor international competitiveness and export performance South Africa implemented a raft of industrial supply-side measures including the introduction of tax incentives to encourage investment in competitive and labour absorbing projects; the promotion of small, medium and micro enterprises as a means of job creation and income generation; implementation of employment and training policies designed to enhance the growth potential of industry, and increased investment in research and development.³²⁸ While it was generally agreed that these policy measures were central to the successful re-integration of the country into the world economy, there was general anxiety about the social implications of economic liberalisation.³²⁹ This was in part due to a widespread concern that trade liberalisation over the past decade had not helped to alleviate South Africa's high unemployment rate; a key concern of the policymakers had been that trade reform would exacerbate South Africa's already high unemployment levels. In fact, the footwear industry in the Pietermaritzburg suffered huge job losses as a consequence of economic restructuring undertaken in line with the obligations of the UR.³³⁰

But some commentators argue that South Africa's tariff liberalisation offer to the UR was not as dramatic as it was sometimes suggested because it was anchored in the 1989 base year. As Cassim observed:

What distinguished post-90s liberalisation in the country from the pre-90s was that in the latter case trade liberalisation was characterised more by giving firms an incentive to export through export promotion measures. This was done largely in the absence of an effective reform of South Africa's tariff system. What this means was that the liberalisation process had no political costs as it continued to protect complacent firms but at the same time marginally changed the price

³²⁸ Department of Finance (1996), *Growth, Employment and Redistribution Strategy* (Pretoria: Government Printer).

³²⁹ See 'Create more jobs, dammit!,' *Mail and Guardian* 20th April 2000; 'Losing patience,' *Financial Mail* 19th May 2000; 'Cosatu rejects privatisation gospel,' *Business Day* 10th June 2000.

³³⁰ Interview with Alan Hirsch, Pretoria, 5 April 2002.

incentive structure for firms to keen to export. The assumption that liberalisation under the WTO is not dramatic means that the tariff phasing out schedule, by and large, is gradually giving firms sufficient time to adjust but there may be some exceptions. Moreover, South Africa's initial tariff phasing out has often coincided with exchange rate depreciation which have may cushioned firms from the effects of tariff cuts.³³¹

This raises the question of whether job creation is the function of trade policy. Empirical research warns against expecting too much from trade policy by way of solving economic problems.³³² While trade policy can have positive distributional effects – for example when prices are lowered consumers gain – these are often fairly dispersed and intangible. Given that it localises gains and losses, trade reform has uneven effects on different industries and on different areas of the country. It is for this reason that trade policy should not be seen in isolation from a wider set of policies such as educational policy, health policy, labour market policy, exchange rate policy, and investment policy. The important challenge confronting South African policymakers in this respect is to manage the relatively accelerated liberalisation process in ways that skillfully balance the opportunities and risks presented by globalisation against the imperatives of national reconstruction and development.³³³ This means that policymakers ought to pay greater attention to sequencing trade liberalisation with supply-side reforms.

The UR had a positive political effect on South Africa: the normalisation of the country's trade relations and the restoration of its trade rights within the GATT/WTO. The installation of a democratic government induced a favourable attitude towards

³³¹ Interview with Rashad Cassim, Johannesburg, 8 April 2002.

³³² Rodrik, "The Limits of Trade Policy Reform," pp.102-103.

³³³ Interview with Tshediso Matona, Pretoria, 7 April 2002.

South Africa. Although South Africa made commitments to the WTO as ‘developed’ country, there was recognition among its trading partners that this classification did not sit well with South Africa’s social and economic realities. In terms of social and economic indicators - such as per capita income, trade composition, income distribution, employment and human resource development - South Africa is closer to developing than to developed countries. In recognition of these realities, the country was granted limited special concessions such as longer phase-in periods in agriculture, textiles and clothing in the UR, even though these preferences were in principle effectively excluded by South Africa’s traditional classification as a ‘developed’ country in the GATT. These preferences are sector-specific, and are considered on a customised, case-by-case basis, rather than as a general entitlement. Similarly, the extension to South Africa of GSP preferences by the US, the EU, Canada, Japan and some Nordic countries, and the inclusion of South Africa in the Lomé Convention preferences on a qualified basis, represent an implicit recognition of South Africa as a developing country: a country that merits special treatment without having to formalise its status through reclassification. The extension of these derogations and preferences to South Africa represented an important breakthrough for the country’s trade negotiators, who had assiduously explained South Africa’s unique circumstances to its key trade partners.³³⁴

The conclusion of the UR put considerable pressure on South Africa to bolster its bureaucratic capacity significantly in order to meet its WTO obligations (see Chapter 5). South Africa’s previous ostracism from GATT meant that it was not in a position to develop the necessary internal institutions for administering GATT multilateral

³³⁴ Interview with Gerrit Bryl, Pretoria, 14 April 2003.

obligations and diplomacy. When the country joined the UR it had to contend with the reality that the GATT section of its department of trade and industry was inadequately staffed, lacked technical expertise, was not sufficiently coordinated with other relevant government departments, and had a poor image among the business, academic, legal and media communities affected by GATT/WTO matters.³³⁵ As such, it was compelled to ask for GATT technical assistance even though in terms of long-standing GATT law it was not formally eligible for such assistance on account of its 'developed' country status. The most important challenge facing South Africa in this regard is to strengthen its institutional and regulatory frameworks.

Notwithstanding South Africa's economic strengths, its international economic isolation of the previous decades places it among those developing countries on the margin of the globalisation process. Moreover, South Africa's fragile economic position has not been helped by its classification as a developed country in terms of the WTO requirements, reducing its claims for special and differential treatment. This is compounded by the fact that the country missed the opportunity during the UR to negotiate for commitments commensurate with its institutional capacity to meet them – thanks to the confusion and political uncertainty that surrounded the tabling of its initial UR. Yet market opening has benefited South Africa by not only improving access for its goods and services to traditional markets (North America) but also by exposing it to new ones (Asia, Latin America, and Central and Eastern Europe). South Africa has also gained from the waivers and exemptions it has been granted by the WTO regarding the implementation of UR agreements. The re-integration of South Africa into the global economy has thrown up numerous possibilities for the

³³⁵ Interview with Tshediso Matona, Pretoria, 7 April 2002.

country to benefit from the international trading system. South Africa stands to gain immensely from the expanded trade opportunities brought about by the WTO market access agreements, as well as the WTO's strengthening of the rule of law in international trade. Yet the country still has several hurdles to overcome if it is to become economically successful. It must shed its poor competitiveness rating and export performance. Although there's no substantial recent economic analysis to draw on, a cursory examination of post-apartheid South African manufacturing performance reveals an increasingly robust, resilient and growing export sector (see Graph 3).

Prior to 1994, South Africa's manufacturing was beset by a crisis, shrinking at an annual average rate of close to 2 per cent between 1989 and 1994 and reaching its lowest point in 1993. However, the contribution of manufacturing to GDP saw a sustained upward trend since 1994 – South African manufacturing exports have grown by 12 percent per annum in real terms since 1994 – even though some labour-intensive sectors grew slower than the average manufacturing rate.³³⁶ There are encouraging signs that the number of outward-looking companies has increased, and that exports – not only commodity exports but also manufactures – have increasingly become part of the country's GDP. Trade reform has enabled South Africa to specialise and invest more in competitive industrial sectors and to source cheaper inputs for its uncompetitive sectors.³³⁷

³³⁶ Interview with Alan Hirsch, Pretoria, 5 April 2002.

³³⁷ Ibid.

Graph 3 – Growth Rate of SA Exports

Growth Rate of SA Exports: 1994-2000 (Selected Countries)			
	Value of Exports in 2000	Exports: Average Growth Rate	Total Trade Average Growth Rate
SA → United Kingdom	R18 bn	18%	13%
SA → Germany	R16 bn	15%	14%
SA → United States	R25 bn	25%	14%
SA → Brazil	R 1 bn	8%	14%
SA → India	R 1 bn	25%	14%
SA → Japan	R16 bn	18%	14%
SA → China	R 6 bn	23%	14%

Source: Department of Trade and Industry Annual Report, 2000-2001, p. 21

A notable feature of manufacturing has been the statistical "substitution" of jobs between manufacturing and the services sector – which has experienced the fastest employment growth – as the manufacturing sector outsourced a number of functions such as logistics. This means that manufacturing has not only expanded but has also undergone important structural changes. First, the structure of output and exports has shifted from low to medium- and high-technology production, with the automotive industry taking the lead. Second, exporting has become a permanent characteristic of manufacturing, rather than a conduit for domestic surpluses. Third, export production has diversified from dependence on minerals and mineral-related intermediate manufactured goods, to a wider variety of non-mineral based manufactured exports.³³⁸

³³⁸ 'Manufacturing in SA alive and kicking,' *Business Day* 16th September 2003.

This transformation of the manufacturing sector has been driven by both macro- and micro-economic policy instruments. A major reform for shifting production towards export has been market access negotiations, especially the FTA deals with the Southern African Development Community (SADC) and the EU. Furthermore, the DTI implemented two sector specific programmes for the automotive and clothing and textiles industries, selected for their vulnerability to the general tariff phase-down under South Africa's WTO obligations. The Motor Industry Development Programme (MIDP) has been acknowledged as very successful, turning around an industry unlikely to have survived in any significant way without government support. This is reflected in annual average export growth of 36 per cent between 1995 and 2002, and sustained investment growth during this period. As such the automotive industry plays a critical role in the South African economy, in its own right as well as through its multiplier effect on other sectors. The textiles and clothing sector, however, has adapted less rapidly even though it has experienced substantial export growth: 25 per cent between 1995 and 2002. Its export success can be attributed to the duty credit certificate scheme, growing market access spurred, in particular, by AGOA.³³⁹

Overall, it would appear that the trade reforms introduced in line with UR commitments have had a significant impact on the South African economy. Growth in total merchandise exports from South Africa has remained positive over the period 1994 to 2001 at an inflation- adjusted rate of 4.8 per cent a year while manufactured exports have grown at 9.1 per cent a year in real terms. But these positive developments need qualification. While there has been a structural transformation of South Africa's export basket during the second half of the 1990s – with some sectors

³³⁹ Ibid.

beginning to reap the benefits of liberalisation and selective export promotion – this has been achieved from a very low base. Moreover, the export gains that have been made in new sectors have been reversed by export losses that have been incurred in industries such as gold, coal and other mining.³⁴⁰ South Africa has a long way to go, therefore, before it can optimally bolster its industrial manufacturing base, whose development was stifled by over-prolonged inward-oriented industrialisation policies.

4. Conclusion

This chapter has discussed South Africa's role in the multilateral trading system within the framework of the UR of trade negotiations. It has been contended that by acceding to the Marrakesh Agreement of the GATT in 1994 South Africa agreed to liberalise its trade policies in line with the rules-based global trade regime after decades of operating beyond the GATT rules. Nonetheless, the reinstatement of South African trade prerogatives also entailed multiple obligations that must be fulfilled in their entirety. By adopting the disciplines of the WTO, contained in the negotiating results of the UR, South Africa committed itself to comprehensive reforms in its economic policy.

The UR of trade negotiations occurred as a consequence of a growing recognition by both developed and developing countries in the 1980s of the structural changes in the global economy and the necessity to develop policies to accommodate them. The importance of the UR lay with its inclusion in international trade policy not only of agriculture, a key concern of many developing countries, but also of new issue-areas

³⁴⁰ 'Astute strategy gives SA an edge in world trade,' *Business Day* 29th October 2003.

such as trade in services, investment and intellectual property. However, the UR has failed to produce a substantial improvement in the position of developing countries in the international trading system.

Although South Africa, as a founder member of the GATT, took part in all the previous rounds of multilateral trade liberalisation, years of international isolation induced by its apartheid policies prevented the country from benefiting from the substantial liberalisation attained in the consecutive pre-UR negotiating rounds. As such, South Africa's pariah status meant that it was marginalised from the emergent patterns towards the internationalisation of production, investment, technology, and trade flows. In part, this explains why South Africa has lagged behind other upper-income developing countries (such as Brazil) in respect of industrial competitiveness and export growth.

Notwithstanding its marginal role in the negotiations, South Africa supported the UR. Yet its participation in the negotiations was undermined not only by its weak negotiating team, but also by the very defensive posture of its negotiating positions - a hangover from the paranoia of the apartheid era. Moreover, South Africa's participation in the UR was overshadowed by a growing domestic political crisis and dogged by demands for inclusive and accountable economic decision-making on the part of the liberation movement led by the ANC.

Even so, the economic consequences of the UR for South Africa have been far-reaching. Not only did the ratification by South Africa of the final agreement of the UR necessitate substantial internal economic reform but it also entailed a commitment

to implement as a single undertaking all the agreements of the UR. This required South Africa to demonstrate seriousness about its trade liberalisation commitments and to put in place policy measures designed to restructure the economy and launch it on a path of outward-oriented growth, and to create the domestic institutions necessary for the management of South Africa's international undertakings.³⁴¹ How the South African state went about reforming its economy and crafting the appropriate institutions for executing South African trade policy constitutes the focus of the next chapter.

³⁴¹ Interview with Tshediso Matona, 7 April 2002.

Chapter 5

South African Trade Policy in the 1990s: Ideas, Institutions and Interests

This chapter, as well as Chapters 6 and 7, elaborates on the central argument of this thesis. It examines the trade policy reforms that have been implemented by the South African state since 1994 to restructure South Africa's formerly isolated economy and facilitate its emergence as an outward-oriented manufacturing and trading nation. The key theme of the chapter is that trade policy in South Africa has fundamentally mirrored economic changes ushered in by the ANC government since it came to power in 1994. These changes have been aimed primarily at opening up the economy to external competition and undoing years of economic underperformance and mismanagement.

Yet the South African state's motives for introducing trade reform cannot be restricted to economic explanations, as mainstream accounts of South African trade policy are wont to suggest. As enunciated in the introductory chapter, international and domestic political economy factors also played a pivotal role in the ANC government's calculations to embark on trade reform to the degree it has. The international adjustment strategy pursued by South Africa can be characterised as 'offensive' at both domestic and international levels. Internationally, it has sought to contribute towards the generation of new "rules for the game" for international interactions. And domestically, it has involved attempts to alter the structure of national institutions and industries to promote domestic economic adjustment.³⁴²

³⁴² See John G. Ikenberry, "The State and Strategies of International Adjustment," *World Politics*, vol. XXXIX, (October 1986-July 1987).

The chapter is in four parts. First, it documents the process of economic restructuring that has been undertaken in South Africa against which the new trade policy has evolved. Second, the chapter discusses trade policy in South Africa since 1994, concentrating on the reforms that have been carried out in the post-1994 period in order to align the country's trade policy with the disciplines of the rules-based multilateral trading regime. Third, it explores trade policy decision-making in post-apartheid South Africa, focusing on the transformed institutional set-up for formulating and managing trade policy. The analysis is anchored in the political economy prism, focusing on ideas, circumstances, interests and institutions.³⁴³

1. Domestic Economic Restructuring

Democratic South Africa inherited a moribund economy “buckled by almost two decades of steadily worsening difficulties which manifested in earnest after the 1973 oil shock.”³⁴⁴ The economic crisis drew attention to a panoply of structural deficiencies: declining investment rates; a paucity of skilled labour; vast racially-based social and economic disparities; appalling industrial relations; low investment in research and development; a stunted small and medium-sized business sector; and industrial decay, a product of limited production of capital goods and the failure to develop a dynamic export sector through the beneficiation of raw materials.³⁴⁵ In many ways the crisis represented the failure of the South African post-war accumulation strategy detailed in Chapter 2. It was against this backdrop that the incoming ANC government forged a new economic strategy to extricate South Africa

³⁴³ See Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and International Relations* (New Jersey: Princeton University Press, 1997).

³⁴⁴ Marais, *South Africa: Limits to Change*, p.100.

³⁴⁵ Ibid.

from decades of economic morass. When it ascended to power in 1994 the ANC government was faced with a formidable double-pronged economic challenge: to implement policies geared at redistributing income, wealth and economic power while simultaneously creating a climate conducive to the pursuit of rapid economic growth.

Herbst captures this conundrum aptly:

Any new government would find the economic problems facing South Africa to be daunting. Indeed, many countries have found simply the task of removing structural inefficiencies and making the economy more outward-looking to be exceptionally difficult, without worrying about distributional implications.³⁴⁶

The problem is that the ANC did not have a credible economic policy when it was legalised in 1990 and, until then, had paid negligible attention to economic matters. Historically, the ANC's economic thinking had been embodied in the Freedom Charter, the ANC's ideological font and guiding vision. Adopted in 1955, the Charter called for, among other things, the nationalisation of mines, banks and monopolies while demanding equal access to health, education and legal rights. Its main shortfall, though, is that it failed to specify how its commitment to social and economic change would translate into a practical economic policy programme. This vagueness in the ANC economic policy pronouncements was to become a recurring feature in subsequent decades. For example, although the 1988 ANC Constitutional Guidelines had proclaimed a need for a mixed economy, they had desisted from outlining specific policy proposals on how the envisaged economy would be brought about.³⁴⁷

³⁴⁶ Jeffrey Herbst, 'South Africa: Economic Crises and Distributional Imperative,' in Stephen John Stedman (ed.) *South Africa: The Political Economy of Transformation* (Boulder: Lynne Rienner, 1994), p.32.

³⁴⁷ Nicoli Nattrass, 'Politics and Economics in ANC Economic Policy,' *African Affairs*, vol. 93, no. 372, (July 1994), p.345.

The obscure nature of ANC economic policy statements could be blamed partly on the fact that during the liberation struggle the organisation had been too preoccupied with the immediate challenge of overthrowing the apartheid regime to worry about economic issues. But a more plausible explanation points to the nature of the liberation movement. Given the broad church character of the South Africa liberation movement – which provided a political home to opponents of apartheid system irrespective of their race, class, sex, creed and religion – it made strategic sense for the ANC at all times to maintain the cohesion of these disparate forces. Sticking to nebulous economic policy positions had proved to be a tested way of uniting, albeit artificially, the fragile anti-apartheid coalition.³⁴⁸

Given this state of affairs, it was not surprising that the ANC was caught off guard by former president de Klerk's decision to unban it in 1990. This accounts for the ANC's move in the same year to construct in earnest a viable economic strategy, which came in the shape of a 1990 draft economic manifesto published by the organisation's newly inaugurated Department of Economic Policy (DEP). The document was notable for its overarching emphasis on economic 'restructuring,' prompting the outspoken economist Nicoli Nattrass to observe scornfully that this could "include anything from extensive state intervention to conventional market-driven structural adjustment."³⁴⁹ It also suggested a crucial role for the state in strategic industrial planning and wealth redistribution, while demanding the overhaul of the financial sector which "does not sufficiently direct savings into productive

³⁴⁸ Ibid., p.344.

³⁴⁹ Ibid., p.346.

activity nor into critical areas of infrastructural development” but which perpetuated “a scramble for short-term speculative profit.”³⁵⁰

Furthermore, the ANC’s economic document advocated a break-up of the small number of white-controlled conglomerates that had traditionally dominated the South African economy so as to foster competition and facilitate the growth of the small and medium-sized business sector in the economy. Although it conceded that mammoth financial resources would be needed to meet South Africa’s social demands, the document eschewed the route of ‘inflationary financing’ as a means to achieve this goal, arguing that these needs would be fulfilled through “mobilising of domestic savings (possibly through prescribed assets) and raising taxes on companies and the rich.”³⁵¹ Additionally, it called for a high-wage economy and a greater role for organised labour in the formulation of economic policy. In sum, the ANC economic document argued for a ‘growth through redistribution’ model, which envisaged that wealth redistribution would propel growth and the benefits of growth redirected to meet basic needs.

Parallel to the work of its economics department, the ANC established in 1991 the Macro-Economic Research Group (MERG) to craft a new macroeconomic economic model for South Africa. MERG published its report in 1993 “amid controversy over the strong contingent of foreign economists on the team and, more tellingly, resistance from members of the ANC’s DEP, who felt that MERG was usurping their roles.”³⁵²

The report’s central contention was that the economy could optimally be reformed through the labour market – improved training and higher wages – and through

³⁵⁰ Ibid., p.347.

³⁵¹ Ibid., p.348.

³⁵² Ibid., p.158.

measures designed to enhance the structure of business. It advocated a two-phase growth plan, comprising a “public-investment-led phase” and a “sustained growth phase,” that would link growth to increased savings and investment. This marked a departure from the demand-led growth trajectory proposed under the erstwhile “growth through redistribution” model.³⁵³ The report envisioned a growth rate of 5 percent per annum and a generation annually of 300 000 jobs. This would be achieved through, among other things, expanded state investment in social and physical infrastructure, a robust industrial policy which champions training, education and technological progress, and the restructuring of institutions responsible for formulating and managing South African trade and industrial policies.³⁵⁴

Furthermore, the MERG report espoused the establishment of a strong yet slim developmental state: an active state was necessary to provide leadership and coordination for economic transformation, but such a state ought to be lean and efficient. It stressed, however, that advocating strong state structures did not necessarily imply that the private sector would be excluded from national economic development. On the contrary, the report argued for a mixed economy, acknowledging that “in South Africa, the change to a new economic system will depend on a strong private sector interacting with a strong public sector.”³⁵⁵

In respect of trade and industrial policies, the report argued that “the existing trade regime is marked by uncertainty, complexity and the imprint of special interests.”³⁵⁶

It recommended, therefore, trade reform, whose key objective “should be to lower

³⁵³ Ibid., p.159.

³⁵⁴ Natrass, “Politics and Economics,” p.359.

³⁵⁵ Ibid., p.265.

³⁵⁶ Macro-economic Research Group (MERG), *Making Democracy Work: A Framework for Macroeconomic Policy in South Africa* (Bellville: Centre for Development Studies, 1993), p.233.

costs by reforming protection, without jeopardising development strategies, and to coordinate export programmes with protection policy, thus making them more effective.”³⁵⁷ To this end, it proposed that the country’s complex, unpredictable and inconsistent tariff regime be rationalised. It also recommended the strengthening of the export programme which, notwithstanding its relative success, had become ineffective and vulnerable to abuse. The report also called for investment in specific manufacturing sectors, and recommended “a policy of maintaining a stable real effective exchange rate with the range chosen to increase and maintain international competitiveness.”³⁵⁸

Other specific proposals included: the introduction of a workable anti-dumping system from the beginning of the import liberalisation programme; the reform of the inefficient system of customs and excise policing; the provision of subsidised loans for the export sector; the development of a suitable strategy to provide suppliers a grace period before the institution of the duty-free regime for exports; the maximisation of access to overseas markets and bolstering of complementary industrial linkages in Southern Africa; and the rechanelling of public expenditure towards increasing productivity.³⁵⁹ Notwithstanding the criticisms levelled against the MERG model attracted in some circles, commentators conceded that it “represented the most sophisticated popular economic strategy ever devised in South Africa.”³⁶⁰ Even so, the ANC dismissed the MERG recommendations and settled for a conservative economic programme. Why it chose to pursue a different policy trajectory is the subject of the next section.

³⁵⁷ Ibid., pp.233-234.

³⁵⁸ Ibid., p.275.

³⁵⁹ Ibid., pp.236-239.

³⁶⁰ Marais, *South Africa: Limits to Change*, p.160.

2. Explaining the Shift to Economic Orthodoxy

The period before and after the release of the MERG report in late 1993 was marked by a rapid shift to conservative economic thinking on the part of the ANC. This shift had become first evident in the ANC's May 1992 policy guidelines, which had made no reference to the "growth through redistribution" approach that had formed the centrepiece of the earlier documents. In the ensuing years, ANC activists had been increasingly dissuaded from defending the "growth through redistribution" model and greater attention had been instead devoted to extolling the virtues of free market economics.³⁶¹ It is difficult to isolate a single definitive reason for the ANC's dramatic conversion to neo-liberal economic orthodoxy. According to the literature on South Africa's transition, a coalescence of factors seems to have played a role in bringing about the ideological turn-about. First, the demise of the Soviet Union and its command economies triggered a robust debate within the South African liberation movement and raised questions about the efficacy of central economic planning.

Second, the ANC and its partners were also constrained by the fiscal and monetary prescriptions of the IFIs. During this period, a wide array of studies and conferences sponsored by the IMF and World Bank took place in South Africa with the express purpose of winning the ANC elite over to the neo-liberal economic agenda. The World Bank, in particular, deliberately set out to cultivate the ANC and its partners by initiating dialogue and recruiting researchers linked to the liberation movement into its projects. In the words of Marais:

³⁶¹ Nattrass, "Politics and Economics," pp.355-356.

The soil of conciliation and consensus was being diligently toiled. The Bank's *Reducing Poverty* report became the public component of an intensive process of lobbying and 'trust building' with the ANC and other popular organisations. It melded detailed analyses of South Africa's economic plight with somewhat restrained neo-liberal directives that were often offset by incorporating aspects of progressive thinking.³⁶²

Third, the series of corporate scenario planning interventions undertaken after 1990 had a significant effect on the thinking of the ANC leadership. These included: the Nedcor/Old Mutual's *Prospects for a Successful Transition*; Sanlam's *Platform for Investment scenario*; the celebrated *Mont Fleur Scenarios*; and the South African Chamber of Commerce's (SACOB's) *Economic Options for South Africa* scenario.³⁶³ It is worth pointing out, however, that this charm offensive by the IFIs and fractions of domestic South African business did not go unchallenged: the ANC's ideological metamorphosis was not a seamless process accepted passively by all its members. Within the ANC resistance to the unfolding conceptual shift had first become clear at the May 1992 ANC Policy Conference where "the economic policy resolutions were clearly influenced by the militant populists and by delegates sympathetic to Cosatu."³⁶⁴

As such, the final text of the adopted policy guidelines was devoid of the conciliatory posture towards capital found in previous drafts and more radical in content. COSATU's opposition to the neo-liberal ideological onslaught was two-pronged. First, it pushed for a greater influence in macro-economic policymaking. Second, the labour federation mooted the notion of a 'reconstruction accord,' whose intention "was to make Cosatu's electoral support conditional on the ANC committing itself to

³⁶² Ibid., p.152.

³⁶³ Ibid., pp.150-151.

³⁶⁴ Natrass, "Politics and Economics," p.355.

the pact.”³⁶⁵ Significantly, the accord paved the way for the fashioning of the Reconstruction and Development Programme (RDP), a set of socio-economic targets against which the performance of the ANC government would be evaluated by the trade union movement. As such, the RDP became the socio-economic platform upon which the ANC fought the first democratic elections in 1994.

Originating within the popular movement, the RDP “emerged as the most concerted attempt yet to devise a set of social, economic and political policies and practices that could transform South Africa into a more just and equal society.”³⁶⁶ It outlined a comprehensive analysis of South Africa’s developmental problems, stressing the importance not only of a new growth trajectory for the country but also of reordering its politics, economy and society. In the shape of the RDP Base Document, the RDP promised, among other things, to: generate 2, 5 million new jobs in a decade; construct a million low-cost homes by the year 2000; supply electricity to 2,5 million homes by the year 2000; provide running water and sewage systems to a million families; redistribute 30 percent of agricultural land to small-scale black farmers within five years; provide 10 years of compulsory, free education; upgrade and increase infrastructure through a public works programme; and reform state agencies to mirror the racial, class and gender demographics of South African society.³⁶⁷ Not only did the RDP attract widespread criticism, especially in business circles, it also sparked heated debate within the ANC. The 1994 RDP White Paper – outlining how the government would translate these vague policy proposals into policy – reflected significant changes from the original Base Document. For example, while

³⁶⁵ Ibid., p.357.

³⁶⁶ Marais, *South Africa: Limits to Change*, p.177.

³⁶⁷ For a detailed discussion of the RDP see African National Congress, *The Reconstruction and Development Programme: A Policy Framework* (Johannesburg: Umanyano Publications, 1994).

some of the Base Document's targets were left intact in the RDP White Paper, others were supplanted by more general objectives. Crucially, the key principles of the Base Document were changed, with the original focus on redistribution replaced by a stronger emphasis on obstacles to growth and investment. The watering down of the progressive content of the RDP reflected ongoing tensions within the newly elected government of national unity led by the ANC.³⁶⁸

The preceding sections of this chapter have highlighted the historical and ideological circumstances against which the ANC's economic policy choices were made. The next part discusses how the development of South African trade policy in the post apartheid fitted into these policy choices.

3. Impetus for Trade Liberalisation

The early 1990s saw trade liberalisation in South Africa gain momentum. Trade policy reforms proceeded along two tracks: multilateral trade reform in the context of the WTO and unilateral trade liberalisation. It is worth reiterating that although trade reform had been initiated by the apartheid regime in the late 1980s a few years before it was ousted from power in South Africa's first democratic elections in 1994 it had already been endorsed by the ANC. Improved manufacturing export performance had already been acknowledged within the ANC as an important factor in mitigating South Africa's serious balance of payments difficulties and reducing its reliance on revenue from primary commodity exports. The liberalisation of South African trade within the context of the WTO should be seen, therefore, as a

³⁶⁸ Marais, *South Africa; Limits to Change*, p.181.

continuation of the unilateral trade reforms implemented by the NP government since the late 1980s.

The trade reforms undertaken in the 1990s accorded with a new market-oriented thinking within the ANC government, which was codified in the ANC government's macroeconomic policy framework, the Growth, Employment and Redistribution Strategy (GEAR). GEAR viewed an outward-oriented trade regime as central to South Africa's economic success and, therefore, prescribed accelerated trade liberalisation. Yet it has championed trade reform as part of a wider raft of policies designed to win the confidence of international and domestic financial markets, which were initially skeptical about the ANC government's ability to manage the South African economy. In particular, it has sought to create conditions for the attraction of foreign investment to South Africa. For instance, GEAR asserts that "accelerated investment in the South African economy requires international capital inflows to complement domestic savings and finance the increased imports of capital and intermediate goods which accompany faster growth."³⁶⁹ Also, it points out that "international experience favours foreign direct investment as a more stable source of international finance and as a crucial element in a more outward-oriented growth strategy."³⁷⁰

In this respect, trade liberalisation and export-oriented growth have been touted as crucial levers of a wider strategy to reassure international and domestic investors about South Africa's commitment to far-reaching economic reform in the hope that

³⁶⁹ See Department of Finance, *Growth, Employment and Redistribution: A Macroeconomic Strategy* (Pretoria: Department of Finance, 1996), p.45.

³⁷⁰ Ibid.

they will invest in the country's economy. This fits in with what Krugman has described as 'playing the confidence game.' As he put it:

The overriding objective of policy must therefore be to mollify market sentiment. But, because crises can be self-fulfilling, sound economic policy is not sufficient to gain market confidence; one must cater to the perceptions, the prejudices, the whims of the market. Or rather, one must cater to what one hopes will be the perceptions of the market.³⁷¹

This observation is particularly pertinent to South Africa which, notwithstanding comprehensive policy measures adopted by the state to make South Africa attractive to foreign investors, has failed to secure much-needed direct investment to fulfill its investment needs and to stimulate growth. Since 1994 the South African government has made the attraction of foreign investors the central pursuit of its economic policy. High levels of GDP growth – at least 6-7 percent – are needed to address pressing social and developmental problems, including a 40 percent national unemployment rate. However, South Africa cannot finance the investment levels it needs for growth due to its low domestic savings. As such, the country is virtually dependent on foreign capital inflows to fuel economic expansion. The South African state has implemented wide-ranging economic reforms to improve investor confidence, including the phased removal of exchange controls, introduction of labour market flexibility, trade liberalisation, fiscal reforms, financial deregulation, and the privatisation of state-owned enterprises. Yet despite the implementation of all these policy measures, the expectations of major direct investment flows have not materialised. On the contrary, most post-apartheid FDI flows have been of the merger and/or acquisition type: they have not been channelled towards job-creating

³⁷¹ Krugman, *The Return*, p.113.

greenfield operations but they have gone towards purchasing market share or establishing partnerships with South African firms. The other investment pattern has assumed the form of portfolio flows, which have resulted in vast amounts of “hot money” flowing into South Africa’s market share.³⁷²

The failure of GEAR to deliver required levels of foreign investment has presented the ANC government with a conundrum. On the one hand, it has been acutely aware that it must take radical economic measures to address the problems of widespread poverty and joblessness plaguing South Africa. This is necessary if the government is to retain its political support and avert social instability. It has, however, refrained from pursuing such a course of action for fear that adopting monetary and fiscal policies that diverge from international trends would damage its international reputation for fiscal prudence. On the other hand it has been excoriated by COSATU and the SACP, and civil society groups for putting the interests of foreign investors ahead of those of its bedrock constituency – the black working class – because of its refusal to abandon its austere fiscal and monetary policies in favour of a more expansionary, demand-driven economic strategy.³⁷³

³⁷² BusinessMap, *South African Investment Report 2003* (Johannesburg: BusinessMap, 2003).

³⁷³ ‘Losing patience,’ *Financial Mail* 19th May 2000.

4. Institutions and Trade Policymaking: The Role of State Actors

4.1. Government Departments

An understanding of national institutions and decision-making processes contributes to useful insights about policy.³⁷⁴ The responsibility for formulating, managing and implementing South African trade policy lies primarily with the DTI. Charged with an extensive and wide-ranging remit, the DTI has been at the heart of economic restructuring in South Africa. Not only does it formulate policies on investment, commercial regulation, consumer protection, international trade relations and industrial development. It also plays an integrating role, coordinating national economic departments and facilitating cooperative governance over economic policy matters between the national government and its provincial and local counterparts. In recent years the DTI has taken on additional economic roles, including the promotion of black economic empowerment policies and the spearheading of the New Partnerships for Africa's Development (Nepad) – a pledge by African leaders to end poor governance, corruption and conflicts in their countries in return for increased aid, private investment and a reduction of trade barriers by industrialised countries.³⁷⁵ Furthermore, the DTI presides over a wide range of development, regulatory and specialist agencies collectively known as the DTI Group, cementing its status as a pre-eminent strategic actor in the South African economy.³⁷⁶

³⁷⁴ See for example Stephan Haggard, Richard N. Cooper and Chung-in Moon, "Policy Reform in Korea," pp.294-332, in Robert Bates and Anne O. Krueger (eds.), *Political and Economic Interactions in Economic Policy Reform: Evidence from Eight Countries* (Cambridge: Blackwells, 1993); Jeffrey A. Frieden and Ronald Rogowski, "Internationalisation, Institutions, and Political Change," in Robert O. Keohane and Helen V. Milner (eds.), *Internationalisation and Domestic Politics* (Cambridge: Cambridge University Press, 1996, pp.48-75.

³⁷⁵ Department of Trade and Industry, *Annual Report 2000-2001* (Pretoria, Government Printer, 2001), pp.13-16.

³⁷⁶ The DTI Group includes the Industrial Development Corporation, National Empowerment Fund, Competition Commission, National Gambling Board for South Africa, South African National

It is worth noting that whilst the DTI is responsible for formulating and implementing trade policy, this policy reflects priorities and preferences already determined by the ruling ANC party. This is a particularly important point to make not only because of the turf battles that arise periodically between politicians and technocrats but, more importantly, because it helps cast light on motivations other than economic for certain policy preferences.³⁷⁷ That the DTI technocratic elite plays a decisive role in the South African trade policymaking process is beyond dispute. What remains to be seen, though, is whether it will succeed to insulate itself adequately from societal pressures, in the same way as its East Asian counterparts did, and pursue its economic reform agenda unhindered. In the South African context it does seem that trade policymaking has been as political as it has been a technocratic process: there has been dynamic interaction between political structures and the bureaucracy.

The DTI has emerged as one of the three most powerful state agencies in democratic South Africa – the other two are the Presidency and the National Treasury (NT). This is a far cry from the Cinderella status the DTI enjoyed during the apartheid era, when it was forced to play second fiddle to the foreign affairs and security ministries. The ascendancy of the DTI is no less attributable to the internationalisation of the state, which, according to Cox, involves “the global process whereby national policies and practices have been adjusted to the exigencies of the world economy of international production.”³⁷⁸ This process is seen to give “precedence to certain state

Accreditation System, Council for Scientific and Industrial Research, South African Bureau of Standards, and Export Credit Insurance Corporation for South Africa.

³⁷⁷ See Deepak Lal and Sylvia Maxfield, “Political Economy of Stabilisation in Brazil,” in Robert H. Bates and Anne O. Krueger, *Political and Economic Interactions in Economic Policy Reform* (Cambridge, Massachusetts: Blackwell, 1993), pp.37-40.

³⁷⁸ Robert W. Cox, *Production, Power and World Order: Social Forces in the Making of History* (New York: Columbia University Press, 1987), p.253.

agencies – notably ministries of finance and prime ministers’ offices – which are key points in the adjustment of domestic to international economic policy.”³⁷⁹

The process of trade policymaking in contemporary South Africa has been an evolving one, with very little reference to the past. There is very little in previous policy processes that policymakers have learnt from in respect of trade policy formulation.³⁸⁰ The present incumbents in the DTI inherited bureaucratic structures that were not only poorly organised and ineffective, but also which were dominated by an introverted culture that was inimical to international trends and practices. Policymaking was shrouded in secrecy, with little regard for democratic accountability, and was driven by the overriding imperative to defend apartheid and achieve self-sufficiency. Pursuing an economic transformation agenda has necessitated, therefore, implementing a range of institutional reforms designed to professionalise and strengthen South African trade policy.

These reforms have been a direct response to two key challenges. First, in respect of policy development the DTI has been faced with the task of developing strategies, based on an analysis of the world economy, geared at ensuring that South Africa engages effectively with economic globalisation (see Chapter 6). Second, at an institutional level the DTI has been required not only to transform the organisation from one dominated by a ‘Calvinist Afrikaner ethos’ into a non-racial and accountable institution, but also to remould its internal structures in order to align them with the

³⁷⁹ Robert W. Cox, “Social Forces, States and World Orders: Beyond International Relations Theory,” in Robert W. Cox and Timothy J. Sinclair (eds.) *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), p.109.

³⁸⁰ Interview with Tshediso Matona, Pretoria, 7 April 2002.

government's global economic strategy.³⁸¹ This has involved changing the demographic profile of its senior management to make it representative of the wider South African populace, and bolstering the technical and managerial expertise of the DTI in order to ensure that it carries out its mandate effectively. Still, in terms of technical capabilities South Africa still lags behind other emerging economic powers such as Brazil or India, even more so behind the stronger East Asian countries like Korea or Taiwan.³⁸²

Institutional reform has also entailed recasting the ways in which the various components of the DTI Group function in order to ensure that they operate coherently and cooperatively. This has been demonstrated by the new corporate ethos that has underpinned the operations of the DTI in recent years. A great deal of energy has been expended to align the DTI institutions with their core functions and to ensure that they observe good corporate practices. Most importantly, these institutions have been restructured so they can execute their core business: the development of the South African economy.³⁸³

Spearheading South Africa's bilateral, regional and multilateral negotiations agenda has been the International Trade and Development Division (ITED). It played a crucial role in concluding South Africa's free trade agreements with the EU and SADC, and in renegotiating the SACU Agreement. South Africa's ballooning trade negotiations agenda has also been evidenced by the ongoing FTA negotiations with various regional trade blocs and countries aimed at prising further market opening opportunities. These negotiations, which are detailed in Chapter 6, have been

³⁸¹ Interview with Moosa Ebrahim, Pretoria, 5 April 2002.

³⁸² Interview with Alan Hirsch, Pretoria, 5 April 2002.

³⁸³ Interview with Pankie Matomela, Pretoria, 5 April 2002.

taking place with the Southern Cone Market (Mercosur); the European Free Trade Association (EFTA); Nigeria, India and China. Furthermore, the ITED guided South Africa's accession in 2000 to the US Africa Growth and Opportunity Act (AGOA) preferential arrangement, and has been conducting exploratory negotiations with the US on crafting a US-SACU free trade agreement. The ITED also contributed to the development of the NEPAD framework and programme, and has steered South Africa's economic bilateral engagements with strategic countries such as Japan, UK, Germany, France, and Russia.³⁸⁴

Yet this increasingly expansive trade negotiating agenda has imposed strains on the DTI's limited technical resources. As James Lennox, the chief executive of SACOB, pointed out:

The main problem about trade policy, both domestic and international, is that whilst we agree with the policy, the delivery leaves a lot to be desired. The DTI has acquired a lot of good skills and experience with regard to negotiating trade agreements. They have very competent and innovative negotiators, but the problem with implementation at the domestic level is that we do not have resources within government. The government should not be trying to implement all the things themselves – they should try to involve the private sector.³⁸⁵

There's a justifiable concern, not only among South African business, about the DTI's capacity to carry out and implement all of these negotiations, and the consequences this has for negotiated outcomes.³⁸⁶ This is particularly pertinent to FTA negotiations for which South Africa, unlike multilateral negotiations at WTO level,

³⁸⁴ See Department of Trade and Industry, "Report on South Africa's Trade Negotiations," Pretoria, May 2002.

³⁸⁵ Interview with Mr James Lennox, South African Chamber of Business, 9 April 2002.

³⁸⁶ For the views of key South African corporate-decision-makers on the importance of trade negotiations for their business processes see Peter Draper, "South African Business and Trade Negotiations – Findings from a Survey of South Africa Foundation Members," Occasional Paper No. 1, (May 2004), p.4.

cannot depend on international alliances for negotiation inputs and political backing to execute them. Moreover this problem is compounded by the lack of robust, well-oiled research expertise within the DTI, a conspicuous weakness. In the absence of sufficient resources being channelled into shoring up the DTI's technical resources in keeping with its expanding negotiations agenda, there is a danger that the South African government will in future find it increasingly difficult to fulfil its trade liberalisation obligations.

Although the DTI has been the lead ministry in trade policy decision-making, other state departments have been involved too. Globalisation and interdependence have necessitated increased coordination and cooperation among government institutions over policy matters. In a globalising world order, many governments have recognised the need to conduct their business in a more integrated fashion. As such, whereas the DTI has directed policy initiatives in the field of trade, it has interacted with a motley array of other state agencies over issues of common concern, including the ministries of home affairs, communications, health, labour, foreign affairs, agriculture and finance. For the purpose of this study only the roles of the latter three will be discussed.

In the post-apartheid era the Department of Foreign Affairs (DFA) has emerged "as a weak and ineffective bureaucratic player, lacking clarity of purpose and a long-term strategic perspective."³⁸⁷ This was partly a consequence of the department's lack of firm leadership and organisational incoherence. But, crucially, it was also the product of internal schisms – between the so-called 'internationalist; and 'neo-mercantilist'

³⁸⁷ Chris Alden and Garth le Pere, *South Africa's Post-Apartheid Foreign Policy – from Reconciliation to Revival?* (Oxford: Oxford University Press, 2003), p14.

groups – that paralysed the DFA in the early years of the new order. As Alden and le Pere explained:

A common assessment was that South Africa's foreign policymakers are divided between 'internationalist' and 'neo-mercantilist' camps. Officials representing the previous government belonged to the latter group, which 'consistent with the logic of neo-realism, emphasise[s] the importance of trade and self-interest over all else.' The 'internationalists' were mainly those who returned from long years in exile with an orientation towards 'a demonstrably greater degree of solidarity with the collective problems of the developing world.'³⁸⁸

Even so, the DFA has become increasingly enmeshed in trade policy matters. This marks a significant departure from the days of apartheid when its remit was limited to the defending apartheid policies on the global stage and engaging in sanctions busting campaigns. In part, this change in mindset can be attributed to the recognition on the part of South African policymakers of the primacy of economics in foreign policy. It could be argued in this respect that they have taken a leaf from the experiences of countries such as Australia, which led the way in prosecuting "foreign policy in a manner in which the search for economic welfare in the international economic order is every bit as significant as the search for national security."³⁸⁹

The reorientation of South Africa's foreign relations started under the stewardship of the DFA's former director-general, Jackie Selebi, whose successful chairing of the Oslo Diplomatic Conference on a Convention Banning Anti-Personnel Landmines in 1997 earned him international acclaim.³⁹⁰ The DFA played an important role in

³⁸⁸ Ibid.

³⁸⁹ Richard Higgott, "The Dilemmas of Interdependence: Australia and the International Division of Labour in the Asia-Pacific Region," in James Caporaso, *The New International Division of Labour* (Colorado: Lynne Rienner, 1987), p.149.

³⁹⁰ See Janis van der Westhuizen, "Working with the Good, the Bad and the Ugly: South Africa's Role in the Global Campaign to Ban Landmines," in Philip Nel, Ian Taylor and Janis van der Westhuizen

South Africa's attempts to secure Lomé Convention status and in its accession to the SADC, both seen as key foreign policy considerations. The emergence of the DTI, however, as the main custodian of South African bilateral and multilateral diplomacy has undercut the role of the DFA in shaping South Africa's foreign economic policy, engendering mutual tensions between the two departments.

The Department of Agriculture (DA) has been an active player not only in shaping South Africa's agricultural trade policy, but also in participating in the negotiations that led to the conclusion of a trade and cooperation agreement between the EU and South Africa (see Chapter 6). The DA has produced strategy documents on those aspects of trade policy affecting agriculture, and has included other government departments in its processes through a body called the Agricultural Trade Forum.³⁹¹ For its part, the NT has concerned itself with tariff and customs policies, which it has managed jointly with the DTI.

4.2. Parliament

Apart from government departments, the South African Parliament has been another crucial state actor in trade policy decision-making. The role of parliament in apartheid South Africa was severely circumscribed: it was limited to rubber-stamping the decisions of the executive. Policymaking tended to be dominated by a handful of politicians and bureaucrats. As Raymond Suttner, the former chairperson of the foreign affairs portfolio committee, remarked:

(eds.), *South Africa's Multilateral Diplomacy and Global Change: The Limits of Reformism* (Aldershot: Ashgate, 2001), pp.31-44.

³⁹¹ Interview with Ms Gugu Njolobe, Department of Agriculture, 5 April 2002.

There were not vehicles for ensuring that the legislature made a creative input into the governmental process. Parliamentary committees in the old system were basically called in to refine the language of what had been drafted by the executive. They met in secret and seldom made significant changes to what had been drafted.³⁹²

In the post-1994 political dispensation the national legislature has played a crucial oversight role in the domain of policy, not least trade policy. The Portfolio Committee on Trade and Industry (PCTI) is charged under the rules of the legislature with overseeing the performance of the department and its budget, and with making policy recommendations.³⁹³ Constitutionally, there is a separation of powers between the executive and the legislature over areas of trade policy. For example, tariff reductions (some of which are driven by international agreements) take place through the Board of Trade and Tariffs (BTT), a quasi-independent body appointed by the Minister of Trade and Industry. The BTT makes recommendations on tariff reductions to the minister who, in turn, makes decisions in conjunction with the minister of finance. Multilateral and bilateral agreements, however, are negotiated by the executive and approved by the Cabinet, whereafter they are referred to Parliament for ratification.

In recent years the PCTI has tried to carve a dynamic and pro-active role for itself in the trade policy domain.³⁹⁴ This has been demonstrated by the fact that over the past years, in addition to dealing with the legislation that has been referred to it, it has, on its own initiative, produced three reports dealing with various aspects of policy. First, together with the portfolio committees on Agriculture and Foreign Affairs, it

³⁹² Centre for Southern African Studies, *Special Report – Parliaments and Foreign Policy: The International and South African Experience* (Bellville: University of the Western Cape, 1995), p.2.

³⁹³ Parliament of the Republic of South Africa, *Rules of the National Assembly* (Cape Town: Government Printer, 2000), pp.50-51.

³⁹⁴ Interview with Dr Rob Davies, Cape Town, 27 March 2002.

responded to the invitation of the DTI to offer suggestions and proposals on the mandate to guide South African negotiators on a trade and development agreement with the EU. Secondly, it held hearings and prepared a report on tariff and industrial policy that was debated by the wider legislature. Thirdly, it prepared a report on small and medium enterprises that fed into a debate on the forging of a national business development strategy. More recently, the PCTI has been part of official government trade delegations to Seattle and Doha where it participated in the proceedings, “which was a bit unusual as delegations of MPs are merely observers, but we were allowed to take part within the boundaries laid down.”³⁹⁵ Furthermore, the PCTI has been actively involved in negotiations designed to achieve a free trade pact among members of the SADC. In sum:

There has been, in general, a high level of support within the Committee for the basic thrust and design of trade policy. There is broad agreement with the basic direction of trade strategy, with the aims and objectives of industrial policy, and with such matters as the policy towards the promotion of small and medium enterprises. In respect of actual policy implementation, the role of the committee can be best described as one of critical support. The Committee has taken the view that the most effective support it can render to programmes whose basic intentions and visions it shares, is to monitor closely their implementation and delivery, to raise matters of concern and sometimes ask hard questions about actual implementation.³⁹⁶

Even so, there are some challenges that the national legislature has to confront if it is to maintain its influence in the policymaking process in the future. For although the institution of parliament has played a crucial role in overseeing policy it has not always taken full advantage of the policy instruments at its disposal. This is partly because not all parliamentarians are sufficiently empowered to understand and participate in policy processes and give true meaning to the intentions of the

³⁹⁵ Ibid.

³⁹⁶ Ibid.

legislature. Uneven levels of confidence and ability among public representatives have sometimes undermined the ability of the legislature to engage effectively with policy and legislation. As such it is debatable whether the legislature, notwithstanding its immense oversight powers and the relatively good relationship it enjoys with the DTI, will be able to exercise its prerogatives in another era – in the absence of powerful and assertive MPs such as Rob Davies, the chairperson of the PCTI. It is also necessary to be mindful of the adverse effects that party politics and an under-resourced legislature could have on the development of trade policy in the future.³⁹⁷ Furthermore, Parliament might in the future be constrained by the constitutional provisions governing international agreements. Although international agreements have to be ratified by the legislature before implementation, under Section 231 of the Constitution Parliament is not authorised to alter these agreements – a prerogative of the Executive.

In addition to the national government, provincial governments have also been concerned with shaping trade policy. Schedule 4 of the South African Constitution empowers provinces to determine trade policy in their designated areas of competence, although not industrial policy: trade policy is a section 76 function (a concurrent national and provincial competence) whereas industrial policy is a section 75 function (an exclusively national competence).³⁹⁸ All nine South African provinces are authorised exercise jurisdiction over such matters as consumer protection, gambling, liquor licensing, trading regulations, markets and street trading. Yet given their uneven levels of development, not all provinces have exploited their constitutional prerogatives maximally. For example, the Gauteng, Western Cape and

³⁹⁷ Interview with Mohseen Moosa, Pretoria, 15 April 2003.

³⁹⁸ See South African Government, *Constitution of the Republic of South Africa Act 108 of 1996* (Pretoria: Government Printer, 1996), pp.1-82--1-185.

Kwa-Zulu Natal provinces – all of which are relatively better resourced than the other six provinces – have been very active in the trade policy sphere. Invariably, this has occasionally caused tensions between various provinces. Mindful of the apartheid legacy of regional polarisation induced by resource disparities among provinces, the South African government set up in 1997 the Fiscal and Financial Commission (FFC) to regulate intergovernmental fiscal relations in South Africa. An independent statutory body, the FFC was established “to provide advice with respect to the equitable sharing of revenue and other intergovernmental fiscal issues, and to limit subjective political decisions regarding the allocation of public resources in the spheres of national, provincial and local government.”³⁹⁹

The Gauteng province, which accounts for 40 percent of South Africa’s GDP, has led the way in driving trade and industrial initiatives. In particular, its Blue IQ project has been acclaimed as an exemplary model that can be emulated by other provinces.⁴⁰⁰ The same cannot be said, however, about the poorer provinces such as the Eastern Cape, North West and Limpopo. Languid political leadership, poor technical capacity and inadequate financial resources are some of the reasons that have hamstrung these provinces. And their woes have not been eased by the unfavourable image that the DTI has formed of them, which has induced a tendency on the part of the latter to control policy implementation from the centre.⁴⁰¹

³⁹⁹ Fiscal and Financial Commission, “The role of the FFC,” at <http://www.ffc.co.za>

⁴⁰⁰ The Blue IQ project is a multibillion initiative undertaken by the Gauteng provincial government, in conjunction with the DTI, to invest in economic infrastructure development in ten major projects clustered around the areas of tourism, technology, transport and high value-added manufacturing.

⁴⁰¹ Interview with Thabo Mokwena, Pretoria, 14 April 2003.

5. Trade Policy and South African Tripartism

Although trade policy formulation in South Africa has been led by state agencies, principally the DTI, non-state actors have also been active participants in trade policy processes. Primarily, their involvement has found expression in the National Economic Development and Labour Council (NEDLAC), a corporatist institutional arrangement set up in 1995 to bring together the state, capital, labour and community organisations with a view to seeking negotiated, consensual solutions to social and economic policy problems. NEDLAC is the product of a push by the labour movement in South Africa in the early 1990s for an institutionalised role in economic and industrial policymaking. Not only was it conceived to counter the unilateral economic restructuring that was taking place in the dying days of the apartheid regime, it was also seen as a crucial mechanism to advance the social objectives propounded by COSATU, the ANC's alliance partner. The origins of NEDLAC, therefore, sprang from the struggle against apartheid and from societal demands for inclusive and transparent government decision-making. Although NEDLAC draws on international experience of social dialogue, it has unique features anchored in the peculiarities of the South African political economy: for example its membership goes beyond the traditional partners – government, business and labour – and includes organised civic formations in South Africa.

Through its Trade and Industry Chamber, NEDLAC has sought to develop negotiating consensus on most trade issues, including WTO matters, the trade and cooperation pact between South Africa and the EU, the free trade protocol concluded by the SADC states, the free trade negotiations between South Africa and the

Mercosur, as well as on domestic legislation related to trade. In the same ways as its forerunner the NEF actively participated in crafting South Africa's negotiation offer in the UR of trade negotiations, NEDLAC has played a key role in the Doha trade negotiations. In the post-Doha period a special task force has been created within NEDLAC to continually review South Africa's strategies and positions in multilateral trade negotiations.⁴⁰² This, according to South Africa's former chief trade negotiator Tshediso Matona, is central to maintaining consistency, coherence and cohesiveness in a country's negotiating positions. As he explained:

I have observed other countries where there is a difference inside the same national delegation, and that weakens the country. Their negotiating positions can become unsustainable because they unravel.⁴⁰³

The divergent nature of NEDLAC's constituent members' interests renders it a politically charged forum. This makes trade policy a contested terrain and explains why it is sometimes difficult to reconcile the interests of the diverse constituencies: the DTI's task is made hard by the fact that it has to engage in consultations about its tariff liberalisation programme with parties whose interests are threatened by reform. What drives social dialogue is power – the power of the constituencies. As such while NEDLAC's rationale is to facilitate consultation between its constituencies, it is the power of those constituencies that eventually shapes policy decisions. In this context NEDLAC's concern is to build as much consensus as possible.⁴⁰⁴ The virtue of the NEDLAC process – and this is what differentiates South Africa from many countries – is its very clearly structured and intense consultation processes. Even so, previous experience has shown that, ultimately, it is the state that has the final say on

⁴⁰² Interview with Philip Dexter, Johannesburg, 9 April 2002.

⁴⁰³ Interview with Tshediso Matona, Pretoria, 7 April 2002.

⁴⁰⁴ Interview with Philip Dexter, Johannesburg, 9 April 2002.

trade policy decision-making. And this is a prerogative it has guarded jealously. This point is echoed by Matona:

Consultation is necessary but at some point a judgement has to be made by the Minister. The mandate of the Minister is not to please business or labour but to implement policies that make sure that trade makes its contribution to the economy. Trade policy is inherently horizontal; it cuts across a range of interests. The challenge is to find that point where you can justifiably make the point that it is in the best interests of the economy, in the best interests of everyone.⁴⁰⁵

Therein lies the rub. There has never been universal agreement on what constitutes corporatism in the South African context. Nor, indeed, has there been any elsewhere in the world.⁴⁰⁶ This perhaps explains why corporatist theory has been vulnerable to attacks from all angles. Referring to the case of Britain, Grant reasoned that:

Corporatist theory was attacked from all directions: by pluralists, who resented this attempt to invade their intellectual territory; by neo-marxists who regarded it as an inadequate theory, because of its pluralist roots and its failure to develop a theory of the state; and by Conservative politicians who saw corporatism as one of the major sources of British economic decline...⁴⁰⁷

To a significant degree, the contested nature of corporatist theory has been reflected in the internal debates of the tripartite alliance in South Africa. Within the labour movement, in particular, tripartite social contracts became a source of fierce polemical jostling in the early 1990s. The debate pitted, on the one hand, those who embrace corporatism (the so-called “participationists”) and, on the other hand, those

⁴⁰⁵ Interview with Tshediso Matona, Pretoria, 7 April 2002.

⁴⁰⁶ See for example Wyn Grant (ed.), *The Political Economy of Corporatism* (Basingstoke: Macmillan, 1985); Gerhard Lehmbuch and Phillippe C. Schmitter (eds.), *Patterns of Corporatist Policymaking* (London: Sage, 1982).

⁴⁰⁷ Wyn Grant, *Pressure Groups and British Politics* (Basingstoke: Macmillan, 2000), p.52.

who completely rejected it (the so-called “anti-corporatist school”).⁴⁰⁸ Proponents of codetermination within COSATU argued that it was an unavoidable phenomenon that ought to be engaged with. What concerned them, then, was not whether corporatism needed to be engaged with but how such engagement ought to evolve. Their support for it was based mainly on the belief that it could prevent the state and capital from engaging in unilateral decision-making. Opponents, in contrast, maintained that “corporatism will lead to the emasculation of the working class, the cooptation of its leadership and a prolonging of the life of capitalism.”⁴⁰⁹ Yet even within the business sector differences of opinion existed about the value of corporatist institutional arrangements. Although some sections of capital saw codetermination as an instrument for economic growth and international competitiveness, other fractions of business were concerned that “negotiated economic policies would prevent the ‘strong medicine’ of adjustments from being administered.”⁴¹⁰

South African tripartism runs the risk of unravelling for five reasons. First, because such elite-pacting privileges the strongest voices, it is prone to engendering social divisions. Institutional collaboration enables the state, capital and labour to reap the preponderant share of economic benefits at the expense of other parties and interest groups. This is a recipe for social conflagration, which ultimately will require authoritarian measures to suppress. Second, growing tensions within COSATU have meant that agreements concluded by negotiators in structures like NEDLAC have not been accepted readily by constituencies. Third, while significant progress has been achieved in uniting business associations that were previously segregated on racial lines, the legacy of fragmentation remains. Aggravating this problem has been the

⁴⁰⁸ See Schreiner, “Beyond Corporatism,” pp.3-6.

⁴⁰⁹ Ibid., p.2.

⁴¹⁰ Marais, *South Africa: Limits to Change*, p.231.

haphazard manner in which the government and business have collaborated in preparing negotiation positions.⁴¹¹ Consolidating the unification process, therefore, between black and white businesses is necessary if organised business in South Africa is to play a meaningful role shaping trade policy.

Fourth, the problems associated with tripartism have been worsened by South Africa's orthodox economic policy, with its conflicting demands on labour – greater stability, productivity and flexibility. Fifth, the destabilisation of NEDLAC by its key members – labour, capital and the state – has eroded the institution's credibility in the eyes of respective constituencies.⁴¹² As Marais opined:

The restriction of NEDLAC's role harks back to the purely advisory status originally conceived for one of its forerunners, the National Economic Forum. This regressive shift is linked to a broader attempt to steer tripartite structures away from formative policy-making and towards facilitating the implementation of policies decided elsewhere in the system.⁴¹³

This insight echoes the contention made in this thesis. Trade reform, carried out within a disciplined corporatist framework, has been deployed by decision-making elites in South Africa not only to lock in and entrench the government's neo-liberal macroeconomic economic policy but also to curtail the power of domestic interests that have benefited from trade protectionism in the past. In return for their co-operation during a difficult period of economic restructuring, the South African state has allowed these interests – notably business and labour – strengthened institutional representation in economic policymaking, in addition to providing a wide array of

⁴¹¹ Draper, "South African Business," p.5.

⁴¹² Ibid., p.232.

⁴¹³ Ibid..

supply-side measures to mitigate the negative effects of competitive pressures. This does not, of course, imply that the South African state has not been able to elaborate a national developmental agenda consistent with its political and economic objectives. The constricted nature of corporatism in South Africa – which has tended to reduce the role of labour and business in economic policymaking to a purely advisory one – has enabled the decision-making elites to manage domestic tensions induced by their trade liberalisation policies. Nor does it suggest that capital and labour have been generally weak; on the contrary, these two social groups still have enormous economic and social clout thanks to the highly concentrated corporate structure of South Africa and the massive social power enjoyed by the trade union movement. Rather, what is meant is that corporatism has provided the state, albeit within the limited confines of an institutional setting, with a leverage to bargain with its social partners over economic policy and with a breathing space to consolidate its economic reform agenda both at international and domestic levels. In this sense trade policy has served political as much as economic ends.

6. Trade Policymaking and NGOs

South Africa has a very poor history of trade policy activism. This is not surprising, given the negligible role that was accorded to trade policy during the apartheid era. However, the emergence of trade as a dominant aspect of the post-apartheid South African state's policy agenda has sparked a burgeoning interest in trade matters on the part of non-governmental organisations (NGOs). It is worth noting though that NGOs such as policy institutes and think tanks are not represented in NEDLAC structures: only constituency-based civil society formations are provided for. Three

types of NGOs can be identified in terms of how they relate to the WTO: ‘conformers,’ ‘reformers’ and ‘radicals.’ The ‘conformers’ support the goals and operations of the WTO system, and believe that the WTO could play a crucial role in fostering global economic integration and spreading the benefits of free trade. Although they also appreciate the value of the rules-based global trading system and open markets, ‘reformers’ are unhappy with what they consider to be ‘inefficient’ WTO procedures and rules. As such, they believe that reforming the WTO system could produce better and more efficient outcomes. For their part, ‘radicals’ want to eliminate the WTO completely, which they see as part of a sinister plot to advance a global domination agenda by multinational corporations.⁴¹⁴

South African NGOs interested in trade policy matters fall into two categories – namely ‘conformists’ and ‘reformers.’ The ‘conformists’ have been represented by such NGOs as the Institute for Global Dialogue (IGD), the South African Institute of International Affairs (SAIIA) as well as the Trade and Industrial Strategies (TIPS). In response to requests by the DTI and the DFA, the IGD (together with other civil society formations) has played a central role in preparing the summit agendas of the NAM, the UNCTAD as well as the Commonwealth. SAIIA has undertaken a series of projects – for example the publication of trade policy briefings and reports – aimed at encouraging communication and cooperation among trade policy constituencies in South Africa. TIPS has been the most high-profile NGO and probably the most influential in policymaking. TIPS was born out of a recognition that there was no tradition within government of harnessing research from the academic communities into policymaking. It was set up as a clearing-house to keep the government abreast

⁴¹⁴ See Jan Aart Scholte, Robert O’Brien and Marc Williams, “The World Trade Organisation and Civil Society,” in Brian Hocking and Steven McGuire (eds.) *Trade Politics – International, Domestic and Regional Perspectives* (London: Routledge, 1999), pp. 162-178.

of research developments within the academic community and to receive feedback regarding how the latter can set the agenda for research.

TIPS is not a government institution: it is an independent research institute with an established reputation for independent research. However, it does not merely engage in 'blue sky' research since it believes that research ought to be tied to the needs of government. Although interaction between the DTI and TIPS is 'informal' – it is restricted to senior policymakers – this puts TIPS in a good position to influence trade policymaking in South Africa, albeit not in a direct manner. The mutually beneficial relationship between the two institutions can be attributed largely to the fact the current DTI leadership has been receptive to outside research and has a strong tendency to encourage democratic thinking and reflection. But this kind of close interface cannot be guaranteed in the future. As Rashad Cassim, the head of TIPS, stated:

But I worry that in the future the current leadership may be replaced by a closed and inward-looking leadership and which is less receptive to external research. We will have a problem then. For this reason I think it is important to have an empowered civil society that keeps government in check and makes it accountable for its policies.⁴¹⁵

The 'reformers' flag has been flown by outfits such as the Alternative Information and Development Centre (AIDC) and a motley crew of academics such as the political economist Patrick Bond. They have all been united in their condemnation not only of the WTO, but also of South Africa's approach to the multilateral institution. For instance, they have accused the South African government for not

⁴¹⁵ Interview with Rashad Cassim, Johannesburg, 8 April 2002.

questioning and challenging the inequities of the global trading system.⁴¹⁶ Moreover, they have denounced South Africa's Doha negotiating strategy for fomenting disunity among African countries, thereby undermining their interests and weakening their bargaining power within the WTO (see Chapter 7).⁴¹⁷ The problem with the 'reformers' analyses is that while in some respects their criticisms are understandable and valid they provide very little by way of concrete alternatives. There are signs that trade policy activism among South African non-state actors is on the ascendancy. In 2003 an informal grouping was set up with a view to enabling domestic business to have a more structured input into South Africa's trade negotiations. The forum has been established in response to low-key involvement of South African business in debates about South African trade policy both at bilateral and multilateral levels. This initiative has come about against the backdrop of several tracks of free trade area negotiations in which South Africa has been involved, including negotiations with the US, the Mercosur, India and China. It is hoped that the forum will not only enable business organisations to alert South African trade negotiators to commercial opportunities and hurdles domestically and abroad but it will also facilitate their involvement in developing long-term trade strategies.⁴¹⁸

7. Domestic Interests

Trade policy is first and foremost about domestic politics. Because it determines the relative positions of various social groups in the domestic political economy, trade

⁴¹⁶ See Dot Keet, "South Africa's Official Position and Role in Promoting the World Trade Organisation and a New Round of Multilateral Trade Negotiations," a presentation to the Southern African People's Solidarity Network (SAPSN) workshop on the World Trade Organisation and Globalisation, Johannesburg, 19-22 July 2001, pp.1-20.

⁴¹⁷ See Patrick Bond, "South Africa's Sub-Imperial Trade Agenda – Splitting Africa to Launch a New Multilateral Round," undated, pp.1-10.

⁴¹⁸ 'Business group bids for say on SA trade policy,' *Business Day* 12th December 2003.

policy is always politically contested. Trade policy consists, therefore, of both allocative economic aspects as well as redistributive political elements: in addition to efficiency considerations trade policy must also account for the interests of the state apparatus and the conflict among different internal social groups. Trade reform in South Africa has been carried out not under the command of organised domestic interests. Nor has it been undertaken at the behest of the IFIs. On the contrary, it has occurred as a part of a deliberate adjustment strategy conceived by the state not only to restructure the domestic economy but also to reintegrate South Africa into the wider global economic order after decades of international ostracism. However, South Africa's trade reform programme has not gone without resistance from organised social interest groups.

As alluded to in Chapter 4, South Africa's accelerated trade liberalisation agenda has been criticised by fractions of capital and labour, particularly those in sensitive sectors such as clothing, textiles and the automotive sectors who have accused the government of adopting policies that have aggravated the already high levels of national joblessness and posed a grave danger to the long-term viability of their industries. Lobbying the government has been harder among the losers from trade liberalisation than it has been among the winners. The labour unions have been among the key losers from trade reform. They have been concerned about the massive job losses that have resulted from the hasty liberalisation process, and have also been concerned that the government's reform programme has not been adequately sequenced to take into account the impact of trade reform on employment in South Africa.⁴¹⁹

⁴¹⁹ Interview with Fiona Tregena, Cape Town, 26 March 2002.

According to COSATU, formal employment has declined rapidly since 1990, leading to a drastic rise in unemployment especially among young people. Using the narrow definition that excludes people too discouraged to keep searching for jobs, between 1995 and 2001 unemployment increased from 16 percent to virtually 30 percent.⁴²⁰ COSATU has blamed South Africa's high national unemployment rate on many years of labour force de-skilling and the privileging of capital-intensive over labour-intensive projects by the apartheid state, the massive disinvestment by domestic capital since the late 1970s coupled with the tendency to favour financial speculation over productive investment, and the one-sided concentration on competitiveness and export orientation which have underpinned a large part of industrial policy since 1994. The trade union federation has maintained that "South Africa's trade policy must be driven, not by an abstract commitment to free trade, but by a well-defined industrial strategy."⁴²¹ It has also argued that growing exports do not always lead to high employment, warning that in several cases the restructuring of production has actually induced job losses.

Furthermore, COSATU has stated that the experience of its affiliated unions at sectoral level has shown that job losses have occurred concurrently with tariff reduction, and that tariff reductions have slowed the rate of job generation. For these reasons it has argued that tariff policy ought to be used by the state to steer the economy and promote certain industrial sectors. While it has acknowledged that there is massive inefficiency in South African industry, and that significant domestic restructuring is necessary, COSATU has called for a state policy approach that harnesses domestic industry through a selective deployment of protective measures,

⁴²⁰ Cosatu, "Cosatu Submission on Public Hearings on Industrial Policy," Cape Town, 30 April 2002, p.5.

⁴²¹ Ibid., p.29.

and deliberate industrial strategies designed to strengthen domestic capacity. To this end, it has proposed that the existing tariff policy should be modified as follows:

- South Africa's general tariffs should not be reduced at a rate faster than that demanded by the country's WTO obligations;
- The reduction of tariffs ought to be preceded and concurrently backed by active industrial policies to foster competitiveness;
- Where tariff reduction leads to retrenchments, social adjustment programmes should be introduced to assist workers find new jobs;
- In cases where tariff reduction has produced negative outcomes, attempts should be made to increase tariffs – within the boundaries laid down by the WTO – to attenuate these outcomes;
- The South African state should deploy tariffs strategically: lower them to raise competitiveness while increasing them to safeguard employment and advance industrial development.⁴²²

Concerns about South Africa's rapid liberalisation programme have been echoed by the business sector. For example, the clothing and textile industries have expressed disgruntlement with the manner in which textile tariff reductions were carried out following the UR. The WTO had granted South Africa twelve years to phase down its textile tariffs, but the South African government opted to introduce the tariff phase-down over a period of seven years and terminate end rate tariffs. By September 2003, South Africa's tariffs on yarns, fabrics and clothing amounted to 15 percent, 22 percent and 40 percent respectively, far below the 27 percent, 38 percent and 73

⁴²² Ibid., pp.30-31.

percent extended to the country by the WTO.⁴²³ These industrial sectors have pleaded with the South African government not to contemplate further tariff reductions in the Doha negotiations until the tariff schedule agreed in the UR has been completed in five years' time. This, they believe, is essential to boosting job creation and investment in the textile industry and the small business sector.

In a quest to accommodate the concerns of business, labour and other key social actors, the DTI unveiled in 2002 an industrial strategy document which “tries to define a common understanding of what challenges we face with regard to the manufacturing process in the economy; to devise common actions that can be taken by economic citizens; the main areas of focus of our actions and what the DTI will undertake to do.”⁴²⁴ In essence, the proposed industrial strategy seeks to foster high employment, wealth and small business growth through the development of competitive industries. It notes that since industrial restructuring started in the 1990s some industries have shown that they can be competitive while others have weakened. Historical distortions have been removed by eliminating trade barriers and creating a competitive economic environment through the implementation of competition legislation. Specific support programmes have been developed both for the automotive industry and the textile sector to improve their competitiveness.

Other industrial sectors have benefited from generic support measures designed to encourage the international competitiveness of firms, including export support, investment support, quality improvement, strategy development, research and

⁴²³ The Textile Federation, “Submission by the Textile Federation to the Portfolio Committee on Trade and Industry on Industrial Policy,” Cape Town, 9 April 2002, pp.4-5.

⁴²⁴ The Department of Trade and Industry, *Accelerating Growth and Development – The Contribution of the Integrated Manufacturing Strategy* (Pretoria: Government Printer, 2002), p.6.

development as well as targeted empowerment and small business development programmes. There has been a shift recently to focus on certain industries much more substantially. These have been clustered around eight industrial sectors – agriculture, tourism, information and communication technologies, cultural industries and export sectors, clothing and textiles, automobiles, agro-processing and chemicals – and in each of these groups specific supply-side programmes have been developed to enable them to compete internationally. The industrial strategy has been predicated on the assumption that the domestic market would not grow very fast for the early years of South Africa's post-apartheid era and that most growth, therefore, would have to come from increased exports.⁴²⁵ In essence, the present industrial strategy is designed to stimulate competitiveness, create a value-added export-oriented manufacturing economy and increase employment.

This represents a marked departure from the policy instruments that guided industrial policy in the apartheid era. As elaborated in Chapter 3, erstwhile industrial policy was geared at ensuring protectionism and inward-looking development of the economy. Domestic industry was protected by high tariff barriers, high exchange rate subsidisation and other demand-side assistance to industries that were generally uncompetitive. Through parastatals like the IDC and ISCOR, the government invested heavily in what was considered to be strategic intensive mega-projects, stimulating downstream industries. In turn, the high protection enjoyed by these parastatals resulted in high costs for downstream industries. Reinforced by an oppressive industrial relations system, this approach did not create a competitive manufacturing sector nor did it support desired job growth.

⁴²⁵ Ibid., pp.1-40.

It is worth noting that some industrial sectors have adapted better than others to economic restructuring. Nowhere has this clearer than in the cases of the automobile sector and the clothing and textiles industry. A number of reasons can be advanced for this discrepancy in performance. First, the clothing and textiles sector is a much more basic industry in that it is labour-intensive and not technologically advanced; the levels of machinery, automation and skills required in this sector are not high. It is easy, therefore, to set up business in the clothing and textile market. Of course this sector can become a sophisticated industry, but at a basic level it is still seen as the bedrock industry in developing countries. On the contrary, the automobile industry is much more complex: not only is it capital-intensive, it relies on much more complex processes of integrating manufacturing such as components assembly, robotics and automation. Second, the dependence of the automotive industry on a small number of large international companies makes it easier for it to cultivate long-term relationships with these corporations.⁴²⁶

By contrast, the clothing and textile industry does not work like that at all: the big clothing sellers such as Nike and Gap can move their operations relatively very easy and they are not loyal to any particular firm. Third, and interestingly, it appears that sectors where the South African state has been active in leading and driving change have fared better in terms of economic reform. The automobile industry case, with its history of social dialogue and consultation, has demonstrated that this sector was more prepared for and adapted easily to economic restructuring. Fourth, the automobile industry learnt to export during the apartheid years while the clothing industry did not. Fifth, unlike the automotive industry the clothing and textile sector

⁴²⁶ Interview with Anthony Black, Cape Town, 28 March 2003.

has traditionally not enjoyed a strong domestic market. Fifth, the role of skills development cannot be downplayed. Wage bargaining trends in the automotive sector have historically been influenced by skills: people's careers could only advance if they could increase their skills. In the clothing and textile sectors, by contrast, such intervention did not exist until at a late stage – this is not because the labour unions did not demand it but it is because it was never seen as a priority.⁴²⁷

It remains debatable as to whether the South African government could have halted the negative impact of trade liberalisation over the past years by cushioning those industries that suffered most adversely. What is clear, though, is that whichever direction the trajectory of economic restructuring had assumed it was poised to affect some industrial sectors in a more negative way. That said, policymakers ought to ensure in the future that tariff reductions are properly sequenced and that appropriate safeguard measures – such as anti-dumping actions – are implemented to support vulnerable industries, subject to their multilateral rules and surveillance. Adequate supply-side measures must also be put in place to ensure that the drive to make South African industry globally competitive does not inadvertently lead to the weakening of domestic productive capacity. Which raises the fundamental issue of the role of the state in driving and managing economic change to offset its socially deleterious effects. To what extent can the state act as a propeller and manager of change? And to what degree can that role be left to the markets? One school of thought asserts that the government cannot do anything but provide the regulatory framework. Yet there's another worldview that argues that the state must not only provide the regulatory framework but must also provide the resources required to pursue specific

⁴²⁷ Interview with Alan Hirsch, Pretoria, 5 April 2002; Interview with Phillip Dexter, Johannesburg, 9 April 2002.

social objectives such as job creation. The automobile industry has been exemplary in this respect. Although initially it was only labour and business that drove the change process in this sector, in the post-apartheid era the state has played a crucial role in the automotive industry through its Motor Industry Development Programme (MDP). Through the MDP, the state, capital and labour have committed themselves to pursuing industrial competitiveness in the automobile sector with a view contributing the economic and social goals of growth and poverty reduction. Achieving these goals, however, will require long-term, sustained domestic political consensus among the key social partners.

8. Conclusion

This chapter has explored the trade policy reforms that have been put in place by the South African state since 1994 to restructure South Africa's previously isolated economy and promote its ascendancy as an outward-oriented manufacturing and trading nation. Its central contention is that trade policy in South Africa has essentially reflected economic reforms introduced by the ANC government since it came to power in 1994. These changes are designed principally to open up the economy to external competition and reverse decades of economic underperformance and mismanagement. The ANC government inherited a stagnant economy that was characterised by many structural weaknesses, including decreasing investment rates, an unskilled workforce, a poor industrial relations regime, a paucity of investment in research and development, a decaying industrial sector, and an underdeveloped small and medium-sized business sector. On assuming office the democratic state was faced with a dual challenge: to introduce policies geared at income, wealth and

economic power redistribution while at the same time creating conditions ripe for the pursuit of economic growth. Crafting a new economic strategy to disentangle South Africa from decades of economic stasis and providing a climate conducive to the realisation of high levels of growth were thus considered to be an overwhelming imperative.

The ANC's rise to power in the early 1990s coincided with a marked shift in its economic principles and beliefs. Previously, the ANC's economic thinking had been encapsulated in the Freedom Charter, which propagated socialist ideals such as the nationalisation of the commanding heights of the economy. However, a combination of internal and external factors – including subjective weaknesses within the liberation movement, coupled with ideological pressures to which the ANC was subjected by domestic capital and the IFIs – conspired to force a rethink in the ANC's economic philosophy. This ideological volte-face reached its apogee with the advent of GEAR, the market-oriented macroeconomic policy framework that has guided South African economic policy since 1996. GEAR has advocated an outward-oriented trade regime as crucial to South Africa's economic success. Specifically, it has touted trade liberalisation and export-oriented growth as key levers of a broader strategy to reassure international and domestic investors about South Africa's extensive economic reform in the hope of enticing investment to South Africa. However, the ANC government has failed to secure adequate direct investment to meet its investment needs and fuel growth – notwithstanding the fact it has adopted comprehensive market-friendly measures to make South Africa attractive to foreign investors.

The failure of GEAR to yield desired levels of foreign investment has presented the government with a predicament. On the one hand, it has been acutely aware that it must take radical economic measures to address the problems of widespread poverty and joblessness plaguing South Africa – measures that are necessary to ensure that it retains the support of its political base and ward off social instability. It has, nonetheless, desisted from pursuing such a path of action for fear that embracing monetary and fiscal policies that diverge from international policy trends would erode its international reputation for fiscal austerity. On the other hand it has been criticised by its tripartite alliance partners and civil society groups for privileging the interests of foreign investors at the expense of those of its political supporters because of its refusal to discard its austere fiscal and monetary policies in favour of a more expansionary, demand-driven economic strategy.

Yet the discussion in this chapter has demonstrated that the ANC government's motives for implementing trade reform to the extent it has cannot be explained in solely economic terms as mainstream accounts of South Africa trade policy tend to suggest: international and domestic political economy factors also have also played a pivotal role in the policy choices made. For South Africa has pursued a global adjustment strategy calculated to achieve specific political economy objectives at domestic levels and international levels. Domestically, this has involved attempts to alter the structure of national institutions and industries to facilitate domestic economic adjustment, which have culminated in the reformed institutional arrangements for trade policy-making in South Africa. In particular, this transformed institutional set-up has found expression in the corporatist structures – centred around NEDLAC – that have underpinned social bargaining between the state, capital and

labour in post-apartheid South Africa. The restricted nature of corporatism in South Africa – which has tended to reduce the role of labour and business in economic policymaking to a purely advisory one – has enabled the political elites to manage domestic tensions caused by their trade liberalisation policies. This should not be interpreted, however, to mean that that capital and labour have been generally weak, especially considering South Africa's (still) heavily concentrated corporate structure and enormous social power wielded by the trade union movement. On the contrary, what is meant is corporatism has provided the state, although within the constrained context an institutional setting, with a leverage to bargain with its social partners over economic policy and with a breathing space to consolidate its economic reform agenda both at international and domestic levels. In this sense trade policy has served political as much as economic objectives. Internationally, South Africa has sought to forge alliances with like-minded countries to push for the generation of new “rules for the game” for international interactions so as to create propitious conditions for the fulfilment of its global, regional and bilateral trade strategies. What these are and how South Africa intends to accomplish them is the subject addressed in the following chapter.

Chapter 6

Re-orienting South African Trade: South Africa's Global Trade Strategy

This chapter undertakes an assessment of South Africa's global trade strategy. It argues that the strategy ought to be understood within the context of the country's broader global economic agenda, which is designed to promote the ascendancy of South Africa as a vibrant export-oriented manufacturing economy. Against this backdrop, the strategy seeks to reconfigure the position of the South African state in the global political economy by decreasing its reliance on traditional developed country markets (especially the EU) and by forging trade relationships with new and expanding markets in Africa, Asia and Latin America. Three pillars undergird South Africa's global trade strategy: multilateralism; regionalism; and bilateralism.

South Africa's multilateral engagement is aimed at facilitating the country's re-integration into the global economy and at pushing for a greater role for developing countries in shaping global economic governance, especially in the sphere of world trade. Whether this pillar of the strategy can succeed or not will depend, to a large measure, not only how South Africa executes it within the global trade regime but also on the degree to which the presently beleaguered system of economic multilateralism can be adequately reformed to serve the needs of developing countries such as South Africa. Regionally, South Africa has not only used trade policy as a foreign policy instrument to normalise political relations -- frayed during the apartheid era -- with neighbouring countries in the Southern African region, but it has deployed it to pursue its hegemonic ambitions and to consolidate regional trading arrangements

as stepping-stones towards the incorporation of Southern Africa in the global economy. In this respect, the thesis maintains, South Africa's hegemonic designs appear to have found greater accommodation within the SACU but far less so in the SADC. At a bilateral level, South Africa has sought to forge strategic collaboration with designated developing nations – principally India and Brazil but also China and Nigeria – in order to challenge the structural inequities of the contemporary global order and work towards the attainment of a balanced, fair and just multilateral trading regime. Given its newness, it is still too early to tell how effective this alliance of developing countries will be but it has to overcome several challenges if it is to avoid the fate of other failed erstwhile developing country coalitions.

This chapter is in seven sections. The first briefly explains South Africa's global economic strategy. Building on this, the second part analyses South Africa's strategic approach to the WTO within the context of the Doha Round (DR) of trade negotiations. The third and fourth sections examine South Africa's regional and intra-regional trade within the context of the SACU, the SADC and the wider African continent. The fifth section details South Africa's burgeoning trade relations with the US, focusing specifically on the US trade strategy and its ramifications for the ongoing FTA negotiations between the US and SACU. Sixth, bilateral trade relations between South Africa and the EU (South Africa's biggest foreign trade partner) are assessed. Lastly, the chapter examines South Africa's efforts to deepen its trade relationship with key developing countries – principally India and Brazil – as a tool for reducing the dependence of its trade on the industrialised world and diversifying its export base.

1. South Africa's Global Economic Strategy

South Africa's approach to the WTO ought to be understood within the wider context of the country's global economic strategy. The strategy is inspired by two critical imperatives: the necessity to take account of South Africa's national political, economic and developmental circumstances; and the obligation to confront the growing marginalisation of the Southern African region under conditions of enhanced economic globalisation.⁴²⁸ It posits a convergence of South African interests and those of other developing nations, centred principally on market access and economic development. And it is predicated on three distinct pillars of engagement: multilateralism; regionalism; and bilateralism. At the multilateral level, the strategy seeks to engage assertively with economic globalisation and to reverse the precarious position of South Africa (and its Southern African trade partners) in the international division of labour.

To this end it emphasises the importance of multilateralism, which South Africa regards as the developing countries' best hope for mitigating the uneven power relations between large developed nations and small developing countries in the trading environment. Regionally, it seeks to consolidate regional trading arrangements and deploy these as launch-pads towards the integration of Southern Africa in the global economy. At a bilateral level, it identifies specific countries for engagement as South Africa's strategic trade and investment partners.⁴²⁹ South Africa's expanding trade negotiations agenda reflects the government's policy of

⁴²⁸ Department of Trade and Industry, "South Africa's Global Economic Strategy: A Policy Framework and Key Elements," May 2001, p.10.

⁴²⁹ *Ibid.*, p.12.

systematically opening the economy to foreign competition and promoting exports and inward investment to support growth and employment.

Central to South Africa's global economic strategy has been an overarching objective to ameliorate the disproportionate reliance of the country's trade on traditional foreign markets (particularly the EU) and facilitate the emergence of South Africa as a dynamic, outward-oriented manufacturing economy. This has been propelled by the supposed 'butterfly strategy' by which South Africa has striven to diversify its trade relationships and cultivate comprehensive and wide-ranging ties with important new markets in Africa, Latin America and Asia. These markets "offer vast export opportunities to South Africa because they are growing rapidly and because the structure of our trade reflects a higher proportion of value-added exports."⁴³⁰

2. South Africa's Strategic Approach to the WTO

South Africa played an active role in the crafting of the Doha Development Agenda (DDA) and supported the text of the Doha Declaration (DD) – which inaugurated the DR as a development round – even though it believed that certain elements of the declaration, notably the provisions on agriculture and development, could have been strengthened further.⁴³¹ The key elements of South Africa's strategic approach to the DR were spelled out for the first time in a landmark speech by its Minister of Trade

⁴³⁰ Ibid., p.21.

⁴³¹ For an analysis of South Africa's role prior to and during the Doha ministerial summit see Fatoumata Jawara and Aileen Kwa, *Behind the Scenes at the WTO – The Real World of Trade Negotiations* (London: Zed Books, 2003), pp.50-113.

and Industry, Alec Erwin, in Geneva in April 1999.⁴³² In essence, he asserted that the key to sustainable global economic growth resided with unleashing the growth and developmental potential of developing countries through the exploitation of their comparative advantages. Attaining the full potential of these advantages, however, would require industrialised nations to eschew their mercantilist and protectionist trade practices and undertake far-reaching ‘structural adjustment’ in their domestic economies. Among other things, this would necessitate that developed countries curtail the protection extended to their inefficient ‘grandfather’ industries and undertake a fundamental reform of their agricultural trade regimes. Not only could this facilitate a relocation of production and investment to developing countries, it could also promote industrialisation and development as well as bolster North-South and South-South trade.⁴³³

For South Africa the success of its strategic objectives is contingent upon strengthening the rules-based multilateral trade regime. The country is committed, therefore, to preserving the credibility of the WTO and preventing its fragmentation. And it believes that the WTO system provides enhanced certainty and security for market access while reducing the scope for unilateral trade measures. Furthermore, it has argued that a rules-based global trade order is crucial to guaranteeing that trade dispute resolution is not determined exclusively by economic power machinations. For these reasons South Africa believes that if developing countries do not engage in multilateral negotiations trade agreements will be concluded plurilaterally (through voluntary codes) nevertheless – as was the case at the Singapore WTO ministerial

⁴³² Alec Erwin, “The Integration of Developing Countries in the Multilateral Trading System,” speech presented by the South African Minister of Trade and Industry at the High Level Symposium on Trade and Development, Geneva, April 1999.

⁴³³ Ibid.; see also Department of Trade and Industry, “The Fourth Ministerial Conference – Analysis and Strategy,” Pretoria (November 2001), p.1.

conference in 1996 – thereby jeopardising the tenets of inclusivity and universality that are the hallmark of multilateralism.⁴³⁴ It was against a backdrop of this perspective that South Africa advocated a comprehensive round of multilateral trade negotiations at Doha. Even though it supported calls by most developing countries that the DR ought to prioritise outstanding issues arising from the UR, South Africa opposed the exclusion of the ‘new issues’ from the negotiating agenda: it agreed with the substance of developing country grievances but not with the strategy proposed to deal with them. South Africa views the DR as an opportunity for developing countries to provide leadership on issues of multilateral trade and development; it believes that developing world ought to strive to lead the multilateral trade process, not merely follow it. To this end the country has sought to carve a role for itself as a facilitator and broker in multilateral trade negotiations.⁴³⁵ Higgott has argued that if the key global actors do not provide leadership smaller states with technical and entrepreneurial skills have a responsibility to develop coalitions and direct multilateral initiatives.⁴³⁶ In this respect he points out that:

A state such as South Africa has a sufficiently well developed intellectual-cum-bureaucratic infrastructure and an accepted position as a significant international or continental “citizen” to take on such entrepreneurial-leadership roles. If it is to over-state the case at this point in time, then we can at least assert that South Africa has the ability to develop the requisite range of skills – to accompany its own national and wider regional interests – to ensure that it takes on the necessary leadership roles commensurate with its size and significance in Southern Africa, continental African and indeed international contexts.⁴³⁷

⁴³⁴ Department of Trade and Industry, “Note on South Africa’s Approach to the WTO and Key Elements of ‘1234a Negotiating Position,” Pretoria (December 2000), pp.1-2.

⁴³⁵ Interview with Faizel Ismail, Geneva, 13 March 2003.

⁴³⁶ Richard Higgott, “Leadership, Niche Diplomacy and International Cooperation – Some Theoretical Insights for Southern Africa,” in Heribert Dieter (ed.) *The Regionalisation of the World Economy and Its Consequences for Southern Africa* (Marburg: Metropolis-Verlag, 1997), p.73.

⁴³⁷ *Ibid.*, p.78.

Yet South Africa is not fatally committed to multilateralism. In effect, as the number of FTAs the country has been exploring (for example with India), has been negotiating (for example with the US), or has concluded (for example with the EU) can attest, it has not refrained from pursuing bilateral or regional FTAs where it has felt that these would further its broader economic objectives; although it has been conscious of the propensity of regional blocs to perpetuate regional protectionism as well as the danger that they pose to economically weaker developing economies.

South Africa's strategic approach to the WTO is encapsulated in its negotiating objectives which are calculated to: contribute to structural shifts in the location of global production; establish disciplines that level the playing field, address concerns and imbalances in existing multilateral agreements; extend and elaborate more effective provisions on special and differential treatment; extend disciplines to new forms and dimensions of trade in recognition of the increasingly integrated nature of the global economy, and the need to manage the globalising world market; as well as ensure Africa's meaningful participation in the negotiations.⁴³⁸ In addition, South Africa has sought to ground its negotiating strategy on three principles: principles of balance, sustainability and consultation. It has also called for a balance of interest between development and the unleashing of the global trade system, and has argued that strategies ought to be developed to ensure that the majority of developing countries participate meaningfully in trade negotiations while not unnecessarily hindering negotiating processes. It has also maintained that for the global trade system to become sustainable it must be predicated on equity and social justice. Lastly, South African policymakers have striven to ensure that the country's

⁴³⁸ Ibid.

participation in WTO negotiations is informed by extensive domestic societal input, encompassing key state and non-state actors in the trade policy domain.⁴³⁹

3. The SACU and SADC Projects: The Dynamics of Economic Integration in Southern Africa

3.1. The SACU

Southern Africa constitutes the highest priority in South Africa's post-apartheid foreign economic policy.⁴⁴⁰ Yet the erstwhile experience of SACU shows that the region has not always been treated with respect by South Africa. Originally set up in 1910, SACU is made up of South Africa and the BLNS states (Botswana, Lesotho, Namibia and Swaziland). It is the oldest customs union in the world and the most far-reaching form of integration in Africa. The SACU Agreement of 1910 facilitated the governance of the BLNS territories as sub-regions of the South African economy. It established a common market that was underpinned by a common external tariff determined by South Africa, a common pool of currencies linked to the South African rand, intimate administrative structures as well as an integrated infrastructure. Provision was made for the unhindered exchange and flow of manufactured goods and for the distribution of customs union revenue through a formula that stipulated a fixed share for each of the countries.⁴⁴¹

⁴³⁹ Department of Trade and Industry, "Report on the Proceedings of a Consultative Conference in Preparation for the WTO Seattle Ministerial and the Upcoming Round of Multilateral Negotiations," 24-25 August 1999, p.2.

⁴⁴⁰ See Nelson Mandela, "South Africa's Future Foreign Policy," *Foreign Affairs*, vol. 72, no. 5, 1993, p.90.

⁴⁴¹ Colin McCarthy, "South African Trade and Industrial Policy in a Regional Context -- Economic Challenges and Policies for the Future," in Lennart Petersson (ed.), *Post-Apartheid Southern Africa -- Economic Challenges and Policies for the Future* (London: Routledge, 1998), p.75.

During the apartheid period, South Africa implemented policies that undermined the economic development of the BLNS nations. The adoption by South Africa in 1925 of an import substitution strategy, based on high protective tariff barriers, to foster industrial growth had harmful effects on the BLNS economies. Not only did this policy induce trade diversion in the region as the BLNS states were forced to buy high-cost South African goods, it also resulted in a decline in the overall level of customs revenue as a portion of GDP. Furthermore, industrial development behind high tariff walls led to polarised industrial growth centred in South Africa.⁴⁴²

In an attempt to accommodate the concerns of the BLNS states and redress the imbalances of the regional arrangements, the South African government renegotiated the SACU agreement in 1969 with a view to infusing it with a development dimension. In this regard, the structure of the agreement was modified: the neutral revenue distribution method was abandoned in favour of a development-oriented mechanism that accommodated differences in trade flows and provided for the effects of South Africa's protectionism and the impact this had on the common external tariff. SACU's smaller member states received compensation for trade diversion and higher prices in their markets by including South African imports in the revenue-sharing formula of the customs union. In addition, the revenue-sharing formula compensated the BLS states through fiscal transfers for polarised development, trade diversion and surrender of fiscal autonomy.⁴⁴³

Even so, the customs union remained plagued by problems. Although the 1969 agreement provided for the economic development and diversification of the least

⁴⁴² 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 (March 1997), p.75.

⁴⁴³ McCarthy, *op. cit.*, p.75.

developed SACU countries – through, for example, the preservation of infant industries and the establishment of new ones – there were misgivings on the part of the BLNS countries about South Africa’s commitment to achieving these goals.⁴⁴⁴

Their governments were also concerned that “South Africa continued to unilaterally make all policy decisions and control every aspect of economic policy from determining revenue allocation to its distribution.”⁴⁴⁵ They protested that they were not being sufficiently compensated for the disadvantages stemming from their SACU membership. Moreover, there were unhappy about the two-year lag in revenue distribution, which gave South Africa a two-year interest free loan from its SACU partners. And while the BLS states did gain some significant benefits from SACU – including the yearly government income they received from the common revenue pool, the fact that they did not have to run their own customs service, and the “free access to supplies from South Africa and access to foreign exchange and a semi-convertible currency...along with the prospects of accumulation, enrichment and speculation offered by the relatively sophisticated South African financial infrastructure, which in turn is plugged into global circuits”⁴⁴⁶

The arrival of democracy in South Africa in 1994 laid the basis not only for the revision of the SACU agreement but also for deeper engagement between South Africa and its SACU counterparts, which was absent during the apartheid era. It is important to recognise that the impetus for transforming the SACU arrangement did not emanate exclusively from the BLNS states. South Africa was also keen to introduce changes to the existing agreement: the incoming ANC government was determined to underline its credentials in the region by supporting SACU’s

⁴⁴⁴ Margaret C. Lee, *The Political Economy of Regionalism in Southern Africa* (Cape Town: UCT Press, 2003), p.75.

⁴⁴⁵ *Ibid.*, p.76.

⁴⁴⁶ *Ibid.*, p.77.

democratisation and dispensing with the 'colonial' image associated with erstwhile SACU agreements. It could be argued that the ANC's view of SACU had been shaped by the dependency school, which had characterised the SACU arrangement as a product of colonialism and a tool that had been used by the apartheid state to maintain its political and economic dominance in Southern Africa; this, however, was also informed by individual experiences while in exile of post-colonial decline in many African states.⁴⁴⁷ Indeed, responding to concerns raised by the Botswana Confederation of Commerce that the SACU agreement favoured South Africa over the smaller economies of the BLNS states, Nelson Mandela acknowledged that the agreement was "a reflection of the colonial oppressors' mentality" and denounced the previous apartheid regime for having used its "economic muscle to bully and intimidate small neighbours."⁴⁴⁸ This explains why the ANC identified the renegotiation of the SACU arrangement as one of its foremost priorities on the post-1994 regional trade agenda.⁴⁴⁹

Following a protracted negotiation process, the five SACU member states signed in October 2003 a comprehensive, revised SACU Agreement. The new agreement has introduced unparalleled changes. It provides for the harmonisation of policies on competition, industrial development, agriculture, and unfair trade practices within the wider common SACU economy. It also establishes new democratic institutional structures for SACU. All the SACU institutions will be serviced by a SACU Secretariat that will perform an administrative role. Key amongst these institutions is the SACU Tariff Board, the body that will be responsible for making decisions concerning tariffs. The board will operate completely independently even though it

⁴⁴⁷ See for example Rob Davies, "Post-Apartheid Scenarios for the Southern African Region," *Transformation*, 11 (1990), pp.12-39.

⁴⁴⁸ See Hansard, *Debates of the National Assembly*, 4 June 1996, cols 1781-1783.

⁴⁴⁹ Mandela, *op. cit.*, pp.92-93.

will be based within the SACU Secretariat. The highest decision-making authority will reside with the Council of Ministers, which will provide the general mandate for the SACU Tariff Board and ratify decisions on tariffs made by the latter. Each SACU member state will set up its own investigative institution to carry out tariff and trade remedy investigations – in turn, these institutions will make recommendations to the SACU Tariff Board for decision. Additionally, the agreement provides for the establishment of an independent tribunal to arbitrate disputes that cannot be resolved at the highest level. It also exhorts the member countries to conduct future trade relations and negotiations with third parties as a single entity. Significantly, it considerably revises the revenue-sharing formula. The new revenue-sharing formula will consist of a customs component, an excise component, and a development component.⁴⁵⁰

This is in recognition of the fact that trade relations between South Africa and its SACU counterparts have continued to be skewed in favour of the former (see Graph 4). For example, in 1998/1999 the total trade surplus between South Africa and the BLNS states exceeded R20 billion.⁴⁵¹ During 1999/2000 South Africa exported goods and services valued at more than R34 billion to the BLNS states. In contrast, the imports of the BLNS states from South Africa accounted for 75-90 per cent of their overall import needs. The revenue obtained from SACU's common external tariff plays a crucial role in advancing economic development and preserving political stability in the region: it makes up approximately 50 per cent of Swaziland's and

⁴⁵⁰ Sifiso Ngwenya, "Fair Deal: The New SACU (Southern African Customs Union) Draft Agreement," *Sisebenza Sonke* Issue 4 (March 2002), pp.24-32.

⁴⁵¹ *Ibid.*, p.28.

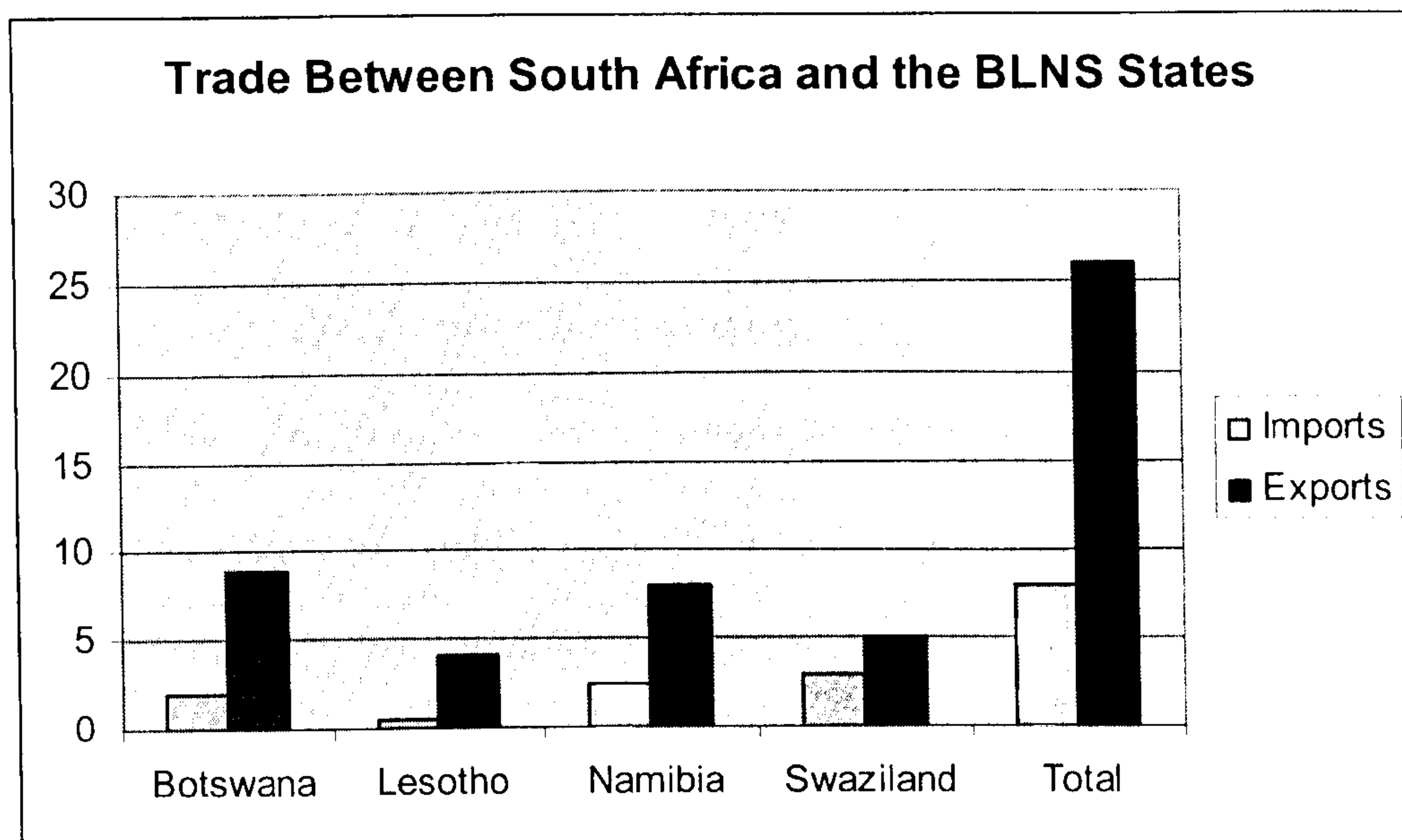
Lesotho's budget revenues, while it accounts respectively for 30 per cent and 17 per cent of the budget revenues of Namibia and Botswana.⁴⁵²

In terms of the new agreement customs revenues will be distributed according to intra-SACU imports, which implies that South Africa will provide considerable compensation to the BLNS states for the trade benefits – the so-called 'polarisation' effects – that flow to South Africa as a consequence of the customs union. The excise component of the revenue-sharing formula will be determined according to the size of each of the SACU member states. In this respect South Africa, the biggest SACU economy, will keep about 80 per cent of the total excise revenue collected – 15 per cent of which will go towards the regional development/stabilisation fund. In response to concerns broached by Lesotho, Namibia and Swaziland about the decrease in real terms of the customs pool as a consequence of the Trade and Development Co-operation Agreement (TDCA) entered into by South Africa and the European Union (EU), the growing use of duty rebates by South Africa, and additional rounds of multilateral trade liberalisation, the SACU member states agreed to include in the revised revenue-sharing formula a development component from which the smaller and fragile SACU economies would benefit most.⁴⁵³

⁴⁵² Ibid., p.26.

⁴⁵³ Ibid., pp.28-29.

Graph 4 – Trade Between South Africa and the BLNS States



Source: Department of Trade and Industry

3.2 The SADC

From its inception, the SADC was essentially political in character. Its predecessor, the Southern African Development Coordination Conference (SADCC), was established in 1980 with the primary objective of reducing the economic dependence of the region, primarily on South Africa.⁴⁵⁴ It represented a collective response on the part of the Frontline States to the ravages wrought by South Africa's historical domination and destabilisation of the region. The demise of apartheid in South Africa created conditions conducive to regional political and economic co-operation. This culminated in the transformation of the SADCC to SADC in 1992, and subsequently in South Africa's accession to the latter in 1994. The SADC was

⁴⁵⁴ The SADC is made up of Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, South Africa, Namibia, Mauritius, the Democratic Republic of Congo, the Seychelles, Zambia and Zimbabwe.

established in terms of the SADC Treaty and the Windhoek Declaration of 1992, which affirmed the organisation's intention to establish a framework for co-operation:

...which provides for...deeper economic co-operation and integration, on the basis of balance, equity and mutual benefit, providing for cross-border investment and trade, and freer movement of factors of production, goods and services across national borders.⁴⁵⁵

The SADC integration process has evolved against a backdrop of gross economic inequalities and imbalances among member states. Essentially, the region's economy is located within South Africa. South Africa's political and economic predominance is underscored by the fact that it produces approximately 80 percent of Southern Africa's GNP, occupies 18 percent of the region's land area, and makes up 32 percent of its population. Enormously lopsided trade relationships pertain, with South Africa maintaining a massive trade surplus. This disparity in economic power is reflected in the region's trading patterns. South Africa's overall economic output (estimated at around US\$121.9 billion) far exceeds that of its neighbours: the other thirteen SADC member states jointly produce only about US\$33 billion. In 1997 the GDP of the second largest economy, Zimbabwe, accounted for only 4.5 percent of the South African total figure. The sum of exports of all the other SADC countries in the same year amounted to only 48.6 percent of South African exports.⁴⁵⁶

South Africa is the largest foreign investor in Southern Africa. South African direct investment in the thirteen SADC countries exceeded US\$5.4 billion by 2000, surpassing the investment shares of the US and the United Kingdom (UK), the next

⁴⁵⁵ Cited in Peter Meyns, "From Co-ordination to Integration: Institutional Aspects of the Development of the SADC," in Heribert Dieter (ed.) *The Regionalisation of the World Economy and Consequences for Southern Africa* (Marburg: Metropolis-Verlag, 1997), p. 167.

⁴⁵⁶ Department of Trade and Industry, *Trade Statistics* (Pretoria: DTI, 1997).

huge investors.⁴⁵⁷ In 2001, South African investment in the region amounted to R14.8 billion, followed by that of the UK at R3.98 billion.⁴⁵⁸ Significant South African investment deals in the region in 2001 and 2002 included: US\$20 million by South African Airways for its stake in Air Tanzania; US\$6 billion by Eskom Enterprises in the Inga project in the Democratic Republic of Congo (DRC); US\$56 million by Sun International in its hotel in Zambia; US\$142 million investment by Vodacom in Tanzania and an additional US\$139 million investment in the DRC; US\$53 million by Pretoria Portland Zimbabwe in merger activity in Zimbabwe; a US\$860 million investment by BHP Billiton, the IDC and Mitsubishi in the development of the Mozal aluminium smelter in Mozambique; a further investment of US\$1.1 billion by Sasol in the Pande and Temane gas fields in Mozambique.⁴⁵⁹

Critics have expressed concerns about the skewed and lopsided nature of regional integration in the SADC region.⁴⁶⁰ Considering the disproportionately superior political and economic status of South Africa in the region, the model of unfettered market integration was considered to be not ideal for the SADC as it would polarise the region further while perpetuating unequal and unsustainable development. As the SADC founding documents testify, a strategic developmental regionalism based on economic co-operation and integration for the mutual benefit of member countries was deemed to be the most appropriate policy option.⁴⁶¹ The implicit understanding was that such an integration approach would demand high degrees of reciprocity from

⁴⁵⁷ 'Investment: SA tops Africa's investors' list,' *Financial Mail* 7th February 2003.

⁴⁵⁸ Diana Games, "The Experience of SA Firms Doing Business in Africa – A Preliminary Survey and Analysis," Business in Africa Research Project, Report No.1, South African Institute of International Affairs, September 2003, p.12.

⁴⁵⁹ *Ibid.*, pp.12-13.

⁴⁶⁰ See for example Fredrick Söderbaum and Ian Taylor (eds.), *Regionalism and Uneven Development in Southern Africa – The Case of the Maputo Development Corridor* (Aldershot: Ashgate, 2003).

⁴⁶¹ See for example SADC, *Southern Africa: A Framework and Strategy for Building the Community* (Gaborone: SADC, 1993).

South Africa: it would allow other countries to enjoy greater access to the South African market and create conditions for investment decisions to be guided by the need of other countries “to promote growth and diversify their productive bases and not strictly by short-term profitability.”⁴⁶² Furthermore, it would necessitate the fashioning of regional solutions to the wide array of political, security and economic problems confronting regional partners, including illegal migration and intra-regional conflicts.

To a limited degree, South Africa has fulfilled the expectations of its regional partners in this regard. At a political level, South Africa has been a keen participant in the now downgraded Organ for Politics, Defence and Security, a SADC sub-structure that undertakes initiatives designed to foster political and security reforms in the region. At an economic level, South Africa has played a pivotal role in cultivating sectoral/functional cooperation in areas such as telecommunications, transport (Maputo Corridor and Beira Port) and power supply (Cahorra Bassa and Lesotho Highlands Water Projects). It ardently sponsored the SADC Trade Protocol (STP) of 1996, an FTA agreement designed to advance regional economic integration and development. In force since 2000, the STP calls for the establishment of a regional free trade area by 2005. It provides for an asymmetrical reduction of industrial tariffs, with South Africa making the speediest and deepest cuts to offset regional trade imbalances.⁴⁶³ Some allowances will be made for infant industries, thereby granting some SADC countries a leeway to apply for “extended grace periods” during which tariff and subsidy reductions could be limited (within WTO provisions).

⁴⁶² Marais, *South Africa: Limits to Change*, p.136.

⁴⁶³ All the SADC member states are signatories to the STP except Angola, the Democratic Republic of Congo and the Seychelles which are not yet part of the FTA.

South Africa has undertaken to speed up the process of phasing down tariffs for clothing and textiles that fulfill the two-stage transformation rule. This is calculated to spur a faster liberalisation of South Africa's clothing and textiles market than those of the other SADC nations. Given the strategic importance of the clothing and textiles industry in many SADC countries, the treaty enforces a one-stage transformation rule that permits a derogation from its liberalisation provisions by the least developed SADC countries on a gamut of issues, including the rules of origin, the improvement of tariff offers to expand the trade coverage of the treaty, and the development of a work programme in respect of technical barriers to trade, and sanitary and phytosanitary measures.⁴⁶⁴

It could be argued that the SADC represents the most important initiative undertaken by the SADC in pursuit of regional economic integration. Concerns, however, have been raised about whether it can be enforced effectively given the lack of a clear policy on the SADC institutional framework for its implementation. This is largely due to the fact that from its inception the SADC has operated according to decentralised institutional structures. Even though it has a permanent secretariat, the organisation has been careful not to nurture a centralised bureaucratic apparatus similar to that of, for example, the EU. Individual member countries have been assigned responsibility for a sectoral portfolio – that is, transport, communications, food security, energy and so forth. While this loose form of co-operation has fulfilled the desire of member countries to safeguard national sovereignty, it has hampered

⁴⁶⁴ See SADC, *Protocol on Trade in the Southern African Development Community* (Gaborone: SADC, 2000).

decision-making at regional level, with decisions taken at regional level often not being implemented.⁴⁶⁵

Notwithstanding its relative progress, the SADC regional integration process endured some testing difficulties. These can be attributed to a number of factors. First, SADC has continued to be weakened by its not insignificant institutional problems, particularly the lack of managerial expertise to tackle the multitudinous facets of regional integration.⁴⁶⁶ Second, SADC's principle of non-interference in the internal affairs of member states has also been blamed for the organisation's paralysis: the integration project has been undermined by the absence of democracy and poor governance in some SADC countries (for example Zimbabwe and Angola). Third, there has been a perception among some SADC nations that SACU has been a hindrance to faster and deeper regional integration. As Marais explained:

SACU members are keen to expand their power and leverage within the customs union rather than stake all on the possible advantages of a SADC-wide integration project. Non-SACU members of SADC have reacted petulantly to that stance, withholding major concessions in SADC negotiations with the argument that the restructuring of SACU might well upend their bargaining positions. The upshot has been a further factor contributing to the delays in regional integration.⁴⁶⁷

Fourth, economic integration in the SADC region faces the danger of becoming weakened by the ongoing Economic Partnership Agreements (EPA) negotiations between the EU and the African, Caribbean and Pacific (ACP) countries. The negotiations began in September 2002 under the Cotonou agreement that seeks to replace the Lomé Convention, which since 1975 has provided the structure for trade

⁴⁶⁵ Meyns, "From Co-ordination to Integration," pp.165-166.

⁴⁶⁶ Hein Marais, "Reinforcing the Mould: The Character of Regional Integration in Southern Africa," *Regionalisation Study for the Third World Forum and the Foundation for Global Dialogue* (February-May 1998), p.119.

⁴⁶⁷ *Ibid.*

and cooperation between the EU and ACP countries. The Cotonou agreement provides for the termination in 2007 of the EU non-reciprocal concessions to exports from ACP countries in keeping with the undertakings made by the EU and ACP countries to enter into trade arrangements that are consistent with the disciplines of the WTO from 1 January 2008. In this respect, the ACP countries are required to negotiate reciprocal EPAs with the EU, either bilaterally or regionally.⁴⁶⁸ Some scholars have expressed a concern that the introduction of reciprocity in trade between unequal economic partners such as the EU and developing countries, as well the regional differentiation envisaged in the EU's post- Lomé strategy, have the potential to undermine the cause of regional solidarity among developing nations and undercut their bargaining power in the WTO.⁴⁶⁹ This bears particular relevance to Southern Africa where multiple, and in some cases conflicting, memberships of countries in the SADC and other FTAs – such as the Common Market for Eastern and Southern Africa (COMESA) – are likely to complicate the EPA negotiation processes and encourage disintegrative regional tendencies.

Fifth, whilst South Africa's internal political transformation is fully consolidated, the country is still saddled with massive social and economic concerns. Unemployment is very high (estimated at 40 percent) and the social and economic expectations of the previously disadvantaged sections of the population have not been fully met. The problem has been aggravated by the negative effects, such as huge job losses, that economic liberalisation policies have wrought in sensitive economic sectors such as

⁴⁶⁸ European Union, *Economic Partnership Agreements – A New Approach in the Relations Between the European Union and the ACP Countries* (Brussels: European Union, 2002).

⁴⁶⁹ See for example Richard Gibb, "Post-Lomé: the European Union and the South," *Third World Quarterly*, vol. 21, no. 3, 2000, pp.457-481.

textile and clothing industries.⁴⁷⁰ This has prompted COSATU to challenge the government's policies and, in an attempt to placate the trade unions, the South African government has occasionally resorted to "a mercantilist policy vis-à-vis the other countries in the region."⁴⁷¹

And nowhere have these protectionist tendencies been more starkly illustrated than in the country's explosive trade relations with Zimbabwe, South Africa's biggest African trading partner until 2002.⁴⁷² Historically, Zimbabwe's clothing and textile industries have benefited from preferential treatment on the South African market. However when the preferential bilateral pact (which dates back to 1964) between the two countries expired in 1992, South Africa imposed high tariffs – rising as high as 90 percent – on competitive Zimbabwean textile imports.⁴⁷³ What exacerbated the plight of the Zimbabwean clothing and textile industries was the import duties imposed by South Africa against cheap imports from East Asia, with adverse consequences on employment. Related to this has been a demand by COSATU that the South African government insist on the inclusion of a social clause in all bilateral and multilateral trade agreements. In particular, it has demanded that South Africa's trade partners observe and fully implement the four core sets of internationally agreed labour rights: freedom of association and collective bargaining; freedom from discrimination; prohibition of child labour; and prohibition of forced labour. On the other hand, since South Africa signed on to the Marrakesh Agreement of the GATT in April 1994 there has been a concern within sections of the domestic labour movement that a deeper integration with other southern African countries – whose labour laws are

⁴⁷⁰ 'Textiles in need of unravelling,' *Mail and Guardian* 15th July 1994; 'Tough time ahead for the textile industry,' *Mail and Guardian* 24th March 1994.

⁴⁷¹ Dieter, "Regionalisation in the Age of Globalisation," p.221.

⁴⁷² In 2002 Mozambique replaced Zimbabwe as South Africa's biggest African trading partner.

⁴⁷³ Marais, *South Africa: Limits to Change*, p.136.

relatively slack when compared with those of South Africa – will result in South African factories relocating to other regional destinations in search of cheaper labour.

These problems are reflective of the wider anxieties that have been voiced by the SADC member states about the regional integration process. Second, in the early 1990s some SADC countries accused South Africa of not consulting with them adequately about the implications for the regional economies of an FTA it was planning to conclude with the EU.⁴⁷⁴ Fears had been expressed about the potential harmful effects of the envisaged South Africa-EU FTA (which is discussed later in this chapter) on the neighbouring economies. Third, concerns had been raised by opponents of economic liberalisation about the commercial activities of South African business corporations in the region, which had been blamed for undermining the developmental basis of the economic integration process.⁴⁷⁵ This is partly due to the fact that some of the major companies have successfully lobbied the South African government to insist on deregulation as a precondition to “open up the region to South African exports and capital investment, from which benefits would allegedly trickle down into the targeted countries,” and in the process “enable greater penetration of the region by South African capital, and reinforce South Africa’s image as the ‘natural gateway’ and partner for foreign investors in southern Africa”⁴⁷⁶ It is for these reasons that South Africa’s regional partners have previously called into question South Africa’s commitment to the central tenets of developmental regionalism to which the genesis of the regional project can be traced.

⁴⁷⁴ ‘Considering the neighbours,’ *Financial Mail* 24th January 1997.

⁴⁷⁵ Marais, *South Africa: Limits to Change*, p.137.

⁴⁷⁶ *Ibid.*

3.2. Regionalism in Southern Africa: Economic Globalisation or Political Regionalisation?

The integration pattern in Southern Africa has highlighted the difficulties associated with integration schemes involving countries at different levels of economic development. According to Jakobeit, integration projects of this nature are epitomised by concerns about the distribution of costs and benefits from integration: differences in geographical position, size, resources, and industrial capacity lead to an uneven distribution of costs and benefits from trade liberalisation.⁴⁷⁷ The economically stronger countries tend to derive greater benefits from integration than weaker countries, whilst the integration process tends to increase disparities in an integration area. In Southern Africa, the two processes of economic globalisation and political regionalisation have proceeded simultaneously. The SADC integration project has evolved along two parallel tracks: trade integration track (a strictly market-driven economic project that emphasises trade and investment) and development integration track (a politically driven process that stresses political, security, environmental and cultural issues).⁴⁷⁸

The proponents of trade integration – including large international and South African firms, private sector interests in the other SADC countries, donor agencies and mainstream economists – have pushed strongly for open regionalism and unrestricted movements of trade, investment and capital flows. Their influence has been evidenced by the significant market reforms that have been undertaken by governments in the region and the significant rise in regional trade flows. Extensive liberalisation of

⁴⁷⁷ Jakobeit, "The Theoretical Dimensions," p.26.

⁴⁷⁸ Bertil Oden, "New Regionalism in Southern Africa: Part of or Alternative to the Globalisation of the World Economy?" in Bjorn Hettne et. al (eds.), *Globalism and the New Regionalism* (Basingstoke: Macmillan Press, 1999), p.170.

trade and investment policies in the 1990s – most of which took place outside the formal trade integration scheme – saw private investment jump tenfold, from less than US\$1 billion a year in the early 1990s to almost US\$12 billion in 1996. Further, the region's fledgling stock markets have become increasingly enmeshed in the global financial markets: rates of return in Africa averaged 24 percent between 1990 and 1994 compared with 18 percent for all emerging markets.⁴⁷⁹ This deep transformation in Southern Africa's macroeconomics has demonstrated a growing, albeit still limited, incorporation of the region's economies into the global economic system.

The development integration track, on the other hand, has focused more on regionally based activities in areas such as regional politics, security, environment and culture. The main social forces supporting developmental integration in the SADC region have been labour unions, NGOs and sensitive industries such as textiles and clothing. A large part of the work of the SADC Organ for Politics, Defence and Security has fallen within this purview. Based on the original SADC documents, the notion of development integration is primarily concerned with developing territorial identity and regional coherence. Development integration includes trade integration, but advocates less openness than what open regionalism demands. Instead, it calls for market integration which is based on the principles of "flexibility of multi-speed" and "variable geometry."⁴⁸⁰ This means that integration is viewed as providing a crucial framework within which to undo gross social and economic inequities generated not only within the region but also between the countries of the region; specifically, between South Africa and the neighbouring countries. Furthermore, regional

⁴⁷⁹ Timothy Shaw and Julius E. Nyang'oro, "African Renaissance in the New Millennium: From Anarchy to Emerging Markets?" in Richard Stubbs and Geoffrey R.D. Underhill (eds.), *Political Economy and the Changing Global Order* (Ontario: Oxford University Press, 1999), pp. 276-277.

⁴⁸⁰ Oden, "New Regionalism," p.170.

integration is seen as giving the SADC countries a temporary economic 'breathing space' not only to manage the process of economic globalisation but also to develop and diversify their economies with a view to improving their export capacities. However, the strategy of developmental integration has not yielded significant results in the SADC context: although there has been greater regional integration and co-operation, this has proceeded without reference to the principles of balance, equity and mutual benefit that the SADC members had initially proclaimed.

Although the SADC founding treaty and other policy documents embrace the integration approach of developmental regionalism, this position has gradually changed over the past few years. Partly, this change can be ascribed to the fact that the SADC member states have stepped up the liberalisation of their economies in accordance with the strictures of economic globalisation. Yet the change also reflects concessions made by the countries to accommodate the demands of private sector interests, which have vigorously lobbied for a more open and liberal regime for the trade of goods, investments and capital flows. This is confirmed by subsequent SADC documents, which put a greater emphasis on the importance of open regionalism and the central role of the private sector in creating growth and development.

To unleash the private creativity and entrepreneurship, investment incentives such as guarantee against nationalisation of private enterprise, the right to repatriate capital, profits and dividend, lower corporate tax rates, including tax exemptions, have been employed to local and foreign investment. The direct role of governments have been minimised whilst their management capacity, as well as that of providing infrastructural support have been enhanced.⁴⁸¹

⁴⁸¹ Ibid.

The growing support for the classical model of economic integration in the SADC rhetoric in recent years points to the increasing dominance of private sector interests in the regionalisation discourse. This shift in the integration approach raises questions about how the SADC intends to reconcile its support for open regionalism with the positions enunciated in previous SADC documents, which endorse development integration and state intervention as a means of redressing regional imbalances. How will the SADC deal with the social contradictions thrown up by the parallel processes of economic globalisation and political regionalisation? Given the deep regional imbalances, how will the SADC ensure that the push by economic actors for classical market integration does not aggravate the marginalisation of the weaker countries? These contradictions ought to be addressed if the SADC is to reverse the polarisation of the regional landscape, and to realise its original ideal of balanced, equitable and mutually beneficial regional co-operation and integration.

3.3. What Role for South Africa?

South Africa's political and economic fortunes are integrally linked to those of its neighbours in the SADC region. As the dominant regional economic player, South Africa's status and role will continue to have a crucial impact on the cohesion and economic development not only of the SADC but also of Africa as a whole. The marginalisation of the African continent is underlined by the fact that the region accounts for less than 1 percent of global GDP, and for about 3 percent of world investment flows, the majority of which are concentrated in the extractive industries, predominantly oil, in a handful of countries.⁴⁸² This marginalisation has been particularly evident in the complex and protracted UR negotiations over the WTO as

⁴⁸² World Bank, *Global Development Finance* (Washington, DC: World Bank, 2002), pp.64-66.

well as in regular talks about the series of Lomé Conventions with the EU. For the LDCs, the majority of whom are African, trade-related aspects of intellectual property and trade-related investment issues have been disadvantageous. These countries have also demanded the reduction of the abuse of trade measures in areas like anti-dumping, and sanitary and environmental standards.

As the biggest and most developed regional economy, South Africa's status and role will continue to have a crucial impact on the cohesion as well as the economic development of the SADC. It is, therefore, in the interest of the country to safeguard the political, economic and institutional coherence of the SADC integration process. The success of the SADC project is contingent upon South Africa assuming leadership of the region and discharging its responsibilities in accordance with its hegemonic designs. For this to happen South Africa must have "the capacity and the will to create and maintain a mutually beneficial hegemonic regime."⁴⁸³ This means that South Africa must eschew its protectionist trade policies, a source of tension between itself and some SADC countries such as Zimbabwe. It also means that South Africa must be prepared to overwrite the bulk of the costs of the integration process – for example, allow a rapid increase in imports from the other SADC countries in order to reduce their economic burdens. In return, the other countries in the region must be willing to accept South Africa's leadership.

The extent to which South Africa's hegemonic position can effectively be translated into a leadership role in Southern Africa depends on two considerations. First, South Africa's internal political situation. South Africa is still grappling with the challenges

⁴⁸³ Oden, "New Regionalism," p.167.

of consolidating internal democratic transformation. The new political order still bears the deep scars of the apartheid legacy: vast social and economic problems. As such, there is still a great reluctance on the part of politicians and policymakers to pursue policies that are likely to undermine the material interests of key domestic constituencies. Second, the historical regional legacy and, more significant, the continuing regional tensions within the SADC around issues of security, leadership and democracy. Given its historical role in the political and economic destabilisation of the region, South Africa has been anxious to prove that it is a good regional citizen: South Africa has striven to ensure that it acts in a manner that does not undermine the cohesion of the SADC. Over the past few years, South African regional diplomacy has focused on building regional unity and consensus-building, tackling the SADC's institutional problems, and pursuing multilateral solutions to regional conflicts. Even so, South Africa's leadership role in Southern Africa, especially in conflict resolution, has not produced unqualified success thanks to stiff resistance to South Africa's efforts by some SADC countries. As Alden and le Pere pointed out:

The determination of the leadership in Angola, and (until Kabila's death) the Congo to resist any outside interference, especially by South Africa, shut Pretoria out of an area where it had hoped to play a constructive role. Even in those crises – Zimbabwe in particular – where South African interests were most directly affected and leverage was assumed to be considerable, the range of actions available that would not exact costs in terms of SADC unity, domestic politics and relations with G8 countries, turned out to be far smaller than policymakers in Pretoria had anticipated.⁴⁸⁴

Not only has South Africa's 'quiet diplomacy' in Zimbabwe made a mockery of its leadership credentials in the SADC region, it has highlighted sharply the constraints that can be imposed on even a regional powerhouse by its smaller neighbours.

⁴⁸⁴ Alden and le Pere, *South Africa's Post-Apartheid Foreign Policy*, p.54.

Nonetheless, it is in South Africa's political and economic interests to maintain sustained engagement with the region. A peaceful and stable region could contribute not only towards regional economic stability but could also provide a conducive environment for the fashioning of regional solutions to political and security problems including illegal immigration, arms trafficking and cross-border crime, concerns that have gained prominence in the SADC region in recent years. For this to happen, South Africa must spell out its regional policy more assertively and clearly in ways that will not invoke the insecurities of its weaker partners. This means that South Africa has to cultivate trust between itself and its neighbours and convince them of the sincerity of its intentions.

4. Intra-Regional Integration

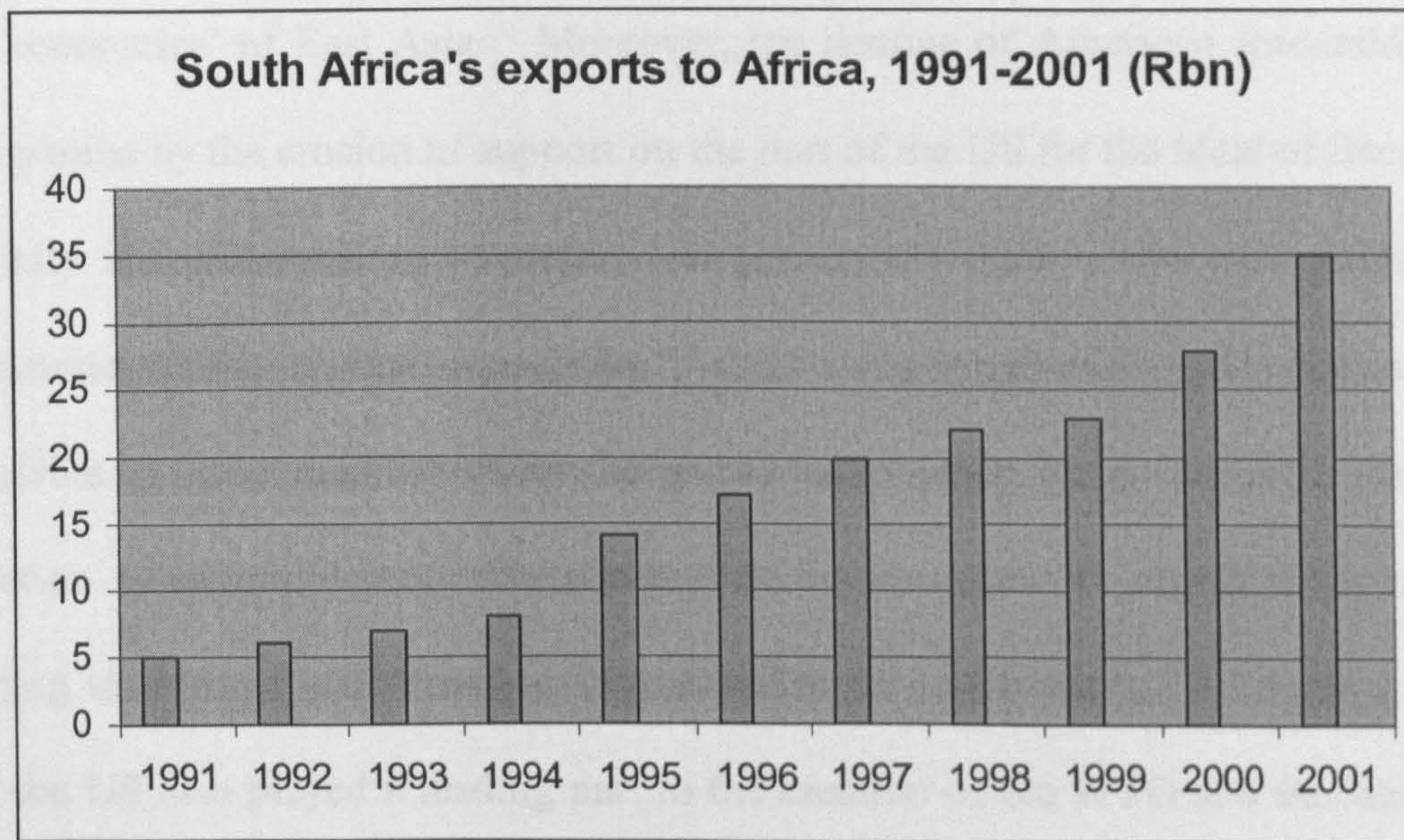
South Africa has identified intra-regional economic integration as a vital imperative for African development. The regionalisation of the world economy has heightened the susceptibility of Africa in the international political economy and underlined the importance of intra-regional integration to the continent's development. Globalisation pressures, combined with Africa's economic reversals of the past two decades, have undermined the logic of pursuing nationalistic development and highlighted the urgency of developing a collective agenda for African economic resurgence.⁴⁸⁵ As such, regional and sub-regional integration among African states is necessary if they are to undo their precarious position in world trade and ease their integration into the global political economy.

⁴⁸⁵ Onimode, *Africa in the World of the 21st Century*, p.265

Africa's low levels of intra-regional trade attest to the general failure of regional economic integration across the continent. In 2000, merely 2 percent of African cross-border trade occurred among African states; the overwhelming majority of Africa's trade takes place with the US and the EU. But this very limited intra-regional trade has disguised a deepening of bilateral trade and investments between certain countries, largely a consequence of the normalisation of economic relations between South Africa and the broader African region since the early 1990s. South Africa's export-led growth strategy has resulted in a phenomenal growth of South African exports to African markets (see Graph 5). There remains, however, a vast trade discrepancy between South Africa, which accounts for 40 percent of Sub-Saharan Africa's total GDP, and its continental trade partners. This disparity must be reversed if South Africa is to dispel accusations that it is a new colonial power in Africa.⁴⁸⁶ Furthermore, if the goal enhanced intra-regional integration is to be realised, Africa has to tackle effectively a panoply of structural problems including the lack of adequate transport and communications infrastructure, the poor implementation of regional trade agreements, the absence of complementarity in production, as well as weak financial sectors.

⁴⁸⁶ See 'Awe and unease as South Africa stretches out,' *New York Times* 17th February 2002.

Graph 5 - South Africa's Exports to Africa, 1991-2001 (Rbn)



Source: Martin Creamer's Engineering News, 24 – 30 January 2003.

5. US Trade Strategy and South Africa

5.1. Contemporary US Trade Policy

Contemporary American trade policy is predicated on two pillars. The first is a distrust of economic multilateralism. The second pillar is a resurgence of the aggressive unilateralism that epitomised US trade policy in the 1970s and 1980s.⁴⁸⁷ The early 1970s saw the US relinquish its leadership of the open multilateral trading system. This was triggered principally by the declining relative position of the US in the global economy. The weakening of US hegemony stemmed from the enormous structural changes that the global economy underwent in the 1970s, characterised

⁴⁸⁷ Higgott, "The Limits to Multilateral Economic Governance" p.18.

mainly by the internationalisation of production processes and the realignment in the industrial hierarchies of the world. These changes coincided with the resurgence of Europe, the emergence of Japan as a great economic power, and the ascendancy of the 'tiger economies' of East Asia. Moreover, the decline of American leadership was accompanied by the erosion of support on the part of the US for the ideal of free trade, especially the principles and norms – enshrined in GATT – that had guided the international trading regime since 1945.⁴⁸⁸ It is worth emphasising, nonetheless, that the decline in American support for the global trade system did not imply a complete abdication of its multilateral obligations. To be sure, the US played a key role in initiating the Tokyo and Uruguay Rounds of trade negotiations.⁴⁸⁹ (And in recent years the US also played a leading part in the creation of the WTO and the launch of the Doha Round). Yet these actions took place in a context where the US was no longer willing to use its power and resources unconditionally, in a spirit of enlightened self-interest, to maintain collective goods for the international community and underwrite the costs of the liberal international economic order.⁴⁹⁰

In the 1980s, US trade policy assumed a double-pronged character. On the one hand, it moved away from its unqualified support for liberal international economic order and embraced an ambiguous commitment to multilateralism. On the other hand, it reflected a growing penchant for 'aggressive unilateralism' on the part of the US. This entailed the use by the US of retaliatory measures against countries deemed to be engaging in 'unfair' and 'unreasonable' trade practices. These actions are authorised in terms of the Super 301 and Special 301 provisions of Section 301 of the Trade and

⁴⁸⁸ Reich, "Beyond Free Trade," pp.780-781.

⁴⁸⁹ See Spero and Hart, *The Politics of International*, pp.49-95.

⁴⁹⁰ See John G. Ikenberry, "State Power and the Institutional Bargain: America's Ambivalent Economic and Security Multilateralism," in Rosemary Foot, Neil MacFarlane, and Michael Mastanduno (eds.), *US Hegemony and International Organisations* (Oxford: Oxford University Press, 2003), pp.289-321.

Tariff Act. Super 301 requires the United States Trade Representative (USTR) to compile a list of external trade barriers, identify a priority list of countries and their unfair trading practices, and set a deadline for progress in rectifying these practices. If the designated countries fail to comply, the US institutes retaliatory actions against them. Special 301 operates in a more or less similar manner to Super 301, except that it is specifically targeted at infringements of intellectual property rights. Although these provisions were originally directed at Japan, they have been used widely in recent years.⁴⁹¹

Under the current Bush administration the unilateralist streak has without doubt predominated. The past few years have witnessed a significant increase in US interest in bilateral and regional trading arrangements. These form an integral part of a broader strategy of “competitive liberalisation” deployed by the US to open key foreign markets through bilateral and regional free trade accords. And they extend beyond the traditional trade negotiating agenda – market access for industrial and agricultural goods – to cover the so-called ‘new generation’ trade policy issues such as trade in services, investment, competition policy, intellectual property rights as well as labour and environmental standards. Already the US has either concluded or is in a process of initiating bilateral FTA negotiations with an array of countries, including Singapore, Chile, Australia, Israel, Taiwan, South Korea, Jordan, Morocco, Thailand and Bahrain. These have been complemented by an expanding number of regional FTA arrangements, including the recently concluded pact between the US and the Central American Free Trade Agreement (CAFTA). The US has not been alone in its drive to push for comprehensive trade liberalisation.

⁴⁹¹ For a detailed discussion of the policy of ‘aggressive unilateralism’ see Bhagwati J and Hugh PT, *Aggressive Unilateralism – America’s 301 Trade Policy and the World Trading System*. Michigan: The University of Michigan Press, 1990, pp.1-48.

Although in its rhetoric the EU extols the virtues of multilateral trade, it is equally determined to use bilateral deals in order to attain its goal of opening up the markets of developing countries. Japan followed suit recently by concluding a free trade deal with Singapore. Although bilateral and regional FTAs are permitted under Article 24 of the GATT, such trade arrangements have been criticised for undermining multilateral trade and distorting the global trade system. In particular, they have been condemned for weakening the bargaining strength of poor countries in the WTO system and for preventing the emergence of developing country coalitions as they ditch principle in favour of wringing small concessions from the powerful negotiating partner.⁴⁹²

There has been a concern that the failure of the Cancún ministerial summit may strengthen the unilateralist impulse in US trade policy. In the aftermath of Cancún the US made it clear that a failure to achieve progress in the DR could result in it pursuing the unilateral route: namely, it would accelerate its efforts to conclude bilateral and regional free trade agreements. Tied to this has been a propensity to subsume trade policy within the wider imperatives of the US-led war against global terrorism. In the wake of the September 11, 2001, terrorist attacks, the Bush administration has argued that free trade is the best means to improve global economic development and foster peaceful co-existence among different nations. Indeed, the launch of the DR in 2001 was justified on the grounds that it would contribute to the war against terrorism, in the same way as trade was viewed as an antidote to communism at the height of the Cold War.⁴⁹³

⁴⁹² Bhagwati J, *Free Trade Today* (New Jersey: Princeton University Press, 2002).

⁴⁹³ See Zoellick R, "The WTO and New Global Trade Negotiations: What's at Stake," a speech presented before the Council on Foreign Relations, Washington, D.C., October 30, 2001.

In this respect political and security calculations have become, therefore, as important as economic ones in the determination of US bilateral trading arrangements. The cases of Singapore and Australia have demonstrated that countries that have backed the Bush administration's policies and have co-operated with the US in their implementation have been duly rewarded. On the contrary, countries that have challenged US policies – such as New Zealand and Egypt, which respectively opposed the Iraqi war and failed to support the US case against the EU on the issue of genetically modified products – have been excluded from free trade deals.⁴⁹⁴ Owing to pressure from the US, a number of Central American countries (notably Costa Rica, Guatemala and Colombia) pulled out from the G20+ coalition. On December 17, 2003, the CAFTA countries completed FTA negotiations with the US, signalling that their long-term economic interests are tied to those of the US.⁴⁹⁵

It was only in January 2004 that the Bush administration announced that Canadian firms would now be allowed to bid for US-financed reconstruction projects in Iraq: Canada had previously been barred from bidding for such contracts because it had not supported the US-led invasion in Iraq. These examples provide a graphic illustration of how a dominant state such as the US can employ trade as a weapon to alter the behaviour of other states and to advance particular strategic goals in the international system. It does appear that in the future US engagement with its trade partners will be more than ever before conditional upon the willingness of these countries to support American national security or foreign policy interests. This

⁴⁹⁴ Higgott, "The Limits to Multilateral Economic Governance," pp.19-20.

⁴⁹⁵ The CAFTA is made up of El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica. It is worth noting that the Costa Rican government temporarily pulled out of the US-CAFTA negotiations – it only joined on 25 January 2004 – in response to domestic protests against US demands to open the country's telecommunication and insurance sectors to foreign competition. The US has begun negotiations with the Dominican Republic, which it seeks to bring into the CAFTA negotiations in 2005, before Congress ratifies the agreement.

raises questions about how this US policy will affect South Africa, given the latter's anti-Iraq war stance and its prominent role within the G20+ in Cancún. To be sure, Charles Grassley, chairman of the US Senate committee on finance, warned after the Cancún fiasco that the US would in future determine the suitability of countries seeking bilateral trade pacts with it by the way they conducted themselves in Cancún.⁴⁹⁶

It is interesting that no punitive actions have been taken against South Africa to date. This state of affairs can be explained in two ways. First, South Africa is one of the very few geopolitically important African states that remain central to the US foreign economic and security agenda. This fact was confirmed by the country's designation – together with Kenya, Nigeria and Ethiopia – in the US national security strategy as an anchor for regional engagement. The US is unlikely to engage at present in actions that could unnecessarily upset this strategically vital bilateral relationship. In any case, the manner in which the US and South Africa dealt with the Zimbabwe crisis suggests that both countries prefer to resolve their differences through bilateral diplomacy rather than confrontation. Second, the proposed FTA negotiations between the US and SACU, given the negligible impact they will have on the US economy, are unlikely to trigger massive resistance from US domestic sectors that fear what they perceive as unfair competition from the developing countries. As such, the FTA negotiations are likely to be concluded without a great deal of political controversy. These observations, however, do not detract from the recognition that the US might in the future choose to act against even a small economy such as South Africa where it feels its fundamental interests are being threatened.

⁴⁹⁶ 'Crushed at Cancún,' *Financial Times* 15th September 2003.

5.2. Rationale for SACU-US FTA negotiations

The US regards an FTA with SACU countries – its first FTA in sub-Saharan Africa – as essential to realising its objective to prise open these countries' economies to its commercial interests. An FTA would enable the US to gain guaranteed preferential access to its largest export market in sub-Saharan Africa, which accounted for nearly US\$3.1 billion and US\$2.5 billion of US exports in 2001 and 2002 respectively. Leading US exports in the SACU region include machinery, vehicles, aircraft, medical instruments, plastics, chemicals, cereals, pharmaceuticals, as well as wood and paper products. Total bilateral trade between the US and SACU amounted to approximately US\$7 billion and US\$7.3 billion in 2001 and 2002 respectively. US foreign direct investment in the SACU region totalled US\$2.8 billion in 2000, mainly in the manufacturing, wholesale and services sectors. The SACU nations are the important suppliers of non-fuel goods to the US under the African Growth and Opportunity Act (AGOA), accounting for more than a third of US non-fuel goods from eligible sub-Saharan African countries.⁴⁹⁷

Through an FTA, the US also seeks to 'level the playing field' in sectors where US exporters feel that they have been disadvantaged by the South Africa-EU free trade accord. In this regard the US is likely to focus its efforts on sectors where its domestic industries compete for market share with the EU. The US has also argued that bilateral and regional FTAs provide an impetus for competitive liberalisation, and can serve as models for liberalisation at the multilateral level and contribute towards advancing common objectives in the WTO. Furthermore, in the same way as the North American Free Trade Agreement (NAFTA) was viewed as a catalyst for

⁴⁹⁷ Office of the USTR, "US and Southern African Nations Plan for Upcoming FTA Negotiations," Press Release, 13 January 2003.

political and economic reforms in Mexico after 71 years of unbroken Institutional Revolutionary Party rule, the mooted FTA between the US and SACU has been touted by some commentators in the US, and in the SACU countries, as essential to locking in the political and economic reforms that have been implemented by SACU member countries in recent years.

The most important piece of reform has been the signing of the SACU Agreement by the five member states in October 2002. Not only does the SACU Agreement provide for a new democratic institutional structure, it enables the member countries to carry out future trade relations and negotiations with third parties as a single entity. It also provides for the harmonisation of policies on competition, industrial development, agriculture, and unfair trade practices within the wider common SACU economy. In addition, the SACU Agreement creates a dispute settlement and new revenue-sharing formula. Along with these institutional reforms, it is envisaged that a free trade zone would improve the commercial competitiveness of SACU nations, help them attract much-needed foreign direct investment, and consolidate regional economic integration in southern Africa.

For SACU members the proposed FTA accord represents not only an opportunity to bolster their bilateral trade with the US, but also to build on the success of AGOA while redressing some of its drawbacks. Introduced in October 2000, AGOA is a crucial part of the American trade and investment policy toward sub-Saharan Africa, designed to promote free markets and expand US-African trade and investment. With thirty-eight beneficiaries, AGOA designates over 1800 products from sub-Saharan Africa for duty-free access to the US – in addition to the 4650 products already eligible under the GSP. This is in line with the policy of ‘trade not aid’

initiated by the Clinton administration in the late 1990s in terms of which the US undertook to spearhead a trade and investment drive in Africa that would compensate for reductions in its aid to the continent. By most accounts the SACU countries have scored relative gains from their participation in AGOA. They are the leading AGOA beneficiaries in sub-Saharan Africa, making up over 70 percent of U.S. non-fuel imports under this programme in 2001. Thanks to its relatively diversified economy, South Africa has been the biggest provider of these non-fuel exports to the US. Lesotho is one of the important exporters of clothing goods, while Botswana, Namibia, and Swaziland recorded a 40 to 75 percent increase in their total exports to the US in 2002.⁴⁹⁸

Yet critics of AGOA have argued that its key shortcoming is that it is a unilateral trade initiative that can be withdrawn arbitrarily by the US administration. In contrast, they have pointed out that a free trade treaty is more preferable as not only would it be more difficult to rescind but it would also include goods not covered by AGOA. These views have been echoed by a study that has cast doubts on whether AGOA will create new export opportunities for South African products. This, the study argues, is due to the fact that before the advent of AGOA US tariffs on South African exports were already low. It points out, however, that some South African agricultural exports (such as pears, avocados, oranges, pimientos, citrus juice and grape juice) have benefited enormously from AGOA, recording exponential growth over the last few years. These products could benefit further from a two-way trade agreement with the US. Furthermore, the study argues that although some clothing exports have gained from AGOA, a considerable share of clothing products does not qualify for AGOA preferences. This is because the rules of origin – which favour

⁴⁹⁸ Ibid.

the least developed nations and not South Africa – have prevented South Africa clothing producers from accessing AGOA benefits.⁴⁹⁹

The SACU-US FTA negotiations highlight three important challenges for the SACU countries. The first challenge concerns the different levels of development and size of economies among the SACU countries. The SACU market is very small in relation to that of the US. Whilst very few of the SACU countries' products can take on the US market, American products and services can do tremendous damage to the SACU economies. This calls for a very careful and calibrated approach to the negotiations on the part of SACU. SACU should strive to reach an agreement that enshrines a balanced set of obligations and rights, and which takes into account the imbalances and developmental needs of the region. The experience of Mexico shows that a poorly sequenced liberalisation process could produce severe social dislocations. A study by the Carnegie Endowment for International Peace found that although NAFTA led to an increase of 500 000 jobs in manufacturing from 1994 to 2002, the Mexican agricultural sector – where almost a fifth of Mexican are still employed – has lost 1.3 million jobs since 1994.⁵⁰⁰ As such, it necessary that the SACU-US negotiations address the unique needs and economic circumstances of SACU economies, including possible internal dislocations and transition costs.

The second challenge concerns the relationship between trade liberalisation and growth. The experience of Mexico has demonstrated that although trade liberalisation can create conditions conducive to growth, it is not a panacea for

⁴⁹⁹ See Stern M and Netshitomboni N, "AGOA, Africa and Agriculture – A Case Study of South Africa," Trade Policy Report no. 3, South African Institute for International Affairs, Johannesburg, February 2004.

⁵⁰⁰ Audley JJ, Papademetriou DG, Polaski S and Vaughan S, *NAFTA's Promise and Reality – Lessons from Mexico for the Hemisphere* (Washington, DC: Carnegie Endowment for International Peace, 2003), p.6.

development problems. NAFTA played a crucial role in consolidating reforms Mexico initiated in the early 1990s. It also opened the previously massively protected Mexican economy to foreign competition, forcing Mexican companies to become more efficient and focused. Furthermore, it bolstered the productive capacity of specific Mexican industrial sectors – notably the automobile sector – while it also exposed Mexicans to a wider choice of goods. However, commentators such as Joseph Stiglitz have argued that Mexico’s economic boom in the 1990s was unsustainable in that it masked serious underlying weaknesses: a weak educational system with low investment in technology, low tax base, low spending on research and development, high energy costs, and systemic corruption. They have also pointed out that although NAFTA enhanced Mexico’s ability to supply American manufacturing firms with low-cost parts, it failed to transform the country into an independently productive economy.⁵⁰¹ Trade liberalisation, therefore, must not be viewed in isolation from other policies such as investment policy, entrepreneurship development policy, training and development policy, technology policy, and research and development policy.

The third challenge has to do with concerns raised by South Africa’s domestic opponents of the proposed FTA, who have questioned whether it can deliver tangible benefits for SACU countries beyond what AGOA already provides. Moreover, they have expressed alarm at the inclusion of “new issues” – such as investment, intellectual property rights, government procurement and trade in services – in the negotiating agenda, which they fear may undermine the national development objectives of SACU countries.⁵⁰² The latter concern is particularly pertinent given

⁵⁰¹ ‘The broken promise of NAFTA,’ *The New York Times* 6 January 2004.

⁵⁰² See for example Neva Makgetla, ‘Free-trade pact is full of dangers,’ *Business Day* 11th July 2003.

that some of these issue-areas, for example services, are not covered by the SACU agreement.⁵⁰³

6. The Politics of EU-SA Trade

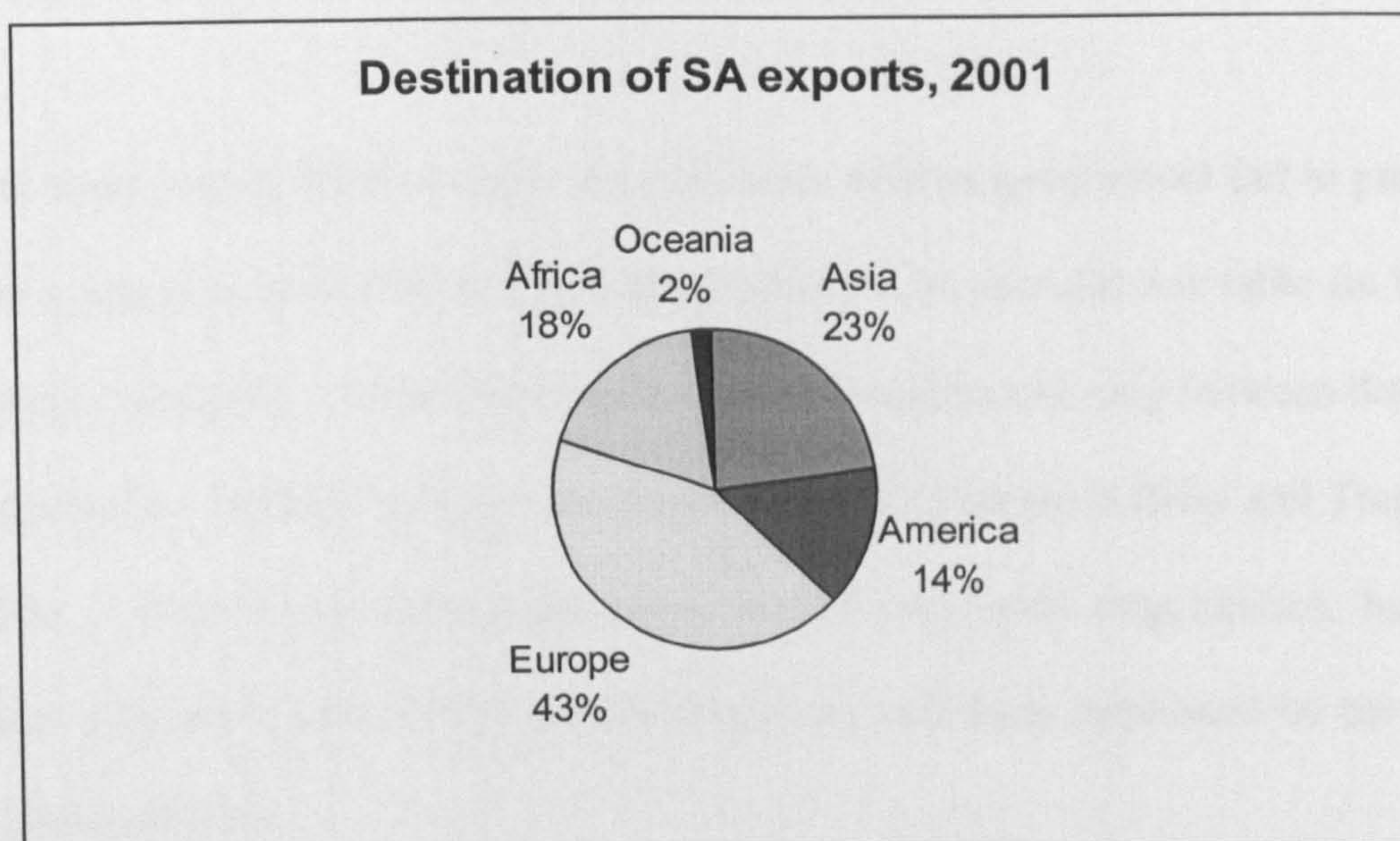
The advent of democracy in South Africa in 1994 laid the basis for a reconfiguration of the bilateral political and economic relationships between South Africa and the EU. Historically, trade and investment relations with the EU have constituted the bedrock of South Africa's foreign economic policy. The importance of the EU to the South African economy is underlined by the fact that the EU member countries collectively account for 40 percent and 30 percent of South Africa's exports and imports respectively, making the EU South Africa's most important trade and investment partner (see Graph 6). Not only did the EU abolish economic sanctions against South Africa in 1994, it announced a 'package of immediate measures' designed to bolster the emergent democracy. These entailed, among other things, committing enormous financial resources towards the RDP and increasing bilateral aid to South Africa.⁵⁰⁴

The EU also extended GSP provisions to nearly 2000 South African industrial and semi-industrial products. Furthermore, South Africa benefited from the EU's GSP for agricultural products, covering 59 percent of South Africa's agricultural exports by the end of 1995. The EU announced its intention to conclude an FTA with South Africa as early as 1992, the year South Africa embarked upon a political transition towards democracy. However, formal negotiations with the EU only began after the election of the first democratic South African government.

⁵⁰³ Interview with Kennedy Mbekeani, London, 7 July 2004.

⁵⁰⁴ 'Relations between South Africa and the European Union,' IRC News, November 1996, p.1.

Graph 6 – Destination of SA Exports, 2001



Source: Dianna Games, "The Experience of SA Firms Doing Business in Africa: A Preliminary Survey and Analysis," South African Institute of International Affairs, p. 21.

Presented in March 1996, the EU's negotiation proposal with South Africa was couched in terms of its desire to support the nascent democratic order in South Africa and to contribute towards redressing historical injustices.⁵⁰⁵ The EU contended that an FTA was the most effective means through which South Africa could gain improved access to the EU market. The EU proposal consisted of three elements. First, it proposed to rechannel programme assistance to apartheid's victims to a special fund that would be used to bolster the RDP. Second, it sought to extend favourable trade terms to South Africa in order to facilitate its reintegration into the global economy. Third, it offered South Africa partial membership of the Lomé

⁵⁰⁵ Department of Trade and Industry, "A Briefing Document to the Parliamentary Committee on the Conclusion of the RSA-EU Negotiations for a Trade, Development and Co-operation Agreement," Department of Trade and Industry: Pretoria, February 1999, p.1.

Convention, including special bilateral accords encompassing scientific and technological cooperation as well as fisheries.⁵⁰⁶

For the large part of 1996 not only did the South African government fail to proffer a coherent response to the EU's negotiating mandate, it also did not table its formal negotiating position. This was due to internal struggles not only between domestic bureaucracies – notably between the Departments of Foreign Affairs and Trade and Industry – over which state department should lead trade negotiations, but also between officials inherited from the apartheid era and those appointed by the ANC.

As Keet explained:

In part, this was because of the diverse – and notoriously uncoordinated – centres of foreign policymaking within the South African government. It was also partly because 'old guard' figures in the new state with old Eurocentric notions and neo-liberal convictions were (and are) still exerting influences on the policy directions of the more cautious and accommodating forces in the new government. The new incumbents were also overstretched in many directions, and were inexperienced in the dynamics of the new global economic order and the complexities of international negotiations.⁵⁰⁷

Yet it was also evident that South Africa's delay in responding to the EU's negotiation offer was part of the former's strategy designed to shift the terms of engagement with the EU. Given the significant political, legal and economic implications that an EU-SA FTA deal would inevitably have had for the smaller SACU members, South Africa was concerned that its SACU partners should not be left out in the lurch and that the negotiation process should be as inclusive and consultative as possible. Indeed, South African policymakers were wary of what they

⁵⁰⁶ 'Relations between South Africa,' p.2.

⁵⁰⁷ Dot Keet, "Europe's Free Trade Plans with South Africa: Strategic Responses From and Challenges to South and Southern Africa," *Development Southern Africa*, vol. 14, no. 2, April 1997, p.286.

considered to be divisive and controversial interventions by the EU. For this reason South Africa, as part of its negotiating strategy, actively supported the demand of the BLNS countries for material resources from the EU to conduct their own impact evaluations of the mooted FTA.⁵⁰⁸

A major point of contention was whether South Africa should participate in the negotiations as a developed or a developing country. South Africa had requested access to the Lomé Convention in December 1994. The EU bureaucracy was divided in terms of how to respond to South Africa's appeal. On the one hand, the Directorate General (1), which was in charge of external relations, argued for the negotiation of a bilateral FTA with South Africa. On the other hand, the Directorate General (8), which was in charge of development, was sympathetic to the ANC's request for South Africa to be classified as a developing country and wanted South Africa to be offered a partial membership of the Lomé Convention. This position was influenced partly by the WTO decision in its review of South African trade policies in 1993 that South Africa was an "economy in transition" (see Chapter 4). This implied giving South Africa a degree of flexibility regarding the pace of trade policy reform. Ultimately, the EU decided that these proposals were not mutually exclusive and made South Africa an offer combining both options.⁵⁰⁹

This culminated in the conclusion of the Trade, Development and Co-operation Agreement (TDCA) between the EU and South Africa. The TDCA encompasses a wide array of components, including: political dialogue; provisions for a Free Trade Area; trade related issues; economic cooperation; financial aid and development co-

⁵⁰⁸ Ibid., p.286.

⁵⁰⁹ Interview with Willem Smallberger, Pretoria, 9 April 2003.

operation; and social and cultural cooperation. As part of consolidating a far-reaching relationship with the EU, two other agreements were concluded, namely the Science and Technology Agreement (signed in December 1996) and Partial Membership of the Lomé Convention (agreed in April 1997). Granting partial membership of the Lomé Convention to South Africa implied that the country would be excluded from the convention's trade preferences and from the Stabex and Sysmin stabilisation funds, but it would be entitled to certain political benefits, regional accumulation in respect of the rules of origin, and the opportunity to tender for the Lomé funded EDF projects. Furthermore, South Africa acceded to a request from the EU to negotiate a Wines and Spirits Agreement and a Fisheries Agreement – two of the three (the other is agriculture) politically contentious areas of negotiation that are discussed later in this section.

A noteworthy feature of the TDCA is that it provides for free trade with asymmetrical coverage of all trade and sectors and special protocols to cover sensitive products. In sum, the agreement provides for an asymmetrical reduction of tariffs, with the EU making the speediest and deepest cuts to offset current regional trade imbalances. Aimed at integrating regional markets, the protocol calls for the establishment of a free trade area in the region by 2005. Some allowances will be made for infant industries, thereby granting some SADC countries a leeway to apply for “extended grace periods” during which tariff and subsidy reductions could be limited (within WTO provisions).⁵¹⁰ The TDCA also provided for development and financial measures to underpin further regional integration and to facilitate the adjustment

⁵¹⁰ ‘SADC set to march into new millennium with trade deal,’ *Business Day* 10th May 1999.

process in Southern Africa. Covering nearly 90 percent of trade between South Africa and the EU, the TDCA consists of the following components:

- EU: full liberalisation of 95 percent of imports from South Africa by end of a transitional period of 10 years;
- South Africa: full liberalisation of 86 percent of imports from EU by end of a transitional period of 12 years;
- Includes both traded and non-traded products;
- Provides for the protection of South Africa's sensitive sectors (automobiles and components, textiles and clothing, red meat, sugar, winter grains, and dairy);
- Commits the EU to the provision of support for SACU to adjustment efforts resulting from the establishment of the FTA;
- Contains several elements that assure a positive regional impact on other countries of SADC.⁵¹¹

The first politically contested negotiation item was the issue of agricultural trade, historically the EU's most protected economic sector and which the EU has generally excluded from FTA negotiations. In its negotiations with South Africa the EU managed to exclude 46 percent of its agriculture from the FTA agreement. Nonetheless, South Africa did make some important advances. First, it successfully pushed for the inclusion of the agricultural safeguard clause, which "gives South Africa the right to challenge the EU should there be proof that increased imports of agricultural products are causing harm or threatening to cause harm to domestic industry."⁵¹² Second, whilst South Africa failed to convince the EU to eliminate export subsidies, it succeeded to extract some commitments. The EU made an undertaking that it would not pay export refunds on cheese exported to South Africa.

⁵¹¹ Department of Trade and Industry, "A Briefing Document," p.3.

⁵¹² Ibid., p.4.

It also indicated its willingness to “eliminate export refunds on goods South Africa might want to offer for front-loading during the implementation period.”⁵¹³ Furthermore, the introduction of tariff quotas meant that South Africa would be able to penetrate the EU reserve list and qualify for preferences in exports of interest, including canned fruit, fruit juices and cut flowers. The TDCA also heralded a significant reduction of the EU reserve list from 46 percent to 38 percent by 1997, while subjecting the reserve list to regular reviews with the aim of further opening of the market.⁵¹⁴

In addition to the main agreement, South Africa and the EU entered into negotiations on two equally politically sensitive sectoral accords, namely a Fisheries Agreement and a Wines and Spirits Agreement. At the behest mainly of Spain, the EU proposed that the envisaged fisheries deal provide for EU access South Africa’s fishing resources. To this end, the EU made a linkage between, on the one hand, the Fisheries Agreement and, on the other, market access concessions. South Africa has consistently contested this attempt at linkage, citing a commitment to the preservation of fisheries in its policy.⁵¹⁵ Although an understanding regarding the broad outlines of a collaborative arrangement on fisheries policy was broached in December 1998, no concrete cooperation agreement has been concluded in this regard. Thanks to the stalemate over the EU’s insistence to gain access to South African waters, negotiations on a fisheries agreement have been deferred indefinitely. This implies that fishery products will not be included in any of the preferential tariff arrangements of the TDCA. Regarding wines and spirits, Spain and Portugal pushed for the inclusion in the agreement of an undertaking by South African wine producers to

⁵¹³ Ibid.

⁵¹⁴ Ibid., p.5.

⁵¹⁵ Ibid., p.9.

phase out the use of the generic terms *port* and *sherry* to describe their wine products. This goes to the heart of the debate about intellectual property debate concerning the EU demand for the protection of European names and the so-called geographical indicators around certain products such as port, sherry, grappa, ouzo, korn/kornbrand, jagertee and parcheron.⁵¹⁶

South Africa and the EU reached a political compromise in this regard in 1999. This is made up of the following key features: it provides for a phase-out clause for South Africa for the use of names port and sherry in exports to third countries; extends the definition of the South African domestic market to include all of SACU; it allows South Africa to continue the use of names of port and sherry on its domestic market throughout the transitional period of 12 years; it reviews the use of names during the transitional phase to decide on the names to use beyond the 12 year-period; it allows the South African wine industry to enjoy a 42 million litre duty-free quota in the EU market, whilst committing the EU to providing financial assistance for the restructuring of the South African wine industry.⁵¹⁷

The TDCA has important implications for SACU. Although the BLNS countries did not participate directly in the negotiations – which was a source of concern to them as noted above – they were able to develop critical responses and articulate their key concerns to South Africa during regular consultation meetings.⁵¹⁸ Even so, the TDCA (especially when it gets implemented in full by 2012) will have important implications for the BLNS economies. The expected phasing down of the common external tariff for EU imports will lead to a decline in the level of tariff revenues

⁵¹⁶ See Chapter 7 for South Africa's position on the issue of geographical indicators.

⁵¹⁷ Department of Trade and Industry, "Report on South Africa's," p.9.

⁵¹⁸ See Keet, "Europe's Free-Trade Plans," p.286.

collected by SACU, thereby reducing the amount received by the BLNS countries from the common SACU revenue pool. As indicated above, it was with this reality in mind that South Africa agreed, in the revised SACU Agreement, to a revenue-distribution formula that was far more generous to its BLNS counterparts. Another effect, albeit indirect, of the TDCA on the BLNS countries will be the increased competition that will result from EU goods enjoying the same preferences as BLNS exports in the South African market.

It was intimated in the introduction to this chapter that one of the key objectives of South Africa's global trade strategy is to reduce the dependence of its foreign trade on the EU. As Graph 6 illustrates, South Africa still has a long way to achieve that objective. Even so, the country has made some progress in its quest to diversify its trade; its export-led growth strategy has resulted in a phenomenal growth of exports to African markets. Increasingly, South Africa has also been trading robustly with Latin America and Asia, regions South Africa historically had weak trade links with (see Graphs 3 and 6). A major threat to South Africa's export strategy will come from other middle-income developing countries competing for access to developing country markets. Specifically, competition to South Africa's exports will emanate from countries such as China that have similar competitive advantages to South Africa's. Take the case of Mexico, a middle income developing nations such as South Africa. Since it joined the WTO in 2001, China has dislodged Mexico as the second largest exporter (after Canada) to the US. Though Chinese goods are subject to duties, they are generally far cheaper than Mexican products. China has also

replaced Mexico as the favoured destination for multinational companies seeking cheap labour.⁵¹⁹

7. Deepening South-South Trade and Multilateralism

One of South Africa's foreign-policy priorities has been to pursue solidarity with other developing nations in the global order. South Africa's multilateral diplomacy has sought to "address the pernicious effects of globalisation by strong advocacy for greater say by developing countries in global governance, for alleviating debt and other economic problems of poor states, and for reform of multilateral bodies to make them more sensitive to the particular needs of developing countries."⁵²⁰ A vital component of this mission has entailed forging strategic cooperation with key developing countries with a view to working towards the achievement of a just and equitable global trading system. To this end, South Africa has been involved in exploratory negotiations aimed at promoting special trading arrangements with designated developing countries. Specifically, significant diplomatic capital has been expended on pursuing FTAs with South Africa's most important strategic allies in the developing world – namely Brazil, India, China and Nigeria. These endeavours constitute an essential part of putative 'butterfly strategy' that has guided South Africa's global trade agenda. At the heart of this approach has been a determination by South Africa to reduce the historical dependence of its external trade on the EU and to extend its 'trading wings' from Africa to other regions of the world – mainly North America, Latin America and East Asia.⁵²¹

⁵¹⁹ 'After initial boom, Mexico's economy goes bust,' *Los Angeles Times* 2nd January 2004.

⁵²⁰ Alden and le Pere, *South Africa's Post-Apartheid Foreign Policy*, p.66.

⁵²¹ Interview with Faizel Ismael, Geneva, 13 March 2003.

On June 6, 2003, the foreign ministers of Brazil, South Africa and India signed a declaration – the Brasilia Declaration – that “identified the trilateral cooperation among themselves as an important tool for achieving the promotion of social and economic development and they emphasised their intention to give greater impetus to cooperation among their countries.”⁵²² Following the adoption of the declaration, the three countries set up the IBSA (India, Brazil, South Africa) Dialogue Forum to institutionalise their relations and coordinate their strategies around issues of trade, health, defence and global governance. This culminated in the prominent roles they played as the leading members of the Group of 20 (G20+) developing countries in the ill-fated Cancún ministerial meeting in September 2003 (see Chapter 7). Within this context the three countries, which account for 3 percent of global economic output, have been exploring the possibilities of concluding preferential trade agreements; negotiations so far have focused on discussing proposals on modalities and timetables for the negotiations. Furthermore, the South African government has signalled its intention to conclude FTA deals with China and Nigeria in the future.

The effectiveness or otherwise of this South-South collaboration, on which South Africa has staked the success of its global trade strategy, will be influenced to a degree by the future trajectory of the crisis-ridden contemporary system of economic multilateralism. According to Robert Cox, the “crisis of multilateralism” emerged in the 1980s in “a tendency on the part of the US and other powerful countries to reject the United Nations (UN) as a vehicle for international action and a movement on the part of these countries towards either unilateralism or collective dominance in world

⁵²² Ministério das Relações Exteriores, *Declaração de Brasília*, Brasília, 6 June 2003, p.2.

economic and political matters.”⁵²³ A number of factors marked the context in which this shift occurred. First, the economic crisis of the mid-1970s, which led to a growing reluctance on the part of rich countries to finance aid to the Third World. Second, a growing suspicion that the UN system was an “unfriendly political forum” and a potential obstacle to economic liberalisation. Third, the shifting geopolitical balance occasioned by the end of the Cold War. Fourth, the increasing debt burden experienced by the majority of the developing countries and their growing acceptance of a new neo-liberal economic paradigm.⁵²⁴

Together, these factors gave industrialised countries a strategic advantage, which was used to change the institutional balance in the multilateral system. Asserting the supremacy of the Bretton Woods institutions, the industrialised countries promoted measures that gave them a far-reaching role in dealing with development issues. They took steps designed to erode the UN economic role in the key economic areas of trade, money and finance. These measures entailed generously providing for the IMF and World Bank while denying some UN specialised agencies of financial resources as well as restricting their agendas and institutional mandates. Furthermore, the US, the highest UN financial contributor, used its considerable arrears to the UN as leverage to secure compliant behaviour from the organisation. As such, the developing countries found themselves increasingly drawn into the sphere of influence of the Bretton Woods institutions and the GATT, with decreasing possibilities of exercising traditional group action within the UN. This resulted in an

⁵²³ Cox, “Multilateralism and World Order,” p.498.

⁵²⁴ Ibid.

asymmetry in the command over expertise between the Bretton Woods institutions, on the one hand, and the UN specialised agencies, on the other hand.⁵²⁵

Cox argues that the forced retreat of the UN from the economic domain created a cleavage between the old economic multilateralism, perceived as support to a liberal economic order and institutionally located in the IMF and World Bank, and a more political pluralism, symbolically located in the UN General Assembly “and perceived by the powerful states as harbouring an unfriendly Third World majority.”⁵²⁶ This has serious implications for developing countries such as South Africa, which had hitherto wielded considerable influence over economic-decision-making through the General Assembly in the past. For concerns have been raised that while the UN has continued its forced retreat from the economic domain, the Bretton Woods institutions have failed to live up to their responsibilities. The World Bank has been criticised for its inability to fulfill its mandate in that it has not mobilised adequate resources for development and has become one of the most expensive providers of non-concessional funds. The IMF, on the other hand, has been condemned for playing little or no role in ensuring the stability of global monetary and exchange rate environments.⁵²⁷

The “crisis of multilateralism” was starkly highlighted by the controversy over the IMF’s mishandling of the 1997/1998 Asian financial crises and the controversial circumstances surrounding the appointment of its new managing director. This led to a revival of attacks on the global economic governance institutions from the left and from the right. On the one hand, the right expressed suspicions of any form of

⁵²⁵ South Centre, *For A Strong and Democratic United Nations* (London: Zed Books, 1996), p.173.

⁵²⁶ Cox, “Multilateralism and World Order,” p.498.

⁵²⁷ South Centre, *For A Strong and Democratic United Nations*, p.153.

governance and 'sees the Bank and the Fund as relics of a discredited age of interventionism.' The left, on the other hand, has also lost faith in multilateralism for a variety of reasons – including the failure of structural adjustment policies and by the creditor nations to reduce meaningfully the debts owed by poor countries and structural adjustment.⁵²⁸ Doubts have also been voiced about the future of global economic governance following the failure of the WTO ministerial meetings in Seattle (1999) and Cancún (2003).

A number of important challenges need to be overcome if legitimacy is to be restored to the multilateral model of global governance. The key challenge facing multilateralism is the political vulnerability of global governance institutions. According to Evans, this vulnerability is attributable mainly to “the powerful elite ideology within the United States that is both profoundly distrustful of any kind of public governance institutions and deeply apprehensive of anything that might reduce the absolute sovereignty of the United States itself.”⁵²⁹ Meaningful multilateral cooperation cannot be attained in the absence of a broader base of political support for global governance institutions. It is necessary, therefore, that these institutions are endorsed equally by developed and developing countries if the multilateral system is to be sustained. The second challenge is the resurgence of regionalism. A key concern about regionalism is that it reduces the motivation for and commitment to multilateralism.

⁵²⁸ See 'Do we really need the IMF?' *The Guardian* 10th July 1998; see also 'Reformers could make a world of difference,' *The Guardian* 13th March 2000.

⁵²⁹ Peter Evans, "Economic Governance Institutions in a Global Economy: Implications for Developing Countries," a paper prepared for the tenth session of the United Nations Conference on Trade and Development, Bangkok, 12 February 2000, p.5.

Two opposing views have been expressed on the compatibility between regionalism and global integration. One is that regionalism is leading to new or stronger trade barriers and a neglect of multilateral processes, and, because it is inherently discriminatory (favouring members over non-members), it is weakening global non-discriminatory rules. For example, the EU regionalism has been commended for its openness while it has been criticised for its protectionist and trade-diverting features such as Common Agricultural Policy.⁵³⁰ The other view is that some activities are best carried out at regional as opposed to global or national levels. It argues that regionalism enables states to make advances in co-operation and liberalisation in ways that provide a building block for global initiatives. Thus, regional and multilateral processes are seen as not mutually exclusive. A number of examples are cited to buttress this point. The first one is that the UR of trade negotiations was completed alongside parallel regional integration processes in the EU and North America. In this context, the political momentum acquired by President Clinton in securing the NAFTA Treaty – which was seen as a victory over protectionism – has been viewed as important in reinforcing the GATT negotiations. The Marrakesh agreement on liberalising public procurement within GATT has been cited as further evidence of a EU regional liberalisation initiative acting as forerunner of, and not as an impediment to, wider liberalisation.⁵³¹

The underlying asymmetries of international economic regimes constitute another challenge to multilateralism. Over the past five decades the number of countries represented in the UN has risen dramatically. All these states want to have a voice in international economic decision-making. However, there has been a growing tension

⁵³⁰ Vincent Cable and David Henderson, *Trade Blocs? The Future of Regional Integration* (London: Royal Institute of International Affairs, 1994), pp.12-13.

⁵³¹ Ibid.

between the desire to ensure universal participation and the need to create efficient decision-making. What has aggravated this tension is the fact that global economic decision-making has been monopolised by the US, Europe and Japan. This is evidenced not only by the voting requirements of the IFIs, but also in the exclusivity of groups such as the G7/8 and the domination of WTO processes by the key economic powers.⁵³² It is imperative that existing economic governance institutions are restructured to ensure that they are more pluralistic and participatory, and to guarantee that they bridge the interests of both developed and developing countries. Tackling these challenges requires that both the developed and the developing countries, including South Africa, to accept not only that the current global order is unjust but also that it is, in the long-term, neither sustainable nor conducive to global stability.

7. Conclusion

This chapter has analysed South Africa's global trade strategy. It has contended that the strategy needs to be understood within the framework of South Africa's wider global economic agenda, which is calculated to promote the country's rise as a dynamic export-led manufacturing economy. To this end the strategy seeks to reorder the position of South Africa in the global political economy by reducing its dependence on established developed country markets (especially the EU) and by entering into new trade relationships with rapidly growing emerging markets in Africa, Asia and Latin America. South Africa's global trade strategy rests on three pillars: multilateralism; regionalism; and bilateralism.

⁵³² The Commission on Global Governance, *Our Global Neighbourhood* (Oxford: Oxford University Press, 1995) p.147.

At a multilateral level, South African policymakers have actively encouraged the country's re-incorporation into the global economy and campaigned for a more substantial role for developing nations in moulding multilateral economic governance, particularly in relation to the WTO. Yet the extent to which this facet of the strategy can succeed or not will depend on how South Africa implements it within the WTO and also on the future of the embattled system of economic multilateralism on which the country has staked its fortunes. Regionally, South Africa has employed trade as a foreign policy tool to normalise previously damaged political relations, pursue its hegemonic ambitions, and strengthen regional trading arrangements in order to mitigate the negative effects of economic globalisation.

The chapter has demonstrated that although South Africa's hegemonic leadership seems to have been accepted by SACU countries, it has been far less effectual in exercising such leadership over the SADC. Not only has the failure of South Africa's 'quiet diplomacy' in Zimbabwe undermined its leadership pretensions in the SADC region, it has starkly demonstrated that there are limits to what even a powerful economic dynamo such as South Africa can accomplish in its regional neighbourhood. At a bilateral level, South Africa has concluded an FTA deal with the EU in the hope that it will enable South Africa to gain greater access for its exports (especially agricultural products) to the EU market and offset its trade deficit with the latter. In the long-term, the agreement will have crucial ramifications for the smaller SACU economies, including the potentially adverse effects that the envisaged phasing down of the common external tariff for EU imports will have on

SACU tariff revenues as well as the increased competition that will result from EU goods enjoying the same preferences as BLNS exports in the South African market.

South Africa and the other three SACU countries have also been engaged in FTA negotiations with the US that they believe will shore up their bilateral trade with the US and lock in the trade preferences they have been enjoying in the US markets since the introduction of AGOA in 2000. Yet critics of the proposed FTA have questioned whether it can deliver substantial benefits for SACU countries beyond what AGOA already provides. Furthermore, South Africa has promoted strategic cooperation with designated developing nations – mainly India and Brazil – with a view to challenging the structural imbalances of the contemporary global order and agitating for a freer and fairer global trade system. It is still too early to offer a considered and comprehensive assessment of how the IBSA alliance is likely to unfurl.

What is clear, nonetheless, is that its durability and resilience will be severely tested by a number of questions it raises. Will the IBSA countries be able to sustain a balance in the long-term between the necessity for collective cooperation and the their individual positions as competitors for export share in the markets of advanced countries? How will they tackle concerns voiced by other developing countries that IBSA is an exclusionary group? Can South Africa effectively assuage perceptions among other African countries that its involvement in the IBSA coalition indicates a lack of commitment to Africa? It is in the cauldron of the presently embattled Doha trade talks that these questions have to be answered. And it is to the discussion of the role of South Africa in the Doha multilateral trade negotiations that this thesis turns to next.

Chapter 7

Championing Trade and Development? : South Africa and the Doha Round of Multilateral Trade Negotiations

This chapter explores South Africa's approach to the DR of multilateral trade negotiations. It argues that from South Africa's perspective the DR represents an opportunity for developing countries to provide leadership on issues of multilateral trade and development. To this end South Africa has sought to carve a role for itself as facilitator and broker in the Doha negotiations. South Africa's negotiating posture in the DR is founded on the premise that it seeks to champion the interests of developing nations, particularly African countries, while ensuring that its interests as a trading nation are not bypassed. For South Africa, therefore, preserving the integrity of the WTO and preventing its disintegration is an overarching priority. Although imperfect, a rules-based world trade system provides a solid basis for ensuring that global trade processes are not shaped solely by economic power plays. The degree to which South Africa's strategic negotiating objectives can be realised is contingent, therefore, not only upon the durability of the rules-based multilateral trade regime but also upon degree to which the country can reconcile its global ambitions with its domestic and regional commitments.

1. The Doha Round

The ill-fated WTO ministerial meeting held in Seattle in 1999 took place within the context of circumstances different to those that marked the UR. First, developing

countries – which make about two-thirds of the WTO membership – showed that they were increasingly aware that their voice mattered in the WTO. Owing to their numerical preponderance in the WTO, they proved that trade liberalisation could not proceed without their agreement: deals cut in secretive ‘green room’ processes by powerful trading nations were no longer sufficient to win consensus on a new trade round. Second, most developing countries which took part in the UR expressed disappointment and resentment that they had gained little or nothing from it, despite the assurances made by developed countries to provide them with larger market access and technical aid. Third, the Seattle meeting highlighted a growing public disaffection with and distrust of the multilateral trade system, prompting the then US Trade Representative, Charlene Barshefsky, to remark that the single biggest threat facing globalisation today was the lack of public support for it.⁵³³

The DR of multilateral trade negotiations was launched in November 2001 in terms of the principle of the “single undertaking”: nothing is agreed until everything is agreed. The decision to initiate the DR flowed from a combination of factors that exerted tremendous pressures on the rules-based global trade system, threatening to imperil the post-war consensus upon which the multilateral trade regime was founded. These factors include an exponential increase in the membership of the WTO, an ever-expanding trade negotiating agenda, a governance process over-burdened by competing national interests, a burgeoning desire by WTO members to conclude bilateral and regional trade deals, as well as increasing concerns about the social and environmental effects of free trade.⁵³⁴ The momentum for initiating the DR also

⁵³³ ‘Free trade under fire,’ *Financial Times* 11th October 1999.

⁵³⁴ Patrick Cronin, “The Doha Round: Prospects for the Rules-Based Trading System,” in C. Roe Goddard, Patrick Cronin and Kishore C. Dash (eds.), *International Political Economy – State-Market Relations in a Changing Global Order* (Basingstoke: Palgrave, 2003), pp.369-370.

derived from widely shared perceptions that a repeat of the Seattle-type impasse could inflict irrevocable harm to the multilateral trade system. Tied to this concern were mounting fears about the parlous state of the global economy and the implications for the US economy of the terrorist attacks on the World Trade Centre on September 11 2001.⁵³⁵

The pre-Doha ministerial meetings were marked by tensions similar to those that paralysed the failed Seattle summit. These fissures revolved mainly around disagreements between developed and developing countries over issues to be covered by the Doha negotiating agenda. The EU advocated a broad-based round, encompassing negotiations on all the 'new issues' including competition, investment, trade facilitation as well as transparency in government procurement. Although its attitude towards the elimination of export subsidies was lukewarm, it nevertheless sought to establish a linkage between trade and the environment in response to demands by environmental lobby groups. Furthermore, the EU pushed for substantial reductions in industrial tariffs by developing countries and the tightening of labour standards in the global trade system.⁵³⁶

For its part, the US wanted the DR to deal with the established issues of agriculture, services and industrial tariffs. But the US has conflicting interests on the issue of agriculture. On the one hand, it has supported the position of the Cairns Group of agricultural exporters on widening access to the EU market and the phasing out of export subsidies. On the other hand, however, the US has enacted legislation that has raised domestic farm subsidies substantially. Considered the most generous farm

⁵³⁵ Ibid., p.378.

⁵³⁶ Jawara and Kwa, *Behind the Scenes at the WTO*, p.53.

subsidy package in American history, the Farm Security and Rural Investment Act has increased federal spending on farm programmes by US\$82.6 billion over the next decade, in addition to the US\$100 billion Congress was already set to provide to farmers.⁵³⁷ Nowhere have the deleterious effects of US agricultural subsidies been felt more than in West Africa. The International Centre for Trade and Sustainable Development has stated that the massive subsidies provided by the US government to its 25 000 cotton farmers threaten to wipe out the livelihoods of ten million West Africans who rely on cotton production. At US US\$4 billion, US cotton subsidies alone surpass by 60 per cent the entire GDP of Burkina Faso. The steady collapse in world prices induced by subsidisation has reversed the remarkable success that had been achieved by poor West African and Central African countries to make their cotton industries among the most competitive in the world. Thanks to US subsidies, in the past four years the region recorded a 31 per cent decrease in export revenue even though its production rose by 14 per cent. The decline in cotton prices costs West African countries about US\$1 billion a year in lost exports, three times the US aid budget for Africa. It is estimated that the elimination of US cotton subsidies could raise world prices by 26 per cent, which could go a long way towards alleviating poverty in these countries.⁵³⁸ The controversy over cotton subsidies was partly responsible for the failure of the 2003 WTO ministerial meeting in Cancún and several African countries consider its resolution as central to restarting the Doha negotiating process.⁵³⁹

⁵³⁷ World Trade Organisation *Annual Report 2002* (Geneva: WTO, 2002), p.19.

⁵³⁸ The International Centre for Trade and Sustainable Development, "Elimination of Cotton Subsidies: A Development Deliverable for Cancun," *Bridges* No.4 May 2003, pp.1-2.

⁵³⁹ 'Talks unravel over cotton,' *Financial Times* 16th September 2003.

The US also wanted the round to tackle the issue of transparency in government procurement and trade facilitation. Unlike the Democratic administration under Clinton, which was indebted to labour interests, the Bush administration has not considered it necessary to push for the linking of trade and labour standards. Additionally, the Republican government did not see the linking of trade and the environment as a priority.⁵⁴⁰ The US refused to enter into any discussions aimed at reviewing the existing anti-dumping rules, which it has employed extensively. There have been mounting concerns about the exponential increase in the use of anti-dumping instruments by both industrialised and developing countries in recent years. But it seems unlikely that the US administration will give ground easily on this issue given its sensitive nature in American national politics: numerous powerful domestic lobbies are beneficiaries of US anti-dumping measures and will not countenance any attempts to change the status quo.⁵⁴¹

Many developing countries were opposed to the launch of a new negotiating round, especially the inclusion of the 'new issues' – also known as Singapore issues – such as competition, investment and trade facilitation and transparency in government procurement. Opposition to the inclusion of the 'new issues' sprang from the belief on the part of these countries that they had gained little or nothing from the previous UR, notwithstanding pledges made by developed countries to provide them with larger market access for their agricultural products and apparel and textile exports, as well as with the necessary technical assistance to implement their WTO obligations. Developed countries – particularly the EU and Japan – were keen to see the DR build on a limited set of investment liberalisation measures that were agreed to in the UR

⁵⁴⁰ Jawara and Kwa, *Behind the Scenes at the WTO*, pp.53-54; Cronin, "The Doha Round," p.383.

⁵⁴¹ See Cronin, "The Doha Round," p.379.

and “give their corporations maximum flexibility in managing their operations abroad.”⁵⁴² Given the enormous importance of the Singapore issues to the EU, the region is unlikely to make substantial concessions to developing countries on its protectionist agricultural policy without demanding reciprocity from the latter in this important area of its trade interests.

The inclusion of the ‘new issues’ in the Doha negotiating agenda was opposed particularly by the ‘Like-Minded Group’ (LMG), a vocal group of fifteen developing countries within the WTO.⁵⁴³ Not only were these countries wary of engaging in negotiations about these issues in the DR, they were concerned about the added weight of new responsibilities these entail in light of the formidable UR implementation challenges they still had to fulfill. For this reason they insisted that the DR negotiations should rather focus on implementing UR agreements on such matters as granting greater market access to agricultural products from the developing world as well as providing technical capacity for poor countries. It is worth noting, however, that some developing nations – such as South Africa, Morocco and Mexico – supported a broad-based negotiating agenda while others – for example Brazil, Argentina, Paraguay and Chile – stated that they would accept a comprehensive negotiating round only if industrialised nations agree to eliminate all agricultural subsidies.⁵⁴⁴

Developing nations have demanded greater access to industrialised country markets for their competitive exports – agriculture, textiles and clothing. Of all the issues

⁵⁴² Ibid., p.381.

⁵⁴³ The ‘Like-Minded Group’ of countries are India, Mauritius, Pakistan, Malaysia, Cuba, Zimbabwe, Dominican Republic, Kenya, Egypt, Tanzania, Indonesia, Sri Lanka, Uganda, Honduras and Jamaica.

⁵⁴⁴ Jawara and Kwa, *Behind the Scenes*, p.54.

considered in the UR of trade negotiations, agricultural reform was the most urgent for developing countries. Yet agricultural protectionism in the developed countries remains an important obstacle to achieving this goal. Although the subsidisation of agriculture in the developed countries is allowed under the Agreement on Agriculture agreed in the UR, it has “resulted in creating imbalance in the rights and obligations among Members to the detriment of developing countries, as many developing countries are deprived of the financial resources to afford such an export competition policy.”⁵⁴⁵ Not only does this agreement penalise developing countries – whose exports are concentrated in products where market access is highly restricted – but it also fails to acknowledge the critical social and economic significance of the agricultural sector in the developing world. A concern has been raised that the admittance of ten⁵⁴⁶ new states into the EU in May 2004 is likely to reinforce EU agricultural protectionism as the EU might be faced with pressures to accommodate the farming concerns of new states such as Poland.⁵⁴⁷ However, the budgetary impact of eastern enlargement in agriculture is likely to be reduced by the implementation of a formula that will see agricultural spending phased in over a long period – 2013. It bears emphasising that trade protectionism is not the preserve of the EU and the US. Agricultural subsidy support is also very high in Japan, Switzerland, Iceland, Korea and Norway.⁵⁴⁸

⁵⁴⁵ United Nations Conference on Trade and Development (2001), *Current Developments on Issues of Interest to African Countries in the Context of post-Seattle WTO Trade Negotiations* (Geneva: United Nations, 2001), p.3.

⁵⁴⁶ Cyprus, Poland, Malta, the Czech Republic, Slovakia, Estonia, Slovenia, Lithuania, Latvia and Hungary.

⁵⁴⁷ ‘Eastward ho!’ *The Economist* 20th June 2002.

⁵⁴⁸ According to the WTO, in the Republic of Korea, Norway, and Switzerland, total agricultural support is close to, or exceeds, the sector’s contribution to GDP.

Developing countries have called for a greater commitment to the principle of special and differential treatment (SDT), and for steps to be taken to deal with their weak technical and institutional capacities that have prevented them from exploiting the advantages of the multilateral trade system. In particular, capacity constraints have severely hampered the ability of the LDCs to understand the new trade issues and to cope with the obligations imposed by the WTO system. At Doha developing countries extracted a concession from industrialised countries on the issue of SDT: the Doha Declaration commits rich nations to providing technical assistance to poor countries, although it does not specify the scale of assistance that will be offered and how the needs of individual countries will be determined and fulfilled.⁵⁴⁹ Many LDCs see a direct link between the issues of technical assistance and market access: even if they are granted access to industrialised country markets, their supply-side constraints bar them from taking full advantage of these market openings. Improved technical assistance could play a vital role, therefore, not only in reinforcing the ability of developing nations to assess the advantages and costs of various trade agreements and enabling them to participate more effectively in trade negotiations and dispute settlement, but also in bolstering their manufacturing capabilities.

Furthermore, developing countries have drawn attention to the need to address asymmetries and imbalances in WTO rules and agreements, which continue to hinder their growth and development. In particular they have emphasised the need to curtail the abuse by the key industrialised nations, notably the US, of countervailing measures such as anti-dumping procedures to exclude their exports.⁵⁵⁰ They have also raised concerns about the consequences of replacing textile quotas with tariffs,

⁵⁴⁹ See World Trade Organisation, *Doha Declarations* (Geneva: WTO, 2002), pp.33-35.

⁵⁵⁰ *Ibid.*, pp.38-40.

agreed in the UR, which had kept out their products and wanted the arrangement nullified.⁵⁵¹ In addition, they have demanded a transparent and inclusive decision-making process in the WTO, which they see as crucial in restoring the credibility of and public support for the multilateral trading system.

One of the issues central to the DR has been the matter of TRIPs and public health. Developing countries secured guarantees from the industrialised nations that the existing TRIPs commitments would not obstruct efforts to tackle public health problems faced by poor countries – particularly those induced by epidemics such as HIV/AIDS, malaria and tuberculosis.⁵⁵² Most developing countries have rebuffed attempts by the US and EU to include the issues of labour and environmental standards in the Doha negotiating agenda. Developing country resistance to the incorporation of labour standard dates back to the 1996 Singapore ministerial meeting, but it hardened when former US President Bill Clinton, prior to the start of the failed Seattle meeting in 1999, proposed a linking of trade and labour in response to domestic political pressures. Following a stalemate over the issue, it was decided by the WTO to refer the problem to the International Labour Organisation (ILO) for clarification. The EU has been under pressure from domestic lobbies to push for an alignment of trade rules with the environment. Although this EU negotiating stance has generally been opposed by developing countries, the EU secured an agreement at Doha to commence negotiations in three issue areas to: clarify the relationship between existing WTO rules and specific trade commitments outlined in multilateral environmental agreements (MEAs); elaborate procedures for regular information

⁵⁵¹ Jawara and Kwa, *Behind the Scenes*, p.55.

⁵⁵² World Trade Organisation, *Doha Declarations*, pp.24-26.

exchange between MEA Secretariats and the relevant WTO committees; and reduce or eliminate tariff and non-tariff barriers to environmental goods and services.⁵⁵³

2. South Africa's Doha Negotiating Position

South Africa played an active role in the crafting of the Doha Development Agenda (DDA) and supported the text of the Doha Declaration (DD) – which inaugurated the DR as a development round – even though it believed that certain elements of the declaration, notably the provisions on agriculture and development, could have been strengthened further.⁵⁵⁴ The essential features of South Africa's strategic approach to the DR have been discussed in Chapter 6 so will only be reiterated cursorily here. Briefly, South Africa believes that the key to sustainable global economic growth lies with stimulating the growth and developmental potential of developing countries through the exploitation of their comparative advantages. Realising the full potential of these advantages, however, is contingent upon developed countries jettisoning their protectionist trade policies and practices and embarking on deep-going structural adjustment in their domestic economies. Such adjustment would require industrialised nations to reduce the protection enjoyed by their inefficient 'grandfather' industries and fundamentally reform their agricultural trade policies. This could not only promote a transfer of production and investment to developing countries but could also advance industrialisation and development and boost North-South and South-South trade.

⁵⁵³ Ibid., p.13.

⁵⁵⁴ For an analysis of South Africa's role prior to and during the Doha ministerial summit see Jawara and Kwa, *Behind the Scenes*, pp.50-113.

It is this overall strategic posture that has shaped South Africa's Doha negotiating stance. South Africa has advanced a wide-ranging negotiating position in the DR covering: implementation issues (intellectual property rights, anti-dumping, subsidies, as well as technical and sanitary standards); mandated negotiations (agriculture as well as trade in services); industrial tariffs; 'new issues' (trade and competition policy, trade and investment, trade facilitation, transparency in government procurement, and electronic commerce); labour and environmental standards. It is to the discussion of the salient features of this negotiating position this chapter turns to.

2.1. Intellectual property rights (TRIPs)

South Africa shares the view of many developing countries that the TRIPs Agreement is rigged against the interests of poor nations. The TRIPs was one of the most contentious and divisive issues during the UR trade negotiations.⁵⁵⁵ The TRIPs agreement extends the GATT norms and principles by enjoining WTO member states to: provide equal protection to both foreigners and nationals (national treatment); grant the same levels of legal protection to other WTO members in a non-discriminatory way (most favoured nation); inform the TRIPs Council about their national laws and regulations regarding intellectual property, and accede to requests for information from the Council and other WTO members (transparency). The agreement also calls on all WTO members to institute measures for the national enforcement of intellectual property rights while extending the applicability of the WTO's dispute settlement procedures to trade-related aspects of intellectual property.⁵⁵⁶ Furthermore, the TRIPs agreement creates minimum standards of

⁵⁵⁵ See Ann Capling, "Intellectual Property," in Brian Hocking and Steven McGuire (eds.), *Trade Politics*, (London: Routledge, 1999), pp.84-85.

⁵⁵⁶ *Ibid.*, p.90.

protection that “will lead to the globalisation of US laws governing intellectual property.”⁵⁵⁷ Developing countries have advanced a number of arguments against tightening intellectual property rights. Besides questioning patenting on ethical or social welfare grounds, they have expressed a concern that it can impede technology transfer necessary for their economic advancement: patent owners may place burdensome conditions on the use of technology or completely refuse to license new technology in order to maintain their monopolistic positions. They have also challenged the contention that intellectual property rights are central to fostering research, warning that in certain circumstances they could actually hamper research and knowledge dissemination. For ethical and national sovereignty reasons, African and South American countries have opposed attempts by some industrialised nations – notably the US, Japan and Switzerland – to extend patenting to biological processes and products.⁵⁵⁸

South Africa has solicited a review of several aspects of the TRIPs agreement including the provisions on the continuation of negotiations by members for the protection of geographical indications, which South Africa contends should not displace the advantages of an open and competitive global trade regime, the provisions for the application of non-violation remedy under TRIPs as well as the provisions for the protection of plant varieties. At the heart of South Africa’s concerns about existing TRIPs arrangements has been a quest to secure an equitable sharing of intellectual property protection between the owners and users of

⁵⁵⁷ Ibid.

⁵⁵⁸ Ibid., pp.85-86.

technology: intellectual property protection ought to balance the imperative to foster technological innovation with the need to tackle social concerns.⁵⁵⁹

To this end South Africa has sought a clarification of WTO guidelines governing the provisions on 'parallel importation' and 'compulsory licensing.' This followed a decision by US and British pharmaceutical companies in 2001 to haul the South African government before the courts in order to bar it from introducing legislation permitting compulsory licensing of essential drugs. The US government had stridently challenged the law, arguing that it violated the WTO agreement on trade-related intellectual property. However, the Bush administration subsequently changed its position and vowed that it would not act against South Africa, either bilaterally or in the WTO, if it breached the TRIPs agreement to secure affordable drugs to treat HIV/AIDS and other epidemics.⁵⁶⁰ Furthermore, South Africa is concerned that TRIPs is too weighted in favour of US cultural interests at the expense of other countries' national cultural products. It cites as an example its restrictions on the use of the Mickey Mouse design while local designs such as the Ndebele artwork are not protected by the agreement, reinforcing what Capling calls "the globalisation of a mass of commercialised mediocrity."⁵⁶¹

2.2 Anti-dumping

According to WTO rules, dumping happens when producers sell their products in a foreign market at a price below that in the home market or below the cost of production. Dumping can lead to trade distortions and is regarded as unfair in

⁵⁵⁹ Department of Trade and Industry, "Note on South Africa's Approach," p.3; see also "South Africa's Statement to the WTO's Trade Negotiations Committee," Geneva, 4-5 December 2002.

⁵⁶⁰ 'US gives licence to ignore patents,' *Business Day* 5th November 2001.

⁵⁶¹ Capling, "Intellectual Property," p.89.

international trade. Importing countries are allowed to impose anti-dumping duties to redress the harmful effects of dumping on their domestic industries.⁵⁶² There has been a phenomenal rise in the use of anti-dumping measures by both developed and developing countries in recent years. South Africa has sought to tighten the anti-dumping agreement to minimise its possible abuse by excessively mercantilist interests in industrialised countries bent on cosseting inefficient 'grandfather' industries. Although South Africa recognises the anti-dumping mechanism as a legitimate trade policy tool, it is concerned that loopholes in existing multilateral rules provide scope for trade discrimination against competitive foreign imports. This concern stems mainly from the continual barrage of anti-dumping measures to which South Africa has been subjected to, especially the high duties that have been imposed on South African steel exports by the US.⁵⁶³ The country has cultivated alliances with countries that seek to increase the threshold for imposing anti-dumping duties on imports from developing countries, make the application of the lesser duty rule mandatory, and pursue deliberations on the definition anti-circumvention.⁵⁶⁴ South Africa has to tread cautiously on this issue though as it is also a frequent user of anti-dumping instruments and has deployed these massively since its reintegration into the global trade system in the early 1990s.⁵⁶⁵

2.3. Subsidies

Apart from setting out a clearer definition of what constitutes a subsidy, the UR negotiations established three distinct categories of subsidies: red category (prohibited subsidies); amber category (actionable subsidies); and green category (non-

⁵⁶² McDonald, *The World Trading System*, p.83

⁵⁶³ Interview with Francis Moloi, Pretoria, 10 April 2003.

⁵⁶⁴ Department of Trade and Industry, "Report on the Proceedings," p.12.

⁵⁶⁵ Interview with Mpho Leseke, Geneva, 13 June 2003.

actionable subsidies). Export subsidies, as well as any other subsidies made conditional upon the use of domestic goods over imported products, fall under the red category and are completely forbidden. Actionable subsidies are not necessarily proscribed but may be challenged under certain conditions. These subsidies are not overtly directed at the export market or export performance and to be actionable they ought to be specific rather than general. General subsidies are those that are automatically or generally available in line with published criteria; they are considered specific when they get allotted to certain industries, or if their eligibility is not deemed automatic.

Furthermore, a subsidy is actionable if it adversely affects the interests of other countries. A non-actionable subsidy is one that is non-specific and general. However, a specific subsidy can be considered non-actionable if it allocated for certain purposes such as industrial research and helping poor regions.⁵⁶⁶ The South African government has criticised the subsidies agreement for being harmful to the interests of developing nations. In particular, South Africa has questioned the classification of subsidies employed by industrialised countries – for example to shore up research and development (R&D) and advance regional development – as non-actionable while those subsidies needed by developing countries to promote industrialisation and development are categorised as actionable. South Africa, consequently, has pushed for a widening of the list of non-actionable subsidies to encompass measures required to attain legitimate development goals, including

⁵⁶⁶ McDonald, *The World Trading System*, pp.103-108.

support for industrialisation, economic diversification, and production of high value-added goods.⁵⁶⁷

2.4. Standards

South Africa is concerned that technical and health standards are open to abuse by advanced countries for protectionist purposes. The WTO standards agreement encompasses standards that are applied to industrial and agricultural goods so as to achieve a degree of quality or safety for the consumer.⁵⁶⁸ This does not include, however, subjects contained in the agreement on sanitary and phytosanitary measures. These measures form part of the agricultural agreement and they are designed to deal with animal ailments such as foot and mouth and mad cow disease. It is now widely recognised within the WTO milieu that an excessive application of standards can obstruct trade unnecessarily. The WTO has attempted to overcome this problem by impressing upon its members to observe strictly the MFN and national treatment principles for imported goods.⁵⁶⁹ Even so, a key problem facing poor countries is the paucity of resources to meet a burgeoning list of new standards. South Africa has highlighted the necessity for developing countries to be provided with technical, human and financial assistance so they can improve the quality of their exports.⁵⁷⁰

2.5. Agriculture

As a member of the Cairns Group of agricultural exporters, South Africa has demanded a substantial liberalisation of farm trade in industrialised country

⁵⁶⁷ Department of Trade and Industry, "Note on South Africa's Approach," p.3.

⁵⁶⁸ McDonald, *The World Trading System*, p.116.

⁵⁶⁹ *Ibid.*, p.117.

⁵⁷⁰ Department of Trade and Industry, "Note on South Africa's Approach," p.4.

markets.⁵⁷¹ At their Punta del Este meeting in September 2001, Cairns Group Ministers committed themselves to achieving a far-reaching reform of agricultural trade through: the elimination of all forms of export subsidies; substantial improvements in market access; and substantial reduction in domestic support, including the elimination of trade and production distorting forms of support.⁵⁷² South Africa's broad objectives for the multilateral negotiations on agriculture are to: achieve a substantial improvement of market opportunities for all its agricultural products with export potential; improve fair trade conditions on imported or exported agricultural products; and ensure that South Africa's rural development objectives are accommodated within the permissible range of WTO disciplines. The country has campaigned for tariff reductions and market access quotas so as to ensure substantial market access improvements in targeted markets for its agricultural exports. It has fought assiduously for the elimination of export subsidies and all forms of subsidisation as part of export credits, and demanded the strengthening of disciplines on the use of export credits.⁵⁷³

2.6. Services

The service sector has attained a strategic significance in international trade in recent years.⁵⁷⁴ The phenomenal expansion of services can be ascribed to the growing tradability of numerous services, shrinking economic distance and heightened demand for service standardisation. The General Agreement on Trade in Services (GATS), agreed in the UR, is designed to liberalise global trade in services and it is based on

⁵⁷¹ South Africa is the only African member of the Cairns Group.

⁵⁷² Cairns Group Ministers, "Doha Decision on Agriculture – Cairns Group Position," Punta del Este, 12 September 2001.

⁵⁷³ Department of Trade and Industry, "Notes on South Africa's Approach," pp.4-5.

⁵⁷⁴ Michel Kostecki, "International Trade in Services," in Brian Hocking and Steven McGuire (eds.) *Trade Politics* (London: Routledge, 1999), p.69.

the principles of non-discrimination, reciprocity, market access, fair competition and transparency.⁵⁷⁵ The paramountcy of the service sector, especially financial services, to the South African economy is underscored by the fact that services constitute 54 percent of real GDP.⁵⁷⁶ Yet even though the South African state recognises the importance of services for economic development, it is concerned about the underlying structural inequalities in the development of the services sector between developed and developing countries. Given that the liberalisation of services has been at the top of the negotiating agendas of developed countries – principally the EU and Japan – but not a priority for most developing countries, the latter are likely to demand trade-offs in economic sectors in which they have a direct interest, for example agriculture, in return for concessions made in services.⁵⁷⁷

2.7. Industrial tariffs

South Africa has backed the demands of developing countries on the reduction and elimination of industrial tariff peaks and tariff escalation – tariffs increase in line with the degree of product processing or manufacture – especially those pertaining to their areas of export interest and to value-adding economic sectors that possess the potential to expand their comparative advantages. While admitting that tariff escalation has decreased since the UR, South Africa has maintained that not only do progressive rises in tariffs from raw goods to manufactured products limit export opportunities but they also hinder vertical diversification and industrialisation in developing countries⁵⁷⁸

⁵⁷⁵ Ibid.

⁵⁷⁶ See World Trade Organisation, *Trade Policy Review – Republic of South Africa* (Geneva: WTO, 1998), pp. 1-11.

⁵⁷⁷ Department of Trade and Industry, "Note on South Africa's Approach," p.4.

⁵⁷⁸ Ibid., p.5.

2.8. Trade and competition policy

The impetus for international rules to regulate competition has been inspired by concerns about attempts to curb anti-competitive or business behaviour by corporations, which has taken the shape of trying to suffocate competition through price-fixing or the sharing out of markets. But it has also stemmed from the recognition that cutting tariff and non-tariff barriers is not sufficient to improve access to foreign markets for firms.⁵⁷⁹ South African trade negotiators have pushed for the establishment of multilateral disciplines for trade and competition policy, which they consider to be central to addressing restrictive business practices and multi-jurisdictional aspects of company mergers. And they have contended that a balanced agreement on trade and competition policy should contain elements that: promote transparency in legislation and regulation governing competition law and policy; discipline cartels; encourage voluntary cooperation between competition agencies; define obligations to establish competition policy, law and enforcement agencies as dependent on the provision of multilateral financial and technical support; provide sufficient scope for preferences, derogations and exceptions for public policy and development objectives such as promotion of small and medium enterprises; and accommodate different national regimes in terms of policy, law and enforcement.⁵⁸⁰

2.9. Trade and investment

Besides the GATS, which is concerned with trade or trade-related policies, WTO rules do not cover policies related to FDI. Any WTO member is allowed to pursue any FDI policies of their choice in non-service industries on condition that these

⁵⁷⁹ McDonald, *The World Trading System*, pp.285-286.

⁵⁸⁰ Department of Trade and Industry, "Note on South Africa's Approach," p.6.

policies do not result in discriminatory treatment of products.⁵⁸¹ Some of the reasons put forward to justify the need for an international agreement on investment are that: such an agreement could help reduce investor uncertainty; since the GATS encompasses FDI, there's no justification not to have WTO disciplines covering non-service FDI; and an investment agreement would strengthen the hand of governments against those who oppose foreign investor entry.⁵⁸² At Doha a number of countries – led by the EU but also including Japan, Canada, Korea, Switzerland, Taiwan and Norway – argued strongly for negotiating a global investment accord that would subject foreign investment to a multilaterally agreed regime that does away with restrictions on investment and facilitate its free flow among WTO members.⁵⁸³

South Africa has argued that should a multilateral accord on investment be included in future trade negotiations, such an accord ought to be constructed in ways that prevent disruptive investment patterns in the economy as a whole or in particular sectors. This agreement would have to take account of concerns of developing countries and should, among other things: provide for transparency; provide for flexibility by permitting countries to impose limits and conditions on the right of establishment, MFN status, market access, and national treatment; permit appropriate performance requirements; provide for investor protection through intergovernmental dispute settlement procedures; and discipline incentives that divert investment to industrialised nations.⁵⁸⁴ The push for the liberalisation of global FDI is not new. A few years ago the OECD tried without success to set up a multilateral agreement on investment (MAI). Although most developing countries had removed national

⁵⁸¹ Bernard M. Hoekman and Michel M. Kostecki, *The Political Economy of the World Trading System – The WTO and Beyond* (Oxford: Oxford University Press, 2001), pp.418-419.

⁵⁸² Ibid.

⁵⁸³ Jawara and Kwa, *Behind the Scenes*, p.239.

⁵⁸⁴ Department of Trade and Industry, "Note on South Africa's Approach," pp.5-6.

controls on inward FDI and MNC activity, they challenged the MAI on the grounds, among others, that "...a multilateral agreement would be binding and hold the threat of potential cross sanctions for transgressors; and that developing countries were wholly unprepared for such negotiations, either individually or as a group."⁵⁸⁵ In particular, developing countries were concerned that industrialised economies were seeking to extend the definition of FDI covered by the proposed multilateral treaty to include intellectual and portfolio investment.

Furthermore, the relentless drive to liberalise worldwide FDI and MNC activity had renewed concerns that globalisation has compelled states to take part in a "race to the bottom." This refers to a situation whereby developing countries, in their quest to generate foreign investment, have resorted to lowering labour and environmental standards so that MNCs will be attracted to the countries with the least burdensome controls. In this context, competition for FDI has put downward pressure on global standards, leading to high levels of pollution and social dumping. This scenario poses an interesting challenge to the South African government, which recognises the "social clause" principle. Theoretically, this implies that South Africa would be forced to turn down FDI offers if it was deemed that such investment would undermine social standards or threaten economic stability. Given the country's desperate need for FDI, it remains to be seen whether the ANC government will always insist on the maintenance of social standards in its bargaining with MNCs. If a MAI-type arrangement were adopted by the WTO it would have an adverse impact on South Africa. For instance, the abortive MAI stipulated that "developing countries would not have the right to choose the composition of their total capital

⁵⁸⁵ South Centre, *Foreign Direct Investment, Development and the New Global Order* (Geneva: South Centre, 1997), p.9.

inflows, to select between FDI projects or to decide on the phasing of foreign investment in their economies.”⁵⁸⁶

Furthermore, “they would also be precluded from setting performance requirements for foreign investors with a view to ensuring they contribute to the country’s socio-economic development objectives.”⁵⁸⁷ If they had been implemented, these provisions would have constrained South Africa in two ways. First, they would have reduced its ability to pursue a strategic approach to FDI within the context of its national development objectives. Second, they would have prevented the country from imposing restrictions on the entry of FDI if it felt the costs of such investment outweighed the benefits. It is important that South Africa engages in bilateral and multilateral processes aimed at ensuring that the envisioned global investment regime is sensitive to its national development requirements and economic stability.

2.10. Trade facilitation

The concept of trade facilitation refers to “the simplification and harmonisation of international procedures affecting trade flows.”⁵⁸⁸ At Doha the EU campaigned for the adoption of a series of measures to facilitate cross-border trade including: that Article X of the GATT – on publication and administration of trade regulations – be changed into an agreement; that WTO members’ ability to take action at the border ought to be restricted to what is permissible in the WTO agreement; and that a regular consultative structure made of governments and the private sector be set up to

⁵⁸⁶ South Centre, *Foreign Direct Investment*, p.70.

⁵⁸⁷ Ibid.

⁵⁸⁸ Hoekman and Kostecki, *The Political Economy*, p.434.

recommend new laws and regulations prior to their implementation.⁵⁸⁹ South Africa contributed to the forging of an agreement aimed at simplifying trade procedures and believes that efficiency gains could be derived from this in terms of time, finance and human resources. Developing country trade is hobbled by numerous problems, including poor customs administration procedures and deficient physical infrastructure. South Africa has emphasised the urgency of developing a comprehensive and integrated plan to improve technical cooperation, financial support, and human and infrastructural capacity-building.⁵⁹⁰

2.11. Transparency in government procurement

The UR negotiations resulted in the adoption of measures, mainly procedural, to strengthen the agreement on government procurement. One of the key improvements is the procedure that allows a firm that has failed to secure a tender to appeal through an administrative or judicial mechanism; although administrative appeals existed in the previous system, it was not compulsory to have them. By making administrative appeals obligatory the new arrangement reinforces the transparency requirements of the new government procurement agreement.⁵⁹¹ Given that commitments to transparency will increase the financial, institutional and administrative burdens of developing states, the South African government has argued that the realisation of such commitments will depend on the degree to which industrialised states are willing to provide technical and financial backing and graft the necessary special and differential provisions into multilateral disciplines. South Africa has warned against the use of measures to improve transparency to pursue market access goals or

⁵⁸⁹ Jawara and Kwa, *Behind the Scenes*, p.243.

⁵⁹⁰ Department of Trade and Industry, "Note on South Africa's Approach," p.7.

⁵⁹¹ McDonald, *The World Trading System*, p.128.

undermine domestic development concerns and has emphasised that any multilateral agreement reached in this respect should take the shape of non-binding guidelines – it must not be subject to the dispute settlement mechanism.⁵⁹²

2.12. Labour and environmental standards

South Africa does not consider the question of trade and environment a priority in the DR. Even though South Africa has approached the deliberations of the WTO's Committee on Trade and Environment with seriousness, it believes that focusing on the matter of trade and environment in the multilateral negotiations, where the possibility for making meaningful progress is negligible, would unduly delay progress on all other issues. As pointed out at the start of this chapter it is the EU, prompted by influential environmental lobbies, that has actively pushed for a linking of trade and environmental policies in the DR negotiations. Proponents of linkage argue that the rapid growth and development of the global economy has exerted tremendous pressure on the world's environment. This pressure, a by-product of industrialisation and intensive agricultural production, has resulted in pollution and environmental degradation. Coinciding with this has been an exponential growth in global trade, which has enabled multinational corporations to shift their environmental problems to countries where markets are less restricted than the home market. Not only do countries with lax environmental standards allow multinational firms to contaminate the environment in ways prohibited in their home countries, they enable these corporations to export goods from their new production facilities far less costly than they had been produced in their countries of origin. As such, environmental lobbies believe that although trade is not the foremost cause of environmental pollution, it has

⁵⁹² Department of Trade and Industry, "Note on South Africa's Approach," p.6

aggravated environmental problems.⁵⁹³ Irrespective of whether these arguments are well-founded or not, it is likely that calls on policymakers to employ trade policy as a tool to contain environmental degradation will intensify in future multilateral negotiations.

South Africa supports the promotion of labour standards, although it has resisted attempts to include them in the WTO negotiating agenda and cautioned against countries using them for protectionist ends. Although in principle South Africa has embraced core labour standards, it has opposed their subjection to WTO disciplines, fearing that this would scupper progress in multilateral trade negotiations. For this reason South Africa has advised that the responsibility for setting and promoting labour standards ought to reside with the International Labour Organisation (ILO), which should liaise closely with the WTO Secretariat.⁵⁹⁴ South Africa's support for labour standards reflects an important concession made by the ANC government to COSATU, a key member of South Africa's ruling tripartite alliance. The South African trade union movement has lobbied for an inclusion of a social clause in all bilateral and multilateral trade agreements. It is worth noting, however, that the South African government tried without success in the past to propose a social clause in bilateral agreements with Malaysia, Thailand, the Phillipines and Cuba.⁵⁹⁵ The campaign by South Africa's labour movement for the enshrinement of labour standards has been inspired partly by concerns about the consequences of economic integration within the SADC region, with fears that "regional integration in South Africa will give South African companies the licence to find the cheapest production

⁵⁹³ McDonald, *The World Trading System*, p.257.

⁵⁹⁴ Department of Trade and Industry, "Note on South Africa's Approach," p.7.

⁵⁹⁵ See Shafika Isaacs, *South Africa in the Global Economy* (Durban: The Trade Union Research Project, 1997), pp.91-92.

site in the region, and thus bid down wages and working conditions in South Africa.”⁵⁹⁶ Additionally, anxieties have been expressed about the possible implications for South Africa’s economic competitiveness of the country’s mushrooming trade relations with the Asian region.

3. South Africa and Africa in the Doha Round

The initial position of most African countries was to obstruct a new round of WTO negotiations on the grounds that they had given away more than they had got in the UR and were reluctant to support a new round of trade liberalisation unless pledges made by developed countries during the UR to provide them with larger market access for their agricultural products and apparel and textile exports, as well as with the necessary technical assistance to implement their WTO obligations, had been fulfilled. Driving this African offensive to resist the inclusion of the ‘new issues’ in the Doha negotiating agenda were several African states which had organised themselves in the LMG. Although South Africa agreed that Africa’s concerns – especially the implementation of outstanding UR agreements by developed countries – ought to be prioritised, it argued nevertheless for broad-based negotiations covering the ‘new issues.’ In other words, while South Africa did not support the ambitious EU agenda it was prepared to consider a modified, less ambitious and carefully defined agenda. In adopting this position the country was influenced not only by a recognition of rapid changes in the global economy that needed to be accommodated within the WTO – the Singapore issues were not urgent priorities but it was necessary to address them sooner rather than later – but also by a conviction that a wider

⁵⁹⁶ Alan Hirsch, “From the GATT to the WTO,” p.53.

negotiating agenda would make it possible for developing nations to wring concessions from industrialised countries in respect of agriculture and industrial tariffs.⁵⁹⁷

It is worth placing the differences between South Africa and its regional trade partners in perspective. South Africa's Doha negotiating posture, it could be argued, is in part reflective of the collaborative and bridge-building role which so-called 'middle powers' tend to adopt in multilateral institutions.⁵⁹⁸ South Africa's negotiating position in the DR is based on the premise that it strives to champion the interests of developing nations, particularly African countries, while ensuring that its interests as a trading nation are not bypassed.⁵⁹⁹ One of the key ways in which South Africa has advanced its 'bridge-building' role has been through its readiness to assume leadership responsibilities on various multilateral institutions such as the UNCTAD, SADC, NAM and Commonwealth. As Nel, Taylor and van der Westhuizen explained:

In these various leadership capacities, South Africa has been able to 'punch above its weight'... In practical terms this means that South Africa's intervention, or support for a particular position, sometimes was crucial in breaking a deadlock, or securing the co-operation of the various parties to the multilateral initiative.⁶⁰⁰

Critics of South African trade policy have blamed the country's Doha negotiating strategy for fomenting disunity among African countries, thereby undermining their

⁵⁹⁷ Interview with Faizel Ismail, Geneva, 13 March 2003.

⁵⁹⁸ See A. Cooper, R. Higgott and K.R. Nossal (eds.) *Relocating Middle Powers: Australia and Canada in an Evolving World Order* (Vancouver: University of British Columbia, 1993).

⁵⁹⁹ Interview with Tshediso Matona, Pretoria, 7 April 2002.

⁶⁰⁰ Philip Nel, Ian Taylor and Janis van der Westhuizen, "Reformist Initiatives and South Africa's Multilateral Diplomacy: A Framework for Understanding," in Philip Nel, Ian Taylor and Janis van der Westhuizen (eds.), *South Africa's Multilateral Diplomacy and Global Change* (Aldershot; Ashgate, 2001), p.2.

interests and weakening their bargaining power within the WTO.⁶⁰¹ While understandable, these criticisms downplay a crucial dilemma faced by intermediate economic powers such as South Africa in the international political economy. Partially industrialised, South Africa's economic profile exhibits the traits of both developed and underdeveloped societies. This explains why even though the country has identified with the trade problems faced by its less developed African counterparts – and has actively pushed for their resolution – it has also sought to advance its trade policy objectives in respect of the new WTO issues in which it has a keen interest.

South Africa, unlike most of its African counterparts, is fundamentally a trading nation – over 50 per cent of its national economy is dependent on external trade. Moreover, South Africa has ambitions to become a dynamic manufacturing economy with a diversified export base.⁶⁰² The country has an interest, therefore, in working for the success of the global trading system and cannot afford to insulate itself from the world economy in the same way as some African countries can.⁶⁰³ The low level of agricultural development and the problems intrinsic to some African economies has prompted them to focus primarily on the need for technical assistance rather than on expanding their export capacity. It is for this reason that the NEPAD places special accent on agriculture, industrialisation and boosting the export capabilities of African nations. Additionally, South Africa is relatively endowed with technical capabilities – increasingly shared with its SACU trade partners – to participate actively in the WTO processes and has not refrained from exploiting its strengths in this regard.

⁶⁰¹ See for example Dot Keet, "South Africa's Official Position," and Patrick Bond, "South Africa's Sub-Imperial Trade Agenda – Splitting Africa to Launch a New Multilateral Round," undated.

⁶⁰² Department of Trade and Industry *Annual Report 2000/1* (Pretoria: Government Printer, 2001) pp.13-16.

⁶⁰³ Interview with Tshediso Matona,, Pretoria, 7 April 2002.

These considerations do not, of course, imply that African countries cannot forge coordinated positions on strategic issues. What they do underline though is that it is not unusual for countries, even close allies, to hold different positions on trade negotiations. Nonetheless, it is worth noting that most of the differences that have arisen between South Africa and its regional trade partners have been about process not substance. In reality, the Africa Group within the WTO (AGW) – an informal caucus group made up of Geneva-based African trade representatives set up at the end of the UR to spearhead African trade diplomacy and forge unified African positions within the WTO in recent years.⁶⁰⁴ Its establishment was inspired generally by a recognition among African countries that if they were to become a force to be reckoned with within the WTO they had to pool their intellectual and technical resources and work together as a unified force in pursuit of common goals. Specifically, the AGW was formed with the aim of developing the capacity of African countries to engage meaningfully with implementation issues arising from the UR.

The AGW, it is worth emphasising, is not a monolithic entity but a hybrid formation encompassing African countries that belong to overlapping groupings such as the least developed countries (LDCs), the African Union (AU), as well as the ACP group of nations. As it is argued later in this chapter, it is this heterogeneous character of AGW membership that poses the most serious challenge to the group's future viability. The AGW meets regularly to synchronise African countries' trade negotiating positions on sectoral and product specific provisions. Its meetings are convened and chaired by participating states on a rotational basis, with the incumbent

⁶⁰⁴ The meetings of the AWG are convened and chaired by participating states on a rotational basis and the incumbent state acts as a general spokesperson of all countries for the duration of its one-year tenure. Although the AWG's status is informal, its views are accorded serious attention within the WTO primarily because they are elaborated in consultation with trade bureaucrats and political principals in the national capitals.

state acting as a general spokesperson of all countries for the duration of its one-year tenure. Its activities are predominantly interest-driven or issue-based, and countries participate voluntarily depending on the issues under consideration. Although the AGW does not have a special representational status in the formal WTO processes, it nonetheless provides an important platform for intra-Africa dialogue and for formulating common positions on issues arising from the WTO system in Geneva. Furthermore, it has sought to strengthen African coalition building efforts, especially in respect of forging South-South alliances.

The AGW played a pivotal role in crafting the DDA and has pushed very hard for a positive negotiating outcome on three issues of major interest to African countries – namely, agriculture, trade-related intellectual property rights (TRIPs) and public health, as well as special and differential treatment (SDT). And its negotiating efforts on TRIPs and SDT have borne relative success. The conclusion of an agreement in August 2003 allowing developing countries confronted with public health emergencies – particularly those induced by epidemics such as HIV/AIDS, malaria and tuberculosis – to override patents and import copies of life-saving drugs represented a huge victory for the AGW, especially given that such an agreement was nearly foiled by the US administration – at the behest of the country's powerful pharmaceutical industry – which had wanted the patent override to be extended only to the LDCs and for a limited number of diseases.⁶⁰⁵ Acting in unison, African countries – supported by other developing nations – also succeeded to persuade WTO members to set up working groups to examine the relationship between trade, debt

⁶⁰⁵ 'Last-minute deal on cheap drugs,' *The Guardian* 28th August 2003; see also 'US wrecks cheap drugs deal,' *The Guardian* 21st December 2002.

and finance, as well as between trade and technology transfer – crucial issues of enormous interest to poor countries.

WTO members also committed themselves to the goal of providing duty-free and quota-free access for goods produced by the LDCs.⁶⁰⁶ Moreover, the ACP countries secured a waiver of the WTO rule stipulating that any trade deal accorded to one member must be extended to all members. Designed to accommodate the Cotonou agreement, the waiver will be effective until the preferential market access granted to ACP exports by the EU terminates on 31 December 2007.⁶⁰⁷ At Doha developing countries also extracted a commitment from industrialised countries to provide technical assistance to poor countries, although it was not specified what the scale of assistance offered would be and how the needs of individual countries would be determined and fulfilled.⁶⁰⁸ Significantly, vital progress has also been made on the agreement on 28 proposals designed to extend special and differential treatment to developing countries.

4. South Africa and the Cancún Minsiterial Meeting

The collapse of the WTO negotiations in Cancún in September 2003 marked a turning point in the history of trade relations between industrialised and developing nations. Thanks to their steadfast unity, for the first time in almost two decades the developing countries successfully thwarted attempts by the developed nations to ride roughshod over their interests and concerns. Moreover, the Cancún meeting was notable for the assertive manner in which developing countries articulated their concerns: African

⁶⁰⁶ Cronin, "The Doha Round," p.385.

⁶⁰⁷ World Trade Organisation, *Doha Declarations*, pp.51-57.

⁶⁰⁸ *Ibid.*, pp.33-35.

countries actively participated in the negotiations and succeeded to place their trade interests at the heart of the negotiating agenda.

It is still too early to determine the precise cause of the Cancún collapse but a number of factors seem to have been responsible for the ministerial meeting's failure. First, both the EU and the US were not willing to drastically reduce their agricultural subsidies, a key demand of developing nations. As the former Mexican president, Ernesto Zedillo, suggested:

The unexpected US-EU alliance was the fundamental cause of the Doha Round debacle at Cancún. That alliance immediately triggered the formation of an opposition led by Brazil, India and China that not only produced its own agricultural proposal but also remained militant and, admittedly, inflexible on many other issues until the breakdown.⁶⁰⁹

Linked to this was the unwillingness of the US to address the grievances of four competitive West African countries – Benin, Burkina Faso, Chad and Mali – for the removal of export subsidies on cotton. This alienated many smaller developing nations and hardened their resolve to oppose the discussion of the “Singapore issues” – investment, competition, trade facilitation and transparency in government procurement.⁶¹⁰ Three groups of predominantly African states played a central role in the collapse of the Cancún meeting. The LDCs, the AU, and the ACP states refused to negotiate until the EU and its negotiating allies – including South Korea and Japan – had backed down on their insistence on discussing the “Singapore issues. Third, some participants suggested that the conference Chairman, Mexican Foreign

⁶⁰⁹ ‘Mysteries of Trade Diplomacy,’ *Current Events* 11th October 2003.

⁶¹⁰ ‘Put the trade talks back on track,’ *Financial Times* 14th October 2003.

Minister Luis Ernesto Derbez, ended the negotiations prematurely.⁶¹¹ Fourth, the emergence of the influential Group of 20+ (G20+) developing countries – marshalled by Brazil and including China, India and South Africa – provided a counterweight to the enormous bargaining power of the US and the EU and made it difficult for these economic powers to resort to their long-standing divide and rule tactics of buying off small nations with bilateral deals or threats.

Fifth, and interestingly, the LDCs and ACP states were opposed to an ambitious multilateral liberalisation of agriculture. At issue were the trade preferences that have been historically enjoyed by the LDCs and the ACP group of states. The ACP countries, in particular, have gained from the EU-ACP banana, sugar, beef and rum trade protocols. Given that these states have benefited from the artificially high prices created by the EU's Common Agricultural Policy (CAP), they have been concerned about the potentially adverse consequences a disintegration of this protectionist trade regime would have on their monocrop economies.⁶¹² This vulnerability played into the hands of the US, EU and Japan, which exploited it by diligently courting the LDCs and ACP countries. Complicating matters was the fact that African Group was chaired by Mauritius, a trade preference-reliant country that calculated that its national economic interest resided with joining forces with assorted agricultural protectionists such as Switzerland, Japan and Norway. Furthermore, the unity of African countries was undermined by the fact that the G20+ developing

⁶¹¹ See for example Faisal Ismail, "An Insider's Insight," in Peter Draper and Steven Gruzd (eds.) *Africa After Cancún: Trade Negotiations in Uncertain Times* (Johannesburg: South African Institute of International Affairs, 2003) pp.9-19.

⁶¹² See S. Tangermann, *The Future of Preferential Trade Arrangements for Developing Countries and the Current Round of WTO Negotiations on Agriculture* (Rome: Food and Agriculture Organisation, 2002).

country coalition had expended the bulk of its diplomatic muscle on negotiating with the EU and the US at the expense of harnessing the cohesion of the Africa Group.⁶¹³

The stalemate on the issue of trade preferences constitutes a threat to the AGW's ability to champion African trade interests in a unified and coherent way. It is important, therefore, that this problem is tackled proactively and constructively by both developed and developing countries. The EU must desist from exploiting the legitimate concerns of the ACP states about the possible whittling down of their preferences to stall movement on agricultural liberalisation. The LDCs and ACP countries, for their part, need to come to terms with the fact their long-term economic security does not lie with reliance on preferences. While trade preferences have undoubtedly benefited the poorest nations in the past, they have serious drawbacks. Their key shortcoming is that they are unilateral and can be withdrawn arbitrarily by the countries that provide them. Trade preferences have also been criticised by trade economists, notably Jagdish Bhagwati, for diverting trade away from non-preferred countries, thereby playing off poor nations against each other.⁶¹⁴

Additionally, preferences can foster a debilitating culture of dependence in their recipients. Even so, there is a need for the industrialised nations to ensure that the poorest developing countries do not shoulder a disproportionate share of the costs of adjustment in the former's agricultural sector and to assist these low-income nations to diversify their economies away from agriculture. Without innovative solutions to the conundrum of preferences there will remain difficulties and tensions between the

⁶¹³ For an insider's view of what transpired at Cancún see "Statement on the 5th Ministerial Meeting of the World Trade Organisation held in Cancún, Mexico, in September 2003," a statement made by the South African Minister of Trade and Industry, Alec Erwin, to the South African National Parliament, Cape Town 26 September 2003.

⁶¹⁴ 'The poor's best hope,' *The Economist* 20th June 2002.

preference-dependent African nations and those African countries that stand to benefit from a radically reformed CAP regime. As was implied earlier, South Africa's Doha negotiating stance has resulted in the country being viewed with skepticism within the AGW. It is worth noting, however, that South Africa's position tilted closer to that of the AGW in the build-up to the Cancún ministerial. This came soon after a crucial role played by the country in brokering the deal on TRIPs and public health. These actions attested to South Africa's commitment to African solidarity and coalition building. Yet South Africa's role within the AGW is likely to remain marginal, confined to spearheading coalition building efforts and making the odd interventions in issues of strategic concern. For South Africa's global ambitions imply that it is likely to find higher common ground with other emerging industrial economies, an increasingly important divide.

6. Conclusion

This chapter has examined South Africa's approach to the DR of multilateral trade negotiations. South Africa believes that that the DR represents a chance for developing countries to provide leadership on issues of multilateral trade and development. For this reason South Africa has sought to carve a role for itself as facilitator and broker in the Doha trade negotiations. South Africa's negotiating stance in the DR is predicated on the idea that it seeks to defend the interests of developing nations, particularly African countries, while ensuring that its interests as a trading nation are not neglected. For South Africa, therefore, preserving the credibility of the WTO and preventing its breakdown is an overriding objective. A rules-based world trade system, whilst defective, provides a firm foundation for

ensuring that global trade processes are not determined exclusively by economic power plays. The DR has exposed, however, the limits faced by South Africa in pursuing its strategic objectives. The degree to which South Africa's strategic negotiating objectives can be achieved depends, therefore, not only the resilience of the rules-based multilateral trade regime but also on the extent which the country can marry its global ambitions with its domestic and regional obligations.

Restoring momentum to the DDA has become a pressing imperative for all WTO member states, developed and developing. For poor African countries have more to lose from an unsuccessful negotiating round. The DDA has placed the issue of development at its core, implying a greater commitment by industrialised countries to accommodate the sensitivities of poor nations. Already, important advances have been made on the issues of access to essential medicines for the poorest nations as well as on the agreement on SDT. Yet more needs to be done if the Doha Round is to succeed. First, a breakthrough is badly required on the issue of agricultural liberalisation. Agricultural liberalisation is the centrepiece of the DDA and agreement on the agenda for it was a major factor in the decision to launch a new round of trade negotiations. As such, failure to achieve meaningful progress in this area will continue to impede movement on all other items on the Doha agenda. Ironically, one of the few positive outcomes of the Cancún meeting is that it has placed the matter of agriculture firmly on the negotiating agenda: it can no longer be ignored by the EU and other protectionist countries in the industrialised world. Both the EU and the US ought to take the lead and make significant concessions on export and domestic subsidies in agriculture. The commitments made at the WTO General Council meeting in August 2004 by the EU and the US respectively to terminate

export subsidies as well as to curtail food aid and export credit programmes bode well for the revitalisation of the WTO process.⁶¹⁵ The next important step the US and the EU need to take is to signal that they also intend to make headway on the elimination of import barriers and domestic subsidies.

Second, larger developing countries such as South Africa, Brazil and India must recognise that the goal of ambitious agricultural reform cannot be attained without them making deeper commitments on non-agricultural market access. Furthermore, these emerging market economies must eliminate their trade barriers to products from the LDCs. These barriers not only impede market access of exports from the LDCs, they also hinder these poor countries' attempts to diversify their economies, most of which are dependent on a very limited range of export products. Third, a degree of flexibility on the part of both the developed and the developing countries is required on the "Singapore issues." The EU must either remove from the negotiating agenda or unbundle the "Singapore issues," and must refrain from using these issues as a bargaining chip on agriculture. Unbundling the "Singapore issues" would entail eliminating from the agenda the negotiation of multilateral agreements on the issues of investment and competition policy and focusing on transparency in government procurement and trade facilitation, which are not only less controversial but also clear-cut market access issues. The flexibility shown by the EU on this issue in Cancún, albeit too late in the day, provides a basis for moving ahead. Likewise countries, including the LDCs and ACP states, that were implacably opposed the inclusion of all four issues need to review their positions and embrace a more accommodating stance.

⁶¹⁵ 'Real trade negotiations still lie ahead,' *Financial Times* 2nd August 2004.

Fourth, the US ought to respond credibly to the demands of four competitive West African countries – Benin, Burkina Faso, Chad and Mali – for the removal of export subsidies on cotton. The unwillingness of the US to address these countries' concerns in Cancún alienated numerous smaller developing nations and hardened their resolve to oppose the discussion of the "Singapore issues." Not only has the problem of cotton subsidies exposed the egregious inequities inherent in the WTO agricultural regime, it has become a litmus test for the Doha Round; several African countries consider its resolution as central to recommencing the Doha negotiating process. Significantly, the WTO recently upheld an earlier ruling that backed a claim by Brazil, supported by other countries,⁶¹⁶ that the more than US\$3 billion in subsidies paid by the US to its cotton farmers distorted global prices and contravened international trade rules.⁶¹⁷ If implemented, this decision could go a long way towards not only strengthening the hand of cotton producers in the developing world but also in invigorating and propelling the global trade agenda forward. This is perhaps one area where South Africa can use its diplomatic influence within the WTO to help secure a fair and just dispensation for these African cotton producers.

Fifth, whilst important, the issue of institutional reform – to which the EU ascribed Cancún's failure – must not be allowed to sidestep the resolution of substantive issues on the Doha agenda.⁶¹⁸ This does not suggest, however, that the WTO's procedural problems should be downplayed or ignored. To be sure, the appointment by the WTO director-general, Supachai Panitchpakdi, of a consultative board (led by Peter

⁶¹⁶ Argentina, Australia, Benin, Canada, Chad, China, the EU, India, New Zealand, Pakistan, Paraguay, Taiwan and Venezuela.

⁶¹⁷ 'WTO rules against US cotton subsidies,' *The New York Times* 19th June 2004.

⁶¹⁸ See 'Crushed at Cancún,' *Financial Times* 15th September 2003.

Sutherland, a former head of GATT) to prepare recommendations on the future of the WTO attests to a recognition that the institutional arrangements of the organisation need to be adapted to accommodate the needs of its fast-growing and increasingly diverse membership. Yet it is important to bear in mind that the governance structure of the WTO was a product of negotiation not a precondition for negotiation. As such, a case can be made that it makes sense for the organisation's procedural problems to be dealt with in the future, preferably once the DR has concluded. Reaching consensus first on what the purpose of the WTO is could go a long way towards clarifying and settling institutional problems.⁶¹⁹ Collectively, these undertakings are necessary for fence-mending and confidence-building and could provide a firm basis for putting the Doha Round back on track.

⁶¹⁹ Interview with Katie Waters, Geneva, 15/06/03.

Conclusion

1. The Argument

The central research question of the thesis concerned the rationale for the trade policy reforms that have been undertaken by the South African state in the post-apartheid era. The thesis has challenged conventional accounts of trade policy reform in South Africa, which have excessively stressed economic factors to explain trade reform in South Africa to the exclusion of other vital considerations such as the role of power in the world economy, the dynamic interface between domestic and international politics, the effects of globalisation on national policies and domestic economies, and the impact of domestic politics on strategies and outcomes. As such, the thesis has contended, these accounts are vulnerable on theoretical and empirical grounds. The key question this study set out to answer was: Considering the relatively sufficient scope for manoeuvre it had vis-à-vis the IFIs when it came to office in 1994 why, then, did the ANC government adopt and even strengthen the trade liberalisation policies that had been initiated by the apartheid government in the late 1980s, particularly in light of some evidence that trade liberalisation in South Africa had already reached a highly developed stage by the end of the 1980s and that the central barriers to rapid export growth were unrelated to trade policy?⁶²⁰

International experience has demonstrated in the past that comprehensive trade policy reforms have been introduced in the aftermath of major economic crises. Policymakers can use an economic crisis as a pretext to undertake far-reaching reforms that would have been unthinkable in normal times. And, invariably, the IFIs

⁶²⁰ Bell, *State and Market*, pp.83-127.

have played a key part in pushing for the implementation of such reforms.⁶²¹ In this context trade liberalisation is frequently depicted, therefore, as an unwanted policy that is foisted upon national economies by the conditionalities prescribed by the IFIs. Yet this has not been precisely so in the case of South Africa. As the thesis has shown trade reform in South Africa, unlike in most African countries, has been dictated by domestic considerations. Of course, this should not be interpreted to imply that the 'crisis' explanation of trade reform bears no relevance to South Africa. As indicated in Chapter 3, the structural crisis that hit the country since the late 1970s has been an important trigger of economic policy changes that have been implemented in the past decade. However, it is worth emphasising, these changes have not been executed as part of structural adjustment programmes dictated by the IFIs. On the contrary, in spite of the neo-liberal ideological pressure to which the ANC leadership was subjected to in the early 1990s (Chapter 5), its economic policies were eventually the consequence of a homegrown and self-imposed structural adjustment programme, not one foisted from outside.

It is for this reason that thesis has argued that trade reform in South Africa has not been prompted by solely economic considerations but has also been influenced by domestic and international political economy factors. Trade reform in South Africa has been the linchpin of a global adjustment strategy pursued by the domestic political elites by which they have sought to fulfill South Africa's global, regional and domestic political and economic objectives including: a determination on the part of the ANC government to reintegrate South Africa into the global political economy after decades of international ostracism; a desire to gain the confidence of domestic

⁶²¹ Rodrik, "The Limits of Trade Policy Reform," p.89.

and international financial markets; a drive to restore political, diplomatic and economic relations with African countries and to pursue South Africa's regional hegemonic ambitions; and a quest to lock in the government's macroeconomic economic policy reforms and curb the power of domestic interests that gained from a sheltered economy in the past. In this respect trade policy has been deployed to pursue domestic as much as foreign political and economic policy objectives.

The thesis has demonstrated that South African policymakers have actively pursued trade reform as a strategy to dispose of South Africa's erstwhile image of international pariah and reinsert it into the global political economy on the basis of outward-oriented growth. As was detailed in Chapter 2, the ANC inherited from the apartheid state an economy hobbled by serious structural problems. Thanks to an over-prolonged policy of import substitution industrialisation and decades of gross economic mismanagement, South Africa entered the twenty-first century with: a low GDP growth rate; unsustainable levels of public debt; plummeting rates of gross fixed investment and soaring rates of capital flight; dismal levels of private investment and declining competitiveness; high unemployment and shortage of skilled labour; low investment in research and development; a stunted small and medium business sector; and recurrent balance of payments constraints. The economy's overwhelming dependence on traditional commodity exports exposed it to volatile price fluctuations on the global markets. Collectively, these problems confirmed South Africa's economic status in the NIDL as one that was not dissimilar to those of many underdeveloped countries.

The reintegration of South Africa into the global economy and the restoration of its trade rights within the WTO system have spawned positive political, diplomatic and economic gains for South Africa. They marked the end of decades of international isolation induced by the country's apartheid policies. The installation of a democratic government in 1994 induced a favourable international disposition towards South Africa, a key catalyst in South Africa's subsequent assumption of the leadership of multilateral bodies such as the UNCTAD, the NAM and the Commonwealth (see Chapter 7). Chapter 4 highlighted a number of significant changes that the South African economy has undergone since the conclusion of the UR of trade negotiations, laying strong foundations for the pursuit of decision-makers' stated policy goal of creating a dynamic export-led economy. A perfunctory analysis of post-apartheid South African manufacturing performance has revealed an increasingly robust, resilient and growing export sector. The crisis that beset South Africa's manufacturing prior to 1994 has made way for a sustained upward trend in manufacturing exports. Furthermore, South Africa has benefited immensely from the expanded trade opportunities brought about by multilateral, regional and bilateral market access agreements, as well the reinforcement of the rule of law in international trade. Market opening has benefited South Africa by not only improving access for its goods and services to traditional developed country markets (the EU and North America) – although there is still ample room for South Africa to expand access for its agricultural and manufactured products to these regions – but also by exposing it to new ones (Africa, East Asia and Latin America).

Yet these positive developments must be qualified. For although there has been a structural transformation of South Africa's export basket during the second half of the

1990s – with some sectors beginning to reap the benefits of liberalisation and selective export promotion – this has been achieved at a very low base. Moreover, the export gains that have been made in new sectors have been reversed by export losses that have been incurred in industries such as gold, coal and other mining. South Africa has a long way to go, therefore, before it can optimally bolster its industrial manufacturing base, whose development was stifled by over-prolonged inward-oriented industrialisation policies and poor competitiveness performance. Furthermore, as the analysis of South Africa's export performance in Chapters 4 and 6 has attested it will take South Africa many years to accomplish its objective of becoming a fully-fledged outward-oriented manufacturing economy.

Whether the industrialisation process in South Africa can replicate that of the East Asian economic tigers – with whom South African policymakers are frequently wont to make comparisons – remains doubtful. In Chapter 1 we saw that the powerful strength of East Asia's developmental states vis-à-vis societal interest bestowed upon them a degree of autonomy that enabled decision-making elites to define developmental goals independently and to insulate themselves organisationally from societal pressures. The relative autonomy enjoyed by these states provided them with the capacity to take advantage of their control over the production process to influence actor behaviour and mobilise social support for their policies. The Weberian character of the state institutions of the East Asian NICs – with their characteristic emphasis on highly meritocratic and selective recruitment of bureaucratic personnel – instilled a sense of commitment and corporate coherence, which promoted conditions where the pursuit of corporate goals had been rewarded and the maximisation of individual self-interest discouraged. This, in turn, enhanced

the insulation of bureaucratic incumbents from societal influence. As the thesis argued in Chapter 5, it does not appear that South Africa can emulate the experience of the East Asian 'economic tigers' in this regard. For a start, the South African state does not boast the extensive degree of autonomy and authority once enjoyed by its East Asian counterparts thanks to the country's robustly democratic (rather than authoritarian) political system and the massive power still wielded by domestic capital and labour in relation to the state. This does not, nonetheless, detract from the argument advanced in this study that the South African state has used the restricted nature of corporatism in South Africa to not only to lock in the government's austere macroeconomic policy but also to curtail the power of fractions of domestic capital and labour that benefited from trade protectionism in the past. Corporatism has provided the state, albeit within the limited confines of an institutional setting, with a leverage to bargain with its social partners over economic policy and with a breathing space to consolidate its economic reform agenda both at international and domestic levels. In return for their co-operation, the South African state has allowed these domestic interests enhanced institutional representation in economic policymaking under the auspices of the NEDLAC. In this sense trade policy has been employed to serve domestic as much as foreign political and economic policy ends.

Furthermore, when contrasted with those of its East Asian counterparts the domestic and global conditions under which the South African state has been reintegrating itself into the world economy are likely to make it difficult for the country to reproduce the developmental model of the East Asian NICs.⁶²² First, these NICs (especially Korea and Taiwan) used their geo-strategic significance during the Cold War to win

⁶²² For a perceptive analysis of the dynamics of South Africa's political and economic transition see Roger Southall, "The New South Africa in the New World Order: beyond the double whammy," *Third World Quarterly*, vol. 15, no. 1, 1994.

preferential access to the US markets without having to reciprocate by opening their own markets. This provided a vast captive market for their export commodities. Second, in line with their roles as bulwarks against communism these states took advantage of US military and economic aid to bolster their domestic savings and low patterns of consumption. Third, they embarked upon export-led growth when most industrialising countries were still pursuing import-substitution policies. These special conditions provided a unique geo-political and economic context in which the developmental goals of the NICs have been realised.

It is unlikely, however, that this success can be attained elsewhere in the post-Cold War period. The end of the Cold War has implied that developing states cannot continue to enjoy preferential treatment – in terms of market access as well as economic aid – similar to that provided by the US to its client states during the Cold War. Moreover, the inexorable pursuit of trade liberalisation by national states under conditions of enhanced economic globalisation in the past decade has meant that individual states are under growing pressure to embrace more liberal trade and investment policies.⁶²³ In addition, the effects of globalisation on the national state cannot be ignored. This thesis concurs with Scholte's assertion that although there has been some continuity in the role of the state under conditions of globalisation (in the sense that inter-state relations still comprise the substance of governance mechanisms in the globalising world), there has also been conspicuous change in the character of the state in terms its capacities, policy-making processes and constituencies.⁶²⁴ All these considerations suggest that South Africa will be best

⁶²³ Strange, *The Retreat of the State*, p.6.

⁶²⁴ Scholte, "Global Capitalism," p.428.

served by pursuing a developmental model that is uniquely suited to its domestic political, social and economic conditions.

The pursuit by South Africa of a trade policy explicitly geared at bolstering exports has raised questions about whether in the long-term export-orientation can deal adequately with the country's formidable developmental challenges. As discussed in detail in Chapter 1, the advantages of an outward-oriented trade strategy over that of import-substitution industrialisation are now widely recognised. In the post war-period, countries that pursued an open trade policy experienced faster economic growth than those that did not. The dynamic economies of East Asia registered exponential growth rates thanks in part to their open trade policies, whereas those economies (chiefly in Latin America, Africa and the Middle East) that stuck excessively to inward-looking development policies were hobbled by dreadful growth performance. Yet a key problem that has been raised consistently by COSATU in the South African context (Chapter 5) is that although the outward-oriented strategy has considerably strengthened the country's manufacturing performance, export growth has not resulted in increased employment. On the contrary, in numerous cases the shift to export orientation at enterprise level has led to a restructuring of production that has shed jobs.⁶²⁵ In sum, South Africa's outward-oriented model "does not add up to a strategic policy of the Japanese or South Korean varieties. Measures are predominantly supply-side and bereft of an overt role for the state in targeting and buttressing, for instance, the development of labour-intensive industries or of coaxing and rewarding job creation and productivity advances."⁶²⁶ It could be inferred, thus, that while there has been broad, albeit fragile, consensus among the key social actors

⁶²⁵ Cosatu, "Cosatu Submission," p.29.

⁶²⁶ Marais, *South Africa: Limits to Change*, p.128.

– the state, capital and labour – on the centrality of export-oriented manufacturing as a way to achieve international competitiveness, the government's trade policy has been characterised by deficiencies. Export growth has been overly capital-intensive and the resourcing of more labour-intensive forms of beneficiation and industrial activity has been overlooked. It is apparent that in some areas trade liberalisation has proceeded much further than has been required or could have been negotiated, leading to significant job losses in certain industrial sectors such as the footwear industry (Chapter 4). Supply-side measures to compensate for the resulting competitive pressures or to promote successful restructuring have been limited and lacking appropriate sequencing with trade reform. A labour-abundant country such as South Africa cannot sustain an employment-insensitive trade policy. Nor can trade policy be oblivious to the legacy of the dual character of the South African economy, which is characterised by the dominance of the small, modern and developed sector over the large, neglected and underdeveloped economy.

The experience of Mexico has demonstrated that although trade liberalisation can create conditions conducive to growth, it is not a panacea for development problems. NAFTA did play a crucial role in consolidating Mexican political and economic reforms, in opening the previously sheltered economy to external competition, in forcing Mexican corporations become more efficient and focused, and in shoring up the productive capacity of Mexico's automobile sector. However, as Chapter 6 has illustrated, the sustainability of Mexico's economic boom in the 1990s was undermined by serious underlying weaknesses including a dysfunctional educational system, poor investment in technology, inadequate spending on research and development, soaring energy costs, and pervasive corruption.

Against this backdrop, it could be argued that South Africa has a great deal to learn from the Mexican experience. It is necessary that the South African government desist from placing a disproportionate emphasis on the export-oriented growth to the detriment of other critical aspects of its national development strategy. Moreover, there's a need to discard the assumption entertained by some decision-makers that trade liberalisation leads seamlessly to economic growth.⁶²⁷ It was clarified in the introductory chapter that there is no direct correlation between trade liberalisation and economic growth. Trade policy does not generate economic growth, but it can create an enabling environment for it to occur, for example by promoting an efficient allocation of economic resources and playing a supportive role during stabilisation through the mobilisation of resources for the government. Trade liberalisation, therefore, cannot be seen in isolation from other policies: fostering economic growth requires an integrated strategy that locates trade policy in a wider development context that includes other pillars of industrial policy such as investment policy, entrepreneurship development policy, training and development policy, technology policy, research and development policy. The South African state has a critical role to play in ensuring that South Africa's productive capabilities and material resources are deployed to develop the national economy in an integrated fashion. It also has a responsibility to protect its citizens against the negative effects of economic change and globalisation.⁶²⁸

Chapter 5 has highlighted the trade reforms that have been carried out by the South African state to restructure South Africa's previously isolated economy and foster the development of an export-led manufacturing economy. It has been asserted that trade

⁶²⁷ This was a general impression formed by the author during the course of interviews with some government trade officials.

⁶²⁸ Interview with Ben Turok, Cape Town, 11 April 2003.

policy in South Africa has basically mirrored economic changes introduced by the ANC government since 1994, designed to expose the economy to external competition and reverse decades of economic incompetence. Additionally, reforms have been geared at changing the structure of national institutions and industries to promote domestic economic adjustment. The establishment of corporatist institutions (centred around NEDLAC) has served to facilitate social bargaining between the state, capital and labour over trade policy. Even so, the thesis has cautioned against the risk of tripartism in South Africa disintegrating for a number of reasons, including the problem of social cleavages induced by elite-pacting, the mounting tensions within the labour movement over the direction of NEDLAC, and the sluggish pace of uniting the previously racially segregated business associations in South Africa.

In addition to NEDLAC, economic changes have resulted in the transformed institutional arrangements for trade policy-making in South Africa led by the DTI. But the study has drawn attention to the mounting pressure on the DTI to engage with ever expanding global, regional and bilateral trade negotiations. South Africa's trade bureaucracy has evolved from being poorly organised, inadequately staffed, ineffective and secretive to becoming relatively competent, professional and accountable. However, there is no disguising the reality that South Africa's trade negotiation resources are overstretched. South Africa has to shore up its human, technical and institutional resources if it is to keep up with its growing diplomatic commitments. If adequate resources are not funnelled into strengthening the DTI's technical resources in accordance with its growing negotiations agenda, the South African government will in future struggle to meet its trade liberalisation obligations.

Specifically, there is a need for the DTI and the DFA to abandon their debilitating turf battles and strive for qualitatively better coordination and cooperation to ensure effective implementation of South Africa's foreign economic policy.⁶²⁹ For their part, organised business and the labour sector need to accord higher priority to South Africa's trade negotiation agenda and work closely with government and the national legislature to strengthen the country's economic diplomacy regionally and globally. This will require, for example, greater investment in trade policy research capacity which can be aligned with the government's existing resources.⁶³⁰

It was observed in Chapter 6 that the model of developmental integration that the SADC had set out to pursue in 1992 has yielded insignificant outcomes in the SADC context: although there has been greater regional integration and co-operation, this has advanced without reference to the principles of balance, equity and mutual benefit that had originally inspired the regional integration enterprise. On the contrary, the mounting support for the classical model of economic integration in the regionalisation discourse in recent years has raised doubts as to whether the SADC can effectively tackle the social dislocations caused by polarised regional growth. Moreover, trade tensions between South Africa and Zimbabwe over the former's protectionist policies towards the latter's clothing and textile imports have illustrated the difficulties of integrating economies at different levels of development. These challenges must be addressed if the SADC is to reduce regional economic polarisation and manage the destructive aspects of economic globalisation.

⁶²⁹ Interview with Ian Basson, Pretoria, 14 April 2003.

⁶³⁰ Draper, "South African Business," p.7.

The thesis has underlined South Africa's pivotal role in the regional integration process. South Africa has not only used its trade policy as a foreign policy mechanism to normalise political relations with neighbouring countries in the Southern African region, it has deployed it to pursue its hegemonic ambitions and to consolidate regional trading arrangements as stepping-stones towards the incorporation of Southern Africa into the global economy. However, South Africa can fulfil its hegemonic regional ambitions only if it acts in a manner that does not undermine the cohesion of both the SACU and the SADC. The study has highlighted that although South Africa's hegemonic designs appear to have found greater accommodation within the SACU, it has been far less effectual in exercising leadership over the SADC. In particular, the failure of South Africa's 'quiet diplomacy' in Zimbabwe has made a mockery of its leadership credentials in the SADC region and underscored starkly the significant limits to what even a regional powerhouse such as South Africa can accomplish in its regional neighbourhood. The degree to which South Africa can fulfil its leadership aspirations in Southern Africa will reside ultimately with how adroitly the country can reconcile its regional aspirations with its domestic and international pressures.

We also saw in Chapter 6 that South African policymakers have actively encouraged the country's re-incorporation into the global economy and campaigned for a more substantial role for developing nations in moulding multilateral economic governance, particularly in relation to the WTO. As its role in the G20+ has testified, South Africa has become a key diplomatic player in the global trade system in the last decade, respected by developed and developing countries alike.⁶³¹ This thesis has

⁶³¹ See 'Seeking a friend in South Africa,' *The Economist* 21st February 2004.

maintained that South Africa's fortunes in the multilateral system will be influenced not only by how it implements its global trade strategy but also by the future trajectory of the contemporary system of economic multilateralism. Contemporary multilateralism is in a serious crisis. The success of the post-1945 international economic order has depended on American leadership and its cooperation with the major West European powers through multilateral institutions. This relationship propelled the development, albeit unevenly, of an open international economy that has underpinned the global order for over five decades. This multilateral system has undergirded progressive trade liberalisation under the GATT and its successor after 1995, the WTO. The potential collapse of the WTO imperils the future of multilateralism, with dire consequences for small trading nations such as South Africa.

It is for this reason that in Chapter 7 the study has argued that resuscitating the stalled Doha negotiations has become an urgent priority. The US and the EU have to take the lead in this respect and spell out how they intend to reform their highly protectionist agricultural policies. The commitments made at the WTO General Council meeting in August 2004 by the EU and the US respectively to terminate export subsidies as well as to curtail food aid and export credit programmes have restored impetus to the WTO. Combined with the decision of the EU after Cancún to remove investment and competition policy from the multilateral agenda – though it now wants these issues to be addressed within the context of a plurilateral agreement (voluntary code) – these commitments augur well for the rejuvenation of the Doha negotiations. The next important step the US and the EU need to take is to signal that they also intend to make progress on the elimination of import barriers and

domestic subsidies. Equally, Japan and South Korea should abandon their demand to include the “Singapore issues” in the multilateral talks. Moreover, together with Norway and Switzerland, they should show some flexibility on the issue of agricultural market access. The larger, middle-income developing countries such as Brazil, India and South Africa ought to recognise that the goal of ambitious agricultural reform cannot be attained without them making reasonable commitments on non-agricultural market access. Furthermore, they should eliminate their trade barriers to products from the least developed countries. Making these adjustments will require tough political decisions on the part of all the key payers. These are essential to restoring credibility to the multilateral trading system.

It was contended in Chapter 7 that South Africa has sought to carve a role for itself as facilitator and broker in the Doha trade negotiations. Its negotiating stance in the DR has been based on the notion that it seeks to safeguard the interests of developing nations, particularly African countries, while ensuring that its interests as a trading nation are not neglected. The thesis has highlighted South Africa’s ambivalent and edgy position in the Doha trade negotiations, especially in respect to its relationship with other African countries organised under the auspices of the AGW. Although in the Cancún ministerial meeting South Africa’s negotiating posture tilted towards that of the AGW – avowing South Africa’s commitment to continental solidarity – its role within the AGW is likely to remain inconsequential. South Africa’s global aspirations suggest that the country is likely to have more in common with other larger developing countries such as India and Brazil; the IBSA initiative attests to this direction in South Africa’s multilateral diplomacy. Though this diplomatic positioning is understandable, it must not detract from the overriding importance of

greater intra-regional economic integration across Africa. For regional integration represents the best vehicle through which African countries can overcome their structural weaknesses – including political disintegration, tiny intra-regional markets and narrow resource bases – and advance their integration into the global economy.

2. The Contribution to the Study of IPE

This study has sought to make two contributions to the IPE field of inquiry. A major contribution of this thesis to IPE has been to throw light on the inadequacies of the conventional accounts of trade policy reform in the post-apartheid era. Anchored in the neo-classical tradition, these analyses have advanced a solely economic rationale to explain the trade policy choices made by the ANC government since 1994. The thesis has maintained that, far more than these accounts allow, international and domestic political economy considerations have also played a central part in the ANC governments' calculations to embark upon trade reform to the degree it has. In particular, the thesis has sought to repudiate these economic explanations of South African trade reform for failing to incorporate into their analyses critical factors such as the role of power in the world economy, the dynamic interaction between domestic and international politics, the impact of globalisation on national policies and domestic economies, and the effects of domestic politics on strategies and outcomes. Consequently, as the study has shown, these explanations are vulnerable on theoretical grounds.

In advancing this contention, this thesis situated itself within the 'eclectic approach' derived from the 'new political economy' model. The strength of the new political economy paradigm lies with its determination to transcend the shortcomings of the

analytical tools and methods deployed in traditional social sciences.⁶³² First, it concedes that traditional social science instruments cannot deal adequately with the challenges presented by globalisation, especially the role that globalisation has played in shattering the distinction between the domestic and the international as well as the political and the economic. Second, its intellectual spirit is multi-disciplinary and theoretical but it also embedded in history. Third, its methodology discards erstwhile dichotomies – between agency and structure as well as between states and markets – that ruptured classical political economy into discrete disciplines. Fourth, it is driven by a progressive normative agenda that is preoccupied with questions of social equality and justice in a globalising world economy.⁶³³ Moreover, the new political economy paradigm recognises the prominence of the notion of power in the global political economy, especially the role that power plays in producing winners and losers in the global system.⁶³⁴

To sum up, the new political economy paradigm on which the analytical framework for this research is based departs from three assumptions. First, it maintains that in studying international political economy the political and economic spheres cannot be separated in any significant way. Second, while economists conceive of the market as an efficient mechanism for processing information to arrive at a market clearing price, the new political economy views it as an important part of the social and political conditions in which it is embedded. Third, it asserts that there is a close connection between domestic and international levels of analysis. Additionally, the new political economy has illuminated the notion of structural power in the global order,

⁶³² Higgott and Payne, *The New Political Economy*, pp.ix-xvi.

⁶³³ *Ibid.*

⁶³⁴ See Strange, *States and Markets*, especially pp.45-138.

concentrating in particular on how the distribution of that power determines the relationship between authority and market.⁶³⁵

The second contribution the thesis has attempted to make has been to the understanding of the IPE of the South. It was intimated in Chapter 1 that for a great part of the post-war era developing maintained a suspicious posture towards the LIEO. To a degree, this had to do with the ISI policies that they implemented in the 1950s and 1960s, which were based on the post-war arguments of export pessimism and infant industry protection. South Africa was no exception. Yet while developing countries were reticent participants in consecutive GATT negotiating rounds, their involvement in the international trade system intensified significantly in later decades. A number of factors accounted for this change of position, including the realisation that special and differential treatment granted to poor countries in the mid-1980s had not improve their economic position markedly, the rise of East Asia's NICs which highlighted growing economic differentiation among developing countries, and increased pressure imposed by the IFIs on countries pursuing inward-looking trade strategies. Through the national lens of South Africa, this thesis has tried to shed light on the experiences of countries of the South in the WTO system against the backdrop of heightened economic globalisation and a rapidly changing global trade regime.

3. Future Research Agenda

A key aim of this thesis has been to sketch a systematic and detailed analysis of the political economy of South African trade policy in the post-apartheid era. In this study trade policy has been defined in conventional terms: a microeconomic policy

⁶³⁵ Underhill, "Introduction: Conceptualising the Global Order," p.5.

that is a vital part of a wider industrial policy that encompasses other microeconomic policies such as technology policy and research and development policy (see Introduction). It was pointed out, however, that this narrow definitional interpretation is not oblivious to the fact that in contemporary times both trade policy and industrial policy have become so intertwined that drawing distinctions between the two has become almost impossible. This is unquestionably the case with South Africa. For a semi-peripheral state such as South Africa requires more than a trade policy to attain its long-term economic ambitions: it needs an integrated industrial strategy to undergird trade policy in a broader national developmental context. The research has been responsive, therefore, to the fact that in the South African context no straightforward distinctions can be drawn between trade policy and industrial policy. For reasons of pragmatism and manageability however the thesis has focused only on areas of trade policy directly relevant to this research project. The study does not, therefore, represent the final word on South African trade policy.

Two issues require further consideration. The first is the relationship between South Africa's trade policy and the government's integrated manufacturing strategy alluded to Chapter 5. Among other things, the strategy is designed to stimulate competitiveness, create a value-added export-oriented manufacturing economy and increase employment. To this end, the South African state has provided generic support measures to designated industrial sectors with a view to fostering their international competitiveness, including export support, investment support, quality improvement, strategy development, research and development as well as targeted empowerment and small business development programmes. Greater attention has been focused on eight industrial sectors – agriculture, tourism, information and

communication technologies, cultural industries and export sectors, clothing and textiles, automobiles, agro-processing and chemicals – and in each of these groups specific supply-side programmes have been developed to enable them to compete internationally.

The success of the manufacturing strategy has been predicated on five preconditions: a sustainable growth-oriented macroeconomy; continued expansion of global trade; capacity within the economy to meet basic needs and expand exports; increased levels of savings and investment; and capacity in the state to lead and act effectively.⁶³⁶

Whilst the integrated manufacturing strategy represents a significant improvement on its initial discussion document, several questions remain unanswered. First, policymakers have argued that for the integrated manufacturing strategy to succeed, South African industry must pursue a balanced approach to domestic and foreign markets, and ensure improved equity and employment. There are grounds to question whether these goals can be achieved given industry's excessive emphasis on exports as the key indicator of economic outputs and outcomes. To what extent do these outputs and outcomes reflect an understanding of the paramount challenges facing the South African economy – low growth; poverty; and social inequality? Second, the integrated strategy is preponderantly focused on the manufacturing sector to the exclusion of other sectors? Why is this case? What accounts for the apparent discontinuity between the analysis of the deep structural problems of the South African economy, and the kinds of policy measures which the strategy tends to concentrate on? Also, what role can the service sector – which accounts for 54 percent of South Africa's GDP – play in generating employment?

⁶³⁶ The Department of Trade and Industry, *Accelerating Growth and Development*, p.5.

The second issue that deserves additional attention is South Africa's future role in the G20+ and the IBSA Dialogue Forum. The formation of the G20+ was undoubtedly a significant development in the history of the international trade system. Not only did the coalition emerge as a credible negotiating force, its steadfastness in the face of repeated attempts by the US and the EU to break its unity represented a crucial political victory for the developing world. But what does the future hold for the G20+? Can the resoluteness and unity forged by developing nations in Cancún endure? The experience of the G77 developing countries provides a good case study of the difficulties of sustaining coalition diplomacy. An array of factors – including national economic self-interest, intra-group political dynamics, and developed country pressure and arm-twisting – undermined the long-term unity and cohesion of the G77.⁶³⁷ Already some Central American countries Costa Rica, Guatemala, Peru and Colombia have withdrawn from the coalition. A question for investigation is how will this realignment of forces affect the future of the G20+ and South Africa's position in it? As outlined in Chapter 6, South Africa has promoted strategic cooperation with designated developing nations – mainly India and Brazil – with a view to challenging the structural imbalances of the contemporary global order and agitating for a freer and fairer global trade system. It is still too early to offer a considered and comprehensive assessment of how the IBSA alliance is likely to unfurl.

The IBSA Dialogue Forum was formed to coordinate the three countries' strategies around issues of trade, health, defence and global governance. Their collective

⁶³⁷ For a detailed discussion of these factors see Marc Williams, *Third World Cooperation – The Group of 77 in UNCTAD* (London: Pinter, 1991), pp.77-106.

potential as a diplomatic counterweight to the domination of global economic governance institutions was demonstrated in the conspicuous roles they played as leading members of the G20+ in Cancún. However, given that this putative alliance is still in its formative phase, it raises a number of questions. Will these countries be able to maintain in the long-run a balance between the imperative of collective cooperation and their positions as competitors for export share in developed country markets? How will they deal with concerns raised by other developing countries that IBSA is an exclusionary group? Can South Africa effectively dispel suspicions among other African countries that its participation in the three-way alliance implies a lack of commitment to Africa? How does South Africa intend to bridge the chasm that may arise between itself and other African countries as a consequence of its involvement in the IBSA Dialogue Forum? Is South Africa's role in this coalition that of a policy leader or is it merely that of a policy taker? These issues constitute an agenda for future research.

Appendix A: List of Interviewees

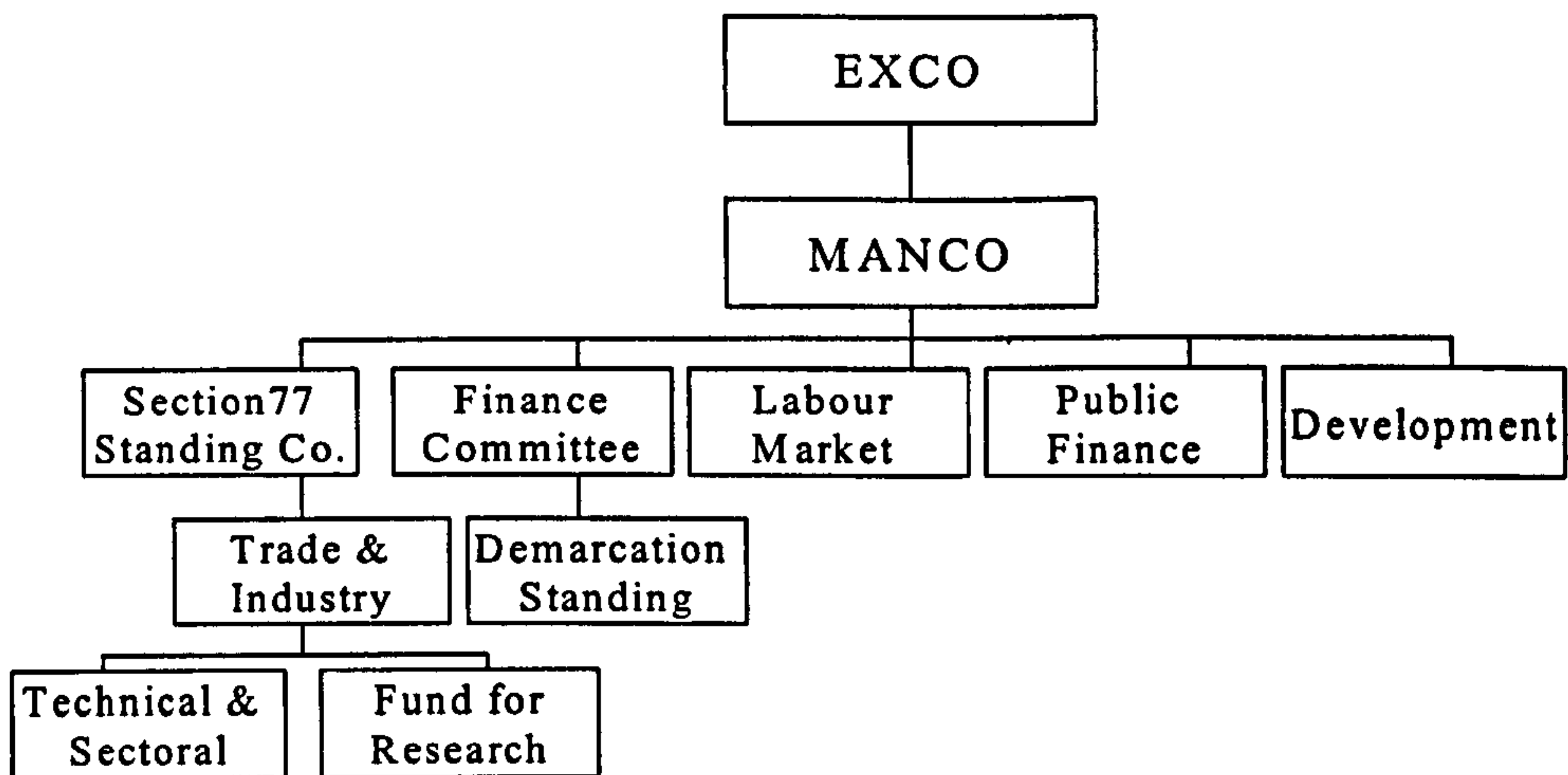
<p>Tshediso Matona Deputy Director-General – International Trade Department of Trade and Industry</p>	<p>Pretoria, 7/4/02</p>
<p>Gerrit Bryl Former Acting Director-General Department of Trade and Industry</p>	<p>Pretoria, 14/4/03</p>
<p>Faizel Ismail South African Ambassador to the WTO</p>	<p>Geneva, 13/3/03</p>
<p>Francis Moloji Director – Trade Negotiations Department of Trade and Industry</p>	<p>Pretoria, 10/4/03</p>
<p>Pankie Matomela Director – Executive Management Unit Department of Trade and Industry</p>	<p>Pretoria, 5/4/02</p>
<p>Moosa Ebrahim Chief of Staff Department of Trade and Industry</p>	<p>Pretoria, 5/4/02</p>
<p>Alan Hirsch Deputy Chief Economist Department of Trade Industry</p>	<p>Pretoria, 5/4/02</p>
<p>Willem Smallberger Deputy Director- European Desk Department of Trade and Industry</p>	<p>Pretoria, 9/4/03</p>
<p>James Lennox Chief Executive South African Chamber of Business</p>	<p>Johannesburg, 9/4/02</p>
<p>Neil Cole Director Department of Land and Agriculture</p>	<p>Pretoria, 6/4/02</p>

Philip Dexter Executive Director National Economic Development and Labour Council	Johannesburg, 9/4/02
Fiona Tregena Researcher – Trade Policy Congress of South African Trade Unions	Cape Town, 26/3/02
Rob Davies Chairperson Portfolio Committee on Trade and Industry	Cape Town, 27/3/02
Kent Durr Former Deputy Minister of Trade and Industry	Cape Town, 11/4/03
Ben Turok, Member of Parliament, ANC	Cape Town, 11/4/03
Maika Oshikawa Economic Affairs Officer – Technical Cooperation World Trade Organisation	Geneva, 20/9/02
Katie Waters Office of the Director General World Trade Organisation	Geneva, 15/6/03
Chiedu Osakwe Office of the Director General World Trade Organisation	Geneva, 15/6/03
Tania Voon Appellate Body Secretariat World Trade Organisation	Geneva, 15/6/03
Ahmed Ndyeshobola Member of the ACP Secretariat	Brussels, 8/7/03
Rashad Cassim Chief Executive Officer Trade and Industrial Policy Strategies	Johannesburg, 9/4/02

Peter Draper Programme Manager- Development Through Trade South African Institute for International Affairs	Pretoria, 9/4/03
Ian Basson Director – Policy, Research and Analysis Department of Foreign Affairs	Pretoria, 14/4/03
Mohseen Moosa Chairperson Select Committee on Economic Affairs	Pretoria, 15/4/03
Mpho Leseka Economic Affairs Officer South African Mission to the WTO	Geneva, 13/6/03
Zingisa Mavuso Economic Affairs Officer South African Mission to the WTO	Geneva, 13/6/03
Anthony Black Professor of Economics University of Cape Town	Cape Town, 28/3/03
Derick Moyo South African Consul-General Brazil	Pretoria, 14/4/03
Thabo Mokwena Chief Executive South African Local Government Association	Pretoria, 14/4/03
Kennedy Mbekeani Director Southern African Trade Research Network	London, 7/7/04

Appendix B: NEDLAC Structure

NEDLAC Structure



Source: Nedlac Annual Report, 2000/01

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