Thrown in at the deep end: South Africa and the Uruguay Round of multilateral trade negotiations, 1986–1994

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Abstract
South Africa’s readmission into the multilateral trade system in the early 1990s was one of the key events that marked the end of decades of international ostracism brought about by the country’s apartheid policies. By participating in the Uruguay Round of multilateral trade negotiations and acceding to the Marrakesh Agreement of the GATT/WTO in 1994, South Africa agreed to liberalise its trade policies in line with the rules-based global trade regime after decades of estrangement from the GATT operations and disciplines. Although South Africa had taken part in all the previous rounds of multilateral trade liberalisation, years of international isolation prevented the country from benefiting from the considerable liberalisation attained in the successive pre-Uruguay Round negotiations. Even so, it appears that the Uruguay Round had a significant political and economic impact on South Africa. The normalisation of South Africa’s trade relations and the reinstatement of its trade prerogatives within the WTO elicited a favourable disposition towards the country. Trade reforms implemented in line with Uruguay Round commitments laid the foundation for major changes in the South African economy. South Africa, however, still has a long way to go before it can achieve its long-term goal of becoming a globally competitive, outward-oriented manufacturing and services economy.

Keywords: liberalisation, South Africa, trade reform, Uruguay Round, WTO

1 INTRODUCTION

South Africa’s reacceptance into the multilateral trade system in the early 1990s marked the end of decades of international isolation brought about by the country’s
apartheid policies. This article explores the country’s role in the Uruguay Round (UR) of multilateral trade negotiations, which began in 1986 and concluded in 1994. By signing 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 trade system, but also to formalise its credentials as a fully fledged trading nation, following many years of operating outside the GATT disciplines. Although South Africa had taken part in all the previous rounds of multilateral trade liberalisation, years of international isolation prevented the country from benefiting from the considerable liberalisation attained in successive pre-UR negotiations. The UR had a significant political and economic impact on South Africa: the normalisation of South Africa’s trade relations within the WTO elicited a favourable disposition towards the country, while trade reforms implemented in line with UR commitments laid the foundation for major changes in the South African economy. This country, however, still has a long way to go before it can achieve its long-term goal of becoming a globally competitive, outward-oriented manufacturing and services economy.

The article is structured into four parts: the first places the UR of multilateral trade negotiations within a global historical setting. The second provides a comprehensive examination of South Africa’s role in the UR. The third analyses the impact of the country’s participation in the UR on the South African economy. The article concludes with a discussion of some of the key challenges local policymakers will have to tackle in the future, following the implementation of the country’s UR commitments.

2 THE URUGUAY ROUND IN GLOBAL CONTEXT

The UR of trade negotiations, which began in September 1986, came about as a result of the 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 (Winham 1999: 163). It was this recognition that inspired the United States (US) to take the lead in calling for a new round of trade negotiations. Notwithstanding their initial opposition to the launch of a new negotiating round, developing countries played an active part in building momentum towards the UR (see Wilkinson and Scott 2008). Moreover, domestic considerations played a key part in the decision of most developing countries to agree to new negotiations. Faced with a devastating recession and debt crisis, which precipitated a sharp increase in debt repayments and a consequent decline in imports, the governments of many developing countries recognised that they had a stake in expanded exports and an open trade system (Winham 1994: 169).
Although developed and developing countries were driven by diverse concerns, they shared a common objective – that of maintaining the multilateral trading system (Schott 1994). The UR was the most extensive and ambitious negotiating round undertaken in the history of the GATT: its significance lay with its aim of incorporating trade in agriculture and textiles into the GATT rules and disciplines. It was also notable for its introduction of new issues into the 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, led by Brazil and India, revolved during the pre-negotiation phase of the UR (Wilkinson and Scott 2008: 502). 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’ (Spero and Hart 1997: 84). These nations wanted to ensure that, if they were forced to make concessions in these areas, the developed countries would reciprocate by making real concessions in areas of importance to them, such as textiles, clothing and agriculture. Ironically, the sectors where 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’ (McDonald 1998: 136). The MFA prohibited developed countries from imposing quotas on imports from other developed countries – only the imports 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 divergent interests over the pace and level of structural adjustment needed to reform agricultural policies, and over areas that required regulation (McDonald 1998: 206).

The UR agriculture negotiations were influenced by a number of factors, including a crisis in the global agricultural system (exemplified by burgeoning trade disputes between the US and the European Union (EU)), a recognition by the EU that its protectionist and 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 (McDonald 1998: 206). The key aim of the EU was to cut domestic subsidies to the level where supply and demand in 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. The US disagreed with the EU, arguing instead for an application of reduction measures to all the policy components (McDonald 1998: 206). The US position enjoyed the support of the Cairns Group² of low-cost agricultural exporters – a very influential coalition of developed and developing countries, that pushed very hard for an end to agricultural protectionism in developed countries.

The final UR Agreement on Agriculture represented a compromise between the US and EU positions, and did not go far enough in addressing the concerns of developing countries in respect of export subsidy reductions, trade-distorting forms of domestic support and improved market access (Capling 2001: 145). 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 governments of industrialised countries to their farmers. Such subsidies restricted access to developed country markets for products in which developing countries had a comparative advantage. For most developing countries, the UR represented a 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 the necessary technical assistance to implement their WTO obligations (Narlikar 2005: 67–71 and 107–108).

Not only did the UR fall short of delivering meaningful results on issues of interest to poor countries, 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 the enforcement of rights and obligations (Onimode 2000: 185–187). The least-developed countries (LDCs), in particular, had to contend with new trade issues – trade in services, intellectual property rights, and investment – that they did not understand and around which they were not adequately prepared to negotiate.

At the conclusion of the UR, developing countries made market-opening concessions that went further than the unilateral liberalising measures they were already undertaking. This was 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 phasing out of the MFA and the removal of all quotas over ten years. It also set out measures that would liberalise trade in agriculture, and 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 ought to be subjected to multilateral trade disciplines in the WTO (Woolcock 1999: 32–34). It also stipulated new procedures for dispute settlement, and set up the Trade Policy Review Mechanism, the purpose of which was to subject the trade policies and practices of WTO member states to scrutiny.

3 SOUTH AFRICA AND THE URUGUAY ROUND

The April 1994 signing of the Marrakesh Agreement – which marked the successful conclusion of the UR of trade negotiations of the GATT/WTO – by 122 countries, represented what economist Alan Hirsch (1995: 41) termed a ‘doubled new discipline’ for South Africa in the global trading regime: taking place a fortnight before the first democratic elections in this country, it marked not only South Africa’s reacceptance into the international community of nations, but also its accession to the new WTO regime. South Africa’s role in the UR cannot be clearly understood without reference to how the country’s trade policy evolved in the post-war period. In 1948, South Africa was one of the original 23 signatories to the GATT. As a founder member of the GATT, South Africa participated in all the rounds of multilateral trade negotiations. Even so, the paramount question that exercised the minds of local policy makers over successive decades, was whether or not the country’s economic interests were being adequately served by the GATT. This ambivalent attitude towards the GATT regime was highlighted in submissions made by domestic commerce and industry to the Reynders Commission of Inquiry into South Africa’s export trade (Reynders Commission 1972).

While South Africa saw the GATT as a crucial means of realising the post-war policy of international trade liberalisation, it was concerned that the concessions it was making in the international trade system were not being matched by the benefits it was deriving. There were doubts over whether the GATT took sufficient account of South Africa’s development needs and whether it was desirable (given these development imperatives) for South Africa to have to fulfil its GATT obligations to the same extent as the industrialised countries.

In some respects, 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 imposing undue constraints on the country’s domestic economic objectives – particularly its quest for national self-sufficiency. Notwithstanding its reservations about the GATT, the South African government
committed itself to continuing its participation in this institutional arrangement. Even so, decades of international ostracism brought about by its apartheid policies meant that South Africa was able to operate beyond the reaches of the GATT rules, and the country remained largely outside the substantial liberalisation achieved in the successive pre-UR negotiating rounds. As Hirsch (1995: 41) states:

The constraints of full membership rested on the fact that having been an international outlaw for at least a decade, South Africa had been allowed to operate beyond the reaches of GATT rules. With GATT as the apolitical international agreement *par excellence*, the sanctions which operated against South Africa from the mid-1980s were illegal in terms of GATT rules. For this reason, countries which maintained sanctions against South Africa in defiance of GATT were understandably reluctant to resort to GATT rules when they believed that South Africa was operating outside of the GATT framework.

As such, South Africa was able to maintain relatively high tariffs and several quantitative restrictions on its imports, to sustain its inward-looking trade and industrial policies for many years. The country’s isolation from the GATT processes over the years, however, robbed it of the benefits brought about by structural changes in the global economy, typified by trends towards globalisation of production, investment, technology and trade flows (Matona 1994: 15). Indeed, the deficiencies of South Africa’s import substitution industrial strategy had increasingly become clear in the 1970s. Even so, worsening external circumstances – including an international trade embargo against the country – made it difficult for South African authorities to introduce export-oriented policies. This, in turn, ‘left South Africa trailing behind the newly industrialising countries in terms of international competitiveness and export growth’ (Matona 1994: 15). For example, although in the mid-1970s the proportion of manufactured exports to gross domestic product (GDP) in both South Africa and Malaysia stood at 6 to 7 per cent, by 2004 this figure had risen to 80 per cent in Malaysia but to only 12 per cent in South Africa (Rodrik 2006: 7).

South Africa participated in the UR as a developed country and conformed to developed-country rules. Two reasons account for this classification: the first concerns this country’s international role in the immediate post-war period. Firstly, South Africa had been an active participant in the shaping of the post-war international order – through participation in World War II on the side of the Western Allied Forces and in the reconstruction efforts that saw the emergence of the United Nations and the Bretton Woods institutions. South Africa was seen, and viewed itself, as an integral part of the ‘Western bloc’ in the post-war geo-political and economic realignments (see Nolutshungu 1994: 129–136). Secondly, the country was classified as developed, because it conformed to the World Bank criteria for developed economies. The issue of South Africa’s classification was debated during a review of the country’s trade policy in 1993. In its opening statement, the
South African trade delegation had mooted the possibility of having the country reclassified as a developing country. This proposal was immediately rebuffed by the US, which reminded the delegation that, as a founding member of the GATT, South Africa had never been regarded as a developing country (Department of Trade and Industry 1993: 2). For this reason the US, supported by the EU and Japan, 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 policy reform. 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 countries to reduce tariffs substantially, while the EU proclaim that it would not treat Hong Kong, Singapore and South Korea as developing countries in its implementation of the commitments of the UR (Hartridge 1994: 175–176).

The designation of South Africa as a developed 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 WTO has been a subject of intense domestic debate. South Africa has numerous attributes of semi-peripheral economies. 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. It is typified by highly competitive sectors – such as the financial and automotive sectors – and a relatively well-developed economic infrastructure. Yet the bulk of South Africa’s industry was massively protected from international competition, thanks to the import substitution policies pursued by previous apartheid governments. The continued classification of South Africa as a developed economy has remained problematic in the context of the Doha Round of global trade negotiations, with one Department of Trade and Industry (DTI) official labelling it an ‘historical injustice’. South Africa has argued for a review of its classification as a developed economy within the WTO, which it has blamed for, among other things, the uneven development of the southern African region (Amandla December 2008).

This country supported the UR of multilateral trade negotiations from the outset. During the late 1980s, the work of the DTI’s multilateral trade relations division was dominated by the UR negotiations (Department of Trade and Industry 1989: 11–12). Nonetheless, South Africa’s trade delegation was overwhelmed by the daunting UR negotiating agenda, and struggled to keep up with developments in the numerous key areas of parallel negotiations. South Africa’s negotiating posture, therefore, was ‘defensive’ (Hirsch 1995: 45). Inadequately prepared, and confronted with the wide-ranging scope and intricacy of the UR agenda, this country had little chance of influencing the negotiations on several issues (Matona 1994: 16).
South Africa submitted its initial UR offer on tariff reductions in 1990. The tabling of this offer proceeded amid tensions between the South African government and the private sector. To be sure, the offer was ‘developed by the government and more-or-less imposed on the private sector without an adequate formal process of consultation’ (Hirsch 1995: 50). This was partly a function of the ‘the sanctions-inspired secrecy with which the previous government conducted international relations’ (Matona 1994: 16). It was also a demonstration of the growing lack of legitimacy of the apartheid government’s economic policymaking, which was overshadowed by the escalating internal political crisis. Following a review of South Africa’s trade and industrial policies, it was ‘found South Africa’s offer did not provide an adequate base for a fundamental rationalisation of the tariff structure’ (Department of Trade and Industry 1993: 23). This necessitated the compiling of a revised offer that would comply with the UR objectives. South Africa tabled a revised offer in 1993, after the country’s trade policies were subjected to intense scrutiny in a GATT Council review – in which 40 countries participated – 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’ (Department of Trade and Industry 1993: 22). The submission of a revised offer coincided with the beginning of South Africa’s transition to democracy and attendant calls by the African National Congress on the then ruling National Party government to broaden the number of participants in the UR negotiations. Whereas very little formal consultation with domestic constituencies took place in putting together South Africa’s initial offer, the revised offer was formulated in conjunction with the National Economic Forum, a technical group of the Southern African Customs Union and task groups of the automotive, textiles and clothing, and electronics industries (Hirsch 1995: 51).

South Africa’s final, revised offer to the WTO comprised of a five-year tariff reduction and rationalisation programme, with the clothing, textiles and automotive sectors being the only exceptions to the five-year tariff liberalisation process – these sectors were given eight years to achieve the levels set out in the WTO offer. The offer encompassed whittling down the number of tariff bands from just over 100 to 6: these were made up of duties at the rates of 0, 5, 10, 15, 20 and 30 per cent. The offer also included: rationalising industrial tariff lines from around 12 500 to about 1 000; reducing industrial tariffs by an average 33 per cent; slashing agricultural tariffs by an average 36 per cent; phasing out local content measures in the automotive industry; and abolishing the General Export Incentive Scheme (GEIS) by 1997. South Africa also undertook to cut average weighted import duties from 34 per cent to 17 per cent for consumption goods, 8 per cent to 4 per cent for intermediate goods, and 11 per cent to 5 per cent for capital goods. Other elements of the WTO
offer entailed raising the share of bound tariffs from under 20 per cent to slightly over 50 per cent and hiking the percentage of bound-zero-rated tariff lines to slightly over 25 per cent (see Cassim, Onyango and Van Seventer 2004: 9–11; Marais 1998: 129; Matona 1994: 16).

South Africa also made market access commitments in the financial services sector – covering the banking, securities and insurance sectors (Anderson 1998: 1–27). South Africa’s financial services liberalisation offer was based on three conditions: first, there was a desire to protect this country’s investors from ‘unscrupulous foreign entities selling financial products from offshore locations’ (Anderson 1998: 10). Second, regulations were needed to level the playing fields between domestic and foreign financial institutions that established (or had already established) a commercial presence within South Africa’s domestic market. Third, a change of regulations was required to ensure that domestic financial institutions were not hindered by local regulations in their attempts to become more internationally competitive (Anderson 1998: 10). Substantively, South Africa’s financial services offer and commitments were far more liberal than those of most developing countries and comparable to those of developed nations.7

4 THE IMPACT OF THE URUGUAY ROUND ON THE SOUTH AFRICAN ECONOMY

By agreeing to implement as a single undertaking all the agreements of the UR, South Africa committed itself to extensive trade policy changes. For local policymakers, the UR represented an opportunity to signal to the international community South Africa’s seriousness about trade reform. It also heralded a fundamental departure from the import substitution industrialisation policies that had underpinned the country’s economy for several decades.

Trade reforms carried out in the mid-1990s, in line with WTO commitments, succeeded in opening up the country’s previously inward-looking economy. Import surcharges were abolished. The GEIS was phased out in 1995, in keeping with South Africa’s WTO obligations. In agriculture, quantitative restrictions were converted to tariffs, followed by a decrease in the range of ad valorem tariffs. The conversion of quantitative restrictions to tariffs began in 1992 and was completed in 1994, and by the end of the 1990s agricultural tariffs were generally low – barring ‘sensitive’ commodities such as sugar (40 per cent), dairy (20 per cent), mutton (50 per cent) and wheat (20 per cent).

The tariff structure was simplified and rationalised. South Africa’s average tariff declined from 15 per cent in 1996 to 8 per cent in 2003. South Africa’s eight-digit tariff lines were reduced from 12 500 in 1990 to 7 900 in 2000 and 6 618 in 2008.
The share of zero-rated tariff lines grew from 32 per cent in 1996 to 45 per cent in 2000 and to 54 per cent by 2008. The number of tariff bands declined from 200 in the early 1990s, to 100 in 2006. The gradual opening up of the economy was also evidenced by the degree of import penetration. The share of duty-free imports grew sharply from 60 per cent in 1996 to 66 per cent in 2000, although only a minimal increase to 68 per cent was recorded in 2003 (see Cassim, Onyango and Van Seventer 2004a: 9–11; Cassim, Onyango and Van Seventer 2004b: 2–4; Department of Trade and Industry 2008a: 3–14).

Besides multilateral liberalisation, trade reform has been facilitated by the bilateral and regional preferential trade agreements South Africa concluded with key trade partners. Since the early 1990s, South Africa has signed preferential accords with several trade partners, including the EU, the Southern African Development Community, the European Free Trade Association countries, and the Mercosur regional bloc. South Africa has also been engaged in bilateral trade negotiations with the US and India, and there have been proposals to consider undertaking similar negotiations with China, Nigeria, Japan and Turkey. Furthermore, the country has been involved in negotiating Economic Partnership Agreements (EPAs) as part of the SADC-EPA group. Trade liberalisation has, therefore, been aimed not only at improving access for South African goods and services to traditional markets (Europe and North America), but also at exposing the country to new markets (Africa, Asia, Latin America and the Middle East).

A cursory examination of South African trade performance reveals an increasingly robust and resilient export sector. Trade reform has enabled this country to specialise and invest more in competitive industrial sectors and to source cheaper inputs for its uncompetitive sectors (*Business Day* 16 September 2003). Between 1992 and 2006, South African manufacturing exports grew by 13 per cent per annum in real terms, albeit from a low base (Hanival and Gonzalez-Nuñez 2008: 16). However, notwithstanding this export growth, South Africa’s aggregate export performance still lags behind those of other major developing countries such as China, India and Brazil (see Table 1).

Not only have South African manufactured exports grown, they have also become diversified: although South Africa’s export basket remains dominated (as was the case in 1992) by mining and basic processed goods, exports of advanced manufactures grew to make up nearly 22 per cent of total exports in 2006, compared to 7 per cent in 1992 (Hanival and Gonzalez-Nuñez 2008: 16). Export performance has been bolstered partly by the implementation of sector-specific support programmes such as the Motor Industry Development Programme (MIDP).11 Thanks to the MIDP, the automotive sector recorded an annual average export growth of 36 per cent between 1995 and 2002, and sustained investment growth during this period (*Business Day*
Table 1: Growth of trade of key developing countries, 1992–2006 (US$ million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total exports</th>
<th>Total imports</th>
<th>Export growth %</th>
<th>Import growth %</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>137 806</td>
<td>91 343</td>
<td>18.78</td>
<td>10.44</td>
</tr>
<tr>
<td>China</td>
<td>968 936</td>
<td>791 461</td>
<td>29.49</td>
<td>26.58</td>
</tr>
<tr>
<td>India</td>
<td>126 126</td>
<td>185 385</td>
<td>23.27</td>
<td>28.99</td>
</tr>
<tr>
<td>South Africa</td>
<td>53 169</td>
<td>69 184</td>
<td>13.74</td>
<td>23.39</td>
</tr>
</tbody>
</table>

Source: Hanival and Gonzalez-Nuñez (2008)

Figure 1: Changes in SA exports and the trade balance, 1992–2006

Source: Hanival and Gonzalez-Nunez (2008)
16 September 2003). Furthermore, the progressive opening up of the South African economy has been underscored by the steady rise, since 1992, in the ratio of exports to GDP (see Figure 1). The UR had a significant impact on South Africa, both in terms of normalising the country’s international trade relations and in respect of reinstating its trade prerogatives within the WTO (Matona 1994: 17). The establishment of a democratic political order saw many countries becoming increasingly favourably disposed towards South Africa. Although it made commitments to the WTO as a ‘developed’ country, there was some recognition among its trading partners that this categorisation was at odds with South Africa’s social and economic realities. In terms of social and economic indicators – such as income distribution, employment levels and human capital development – South Africa closely fits the profile of developing, not developed, countries. In recognition of these realities, the country was offered ‘limited special concessions such as longer phase-in periods in agriculture, textiles and clothing in the UR, as well as preferences outside of the GATT … ’ (Matona 1994: 17). These concessions, which were sector-specific, were granted not only on merit, but also on a customised, case-by-case basis. Likewise, the US and Canada extended preferences to South Africa under the Generalised System of Preferences. South Africa was also offered membership of the Lomé Convention by the EU, although on a qualified basis.12

The conclusion of the UR in April 1994 exerted significant pressure on South Africa to bolster its institutional and bureaucratic capacity in order to fulfil its WTO obligations. Not having been an active participant in GATT affairs, because the country had been ostracised internationally, South Africa lacked ‘the necessary internal institutions for administering GATT multilateral obligations and diplomacy’ and the country had to contend with the reality that its

Department of Trade and Industry’s GATT section is certain to find that it is inadequately staffed, needs technical expertise, is in insufficient coordination with the Board on Trade and Tariffs and other relevant government departments, and has a poor liaison and image with the business, academic, legal and media communities affected by GATT/WTO matters. (Matona 1994: 18)

South Africa’s accelerated trade liberalisation programme was initially criticised by sections of business and labour – especially those in sensitive sectors such as textiles and steel, in which tariffs had been lowered beyond what was required under the WTO (Marais 1998: 129). The labour unions 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. While they generally conceded the importance of trade reform in integrating the country’s economy into the world economy, they were
concerned that poorly sequenced liberalisation would exacerbate South Africa’s already high unemployment levels (see Business Day 10 June 2000; Financial Mail 19 May 2000).

5 CONCLUSION

This article has discussed South Africa’s role in the multilateral trading system, within the framework of the UR of trade negotiations. Overall, the trade reforms introduced in line with UR commitments laid the building blocks for significant changes in the South African economy. These changes have been reflected in a number of economic variables, including increased total factor productivity, exports and relatively low inflation (see Jonsson and Subramanian 2000: 1–34). But a number of important policy challenges remain: first, despite extensive tariff reform, South Africa’s tariff structure remains cumbersome. There is room for additional reform of the tariff structure, particularly in terms of strengthening linkages with industrial policy goals and providing greater clarity for economic agents (Department of Trade and Industry 2008b: 22).

Second, South Africa must shed its poor international competitiveness. Although the country’s global competitiveness increased noticeably after 1994, in recent years it has again deteriorated in several respects. According to the World Economic Forum’s Global competitiveness report, South Africa’s competitiveness ranking – out of 134 national economies – slipped from 35th in 2005/6 to 45th in 2008/9 (World Economic Forum 2008).

Third, South Africa must further improve its export performance: this is necessary if the country is to attain sustainable economic growth. South Africa’s proportion of exports to GDP decreased from 25 per cent in 2002 to 20 per cent in 2008 (Abedian 2008: 9). This export ratio is far below those of South Africa’s emerging-market-economy peers. To create a basis for sustained growth rates, South Africa has to raise its share of exports to GDP to around 35 per cent (Abedian 2008: 10).

Fourth, there is a need to complement South Africa’s trade policy with a ‘well-defined industrial strategy that is rooted in the comparative advantages of the country and enhanced by an appropriate mix of factor prices and foreign exchange policy’ (Abedian 2008: 7). Trade policy, supported by the country’s exchange rate policy, has been the key driver of economic liberalisation. However, in the absence of a credible industrial strategy over the past 15 years, South Africa’s industrial base has eroded, exemplified by the decline in the share of manufacturing as a proportion of GDP in recent years (Abedian 2008: 7). The introduction in 2007 by the South African government of a national industrial policy framework – which sets out the government’s approach to the industrial development of the South African economy
was a clear admission of the limitations of the status quo (Department of Trade and Industry 2007). Although the South African economy has recorded steady growth and become more diversified since 1994, the country’s central industrialisation challenge remains to expand and diversify manufacturing and tradable services. This is particularly critical in light of the South African government’s policy goal of halving the country’s high unemployment rate by 2014.

NOTES

1 The author gratefully acknowledges the comments of the anonymous reviewers, as well as those of Mzikisi Qobo, Peter Draper, Xavier Carim, Trudi Hartzenberg and Stuart Jones on an earlier draft of the article.

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

3 Determined during the apartheid era largely on the basis of average per capita income (which then reflected the earning power of the white minority population), this classification stood in sharp contrast to the broader South African social and economic realities.


5 Made up of representatives of government, business and labour (with informal representation of the African National Congress), the NEF was set up in 1992 to prevent a unilateral restructuring of the South African economy by the National Party government.

6 Devised as an economy-wide scheme, based on value-added and local content, GEIS offered significant export incentives.

7 Email correspondence from Xavier Carim to the author, 2 March 2009.

8 Norway, Iceland, Switzerland and Liechtenstein.

9 Brazil, Argentina, Paraguay and Uruguay.

10 Trade talks between South Africa and the US collapsed amidst differences over the negotiating agenda.

11 Unveiled in 1995, the MIDP is a package of incentives based on selective import duty restrictions. It provides significant subsidies to investment and exports in return for the production and sale of motor vehicles in the protected domestic market. It allows firms using local content in exports to import duty-free permits equivalent to the local content value of exports. Amid concerns that the MIDP flouted the rules of the WTO on subsidies, in 2005 the South African government instituted a review of the programme that resulted in its replacement by the WTO-compliant Automotive Production and Development Programme.

12 Although South Africa was excluded from Lomé trade preferences and from the Stabex and Sysmin stabilisation funds, it was offered certain political benefits, regional accumulation in respect of the rules of origin, and the opportunity to tender for Lomé-funded EDF projects.
It is worth pointing out, though, that South Africa’s tariff structure is not out of step with those of other trading nations, such as the US, EU, Mercosur and India. Factors cited by the report as responsible for South Africa’s plummeting global competitiveness include high levels of crime, poor public education and health systems, a decline in the quality of the country’s electricity supply, poor national savings, and labour market inflexibility.

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