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**South Africa as a Global Actor: Regional and Multilateral Trade Strategies from
1994 to 2004**

By

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Philosophy in Politics and International Studies

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DECLARATION

This dissertation is my own work, and no part of it has ever been submitted for a degree at another university. Parts of Chapter 5 have been used for publication as a book chapter: 'The Political Economy of Regional Integration in Southern Africa', In Peter Draper (ed.) (forthcoming), South African Institute of International Affairs, 2005.

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ABSTRACT

This thesis examines the strategic character of South Africa's regional and multilateral trade strategies. It looks at the interplays between the domestic, regional and multilateral levels during the period from 1994 to 2004. The regional focus is on Southern Africa, looking in particular at the Southern African Development Community (SADC) Protocol on Trade; and the multilateral/global backdrop is the World Trade Organisation (WTO) negotiations from Seattle to Doha 'Development' Round. The question at the core of this research is how regionalism is appropriated by state actors to respond both to domestic and global imperatives?

The central question is framed around analysing the extent to which South Africa uses regional and multilateral trade strategies to address its domestic developmental concerns and to build capacity for effective articulation at the global level. These developmental concerns encompass both social equity objectives and strategic competitive needs of domestic capital. For South Africa, the region's importance is linked to its strategic response to domestic growth challenges and exigencies linked to external forces.

Drawing on the New Regionalism Approach (NRA) and Competitive Strategic Regionalism Approach as analytic frameworks, this thesis argues that South Africa uses regionalism as a strategy to address its domestic growth challenges, extend political influence in the sub-region and project power at the global level. However, due to structural disarticulation between South Africa and the region, a crucial paradox in South Africa's overall regional and multilateral trade strategies is apparent. The thesis sets out to examine this paradox, concluding that it undermines the coherence of South Africa's post-apartheid regional and multilateral trade strategies.

CHAPTER 1: Introduction: South Africa as a Global Actor: Regional and Multilateral Trade Strategies

The last decade of the twentieth century witnessed a headlong rush towards regionalism in both the developed and the developing world. This development has since generated an intense and inconclusive debate amongst economists and political scientists on the relationship between regionalism, globalism and multilateralism. This has also generated varying interpretations on the meaning of regionalism, with different emphases on its various dimensions: informal regionalist processes; micro-regions; those that are engaged in by non-state actors; as well as formal processes taking place at the state or inter-state level. The latter form has been dominant in the literature on regionalism and multilateralism (see discussion in Chapter 2).

How regionalism is appropriated by state actors to respond both to domestic and global imperatives is at the core theme of this research. What has increasingly become clear in the last decade or so is that regionalism and the process of regionalisation are not singular developments following a certain pre-determined path. On the contrary, different actors, experiencing differential impact of globalisation and domestic forces, collectively fashion a sense of regional identity and evolve set of strategies to engage with what are perceived to be common challenges. One of the major themes that this dissertation explores is intra-regional interactions amongst state actors, with emphasis on both ideational and structural forces that shape regionalism.

Although this research examines inter-state dynamics, it acknowledges the fact that at the broader theoretical level, the study of regionalism is not limited to state actors or

empirical processes. It can be initiated by non-state actors, and unlike old forms of regionalism, the current wave is multidimensional and comprehensive, and involves a plurality of actors including state, market and society actors, as well as diverse set of issues: economic, security and environmental.¹ The focus of the thesis on state actors is mainly due to the role that these actors play in driving policy processes, as well as the relatively low-density of non-state actors in initiating or participating in regional processes.

States, as Clark and Edwards have suggested, 'remain primary brokers between international, transnational and domestic pressures in establishing new regulatory regimes but they are far from being the only actors.'² In their earlier work on regionalism, Shaw and Nyangoro have bemoaned the fact that, 'relatively few regionalist structures on the continent to date embrace or reflect the dynamics of civil societies, even if they build on shared cultures, ethnicities, identities, music, sporting interests, and so forth.'³ It is difficult to study regionalism in Africa without some reference to the state given its over-extension across various facets of social life, however weak it is in organisational form.

¹ See Louise Fawcett and Andrew Hurrell, *Regionalism in World Politics: Regional Organization and International Order*, (Oxford: Oxford University Press, 1995), p.4; Michael Schulz, Fredrik Soderbaum and Joakim Ojendal, *Regionalization in a Globalizing World: A Comparative Perspective on Forms, Actors and Processes*, (London: Zed Books, 2001), p.6; Fredrik Soderbaum, 'Introduction: Theories of New Regionalism', In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), pp.1-2; Bjorn Hettne, 'The New Regionalism Revisited', In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), pp.22-42; Morten Boas, Marianne H. Marchand and Timothy M. Shaw, 'The Weave-World: The Regional Interweaving of Economies, Ideas and Identities', In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), p.201.

² John N. Clarke and Geoffrey Edwards (eds.), *Global Governance in the Twenty-First Century*, (Basingstoke: Palgrave, 2004), p.10.

³ Timothy M. Shaw and Julius E. Nyangoro, 'African Renaissance in the New Millennium: From Anarchy to Emerging Markets? In Richard Stubbs and Geoffrey RD. Underhill (eds.), *Political Economy and the Changing Global Order*, (Oxford: Oxford University Press, 2000), p.279.

1.1 Southern Africa in the Broader African Context: A Brief Overview

Africa's place in the global order has hitherto been marginal and characterised by uncertainties. Even though the scope of this work is limited to examining the domestic forces shaping the nature of regionalism in Southern Africa, a brief allusion to the broader context of regionalism in Africa is important if we are to properly situate Southern Africa. An important point to emphasise is that the significance of regionalism in Africa in general and Southern Africa in particular is linked to the state of underdevelopment and marginality that characterises the region in relation to global structures of production and trade, as well as in relation to core and semi-peripheral countries in the world economy.

In Africa, the current processes of regionalism build on existing structures which date back to the 1960s when the notion of Pan-Africanism was largely in vogue. Regionalism, however narrowly defined, was from the outset a politically inspired project drawing inspiration from Pan-Africanist ideals. Indeed, it was, until the early 1980s, instrumental in the post-colonial state consolidation and serving as a force to mobilise Africa's elite towards the ideal of African unity. It sprung from a desire to set Africa free from external dependence and serve as an instrument for socio-economic development and continental unity.⁴

Deepening intra-African links was seen as an important step towards replacing external linkages. Peter Robson argued in the early 1960s that, 'Aspirations towards unity and cooperation in Africa currently find institutional expression in a variety of

⁴ Peter Robson, *Economic Integration in Africa*, (London: George Allen and Unwin, 1968), pp.9-23.

organizational arrangements for co-operation and in initiative for others.⁵ Regionalism was, during this period, also a notion that was predicated on the need for protection through import-substitution industrialisation in order to force structural transformation in regional economies and allow for industrial development behind protective barriers. Even in Southern Africa, when the force of regionalism took hold in the late 1970s and early 1980s, a particular stress was laid on self-sufficiency.

The period 1980-1990 provides an interesting land-mark in tracing Africa's changing position in the world economy and its developmental dilemmas. It is in making a critical observation of Africa's developmental trajectory during this period that the powerful forces that gave rise to the evolution of new regionalism in the continent can be properly located and understood. Not only was the infrastructure of governance weakening – in some instances due to ethnic conflicts, domestic policy failure, corruption and poor institutional capacity – but the economies were also on a steady decline.

Many countries in Sub-Saharan Africa were (and still are) dependent on a few primary exports and these are highly susceptible to price fluctuations, with adverse effects on foreign exchange earnings.⁶ Since the oil crisis of the mid-1970s, the world recession that it generated and the onset of debt crises in the 1980s, Africa has struggled to fully recover. This was a period which most African scholars

⁵ *ibid.* p.14.

⁶ Robert H. Jackson and Carl G. Rosberg, 'Why Africa's Weak States Persist: The Empirical and the Juridical in Statehood', In Ahtul Kohli (ed.), *The State and Development in the Third World*, (Princeton: Princeton: University Press, 1986), p.269; See also Michael Barratt and Pauline Tiffen, *Short Changed: Africa and World Trade*, (London: Pluto Press, 1992), p.129.

characterised as a 'lost decade'.⁷

Against this background, and in the context of stunted growth in Africa's economies, the key challenge faced by a majority of countries in Sub-Saharan Africa, and Southern Africa in particular, had to do with social development in all its facets, including economic growth and development of productive supply capacity, food security, public health concerns, literacy and employment. State actors therefore viewed economic development as a lens through which political strategies are conceived.

Apart from the poor resource base and weak productive capacities, the majority of countries in the continent had to also contend with institutional weakness of the state, absence of regulatory mechanisms, and the absence of strong forces for change, for example entrepreneurial class, grassroots social movements, and private sector agents.⁸ According to Robert Jackson and Carl Rosberg, 'Black Africa's forty-odd states are among the weakest in the world.'⁹

Sub-Saharan Africa's economies remain very small, and during the world recession

⁷ Timothy M Shaw, 'Revisionism in Africa's Political Economy', In Shaw Timothy Shaw and Julius E Nyangoro, *Beyond Structural Adjustment in Africa: The Political Economy of Sustainable and Democratic Development*, (New York: Praeger, 1992); Michael Bratton and Nicolas Van de Walle, 'Towards Governance in Africa', In Goran Hyden and Michael Bratton (eds.), *Governance and Politics in Africa*, (London: Lynne Rienner Publishers, 1992); Adedeji Adebayo, 'Marginalisation and Marginality: Context, Issues and Viewpoints', In Adedeji Adebayo (ed.), *Africa within the World: Beyond Dispossession and Dependence*, (London: Zed Books, 1993); Bade Onimode, 'The State of the African Political Economy', In Adebayo Adedeji (ed.), *South Africa and Africa: Within or Apart?*, (London: Zed Books, 1996); Fantu Cheru, *African Renaissance: Roadmaps to the Challenge of Globalization*, (London: Zed Books, 2002).

⁸ See Christopher Clapham, *Africa and the International System: The Politics of State Survival*, (Cambridge: Cambridge University Press, 1996), p.175.

⁹ Robert H. Jackson and Carl G. Rosberg, *op.cit.*, p.259.

they were subjected to external shocks.¹⁰ The inward-looking strategies that were adopted in the early 1960s proved unsustainable in the face of persistent economic crisis, in which Africa was the worst casualty. Such accumulation strategies, for example, the import-substitution industrialisation (ISI) strategies had to be reconsidered towards the end of the 1980s. In the early 1990s most of Sub-Saharan Africa had begun to make a gradual shift away from inward-looking strategies towards externally oriented trade strategies. This was an important element that presaged the onset of new regionalism in the continent.

A number of developments influenced this shift. Firstly, there was a demonstration effect of East Asian Newly Industrialising Countries (NICs). The success of NICs forced most African countries to play a catch-up role. According to the African Development Report (2004), trade has generally been viewed by African countries as having propelled the success of Asian economies¹¹ and that it could perhaps work the same miracle for Africa more especially when countries are pulling together via integration schemes, and this is established within a framework that stresses outward-orientation.

What is often omitted in the literature extolling the success of Asian NIC is the fact that these also started out on an ISI trajectory from the end of World War II until early 1960s, the state played a very active role in driving development, and that these countries thrived at the height of Cold War and were most favoured by the US and

¹⁰ Christopher Clapham, *op.cit.*, p.168.

¹¹ African Development Report, *Africa in the Global Trading System*, (Oxford: Oxford University Press, 2004), p.118.

surfeited with external aid and open markets.¹² It is therefore important to emphasise that these favourable conditions were not equally available to all Third World countries.

Nonetheless, as late comers, the majority of Africa countries sought to play a catch-up role and to integrate themselves into the global economy. The views of Iddi Simba, Tanzania's former Minister of Trade are instructive in this regard:

'We, in the SADC region, realise that integration is fast becoming a global trend. Countries in different regions of the globe are organising themselves into closer economic and political entities. These movements towards stronger regional blocs will transform the world both economically and politically.'¹³

Secondly, the role of the International Financial Institutions, including IMF structural adjustment packages and World Bank's policy prescriptions also swayed the pendulum of regional policy in Africa in favour of external-orientation. Indeed the discursive shift in World Bank's emphasis from state intervention to market approaches¹⁴, and supported by its array of studies suggesting that the economic performance of the export-oriented countries was superior to those of the inward-looking economies seem to have had an effect on how policy makers in Africa

¹² TJ Pempel, 'The Developmental Regime in a Changing World Economy', In Meredith Woo-Cumings (ed.), *The Developmental State*, (Ithaca: Cornell University Press, 1999), p.174. Pempel further highlights that US consideration was with diffusing the appeal of anti-capitalist ideologies.

¹³ Iddi Simba, Trade and Industry Minister, Republic of Tanzania, a presentation to an UNCTAD symposium: '*Regional Integration and the Global Economy*', (UNCTAD Publications, Geneva, October 2000), p.22.

conceive of regional integration strategies.

Thirdly, the political elite realised the acute limits of import-substitution industrialisation policies, which biased against exports – much of the effect was evident in the contraction of the domestic market and the declining growth in the domestic economy.¹⁵ These considerations set off a gradual shift towards adoption of export oriented growth strategies and ensured their fusion with the notion of regional economic integration. Indeed, as Mshomba aptly observe, regional economic integration was as popular in the 1990s as import-substitution was in the 1970s.¹⁶

It was against this background, and in the context of persistent underdevelopment, that Sub-Saharan Africa rode the wave of market-oriented regional integration process. Although this brand of regionalism is struggling to be fully manifest, nonetheless its outlines are evident, and there are growing signs of its embrace in most of the continent. This dissertation is an empirical examination of regionalism as facilitated by state actors in Southern Africa, and utilises the analytic tools of International Political Economy.

In examining regionalism in Southern Africa, this thesis will use the concept of region and sub-region interchangeably. Grant and Soderbaum note for example that, ‘Southern Africa is most frequently considered a macro-regional space in its own right, thereby encompassing distinct sub-regions, such as the Southern African

¹⁴ Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Market Place that is Remaking the Modern World*, (New York: Simon and Schuster, 1998), p.150; Christopher Clapham, *op.cit.*, p.169.

¹⁵ See Richard E. Mshomba, *Africa in the Global Economy*, (Boulder: Lynne Rienner, 2000), p.41; Anne O. Krueger, *Trade Policies and Developing Nations*, (Washington D.C: Brookings Institution, 1995), pp.3-30.

Customs Union.’¹⁷ So in relation to the larger African macro-region institutionalised through the African Union (AU) Southern Africa is a sub-region or a meso-level region; however, in relation to a small-scale regional integration process – SACU – it can thus be regarded as a region or macro-region.

1.2 The Research Problem

With the increased salience of globalisation and the emergence of new regionalism in the late 1980s, Sub-Saharan Africa was further pushed to the margins of the global political economy. As noted previously, this unenviable position was created by a confluence of factors emanating both from within the domestic sphere as well as generated externally. The examination of these factors will not be explored here, suffice to emphasise that Africa has struggled to recover from the world recession of the late 1970s and from the setbacks that emanated from internal policy failures during this period. The continent remained largely disembodied from the world economy and its growth has been declining over the decades. As Hoogvelt notes, ‘Africa has become structurally irrelevant to the present global economic order.’¹⁸

New regionalism as an empirical expression evolved in part as an outgrowth of neo-liberal global order with its promise of greater prosperity. In developing countries and Africa in particular, developmental strategies were recast away from state-centred

¹⁶ Richard E. Mshomba, *op.cit.*

¹⁷ J. Andrew Grant and Frederik Soderbaum, ‘Introduction: The New Regionalism in Africa’, In J. Andrew Grant and Frederik Soderbaum, *The New Regionalism in Africa*, (Aldershot: Ashgate, 2003), p.6.

¹⁸ Ankie Hoogvelt, *Globalization and the Post-Colonial World: The New Political Economy of Development*, (2nd ed.), (Basingstoke: Palgrave, 2001), p.175.

approaches that emphasised autarky. Close integration with the world economy and export promotion became a new developmental creed. Looking at the case of Southern Africa, the particular form that regionalism initially assumed was that of oppositional, counter-hegemonic politics (see Chapter 3). This later changed as socio-political conditions in South Africa took on a different shape in the early 1990s at the dawn of democracy. This also goes to demonstrate the sometimes unique shapes that regional initiatives assumed owing to different contexts that gave rise to them.

In Southern Africa, the genesis of regionalism in the late 1970s culminated with the establishment of the Southern African Development Coordinating Conference (SADCC) in 1980. This development followed a strongly state-centered paradigm of politics that privileged political diplomacy and security in a narrowly defined sense. This was influenced by two crucial factors: the obsession with state-building in the aftermath of independence; and the socio-political character of the region, shaped by South Africa's regional policies.

Regionalism in Southern Africa initially emerged within a social milieu shaped by South Africa's security agenda in the region, and against the background of Cold War politics. In essence it was constructed on political opposition against South Africa and built on an urge to reduce dependence on the external world, although in practice the latter was never fully achieved (see Chapter 3). This preoccupation with 'autarky' was mainly a function of consolidating political and economic independence.

However, in the early 1990s Southern Africa was to experience something of a seismic shift. The old regionalist forms had to be redefined in accordance with the

ideational and structural shifts that were shaping the global system. There was amongst state actors an increasing acceptance of the role of external markets in the domestic economy, and the role of the state had to be redefined to accommodate these largely externally generated realities. In the sub-region this began with the IMF and World Bank's neo-liberal prescriptions which were essentially aimed at caging the state-led developmental approach, and replacing it with market-oriented approaches.¹⁹

These changes at the global level also coincided with socio-political ruptures within South Africa in the early 1990s. Political developments, especially the eclipse of apartheid in South Africa ensured that the original agenda in SADC would be redefined along more proactive set of objectives than on counter-hegemonic politics. This was indeed a major turning point in the transition from old to new regionalism (See Chapters 3 and 5).

With the rising challenge of globalisation and continued marginalisation of poor developing countries, a common cause, broadly conceived, was not impossible to re-establish. As state actors were contending with the domestic developmental challenges and the forces of globalisation, cooperation and integration at the regional level was seen by political elite as crucial in harnessing economic benefits of globalisation and building bargaining capacity in relation to the developed world. De-linking from the world economy ceased to be the basis for a common agenda. Global Integration became a new obsession.

¹⁹ *ibid.*

Effective articulation and meaningful integration in the global economy was seen as not only inevitable but necessary to pursue in order to bring about increased growth and development; and that this would require enhanced market access in advanced industrial countries.²⁰ According to Hurrell, this was partly driven by systemically induced pressures towards market-liberal policies which have increased the significance of export expansion and trade liberalisation both regionally and globally.²¹ For state elites, trade was also regarded as a necessary route towards achieving developmental ends. Hence this paper looks at the specific aspect of trade in regionalisation processes in Southern Africa. The theme of trade integration in Southern Africa is addressed in greater detail in Chapter 5.

Rather than assuming an 'everything has changed' approach, this dissertation does acknowledge that there are important continuities between the old and new forms of regionalism; and these are markedly visible in Southern Africa where the states are still over-extended, but lack internal cohesion, and the endogenously generated market forces remain largely undeveloped. Moreover, regionalism as it currently exists in Southern Africa is in a transitory state: it is on the one hand struggling to shed its *dirigiste* form, and yet on the other its normative commitments broadly converge with the neo-liberal developmental framework.

Of particular importance is the role played by core countries or dominant states that have relatively developed productive capacities and competitive capabilities in the

²⁰ See Dani Rodrik, *The Global Governance of Trade and if Development Really Mattered*, United Nations Development Programme, 2001 (www.undp.org).

²¹ Andrew Hurrell, 'Regionalism in Theoretical Perspective', In Louise Fawcett and Andrew Hurrell, *Regionalism in World Politics: Regional Organization and International Order*, (Oxford: Oxford University Press, 1995), p.57.

regionalisation process. Therefore, this thesis does not look at the state disarticulated from society level processes.²² Indeed, in Southern Africa a pattern of convergence of elite interests, for example between states and firms can be discerned. Hurrell argues that '...regional integration can be understood in terms of convergence of interests between state elites and firms in response to changes in the international economic structure.'²³ This theme is explored in detail in Chapters 4 and 5.

In this connection, at the core of this research is the examination of the role South Africa plays in constructing the regional order and the extent to which this is pursued as part of achieving domestic 'social stability' and constructing competitive strategies for global assertion. Furthermore, domestic and global forces that shape cooperation at the regional level as well as how such relations are structured and institutionalised will be explored. Rather than taking the region as a truncated unit of analysis the thesis focuses on complex sets of interactions shaped by the combination of domestic level forces and global level processes.

The state which is enmeshed in complex set of relations and reflects societal interests will, following Gamble and Payne, be assumed as a key level of explanation.²⁴ Regarding domestic level forces, South Africa's role as a regional and global actor will be examined. It must be emphasised that the state is not viewed as abstracted from society, but it does enjoy relative autonomy. Autonomy is defined as 'the extent

²² Following Gramsci, the state can be seen as embodying the structural power of the dominant classes in civil society; See Antonio Gramsci, *Selections from Political Writings 1910-1920*, (London: Lawrence and Wishart, 1977), pp.73-74.

²³ Andrew Hurrell, *op.cit.*, p.58.

²⁴ Andrew Gamble and Anthony Payne, 'Conclusion: The New Regionalism', In Andrew Gamble and Anthony Payne (eds.), *Regionalism and World Order*, (London: Macmillan, 1996), p.250.

to which leaders can insulate themselves from societal pressures and autonomously define national tasks.²⁵

At another level the research looks at the relationship between the regional and the global or multilateral dimensions. The three levels: domestic, regional and global are taken as inter-related and co-constitutive and thus, at varying degrees, all have equal importance to state actors. In developing countries states face complex challenges from both the domestic and global levels, and find themselves under increasing pressure to re-assert their authority. The sub-regional level has thus emerged as a platform states use to re-constitute their significance, enter into competitive relations and articulate effectively at the global level.

South Africa in particular has found itself contending with multiple crises: the global pressures resulting from oil crisis and world recession in the mid-1970s and early 1980s had exposed the structural rigidities in the domestic economy, especially the atrophy experienced in the import-substitution industrialisation. In addition, South Africa's economy was generally ill-managed and socially oriented towards building and sustaining the apartheid edifice.

Quite evidently, South Africa entered the 1990s at the most trying juncture. During this phase, the economy had to undergo fundamental restructuring and democratic reforms were simultaneously set in motion. The political elites were under pressure to

²⁵ Michael Shafer, 'The Political Economy of Sectors and Sectoral Change: Korea Then and Now', In Sylvia Maxfield and Ben Ross Schneider (eds.), *Business and the State in Developing Countries*, (London: Cornell University Press, 1997), p.94; See also Theda Skocpol, 'Bringing the State In: The Current Research', In Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol (eds.), *Bringing The State Back In*, (Cambridge: Cambridge University Press, 1985), p.9.

adopt neo-liberal policies (see Chapter 4). Although South Africa's future foreign economic strategies would be embedded on an active developmental strategy, the essence of the economic reforms remained largely neo-liberal.

In this context pursuing a strong regional policy has been for reasons related both to domestic crisis or considerations of 'social stability' as well as to respond to the forces of globalisation. It needs highlighting that the idea of 'region' was not new in Southern Africa or in Africa for that matter; and neither was South Africa's regional approach a novel development altogether. The evolution of South Africa's regionalist approach from apartheid to post-apartheid is discussed in great detail in Chapter 3. The significance of regionalism in the post-apartheid era was as a result of new set of circumstances that were unlike those that had existed during apartheid, although to a greater degree the regional strategy was conceived with the socio-economic order bequeathed by the apartheid system in mind.

The regional configuration in Southern Africa witnessed profound changes in the post-1990 period, and these have assumed a comparably more offensive posture. As Breslin and Higgott suggested, the new regionalism unlike the old 'takes a more offensive response to the global economy. It is a way of securing greater competitive access to global markets under conditions of globalisation, not as a way of securing regional autarky.'²⁶

There is little doubt that even though in the case of Southern Africa regionalism struggles to make strides from old to new forms, pressure for greater openness is

overwhelming. This is especially so in view of the fact that the majority of SADC countries have acceded to the General Agreement on Trade and Tariffs (GATT) and are members of the World Trade Organisation since its establishment in 1995 (Chapter 6). This has set them on a liberalising mode and locks their policies within a multilateral regulatory framework.

The regional strategy that South Africa adopted in the post-1990 period evolved as part of 'stabilising' the domestic economy, facilitating regional economic development, and responding to new developments on the global front. These considerations are all inter-linked and reinforce each other in spurring South Africa's foreign economic strategies (see Chapters 5 and 6). For example one of the key objectives that define South Africa's foreign economic policy is expanding the export outlets for domestic production.

This approach is linked to 'strategic' sectors that the state prioritises in its micro-economic reform strategy. These sectors include agriculture, mining, tourism, cultural industries, information technologies, clothing and textiles, vehicle manufacturing, aerospace sector, call centre and back office business processes (Chapter 4). The focus of the strategy at the domestic level is to ensure greater value-add in production as well as gaining competitive advantage in the services sectors. The focus is sectoral, but the overall strategy is concerned with forcing a structural shift in comparative advantage in the economy, enhance the composition of exports, and improve leverage and bargaining capacity in global economic relations, in particular in multilateral trade.

²⁶ Shaun Breslin and Richard Higgott, 'Learning from the Old, Constructing the New', *New Political*

This also enables the state to receive support for its foreign economic policy from those sectors whose predilections coalesce with state actors' strategic objectives. As Katzenstein observed:

'The definition and implementation of foreign economic policies grow out of the nexus of state and society. Both state goals and the interests of powerful classes may influence national policy orientations. And the implementation of policies is shaped not only by the policy instruments available to the state, but also by organised support it receives from key societal groups.'²⁷

South Africa, unlike India or Brazil for example, cannot build its bargaining capacity on the back of its internal market; it is comparably small. It therefore seeks to do this by maximising its producer activity. The sub-region presents itself as an important bridge-head for realisation of South Africa's ambitions with respect to nurturing the competitiveness of its domestic sector and increasing its exports of value-added manufactured products. In comparison to Newly Industrialising Countries (NICs) and developed economies, South Africa lags behind in areas such as export growth and international competitiveness. In a sense, it is playing a catch-up via its regional 'back-yard'.

Much of the literature on regionalism or regional integration has given scant attention to the particular role dominant states in the developing regions play and how these

Economy, Volume 5 (2) 2000, p.339.

states articulate at the various levels: domestic, regional and global. The competitive strategies of dominant countries within regions are often ignored. This thesis views the developments in Southern African sub-region through the unfolding of South Africa's regional and multilateral trade strategies, placing greater stress on South Africa's competitive strategies whose force derive from both domestic level tensions and exigencies created by the processes associated with globalisation.

Thus a linkage between the domestic, regional and multilateral level is made. Regional outlet and security of global markets are of crucial importance in this strategy. The form of regionalism that is promoted by South Africa can thus be characterised as strategic competitive regionalism (see discussion below).

1.3 Hypothesis/Argument

The central question explored in this dissertation is framed around the extent to which South Africa uses regional and multilateral trade strategies to address its domestic developmental concerns and build capacity for competitive articulation at the global level. This research seeks to demonstrate that South Africa uses regionalism as a strategy to address its domestic growth challenges, extend political influence in the sub-region and project power at the global level. It argues that lack of cohesiveness in South Africa's regional and multilateral trade strategies are as a result of structural dissimilarity between South Africa and the majority of countries in the sub-region; as well as lack of a solid consensual normative framework that firmly integrates South Africa with its neighbours.

²⁷ Quoted in Theda Skocpol, *op.cit.*, p.20.

Furthermore, there are also factors related to the past policies of the apartheid government in the region. All these dimensions act to undermine South Africa's regional 'hegemonic' role and limit the extent to which it could build a common regional platform for effective articulation at the multilateral trade level. In essence, South Africa's failure to obliterate negative perceptions generated during the apartheid era, harmonise its 'domestic stability' objectives with the developmental interests of its regional counterparts and construct a consensual hegemonic platform limit the weight of its regional influence.

To a considerable extent the sources of this divergence lie in the domestic scene, especially the structure of South Africa's economy and social contradictions that the country contends with post-apartheid. South Africa's main concern at the domestic level is to generate dynamism in its economy and ensure international competitiveness, while at the same time pursuing social equity objectives. In this regard, in seeking to address these domestic challenges, South Africa increasingly locks itself in global structures and processes. Indeed, as Katzenstein has contended, 'The domestic structure of the nation-state is a critical variable without which the interrelation between international interdependence and political strategies cannot be understood.'²⁸

But the state-society nexus reflects a degree of insularity, and the state acts to trigger competitive forces in the domestic scene that are confluent with its foreign economic interests. Ikenberry suggests for example that states are separated – or in other words

have relative autonomy – from but in constant bargaining with society.²⁹ The state intervenes in the economy not because of the influence particularistic domestic actors exert upon it, but to compensate them for structural weaknesses in the economy.

In turn, the state receives support from this externally-oriented fraction of capital, generally regarded as ‘strategic’. In a sense, there is a symbiotic relationship between the state’s need to enhance its competitive profile at the global level and the interests of powerful actors in the domestic economy. But this also raises concerns regarding how social costs of an external strategy are managed. These are discussed in Chapter 4.

1.3.1 Domestic-Global Linkages

It should be noted that the state does not respond to global exigencies independently and purely on the basis of the character of its domestic structure, but rather within the strictures of neo-liberal global order which articulates itself within states. And this reflects itself in the regulatory, institutional and quasi-legal infrastructure of the state. This point is made powerfully by Sassen who contends that global processes are embedded in national territories - a development which has brought a rebalancing in the institutional architecture of government and affected its legislative or regulatory mechanisms.³⁰ Or, what Gill characterises as institutionalisation of ‘disciplinary neo-

²⁸ Peter J. Katzenstein, ‘Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy’, *International Organization* Volume 31 (4), 1977, p.587.

²⁹ John G. Ikenberry, ‘The State and Strategies of International Adjustment’, In Richard Little and Michael Smith (eds.), *Perspectives on World Politics*, (London: Routledge, 1991), p.158.

³⁰ Saskia Sassen, ‘Embedding the Global in the National’. In David A. Smith, Dorothy J. Solinger and Stevens C. Topik (eds.), *States and Sovereignty in the Global Economy*, (London: Routledge, 1999), p.162.

liberalism at the macro-level power in the quasi-legal restructuring of state and international political forms: constitutionalism.³¹

The clear expression of this, as captured by Haggard, Maxfield and Schneider, can be observed in the influence that capital exerts on government policy processes through organised pressure it can bring on the political process as well as through its investment decision.³² The structure of global capital, especially the increasing transnational activity of financial markets, has in the past two decades acted to limit the political strategies of state actors.³³ For example, as Gill and Law have argued, one aspect of the structural power of capital is manifest in the assumption underlying government's growth strategy: if conditions propitious to business investment and enterprise innovation do not exist, an investment strike may follow.³⁴

Gill and Law further note that, '...as a result governments are increasingly constrained in their freedom of manoeuvre by the economic policies of other states, as well as the investment decisions of internationally mobile capital.'³⁵ To say this is true for both developing and developed countries alike would be an understatement. Indeed the strain of these fetters has had a differential impact on the developing countries owing to the marginal position they occupy in the hierarchy of power in the global political economy.

³¹ Stephen Gill, *Power and Resistance in the New World Order*, (London: Palgrave Macmillan, 2003), p.131.

³² Stephan Haggard, Sylvia Maxfield and Ben Ross Schneider, 'Theories of Business and Business-State Relations, In Sylvia Maxfield and Ben Ross Schneider (eds.), *Business and the State in Developing Countries*, (London: Cornell University Press, 1997), p.38.

³³ Peter J. Katzenstein, *op.cit.*, p.597.

³⁴ See Stephen Gill and David Law, 'The Power of Capital: Direct and Structural', In Stephen Law, *Power and Resistance in the New World Order*, (London: Palgrave Macmillan, 2003), p.98.

Countries are differently endowed in the global system and respond to structural challenges in ways that reflect their resource endowments and competitive capabilities. States cannot be understood independently from wider processes taking shape in the global economy. Indeed, as Cox has suggested, through internationalisation or crystallisation of global processes within the state, 'the nation state becomes part of a larger and more complex political structure that is the counterpart to international production.'³⁶

South Africa's regional and multilateral trade strategies are conditioned by both domestic consideration for 'social stability' as well as its structural position in global political economy. Strange suggests for example that the state is a political embodiment of the classes that have authority in the production structure, and that it is sandwiched between the world orders and the production structure in which it is located.³⁷ Ikenberry makes a similar point when he argues, 'states occupy a unique position to mediate internal and external change.'³⁸

³⁵ See Stephen Gill and David Law, *op.cit.*, p.102.

³⁶ Robert W. Cox, *Production, Power and World Order: Social Forces in the Making of History*, (Columbia: Columbia University Press, 1987), p.253.

³⁷ Susan Strange, *States and Markets*, (London: Pinter, 1988), p.26; See for example the proposition in the German Ideology: Civil society 'embraces the whole commercial and industrial life of a given stage and, insofar, transcends the State and the nation, though on the other hand again, it must assert itself in its foreign relations as nationality, and inwardly must organise itself as State', Karl Marx and Frederick Engels F, *The German Ideology*, (edited and introduced by Arthur C.J), (London: Lawrence and Wishart, 1999), p.57. Marx and Engel conception of the state is that it reflects the civil society at a particular stage of production establishes the basis for the state.

³⁸ John G. Ikenberry, *op.cit.*, p.147.

1.3.2 Domestic-Regional Developments

Although this study looks at the Southern African sub-region in its evolution from old to new regionalism, the empirical reality is such that it would be premature to regard SADC as a fully fledged 'new' regionalist project. In its current form it can be said to be aspiring to one. However there are constraints that constantly undermine a movement towards such an 'ideal' state, and these are mainly located at the domestic level and some are generated by anxieties over distributive issues. Moreover, lack of an effective external guarantor willing to underwrite the cost of the integration project is a serious challenge for SADC's integration project.

South Africa, though a core state within the sub-region, is unable to effectively play this role owing to the adjustment challenges at the domestic level or preoccupation with consideration of 'social stability' and competitiveness. These challenges, already alluded to, tilt the country strongly towards neo-mercantilist relationship with neighbouring countries in the sub-region. While at the dawn of the 1990s South Africa's transition, especially in its economic reforms, corresponded to neo-liberal discourse, this has largely been embedded within a social developmental framework (see Chapter 4).

1.3.3 Embedded Liberalism?

In its pursuit of export-drive in regional and global markets South Africa has had to be careful to protect sectors that are likely to suffer severe adjustment costs as a result of liberalisation (Chapter 4). To this extent South Africa's strategy can be regarded as

a limited form of ‘embedded liberalism’. Embedded liberalism as propounded by Ruggie tempers multilateralism and external openness with domestic interventionism to ensure ‘domestic social security and economic stability’.³⁹

In essence, as Ruggie argued, this stands in contrast to assumptions of *laissez faire* or unguarded openness. Countries that are projecting outwardly would, as Ruggie wrote, seek ‘to minimise socially disruptive domestic adjustment costs as well as any national economic and political vulnerabilities that might accrue from international functional differentiation.’⁴⁰ For Ruggie, liberalising internationally while safeguarding domestic stability lies at the core of ‘embedded liberalism’.⁴¹

At the multilateral level, South Africa has sought to achieve, on the back of its regional strategy, a sufficient consensus in support of its positions amongst SADC countries at the World Trade Organisation (WTO). This consensus was viewed by South Africa as critical in binding the sub-region to its multilateral trade strategy, and ostensibly to ensure maximum developmental gains for the sub-region (see Chapters 6).

³⁹ John G. Ruggie, ‘International Regimes, Transactions and Change: Embedded Liberalism in the Post-war Economic Order’, *International Organisation* 36, 2, Spring 1982, pp.379-415; compare with Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, (Boston: Beacon Press, 2001/1957), pp.136-140. Polanyi discusses the social history of the 19th Century and how the expansion of the self-regulating markets was met by a counter-movement to discipline its ills. Such a counter-movement (forming a double movement in society) established its own institutional mechanism to protect vulnerable social classes as well as to rescue capitalist production from the devastating effects of self-regulating market.

⁴⁰ See John Ruggie, ‘International Regimes, Transactions and Change: Embedded Liberalism in the Post-war Economic Order’, *International Organisation* 36, 2, Spring 1982, p.399.

⁴¹ See John G. Ruggie, ‘Unravelling Trade: Global Institutional Change and the Pacific Economy’, In Richard Higgott, Richard Leaver and John Ravenhill (eds.), *Pacific Economic Relations in the 1990s: Cooperation or Conflict?* (St. Leonards: Allen Unwin, 1993).

Thus South Africa conceived of the sub-region as a bridge-head in prosecuting its foreign economic strategy which is defined chiefly in terms of its domestic growth and developmental challenges. The failure of this approach to fully materialise is an expression of structural gap and diversity of interests between much of the sub-region and South Africa. More crucially it reflects South Africa's inability to fully reconcile its domestic 'social stability' concerns with a 'hegemonic' role in regional relations (Chapter 6).

South Africa's urge to set a regional agenda should not be seen in a disarticulated, loose form, but from the wider strategies at the global level. And these are also linked to concrete interests that emanate from the domestic sphere (e.g. benefiting the dominant domestic economic actors; encouraging flow of foreign capital; addressing employment and equity/developmental challenges) as well as idealistic ambitions for greater recognition and influence in structures of global economic governance. This view differs for example from approaches that conceive of international cooperation in narrow 'self-interested' realist paradigm as devoid of idealism.⁴²

1.3.4 Structural Power of Capital and Developmental Imperatives

The primacy of South Africa's regional and multilateral strategies therefore is to maximise developmental gains, but this is pursued simultaneously with the objective of global assertion and, ostensibly, to ensure beneficial integration of the region in global economic relation. This ordering of priorities, as suggested in this work, does

⁴² See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, (Princeton: Princeton University Press, 1984), p.63.

not at all imply that things will remain static. The post-apartheid South Africa is relatively new in the area of foreign (economic) policy making, and its approach to regional and multilateral processes is likely to undergo incremental changes and assume different shapes at various temporal phases in its development.

What also needs to be re-iterated is that the evolution of South Africa's regional and multilateral trade strategies is deeply woven into the global structural changes. They take shape against a complex background of a reconstituted relationship between states and markets, and where the latter could be said to enjoy a considerable measure of structural dominance over the former. Structural power, as defined by Susan Strange, 'is the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate.'⁴³

Thus the states set to realise their national (developmental) objectives within a global system whose normative template is largely defined by markets agents. The ability of states to manoeuvre is by and large determined by their relative (economic) power in relation to other states. States power project themselves in the global system in pursuit of economic goals and to maximise their competitive capabilities.⁴⁴

To privilege the role of the state in this analysis is not to extol its cult; and neither does it deny the role played by non-state actors, especially grassroots civil society in

⁴³ Susan Strange, *States and Markets*, (London: Pinter, 1988), pp.24-25; See also Andrew Wyatt Walter, *op.cit.*, p.75.

regional and global level governance. Nor does this research overlook what Putnam characterises as the strategic dilemmas faced by state actors to reconcile domestic and international imperatives.⁴⁵ Indeed state actors stand at the intersection of both realities and are constantly reconciling them. Hence, the thesis contends that South Africa's foreign economic approach both at the regional and multilateral level exhibits a limited form of 'embedded liberalism'.

1.4 Theoretical Framework

This study is not fixed within disciplinary rigidities or narrowly paradigm-driven. Its theoretical framework is based on a flexible eclectic approach that draws mainly from critical or new International Political Economy associated with the work of Craig Murphy, Roger Tooze and Anthony Payne; theories on New Regionalism(s) Approach (NRA) propounded by Bjorn Hettne, Timothy Shaw and Frederik Soderbaum, amongst others. New Regionalism Approach is, according to Shulz *et al* linked with the New International Political Economy tradition and is an 'effort to transcend 'problem solving theory', state-centric ontologies and rationalist epistemologies.'⁴⁶

The strength of these related theoretical approaches lies broadly in their focus on the linkages between the domestic, regional and global level processes. Their starting

⁴⁴ See Ronen Palan and Jason Abbott with Phil Deans, *State Strategies in the Global Political Economy*, (London: Pinter, 1996), p.127.

⁴⁵ Robert D. Putnam, 'Diplomacy and Domestic Politics: The Logic of Two-Level Games', In Peter B. Evans, Harold K. Jacobsen Robert D. Putnam (eds.), *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, (Berkely: University of California Press, 1993), p.459.

point is where the conventional or the *positivist* International Relations ends: the twin separation of politics from economics and the international from the domestic. The ‘new’ International Political Economy transcends this divide.⁴⁷ The equal weight they lend to both structure and agency as well as the recognition they give to both ideational and material definitions of power give them an edge over mainstream IR approaches.⁴⁸

New IPE, in particular, also differs from the traditional IR and its quintessential *positivist* research agenda in one crucial respect: it recast the solid, impassable barriers between the observer and the observed – where researchers are cast inoculated and merely record what they observe. It also jettisons the exclusion of ‘the reality of intersubjective meaning in the structure of global political economy’⁴⁹ which leads to a ‘value-free’ theorising.

Furthermore positivist preoccupation with methodological individualism closes the door to other forms of explanations which could be drawn from a wider spectrum of academic disciplines and, perhaps yield better research outcomes.⁵⁰ What ‘new’ IPE proposes rather is an innovative research agenda that understands historical structures and processes as not a product of chance or fatality but continuously being shaped by

⁴⁶ Michael Shulz, Frederik Soderbaum and Joakim Ojendal, ‘Introduction: A Framework for Understanding Regionalization’, *Regionalization in a Globalizing World: A Comparative Perspective on Forms, Actors and Processes*, (London: Zed Books, 2001), pp.12-13.

⁴⁷ Murphy Craig. N and Tooze Roger (eds.), *The New International Political Economy*, (London: Lynne Rienner, 1991), p.4.

⁴⁸ See Anthony Payne, ‘Rethinking Development inside IPE’, In Anthony Payne (ed.), *The New Regional Politics of Development*, (Basingstoke: Palgrave, 2004), p.9.

⁴⁹ Craig N. Murphy and Roger Tooze, *op.cit.*, p.18.

⁵⁰ *ibid.*, p.19.

human agency and the observer is viewed as part of its evolution rather than enquiring disinterestedly.⁵¹

With respect to the domestic or the position of the nation-state it must be emphasised that this approach does not suggest the state has become irrelevant, but that there is a considerable degree of fluidity that cannot be ignored and that the domestic cannot be viewed as separated from regional and global level processes. Furthermore, as Devatak notes, 'Traditional conceptions of theory tend to work in favour of stabilising prevailing structures of world order and their accompanying inequalities of wealth and power'.⁵²

Not so with critical IPE. As Devatak has further suggested, the '...critical international theory takes the global configuration of power relations as its object and asks how that configuration came about, what costs it brings with it, and what alternative possibilities remain immanent in history'.⁵³ Or, as Susan Strange argued, 'International Political Economy must be concerned with future possibilities.'⁵⁴

Susan Strange defined the study of International Political Economy thus: 'it concerns the social, political and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein.'⁵⁵ In

⁵¹ Cox defines 'historical structures' as 'persistent social practices, made by collective human activity and transformed through collective human activity.', Robert W. Cox, *op.cit.*, p.4; See also Antonio Gramsci, *Selections from Political Writings 1910-1920*, (London: Lawrence and Wishart, 1977), p.17-18; Stephen Gill, *op.cit.*, 1991, pp.51-75.

⁵² Richard Devatak, 'Critical Theory', In Burchill Scott, Devatak Richard, Linklater Andrew, Mathew Paterson, Reus-Smit Christian and True Jackie (eds.), *Theories of International Relations*, (Basingstoke: Palgrave, 1996), p.160.

⁵³ *ibid.*, p.161.

⁵⁴ Susan Strange, *States and Markets*, (London: Pinter, 1988), p.19.

⁵⁵ *ibid.*, p.18.

this sense, sets of relationships at the domestic regional and global levels and the forces that regulate these, including their normative underpinnings are part of what constitute the dimensions of study of the International Political Economy.

The other strength of the discipline is in the fact of its recognition of multiplicity of transnational actors.⁵⁶ This differs from the ‘statist’ approaches that are a hallmark of traditional IR. Statist approaches, as Palan *et al* has suggested, are insufficient in explaining new competitive global environments.⁵⁷ One of the cornerstones of new regionalism approach in particular is that it seeks to ‘unpack’ the state and find better ways of understanding state-society complexes.⁵⁸

Another crucial signifier of the ‘new’ IPE is that it provides tools with which to assail the walls between Area Studies and International theorising. Indeed, since the epistemological starting point of IPE is that the distinction between the domestic and the international is no longer of any analytic relevance beyond description, it would be a theoretical anomaly to have, as the conventional IR theory is wont of doing, a distinction between ‘International’ and ‘Area’. Even economic theory suffers from the same shortcoming. Hirschman has noted for example that:

‘the underdeveloped countries as a group are set apart, through a number of economic characteristics common to them from the advanced industrial countries and,...traditional economic analysis, which has

⁵⁶ *ibid.*, p.21.

⁵⁷ Ronen Palan and Jason Abbott with Phil Deans, *op.cit.*, 47.

⁵⁸ Michael Shulz, Frederik Soderbaum and Joakim Ojendal, *op.cit.*, p.13.

concentrated on the industrial countries, must therefore be recast in significant respects when dealing with underdeveloped countries.’⁵⁹

Even though there is increasing differentiation amongst ‘underdeveloped’ or ‘developing’ countries so much so that in future the analytic distinction between these and developed could be less marked – for example there are growing pockets of poverty within the North and an emerging affluent class within the South – the material distinction, especially as measured in terms of economic and social indices, remains relevant. This also provides some clues to the skewed distribution of other non-material resources between these two poles – developed and developing - as well as the privileging of the ‘North’ or OECD in IR or IPE theorising.

John Darwin has pointed out that ‘neglect of the relationship between the industrial, more or less developed countries of the ‘North’ (including the former Soviet Union and Japan) and the less developed countries of the ‘South’ is one of the most striking features of modern international relations theory.’⁶⁰ This is echoed by Grant and Soderbaum when they note that ‘Africa is, to a large extent, neglected in the general debate on regionalism.’⁶¹ Similarly Brown has observed that, ‘characteristically, the dominant ideas about international relations have always tended to originate in the rich and powerful parts of the world rather than in poor or weaker areas.’⁶²

⁵⁹ Albert Hirschman, quoted in Chalmers Johnson, *Japan: Who Governs? The Rise of the Developmental State*, (New York: W.W. Norton and Company, 1995), p.44.

⁶⁰ John Darwin, ‘Africa and World Politics Since 1945: Theories of Decolonization’, In Ng’aire Woods (eds.), *Explaining International Relations Since 1945*, (Oxford: Oxford University Press, 1996), p.1999.

⁶¹ Andrew J. Grant and Frederik Soderbaum, ‘Introduction: The New Regionalism in Africa’, In J. Andrew Grant and Frederik Soderbaum (eds.), *The New Regionalism in Africa*, (Aldershot: Ashgate, 2003), p.1.

This neglect has seen much of the issues related to the 'South' 'peripheralised' from the broader IR discourse, and confined to the academic framework of Area Studies as a distinct area mainly dominated by historians, geographers, and sociologists. As John Darwin has observed that:

'to a larger extent the study of North-South relations has become the preserve of area studies - specialised ghettos, where the unique character of the 'area' and the premium value of specialised regional knowledge are fiercely defined at the expense of cross-regional comparison, let alone wider generalization.'⁶³

The IPE discourse, to a greater extent, still reflects disproportionate preoccupation with the North or the triad – including Europe, North America and Asia (especially Japan and gradually China). That IPE still reflects a 'pecking order' with the industrialised occupying the uppermost position in the hierarchy and the marginalized at the bottom of its theorising is without question. Murphy and Tooze contend that 'it reflects Western, male, privileged, and largely materialist view of the totality of questions that IPE is (and should be) concerned with.'⁶⁴

Similarly, Breslin has argued that, 'While critical IPE studies of the implication of globalisation and the state have become more 'pluralistic' in case studies, and more nuanced in approach, many modes of analysis still do not transfer efficaciously to the

⁶² Chris Brown, *Understanding International Relations*, (Basingstoke: Palgrave, 2001), p.194.

⁶³ John Darwin, *op.cit.*, p.199.

⁶⁴ Craig N. Murphy and Roger Tooze, *op.cit.*, p.24.

study of developing states.’⁶⁵ Breslin further suggested that ‘the discipline needs to become more sensitive to case studies from the developing world, with a recognition of the different characters of ‘the state’ outside the advanced industrialised world.’⁶⁶ In Payne’s view, area studies should be brought out of their various ‘ghettoes’ and be re-thought inside international studies, and that these should be connected to the wider debate about global political economy.⁶⁷

Notwithstanding the limitations noted above, IPE still provides more scope to open up disciplinary enclaves and bring in developing countries under its analytic framework. The chosen case study in this thesis South Africa and Southern Africa is partly an attempt to close this gap. It will not be treated under the rubric of ‘area studies’, but examined within the broader IPE discipline, with generalisable observations.

1.5 Distinctive Contribution to Theory and Originality of the Research

This research seeks to make a modest contribution to IPE by bringing in a case study from developing regions, in this case Southern Africa, and look at particular ways in which state actors contend with the emergent global forces and challenges related to domestic economic development. This could in future make a significant contribution to comparative regionalisms. By drawing upon the IPE tools this research seeks to make a fruitful contribution in the debates on widening the focus of IPE, especially

⁶⁵ Shaun Breslin, *Area Studies, IR and IPE: Rethinking the Study of China’s International Relations*, 2001, mimeo.; See also Anthony Payne, ‘Rethinking Development Inside IPE’, In Anthony Payne (ed.), *The New Regional Politics of Development*, (Basingstoke: Palgrave, 2004), p.22.

⁶⁶ Shaun Breslin, *op.cit.*, p.3.

⁶⁷ Anthony Payne, ‘The New Political Economy of Area Studies’, *Millenium Journal of International Studies*, Volume 27 (2) 1998, p.253.

given its still largely OECD-centric theorisation.⁶⁸ At a theoretical level this thesis proposes some innovation to NRA research agenda, by positing that certain forms of regionalism, mainly inter-state, can be studied within a sub-theoretical framework that can be characterised as *strategic competitive regionalism*.

The specific area of concern in this research which is the interactions between domestic forces, regional core states, and multilateral processes is by and large under-researched. It is also not clear from the existing literature (as will be reviewed in the next chapter) how global processes in turn condition the kind of political strategies preferred by state actors and expressed through regionalism; and what form of regional projects do these give rise to. The literature on New Regionalism Approach sometimes suffers from lack of precision on the role of the state. It ranges from positions that avoid the state altogether, to those that acknowledge the importance of the state but argue that it needs to be transcended, through to strongly 'post-statist' or 'anti-statist' theorisation that elevates grassroots civil society movements to the same level as or above the state.

The theoretical contribution to the debate that this thesis seeks to make is with regard to understanding particular state forms in semi-peripheral or peripheral regions that are engaging in regionalisation process within the context of globalisation. It argues that given the competitive pressures that these states face and the urge to integrate firmly into global markets, these inter-state projects at the regional level are informed by strategic competitive consideration. Thus, a particular form of regionalism

⁶⁸ See Shaun Breslin, *op.cit.* The study addresses some of the methodological limitations of IPE in understanding case studies from the developing world.

approach, building on New Regionalism Approach, could be theorised: ‘Strategic Competitive Regionalism’. This is elaborated in Chapter 2.

1.6 Research methods

This dissertation employed a combination of research methods: semi-structured elite interviews, archival and documentary research, participation in policy conferences and round-tables with government officials and trade policy research community, and examination of primary and secondary source material. Information received from closed-sessions is difficult to quote directly as most of these were conducted under ‘Chatham House’ rules⁶⁹, but where permission was obtained from participants citations are made. Primary source material includes internal discussion documents and reports, and these are cited as ‘Confidential’ in the bibliography.

Secondary source material includes official and publicly available reports from government departments as well as inter-governmental agencies, for example Common Market for Southern Africa (COMESA), Southern African Development Community (SADC), Southern African Customs Union (SACU), United Nations Conference on Trade and Development (UNCTAD), African Development Bank (AfDB) and the World Trade Organisation (WTO).

Field research was conducted. Government officials, trade consultants, and individuals from the research community were interviewed. In total 42 interviews

were conducted. The first field research was undertaken in May 2004 in Switzerland, Geneva, and it coincided with the WTO Civil Society Symposium which I attended. During this field trip I interviewed trade diplomats from Botswana, Lesotho, South Africa and Zimbabwe. This included both informal interactions as well as semi-structured interviews. Most of these were recorded.

A second field trip was undertaken between July and November 2004. This included trips to South Africa, Botswana, Namibia, Mozambique and Zambia. In these countries I interviewed government officials, individuals working in regional organisations, in particular SADC, COMESA, and SACU. In Botswana and South Africa for example I was able to also interview people from research community who are active in trade policy and work closely with government, business and labour. Most of the interviews were done in South Africa – the core of my case study. Interactions with officials in other countries were mainly with people working in regional organisations than with national government officials.

Some national government officials were interviewed where it was felt their input would be valuable in this research, and would complement the data sourced from officials working in regional structures. The main reasons for not paying much attention to national government officials, with the exception of South African government officials, relate first to cost of undertaking a SADC-wide field research, covering 14 countries. Second, the focus of this research is on South Africa and SADC as a regional framework of cooperation and integration, rather than bilateral

⁶⁹ These were explained as meaning that no recording of proceeding for the purpose of publication is allowed in order to allow participants to freely experience their views outside the official confines. This enables participants, especially government officials to speak outside of the official roles.

relationships between countries. Some of the interviews are recorded, and some are not. Some respondents asked not to be recorded; and in some instances technical difficulties with the tape recorder were encountered.

The blending of various research methods was designed to ensure depth in sourcing data. In addition, the structure of the thesis moves from theory to historical and to current challenges in regional and multilateral trade relations. An appreciation of the complexity of South Africa's regional and multilateral strategies required the utilisation of various research approaches. For example, the archival and documentary research helped me to trace various stages of SADC's development. This also enabled me to map out continuities and discontinuities between the 'old' and 'new' regionalism. Participating in some of the closed sessions and high-level seminars with government officials and policy experts afforded me a valuable insight into policy debates, and ensured familiarity with developments in the sub-region.

Semi-structured elite interviews, notwithstanding their limitations regarding the controlled environment in which they take place, afforded me an opportunity to clarify some of the research questions and to understand the context in which policymakers take decisions and the constraints they face. To a greater extent government officials were frank about the issues that I raised during the interviews. What also helped was my background in working in a government environment. Thus it was with relative ease to find contacts and set up interviews. Preference for elite interviews was also motivated by the fact that state actors are principal agents in the ongoing regional and multilateral policy processes. The use of this technique was more fitting for the issues explored in this thesis.

1.7 Organisation of the Study

Chapter 2 is a survey of theoretical literature on regionalism, focusing in particular on neo-classical or conventional theorising of regionalism, drawing mainly from economics discipline; and also examines New Regionalism Approach. It offers a critical survey of these approaches and suggests an approach that can best account for developments in Southern Africa given existing global competitive imperative. This theoretical innovation is characterised as strategic competitive regionalism.

Chapter 3 sketches the case study background – Southern Africa – and the forces that shaped the political consciousness of the region and its continued evolution. Here, South Africa's destabilising agenda, its urge to extend political influence over the region, and its strategic objective of effective articulation in the international system are examined. Continuities from regional relations structured within the apartheid social milieu as well as discontinuities in the advent of democratic South Africa are looked at.

Chapter 3 demonstrates that the tenuous nature of contemporary regional relations in Southern Africa is rooted in the seeds laid by the historical socio-political realities in the region. The region has as such not fully transcended *realpolitik* paradigm which was fashioned during this period, and thus retarding a leap from old to new regionalism.

Chapter 4 provides an account of domestic forces that shape South Africa's foreign economic strategies, reflected in its global economic strategy which is led mainly by

the Department of Trade and Industry (DTI). The evolution of South Africa's trade and industrial policies since the early 1990s and how, with the articulation of global forces within the domestic scene, this shaped South Africa's regional and multilateral trade strategies will be explored.

The structural challenges faced by the South African economy as a result of a period of declining growth and slow rupture of its accumulation strategy – import-substitution industrialisation – has primacy in explaining the choice of strategy of the new political elite in the early 1990s. This juncture makes for an interesting reading as it captures the meeting point between global structural shifts, democratic change within South Africa, and emergence of new regional relations.

Chapter 5 goes on to explore the integration of South Africa in regional relations and the emergence of a new framework of regional cooperation and integration. The tensions in South Africa's regional strategy become evident as the country seeks to reorder regional relations and redefine its own position in the new set of realities in the region. The difficulties South Africa contends with in its regional agenda partly reflect the structural gap between its economy and those of its neighbouring countries as well as an overhang from the apartheid era regional tensions. This brings to the surface a much larger tension introduced by the globalising forces between old forms of regionalism and 'new' regionalism. The examination of the SADC Protocol on Trade helps to bring clarity to these sets of relationships and highlight the tensions South Africa faces in the region.

Building on the themes explored in Chapters 4 and 5, Chapter 6 looks at South Africa's relationship with the sub-region in structuring common positions to engage at the multilateral level. Of crucial importance here is that the tensions at the core of regional integration - mainly generated by South Africa's structural diversity and its differential interests relative to its regional partners – are strongly manifest. The case looked at is the relationship between South Africa and SADC/Africa group from Seattle Ministerial to the Doha Round of multilateral trade negotiations. The linkages between chapters 3, 4 and 5, expressed in the interplay between domestic forces, regional tensions and multilateral or global challenges are highlighted.

The conclusion brings together various themes of the research and proposes questions for future research, focusing especially on the increasing importance of Southern African Customs Union (SACU) to South Africa's external trade strategy and the gradual encroachment of forces of competitive liberalisation – including the US and the EU – in the sub-region, and the implications of this for South Africa's regional hegemony and competitive strategies at the global level.

CHAPTER 2: New Regionalism Approaches, Neo-classical Perspectives, and Strategic Competitive Regionalism.

Having set out the core argument of the thesis in the previous chapter, stressing South Africa's strategic conception of regionalism, this chapter will move on to clarify operational concepts and survey relevant theories on regionalism. Given the complexity of the theoretical field, and the fact that regionalism cannot be viewed in isolation from globalisation and multilateralism, this chapter concerns itself mainly with regionalism and, where necessary, make allusions to other related theoretical questions.

This is important if this chapter is to maintain a sense of coherence and properly reflect on the key arguments advanced in this thesis. There are two main theories that will be reviewed here: orthodox economics perspectives and new regionalism approach. A third ideal-type analytic framework – *strategic competitive regionalism* - will be proposed to improve on the limitations of existing theories. It is argued here that this theoretical schema is more efficacious in understanding inter-state regionalist projects that are under-girded by particular forms of state-society relationships.

It should also be pointed out that there are views that do not necessarily fall into either of the two main approaches identified. One that will also be briefly looked at is associated with Manuel Castells and betrays a great deal of scepticism towards regionalisation. It puts emphasis on 'multi-layered and networked production

structure' in place of regionalisation, and strongly argues that in the face of the global economy regionalisation has dissolved.¹

This chapter is structured into five sections. The second looks at the evolution of the concept of regionalism and traces its genealogy. The third section sketches out the conceptual definition of regionalism and regionalisation, and summarises various theoretical approaches to understanding these concepts. Building on this, the subsequent sections examine in turn these theoretical approaches and their explanation of the substantive expression of regionalism and its relationship with wider global processes. The fourth section surveys the orthodox approaches to regionalism.

The fifth section critically examines New Regionalism Approach (NRA), which is an IPE sub-field. Although it is a fledging analytic tool, it has introduced important innovations to the study of regions. This, it will be argued, differs from the orthodox approaches in that it is more eclectic and open minded in its approach to regionalisation and globalisation. It views regionalisation as intricately linked to world orders and provide a useful understanding of how regions are constituted. Furthermore, the NRA transcends the state and identifies other actors that are increasingly playing an important role in defining regions. For example, rather than looking only at formal processes, it also examines issues related to cross-border informal activities, migration flows, region-wide civil society networks, security and development; as well as interrelationships between these.

¹ Manuel Castells, *The Rise of the Network Society*, (Oxford: Blackwells, 2000).

This thesis does not however claim that each of these paradigms is monolithic or perfect in themselves. On the contrary, as will be shown in this chapter, they are characterised by various contradictory strands and weaknesses. While drawing heavily on the NRA approach, much of the thesis is informed by case study and empirical policy experiences. Theory is therefore used not as a *total* explanatory instrument. Rather, it is employed to cast light on the case study.

Building on the NRA, the sixth section will thus propose that state-led regionalist processes are fruitfully examined by comprehending strategic and competitive dynamics that articulate themselves within states, setting off competitive impulses that are then funnelled through state agencies and regionalisation processes. In this regard, contemporary state-led regionalism could best be characterised as *strategic competitive regionalism*. This approach, though constructed on the theoretical foundation of NRA, also draws from Cerny's concept of 'Competition State', developmental state approaches, as well as from Strategic Trade Theories.²

The choice of this analytic framework conceptualisation is in part influenced by the equal weight this thesis gives to theory and empirical research. Furthermore, as argued in this thesis, there is a relationship between the strategic behaviour of state actors, the appropriation of the regional space by the elite to respond to the processes of globalisation for reasons that mainly have to do with the domestic economic interests, the linkage between state elite strategies to deal with domestic social

² For a comprehensive survey of strategic trade theories, see Paul Krugman (ed.), *Strategic Trade Policy and the New International Economics*, (London: MIT Press, 1986); and Jeffrey A. Hart and Aseem Prakash, 'Strategic Trade and Investment Policies: Implications for the Study of International Political Economy', *The World Economy*, Volume 20(4), July 1997.

challenges and competitive pressures generated by the globalisation process, and the increasing elevation of trade and industrial strategies as instruments of development.

There is therefore a great deal of complementarity between various theoretical paradigms that are concerned with the sets of issues highlighted above: These do not often communicate efficaciously to yield a better organising framework to understanding state-driven regionalisation processes in the context of increasing globalisation and persistent development challenges in developing regions or countries. Strategic Competitive Regionalism – as set out in this thesis – is an attempt at evolving an organising analytic tool that could be employed to improve our understanding of the relationship between the domestic, regional and global level processes (see discussion below). Hence the choice of strategic trade perspectives, competition state theory, developmental state theories, and new regionalism approach as constituting a controlled 'eclectic' analytic framework.

2.1 Regionalism: The Genealogy of a Concept

The concept of new regionalism refers to the phenomenon which has been on the increase in the post-Cold War era, where a number of regionally organised economies began to shape the contours of the world economy and deepened cooperation at the regional or sub-regional level. It is a paradigm through which state actors have come to view their countries' position in the world economy, and a strategic positioning to deal with a range of challenges pertinent in particular regions, including those to do with economic development. Explanations that have been offered to make sense of regionalism are varied.

It is worth reiterating that regionalism is not a novel development. To be sure, it has been around for over five decades. Although its lineage can be traced back to the Zollverein, which was a German Customs Union in the 19th Century, formed among 18 small states and was intended at creating Germany's nation-state,³ regionalism was not fully formed until the initial seeds of the European Union were laid in the 1950s.⁴ In Africa too, the first signs of regionalism could be traced back to the establishment of the Southern African Customs Union (SACU) anchored in South Africa's political dominance in 1910; but this was never fully legitimated until 1969 when it was a fully-fledged contractual arrangement among sovereign states.

These developments were, by and large, part of the first wave of regionalism that was highly politically driven and inward looking. There is no doubt that there have been continuities between this phase and the current phase of regionalism. As discussed in Chapter 1, the mid-1980s witnessed the emergence of a second wave of regionalism and this coincided with – if not reinforced by - the ruptures that took place in the world system with the eclipse of the Cold War and the emergence of a unipolar world defined strongly by neo-liberal paradigm. The impact this temporal shift had in defining the contours of contemporary regionalism has indeed been remarkable. The end of the Cold War also unshackled Europe from Cold War bipolar tensions,

³ See Friedrich List, *The Natural System of Political Economy*, (Translated and Edited by W.O. Henderson) (London: Frank Cass, 1837/1983), p.45; See also Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System*, (Washington D.C: Institute for International Economics, 1997), p.1.

⁴ As Frankel has noted, the formation of the European Economic Community in 1958 was stimulated by a desire to ensure permanent peace in Europe; it was an essentially politically-driven project with political and security consideration at its heart, and this was further succoured by the US. See, Jeffrey A Frankel, *op.cit.*, p.5.

bringing into sharp relief centrifugal forces, and propelled the EU into becoming a global actor in its own right.⁵

These developments also ensured that the EU would export a particular brand of regionalism and, as it were, seek to create the world after its own image. According to Frankel, the EC project as it advanced in the early 1990s after the Maastricht Treaty had a demonstrative effect on other parts of the world.⁶ Established on neo-liberal foundations, the European regionalist project moved ahead to become an experiment that would be followed by most regions around the world. Although this was initially lauded as a template that could be used by countries seeking to advance towards regionalisation, it has presented difficulties for other regions, and foreclosed the space to creatively advance different forms of regionalism.

Furthermore, it has also created rigidities for theoretical analysis into other regions. Observers were stuck with the EU template and every other region was seen as its reflection in the making. Breslin and Higgott have bemoaned the institutionalisation of Europe as 'one of the major obstacles to the development of analytic and theoretical comparative studies of regional integration.'⁷

However, it is important to stress that Europe, notwithstanding its limitations, has been an important temporal landmark in the genesis of regionalism, and has

⁵ Bjorn Hettne, 'Europe: Paradigm and Paradox', In Michael Shulz, Frederik Soderbaum and Joakim Ojendal, *Regionalization in a Globalizing World: A Comparative Perspective on Forms, Actors and Processes*, (London: Zed Books, 2001), p.29.

⁶ Jeffrey A. Frankel, *op.cit.*, p.4.

⁷ Shaun Breslin and Richard Higgott, 'Learning from the Old, Constructing the New', *New Political Economy*, Volume 5 (2) 2000, p.243.

influenced thinking on regionalisms in other parts of the world. Competitive implications of this development have been extensively analysed by Lester Thurow.⁸

In pointing to the evolution of the current regionalist processes, Fawcett and Hurrell have noted for example that:

‘The political salience of regionalism rose significantly as a result of developments within Europe (the EC decision to press ahead with the completion of the Single Market, the negotiation of the Maastricht Treaty, and enlargement of the EU towards Scandinavia and Central Europe); the successful negotiation and ratification of the North American Free Trade Agreement (NAFTA); and the increased momentum of cooperative efforts with ASEAN and continuing discussions with the Asia-Pacific region over new economic and security arrangements (APEC, PECC, ARF).⁹

New Regionalism as articulated in Shulz refers to ‘a phenomenon, still in the making, that began to emerge in the 1980s, starting in Europe with the White Paper and the

⁸ Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, (New York: Warner Books, 1992), pp.67-111. Thurow argues that this will sharpen competitiveness between North America, Europe and Japan, introducing more barriers to entry in to the European market. A counter-perspective is offered by Kenichi Ohmae. He dismisses the notion of national frontiers as constituting barriers to international economic transactions. See, Kenichi Ohmae, *The Invisible Continent: Four Strategic Imperatives of the New Economy*, (London: Nicholas Brealey, 2000), pp.4-5.

⁹ Louise Fawcett and Andrew Hurrell, *Regionalism in World Politics: Regional Organization and International Order*, (Oxford: Oxford University Press, 1995), pp.1-2; See also Kym Anderson and Richard Blackhurst, ‘Introduction and Summary’, In Kym Anderson and Richard Blackhurst (eds.), *Regional Integration and the Global Trading System*, (New York: Harvester Wheatsheaf, 1993), pp.1-2.

Single European Act. and gradually turning into a truly world wide phenomenon.'¹⁰

They further note the following as factors that influenced the emergence of new regionalism:¹¹

- Shift from bipolarity to multipolarity, or perhaps tripolar structure centred around the EU, NAFTA and the Asia Pacific, with a new division of power and division of labour.
- The relative decline of American hegemony in combination with a more permissive attitude on the part of the US towards regionalism.
- The restructuring of the nation-state and the growth of interdependence, transnationalisation and globalisation.
- Recurrent fears over the stability of the multilateral trading order and growing new protectionism.
- The changed attitudes toward (neoliberal) economic development and political systems in the developing countries as well as in the post-communist countries.

Hettne's original conceptualisation of the evolution of regionalism also emphasised similar markers. According to Hettne, regionalism and 'multipolarity' are 'two sides of the same coin'; and whilst the old regionalism was created from above by the superpowers', the new evolve spontaneously from within states and other actors.¹² He

¹⁰ Michael Shulz, Frederik Soderbaum and Joakim Ojendal, 'Introduction: A Framework for Understanding Regionalization', In Michael Shulz, Frederik Soderbaum and Joakim Ojendal, *Regionalization in a Globalizing World: A Comparative Perspective on Forms, Actors and Processes*, (London: Zed Books, 2001), p.3.

¹¹ *ibid.*

¹² Bjorn Hettne, 'Globalization and the new Regionalism: The Second Great Transformation', In Bjorn Hettne, Andras Inotai and Osvaldo Sunkel (eds.), *Globalism and the New Regionalism*, (Basingstoke: Palgrave, 1999), pp.7-8.

further notes that the old regionalism was inward-looking and protectionist in orientation and the new regionalism is 'open', and compatible with the interdependent world economy.¹³ It needs to be stated that, even though at a broader level, this is undoubtedly the case, there are still many variations across countries regarding how transition is made from old regionalism to the new forms. In a word, there cannot be a uniform path towards regionalism. While advanced countries would seem to have undergone a decisive transformation towards mature region structures, the same cannot be said of developing regions.

Sub-Saharan Africa has struggled and is still struggling to make this transformation. As suggested in Chapter 1, regionalism here can thus be characterised as still in a state of flux. As Grugel and Hout explain, '...the structural contexts in which regions are being built are different, the capacities of states vary and different social coalitions push for the adoption of regionalist policies. Hence the outcomes are very different indeed.'¹⁴

This is not to suggest a linear evolution through various stages to conform to a particular image of completeness. Rather, it highlights the difficulties the majority of African countries experience in responding to the new global challenges and the fact that their regionalist processes still carry the imprints of the Cold War era, and are

¹³ See also Andrew Gamble and Anthony Payne, 'Conclusion: The New Regionalism', In Andrew Gamble and Anthony Payne (eds.), *Regionalism and World Order*, (London: Macmillan, 1996), p.251; Jean Grugel and Wil Hout, 'Regions, Regionalism and the South', In Jean Grugel and Wil Hout (eds.), *Regionalism Across the North-South Divide: State Strategies and Globalization*, (London: Routledge, 1999), pp.10-11, they argue that regionalism has become 'a way of adapting to the new liberalism and is often described as 'open regionalism', in order to mark the contrast with the closed nature of the old regionalism in the 1960s...'

¹⁴ Jean Grugel and Wil Hout, 'Regions, Regionalism and the South', In Jean Grugel and Wil Hout (eds.), *Regionalism Across the North-South Divide: State Strategies and Globalization*, (London: Routledge, 1999), p.11.

highly statist in expression. This is evident for example when looking at the case of Southern Africa (Chapters 3 and 5). Although Bjorn Hettne's characterisation of these differences is broad enough it, however, fails to account for unique set of experiences, especially the proportion between continuities and discontinuities in some regions.

Another interesting take on regionalism is that offered by Helge Hveem. In looking at the evolution of regionalism, Hveem places emphasis on ideational and institutional factors, and argues that neo-utilitarian perspectives which give undue weight on the force of globalisation on regionalism are inadequate.¹⁵ He contends that beyond maximisation of utility by governments there are also collective action problems conditioned by issues related to identity or conscious (political) construction of regions.¹⁶ In this sense, there is really no pre-determined format to which regions would conform as they evolve; but the unique set of challenges countries collectively perceive may serve to spark the emergence of a region.

Another approach that goes beyond merely describing outward differences between the old and new regionalisms, but examines substantive policy shifts, is articulated by Mistry. He identifies six signifiers of new regionalism – and these constitute a qualitative difference between the new and old regionalism¹⁷: involves greater diversity among members; have an outward orientation; go beyond liberalisation in goods to include liberalisation in services, investment, technical and regulatory standards; strive to attain global competitiveness of the region concerned as well as

¹⁵ Helge Hveem, 'Explaining the Regional Phenomenon In an Era of Globalization', In Richard Stubbs and Geoffrey R D Underhill, (eds.), *Political Economy and the Changing Global Order*, (Oxford: Oxford University Press, 2000), p.71.

¹⁶ Helge Hveem, 'Explaining the Regional Phenomenon In an Era of Globalization', In Richard Stubbs and Geoffrey R D Underhill, (eds.), *Political Economy and the Changing Global Order*, (Oxford: Oxford University Press, 2000), p.71.

¹⁷ Percy S. Mistry, 'New Regionalism and Economic Development', In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), pp.120-121.

that of individual members; have already undertaken significant unilateral liberalisation; and increasingly involve North-South memberships.

What all these perspectives emphasise is the multidimensionality and complexity of regionalisms, and that it is difficult to muster a precise analysis of shifts associated with this trend as it assumes multiple forms and, at times, proceed from different sources. Southern Africa, in embryonic form, exhibits some of the characteristics set out by Mistry. The state actors at the regional level seek to facilitate the competitiveness of domestic firms in larger regional markets 'thus improving prospects for capturing a larger market share in the global economy.'¹⁸ South Africa, the core state within the region, exhibits these tendencies more strongly than other countries.

One factor that is increasingly becoming clear is that the resurgence of regionalism cannot be viewed independently from the changing global system. The two are inter-linked. A focus on intra-regional dynamics, as Fawcett and Hurrell have noted, would be insufficient.¹⁹ Hence this research is concerned with not just intra-regional dynamics but also with global level cooperation exemplified by engagements at the multilateral trading system (see Chapter 6).

¹⁸ Percy S. Mistry, *op.cit.*, p.122.

¹⁹ Louise Fawcett and Andrew Hurrell, *op.cit.*, p.3.

2.2 Conceptual Definition

In defining regionalism, Hettne lays stress on its subjective essence as opposed to proceeding from *a priori* definition. In other words there are no existing physical configurations that should construct an understanding of what a 'region' is or should be. Using Anderson's notion of imagined communities, he argues that like nations, regions 'also possess a subjective quality and can consequently be seen as 'imagined communities.'²⁰ Similarly, Grugel and Hout contend that 'regions are made and re-made, and their membership and frontiers are decided through political and ideological struggle and the conscious strategies of states and social actors.'²¹

Although the NRA carries a strong appeal for theory construction, especially in terms of broadening our understanding of how regions come into existence, it needs to be pointed out that regions do not emerge from empty spaces. Existing regions or geographic configurations can – and indeed should – be taken as starting points, although not the only starting points, in thinking about emergence of new regions.

It is also important that a too strong a distinction is not made between regions as socially or politically constructed and the physical spaces within which they are constructed. For example, geographic contiguity may act to engender a regional social consciousness, and could also lay a basis for identifying common challenges or prospects for cooperation. As will be shown later, Hettne's approach does give some recognition to the physical spaces especially in the first phases of 'regioness', however too much emphasis still tends to be placed on social spaces.

²⁰ Bjorn Hettne, *op.cit.*, 1999, p.9.

What is distinct though about much of the NRA literature, and therein lies one of its theoretical strengths, is the weight it places on human agency rather than on some pre-figured structure. By so doing, this perspective draws out the ideational and inter-subjective meaning of what constitutes a region - a view which is lacking in orthodox economics approaches or International Relations (IR) approaches. It is important though, in the context of this study, to reiterate that existing structures do not lose their importance, but that the explanatory power lies more in the subjective or the meaning for which regionalism is intended.

2.2.1 *Levels of Regional Identity*

In further setting out the NRA theoretical framework on understanding the evolution of regions and their mutations over time, Hettne points to five levels of regionness.²² The first is a *regional space* which is a geographic area, delimited by more or less natural barriers. Here, territory is a key signifier. The second level is what he calls a *regional complex*, which captures widening trans-local interactions between human groups and exhibits a sense of instability and the need for band-wagoning to avert external threats. The balance of power in an anarchical order is the assumed reality.

The third level is a *regional security*, and this can evolve spontaneously and can encapsulate various dimensions, including cultural, security or political. This can be both formal and informal, and could, for example, be sparked by porous borders or

²¹ Jean Grugel and Wil Hout, *op.cit.*, p.9.

emerge as a response to potential or existing resource conflicts in neighbouring countries. The fourth is a *regional community*, and this would have a formal structure and an organised framework and could reflect convergence in areas such as security arrangements, economic policies and political regimes. The last is a *regional institutionalised polity*. This level has ‘a more fixed structure of decision-making and stronger actor capability.’ This could be characterised as a relatively mature level of region development, and is exemplified by the EU.

There is no singular way of understanding regions as these are immanently complex and multidimensional and vary in their expressions. In defining a region Boas *et al* emphasise the social space and suggest that the region contains multiple processes, ideas, actors and identities.²³ Shaw *et al* caution against viewing regionalism only ‘through the lenses of Euro-centric integration theory.’²⁴ Similarly, Shulz *et al* suggest that ‘there are no ‘natural’ or ‘given’ regions, but these are constructed, deconstructed and reconstructed – intentionally or non-intentionally – in the process of global transformation, by collective human action and identity formation.’²⁵

²² Bjorn Hettne, ‘The New Regionalism Revisited’, In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), p.29

²³ Morten Boas, Marianne H. Marchand and Timothy M. Shaw, ‘The Weave-World: The Regional Interweaving of Economics, Ideas and Identities’, In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), p.201.

²⁴ Timothy M. Shaw, Frederik Soderbaum, Julius E. Nyang’oro and J. Andrew Grant, ‘The Future of New Regionalism in Africa: Regional Governance, Human Security/Development and Beyond’, In J. Andrew Grant and Frederik Soderbaum (eds.), *The New Regionalism in Africa*, (Aldershot: Ashgate, 2003), p.193.

²⁵ Michael Shulz, Frederik Soderbaum and Joakim Ojendal, *op.cit.*, p.14.

2.2.2 Definitions

The distinction between regionalism and regionalisation is now broadly accepted in the literature. Regionalism is largely considered to refer to formalised regions with formally agreed membership and boundaries that emerge as a result of intergovernmental dialogues and treaties. While such formal regions will necessarily encompass some form of institutionalisation, there is no conception that a specific form of institutionalisation is required to qualify as a 'proper' region. Rather, the interest is in what factors explain the wide variations in the institutional level of regions.²⁶

The notion that regionalism captures 'the body of ideas, values and concrete objectives that are aimed at creating, maintaining or modifying the provision of security and wealth, peace and development within a region: the urge by any set of actors to organise along a particular regional space', lies at the core of New Regionalism Approach.²⁷ Hurrell suggests that, regions 'are socially constructed and hence politically contested.'²⁸ This fits in well with the NRA perspective of understanding regions as shifting, not yet complete, and in the process of construction. A thick yet concise definition of regionalism is offered by Hveem. He defines regionalism as:

²⁶ See Andrew Hurrell, 'Explaining the Resurgence of Regionalism', *Review of International Studies* 21(4), 1995, p.332.

²⁷ Michael Schulz, Frederik Soderbaum and Joakim Ojendal, *op.cit.*, p.5.

²⁸ Andrew Hurrell, 'Regionalism in Theoretical Perspective', In Louise Fawcett and Andrew Hurrell, *Regionalism in World Politics: Regional Organization and International Order*, (Oxford: Oxford University Press, 1995), p.38-39.

‘...the body of ideas promoting an identified geographical or social space as the regional project. Or it is the presence or the conscious construction of an identity that represents one specific region. It is usually associated with a policy programme (goals to be achieved) and strategy (means and mechanisms by which goals should be reached), and it normally leads to institution building.’²⁹

This definition accords importance to both geographical and social spaces. The existing geographies could spark an urge towards regionness more so if contiguity reflects convergence on variables such as language, culture, shared political and economic objectives and so forth. A more state-centric view of regionalism is offered by Milner and Mansfield. They highlight the importance of factors such as geographic proximity, cultural affinity, shared political objectives, economic ties, and shared historical bonds.³⁰

In terms of how this works out in concrete or empirical terms, Milner and Mansfield would suggest that regionalism is a result of the preferences of national policy makers, strength of domestic institutions, power relations and multilateral institutions.³¹ In this sense, institutions, preferences and interests as well as power dynamics are important variables. Preferential trading arrangements would in this

²⁹ Helge Hveem, *op.cit.*, p.72; See also Morten Boas, Marianne H. Marchand and Timothy M. Shaw, ‘The Weave-World: The Regional Interweaving of Economies, Ideas and Identities’, In 29 Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), p.201.

³⁰ Edward Mansfield and Helen Milner V, ‘The New Wave of Regionalism’, *International Organization*, Volume 53 (3), Summer 1999, p.592; Jeffrey Frankel also identifies some of these factors, especially cultural ties or language as having some importance in encouraging trading relations between different countries. See Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System*, (Washington D.C: Institute for International Economics, 1997).

³¹ *ibid.*

view be the concrete expression of regionalism. These are, according to Milner and Mansfield, entered into by state actors in order to lock in liberal economic and political reforms.³² So, the emphasis here is on the domestic sources of regionalism and rational choices state actors make in international economic relations.

This thesis agrees with Gamble and Payne's view of regionalism as a state-led project 'designed to reorganise a particular regional space along defined economic and political lines.'³³ Similarly, Grugel and Hout, focusing on regions in peripheral areas, concur with this approach as they conceptualise regionalism as a 'states-led' project and that it forms part of 'conscious state strategies for development.'³⁴ At a more narrowly defined level – and in the sense used in this thesis – regionalism could be viewed as a strategic instrument used by state actors to gain competitive advantage in global markets and project influence at the global level. State actors are defined here simply as government elites, state's political representatives or agencies sanctioned by government through legal or quasi-legal processes and negotiate internationally or regionally *de jure* as state representatives.

While regionalism refers to the form, regionalisation refers to the process by which societies and economies become integrated – particularly but not only in the economic sphere. Perhaps the best definition comes from Vayrynen, who argues that: 'the process of regionalisation fills the region with substance such as economic interdependence, institutional ties, political trust, and cultural belonging.'³⁵ Such

³² *ibid.*, p. 605.

³³ Andrew Gamble and Anthony Payne, 'Conclusion: The New Regionalism', In Andrew Gamble and Anthony Payne (eds.), *Regionalism and World Order*, (London: Macmillan, 1996), p.2.

³⁴ Jean Grugel and Wil Hout, *op.cit.*, pp.10-11.

³⁵ Raimo Vayrynen, 'Regionalism: Old and New', *International Studies Review*, Volume 5, 2003, p.39.

regionalisation and economic integration in particular can occur without the creation of formal political regionalism. They are 'regions without prescribed or proscribed borders'³⁶ based on 'transnational flows and networks'³⁷ rather than cartography and political borders.³⁸

Here the example of economic integration in East Asia is instructive, as regionalisation has not only taken place without regionalism, with 'Virtually no commercial agreements...among East Asian countries prior to the mid-1990s'³⁹, and has been relatively unhindered by the political rivalries across the Taiwanese Straits. In this case regionalism followed growing economic ties initiated by market agents through increased exports and cross-border investment, forming what Yergin and Stanislaw characterise as 'a new regional integrated economy.'⁴⁰

2.3 Conventional Approaches to Regionalism

Concerns about the status of multilateralism during the Uruguay Round of trade negotiations are often cited as having led to the elevation of the importance of regionalism. Economists and Liberal Institutionalists, in particular, have been the most worried in this regard. When these debates emerged, close to the end of the 1980s, regionalism in policy circles was initially cast in terms as either as a stumbling

³⁶ Ash Amin, 'Regions unbound: towards new politics and place'm *Geografiska Annaler B*, Volume 86 (1), 2004, p.34.

³⁷ *ibid.*, p.31.

³⁸ Manuel Castells, *op. cit.*

³⁹ Edward Mansfield and Helen Milner V, 'The New Wave of Regionalism', *International Organization*, Volume 53 (3), Summer 1999, p.598.

⁴⁰ Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Market Place that is Remaking the Modern World*, (New York: Simon and Schuster, 1998), pp.188-192.

bloc or as a spur for progress at the multilateral level or insurance in case the multilateral system fails.⁴¹

2.3.1. *Stepping Stone/Building Bloc Debate*

The stepping stone/stumbling bloc metaphor was introduced in the debates when it was feared that the US was marching away from multilateralism and recoiling inwardly. The regionalist option was initially associated with the declining hegemonic clout of the US and its frustration at the inability to achieve its parochial objectives via the multilateral route. In addition, the multilateral route increasingly represented intrusion into its economic space than the US was willing to countenance. It then began negotiating a Free Trade Agreement with Canada in the mid-1980s, and this later included Mexico and was inaugurated as the North American Free Trade Agreement (NAFTA) in 1992, with the ratification process taking almost two years to complete.⁴²

To examine these perspectives further, it is important to highlight the key concerns of the orthodox approaches. These approaches take preferential trading arrangements, including Free Trade Agreements (FTAs) and Customs Unions as main signifiers of regionalism. By October 2004, the recorded number of existing preferential trade

⁴¹ See Louise Fawcett and Andrew Hurrell, *op.cit.*, p.1; Kym Anderson and Richard Blackhurst, 'Introduction and Summary', In Kym Anderson and Richard Blackhurst (eds.), *Regional Integration and the Global Trading System*, (New York: Harvester Wheatsheaf, 1993), p.4; Jaime de Melo and Arvind Panagariya, 'Introduction', In Jaime de Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration*, (Cambridge: Cambridge University Press, 1993), p.4.

⁴² John G. Ruggie, *Winning the Peace: America and the World Order in the New Era*, (New York: Columbia University Press, 1996), p.129.

agreements (PTAs) notified to the WTO were said to have reached a 300 mark.⁴³ Some view the existence of these PTAs and customs unions in zero-sum terms in relation to the multilateral trading system (see below).

In the multilateral trading system there has always been a difficult accommodation between free trade proponents that place emphasis on unilateral liberalisation or liberalising multilaterally and proponents of managed trade. The latter group is wary of merely liberalising for the sake of it and to pay homage to the ideology of free trade, but considers domestic environment as an organising rationale for any choice of strategy. Such approaches, in some shapes exhibiting a barely veiled mercantilism, have mutated into strategic theory perspectives⁴⁴ (see discussion below).

One example of the difficult accommodation between ideological free traders and 'strategic' traders in the multilateral trading system is expressed in the derogations afforded Free Trade Areas (FTAs), including customs union. This exception to the most-favoured nation's (MFN) rule is formalised in GATT article XXIV.⁴⁵ According to Article XXIV, FTAs and customs unions are to liberalise 'substantially all trade'; and that these should not raise barriers to external parties.⁴⁶

⁴³ World Trade Organisation, *Report by the Consultative Board to the Director-General Supachai Panitchpakadi: The future of the WTO*, (Geneva: World Trade Organisation, 2004), p.21.

⁴⁴ David J. Richardson, 'The political economy of strategic trade policy', *International Organization*, 44 (1) Winter 1990.

⁴⁵ The MFN rule is based on the principle of non-discrimination. In its simple application it means that when a country extends concessions to one partner it must extend them to all. This is one of the cardinal principles of the multilateral trading system. Preferential trading arrangements are by definition contradictory to this principle.

⁴⁶ Kym Anderson and Richard Blackhurst, *op.cit.*, p.11; see also Jeffrey A. Frankel, *op.cit.*, p.3 for a summary of the debates surrounding Article XXIV.

These arrangements were given special exceptions with the view that on the whole they would be less discriminatory and would act to facilitate trade.⁴⁷ The barriers to the outside world would either remain the same as before these arrangements were established or be reduced.⁴⁸ It has long been recognised that this article is overlaid with ambiguities and amenable to abuse as it potentially provides a loophole for protectionism behind FTA barriers. In the 1990s it has also raised the spectre of 'new protectionism' on 'behind the border' non-tariff measures.

Bhagwati has been one of the prominent critics of regionalism amongst orthodox economists. He sees the current wave of regionalism as likely to endure, and that its main driving force is 'the conversion of the United States, hitherto an abstaining party, to Article XXIV.'⁴⁹ He looks at preferential trade arrangements mainly from two angles. The first regards those between developed economies and developing countries (North-South); and the second are those among developing countries (South-South). He sees the latter as largely innocuous as it does not have much effect on the world's economic welfare. It is the latter (North-South) that he is more critical of.⁵⁰

Taking this argument forward, Bhagwati and Panagariya contend that 'weak states may agree to specific demands of strong states, in ways that are not exactly *optimal*

⁴⁷ World Trade Organization, *The Legal Texts: The Results of the Uruguay Round of Multilateral Trade Negotiations*, (Cambridge: Cambridge University Press, 1999), p.26.

⁴⁸ Jagdish Bhagwati, 'Regionalism and Multilateralism: An Overview', In Jaime de Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration*, (Cambridge: Cambridge University Press, 1993), pp.25-27; John G. Ruggie, *Winning the Peace: America and the World Order in the New Era*, (New York: Columbia University Press, 1996), p.130.

⁴⁹ Jagdish Bhagwati, *op.cit.*, 1993, p.29; See also Jaime de Melo and Arvind Panagariya, 'Introduction', In Jaime de Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration*, (Cambridge: Cambridge University Press, 1993), p.6.

from the point of view of the economic efficiency of the world trading system.⁵¹ Bhagwati and Panagariya's main concern is with the distortionary effects of these agreements on the outcomes of the multilateral trade negotiations.⁵²

Furthermore, Bhagwati and Panagariya use the notion of 'dynamic time-path question' to analyse the relationship between regionalism and multilateralism. This examines whether the dynamic effect of the PTA is to accelerate or decelerate the continued reduction of trade barriers towards world wide liberalisation.⁵³ Elsewhere, Bhagwati points out that the expansion of regionalism creates a 'spaghetti bowl' phenomenon characterised by multiplicity of PTAs with high trade barriers against third parties and that these could dilute the multilateral trading regime.⁵⁴

In their conclusion of its overall effect, Bhagwati and Panagariya argue that regionalism through PTAs tend to favour the interests of the 'hegemons' and reduces rather than enhance welfare.⁵⁵

In a recent report by the Consultative Board to the Director-General of the WTO, Supachai Panitchpakadi, some of Bhagwati's arguments are forcefully restated. The report is extremely cautionary about PTAs, suggesting that some of their agendas

⁵⁰ Jagdish Bhagwati, *op.cit.*, 1993, p.29; See also Jaime de Melo and Arvind Panagariya, 'Introduction', In Jaime de Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration*, (Cambridge: Cambridge University Press, 1993), p.6.

⁵¹ Jagdish Bhagwati and Arvind Panagariya, 'Preferential Trading Areas and Multilateralism – Strangers, Friends, or Foes?', In Jagdish Bhagwati and Arvind Panagariya, eds., *The Economics of Preferential Trade Agreements*, (Washington D.C: The AEI Press, 1996), p.43.

⁵² *ibid.*, p.44.

⁵³ *ibid.*

⁵⁴ Jagdish Bhagwati, U.S. Trade Policy: The Infatuation with Free Trade Areas, In Jagdish Bhagwati and Anne O. Krueger (eds.), *The Dangerous Drift to Preferential Trade Agreements*, (America Enterprise Institute for Public Policy Research: Washington D.C., 1995), pp.2-3.

⁵⁵ Jagdish Bhagwati and Arvind Panagariya, *op.cit.*

'might lead the WTO to a wrong direction.'⁵⁶ The Consultative Board, chaired by Peter Sutherland (Chairman of Goldman Sachs International and former WTO Director-General), has Bhagwati as one of its members.

The report argues that, 'the administration of these schemes [PTAs] is complicated. Preferential origin rules are complex and inconsistent.' Quoting former South Africa's Minister of Trade and Industry, Alec Erwin, the report goes further to argue that the costs arising out of preferential arrangements 'are particularly onerous for small corporations and traders, and hence for the developing countries.'⁵⁷

The strong objections of the Bhagwati camp is to some degree understandable, especially where the economic welfare of smaller countries is at stake and they are subjected to interplays of power. PTAs are generally exclusive. They distribute benefits to those inside and discriminate against outsiders. Central to PTAs is tariff reduction for the benefit of members, and this may advantage domestic firms that compete with firms outside the integrating area for imports. External barriers remain high while intra-regional barriers are reduced. The effect is diversion of trade which benefits politically powerful industries and disadvantages consumers. Hence these initiatives are generally regarded as 'second best' compared to multilateral

⁵⁶ World Trade Organisation, *op.cit.*, 2004, p.19.

⁵⁷ Alec Erwin, quoted in *World Trade Organisation, Report by the Consultative Board to the Director-General Supachai Panitchpakadi: The future of the WTO*, (Geneva: World Trade Organisation, 2004), p.22.

liberalisation.⁵⁸ They liberalise commerce amongst members, but discriminate against third parties.⁵⁹

On the benefit side of FTAs, Mansfield and Milner point out that they can positively influence terms of trade in relation to the rest of the world and also help to realise scale economies that may attract regional production. Furthermore, these can also induce members to undertake and consolidate economic reforms.⁶⁰ The argument that regional integration can serve to lock in domestic policy reforms and guarantee credibility has been received sceptically by Bhagwati. He contends, for example, that regional integration does not guarantee credibility to domestic policy reforms any more than a country's economic policy does.⁶¹

A different approach to preferential trading arrangements is offered by Baldwin. He disputes the standard view that the main trigger for regionalism was frustration with multilateralism. He points to empirical evidence of US flirtation with bilateral deals dating back to the 1970s with a series of attempts at courting Canada.⁶² He further notes that in 1979 a study on North American FTAs was mandated by the US Congress, and the report that was produced in 1981 'recommended that further bilateral liberalisation with Canada and Mexico be explored.'⁶³ Later on, Canada

⁵⁸ Robert Z. Lawrence, 'Regionalism, Multilateralism, and Deeper Integration: Changing Paradigms for Developing Countries', In Goddard Roe C, Cronin Patrick and Kishore Dash C (eds.), *International Political Economy: State-Market Relations in a Changing Global Order*, (Basingstoke: Palgrave, 2002), p.407.

⁵⁹ Edward D. Mansfield and Helen V. Milner, *op.cit.*, p.592; Jagdish Bhagwati, *op.cit.*, p.1-2.

⁶⁰ Mansfield E D and Milner HV, *op.cit.*, pp.593-595.

⁶¹ Bhagwati, *op.cit.*, p.7.

⁶² Richard E. Baldwin, 'The Causes of Regionalism', *The World Economy*, Volume 20(7), November 1997, p.876.

⁶³ *ibid.*

initiated the US-Canada FTA, and Mexico initiated the Mexico-US FTA which finally led to NAFTA.⁶⁴

His theoretical innovation within orthodoxy approach in looking at regionalism is captured in what he characterises as a 'domino theory'. Baldwin proposes that regionalism has taken a *domino* form, in which the 'idiosyncratic incidents of regionalism triggered a multiplier effect that knocked down bilateral import barriers like a row of dominoes.'⁶⁵ What this simply means is that the formation of regional trade blocs triggers excluded countries to seek inclusion, especially as benefits of trade and investment diversion accrue to existing members.

According to Baldwin this generates two effects: it could either open up the regional bloc to excluded members; or, if it remains closed to outsiders, may spark preferential trading arrangements amongst excluded countries.⁶⁶ In his view, regionalism could exist side by side with the multilateral trade regime and without in any way threatening it. Baldwin also suggests that 'regionalism may be a powerful force for multilateral trade liberalisation', and that it constitutes 'half of the trade liberalisation 'wheel' that has been rolling towards global free trade since 1958.'⁶⁷

The other seemingly less alarmist perspectives on the relationship between regionalism and multilateralism, have been advanced by Srinivasan *et al.* Although they regard concerns over the negative impact of regionalism on the global economy

⁶⁴ *ibid.*, p.884; See also Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System*, (Washington D.C: Institute for International Economics, 1997), pp.6-7.

⁶⁵ *ibid.*, p.877.

⁶⁶ See *ibid.*, pp.877-878.

⁶⁷ *ibid.*, pp.885 – 886.

as overblown. their conclusion is also somewhat apocalyptic about the future. Srinivasan *et al* argue that new regionalism ‘indicates a movement towards weakened multilateral discipline, with threats of global trade wars and impaired economic performance of excluded smaller countries.’⁶⁸

Srinivasan *et al* however concede that, ‘...although RIA [Regional Integration Arrangements] is not first best for the world, as trade impediments between the region and the rest of the world remain, it may still be optimal for countries in the region.’⁶⁹ This proposition could be regarded as a middle-ground view in the debate on whether regionalism is a stumbling bloc or a stepping stone to multilateralism. In its extreme expression, the question, as Ruggie has observed, is framed in ways that suggests that regionalism would cast the shadow of the 1930s protectionism over the future of multilateralism in trade.⁷⁰

Rather than viewing regional integration arrangements in a one-dimensional view as either leading to positive or negative outcomes, Srinivasan *et al* place emphasis on the intent of these arrangements.⁷¹ Ruggie adds that these are all embarked on to liberalise dimensions that are not yet part of the global trading arrangements, for example intellectual property and investment accords.⁷² Ruggie’s view fits neatly with the notion of WTO-plus credited to the former Treasury Under-Secretary in Clinton’s

⁶⁸ T.N. Srinivasan, John Whalley and Ian Wooton, ‘Measuring the Effects of Regionalism on Trade and Welfare’, In Kym Anderson and Richard Blackhurst (eds.), *Regional Integration and the Global Trading System*, (New York: Harvester Wheatsheaf, 1993), p.53.

⁶⁹ T.N. Srinivasan, John Whalley and Ian Wooton, *op.cit.*, p.54.

⁷⁰ John G. Ruggie, *op.cit.*, 1996, p.130; Some authors have argued that earlier trade discriminatory practices especially in the 1930s had contributed to the collapse of world trade during this period. See Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System*, (Washington D.C: Institute for International Economics, 1997), p.3.

⁷¹ *ibid.*, p.74.

⁷² *ibid.*, p.131.

Administration. Lawrence Summers. He argued that whatever form trade liberalisation takes, be it unilateral, bilateral, plurilateral, or multilateral does not matter since all lead to the same objective.⁷³ Bhagwati *et al* counter that if we are not careful we may end up walking on all four.⁷⁴

Another perspective, which is on the fringes of the orthodox economics-NRA debate is that articulated by Castells. Castells is sceptical of theoretical accounts that suggest that the world economy and international trade should be understood in terms of different trade blocs that are organised regionally. He suggests that 'the regionalisation of the global economy has largely dissolved, in favour of a multi-layered, multi-networked structure of trade patterns, which cannot be apprehended by using the categories of countries as units of trade and competition.'⁷⁵ He further argues that 'the complexity of interaction between government strategies and trade competition cannot be understood under the simplistic notions of regionalisation and trading blocs.'⁷⁶ This bears resemblance with Kenichi Ohamae's notion of 'invisible continent' characterised by seamless economic transactions.⁷⁷

Essentially, these views privilege economics over politics and they effectively suggest that there are no regions within which politics are played out. This explanation does not adequately account for the strategic behaviour of state actors, although not wholly influenced by firms, but seeking to advantage them, in both the domestic and regional

⁷³ See Jagdish Bhagwati, *op.cit.*, 1995, p.8; see also, Jeffrey A. Frankel, *op.cit.*, pp.5-6. Frankel points out that the US views all the "lateralisms" as having an equal and benign weight; and this is a strategy that defines US approach to global trade engagements. Frankel attributes this strategy to US concern with declining political and economic hegemony.

⁷⁴ See World Trade Organisation, 2004, *op.cit.*

⁷⁵ Manuel Castells, *op.cit.*, p.115.

⁷⁶ *ibid.*, p.116.

⁷⁷ Kenichi Ohamae, *op.cit.*

spheres. While Castells makes a powerful and persuasive point about the extent to which transnational production networks are salient and have multiple allegiances, the implications of his argument that there is therefore no regionalisation process linked to globalisation grossly understates the 'facilitative' role of the state in these transnational economic transaction.

2.3.2. *Debates Within the WTO*

There is recognition within the WTO that RTAs are a permanent feature of the global trading system, and the question is not so much about how to eliminate them but rather how they can be brought under tight multilateral trade disciplines to ensure that they promote multilateral liberalisation and not undermine it.⁷⁸ The proliferation of RTAs, with every member of the WTO belonging at least to one of the 312 that are currently in existence, has raised concerns about their impact on the multilateral trading system: with fears that, if these are not monitored properly, they might undermine the WTO.⁷⁹ In their current form, the RTAs are seen as representing a '...frightful matrix of preference agreements, discriminatory preferences, and complicated rules of origin, in which the MFN principle was becoming the exception rather than the norm.'⁸⁰

With tighter disciplines, it is however hoped that RTAs could hold a potential to positively reinforce the multilateral trading system, particularly where they are geared

⁷⁸ See for example World Trade Organisation, 'A Note by the Secretariat', TN/RL/M3, 01 August 2002.

⁷⁹ See Jeffrey J. Schott, 'Free Trade Agreements: Boon or Bane of the World Trading System?' In Jeffrey J. Schott (ed.), *Free Trade Agreements: US Strategies and Priorities*, (Washington D.C: Institute for International Economics, 2004), p.7.

towards the elimination of tariff and non-tariff barriers, and with a stress on regulatory convergence or 'WTO-plus' measures among integrating parties.⁸¹ The discussions on reviewing RTAs in the WTO are mainly focused on Article XXIV, a provision which has generally been seen as creating ambiguity and in need of precise clarification.⁸² Of particular importance is the clarification of the meaning of "substantially all trade" (Article XXIV:8), which refers to customs union and free trade agreements (FTAs).

In the negotiations, various proposals have been put forward by different countries. Some have argued strongly – and in fact there seems to be emerging some consensus positions - that the definition of 'substantially all the trade' requirement should be based on two requirements or combination of the two: statistical benchmark of the percentage of trade (tariff lines), and sectoral coverage. Regarding the former, much of the emphasis is placed on the six-digit tariff lines listed in the Harmonised System as a statistical benchmark.⁸³

With respect to sectoral coverage, which is more of a qualitative benchmark, stress is laid on ensuring that in future no sector would be excluded in the tariff liberalisation schedule (except those that are deemed security sensitive), especially agriculture and textiles – which are often deemed sensitive sectors. The other important element of efforts aimed at creating strong positive linkage between regionalism and multilateralism, in the context of RTA proliferation and progress in the WTO, regards

⁸⁰ 'A Note by the Secretariat', World Trade Organisation, TN/RL/M3, 01 August 2002.

⁸¹ *ibid*; See also, Gary P. Sampson and Stephen Woolcock (eds.), *Regionalism, Multilateralism and Economic Integration: The Recent Experience*, (Tokyo: United Nations University Press, 2003).

⁸² See World Trade Organisation, *Report by the Consultative Board to the Director-General Supachai Panitchpakadi: The future of the WTO*, (Geneva: World Trade Organisation, 2004), p.26.

⁸³ See Australia's Paper, World Trade Organisation, TN/RL/W/15, 09 July 2002. However, this raised problems as some members had 8- or 10-digit tariff lines. See TN/RL/M/3, *Note by the Secretariat*, 01 August 2002..

the impact of these processes on the regulatory mechanisms as well as on widening and deepening of the scope of trade.

Harmonisation or convergence of regulatory-type policies amongst integrating parties is a substantive development as it may potentially intrude into the domestic policy space. As noted by Crawford and Fiorentino, recent trends in cross-regional arrangements, especially those between North and South, have tended to 'go beyond the WTO regulatory framework to include provisions on investment, competition, intellectual property, environment and labour among others.'⁸⁴

This 'regulatory' trend of regionalism is often referred to as WTO-plus even though it runs the risk of undermining the multilateral trading system and create an alternative platform where negotiations and agreements are governed by the force of might and narrow self-interest than rule and fairness. It is also important to note that some of the agreements reached at this level could impose severe strictures for developing countries, for example in the area of Trade Related Aspects on Intellectual Property Rights (TRIPS), which offers flexible provisions for developing countries at the multilateral level, that could be lost in regional trade arrangements between developed and developing countries.⁸⁵

There seems to be a realisation amongst some developing countries that there is much at stake in these processes that could have implications for their developmental interests. As such, their key concern is with the extent to which the proposed

⁸⁴ Jo-Ann Crawford and Roberto V. Fiorentino, 'Changing Landscape of Regional Trade Agreements', *World Trade Organisation Working Paper*, 2005. www.wto.org

disciplines on RTAs are sensitive to their developmental challenges. When the Doha Round of WTO negotiations were launched in November 2001, this factor was taken into consideration. Specific negotiations in the area of reviewing RTAs were given force by Paragraph 29 of the Doha Declaration, which stated that: 'We also agree to negotiations aimed at clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements. These negotiations shall take into account the developmental aspects of regional trade agreements.'

As to how precisely the interests of developing countries are going to be reflected would be determined by a process of negotiations whose outcomes would form part of the package of agreement at the end of the Doha Round. Developing countries have a strong interest in this area as most of the RTAs that they participate in were formed under the 1979 Enabling Clause, and these are not subject to the 'substantially-all-the-trade' requirement, and provide some flexibilities which are absent from Article XXIV. Even so, they are still not expected to raise trade barriers against other WTO members.⁸⁶ In its paper, India argued that the Enabling Clause is linked to the developmental needs of developing countries and affords them policy space to adjust to competition, and under Article XXIV this would be narrowed.⁸⁷

The Enabling Clause-type arrangements also include the preference mechanisms designed to provide market access to developing countries on non-reciprocal basis. One of the central negotiating issues for developing countries, especially the African,

⁸⁵ *ibid.* p.6.

⁸⁶ See Gary P. Sampson, 'Introduction', In Gary P. Sampson and Stephen Woolcock (eds.), *Regionalism, Multilateralism and Economic Integration: The Recent Experience*, (Tokyo: United Nations University Press, 2003). p.6.

⁸⁷ World Trade Organisation, 'India's Submission', TN/RL/W/114, 06 June 2003.

Caribbean and Pacific (ACP) Group⁸⁸ is that special and differential treatment should be a component of North-South RTAs (established under Article XXIV), and that developing countries have flexibilities in such arrangements. Furthermore, with regards to South-South arrangements (established under Enabling Clause), existing flexibilities should be retained.⁸⁹ According to the ACP Group, 'The existing GATT 1994 Article XXIV provisions do not take into account developmental aspects of RTAs entered into between developed and developing, i.e., between countries with significant differences in levels of development, productive and export capacities and competitiveness.'⁹⁰

There is little doubt that the debate regarding whether regionalism is a stepping stone or a stumbling bloc to multilateralism is likely to define orthodox perspectives for some time. There has however been a positive shift, at least in the multilateral trading system, in defining clearly what this means in terms of both the procedural and substantive dimensions of RTAs and their relationship with the multilateral trading system. However, the debate is narrowly framed in terms of trade creation versus trade diversion, and is overly obsessed with welfare-enhancing outcomes - defined in terms of utility maximisation for consumers of goods⁹¹ – to the exclusion of other critical variables such as security and development.

⁸⁸ This Group is very active in the WTO negotiations. It consists of developing countries from three regions: Africa, Caribbean and Pacific regions, and a majority of which were colonised by European countries. Since the early 1970s these countries have had special economic relations with Europe institutionalised through the Lome Convention (and since 2000, Cotonou Agreement), and receive preferential treatment from the EU.

⁸⁹ Paper by the ACP Group of States, World Trade Organisation, TN/RL/W/155, 28 April 2004.

⁹⁰ Paper by the ACP Group of States, World Trade Organisation, TN/RL/W/155, 28 April 2004, Paragraph 6. The paper notes that the reason for this limitation is the limited participation by developing countries during this period of GATT's existence.

This debate remains stuck in narrow variables despite the fact that even amongst Economists questions regarding the benefits of trade creation versus trade diversion remain inconclusive. For example, Fiorentino and Crawford note that '...it is notoriously difficult to assess the trade creation and diversion effects for a single RTA; the empirical evidence on the subject remains ambiguous.'⁹² Similarly, Jeffrey Frankel, one of the leading thinkers on Regional Trading Blocs has asserted that the concepts *trade creation* and *trade diversion* '...do not have standard definitions that are entirely agreed upon.'⁹³ He further contends that, 'The presumption that trade creation and trade diversion can be identified with the good and bad effects of PTAs [Preferential Trade Agreements], respectively, is oversimplified for a number of reasons.'⁹⁴

This then leads us to the next explanation, which brings some improvements in the understanding of regionalism and its relationship to global structural changes. The New Regionalism Approach (NRA) emanates mainly from critical International Political Economy, and seeks to transcend the state in theorising regionalist processes. Furthermore, it is not limited by the stepping stone/stumbling bloc metaphor. This perspective initially evolved out of United Nations University/WIDER discourses, and Bjorn Hettne was one of the leading pioneers of the new regionalism debate within the IPE intellectual genre.

⁹¹ For a survey of perspectives, See Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade*, (Princeton: Princeton University Press, 1996), pp.181-184.

⁹² Jo-Ann Crawford and Roberto V. Fiorentino, *op.cit.*, p.18.

⁹³ Jeffrey A Frankel, *op.cit.*, p.15.

⁹⁴ *ibid.* He goes on to discuss the reasons, suggesting that under certain circumstances trade diversion can be good, where its existence reduces distortions in consumers' patterns of consumption; when economies of scale allow producers to operate at a lower cost; or, when the new competition curtails the market power of inefficient domestic monopolies. See, pp.15-16.

2.4 Critical IPE/New Regionalism Approach Perspectives

The NRA perspective shares a common ground with some of the orthodox approaches in its recognition of the outward orientation of new or 'open' regionalism, but in everything else the two perspectives diverge sharply. Shulz *et al* suggest that '...today's regionalism is extroverted rather than introverted, which reflects the deeper interdependence of today's global political economy. The new regionalism is in different ways linked to global structural change, and especially to what is perhaps its dominating feature - globalisation.'⁹⁵

Breslin *et al* make a similar point when they observe that regionalism and globalisation are 'mutually reinforcing and co-constitutive rather than contending processes.'⁹⁶ The question of stumbling bloc/stepping stone is therefore rendered irrelevant in the NRA research agenda. Rather, an emphasis is placed on the symbiotic relationship between globalism and regionalism and the fact that these are 'intimately connected, together shaping the emerging world order.'⁹⁷

NRA literature on regionalism would, for example, look at questions generated by perceptions of collective challenges, such as, related environment, security and economic development. Regionalism could also be simply a response to an urge to construct a regional identity on the basis of contiguity or shared cultural, ideational and social meanings; or, it could be for reasons of consolidating the state, as is

⁹⁵ Michael Shulz, Frederik Soderbaum and Joakim Ojendal, *op.cit.*, p.14.

⁹⁶ Shaun Breslin, Richard Higgott and Ben Rosamond, 'Regions in Comparative Perspective', In Shaun Breslin, Christopher W. Hughes, Nicola Phillips and Ben Rosamond, *New Regionalisms in the Global Political Economy*, (London: Routledge, 2002), p.8.

perhaps the case in most of the Sub-Saharan Africa.⁹⁸ Wyatt-Walter are apt in arguing that there are political economy reasons for regionalism, and these include geography, history of cooperation on non-economic issues, and security factors.⁹⁹

It must be pointed out though that the NRA is a relatively new analytic framework and as such it is in the process of further development. One of its proponents, Frederik Soderbaum explains that much of its focus is on theory building, and he decries the fact that there is little theoretical debate on 'new' regionalism and that what predominates in much of the literature are specific case studies or empirical accounts which are based on limited theoretical perspectives.¹⁰⁰

Indeed the essence of 'new regionalism', as understood by the NRA, does not simply lie in the temporal distinction, but more substantively in the epistemological framework employed in studying regions. A slightly different account is put forward by Boas *et al* who emphasise the importance of plurality of meanings in thinking about regionalisms. In Boas *et al*, for example, the focus is on '...a multitude of overlapping, disjunctive and often contradictory regionalization processes...'¹⁰¹

⁹⁷ J. Andrew Grant and Frederik Soderbaum, 'Introduction: The New Regionalism in Africa', In J. Andrew Grant and Frederik Soderbaum, *The New Regionalism in Africa*, (Aldershot: Ashgate, 2003), p.8.

⁹⁸ Andrew Hurrell, *op.cit.*, pp.58-73.

⁹⁹ Andrew Wyatt-Walter, 'Regionalism and World Economic Order', In Louise Fawcett and Andrew Hurrell, *Regionalism in World Politics: Regional Organization and International Order*, (Oxford: Oxford University Press, 1995), p.82.

¹⁰⁰ Frederik Soderbaum, 'Introduction: Theories of New Regionalism', In Frederik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), p.2.

¹⁰¹ Morten Boas, Marianne H. Marchand and Timothy M. Shaw, *op.cit.*, p.204; this is a very thin area of disagreement. If one also looks at the volume by Shulz *et al* it is quite evident that there are strong convergences than divergences; See Michael Shulz, Frederik Soderbaum and Joakim Ojendal, 'Introduction: A Framework for Understanding Regionalization', *Regionalization in a Globalizing World: A Comparative Perspective on Forms, Actors and Processes*, (London: Zed Books, 2001), p.14.

Furthermore, the approach propounded by Boas *et al* highlights the fluidity of interactions between different levels of regionalisms and actors involved, and elevates informal processes and non-state actors to the same level as that of the state.¹⁰² Echoing some of the positions articulated by NRA, Shaw *et al* note that ‘we find it useful to employ the prefix ‘new’ as a means to distinguish new theoretical approaches compared to previous frameworks.’¹⁰³ It should be noted that nothing here is said about spatial configuration or some teleological significance. The weight is placed on the analytic framework rather than on empirical processes or ultimate objectives. In short, it is about *how* regions are to be understood and not so much about *what* is to be studied.

While emphasis on theory building lends a heuristic value, especially given the relative novelty of this methodological approach, it may however fall into a fallacy of seeking to fit practice to confirm a theoretical paradigm or simply become everything to everyone who studies regions, thereby losing precise shape and meaning. There is no doubt that NRA is indeed an innovative research agenda. However, it should avoid de-emphasising or discrediting empirical processes. Theory building need not always be viewed as disembodied from empirical observations. Indeed, there are synergies that could be drawn between the two. Furthermore the ambivalence that the NRA sometimes expresses towards the state can be deeply disconcerting as in most developing countries the state is seen as a contested terrain and an instrument potentially endowed with transformative possibilities.

¹⁰² *ibid.*, p.204.

¹⁰³ Timothy M. Shaw, Frederik Soderbaum, Julius E. Nyang'oro and J. Andrew Grant, *op.cit.*, p.192.

It may well be that there is a case to continue building a strong theoretical foundation to understand various experiences that are taking shape in various parts of the world, including those that are inspired and led by state or non-state actors - taking place at formal or informal levels - but to construct a homogenised analytic approach could be counterproductive. Soderbaum, for example, does highlight this point when he suggests that ‘...the emphasis on theory by no means implies a neglect of the empirical worlds of regionalism.’¹⁰⁴ The reality is that – and not to over-stress the differences - regions are diverse and at times contend with unique sets of circumstances which may require a flexible analytic approach to understanding them.

2.4.1 *Comparative Regionalisms: A bridge between theory and practice*

As Soderbaum and Shaw have pointed out, the bridge between theory and practice in regionalism can best be served by a comparative approach; and such an approach could help ameliorate the ethnocentric bias inherent in much of regionalism literature.¹⁰⁵ In a volume that brings together scholars who are articulating more ‘critically’ grounded perspectives to regionalism, Soderbaum and Shaw challenge the universalism that came to characterise the study of regionalism. They dismiss the one-dimensional inquiry on whether regionalism is a stepping stone or a building bloc towards multilateralism as inadequate in helping us understand the characteristic dynamics of current regionalist processes.¹⁰⁶

¹⁰⁴ Fredrik Soderbaum, *op.cit.*, p.2.

¹⁰⁵ Frederik Soderbaum and Timothy M. Shaw, ‘Conclusion: What Futures for New Regionalism?’, In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), p.214.

What is clear is that scholars that are building the NRA research agenda are more concerned with understanding regionalism in its broader sense rather than viewing it through lenses that are narrowly prefigured by orthodox economic approaches. The dominant feature in Soderbaum and Shaw's approach is a view that regionalist processes should be understood outside the epistemological and formal boundaries of Europe, and this should not necessarily invalidate the European experience and its contribution, but also not to use it as a central reference point. To borrow from Wathiong'o's polycentric view of the world, indeed 'there could never be only one centre from which to view the world but that different people in the world had their culture and environment as the centre. The relevant question was therefore one of how one centre related to other centres.'¹⁰⁷

Such an understanding, freed from the methodological strictures of Eurocentric epistemology, can help to creatively chart a comparative approach to regionalism. Hettne's model of levels of 'regionness', discussed earlier, lays a good ground to help develop useful comparative studies that could further enrich the understanding of new regionalism within the changing global context; and this could draw both useful parallels and identify critical divergences in the evolution of regionalism in different parts of the world. There is no doubt that such an approach could be fertile with important insights into the nature of impact global processes have on different regions and the unique sets of circumstances these contend with.

106 *ibid.*, pp.215-216.

¹⁰⁷ Ngugi Wathiong'o, *Moving the Centre: The Struggle for Cultural Freedoms*, (Oxford: James Currey, 1993), p.9.

Hettne suggests that a new theory of regionalism should be constructed on comparative studies and post-structuralist approaches.¹⁰⁸ However, caution needs to be exercised in imputing a theoretical paradigm in a prescriptive fashion as that may yield incomplete insights into the diverse forms which regionalism takes in various parts of the world and their relationship with global/multilateral processes. At the broader level, the study of new regionalism is best left flexible and be allowed a space to evolve as a historical process that is contested and shaped by various theoretical fields as well as empirical experiences.

A caveat about designing comparative studies that do not take into account varying points of development was offered by Breslin and Higgott. They suggested that 'in too many comparative studies there is a tendency for juxtaposition to be used instead of comparison' and that 'if a valid comparison is to be made, then the disjuncture of temporal states of development needs to be taken into account.'¹⁰⁹

Theory building on regionalism also needs to strive towards evolving sub-fields in order to study varying dimensions of regionalism from formal process to informal, from state-driven to those driven by non-state actors, as well as intersections in various regionalist forms in a more determinate and coherent fashion. Indeed, as Hettne suggests, 'regions are always evolving and changing. A region must be understood as a process and as a social construction.'¹¹⁰ Thus it would be limiting to understand regionalism within narrowly framed paradigm (s).

¹⁰⁸ Bjorn Hettne. *op.cit.*. 2004, p.27.

¹⁰⁹ Shaun Breslin and Richard Higgott, 'Learning from the Old, Constructing the New', *New Political Economy*, Volume 5 (2) 2000, p.342.

Notwithstanding the shortcomings identified earlier, for example regarding theory building at the expense of empirical observations and ambivalence towards the state, the NRA has opened up new avenues to understanding multiple regionalist processes. It is eclectic and more flexible, and provides an intellectual space for more theory innovation. The next section proposes an ideal-type analytic framework that is best suited to explain the case study employed in this thesis.

2.5 Towards a Strategic Competitive Regionalism

This section turns to an area which has not been extensively examined in IPE or NRA literature - that of *strategic competitive regionalism*. This thesis proposes that moving from theory to empirical observation, or infusing the two, would require more precision in studying regionalist processes. Moreover, given the diversity of the processes that constitute regionalism and the plurality of actors that are part of or driving these processes, it would be beneficial to innovate New Regionalism Approach along distinct branches that would correspond to the empirical processes under observation.

For example, it should be possible to have informal processes examined using a distinct framework - *informal regionalism approach* – to differentiate it from more formal processes. Also, certain regionalist processes that reflect state actors' orientation towards international competitiveness could well be examined using a different approach – *strategic competitive regionalism*. There could be a number of

¹¹⁰ *ibid.*, p.28.

other ideal-type theoretical approaches depending on what is being studied. For example, there are also approaches that are concerned with regulatory convergence in regional integration schemes and their procedural compatibility with the multilateral trade processes.¹¹¹ This does not necessarily suggest these be viewed in isolation from other forms in which regionalism manifest itself.

This thesis proposes a sub-theoretical branch or analytic tool that could be characterised as ‘strategic competitive regionalism’ to be employed in examining inter-state regional processes in the context of global competitive challenges and developmental concerns. This approach, in the form in which it is proposed in this thesis, draws together scattered ideas that nonetheless capture the strategic behaviour of states and refocus them to better reflect particular forms of state-led regionalist processes. It is not claimed here that this is an altogether novel approach, but is an organising force that could further contribute to innovation of regionalism studies.

This approach highlights the strategic uses of regionalism by state actors to facilitate competitiveness of their domestic industries in global markets. Furthermore it also denotes the strategic nature of relationships that state actors enter into at the regional and global levels to maximise their political bargaining capacity as well as improve competitiveness of domestic industries in regional and global market place. Phillips argues that ‘sub-regionalism can be seen to be as much about domestic political economy (the national capitalist project) as about a ‘new international political

¹¹¹ See Gary P. Sampson and Stephen Woolcock, (eds.) *op.cit.*

economy' at the regional and global levels.¹¹² This does not necessarily suggest the fusion of the state and capital into a single mechanism in the manner suggested, for example, by Jessop in his review of state monopoly capitalism.¹¹³

A more forceful explanation on the linkage between regionalism and strategic trade perspectives is offered by Gamble and Payne. They argue that 'the current regionalist projects have been driven to some extent by a 'strategic trade view' and this creates competitive conditions for regional firms who are externally oriented.¹¹⁴ Essentially, new regionalism, as noted earlier, is externally oriented and seeks to benefit the domestic economy in the global market arrangements which are defined through the discourse of competitiveness. As suggested by Ravenhill, domestic economic actors that are not yet strong to compete globally may be protected via regionally agreed arrangements while being gradually exposed to global markets.¹¹⁵ However, protection here is not for its own sake in the form in which it was taking place when import-substitution industrialisation was in vogue, but it is for the purpose of building a strong export platform.¹¹⁶

¹¹² Nicola Phillips, 'The Future of the Political Economy of Latin America', In Richard Stubbs and Geoffrey RD Underhill (2000) (eds.), *Political Economy and the Changing Global Order*, (Oxford: Oxford University Press, 2000), p.330.

¹¹³ Bob Jessop, *The Capitalist State: Marxist Theory and Meditations*, (Oxford: Blackwells, 1982), p.14.

¹¹⁴ Andrew Gamble and Anthony Payne, 'The World Order Approach', In Fredrik Soderbaum and Timothy M. Shaw (eds.), *Theories of New Regionalism*, (Basingstoke: Palgrave, 2004), p.52.

¹¹⁵ John Ravenhill, 'Regionalism', In John Ravenhill (ed.), *Global Political Economy*, (Oxford: Oxford University Press, 2005), p.124.

¹¹⁶ For a detailed discussion on the notion of import protection as export promotion, see Paul Krugman, 'Import Protection: International Competition in the Presence of Oligopoly and Economics of Scale', In Henryk Kierzkowski, *Monopolistic Competition and International Trade*, (Oxford: Oxford University Press, 1989), pp.180-193.

Payne also suggests that the rationale for contemporary regionalism has not been established on the doctrine of protection but rather on strategic trade.¹¹⁷ Whereas import-substitution industrialisation and the use of tariff to nurture a competitive advantage for the home industry was the *leitmotif* of old regionalism, this is increasingly being superseded by nuanced forms of protection and support directed mainly at 'strategic' export-oriented sectors.

Amongst industrial economies this development intensified in the late 1980s and was largely provoked by perceptions of Japan's rise as an economic power - especially its 'competing out and protecting in' approach - but also sparked by the realisation that, with the eclipse of the Cold War, much attention in countries' external strategies would be on economic competitiveness rather than military warfare between states.¹¹⁸ Much of strategic trade concepts in the developed economies have been propounded in view of trade conflict in high-technology industries, and these are regarded as crucial in sustaining productivity, technology development and high-wage job creation.¹¹⁹ This thesis contends that this perspective could also be used to analyse strategic behaviour of core states in developing regions in the context of global competitive exigencies.

For developing countries, and Southern African countries in particular, there is also a realisation that regionalism can be a potent force to respond to the challenges of

¹¹⁷ Anthony Payne, *op.cit.*, 2004, p.16.

¹¹⁸ See Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, (Stanford: Stanford University Press, 1982); Robert Reich B., 'Making Industrial Policy', *Foreign Affairs*, Volume 60, 1982; Stephen S. Cohen and John Zysman, *Manufacturing Matters: The Myth of the Post-Industrial Economy*, (Washington D.C: Basic Books, 1987); Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, (New York: Warner Books, 1992).

globalisation and underdevelopment. However, given the general weakness of political instruments, including institutional innovation to effectively integrate into global markets, strategic competitive regionalism can only be said to benefit regional core states such as South Africa (Chapter 5). Apart from South Africa, much of the Southern African region is caught between the old and the new forms of regionalism (Chapters 3 and 5).

Nonetheless, state actors in Southern Africa still view regionalism, in the long-term, as fulfilling strategic competitive objectives, and more specifically ensuring inward-flows of investments, structural and geographic diversification of exports and integration into global markets and institutions of global governance, as well as building capacity for effective political articulation at the multilateral level. Schott notes that developing countries '...face tough competition for investment and therefore have to engage in a process for competitive liberalisation...', and he suggests that this 'competitive liberalisation', driven through regionalism, is not based on 'fortresses' but on external orientation.¹²⁰

The particular form of regionalism examined in this thesis – strategic competitive regionalism – would correspond to a particular state form of state (see discussion below). Global competitive dynamics act to alter the traditional role of the state in relation to domestic social forces. In this sense, the state plays the role of a facilitator to enable domestic firms to compete effectively in global markets. The emphasis is less on the invisible hand of the markets but more on the invisible hand of

¹¹⁹ Laura D'Andrea Tyson, *Who's Bashing Whom? Trade Conflict in High Technology Industries*, (Washington DC: Institute for International Economics, 1993), p.2.

¹²⁰ Jeffrey Schott, *op.cit.*, p.11.

government support.¹²¹ Beck has suggested for example that, in this sense, the state could perhaps be understood as embodying two faces: ‘...on the one hand it is withering away, but on the other it is more urgent than ever, and both for good reasons.’¹²²

He further points out that the image of the contemporary state is similar to that of a snake that is in the process of shedding its old skin to acquire a new skin, and that the state, like a snake, is shedding the skin of its classical tasks and developing a new global ‘skin of tasks.’¹²³ To the extent that globalisation re-defines the role of the state and restructures its institutions and policies in relation to the domestic economy and the global sphere, the emerging state forms in various parts of the world could best be characterised as ‘re-articulated state.’¹²⁴

2.5.1 *Competition State*

Indeed, the character of the state has undergone transformation in the context of globalisation, although the extent of this transformation is hard to measure.¹²⁵ As suggested by Cerny, in the light of this alteration of state’s classical ‘welfarist’ tasks, the concern of the state is increasingly with the promotion ‘...of competitive

¹²¹ See Laura D’Andrea Tyson, *op.cit.*

¹²² Ulrich Beck, *What is Globalisation*, (London: Polity, 1999), p.38.

¹²³ *ibid.*

¹²⁴ Jeffrey A. Hart and Aseem Prakash, ‘Globalization and Governance: An Introduction’, In Aseem Prakash and Jeffrey Hart (eds.), *Globalization and Governance*, (London: Routledge, 1999), pp.14-15.

¹²⁵ See Jan Aart Scholte, *Globalization: A Critical Introduction*, (Basingstoke: Palgrave, 2000), pp.135-146; David Held and Anthony McGrew, ‘The Great Globalization Debate: An Introduction’, In David Held and Anthony McGrew (eds.), *The Global Transformations Reader: An Introduction to the Globalization Debate*, (Oxford: Blackwell, 2002), pp.1-11.

advantages of particular production and service sectors in a more open and integrated world economy.’¹²⁶

The state is therefore being transformed into a ‘complex mix of civil and enterprise associations’ – a ‘Competition State.’¹²⁷ Cerny defines the competition state thus: ‘The main task or function of the contemporary state is the promotion of economic activities, whether at home or abroad, which makes firms and sectors located within the territory of the state competitive in international markets – the competition state.’¹²⁸

The competition state, as Cerny points out, exhibits four types of policy changes: a shift from macro-economic to micro-economic interventionism; pursuit of competitive advantage as distinct from comparative advantage; emphasis on inflation targeting and general neo-liberal monetarism; and a shift from public welfare maximisation to the promotion of enterprise, innovation and profitability in both private and public sectors.¹²⁹

Although these dimensions as identified by Cerny characterise states that are putting weight on international competitiveness, it should be stressed that states, depending on their capabilities, often adopt flexible responses that may or may not necessarily conform to a particular form of state-type, for example that which is strongly penetrated by the forces of neo-liberalism. Scholte argue for example that some states

¹²⁶ Philip G. Cerny, ‘Structuring the political arena: Public Goods, States and Governance in a Globalising World’, In Ronen Palan (ed.), *Global Political Economy: Contemporary Theories*, (London: Routledge, 2000), p.22.

¹²⁷ Philip G. Cerny, ‘Globalization, Governance and Complexity’, In Aseem Prakash and Jeffrey A. Hart (eds.), *Globalization and Governance*, (London: Routledge, 1999), p.206.

¹²⁸ *ibid.*, p.199.

have been able to exert influence than others in global spaces.¹³⁰ Similarly, Jessop has suggested that, ‘...it is necessary to examine each state in its own terms rather than treat all capitalist states as identical because of their common foundation.’¹³¹

To further elaborate this point, some states would - within the limits of their capabilities - maintain both commitment to public welfare and promotion of domestic enterprise, for example through R&D support and a host of other incentives including financial, to promote competitiveness in the global market place. At least Cerny does acknowledge that, ‘Although each of these processes can be observed across a wide range of states, there are significant variations in how different Competition States cope with the pressures of adaptation and transformation.’¹³²

This notion of the competition state propounded by Cerny closely approximates Cox’s theorisation of internationalisation of the state. Cox characterises the internationalising state in terms of ‘the global process whereby national policies and practices have been adjusted to the exigencies of the world economy of international production.’¹³³

Much as the ‘Competition State’ has been nurtured by the global neo-liberal context, Cerny’s overly rigid association of the ‘Competition State’ with a neo-liberal state is deeply unsatisfactory as this ascribes homogeneity to all states. It also creates an unnecessary dichotomy between ‘welfare tasks’ and those sparked by competitive

¹²⁹ *ibid.*

¹³⁰ Jan Aart Scholte, *op.cit.*, p.135.

¹³¹ Bob Jessop, *op.cit.*, p.24.

¹³² Philip G. Cerny, *op.cit.*, 2000, p.32.

¹³³ Robert W. Cox, *Production, Power and World Order: Social Forces in the Making of History*, (New York: Columbia University Press, 1987), p.253.

impulses. States' economic behaviour is not always ideologically pre-figured, but can be a product of political compromises amongst social forces.

Yet, as suggested earlier, states assume different forms and may at times exhibit a strong developmental edge depending on their capabilities. Cerny's ascription of ideological identity to states hides marked varieties between states and unique ways in which they respond to global forces. It also misses a crucial point: that states do not always pursue their objectives on the basis of blind ideological commitment, but rather to achieve politically calculated objectives linked to domestic economic enhancement.¹³⁴

For example, Cox acknowledges that the process of internationalisation of the state '...results in different forms of states corresponding to the different positions of countries in the world economy.'¹³⁵ Similarly, Gamble cautions that the state should no longer be viewed in a reductionist and deterministic sense as wholly beholden to the interests of capital nor should they be viewed as enjoying 'absolute autonomy.'¹³⁶ The 'strategic' states, especially those in developing countries, in varying forms, manifest a strong developmental orientation.

¹³⁴ See T.J. Pempel, 'The Developmental Regime in a Changing World Economy', In Meredith Woo-Cummings (ed.), *The Developmental State*, (Ithaca: Cornell University Press, 1999), p.140.

¹³⁵ Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, (New York: Warner Books, 1992), p.252.

¹³⁶ Andrew Gamble, 'The New Political Economy', *Journal of Political Studies Volume XLIII*, 1995, p.524.

2.5.2 *Strategic States, Developmental States*

According to Pempel, developmental states ‘...define their missions primarily in terms of long-term national economic enhancement’, and that ‘...they actively and regularly intervene in economic activities with the goal of improving the international competitiveness of their domestic economies.’¹³⁷ This is distinguishable from the ‘regulatory’ state which is a hallmark of most developed economies and whose mission is defined primarily in terms of setting regulatory mechanisms for the benefit of market agents, and often regulates or manages tensions arising in the market place, or the plan-ideological state that was ubiquitous during the Stalinist era.¹³⁸

In its internal organisation, a developmental state approximates Johnson’s view of a plan-rational state which expresses a Weberian form of the state as opposed to say plan-ideological or market regulatory state.¹³⁹ A developmental state, according to Chang, focuses on long-term and structural change, and ‘politically’ manages the economy in such a way as to ease tensions that arise during restructuring, and develop institutional mechanism to achieve its goals.¹⁴⁰

Pempel offers a number of short-comings in how the notion of a developmental state has hitherto been applied. First, he contends that, ‘It privileges the political and economic role played by state bureaucrats’, and that the national bureaucracy is treated as ‘...totally depoliticised, socially disembodied, and in rational pursuit of a

¹³⁷ T.J. Pempel, *op.cit.*, p.139.

¹³⁸ Chalmers Johnson, *op.cit.*, 1982; Bruce Cumings, ‘Webs with no spiders, Spiders with no webs’, In Meredith Woo-Cummings (ed.), *The Developmental State*, (Ithaca: Cornell University Press, 1999), p.64; T.J. Pempel, *op.cit.*, p.139.

¹³⁹ Chalmers Johnson, *op.cit.*, 1982; Bruce Cumings, *op.cit.*, p.64.

self-evident national interest.¹⁴¹ The second observation he makes is that it is silent on questions related to ‘intranational political and economic conflicts’, and more specifically the socio-economic character of the developmental state.¹⁴²

Finally, he highlights the fact that theorisation on the developmental state tends to ignore the international context and focus on the domestic context, especially on such concerns as ‘...business organisation; allocation of scarce capital, energy resources, and technology; infrastructure development; tax credits; budgetary incentives; mass education; labour regulations; foreign direct investment and the like.’¹⁴³ While these dimensions are indeed characteristic of developmental states they are not in themselves exhaustive in defining what ultimately constitute a developmental state.

It is likely that states, moving from a certain implicit understanding of their role as developmental states, for example adopting some of the features of East Asian economies, may develop an approach which they consider most suited to their domestic context and is sensitive to global and regional forces. As noted in Chapter 1 for example, South Africa, although it would on the basis of the above-mentioned dimensions qualify as a developmental state, is broadly outwardly oriented and its regional and global strategies express a limited form of ‘embedded liberalism’. In essence, an international role of the state – and indeed its active participation in the processes of multilateral governance, including international trade – does not necessarily preclude a developmental role in its domestic context.

¹⁴⁰ Ha-Joon Chang, ‘The Economic Theory of Developmental State’, In Meredith Woo-Cummings (ed.), *The Developmental State*, (Ithaca: Cornell University Press, 1999), p.192.

¹⁴¹ T.J. Pempel, *op.cit.*, p.144.

¹⁴² *ibid.*, p.145.

¹⁴³ *ibid.*, p.146.

In short, a state can both be a developmental state on the basis of such traits as an insulated bureaucracy, pursuit of 'national interests', macro-economic improvements, increasing aggregate national wealth, enterprise development etc., and still project outwardly. As will be shown in Chapter 4, South Africa exhibits both dimensions. Or, to use Pempel's formulation in describing the 'modern state', 'It is like the mythological Janus, and has two faces. One looks inward toward domestic society; the other turns towards the international arena.'¹⁴⁴

2.5.3 *Strategic Trade Theories and Regionalism*

In general, strategic trade theories have emerged out of the dissatisfaction with classical accounts of comparative advantage based on natural endowments, and have mainly been in relation to government supply-side interventions, especially in support of high-tech industries in industrialised economies to enhance their international competitiveness. As suggested by James Brander, traditional trade theory, especially based on the Heckscher-Ohlin model, does not adequately account for high volume of trade between similar countries and thus fails to consider the existence of imperfect competition.¹⁴⁵ The emerging approaches, which counter traditional perspectives, are motivated by the view that, 'National prosperity is created, not inherited.'¹⁴⁶

¹⁴⁴ *ibid.*, p.147.

¹⁴⁵ James A. Brander, 'Strategic Trade Policy', *National Bureau of Economic Research (NBER) Working Paper No. 5020*, February 1985, p.1.

¹⁴⁶ Michael Porter, 'The Competitive Advantage of Nations', In Cynthia A. Montgomery and Michael Porter (eds.), *Strategy*, (Harvard: Harvard Business Review, 1991), p.135.

Laura Tyson, drawing on Michael Porter, contends that a nation's competitiveness in industries with strategic characteristics – that is high-technology sectors – ‘...is less a function of its national factor endowments and more a function of strategic interactions between its firms and government, and between them and the firms and the governments of other nations.’¹⁴⁷ However, as will be shown in this section, this perspective could be adapted to explain variable forms of state intervention in developing countries in ways that differ from 1950s and 1960s dirigisme.

The ‘strategic’ element of the state is most visibly expressed in how the state sets out domestic policy agenda in relation to global challenges, and how this is executed at the regional level. Regionalisation thus represents, for developing countries, a useful platform in engaging in strategic trade games. This is best illustrated in the case of South Africa, and is discussed in Chapters 4, 5 and 6. Looking at the actual policy activities of states, a degree of overlap between strategic trade, investment and industrial policies can be discerned.¹⁴⁸

The latter comes in the form of a set of policies designed to benefit domestic industries that are regarded as of crucial importance to increase the aggregate wealth of the country and assert its prestige in the global market place. Strategic trade policies are distinguished from governmental interventions in certain specific sectors – and this is a function of industrial policy. Strategic trade policy can be in the form of subsidies in a high-tech industry in the context of imperfect competition¹⁴⁹ or in

¹⁴⁷ Laura D’Andrea Tyson, *op.cit.*, p.3.

¹⁴⁸ See Peter Dicken (2nd ed.), *Global Shift: Internationalization of Economic Activity*, (London: Paul Chapman, 1992), p.150.

¹⁴⁹ Robert O. Keohane, ‘Bargaining, Institutions, and International Economic Relations’, In Paolo Guerrieri and Pier Carlo Padoan (eds.), *The Political Economy of International Cooperation*, (London: Croom Helm, 1988), p.32.

sectors which the state considers strategic to increase the national aggregate wealth. Both of these approaches are geared towards enhancing national welfare and global competitiveness of domestic firms.¹⁵⁰

As Peter Dicken notes:

‘States compete to enhance their international trading position and to capture as large a share as possible of the gains from trade. They compete to attract productive investment to build up their national production base which, in turn, enhances their international competitive position.’¹⁵¹

The case for a strategic trade policy as discussed in literature arises as a result of the existence of ‘imperfect’ or oligopolistic competition in world markets, and that a few actors in a particular industry are able to hive off ‘supernormal’ profits.¹⁵² ‘Supernormal profits’, as Grossman and Richardson suggest, are a common feature of imperfectly competitive environments.¹⁵³ This then becomes the basis for governments to intervene to influence strategic relationships between firms through injection of support in domestic industries that seek to enter the oligopolistic markets

¹⁵⁰ See for example, Stephen Krasner, ‘State Power and the Structure of International Trade’, In Jeffry A Frieden, *International Political Economy: Perspectives on Global Power and Wealth*, (London: Routledge, 2001), pp.20-21.

¹⁵¹ *ibid.*, p.149.

¹⁵² See Gene M. Grossman, ‘Strategic Export Promotion: A Critique’, In Paul Krugman (ed.), *Strategic Trade Policy and the New International Economics*, (London: MIT Press, 1986), p.48.

¹⁵³ Gene M. Grossman and J. David Richardson, ‘Strategic Trade Policy: A Survey of Issues and Early Analysis’, *Special Papers on International Economics No.15*, April 1985, International Finance Section, Department of Economics, Princeton University.

to gain a share of profit.¹⁵⁴ At one level, this is about strategies to enable domestic industries to capture market share and enhance profits. As originally developed, strategic trade theories were narrowly focused on trade policy in the context of oligopolistic industries in imperfect markets.¹⁵⁵

But this does not have to be motivated only by what exists out there in terms of 'supernormal profits'. More fundamentally, in the context of developing countries who are late starters, it can also be influenced by the long-term strategic considerations of the state regarding questions related to structural shifts in the domestic economy from natural (static) comparative advantages to dynamic (created) competitive advantage in high performing or potentially strategic export sectors in global markets – whether there are supernormal profits or not should not be of paramount concern.

The key concern is mainly with long-term 'economic prosperity' or development in the face of globalisation challenges and asymmetric competitive capabilities in global markets. It needs stressing that strategic trade and industrial policy measures are a state-interventionist mechanism which, contrary to the dirigisme practices, are built into an economic space broadly designed to favour market agents, and are oriented towards export promotion. James Brander, one of the pioneers of the strategic trade view, does acknowledge that the concept has also been broadened to refer to trade policy targeted '...towards industries that are thought to be important for some reason.'

¹⁵⁴ William Cline R., 'US Trade and Industrial Policy: The Experience of Textile, Steel and Automobiles', In Paul Krugman (ed.), *Strategic Trade Policy and the New International Economics*, (London: MIT Press, 1986), p.230; Jeffrey A. Hart and Aseem Prakash, *op.cit.*, 1999, p.250.

For developing countries the sectors that would enjoy strategic consideration by the state do not necessarily have to be high-tech sectors in the first place, although along the continuum when sufficient resources have been accumulated, the economy has undergone substantial transformation, and a greater competitive ground gained in global markets, high-tech sectors could also be targeted. In this sense, owing to technological deficiencies, developing countries are not usually first-movers in technological innovations¹⁵⁶, and thus would not be counted in strategic competitive moves in high-tech industries. This therefore creates a lacuna in strategic trade theories, which needs to be filled by understanding peculiar ways in which certain states in developing countries pursue strategic trade objectives in regional and global contexts.

In developing regions, where much of the consideration is with economic development, strategic trade and industrial policy approaches would thus aim at shifting comparative advantage along the continuum: from primary products to value-added manufactured products (with a mixture of labour and capital intensity), to capital-intensive and to knowledge intensity or a hybrid of the latter two. This structural shift is part of a departure away from natural to created dynamic advantage, and for its sustainability it requires change in the investment strategy in respect of human capital and R&D.

¹⁵⁵ See James A Brander, *op.cit.*; Douglas A. Irwin, *op.cit.*, pp.209-211.

¹⁵⁶ For a discussion on the technological differences between North and South, as well as inadequacy of Heckscher-Ohlin model in accounting for certain trade patterns, see Frances Steward, 'Recent Theories of International Trade: Some Implications for the South', In Henryk Kierzkowski, *Monopolistic Competition and International Trade*, (Oxford: Oxford University Press, 1989), p.88.

In this connection, Chang defines economic development as involving ‘...shifting of resources from such low-productivity activities as agriculture into high productivity activities like manufacturing.’¹⁵⁷ Although Chang’s conceptualisation of industrial policy is narrow,¹⁵⁸ structural shifts in the economy are often carried out through the instrument of industrial policy which, Amin and Tomaney argue, ‘...should be conceptualised as a bridge between global economic orientation and the local development needs’, and that it should be ‘system-centred’ rather than ‘firm-centred’.¹⁵⁹ Firm centred approaches could easily be susceptible to rent-seeking behaviour by certain interests, with enormous costs to the state.¹⁶⁰

For Chang, industrial policy is a ‘...policy aimed at *particular industries* (and firms as their components) to achieve the outcomes that are *perceived by the state to be efficient for the economy as a whole*.’¹⁶¹ This definition, with its emphasis on efficiency objectives of industrial policy, ignores the wider social context within which some countries pursue industrial policies. As will be shown in Chapter 4, Industrial policies in developing countries, and in South Africa in particular, is not a stand-alone policy objective, but embedded within national development objectives and is balanced with equity considerations.

¹⁵⁷ Ha-Joon Chang, ‘The Economic Theory of Developmental State’, In Meredith Woo-Cummings (ed.), *The Developmental State*, (Ithaca: Cornell University Press, 1999), p.196.

¹⁵⁸ Ha-Joon Chang, *The Political Economy of Industrial Policy*, (London: Macmillan, 1994).

¹⁵⁹ Ash Amin and John Tomaney, ‘The regional development potential of inward investment’, In Michael Storper, Savros B. Thomakis and Lenar J. Isipouri (eds.), *Latecomers in the Global Economy*, (London: Routledge, 1998), p.81.

¹⁶⁰ See Gene M. Grossman and J David Richardson, *op.cit.*, p.2.

¹⁶¹ Ha-Joon Chang, *op.cit.*, 1994, p.60.

A more flexible definition is employed by Chalmers Johnson.¹⁶² Johnson defines industrial policy as ‘the infusion of goal-oriented, strategic thinking into public economic policy’ and that it is ‘...a logical outgrowth of the changing concept of comparative advantage.’¹⁶³ Rather than ensuring a decisive break from, say, agriculture or other resource-based sectors and privileging manufacturing, these processes are seen in related terms.

The relationship between these two sectors, agriculture/resource-based and manufacturing, for example, are conceptualised in terms of backwards-and-forwards linkages where inputs from upstream processes or agricultural activities can facilitate value-added food-stuff processing activities or downstream manufacturing activities (see Chapter 4).

The strategies of state actors in developing countries could involve a complex set of policy measures which are directed not only at high-productivity sectors, but also small and medium enterprises as well as the use of government procurement as a form of industrial policy to discriminate in favour of domestic economic agents. Essentially, this strategy is designed to give domestic firms a competitive advantage in international markets and incentivise multinational corporations to invest in the country, with potential technology spill-over effects.¹⁶⁴ South Africa for example uses a panoply of support measures geared towards supporting domestic economic agents, creating incentive for enterprise development, and development of partnerships

¹⁶² Chalmers Johnson, ‘Introducing the Idea of Industrial Policy’, In David B. Audretsch (ed.) (Volume 1), *Industrial Policy and Competitive Advantage*, (Cheltenham: Edward Elgar, 1998).

¹⁶³ *ibid.*, p.8.

¹⁶⁴ See Jeffrey A. Hart and Aseem Prakash, ‘Strategic Trade and Investment Policies: Implications for the Study of International Political Economy’, *The World Economy*, Volume 20(4), July 1997, pp.457 – 471.

between domestic and foreign capital. These measures are pursued alongside equity goals (see Chapter 4).

International competitiveness is often associated with long-term domestic prosperity, social justice and international leadership.¹⁶⁵ For developing countries going through a phase of domestic restructuring, and here again South Africa is a relevant case, international competitiveness presents itself as a way out of marginality and into effective integration into the global markets and exercising influence in regional and multilateral structures of governance. South Africa's switch from import-substitution industrialisation to export-orientation in the early 1990s was an expression of determination to lock the economy into global markets. This is discussed in great detail in Chapter 4.

However, strategic trade approaches and industrial policies have drawn criticism for their reliance on the state, and they remain suspect amongst neo-classical economists.¹⁶⁶ Critics of industrial policies point out that the strategy of picking out 'winners' from 'losers' could distort price signals and create inefficiencies; and that strategic trade approaches could lead to all-out trade wars and encourage rent-seeking behaviour by domestic firms.¹⁶⁷

¹⁶⁵ See a forceful case for building a manufacturing economy in the US discussed by Stephen Cohen S and John Zysman, *Manufacturing Matters: The Myth of the Post-Industrial Economy*, (Washington D.C: Basic Books, 1987), p.3. At the core of their argument is that a service economy should be viewed as complementary rather than as a successor to a manufacturing economy. It is sometimes on the basis of these arguments that protectionism is justified in developed countries. This is often adduced in view of the rising tide of outward migration of jobs in the manufacturing sectors.

¹⁶⁶ See Jeffrey A. Hart and Aseem Prakash, *op.cit.*, 1997, pp.457 – 476.

¹⁶⁷ See J. David Richardson, 'The New Political Economy of Trade Policy', In Paul Krugman (ed.), *Strategic Trade Policy and the New International Economics*, (London: MIT Press, 1986), p.258.

These objections are less surprising. Neoclassical economists tend to cast the state as a villain and are cynical of its independent role in the market place. They view the state as ‘inherently corrupt’, lacks transparency, and ‘impede efficient allocation of resources.’¹⁶⁸ They are impervious to arguments that the state carries a potential to be an instrument for advancing social transformation or to play an ‘activist’ role for enhancing national competitiveness.

2.5.4 *Regionalism and Strategic Competitiveness*

As Gamble and Payne note, international competitiveness is seen as lying at the core of economic policy by strategic traders.¹⁶⁹ The current regionalist projects are, according to Gamble and Payne, all driven by strategic trade considerations: to protect strategic sectors in the economy and achieve international competitiveness.¹⁷⁰ A similar perspective is offered by Nesadurai. She suggests that regionalism is used as an instrument to help develop competitive domestic industries to give them advantage over their foreign rivals, and this would facilitate the creation of large markets for domestic industries.¹⁷¹

Also, Grugel and Hout assert that ‘region-building is overwhelmingly the result of a set of strategic calculations by actors located inside states and societies who push for

¹⁶⁸ Jeffrey A. Hart and Aseem Prakash, *op.cit.*, 1999, pp.252-253; See also Wyn Grant, *Industrial Policy*, (Edward Elgar Publishers: Aldershot, 1995). Grant surveys views on both sides of the debate on industrial policy.

¹⁶⁹ Andrew Gamble and Anthony Payne, ‘Conclusion: The New Regionalism’, In Andrew Gamble and Anthony Payne (eds.), *Regionalism and World Order*, (London: Macmillan, 1996), pp.251-252.

¹⁷⁰ Andrew Gamble and Anthony Payne, *op.cit.*, p.252.

¹⁷¹ Helen Nesadurai, ‘Globalisation and Economic Regionalism: A Survey and Critique of the Literature’, *CSGR Working Paper* No. 108/02, November 2002, p.22, www.csgr.org

integration as a way of positioning themselves in response to global change.¹⁷² It is clear that there are strategic considerations, pursued mainly by core states within regions, linked to the competitiveness of domestic industries and for projecting influence at the global level. Thus there is a mutually reinforcing and co-constitutive relationship between the domestic, the region, and the global or multilateral level processes.

2.6 Conclusion

There is no doubt that, building on the eclectic theoretical platform offered by NRA, innovative ways of studying new regionalism(s) can be explored. This is especially relevant to semi-peripheral or core countries within regional arrangements. The orthodox approaches do not provide adequate answers to some of the questions that state actors are confronted with, and fail to grasp the political economy use of regionalism in the face of globalisation. Orthodox approaches overlook the significance of regionalism, or its potential thereof, in acting as a powerful instrument in the hands of state or non-state actors to respond to globalisation and developmental challenges.

Innovative approaches that go beyond a one-dimensional inquiry regarding whether regionalism is a stumbling bloc or a building bloc to multilateralism are long overdue. The NRA has made a fruitful contribution to taking the research agenda on regionalism forward. It is more open-minded, pluralistic, and though recognising the role of the state it does not take it as a given but seeks to 'unpack' it.

¹⁷² Jean Grugel and Wil Hout, *op. cit.*, p.10.

However, NRA is becoming a dense theoretical field, without any boundaries. It can easily fall into the danger of becoming amorphous and overly flexible. Although it might be useful at a broader theoretical level to retain a flexible and eclectic approach, there needs to be more control and sub-branches that are able to understand different forms of regionalisms that are taking place at different levels, managed by diverse range of actors, and taking shape in different social and geographic configurations should be elaborated.

This chapter has argued that to reconcile certain empirical processes and theory it would be necessary to improve NRA. Thus this thesis suggests that for inter-state processes that are outward-oriented or striving to be such, and where core states are active in driving the regionalist processes for reasons linked to domestic competitive considerations, it might be appropriate to apply a precise and tight analytic framework – ‘strategic competitive regionalism.’

This is not necessarily contradictory with the core foundations of NRA approach. Rather, it complements it. Instead of having regionalist processes captured within the broad category of ‘new regionalism(s)’ these could perhaps be designated within specific branches, for example *informal regionalism approach*, *micro-regionalism approach*, or as used in this chapter, *strategic competitive regionalism*. The flexibility of the theoretical approach would not necessarily be compromised. Indeed, it could be retained through the use of comparative approaches, and be further enriched.

The next chapter looks at the evolution of regionalism in Southern Africa, trace its evolution from *old* regionalism in 1980 to the emergence of post-apartheid South Africa as a regional core state in 1994. This is a useful background in understanding the social relationships that have come to shape the contemporary regional relations in Southern Africa, and how South Africa has gradually embraced strategic competitive regionalism.

CHAPTER 3: The Political Economy of Southern Africa: A Historical Overview

Having located Southern Africa within the broader developmental challenges confronting Africa in the introductory chapter, and having already set out a theoretical landscape in Chapter 2, this chapter looks at the evolution of regionalism in Southern Africa between the 1980s and the 1990s. This period is formative in the emergence of what is today known as the Southern African Development Community (SADC). The significance of this period also lies in its association with episodic developments in the world system, namely the oil crisis and recession in major developed economies as well as the debt crisis affecting mostly developing countries. A number of other systemic developments, including the decline of the communist bloc and the ideational dominance of neo-liberal developmental paradigm, also occurred (see Chapter 1).

It was against the background of these shifts that new forms of externally-oriented regionalism flourished. Although sparked by different set of challenges, the evolution of SADC during this period was not immune to developments outside of the region. Since the organisation developed from an initial cooperation arrangement – Southern African Development and Coordinating Community – it has encountered difficulties as it tried to define itself in the brave new world of open regionalism, while at the same time contend with problems associated with old politics, especially those that were related to issues of internal security. SADC has thus suffered enormously from this hiatus – on the one hand caught up in the image of old regionalism and on the other struggling to integrate into global economic relations. There were also other unique sets of challenges confronting the region as the socio-political context within

South Africa was taking a new, positive turn, and the organisation would have to embrace the country as a new partner in regional relations.

This chapter is an overview of these challenges. It traces SADC from its initial seeds as a coordinating community in the early 1980s to its maturation as a fledgling regional integration initiative in the 1990s and beyond. Of particular interest is the nature that it assumed as a result of unique set of circumstances, especially the hideous reality of the apartheid rule in South Africa as well as the Cold War dynamics that were at play at the time. How the organisation transformed itself from a semi-autarkic regionalist structure inspired exclusively by political considerations, and reacting to South Africa's security-oriented foreign policy, to the one gradually embracing openness and engaged in economic integration.

3.1 The Formation of a Developmental Community: From SADCC to SADC

3.1.1 SADCC in Historical Perspective

The conception of the Southern African Development and Coordination Conference (SADCC) in the early 1970s was aimed at responding to unique set of circumstances related to socio-political realities in South Africa and the latter's increasing hegemonic encroachment in regional affairs. SADCC was finally inaugurated in April 1980. In its original intent, the organisation was not meant to be an economic integration vehicle nor was it designed to be a supranational body. From the outset, the organisation was less demanding of its members. Weight was accorded on

sovereign authority of national governments than on the principle of supranationality.¹ Indeed, having recently appropriated state power from colonial rulers, the new incumbents were reluctant to cede any part of it. As Anglin noted, ‘national sovereignty was fundamental to SADCC’s *modus operandi*.’² It is therefore less surprising that this logic, especially preoccupation with national interest and economic autonomy, is still pervasive in the current SADC.

The frontline states group that played a key role in the evolution of SADCC (precursor to SADC) include Botswana, Tanzania, Zambia, Angola, Mozambique, and Zimbabwe (the latter after attaining independence in 1979). Seretse Khama of Botswana, Julius Nyerere of Tanzania, Kenneth Kaunda of Zambia, and Samora Machel of Mozambique are postcolonial leaders who had gained great political stature in their countries and the sub-region and are often credited for pioneering regionalism and helped facilitate the establishment of SADCC. However, opinions differ as to exactly how the organisation came into being, with some observers arguing that the idea behind the formation of SADCC was born in Britain, London rather than in Tanzania, Arusha, and was later exported to the region (see below).³

When the organisation was finally established in April 1980, in Lusaka, there were three other countries – Malawi, Swaziland and Lesotho – who expressed interest, and this expanded the membership from the initial six frontline states to nine founder member countries of SADCC. The document establishing SADC, titled: ‘Southern

¹ Douglas G. Anglin, ‘Economic Liberation and Regional Cooperation in Southern Africa: SADCC and PTA’, *International Organisation*, Volume 37(4), Autumn 1983, p.709.

² *ibid.*, p.692.

³ See for example Margaret C. Lee, *The Political Economy of Regionalism in Southern Africa*, (Lynne Rienner: Boulder, 2003), p.48.

Africa: 'Towards Economic Liberation:' committed member States towards the following objectives⁴:

- reducing political dependence, particularly, but not only on the Republic of South Africa;
- forging links to create a genuine and equitable regional integration;
- mobilising resources to promote the implementation of national, interstate and regional policies;
- ensuring concerted action to secure international cooperation within the framework of our strategy of economic liberation.

The formation of the Front-line States (FSL), which was SADCC's antecedent, had a nominal approval of the Organisation of African Unity (OAU),⁵ and was seen as an important element in consolidating nation-building and strengthening the state after political independence. Building on this cooperation framework, countries in the sub-region began to deepen their level of cooperation to include the pursuit of social and economic development to be realised through SADCC. Active consultations amongst FSL countries in the mid -70s culminated in a meeting of Foreign Ministries of the FSL countries in Gaborone, in May 1979 where the initial outlines of a regional organisation were developed.

In July of the same year, another meeting of Ministers responsible for economic development was convened in Arusha, Tanzania, where a declaration for the

⁴ Douglas G. Anglin, 'SADCC After Nkomati', *African Affairs*, Volume 84 (335), April 1985, p.167.

establishment of SADCC was made.⁶ However, it is claimed in a document published by the Danish Foreign Ministry that the seeds for the establishment of SADCC were sown in London towards the end of the 1970s where a structure called Southern Africa Aid Coordination Conference (SAAC) was created.⁷ Indeed SADCC was viewed with suspicions by some African policy experts, especially those that were part of the United Nations Economic Commission for Africa (ECA); and regarded it as externally inspired and at counter purpose with the Lagos Plan of Action's objective of creating a continent-wide integration scheme.⁸ Similarly, Margaret Lee suggests that SADC was a brainchild of a Briton, David Anderson around 1978; and upon his return from Brussels he shared the idea with the influential Tanzanian President, Julius Nyerere – who is said to have diffused it in the region.⁹

The establishment of the organisation was finalised in April 1980, and this coincided with the grim events that were shaping the world economy, including recession, debt crisis and fall of commodity prices. Although in much of the Sub-Saharan Africa the formation of regional economic blocs was spurred by a political agenda set in accordance with the Lagos Plan of Action of 1980 - which called for the creation of African Common Market by the year 2000 – there were other realities that inspired

⁵ Thomas Ohlson, Strategic Confrontation versus Economic Survival in Southern Africa, In Francis M. Deng and William I. Zartman (eds.), *Conflict Resolution in Africa*, (Washington D.C: Brookings Institution, 1991), p.239.

⁶ SADC Secretariat, *The Southern African Development Community-SADC: History, Evolution and Current Status*, SADC Secretariat, Gaborone, 2003, p.2.

⁷ Tom Ostergaard, *SADC: A Political and Economic Survey*, Ministry of Foreign Affairs, Denmark, 1990, p.57; c.f. Douglas G. Anglin, 1983, *op.cit.*, p.685. Anglin suggested that David Anderson, EEC delegate in Maseru, Lesotho, was first to propose the idea of SADCC and he then consulted key decision makers in the region on the idea.

⁸ Reginald H Green, 'Economic Integration/Coordination in Africa', In James Pickett and Hans Singer (eds.), *Towards Economic Recovery in Sub-Saharan Africa*, ((London: Routledge, 1990), p.108.

⁹ Margaret C. Lee, *op.cit.*, p.48; Lee quotes Daniel Ndlela, whom she interviewed, who was the first black consultant to be hired by SADC.

the establishment of SADCC. And these related to the adversarial nature of political relations between South Africa and most of the Southern African region.

Thus SADCC's strategy was one of regional cooperation – primarily to act as a buffer against, and reduce dependence on apartheid South Africa - rather than as a regional economic integration mechanism. Harlov defines regional cooperation as 'a process whereby nation-states in common solve tasks and create improved conditions in order to maximise internal and external economic, political, social and cultural benefits for each participating country'; on the other hand regional integration is defined as 'a process through which a group of nation-states voluntarily in various degrees share each other's markets and establish mechanisms and techniques that minimise conflicts and maximise internal and external economic, political, social and cultural benefits of their interaction.'¹⁰

Regional cooperation also derived its political and moral force from the realisation that the majority of countries in the sub-region occupied a peripheral position that was juxtaposed to a relatively strong South African economy. Even though structurally South Africa's dominance seemed unassailable, SADCC countries were intent on denying it a legitimate political status in the sub-region, to treat it as a pariah, and thereby constraining its international diplomatic ambitions. The existence of the apartheid system within South Africa ensured that the country would be in a morally weak position in its regional foreign policy as well as in its diplomatic relations extra-regionally.

South Africa socio-political character and the policies that sustained it cast a frightening spectre across the region, and constituted a challenge that needed collective action to dislodge. Thus, South Africa provided an objective for the mobilisation of political elite in Southern Africa into a collective force, using the instrument of regionalism. Indeed, regionalism in Southern Africa during this period followed Hveem's notion of collective action problems, namely identity or conscious (political) construction of regions (see Chapter 2).¹¹ South Africa was regarded as an outsider in the sub-region – indeed it was viewed in the similar light as, if not worse than, former colonial powers. In this regard, it was seen as a key link in the more elaborate chain of imperialist establishment. Thus, some political commentators in the region suggested that de-linking was a political necessity in order to ensure autonomous economic development.¹²

However, SADCC countries were deeply integrated into the South African economy, and they could not afford a clean break from it. As noted by Hanlon, South Africa dominated the economies of Botswana, Lesotho and Swaziland – its partners in the Southern African Customs Union (SACU) – and had strong trade ties with Zimbabwe, Malawi and Zambia.¹³ The country absorbed most of the cheap migrant labour from neighbouring countries in particular from Mozambique and Lesotho to sustain its mining economy. According to Hanlon, in the 1980s South Africa absorbed about 275

¹⁰ Jens Harlov, *Regional Cooperation and Integration within Industry and Trade in Southern Africa*, (Aldershot: Ashgate, 1997), p.15.

¹¹ Helge Hveem, 'Explaining the Regional Phenomenon In an Era of Globalization', In Richard Stubbs and Geoffrey R D Underhill, (eds.), *Political Economy and the Changing Global Order*, (Oxford: Oxford University Press, 2000), p.71.

¹² Archie Mafeje, 'Food for Security and Peace in the SADCC Region', In Emmanuel Hansen (ed.), *Africa: Perspectives on Peace and Development*, (London: Zed Books, 1987), p.206. Ibbo Mandaza, 'Perspectives on Economic Cooperation and Autonomous Development in Southern Africa', In Samir Amin, Derrick Chitala and Ibbo Mandaza (eds.), *SADCC: Prospects for Disengagement and Development in Southern Africa*, (London: Zed Books, 1987), p.210.

000 legal migrant workers from the region: half of these were from Lesotho and nearly 60 000 originated in Mozambique.¹⁴

Furthermore, South Africa was a source of intermediary inputs and manufactured goods for most countries in the sub-region. Even though this reflected a core-periphery dynamic it represented something of inevitability for SADCC countries. Much as they projected a strong political opposition to South Africa, changing the nature of economic relations remained an intractable, if not an impossible challenge. In Davies and O'Meara's explanation these two factors – migrant labour and trade patterns – were indicative of the fact that 'South Africa's regional policy has thus been to ensure that neighbouring territories continue to serve South African capital in these ways.'¹⁵

3.1.2 Project Coordination as a basis of development

As noted earlier, Southern Africa was not immune to the systemic crisis in the mid-1970s through to the 1980s. The production structures of SADCC countries were not dissimilar to the rest of the continent, and the sub-region suffered as much from external shocks due to high commodity dependence. SADCC economies were very small and highly dependent on commodity exports, largely agriculture – which for the majority of countries accounted for over 90 percent of merchandise export receipts –

¹³ Joseph Hanlon, *Beggar Your Neighbours: Apartheid Power in Southern Africa*, (London: Catholic Institute for International Relations, 1986), p.2.

¹⁴ *ibid.*

¹⁵ Robert Davies and Dan O'Meara, 'Total Strategy in Southern Africa: An Analysis of South African Regional Policy since 1978', *Journal of Southern African Studies*, Volume 11 (2), April 1985, p.186.

and these were also subjected to unfavourable terms of trade in the world markets.¹⁶ As Mafeje notes, the economies of SADCC countries also experienced negative balance of payments owing to decline in the price of commodities in world markets.¹⁷

Angola's balance of payment position was adversely affected in 1981 owing to war and low prices for its three major export commodities – coffee, petroleum and diamonds; Botswana, in 1982, experienced balance of payments difficulties owing to the low prices and sales of diamonds; Malawi was seriously affected due to low prices for tobacco, sugar and tea; in Swaziland it was sugar cane and cotton that came under the strain of world price depression; Zambia's position was made unenviable by the depression of copper and cobalt price; Zimbabwe, witnessed price effects linked to tobacco, cotton and sugar cane commodities; and in Tanzania it was sugar and cotton that suffered badly.¹⁸ As Chapter 5 will demonstrate, nothing much has changed both in the terms of trade and in the structural features of these countries' economies.

In short, SADCC countries were also affected as part of Sub-Saharan Africa by the economic ills that visited themselves upon the world economy and, as noted previously, this was compounded by the narrow structure of production as well as domestic policy failures in most African countries (see Chapter 1). In line with the general paradigm that defined regionalism in much of Africa, the sub-region elevated the theme of development as one of the signifiers of its regionalist approach.

The urgency and the significance of regionalism became all the more pronounced

¹⁶ Archie Mafeje, *op.cit.*, p.190.

¹⁷ *ibid.*, p.185.

¹⁸ *ibid.*

with the systemic crisis and the concomitant economic decline. Continent wide, even before the onset of the crisis, regionalism was seen as a route towards overcoming social and economic challenges in the post-colonial period. As already set out in Chapter 1, this developmental strategy was largely politically driven and its general outlines was shaped by *dirigiste* interventionist measures, including import-substitution industrialisation and Pan-African ideology.

There was however no clear coordination or strong political oversight of the various integration projects across the continent. Each proceeded fairly autonomously depending on the perceived challenges in each sub-region. Rather than taking a functional integrationist route that would proceed along the neo-classical path starting with a free trade agreement and concluding with a political union, SADCC's programme of action traversed a different line: project coordination was its flagship strategy.

Indeed, SADCC constructed its developmental framework around specific projects that were regarded as of priority to the sub-region and correlated with various countries' economic challenges. This minimalist ambition was partly due to extreme preoccupation with political questions, particularly the need to reduce dependence on South Africa. There is no doubt that the political elite rather than the Secretariat – which was the bureaucratic structure of the organisation – played a more dominant role.¹⁹

It needs mentioning that a year after the establishment of SADCC, a new arrangement

¹⁹ Douglas G. Angling, *op.cit.*, 1983, pp.692-693.

whose objective was purely trade integration, was also established. This arrangement – the Preferential Trade Agreement (PTA) of East and Southern African countries (which would later on become COMESA and rival SADC) – was established in 1981 in Lusaka. Zambia as part of the continent wide vision pursued by the United Nations Economic Commission for Africa (ECA) and the OAU as part of expediting a continent-wide common market by 2025; and was given political legitimacy by the Lagos Plan of Action in 1981 and the 1991 Abuja Plan.²⁰ It was clear from the outset that rivalries between these two organisations, occupying more or less similar geographic spaces, would be unavoidable. As Anglin notes, ‘Whereas PTA was an example of painstaking development from below, SADCC was much more a deliberate act of political will, carrying the personal imprimatur of its presidents and prime ministers.’²¹

However, this co-existence was successfully managed to a point. There was an implicit understanding that SADCC would not engage in trade integration which was PTA's territory. Given the fact that initially five (and later six) SADCC members were also members of the PTA, it was therefore important that duplication of functions and rivalries be avoided. SADCC would focus on project cooperation and the political agenda regarding isolating South Africa; and the PTA would proceed with market integration that would culminate into a common market. However, as it would be the case much later when SADCC was transformed into SADC and decided to pursue market-led regional integration, this accommodation began to unravel and intra-regional tensions, mainly between COMESA and SADC, accentuated (see Chapter 5). Given the complex history of these two organisations, COMESA will not be dealt

²⁰ Jens Harlov, *op.cit.*, p.117.

with in detail in this thesis, allusions will be made on areas that are of relevance to the case study under examination.

As part of leveraging their collective strategy and generate economic benefits out of cooperation, SADCC countries set out to work on sectoral programme. This was a minimal approach to development and taking a step away from relying too heavily on South Africa. According to the programme of action that would encapsulate specific projects each country would be responsible for coordinating a sector into which donor funding would be channelled. There were twelve sectors that were identified as constituting this programme of action (See Table 3.1 below):

²¹ Douglas G. Anglin, *op.cit.*, 1983, p.685.

Table 3.1: SADCC's Programme of Action

SADCC Programme Sector	Country
Energy	Angola
Food security	Zimbabwe
Agricultural research	Botswana
Livestock production and animal disease control	Malawi
Fisheries, forestry and wildlife	Lesotho
Soil and water conservation and land utilisation	Zambia
Mining	Zambia
Industry and trade	Tanzania
Transport and communications	Mozambique
Tourism	Lesotho
Manpower development	Swaziland

Adapted from Tom Outegaard, 1990, p.58.

Transport and communications infrastructure were the main pillars of regional cooperation. Under transport, projects included the rehabilitation of railway line from Ncala to the Mozambican border and of the Botswana railway; roads upgrading in Lesotho; roads building in Tanzania; increasing the capacity of Beira and Maputo

port; and building a new terminal facility at Harare airport.²² Given South Africa's dominance of the transport routes between the region and other international destinations, the main focus of SADCC strategy, according to Gelb, '...was developing transport and communications infrastructure networks which did not have South Africa as a hub.'²³

The railway line established during the colonial era had structured a highly dependent relationship between South Africa and other countries that were previously under colonial rule in the region. For example, a South African company controlled most forwarding of imports and exports, and South Africa would at times use its dominance to punish neighbouring countries who were deemed hostile by subjecting them to embargoes, border closure and rail and port delays.²⁴

South Africa's railways and seaports were crucial for the flow of trade of neighbouring countries, thus '...the economic livelihood of many African states depended on links which the Apartheid regime could cut whenever it liked.'²⁵ It is these infrastructural linkages, anchored on South Africa, that SADCC member states sought to sever and create capacities that would ensure collective self reliance outside South Africa's purview. Some of the landlocked countries – Lesotho, Swaziland, Tanzania, Zambia and Malawi - are to be found in Southern Africa, and it was believed that the sectoral cooperation approach would be of greater value to them in

²² Christopher R. Hill, 'Regional Cooperation in Southern Africa', *African Affairs*, Volume 82 (327), April 1983, p.215; Robert M. Price, 'Pretoria's Southern African Strategy', *African Affairs*, Volume 83 (330), January 1984, p.224.

²³ Stephen Gelb, 'Africa and NEPAD', *A Report prepared for the UK Department for International Development (DFID)*, Johannesburg: Edge Institute, 2002, p.9.

²⁴ Joseph Hanlon, *op.cit.*, pp.2-3.

²⁵ Africa Today, (3rd eds.), *The Southern Africa Development Community (SADC)*, (London: Africa Book LTD, 1997), p.82.

terms of providing the critical linkages needed to access external markets.

Countries such as Mozambique that had the potential to facilitate transport linkages for trade in the region came under a severe destabilisation programme by South Africa. The scope for developing viable transport networks independent of South Africa was thus significantly narrowed. This rendered one of SADCC's main objectives – that of de-linking from South Africa – virtually impossible to achieve under the circumstances. The sectoral strategy in the sub-region was not optimal and far less capable of achieving its core objective of de-linking from South Africa and encouraging self-sufficiency across SADCC.

The weakness of SADCC's sectoral approach was also manifest in one important respect: it created a perverse situation where the political elite in the regional integration project became preoccupied with the domestic agenda at the expense of regional cooperation. This was further compounded by a lack of strong institutional capacity and gradual loss of commitment by political elite in regional cooperation project. Regional solidarity began to slowly ebb away as domestic considerations and 'national interests' took hold. Its importance was only in so far as countries were going to leverage it for their individual material benefits.

3.1.3 SADCC's External Dependence

While this sector-based approach provided state actors across the sub-region with a sense of common purpose and an objective around which their expectations of the future could converge, it however betrayed serious shortcomings. In addition to those

already set out previously, one other short coming was with regards to its over-reliance on donor support. Every year SADCC would convene a consultative conference where governments and donor agencies would make financial pledges to support various projects; and the European Economic Commission (EEC) was the major source of funding.²⁶ These pledges were not made directly to the SADC Secretariat in Botswana, but to individual governments after the donors had decided which projects they wanted to fund.²⁷

In the late 1980s, within a decade of its establishment, SADCC had already received about US\$6.3 billion and with 490 projects under its command.²⁸ As Mkandawire noted, SADCC was the only regional scheme in Africa to receive so much attention from external donors.²⁹ Mkandawire suggests that external involvement fulfilled two purposes: first it ensured that the radical impulses within SADC were kept in check; and second, it had strategic importance for the European countries in particular in terms of ensuring stability and predictability in the region; and ensuring accessibility of the region to capital for markets and raw materials.³⁰

More than two decades after SADCC was established there is still strong donor interests in SADC's activities and the UK's Department of Foreign and International Development (DfID) plays a key role in sustaining SADC's existence. Donors,

²⁶ Douglas G. Anglin, *op.cit.*, p.177.

²⁷ Margaret C. Lee, *op.cit.*, p.50.

²⁸ Tom Ostergaard, *op.cit.*, p.59.

²⁹ Thandika Mkandawire, 'Dependence and Economic Cooperation: The Case of SADCC', In Emanuel Hansen (ed.), *Africa: Perspectives on Peace and Development*, (London: Zed Books, 1987), p.165.

³⁰ *ibid.*, pp.167-168.

according to DfID's Regional Trade and Integration advisor, devote substantial sums of money and technical assistance to Secretariats of regional integration schemes.³¹

This has always created perpetual dependency and inevitably tended to direct regional projects along donor preferences.³² This dependence tore into the heart of SADCC's 'radical' programme to de-link from the external world, and it exposed this vision as seriously lacking in substance. Furthermore it helped to render SADCC strategically weak and lacking a deep sense of purpose and vision for the future.

3.2 SADCC and South Africa: Sources of Regional Tensions

Tense relations between South Africa and the sub-region go as far back as the 1960s, and by the 1990s these had reached a nadir. In discussing the nature of these relations, Davies has pointed out that the period between 1960 and 1990 exhibited weakening of links between South Africa and the surrounding region.³³ Some of the features of this relationship, as Davies has noted, include increased political incompatibility between apartheid South Africa and independent states in the region; import restrictions caused by South Africa's import substitution policies; and the effects of South Africa's destabilisation agenda in the sub-region.³⁴ Among these, the destabilisation agenda seem to have had the most deleterious impact on the overall nature of political

³¹ Helena McCleod, 'Regional Integration and the Role of Donors', In Dirk Hansohm, Willie Breytenbach and Trudi Hartzenberg, *Monitoring Regional Integration in Southern Africa*, (Windhoek: Gamsberg Macmillan, 2003), p.225.

³² Christopher R. Hill, *op.cit.*, p.215; Robert M. Price, *op.cit.*, p.228.

³³ Rob Davies, 'Building A new Relationship in Southern Africa: The Challenge Facing South Africa's Government of National Unity', In Bjorn Hettne, Andras Inotai, and Osvaldo Sunkel (eds.), *Globalism and The New Regionalism* (London: London, 1999), p.266.

³⁴ *ibid.*

relations between South Africa and sub-regional states and had wrought destruction in Southern Africa's social and production structures.

The effects of South Africa's past policies in the region are still evident. Indeed these effects run deep and, to a considerable extent, complicate regional relations as negative perceptions of South Africa still abound, even after apartheid has ended. This also seems to have had a remarkable effect on post-apartheid South Africa's confidence in projecting leadership in the region.

As will be shown in Chapter 5, negative perceptions generated during this period continue to play themselves out in the contemporary relations between South Africa and most SADC countries. This is made all the more complex by the state of near permanency in the structural differences between South Africa and the rest of the sub-region. The next section will look at the exact nature of South Africa's regional strategy, its twin pillars of constellation approach and destabilisation programme, as well as the role of external players in the sub-region.

3.3 South Africa's Regional Strategy

It is important to emphasise that South Africa's regional strategy was shaped mainly by domestic socio-political considerations and, to some degree, the frustration created by international isolation. A clear regional approach linked to these two considerations first surfaced mid-1970s through what became known as 'Total

National Strategy'.³⁵ The objective of this strategy was mainly to safeguard the survival of white minority rule and ensure greater security at its borders.

This was initially sparked by interlinked developments emanating from within the domestic socio-political context as well as from the wider region. First, there were South Africa's liberation movements – the African National Congress (ANC) and the Pan Africanist Congress (PAC) - nestling in neighbouring states and launching cross-border attacks against Pretoria's interests, including military and other identified symbols of apartheid.

Second, as Price has suggested, there were suspicions on the part of Pretoria regarding the motives of neighbouring states, especially the possibility that they could mobilise conventional military attacks. Such phantoms were reinforced by Deon Geldenhuys, an academic who had strong links with the apartheid administration, and had counselled on means in which South Africa could effectively carry out its regional destabilisation in order to stave off potential attacks from its neighbours.³⁶

South Africa's anxieties were heightened by the mutual defence pact between front-line states in the early 1970s.³⁷ Cuba's military presence and the Soviet's military succour to liberation movements in the sub-region further aggravated these apprehensions. Cuba and Soviet's military assistance was mainly channelled towards the Marxist-oriented MPLA in Angola and FRELIMO in Mozambique – both liberation movements until the dawn of independence in 1974.

³⁵ According to Joseph Hanson the concept of total strategy was coined by a French General, Andre Beaufre, whose writings inspired PW Botha. See Joseph Hanlon, *op.cit.*, p.59.

³⁶ See Joseph Hanlon, *op.cit.*, pp.29-31.

In response both to domestic threats and those perceived to be emanating from the region, P.W. Botha, the then Minister of Defence – and later South Africa's President – mooted a 'Total National Strategy' in 1977. The external threat perceived by South Africa, including the Soviet influence in the region, the existence of liberation movements across a number of regional bases and the rise to power in Angola and Mozambique of Marxist-oriented political parties was viewed as constituting a 'total onslaught' to undermine white rule in South Africa.³⁸ This was also framed, as suggested by Hanlon, as '...a specifically communist plot to overthrow white rule in South Africa.'³⁹ According to Barber and Barrat, 'The concept of the Total National Strategy (TNS) reflected Botha's view of security as a critical consideration in foreign and domestic policies.'⁴⁰

Essentially, as Price has observed, South Africa's foreign policy preoccupation was with 'the protection of the country's unique socio-political order from external threat.'⁴¹ This socio-political order was under-girded by certain patterns of state-capital relations, which included complex sets of relationships between parastatal corporations and domestic and foreign corporations,⁴² completing what Jessop characterises as 'state monopoly capitalism'.⁴³ For example, Calinicos points out that state corporation dominated sectors such as: iron and steel (ISCOR), electricity (ESCOM), coal and oil (SASOL), oil refining (NATREF), aluminium (Alusaf), and

³⁷ Robert M. Price, *op.cit.*, p.13.

³⁸ Tom Ostergaard, *op.cit.*, p.51

³⁹ Joseph Hanlon, *op.cit.*, pp.7-8.

⁴⁰ James Barber and Jane Barrat, *South Africa's Foreign Policy: The Search for Status and Security 1945 – 1988*, (Cambridge: Cambridge University Press, 1990), p.253.

⁴¹ Robert M. Price, *op.cit.*, p.11.

⁴² Vella Pillay, 'Rising Cost of Apartheid: The Economic Crisis', Phyllis Johnson and David Martin (eds.), *Destructive Engagement: Southern Africa at War*, (ZPH/SARDC, 1986), p.222.

Industrial Development Corporation which was active in many sectors.⁴⁴ This thesis will not get into detail in discussing the constellation of social forces within South Africa, especially the relationship between the state elite and business during this period so as not to lose the broader context within which Botha's regional policies evolved.⁴⁵

Botha's 'total national strategy' was, it must be emphasised, strongly linked to the economic logic of the apartheid system and the internal security strategy to limit domestic political activities and uprisings, especially in the wake of the Durban strikes in 1973, the political uprisings in Soweto in 1976, and intimations of a possible armed 'insurrection' generated by the ANC military wing in exile working with underground networks within the country.

As Ostergaard has argued, this total strategy was designed to maintain white rule in South Africa by eroding external support for the liberation movements; secure recognition of South Africa's hegemony in the region; thwart attempts by SADCC countries to lessen their economic dependence on South Africa, and destroy the image of non-racial states in the SADCC region as a model for South Africa.⁴⁶ There were two main pillars that characterised it: The first entailed a soft dimension aimed at

⁴³ Bob Jessop, *The Capitalist State: Marxist Theory and Meditations*, (Oxford: Blackwells, 1982), p.14.

⁴⁴ Alex Calinicos, *Southern Africa After Zimbabwe*, (London: Pluto Press, 1981), p.86.

⁴⁵ For a good discussion on this see Alex Calinicos, *op.cit.*, p.114. Calinicos highlights the linkages between the military and big business in sustaining South Africa's regional strategy, p.114; Tim M. Shaw discusses South Africa's industrial-military complex in the context of sustaining the white minority rule in South Africa and the importance of this complex in the regional and international strategy, Timothy M. Shaw, 'South Africa's Role in Southern Africa in the Year 2000', In Olajide Aluko and Timothy M. Shaw (eds.), *Southern Africa in the 1980s*, (London: George Allen & Unwin, 1985). For a detailed critique on the nation-state centric literature on Southern Africa, see Ibrahim S.R. Mbasaha and Timothy M. Shaw, 'Southern Africa Before and After Nkomati', In Ibrahim S.R. Mbasaha and Timothy M. Shaw (eds.), *Confrontation and Liberation in Southern Africa*, (London: Westview Press, 1987).

⁴⁶ Tom Ostergaard, *op.cit.*, p.52.

structuring a region-based alliance – 'Constellation' - and the second was in the form of destabilisation.

3.3.1 *Constellation of Southern African States*

The growing international isolation of South Africa in the 1970s and pressure to reform its domestic politics placed the Nationalist regime on the defensive. This isolation was gnawing at its diplomatic image and, compounded by growing domestic insecurity, pushed South Africa to seek greater realignment in regional politics. This, it was hoped, would help redeem South Africa's image in the eyes of the international community, especially western countries.

South Africa was keenly aware of the difficulties of endearing itself with western countries when the domestic political situation remained sullied by its apartheid policies. Furthermore, as Hanlon observed, South Africa wanted to use the sub-region as a useful export market for its industries in order to attain self-sufficiency in the face of international isolation.⁴⁷

Against this background, South Africa sought to construct a regional cooperation framework that was defined primarily in terms of its interests. Thus a constellation of Southern African states (CONSAS) first mooted by Prime Minister B. J. Vorster in 1974 was seized upon and pursued with great enthusiasm by P. W. Botha when he became President in 1979.⁴⁸ This was designed to be a carrot that would draw

⁴⁷ Joseph Hanlon, *op.cit.*, p.2.

⁴⁸ Christopher R. Hill, *op.cit.*, p.14.

neighbouring states into South Africa's political orbit, and provide the basis for intra-regional economic relations centred on South Africa's ideology. Thus it would also allow South Africa a greater political and economic leverage on the region, while at the same time shoring up its diplomatic image abroad.

According to Davies and O'Meara, the constellation approach ran from the end of 1979 until mid 1980.⁴⁹ South Africa calculated that a constellation would achieve both political ends and economic objectives. The economic dimension was important, particularly so in view of the pangs experienced by the domestic industry due to the contraction of the internal market. This strategy was also linked to the consolidation of domestic capital-state relations, and received the support of white business community in South Africa.⁵⁰

Zimbabwe, as Davies and O'Meara suggested, would have been the key country in constructing this constellation, and countries such as Malawi and Swaziland – both cooperating with South Africa – would have been the next targets.⁵¹ Botha's plan to create a constellation was scuppered by Zanu-PF's victory in the polls in 1980, which also witnessed Mugabe's ascendance to power. As noted by Calinicos, 'Zimbabwe delivered an apparently fatal blow to his [Botha's] plan to create '...a constellation of states dominated by Pretoria in Southern Africa.'⁵² Mugabe would later play a central role in SADCC politics, leading anti-apartheid efforts in the sub-region. The

⁴⁹ Robert Davies and Dan O'Meara, *op.cit.*, p.196.

⁵⁰ Christopher R. Hill, *op.cit.*, p.216.

⁵¹ Robert Davies and Dan O'Meara, *op.cit.*, p.196.

⁵² Alex Calinicos, *op.cit.*, p.111.

establishment of SADCC in April 1980 finally put paid to South Africa's constellation initiatives.⁵³

Had South Africa succeeded in normalising its relations with neighbouring countries it would have made significant strides towards enhancing its international image, both politically and for its domestic capital.⁵⁴ Even though Southern Africa was of immediate strategic importance to South Africa there was a strong desire by Botha to court black African states further north of the sub-region.

The apartheid regime was aware that failure to court its neighbours and charm the wider continent would deprive it of an opportunity to assert itself in the international system, and that this would have guaranteed its isolation for many years to come. In view of the fact that by the mid-80s South Africa's economy had reached a crisis point, worsened by outflows of capital and sanctions, South Africa had to rethink its internal project and regional strategy.⁵⁵ Considerations of political sustainability of the apartheid regime and the competitiveness of its economy weighed heavily on South Africa's state actors. There is no doubt that South Africa had a strong urge to achieve international recognition via a regional strategy and play an important role in the international system.⁵⁶

In this respect there are important parallels or continuities between the apartheid and the post-apartheid state's regional strategy. In the post-apartheid era, South Africa's global strategy is linked to a strong regional role and building of common approach

⁵³ *ibid.*, p.197.

⁵⁴ *ibid.*, p.217.

⁵⁵ See an insightful discussion by Vella Pillay, *op.cit.*, pp.223-224.

with its regional partners, and expresses strategic competitive regionalism (see Chapters 5 and 6). The discontinuity lies in the fact of a changed (apartheid) social milieu, absence of the Cold War and emergent realities associated with globalisation. Under Botha, South Africa saw the region as a centre-piece towards attainment of larger diplomatic stakes in international relations; under the ANC government the same logic is apparent (see Chapters 5 and 6).

As Mwase and Maasdorp have noted:

‘The RSA’s thrust under de Klerk was the development and consolidation of trade links with key African countries’ growth poles and through them the zones: Kenya (East Africa), Egypt (North Africa), Nigeria (Anglophone West Africa) and Cote d’Ivoire (Francophone West Africa). This growth centres’ strategy was a pointer to Pretoria’s determination to go beyond the SACU/SADC/COMESA sub-region in pursuit of wider African markets, replacing in some cases European and North American suppliers.’⁵⁷

This observation by Maasdorp and Mwase has curious parallels with the current South Africa’s foreign economic strategy. The Department of Trade and Industry ‘Global Economic Strategy’ state for example that: ‘We have identified Nigeria, Algeria, and Egypt as key countries with whom we will need to collaborate closely in pursuing our

⁵⁶ See Robert Davies and Dan O’Meara, *opcit.*, pp.184-211.

⁵⁷ Gavin Maasdorp and Ngila Mwase, ‘The Southern African Customs Union’, In Ademola Oyejide, Ibrahim Elbadawi and Sephen Yeo, *Regional Integration and Trade Liberalization in Sub-Saharan Africa*, (Volume 3), (London: Macmillan, 1999), p.242.

African agenda.⁵⁸ The main thrust of this strategy is to be Africa-wide in pursuing political and economic relations and is part of South Africa's strategic competitive regionalism (see Chapters 5 and 6). This would be predicated on building strong diplomatic relations in the wider Africa region and projecting a strong regional power image in global affairs.

When South Africa's efforts to court regional states during apartheid failed, it recoiled behind its immediate sphere of influence: the 'independent homeland states', and formed a much diminished constellation pact with them. These homeland states were Transkei, Bophuthatswana, Venda and Ciskei (TBVC). These hardly had international recognition as states.⁵⁹ It was a chimera created to serve the insatiable political needs of the South African state as well as to soothe its insecurities. It was also against this complex background that SADCC emerged. In its first appearance, the organisation was dubbed '...counter-constellation – a designation that in itself reflects the black state's opposition to South Africa's proposed constellation.'⁶⁰ Furthermore, South Africa shifted from a softer to an aggressive line in its regional strategy.

3.3.2 *The Destabilisation Programme*

In order to stave off potential revolt – either domestically or from outside or both – against the apartheid state, Pretoria embarked on a systematic destabilising campaign targeting specific countries it deemed hostile. It frantically searched for the military bases of liberation movements in neighbouring countries with a view to demoralising

⁵⁸ Faizel Ismail, Xavier Carim and Peter Draper, *South Africa's Global Economic Strategy: A Policy Framework and Key Elements*, DTI, Pretoria, 2000.

⁵⁹ See Joseph Hanlon, *op.cit.*, p.37-43.

and completely eliminating them. According to Davies and O'Meara, targeted countries were grouped into three categories: conservative states who were seen as potential collaborators; those considered to be the most vulnerable to pressure; and those seen as constituting a challenge to South Africa.⁶¹

Countries on the first tier included Swaziland and Malawi, and these were offered incentives of various sorts, including direct financial payments and economic concessions. Swaziland is said to have been offered a payment of R50 million as part of the customs union agreement in the early 1980s, and it secretly signed a 'Non-Aggression Pact' with South Africa, locking it into South Africa's objectives of eliminating 'terrorism and subversion'.⁶² This therefore meant that South Africa's liberation movements or any political activity linked to them would not be tolerated in these territories.

Countries that fell on the second and third tiers included Lesotho, Mozambique and Angola. These came under severe military harassment by South Africa, especially intensifying between 1979 and 1983.⁶³ The application of the destabilisation programme also entailed cross-border attacks by South Africa targeted at ANC members living in these countries; economic coercion in the form of restrictions imposed on the movement of goods; and direct support offered by South Africa to insurgent activities in Angola and Mozambique.⁶⁴

⁶⁰ Deon Geldenhuys, *op.cit.*, p.41; Christopher R. Hill, *op.cit.*, p.223.

⁶¹ See Robert Davies and Dan O'Meara, *op.cit.*, p.199.

⁶² *ibid.*, p.200.

⁶³ See Robert Davies and Dan O'Meara, *op.cit.*, pp.199-200.

⁶⁴ *ibid.*

The sub-region was, in South Africa's view, an extension of its internal security programme. In this understanding, the domestic and the sub-regional were two faces of the same reality. Internally, the South African state was highly militarised and this spilled over into the region in the form of destabilisation programme. An important aspect of South Africa's defence policy, as observed by Ohlson, was to increase capacity for military intervention in the region, and this was ostensibly done to limit Soviet influence.⁶⁵

It is estimated that between 1980 and 1988 the total regional cost of South Africa's destabilisation amounted to US\$60 billion, measured in GDP losses, with about a million deaths and millions displaced.⁶⁶ This is said to have been about three times the gross external resource inflows in the form of grants, soft loans, export credits and commercial loans over a nine year period.⁶⁷ For Angola alone the loss of South Africa's aggression stood at US\$10 billion.⁶⁸

These costs have been unevenly distributed in SADC with a large proportion shouldered by Angola and Mozambique. Both countries had about 1.5 million people displaced as refugees in other countries.⁶⁹ In his presentation before the United Nations conference in 1988, Robert Gersony, the U.S. State Department official, described South Africa as having produced '...a systematic and brutal war of terror against innocent civilians through forced labour, starvation, physical abuse and

⁶⁵ Thomas Ohlson, *op.cit.*, p.224.

⁶⁶ Tom Ostergaard, *op.cit.*, p.51; Margaret C. Lee, *op.cit.*, p.46.

⁶⁷ Tom Ostergaard, *op.cit.*; Joseph Hanlon, *op.cit.*, p.1.

⁶⁸ People's Republic of Angola, *White Paper on Acts of Aggression by the Racist South African Regime Against the People's Republic of Angola*, (Luanda, 1983), quoted in Robert Davies and Dan O'Meara, *op.cit.*, p.202.

⁶⁹ *ibid.*

wanton killing...one of the most brutal holocausts against ordinary human beings since World War II.⁷⁰

The systematic destruction of transport routes to Beira and Ncala in Mozambique forced countries to rely on South Africa for transit of goods, with the resulting net loss to Mozambique of about US\$1.5 billion in transit traffic revenue.⁷¹ For Malawi, 75 percent of its overseas traffic was routed through South Africa; it was 50 percent for Swaziland; and almost 40 percent of Zimbabwe; Botswana and Lesotho depended entirely on South Africa.⁷² Other costs included loss and deferred economic development, and this is estimated at US\$2 billion.⁷³

Arguably, it is on the basis of these costs that a number of SADCC countries would later expect a democratic South Africa led by the ANC to be more generous and less self-serving in its economic relations with the rest of the sub-region (see Chapter 5). Indeed, as Ahwireng-Obeng and McGowan have noted, 'There is a moral obligation for the new South Africa to engage Southern Africa in a positive manner.'⁷⁴ As discussed in Chapter 5, these expectations turned into bitter disappointment as South Africa, post-apartheid, became pre-occupied with its own domestic challenges, global interests and neo-mercantilist pursuit *vis-à-vis* the sub-region.

⁷⁰ quoted in *ibid.*, p.52.

⁷¹ *ibid.*, p.54.

⁷² *ibid.*, p.53.

⁷³ Joseph Hanlon, *op.cit.*, p.2.

⁷⁴ Fred Ahwireng-Obeng and Patrick J McGowan, 'Partner or Hegemon? South Africa in Africa', (Part 1) *Journal of Contemporary African Studies*, Volume 16 (1), 1998, p.12.

3.3.3 *The role of external forces in Southern Africa*

Some commentators have suggested that during this period, especially in the 1970s and 1980s, South Africa played a 'sub-imperial' role on behalf of western interests in the sub-region.⁷⁵ While the formation of SADCC cannot be understood apart from the Cold War superpower rivalry – indeed South Africa was well positioned in these rivalries in Southern Africa – there is no sufficient basis to make a strong claim that it was acting purely as a proxy in this ideological battle. Indeed South Africa had its own interests and this counted weightily in defining its regional strategy.

This is not to suggest that South Africa had no strategic relations with the US, but the primacy for South Africa's strategy would seem to have been on its socio-political agenda at the domestic level. And yet the character of the South African state and its (regional) foreign policy blended well with US's interest in the region, especially its objective of repelling 'communist' influence and limiting the sprouting of anti-western revolutionary movements. In this regard, South Africa and the US could be characterised as travellers on the same path and reinforced each other at the intersections of their purposes. South Africa was always ready to invoke the spectre of communist expansion in the sub-region in order to gain western sympathies for its regional strategy.

Quite evidently, during this period the political developments in Sub-Saharan Africa were to a considerable degree shaped by super-power rivalries – and in the sub-region South Africa was an important US ally (and not so much a 'sub-imperial state') in this

⁷⁵ Ibbo Mandaza, *op.cit.*, p.226.

rivalry. Africa's position as a strategic chessboard, as well as contending views on the extent of Southern Africa's importance in this tension, is well documented in African literature.⁷⁶ Mandaza quotes a telling address by Chester Crocker who was responsible for US Africa Policy:⁷⁷

'The Reagan administration recognizes that Africa is a region of growing importance to U.S. global objectives – economic, political strategic, human and so forth. We cannot afford to neglect a region where our interests are so clearly growing and I would simply refer here in passing to the obvious factors of our long history of involvement with Africa: to the many links of culture and blood that ties an important portion of our own citizenry to Africa; to our growing import-dependence on fuel and non-fuel minerals produced in Africa, to Africa's growing role as an actor in World politics.'

US strategic approach towards Africa was clearly to deter the perceived growing influence of 'communism' and to tighten regional security to safeguard US interests as it regarded Africa as its sphere of influence.⁷⁸ This is where a common cause was to be nurtured between South Africa's political objectives and those of the US. The

⁷⁶ Michael Chege, 'Sub-Saharan Africa: underdevelopment's last stand', In Barbara Stallings, *Global Change, Regional Response: The New International Context of Development*, (Cambridge: Cambridge University Press, 1995); Bernard Magubane and Ibbo Mandaza (eds.), *Wither South Africa*, (New Jersey: Africa World Press, 1988); Sam C Nolutshungu, 'South African State and Africa', In Bernard Magubane and Ibbo Mandaza I, *Wither South Africa*, (New Jersey: Africa World Press, 1988); Kevin C Dunn, 'Africa and International Relations Theory', In Kevin C Dunn and Timothy M Shaw (eds.), *Africa's Challenge to International Relations Theory*. (London: Palgrave, 2001); Adebayo Adedeji, 'Marginalisation and Marginality: Context, Issues and Viewpoints', In Adedeji (ed.), *Africa within the World: Beyond Dispossession and Dependence*, (London: Zed Books, 1993); Christopher Clapham, *Africa and the International System: The Politics of State Survival*, (Cambridge: Cambridge University Press, 1996).

⁷⁷ Ibbo Mandaza, 'US Policy and the Struggle for National Independence', In Bernard Magubane and Ibbo Mandaza (eds.), *Wither South Africa*, (New Jersey: Africa World Press, 1988), p.120.

existence of Marxist-Leninist inclined revolutionary movements in Mozambique in the form of FRELIMO, and Angola in the form of MPLA, was sufficient to qualify the sub-region as of strategic importance to the US.

A contrary view regarding the emphasis of South Africa's strategy is offered by Nolutshungu. He contends that that:

'The thrust of South Africa's African foreign policy under Botha was to be Southern African rather than continent-wide, corresponding to the extent of effective applicability of South Africa's military power; and as luck would have it, coinciding with an American decision after Reagan's accession to give the highest priority to 'fighting communism' in Southern Africa while treating the rest of sub-Saharan Africa as less important.'⁷⁹

This thesis is of the view that although Southern Africa was the immediate centre-piece, the thrust of South Africa's strategy sought to transcend it and to reach out to other African leaders as a gateway to international recognition (see discussion below). In an apt observation, and in contrast to Nolutshungu's perspective cited earlier, Deon Geldenhuys argues that South Africa was attracted to bigger 'diplomatic stakes' than surrounding black states: it sought *rapprochement* with black states up north, beyond South Africa's immediate political remit.⁸⁰ This explanation seems more cogent given

⁷⁸ Ibbo Mandaza, *op.cit.*, 1988, pp.120-121.

⁷⁹ Sam C Nolutshungu, *op.cit.*, p.172.

⁸⁰ Deon Geldenhuys, *op.cit.*, p.38.

the importance South Africa attached to enhancing its diplomatic image - even though at the back of a repressive state machinery.

As the visage of South Africa's relationship with the US presented itself, it expressed something deeply perverse given US moral standing as a guardian of universal principles such as self-determination, and South Africa's pariah status, owing to the repressive apartheid regime that was at the helm. However, at the core of this relationship, the objectives and the means adopted were perfectly reconcilable. The US viewed developments in Southern Africa through the prism of its strategic tensions with the Soviet bloc, and was prepared to stretch its capacity in shoring up counter-vailing forces, and in this strategy South Africa was a key pillar. It was particularly attracted to Southern African politics by Soviet aid of MPLA in Angola, and FRELIMO in Mozambique.⁸¹

These two movements, supported by the USSR, went on to assume power and declared their party rule Marxist-Leninist. Therefore, in the context of the Cold War, the US drew upon the doctrine of *raison d'etat* and its quintessential 'dual moral standard' which, as Dunne and Schmidt defines it, delineates two principles of right and wrong: one for individual citizens living inside the state; and a different standard for the state in its external relations with other states.⁸²

Thus US's support of South Africa, in spite of its morally reprehensible human rights record, did not constitute much of an unsettling moral dilemma. This was made all the

⁸¹ See Olajide Aluko, 'Nigeria, the United States and Southern Africa', *African Affairs*, Volume 78 (310), January 1979, p.97.

more compelling in view of the fact that the ANC received ‘considerable material and diplomatic support by the Soviet Union’, and had military and political bases in various parts of the sub-region.⁸³

The OAU, and specifically countries in Southern Africa, did not hide their disdain for South Africa’s hegemonic strategy, and set out to resist any attempt to draw them into a formal relationship with the apartheid state.⁸⁴ Attempts to court neighbouring countries in Southern Africa and draw them into some form of political constellation under South Africa’s leadership proved fruitless as the degree of animosity heightened.

A number of countries in the sub-region, including Zimbabwe, Angola, Tanzania and Mozambique maintained a very close relationship with the national liberation movements in South Africa and provided a protective cover for these, including provision of military and other material support. For example, the ANC and the PAC were given observer status in SADCC and were also full members of the PTA of East and Southern African countries (which later became COMESA).⁸⁵

It needs stressing that beyond constructing a political bulwark against South Africa, SADCC did not have much success in achieving the objective of self-sufficiency and economic development. There was hardly any strong basis to evolve common values and converging expectations on much deeper questions of economic integration. As

⁸² Tim Dunne and Brian C. Schmidt, ‘Realism’, In John Baylis and Steve Smith, *The Globalization of World Politics* (2nd Eds.), (Oxford: Oxford University Press, 2001), p.143

⁸³ Yash Tandon, ‘Africa within the Context of Global Superpower Struggle’, In Emanuel Hansen (ed.), *Africa: Perspectives on Peace and Development*, (London: Zed Books, 1987), p.40.

⁸⁴ Deon Geldenhuys, *op.cit.*, p.39.

the political landscape within South Africa gradually assumed a positive turn in the early 1990s, with the apartheid government slowly unravelling, it became clear that SADCC would have to reorient its approach.

3.4 From SADCC to SADC: A Transition to ‘New Regionalism’ in Southern Africa

The change from a coordinating conference to a development community took place in August 1992 when the Heads of State and Government of the SADCC met in Windhoek, Namibia. This was concluded with the signing of a binding Treaty by all member states. This gathering signalled a shift from a merely coordinating body to a development community that would foster cooperation and integration on a wide range of areas. The change of name from Southern African Development Coordinating Conference (SADCC) to Southern African Development Community (SADC) was a powerful symbolism which expressed a deeper sense of commitment to regional identity. South Africa joined the body in August 1994. Its integration brought greater promise of economic prosperity, and over a year later trade integration was placed on the agenda.

SADC’s objectives are distinctly articulated in Article 5 of the founding Treaty, which sets out to achieve development and economic growth; poverty alleviation and enhancing the quality of life of the peoples of Southern Africa; evolve common political values, systems and institutions; promote interdependence among member

⁸⁵ Interview with Sindiso Ngwenya, Assistant General-Secretary: COMESA, 7 September 2004, Lusaka.

states and ensure collective self-reliance; ensure linkages and complementarity between national and regional programmes; strengthen historical, social and cultural ties among member states, harmonise political and socio-economic policies of member countries; develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and of the peoples from member countries; promote the development of human resources; promote the development and transfer of technology in the sub-region.⁸⁶

3.4.1 From Closed to Open Markets in Southern Africa?

Building on the basis of the initial project coordination mechanism that was under the aegis of SADCC, SADC set itself to achieve far-reaching objectives and ensure market integration. As the African Development Bank report suggests, the current integration initiatives in the continent are building on existing institutions, but at the same time broadening the objectives of economic cooperation and regional integration to include and emphasise the coordination and harmonization of macro-economic policies, the lowering of trade tariffs and the removal of some non-tariff barriers to trade; and the facilitation of capital mobility, the free movement of persons and improving the business environment.⁸⁷

The market integration agenda in SADC only emerged strongly when the SADC Free Trade Protocol was negotiated around 1995 and 1996. This was after South Africa had acceded to membership in 1994, and pushed for the negotiation of a trade chapter

⁸⁶ SADC Treaty, Gaborone, 1992.

⁸⁷ African Development Bank, *Economic Cooperation and Regional Integration Policy*, (Addis Ababa: African Development Bank, 2000), p.11.

(see Chapter 5).

Pressed both from within – by the magnitude of developmental challenges in various SADC countries (see Chapter 5) – and from without – as a result of the developments in the global economy and pressure to integrate - SADC was compelled to assume a character that was to be different from that of its predecessor. And one of the imperatives that the sub-region was to be faced with is with regards to transformation away from import substitution industrialisation to closer integration with global markets. Its agenda would be more expanded, seeking to balance the political and economic dimensions.

Close integration with the global economy was gradually seen as necessary and an efficacious strategy to dealing with multiple developmental challenges and marginalisation. In addition, on first appearance, the essence of the regional transformation was to transcend the political agenda - narrowly defined - and sectoral coordination, and move towards a much deeper and wide ranging form of economic integration that would touch on dimensions that were never before part of its agenda, for example trade, monetary and fiscal policies.

Indeed, as the African Development Bank Report suggests:

‘SADC represents an ambition to achieve a deeper and wider form of economic integration among members states moving beyond sectoral level coordination towards cooperation, convergence and eventually integration in areas such as monetary and fiscal policies, exchange and

trade regimes, and the unrestrained movement within the region of capital, labour, as well as goods and services.⁸⁸

3.4.2. *Post-Apartheid South Africa and Regional Relations*

Even before joining SADC in August 1994, the ANC had already considered South Africa's future options in the region, and it was clear that at the dawn of democracy the country would integrate positively into regional relations. As the largest economy in the region, with relatively developed institutions and sophisticated productive forces, South Africa's participation in SADC was initially considered a boon by most countries and by prominent African scholars.

Asante observed that, 'Southern Africa can look forward to the closer integration of the dominant economy of the subcontinent into the economic and political structures of the region.'⁸⁹ In his take, Azam suggested that South Africa's regional role could propel growth in Southern Africa in pretty much the same way that the Asian tigers (Hong Kong, South Korea, Singapore and Taiwan) led the way for Malaysia and Southern China.⁹⁰

Azam further suggested that, because of South Africa's future role in Southern Africa, the region '...might become the main pole of Africa's development in the medium-

⁸⁸ African Development Bank, *Economic Integration in Southern Africa*, Volume 1, (Abidjan: African Development Bank, 1993), p.206.

⁸⁹ SKB Asante, *Regionalism and Africa's Development*. Macmillan: London, 1997, p.12.

⁹⁰ Paul Azam, 'Development Policy for Africa: A Research Agenda', in J Berthelemy (ed.), *Wither African Economies?* (Paris: OECD, 1995), p.84.

term.⁹¹ Similarly, western countries hailed South Africa's participation in the regional economy as an important development that would help stem the tide of economic decline and poor governance in the sub-region, and help anchor regional economies on a sustainable growth path.⁹² Perhaps these views were over-optimistic about future realities in Southern Africa.

These views were most likely powered by the ANC's own idealistic outlook to regional relations before the chilly winds of the post-1990 economic challenges set in. There is little doubt that the idea that Southern Africa is a pillar upon which South Africa's foreign policy rests was always at the heart of the ANC's foreign policy approach before it assumed power.⁹³ Consider the following assertions from its celebrated Reconstruction and Development Programme (RDP):

‘In the long run, sustainable development in South Africa requires sustainable reconstruction and development in Southern Africa as a whole. Otherwise, the region will face continued high unemployment and underemployment, leading to labour migration and brain drain to more industrialised areas.’⁹⁴

In this regard, it is clear that the ANC was unequivocal in placing South Africa at the heart of regional relations, and henceforth regarded its destiny as intricately bound

⁹¹ *ibid.*

⁹² See B Stephanie and B Horst, ‘A turning Point for Southern Africa’, *Organisation for Economic Cooperation and Development (OECD) Observer, April/May 1994*. Paris: OECD, 1994.

⁹³ ANC Working Group, ‘Views from the Practitioners’, In Greg Mills (ed.), *From Pariah to Participant: South Africa's Evolving Foreign Relations, 1990-1994*. Johannesburg: South African Institute of International Affairs, 1994, pp.220-226.

⁹⁴ African National Congress, *Reconstruction and Development Programme*. Johannesburg: Umanyano Publications, 1994, p. 119.

with the political and economic character of the region. As such, the ANC considered it essential that South Africa's economic interests be balanced with the developmental needs of the region. And indeed this consideration initially informed the thinking of the new governing elite that assumed power in April 1994.

Some of the broad pronouncements which were articulated by the ANC were later incorporated into South Africa's foreign policy approach post-apartheid. Some of these principles captured in the Department of Foreign Affairs' Strategic Plan 2004. This Strategic Plan, which purports to guide South Africa's foreign policy conduct, expresses a '...commitment to economic development through regional integration and development in the Southern African Development Community and the Southern Africa Customs Union'. Furthermore, it places emphasis on the '...interaction with African partners as equals'.⁹⁵ Yet, the reality on the ground, especially in the region, presents a different picture. This will be sketched out in Chapter 5.

3.5 Conclusion

South Africa has since the early 1970s, at the height of the Cold War, until the late 1980s played something of an aggressive hegemon in Southern Africa with a twin-track strategy: to contain perceived threats to its Apartheid rule as well as to limit the space for the expansion of communist influence in neighbouring states. These two realities colluded to fashion a centre of gravity for South Africa's mainly security-oriented strategy. South Africa's main liberation movement, the ANC was sheltered

⁹⁵ Department of Foreign Affairs *Strategic Plan March 2004*. Pretoria: Department of Foreign Affairs, 2004, p.18.

in the neighbouring independent states and received political and material succour from mainly communist aligned countries. This constituted a security threat for the white minority government in South Africa; and brought it to close relationship with the US whose concern was to limit the spread of communism in Africa.

South Africa's destabilisation policies fermented a strongly security conscious region, which was also one of the marked features of the SADCC. Indeed SADCC's emergence was a response to the threat that South Africa posed to the fragile independent states in the sub-region after independence; and on this basis sought to cement regional solidarity and unity. Its agenda was therefore strongly political and reflected the primacy placed on politics in the Cold War era, especially within a regional context where South Africa was a source of insecurity. In this connection, the internal developments within South Africa, especially with regards to political reforms in the 1990s, were of great interest to SADCC countries.

There is no doubt that SADCC's agenda was very narrow and its existence – or rather its usefulness – was in many ways conditional upon the socio-political context within South Africa. When this no longer constituted a problem in the early 1990s SADC was faced with stark options: to cease to exist or to re-orient its agenda.

The promising prospects presented by post-apartheid South Africa's place in regional relations gave force to the continuation of SADCC on a much stronger foundation and with a clearly articulated agenda that sought to transcend the Cold War and apartheid context. Indeed, democratic South Africa, with the ANC at its helm, was expected not only to represent in symbolic form the reversal of the apartheid legacy, but to make a

significant material contribution to the region as part of rolling back the damages wrought by the apartheid government. The ANC's difficult domestic situation – having to deal with economic recession, rising unemployment and deteriorating social conditions – and pressure to integrate closely with the global economy would blight its idealism in the sub-region.

CHAPTER 4: Global Challenges and Domestic Forces: Towards a Strategic Competitive Regionalism

Southern Africa is in many ways a unique sub-region. As clearly demonstrated in the previous chapter, its evolution as a sub-region has not been without difficulties, both politically and economically. The political element is in relation to the adversarial nature of the relations that prevailed between South Africa and the rest of the sub-region. Economically, the challenges that Southern Africa faced and continues to grapple with are not very dissimilar to those found elsewhere in Sub-Saharan Africa. These are delineated in Chapter 1. Much of these challenges have to do with supply-side difficulties in the economy and generally poor state of social development. Thus, in quite substantive respect, regionalism in Southern Africa diverges from those to be found in developed and semi-peripheral developing areas (or that involves middle-income countries).

It is worth highlighting that, at the political level, even after the demise of apartheid, both the form and the substance of regionalism were still to be defined by realities obtaining within South Africa, albeit under new socio-political conditions. During the apartheid era the enemy that SADCC countries were confronted with was clearly identifiable and the outlines of a common agenda were visible. In the post-apartheid era state actors in the region are confronted with complex challenges whose sources are varied: global, domestic and intra-regional. Having already sketched out some of the global and developmental challenges that Southern Africa has had to deal with, and continuing with the theme of *strategic competitive regionalism*, this chapter will

concern itself with the domestic sources of South Africa's regional and multilateral strategies.

This thesis discusses regionalism from the vantage point of South Africa's integration into global economic relations. It looks at South Africa as a core regional state in Southern Africa, using regionalism as an instrument to achieve complementary objectives related to domestic capital project or competitiveness; growth and developmental concerns; and political objective of securing long-term influence in regional and global economic spaces. In this regard, and to the extent that it is influenced by and anchored in South Africa's domestic growth considerations, the form regionalism assumes in Southern Africa can thus be characterised as strategic competitive regionalism. The outlines of this form of regionalism are set out in detail in Chapter 2. As already pointed out in Chapter 2, this form of regionalism corresponds to a particular state form, namely 'strategic' developmental state.

In short, this chapter limits itself to domestic level processes, with specific focus on South Africa's political economy and its repositioning in the regional and global political economy, post-1994. An understanding of South Africa's political economy and the vicissitudes that shaped it in the early 1990s is crucial in conceptualising the emergence of 'new Regionalism' in Southern Africa, and specifically what this thesis characterises as strategic competitive form regionalism assumes. This understanding helps us 'unpack' the domestic forces underlying state actors' regional and global strategies, and enable us to grasp the crucial linkages that exist between domestic, regional and global level processes. It is important therefore to stress that the nature of

the state-society nexus at the domestic level defines the character and the extent of state actors' involvement in regional and global level processes.

The chapter covers six interrelated areas. First it surveys South Africa's changing political economy since the country became a democracy in 1994. More emphasis is placed on the economic reforms between 1994 and 2002. Second, it looks at the domestic-global nexus, making an observation of the extent to which global forces have crystallised into domestic level processes and influenced the institutional and policy architecture of the state. Third, it examines the macro-economic framework which became one of the foundational stones of South Africa's economic reform programme. Here, the contradictions in South Africa's political and economic transition are underlined.

The fourth section concerns shifts in South Africa's trade policy, highlighting especially the transition between import-substitution and export-oriented strategy, as well as South Africa's continued liberalisation process. The fifth section deals with South Africa's industrial policy framework, in particular the integrated manufacturing strategy and microeconomic reform strategy. This also looks at adjustment issues and how these are dealt with institutionally. Finally, the sixth section examines the linkage between the domestic capital project and the regional space. This lays a ground for a discussion in Chapter 5 of South Africa's trade relations in Southern Africa.

4.1 South Africa's changing political economy

4.1.1 *An Overview: Domestic Growth Concerns*

Prior to achieving its historical breakthrough as a democratic country in 1994, South Africa's economy went into a period of decline. This was partly a result of decades of import-substitution industrialisation, international isolation, contracting domestic market and declining growth rates¹ (see also Chapter 3). When the African National Congress (ANC), a former liberation movement, finally assumed power in 1994 there was no doubt that the new incumbents would have to prepare themselves for far-reaching and indefinite economic restructuring process.

This period, it must be noted, coincided with global changes that saw the ascendance of neo-liberal politics and the gradual rolling back of the state from the market-place. South Africa was not immune to these global vicissitudes. In fact, the entire phase of political transition and economic restructuring took place against this background and was shaped by it. There were, indeed, strong linkages between the new political dispensation in South Africa and the changes that were shaping the global economy.

Gill observed that:

‘The political economy of the South African transition away from the apartheid regime - like those occurring in the former communist ruled

¹ See Nicoli Nattrass, ‘Economic Restructuring in South Africa: The Debate Continues’, *Journal of Southern African Studies*, Volume 20 (4), December 1994; Paul Williams and Ian Taylor, ‘Neo-liberalism and the Political Economy of the New South Africa’, *New Political Economy*, Volume 5 (1), 2000, pp.21-40.

nations - took place in the context of internal and external pressure to adopt neo-liberal reforms: such reforms will integrate the nation more comprehensively into structures of the global political economy'.²

This political transition from apartheid to democracy was to a considerable extent a leap into the unknown, containing both uncertainties and a sense of euphoria. One of the major milestones in the economic reform process was the overhauling of the import-substitution industrialisation programme in order to break out of the protectionist mould and leap into an outward-oriented growth trajectory.

The import-substitution industrialisation programme dates back to the 1920s, and was crafted partly to reduce reliance on exports of agricultural produce and gold; spur industrialisation with employment creation for whites in manufacturing industries; and to assist with developing greater economic independence from Britain.³ Over the years, this accumulation strategy created anti-export bias in the economy and maintained high levels of import controls through various instruments, including quantitative restrictions.⁴ This is also said to have '...generated uncompetitive manufacturing sectors which absorbed rather than produced foreign exchange.'⁵ Other effects of this were in regards to inefficiencies generated in the protected industries as well as high domestic prices for products in protected sectors.

² Stephen Gill (ed.), *Global Structural Change and Multilateralism in Globalization, Democratization, and Multilateralism*. (New York: United Nations University Press, 1997), p.3

³ Michael Bleaney, Alan Hirsch, Merle Holden, and Carolyn Jenkins, 'South Africa', In Ademola Oyejide, Benno Ndulu and William J. Gunning, *Regional Integration and Trade Liberalization in Sub-Saharan Africa*, Volume 2. (Macmillan: London, 1999), p.397; Rashaad Cassim, Donald Onyango, and Dirk E. van Seventer, 'The State of Trade Policy in South Africa: A Review', *Trade and Industrial Policy Secretariat*, December 2002. www.tips.org.za.

⁴ On the historical evolution of South Africa's trade policy, see Michael Bleaney, Alan Hirsch, Merle Holden, and Carolyn Jenkins, *op.cit.*

⁵ Nicoli Natrass, *op.cit.*, p.521.

Much of the economy was resource-based. Gold mining constituted the core of the mining and mineral processing industry. It accounted for 70 percent of mining exports and employment, and 80 percent of revenue in the 1980s.⁶ According to the Macro-Economic Research Group (MERG) report⁷, mining exhibited very weak backward linkages, and this emphasised the importance of down-stream beneficiation in the industry.⁸ One of the key challenges of trade policy reform was to reduce the anti-export bias, ensure liberalisation on the import side through elimination of quantitative restrictions, and integrate firmly into the global economy. The economic reforms acted to gradually shift incentives away from import-substituting activities and towards export orientation.⁹ However, this is as yet an incomplete project.

The long period of decline which began in 1975 until the early 1990s was symptomatic of the structural rigidities in the domestic economy. The effect of this decline was strongly manifest in the falling prices of mining commodities, in particular gold exports, low levels of gross domestic savings and gross domestic fixed investment, a decline in formal sector employment in the 1990s, a stagnation of manufacturing employment since 1975, declining productivity levels and a falling exchange rate.¹⁰

⁶ Macro-economic Research Group, 'Making Democracy Work: A Framework for Macro-economic Policy in South Africa', A Report from the Macro-economic Research Group (MERG), (Belville: Centre for Development Studies, University of the Western Cape, 1993), p.217. Some of its projections included a ten year plan to boost growth to 5 percent in 2004 and generate 300 jobs a year. For a critique of MERG see Nicoli Natrass, *op.cit.*, pp.517-543.

⁷ This report was produced by Congress of South African Trade Unions (Cosatu) -aligned Economists. Its general tone could be said to be social-democratic, albeit with some degree of neo-liberal elements especially in its trade and monetary policy recommendations.

⁸ *ibid.*

⁹ Yvonne Tsikata, 'Liberalization and Trade Performance in South Africa', *World Bank Southern Africa Department*, Discussion Paper 13, 1997, p.9. www.worldbank.org

¹⁰ Gavin Maasdorp and Adrian Saville, *A Special Study on the SADC Economies – Waiting for South Africa*, South African Institute of International Affairs, Occasional Paper No.2, July 1994, Wits.

Thus it was a combination of external developments reflected in the recession in the world economy, South Africa's political and economic isolation in the 1970s and 1980s, the hang-over of military expenditure of the apartheid regime in the 1970s and 1980s, and internal domestic crisis brought to bear by the stunted import-substitution industrialisation strategy, that buffeted the South African economy. These developments, much of them already discussed in Chapters 1 and 3, also coincided with the rise into prominence of the doctrine of 'Thatcherism' and 'Reagonomics', otherwise known as neo-liberalism, characterised chiefly by the gradual reduction of the role of the state in the economy, preference for conservative fiscal policies, liberal exchange controls, labour market reforms, export-oriented growth and privatisation of state-owned enterprises. Or, what Kagarlitsky aptly characterises as 'new realism'.¹¹

Market reforms were, according to these views, the best possible mechanism to resuscitate the economy through price adjustment and efficient allocation of resources. To South Africa's credit, and as former chief trade negotiator confirmed, unlike in many other countries in Africa, structural reforms were not subject to the smothering dictates of the International Financial Institutions (IFIs).¹² The state actors pre-empted these reforms before they were prodded to do so by the IFIs, thus ensuring flexibility in implementing them, taking into cognisance deep structural failures in the economy and the resultant effects on employment levels. This does not mean that South Africa's state actors were unconstrained by the neo-liberal global order, but had a relative flexibility in their economic policy making space.

¹¹ Boris Kagarlitsky, *New Realism, New Barbarism*, (London: Pluto Press, 1999).

¹² Interview with Bahle Sibisi, former Deputy Director-General: Enterprise and Industry Division, Department of Trade and Industry, South Africa; interview held on 24 September 2004, Johannesburg.

The economic reform process that continued well into the ANC's rule – and indeed taking a much robust shape during ANC's second term in office – targeted specific economic sectors, namely mining and agriculture. The largely minerals-driven economy which had, since the 19th century, acted as a source of foreign exchange earnings as well as employment generator began to show signs of strain in the late 1980s and early 1990s. This was largely due to declining prices and weak demand for minerals products.

The agricultural sector suffered a similar fate, and was struggling to weather periodic droughts, and manifested low levels of return on investment, low levels of liquidity and a steady build-up of debt.¹³ Indeed, the new political class in 1994 inherited an economy on a declining mode. It was in a worst shape that Marais characterised it as 'bed-ridden'.¹⁴ Gelb has characterised this economic crisis as '...a crisis of production and supply-side', which means that it was rooted in the very nature of the production structure and growth path.¹⁵

In the early 1990s, GDP growth rates declined along with the declining state of gross fixed investment, coupled with high rates of capital flight, private investment was at a low rate, unemployment figures soared, and the economy suffered a chronic balance of payment difficulties. Indeed, with the gross fixed investment declining, there was no doubt that huge social costs would be incurred in the economy. Job losses in the formal sector of the economy, excluding agriculture, is estimated to have been about

¹³ Hein Marais, *The Political Economy of South Africa: Limits to Change*, (Zed Books: London, 2001), p.103

¹⁴ *ibid.*

¹⁵ Stephen Gelb, 'Inequality in South Africa: Nature, causes and responses'. *A Report prepared for the UK Department for International Development (DFID)*, South Africa office, 2003, p.37.

400 000 between 1989 and 1993.¹⁶ This resulted from the closure of a number of mining sites which were deemed unprofitable. As Marais noted,

‘In broad terms, the crisis reflected the break-down of the post-war accumulation strategy based on primary products exports and inward industrialisation (including import-substitution industrialisation) based on violently regimented labour supply’.¹⁷

This accumulation strategy was no longer appropriate for the new economic demands and, coupled with low levels of productivity, it was becoming quite evident that a decisive break with import-substitution was long overdue. Bell and Wadula have observed that this ensured an ‘...involuntary shift to export-oriented industrialisation (EOI) in conditions of economic crisis.’¹⁸ Hence it was becoming increasingly urgent to find a new strategy that emphasised beneficiation and export thrust.

In the face of the declining state of the economy, it became clear that a number of changes had to be effected in order to animate productivity and place the economy on a sustained growth trajectory and give it a more robust face. As already pointed out in the preceding overview, the ISI programme which was a *dirigiste* growth approach, based on the strategy of limiting imports of manufactured goods and offering protection for domestic producers using panoply of import controls and quantitative

¹⁶ Hein Marais, *op.cit.*, p.100; Stephen Gelb, *op.cit.*, 2003, pp.29-30.

¹⁷ Hein Marais, *op.cit.*

¹⁸ Trevor Bell and Nkosi Madula, *Where Has All The Growth Gone? South African Manufacturing Industry 1970-2000*, A paper presented at the 2001 Annual Forum, Trade and Industrial Policy Strategies (TIPS), 10-12 September 2001. www.tips.org.za

restrictions, was no longer able to hold ground. It was unsuited to the emergent challenges of the global economy.

Prior to trade reforms, South Africa's trade pattern was characterised by dominance of primary products in its export basket, mainly metals and minerals, and importation of capital goods and technological products.¹⁹ These trade patterns were hardly a good recipe for economic success in the 1990s. With economic malaise deepening, the country was finding it untenable to rely on commodity exports for foreign exchange or depend on the mining sector for employment creation. Primary exports were declining in importance in world trade. The sluggishness of the world demand for primary products, Singer and Ansari argue, was not only a function of a change in the structure of production in developed economies but also of protectionist policies such as, for example, Common Agricultural Policy (CAP) in Europe.²⁰

Informed by these trends, export-oriented manufacturing and enhanced competitiveness became a central plank in government's growth strategy.²¹ This was long predicted by a study commissioned in the early 1990s undertaken by the Macro-Economic Research Group (MERG), comprising of researchers sympathetic to trade unions and the South African Communist Party (SACP), and chaired by Trevor Manuel, the current Minister of Finance.

¹⁹ Macro-economic Research Group, *op.cit.*, p.235.

²⁰ Hans W. Singer and Javed A. Ansari, *Rich and Poor Countries: Consequences of International Disorder*, (London: Routledge, 1992), pp.74-75.

²¹ Hein Marais, *op.cit.*, p113.

4.1.2 *The Era of Reforms*

The MERG report noted that in the long-term the gold mining industry would decline in importance as a pillar of exports; and further suggested that, ‘...alternative exports will have to be found if increasing balance of payment constraints are to be avoided’.²² Indeed, moving out of the clutches of a mineral and energy focused economy was set to be one of the goals economic reform programme, whose foundations had already been laid between the period of 1992 and 1993 by the then Minister of Finance, Derek Keys. At the height of the transitional period, around 1993, the interim government that was installed to ease the country into a democratic dispensation, economic liberalisation was highlighted as one of the important areas to be implemented. The interim government consisted of the elite that belonged to the governing party during apartheid and members of the soon to be governing elite, ANC.

Examining the economic reform process was therefore managed as part of the negotiated settlement that characterise South Africa's transition into democracy. For example, a neo-corporatist mechanism in the form of a National Economic Forum (NEF) was established to act as a consensus-seeking instrument for the development of an economic pact for the future. The NEF consisted of ANC's ‘economic’ mandarins, the trade union leadership, organised business and fractions of the former Nationalist Party government. It must be underlined that the ANC was generally inexperienced in economic policy making as it was a liberation movement and never had to propound solid policies except broad pronouncements.

²² Macro-economic Research Group, *op.cit.*, p.217.

At the heart of the discussions within this forum was: ‘...how do we lock ourselves into the global economy as part of dealing with the structural difficulties in the domestic economy and ensure sustainable growth and competitiveness?’²³ This did not consider the domestic economy in isolation, but within the broader context of the global economy, especially in view of the fact that the Uruguay Round was near its conclusion (see discussion below). The NEF also negotiated South Africa’s offer to the GATT (see also Chapter 6).

It was in this context that policy makers made a decision to integrate into the global economy in a ‘beneficial manner.’²⁴ There was also an understanding amongst the actors involved that it would be politically untenable to integrate into the global economy in isolation from the larger Southern African region. South Africa desperately sought to break the political isolation that it suffered in the region and internationally; and, as Draper argued, wanted to ‘...promote economic competitiveness in a context of integration.’²⁵ In this regard, South Africa was confronted with a double-edged challenge: that of integrating its economy into the global economic order so it could effectively deal with its domestic constraints, and at the same time demonstrate sensitivity towards the Southern African sub-region given years of tensions between the two, and the state of underdevelopment of the region (see Chapter 3).

²³ Interview with Bahle Sibisi, *op.cit.*

²⁴ *ibid.*

²⁵ Peter Draper, ‘Getting Trade Policy Off The Hook: The South African Case’, In Peter Draper (eds.) (Forthcoming), 2005.

One of the senior officials in the Department of Trade and Industry, Bahle Sibisi, who was part of the first layer of bureaucrats to take charge of economic transformation, remarked that organised business were initially suspicious of the SADC project ‘...as they did not perceive it to be carrying benefits for South Africa’s economy because of small markets and limited purchasing power in the region. Instead they viewed it as a political project than a profitable economic enterprise.’²⁶

For the ANC government, the important consideration was to link the imperative of domestic economic growth to the growth and development of the region, and this was viewed in symbiotic terms. However, as will be shown in Chapter 5, this did not quite achieve its intended objectives. Meanwhile, the challenge to restructure the economy was of immediate concern and the technical capacity to do so was not in abundant supply. In the process mistakes were committed and at times policy direction was sporadic. The next section will sketch the relationship between the domestic policy challenges in South Africa and the global changes that were already looming on the horizon.

4.2 Domestic challenges and State’s responses

Before looking at global challenges that fashioned the context for South Africa’s economic reforms and the various actors that were affected or participated in this reform process, a brief analysis of South Africa’s socio-economic structure would be necessary in order to appropriately contextualise the country’s position in global economic relations and the challenges it faced in its multi-level engagements.

²⁶ *ibid.*

4.2.1 South Africa's Socio-Economic Structure

South Africa's economic structure is highly polarised. It is characterised by '...large disparities between the major metropolitan area and the poor, traditionally black rural area.'²⁷ This economic duality in the South African economy is, according to Davies, a reality of 'two poles of a single integrated political economy...'²⁸ One pole is characterised by well-developed and relatively dynamic elements of the economy, while the other is largely disarticulated from the formal sectors and marginalized from the global economy. Davies traces the historical development of the dual structure of South Africa's economy to the emergence of a particular form of economic production in the 19th century during the gold and diamond rush.²⁹

This duality was accentuated by various apartheid policies since the Nationalist Party rule from 1948. These policies include those that were aimed at preserving labour reserves in rural homelands and offering differentiated education system along racial lines. The effect of such policies still reverberate across the country. In the economy, for example, there remains a sharp divide between rural and urban areas and, to a considerable degree, this corresponds to the country's racial profile. According to Castells:

²⁷Colin McCarthy, 'South African Trade and Industrial Policy in a Regional Context', In Lennart Petersson, *Post-Apartheid South Africa: Economic Challenges and Policies for the Future*, (London: Routledge, 1998), p.80.

²⁸ Rob Davies, 'Some notes on the Issue of Dualism', *New Agenda: South African Journal of Social and Economic Policy*, Issue 14, Second Quarter 2004, p.31.

²⁹ Rob Davies, 1998, *op.cit.*

‘Between 36 and 53 percent of South Africans are estimated to live below the poverty line. Poverty is overwhelmingly concentrated in the African and coloured population: 95 percent of the poor are African, and 65 percent of Africans are poor, compared with 33 percent of the coloured population, 2.5 percent of Asians and 0.7 percent of whites.’³⁰

About 75 percent of the poor, the majority of whom are black, live in the rural areas; and 74 percent of the rural population is poor compared to 41 percent of the urban and 20 percent of the metropolitan populations.³¹ The gravity of South Africa’s structural difficulties is also compounded by highly uneven patterns of income distribution, making South Africa one of the most unequal countries in the world. It has a Gini coefficient of 0.65, lagging behind Brazil at 0.61, Mexico at 0.50 and 0.48 for Malaysia.³²

In 2002, South Africa’s official unemployment rate stood at 26.7 per cent, with unofficial estimates of up to 40 per cent.³³ The distribution of economic activity within the country is also highly uneven, with the Gauteng province acting as the economic hub generating about 37.7 percent of GDP, followed by Western Cape with 14.2 per cent of the GDP.³⁴ The dualism of South Africa’s economy was aptly captured by the Economist Intelligence Unit, which pointed out that, ‘South Africa

³⁰ Manuel Castells, *End of Millennium*, (Oxford: Blackwells, 1998), p.124.

³¹ Rob Davies, *op.cit.*, p.80.

³² Manuel Castells, *op.cit.*, 124.

³³ See Economist Intelligence Unit, 2002. www.eiu.com; and Statistics South Africa. www.statssa.gov.za

³⁴ Economist Intelligence Unit. www.eiu.com

encompasses displays of affluence the equal of any in the developed world and levels of poverty associated with developing countries.³⁵

This duality reflects on the one hand, a highly productive and modern sector which is a source of national wealth creation and is fairly integrated into the global networks of production and finance global chains of distribution and supply. It is endowed with relatively skilled human capital and utilises fairly advanced technologies. On the other hand it possesses a 'backwash' sector which includes informal economic activity, subsistence rural agricultural production, and large traces of poverty both in the urban and rural black communities, similar to large parts of the continent.

In his weekly journal, the ANC President, Thabo Mbeki, highlighted the differences between what he calls the 'First' and the 'Second' Economy when he argued that:

'The First Economy is modern, produces the bulk of our country's wealth, and is integrated within the global economy. The Second Economy (or the Marginalised Economy) is characterised by underdevelopment, contributes little to the GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the First and the global economy, and is incapable of self-generated growth and development.'³⁶

³⁵ *ibid.*

³⁶ Thabo Mbeki, 'Meeting the Challenge of the Second Economy', *ANC Today*, Volume 3 (45), 14-15 November 2003.

The DTI's medium-term strategy framework also notes that, 'the South African economy is dualistic in nature: one economy is characterised by 'first world' competitive enterprises with access to economic infrastructure and services; and the other is marginalised and characterised by a lack of access to infrastructure and basic services'.³⁷ The role of economic transformation largely falls on the DTI and this work is coordinated within the economic cluster which it chairs.

There has been a general sense that the first five years of South Africa's economic reform devoted much of its attention on the macro-economic adjustments and international trade engagements, and that micro-economic forces were largely ignored. It was not until early 2001, that a detailed work on industrial strategy was undertaken.³⁸ Micro-economic reforms were to be the linchpin of the next phase of economic reform agenda, beginning from 2001 with 2014 as a target date for the realisation of the strategic vision.

In Mbeki's second term of office, commencing in 2004, the economic reform agenda, with micro-economic strategy as a cornerstone, was again strongly highlighted. More emphasis was placed on integrating the 'Second Economy' to its more developed counterpart and for dynamism to be infused in the overall structure of the economy. This also witnessed the change of political leadership in the DTI, with Alec Erwin who, during his tenure, was heavily engaged in international trade diplomacy, replaced by Mandisi Mpahlwa, previously a Deputy Finance Minister. Although this was initially perceived an enigmatic development, it soon became clear that it

³⁷ The Department of Trade and Industry, *Medium-Term Strategy Framework*, Pretoria, DTI, 2003, p.8.

³⁸ South African Labour Bulletin, 'The dti's integrated manufacturing strategy: Is it all just packaging?', *South African Labour Bulletin*, Volume 26 (3), June 2002, pp.8-11.

reflected a shift of emphasis away from the international trade arena to domestic realities; or, at least, to re-balance the two in a manner that shifts weight to the home front.

A senior government official at the DTI remarked that although the new Minister had not yet made any big policy statements, what could be discerned is that:

‘The large part of his brief from the President requires greater attention to the Second Economy... there is a sense that with the previous Minister of Trade and Industry, policy interventions in this area were not well articulated even though there has always been an understanding of its importance. It would therefore seem Mpahlwa [the new Minister] has been appointed mainly to look closer at the Second Economy. In the past, required interventions were not sufficiently elaborated; and challenges were not sufficiently analysed.’³⁹

He also pointed out that:

‘Our [South Africa’s] trade strategies are linked to domestic developmental challenges, including job creation, enterprise development, opening of economic opportunities for previously marginalized groups in society, and expansion of SMME sector which is one of the key vehicles to facilitate inclusion of the majority of the

³⁹ Confidential interview at the Department of Trade and Industry, Pretoria, 12 November 2004.

people in the economy. Access to finance has been one of the obstacles to developing this sector.⁴⁰

South Africa's external trade strategies were being coated with a domestic developmental framework and, in essence, they were to service it rather than be the end in themselves. As the official further remarked, 'South Africa has to walk on all legs in dealing with its economic challenges and policy interventions.'⁴¹

This policy shift could also have been motivated by the realisation that the intensification of the process of globalisation, especially increased trade liberalisation, has a potential to further slice up some constituent parts of the First Economy, especially nodes of production that are no longer compatible with global production trends, and push them to the 'Second Economy'. Hence embedding external trade strategies in a domestic developmental context has a stronger purchase in South Africa's regional and multilateral trade strategies.

4.2.2 *Domestic policy institutions*

The initial phase of democratic transition, which could be said to have taken place roughly between 1994 and 1999, witnessed global economic forces strongly minted in government's policy processes and institutional architecture. Certain components of national state began to assume a pre-eminent position. What was experienced in South Africa during this period was no different from what most developing and developed

⁴⁰ *ibid.*

⁴¹ *ibid.*

countries were going through, albeit with differential capabilities. For South Africa, the socio-economic picture discussed earlier also informed the context within which the liberalisation process was undertaken.

In terms of how various state agencies are arrayed, the Treasury and an independent Reserve Bank occupy an elevated position, and have a considerable degree for making monetary policy (in the case of the Reserve Bank) and fiscal policy (in the case of Treasury). There are other agencies that, in varying degrees, have a significant role in linking the domestic and the global spheres. These include, for example, Foreign Affairs (DFA), Trade and Industry (DTI), Trade and Investment South Africa (TISA) (an agency that is part of the DTI but has limited autonomy), Minerals and Energy, Public Enterprises (with a clear mandate to restructure state owned enterprises), and Revenue Services. This development is not unique to South Africa. Indeed most developing countries have experienced similar shifts, particularly in their domestic policy architecture, as a result of changes in the global political economy. The agencies noted above, as Gill has observed:

‘Tend to give priority to market efficiency, and in particular the virtues of trade, foreign investment and foreign exchange markets; the control of inflation and public expenditure; and the private sector relative to the public.’⁴²

Greater policy coordination amongst various government departments is retained through the highly structured and innovative cluster system designed to create

synergies between related government ministries, expedite and monitor policy implementation.⁴³ But this has also ignited turf battles, especially between the Department of Trade and Industry (DTI) and the Department of Foreign Affairs (DFA). There are two key inter-governmental clusters: Economics and Investment Cluster which focuses on domestic economic policy coordination; and the International Relations, Peace and Security (IRPS) Cluster whose focus is on external engagements including international trade negotiations.⁴⁴

Nonetheless, the core government departments or agencies alluded to earlier were and are still viewed as critical in the linkage between the domestic and the global economy. This illustrates the point made by Sassen about global processes materialising or embedded in national territories - a development which has shaped the institutional structure of government and affected its legislative or regulatory mechanisms.⁴⁵ Gill characterises this process as institutionalisation of 'disciplinary neo-liberalism at the macro-level power in the quasi-legal restructuring of state and international political forms: constitutionalism.'⁴⁶

According to Gill this discourse, originating in the global level pervades domestic policy processes, in particular through macro-economic policies, with focus on

⁴² Stephen Gill, *Power and Resistance in the New World Order*, (London: Palgrave Macmillan, 2003), p.87.

⁴³ Susan Strange and John Stopford, *Rival States and Rival Firms: Competition for world market shares*, (Cambridge: Cambridge University Press, 1991); in their formulation of the concept of 'triangular diplomacy' argue that bargains are not only limited to firm-firm, government-government, and firm-firm, but they also take place between various government ministries or departments. In South Africa, this bargain is best expressed in the inter-governmental cluster system and other inter-ministerial structures at provincial level.

⁴⁴ Peter Draper, *op.cit.*, 2005.

⁴⁵ See Saskia Sassen, 'Embedding the Global in the National', In David. A Smith, Dorothy J. Solinger and Steven C. Topik (eds.), *States and Sovereignty in the Global Economy*, (London: Routledge, 1999), p.162.

⁴⁶ Stephen Gill, *op.cit.*, 2003, p.131.

'...fight against inflation'⁴⁷, in order to maintain price stability and guard against fitful exchange rate fluctuations that could send mixed price signals. As previously alluded to, this emergent normative force is often articulated by those ministries and agencies that stand at the intersection of the domestic and the global economy. Although in South Africa's case this, initially, was not forced by external institutions, nonetheless South Africa was very much conditioned by ideological spaces that were inevitably going to articulate themselves within the country's policy and institutional structures. The adoption of a broadly neo-liberal macro-economic framework in 1996 attested to this (see discussion below).

4.2.3 *Inter-governmental Tensions*

The guardianship of economic transformation lies with the ministries and agencies noted earlier, and other layers of government are positioned further down in the hierarchy. The Department of Trade and Industry plays a central role in formulating and implementing South Africa's trade and industrial policies and taking a lead in driving commercial diplomacy. The National Treasury plays guardianship over the fiscal policy and expenditure patterns in other departments. It also plays a somewhat surveillance role to ensure the progress of liberalisation. For example, it is believed to be putting pressure on the DTI to liberalise in line with the macro-economic policy.⁴⁸

⁴⁷ *ibid*

⁴⁸ Peter Draper, 'To Liberalise or not to liberalise? A review of South African Government's Trade Policy', *South African Institute of International Affairs Working Paper*, May 2003, p.8. www.saiia.org.za

Regarding the DTI, there are a range of other institutions that supports its vision⁴⁹:

- International Trade and Economic Development Division (ITEDD) – engages in trade negotiations (bilateral, regional and multilateral);
- Enterprise and Industry Division (EID) – interacts with industry groups, develops policies on supply-side incentives or support measures, and is mainly concerned with industry competitiveness, sectoral strategies, small business development, and black economic empowerment;
- International Trade and Administration Commission (ITAC) – administers trade policy and is responsible for trade remedies;
- Trade and Investment South Africa (TISA) – promotes exports and investments.

There are at times tensions between various governments, and these tend to mainly be over policy implementation or on how each understands its function in relation to others, and this is despite the existence of the interdepartmental coordination mechanism or cluster system. Tensions are a natural feature of intra-governmental relations in a democratic state, more so in a developmental state undergoing significant political and economic changes as South Africa is. Johnson has argued that, ‘Within the developmental state there is a contention for power among many bureaucratic centers, including finance, economic planning, foreign affairs, and so forth.’⁵⁰ There are at times tensions between not only various government

⁴⁹ See Peter Draper, *op.cit.*, 2005. He also provides an extensive overview of South Africa’s economic policy making process and various government agencies and institutions involved.

⁵⁰ Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, (Stanford: Stanford University Press, 1982), p.26.

departments but also agencies within departments, for example between the trade negotiations and enterprise and industry agencies.

Between government departments, the DFA and the DTI have at times collided over the shape of foreign economic strategy. The DFA is seen as Africanist with shades of internationalism, and the DTI, especially the trade division is viewed as more mercantilist.⁵¹ The DTI has its own foreign economic representatives who deal with trade negotiations, and the DFA has its own and deals with broader aspects of international diplomacy.

Also, there are intermittent tensions between the National Treasury and the DTI over the extent of government's commitment in creating incentives for industry. The National Treasury is seen as restrictive when it comes to the expenditure side as well as putting pressure on ensuring that the deficit target is achieved.⁵² These differences will not be explored at length here. Suffice to say that, at the heart of its global strategy, South Africa is concerned with international competitiveness and integration into the global economy.⁵³ Indeed, this is the logic that underlines South Africa's regional and multilateral trade strategies.

As noted before, the trend of promoting international competitiveness is not unique to South Africa, and has indeed characterised domestic restructuring in line with global changes in most developing countries. Stopford and Strange observed more than a decade ago, that '...national choices of industrial policy and efficiency in economic

⁵¹ Confidential Interview at the Department of Foreign Affairs, Pretoria, July 2004.

⁵² Interview with Nimrod Zalk, Chief Director: Strategic Competitiveness, Department of Trade and Industry, Pretoria, 13 July 2004

management are beginning to override choices of foreign or defence policy as the primary influence on how resources are allocated.⁵⁴ In 1987, Cox noted that ‘...the neo-liberal state gives priority to those central agencies of government that act as links between the world economy and the national economy: finance ministries and treasuries and foreign trade and investment agencies, function in close coordination with the offices of presidents and prime ministers.’⁵⁵

4.3 Macroeconomic Reforms

4.3.1 Ideational Shift in Economic Debate

The character of the global order – neo-liberal – and the nature of the domestic economic crisis acted to produce the kind of economic policy preferences adopted by the new government. In the face of this domestic crisis and powerful global market forces, choices for the new government were presented in stark terms – reform or face the precipice. As Gelb puts it, ‘Certain political and economic imperatives ruled out some options and weighted social choices towards others’.⁵⁶ Giving force to reform considerations, South Africa was left with little choice but to lock its reform agenda into multilateral trade processes and integrate closely with global markets. This was, however, preceded by economic debates with the ANC and its alliance partners –

⁵³ *ibid.*

⁵⁴ Susan Strange and John Stopford, *op.cit.*, p.1

⁵⁵ Robert W. Cox, *Production, Power and World Order: Social Forces in the Making of History*, (Columbia: Columbia University Press, 1987), p.228.

⁵⁶ Stephen Gelb, *op.cit.*, 2003, p.29.

COSATU and the South African Communist Party (SACP). But these debates were broad rather than going into specifics.

There were also discussions taking place within the business community and intellectuals that were close to business' positions, about possible development trajectories in South Africa. By and large, business perspectives, especially orthodox views of economic policy and restructuring prevailed. The broader systemic context gave a strong impetus to the propagation and eventual triumph of such perspectives. Also, positions within the ANC were shifting away from strong emphasis on nationalisation and strongly Keynesian economics towards those that emphasise neo-liberal type structural adjustment.⁵⁷ Some of these debates and contending approaches are covered in great detail in various works on South Africa's political transition.⁵⁸

It is important though to point out a number of factors shaping economic policy development in South Africa. The multi-class character of the ruling African National Congress (ANC), its lack of preparedness for the new global challenges, insufficient grounding in economic policy, the general weakness of the 'left' strand of the ruling party – something which was symptomatic of the waning influence of socialist thinking after the collapse of the Soviet Union – had all contributed to a shift rightward in economic policy choices.⁵⁹ The ANC was also faced with the challenge of transforming itself from a mass-based liberation movement to a modern political

⁵⁷ For a detailed discussion of shifts in economic thinking within the ANC, see Nicoli Nattrass, 'Politics and Economics in ANC Economic Policy', *African Affairs*, Volume 93 (372), July 1994, pp.343-360.

⁵⁸ Nicoli Nattrass, *op.cit.*, 1994; Paul Williams and Ian Taylor, *op.cit.*; Patrick Bond, *Elite Transition: From Apartheid to Neoliberalism in South Africa*, (London: Pluto Press, 2000); Hein Marais, *op.cit.*; Taylor, *Stuck in Middle: South Africa's Post-Apartheid Foreign Relations*, (Westport, CT: Praeger, 2001); Stephen Gelb, *op.cit.*, 2003.

⁵⁹ *ibid.*

party and demonstrate that it could face contemporary challenges head-on while confronting the social legacy of apartheid. Although this period generated euphoria it was, indeed, a trying period for the ANC and the one that promised to be steeper ahead.

With regards to implementing the reform process, there was a real pressure, given the ailing state of the economy, to stabilise macroeconomic aggregates and stem the deficit tide if social spending was to be sustainable in future. Macroeconomic stability was also viewed as important from government's perspective to ground an outward-oriented strategy. Bhagwati emphasises the importance of macroeconomic stability in economic reforms if inflation is to be contained from having an adverse effect on export performance.⁶⁰ It is apparent that this consideration played an important part in shaping the government's approach to macroeconomic stability. And this was accompanied by strong preference for inflation targeting by the independent Reserve Bank. Macroeconomic stability was thus seen as essential for an outward-oriented strategy and to help deal with the structural challenges in the economy.

The neo-liberal reforms that were the essence of this approach were captured in a document called Growth, Employment and Re-distribution (GEAR). As Kagarlitsky observes, '...the African National Congress government, with the active participation of the representatives of the Communist party and the trade unions began in 1995 and 1996 to put a consistent neo-liberal programme into practice.'⁶¹ The premium placed on neo-liberal strategy was on correcting the macro-economic environment, and as

⁶⁰ Jagdish Bhagwati, 'Trading for development: how to assist poor countries', In Mike Moore (ed.), *Doha and Beyond: The Future of the Multilateral Trading System*, (Cambridge: Cambridge University Press, 2004), p.116.

such it toned down the 'basic needs' approach advocated in the Reconstruction and Development Programme (RDP) which was the ANC election manifesto launched in 1994, and derived a popular support amongst the workers, the unemployed, and the poor in general.⁶²

However, even the RDP, which was regarded as broadly 'social-democratic', and formulated long before neo-liberal macro-economic policies were set in train, had also affirmed South Africa's liberalisation project. For example, RDP stated, in reference to systemic generated pressures, that South Africa's economy '...must adjust to these pressures if we are to sustain economic growth and continue to develop a large domestic manufacturing sector that makes greater use of our own raw materials and minerals'.⁶³ So, in essence, the winds of liberalisation took effect before the actual macro-economic policy reforms were set implemented. The GEAR strategy served to accelerate them.

The RDP was too broad, playing to various constituencies and trying to strike a balance with disparate voices in keeping with the ANC's multi-class character. It was, as Kagarlitsky has noted, inoffensive to the old ruling elite and generally ideological neutral.⁶⁴ Even though genuine in its commitment to correct social inequalities it failed to measure up as a serious programme for governance nor was there any momentum generated by the ruling class to weave its strong social-democratic elements into a future policy programme. It existed rather as a symbol of what the

⁶¹ Boris Kagarlitsky, *op.cit.*, p.44.

⁶² The key programmes of the RDP included: meeting the basic needs, developing human resources, building the economy, democratising the state and society and implementation.

⁶³ Reconstruction and Development Programme, *op.cit.*, p10.

⁶⁴ Boris Kagarlitsky, *op.cit.*, pp.44-45.

ruling party historically stood for and a broadcast of wishes that struck a cord with the ruling power's largest constituency – the unemployed and the poor - to be evoked during elections.

The GEAR strategy launched in June 1996 eclipsed the RDP and was more specific and systematic. Its audience existed largely outside of South Africa. It was essentially designed to send signals to transnational capital that South Africa was a fertile ground, with policy credibility, for investment. Though the GEAR framework was an unpopular strategy from the outset, the government pursued it relentlessly for close to five years, ignoring protestations by its labour allies and other grassroots civil society interests. GEAR signified the emergence of a new hegemonic project and internalisation of the forces of globalisation in South Africa's domestic political and economic scene.

Government's initial focus on macro-economic stabilisation has led some commentators to conclude that South African government is neo-liberal and beholden to foreign investor interests.⁶⁵ Gelb argues that it is too simplistic a view to impute a neo-liberal label; and further notes rather that, 'It is important to distinguish between the policy documents as written, the policies as implemented and the underlying growth models'.⁶⁶ This framework was put in place in order to respond to a particular conjunctural challenge associated with the declining state of the economy, and was meant to be a stabilisation programme.

⁶⁵ Patrick Bond, *op.cit.*, pp.192-pp.195.

⁶⁶ Stephen Gelb, *op.cit.*, 2003, p.35.

On the positive side, the strategy managed to achieve budget deficit reduction to levels aimed at by government – below 3 percent – and improved predictability in monetary policy with managed inflation and interest rate levels; and created the basis for future social spending. However, in the immediate, it failed where it counted the most: stemming the tide of job losses and creating new jobs.

Moreover, South Africa's socio-economic structure was to a greater degree left intact, a reality which would haunt the political elite for many years to come. Having failed to deliver on its promises, and coming under sustained attack from the trade unions and grassroots civil society movements, the strategy was thus quietly abandoned in favour of microeconomic reform programmes (see discussion below).

4.4 South Africa's Trade Policies

4.4.1 Developments in South Africa's Trade Policy

Historically, South Africa's trade policy exhibited a set of '...protectionist, policy preferences, including import substitution industrialisation, development of 'strategic' industries (in coal, arms and oil) and deliberate development of mineral-related exports through upstream beneficiation.'⁶⁷ It operated through a byzantine maze of protectionist policies, including a host of price controls, quantitative restrictions and

⁶⁷ John D. Lewis, 'Reform and Opportunity: The changing role of trade in South Africa and SADC', *Africa Region Working Paper Series*, No. 14, World Bank, 2001, p.2. www.worldbank.org; Yvonne Tsikata, 'Liberalization and Trade Performance in South Africa', *World Bank Southern Africa Department, Discussion Paper 13*, 1997, p.i. www.worldbank.org

complex tariff lines, and this served to perpetuate anti-export bias.⁶⁸ Although trade liberalisation began in the 1970s with the introduction of export subsidies, undergoing various liberalisation episodes – the first taking place between 1972 and 1977, followed by a second episode between 1983 and 1990 - it was only in 1994 when the country locked its tariff liberalisation into the GATT at the closure of Uruguay Round that fundamental reforms were undertaken.

This period was known as the third episode of trade liberalisation.⁶⁹ In April 1994, South Africa signed the Marrakech Agreement, abiding itself by the disciplines of the GATT and committing to liberalise its trade regime – a change that signified a policy shift from an inward-looking to an externally oriented economy.⁷⁰ South Africa's offer to GATT was made on behalf of the Southern African Customs Union (SACU).⁷¹ The import-substitution industrialisation (ISI) programme, with its accompanying high tariff walls, and high dependence on primary products, was finally given its last rites.

Indeed, as Cassim and Zarenda have contended, 'It was purely fortuitous that the installation of the democratic led government coincided with the conclusion of the General Agreement on Trade and Tariffs (GATT).'⁷² This was a powerful development for South Africa and, indeed, the clearest signifier of South Africa's decisive break with ISI and embrace of export-oriented policy trajectory. Export

⁶⁸ John D. Lewis, *op.cit.*, p.10; Yvonne Tsikata, *op.cit.*, p.ii.

⁶⁹ see Michael Bleaney, Alan Hirsch, Merle Holden and Carolyn Jenkins, *op.cit.*; Cassim, Onyango and van Seventer, *op.cit.*, 2002.

⁷⁰ Colin McCarthy, 'South African Trade and Industrial Policy in a Regional Context, in Lennart Petersson, *Post-Apartheid South Africa: Economic Challenges and Policies for the Future*, (London: Routledge, 1998), p.64.

⁷¹ This is the oldest customs union in the world, formed in 1910 and made up of Botswana, Lesotho, Namibia, Swaziland and South Africa. South Africa is the anchor of this customs union dominating its trade and industrial policies, and to some extent monetary policy.

promotion soon became one of the important pillars of South Africa's growth strategy, and was driven largely by DTI.

The process of lowering and simplification of tariffs was undertaken between 1995 and largely completed in 2002. It is important to note that South Africa's liberalisation process was, unlike developments in most parts of the continent, fairly autonomous and was dictated primarily by structural factors in the economy, rather than blindly following ideological perspective, initially. This does not suggest that ideology did not play a role, especially in view of the predominance of neo-liberal developmental paradigm, but this was not, from the outset, a primary reference point for policy thinking when reforms began.

However, ideology weaved itself gradually and subtly into the institutional structures and policy frameworks of government. As Payne has suggested:

‘Nearly all states responded to the structural power of international capital, seeking nationally to put in place an appropriate set of policies and institutions to attract inward foreign investment and, in some cases, extend the openness of the world economy.’⁷³

Accession to GATT had also served to lock in policy reforms. This is also confirmed by Bleaney *et al* who note that:

⁷² Rashaad Cassim and Harry Zarenda, ‘South Africa's Trade Policy Paradigm – Evolution or Innovation’, In Elizabeth Sidropoulos (eds.), *South Africa's Foreign Policy 1994-2004: Apartheid Past, Renaissance Future*, (Wits: South African Institute of International Affairs, 2004), p.106.

⁷³ Anthony Payne, ‘The New Political Economy of Area Studies’, *Millennium Journal of International Studies*, Volume 27 (2) 1998, p.261.

‘the reforms that have taken place in South Africa have not been part of a general and formal structural adjustment programme, and only very recently have the requirements of an external agency (the WTO) begun to drive trade reform. Changes occurred in response to problems that have arisen in the economy’.⁷⁴

This restructuring was also reflective of the wider trade policy reforms in both the developing and the developed world in the 1980s. In addition, ‘The dynamic performance of the export-oriented South and East Asian countries has had a demonstration effect on other countries and has influenced prevailing economic philosophies’ (see Chapter 1).⁷⁵ Furthermore, the traditional space for *dirigisme* industrial promotion had been significantly narrowed by the multilateral trade regime.

An export incentive scheme, the General Export Incentive Scheme (GEIS)⁷⁶, was introduced in April 1990, and it sought to address anti-export bias and shift incentive structure in the economy towards benefiting manufactured exports.⁷⁷ This was based on tax free grants tied to phases of higher value-added and domestic content.⁷⁸

As South Africa did not have a market size that gave it a bargaining capacity in the international trading system such incentive was regarded as important in encouraging

⁷⁴ Michael Bleaney *et al.*, *op.cit.*, p.409.

⁷⁵ Manuel R. Argosin and Dianna Tussie, (eds.), *Trade and Growth: New Dilemmas in Trade Policy*, (London: Macmillan, 1993), p.2.

⁷⁶ The GEIS was implemented in 1990, and it provided subsidy to exporters of manufacturers in proportion to the volume of exports, the stage of manufacture (favouring final goods), and the use of local input, modified by an exchange rate factor. see John D. Lewis, *op.cit.*, for a detailed discussion on the processes leading to its phasing away in 1997.

⁷⁷ Rashaad Cassim *et al.*, *op.cit.*, 2002, p.7.

the inward-flows of foreign capital as well as ensuring competitiveness of domestic industries. Although the GEIS went some way in incentivising value-added exports, it was a very expensive scheme. It had a corrosive effect on the national budget, costing the government about R2 billion annually.⁷⁹ This incentive scheme was also considered incompatible with GATT, and South Africa was forced to phase it out over a three year period, from 1995. It finally came to an end on 11 July 1997. Along with the commitment to phase out GEIS, South Africa also made efforts towards elimination of quantitative restrictions.⁸⁰ A host of other supply-side measures which did not breach GATT norms were ushered in over time.

These measures included: export marketing assistance schemes; small, micro and medium enterprise (SMMEs) support programmes, especially to correct 'market failures' where small and micro enterprises found it difficult to access conventional financing mechanisms; collaborative initiatives encouraged by government between universities and industry for technological development; strategic investment incentive programme (SIP), which provides tax relief and is designed to encourage investment by local and foreign capital in South African industry operations, and contribute to competitiveness of certain sectors; spatial development initiatives to bridge geographic differences in the spread of economic activities; Black Economic Empowerment (BEE) programmes, aimed at encouraging the development of black entrepreneurs and demographic diversification of equity ownership in the economy.⁸¹

⁷⁸ Colin McCarthy, *op.cit.*, 1998, p.70.

⁷⁹ Bleaney *et al*, *op.cit.*, p.407 and Cassim *et.al*, *op.cit.*, p.7; c.f. remarks by Friedrich List that export subsidies are useless and unnecessary, and could encourage other countries to retaliate. See, Friedrich List, *The Natural System of Political Economy*, (London: Frank Cass, 1837/1983), p.123; See also Wyn Grant's caution on the potential cost of certain industrial policy measures, especially their drain on public money, Wyn Grant, *Industrial Policy*, (Aldershot: Edward Elgar Publishers, 1995), p.xi.

⁸⁰ Yvonne Tsikata, *op.cit.*, p.4.

⁸¹ Interview with Nimrod Zalk, *op.cit.*

These incentive programmes also include the use of public procurement to favour previously disadvantaged groups. In making a linkage between South Africa's internal challenges and external strategies, the former Head of International Trade Division and the current South Africa's Permanent Head of Delegation to the WTO, Faizel Ismail, asserted that in all South Africa's international work, the starting points are basic development objectives: increasing the level of jobs, expanding the Small and Medium Enterprises (SMEs), and advancing black economic empowerment, while ensuring greater integration of the Southern African region.⁸² To the extent that a regional strategy is employed to pursue South Africa strategic objectives it can thus be characterised as strategic competitive regionalism as it is primarily informed by South Africa's own domestic economic realities and developmental concerns.

4.4.2 South Africa's Offer to the WTO

In its liberalisation effort, South Africa's offer to the WTO was to reduce tariff categories from over hundred to six and this was to be at the rates of zero, five, ten, fifteen, twenty, and thirty percent. The exempted sectors were clothing and textiles and the automotive sectors, and these were given eight years to liberalise at the same level of offer as other sectors.⁸³ Furthermore, South Africa also made commitments to

⁸² Faizel Ismail presentation at the TIPS-IGD WTO Symposium, Proceedings of a Consultative Symposium, *The Multilateral Trading System and the Road to Doha: Challenges for South Africa*, 7-8 August 2001, Pretoria.

⁸³ Cassim *et.al*, *op.cit.*, 2002, p.11.

reduce domestic subsidies, and these to be phased out at 1986-88 base by 20 percent over a six year period.⁸⁴

Draper notes that ‘The reforms initiated in 1994 at the culmination of the Uruguay Round of multilateral trade negotiations led to a significant reorganisation of South Africa’s tariff structure.’⁸⁵ South Africa’s tariff rates were to be reduced from about 210 in 1990 to 6 in 1996.⁸⁶ South Africa’s five-year GATT offer, as documented by Tsikata⁸⁷, can be summarised as follows:

- reduction of the number of tariff lines by 15 percent in the first year and by 30 percent or higher at the end of the Offer period;
- conversion of all Quantitative Restrictions (QRs) on agricultural imports to *ad valorem* rates;
- lowering of agricultural tariffs by a minimum of 15 percent individually and by 21 percent on average;
- reduction of agricultural subsidies by an export-weighted amount of 36 percent;
- replacement of all formula duties with tariffs;
- phasing out of export subsidies – the GEIS – by the end of 1997.

Almost a decade later, South Africa’s tariff structure remains cumbersome with slow movement towards tariff liberalisation, and there remain over 45 tariff categories in

⁸⁴ Piritta Sorsa, ‘Sub-Saharan African Own Commitments in the Uruguay Round – Myth or Reality?’, *World Economy*, Volume 19, 1996 (3), p.293.

⁸⁵ Peter Draper, *op.cit.*, 2003, p.8.

⁸⁶ Paul Kalenga, ‘Regional Trade Integration in Southern Africa: Critical Policy Issues’, *DPRU Working Papers*, No 00/42. September 2000.), p.6.

⁸⁷ Yvonne Tsikata, *op.cit.*, p.4.

the economy.⁸⁸ In addition, South Africa still has high tariff peaks and these are mostly to be found in the automotive industry.⁸⁹

To a greater degree, even though quite evidently the liberalisation process is largely couched within reforms that are broadly consistent with neo-liberalism, trade policy process is highly managed than simply *laissez faire*, and is linked to broader macro-economic and developmental approach. As the current South African chief trade negotiator, Xavier Carim, has noted, 'The key foci of trade policy are to advance the reform and restructuring of the economy, to enhance economic competitiveness, and to increase the capacity of firms to compete in an increasingly integrated world economy'.⁹⁰ To capture the complex challenges that South Africa faced in the domestic, regional and global fronts and the type of strategies suited to deal with these, a global economic strategy was elaborated by officials at the DTI.

4.4.3 *South Africa's Global Economic Strategy*

South Africa's global economic strategy, which was formulated roughly around 2000, sets out South Africa's key foreign economic policy priorities. At the core of it is the expansion of South Africa's trade negotiations agenda, and diversification away from traditional markets in the EU and the US. The strategy sets out to achieve geographic diversification of South Africa's exports away from traditional markets towards Asia and Latin America. It also aims to lower the proportion of exports going to Europe to

⁸⁸ Rashaad Cassim, Presentation to the closed workshop of the International Economic Development Division, Department of Trade and Industry (DTI), 08 – 09 January 2001.

⁸⁹ *ibid.*

about 25 percent of total exports.’⁹¹ It is likely that this is motivated by the view that these are dynamic markets in which South Africa can export products that are reflect its (potential) dynamic comparative advantage; and that perhaps, reliance on traditional markets may create uncertainties when demand slows in those markets. The table below sketches the direction of South African trade.

Table 4.1: Destination of South African Trade:

Region	Share of total exports (%)		Share of total imports	
	2000	2003	2000	2003
Americas	17	14	15	14
Africa	16	16	2	3
Asia and Oceania	28	30	39	37
Europe	39	39	44	45

Source: Department of Trade and Industry, 2004.

The Global Economic Strategy, together with other policy initiatives such as New Economic Partnership for Africa’s Development (NEPAD), Integrated Manufacturing Strategy, is indicative of South Africa’s determination to carve a larger role for itself in global economic relations. Indeed, apart from tariff liberalisation, South Africa has a wider ambition to be part of varied external trade engagements. Its agenda, through the DTI, includes ‘...negotiating bilateral, regional and multilateral trade agreements aimed at growing and diversifying South Africa’s export markets, and encouraging

⁹⁰ Xavier Carim, ‘Trade Policy in a Coherent Macro-economic Framework’, *TIPS Policy Perspectives* No. 2 May 2003. www.tips.org.za.

⁹¹ Department of Trade and Industry, *A Guide to the Microeconomic Reform Strategy: A Discussion Paper from the DTI of South Africa*, Department of Trade and Industry, Pretoria, May 2002.

foreign direct investment.⁹² At the heart of this approach are considerations of international competitiveness and domestic developmental concerns.

The regional and multilateral dimensions are explored in-depth in Chapters 5 and 6 respectively. South Africa is part of the SADC and plays an important role in SADC Trade Protocol which came into force in 2000 and is aimed at establishing a SADC Free Trade Area by 2008 (see Chapter 5). It is also part of a customs union with four other SADC countries – Botswana, Lesotho, Namibia and Swaziland – and has recently finalised a new Southern African Customs Union (SACU) agreement with these countries.⁹³

South Africa has also signed an EU-South Africa Trade and Development Cooperation (TDCA) in 1999; is currently engaged, together with its SACU partners, in negotiations with the US for a Free Trade Area; and has a number of bilateral trade negotiations lined up, including with South America's Common Market (MERCOSUR) led by Brazil, India, China, and Nigeria. This demonstrates the seriousness with which the country takes strategic competitive realities, and seeks to use regionalism to deal with domestic growth challenges and integrate firmly in wider global processes.

This then takes us to the next section that closely examines South Africa's industrial policy framework.

⁹² Department of Trade and Industry, *ITEDD Report on South Africa's Trade Negotiations*, mimeo.

4.5 South Africa's Industrial Policy Framework

4.5.1 *Integrated Manufacturing Strategy*

As discussed in Chapter 2, there is a strong relationship between trade policy and industrial policy in defining the positioning of the domestic economy, in particular specific sectors, in relation to global markets and competitive pressures. Trade negotiations, in the ultimate, seek to grow and diversify South Africa's export markets with strong emphasis on value-added manufactured exports. Matona of the DTI remarked that South Africa views trade policy as '...an extension of industrial policy at a certain stage of development.'⁹⁴

Government's strategy places emphasis on beneficiation of natural resources, knowledge intensity, and export orientation.⁹⁵ This is very much in line with the recommendations made by the MERG report, quoted earlier, in the early 1990s, pointing to the importance of back-ward linkages in minerals production.⁹⁶ Rather than adopting incentive neutral stance which is associated with narrow 'neo-classical' approaches, the government has opted for 'activist' industrial strategy framework in

⁹³ South Africa's regional trade policy is centred mainly on SADC and SACU. South Africa's participation in the SADC Protocol on Trade and its recent renegotiation of the 1969 SACU agreement expresses regional commitments in its trade policy and strategy approach.

⁹⁴ Interview with Tshediso Matona, Deputy Director-General: International Trade and Economic Development Division (ITEDDD), 12 November 2004, Pretoria.

⁹⁵ Department of Trade and Industry, *Accelerating Growth and Development: The Contribution of the Integrated Manufacturing Strategy*, DTI, Pretoria, 2002, p.22. www.thedti.gov.za

⁹⁶ Backward linkages refers to the process of drawing primary inputs, e.g., from manufacturing for production in the primary sector e.g. mining to create value (or beneficiation). This is often contrasted with forward-linkages, which refers to the usage of inputs drawn from the broader primary sector e.g. iron, steel, basic chemicals and petroleum etc. The use of platinum in catalytic conversion is one example.

order to effectively expedite South Africa's integration into the global economy and at the same time balance growth and equity objectives.⁹⁷

This view is attested to by the fact that recently the President has promoted Rob Davies, a former academic and a leading member of the SACP, to DTI as one of the two Deputy Ministers. He is generally known to favour industrial policy measures where state plays an active role, and he is associated with protectionist tendencies.⁹⁸ While it is still not very clear yet what the exact nature of South Africa's industrial policy is, and what concrete shape it might assume in the future, evidence so far suggests that government is set to play a guiding role without necessarily hindering the outward-oriented path that it pronounced in its policy framework. A balance between an active government role and encouragement of the business sector to be more competitive and in global markets seems to be a favoured approach.

In elaborating on the role of the state in the economy, Argosin and Tussie have argued for example that, '...strong government guidance of the economy and the retention of incentive selectivity are more likely to induce outward-oriented growth than passive government policies'.⁹⁹ Similarly, Wyn Grant observes that a relationship between state and society, especially fostering government-business relationship, '...permits a more effective, long-sighted response to changing economic circumstances and leads

⁹⁷ Interview with Nimrod Zalk, *op.cit.*

⁹⁸ This view benefited from informal discussions held in Geneva with a senior government official at the DTI. Rob Davies has for a long time, as ANC Member of Parliament, chaired the Portfolio Committee on Trade and Industry before he was moved to chair Finance in 2004. He has also written extensively on regionalism during his previous role as an academic.

⁹⁹ Manuel R. Argosin and Dianna Tussie, *op.cit.* p.3.

to a higher growth trajectory.¹⁰⁰ Some of the broader debates on industrial policy are covered in Chapter 2.

Michael Porter notes that the driving force for prosperity is no longer macro-economic policy, it is microeconomic policy; ‘...it has to do with the microeconomic foundation in the country that supports high level productivity in business.’¹⁰¹ South Africa’s integrated manufacturing strategy draws heavily on Porter. In its Integrated Manufacturing Strategy, the DTI states that, ‘Michael Porter’s work on clusters and the importance of the interaction of private and public sectors around specific actions is a methodology that the government and the dti have consciously used.’¹⁰²

Porter articulates a cluster approach – which South Africa has adapted – within the context of a microeconomic strategy geared towards enhancing a nation’s competitive advantage.¹⁰³ He notes that ‘...government’s more decisive influences are often at the micro level.’¹⁰⁴ In defining the cluster approach, he suggests that these are ‘...geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example universities, and trade associations) in particular fields that compete but also cooperate.’¹⁰⁵ The assumption underlying a microeconomic strategy is that productivity in a country’s economy is a function of the productivity of firms in the economy.

¹⁰⁰ Wyn Grant, *Industrial Policy*, (Aldershot: Edward Elgar Publishers, 1995), p.ix.

¹⁰¹ Michael Porter, in UNCTAD symposium: *Regional Integration and the Global Economy*, (Geneva: UNCTAD Publications, October 2000), p.98.

¹⁰² Department of Trade and Industry, *Integrated Manufacturing Strategy, op.cit.*, p.26.

¹⁰³ Michael Porter, *On Competition*, (Harvard: Harvard Business Review, 1998), p.198.

¹⁰⁴ *ibid.*

In South Africa, this cluster perspective informs an approach which is aimed at identifying a number of sectors and product areas in which an investment and export strategy is focused.¹⁰⁶ The macro-economic stability needed for this approach has already been embarked upon between 1996 and 2000. The second wave of reform, especially since 2001, focused its attention on micro-economic strategy, targeting specific 'strategic sectors' in the economy.

What could be the explanation for opting for a cluster approach in the South African context? This question is particularly pertinent given the fact that South Africa's economy hardly exhibits the traits found in countries that Porter used as case studies – most of which are developed economies with relatively levels of productivity. Perhaps, the cluster model could be applied or adapted to middle-income countries such as South Africa, and its attraction lies in the fact that, as Porter suggests, clusters are a '...driving force in increasing exports and [are] magnets for attracting foreign investment.'¹⁰⁷ In this sense, they fit in with South Africa's overall orientation as a 'strategic' developmental state and build on the dimension of 'strategic competitive regionalism'. There are also other factors that account for this preference, and these relate to issues of competitiveness and domestic supply constraints.

On the former, middle-income countries like South Africa are facing pressure to restructure their economies in the light of growing competitiveness of countries like China and India in labour-intensive manufacturing products, and this is on the basis of cost and scale. The challenge then is to move up the technology value-chain. As the

¹⁰⁵ *ibid.*, pp.197-198.

¹⁰⁶ *ibid.*

¹⁰⁷ *ibid.*, p.199.

recent study by a global strategy consulting firm, Mckinsey & Co suggests, countries can no longer compete on the basis of low-cost strategy, especially so in view of China's entry into global markets.¹⁰⁸ Pempel observes that:

'Because a fundamental goal of the developmental state is the improvement of its economic conditions *relative to other states*, any country aspiring to development must choose its strategy within the broader context of regional and international power balances.'¹⁰⁹

Clusters partly fulfil this function, especially to facilitate movement up the value-chain and appropriately shepherding domestic industries' competitive strategies in global markets. Secondly, there are supply side constraints that inhibit productivity at the microeconomic level. These include those to do with technology and R&D support, infrastructure development, access to finance, development of entrepreneurship, input cost and price efficiency, skills, supply chains and logistics.¹¹⁰

Essentially, the cluster approach, built around 'strategic' growth sectors, seeks to attract investment; deal with efficiency issues; improve technological platforms and enhance overall competitiveness. The growth sectors forming part of South Africa's micro-economic reform strategy were highlighted by the South African President, Thabo Mbeki, during his State of the Nation Address in 2003.¹¹¹

¹⁰⁸ Diana Farrel, Antonio Puron, and Jaana Remes, 'Beyond Cheap Labour: Lessons for Developing Countries', *Mckinsey Quarterly*, Issue 1, 2005, p.98.

¹⁰⁹ TJ Pempel, 'The Developmental Regime in a Changing World Economy', In Meredith Woo-Cumings (ed.), *The Developmental State*, (Ithaca: Cornell University Press, 1999), p.147.

¹¹⁰ Department of Trade and Industry, *A Guide to the Microeconomic Reform Strategy: A Discussion Paper from the dti of South Africa*, Department of Trade and Industry, Pretoria, May 2002. www.thedti.gov.za

¹¹¹ President Thabo Mbeki, *State of the Nation Address*, 14 February 2003, www.anc.org.za

The sectors identified for targeting in Mbeki's address were: agriculture; mining; tourism; cultural industries; information technologies; clothing and textiles; vehicle manufacturing; chemicals; aerospace sector; call centres and back office business processing (see Chapter 1). Agriculture and mining for example are targeted for value-added processes. In mining the focus would be on beneficiation; and in agriculture emphasis will shift towards agro-processing to ensure 'high value, technologically-advanced processed agricultural products'¹¹² in the export basket.

It is far from clear whether the Department of Trade and Industry has the requisite capacity to gather detailed economic intelligence on the structure of the world markets and niche areas in which domestic industries could be propelled towards competitiveness. What is perhaps expressed in the industrial policy framework is more an economic vision which would still need a distilled and detailed micro-economic strategy or industrial policy that is based on the competitive position of individual firms. However, the target date – 2014 - for the implementation of the vision seems to have been arbitrarily chosen rather than based on any rigorous quantitative and qualitative analysis of the structure of the global economy over a long period of time.

Nonetheless, government-industry consultation is largely focused on the export sectors noted earlier, and this serves both to inform industry groups of government's strategic thinking as well as to gain feedback from industry. The DTI is in the process of appointing managers to oversee each of these sectoral areas and to interact with

¹¹² Department of Trade and Industry, *Integrated Manufacturing Strategy*, *op.cit.*, p.30.

relevant industry groups on government strategies.¹¹³ The government's global economic strategy notes that, 'Forging partnerships and intensifying co-ordination between government and exporters is essential for the success of our global strategy. Success requires a shared and detailed appreciation of the strengths, weaknesses and dynamics of South African industry and industrial policy at the sectoral level'.¹¹⁴

As set out in the government's integrated manufacturing strategy, specific focus in each sector includes: employment generation, value addition, production for the domestic market as well as export growth, small business development and black economic empowerment. The targeted sectors identified earlier are to be placed on 'knowledge-intensive, export-oriented trajectory'.¹¹⁵ Although there is a discernible shift towards value-added in the economy, there is no evidence that such a shift has indeed generated the promised employment and diversified export growth both in the traditional markets as well as beyond.

According to a report jointly published by the DTI and the Bureau for Economic Research (BER), and academic research unit attached to the University of Stellenbosch, manufacturing growth slowed down at the end of 2002, and came under further pressure at the beginning of 2003. This is attributed to slow down in retail conditions due to increase in interest rates and inflation in 2002; pressure on exports due to poor global economic growth; and a strong currency, which serves to reduce

¹¹³ This is based on a DTI job advertisement on the 04 March 2005. www.thedti.gov.za

¹¹⁴ Faizel Ismail, Xavier Carim and Peter Draper, 'South Africa's Global Economic Strategy: A Policy Framework and Key Elements', *The Department of Trade and Industry*, Pretoria, 2001.p.5.

¹¹⁵ Department of Trade and Industry, *Accelerating Growth and Development: The Contribution of the Integrated Manufacturing Strategy*. DTI, Pretoria, 2002, p.22. www.thedti.gov.za, p22

demands on exports.¹¹⁶ It is worth noting that despite the existing efforts at spurring competitiveness over the decade, since the onset of restructuring, primary products and resource-based manufactures still constitute a significant share of South Africa's exports compared to other developing countries.¹¹⁷ However, the significance of these is gradually declining.

In a follow up document to the integrated manufacturing strategy, the DTI identified four critical areas that are targeted by South Africa's micro-economic reforms.¹¹⁸ These were *cross cutting issues*, related to technology, human resource development, and access to finance and infrastructure; *competitive input sector (utilities)*, chiefly transport, telecommunications, energy, and water; *prioritised growth sectors*, mainly chemicals, agro-processing, automotive industry, tourism, clothing and textiles, mining, metals and minerals, information and communications technology; cultural industries; services and aerospace; and *equity and growth*, focusing especially on black economic empowerment, small business development, women empowerment, employment and geographic spread.

The Department of Trade and Industry's Chief Director for Strategic Competitiveness, Nimrod Zalk, has admitted that South Africa '...still has a long way to go before it reaches the goal of achieving international competitiveness in its manufacturing, but there are positive signs from time to time on certain product

¹¹⁶ Bureau for Economic Research and Department of Trade and Industry. 10 April 2003, Stellenbosch University. www.sun.ac.za

¹¹⁷ Philip Alves and David E. Kaplan, 'SA's Declining Export Shares: The Developing Country Challenge', *Trade and Industry Monitor*. Volume 30 June 2004, pp.3-4.

¹¹⁸ Department of Trade and Industry, *Medium-term Strategy Review Framework*, Pretoria, DTI, 2003, p.8. www.thedti.gov.za

types.’¹¹⁹ Of crucial importance though is to observe the extent to which this microeconomic strategy, and indeed the overall government’s approach to economic reforms, is embedded in domestic social relations.

4.5.2 *Domestic Actors and Adjustment Cost Management*

The government manages its economic reform programme in close collaboration with key domestic actors: organised labour, organised business, and civic representatives. This form of consultation is institutionalised in the National Economic Development and Labour Council (NEDLAC) established in 1994 as a continuation of the NEF that negotiated South Africa’s GATT accession and laid the basis for liberalisation in the early 1990s. This neo-corporatist structure, notwithstanding its limitations with regards to the space for policy consultation, seeks to provide a platform for elaboration of shared legitimacy of social purpose. This could also be characterised as a societal coalitional base¹²⁰ for legitimating the state, and upon which global imperatives are institutionalised and made acceptable to labour.¹²¹

Boris Kagalitsky cautions that ‘Reformist and liberal groupings in the ruling class sometimes enter into agreement with the Left in the pursuit of quite limited goals, but the logic of the struggle for reform takes them at times beyond their own initial intentions and forces them to act more decisively.’¹²² In this regard, this

¹¹⁹ Interview with Nimrod Zalk, Chief Director: Strategic Competitiveness Unit, Department of Trade and Industry, Pretoria, 13 July 2004.

¹²⁰ TJ Pempel, *op.cit.*, p.158.

¹²¹ Heribert Adam, Frederik Van Zyl Slabbert and Kogila Moodley, *Comrades in Business: Post-Liberation Politics in South Africa*, (Cape Town: Tafelberg, 1997), p.140.

¹²² Boris Kagalitsky, *The Dialectic of Change*, (London: Verso, 1990), p.33

institutionalised bargaining mechanism plays some role in shaping domestic social and economic policies on the basis of ‘social accommodation’ or compromise; and on this basis it also deliberates on South Africa’s negotiating agenda in international trade negotiations.

The character of the South African state, in its outward orientation, therefore can be said to manifest, in a limited form, what Ruggie characterises as ‘embedded liberalism’.¹²³ This character is reinforced by the state-society nexus, and this is reflected in the ‘social compromise’ between government, business and labour. Through this social compromise, a shared legitimacy of social purpose is constructed, and domestic economic stability becomes the basis upon which South Africa engages in regional and global level interactions.

Ruggie, for example, alluded to the fusion of power and legitimate social purpose as a basis upon which political authority in the international system is projected, and further notes that ‘...multilateralism and domestic stability are linked to and conditioned by one another’.¹²⁴ Ruggie’s conceptualisation is largely influenced by Polanyi’s notion of ‘double movement’.¹²⁵ Observing the social history of the 19th century, Polanyi pointed out that the extension of the market and its spread across the globe was tempered by powerful institutions ‘...designed to check the action of the market relative to labour, land, and money.’¹²⁶ Rather than diffusing uninhibited, the

¹²³ See John G. Ruggie, *Constructing the World Polity: Essays on International Institutionalisation*, (London: Routledge, 1998).

¹²⁴ *ibid.*, pp.64-78.

¹²⁵ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, (Boston: Beacon Press, 1944/2001), p.79.

¹²⁶ *ibid.*

power of the market mechanism across the globe would be guarded by a counter movement at home, and these could be through institutional innovation.

The form which this neo-corporatism takes in South Africa and indeed in most developing countries, with measures to safeguard social stability or attenuate social dislocation, cannot be said to be *perfectly* expressing Polanyi's double movement or Ruggie's 'embedded liberalism'. Because social measures are constantly under threat of being eroded by the rising tide of globalisation, South Africa's strategy can thus be characterised as 'embedded liberalism' in a *limited* form. It is conditioned by global structural and ideational constraints.

With regards to existing institutional mechanisms to manage social dislocation it should be noted that these are not very solid. Yet they play a very useful role not only in managing domestic-global tensions, but also domestic social tensions. However, at a broader level of strategic thinking, strengthening the institutional capacity '...to deliver services and products that facilitate social and economic development' – as the current micro-economic reform strategy suggests – remains at the heart of government's policy.¹²⁷

It must also be highlighted that there are problems with the extent of government's consultation in the NEDLAC structure, and as a result there is a sense that instead of extensive consultation, the government simply runs policy past.¹²⁸ This could well be

¹²⁷ Department of Trade and Industry, *A Guide to the Microeconomic Reform Strategy: A Discussion Paper from the dti of South Africa*, Department of Trade and Industry, Pretoria, May 2002. www.thedti.gov.za

¹²⁸ Discussion with Peter Draper, Research Fellow at the South African Institute of International Affairs (SAIIA) and former Head of Research in the DTI's International Trade Division; See also Ian Taylor, 'The Contradictions and Continuities of South African Trade Policy', In Dominic Kelly and

as the result of pressure on state actors to adjust the domestic setting to global exigencies as well as frustration with the fetters of neo-corporatist arrangements. State actors view NEDLAC as lacking in coordination and ‘...still stuck in the old debate whether to liberalise or not rather than fully supporting the existing strategy.’¹²⁹

Draper has argued that NEDLAC is not ‘...operating optimally from the viewpoint of promoting effective participation in trade negotiations.’¹³⁰ In a very limited form, South Africa’s trade strategy is embedded in these social partnerships. NEDLAC’s challenges and constraints notwithstanding, social actors have, to varying degrees, made inputs into government’s position and have also participated in multilateral trade negotiations as part of government’s delegation.

Much of the concerns of social actors, especially organised labour and organised business, are with the management of the domestic adjustment in the face of economic reforms and negative effects of globalisation. Essentially, NEDLAC provides an institutional platform for government, business and labour to strike a broad-based consensus on economic restructuring, and especially on issues of adjustment. Sometimes this mechanism is frustrating for government as labour and organised business tend to be concerned with short-term effects of policy, and government sees itself as having a long-term view of restructuring the economy, whose outcomes could affect certain protected industries and have negative consequences for workers.

Wyn Grant (eds.), *The Politics of International Trade in the Twenty-First Century: Actors, Issues and Regional Dynamics*, (Basingstoke: Palgrave, 2005), pp.298-299.

¹²⁹ Interview with Tshediso Matona, *op.cit.*

Reich has suggested for example that ‘managed adjustment’, where ‘government, working hand in hand with business and labour, can ease the transition out of declining industries and into emerging ones.’¹³¹ He has also contended that diversification into more productive and competitive sectors may be a superior adjustment strategy.¹³² It would seem therefore that in part this logic underlies South Africa’s approach to economic reforms, but it is yet to be communicated clearly. The most significant deliberative event to have taken place under the aegis of NEDLAC was the ‘Growth and Development Summit’ in 2003 where government consulted on its growth strategy.

This summit elaborated a key set of recommendations necessary to boost growth and job creation in the economy. These included: public investment initiatives to expand infrastructural development; expanded public works programme; and strengthening sector partnership, including paying attention to sectors that can have a strong impact on overall employment creation, with labour-intensive sectors prioritised (e.g. clothing and textiles; agriculture and agro-processing, tourism; call centres and back office operations; and cultural industries); local procurement; and small enterprise promotion.¹³³

There, however, appears to be a difficult accommodation between government’s long-term economic visions and how it is articulated on the one hand, and expectations of certain social actors and how they view government’s role in the economy on the other. While this at least demonstrates that state actors maintain a considerable degree

¹³⁰ Peter Draper, *op.cit.*, 2005.

¹³¹ Robert B. Reich, ‘Making Industrial Policy’, *Foreign Affairs*, Volume 60, 1982, p.855.

¹³² *ibid.*, p.859.

of insularity from particularistic interests in society, it makes things harder for the government as there is an existing institutional mechanism which could at any moment constrain the extent to which state actors are autonomous.

4.6 South Africa's Domestic Capital in the Region

The global economic strategy singles out Africa, and Southern Africa, in particular is as constituting its centrepiece. As this thesis argues, this is both for political and economic reasons. South Africa is more concerned with the competitiveness of its domestic firms in global markets. Indeed, South Africa's interests, as the thesis contends, is to utilise the regional space both as a destination for South African capital – a strategy which can best be conceptualised in terms of strategic competitive regionalism – and to shape evolving political processes in the region as well as using the region as a platform to build bargaining capacity in multilateral trade engagements (see Chapter 6). However, a regional power status in global economic relations cannot be achieved solely on the back of economic strategy; it has to also derive political legitimacy through fostering good relations, based on mutual benefit and balanced development, in the surrounding region.

On paper, the global economic strategy links South Africa's domestic growth imperatives to overall developmental concerns of the continent and the sub-region (see also Chapter 3). It is pointed out for example in the strategy document that, 'This developmental agenda is linked to South Africa's own economic resurgence and the relationship can be described as mutually beneficial since it allows South African

¹³³ NEDLAC, *Growth and Development Summit Agreement 7 June 2003*. www.nedlac.org.za

interests to be furthered in a manner that allows for the continent's simultaneous development to occur'.¹³⁴

The extent to which this relationship is mutually beneficial is critically examined in Chapter 5. Rather than seeking to build itself as region-centered 'hegemon' in the short-term, South Africa is more concerned with increasing its stakes in the global level processes and finding ways to resolve its internal social contradictions - including acute social inequalities, unemployment crisis and sluggish economic growth – most of which are a legacy of the apartheid era.

South Africa's nascent global economic strategy – with one foot on the region and the other on the global or multilateral front - reflects deep concerns about strategic competitiveness. South Africa plays a central role in region-level process, but that is not where its strategic objectives find ultimate fulfilment. Similarly with the pre-1994 external strategy, discussed in Chapter 3, the post-apartheid strategy is set much wider than the immediate region. Its reach is continent-wide, and it also seeks to position South Africa competitively in the global political economy.

In the continent, South Africa has an explicit objective to advance its thrust in the New Economic Partnership for Africa's Development (NEPAD) through provisioning of leadership in its analytic and strategic content. In his 2003 Budget Speech, the Minister of Finance, Trevor Manuel, set out government's intention in the region as to

¹³⁴ Faizel Ismail, Xavier Carim and Peter Draper, *op.cit.*, p.5.

promote South Africa as a regional financial centre 'able to cater more fully for the needs of the African continent'.¹³⁵

In addition, South African government has expanded its missions in African countries, increased the funding for the African Union (AU) and NEPAD Secretariat. Budget allocation to reinforce South Africa's peace initiatives in the continent amounted to R1.1 billion and an additional R427 million allocated towards enhancing diplomatic representation abroad in the 2004 fiscal year.¹³⁶ Foreign Exchange control allowance for South Africa's FDI into Africa has also increased from R750 million to R2 billion and foreign direct investment outside of Africa increased from R500 to R1 billion in 2003.¹³⁷ This clearly attests to government's determined approach to establish South Africa's presence and leadership in the sub-region and the continent.

However, so far, much of South Africa's activities in the region are less of a function of coordinated political leadership, especially in regards to economic relations, but more of an expression of South Africa's capital or business' dominance. According to a report by Africa@Work, one of the leading think tanks on South Africa's business activities on the continent, there has been a noticeable growth and diversification of South Africa's business and investment away from traditional business of contracts in construction, mining, vehicle components, timber and steel.

¹³⁵ Minister of Finance, *The Budget Speech*, 18 February 2004, Department of National Treasury, 2004, p.23. www.treasury.gov.za

¹³⁶ *ibid.*

¹³⁷ Minister of Finance, *The Budget Speech*, Department of National Treasury, 2002. www.treasury.gov.za

The investment drive, according to Games, favours areas such as skills training, education, IT and telecommunications, clinics and healthcare, franchising, advertising, property development and waste management.¹³⁸ These build on traditional areas such as mining, civil engineering and construction, agriculture, tourism and the manufacturing and service industries.¹³⁹

Games has further observed that in 2001, South Africa was listed as the second biggest investor in the SADC region with investment of R14.8 billion, trailing multi-state deals at R27 billion with the next highest country investor being the United Kingdom at R3.4 billion.¹⁴⁰ The report is quite detailed about the spread of ‘non-traditional’ areas in which investment is concentrated in the region, and the generally bullish state of South Africa’s capital in the continent. It is noted, for example, that:

‘Among the big deals in the SADC region in 2001 and 2002 were a new investment of US\$1.1 billion by SASOL in the Pande and Temma gas fields in Mozambique; a US\$860 million investment by BHP Billiton, the IDC and Mitsubishi in the expansion of Mozal II; a US\$142 million by Vodacom in Tanzania, and a further US\$139 million investment in the DRC; US\$56 million by Sun International in its hotel in Zambia; US\$83 million in Pretoria Portland Zimbabwe in merger activity in Zimbabwe; US\$6 billion by power parastatal Eskom enterprises in the

¹³⁸ Dianna Games, *The Experience of Firms doing Business in Africa: A preliminary Analysis*, University of Witwatersrand, South African Institute of International Affairs, 2003, p.1. www.saiaa.wits.ac.za

¹³⁹ Whitehouse & Associates, ‘Trade, Projects and Investment: What is South Africa to Africa?’, *Traders: African Business Journal*, Issue 19, August – November 2004, p.4.

¹⁴⁰ *ibid.*, p.6.

Inga Project in the DRC; and US\$20 million by the South African Airways for its stake in Air Tanzania'.¹⁴¹

These trends have been evolving at a dramatic pace since the country went through democratic change and gained admission as a member of SADC in 1994. However, these investment activities have also generated or added to negative perceptions about South Africa's business behaviour in the region. The former Minister of Public Enterprises, Jeff Radebe, noted that, 'The fact that strong perceptions exist, that many South African companies and enterprises come across as arrogant, disrespectful, aloof and carelessly in their attitude towards the local business community, consumers, work seekers and even governments, is a cause for concern.'¹⁴² These can, and often do, portray South Africa as a self-interested partner in regional integration or in its relationship with other African countries.

4.7 Conclusion

This section has paved the way for a more focused discussion on South Africa's role in regional relations since 1994. This chapter looked at South Africa's political and economic transition in the early 1990s and the challenges that the country faced as it sought to integrate itself into the global economy. It also provided a broad overview of South Africa's political economy during this period. In this context, the economic reforms, including trade and industrial policies were examined. This examination

¹⁴¹ *ibid.*

¹⁴² Jeff Radebe, Minister of Public Enterprises (South Africa, 1999 – 2004), Keynote Address, In SARPEN, *Stability, Poverty Reduction and South African Trade and Investment in Southern Africa*,

looked in particular at the structural changes in the South African economy from a closed to an export-oriented posture. It is clear that these changes in the macro and micro-economic policies also reflected the shifts taking place at the global level and pressures felt by states for structural reforms and competitiveness.

There is no doubt that a confluence of factors, including changes that were already on the horizon at the systemic level; the declining state of the economy as a result of the huge amounts of resources expended in maintaining the apartheid edifice; recession of the 1980s and the atrophy of ISI strategy; South Africa's international isolation; and the internal pressure generated by grassroots movements in rebellion against apartheid have all acted to bring it down and prepare the ground for the emergence of a new social dispensation within the country.

The choice of South Africa's external strategy, including its relationship with the immediate region, was, to a considerable extent going to be determined by both the internal developmental challenges and considerations for global integration. What emerged out of this dynamic is a particular form of regional strategy driven by strategic competitive considerations in its 'offensive' mode, but taking on a strongly mercantilist shape in its 'defensive' mode. Building on this background, the next chapter will critically examine South Africa's regional trade engagements. This is one of the key dimensions in the domestic-regional-multilateral nexus.

CHAPTER 5: Strategic Competitive Regionalism and Developmental

Challenges: South Africa in Southern Africa.

Chapter 1 discussed some of the developmental challenges faced by Southern African countries by placing the sub-region within a broader developmental context in Sub-Saharan Africa. Quite evidently, Southern Africa has structural similarities to most parts of the continent. It is generally poor and underdeveloped and relies mainly on primary products for exports. Five of 14 SADC countries fall under the designation of Least Developed Countries (LDCs); and the majority of countries in Southern Africa generally lack infrastructure and have poor institutions, including weak regulatory bodies and bureaucratic structures. The structural features of the sub-region reveal the extent of its marginality from the global economy.

The socio-economic character of the sub-region did not escape South Africa's state actors in their determination of the country's future foreign economic strategies. Indeed, the sub-region was considered by South Africa as a challenge that it would have to contend with as part of addressing its own domestic growth and developmental challenges (see Chapter 4). This took on a deep sense of urgency as the country expedited its integration into global economic relations in the early 1990s.

However, South Africa's regional approach has by and large betrayed a sense of ambivalence towards the region and this partly reflects contradictions within South Africa's own social structure (see Chapter 4), and the multifaceted challenges that the country faced as it looked both to its immediate regional neighbourhood (largely trapped in poverty) and towards prospects for deeper integration in the global

economy for economic efficiency. On the one hand, South Africa exhibits 'First World' economy features: it possesses complete institutions of governance, effective regulatory mechanisms, well-developed infrastructure, a growing proportion of capital markets, a thriving services sector, and a fledging manufacturing economy. Yet, on the other hand, South Africa's economy is afflicted with similar ills that are visited upon most countries in the region, with high levels of unemployment, high poverty rates, a growing informal economy, high illiteracy rates and a slow growing economy.

This chapter discusses the regional dimension of South Africa's global positioning, locating it within South Africa's domestic developmental framework, already discussed in the previous chapter. The multilateral dimension which is, in no small measure, interlinked with the regional dimension, will be considered at great length in Chapter 6. This chapter looks at the political economy of trade relations in the context of regionalism, examining South Africa's foreign economic strategy in the region and the constraints it suffers at the domestic level.

This analysis is made against the backdrop of Southern African Development Cooperation (SADC) Free Trade Protocol which is an important institutional driver of regional economic integration in the sub-region. It is also here that political tensions amongst SADC member countries play themselves out. This chapter builds on the argument already set out in Chapters 1 and 2, that considerations of strategic competitiveness – shaped mainly by the domestic scene - are crucial in defining South Africa engagements at the regional and multilateral levels.

5.1 Background

5.1.1 *The Economic Profile of SADC*

As briefly highlighted earlier, large parts of SADC could be characterised as peripheral. Yet, in terms of the population size, the sub-region is a vast area: it has a population of about 190 million people, with 40 percent living in conditions of extreme poverty and with high levels of malnutrition, illiteracy rates and unemployment.¹⁴³ The size of the land is about 9.1 million square kilometres.¹⁴⁴ The Democratic Republic of Congo (the DRC) is by far the most populous and the poorest country in the region. It has a population of 45.5 million, and in terms of size it is followed by South Africa at 43.2 million.¹⁴⁵ The sub-region has a combined GDP of US\$176 billion.¹⁴⁶

As noted earlier, the structure of trade in Southern Africa is narrow both in terms of product and geographic spread. The sub-region accounts for 0.3 per cent of the world trade and its highest export shares are in primary products which account for 1.7 per cent of total world exports.¹⁴⁷ This section will not attempt a detailed profiling of each SADC country, except to highlight broad trends. It will instead look at a cross-section of countries, mainly those that belong to SACU, and Mauritius (generally known as liberalisers or reformers). Zimbabwe, another country with a diversified economic

¹⁴³ Prega Ramsay, 'Poverty Reduction: A Top Priority in SADC's Integration Agenda', *Southern African Update*, Volume 13, March 2002, p.1. www.tips.org.za

¹⁴⁴ John D. Lewis, *op.cit.*

¹⁴⁵ UNCTAD, *Sub-regional Trade Expansion in Southern Africa as a Result of the SADC Trade Protocol*, (Geneva: International Trade Centre, UNCTAD, 2001), p.7.

¹⁴⁶ Prega Ramsay, *op.cit.*

structure, and previously one of the relatively fast liberalising economies in Southern Africa is also particularly strong in mining and industrial production. However, its economy and general structure has over the past four years faced severe strains due to political mismanagement by the elite. Given the complexity of the issues involved and the difficulties in obtaining updated data on economic indicators and patterns of trade, Zimbabwe will not be analysed.

Most SADC countries, especially the least-developed country (LDC) group, consisting of Malawi, Mozambique, Tanzania, and Zambia (MMTZ), share similar characteristics – and these will not be examined extensively here, except to highlight relevant aspects of their economic performance. It is important to stress that this thesis is not concerned with individual SADC country members. Rather, its key focus is on political and economic relations within the sub-region, in the context of the institutional framework of SADC and the multilateral trading system. More specifically, the interest of the thesis is on South Africa's role as a 'core' state in the sub-region.

However, by way of a background overview, it is important to provide a picture of SADC's social and economic structure, especially of those countries whose economies have an impact on the structure of trade in the sub-region. A majority of countries in the sub-region are primary product dependent and their exports reflect their narrow production structure. Such primary commodity dependence is more acute for least-developed economies that also have to contend with weak institutional structure and poor economic performance across all dimensions.

¹⁴⁷ John D. Lewis, *op.cit.*, 2001, p.35

The figures for share of primary products in total exports are: 46 percent for Tanzania and 18 percent for Mozambique.¹⁴⁸ Zambia is largely dependent on mining, mainly copper and cobalt, for mining. This sector accounts for 83 percent of Zambia's merchandise exports.¹⁴⁹ Malawi is highly dependent on agriculture and has a narrow industrial base and weak inter-sectoral linkages.¹⁵⁰ Agriculture accounts for 42 percent of GDP and 81 percent of export earnings; and manufacturing accounts for 12 percent of GDP.¹⁵¹ Malawi is a highly subsistence economy. Its main export products include tobacco, sugar and tea.

Mauritius is traditionally sugar dependent for its exports, and this remains a sensitive sector for the country as it historically constitutes the backbone of its economy. However, the country is increasingly diversifying away from this sector towards textiles and clothing, tourism and financial services.¹⁵² As the country firmly integrates itself to the global economy so are the pillars of its economy shifting from sugar mono-culture towards the sectors noted above. For example, its manufacturing sector is dominated by textiles and clothing produced in export-processing zones designed to attract foreign investment.¹⁵³

While sugar cane is still the main pillar of the economy¹⁵⁴, tourism and financial services are fast emerging as drivers of the country's economic growth. Even though

¹⁴⁸ John D. Lewis *et al*, *op.cit*.

¹⁴⁹ World Trade Organisation Secretariat Report on Zambia Trade Policy Review, WT/TPR/S/17.

¹⁵⁰ Food and Agriculture Organisation (FAO), www.fao.org

¹⁵¹ *ibid*.

¹⁵² Other services sectors include electricity, gas, construction and water, and the sector contributes around 74 percent to Mauritius' real GDP. See *ibid*.

¹⁵³ World Trade Organisation Secretariat Report on Mauritius Trade Policy Review, WT/TPR/S/90.

¹⁵⁴ According to the WTO Secretariat Review Report, Mauritius exports almost all its sugar. It benefits from the Sugar Protocol under the Cotonou Agreement as well as under the US African Growth and Opportunities Act (AGOA) since January 2001.

manufacturing contributes around 75 percent of the total value of merchandise exports,¹⁵⁵ the reliance of this sector on textiles and clothing could prove untenable in the face of stiff competition from China and India, sparked by the end of the Multi-Fibre Agreement (MFA) at the beginning of 2005.¹⁵⁶

Compared to the rest of SADC countries, SACU countries can be generally regarded as reformers – especially in terms of trade and investment regime liberalisation. Their overarching consideration is to improve overall competitiveness and integrate firmly into the global economy. Historically, because of close linkages with South Africa through SACU, these countries' trade policies were determined by South Africa. Although the new SACU Agreement that was signed in 2002 and entered into force in 2004 aims at democratising decision-making and trade policy setting within the area, its trade policy and negotiating capacity is still dependent on South Africa.

Looking at individual SACU member countries, Namibia is mainly an agrarian economy, but also rich in minerals (diamonds),¹⁵⁷ meat and fish – and these are major sources of foreign exchange and government revenue, accounting for over 60 percent of manufactured exports.¹⁵⁸ There is a considerable degree of processing taking place, which points to the potential for the country to develop dynamic comparative advantage and export competitiveness in agro-processing. In addition, through export development zone programme, the country seeks to expand and diversify its

¹⁵⁵ *ibid.*

¹⁵⁶ The sector accounts for about 85 percent of EPZ exports in value, 89 percent of EPZ employment, and 55 percent of the total number of EPZ companies. See WTO Trade Policy Review for Mauritius, *op.cit.*

manufacturing base, especially in the area of textiles and clothing. However, similarly with most of the region, primary products: mining, agriculture and fishing account for over 20 percent of the GDP, and the economy is largely driven by a single product - fisheries.¹⁵⁹ The future of textiles and clothing is in precarious position due to the end of multi-fibre agreement. However, in the short- to medium-term this is likely to survive under the generalised preference schemes such as AGOA.

Lesotho is a very small country, surrounded by mountains and with no easy access to the sea. The majority of its population – 80 percent – lives in rural areas. It does not generate much economic activity, and largely depends on revenues from SACU Customs Revenue Mechanism. Its main economic activities are in the area of textiles and clothing and benefits from AGOA's generalised system of preferences. In 2000, over 99 percent of the country's exports were destined for the US and South African market; and its imports originate mainly from within SACU.¹⁶⁰ It is thus vulnerable to cyclical economic slumps in these markets. Even so, it is evident that in terms of production and financial linkages, Lesotho is significantly disarticulated from the global economy.

Similarly, Swaziland is a very small and land-locked, dualistic economy.¹⁶¹ The country depends mainly on sugar production for its exports,¹⁶² and this sector has

¹⁵⁷ This is produced by Namibian Diamonds (NAMDEB) on a joint venture basis between De Beers and the Namibian Government, producing about 85 percent of Namibian diamonds. All diamonds are sold through Diamond Trading Company, owned by De Beers.

¹⁵⁸ WTO Secretariat Report WT/TPR/S/114/NAM

¹⁵⁹ *ibid.* According to a WTO Secretariat Report, 95 percent of fish caught is exported as processed to SACU and EU markets. Fish production is apparently the main driver of economic growth.

¹⁶⁰ World Trade Organisation Secretariat Report, WT/TPR/S/114/LSO

¹⁶¹ Consist of large-scale, commercial, irrigated, export-oriented production; and small-scale, rain fed, production for local consumption.

linkages to the industrial sector of the economy, for example, confectionery and beverages.¹⁶³ Swaziland also derives a significant part – 51 percent – of its national income from the SACU revenue pool. In 2001, food and chemicals (mainly sugar-based flavourings) made up 60 percent of Swaziland's total exports.¹⁶⁴ South Africa is a major source of imports as well as destination of choice for the country's export products. Outside of SACU (mainly South Africa), the EU is the principal export destination.

Botswana diverges slightly from the general trend in the sub-region, although much of its production and exports still reflect primary product dependence. At least it has a relatively developed financial subsector, and seeks to diversify production away from primary product dependence towards manufacturing, services and a diverse range of dynamic agricultural production.¹⁶⁵ About 90 percent of Botswana's merchandise export receipts in 2001-2 were from minerals (with diamonds rising from 77 to 85 percent; and copper and nickel declining from 11 to 3 percent).¹⁶⁶ Diamond is a major source of export earning.¹⁶⁷ In 2001-2, primary activities, mainly mining and agriculture accounted for 37 percent of the GDP. Placing food security at the heart of its developmental strategy, the government seeks to expand production of horticulture, especially grapes, apples, citrus fruit and olives.¹⁶⁸

¹⁶² Other export products include citrus and other fruit. Including sugar, these are heavily dependent on preferential access to the EU, US and South African market. Benefitting from the Cotonou Agreement Sugar Protocol, sugar enters duty free in the EU and benefits from price support, see World Trade Organisation Secretariat Report, WT/TPR/S/114/SWZ. The Secretariat Report, quoting Swaziland Sugar Association, note that 92 percent of the sugar produced in Swaziland is exported.

¹⁶³ *ibid.*

¹⁶⁴ *ibid.*

¹⁶⁵ See World Trade Organisation Secretariat Report, WT/TPR/S/114/BWA

¹⁶⁶ *ibid.*

¹⁶⁷ Diamond mining is done by DEBSWANA, a company formed through a joint venture between De Beers and the State. It mines and sells diamonds through Diamond Trading Company, which is De Beers market arm. The main export market is the US.

¹⁶⁸ *ibid.*

While Botswana is often hailed as a success story in the region and, indeed, in the continent, it should not be lost that much of this success is based on institutional and governance architecture, including better macro-economic management, rather than grounded on sustained and diversified economic base. Although performing much better than most countries in the sub-region, Botswana is still largely primary production based economy, and imports machinery, electrical equipment, metals, transport equipment and food beverages from within SACU.¹⁶⁹

Some studies have suggested that there exists a potential for trade complementarity between SADC countries.¹⁷⁰ Currently, the structure of complementarities reflects one-way trade benefit in favour of South Africa (See table 5.1 below). As noted earlier, the composition of South Africa's regional export basket is predominantly manufactured goods; and the region exports mainly primary products to South Africa (and SACU).¹⁷¹ This structure of trade would fit the classic Heckscher and Ohlin model of international trade.¹⁷² This is an unenviable position for the region given the volatility of the world markets for commodities compared to markets for manufactures, as well as the fact that this constitutes a poor basis for developing a strong bargaining power in international trade negotiations.

¹⁶⁹ World Trade Organisation Secretariat Report, WT/TPR/S/114/BWA

¹⁷⁰ See UNCTAD, *op.cit.*, 2001; Moses Tekere and Daniel Ndlela, *Study of the Compatibility of Trade Policies in the Context of Current Regional Economic Integration Processes: The Case of SADC*. (Gaborone: SADC, March 2003).

¹⁷¹ UNCTAD, *op.cit.*, 2001, p.9.

¹⁷² This is a model based on Ricardian principle of static comparative advantage. It suggests, as summarised by Gilpin, that 'a nation's comparative advantage is determined by the relative abundance and most profitable combination of its several factors of production, such as capital, labour, resources, management, and technology.' See Robert Gilpin, *The Political Economy of International Relations*, (Princeton: Princeton University Press, 1987), p.175; See also Susan Strange, *States and Markets*, (London: Pinter, 1988), p.180; Hirst and Thompson critique this model for its inadequacy in explaining intra-industry trade which is dominant within the triad (EU, North America and Asia). See, Paul Hirst and Grahame Thompson, *Globalization in Question*, (Oxford: Blackwell, 1999), p.105.

Table 5.1: Bilateral Complementarity Indices in SADC

Exporting Country	Importing countries										
	Bots	Mal	Maur	Moz	Namib	RSA	Swaz	Tanz	Zamb	Zimb	Average
Botswana	...	7.5	11.3	17.8	9.6	13.0	9.7	7.4	7.8	8.9	13.0
Malawi	13.7	...	9.3	18.4	11.6	11.6	13.0	9.3	8.1	6.6	11.3
Mauritius	16.8	11.3	...	21.3	14.6	15.3	15.8	12.0	10.3	8.9	14.0
Mozambique	23.2	21.8	26.7	...	23.9	24.6	26.2	20.8	19.5	19.1	22.9
Namibia	22.8	14.0	20.5	24.8	...	17.1	18.8	11.5	21.0	11.3	18.0
South Africa	53.9	48.5	54.1	59.4	54.1	...	55.1	51.3	51.0	49.9	53.0
Swaziland	27.9	20.4	23.5	30.0	29.9	22.0	...	20.6	19.0	17.6	23.4
Tanzania	16.4	13.1	20.2	20.2	13.4	13.2	13.3	...	8.9	7.1	14.0
Zambia	19.0	12.9	19.3	23.2	14.9	16.6	14.2	12.8	...	11.9	16.1
Zimbabwe	13.7	14.0	18.4	20.4	10.6	11.5	11.5	10.6	9.1	...	13.3

Source: From IMF Working Paper, WP/04/227; IMF Staff Calculations using UN COMTRADE data. Angola, DRC and Lesotho were excluded due to lack of data. Seychelles, even though included here, left SADC towards the end of 2004.

The indices in Table 5.1 reveal asymmetric complementarity between South Africa and the majority of SADC countries, as discussed earlier. An IMF Working Paper by Khandelwal on Regional Integration in Southern Africa also reveal that the extent of product complementarity within SADC is very low. The product complementarity index ranges from 0 (which signifies no complementarity) to 100 (which express full complementarity). According to calculations undertaken by Khandelwal using UN-COMTRADE database, '...there is complementarity between South Africa's exports and the imports of the rest of the region, but not vice versa.'¹⁷³ What this means is that South Africa is able to find markets for its products in the neighbouring region while the reverse is not the case. As Khandelwal suggests, this situation raises concerns

¹⁷³ Padamja Khandelwal, 'COMESA and SADC: Prospects and Challenges for Regional Trade Integration', *IMF Working Paper* WP/04/227, (Washington D.C; International Monetary Fund, 2004), p. 16.

regarding polarisation as '...investment may be attracted towards the larger and more industrially diversified economies in the region.'¹⁷⁴

This reality points to the importance of shifting away from static comparative advantage in primary products. Successfully achieving this would be a function of a mix of domestic policy reforms and regional integration process that places premium on balanced development, and flows of foreign direct investment that could act to facilitate vertical integration from primary to dynamic products. As the cases of Botswana and Namibia already indicates, policy initiative towards better management of macro-economic environment and diversifying away from traditional sectors could go a long way in enlarging the room for development of dynamic efficiencies. This also needs to be accompanied by measures aimed at diversifying destination markets (see discussion below). Increasing intra-SADC trade could be a starting point.

5.2 Regional Integration: The Post-1994 Developments

South Africa's realignment in regional politics and economic relations in 1994 was undoubtedly a meaningful development which went a long way in shaping the strategic focus of SADC, especially in relation to intra-regional trade and integration into the global economy. As noted in Chapters 3 and 4, even before South Africa became part of regional relations, the country had already gave consideration to how it was going to engage with the global economy, both in view of its domestic circumstances and regional relations. Encapsulating the region in South Africa's foreign (economic) strategy was going to prove challenging. As the largest economy

¹⁷⁴ *ibid.*, p.17.

in the sub-region, with relatively developed institutions and sophisticated productive forces. South Africa's re-integration in regional relations was initially considered a boon by most countries in the sub-region, until they were faced with the vexed question of trade integration.

At the dawn of democracy in South Africa in 1994 most actors in the sub-region were waiting to see what the actual character of South Africa's regional strategy would be: whether it would take a self-centred direction, pandering to mercantilist interests; or it would assume a benign shape, strongly predisposed towards making a self-sacrificing contribution towards regional development. Initially, during the first phases of democratic transition, the new political elite in South Africa articulated a strategy whose visage seemed favourably disposed towards the region's development and stressed the need for mutually beneficial relations with its regional partners (see Chapter 3).

There is no doubt that at the political level, and in rhetoric, there was a strong realisation amongst policy makers in South Africa of the importance of the sub-region in South Africa's overall foreign economic strategy. As pointed out in chapter 4, the linkage between South Africa's economic resurgence and the region's development is strongly emphasised in South Africa's global economic strategy.¹⁷⁵ Failure to strengthen this linkage too would certainly open up a menacing possibility for re-emergence, if not continuation, of age-old tensions with a different shade.

Hence it was immediately clear, and essential, to the new elite in South Africa to

place strong emphasis on the benign inclination of South Africa towards the region. This emphasis was clearly evident in South Africa's first developmental strategy, the RDP, when it made positive reference to the sub-region (see Chapter 3). While it was not exactly clear what specific approach South Africa would adopt towards the region, there were nevertheless strong views regarding the need for the new ANC government to be a lot more sensitive in relating with its regional neighbours. Some scholars have also argued that South Africa should play a benevolent hegemonic role in the sub-region, and such a role should aim at promoting balanced development.¹⁷⁶

The view that South Africa would pursue relations that are geared towards mutual benefit, discounting narrow self-interests, was partly rooted in a lack of understanding of the depth of economic challenges and pressures that South Africa would grapple with, arising both from within the country and externally, and how this would force state actors to play a less than generous role in the sub-region. Indeed, as Le Pere and Nieuwkerk have pointed out, '...the ANC's idealistic leanings and the realist imperative of a globalised world brought into stark relief a range of tensions and contradictory impulses in implementing foreign policy.'¹⁷⁷

The first five years of South Africa's transition as a democratic state were, as observed in Chapter 4, the most daunting - the country was squeezed between global exigencies and domestic structural challenges. As such, the magnitude of challenges

¹⁷⁵ Faizel Ismail, Xavier Carim and Peter Draper, 'South Africa's Global Economic Strategy: A Policy Framework and Key Elements', *The Department of Trade and Industry*, Pretoria, 2001, p.5.

¹⁷⁶ Betil Oden, 'South African Benevolent Hegemony in Southern Africa: Impasse or High Way'? In Vale, Peter, Oden, Betil and Swatuk, Larry., *Theory, Change and Southern Africa's Future*, (London: Palgrave, 2001), p.183.

¹⁷⁷ Garth Le Pere and Anthony van Nieuwkerk, 'The Evolution of South Africa's Foreign Policy', In Phillip Nel and Patrick J. McGowan (eds.), *Power, Wealth and Global Equity: An International Relations Textbook*, (Landsdowne: UCT Press, 2002), p.253.

faced by the South Africa's nascent democratic state weighed heavily on its developmental agenda in regional relations. Indeed, over the years since 1994, South Africa has struggled to reconcile its commitment to regional development with its strategic competitive agenda, designed to benefit domestic industries and achieve developmental goals (see Chapter 4). Instead, increasingly South Africa viewed the region through economic competitive lenses; and consequently its trade relations with the sub-region have, to a considerable degree, exhibited protectionist tendencies (see discussion below).

Countries in the SADC sub-region initially viewed South Africa's reintegration into regional processes, post-apartheid, as a benefit to be maximised in order to deal with the state of underdevelopment for which South Africa was partly responsible through its destabilisation policies of the 1970s and 1980s in the sub-region (see Chapter 3). Regional cooperation and integration, with South Africa at the centre, was therefore seen as a way of ameliorating economic malaise and as an instrument to be leverage for beneficial integration into the global economy. Accessing South Africa's larger market and effective integration into the global economy were motivating factors for the sub-region (see discussion below).

The former Tanzanian Minister of Trade, Iddi Simba expressed a collective faith in regional cooperation and integration as a stepping stone to global integration when he remarked that:

'SADC believe that a higher level of cooperation would enable the countries of the region to address more effectively the problems of

national development, and to cope with the challenges posed by a changing, and increasingly complex regional and global business environment'.¹⁷⁸

There is no doubt that the twin reality of globalisation and developmental challenges at the domestic level framed the way in which state actors were to justify regionalisation. As Prega Ramsay, SADC's Executive Secretary, has pointed out:

'With the deepening and acceleration of its integration agenda, so as to become a vibrant economic and political bloc and a key player in the world economic arena, the region is increasingly enhancing its capacity and position to minimise the risks of globalisation and take advantage of the opportunities it presents in order to effectively deal with the pervasive problems of extreme and overall poverty.'¹⁷⁹

Leveraging regional cooperation and integration framework to increase intra-regional trade, especially to enhance market access opportunities in South Africa's relatively larger market, and to build capacity for effective articulation in the global economy, seem to have been the initial attraction for a free trade agreement within SADC. A USAID study suggested that: 'Greater integration of SADC economies into the world market could play an important role in the promotion of sustainable development and poverty alleviation in the region.'¹⁸⁰ This is an important statement coming from an agency that plays a central role in advising SADC on regional trade integration and

¹⁷⁸ Iddi Simba, *op.cit.*, p.19-21.

¹⁷⁹ Prega Ramsay, *op.cit.*, p.1.

¹⁸⁰ *ibid.*

helping to build capacity for its progress. However, as this chapter argues, far from achieving the noble objectives that are often expressed in policy positions by the elite, including public agencies in the sub-region, efforts towards regional integration – let alone its promised developmental outcomes – have generally failed. Reasons for this are explored later in the Chapter.

5.3 From Project Coordination to Regional Integration

As the preceding section demonstrates, for most SADC countries, moving away from project coordination towards an integrative approach of regional relations was initially regarded positively, especially as this raised the prospects for increased access to South Africa's relatively large market. This was seen especially so in view of non-SACU¹⁸¹ SADC countries' bilateral trade deficit with South Africa.¹⁸² As John Whalley and Carlo Peroni note, security of access to a larger market is a key consideration for smaller countries entering into a Free Trade Agreement with a bigger country.¹⁸³

Thus it was hoped that the SADC FTA would be cast on a benign template similar to that governing their relationship with the European Union;¹⁸⁴ and in view of the size

¹⁸¹ Non-SACU SADC members are those that are not part of the Southern African Customs Union (SACU) which involves South Africa, Botswana, Lesotho, Swaziland and Namibia, first established in 1910, but renegotiated over time, with two major re-negotiations: 1969 and 1994 – 2002.

¹⁸² Charles Harvey, *Macroeconomic Policy and Trade Integration in Southern Africa*, Development Policy Research Unit, Working Paper No. 00/39, April 2000, p.6.

¹⁸³ John Whalley and Carlo Peroni, 'The New Regionalism: Trade Liberalisation or Insurance?' *National Bureau of Economic Research*, Working Paper No. 4626, January 1994, p.4.

¹⁸⁴ All SADC members, with the exception of South Africa, benefit from preference-based scheme governed by ACP-EU relations. This allows them to export to the EU on a non-reciprocal basis according to agreed quota limits for certain commodities, especially beef and sugar. This preference system was promulgated at the first Convention in Benin in 1975, and was subject to periodic reviews

of South Africa's economy, these countries had expected it to be more generous towards them. It was not expected that South Africa would apply various forms of protective barriers to shut out regional exports from its domestic market (see discussion below). Thus, in signing up to the SADC Trade Protocol, most countries in the region were not expecting to take on major liberalisation obligations. Most of them, as noted earlier, had already opened up their domestic markets at the behest of IFIs. If anything, they expected their trade arrangements with South Africa to be a one-way flow, weighted strongly in their favour.

However, this is not how South Africa understood the terms of a possible trade agreement with its regional partners. From its perspective, its domestic economic structure and the imperative of international competitiveness is what would ultimately guide its regional relations. Also, having locked its economic reform process into the multilateral trade mechanism, South Africa would be less inclined to pursue regional trade relations on the basis of non-reciprocity. Much of the explanation for South Africa's behaviour should, however, rest on a mercantilistic mindset that was shaped by structural conditions of its domestic economy. Gelb has suggested that South Africa's policy towards the Southern Africa region in the post-1994 era continued on a broadly realist line, focusing narrowly on economic and political interests.¹⁸⁵

Trade and investment in the region, as already shown in Chapter 4, constituted one of the key planks of South Africa's regional strategy. Gelb notes for example that: 'From

until it was finally replaced in 2000 by the Cotonou Agreement, paving the way for reciprocal trade relationships based on WTO norms.

¹⁸⁵ Stephen Gelb, *South Africa's Role and Importance in Africa and for the Development of the African Agenda, A Report prepared for the Department of Foreign and International Development (DfID), Southern African Office, (Johannesburg: The Edge Institute, 2001).*

the early 1990s, the trade and investment linkages between South Africa and the rest of the continent increased significantly both in quantity and in scope.¹⁸⁶ It has grown from R5n in 1991 to R43bn in 2002.¹⁸⁷

For South Africa, the SADC Trade Protocol would play an important role in further opening up the region to its exports, and create a sense of predictability for South Africa's business actors moving into the region (Chapter 5). On the other hand, SADC countries saw this as a pivot on which they would facilitate their economic growth and development and ensure firm and beneficial integration into the global economy. Although the protocol was signed in 1996 and entered into force in September 2000, progress remained elusive (see below). Regional commitment towards full market integration has, to a considerable degree, been characterised at best by inertia and at worst political neglect.

A more elaborate, but somewhat unbalanced, analysis examining South Africa's relations with the sub-region was undertaken by Ahwireng-Obeng and McGowan.¹⁸⁸ It argued strongly that South Africa's regional role can be understood in no other terms than as a selfish hegemon, and this conclusion is drawn on the basis of South Africa's dominance in key economic sectors in the sub-region, structural imbalances existing between South Africa and the rest of the sub-region, and the conduct of the former in trade negotiations, especially for a SADC Free Trade Protocol and a new customs union agreement with Botswana, Lesotho, Namibia and Swaziland.¹⁸⁹

¹⁸⁶ *ibid.*

¹⁸⁷ Whitehouse and Associates, *op.cit.*, p.5.

¹⁸⁸ *ibid.*

Ahwireng Obeng and McGowan's analysis is unbalanced in that it fails to take into consideration the domestic, structural constraints bequeathed by the apartheid system that South Africa contended with. Instead, it is obsessed with portraying South Africa as a selfish hegemony in a purely descriptive sense without placing this within the broader context of South Africa's transition or explaining it on the basis of a sound theoretical framework. It should also be stressed that this understanding of hegemony in a regional context is quite narrow. It is informed by the traditional conception of power, and fails to grasp the reconstitution of the relationship between the states and markets and how this plays itself out in state's foreign economic policies.¹⁹⁰

There is no doubt that South Africa is well aware of the difficult balance that it has to manage in its strategy in the region. As some commentators have long observed: 'A post-apartheid South Africa is likely to remain a dominant force in the region, on the one hand capable of contributing in decisive fashion to its security, but on the other perpetuating the existing fears of neighbouring states about South Africa's regional pre-eminence'.¹⁹¹

Apart from South Africa's neo-mercantilist¹⁹² attitude to regional trade relations, it is also evident that regionalisation in Southern Africa has suffered from the hiatus of transition from the old forms of regionalism to external orientation (see Chapter 3); and to a large extent still plays to nationalistic sentiments and privileges high politics

¹⁸⁹ *ibid.*

¹⁹⁰ See Susan Strange, *States and Markets*, (London: Pinter Publishers, 1988).

¹⁹¹ Greg Mills, 'Searching for the Eye of the Needle: South Africa and Southern Africa Security, In Greg Mills (eds.), *From Pariah to Participant: South Africa's Evolving Foreign Relations, 1990 – 1994*, (Johannesburg: South African Institute of International Affairs, 1994), p.79.

¹⁹² Mercantilism is broadly defined as the pursuit of current account surplus, privileging exports over imports. In modern economic parlance it also refers to preoccupation with market access concessions over unilateral trade liberalisation.

(military security and political diplomacy) over low politics (economic cooperation and integration).

5.4 Towards a SADC Trade Protocol

5.4.1 The Politics of Trade: Domestic Actors and Regional Expectations

In previous discussions it has been established that there is a divergence between the regional elite's expectations of the kind of developmental role South Africa could play and the expectations domestic capital has of South Africa's regional role. As generally argued in this thesis, South Africa's regional and multilateral trade strategies are principally shaped by the structure of the domestic economy and the strategic positioning that state actors facilitate for domestic capital in regional and global markets. This, as shown in Chapter 4, is linked to a domestic developmental framework that seeks to minimise social dislocation. This has also fashioned South Africa's trading relations with the sub-region along mercantilist lines.

One of the attractions for countries to pursue neo-mercantilist policies, as noted by Guerrieri and Padoan, is that a positive trade balance increases a country's international prestige, and also helps to create room within the economy for an expansionary policy that may diminish internal conflicts and increase consensus for the government.¹⁹³ This fits in with the structure of South Africa's economy and its orientation towards strategic competitiveness while safeguarding domestic social

cohesion, for example, with regards to minimising social conflicts and generate employment in the economy.

It is expected that, as the trade protocol is gradually implemented, there could arise a greater possibility for SADC countries to gain more access to the South African market. And this is likely to be the case if such an implementation is accompanied by clear measures to deal with non-tariff and technical barriers to trade. Arguably, no amount of liberalisation can shift South Africa's structural dominance in regional trade relations; but certainly, with the right level of political will, this can be narrowed. The current reality of acute structural dominance of South Africa in the sub-region is less comforting to most neighbouring countries.

The most recent independent study that has disaggregated a bulk of tariff lines to identify incidences of liberalisation and correlation with intra-regional trade has concluded that in important respects South Africa maintains protection. As suggested by the study, with the exception of minerals and ores, and to some extent processed foods – tea and fish – South Africa still maintains high tariffs, especially in tobacco, sugar, textiles and clothing.¹⁹⁴ This picture is further complicated by South Africa's application of tariff escalation in wood products.

Tariffs in wood products, as the study notes, '...remain relatively high for furniture, whilst SADC's unprocessed and semi processed wood products have seen tariffs in

¹⁹³ Paolo Guerrieri and Pier Carlo Padoan, 'Neomercantilism and International Economic Stability', *International Organisation* 40 (1), Winter 1986, p.32.

¹⁹⁴ Confidential Report into Trade Liberalisation in Southern Africa, 2004.

South Africa reduced and trade flows increase.¹⁹⁵ What could be surmised from the study is that there has not been a significant push in opening up barriers to trade in the region. This is partly accounted for by South Africa's mercantilism, and partly a lack of supply capacity in the region.¹⁹⁶ Again this reflects the extent to which trade liberalisation in South Africa is *managed*.

Another comprehensive study by Tekere and Ndlela has noted that South Africa maintains import controls on a variety of products, including agriculture and manufactured products; used goods; fresh and frozen fish, dairy products, oats and maize.¹⁹⁷ Similarly, Davies has suggested that South Africa has applied various forms of barriers and non-tariff barriers which acted to exclude products of neighbouring countries from South Africa.¹⁹⁸ The contradiction that South Africa's protectionist practices bring up lies in the fact that, while domestic stability is important for a country like South Africa which seeks to manage sensitivities related to liberalisation of its economy and project itself powerfully in global economic relations, it can nonetheless be at variance with the political idealism of contributing to regional development

There is an expectation that South Africa should avoid 'short-term thinking' and take into consideration political sensitivities in the region and, at times, this would require transcending the aspiration of certain elements of domestic capital, especially the

¹⁹⁵ *ibid.*

¹⁹⁶ See Colin McCarthy, *op.cit.*, 1998.

¹⁹⁷ Moses Tekere Daniel and Ndlela, *Study of the Compatibility of Trade Policies in the Context of Current Regional Economic Integration Processes: The Case of SADC*. Gaborone: SADC, March 2003, p.31.

¹⁹⁸ Rob Davies, *op.cit.*, p.268.

import-competing ones.¹⁹⁹ Domestic capital is not driven by any developmental interests both domestically and regionally and often lacks political sensitivity. Its overarching consideration is not moral sentiment but short-term economic gain.

In mapping out the often incestuous relationship between domestic capital and state actors, Helpman contends that, 'Quite often countries design their trade policies in a way that yields to pressure from special interest groups, and trade negotiations at the international arena respond similarly.'²⁰⁰ South Africa's approach during the negotiations on the SADC Trade Protocol played strongly to domestic groups – and was motivated by its domestic growth concerns and anxieties regarding competitiveness of its domestic industry.

This has, however, aggravated political sensitivities in the region, and with potential corrosive effect on the margin of political influence that South Africa could hope to exert in future. Already four SADC members: Zambia, Zimbabwe, Mauritius, Malawi are simultaneously participating in COMESA FTA arrangement in a move that is viewed as a snub to a South African-centred SADC.²⁰¹ Furthermore, these countries are currently negotiating a trading arrangement with the EU (Economic Partnership Agreement) under a different regional configuration which does not include any of the SACU members.

¹⁹⁹ Interview with Southern African Customs Union Executive Secretary, Tswelopele Moremi, Windhoek, Namibia, 13 August 2004.

²⁰⁰ Elhanan Helpman, 'Politics and Trade Policy', In Richard E. Baldwin, Daniel Cohen and Andre Sapir (eds.), *Market Integration, Regionalism and the Global Economy*, (Cambridge: Cambridge University Press, 1999), p.106.

²⁰¹ Margaret C. Lee, *The Political Economy of Regionalism in Southern Africa*, (London: Lynne Rienner), p.2003.

5.4.2 Trade Protocol: Issues and Outcomes

Much of the negotiations for the SADC FTA were characterised by the dominance of South Africa's mercantilist interests. It is believed that during the negotiations South Africa initially drove a hard bargain in ways that were akin to the manner in which developed countries negotiate with developing countries.²⁰² Other countries view it as having advanced its domestic interests aggressively, and this was quite evident during the negotiations of the textiles and clothing chapter, although later on in the negotiations South African negotiators relented and offered some flexibility for least-developed SADC members (see discussion below).

For example, in tabling its textiles and clothing offer – one of the most contentious areas of the negotiations – South Africa presented it as a SACU offer even though it was never consulted with other SACU countries; and the protectionist nature of the proposed offer strongly reflected the interests of South Africa's clothing and textiles industries.²⁰³ The double-stage transformation rule that South Africa tabled in its offer was similar to that contained in its Trade and Development Cooperation Agreement (TDCA) with the EU.²⁰⁴ The double-stage transformation in textiles and clothing meant that fibre would be manufactured into yarn, and yarn into cloth – within the region – in order to qualify as originating when entering the South African (or SACU) market.²⁰⁵

²⁰² *ibid.*, p.139.

²⁰³ *ibid.*, p.116.

²⁰⁴ *ibid.*

²⁰⁵ Margaret C. Lee, *op.cit.*, p.131.

Other critical issues in the negotiations included modalities for tariff reduction and tariff structure, customs cooperation and trade facilitation, including standardisation of customs certification and procedures. However, the most contentious of subjects was the one regarding the rules of origin not only in clothing and textiles, but across various sectors: for example, the requirement for wheat flour is that it should be milled within SADC. There are also sector-specific rules for electrical products, optical, photographic, and plastic products.

A brief look at the nature of rules of origin will help to contextualise these tensions. The purpose of rules of origin is to authenticate the originating status or 'nationality' of traded goods or their composite parts before preferential treatment is accorded. The absence of rules of origin could potentially create an incentive for transshipment or trade deflection.²⁰⁶ When the protocol negotiations commenced in 1996, SADC rules of origin were initially set at the flexible level of 35 percent requirement of local content or value addition.

However, these rules of origin were later altered at the insistence of South Africa and other SACU member countries who, for reasons that are not difficult to divine, argued for complex and much tighter rules. The initial rule which required change of tariff heading was replaced by rules that required detailed technical process, much higher domestic value-added requirement and lower permitted import content.²⁰⁷ This was done without any evidence that existing rules were ineffective and needed to be tightened. There are two major reasons advanced by South Africa in particular: the

²⁰⁶ Richard E. Baldwin, 'Review of Theoretical Developments on Regional Integration', In Ademola Oyejide, Ibrahim Elbadawi and Paul Collier (eds.) (Volume 1), *Regional Integration and Trade Liberalization in Sub-Saharan Africa*, (London: Macmillan, 1997), p.38.

first is a barely veiled mercantilist one and emphasises the need to curtail trans-shipment through customs loopholes; and the second is ostensibly utilitarian, and views these as instruments to force industrial development in the region.

While there is a need, in the context of a free trade area, to prevent tariff jumping, product-specific and tight rules of origin are not necessarily the best solution. As the case of COMESA demonstrates, less tight rules of origin can encourage intra-regional trade (see below). Furthermore, as attractive as may seem, it is difficult to measure the extent to which tight rules of origin would attract investment and facilitate industrial development. In fact, there is no evidence so far that this has happened in SADC. Quite evidently, it is on the back of this seemingly innocuous instrument (rules of origin) that protectionist interests gain a foothold. It is difficult to argue against rules of origin when they are presented as a force for good and intended to ensure substantial transformation and, by implication, to achieve industrial development of lesser developed SADC countries. Yet most countries in the region feel that these should be made simpler and flexible in order to discipline protectionist impulses.²⁰⁸

SADC rules of origin also reveal the extent of structural asymmetries that exist within the sub-region as well as the influence of particularistic interests in the domestic economy – South Africa. There is no doubt that the restrictive rules that exist within SADC were designed to protect South Africa's economic interests. As the World Bank study indicate, 'Specifying rules of origin on a product by product basis offers opportunities for sectoral interests to influence the specification of the rules in a

²⁰⁷ World Bank, *Global Economic Prospects 2005*, (Washington DC: World Bank, 2005), p.65.

²⁰⁸ This view was expressed by Consultants contracted to the SADC Secretariat to help with implementation of the trade protocol. Interviews were held between 23 – 25 July 2004 with consultants from *The Services Group* (TSG) in Gaborone, Botswana.

protectionist way.²⁰⁹ These rules also create a burden for customs officials whose capacity is already thin. Where there are variations in the rules of origin - in some products the requirement would be a simple change of tariff heading; in certain products it would be a change of tariff chapter; and in others it would be specification for a particular technical process or requirement for levels of value addition in order to qualify for preferential treatment – there is a scope for confusion for customs officials, and this can raise the cost of trade.²¹⁰

Four years into the existence of the protocol on trade, there is little evidence that these rules of origin have served any purpose other than to impede trade flows and protect South Africa's domestic industry.²¹¹ There is always the suspicion that these are made unnecessarily complex and restrictive in order to protect domestic labour and capital, even if this is disadvantageous to non-SACU SADC exports to the South African market. As Baldwin argues, '...these rules, together with the preferential access embodied in a preferential trade agreement, tend to protect producers of intermediate materials and components. They may also unintentionally harm the interests of third countries.'²¹² A senior government trade official in South Africa remarked that, 'Of course rules of origin are for protectionist reasons...but that is not the only reason.'²¹³

Pamacheche, a former Chief Economist at the SADC Secretariat noted that, 'Rules of origins were primarily targeted at value addition on raw material and to develop product specific value chain production in the region.' As he admitted, far from achieving their stated objectives, these rules have on a number of sectors impeded trade flows. Pamacheche further noted that, 'They are complicated in nature, present

²⁰⁹ World Bank, *Global Economic Prospects 2005*, (Washington DC: World Bank, 2005), p.70.

²¹⁰ *ibid.*, p.70.

²¹¹ Confidential interview with a consultant who was part of one of the review workshops.

²¹² *ibid.*, p.40.

problems for customs officials and have by and large failed to achieve what they promised to achieve.²¹⁴

Contentions around rules of origins in SADC FTA negotiations tore into the veil of regional solidarity, and revealed the extent to which deep protectionist interests exist in South Africa, and regional integration influenced by South Africa's domestic considerations. It hardly surprising that the positions of the Congress of South African Trade Union's (COSATU)²¹⁵ and the South African Chamber of Business (SACOB)²¹⁶ converge on the rules of origin - both largest labour union and business association's representative respectively. And South Africa's Department of Trade and Industry holds similar views on rules of origin.

Thorough studies by Frank Flatters, using case studies of specific sectors in SADC, have questioned the basis upon which the rules of origins in SADC are designed.²¹⁷ He argues for example that South Africa's fears could be addressed in other ways than using stringent rules. These, as he suggests, could include improving customs administration; using a rule of changing tariff heading for some products (e.g.

²¹³ Confidential interview at the Department of Trade and Industry, 13 July 2004, Pretoria, South Africa.

²¹⁴ Personal Interview with a SADC Secretariat official on the 23 July 2004.

²¹⁵ Tanya van Meelis, COSATU trade policy coordinator made an impassioned defence of sector-specific rules of origin at a Trade Round-table organised by USAID during 05 – 06 August 2004, Sandton Johannesburg. She defended them on the grounds that liberal rules have a potential to wipe off domestic industry from competition by countries whose labour regimes are highly relaxed.

²¹⁶ In an interview with SACOB Chief Executive Officer, James Lennox, he stated that organised business prefer tight and product-specific rules of origin as these are useful for South Africa's customs administration to determine the originating status of goods. Interview, 18 August 2004, Johannesburg.

²¹⁷ see Frank Flatters, *op.cit.*, 2002; See also Frank Flatters, *SADC Rules of Origin: Undermining Regional Free Trade*, A paper presented at the USAID-funded Trade Policy Workshop, Johannesburg, August 2004.

milling); or excluding sectors that need protection from tariff offers rather than entangle the entire protocol in complex set of rules of origins.²¹⁸

What could be surmised from this complex picture of rules of origin in the region is that South Africa has emphasised its domestic interests at the cost of good regional relations based on balanced development. This therefore reveals a yawning disjuncture between development rhetoric, and what is played out in reality with regards to economic relations in the sub-region. While South Africa, a core state in the region, should demonstrate positive leadership, other countries bear some responsibility in the conduct of their trade relations. To be fair, South Africa is not the only country that is engaged in protectionist practices in the region. Indeed, nationalistic sentiments are ubiquitous in regional trade relations, and this is, to a larger degree, historically rooted (see Chapter 3).

5.4.3 Asymmetry Principle and Flexibility in the SADC Trade Protocol

Apart from the complicated rules of origin, the structure of tariff commitments in SADC is also quite complex. As noted by the WTO Secretariat Report for 2003 SACU Trade Policy Review, ‘SADC members made “differentiated offers” to non-SACU SADC countries plus Botswana, Lesotho, Swaziland and Namibia, and “general offers” to South Africa.’²¹⁹ There is a tariff reduction commitment made by SACU countries to SADC countries for tariff liberalisation to achieve zero tariffs after the first five years of the existence of the protocol, with the exception of ‘sensitive’

²¹⁸ *ibid.*

products.²²⁰ SADC offers to SACU countries (with the exception of South Africa) are front-loaded, meaning that they come into effect during the first phase of the implementation of the protocol. Offers to South Africa are mid-loaded and back-loaded (effected mid-way through and at the end of the implementation phase). This effectively means delay in tariff reduction for certain categories of products, especially A and B (see below).

On textiles and clothing, South Africa finally agreed to offer an asymmetrical arrangement for least-developed SADC members, relenting on its initial insistence on double-stage transformation for all SADC countries. This arrangement, which was meant to be a developmental gesture, meant that countries such as Malawi, Mozambique, Tanzania and Zambia (MMTZ) who fall under the least-developed country designation would export to South Africa (and SACU) countries duty-free using single-staged produced textiles and clothing, subject to quota until 2005 when the arrangement would be subject to review.²²¹ Harvey contends that this arrangement ‘...merely postpones the possibility of increased efficiency, and would do nothing to attract investment in manufacturing capable of exporting to South Africa.’²²²

It should be noted that this benign provision came quite late in the negotiations, and its benefit, as noted above, is limited only to the least-developed countries in SADC. And this came after South Africa had shown inflexibility in its negotiating approach

²¹⁹ World Trade Organisation, *Trade Policy Review: Southern African Customs Union Report by the Secretariat, WT/TPR/S/114*.

²²⁰ *Ibid.*

²²¹ *ibid.* During the SADC meeting of Ministers of Trade, 09 – 14 August 2005, these countries requested that this provision be further extended as they have not as yet reached the required capacity to export on the basis of double-stage transformation rule. The possibility for extension will be explored after concerned countries (mainly SACU) have consulted with their domestic sectors.

towards non-SACU SADC members. It would be churlish to deny that developmental sentiment played some part in this asymmetric liberalisation arrangement. However, it is doubtful if this arrangement has any long-term value, especially so in view of the low-cost competitiveness of China in clothing and textiles. Furthermore, the benefits of this arrangement are likely to be diluted by the existence of tight rules of origin in other sectors. As Draper observed, what South Africa gives with one hand - in offering asymmetric liberalisation - takes with the other by insisting on complex rules of origin.²²³

Apart from the differential tariff liberalisation schedule noted above, various products were also subjected to different liberalisation schedules. Products in category A consist of products on which tariffs will be reduced to zero immediately (2000). It must be underlined that the products contained under this category, on South Africa's tariff phase-down schedule, do not face immediate competition from SADC products. Those products that are most important to South Africa: sugar, textiles and clothing and automotive industry are either registered as sensitive (and covered under special arrangement) or are governed by complex rules of origin. For example, sugar is based on quota arrangement and its full liberalisation will only take full effect in 2013.²²⁴

Category B products are mid-loaded. In this group of products liberalisation would be phased in gradually and spread between year one and year five of implementation. In year eight, tariffs under this category would be zero-rated. Most products falling

²²² Charles Harvey, *Macroeconomic Policy and Trade Integration in Southern Africa*, Development Policy Research Unit, Working Paper No. 00/39, April 2000, p.6.

²²³ A comment made by Peter Draper of SAIIA during a panel discussion at a Trade Round-table organised by USAID during 05 – 06 August 2004, Sandton, Johannesburg.

²²⁴ ²²⁴ World Trade Organisation, *Trade Policy Review: Southern African Customs Union Report by the Secretariat, op.cit.*

under this category are those yielding high tariff revenues. Products A and B constitute 85 percent of products to be liberalised under tariff schedules. Category C contains products that are regarded as sensitive. These are further divided into two: a) products that would be liberalised between 2008 and 2012; b) exclusion list – products that would not be zero-rated. These are products which are viewed as necessary for maintaining public order or for health reasons, in accordance with Article 9 of the Protocol on Trade.²²⁵

According to the protocol on trade, sensitive and excluded products are to comprise no more than 15 percent of total imports for non-SACU countries and 3 percent for SACU.²²⁶ Even though the entire arrangement with its underlying principle of asymmetry seems to be satisfying the requirement of levelling playing field, in the absence of a clear industrial development strategy anchored within national efforts, and South Africa's continued protectionist mindset, the region will for a long time reflect a 'core-periphery' dynamic with South Africa continuing to benefit disproportionately. This could have an aggravating effect on political relations in the long-term, denying South Africa the much needed space to play a meaningful leadership role in regional relations.

5.5 The Current State of Integration beyond Rules of Origin

Apart from the noted difficulties associated with rules of origin, implementing the trade protocol has generally been a complex Byzantine task, compounded by

²²⁵ Malawi Revenue Authority (?). http://www.sdn.org.mw/mra/customs_sadc.html; see also Margaret C. Lee, *op.cit.*, 2003, p.113; and Moses Tekere and Daniel Ndlela, *op.cit.*, 2003, p.9.

obfuscating flexibilities and exclusion of certain products. Much of the discussion so far has focused the spotlight on South Africa's trade policy practices in the region. It is important to highlight that there are deeper problems in the state of integration, and these, arguably, originate in the domestic and institutional setting. It will be important to reflect on some of these in order to gain a better view of the state of regional integration in Southern Africa.

A number of countries in SADC have indeed found it difficult to implement their tariff reduction obligations or even to publish them. For example Malawi delayed publication of its 2004 tariff schedules for category B products.²²⁷ This was also the case with Zimbabwe due to its political and economic crisis. Until July 2004, Zambia had announced suspension of the implementation of the protocol due to factors beyond its immediate control. Zambia is under an IMF monitored programme to meet Highly Indebted Poor Country (HIPC) obligation and has to deal with its fiscal difficulties.²²⁸ The fiscal rule to which HIPC countries conform as required by the IMF, has made it difficult for Zambia to meet its tariff phase-down obligation in SADC as this could have severe implications for revenue generation.

SADC integration process has also been characterised by inertia and lack of political commitment, including poor articulation between the political and the bureaucratic or

²²⁶ Moses Tekere and Daniel Ndlela, *op.cit.*, 2003, p.40.

²²⁷ Interview with Joshua Setipa, a consultant with the TSG Group, 24 July 2004, Gaborone, Botswana,

²²⁸ HIPC Initiative is a scheme that was adopted by rich countries and international financial institutions in 1996 after a sustained pressure from civil society. It seeks to help countries that fall under the highly indebted category – about 42 of them – to resolve their debt crisis. For these countries to qualify they have to draw up Poverty Reduction Strategy Papers (PRSPS) setting out how they intend using savings from debt relief. The conditionalities they have to meet to reach the decision point include fiscal criteria, especially cuts in budget deficits. Hence Zambia had to suspend liberalisation in order to stabilise its fiscal position. It had previously been threatened with suspension if it failed to

technical processes. Sometimes technical processes take longer to bear fruit and to give effect to political decisions. To a larger degree the delays are due to the structural nature of SADC economies, with different countries at varying levels of development, and some countries expressing concerns regarding the potential loss of revenue and absence of alternative sources. The SADC trade protocol's mid-term review took place during the latter half of 2004 and was meant to infuse momentum in the liberalisation process. In reality, the protocol on trade remains a *de facto* dead letter.²²⁹

This review was essentially designed to be a stock-taking exercise, focusing mainly on market access, trade flows, tariff phase-down schedules, and non-tariff barriers, and the pattern of trade flows since 2000. It was meant to look at the progress made so far in these dimensions and propose ways of fast-tracking liberalisation in the sub-region.²³⁰ At the time of concluding this thesis the final report was not yet released. However, there is little doubt about its likely reflection on the state of regional trade integration in Southern Africa: that, indeed, this has produced dismal outcomes and significant political will and resource support is needed from the political elite if the integration process is to be a success. By the time of the review there was very little liberalisation that had taken off the ground, and this throws the value of the review exercise into question.

meet some of its obligations. The scheme has often come under intense criticism from civil society groups.

²²⁹ This view is supported by confidential discussions held with trade policy consultants tasked with evaluating the trade protocol between 2000 and 2004; Johannesburg, 11 November 2004.

²³⁰ Interview with Kennedy Mbekeani, Senior Research Fellow with Botswana Institute for Development Policy Analysis (BIDPA), Gaborone, 24 July 2004.

Indeed there is not much to review when there is not much trade activity to have taken place. There are serious doubts expressed about the possibility of meeting the agreed upon phase-in targets for the trade protocol. Some trade experts have suggested that by the end of the eight year period, a number of countries will not have reached 75 percent of their tariff reduction commitments; Zimbabwe will only have achieved 57.7 percent reduction of its tariffs.²³¹

There is a plethora of other factors worth examining that have also, in large measure, stalled effective implementation. First, there are difficulties associated with ‘behind-the-border trade issues’, including trade facilitation and non-tariff measures. Non-tariff barriers have been one of the hindrances to cross-border flow of goods in SADC. Even though there are current measures underway, including pre-border clearance and other transit issues at the border, training of officials in risk management, harmonisation of computer systems, development of single clearance document, and standards and quality innovations, to correct trade facilitation bottlenecks, difficulties still abound and progress has been on the whole very slow.²³²

Secondly, and related to the above, in many instances in the customs, the new tariff rates that accord with the trade protocol have not been implemented. The customs officials are still working on the basis of old MFN rates. This highlights acute inefficiencies in customs administration and the erratic information flow between policy makers and customs officials. For some countries, for example Namibia, before any tariff change can be effected it has to go through the national legislative process,

²³¹ Moses Tekere Daniel Ndlela, *op.cit.*, p.39.

²³² Interview with Lovemore Babangida, former Trade Facilitation Advisor with the USAID Regional Integration Centre in Botswana, Gaborone, 23 July 2004.

and this could take almost a year.²³³ By the time this gets legislated gains would have been lost, for example through high transaction costs and time wastage.

There are also issues related to standards. South Africa insists on the South African Bureau of Standards (SABS) qualifications even though in most SADC countries there is a lack of requisite infrastructure to comply with some of these. Consequently this, wittingly or unwittingly, creates significant barriers to trade. While on the surface standards are necessary to safeguard consumer interests, and help to stem health and safety risks, these could be arbitrarily deployed for protectionist reasons.²³⁴ This is not to suggest that South Africa engages in such practices as there has not yet been any rigorous research done in this area. In fact, South Africa denies that it uses standards for protectionist purposes, stressing their importance for safeguarding of consumer safety.²³⁵

There are a number of other countries that have, in varying degrees, adopted measures that are seen as wholly unhelpful to regional integration and the long-term vitality of their own economies. Other examples include the difficulties that the insistence of translation of rules of origin certificates from Portuguese to English create for Mozambican authorities in terms of cost and time lag of transporting their goods through the border post; or, Zambia's restrictions on Zimbabwean milk, insisting that it can only qualify to enter Zambia's market if it is labelled in the local Zambian language.²³⁶

²³³ Interview with Nokukure Murangi, Deputy Director, International Trade, Department of Trade, Windhoek, Namibia.

²³⁴ Confidential interview with a consultant working on regional integration.

²³⁵ Interview with Tshediso Matona, *op.cit.*

²³⁶ Lovemore Babangida, *op.cit.*

There are many other examples of both tariff and non-tariff barriers (NTBs) which inordinately ratchet up the cost of doing trade to the detriment of region's development and growth. South Africa has in some cases also found itself facing the backlash of its own protectionism. In early 2004 Botswana banned the importation of brown bread and fresh milk from South Africa allegedly to protect its infant industry.²³⁷

Thirdly, and more substantively, countries in the region are facing difficulties related to lack of competitive industries, small markets and lack of product diversification, inadequate infrastructure, lack of proper regulatory mechanisms, underdeveloped capital markets, lack of modern technology and skilled human resources. These factors are, in varying degrees, obstacles to intra-regional trade expansion. Their improvement is essential if the region is to generate the needed capacity and policy instruments to increase trade activity. Indeed, the absence of these dimensions represents a disconcerting short-coming.

Fourth, high dependence on traditional European markets is another reality afflicting SADC countries. If anything, this dependence, based mainly on exports of primary products, undermines the long-term vitality of SADC countries and hinders forward and backward linkages in production. Evidently, this is also unlikely to contribute much in deepening intra-regional integration on the basis of complementarities or in dynamic products. For example, Botswana has a high dependence at 76 percent; Zambia sells 28 percent of its exportables to the EU; for Malawi and Mozambique the

²³⁷ Joshua Setipa, *op.cit.*

figure is 39 percent.²³⁸ South Africa's exports to the EU represent about 30 percent of its total exports.²³⁹

Michael Porter has suggested that reliance on the traditional developed markets by African countries creates an impediment to the development process as much of this trade is on the basis of natural comparative advantage (cheap labour and natural resources).²⁴⁰ He notes for example that:

'This whole business of trading with advanced countries based on inherited competitive advantages makes developing countries very vulnerable to exchange rate fluctuations and very vulnerable to macroeconomic shocks, and we see this over and over again'.²⁴¹

Some African scholars have also argued that it is unsustainable in the long run for Southern Africa to overly rely on primary products and concentrate on one geographic area – the EU – if it is to achieve sustained growth and development, and meaningfully integrate into the global economy.²⁴² Indeed an investment strategy targeted at export diversification activities, as well as clear developmental strategies at the domestic level aimed at macro- and micro-economic coordination and

²³⁸ See John D. Lewis, Sherman Robinson and Karen Thierfelder, 'Free Trade Agreement and the SADC Economies', *African Region Working Paper Series*, No.27. World Bank, 2002. www.worldbank.org

²³⁹ Economic Commission on Africa, *Economic Report on Africa: Trading Performance and Progress*. Addis Ababa: Economic Commission on Africa, 2002, p.58.

²⁴⁰ Porter Michael, A presentation in UNCTAD symposium: *Regional Integration and the Global Economy*. Geneva: UNCTAD Publications, October 2000, p.99.

²⁴¹ *ibid.*, p.100.

²⁴² See SKB Asante, *op.cit.*; Fantu Cheru, *op.cit.*, pp.122-152.

infrastructure development is highlighted as a *sine quo non* of regional development.²⁴³

Fifth, a number of SADC countries depend on tariff revenues for national income. Although this is unlikely to present difficulties in the short to medium term since most countries have back-loaded their liberalisation schedule of sensitive products, it however deserves attention if full commitment towards regional integration is to be achieved as revenue questions are likely to arise in future. In one of the SADC Secretariat discussion papers it is estimated that currently the impact of trade liberalisation in the region on fiscal revenue is quite small and only 7.2 percent of member countries' total imports are affected.²⁴⁴

Even though this appears negligible, a number of countries continue to hide behind loss of revenue to delay liberalisation. This could be acute in latter phases of trade liberalisation as most products are back-loaded. Table 5.1 below shows the extent of member countries' dependence on import duties for government revenue. Amongst SADC countries, Mauritius, Zimbabwe, Malawi and Zambia are the most dependent. There is as yet not much contention in the sub-region over revenue losses, although this is likely to be a recurring theme if tariff phase down proceeds after the 2004 mid-term review.

²⁴³ Fantu Cheru, *op.cit.*, pp.126-133.

Table 5.2: Dependence on import Duty Revenues:

	% of government revenue from all import duties	% of government revenue from tariffs on imports from SADC
Malawi	15.9	8.0
Mauritius	31.9	5.8
Mozambique	15.9	5.4
SACU*		0.4
Tanzania	13.2	1.1
Zambia	14.0	9.2
Zimbabwe	16.7	7.0

Source: Adapted from Tekere and Ndlela (2003).

In addressing revenue concerns, in the short to medium-term, measures such as innovating institutional capacity of revenue services, innovations in domestic tax structure, for example shifting towards value added tax (VAT), and improving the tax collection system have been mooted as some of the possible solutions.²⁴⁵ Unsurprisingly, fiscal restructuring has been the Achilles' heel of Africa's post-colonial state building project. The state elite inherited institutions that were not properly designed for efficient tax systems and revenue collection.²⁴⁶ This is compounded by lack of administrative or institutional capacity to effectively carry out this function. Thus building strong institutions and capacitating revenue authorities are seen as important policy goals that could help deal with the problem of tariff

²⁴⁴ SADC discussion paper 2000, mimeo.

* Data was not available for revenue from all import duties. See Kirk and Stern, 2002 for the breakdown of SACU figures - showing a much higher figure for Swaziland and Lesotho.

²⁴⁵ Interview with Joshua Setipa, *op.cit.*

revenue dependence.²⁴⁷

Most crucially, a long-term solution is to be found in structural transformation of these economies, including production diversification. Countries such as Mauritius – a traditionally mono-culture economy – are said to be exploring possibilities of establishing business process outsourcing, e.g. call centres as part of diversifying away from textiles industry.²⁴⁸ Furthermore, Mauritius realises that the textiles and clothing route is a dead-end in the face of Asia's competitiveness. Financial services have also emerged as an important avenue to diversifying away from primary production dependence.

Apart from the isolated cases of Mauritius and to a very limited extent, Botswana, most of the sub-region outside of South Africa is struggling to break out of the glut of underdevelopment. Hence Some African scholars have strongly highlighted the need for a development-oriented approach to integration in the region.²⁴⁹ This also seeks to caution against following uncritically the linear approach exemplified by the European Union as this – even though attractive - may not necessarily accord with developmental challenges in the region.

A simplistic embrace of trade without any resonance with real developmental challenges and supply-side constraints of various member states is unlikely to be helpful in the long term. Indeed, if regionalism has no resonance to intractable

²⁴⁶ Jeffrey Herbst, *States and Power in Africa: Comparative Lessons in Authority and Control.*, (Princeton: Princeton University Press, 2000), pp.116-126.

²⁴⁷ Interview with Joshua Setipa, *op.cit.*

²⁴⁸ Joshua Setipa, *op.cit.*

²⁴⁹ See Asante SKB, *op.cit.*

developmental challenges at the domestic level and fails to empower countries that feel a sense of vulnerability and shock it would be difficult to receive strong support among state elites. For South Africa this could be framed in much grander terms: to create sufficient regional support for its foreign economic objectives, for example, at the multilateral level, while at the same time orienting the incentive structure strongly towards export-oriented sectors.

Even though benefits such as specialisation, creation of larger markets, attraction of investment, and stimulation of competition are often associated with regional integration, it is unlikely that these will come about as a result of purely market-led integration, but through a sequencing of a host of policies directed at achieving economic development in the broadest sense, and gaining better benefits in pursuing global integration. Dealing with supply-side issues and anchoring regionalism firmly on domestic social goals, especially the need to create well-functioning markets and delivering on developmental objectives, remain an important challenge.

Using macro-economic policies to deal with structural constraints as well as to build the institutional capacities of governments may create a more conducive environment for trade development in the regional context.²⁵⁰ Similarly, the Economic Commission for Africa places a premium on the importance of macro-economic stability, public investment in infrastructure and human capital, and policies that provide adequate incentives for investment in the export sector²⁵¹ in creating viable conditions for better supply response; and this is critical for the success of regional economic integration in

²⁵⁰ The UNCTAD report places strong emphasis on macro-economic environment and institution building in stimulating domestic supply response, see UNCTAD *op.cit.*, 2003, p.47.

²⁵¹ Economic Commission for Africa, *op.cit.*, 2004, p.125.

Southern Africa.

5.6 Conclusion

This chapter looked at the extent to which South Africa's regional strategy is shaped by domestic growth and competitive strategic consideration. Although South Africa is articulating its regional strategy in view of its own structural challenges, its behaviour cannot be said to be 'captured' by domestic groups, rather it has a strategic orientation and seeks global positioning. The anchorage of South Africa's foreign economic strategy in its domestic policies also reflects mutual proclivities of state actors and domestic capital towards global integration.

For South Africa, the sub-region is part of an overall drive to firmly lock into global economic relations and project influence at that level. In the larger scheme of things, pride of place is accorded to global markets rather than the regional market. As much as South Africa is committed towards economic development in the region – demonstrating both a sense of idealism as well as an understanding of the importance of regional development for South Africa's continued growth – South Africa sees a higher stake as lying with global economic relations beyond the region. The preoccupation with its domestic growth concerns constrains South Africa's political influence in the region. This is the theme that will be discussed in the next chapter, which will look at the dynamics of regional interactions in the context of multilateral trade negotiations.

It needs to be stressed though South Africa's rhetoric towards balanced development and mutual benefit in regional relations have not always been matched by concrete commitments. The prevailing mercantilist mindset amongst state elites, especially in the Department of Trade and Industry, hardly augurs well for creating maximal benefits for the entire sub-region. As this thesis observed, South Africa's market remains protected in important sectors, making it difficult for the countries in the region to take full advantage of regional integration to access this lucrative market. This is not to discount the objective fact that there are serious supply-side constraints in the majority of SADC countries.

There is no doubt that for most countries in the sub-region South Africa remains a potential market to penetrate. If anything, this consideration is what locks countries into the project of regional integration even though this does not immediately translate to full commitment and yields less optimal benefits. While on the one hand it would seem that state actors are also under an ideological spell of market-led integration, viewing it as holding prospects in the long run to generate growth for the regional economy via enlarged market and economies of scale; on the other hand there is half-heartedness about making actual political commitment to the project, especially when benefits seemingly take longer to yield.

As shown in this chapter there has not been much movement in the direction of 'deeper' regional integration. Instead, there is an extension of domestic protectionism at the regional level. Furthermore, SADC is struggling to define itself in relation to the process of globalisation and how its member countries can leverage it to deal with their developmental challenges. South Africa is an exception in this regard. It views

the region through the lenses of its domestic growth constraints and developmental challenges, and sees it as an instrument to add weight on its articulation in global economic relations. The latter dimension is the subject of the next chapter.

CHAPTER 6: South Africa's Multilateral Trade Strategy

The previous chapter looked at the state of integration in Southern Africa, examining in particular some of the difficulties by member states in advancing the trade agenda. The chapter highlighted the neo-mercantilist mindset embedded in South Africa's regional strategy and the tensions that this generates in the sub-region. Thus it is argued that South Africa's behaviour, in its regional trade approach, carries the potential to complicate political relations as well. As will be shown in this chapter, difficult relations between South Africa and its regional neighbours, compounded by structural differences between the economies of the two, have indeed begun to manifest even at the multilateral level.

Indeed, there exists an acute tension between South Africa's domestic developmental strategy and how it seeks to achieve it in the long term, in particular through global positioning on the one hand, and regional assertion through trade relations on the one hand. This disjuncture was starkly visible in South Africa's efforts to construct a coordinated and a common regional platform for multilateral trade negotiations before the launch of the Doha Round of multilateral trade negotiations.

That South Africa's regional strategy lacks an articulation of norms that firmly weld its own agenda and interests with those of its neighbouring SADC countries, presents a much starker problem when it comes to formulating a common regional perspective to engage at the multilateral trade level. This is especially so in view of the fact that the SADC Protocol on Trade does not distinctly make any provisions for negotiating on a common platform. Although politically it makes sense to do so in order to

counterbalance developed countries negotiating power, the fact that it is a free trade agreement and not a customs union makes it difficult to institutionalise bloc negotiations. Doing so would require a solid, and legitimated leadership by a regional core state – South Africa.

However, there exists a gap between South Africa and the majority of countries in SADC that has not been properly bridged at the normative level since the demise of apartheid in the early 1990s. As argued in Chapter 3, the apartheid state had failed to build a regional hegemonic order on the basis of consensus in the region. According to Ikenberry and Kupchan, ‘Acquiescence is the result of the socialization of leaders in secondary nations. Elites in secondary nations buy into and internalize the norms that are articulated by the hegemon and therefore pursue policies consistent with the hegemon’s notion of international order.’¹ The state in South Africa has not yet developed a solid consensual normative platform through which to articulate its regional and multilateral trade interests.² Nonetheless, in a loose form, SADC is part of the Africa Group negotiating coalition in the WTO (see below).

In unpacking South Africa’s strategies at the multilateral trade level, this chapter will make a connection with the themes already discussed in Chapters 4 and 5, highlighting some of the domestic and global forces that have come to shape state strategies in regional and global levels. This chapter will also explore the evolution of South Africa’s multilateral trade strategies post-Uruguay Round, in particular from

¹ John G. Ikenberry and Charles A. Kupchan, ‘Socialization and hegemonic power’, *International Organization*, Volume 44 (3), Summer 1990, p.283. They further argue that there are two ways in which power can be exercised by dominant nations: through manipulating material incentives; and by altering the substantive beliefs of leaders in other nations. This argument was an important innovation to approaches that emphasise structural sources of hegemony associated with classical realist paradigm.

Seattle to the Doha Round. Of critical importance here is the political management of relationships with regional partners in Southern Africa in particular, and in the Africa Group in general. The tensions existing between South Africa and the region are discussed, focusing on two crucial dimensions: South Africa's wider ambitions in global economic relations; and intra-regional power asymmetries and different sets of priorities at the multilateral trade level.

6.1 South Africa in the Multilateral Trading System

During the finalisation of the GATT negotiations in 1993, the old apartheid regime was still in power and its bureaucrats were very active in trade negotiations, especially in the process of negotiating South Africa's accession offer to the General Agreement on Trade and Tariffs (GATT). Despite the fact that by this stage the ANC officials and COSATU (the trade union ally of the ANC) members had started getting involved in economic policy determination through the National Economic Forum (see Chapter 4), the prevailing view on how to position South Africa in global economic relations still reflected the preferences of the business community and the old political class. Some of the reasons for this are explored in Chapter 4.

The reality then was that the ANC and its alliance partners were new in economic policy making, and had limited technical expertise to shape government's policy towards global economic relations, particularly the WTO. The prevailing global context was that dominated by neo-liberalism and shaped by the systemic crisis linked

² See also Maxi Schoeman and Chris Alden, 'The Hegemon That Wasn't: South Africa's Foreign Policy Towards Zimbabwe', *Strategic Review of Southern Africa*, 25:1 (2003).

to world recession and onset of debt in developing countries (see Chapters 1 and 3). The determination of South Africa's future economic trajectory therefore took place against a background of domestic economic crisis. Global integration was thus viewed as a best possible route to dealing with domestic structural crisis. One of the senior government officials that were part of the initial processes to develop South Africa's trade strategies, Bahle Sibisi, remarked:

‘According to the old guard who were negotiating South Africa's offer to GATT, South Africa belonged to the ‘developed’ and ‘most civilised’ parts of the world and as such should be integrated into them. As a result, the commitments that South Africa took in the Uruguay Round were broadly concomitant to a developed country status. South Africa's terms of accession to the WTO are as a developed rather than a developing country.’³

This choice of dealing with global level processes was cast in stone and could not be re-scripted; and, given the structure of South Africa's economy and the surrounding sub-region, this represented a contradiction that would find its way into South Africa's various trade engagements: with its regional partners in SADC; with the European Union for a free trade agreement; and in subsequent round of multilateral trade negotiations (in particular Doha). This also constituted one of the challenges that the new government would have to contend with in its relations both with the developed and developing countries. On the positive side, this dynamic has imbued

³ Interview with Bahle Sibisi, former Deputy Director-General: Enterprise and Industry Division, Department of Trade and Industry, South Africa; interview held on 24 September 2004, Johannesburg.

South Africa with an image of a bridge-builder between the developing and the developed countries, preferring 'reformist' strategies in multilateral relations.⁴

However, the ANC elite is generally self-conscious of its bias towards developing countries, and how it is perceived in its relations with them. The fact that South Africa is widely regarded as a *de facto* leader in the African continent and carries a burden of responsibility to articulate the interests of developing countries arguably position it as part of developing countries. However, the contradictory nature of its economy – reflecting dualism – with some of its parts well developed and sophisticated and some resembling the rest of the continent (see Chapter 4), makes it difficult for South Africa to relate effectively with regional partners.

There is little doubt, therefore, that the dichotomous character of South Africa's economy and social structure informed the different levels of ambition and interests it would articulate in the multilateral trading system. In explaining South Africa's positioning in the WTO, some commentators have argued that South Africa could be characterised as a middle power.⁵ This thesis parts with approaches that emphasise

⁴ See 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: The Limits of Reformism*, (Aldershot: Ashgate, 2001). The authors discuss South Africa's multilateral diplomacy between 1994 and 2000, suggesting that South Africa has played a bridge-building role in multilateral relations, that it has punched above its weight on a global scale, and that its strategy can broadly be characterised as reformist in the sense that it does not seek a complete overhaul of the existing global order.

⁵ Middle powers have been defined as good multilateralists or international citizens that that have the national will to act in a responsible fashion. See Andrew F. Cooper (ed.), *Niche Diplomacy*, (London : Macmillan, 1997), p.6; or they are viewed as actors that tend to be 'involved in a wide range of diplomatic matters, usually extending beyond their regional boundaries', Kim Richard Nossal and Richard Stubbs, 'Mahathir's Malaysia: An Emerging Middle Power?' in Andrew F. Cooper (ed.), *Niche Diplomacy*, (London : Macmillan, 1997), p149; See also Janis van der Westhuizen, 'South Africa's emergence as a middle power', *Third World Quarterly*, Volume 19 (3), 1998, pp.435-455. He argues that 'The middle-power concept is a useful analytic tool with which to gauge South Africa's international behaviour.' This completely ignores self-interest in strategic environment at both regional and international levels.

South Africa's middle-power dimension, in that these do not fully account for South Africa's core interests in regional and multilateral trade relations. Instead they suggest that there are some countries – who could be called 'middle-powers' - that are imbued with traits that condition them to simply act as 'good international citizens' or multilateralists, as if they are incapable of responding according to domestic interests which have nothing to do with good 'international citizenship'. The empirical evidence as highlighted in Chapter 5 suggests that South Africa has not always been a good neighbour on trade issues, and its interests at the multilateral level are not congenial with those that exist in SADC and much of Africa.

Even though South Africa is a keen multilateralist, its regional and multilateral trade activities are best explained by examining the structure of its domestic economy and the strategic competitive interests of state actors anchored in a particular form of state-society relations (see Chapter 4). South Africa's interests are concomitant to the structural features of its economy relative to the rest of the region, and are tied to specific sectors which it seeks to place on the competitive trajectory in global markets. And this, at times, conflicts with being a good neighbour or a good international citizen.

In this regard, South Africa has had to play a delicate balancing role between the parochial interests of specific economic actors in the domestic economy – especially import-competing sectors, as discussed in Chapter 5 – and the developmental interests of the region. As Bahle Sibisi remarked:

‘We are by far a more complex country than many other countries in the region, and with a sophisticated economy. At the same time South Africa has sought to be part of advocates and proponents that champion the interests of developing countries in the WTO.’⁶

Similar remarks were offered by the former head of DTI’s international trade division and later head of South Africa’s delegation to the WTO, Faizel Ismail. He highlighted that:

‘The dual character of South Africa’s economy has enabled it to relate effectively with the developing world as it understands the challenges of development. On the other hand parts of its economy are well developed and sophisticated. The latter aspect enables it to interact with the advanced sectors of the global economy.’⁷

As argued in this thesis, having a dual character and, indeed, experiencing internal tensions in the domestic social structure does not necessarily enable a country to relate effectively with countries that express different dimensions of its economic structure. As shown in Chapter 5, and as will be elaborated further later, South Africa has not had an easy time in relating meaningfully with the developmental challenges faced by the SADC region both in the context of intra-regional trade arrangements and multilateral trade negotiations. Reconciling its interests with those of the region remains an interminable challenge, and the one that South Africa would have to be

⁶ Interview with Bahle Sibisi, former Deputy Director-General: Enterprise and Industry Division, Department of Trade and Industry, South Africa; interview held on 24 September 2004, Johannesburg.

constantly conscious of in its regional and global economic relations. The following section will explore the evolution of South Africa's multilateral trade strategies from the Uruguay Round to Seattle Ministerial.

6.2 From Uruguay Round to Seattle Ministerial

The Uruguay Round was significant in many ways - apart from the fact that it was a Round 'launched and led by the US.'⁸ After an intermittent period of deflation in multilateralism due to the slow progress in the negotiations, the Uruguay Round culminated in the establishment of the WTO in 1995 - arguably the most salient institutional expression of multilateralism and global regulatory forms. For most developing countries, especially African countries, this was the first time that they were participating in international trade negotiations.

Although the outcomes of the Uruguay Round did not lead to far-reaching liberalisation of trade, it brought in new sectors under the discipline of multilateral trade negotiations.⁹ The Round was an important rupture in the multilateral trading system and laid it on firm institutional ground in the form of the WTO. The new sectors that were added to the GATT include: the Agreement on Agriculture, the Agreement on Textiles and Clothing, the Agreement on Trade Related Investment

⁷ Interview with Faizel Ismail, Permanent Head of South Africa's delegation to the WTO, 25 May 2004, Switzerland. Geneva.

⁸ Sylvia Ostry, *The Post-Cold War Trading System: Who's On First?*, (Chicago: University of Press, 1997), p.237.

⁹ Merlinda D. Ingco and Alan L. Winters, 'Agriculture and the trade negotiations: a synopsis', In Merlinda D. Ingco and Alan L. Winters (eds.), *Agriculture and the New Trade Agenda*, (Cambridge: Cambridge University Press, 2004), pp.16-17.

Measures (TRIMS), and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

In addition, a General Agreement on Trade in Services (GATS) was also created to regulate services in many instances parallel to the GATT. This was predicated on the notion that services were "the future", in view of continuing decline in manufacturing in the developed economies, especially in the US.¹⁰ Other innovations to the GATT system included the creation of a dispute settlement mechanism and a trade policy monitoring mechanism called Trade Policy Review Mechanism (TPRM), aimed at encouraging member countries to reform their trade, investment and other regulatory regimes.

Another important development on textiles and clothing, the Multi-fibre Agreement (MFA), a protectionist instrument which for a long time fell outside GATT's purview, was for the first time brought under the discipline of multilateral trade. It was set to come to an end 10 years (1 January 2005) after the conclusion of the Uruguay Round. The MFA was an anomaly in the multilateral trading system. As Das notes, '...[MFA] was clearly a discriminatory arrangement and against the fundamental principle of the GATT.'¹¹ There is no doubt that the MFA has had harmful consequences of undercutting the competitiveness of developing countries whose comparative advantage lay mostly in labour-intensive sectors.

¹⁰ See Clyde V. Prestowitz, Jr, Alan Tonelson and Robert W. Jerome, 'GATT 's demise is an opportunity for a new US. economic strategy', *Harvard Business Review*, March-April 1991, pp.132-133.

¹¹ Dilip K. Das, 'Trade and Global Integration', *CSGR Working Paper* No. 120/03, June 2003, p.10, www.csgr.org

6.2.1 *Imbalances at the Uruguay Round and Agriculture Liberalisation*

The imbalances of the Uruguay outcomes lay in the fact that the North-South bargaining that was a feature of the Round saw developing countries making concessions in new areas that were of economic interests to developed countries - intellectual property, TRIMS, and services - in return for what they hoped would be substantial liberalisation in agriculture and textiles trade.¹² As Baldwin suggests, the gains made by developing countries in these two sectors were not comparable to those made by developed countries in trade in services and the TRIPs agreements.¹³ Similarly, Wyn Grant suggests that there were few gains for developing countries.¹⁴ By ignoring the importance of the African countries at Uruguay, developed countries had created a relentless backlash from these countries to the multilateral trading system, as they became a lot more critical of it.

Furthermore, although although the Agreement on Agriculture brought agriculture into international trade negotiations, also made provisions for the continuation of subsidies for developed countries, with a provision for gradual erosion of these in the future, while developing countries that had no such subsidies in the first place could not introduce them to shore up their economies.¹⁵ Josling and Hathaway note for example that, 'The special agricultural safeguard has protected developed-country

¹² Michael J. Finger and Julio J. Noguez, 'Unbalanced Uruguay Outcome: The New Areas in Future WTO Negotiations', *The World Economy*, Volume 25 (3) March 2002, p.322.

¹³ Richard E. Baldwin, 'Key Challenges facing the WTO', In Mike Moore (ed.), *Doha and Beyond: The Future of the Multilateral Trading System*, (Cambridge: Cambridge University Press, 2004), p.50.

¹⁴ Wyn Grant, *op.cit.*, p.98.

farmers from import surges but has not been widely available to developing countries.¹⁶

At the Uruguay Round, 61 out of 71 developing countries notified that they offered no domestic support that were subject to reduction commitments; and this notification restricted these countries' use of support measures in the future.¹⁷ This therefore precluded them from using of subsidies in future. This remains one of the sensitive areas in the current Doha round of multilateral trade negotiations. For example, if a need were to arise in future for countries to offer domestic support this would only be permitted within the threshold (*de minimis* percentage) of 10 percent of the value of the production concerned.¹⁸

Developed countries on the other hand are less encumbered by such strictures: they are believed to have inflated their reports on values of their domestic support, allowing them more space to maintain up to 80 percent of their domestic support.¹⁹ Similarly with export subsidies, those countries that reported large export subsidies – and these are to be found mostly in OECD countries – were allowed greater latitude; but countries that reported zero-subsidies – mostly developing countries – had a

¹⁵ *ibid.*, p.92; Mills Soko, 'The Political Economy of African Trade in the Twenty-First Century', In Dominic Kelly and Wyn Grant (eds.), *The Politics of International Trade in the Twenty-First Century*, (Basingstoke: Palgrave, 2005), p.275.

¹⁶ Tim Josling and Dale Hathaway, *op.cit.*, p.2.

¹⁷ United Nations Conference on Trade and Development (UNCTAD), *Preparing for Future Multilateral Trade Negotiations: Issues and Research Needs from a Development Perspective*, (Geneva: UNCTAD, 1999), p.61-62.

¹⁸ *ibid.* p.39.

¹⁹ UNCTAD, *Preparing for Future Multilateral Trade Negotiations: Issues and Research Needs from a Development Perspective*, (Geneva: UNCTAD, 1999), p.62.

limited scope for manoeuvre.²⁰ A decade after the conclusion of the Uruguay Round, rich countries still continue to offer subsidies to their domestic farmers.

Rather than completely breaking the back of agricultural protectionism, the Uruguay Round merely established a framework for the long-term reform of the sector through the Agreement on Agriculture.²¹ Indeed, agriculture liberalisation remains a contentious issue, and is at the centre of the current Doha negotiations. The Common Agricultural Policy is remarked to be making up half of the EU's US\$95.7 billion budget.²²

Agriculture has always been exempted from the GATT MFN principle under Article XI. This Article gave countries '...the right to establish import quotas as an instrument to protect domestic agricultural production'; and under Article XVI the right to subsidise export of agricultural products was made legal.²³ At the end of Uruguay round a basis to reform trade in agriculture was established in the form of a mandate to begin negotiations before the end of 1999. This mandate, as Wyn Grant points out, was given through Article 20 of the Agreement on Agriculture.²⁴ It contained three pillars: market access or border measures, domestic support and export subsidies.²⁵

²⁰ United Nations Conference on Trade and Development (UNCTAD), *op.cit.*, p.63.

²¹ T.N. Srinivasan, *Developing Countries and the Multilateral Trading System: From GATT to the Uruguay Round and the future*, (Boulder: Westview Press, 2000), p.38.

²² Mills Soko, *op.cit.*, p.280.

²³ Julio J. Noguez, 'Developing Countries and the Unbalanced Multilateral Trading System: Some Elements for a New Negotiating Agenda', In UNIDO Publication, *Gearing for a New Development Agenda*, (Vienna: UNIDO, 2001), p.61.

²⁴ Wyn Grant, *op.cit.*

²⁵ Richard E. Mshomba, *Africa in the Global Economy*, (Boulder Colorado: Lynne Rienner, 2000), p.99.

Although SADC countries made significant commitments during the Uruguay, they nevertheless bound their tariffs at prohibitive levels, that is, at levels prohibiting imports.²⁶ This is said to have reduced the effectiveness of tariffication.²⁷ With the exception of South Africa, Botswana, Namibia and Swaziland – all members of the Southern African Customs Union (SACU) – whose bound duties on average were at about 70 percent and set to decline to 40 percent over a six year period, most SADC countries, including Tanzania, Lesotho, Zambia, Mozambique and Zimbabwe bound their tariffs at 100 percent or more, covering over 90 percent of products or tariff lines²⁸ (see Table 6.1 below).

²⁶ Richard Mshomba, *op.cit.*, p.103.

²⁷ Merlinda D. Ingco, *op.cit.*, p.427.

²⁸ Merlinda D. Ingco, *op.cit.*; Piritta Sorsa, 'Sub-Saharan African Own Commitments in the Uruguay Round – Myth or Reality?', *World Economy*, Volume 19, 1996 (3), p.292; African Development Bank, 'Africa in the Global Trading System', *African Development Report 2004*, (Oxford: Oxford University Press, 2004).

Table 6.1: Uruguay Round Bound Tariff Rates in Agriculture:

<i>Country</i>	<i>Average Bound Tariff Rate (%)</i>
Angola	80
Botswana	40
DRC	30
Lesotho	200
Malawi	124
Mauritius	120
Mozambique	100
Namibia	40
South Africa	40
Swaziland	40
Tanzania	120
Zambia	124
Zimbabwe	146

Source: Adapted from USAID Study, 2003

The rush towards participation in the Uruguay Round by African countries was, in part, motivated by the marginal position these countries occupied in the world economy, as well as their worsening economic conditions under an increasingly globalising world. Participation was therefore seen as necessary in ameliorating the developmental blight that characterised African countries in the 1980s and 1990s (see Chapter 1). In essence, motivated by the promise of impending prosperity accompanying globalisation, African countries saw their participation in the Uruguay Round as an opportunity to catch some of the promised benefits of global integration and address their developmental challenges.

As Stephen Haggard notes, the external constraints compelled developing countries to integrate themselves in the GATT.²⁹ These constraints include economic shocks, an expanding conditionality norm, growing bilateralism and changes in the multilateral system.³⁰ This also coincided with the period in which developing countries were undertaking significant shift from ISI to export-led growth as a result of the exhaustion of the ISI strategy in growing the domestic economy, and the demonstration effect of the Asian Newly Industrialising Countries (NICs) (see Chapter 1).

6.2.2 *Asymmetries of Power in Trade Negotiations*

Prestowitz, Tonelson and Jerome aptly pointed out that, ‘International agreements can only codify power realities, they cannot substitute for them. The nation whose views prevail in such negotiations will not be the nation whose views are objectively...’³¹ Developing countries, African countries especially, did not play much of a meaningful role during the Round as they were new to international bargains and had limited experience and negotiating capacity (see discussion below). Moreover, their trade profile was much lower compared to developed economies. Accordingly, the outcomes of the round very much reflected asymmetries of capabilities. That Sub-Saharan African countries submitted less than 3 percent of all the written proposals

²⁹ Stephen Haggard, *Developing Nations and the Politics of Global Integration*, (Washington D.C: The Brookings Institutions, 1995), p.45.

³⁰ *ibid.*

³¹ Claude V. Prestowitz, Jr, Alan Tonelson, and Robert W. Jerome, *op.cit.*, pp.134-135.

and comments that circulated during the Uruguay Round was further reflection of these power asymmetries.³²

According to Finger and Schuler, these countries ‘...lacked the capacity to engage substantively on the wide range of issues Uruguay Round embraced.’³³ This asymmetry has continued well beyond the Uruguay Round to be a salient feature of North-South relationship in the current global trading system. As Rajesh *et al* observed, ‘Asymmetry in negotiating power and capacity remains a fundamental characteristic of the system.’³⁴

South Africa also took a dim view of the outcomes of the Uruguay Round, and in its assessment it regarded them as having failed to go far enough in addressing the imbalances existing in the world trading system between developing and developed.³⁵ It was therefore keen to see a new round launched where developing countries could have an opportunity for redress and hopefully regain the ground lost during the Uruguay Round.

In South Africa’s view the Seattle Ministerial Conference that took place 5 years after the conclusion of the Uruguay Round represented such an opportunity. As is well known, this ministerial stalled, and threw into perplexity the credibility of the multilateral trading system. This also deferred the hopes of many developing

³² Michael J. Finger and Philip Schuler, ‘Implementation of Uruguay Round Commitments: The Development Challenge’, *World Economy*, Volume 23 (4), April 2000, p.512.

³³ *ibid.*

³⁴ Rajesh Chadha, Bernard Hoekman, Will Martin, Ademola Oyejide, Marie Pangestu, Diana Tussie and Jamel Zarowk, ‘Developing Countries and the next Round of WTO Negotiation’, *World Economy* Volume 23 (4), April 2000, p.433.

countries, including South Africa, who had expected to make important advances in correcting what they regarded as a raw deal that emerged from the Uruguay Round. Indeed, when another opportunity presented itself during the Ministerial Conference in Doha in November 2001, South Africa worked hard to ensure that the Seattle failure was not to be repeated, and that a new round is launched.

It is worth reiterating that South Africa's pro-Round stance was motivated by the reforms that were underway in its domestic economy and the developmental context within which these were unfolding. The structure of South Africa's domestic economy, in particular the re-orientation towards value-added manufactured exports, elevated the importance of export promotion and market access issues in its external or foreign economic strategy (see chapter 4). This cemented the relationship between the pursuit of multilateralism and domestic interventions targeted at promoting domestic economic growth and industry competitiveness on the one hand, and supplemented with equity policies on the other hand. This is one of the main themes of this thesis.

It is therefore not difficult to discern South Africa's strategic interests in pursuing multilateralism in trade, as well as seeking to address some of the imbalances that existed in the Uruguay Agreements. It has very little to do with pursuing middle-powermanship and all to do with strategic interests in the domestic economy.

³⁵ Xavier Carim, *Report on the 3rd WTO Ministerial Conference at Seattle: Assessment, Implications and Prospects for Future Multilateral Trade Negotiations*, The Department of Trade and Industry, South Africa, 20 January 2000.

6.3 From Seattle to Doha: South Africa and the new Round of Negotiations

The Seattle Ministerial that took place in November-December 1999 was expected to pave the way for negotiations to develop a framework or modalities for agricultural liberalisation. But developed economies had their own set of agenda that they wanted to achieve through the round. As a result differences were so acute that the possibility of failure could not have been easily averted.

Consequently, the Seattle ministerial conference failed to launch the much touted 'millennium round', and this was to the disappointment of many developing countries, especially middle-income exporting countries like South Africa who had hoped to advance their market access interests. Failure to launch the negotiations was due to a number of developments, including disagreements over agriculture liberalisation, especially between the US and the EU, intellectual property rights, and whether the Round should be 'broad' or 'narrow'. The tensions at Seattle intensified between the EU and the US.³⁶ As Mike Moore, the former WTO Director-General observed, '...the differences across the Atlantic and North/South were too large to bridge.'³⁷

The failure to launch the negotiations at Seattle was a set back for some developing countries, and played into protectionist interests of steel, textile and clothing sectors in the US; agricultural sectors in the EU, Japan, South Korea, Switzerland and Norway. The Seattle failure afforded these countries an extended breathing space from

³⁶ Sheila Page, 'Developing Countries in GATT/WTO Negotiations', *Overseas Development Institute Working Paper*, October 2001, www.odi.org.uk

³⁷ Mike Moore, *op.cit.*, 2003, p.98.

liberalising their agricultural markets – an area which is of export interest to most developing countries.³⁸

In South Africa's view, developing countries were the main losers at Seattle as the failure to launch a new round denied them an opportunity to use it to address their developmental concerns, including those to do with agriculture, TRIPS measures and clearer provisions on Special and Differential Treatment. On the other hand, at Seattle African countries and NGOs demonstrated for the first time that they were an important force to be reckoned with in global economic policy making, and could not be easily taken for granted.³⁹

In the aftermath of this failure, South Africa emerged as one of the ardent advocates for a new round of multilateral trade negotiations. To be sure, South Africa was not alone in this exercise. Indeed, a few middle-income countries, including Brazil and Egypt (although Egypt later became half-hearted), put up a great deal of work to ensure that a consensus was struck on launching the new round. South Africa believed that it was in the context of a new, 'broad-based' round that its interests, and those of its African countries, could be addressed. On this score, South Africa's position coalesced with those of the developed countries, in particular the EU and the US, who wanted to see a new round launched.

One of the challenges South Africa faced was that most African countries had less appetite for the new round, more so in view of the ambiguity hovering above Uruguay Round 'Implementation Issues'. Implementation issues were a spectre that had come

³⁸ Xavier Carim, *op.cit.*

to haunt the Doha round. There were a host of other issues that developing countries raised as precondition for supporting the round: including special and differential treatment, and technical assistance and capacity building.

Even though an enthusiast for the launch of a new Round, it was not completely lost to South Africa that, after having countenanced the mortifying outcomes at the end of Uruguay, and losing an opportunity to make inroads during the Seattle Ministerial, most developing countries were seized with a sense of disenchantment with the multilateral trading system. Their confidence and trust in the WTO was somewhat eroded. Breaking this reticence – and delivering Africa’s support for the round - was going to require an extra-ordinary effort on the part of South Africa.

Thus South Africa’s campaign for the round was built around the ‘development’ theme within a broad-based agenda. Yet, it is not clear what was meant by development and how South Africa intended promoting this within the WTO. Some prominent economists who have keenly followed global trade developments are somewhat puzzled by the imputation of ‘development’ in the Doha Round, and consider it a ‘pleasing rhetoric.’⁴⁰

Indeed, there does not seem to be any collective understanding across different actors in the WTO of what is meant by a development round, raising suspicions that this was just a sweetener to ensure that the required support for the launch of the round was garnered, especially from Africa countries and India. Nonetheless, the Doha Round

³⁹ *ibid.*

was launched with a view that ‘...there would be a substantial focus on development concerns...’⁴¹

From the outset, most African countries expressed scepticism. They realised that launching the Round would only ensure that the wheel of global trade continues to move at a faster pace than they would be able to catch up and that their developmental challenges would be placed on the back burner. By its very design, constructed on the edifice of power asymmetries, the WTO is incapable of advancing a developmental agenda. Indeed, as Finger and Schuler argue, ‘WTO regulations reflect little awareness of development problems...’⁴²

6.4 South Africa’s Perspective on the WTO Negotiations Post-Seattle

From the outset, when it was evident that the global trade talks would begin at Doha, African countries constituted themselves into a coalition in order to counter-balance the preponderance of developed economies, especially the EU, the US and Japan, and ensure that their interests are sufficiently addressed. The foundation of this coalition had already been laid at Seattle Ministerial, and was partly responsible for the Ministerial failure. The unfinished business of the Uruguay Round, including Implementation Issues were at the heart of African countries’ negotiating positions. Implementation Issues therefore constituted a down-payment that had to be advanced before African countries would give consent to opening a new round of negotiations.

⁴⁰ Jagdish Bhagwati, ‘Trading for development: how to assist poor countries’, In Mike Moore (ed.), *Doha and Beyond: The Future of the Multilateral Trading System*, (Cambridge: Cambridge University Press, 2004), p.115.

⁴¹ Kym Anderson, *op.cit.*, p.2.

By late 2005 these issues were still not fully addressed, and this is despite the fact they are one of the key demands of African countries, and were a precondition for their support for the launch of the Doha Round.

6.4.1 Implementation Issues

For African countries, implementation issues and the finalisation of mandated negotiations on agriculture were preconditions for the launch of a new round; and for them these were substantive development issues. Implementation Issues for example included a number of areas which developing countries were not fully satisfied with and needed to be re-visited to ensure re-balancing of the Uruguay outcomes.

Some of these were with respect to TRIPs Agreement on Public Health issues, which was seen as hindering developing countries from taking action, for example, via parallel importation and compulsory licensing to access cheaper medicine for treatment of HIV/AIDS, TB and Malaria; TRIMS Agreement, which was viewed by developing countries as having the potential to encroach into the domestic policy space and constrain government from undertaking development policy measures or imposing regulations on Transnational Corporations (TNCs). According to Finger the implementation burden for developing countries 'would cost each country some 150 million dollars, more than a full year's development budget in many of the least developed countries.'⁴³

⁴² Michael J. Finger and Julio J. Noguez, *op.cit.*, p.511.

The other areas of implementation demanded by African countries were with regards to strengthening of trade remedies, especially anti-dumping measures to limit the arbitrary use of these by developed countries against developing countries' imports; reopening of the subsidies agreement to broaden non-actionable subsidies for developing countries, for example, where these are geared towards support for industrialisation, diversification, and the manufacture of high technology and value-added goods; implementation of the Marrakech Ministerial Decision in favour of LDCs and Net-Food Importing Developing Countries (NFIDCs); standards (SPS and TBT measures) requirements, and customs valuation requirements, for which developing countries had no available infrastructure or resources to develop.

Also, the majority of African countries, and this is also the case for most of SADC countries, had found it difficult to implement their obligations arising from the Uruguay Round due to insufficient technical capacity and weak domestic institutions, including regulatory mechanisms to facilitate implementation. Because of the added financial and administrative burden required in the implementation of these rules, these tended to conflict with developmental priorities in these countries. As noted by Michael Finger, 'Developing countries took on an implementation burden for which they did not get equivalent value in return.'⁴⁴

The linkage between implementation issues and developmental concerns is made all the more clearer by Rajesh *et al* who cast doubt at the developmental value of

⁴³ Michael J. Finger, 'Implementing the Uruguay Round Agreements: Problems for Developing Countries', *World Economy*, Volume 24 (9), September 2001, p.1100.

⁴⁴ Michael J. Finger, *op.cit.*, p.1097.

implementation issues and the 'one-size-fits all' approach of the WTO.⁴⁵ They further observe that, 'It is not at all clear from a development perspective that the resources required for implementation of some WTO agreements, whatever the amount might be, would not be better used to build schools or improve infrastructure.'⁴⁶ As Ademola contends, 'For the low-income countries, poverty alleviation has become the central objective of developmental strategy.'⁴⁷

Indeed, as Finger and Schuler argue, WTO regulations are less sensitive to the developmental concerns of developing countries and demonstrate '...little appreciation of the capacities of the least developed countries to carry out the functions of the SPS, customs valuation, intellectual property etc. regulation addresses.'⁴⁸ This lack of capacity is made all the more difficult by smaller delegation that these countries have in the Geneva Mission, and sustaining these also requires financial commitments.

SADC countries that have representatives in the Geneva Mission tend to overload them with responsibilities related to other Geneva-based international organisations such as UNCTAD, International Labour Organisation, World Intellectual Property Organisation (WIPO) and other United Nations related agencies. It is not rare to find a SADC Geneva-based official covering all the multilateral organisations and attending meeting dealing with different issues in one day.⁴⁹ There are also poor linkages and coordination between national capitals and Geneva Missions. This effectively means there is also no domestic coordination mechanism to develop a country's position on

⁴⁵ Rajesh Chadha *et al*, *op.cit.*, p.433.

⁴⁶ *ibid*.

⁴⁷ Ademola T. Oyejide, 'Development dimensions in multilateral trade negotiations', In Mike Moore (ed.), *Doha and Beyond: The Future of the Multilateral Trading System*, (Cambridge: Cambridge University Press, 2004), p.69.

⁴⁸ Michael J. Finger and Philip Schuler, *op.cit.*, p.511.

WTO issues. Furthermore, due to domestic institutional weaknesses and reasons already alluded to above, the majority of African negotiators tend to have a limited technical grasp of the details of WTO negotiations as most of them are fairly new to the multilateral trade scene.

6.4.2 South Africa's Position on the Launch of Doha Round.

South Africa's position, though sympathetic to its African partners, was different and, on the whole, far more enthusiastic about launching a new round of negotiations. South Africa's preference for a broad-based round was in part motivated by strategic calculation of what could be possible given such diversity of players in the multilateral trading system; and in part by South Africa's institutional capability and readiness to engage on the 'new generation issues' in the WTO, including the so-called Singapore Issues (competition, investment, transparency in government, and trade facilitation). South Africa's view is that developing countries have more chances of gaining concessions when negotiations have a wider scope for trade-offs on a number of areas in a broader agenda: from agriculture, services, industrial products, and new issues.

In its key negotiating positions, South Africa expressed a clear preference for multilateralism as a principle and as an instrument for dealing with the challenges of globalisation. It contended that multilateralism, pursued through a strengthened and rules-based WTO mechanism is '...an appropriate institutional policy response to globalisation', and that it is through this instrument that developing countries'

⁴⁹ Based on observations during field work in Geneva in May 2004.

interests can be fully addressed.⁵⁰ According to this view, far from constraining developing countries, multilateralism disciplines power plays, creates fairness and could ensure equitable outcomes.

Linked to the previous point, South Africa's approach to the WTO was also informed by a particular interpretation of globalisation process - a middle-ground view, which sees globalisation as largely a neutral force that countries can harness to their benefit. Alec Erwin, South Africa's former Minister of Trade and Industry, who could be regarded as one of the mid-wives of the Doha Round remarked that, 'Globalisation is not an ideological construct, but rather describes real changes in the world economy, and that it describes a more intense, but not unique, global interaction.'⁵¹

The view of globalisation and multilateralism as neutral and a force that could be harnessed for the benefit of developing countries cast a spell on South Africa's state actors for some time. This view is one-sided in its interpretation of globalisation, and underestimates the power of ideas, prevalence of particularistic interests in negotiating context, and the role of capabilities in shaping the underlying foundations of the contemporary global structures and outcomes of economic interactions between various actors endowed with differential capabilities. Furthermore, it naively misreads the real intentions of developed economies in engaging in North-South bargains at the multilateral trade level.

⁵⁰ The Department of Trade and Industry, *Note on South Africa's Approach to the WTO and Key Elements of a Negotiating Position*, December 2000, DTI, Pretoria.

⁵¹ TIPS-IGD WTO, Proceedings of a Consultative Symposium, *The Multilateral Trading System and the Road to Doaha: Challenges for South Africa*, 7-8 August 2001, Pretoria.

However, the approach South Africa adopted towards the structures of global governance – that of engagement rather than de-linking – is understandable, precisely because it would be difficult, if not impossible, to effect change, even if incrementally, in global processes while shouting from the margins. Engaging in the current global processes on the basis of a principled view to participate in shaping outcomes could well be a better option than, say, withdrawing from multilateral processes. However, this does not guarantee better outcomes. The reality of international negotiations often stands in stark contrast with the idealism represented by principled multilateralism.

Regarding the launch of the new round, South Africa considered two crucial factors. The first was with regards to the adverse effect a failure to launch the Round could have on the credibility of the WTO as an institution. Second, failing to launch a round would have serious implications on the confidence countries have in the principle of multilateralism and the institution that is supposed to represent this principle to act as a counterforce against unilateralism and bilateralism.

As Xavier Carim, South Africa's former Head of Delegation to the WTO during Seattle Ministerial noted, 'A strong WTO is essential to effective management of the globalising world economy and as a bulwark against unilateralism.'⁵² Hence, in seeking to launch a new round these two factors were uppermost in the appeal by developed countries – and a fraction of developing countries, South Africa included, that were in support of the new round – for a consensus to start the negotiations. Masked under the expressed rhetoric of promoting multilateralism and defending the

⁵² Xavier Carim, *op.cit.*

WTO, there are also interests that are linked to the ongoing domestic transformation of economic landscape in South Africa (see Chapter 4).

6.4.3 Delivering African Support: The Burden of Regional 'Leadership'

South Africa, given its 'regional power' status, was expected by developed countries to deliver the African support for the Round. The confidence placed on South Africa's ability to deliver SADC and the Africa Group was based on the view that South Africa is a core state in the sub-region, with enlightened view of the global system, and would be able to use its clout to persuade its regional partners. This view was oblivious to the fact that there was no sufficient consensual normative ground upon which South Africa's leadership in the region was based. This also ignored the intra-regional tensions in which South Africa was often at the centre, and the constraints South Africa faced as a result of historical socio-political dynamics in the region (see Chapter 3), as well as the structural asymmetries in the region's economies (see Chapter 5).

Evidently, South Africa's political influence was grossly misread or the country was pushed far too much to expend political capital in order to prove its regional clout to the EU and the US. It had to perform. As one Geneva-based diplomat commented, Pascal Lamy and Robert Zoellick (EU and US former trade negotiators respectively) '...see South Africa as a pragmatic and reasonable country in the WTO and they differentiate it from the rest of the Africa Group.'⁵³

Also, according to Jawara and Kwa, the US and EU strategy in the run up to the Doha Round was to use strong countries within other WTO groupings – for example South Africa in the Africa Group – to gain wider support for the round.⁵⁴ Mike Moore's (the former WTO Director General) effusive praise of countries like South Africa is more telling. He remarked that:

‘Developing countries like South Africa are in the forefront of countries defining the parameters of the WTO’s future work programme – their ministers, ambassadors and officials are among the most effective and influential trade-policy practitioners in the world today.’⁵⁵

6.5 South Africa’s Negotiating Position in the Doha Round

In discussing South Africa’s negotiating position, this section will only highlight those areas where there were clear or potential tensions with other SADC/Africa Group countries. The scope of South Africa’s negotiating position is too wide to be examined here, and would need a study of its own. As noted earlier, South Africa’s negotiating positions ahead of the Doha Ministerial reflected a more ambitious set of objectives. It centred mainly on issues of market access in agriculture and industrial products.

⁵³ Confidential telephonic Interview, 6 December 2004.

⁵⁴ Fatoumata Jawara and Aileen Kwa, *op.cit.*

⁵⁵ Mike Moore, *op.cit.*, 2003, p.172.

6.5.1 South Africa's Regional Consultations

South Africa consulted extensively in its quest to see the Doha Round launched. The consultation process was multi-track, filtering information between the developed, like-minded developing, and the African countries. It took place both at the political and senior officials' level. South Africa's Minister of Trade and Industry, Alec Erwin, took a keen interest in getting the round launched and was at the forefront of the consultation processes with a wide range of players involved, in particular with Commissioner Pascal Lamy of the EC on the one hand, and SADC Ministers of Trade on the other.⁵⁶

South Africa also consulted regularly with countries such as Brazil, India and Nigeria, and in South Africa's view these would form a solid axis of South-South alliance during the Round. Indeed, these became the nucleus of the G20+ coalition in the run up to the Cancun Ministerial in September 2003.⁵⁷ The challenge for South Africa in the run up to the Doha Ministerial was to reconcile its more ambitious objectives with the more limited and defensive objectives of its partners in SADC and the wider Africa Group. South Africa was therefore prepared to consider, as part of the Doha negotiating package, issues that were of key interests to the developed countries, and at the same time keenly aware of the difficulties that were posed by the African countries for the Ministerial.

⁵⁶ Confidential Note 'State of Play A'

⁵⁷ This group was established in the run up to the Cancun Ministerial in September 2003. It is led by Brazil and comprises of: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, El Salvador, Guatemala, India, Mexico, Nigeria, Pakistan, Paraguay, Peru, Phillipines, South Africa, Tanzania, Venezuela, Zimbabwe. See www.wto.org

As Jawara and Kwa argue, 'South Africa's negotiating stance was to trade off the 'new issues' against implementation issues, and technical and other assistance'.⁵⁸ At the broader level, South Africa's position put emphasis on industrial restructuring in developed economies in a way that facilitates relocation of production and investment to developing countries in areas where these countries have comparative advantages. South Africa has maintained consistency in articulating this view, even post-Doha Ministerial. In the pre-Doha consultations, South Africa faced several hurdles in constructing a common approach based on its view of global economic relations and multilateral trading system.

Intensive interactions between Pascal Lamy of the EU and Alec Erwin went well into few weeks before the start of the Doha Ministerial Conference, trying to find a solution to bring African countries on board in support of the round. Key African countries that were targeted include those belonging to SADC, Kenya, Egypt and Nigeria.⁵⁹ Indeed, the Nigerian Minister of Trade Mustafa Bello, representing the Africa Caribbean and Pacific (ACP)⁶⁰ coalition group of preference-dependent countries, spoke favourably for the launch of the new round during the Doha Ministerial.⁶¹

⁵⁸ Fatoumata Jawara and Aileen Kwa, *op.cit.*, p.168.

⁵⁹ Confidential note (Erwin-Lamy exchange, 14 August 2001).

⁶⁰ This group is made up of the fifty-six developing country WTO members, drawn from Africa, Caribbean and Pacific regions. These countries benefit from a non-reciprocal preference scheme offered by the EU.

⁶¹ Mike Moore, *op.cit.*, 2003, pp.131-132.

6.5.2 *Contentious Negotiating Areas: South Africa-SADC/Africa Group*

One area where there was a marked difference between South Africa and its regional counterparts concerned agricultural market access. For South Africa, agriculture was one of the key pillars in its negotiating position, and considering the country's membership of the Cairns Group of agricultural exporters,⁶² this sector was going to be at the heart of South Africa's negotiating agenda during the Doha Round. Agricultural sector is important for South Africa economic development agenda – it is linked to the 'Black Economic Empowerment' and land distribution programme - and also has '...strong economic and employment linkages with other sectors of the economy...'⁶³ In this regard, South Africa's main demand in the negotiations is improved market access opportunities, including the reduction and eventual elimination of domestic support and export subsidies in the developed North, in particular the EU. However, in respect of developing countries, South Africa's position is that the WTO should provide necessary flexibilities for developing countries to enable them to address developmental challenges.

The final phasing out of domestic support and export subsidies in OECD markets is likely to stimulate massive growth in agricultural production in developing countries that have a comparative advantage in this area. In this connection, South Africa's approach very much dovetails, if not reflective of, the Cairns Group position. The

⁶² Members of the Cairns Group include Argentina, Australia, Brazil, Canada, Chile, Columbia, Costa Rica, Guatemala, Hungary, Indonesia, Malaysia, New Zealand, Paraguay, The Philippines, South Africa, Thailand and Uruguay.

⁶³ SACU's Trade Policy Review, 'South Africa', Annexure to the Report by the WTO Secretariat, WT/TPR/S/114/ZAF.

Cairns Group consists of major agricultural exporters, including both the developed and developing countries.

The group was established just before the start of the Uruguay Round in 1986 and is led mainly by Australia, New Zealand and Canada. It must be noted that, although this group was from its beginnings a pro-liberalisation group, it did not have much sympathies for developing countries' concerns. South Africa joined the Cairns Group in 1998 with its membership accession sponsored by New Zealand.⁶⁴ As Grant notes, 'The net exporters had a clear preference for better access to developed country markets and therefore tended to align themselves with the Cairns Group.'⁶⁵

African countries do not take a favourable view of South Africa's participation in this group, and perceive South Africa to be a conduit for Cairn Group's positions in the Africa Group – another WTO coalition group to which South Africa (and SADC countries) is also a member. According to one African trade diplomat from a SADC country, 'South Africa tends to articulate its positions hiding behind the Cairns group and would try to convince African countries that the preference margins are viewed as discriminatory and should be disavowed.'⁶⁶ South Africa's position on EU preferences therefore tends to be ambiguous, leaning heavily on the position of the Cairns Group rather than African countries, most of which want to retain these for reasons linked to income earning and to manage their domestic industrial restructuring, for example in the case of Mauritius.⁶⁷

⁶⁴ Ian Taylor, *Stuck in the Middle GEAR: South Africa's Post-Apartheid Foreign Relations*, (Westport, CT: Praeger, 2001).

⁶⁵ Wyn Grant, *op.cit.*, p.100.

⁶⁶ Confidential interview with a member of the Africa Group in Geneva, 23 May 2004.

⁶⁷ Interview with Tshepo Mogotsi, First Counsellor, Botswanan Mission in Geneva, 24 May 2004.

6.5.3 SADC/Africa Group and the Preference Scheme

Differently from South Africa's production base, Africa's exports are heavily concentrated in a few products – minerals and agriculture – and are destined to the EU markets (see Chapter 5). African countries who participate in the Cotonou preferential trade scheme benefit in terms of the various protocols built into the scheme: sugar, beef, and textiles. This scheme is offered by the EU to its former colonies in Africa, the Caribbean and the Pacific (ACP), and is based on the provision of duty-free, quota-based access of certain products from these countries.⁶⁸ South Africa is the only country in the SADC region that does not benefit from preferences. Its terms of accession to the WTO were as a developed rather than as a developing country. It can only improve its domestic output via enhanced market access with specific focus on tariff reduction and elimination of non-tariff barriers.

The various product items (sugar, beef and textiles) covered by the Cotonou preferential scheme – from which South Africa does not benefit - guaranteed export quotas at a fixed price (as well as above world price) to EU markets.⁶⁹ Most SADC countries do not face major tariff barriers in developed markets as import tariffs in these markets are already very low owing to the trade preference system extended to them. These preferences include those agreed under the Lomé Convention and now incorporated under the EU-ACP Cotonou Partnership Agreement signed in 2000;

⁶⁸ Kym Anderson, *op.cit.*, p.11.

⁶⁹ African Development Bank, 'Africa in the Global Trading System', *African Development Report 2004*, (Oxford: Oxford University Press, 2004), p.152; Kym Anderson, *op.cit.*, pp.11-12.

‘Everything But Arms’ (EBA) introduced by the EU in 2001; and AGOA extended by the US in March 2000.

For most of African countries, the battle ground in the multilateral trade negotiations lies not in the area of market access via tariff reduction, but more in the preservation of their preference scheme. Faizel Ismail notes for example that, ‘It has long been established that for many developing countries, especially the most marginalized, increased market access will not contribute significantly to export driven growth.’⁷⁰ This is largely due to supply-side constraints and reliance on one or two commodities (see Chapter 5). It has been suggested that adjustment assistance by developed countries or international institutions could perhaps go a long way in addressing the special concerns of these countries.⁷¹

Special preferences extended by the EU to these countries are by their very nature and design discriminatory: they discriminate against those who are not benefiting from them and grant competitive advantage to those who are covered by them. Some economists contend that this scheme harms ‘...many other equally poor but non-ACP developing countries’ and is an ‘...inefficient way of transferring welfare to poor countries.’⁷² This is also a critical fault-line between South Africa and the rest of the SADC region in regards to market access.

⁷⁰ Faizel Ismail, *op.cit.*, 2004.

⁷¹ See Jagdish Bhagwati, *In Defense of Globalisation*, (Oxford: Oxford University Press, 2004); *ibid.*

⁷² Kym Anderson, *op.cit.*, p.12.

South Africa views the system of preferences as ‘a recipe for stagnation in the global economy’ and a ‘perverse new imperialism... [that] stares us in the face.’⁷³ South Africa, which is an agricultural exporter, has sharp differences with Mauritius, a preference dependent country and food importer, over agriculture liberalisation.⁷⁴ As suggested previously, market access is a cornerstone of South Africa’s negotiating position, but of lesser short-term importance and urgency for the majority of SADC countries.

The ACP (including most of SADC) countries, as a group, are less vocal against the EU’s protectionist policies because of the benefits they derive in the form of high domestic prices in the EU for their otherwise less competitive products. This also gnaws away the strong bargaining platform that developing countries could muster in the multilateral trade negotiations if the question of preferences was not in existence.

Multilateral trade negotiations, in particular progress on market access, threaten to erode these preferences in the long-term. The privileged access to EU markets currently enjoyed by most African countries via preferences is a short-term benefit for them, but creates disadvantages for middle-income exporters who want to compete in the same markets. As a result of these preferences, SADC countries, which are also part of the Africa Group, are negotiating from a defensive position.

This defensive position, argues Draper and Khumalo, seeks privilege access to key northern markets, mainly agricultural commodity exports to the EU market, and

⁷³ A confidential exchange (LDS-TM), *op.cit.* .

⁷⁴ Common Market for East and Southern African countries (COMESA), *African Influence in the World Trade Organisation*, (Lusaka: COMESA, 2002), p.25.

maintaining the preference system; and this is at the expense of middle-income countries such as South Africa, Brazil and India.⁷⁵ It also disadvantages Banana producers in Latin America as it surfeits ACP countries with tariff preferences while raising barriers for developing countries in Latin America, and thereby artificially undercutting their competitiveness.⁷⁶

Evidently, South Africa's interests remain irreconcilable with those of other SADC countries that benefit from preferences. Thus South Africa will always have difficulties in building a solid consensus on multilateral trade positions in the SADC region. For example, preferent-dependent SADC countries like Mauritius are more interested in preserving their quotas and preference margins in the EU market, and would refuse to support any position in the Africa Group which goes against their short-term interest.⁷⁷

Essentially, agricultural market access is not a key concern for such countries. There is no doubt that if African countries remain locked into this dependency relationship they stand to lose in the long-term when MFN tariff rates come down and agricultural trade barriers finally unravel in the EU, especially in view of the the accession of 10 former Eastern European countries to the European Union on 1 May 2004, making the long term viability of subsidies unsustainable.

⁷⁵ Peter Draper and Nkululeko, *Friend or Foe? South Africa and Sub-Saharan Africa in the World Trading System*, SAIIA Trade Policy Working Paper No. 3, 2004. www.saiia.org.za

⁷⁶ 'Banana producers go to WTO over EU dispute', *Financial Times*, 7 March 2005.

⁷⁷ Mauritius in particular is known to be very rigid on preferences. Confidential Interview with a member of the WTO Africa Group in Geneva, 27 May 2004, Switzerland, Geneva.

Building on the broader overview of South Africa's position in relation to the majority of African countries, and how the role of subsidies further complicates the emergence of a common position, the following section will look at the processes undertaken by South Africa to build a common agenda in the SADC sub-region and beyond.

6.6 South Africa and SADC/Africa Group on the Road to Doha

Even though SADC does not carry a mandate to negotiate at the multilateral trade level on behalf of its members, countries have, in the past, made some efforts to coordinate their positions. SADC countries are active participants in the Africa Group (which is mainly made up of 53 Sub-Saharan countries that are members of the African Union) since Seattle Ministerial, and the level of activity has increased since the launch of the Doha Ministerial. In the run up to the Doha Ministerial Conference, SADC senior officials and ministers of trade and industry met to exchange views and search for a common ground. SADC countries' concerns, and this excludes South Africa, were broadly similar to those of the other members of the Africa Group with whom they share similar structural features.

In spite of the differences that existed between most SADC countries and South Africa, especially in the area of preferences and Singapore Issues, South Africa took it upon itself to consult extensively with SADC countries, both at the Ministerial and Senior Officials' (including Geneva-based officials) level to develop a common position. Alec Erwin, South Africa's then Minister of Trade pointed out to Pascal Lamy that '...a unified African position was better than having to negotiate solely on

the basis of our specific national interest.⁷⁸ This was both a political imperative given South Africa's position in the region *vis-à-vis* its partners (see Chapter 5). This could also have been a tactical approach that would make South Africa's room for manoeuvre appear narrower than was really the case.⁷⁹

South Africa participated in, and hosted, a number of meetings in an attempt to finally thrash an acceptable common basis for approaching the Doha Ministerial, and its major goal was to get African countries to sign up to the Round. This was also important for South Africa for different reasons: It would enhance its stature as a major force and a deal broker in the multilateral trade negotiations. The following were some of the meetings that took place amongst African countries ahead of the Doha Ministerial:

- SADC/COMESA Trade Ministers Meeting in Cairo, Egypt, July 2001.
- African Ministers of Trade and Industry, held under the Aegis of the OAU – held in September 2001, Abuja;
- SADC joint meeting of Ministers of Trade and of Agriculture – early September 2001, Mauritius;
- Informal Ministerial Meeting of about 15 key countries – 1 September 2001, Mexico;
- Commonwealth Heads of Government and State, early October 2001, Australia;

⁷⁸ Confidential exchange (AE-PL), 14 August 2001.

⁷⁹ This fits in with Robert Putnam's conceptualisation of two-level games in international bargains. See Robert D. Putnam, 'Diplomacy and Domestic Politics: The Logic of Two-Level Games', In Peter B. Evans, Harold K. Jacobsen Robert D. Putnam (eds.), *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, (Berkeley: University of California Press, 1993).

- Senior Officials' meeting in September 2001 in Centurion, South Africa.

Three countries in SADC were particularly averse to the idea of supporting the launch for a new round: Zimbabwe, Namibia and Tanzania. These countries tended to contradict South Africa's views on the likely shape of a common negotiating position within SADC.⁸⁰ These political tensions were reflective of much bigger difficulties South Africa had in working closely with its regional partners. This was partly caused by negative perceptions that are historically rooted; and partly caused by perceptions of South Africa's regional agenda in the post-apartheid era (see Chapter 5).

Tanzania and Zimbabwe belonged to the radical group of 'like-minded' countries led by India; and Tanzania was also a leading country in the group of least developed countries (LDCs) and an important member of the ACP group which relies on trade preferences, and approaches multilateral trade negotiations from a defensive perspective. Regional tensions manifested themselves in the first senior officials' meeting held in Harare in May 2001. To South Africa's disappointment, this meeting never really made much progress; it even failed to *quorate*.⁸¹

The meeting where there was a considerable degree of progress made was the SADC Ministers of Trade meeting hosted by South Africa in Centurion, on the 20 July 2001. For the first time, SADC Ministers demonstrated support for some of the areas that constituted South Africa's position, especially those calling for a '...fundamental

⁸⁰ CD-TN report (confidential internal document), May 2001.

⁸¹ This was recorded in a confidential report of the DTI.

agenda that includes implementation issues, agriculture, services, and industrial tariffs.’⁸²

The word ‘Round’ was avoided in the agreed wording on the draft negotiating text. Also, the overall shape of the position that came out of this meeting reflected the diversity of SADC - developing countries, least developing countries, small economies, and land-locked and island countries – and had an edge of a compromise to it. It was on the more general issues, rather than on specifics, that SADC countries could agree a common position. More specific issues, including firm commitment towards launching a round were bracketed – indicating lack of consensus.

Further agreement on the Singapore Issues could not be achieved and discussion on these issues was further deferred to a meeting that was to be held in Mauritius on the 3 September 2001, less than two months before the Doha Ministerial. South Africa’s position as previously indicated was strongly advocating for a broad-based Round that would also include Singapore Issues. By the time the round was launched at Doha there was still no agreement on key issues within the SADC/Africa Group.

Most SADC countries, especially those opposed to the launch of the Round had a much lower level of ambition in the multilateral trading system as they were beneficiaries of the EU preference scheme. SADC’s position in the multilateral trade negotiations lacked any positive propositions and was mainly defensive. These countries did not perceive much benefit to be gained from launching global trade

⁸² Confidential Report (RC and RC), 29-31 July 2001.

talks. If anything, this threatened to unravel their special relationship with the EU established through preferential concessions.

Hence one of SADC/Africa Group's critical demands or preconditions for considering the round was a waiver for the ACP/EU Partnership Agreement which would still allow them to benefit from preferences for an agreed period of time. And this demand was potentially dangerous to the multilateral trading system as it allowed the EU some space to exploit the legitimate fears of the ACP countries concerning their plight if subsidies are eliminated. Effectively this offered the EU an excuse to further delay agricultural liberalisation.

A common agreement amongst SADC countries was struck on a few broad set of issues: implementation issues with emphasis on special and differential treatment; standards and technical barriers; TRIPS Agreement and public health; TRIMS Agreement; technical assistance and capacity building; and full commitment to support LDCs and net-food importing developing countries. The other area where a broad but inconclusive agreement was made was with regards to industrial tariffs. The SADC position was that negotiations in this area should be targeted at addressing tariff peaks and escalation in order to ensure production and export diversification. This position was to be later developed after the launch of the Doha Round, as part of the Africa Group position that was consolidated in Kigali, Rwanda from the 27 – 31 May 2004 (see below).

On Industrial tariffs or Non-Agricultural Market Access, South Africa had an offensive agenda. Its position called for the reduction and elimination of tariff peaks

and escalation on products of export interest to developing countries. This was made all the more important for South Africa and a number of developing countries as the EU protected its processing industries, thereby hampering the development of processing industries in developing countries.

Indeed, the Doha Work Programme added negotiations on Non-Agricultural Market Access. The key wording that paved the way for the negotiations was captured in paragraph 16 of the Doha Work Programme, which stated that:⁸³

‘We agree to negotiation which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers in particular products of export interest to developing countries.’

According to an UNCTAD study, most tariff peaks are in agriculture and ‘Most post-Uruguay Round tariffs escalate between raw and semi-finished as well as between semi-finished and finished products.’⁸⁴ Developed countries, even though they bound most of their non-agricultural tariffs, they retain higher tariffs for products that are in labour intensive sectors, and for which most developing countries have a comparative advantage. These sectors include textiles and clothing, leather and footwear, fish and fish products; and these also have tariff escalation and peaks.⁸⁵

⁸³ World Trade Organisation, *Doha Declarations*, Paragraph 16, (WTO: Geneva, 2001).

⁸⁴ UNCTAD, *Economic Development in Africa: Trade Performance and Commodity Dependence*, (Geneva: United Nations, 2003), pp.22-23.

⁸⁵ Marc Bacchetta and Bijit Bora, ‘Industrial Tariff Liberalization and the Doha Development Agenda’, *WTO Working Paper*, (Geneva: WTO, 2004). www.wto.org

As pointed out in Chapter 4, part of South Africa's shift in trade and industrial strategies is to gradually diversify away from traditional exports such as agriculture and mining, and facilitate backward linkages in order to add value in its exports. As noted in Chapter 4, agro-processing is one of the 'strategic' sectors in the South African economy.

Industrial development in the direction preferred by South Africa and poor countries that have weak backward linkages is in part hindered by high tariffs on processed goods and sharp variation between tariffs charged on raw materials and those charged on the finished goods. These tariff peaks and escalations are most frequent on agricultural products. According to South Africa's pre-Doha negotiating paper:

'Although tariff escalation has decreased as a result of the Uruguay Round, rising tariffs from raw materials to intermediate products and sometimes peaking for finished industrial products restrict export opportunities and hampers vertical diversification and industrialization in developing countries.'⁸⁶

Even after the launch of the round of negotiations at Doha, South Africa continued to target tariff peaks and escalation and sought a more radical approach to tariff reduction in non-agricultural (especially industrial) products in the developed countries. It should also be noted that developing countries also retain high tariffs in

⁸⁶ Department of Trade and Industry, *South Africa's Negotiating Approach to the WTO: Elements and Principles*, Internal Documents, DTI, 2000.

industrial products.⁸⁷ However, South Africa's view is that those that are found in developing countries are excusable because, 'We [developing countries] are *late developers* and are still in the process of industrialising our economies and building our competitiveness.'⁸⁸ South Africa further argued that tariff liberalisation in this area should be on an asymmetrical basis⁸⁹, and that 95 percent of industrial tariffs be bound.⁹⁰

It is clear from the above that market access considerations, linked to South Africa's industrial strategy and overall developmental focus, primarily drives South Africa's engagement and shapes its negotiating agenda in the multilateral trading system. However, given the diversity of the South African economy and the fact that some of its features exhibit 'First World' characteristics, its interests and positions are therefore bound to diverge with those of its neighbouring SADC countries who remain largely poor, with heavy reliance on primary products (see Chapter 5).

For South Africa, market access is an important element of a strategy to address domestic developmental concerns. In a letter addressed to Brazil's President Lula da Silva, President Mbeki remarked that, 'It is a matter of *common cause between* us that development cannot be achieved without an equitable and effective international trading system that also facilitates flows of investment from developed to developing countries (emphasis mine).'⁹¹ Clearly, at the heart of South Africa's negotiating agenda at Doha Ministerial (and this continues to be the case) were market access

⁸⁷ Marc Bacchetta and Bijit Bora, *op.cit.*

⁸⁸ Faizel Ismail, *South Africa's Statement to the Trade Negotiating Council (TNC)*, 04 – 05 December 2002.

⁸⁹ *ibid.*

⁹⁰ Faizel Ismail, *South Africa's Statement to the Trade Negotiating Council*, 14 July 2003.

⁹¹ A confidential exchange (LDS-TM), *op.cit.*

issues, especially in agriculture and industrial tariffs – as already alluded to previously.

SADC/Africa Group position on industrial tariffs became clearer after the launch of the Doha Round. Prior to that their positions were in the form of broad statements against tariff peaks and escalation for products of export interests to developing countries. Furthermore, their preparedness to engage in industrial tariff negotiations was conditional upon guarantees for increased market access for exports of African countries, and an elaboration of special and differential treatment provision (S&D).⁹² Unlike South Africa, their position was defensive.

Even after the Doha Ministerial, when the negotiations were already launched, most of SADC/Africa Group's position on industrial tariff and tariff peaks was linked to the need to safeguard the interests of preference receiving countries. The document in which this position was captured was called the *Kigali Declaration* after the African Minister's meeting in Kigali in May 2004. The document expressed concerns for the potential of de-industrialisation as a result of industrial tariff liberalisation; alluded to the need for 'policy space and flexibility' to allow African countries to undertake industrial policy measures; restated the need for the application of S&D provision, especially the principle of 'less than full reciprocity'; and made a call for the elimination of non-tariff barriers in developed countries.⁹³

⁹² OAU African Economic Community, 'Inputs from the WTO African Group for Agenda Item 6 of the Experts Segment of the 4th Ordinary Session of the OAU/AEC Conference of Ministers of Trade – Preparations for the 4th Ministerial Meeting of the World Trade Organization', *Permanent Delegation of the Organization of African Unity in Geneva*, 14 September 2001, Geneva.

⁹³ African Union, *Kigali Declaration on the Doha Work Programme*, *op.cit.*

It is important to note that SADC position on the Doha negotiations was not in any way grounded on the terms of intra-regional relations, and did not take into consideration the progress (or lack thereof) of regional integration. Given the difficulties existing at the intra-regional level, as discussed in the previous chapter, it is clear that there were very weak grounds for South Africa to hope for a common position.

Moreover, the existing asymmetries between South Africa and the rest of the sub-region, with diverse set of interests obtaining from the structural character of the domestic economy, ensured that the common position that emerged was a tenuous one. Essentially, regional relations constituted a weak basis for multilateral cooperation. Reasons for this had much to do with perceptions around South Africa, especially its approach towards the protocol on trade, as discussed extensively in Chapter 5.

6.7 The Launch of the Doha Round

The Doha Round was finally launched in November 2001. This was after major coalitions that were arrayed against the launch, for example the Like-Minded Group (LMG)⁹⁴ – a radical group of developing members led by India - were slowly unraveling, and there existed a possibility to persuade African countries to also lend their full support to the round. India, the acclaimed leader of the ‘like-minded group’ was aware that it was increasingly getting isolated. After persuasion by the EU and

⁹⁴ This group includes Cuba, the Dominican Republic, Egypt, Honduras, India, Indonesia, Jamaica, Kenya, Malaysia, Mauritius, Pakistan, Sri Lanka, Tanzania, Uganda and Zimbabwe.

the US it softened its radical opposition.⁹⁵ Another key player in this group, Malaysia, also relaxed its previously radical position and became more inclined towards the new round.

Indeed, as it became the case throughout the five days of the Ministerial, a vigorous offensive was mounted to get all developing countries to support the launch of the round. South Africa, the US and the EC were at the forefront of this offensive. South Africa was one of the four developing countries – referred to as the ‘friends of the chair’ - that were selected to facilitate discussions on the six main negotiating topics.⁹⁶ South Africa’s Alec Erwin was responsible for leading discussions on rule-making in the WTO.

Mid-way through the Doha Ministerial, key African countries like Kenya (then ACP Group Chair) and Nigeria (then Africa Group chair) also relaxed their positions, especially when it was clear that the Cotonou waiver was close to being adopted. This ACP waiver was initially opposed by Latin American banana producing countries as well as Philippines and Thailand in Asia, who also wanted preferential access to the EC market for their tuna.⁹⁷

Even though the position of the Africa Group was slowly edging close to accepting the launch of the Round, it was difficult to resolve the status of the Singapore Issues. And it became clear that if there was to be a progress, these contentious issues would have to be set aside from the negotiations. South Africa’s position at the Doha

⁹⁵ Fatoumata Jawara and Aileen Kwa, *op.cit.*, pp.108-112.

⁹⁶ *ibid.*, pp.89-90.

⁹⁷ *ibid.*, p.99.

Ministerial was that negotiations on these areas should be linked to ‘genuine market access in agriculture.’⁹⁸

A compromise position which was acceptable to the EC and other proponents including South Korea and Japan was the postponement of the Singapore Issues to the fifth Ministerial Conference to be held at Cancun in September 2004 (see below). There were also still some ambiguities around the treatment of implementation issues, which African countries had been highlighting since the failure of Seattle Ministerial. According to the Doha Work Programme these were to be ‘decided as a matter of priority by December 2002.’⁹⁹

It was in the ‘green room’, before the last day of the Ministerial where a full consensus on launching the round finally emerged; and in this meeting South Africa made an impassioned appeal for developing countries to support the launch of the negotiations, arguing that it was in their overwhelming interest to do so.¹⁰⁰ Thus, coupled with the pressure applied by the EU and US, South Africa could claim some victory in delivering the SADC/Africa Group to support the Doha Round. However, other strong factors were at play, for example the granting of the ACP/Cotonou waiver. Negotiations were finally launched on the 14 November 2001 with the deadline for their conclusion set for December 2004.

This deadline was not met; and it is widely expected that these negotiations will not be concluded before 2006. The Doha Work Programme that was adopted incorporated

⁹⁸ Faizel Ismail, *Statement by South Africa to the Senior Official's Meeting hosted by Japan*, 26 July 2003.

⁹⁹ See Doha Work Programme, *op.cit.*, Paragraph 12; and Faizel Ismail, *op.cit.*, 26 July 2003..

a number of issues that were raised by SADC/Africa Group, but left the status of implementation issues unclear. With regards to implementation, the draft declaration divided these into two groups: the first concern issues that could be resolved immediately; and those which require more work.¹⁰¹

The Doha Work Programme included amongst others: Implementation-Related Issues and Concerns; Agriculture; Services; Non-Agricultural Market Access (NAMA); WTO Rules; Trade, Debt and Finance; Trade and Transfer of Technology; Technical Cooperation and Capacity Building; TRIPS; Trade and Investment; Trade and Competition Policy; Transparency in Government Procurement; Trade Facilitation. On the last four issues (Singapore Issues) the actual wording was vague, suggesting that negotiations would be reviewed after the Cancun meeting, subject to 'explicit consensus.'¹⁰²

6.8 Conclusion: Cancun and Beyond

Even though ultimately the SADC/Africa Group threw its weight behind the launch of the Doha round of multilateral trade negotiations in November 2001, albeit with some scepticism, with South Africa having done a lot of work to bring them on board, it was ultimately the preference waiver that delivered this group. Negotiating positions between South Africa and its SADC partners are still wide apart and are likely to be so as long as there are acute structural dissimilarities between the two, and intra-regional trade relations are tense. South Africa has continued to pursue its ambitious

¹⁰⁰ Fatoumata Jawara and Aileen Kwa, *op.cit.*, p.107.

¹⁰¹ 'Text a slap in the face for African countries', *Business Day*, 08 November 2001.

positions beyond the Doha Ministerial, aligning itself with other middle-income countries like Brazil and India. The establishment of the G20+ in the run up to Cancun clearly set South Africa apart from most of its African partners.¹⁰³

6.8.1 *From Cancun to the July Package*

Most of the deadlines that were set in the Doha Work Programme in November 2001 were missed. These include deadlines for areas such as ‘Implementation Issues’. It was left up to the Cancun Ministerial in September 2003 to conclude these. The Cancun Ministerial suffered a similar fate to the Seattle Ministerial as it failed to make progress on issues of key interests to developing countries. The collapse of the Cancun Ministerial Conference was triggered by the insistence of the EU, South Korea and Japan (all agricultural protectionists) that negotiations on ‘Singapore Issues’ be launched immediately, incensing developing countries who hitherto were opposed to the inclusion of these topics on the negotiations agenda.

In Bhagwati’s observation, a number of factors combined to ground Cancun talks and these include:¹⁰⁴ the EU’s insistence for inclusion of the four ‘Singapore’ issues until the last minute when it indicated that it is prepared to forego the contentious two – Investment and Competition – and discuss only trade facilitation and government

¹⁰² World Trade Organisation, *Doha Declaration*, *op.cit.*.

¹⁰³ For a good overview of the emergence of the G20 and various coalition groups in the WTO, see Amrita Narlika and Diana Tussie, ‘The G20 at the Cancun Ministerial: Developing Countries and Their Evolving Coalitions in the WTO’, *The World Economy*, Volume 27 (7), July 2004, pp.947-966.

¹⁰⁴ Jagdish Bhagwati, ‘Don’t Cry for Cancun’, *Foreign Affairs Journal*, January/February, 2004, p.55.

procurement. Bhagwati suggests that it was clear these were not that very important to the EU.¹⁰⁵

Secondly, South Korea and Japan would not yield ground on the Singapore issues and wanted to see them form part of the negotiations agenda. Thirdly, the four West African countries: Benin, Burkina Faso, Chad and Mali, made what to the US appeared as unreasonable demands: they wanted compensation losses they suffered in their agricultural earnings, which were to the tune of between US\$250 million and US\$1 billion. The refusal of the US to make concessions on US cotton subsidies aggravated the tensions, leading to a walk out by Africa and Caribbean countries in a show of solidarity, and this finally brought down the talks.¹⁰⁶

Even though the EU had indicated preparedness to withdraw the Singapore Issues, with the exception of trade facilitation, this offer was made very late, and by then tensions had already thickened. South Korea and Japan were not prepared to shift their positions; and the ACP group was not prepared to even consider negotiations on trade facilitation as this was not linked to progress in agricultural negotiations.¹⁰⁷

Failure by the US to respond positively to the plea of four West African countries (Mali, Chad, Benin and Burkina Faso) for the elimination of US cotton subsidies, amounting to \$3bn-\$4bn a year, which depresses cotton prices, made progress in Cancun elusive.¹⁰⁸ However, according to Narlika and Tussie, agriculture was at the

¹⁰⁵ *ibid.*

¹⁰⁶ *ibid.*

¹⁰⁷ Alec Erwin, 'Developing countries were held to ransom in Cancun', *Financial Times*, 30 September 2004.

¹⁰⁸ 'Talks unravel over cotton', *Financial Times*, 16 September 2003.

heart of the difficulties experienced in Cancun.¹⁰⁹ They argue that '[even] if Singapore Issues had been resolved on the last day...consensus would still have been unlikely due to the G20's dissatisfaction with the various drafts that still made minimal commitments on agriculture.'¹¹⁰

The positive development in the collapse of the Cancun Ministerial was the emergence of a formidable coalition group of developing countries - G20+ Group – led by India, Brazil, China and South Africa. It also prompted the establishment of a diverse set of other coalition groups including the G90 Group (comprising least developed countries, ACP countries and those belonging to the Africa Group). The emergence of these groups proved a testament to growing activity of developing countries in the multilateral trading system, accentuation of North-South tensions over trade and development issues, and South's determination to collectively contest the existing power architecture in the system.

Paving the way to finally break the impasse and generating momentum for negotiations, the EU and the US brokered a deal on agriculture that would form part of the negotiations framework to be finalised in July 2004. Part of the compromise and confidence building mechanism was the dropping of the Singapore issues, with the exception of trade facilitation, from the Doha Work Programme.

This culminated into the 'July Package' setting out a framework and guidelines for negotiations in agriculture (encapsulating domestic support, export competition and market access); market access for non-agricultural products; support for the sectoral

¹⁰⁹ Amrita Narlika and Diana Tussie, *op.cit.*, p.953.

initiative on dealing with cotton subsidies; special and differential treatment for developing countries (with July 2005 set as a deadline for a decision); implementation issues, special developmental concerns related to food security, rural development, sustaining livelihoods; preferences, and net-food imports; trade in services; guidelines on negotiating trade facilitation.¹¹¹ By the time of the General Council at the end of July 2005, no outlines of a likely deal had emerged, and this has cast a shadow on the Hong Kong Ministerial Conference scheduled to take place in December 2005.

The 'July Package' reflected an agreement on the exclusion of Singapore issues (with the exception of trade facilitation) from the Doha Work Programme. On trade facilitation, negotiations are to take into consideration implementation capacities of developing countries and support in the form of technical assistance will be extended in order to facilitate implementation. Implementation is coupled to technical assistance and infrastructure development support. Even though the EC agreed to drop the Singapore issues, this was more of a pyrrhic victory for African countries as these issues are part of the EC's negotiating agenda for regional economic partnership agreements with ACP countries.

To conclude, as the discussion demonstrated, even though South Africa is a keen multilateralist, its regional and multilateral trade activities are best explained by examining the structure of its domestic economy and the strategic competitive interests of state actors anchored in a particular form of state-society relations (see Chapter 4). South Africa's interests are concomitant to the structural features of its

¹¹⁰ *ibid.*

¹¹¹ World Trade Organization, *Doha Work Programme: Draft General Council Decision of 31 July 2004*, WT/GC/W/535. www.wto.org

economy relative to the rest of the region, and are tied to specific sectors which it seeks to place on the competitive trajectory in global markets.

South Africa's pro-Round stance was considerably shaped by domestic economic reforms, the need to ensure growth in the economy, as well as by the imperatives of social development. The new developmental trajectory in South Africa emphasises re-orientation of the economy away from import substitution towards value-added manufactured exports, with export promotion and market access issues as the cornerstone of the external strategy.

The tensions between South Africa and most countries in the SADC sub-region in constructing a common platform reflected intra-regional tensions, and the fact that South Africa was overly preoccupied with neo-mercantilist interests and had failed to articulate norms that tie its long-term interests with those of the region. Furthermore, at the multilateral level, South Africa's positions have had little to do with perfecting a middle-power role, and everything to do with its growth and development interests. Participating in multilateral structures was, in the first place, motivated by the need to lock-in domestic economic reforms and to address its developmental challenges (see Chapter 4). The next chapter concludes the discussions in this thesis, pulls together the main arguments, and identifies areas for further research.

CHAPTER 7: Conclusion

7.1 Summary and Restatement of the thesis

This chapter pulls together themes explored in the thesis, re-states the central argument and proposes areas for further research. The key concern of this thesis has been with the relationship between domestic, regional and global level processes, and how state actors use regionalism as a response to the challenges posed by globalisation. These levels are treated as inter-related and, at various points, influence each other. While there are variations in how globalisation affects different countries, given the differential capabilities that countries are endowed with, it is quite evident that there are sets of strategies that core states in 'developing' regions are appropriating and utilising strategically to for political reasons, especially to maximise benefits for the domestic economy.

Much of the focus was on South Africa – the regional 'core' state – and this was in order to observe strategic competitive impulses underlying the domestic economy. This dynamic is also discussed in the context of South Africa's transition from apartheid to democracy and non-racial order - a development which also coincided with the emergence of global neo-liberal orthodoxy. This, quite clearly, placed state actors in an unenviable position as they had to address the socio-economic legacy bequeathed by the apartheid system on the one hand, and contend with the challenges posed by globalisation on the other. The latter forces have placed enormous pressure on developing countries to restructure their institutional and policy architecture.

In locating this case study within the broader African context and some of the challenges that the sub-continent experienced in the early 1980s, we began by examining the forces that shape Sub-Saharan Africa's political economy during this period and how regionalism gradually acquired an externally oriented form as opposed to the closed regionalism of the 1960s and 1980s. As this research pointed out, the 1980s were indeed a difficult period for the continent as it was increasingly pushed to the margins of the world economy, and its underdevelopment deepened. Hence, as highlighted in Chapter 1, the 1980s and 1990s period came to be characterised by most African scholars as a 'lost decade'. This manifested itself in the declining average GNP per capita, deteriorating terms of trade, decline in the share of world trade, increase in poverty rates, and generally poor economic performance.

Even within the Southern African region, as Chapters 3 and 5 sought to demonstrate, different countries experienced the effects of external forces differently, depending on their institutional capacities and productive forces that were at their disposal. Indeed, much of the region was negatively affected, and had since struggled to recover from the economic malaise of this period. As noted earlier, the continued evolution of globalisation, accompanied by a strong ideological current in the shape of neo-liberal policy discourse, had forced substantive policy shifts at the domestic level. More profoundly, this development has also meant a shift from *dirigiste* approaches to economic planning towards emphasis on the greater role of the markets. As shown in Chapter 1, various studies undertaken by the World Bank in the mid-1980s and early 1990s confirmed the dominant position of the neo-liberal ideology and its force as a

new developmental framework that developing countries had to follow or be left out of the train of prosperity.

In this regard, the new face of regionalism in developing countries was going to look outward rather than inward. Sub-Saharan Africa had to catch on very quickly or risk being locked into a state of perpetual marginalisation. However, outward-oriented global integration was going to face serious hurdles. First, the majority of African countries lacked the requisite institutional capacity to manage integration into global economic relations. Second, they lacked internal markets, and their production supply was (and still is) generally weak and incapable of responding to global demands in manufacturing. Third, ISI strategies had either not been implemented properly in a manner that also builds export capacity similar to East Asian countries, or simply failed because of preoccupation with shielding domestic industry from foreign competition, thereby encouraging rent-seeking and inefficiencies in production. This historical legacy of domestic policy failure and systemic challenges still haunts the continent today.

Southern Africa, as part of the Sub-Saharan sub-continent, was not immune to these challenges. Moreover, it had a unique set of challenges to contend with. These were related to the existence of the apartheid social milieu in South Africa and the problems that this created for most countries' economies and social structures in the sub-region. Thus, essentially, regionalism emerged as a politically inspired mechanism to deal with immediate challenges posed by South Africa. Its emergence also coincided with the world economic crisis, which further weakened Africa's economies. At the heart of regionalism was the need to create a bulwark against

apartheid South Africa, and to encourage economic self-sufficiency. This has since shifted towards emphasis on global integration; and, internally on food security and development.

SADCC was an organisational mechanism to establish political solidarity and to encourage greater political and economic cooperation amongst Southern African countries, and ultimately to isolate South Africa. As noted in this thesis, although this initiative lacked the needed weight to dislodge South Africa and deepen economic cooperation, this helped to lay the basis for future integration in the sub-region. When the apartheid system finally unravelled due to a combination of internal pressure, growing internal discontent, and the economic weakness of the apartheid system, state actors faced different sets of challenges - to integrate into the global economy and deal with domestic developmental challenges.

The Southern African Development Community, a forerunner to SADCC, was a new institutional mechanism to facilitate this deeper level of cooperation amongst state actors in the sub-region, and to ensure meaningful integration into the global economy. It was expected that South Africa, then a member of SADC, would play an important role as an engine of growth in the sub-region, and help to facilitate the integration of the region into the global economy.

When the political new changes entered into force in South Africa, the elite was confronted with four crucial challenges: a) overcoming the gigantic legacy of apartheid that presented itself in the form of social disarticulation and racial inequalities in economic ownership and opportunities; b) reversing the steep decline

of the economy, including unemployment; c) normalising relations with the region; d) positioning itself in relation to the developments associated with globalisation. This also meant that South Africa would have to engage in a very difficult balancing act – in relating with the region and global economic relations. This balancing act would not necessarily be easy to manage.

This thesis argued that in dealing with these challenges, South Africa opted for a strategy that placed strong emphasis on integrating the country into global markets. In so doing, it hoped to deal with the internal contradictions in its domestic scene. While South Africa expressed a political rhetoric of regional development, it gave priority to the domestic level, in particular to the need to enhance national economic competitiveness in the long-term. In this sense, the region was viewed as a subset of a broader strategy to global integration.

While at a broader level South Africa's diplomatic strategy was favourably disposed towards Africa's development, it is important to remember that, in the context of apartheid's social milieu, South Africa viewed its regional strategy as a means to project a positive foreign policy abroad. The intention was to gain international respectability as a regional power, while preserving white dominance at home. But the manner in which this was done created tensions in the sub-region. Moreover, given the existence of apartheid in South Africa this made it difficult for the country to gain acceptance in the region and in the international community.

7.2 Theoretical Issues: Studying Regionalisms

The examination of the relationship between South Africa – a core state in the sub-region – and the entire Southern Africa has raised interesting theoretical questions regarding studying regions in the context of contemporary globalisation. While this thesis has leaned heavily on state actors' behaviour in regional and multilateral processes, it acknowledged that state-driven processes are not the only signifiers of new forms of regionalism. There are many other actors that are involved in the construction of regions both at the formal and informal levels. Regionalism itself assumes different shapes depending on different understandings of what constitutes collective challenges by actors involved. These challenges, though they may initially emanate from the domestic scene, are not necessarily limited to state activities. Thus at the conceptual level, and as theorised by New Regionalism(s) Approach (NRA), new regionalism transcends state-level processes.

However, given the incompleteness of the NRA research agenda, this thesis proposed that a number of sub-sets of theories or explanatory tools be further developed within the NRA research agenda in order to further tighten it and ensure its preciseness. Other sub-sets could for example include *informal regionalism approach* - observing informal processes or initiatives that might well be characterised as expressing regionalisation in an unconventional fashion, for example processes that involve informal cross-border trade networks (see discussion below).

There are other commentators who have also proposed *regulatory regionalism* – which looks mainly at the precise nature of the relationship between regional trade agreements and the multilateral trading system, examining the extent to which the former complies with, and goes beyond the provisions of the latter. This also transcends the old stepping-stone/building bloc metaphor.

Such varied characterisations of regionalism would also ensure that there is a greater articulation between theory and the empirical. This needs not be understood to mean that a perfect fit should be achieved between the two. It is important though that care be taken to employ theoretical tools in ways that cast better light on the case studies observed, rather than merely impose a theory irrespective of the conditions obtaining in the case study. Furthermore, theory should not be so overly rigid that it fails to accommodate variations or unique variables in case studies.

For the case study used in this thesis - South Africa and Southern Africa – applying a strategic competitive explanatory framework that builds on new regionalism approaches as well as drawing from a wider set of theories that are concerned with the ‘competition state’, industrial policies and strategic trade approaches casts a better light on the chosen empirical case study. In the current context of domestic transformation in South Africa, where there is a shift from macro-economic stabilisation achieved during the first five years of democratic transition towards micro-economic reforms and industrial policies, creating linkages between the above-mentioned theoretical approaches brings more clarity on the relationship between the domestic, regional and global level processes.

The choice of explanatory framework also guides what should and should not fall under its rubric. As such, this also explains why this thesis left out processes related to migration and security (see below). There are many other processes that this thesis could have chosen to look at, which are important in understanding regionalist processes in Southern Africa. These include the relationship between security (both intra- and inter-state resource or ethnic conflicts) and trade in a regional context; migration trends; informal trade networks which are prevalent in most countries in the sub-region due to either absence of domestic markets or difficulties in reaching them, and poor institutional mechanisms to properly manage cross-border transaction flows; or failure of the state, characterised by commercial or trading activities undertaken through underhand means by insurgents or criminals, sometimes working hand in hand with 'state' officials. These could not be discussed fully within the limited scope of this thesis, but are important areas for further research (see below).

From the outset, the objective of this thesis is set out as examining formal, institutional and inter-state processes in the context of the relationship between regionalism and globalisation. This understanding should enable us to identify competitive forces that are generated by the relationship between the domestic, regional and global level processes. There is no doubt that the areas highlighted above – that is, those falling outside of formal processes - need to be given attention in both academic and policy discourses in studying the linkages between development, regionalism and globalisation. Hence it becomes important to evolve a subset of analytic approaches building on the New Regionalism Approach.

7.3 Research Case and Methodological Issues

This research was guided by a central thesis that is framed around the extent to which South Africa manages to use regional and multilateral trade strategies to address its domestic developmental concerns and build capacity for effective articulation at the global level. These developmental concerns, at the domestic level, encompass both social equity objectives and strategic competitive needs of domestic capital. In essence, state actors seek to shift the incentive structure in the domestic sphere in favour of domestic industries that are regarded as ‘strategic’ for international competitiveness.

This approach, as discussed in Chapter 4, is balanced with social equity measures directed at those actors that are likely to be vulnerable (for example trade unions or less competitive industries), and who could potentially constitute counter-tendencies against ‘strategic goals’ pursued by the state. It is in this sense that South Africa’s external strategies can be regarded as expressing a limited form of ‘embedded liberalism’. This, however, complicates relations between South Africa and the rest of the sub-region as the country structures neo-mercantilist trade relations with its neighbours.

Given the structural diversity that exists between South Africa and most of the sub-region, it is clear that South Africa would always take a lion’s share of the benefits of trade relations. Given that this was evident from the outset, what then must have motivated other countries to enter into trade relations with South Africa? It is not very difficult to see the logic: the motive force for such relations was to access South

Africa's larger market. However, the reality was bleaker. South Africa was overly concerned with considerations of its domestic economy and the need for strategic competitiveness. So, it opted for neo-mercantilist relations with its relatively less developed regional partners. This, as explored in Chapter 5, was manifest in various forms of non-tariff barriers, quantitative restrictions, tariff peaks and escalations, and complex rules of origin.

South Africa's approach to regional relations aggravated tensions in SADC. This led to some countries preferring to integrate closely with COMESA, possibly signalling that they will not countenance South Africa's dominance. Furthermore, as is made clear in Chapter 6 in the discussion on regional negotiating positions in the run up to the Doha ministerial conference, the tenuous ground on which intra-regional relations were constructed was bound to come apart. South Africa failed in its attempt to persuade its regional partners to support its positions in the WTO, although the country could claim some credit in mobilising African support for the launch of the round.

Failure to muster a common ground on specific negotiating issues could be attributed to structural differences, tense intra-regional relations, and the absence of a consensual normative platform to structure enduring relations on the basis of a common view of challenges posed by globalisation. In any case, such an understanding is prefigured by countries' economic structure and their perception of power relations in the global system, and more specifically multilateral trading system.

It is against this background that a crucial paradox in South Africa's regional and multilateral trade strategies appears: while its rhetoric is framed in a language that emphasises mutual benefit and consensus, South Africa's strategic objective is, in fundamental respects, shaped by its domestic realities; and these diverge with those of other Southern African countries. South Africa's interests are, in reality, not firmly welded with those of its regional partners.

The difficulties experienced by South Africa in persuading its regional partners at the WTO showed the extent to which intra-regional relations lacked solidity. South Africa was only concerned with its domestic context, and to some degree with the welfare of its partners in SACU, which includes Botswana, Lesotho, Namibia and Swaziland. These countries are *de facto* covered by South Africa's industrial development strategy and their trade policies reflect those of South Africa.

This thesis sought to capture the strategic dimension of regionalism and the dynamic tensions between this phenomenon and the globalisation process. This process is not uniform, and the relationship between regionalism and globalisation is not always straightforward. Its specific nature has to be understood by looking at various countries and regions' experiences. It is evident that countries and regions are different, and there are unique challenges that they contend with in trying to reconcile domestic challenges and those posed by global level processes. Their response would, as such, reflect the diversity of their history, social structure, institutional capabilities and political objectives.

Having explored these questions, by looking at the case of South Africa and Southern Africa, it would also be important to highlight what this research has identified as areas that should be given attention in future research on regions. It should be noted that this study does not claim to have exhausted all the important questions concerning regionalism. It was not its intention to do so. Indeed, it is still too early to understand fully the impact of globalisation in developing countries and how the instrument of regionalism seeks to respond to this. It is hoped that this research has been able to, at least, contribute to the ongoing debates in this area and has given pointers to future areas of research.

7.4 Areas for Future Research

There are a number of questions raised by this study. Some questions that we would have seen fit to address, but could not, are highlighted below as providing starting points for future research. The focused scope of this research made it difficult to reflect in depth on these. Areas identified for further research include the role that SACU is likely to play in future as a platform for the elaboration of South Africa's foreign economic strategy. This is linked to the ongoing restructuring of the domestic economy in South Africa, pressure for reforms in SACU economies, and the imperative of regulatory compliance with the multilateral trading system. Furthermore, the failure of SADC – both institutionally and politically – to drive the trade integration agenda opens up important questions regarding SACU expansion.

The other equally important question regards an area which has not received much attention in the literature on trade and development, concerning the relationship

between security and regional trade: whether regional trade integration can be used as an instrument to reduce conflicts; and what role, if any, do trade relations play in fuelling or reducing intra-state and inter-state conflicts. This is particularly apposite in Sub-Saharan Africa and Southern Africa in particular, which has lived through intra- and inter-state conflicts for many decades.

7.4.1 SACU Expansion Possibilities

There is evidence that South Africa is re-defining its foreign economic strategy within the context of SACU. Instead of viewing SADC as a centre-piece of its external strategy, SACU is emerging as a platform of choice for South Africa. This is for reasons already alluded to: the closely knit integration within the customs union, as well as the fact that SADC has had limited success in pursuing regional trade integration. Moreover, in its current form SADC provides little room for South Africa to pursue its foreign economic objectives. There are indeed intimations that South Africa has been encouraging SACU expansion that would possibly absorb some of the current SADC and COMESA members.

More importantly, external actors such as the EU and the US have shown a great deal of interest in the region. The US via its Africa Growth Opportunity (AGOA) Act introduced in 2000; and the EU through its Economic Partnership Agreement negotiated with a group of SADC countries seek to play an active role in Sub-Saharan Africa. Externally driven competitive liberalisation in the region poses a serious threat

to South Africa's quest for regional influence.¹ One pessimistic way of looking at this would be to suggest that the political battle for policy determination in the region is likely to be won by external powers – the EU and the US – given the competitive advantage possessed by these two actors.

However, on the optimistic side, this 'outside-in' pressure may act to foster a closer relationship amongst regional actors and highlight their collective challenges in a very sharp way. These developments would likely drive South Africa into a more proactive, and perhaps benign, mode in relating with its regional partners as failing to do so may witness its 'sphere of influence' usurped by external actors. This is one of the important areas for future research in the region, and it fits neatly with the analytic framework of strategic competitive regionalism.

There is no doubt that South Africa's quest to expand SACU from the current five members will not come easily. A customs union is more complex than a Free Trade Agreement. It is difficult to administer as it has to evolve a common evaluation system; common customs procedures; common nomenclature for tariff heading; and harmonisation of the tariff structure. Also, the reality of adjustment costs will have to be borne in mind when making a decision to move into a customs union. Moreover, in a customs union countries are required to cede sovereignty over trade policy determination to a supranational structure; and this goes to the heart of the challenges with the current regional integration schemes in Southern Africa or indeed Africa.

¹ See Clark J. Leith and John Whalley, 'Competitive Liberalisation and a US-SACU FTA', In Jeffrey Schott, *Free Trade Agreements: US Strategies and Priorities*, (Washington DC: Institute for International Economics, 2004).

It can hardly be surprising therefore that South Africa would be looking at encouraging the expansion of SACU as part of consolidating its competitive grip in the region *vis-à-vis* external actors. Indeed, SACU presents an important opportunity for South Africa to play an effective leadership role in the region. Already, SACU members negotiate external trade deals as a bloc, with South Africa playing a *de facto* leadership role. It is believed that countries like Mozambique, Zambia and Mauritius have been encouraged, reportedly by South Africa, to consider joining SACU.² After conducting a feasibility study, Mauritius concluded that it will not be in its best interest to do so as its economy is not closely integrated with those of SACU.³

Mozambique has also commissioned a study to ascertain the benefits of participating in SACU. On the surface, Mozambique should naturally become part of SACU as its economy is highly integrated with South Africa's. Ironically, it could well be that this close integration could blunt the appetite for joining SACU as Mozambique already has enhanced access to the South African market and sees no additional benefits from joining SACU.

Despite the generally positive tone of the report produced by a consultancy group on Mozambique's participation in SACU, the country has yet to make its position clear.⁴ With regards to Zambia, there is a great deal of confusion as the country hosts, and is a member of COMESA which also advances towards a customs union. It is not clear how Zambia is considering its future, what kind of policy questions it is exploring,

² Based on a draft confidential report prepared for Mozambique's Minister of Trade by a consultancy group. August 2004.

³ Based on confidential interview held with a senior government official at the Ministry of Trade and Industry, Mozambique, Maputo, 09 November 2004.

⁴ Based on a draft confidential report prepared for Mozambique's Minister of Trade by a consultancy group. August 2004.

and what would eventually influence its decision. Many countries in the region would certainly wait on the wings to see how the SACU processes unfold in the next few years, and whether or not it would be a right step to join in.

What is becoming clearer though is that SACU's expansion, anchored in South Africa's dominance, has strategic importance for the country, especially in view of the competitive liberalisation strategies by the EU and the US in Southern Africa. SACU would thus provide a powerful leverage for South Africa strategic competitiveness, and provide a platform for the achievement of its major foreign economic policy objectives.⁵ However, there are problems within SACU.

One of them relates to the fact that some countries, like Lesotho and Swaziland, are heavily dependent on revenues, and admission of new members could erode this revenue stream. The other problem relates to the trade and development agreement that South Africa signed with the EU to liberalise its internal markets by 2012. Other SACU countries, by virtue of having a common external tariff, are likely to face EU import surge in 2012 and beyond, when SACU internal market has been fully liberalised for the EU. In addition, this is also the deadline for SADC's full liberalisation. This liberalisation is way ahead of the 2020 target for full reciprocal liberalisation under the Cotonou Agreement signed between the EU and ACP countries. This could be a very fruitful area for future research.

⁵ This draws on Andrew Hurrell's discussion of rule-constrained hegemonic order in the context of the balance of incentives within NAFTA where the acceptance of US objectives is traded for security of access to the US economy, See Andrew Hurrell, 'Regionalism in Theoretical Perspective', In Louise Fawcett and Andrew Hurrell (eds.), *Regionalism in World Politics: Regional Organization and International Order*, (Oxford: Oxford University Press, 1995), p.51.

7.4.2 Regional Trade and Security

The relationship between regional trade and security, especially taking into consideration the prevalence of informal trade, is also another area that is underdeveloped in academic literature. There is indeed very limited academic research on this relationship, and where this has been discussed it has mainly been in generalities⁶, or studies would look narrowly at the relationship between globalisation, war economies and informal trade, with little attempt to make a linkage with formal, institutional driven processes.⁷

This point is also made powerfully by Barbieri when she points out that the study of the relationship between trade and conflict in international relations lacks empirical investigation, yet this question has significant relevance for both theory and policy.⁸ Even though Mansfield and Pevehouse, moving from a liberal trade paradigm, make an extensive examination of contending views on the relationship between regional trade agreements and conflict⁹, their study does not consider the relationship of this to informal trade networks and personal gains derived by elites from conflicts.

Given the fact that from the outset SADC(C) was established in a climate fuelled by security tensions, it would have been expected that there would be volumes of studies

⁶ See for example, Edward Mansfield, *Power, Trade and War*, (Princeton; Princeton University Press, 1994); John R. O Neal, Bruce Russett, and Michael L. Berbaum, 'Causes of Peace: Democracy, Interdependence, and International Organisations, 1885-1992', *International Studies Quarterly*, Volume 47, pp.371-393.

⁷ See for example an edited volume by Mats Berdal and David M. Malone (eds.), *Greed and Grievance: Economic Agendas in Civil Wars*, (Boulder, Colorado: Lynne Rienner, 2000).

⁸ Katherine Barbieri, 'Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?', *Journal of Peace Research*, Volume 33, No. 1, 1996, p.29.

⁹ Edward D. Mansfield and John C. Pevehouse, 'Trade Blocs, Trade Flows, and International Conflict', *International Organization*, Volume 54 No. 4, Autumn 2000, pp.775-808.

examining the relationship between the security dimension and trade relations in a more specific context. At the policy level, there is an implicit linkage between the two. For example, SADC's Organ for Politics, Defence and Security has been an important leg alongside the economic integration agenda, and has in fact dominated much of the SADC's agenda after 1996.¹⁰

Arguably, one of the motivating factors for South Africa to push for a strong economic agenda, driven by trade, was that this could in the long run lead to economic development in the region and would limit the scope for security tensions that could have a spill-over effect onto its (South Africa's) economy in the form of surge of political refugees or economic immigrants. There is no doubt that there were, as argued in Chapter 5, also strong considerations for self economic gains, in particular to benefit domestic economic agents. But it was all too starkly evident to South Africa that questions related to security could be ignored at the cost of economic success in the long run. Thus, security and trade could not be viewed in isolation from each other.

Security concerns within SADC were particularly heightened during the Great Lakes conflict in 1998, involving at least four SADC countries: Angola, Democratic Republic of Congo (DRC), Namibia and Zimbabwe, when one SADC member, the DRC, came under attack from Rwanda and Uganda. While SADC as an institutional and legal instrument was, arguably, not involved in this conflict as this was not

¹⁰ The Organ was established in 1996, officially replacing the Front-Line States. The establishment of the Organ followed a recommendation of the SADC Workshop on Democracy, Peace, and Security held in Windhoek on July 11 – 16, 1994.

formally sanctioned, the organisation was deeply drawn into this quagmire as some of the belligerents used its institutional cover as a pretext for engaging in war.

As discussed in Chapter 3, since the 1970s, during the apartheid government's military adventures in Southern Africa, until the early 1990s, the sub-region has been, to a considerable extent, a security complex. This means that the sub-region was less of a tightly-knit harmonious community than an arrangement to create a security balance against South Africa's preponderance.¹¹ As Chapter 3 illustrated, the focus was very much inward-looking, to defend national sovereignty against perceived and real external threats.

The intra-state conflicts in Angola, taking place between 1975 and 2002; and Mozambique's intra-state conflict beginning in the early 1970s until the early 1990s – in both cases fuelled by South Africa and the US - are some of the examples of external threats. Indeed, this had a shaping impact on the emergence of the sub-region as a security complex. It is important to also highlight the conjunctural reality of Cold War that existed then, and in which South Africa played a strategic role. The 'securitisation' of the region was, to some extent, a critical dimension of the Cold War superpower rivalries (this is discussed at length in Chapter 3). Even after the Cold War and apartheid had ended, politics and security continued to play a central role in SADC's agenda and, at times, overshadowed the trade agenda. The Great Lakes conflict that began in 1998 was a reminder for the region of how tenuous its security arrangement was.

The conception of security in SADC and in most of Africa has always been generally informed by the traditional Realist view that regards state survival as supreme, and in which the pursuit of power lies at the core of defining relations between states.¹² By implication this de-emphasises, if not invalidates, the place of individuals or non-state actors as referent objects for security.¹³ The notion of 'existential threat' and what Buzan and Weaver characterise as '...the continued prominence of territoriality in the domain of security' has been the obsession of political actors in the region for many years.¹⁴ Moving away from this narrow view still remains an important challenge for SADC.

Thus it becomes important, in the context of 'new regionalism', to examine the intersection between trade and security in regional contexts. In the example given above, of SADC countries that were involved in the Great Lakes conflict, it is curious to note that at the time of the conflict all these countries – Angola, DRC, Namibia, Rwanda, Uganda, and Zimbabwe - belonged to COMESA, another regional integration scheme committed to advancing towards a customs union. Also, with the exception of Rwanda and Uganda, all of these were, and still are, members of SADC. This throws into question the liberal argument positing association between trade

¹¹ For a discussion on the concept of 'Security Complex', see Barry Buzan and Ole Waever, *Regions and Powers: The Structure of International Security*, (Cambridge: Cambridge University Press, 2003).

¹² See Tim Dunne and C B. Schmidt, 'Realism'. In John Baylis and Steve Smith (eds.), *The Globalization of World Politics: An Introduction to International Relations*, (Oxford: Oxford University Press, 2001), p.152; Chris Brown, *Understanding International Relations*, (London: Palgrave, 2001), pp.87-105; Anthony Leysens and Lisa Thompson, 'Emancipating the Dead? Changing Notions of Human Security in Southern Africa', In Nana Poku (eds.), *Security and Development in Southern Africa*. (London: Praeger, 2001), p.53; see also Anne Hammerstad, *Defending the State or Protecting the People? SADC Security Integration at a Crossroads*, (South African Institute of International Affairs: Johannesburg, 2003), pp.1-36.

¹³ See Gina van Schikwyk and Jakkie Cilliers, *Civil Society and the SADC Security Agenda*, A Draft Mimeo (Pretoria: Institute of Security Studies, 2004), pp.6-10.

¹⁴ Barry Buzan and Ole Waever, *Regions and Powers: The Structure of International Security*, (Cambridge: Cambridge University Press, 2003), p.11.

(increased interdependence) and peace dividends.¹⁵ According to this view, as summarised by Barbieri, economic linkages create disincentives for conflict.¹⁶ In favour of this theory, one could perhaps argue that intra-industry trade in both COMESA and SADC remains very low. However, the theory would still not be convincing as these organisations and their intentions, presumably, represent long-term economic incentives for cooperation.

Beyond the liberal argument which posits a strong relationship between trade interdependence and peace dividends among integrating countries there needs to be a critical examination of the forces underlying trade and conflict in a regional context.¹⁷ Some of the important questions such an examination could seek to answer include: what type of incentive structure that regional trade agreements should create to limit the propensity of actors towards conflict? And where there are conflicts, in spite of regional trade agreements, what other variables explain these?

For example, in the case of the Great Lakes conflict, engulfing a large part of Central Africa, mineral resources arguably played an important role, which then brings up the dimension of elite strategies, war economies and cross-border informal trade networks.¹⁸ Such informal trade networks include, for example, illegal dealings in

¹⁵ See for example Katherine Barbieri, *op.cit.*, who questions this proposition, noting that there has been little evidence advanced supporting this view. As she further suggests, there are other factors that have nothing to do with trade that explain the existence or non-existence of conflict. Such factors may, for example, be related to issues that have to do with political culture, historical factors or simply the management of inter-state relations outside of trade.

¹⁶ *ibid.*

¹⁷ There are currently policy research initiatives such as the one undertaken by the International Institute for Sustainable Development (IISD) (Geneva based), Sustainable Development Policy Institute (Pakistan based), and South African Institute for International Affairs (South African based) to better understand the relationship between regional trade integration and violent conflict. This major study is funded by the Canadian International Development Research Centre (IDRC).

¹⁸ See an extensive examination of this phenomenon by Mark Duffield, 'Globalization, Trans-border Trade and War Economies', In Mats Berdal and David M. Malone (eds.), *Greed and Grievance:*

minerals looted from war zones, illicit drug smuggling, arms trafficking, and proscribed wild life products.¹⁹ This informal practice can also take on a global dimension where a global division of 'production' in human body parts, centred in certain regions, is created -- and this could also involve legitimate institutions.²⁰

Regarding trade relations amongst unequals, Chapter 5 highlighted problems that this could create or has created in Southern Africa. Thus, one of the important research questions to ask is: where there are asymmetries of power and skewed distribution of gains, how can a 'core' state within the region -- since it benefits the most from economic relations - use its position of advantage positively to equalise benefits or off-set losses arising from asymmetrical transactional arrangements? And following from this, how can social norms be evolved as bases for creating a sense of common identity and purpose (and the core state could play a central role in ensuring the legitimization of such social norms)? These are important questions, since it could well be that tensions generated by perceptions of unequal power relations and differential gains might create a propensity towards regional hostilities and conflict. There are many other questions besides the ones pointed above that could be generated as part

Economic Agendas in Civil Wars, (Boulder, Colorado: Lynne Rienner, 2000),p.81. He argues that, 'Criminalized and conflict-prone trans-border activity is usually connected with the emergence of new social and political elites.' In his discussion of the relationship between informal trade networks and strategies of the political elite during conflict, focusing particularly on the Great Lakes conflict, Mwanasali suggests that informal trade and search for markets is one of the means to achieving political goals of the elite as well as economic survival means. And that, 'By linking local markets and transboundary networks of production and exchange, the informal economy often provides needed outlets for the channelling of critical resources to (and for the benefit of) the warring factions.' Musifiky Mwanasali, 'The View from Below', In Mats Berdal and David M. Malone (eds.), *Greed and Grievance: Economic Agendas in Civil Wars*, (Boulder, Colorado: Lynne Rienner, 2000), p.139.

¹⁹ Mark Duffield, *op.cit.*, p. 76.

²⁰ An investigation by Nancy Scheeper-Hughes, a medical anthropologist at the University of California, Berkely and a co-founder of Organ Watch, uncovered a syndicate of Israeli-led organ traffickers with a global reach stretching from China to South Africa, and involves credible and registered private clinics. A 'seller' could be from Brazil, the trading company owned by Israeli criminals, a buyer from America, and the operation done in Durban, South Africa. See South Africa 'Buying a Chance to Live: Selling his only 'spare' asset', *Sunday Times*, 21 August 2005.

of establishing a line of enquiry into the relationship between regional trade and conflict/peace-building.

The areas for future research identified in this thesis are not exhaustive. There could be other sub-set of areas for future research, derived from those already highlighted above. Also, new or synthesised analytic tools to further explore the linkage between various dimensions of regionalism could be explored to better explain processes that are not often captured by conventional explanatory framework: for example, the relationship between conflict, informal trade and formally driven regional processes and their link with the wider globalisation processes. This thesis, by looking at strategic competitive impulses of core states within 'developing' regions, has sought to build on the New Regionalism Approach (NRA) and to open up new avenues of research in the area of regionalism and globalisation. Thus, it hopes to make a modest contribution to ongoing debates about the nature of contemporary global transformations and their relationship with domestic and region-level processes.

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