# TOWARDS A TRADE POLICY FOR DEVELOPMENT: THE POLITICAL ECONOMY OF SOUTH AFRICA'S EXTERNAL TRADE, 1994-2014

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## Abstract

Over the past 20 years of democracy, there has been a strategic reorientation of South Africa's trade policy. In the early 1990s, the post-*apartheid* state undertook extensive tariff reform, driven by its multilateral and regional commitments, as well as unilateral liberalisation consistent with the austere macro-economic agenda of the time. By the second decade of democracy, an institutionalised industrial policy designed to strengthen and diversify South Africa's productive capabilities had come to determine and shape South Africa's external trade agenda and negotiations. This more strategic trade policy orientation has required the preservation and expansion of policy space in bilateral, regional and multilateral agreements, and more novel approaches to South-South economic cooperation. There was also a fundamental shift in thinking on regional integration away from a conventional market-led model premised on the European Union's experience, to a 'developmental integration' approach that concurrently prioritises market integration, infrastructure development and structural economic transformation. This article critically reviews how South Africa's trade policy and negotiating agenda have been recalibrated as instruments of industrial policy over the two post-*apartheid* decades. The article concludes with some observations about the future direction of South Africa's trade agenda during the third decade of democracy.

# 1. Introduction

South Africa's external trade policy and level of openness to the world economy occupies an increasingly prominent position in political economy debates about the country's growth and development path. The government's most auspicious economic policies — namely the National Development Plan (National Planning Commission 2011), the New Growth Path (Economic Development Department 2010), and the National Industrial Policy Framework (NIPF) and its annual Industrial Policy Action Plan (IPAP) (Department of Trade and Industry, 2007) — all call for more 'developmental' trade policies to shift the structure of the economy onto a more sustainable, diversified and labour-absorbing industrial development path. The government's focus on a more strategic trade policy stands in contrast to the immediate post-*apartheid* years, when extensive tariff and trade reforms were pursued without any overarching industrial policy framework.

The trade liberalisation project of the 1990s that initially drove South Africa's post-*apartheid* global economic re-integration has now stalled amid growing liberalisation scepticism and de-industrialisation concerns. Whereas trade liberalisation was complementary to the austere macro-economic reform agenda of the initial post-*apartheid* years, industrial policy considerations have been the hallmark of the second decade of democracy. These measures, designed to strengthen and diversify South Africa's productive capabilities rather than outward-oriented reforms, continue to provide the overarching framework for South Africa's external trade agenda and negotiations. This emphasis on more development-oriented trade policies reflects sensibilities by the governing tripartite alliance led by the African National Congress (ANC) and a progressive global epistemic community that more strategic trade and tariff policies are instrumental for achieving industrial development (UNCTAD 2006; UNCTAD 2014). This view is consistent with the structural transformation experiences of the East Asian and other late-industrialising developmental states (Amsden 2001; Chang 2002).

This article critically reviews the evolution of South Africa's trade policy as an instrument of industrial policy over the two post-*apartheid* decades. South Africa's trade regime may be characterised as consisting of three pillars: trade policy (including tariffs and trade remedies[1)]), trade agreements or negotiations, and regional integration in Africa.

The central argument of the article is that each of these policy pillars has been strategically recalibrated to support and reinforce the central objective of industrial development.

To advance this argument, the article is divided into four sections. The first section outlines how trade policy broadly defined has been integrated into South Africa's national development strategy as an instrument of industrial policy. The second section explores how South Africa's trade negotiating agenda at the multilateral, regional and bilateral levels is increasingly geared towards not only leveraging improved market access, but preserving and expanding policy space in international agreements to support the country's industrial development objectives. The third section outlines a fundamental shift in thinking on regional integration away from a conventional market-led model premised on the European Union's (EU) experience, to a 'developmental integration' approach that concurrently prioritises market integration, infrastructure development and structural economic transformation (DTI 2010). The article concludes with some observations about the future direction of South Africa's trade agenda during the third decade of democracy.

## 2. From Smith to Keynes and developmental trade policies

In 1994, the democratic government led by the ANC and its alliance partners inherited an economy in stagnation and crisis. Notwithstanding episodic trade policy reforms since the 1970s (Bell 1997; Edwards 2014), the new government confronted the challenge of building a modern, vibrant and outward-oriented economy that is internationally competitive, while also addressing the massive backlogs in access to social and economic services. Not unlike the experiences of other newly democratised polities (see Milner and Kubota 2005), the ANC-led government soon embarked on an ambitious tariff reform path, but without any overarching industrial policy framework. Indeed, the Growth, Employment and Redistribution (GEAR) macro-economic strategy of this era was devoid of any such vision beyond a focus on export-led growth (especially non-gold manufactured goods) and attracting international investment, supported by some generalised supply-side measures. Overall, however, GEAR's policy prescriptions effectively denuded the state’s capacity to govern the market (Marais 1998).

South Africa's trade reform commitments resulting from the Uruguay Round (1986-1994) of the General Agreement on Tariffs and Trade (GATT) offered the new government its first lever to open up the economy to international prices and competition. Importantly, the out-going government had negotiated the Uruguay Round as a 'developed country', resulting in an ambitious outward-oriented reform programme that 'locked-in' steep tariff cuts. Even more significant was the fact that ANC representatives, including their labour movement allies, had tacitly accepted these externally imposed terms for the country's global economic re-integration (Bell 1997). In effect, South Africa committed to bind 98 per cent of all tariff lines, reduce the number of tariff bands from over 80 different levels to six ceiling rates, rationalise the over 12 000 tariff lines, and replace quantitative restrictions on agricultural products with tariffs (Matona 1996). As a measure of goodwill towards the future democratic government, the World Trade Organisation (WTO) majors led by the United States (US) granted South Africa additional flexibility in terms of higher tariff bindings and longer protection periods for two sensitive sectors, namely clothing and textiles, and automotive assembly and component industries. The new government also dismantled all marketing and price supports for farmers, paving the way for a deregulated and liberalised agricultural sector and South Africa's active participation in the Cairns Group of agricultural exporters and later the WTO's G20 coalition (Ismail 2009).

The second lever for encouraging greater liberalisation was unilateral tariff reform under the liberal supervision of the country's first post-*apartheid* trade minister, Trevor Manuel. This unilateral reform programme saw the government cut tariff protection for industry, including the sensitive clothing, textiles and autos sectors, at a faster rate and ahead of the country's mandatory requirements under the newly established WTO. In the absence of a comprehensive industrial policy to support 'winners', restructure 'losers', and cushion the socio-economic impact of adjustment arising from over-hasty liberalisation, especially for women, even business protested that: "We don’t need ministers to be holier-than-GATT".[2)]

The twinned GATT-GEAR liberalisation synergies of this era were complemented by a third lever of reform that reduced the overall incidence of tariff protection, namely regional trade agreements (RTAs) with the EU and the Southern African Development Community

(SADC) from 2000 and the European Free Trade Association (EFTA) from 2008. Given this raft of trade policy reforms, Edwards (2014) correctly argues that these policies heralded a process of tariff reform unprecedented in South Africa's history.

By the turn of the millennium, GEAR had, however, missed most of its targets outside of the macro-economic realm. Unemployment and poverty had grown, while the few supply-side measures introduced by the new government did little to compensate for the lack of a comprehensive industrial policy. There is also some evidence that South Africa's trade reform programme in the early 1990s contributed to a further widening of inequality, especially for women in labour-intensive industries (Thurlow 2006).

The domestic climate of ideas soon shifted away from the market fundamentalism of GEAR in favour of a greater state-led developmental idiom. Since 2001, sector-based industrial policy has been back in vogue, albeit with mixed results. The adoption first of micro-economic reforms targeting the economy's high cost structure, followed by more robust industrial policy interventions that culminated in the NIPF (DTI 2007) and the annual IPAP plans, suggested that: "From an austere outward-looking state, the South African state slipped into Keynesian mode" (Hirsch 2005: 87). South Africa also became a prolific user of trade remedies, especially anti-dumping duties, to ensure fairer trade with external partners, including new partners such as Brazil and China, and to compensate for the injurious, over-hasty liberalisation of the 1990s.

The release of South Africa's Trade Policy and Strategy Framework (TPSF) in 2010 unambiguously established trade policy as an instrument of industrial policy (DTI 2010). The TPSF notes that while trade liberalisation has helped to grow South Africa's exports, that liberalisation impetus has not significantly altered the composition of the export basket. Except for Africa, where South Africa exports manufactured products and services, the TPSF argues that trade liberalisation has reinforced South Africa's static comparative advantage as a producer and exporter of minerals, commodities, and other resource-based manufactured products (Fine and Rustomjee 1997). Although some economists have found a significant correlation between trade reform and increased manufactured exports in the 1990s (Edwards and Lawrence 2006), overall there is general agreement that South African exports of high value-added products have under-performed the world average and that of other middle-income and resource-based countries (see Alves and Kaplan 2004; Hausmann and Klinger 2006). This is consistent with the broader observed trend of underperforming mineral, non-mineral and services exports in world markets, due to a variety of factors.[3)]

Moreover, import growth in South Africa has continuously outstripped exports, contributing to a persistent current account deficit that peaked at 7.4 per cent of gross domestic product (GDP) in 2008 and again at 6.3 per cent in 2012. Contrary to popular wisdom, this deficit is driven mainly by interest and dividend payments to non-residents (Samuel 2013). Overall, this deficit has become a source of macroeconomic vulnerability and deepened the economy's dependence on short-term capital inflows to satisfy the shortfall.

The NIPF, IPAP and TPSF thus call for "developmental tariff-setting" through the International Trade and Administration Commission (ITAC), in order to incentivise more value-added production and exports by raising the effective rate of protection on final outputs.[4)] This proposed approach is two-pronged, that is, tariffs on mature upstream input industries (such as steel, chemicals or aluminium) could be reduced or removed to lower the costs for downstream, labour-creating manufacturing; and tariffs on downstream industries with employment or value-addition potential (such as autos, furniture or clothing) could be retained or raised to ensure sustainability and job creation (DTI 2010). While tariff increases may have contributed to stabilising some sectors, such as clothing, the direct causality or overall economy-wide impact of such measures requires more rigorous investigation.

It is therefore a stale debate whether the South African economy during the second decade of democracy is more 'open' or 'closed', or whether the economy requires additional trade reform to spur competitiveness (see Edwards and Stern 2006; Draper and Alves 2007; Edwards and Lawrence 2008; World Bank 2014). The overall trend since democratisation in 1994 has been to liberalise the economy, with the simple average most-favoured nation (MFN) applied tariff having declined from 23 per cent in the 1990s to 7.6 per cent in 2012.[5)] Moreover, more than 56 per cent of South African duties are zero rated. It is also noteworthy that there has been less resort to trade remedies in recent years, while South Africa was one of the few G20 countries to not raise trade protectionism to shield domestic investments and jobs from the global economic downturn in 2008-2010 (DTI 2010).

Supporting the central argument of this article, the more fundamental point is that over the second decade of democracy, trade policy has been recalibrated as an instrument of industrial policy. As discussed below, this more strategic trade policy orientation has required the preservation and expansion of policy space in bilateral, regional and multilateral agreements.

## 3. Diversification through trade agreements

Over the past two decades, various policy pronouncements by the South African government including the 'Butterfly Strategy' of the 1990s, the 'Global Economic Strategy' of 2001, the TPSF of 2010, and the current 'National Export Strategy' under consideration have underlined the importance of diversifying South Africa's trade and investment partners. As *Figure 1* demonstrates, there has been considerable success in recalibrating the trade compass towards Africa and the emerging economies, while consolidating established relations with countries in North America, Europe and Japan.

By the beginning of the 2000s, nearly 60 per cent of South Africa's merchandise exports went to Organisation of Economic Cooperation and Development (OECD) countries, most of that to Europe. But over the next decade, exports to the EU and OECD countries stagnated, while exports to the BRIC countries, notably China, exploded on the back of the commodities boom. By 2011-2012, the EU's share of South Africa’s exports had fallen to just 21 per cent, while the share of the BRIC's had grown from less than five per cent to more than 19 per cent (World Bank 2014:24). While the EU-28 remains South Africa's largest collective trading partner, it is significant that China has ranked as the biggest bilateral trading partner since 2009, while India has rapidly moved into fifth position.

Over this period, the South African government negotiated a series of RTAs to underpin the country's global economic re-integration, and to assist in diversifying trade and investment partners. The Trade, Development and Cooperation Agreement (TDCA) with the EU was the first RTA to be negotiated, which was signed in 1999 and implemented in 2000. In terms of this agreement, the EU offered to liberalise 95 per cent of its duties on products originating in South Africa by 2010. In turn, South Africa offered to liberalise 86 per cent of its duties on EU originating products by 2012. In 2008, the Southern African Customs

Figure 1: Twenty Years of Market Diversification (1994-2013)

| Top 15 Trading Partners in 1994 | | Ranking | Top 15 Trading Partners in 2013 | |
|---|---|---|---|---|
| Total Trade (Rand) | Country | | Country | Total Trade (Rand) |
| 17,720,760,507 | Germany | 1 | China | 270,805,136,564 |
| 16,018,191,319 | United Kingdom | 2 | Germany | 144,553,250,856 |
| 15,954,930,057 | United States | 3 | United States | 129,902,631,814 |
| 13,694,512,201 | Japan | 4 | Japan | 93,162,680,107 |
| 8,275,716,749 | Switzerland | 5 | India | 80,864,944,753 |
| 5,026,286,415 | Italy | 6 | Saudi Arabia | 80,091,800,857 |
| 4,805,751,717 | Taiwan | 7 | United Kingdom | 64,153,954,483 |
| 4,484,807,611 | Belgium | 8 | Botswana | 49,521,276,279 |
| 4,178,455,241 | Netherlands | 9 | Namibia | 47,590,888,426 |
| 3,926,189,907 | France | 10 | Netherlands | 45,585,898,595 |
| 3,508,601,614 | Zimbabwe | 11 | Nigeria | 42,701,394,871 |
| 3,232,718,577 | Hong Kong (China) | 12 | Mozambique | 39,577,890,016 |
| 2,976,188,804 | South Korea | 13 | Italy | 36,435,940,544 |
| 2,298,057,872 | Singapore | 14 | Switzerland | 31,830,088,523 |
| 2,170,122,515 | Iran | 15 | France | 31,680,526,356 |

Source: Department of Trade and Industry trade data

Union (SACU) and the four EFTA members, namely Switzerland, Liechtenstein, Norway and Iceland, also concluded a free trade agreement (FTA), bringing trading relations with EFTA in line with the TDCA.

The conclusion of the protracted SADC-EU Economic Partnership Agreement (EPA) negotiations in 2014 updates the TDCA. Under this new trading regime, South African exporters have improved market access into Europe, especially for agriculture and agro-processed products. More importantly, following the liberalisation moment of the 1990s, South African negotiators have ensured that the EPA provides greater scope than the TDCA for domestic industrial policies, including the use of export taxes and safeguards, and supports regional integration. South Africa also obtained protection in the EU for geographical indicators, or names of origin, such as "Rooibos", "Honeybush" and "Karoo Lamb", while reciprocating protection for an extensive array of European wines and food products (DTI 2014).

Relations with the EU became somewhat strained following Pretoria's decision as early as 2010 to terminate all Bilateral Investment Treaties with EU and non-EU parties, which EU diplomats and 'Eurocrats' in Brussels misinterpreted and admonished as a downgrading of Europe in South Africa's foreign policy priorities.[6)] In the aftermath of this episode, which ironically saw the EU also suspend investment negotiations with the US citing similar public interest concerns as South Africa, relations have once again stabilised.

The US also remains a key market for South Africa, with a balanced and diversified export basket on both sides. Following the conclusion and implementation of the TDCA, South Africa and its SACU partners launched FTA negotiations with US in June 2003. The objective of these negotiations was to 'lock in' the preferential market access that the US unilaterally grants under the African Growth and Opportunity Act (AGOA) enacted in 2000 and the Generalised System of Preferences. SACU members are the leading suppliers of non-fuel goods, mainly autos, clothing and textiles, to the US under AGOA. However, the FTA negotiations collapsed in April 2006 when SACU rejected Washington's excessive and inflexible demands for 'competitive liberalisation' beyond trade in goods. SACU and the US have since concluded a Trade, Investment and Development Cooperation Agreement (TIDCA) in lieu of an FTA, while South Africa cooperates bilaterally with the US in terms of the Trade and Investment Framework Agreement (TIFA). With AGOA III set to expire in September 2015, South Africa is seeking to retain access to the scheme amid some graduation rhetoric and new reciprocity demands, increase the number of eligible products, and overall extend AGOA for at least fifteen years (Vickers 2012a).

While South Africa's approach to its traditional trading partners has aimed to consolidate established and mature relationships, building new trade and investment relations with emerging partners in Africa and the South has required more novel approaches. A major focus of South Africa in its bilateral engagements, and even as BRICS Chair during 2012,[7)] has been to shape an alternative paradigm for South-South trade, which the TPSF formally conceptualises as "… an approach that fosters economic complementarities, supports the development of our industrial, agricultural and service sectors, and avoids destructive and direct competition" (DTI 2012:28). Avoiding direct competition has been challenging as evidenced by the use of trade remedies against some partners, including Brazil and China, especially to safeguard manufacturing sectors (see WTO Integrated Trade Intelligence Portal). There is also no tariff liberalisation agreement with China on the cards, while calls for a 'grand BRICS FTA' (*China Daily*, 27 March 2013) remain fanciful.

Instead, more novel approaches have been explored, as with the Comprehensive Strategic Partnership Agreement with China, signed in 2009. Under this agreement, China undertook to import more value-added products and invest in projects around minerals processing in South Africa, in order to shift the structure of bilateral trade onto a more sustainable path. To give practical effect to this agreement, South Africa has identified ten value-added products to showcase at trade fairs and exhibits in China — including wines and other more sophisticated automotive component parts (*Business Report,* 16 September 2013) — and identified ten investment projects for consideration by Chinese investors. It is not unimportant that China had previously also volunteered to impose quotas on 31 categories of textile and clothing imports into South Africa for a period of two years in order to support local manufacturing, albeit with mixed results.[8)] More recently, China has provided technical assistance to raise the competitiveness of this sector, *inter alia* by training industry experts and government officials in China.

Under the new SACU Agreement, South Africa and its Botswana, Lesotho, Nambia and Swaziland (BLNS) partners have collectively embarked on three tariff liberalisation negotiations with Brazil and India, and the Tripartite FTA between the SADC, the East African Community

(EAC) and the Common Market for Eastern and Southern Africa (COMESA) countries, which is discussed in the next section. In 2009, SACU signed a preferential trade agreement (PTA) with MERCOSUR, which has since been criticised for its narrow scope and limited commercial value (Edwards and Lawrence 2012). While the immediate opportunities may be few, the South African government argues that such agreements, which offer only limited tariff preferences in a few sectors, may be instrumental for fostering more equitable and complementary trade relations, and present building-blocks for more comprehensive trade agreements in the future (DTI 2010).

This reasoning is consistent with the observed shift during the second decade of democracy towards greater industrial policy considerations guiding South Africa's external trade agenda. These same dynamics are evident in the SACU-India PTA negotiations, which have been underway since 2007. Given growing concerns among South African business and labour over the domestic costs of reciprocity and the prevalence of prohibitive non-tariff measures in the Indian market, prospects for concluding the PTA soon are dim (Vickers 2012).

At the multilateral level, South Africa has played a leading role in advancing the trade and development objectives of the WTO's Doha Development Agenda (DDA) negotiations (Lee 2006; Vickers 2009). Since the launch of the Doha Round in 2001, South Africa has pursued three broad aims, namely: enhanced market access for products of export interest to developing countries, especially in agriculture; more balanced trade rules to support industrial development in developing countries; and improved technical assistance and capacity-building for the WTO's poorest members (DTI, 2010). South Africa has worked in partnership with like-minded countries and actively participated in a range of developing country coalitions, including the Africa Group, G20, G90, NAMA-11 and the 'Friends of Development', to reassert the Doha Round's development mandate (Ismail 2009).

Over the course of the negotiations, this development mandate has been steadily eroded. The WTO majors have demanded that developing countries open their industry and services markets, but they have not been willing to reciprocate with meaningful agricultural reform. For South Africa, the reform of agriculture (including the specific issue of cotton that is a vital development issue for West Africa's cotton-producing nations — see Lee 2009) is the real litmus test of a development outcome to the Doha Round.

Even as the WTO majors appear to be disengaging from the multilateral process by prioritising small group 'plurilateral' negotiations for their issues of interest (such as the Trade in Services Agreement) and 'mega-regional' RTAs in the Atlantic and Pacific regions (Draper, Lacey and Ramkolowan 2014), South Africa remains formally committed to concluding the Doha Round on the basis of its development mandate and the principle of the Single Undertaking. Although the WTO's Bali Ministerial Conference in December 2013 delivered the first outcome of the Doha Round, progress in advancing these negotiations remains prone to deadlock and brinkmanship (Narlikar 2010).[9)] It is unclear whether the Doha Round can ever be completed in its entirety. Despite the many political economy challenges that confound the round, South Africa maintains that an outcome that addresses the legitimate development concerns of the WTO's poorest and most vulnerable members will strengthen the multilateral trading system and provide the best overall framework for supporting Africa's growth and development agenda (Deere-Birkbeck 2011). In the current climate, with little progress in Geneva, South Africa has sought to focus on issues closer to home, namely advancing regional economic integration in Africa.

## 4. Advancing developmental regionalism in Africa

South Africa has consistently championed broader regional integration through SACU, SADC and the envisaged Tripartite Free Trade Area (T-FTA) that spans Eastern and Southern Africa, in order to correct imbalances in inherited trade relations and generate growth and reduce poverty. Recognising the limits of conventional customs union theory *à la* Viner (1950) and the market integration paradigm predicated on the EU's experience, South Africa has played a pivotal role in advancing an alternative approach for regional integration, namely 'developmental regionalism'. This approach argues that the barriers to intra-regional trade in developing countries (and Africa in particular) are more to do with underdeveloped production structures and inadequate infrastructure, rather than tariffs or regulatory barriers. Developmental regionalism therefore combines trade integration, cross-border infrastructure development, and policy coordination to build and diversify production and boost intra-African trade and investment (DTI 2010).

This developmental regionalism approach is currently being pursued in SACU, SADC and the T-FTA negotiations. In the immediate post-*apartheid* period, South Africa launched negotiations to update the 1969 SACU Agreement. The new 2002 SACU Agreement has a direct bearing on South Africa's external trade agenda, since it envisages the establishment of several common institutions, including a Tariff Board and Tribunal, to administer and adjudicate tariff and trade policies for the entire customs territory. Concerns have already been expressed whether this arrangement would require South Africa to subject its industrial policy to SACU for review and approval, and how to retain some space for national policies. In addition, the SACU members must now negotiate collectively with external trading partners. This presents its own peculiar challenges such as formulating combined tariff requests and offers *vis-à-vis* third parties, given the different levels of development and dependence on customs revenue among the membership.

Following the acrimonious experience of the SADC EPA negotiations, which saw Botswana, Lesotho and Swaziland signing onto an interim agreement with the EU, South Africa led a process to consolidate and strengthen SACU as the nucleus of regional integration in Southern Africa. On its watch as SACU chair (2010-2011), South Africa played an instrumental role in refocusing the customs union's work programme into five priority areas, namely regional industrial policy (specifically identifying sectors and interventions to build regional value-chains); review of the revenue-sharing formula; development of a trade facilitation programme to improve border efficiency; unified engagement in external trade negotiations; and establishing common institutions, such as the SACU Tariff Board and Tribunal (yet to be established).

At the SADC level, implementation of the Trade Protocol establishing the FTA began in 2000, spearheaded by South Africa and its SACU partners. To support regional industrial development, South Africa negotiated an asymmetrical FTA that granted the non-SACU FTA Parties longer periods of time to protect their economies, up to 2015 for Mozambique. In other words, tariff liberalisation has taken place at variable speeds, with SACU removing most industrial tariffs in 2000 in order to provide impetus to building the region's industrial capabilities and stimulating higher levels of intra-SADC trade flows. This would also help to reduce South Africa's trade imbalance with the region.

The SADC FTA has been fully implemented since 2012, with 92 per cent of product lines traded at zero per cent against the baseline of 85 per cent in 2008. South Africa's next priority is to consolidate the SADC FTA before considering deeper forms of integration, such as a SADC-wide customs union envisaged by the SADC Regional Indicative Strategic Development Plan (now under review). This work programme seeks to: facilitate the accession of Member States that are not yet participating in the SADC FTA (mainly Angola and the Democratic Republic of the Congo[10)]); fully implement the FTA, since some members are unilaterally reinstating tariffs in violation of their Trade Protocol commitments; promote trade facilitation; reduce non-tariff barriers; simplify Rules of Origin; harmonise regional standards and technical regulations; and implement harmonised regional customs documentation and procedures. In recent years, the SADC members have also made progress in the negotiations to liberalise regional services trade in six priority sectors.[11)]

In June 2011, South Africa also hosted the launch of the T-FTA negotiations among SADC, COMESA and EAC Member States. The Tripartite Initiative comprises three pillars, namely market integration, infrastructure development and industrial development, which are being pursued concurrently in order to ensure an equitable spread of the benefits of regional integration. The T-FTA is now being negotiated and will, as a first phase, cover only trade in goods and the movement of business persons; services and other trade-related areas may be covered in a second phase. Once established, the T-FTA will combine the markets of 26 countries with a population of nearly 600 million people and a combined GDP of US$1 trillion, providing the market scale that could launch a sizeable part of the continent onto a new developmental trajectory. The T-FTA will form the basis of a Continental FTA (C-FTA), which has an 'indicative' implementation date of 2017. Although the African Union (AU) members have already started negotiations on a roadmap for the C-FTA, its target date appears unrealistic (Vickers 2012a).

Complementing this ambitious integration agenda is an extensive work programme to overcome Africa's chronic infrastructure challenges.[12)] As far back as 1996, South Africa's Department of Trade and Industry pioneered the Spatial Development Initiative (SDI) model, which has expanded across the region due to strong backing from SADC, the AU and the New Partnership for Africa's Development (NEPAD). The

**Figure 2:** **South Africa's External Trade Policy, 1994-2014**

| ***Trade Policy*** | ***Trade Agreements*** | ***Regional Integration*** |
|---|---|---|
| Multilateral reform through the GATT Uruguay Round (1986-1994)<br><br>Unilateral reform, including GEAR (1996-2000)<br><br>Phasing out of the General Export Incentive Scheme (GEIS)<br><br>'Developmental' tariff setting to reduce input costs and protect downstream output | SACU (2002)<br><br>SADC Protocol on Trade (1996), SADC FTA (2008) and SADC Protocol on Trade in Services (2012)<br><br>SA-EU Trade, Development and Cooperation Agreement (1999), now revised as the SADC-EU Economic Partnership Agreement (2014)<br><br>SACU-European Free Trade Association (EFTA) FTA (2006)<br><br>SACU-Mercosur Preferential Trade Agreement (2009, not yet ratified)<br><br>SACU-India Preferential Trade Agreement (under negotiation)<br><br>SADC-EAC-COMESA T-FTA (under negotiation)<br><br>SA benefits from unilateral, non-reciprocal GSP and AGOA | 'Developmental regionalism' in SACU, SADC, T-FTA and C-FTA premised on:<br><br>Market integration<br>Industrial development<br>Infrastructure development |
| Source: Own compilation | | |

SDI model seeks to develop geographic zones with latent economic potential by attracting investment into 'anchor projects' such as ports, parks, tourist facilities, mining areas or major industrial developments. The idea is to stimulate economic densification activities within the trans -boundary corridors.[13)] The success of the model has led South Africa to prioritise five SDIs over the medium-term, covering Angola-Namibia-South Africa (ANSA), the Democratic Republic of the Congo (DRC), Mozambique, Tanzania and Zimbabwe. It is not unimportant that Angola and South Africa recently concluded a memorandum of understanding to develop an industrial complex in Angola's Soyo region under the auspices of ANSA. The latter project points to the possibilities for linking regional infrastructure investment and industrialisation (Vickers 2012a).

At the continental level, South Africa chairs the AU's Presidential Infrastructure Championing Initiative (PICI), which consists of seven major presidential infrastructure projects across Africa. South Africa specifically champions the North-South Corridor, which aims to rehabilitate Africa's rail and road networks from Durban to Dar-es-Salaam.

## 5. Conclusion

Whereas the initial post-*apartheid* years were characterised by a series of outward-oriented reforms, the second decade of democracy firmly institutionalised industrial policy on the domestic landscape through the NIPF and the annual IPAP programmes. These plans aim to bring about structural change in the economy by focusing on value-adding activity in the production sectors, particularly labour-intensive and export-oriented sectors, led by manufacturing. The leitmotiv for South Africa's third decade of democracy will be to advance "radical social economic transformation" (Zuma 2014). This is likely to entail even greater state intervention in the economy to fast-track industrialisation efforts and promote broad-based black economic empowerment, especially in the manufacturing sector. What does this portend for South Africa's external trade agenda over the coming decade?

An up-scaled industrial policy will continue to provide the strategic lodestar for South Africa's trade policy. Policymakers appreciate that trade can support growth, but that this relationship is not automatic and more attention should focus on the 'quality and content' of South Africa's export basket. For South Africa, the key challenge is to move off a growth path based on exports of raw materials and minerals and imports of higher-value manufactured goods. The NIPF and IPAP, coupled with the extensive infrastructure spending programme of government, may, to some extent, address the structural and competitiveness constraints on industry. However, there is unlikely to be any further tariff liberalisation outside of an industrial policy framework, or RTAs geared towards substantially liberalising trade in goods or services. The priority will remain 'strategic integration' through limited PTAs or novel approaches for building complementary trade, such as tackling non-tariff measures and exploring procurement or sector-led cooperation agreements. Moreover, it is often overlooked that the South African services economy is already open to an extent that exceeds many developed countries (DTI, 2010). Rather than further liberalisation of goods and services markets, the priority for South Africa will be to preserve and expand policy space in international agreements, especially the WTO, to provide an impetus to industrial development and enable more meaningful integration into global value-chains.

The slow recovery of the world economy following the global economic crisis means that the external environment will remain complex and challenging for some time. In this current climate, South Africa's external trade agenda is likely to consolidate existing relations with established trading partners, including implementation of the SADC EPA and seeking AGOA extension, while also fostering complementary trade relations with the emerging economies of Africa and the South, led by the BRICS. The main focus will remain on Africa, where prospects for growth and development have markedly improved over the past decade. Efforts to advance developmental integration will need to be up-scaled, since Africa's full potential will remain unfulfilled unless the challenges of small, fragmented markets, poor infrastructure and structural transformation are addressed (see Moghalu 2013).

There is also intensifying competition for access to Africa's abundant natural resources and growing markets, from both established and emerging economies, including Brazil, China and India. South African companies in Africa compete increasingly with public and private operators from these countries, and are often at a strategic disadvantage given the latter's state-led commercial approach to the continent. Extra-continental RTAs among subsets of African countries, such as the EPAs with Europe, could furthermore place South African business at a competitive disadvantage to traders from outside the continent.

Set within that context, the South African government should improve its coordination of South Africa's trade, investment and development cooperation activities in Africa. There are many South African actors operating in Africa, ranging from the private sector to public entities such as the state-owned companies and development finance institutions. Without proper coordination, there is the risk that these actors will pursue disparate objectives and strategies in Africa. The role and activities of the South African Development Partnership Agency (Vickers 2012b), once established, should also be aligned to support South Africa's broader economic diplomacy objectives in Africa. This would give concrete expression to the notion of a more coordinated 'SA, Inc.' approach between the state and business for engaging and partnering with Africa (see DIRCO 2013). This closer alignment of interests and strategies may assist the state and business to better advance and achieve their respective policy and profit objectives in Africa, and collectively contribute to achieving Africa's development agenda during the third decade of democracy.

# Endnotes

1. Trade remedies traditionally consist of safeguards, anti-dumping duties, and countervailing measures.
2. Comment attributed to Leslie Boyd, chairman of the Anglo-American Industrial Corporation (Vickers 2009).
3. Some of the factors that have contributed to South Africa's below-potential export growth include: infrastructure bottlenecks; labour market instability; high concentration, with a few uncompetitive super-exporters dominating the exports sector (coexisting with a large pool of small and occasional exporters) and, despite their dominance, losing dynamism and competitiveness; lack of innovation, as super-exporters have become less experimental in both markets and products, under-exploiting large markets in Africa and BRICS; technology-intensiveness and sophistication of super-exporters, which play against South Africa's comparative advantage in low-skilled labour; and weak growth in non-mineral and services exports (see World Bank 2014).
4. Critics of this sector-specific approach argue that reducing tariffs on inputs alone actually increases protection for the industries that use these inputs. Although lower tariffs on inputs help improve export profitability, the retention of tariffs on final goods fosters inefficiency and promotes an anti-export bias (Edwards and Lawrence 2006).
5. World Trade Organisation, Tariff data. (Available at: http://www.wto.org.)

6. Personal observations to author by EU diplomats based in Pretoria, South Africa.
7. One of South Africa's priorities as BRICS Chair during 2012-2013 was to coordinate a Joint Trade Study that proposes policy recommendations on how to grow more value-added manufactured exports in intra-BRICS trade. The Joint Trade Study was presented to the 4th Meeting of BRICS Trade Ministers in Fortaleza, Brazil, on 14 July 2014. The Trade Ministers welcomed the recommendations and proposed a working group of BRICS trade and investment promotion agencies to consider and implement the Study's recommendations.
8. While imports from China in the tariff lines targeted by the quotas did decline, aggregate imports in these categories only marginally decreased. Other countries — including India, Pakistan, Bangladesh, Viet Nam and Zimbabwe — replaced China as importers of choice. Transhipment by re-labeling and rerouting goods through third countries surged as many importers fraudulently bypassed quotas on Chinese clothing and textile imports (Morris and Reed 2008).
9. There has recently been renewed impasse in the WTO's Doha Round. India, supported by Bolivia, Venezuela and Cuba, withheld consensus to adopt a Protocol incorporating the Agreement on Trade Facilitation, finalised in Bali, into the WTO's legal architecture. India argued that developed countries were singularly focused on the Protocol, which is of direct interest to them, while not sufficiently addressing the wider development agenda and India's specific concerns about public stockholding for food security purposes. The deadline of 31 July 2014 to adopt the Protocol passed and negotiations may resume in Geneva.
10. Seychelles is currently negotiating its tariff offer with the SADC FTA Parties.
11. The six priority sectors for SADC trade in services negotiations are communication, construction, energy-related, financial, tourism and transport services.
12. The World Bank estimates that Africa needs US$93 billion annually over the next decade to overcome its infrastructure deficits, particularly in the power sector, which is more than twice previous financing estimates. The new estimate amounts to roughly 15 per cent of the continent's GDP, comparable to what China invested in infrastructure over the last decade (Foster and Briceño-Garmendia 2010).
13. Examples of key regional SDI projects include the Maputo Development Corridor connecting South Africa's industrial heartland, Gauteng, to the Mozambican port of Maputo; the Beira Corridor linking Malawi and Zimbabwe to the Mozambican port of Beira; the Benguela Corridor connecting Angola to southern DRC and Zambia; and the Nacala Corridor, which links Malawi and Zambia to the Mozambican port of Nacala, the deepest natural

port on the east coast of Africa.

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