

## FOREIGN TRADE

# Ad hoc policy fails to deliver the goods

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Since the end of apartheid, South Africa has pursued a multi-track agenda for rebuilding its global trade relations, which had been distorted by sanctions, and decades of inward-looking and protectionist policies. Post-transition trade diplomacy was unavoidably ad hoc at first but, in retrospect, incorporated three main objectives:

□ Substantial unilateral liberalisation of the domestic trade policy regime, through the World Trade Organisation (WTO), in the interests of increased competitiveness;

□ Improved market access for South Africa's exports to traditional Northern markets, especially the EU; and

□ Consolidation of trade ties with neighbours in the Southern African Customs Union (Sacu) and the Southern African Development Community (SADC).

Under this strongly mercantilist agenda, some major advances ensued. These included a substantial liberalisation of the protective structure, a free trade agreement with the country's most important trading partner, the EU, a renegotiation of the Sacu treaty, with South Africa committing itself to more generous and more equitable forms of economic co-operation, and South Africa joining the SADC.

Even so, South Africa's post-apartheid trade performance has been un spectacular. While growth in non-gold exports accelerated in the mid-1990s, it fell away sharply thereafter, even contracting in 2002 and 2003, leading to an average annual growth rate of 6.1 percent in the period 1994-2003. During this time, merchandise exports increased from 63 percent to 71 percent of total export earnings and from 14.5 percent to over 19 percent of gross domestic product.

Nonetheless, South Africa's share of total world trade continued to decline, falling to 0.53 percent for 1995-1999 and 0.44 percent for 2000-2003. While trade has grown since the transition, it has grown more slowly than world trade in general.

In addition, trade policies have not always been compatible either with each other or with other core policies, including the Gear macroeconomic strategy and industrial policy. There are (or should be) intimate interlinkages

between trade, growth and industrial policies. While the broad industrial strategy has undergone several changes of approach since 1994, in principle there have always been two imperatives in the promotion of manufactured exports:

□ Reducing the anti-export bias created by pre-transition policies by lowering the levels of protection; and

□ Encouraging export-oriented (and employment-generating) industrial growth through supply-side measures, such as tax incentives and productivity-enhancing support programmes.

Regrettably, both prongs of the promotion strategy for manufactured exports appear to have been weak, with performance only marginally better than for total exports. Moreover, such growth may not be sustainable. Globally, in 1998, the 20 most market-dynamic product groups grew at an average rate of 12.9 percent and accounted for 22.6 percent of total world exports (28.7 percent of developing country exports). In South Africa, these products contributed a mere 3 percent of total exports.

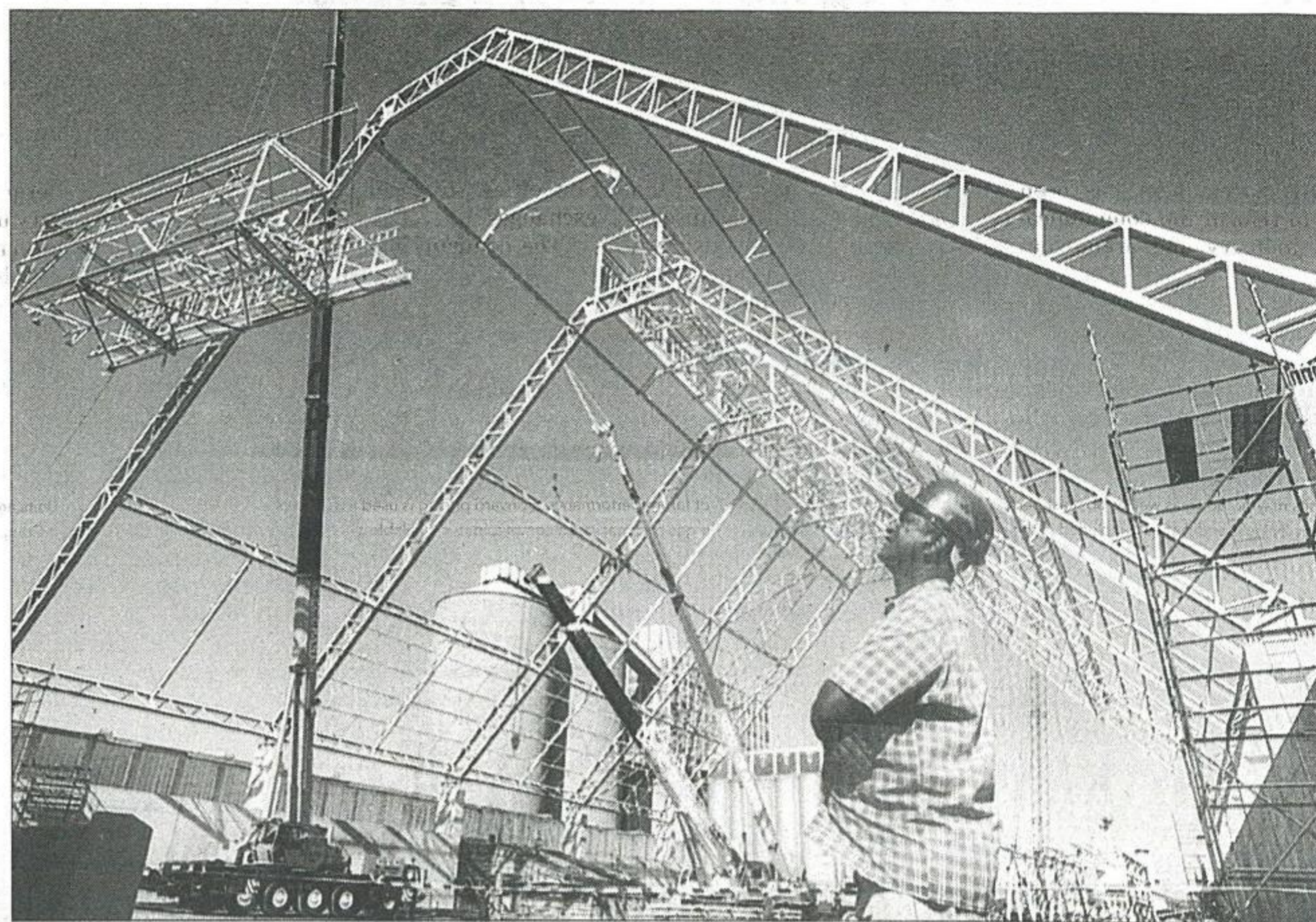
The disappointing post-1994 performance of trade and manufacturing suggests that the mid-1990s reform of the tariff regime was less extensive than thought. This proposition is supported by several recent studies demonstrating that the regime has remained relatively complex and cumbersome, and still embodies a strong anti-export bias.

Although the average tariff rate is modest by international standards, there are numerous peak rates that imply continuing high levels of protection for a significant number of product lines. There is also evidence that as tariff levels have fallen, South Africa has made increasing, and seemingly disproportionate, use of non-tariff barriers, including anti-dumping actions.

Since 2000, under the government's global economic strategy, there have been two apparent policy shifts:

□ Unilateral liberalisation has been largely abandoned in favour of bilateral or regional negotiations for improved reciprocal market access, encompassing not only traditional trading partners, but increasingly also other Southern, especially African, countries; and

□ South Africa's now appears to view the WTO more as a forum for advocacy



**EXPORT STRATEGY** Exports to African countries are stable

PHOTO: PETER DUFFY

on behalf of the world's poorer countries than as an agency for promoting its own domestic competitiveness.

A core objective of the strategy is to reverse Africa's economic marginalisation. However, this priority appears to stem from a political, rather than a calculated economic, stance.

Although South Africa's exports to Africa expanded rapidly after 1994, rising from 4 percent of the total in the early 1990s to a peak of almost 16 percent in 2003, they have since stabilised around that level. Further growth spurts are possible, but the most likely scenario is that 16 percent will remain the ceiling for the foreseeable future.

Imports from Africa have retained their minimal 2 to 4 percent share of total imports throughout the past 15 years, and only a decision to source more oil and energy supplies from Africa

would make a significant difference in the medium term.

The strategy also offers no serious analytical basis for its broader emphasis on promoting South-South trade links. Despite some analytical support for such ties, their advantages remain uncertain and unproven.

Recent research has criticised such initiatives for being too politically driven, "lacking real economic and commercial incentives", and failing to move beyond the signing of agreements between governments to involve those who actually undertake trade - private enterprises. Several recent studies have emphasised the limited scope for gains from the long-running Sacu-Mercosur talks, and the upcoming Sacu-India talks.

The formulation and implementation of trade policy still retains a distinctly ad hoc appearance. There

remains a lack of clarity about the priorities for, and the determinants of, a more successful trade strategy.

The initial conviction that liberalisation was a necessary condition for successful engagement with the global economy has faded, but has yet to be replaced by a coherent alternative strategy. The absence of well-motivated arguments does not inspire confidence in the thrust of the current strategy.

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