

ATPC

Work in Progress

No. 51



Economic Commission for Africa

African Trade Policy Centre

MAINSTREAMING TRADE INTO SOUTH AFRICA'S NATIONAL DEVELOPMENT STRATEGY

Cassim Rashad

January 2007

ATPC is a project of the Economic Commission for Africa
with financial support of the Canada Fund for Africa



ATPC is a project of the Economic Commission for Africa with financial support of the Canada Fund for Africa

This publication was produced with the support of the United Nations Development Programme (UNDP).

Material from this publication may be freely quoted or reprinted. Acknowledgement is requested, together with a copy of the publication. The views expressed are those of its authors and do not necessarily reflect those of the United Nations.

ATPC

Work in Progress



Economic Commission for Africa

MAINSTREAMING TRADE INTO SOUTH AFRICA'S NATIONAL DEVELOPMENT STRATEGY

Cassim Rashad

School of Economic and Business Sciences
University of the Witwatersrand
Johannesburg
South Africa

Table of Contents

- I. INTRODUCTION 1
- II. TRADE REFORM IN A NUTSHELL 3
- III. THE IMPETUS OF TRADE REFORM AND THE ROLE OF MULTILATERAL INSTITUTIONS 8
- IV. COHERENCE BETWEEN TRADE POLICY, ECONOMIC GROWTH AND POVERTY. 12
- V. TRADE POLICY COORDINATION AND CAPACITY CONSTRAINTS 17
- VI. TRADE POLICY RESEARCH, INFLUENCE AND IMPACT 22
- VII. CONCLUSION 27
- References 28
- Glossary of Institutions Directly involved Trade Policy Research or Dialogue 31

I. INTRODUCTION

This paper focuses on the process and substance of trade policy in South Africa. It looks broadly at the role of trade policy in relation to the country's growth and poverty reduction framework, nature and formulation of trade policy coordination, the influence of research on changing priorities and the overall coherence of trade policy.

What has come to be defined as the trade regime has become more complex in today's world as compared to a few decades ago. The most significant distinguishing characteristic of the modern trade regime is that trade in services has become as important if not more important than trade in goods. In view of a world largely inhabited by low tariffs, many 'behind the border measures' have become central to trade policy. In the analysis of trade policy formulation in South Africa, this paper looks primarily at goods but focuses to some extent on free trade agreements (FTAs) as one critical element of trade policy reform. The focus on services highlights the fact that capacity constraints and coordination failures are far more serious here than in goods reform. In other words, services require a greater investment in consensus building, coordination mechanisms and diverse intellectual capacity than is the case in goods, a fact that introduces various concerns and dilemmas for South Africa.

An analysis of trade policy formulation is naturally influenced by a country's very specific political history. South Africa emerged from an era of white-minority apartheid rule where basically policy was determined top-down by the ruling elite. Indeed, any form of civil society activities were overwhelmingly aimed at discrediting the apartheid State rather than worrying about trade policy which seemed totally insignificant compared to the major challenges of initiating democracy in the body politic. The fact remains, however, that the role of trade policy at the start of the new democracy has been particularly interesting. The new democratic government was barely in power when it had to participate in the finalization of the World Trade Organization (WTO) Uruguay Round of trade talks, offering a tariff reform package for the South African economy, as well as a commitment to phasing out highly distorted trade subsidies.

Ten years down the line since its commitments to the WTO, South Africa is now a moderately protected economy, having emerged from a highly distorted trade regime where protection reached its peak in the early 1980s. The likely welfare gains for the South African economy as a result of future reform will come from eliminating current tariff peaks in goods, elimination of restrictions that South African exporters face in some markets and product categories in various parts of the world, and the pursuit of second-generation reforms, particularly in services. There are certainly two facets to the trade regime: the first is the extent to which reforms of tariffs and other non tariff barriers are used to induce more competition in the economy; the second is the extent to which trade reform has bolstered South Africa's exports in

a way that was not possible under a more protected regime. The study focuses to a larger extent on the former.

This paper begins with a review of trade reform, at least in the last decade, followed by an overview of the underpinning of the trade policy process. While the paper focuses on South Africa today, an appreciation of the trade policy process would be limited without delving into the country's recent history, and especially since the birth of the new democracy in the early 1990s. The paper subsequently focuses on trade policy coherence, coordination, and the role of research and capacity in the trade policy process.

II. TRADE REFORM IN A NUTSHELL¹

During the last decade, trade policy in South Africa has undergone several changes. These include multilateral reductions in tariffs and subsidies in line with the country's WTO commitments, the signing of two significant FTAs and, more recently, several negotiations around future commitments to liberalization at both the multilateral level and regional levels. These simultaneous developments have had an important influence on both *de facto* protections and welfare. Notwithstanding the importance of multilateral reforms, regional and bilateral trade arrangements have, to a large extent defined trade policy in the new democratic era. The two main types of agreements on the table were FTAs with the European Union (EU) and with the Southern African Development Community (SADC). These agreements, however, did not have a significant impact during the 1990s and only began to take effect at the end of the decade. Indeed, EU-SA FTA only came into effect in January 2000. On the other hand, the SADC Trade Protocol was concluded in August 1996, although it has taken some time for the majority of member States to ratify the treaty and as such its effect was only actualized at the end of the decade.

If we were to look back a few decades, in one respect South Africa followed a classic middle-income import substitution growth profile. As a country exceptionally endowed with rich mineral resources including gold and diamonds, the need to develop a competitive manufacturing sector never seemed urgent. South Africa's exports right up to the 1980s were primarily mineral resources and a fairly diversified industrial base aimed purely at supplying a restricted, predominantly white middle-class with goods well above international prices. This was possible due to the fact that the *per capita* income of this middle class exceeded that of their counterparts in developed economies. Naturally, with the declining importance of gold and mineral resources, coupled with imminent political changes in the economy, the National Party (NP) government in the 1980s began to turn its attention to developing a more competitive manufacturing sector.

South Africa's exports composition has also changed radically over the years. Indeed, mineral exports accounted for over 80 per cent of the country's total exports around the early 1900s. By the late 1960s, gold exports alone contributed close to 40 per cent of the country's total exports earnings. Other minerals such as coal and diamonds also contributed an additional 20 per cent to total exports. The share of agriculture was relatively insignificant at about 10 per cent. Naturally South Africa's trade profile has changed radically over the past few years. While minerals are still important, gold contributes to about 15 per cent of South Africa's total exports. Manufacturing has become more important but the challenges of diversification still remain. South Africa is by and large dependent on natural resources with other minerals such as coal and platinum taking up an increasingly important share of exports (Bell, 1997).

¹ This section draws the content on liberalization from Cassim 2005 and Cassim and Van Seventer 2006.

The last decade appears to be characterized by efforts to create a conducive environment for the incentive to export through real-exchange-rate depreciation, a reduction in nominal tariffs, and in specific cases, sector-specific instruments to create incentives beyond tariff liberalization for exports. Trade liberalization in pre-1990 South Africa was based primarily on export promotion measures and less on import liberalization. South African trade reform from the period 1994 to 2004 can, at best, be characterized as a process of gradual import liberalization. This entailed a number of policy changes. There was, firstly, a process of reduction in nominal tariffs, particularly in manufacturing, which has historically been the most protected sector. Secondly, there was a decline in the dispersion of the number of tariff bands and categories, which automatically enhanced protection in the economy. Thirdly, the elimination of surcharges and quantitative controls, particularly in agriculture, has been significant. While import controls and surcharges that were quite significant in manufacturing were gradually phased out by the beginning of the 1990s, the trade regime in agriculture was still governed by quotas.

Not surprisingly, the major process of trade reform in agriculture entailed a conversion of quantitative restrictions into tariffs. This represents a major landmark for the agricultural sector. The second phase saw some liberalization of agricultural tariffs. The process of tariffication commenced in 1992 and was essentially completed by 1994. By the end of the decade, agricultural tariffs were fairly low, with the exception of a number of highly protected commodities such as sugar (40 per cent), dairy (20 per cent), beef and veal (20 per cent), mutton (50 per cent) and wheat (20 per cent) (Steenkamp, 2000). A more significant concern was the cumbersome nature of South Africa's tariff structure. Agriculture reform has not been given that much attention in the trade mainstreaming agenda in South Africa partly owing to the preponderance of manufacturing and the mineral sector of the economy.

South Africa's trade reform from the early 1990s is locked into the country's commitment to the WTO. The country's offer consisted of reducing tariff categories to six. These were at the rates of 0.5 per cent, 10 per cent, 15 per cent, 20 per cent and 30 per cent, with any discretionary changes to the system being disallowed (Cassim, 2004).

The tariff phase-down schedule under the WTO is shown in Table 1. As a result, South Africa's average tariff declined from about 15 per cent in 1996 to about 6 per cent in 2003. South Africa's commitment to scale down tariffs was to last for an approximate ten-year period.

Table 1: Tariff phase-down under the WTO

| NEW ISIC | DESCRIPTION | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------|---|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 1 | Textiles | 30.1 | 33.8 | 31.8 | 24.9 | 23.4 | 21.9 | 20.3 | 18.7 | 17.3 | 17.3 | 17.3 |
| 2 | Clothing, excl. footwear | 73.7 | 73.6 | 68.2 | 54.6 | 50.5 | 46.4 | 42.4 | 37.7 | 33.2 | 33.2 | 33.2 |
| 3 | Leather and leather products | 14.9 | 14.8 | 14.1 | 16.5 | 15.7 | 14.8 | 14.8 | 14.8 | 14.8 | 14.8 | 14.8 |
| 4 | Footwear | 37.5 | 41.6 | 39.1 | 36.8 | 34.2 | 29.1 | 29.1 | 29.1 | 29.1 | 29.1 | 29.1 |
| 5 | Wood and wood products | 13.9 | 3.6 | 3.4 | 3.5 | 3.3 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| 6 | Paper and paper products | 9.6 | 9.3 | 9.1 | 8.8 | 8.7 | 8.5 | 7.9 | 7.3 | 6.8 | 6.2 | 5.6 |
| 7 | Printing and publishing | 8.1 | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| 8 | Petroleum and petroleum products | 1.6 | - | - | - | - | - | - | - | - | - | - |
| 9 | Industrial chemicals | 9.3 | 7.5 | 7.5 | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| 10 | Other chemical products | 9.0 | 3.8 | 3.7 | 2.7 | 2.6 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| 11 | Rubber products | 30.5 | 14.5 | 14.1 | 15.8 | 15.4 | 14.9 | 14.6 | 14.4 | 14.0 | 14.0 | 14.0 |
| 12 | Plastic products | 19.8 | 14.7 | 13.7 | 13.2 | 12.6 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 |
| 13 | Glass and glass products | 11.8 | 9.5 | 9.0 | 8.3 | 7.9 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 |
| 14 | Non-metallic mineral products nec | 10.6 | 8.7 | 8.1 | 8.4 | 8.0 | 7.7 | 7.7 | 7.7 | 7.7 | 7.7 | 7.7 |
| 15 | Basic iron and steel products | 7.6 | 4.4 | 4.2 | 4.2 | 4.1 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| 16 | Non-ferrous metal products | 2.3 | 2.3 | 2.3 | 2.3 | 2.2 | 2.0 | 2.0 | 2.0 | 1.9 | 1.7 | 1.7 |
| 17 | Metal products, excl. machinery | 13.1 | 8.2 | 7.8 | 7.8 | 7.6 | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 |
| 18 | Non-electrical machinery | 6.5 | 1.4 | 1.3 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| 19 | Electrical machinery | 11.0 | 6.1 | 6.0 | 5.8 | 5.8 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| 20 | Radio, television and communication apparatus | 12.1 | 5.1 | 3.7 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| 21 | Professional equipment etc. | 7.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| 22 | Motor vehicles, parts and accessories | 55.4 | 33.5 | 31.7 | 29.3 | 27.9 | 26.1 | 24.8 | 23.2 | 22.1 | 22.1 | 22.1 |
| 23 | Other transport equipment | 1.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| 24 | Furniture | 28.1 | 21.4 | 20.8 | 20.2 | 19.6 | 18.9 | 18.9 | 18.9 | 18.9 | 18.9 | 18.9 |
| 25 | Other manufacturing | 2.9 | 1.0 | 1.0 | 5.2 | 5.1 | 5.0 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| 26 | Mining | 2.7 | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total | | 11.7 | 7.2 | 6.8 | 6.1 | 5.8 | 5.5 | 5.3 | 5.1 | 4.9 | 4.9 | 4.9 |

Source: Industrial Development Cooperation, Johannesburg

This scaling down of tariffs is essentially a good proxy for *de facto* liberalization of the economy. By and large, South Africa adhered to its commitments with only a few areas where the implementation by Customs and Excise has been slow. While nominal tariffs are important and create consumption distortions, they are less effective predictors of resource shifts in the economy. Instead, effective rates of protection are more appropriate as they take cognizance of both input tariffs and output tariffs giving a more accurate measure of relative value-added. In general, effective rates of protection are much higher

relative to nominal rates of protection in the economy. However, as far as levels are concerned, effective rates have come down over the years.

Table 2: Weighted average effective rates of protection for non-service sectors in the South African economy (1996, 2000, 2003)

| | Unweighted average nominal tariff | Weighted average nominal tariff | Effective tariff protection, based on weighted average nominal tariff |
|------|-----------------------------------|---------------------------------|---|
| 1996 | 17.4% | 11.0% | 17.0% |
| 2000 | 10.7% | 8.0% | 13.2% |
| 2003 | 9.5% | 7.8% | 11.8% |

Source: IDC and DTI for tariffs, Customs & Excise for trade, Stats SA for 2000 Supply-Use Table and own calculation

It is clear that sectors with moderate tariffs in the range of 5 per cent to 15 per cent have had moderate reductions in tariffs. Some sectors have seen considerable reductions in overall tariff levels but this has been from a considerably high base. For example, in sectors such as the motor industry and clothing and textiles, there have been tariff reductions over 50 per cent in the last ten years. These however, were in levels of about 70 per cent to 80 per cent to 30 per cent to 40 per cent, whereby we are still left with considerable peaks despite the high absolute reductions. It is important to bear in mind that high, absolute reductions in tariffs where the tariff base is still high in the sectors mentioned, still leaves significant protection.

Multilateral tariffs have generally slowed down since 2000 and essentially there has been no liberalization in the last five years. The only area that is contributing to *de facto* openness of the economy, even if on a discriminatory basis, is through our FTA commitments with SADC and the EU. As mentioned above, South Africa's trade reform consisted not only of the multilateral route, but also of regional and bilateral trade arrangements that have, to a large extent, defined trade policy in the new democratic era. There is to be a consistent reduction in tariffs right up to 2012 towards the EU, resulting in considerable differentiation between the former and most-favoured-nation (MFN) tariffs. Similarly, the SADC FTA has resulted in almost DE FACTO openness of the SADC market to South Africa, with basically no tariff restrictions in a year's time.

Further negotiations are in progress to enter trade agreements with the Mercosur countries, India, the United States of America and others. If past experience is anything to go by, there is less resistance to FTAs on a discriminatory basis than there is to multilateral agreements. One possible explanation is the mercantilist nature of FTAs where reciprocity or market access is far more easily realized. While South Africa has been fairly successful in implementing a goods reforms strategy in the WTO, its services reform programme has been rather more erratic. Major inefficiencies exist in South African services.

In particular 'producer services' such as communication, financial services, energy and transport, have placed limits on South Africa's growth prospects in several ways. For example, telecommunications services for producers and consumers are well above international prices. Bank costs and charges are unusually high; energy supply has become increasingly erratic. In transport, the high transaction costs associated with delays at harbours for imports and exports could be significantly affecting South Africa's trade (see Cassim, 2006, and Borat Cassim, 2004).

While South Africa made commitments in the Uruguay Round, for finance, telecommunications, construction and engineering, it did not make commitments in education, energy and health, for example. South Africa did however, make commitments of some form (partial or full) in about 80 per cent of the main General Agreement on Trade in Service (GATS) categories. However, of the nine services categories in which commitments were made, several subsectors were also left unbound, for example postal services and audiovisual services.

In the context of the Doha Round, South Africa has still not submitted its initial offer to the WTO. Cassim and Stuart (2005) argue that this was a missed opportunity where South Africa could fairly easily have made an initial offer in a range of 'non-sensitive service sectors' - sectors in which South Africa either did not schedule commitments at all or did not fully liberalize at the end of the Uruguay Round. These include legal and auditing services, research and development services, advertising services, packaging services, printing and publishing services, other business services not elsewhere classified and recreational, cultural and sporting services (other than audiovisual services).

While it may make perfect sense for the South African government not to bind services, particularly in sensitive social sectors that could possibly be inimical to the country's national interest, there are some obvious sectors, like telecommunications and finance, where the costs of delaying reforms have been considerable.

III. THE IMPETUS OF TRADE REFORM AND THE ROLE OF MULTILATERAL INSTITUTIONS

South Africa's trade reform process in the 1980s involved primarily the elimination of import surcharges. The new democratic government went beyond the trade reform programme initiated by its predecessor; it developed some consensus amongst stakeholders that the process of trade reform was integral to creating a competitive economy. Indeed, the main drivers of this process were a critical mass of enlightened bureaucrats and politicians.

What distinguishes South Africa from many other African countries is the absence of the major international financial institutions in determining its trade policy or economic policy for that matter. South Africa has not been under any World Bank structural adjustment or IMF conditionality which would have been obvious vehicles for further liberalization. The WTO certainly has not been a driver of reform but may have played some parallel role in reinforcing a sustained reform programme. There are several reasons why South Africa's reform was underpinned by consensus amongst stakeholders. Firstly, the pace of trade reform was gradual allowing for sensitive sectors to have a long phase-out period. Moreover, base tariffs were extremely high for many sectors. This allowed a fairly consensual process. Most of the negotiators in the Uruguay Round were members not of the then existing government, but of the transitional executive council. These stakeholders participated under the aegis of the National Economic Forum, in which representatives of the government (and the government in waiting) and of labour and business worked closely together with policy makers.

It may also have been fortuitous that the South African government, especially the Department of Trade and Industry, had begun changing its approach to export promotion, from a strategy characterized by price-distorting measures to one promoting productivity-enhancing measures. (The former is WTO-incompatible while the latter is compatible). The pressure to terminate General Export Incentive Scheme (GEIS) subsidies, for example, was not necessarily determined by the WTO. The subsidies were a strain on the revenue structure and in most cases did not bring about the intended effect. It was the general realization by both the National Party government and the subsequent democratic government that a more competitive economy would rely less on price distorting measures and more on productivity enhancing ones. (Hirsch, 2005, Cassim and Zarenda, 2004).

The new democratic government came into power amidst an economic ethos highly supportive of trade liberalization globally. South Africa was an original signatory of the General Agreement on Tariffs and Trade (GATT) in 1948 but because of sanctions against the apartheid government, its role in the various participating rounds was minimal. Being recognized as a legitimate member of any organization was

important politically (Hirsch, 2005). In that sense participation in the WTO process was one of the first internationally legitimate activities of a now recognized and legitimate sovereign state.

Another important leg of trade reform was the signing of two FTAs. It is interesting to note that both FTAs have their antecedents in agreements that did not require any reciprocal reform in South Africa. In the case of the SADC, South Africa became a member at a time when the SADC was merely an association that pursued a programme of economic cooperation as opposed to market integration. South Africa was able to continue negotiating these agreements without much internal resistance from labour, NGOs or protected segments of the private sector. In the case of the EU, South Africa in the early 1980s attempted to secure a Lome-type arrangement with the EU. Once again, it was easy to harness support for this as it was a positive sum game for South Africa².

The difficulty of securing non-reciprocal agreements became evident to policy-makers in negotiations around an FTA would backstop South Africa's interests. Apart from the importance of the EU to South Africa – the former being the largest trading bloc, and the specific importance of SADC, there was (at least on the part of the leading bureaucrats) a conviction that market access for South African firms through trade agreements would provide an important avenue for both increased exports and substantial local and foreign investment flows. Indeed, there was an overriding preoccupation with market access since in the negotiations leading up to these agreements, the relationship envisaged was regarded as a non-reciprocal one (especially with regard to the EU). In the eyes of many senior civil servants, South Africa was an economy in transition; therefore its effort to restructure should be supported by an agreement with the EU.

There were other strategic reasons why the government accepted reciprocity-based agreements as opposed to non-reciprocity. There was a growing recognition that FTAs, particularly with developed regions, send out positive signals to investors about South Africa's commitment to the reform process. More importantly, the EU-FTA was seen as an instrument to address broader development issues including aid and support for industry. Not surprisingly, it is called the Trade and Development Cooperation and Assistance agreement. In other words, the government's rationale for participating was presented on veritable strategic grounds rather than mere welfare-based arguments. The government saw the FTA as an important vehicle through which they could secure better market access, aid for trade and other forms of support. In this sense, we may argue that a key pillar of trade mainstreaming was to fit the FTA into a more ample cooperation agreement.

More recently, the South African government continues to participate actively in the WTO and sees further reform in the South African economy purely within the framework of an agreed new round of multilateralism agenda. The position of the South African government as may be gleaned from a speech made recently by the Minister of Trade and Industry, is stated as follows:

² See Bilal and Laporte 2004 for a more detailed account.

‘South Africa is a strong proponent of multilateralism. This is a fundamental principle of our foreign policy and central to our trade policy. In our view, multilateralism is the necessary intergovernmental response to globalization and interdependence. South Africa has with others, actively pursued a policy of working to reform multilateral institutions to ensure that developing countries are able to play a more decisive role in defining priorities for effective global economic governance’³.

In the same speech the minister goes on to state:

‘South Africa’s support for the launch of the Doha Development Round was thus based on our assessment that without a new round of negotiations we would remain locked into prejudicial existing rules. Negotiations open up the possibility to address our trade and development concerns. For us, development cannot be an adjunct to the main business of the global economy but is a systemic necessity for sustained global growth and the key lies in unlocking growth and development in developing countries’⁴.

Perhaps an interesting question to ask is how South Africa’s democratic trade negotiation approaches have changed in the last decade, and especially in relation to trade agreements at the multilateral and regional levels. In the initial stages when the ANC government came into power, policy makers were driven purely by mercantilist considerations. Their desideratum was non-reciprocal access to global markets and more effort was spent on securing market access with less recognition given to unilateral reform. Moreover, the importance of regionalism as a limited form of liberalization was seen as quite important, particularly because it could be more systematically linked to greater ‘development considerations’ and more far-reaching market access, especially to the EU (Ismail et al, 2002).

Who drove the trade reform process in the last ten years? There is no easy answer to this. Naturally one could say that bureaucrats and politicians certainly have been central to the process. The overall need for reform may have been driven by the country’s overarching growth strategy. But when it comes to a review of aspects of trade reform like the decision to abolish export subsidies, participate in the Uruguay and subsequent rounds, or entering into a free trade agreement with Europe or SADC, a constellation of factors and events combined with the varying roles of different individuals, ministers and bureaucrats make it exceedingly hard to generalize.

Who is likely to drive future trade reform is another interesting question to ask. At the multilateral level, opening up domestically today is seen by the government as a bargaining chip to secure better access. There is no evidence of any drive for a further unilateral process of trade reform other than perhaps signing a few more FTAs – perhaps with the USA, Mercosur and a few others.

³ Opening speech by Minister Mandisi Mphahla, Conference at Gallagher Estate, 27 October 2005, Midrand Johannesburg.

⁴ *Ibid*

It is clear that from a purely economic standpoint, rational trade policy makers (Krugman, 1997) should be interested in maximum unilateral reform irrespective of what trading partners do. Most South African policymakers, however, recognize that the welfare gains from reciprocal reform are more unambiguous and there is convincing academic literature that has developed along similar lines (Baldwin, 1994). It is also politically more difficult for benevolent governments in developing countries such as South Africa to sell domestic reform in the presence of major global distortions. To summarize, it is unlikely that South Africa will pursue a domestically driven unilateral agenda, unless there is some framework for further reform through Doha.

IV. COHERENCE BETWEEN TRADE POLICY, ECONOMIC GROWTH AND POVERTY

The role of trade policy in economic growth and poverty reduction has been the subject of academic attention with increasing focus in recent years. A critical review of this debate is beyond the scope of this paper. It is however, more pertinent to ask to what extent has this dimension been taken into consideration in South Africa. Another way of asking the question is how does the government articulate its economic policy strategy and where does trade feature?

Cassim (2006) argues that the principal dilemma facing the post-apartheid government in South Africa is the need to induce more efficiency in the economy while attempting to ensure that poverty and income distribution are addressed in a significant way. Are these twin objectives mutually exclusive? The economy has undergone several changes since the birth of democracy in 1994. One way of characterizing South Africa's economic orientation is as a pro-growth strategy entailing fiscal prudence, trade reform, privatization, deregulation and public sector reform with the aim of creating a more market-friendly, efficient economy. How does trade feature? Trade reform is simply defined as one element amongst a myriad of other policy initiatives that will contribute to sustained growth in the economy. The assumption is that for a small-middle-income open economy like South Africa, it is hard to imagine sustained growth competitiveness. In sum, the government has carried out a series of efficiency-enhancing policies including trade reform and competition policy. (Gear, 1996).

Notwithstanding these reforms, growth in the economy has, by and large, been modest with slight improvements in the last few years, but hardly significant enough to address the unemployment problem in the country. Growth from 1993 to 2000 hovered annually at around 2 per cent per year, increasing to around 4 per cent in the last three years. Unemployment stands at around 30 per cent. The South African government has been heavily criticized for abandoning a pro-poor economic strategy for a more neo-liberal path (Habib et al, 2006). There is a common misconception that South Africa simply carried out a neo-liberal policy that was pro-growth while not adequately paying attention to poverty and distribution (Habib, Carter, 2006). It may well be true that in order to achieve macro stability, the government pursued a fairly conservative monetary and fiscal policy. Still, trade reform does not by any standard represent a 'Washington consensus' type of policy. In addition to the slow pace of reform, the economy is characterized by high levels of distortions in services and product markets, including high levels of concentration, owing to the pervasive nature of inefficient monopolies. In fact, the South African government in the late 1990s began recognizing that notwithstanding the so-called gains from macroeconomic reform, the absence of a series of micro reform has been responsible for stagnant growth in the economy (Naidoo, 2006). In this sense, the high costs structure of the economy has not addressed major costs of consumer durables, for example, that could affect real wages of the poor.

A key challenge facing the government has been to convince the broader civil society of the extent to which South African trade policy formulation both at the multilateral and regional/ bilateral levels, relate to the daunting challenges of unemployment and poverty in the economy. One concern in civil society, especially South Africa's strong labour movement, has been the extent to which the trade regime has been responsible for major job losses and worsening income distribution. This question has been well researched in South Africa (see section on trade policy and research below).

Another challenge that government faces is the difficulty of reconciling trade policy with industrial policy, unemployment problems and poverty. At one level, there is a debate about the extent to which we have a trade policy without a defined industrial policy. South Africa's trade reform succumbed to a few sector-specific protocols that were part of an agreed policy process relating specifically to clothing and textiles and the motor industry. The main concern at this stage has been the specific impact that the WTO will have on South Africa if it were to continue providing some form of infant- industry protection to sectors. Once again, here is a case where South Africa may differ from many of the other economies across the continent, as the major challenge is not so much providing support for new industries, but simply how much longer it will afford infant-industry protection to a range of sectors who have enjoyed protection for decades. More recent enunciations of industrial policy in South Africa by the DTI have focused on the need to identify and target sectors for growth. However, none of the kind of policy proposals presented seems to impinge on the so-called policy space that an institution such as the WTO may violate⁵.

The one area where the government has struggled is the need to harness analytical capacity on the various sectors of the economy. For example, there is very little analytical work on why export growth may not have been nearly as dramatic as was expected. There are a range of factors that may explain this including exchange-rate misalignment, transport and other sector-specific issues. While exports have grown under liberalization, it has not grown to the extent that it could make a significant impact on growth or employment.

One way to explore the issue of mainstreaming more concretely is to assess what are the key challenges facing the South African economy and how exactly government endeavours to reconcile its trade policy with the country's national priorities. If we are trying to understand the role that trade policy would play in an economy such as South Africa, then the way to think about it is to ask what are the major challenges to growth and employment in the country. The central challenge has been that investment levels in the economy have revolved around 16 per cent of GDP throughout the post-apartheid period. The problem in South Africa would appear to be that of low and stagnant growth. The major challenges that we face is how best we can make the investment climate in South Africa more attractive and what we need to examine is a better and more accountable government, credible policies, creating better mechanisms to deal with crime, and ensuring better service delivery and corporate governance. On

⁵ Budget Vote Speech by Deputy Minister of Trade and Industry, Dr Rob Davies by 30/03/06.

the employment side, basically the economy suffers from skilled-labour-supply constraints, amid great demand for skilled labour, while 30 per cent of the population is unemployable. It is these daunting socioeconomic challenges that pose particular difficulties for South African trade negotiators.

The inevitable question from the point of view of civil society is, how will South Africa's active participation in the WTO be expected to contribute to this principal objective, given that growth is the major problem in the slow-growing economy. Perhaps one way to pose the problem more generally is to ask what the changing global architecture means for a small middle-income open economy like South Africa that displays all the vulnerabilities of high unemployment, increasing income inequality and stagnant growth. Being a small economy we are both price takers and considerably reliant on global markets but with a sizeable infrastructural base, and a measure of skilled labour (although this remains a major constraint) to exploit global opportunities. In an environment riddled with social pressures of poverty and high inequality, policy-makers face enormous pressures from the civil society in South Africa to answer one fundamental question, namely, how do we align the changing global trade architecture to South Africa's domestic challenges?

There are two closely interrelated but distinct sets of issues we need to clarify in trying to grasp South Africa's mainstreaming of trade into more national concerns. The first is simply the role of trade policy in the economy, and secondly, the actual impact of WTO disciplines on the trade policy process. There are two issues that the WTO, rather than unilateral trade policy, may bring into the domestic process; i.e. the role of reciprocity in negotiations, as well as the need to adhere to a scope and pace of reform that otherwise would have been different in the absence of multilateralism. What this means is that South African trade policy makers need not only to package the impact of trade reform to the broader civil society but also be able to demonstrate the relevance of rounds of trade negotiations to basic poverty and unemployment issues.

There are several ways in which the government has been able to reconcile a pro- growth strategy (of which trade reform is central) with the need for more distributive and populist policies. There is, firstly, an important clarification on the impact of trade that has come out in recent times, with the assistance of both governments commissioned research and independent academic research. In general, research has argued that trade liberalization has had little effect on employment or poverty in the economy. Instead, other factors that determine increasing capital intensity in the economy or unemployment, are technological changes, labour market factors (skills constraints and labour legislation), and low demand (Cassim et al, 2003:94). This viewpoint has been well enunciated by a senior government civil servant. In his words:

With respect to employment, available evidence offers no demonstration of clear links between trade reform, employment and growth. What is clear from analysis is that the impact of trade reform is limited in either direction - either shedding or creating employment. Employment is dependent on other factors:

investment, foreign and local demand, the nature of the labour market; skills bias and technology change, amongst others (Carim, August 2005).

The South African government recognized the inherent tension in different kinds of policies and had to find more creative ways of reaching out to the poor. Trade per se could not address the issue of poverty in the short to medium term. There were several facets to the government's concern with pro-poor issues. The first, again, was a gradual reform process ensuring that adjustment costs would not derail any reform process. Secondly, changing expenditure and budget priorities mean that the government has consistently expanded the amount of resources that goes toward social grants including social pensions, the disability grant and the child support grant. In addition, employment has begun to increase from 2000. Similarly, access to services has also improved significantly for the poor.

The role of trade policy in the economy can therefore be seen as important without either exaggerating its ability to deliver or generate both growth and employment, or else undermining its importance in buttressing a competitive economy. The government's concern with the adverse effects of trade have been partly assisted and put into context with a great deal of research on what exactly the impact has been. Research on both the impact of employment and poverty has demonstrated that trade has not had an adverse effect on the economy.

There are several reasons why the link between WTO and development are not obvious. Firstly, trade and trade regimes in national economies have a specific role. They are quite critical to resource allocation and efficiency in the economy. Not surprisingly, a large part of the WTO system is geared to enhancing efficiency, and so somewhat limiting the extent to which trade could be seen as a vehicle for poverty reduction, except in terms of more overarching growth objectives. The problem is compounded by the fact that trade reform can have conflicting objectives. As trade has distributional effects, employment loss is a particular problem for the economy that is already facing major pressures. It remains an interesting question, whether South Africa has done enough to mainstream trade into a more overarching national economic policy agenda. An answer to this question depends on how one view the overall economic policy package of the government and to what extent it has seriously begun to address poverty.

It should be noted that with the exception of tight monetary policy – and this contrary to popular belief -- South Africa has not carried out a radical trade reform programme. A more serious challenge facing government perhaps is the extent to which inertia in reforms would actually turn out to be more of a cost to the economy. There have certainly been employment losses in some sectors (clothing and textiles) as a result of trade reform. There are, however, areas where tariffs are still very high (30 per cent to 40 per cent). By and large, the slow pace of reform is an indication of the fact that the government has been extremely sensitive to the costs of employment loss, and especially in relation to the trade regime.

Naturally, there are areas where South Africa has not entirely developed a systematic approach to mainstreaming trade policy issues. For example, policies to encourage microenterprises have been inadequate while this is seen as a major area to deal with the problem of the unskilled unemployed problems. Again, the role of exports and the extent to which exchange-rate misalignment, problems of trade facilitation and others have hindered more spectacular growth rates is a dimension that has not been given the consideration it deserves.

More recently, the government has announced a new Accelerated and Shared Growth Initiative for South Africa (ASGISA) with the aim of addressing a few areas that it has not been able to take on to date. What is interesting about this, unlike the previous core policy framework, is that it focuses less on further trade reform than on achieving growth that could make an impact on unemployment through accelerated growth. An enduring constraint to growth that has been identified relates to the absence of competition or what we may refer to as second-generation WTO issues.

V. TRADE POLICY COORDINATION AND CAPACITY CONSTRAINTS

An analysis of the mechanisms used to develop consensus on policy is complex for several reasons. Firstly, a myriad of different forums exist in the country and it is often hard to assess the cumulative or aggregate role of these initiatives. Secondly, there is a range of state-of-the-art institutions which on the surface are important institutions, although a full evaluation of their effectiveness is beyond the scope of this paper.

A few important aspects are highlighted that capture, in some measure, the South African experience in trade policy-making. One important ingredient of an effective process is the role of the key government department, its skills endowment and its ability to clearly articulate its dilemmas and policy options to other government departments and the civil society. Another important element is the extent to which institutions are developed in civil society in order to contest policy proposals. Like any country, South Africa has a defined set of institutions that play a role in varying degrees and levels of intensity in the trade policy process. Naturally, the Department of Trade and Industry (DTI) is responsible for the formulation and implementation of trade policy and trade negotiations. A range of dedicated institutions and units exist in the DTI focusing on various aspects of the trade policy process, including trade relations, trade administration, industrial policy, and competition policy and others. Draper (2006) succinctly captures the trade policy process in South Africa. Basically, he argues that in South Africa the Executive Branch of the DTI is solely responsible for trade policy formulation and negotiating international trade agreements, while Parliament plays a role in approving trade agreements.

How trade policy priorities are set and who puts it on the agenda is harder to characterize, and this is because a multiplicity of sometimes haphazard events, and sometimes planned strategies combined, may lead to a new policy initiative. This is most evident in trade negotiations. Presidential visits, the role of the trade ministers and the specific influence of bureaucrats can often drive the possibility of a new policy initiative⁶. While policy initiatives are more haphazard, the process of building consensus and finally implementing a policy is less arbitrary or haphazard as government has to obtain a negotiating mandate. Obtaining this negotiating mandate serves as the framework for consultation. Theoretically, there are two important areas where this mandate is debated and contested. At one level and first in the sequence is through a non-governmental tripartite institution called the New Economic Development and Labour Council (NEDLAC). The second area is Parliament, normally through a portfolio committee on trade and industry (see Appendix 1 for a full discussion of NEDLAC).

⁶ see Bilal, S. and G. Laporte. 2004 for a discussion of the role of specific ministers and bureaucrats who were both credible and proactive and were central to the success of the EU/SA FTA.

Parliament's constitutional role is to ratify trade agreements. This is an important component of the negotiation process as failure to ratify could completely undermine carefully constructed international trade agreements (Draper, 2006). As already mentioned, the DTI's main vehicle for involving non-government stakeholders in new trade policy developments has been through NEDLAC, which was established in 1995 as a permanent institutional arrangement dedicated to consensus seeking on economic issues between the major stakeholders in the economy. In the four chambers in NEDLAC, the government comes together with organized business and organized labour on a national level in an attempt to reach consensus on a range of social and economic policy issues. South Africa's trade negotiating agenda is discussed in the Trade and Industry Chamber.

Whether these are operating optimally is another issue as there have been various criticisms on this dimension. There is a high level of unevenness and variation in awareness and interest in trade reform. Another pertinent factor is the extent to which delegates who participate really have a mandate to negotiate on behalf of constituencies and the extent to which these mandates are fully representative of the specific constituencies⁷.

Another distinguishing feature of the South African economy, relative to its African counterparts is the presence of a highly developed private sector consisting of multinational firms with investments and operations in Europe, Australia and Africa on the one hand, and a well developed domestic medium enterprise sector on the other. None the less, the role of the private sector in influencing and driving trade reform has been limited, although it has more effect in maintaining protection in some areas such as the motor industry, clothing sector and a few others.

There have been various attempts by the government to establish linkages with the private sector beyond NEDLAC. This includes ministers' forums with exports councils, and discussions with associations and groups. While these expert councils still exist, meetings are infrequent and structures and consultation have been somewhat haphazard. The establishment of these councils was aimed at organizing common clusters of exporters to meet on a quarterly basis with the minister of Trade and Industry to discuss both domestic and foreign "walls" to exporting. These initiatives were a product of the previous Minister of Trade and Industry, Alec Erwin. Once again, the nature of these councils was very dependent on key individuals both at the level of minister, as well as specific bureaucrats⁸. This is a major challenge that the government faces and perhaps those who set up structures ought to have focused more on the extent to which these structures would work in the absence of specific individuals.

South Africa has quite a spectrum of business associations as well. Often, these were aimed at protecting the interests of their sector against, for example, a further reduction in tariffs. In general, however,

⁷ See <http://www.tralac.org.za> for a discussion of the relevance of NEDLAC. See also Draper (2006) for a more extensive discussion.

⁸ One of the main drivers of export councils at least in the latter half of the 1990s was Faizel Ismail who subsequently left for Geneva to represent South Africa at the WTO.

many forms of communication, at best remain inchoate and vulnerable to changing management and political leadership in the government. On the other hand, the opportunity costs for the private sector participating in trade forums is high unless specific and individual needs of firms.

Another vehicle beyond the NEDLAC structure was the initiation period of national consultative forums. They are however, largely *ad hoc* and simply geared towards consensus-building before the WTO ministerial. While business, labour and civil society participate in these deliberations, these forums are typically ephemeral. According to Cassim and Stuart (2005), the impromptu and haphazard nature of these processes inevitably result in very defensive posturing by labour and civil society calling for a reversal of trade reform. The private sector is grossly under-represented in this process. This poses pertinent questions as to what the most optimum structure for consultation ought to be. It also raises the issue of the extent to which government is able to rise above the partisan interests of constituencies and lobby groups.

Another facet of coordination is the importance of intergovernmental interface. Several departments interface with conventional trade policy matters including the Department of Foreign Affairs, Department of Agriculture, National Treasury and the Presidency. Naturally, if we move from trade in goods to services, most other departments interface on trade policy matters including education and telecommunications.

According to Draper (2006), the Department of Foreign Affairs has played a marginal role in trade policy formulation owing to lack of capacity. While its main role has been to simply advise DTI on the foreign policy implications of trade agreements, actual collaboration and mandates of the two has remained blurred. The Department of Agriculture on the other hand, has been primarily responsible for overseeing agricultural trade reform. Draper argues that it is one of the best organized departments in the sense that it has a well established consultative mechanism in the form of the Agricultural Trade Forum, which brings department officials and industry players together on a regular basis to discuss trade negotiations. The forum plays a critical role in formulating positions on agricultural trade which is the bedrock of any trade agreement. (Draper, 2006: 9)

The role of the National Treasury is an interesting one. This department has been primarily responsible for articulating South African growth strategy which primarily is a macroeconomic strategy with trade reform seen as central to it. Beyond that, its role has been limited. Although it has a stake in monitoring revenue from trade tariffs, the fact is that South Africa is not dependent on import revenue (currently less than 5 per cent of total revenue comes from trade tariffs). In general, the National Treasury as a department is better endowed with a critical mass of economists to be able to crucially engage the Ministry of Trade and Industry on important issues such as the role of investment incentives in encouraging greater investment in the economy.

There have been some attempts to introduce enhanced policy coordination in the government particularly after the second democratic elections in 1999. These include the development of a cabinet cluster system as well as policy coordination and advisory services in the presidency. The clusters are organized around themes such as social sector; economic investment and employment sector; justice, crime prevention and security sector; international relations, peace and security sector; and governance and administration sector.

The two specific clusters that have relevance to trade policy and the DTI in particular are the economic, investment and employment and international relations clusters. In the case of the latter, the DTI chairs a subcommittee on economic development focusing on investment, exports, tourism and global economic relations. As far as the former is concerned, the DTI chairs this committee. This is certainly one vehicle of intergovernmental coordination. The actual role of the DTI as chair of these clusters is less clear. But essentially they are meant to facilitate coordination with the range of sectors.

Another important development other than the cluster system is the development of a policy coordination unit in the Presidency. This unit, set up in 1997, was aimed at bringing fostering a measure of coordination of planning and policy. Perhaps for good reasons, trade negotiations have been too marginal to be given prominence in any of these coordination activities. The mandate of the DTI as the lead department in the trade agenda has been somewhat contested. While no structured forum exists on trade, the DTI has sometimes with the assistance of donors, organized occasional forums to discuss various interests.

Capacity and institutional constraints have been most keenly felt in services. Owing to the nature of services reform, it is extremely difficult to identify at the outset who has a clear mandate over what policy issues. Various reactions from social sectors for example such as education and health, or for that matter, health, has demonstrated the lack of interest and concern about trade issues impinging on sectoral concerns. For example, the previous minister of education constantly articulated a view that education is not a commodity and hence not up for negotiations.⁹

Another consistent problem has been the difficulty faced by the DTI in pressuring the department of telecommunications to consider a faster pace of reform. This has been an excruciatingly slow process, and at the same time beyond the capacity and authority of the DTI. On the other side of the coin, none of the departments responsible for regulating the provision of key infrastructural services (financial services, telecommunications, transport and energy) have no units committed on a full-time basis to tracking developments in trade negotiations or the formulation of negotiating strategies in conjunction with the DTI.

⁹ (Minister Kader Asmal addressing Trade and Industry Chamber in Parliament, 04/03/2003) (http://www.news24.com/News24/South_Africa/Politics/0,6119,2-7-12_1328368,00.html) (see <http://www.che.ac.za/documents/d000059/index.php>)

One of the major impediments to reform is capacity and the limited ability of the lead department to harness stakeholders around particular issues. Stuart and Cassim (2005) demonstrate how thinly resourced the DTI is with a limited number of skilled people to actively facilitate the multilateral agenda in both goods and services, but particularly in the case of latter. In addition, the DTI is involved at various stages of interface with a range of bilateral and regional entities. A key problem has been the absence of a strong, well- resourced, in- house research unit. While it may not be the core business of government to specialize in in-house research (this is best left to academics and think tanks), a research unit that is able to clearly articulate and absorb research needs has been lacking.

Hartzenberg (2003) shows that an area where the DTI has been particularly stretched is in relation to the multiplicity of trade negotiations it conducts. She identified strategic skills, technical economic skills and legal skills. The ability of the DTI to sustain capacity in making strategic decisions is hampered by a high staff turnover. As she argues, 'the depth of capacity and experience relevant to negotiating trade and investment agreements is currently vested in a relatively small number of DTI officials. The loss of these key officials would be very significant, especially in view of the current negotiating demands (Hartzenberg 2003, 10-11). One can, however, derive some comfort from the fact that some skilled people who leave government are basically available to advise government as consultants.

Notwithstanding the existence of some institutions the nature of consultation has been piecemeal, partly because of poor capacity in the lead department. This situation is probably attributable to inappropriate management and appointments, inability to compete for skilled personnel with the private sector, and the unwieldy nature of the department. Secondly, input into business interests is less consistent than is interest in stakeholder consensus.

VI. TRADE POLICY RESEARCH, INFLUENCE AND IMPACT¹⁰

A body of research on trade has grown out of decade or so of trade policy reform. This has entailed technical analyses of the impact of trade reform as well as assessments of the relevance of trade reform to the economy. The government has since the early 1990s, relied on a sister institution, the Industrial Development Corporation (IDC), to measure the impact of trade reform. The IDC used a computable general equilibrium model (CGE) to estimate the impact of trade on welfare in the economy.

Interestingly however, was the fact that this model was never in the public domain so was not accessible to scrutiny be it from critics or academic economists. While the South African government in the early 1990s participated in some economic modelling, these were not central to the policy debates nor were the initial models transparent. By and large, classic welfare costs of trade agreements were never central to the debate. Instead, the debate was couched more in the form of strategic benefits. In other words, more stakeholder driven research was not necessarily based on a straightforward modelling exercise on who the losers and winners of reform would be, but more on a bottom-up analysis of what this reform means for sectors and employment.¹¹ The role of *ex ante* modelling, and especially CGEs, in informing trade policy is ambiguous and throws up challenges for both economists and trade policy makers. Although these models may have some political value in justifying particular agreements, they are largely marginal to the trade policy debate, at least in South Africa.

Notwithstanding the initial experience with the IDC modelling, the ethos of accountability and consultation brought about by the new democracy in the early 1990s pervaded the research process too. A large part of policy research was conducted within some of the governance structures involving different stakeholders without necessarily drawing on the independence and scientific merit of the research work.

A range of institutions and individuals have been involved in trade policy work in South Africa. A systematic assessment of who may have been the most influential actors in trade policy is beyond the scope of this paper. It may be possible, however, to at least identify a few important initiatives that may have had an influence on trade policy.

The World Bank, for example, has played a truly knowledgeable role in some respects in South Africa. One could certainly get into a debate about the ideological perspectives running consistently through World Bank research, but the series of discussion papers critically engaged local policy makers and academics on trade policy issues. What is important about the South African experience is that the World Bank

¹⁰ See Appendix 1 for a list of some important institutions that participate in trade policy specifically various research institutions.

¹¹ See Fridge studies (<http://www.nedlac.org.za>)

simply did not begin research in trade policy in South Africa from scratch but relied very heavily on local home-grown research and tapped into the knowledge base of nationally-based researchers. Often, World Bank in-country expertise complemented indepth knowledge of the local economy. For example, one of the first few studies that emanated from the World Bank showed that South Africa had one of the most cumbersome tariff structures in the world after Nepal (Belli et al 1993). A series of other World Bank papers were equally useful to the trade policy debate (Lewis, 2001).

It is noteworthy that these World Bank papers did not alone set the agenda for trade policy research as a critical mass of research existed amongst South African experts too. UNCTAD also played some role and was quite useful in trade negotiations. For example, a key UNCTAD paper looked at trade creation and trade diversion. Easy as these concepts may be to trade specialists, the ability to quantify the costs of net trade gains is not without its complexities.

In the early days of democracy, the South African government also relied on advice from consultants to help develop a strategy on how we go about securing non-reciprocal trade agreements. This hinged on the assumption that we were primarily interested in better market access for our products and that reciprocity was seen as a second-best policy. Here, the government relied on left-of-centre consultants that were more sympathetic to more moderate levels of reform, or reform that was more mercantilist in outlook. The government relied, for example, on consultants from United Kingdom academia and think tanks such as ODI and IDS who primarily were associated with standard neo-classical trade paradigms.

One key development as far as research was concerned in the post-apartheid era was the establishment of a number of institutes and NGOs. The one that was quite central to trade policy formulation was the Trade and Industrial Policy Secretariat (TIPS) funded primarily by the Canadian-based International Development Research Centre (IDRC), GTZ and USAID. TIPS was established at a critical moment in South Africa's history, in that it came into existence soon after the birth of democratic South Africa to assist the new government develop trade policy. Many of the new bureaucrats, recruited from the progressive liberal universities in South Africa, recognized the need for a mechanism to facilitate communication and cooperation between policy makers and researchers. TIPS was set up to play this role by acting as a clearing-house for policy-relevant and academically-credible research, with the Department of Trade and Industry (DTI) as its main client.

The relevance of TIPS to the trade policy process stemmed from the fact that its research agenda has been closely linked to important medium-term challenges facing the South African economy. TIPS utilizes several modalities to carry out its work, including proactive and demand-driven research, forums and conferences, and training sessions. In some ways, TIPS can be considered an intermediary between the policy-making and research communities. The organization has three essential roles: investing in knowledge-creation and capacity-building for economists; facilitating links in research, training and policy deliberation between the academic community and the government, and among government

departments, with respect to public policy; filtering research flows and highlighting information pertinent to researchers and policy makers, as well as identifying good researchers and high quality output (Fine and Stryker, 2001,27).

Another striking feature was the way the research agenda was structured. The formulation of the research agenda is very much a function of two elements. Firstly, the organizational structure allows strong policy-making influence on what ought to be researched, primarily through an advisory committee and board consisting of key policy makers. Secondly, informal but highly effective regular contact with government officials has been critical to continuing a relevant research agenda. However, in order to ensure that that research was not hijacked by myopic partisan policy concerns, the advisory committee consisted of independent, carefully selected donor representatives and academics to maintain academic credibility. However, this kind of accountability was generally not needed as policy makers who have participated in the TIPS board often took a non-partisan long-term view.

Measuring TIPS impact since its establishment is a complex task. (This even becomes trickier as the author himself until three years ago was the director of this institute). Some areas of policy where TIPS played a role was to assess the state of trade policy in South Africa and look at changes in tariffs and the impact on the economy. Another important area was developing capacity in understanding the role of various services sectors in relation to trade. Work on the employment impact of trade reform was equally critical and important. In sum, the role of TIPS was to enable policy makers to make more informed decisions.

TIPS was an important player in trade and certainly created a robust environment for trade research. Its prominence in trade has declined to some extent owing to the flowering of many other research initiatives, as well as increasing focus on other more important areas. Many academics were responsible for high-quality research some of which may have been disseminated through TIPS and others independently. What is, however, important is that the existence of a countrywide national clearing house for government to tap into as it needed was critical to its deliberations.

More recently (in the last two to three years) relatively new generations of NGOs have come into existence such as the trade project under the South African Institute of International Affairs (SAIIA), as well as the Trade Law Centre for South Africa (TRALAC). (See Appendix 1 for a description of these institutes. TRALAC plays a similar role to TIPS but has a broader mandate extending beyond South Africa's borders to the region. It also has a stronger legal capacity. Its main aim is to assist policy-making. SAIIA and IGD take on slightly different forms with the former one step closer to the private sector, while the latter is more closer to more left-leaning NGOs.

While TIPS was characterized by a structure that allowed both academia and government to identify important research needs, another interesting 'novel policy process' that developed was the notion of

harnessing research directly around stakeholders and constituencies. The Japanese government in its contribution to the new democracy in South Africa made several million dollars available in the early 1990s to fund policy research on how to make the South African industry more competitive. The way in which the fund was managed was through a committee of stakeholder representatives under the auspices of the trade and industry chamber of NEDLAC – there were essentially two representatives representing every stakeholder from business, labour and civics. The real innovation of this programme was that it brought together agreements between these constituencies. What is even more interesting, is that after the initial boost from the Japanese, the South African government through the Ministry of Trade and Industry continued the programme under a new name called Fund for Research into Growth, Development and Equity (Hirsch, 2005, 133-134).

Examples of this, novel policy process can also be found elsewhere. For example, there has been an active trade and poverty research programme initiated through discussion between labour unions, donors and academics on the effects of trade on poverty. A project funded by both donors (DFID) and the South African government. A steering committee was set up including stakeholders from government, unions and business. The committee has been actively involved in the design and review of all terms of reference and papers. Academics help to “quality control” the research outputs.¹²

Other than supporting research directly, donors funded a variety of activities in the last decade that may have had an impact on the trade policy process. This included technical assistance and a variety of training processes from courses hosted for parliamentarians, to training officials in government, to the implementation of courses and so on. (This paper does not look at implementation as much as it looks at policy capacity or the ability to introduce changes through research). The role of donors particularly IDRC, GTZ, DFID and USAID has been in some respects more critical to building research capacity than even the government. For example, a critical mode has been to recruit foreign experts to work with local officials rather than commissioning them to do the work themselves.

A few important features are specific to the South African experience. There is, first, the governance structure around the research process. Second, the presence of a local critical mass at least in the broader researcher community meant donor-driven research was productive. In every respect, projects were carried out by ‘South African and foreign experts who complemented South African skills.

A useful way of classifying the research processes is to draw a distinction between three policy processes. As far as direct policy formulation is concerned, the government is able to draw on consultants, academics and think tanks. Other than direct policy formulation, a healthy policy environment exists where various forums serve to bring government and other stakeholders closer to the researchers. Indeed, various other initiatives like training of researchers and agenda-setting have only influenced academic institutions and think tanks to invest in particular kinds of research capacities.

¹² Interview with head of USAID Economics funded research Dr Matthew Stern, 17/03/2006.

The first best environment is one where there is efficient and accountable government with competent policymakers who clearly articulate their research needs. In this scenario, efforts to remain close to policy making are sensible. However, in an environment where there is no clear articulation for policy research and government suffers major inadequacies, the role of think tanks ought to be considerably different, such as creating ways by which policy makers can become more accountable. Under this scenario, think tanks, though still fulfilling an important role, have a less tangible impact.

VII. CONCLUSION

South Africa is a middle income economy with typical middle-income-country social challenges. Trade reform has been consistent over the last ten years, at least from the early 1990s to 2000, with some interesting lessons as to how the reform process evolved and the role of coordination and stakeholders in the formulation of trade policy. The role of multinational institutions and donor participation has been largely positive owing to the specificity that the country could do with assistance (financial and human) but on its own terms.

There is a debate about the government's commitment to the development dimensions of trade reform. It is perhaps unfair to put this burden on trade negotiators alone. One has to look at the broader economic policy framework. By and large, the government's commitment has been to deal with poverty in two ways. These are social grants to poor people who have not been able to find jobs, and more pro-poor programmes after having achieved macro stability in the early to late 1990s. Micro reforms are aimed at both improving efficiency and bringing down prices which have inherent pro-poor impacts.

While South Africa demonstrates interesting models of stakeholder formulation of policies – these institutions are fragile and require “champions”. The calibre of leadership in lead departments such as the DTI, as well as the capacity of policy makers to clearly articulate policy issues brings with it enormous positive spillovers in every facet of policy-making, and particularly in building consensus in civil society. The absence of this leadership, on the other hand, creates an ad hoc and haphazard reform process.

A more general lesson, which comes out from the South African experience, is the need to focus more closely on the nature and content of trade research that has an impact on the process and formulation of trade policy. The quality of dialogue is certainly enhanced by particular types of enlightening research. The role and packaging of economics research, needs to be revisited through regular dialogue between the producers and consumers of policy research.

References

Bell T (1997), Trade Policy in Michie J and Padyachee (eds), *The Political Economy of South Africa's Transition*, Dryden Press London.

Belli, Pedro Finger, Michael Ballivian, Amparo, Informal discussion papers on aspects of the economy of South Africa ; no.4 http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000009265_3961006075001

Bhorat, H R.Cassim, 2004. The challenge of growth, employment and poverty in the South African economy since democracy: an exploratory review of selected issues. *Development Southern Africa*. Vol. 21, No. 1, March 2004.

Cassim Rashad (2002). Reconciling the Mismatch between the Producers and Consumers of Economic Policy Research: The Case of the Trade and Industrial Policy Strategies (TIPS) in South Africa. *Unpublished mimeo*.

Cassim R, (2006) Reflections on South Africa's First Wave of Economic Reforms, in Padyachee (ed), *The Development Decade: Economic and Social Change in South Africa, 1994-2004*, HSRC Press, Cape Town.

Cassim, R, Onyango, D & Seventer, D, 2002. *The state of trade policy in South Africa*. Johannesburg: TIPS.

Cassim, R & Zarenda, H. (2004) *South Africa's Trade Policy Paradigm –Evolution or Involution in Sidiropoulos E* (ed), *South Africa's Foreign Policy -1994-2004*, SAIIA, Wits University.

Cassim and Stuart (2005), Opportunities and Risks of Liberalizing Trade in Services International Centre for Trade and Sustainable Development, Geneva, Switzerland, Issue Paper, No, 2, February.

Carim Xavier (2005), The Trade Dimensions of Industrial Policy, Trade and Industry Monitor, September, Volume 35, Trade and Industrial Policy Strategies.

Draper P, (2006) "Consultation Dilemmas: Transparency versus Effectiveness in South Africa's Trade Policy" details incomplete.

Fedderke J, 2001. *Towards an understanding of South Africa's growth absence*. Paper presented at the TIPS forum, Johannesburg, September.

Fine J., D. Stryker (2001). *An External Evaluation of TIPS*.

TIPS Website: <http://www.tips.org.za>.

Hartzenberg T. (2003), Trade and Investment Negotiations, Presidential Review, sapr.org. Pretoria.

Hirsch A, *Industrial Policy in South Africa: An overview*, Paper presented at TIPS Forum, September 1997, Johannesburg.

Hirsch A (2005), *Season of Hope: Economic Reform under Mandela and Mbeki*, University of Kwa-Zulu Natal Press, Scottsville.

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

Jachia L, and Teljeurs E (1998), *Free Trade With Europe – the Winners and Losers: Results of the Smart Simulation*, TIPS, Working Paper 1.

Carter M (2006), *Sequencing Micro and Macroeconomic Reforms: Reflections on the South African Experience*, Padyachee, opcit.

Krugman Paul, (1997) *What Should Trade Negotiators, Negotiate About?*, *Journal of Economic Literature*, Vol XXXV (March), pp 113-120.

Naidoo K (2006), *Operationalizing South Africa's Move From Macroeconomic Stability to Microeconomic reform*. In Padyachee opcit.

RSA (Republic of South Africa) (1996) *Growth, employment and redistribution: A macroeconomic strategy*. Pretoria.

Sen Julius (200) *Trade Policy Making in Developing Countries: an overview of issues*. <http://www.lse.ac.uk/collections/internationalTradePolicyUnit/Events/May2005>

Bilal, S. and G. Laporte. 2004. How Did David Prepare to Talk to Goliath? South Africa's experience of trade negotiations with the EU, ECDPM.

Cassim, R. (2003), *The Pace, Nature and Impact of Trade Policy in South Africa in the 1990s*, *South African Journal of Economic History*, September, Volume 18, Nos 1 and 2.

Edwards, L & van de Winkel, T, 2005: *The Market Disciplining Effects of Trade Liberalization and regional Import Penetration on Manufacturing in South Africa*, TIPS Working Paper, 1-2005, <http://www.tips.afrihost.com/research/papers/pdfs/753.pdf>.

Fedderke J, 2001. Towards an understanding of South Africa's growth absence. Paper presented at the TIPS forum, Johannesburg, September.

Fedderke, J & Vaze, P. 2000: *The nature of South Africa's trade patterns, by economic sector and the extent of trade liberalization during the course of the 1990s*, Econometric Research Southern Africa, Policy Paper, no 3, <http://www.wits.ac.za/economics/ersa/Policy%20Papers/tradlib1.pdf>.

Flatters, F. 2002: *SADC Rules of Origin: Undermining Regional Free Trade*, TIPS Forum 2002. <http://www.tips.org.za/research/papers/getpaper.asp?id=604>.

Harmse C & Rangasamy, L 2003: The Extent of Trade Liberalization in the 1990s: Revisited, *South African Journal of Economics*, vol 71, no 4.

Kaplan D, (2003), Manufacturing Policy and Performance in South Africa, TIPS Forum, 2003.

Lewis, J 2001: *Reform and Opportunity: the Changing Role and Patterns of Trade in South Africa and SADC, a synthesis of World Bank Research*, World Bank, Africa Region Working Paper Series no. 14, <http://www.tips.afrihost.com/research/papers/pdfs/381.pdf>.

van Seventer, Den. 2002: *The level and variation of tariff rates: an analysis of nominal and effective tariff rates in South Africa for the years 2000 and 2001*, TIPS Working Paper. <http://www.tips.org.za/research/papers/showpaper.asp?ID=554>.

Glossary of Institutions Directly involved Trade Policy Research or Dialogue

Trade Law Centre for South Africa (Tralac)

This is a non-profit organization that works with the public and private sector to enhance trade law. It was founded in February 2002 and is made up of trade lawyers and economists. TRALAC's aim is to enable the Southern African region to specialize in trade law to compete in the international trade environment.

TRALAC's work focuses around developing trade law by research, debate and interpretation of many international trade developments. It offers training courses and provides a range of forums to debate trade policy. Source: <http://www.tralac.org./scripts/content.php?id=2862>

Institute for Global Dialogue (IGD)

The Institute for Global Dialogue is an independent South African non-governmental organization broadly concerned with key issues in international affairs, and how these affect South Africa, southern Africa, and Africa as a whole.

The IGD's programme focuses on four areas i.e. South Africa, the southern African region, Africa, the global order. This programme is about gaining an understanding of Africa's development challenges, its growth and its international relations. It includes issues to do with governance in Africa, as well as a focus on NEPAD and the African Union, strengthening domestic institutions, poverty reduction, social issues such as HIV/AIDS and trade relations.

Many workshops, conferences and seminars are held to deal with these challenges. Source: http://www.IGD.org.za/index.php?option=com_frontpage&Itemid=1

Business Unity South Africa (BUSA)

BUSA is the first unified business organization in South Africa. It was created in October 2003 through the merger of the Black Business Council and Business South Africa. BUSA's role is to represent business on more macroeconomic issues that affect it nationally and internationally. This is to ensure that business is part of the country's economic growth, development and transformation. It aims to be a unified

and fully representative organization in South Africa in its national, subcontinental, continental and international spheres of business activity.

BUSA's objectives are to promote broad-based Black Economic Empowerment; also want to promote initiatives aimed at job creation and the alleviation of poverty; to act on behalf of its members on mandated issues, policy and legislation in member's interest and commissioning research on such issues; act to promote common positions and policies with government, labour organizations communities and other stakeholders; collaborate with members where appropriate with regard to international bodies or organizations; consult with their members on international affairs that impact on South African business interests; enable business to play a significant role in South Africa's development by promoting the country at all times; and develop an economic and social system based on the principles of justice, a market oriented economy, individual entrepreneurship and equal opportunities. Source: <http://www.busa.org.za/default.php>

National Economic Development and Labour Council (NEDLAC)

NEDLAC is an organization funded by the government's department of labour. It aims to "make economic decision-making more inclusive, to promote the goals of economic growth and social equity." Their work centres on economic and social policy in its four different chambers. There is much debate around areas of common ground with the government, business and organized labour.

The Trade and Industry Chamber focuses on social and economic issues of trade policy. This includes industrial, mining, agricultural, services policies and the associated institutions of delivery. Some of the substructures include The Fund for Research into Industrial Development and The Growth and Equity Subcommittee which is funded by the Department of Trade and Industry. This aims to enhance competitiveness by South African industry through research projects. Another is the Technical Sectoral Liaison Committee (TESELICO) which aims to refine trade-related social dialogue like trade agreement negotiations and participation with the World Trade Organization.

With respect to trade issues, the Trade and Industry Chamber are working with the Commission for International Trade Administration (CITA) and with the WTO in the Doha Agreement. They have dealt with many important agreements and meetings, a few being the SA- EU trade agreement (1996-1998 & ongoing), SADC Trade Agreement (1998), Competition Policy (1998), amendment procedure in the SADC Free Trade Agreement (2000) and participation in WTO Seattle Ministerial Meeting (1999).

Source: <http://www.nedlac.org.za>(All quotes are directly from website above)

Trade and Industrial Policy Secretariat (TIPS)

TIPS is an independent non-profit research institution that is committed to assist government and society in general make informed policy choices in the areas of trade, industrial and regulation policy. It was established in 1996 and coordinates researchers in the Southern African region focusing primarily on economic policy. Its aim is to be responsive to all client's research needs, to convey policy-relevant research and to extend public-good activities.

TIP's research work is primarily focused on Trade Analysis, SMMEs and Local Economic Development, Sector Analysis and Economic Regulation. There are experienced researchers and policy makers associated with TIPS known as the Research Associates, they mentor staff and conceptualize new research programmes thus helping maintain high standards. Data is developed with new research tools, new methodologies, on-line broadcasting, new sources and series and a specialized application of the best tools in the country.

TIPS focuses on research for policy development in trade. It develops trade policy by using term research and paying close attention to trends in trade. It was involved in trade and tariff analysis for the SADC Secretariat's Mid-term Review of the SADC Trade Protocol and coordinating an annual review of the South African SMME Sector for the DTI, to name a few. Source: <http://www.tips.org.za>

The South African Institute of International Affairs (SAIIA)

SAIIA is a non-governmental organization which educates and includes South Africans in international issues. It has supported the South African democracy since 1994 and encourages much debate and independent policy analysis. It has also produced a high standard of research reports, publications and organized conferences. SAIIA is funded by a trust fund set up when it began. They provide public education, specialist research, international networking and leadership development.

There is a development-through-trade project which aims at helping streamline the trade strategy development for Southern African governments. Many trade policy reports have also been published which consider South African trade links (new and existing) as well as the ways Southern Africa can gain the benefits of trade. Different strategies are considered, such as liberalization. Different opportunities are also created, an example being the extensive research done on a free trade agreement between South Africa and China. SAIIA is also widely involved in policy research with the WTO to aid development, an example being the Doha Round. Source: <http://www.saiia.org.za>

National Labour and Development Institute (NALEDI)

NALEDI is a trade union-linked research organization whose board is made up of unionists and researchers. One of NALEDI's central roles is to improve the capacity of the labour movement to engage with key policy issues. NALEDI has a research methods training programme for union researchers. Such initiatives are part of the longer-term strategy of transferring important skills to unions.

NALEDI's research agenda is determined largely by the requests received from organized labour, namely COSATU, its negotiating teams, and its affiliates. The organization essentially offers a pro-labour perspective, analyzing developments from the perspective of organized labour, and to explore what the implications of policies would be for labour. It engages in advisory work for trade unions in a range of policy processes, from research development to assistance in engaging employers on enterprise restructuring. We have been appointed as union advisors for the restructuring processes of leading state enterprises and provide support for the development of unionized industrial strategy in several sectors.

NALEDI researchers track developments in their field and are able to alert union leaders to issues that may affect the labour movement. It also organizes facilitative workshops aimed at bringing together unionists and experts in particular fields. **Source:** <http://www.naledi.org.za>

Other documents published by ATPC

- No.1 Les processus de création du marché commun africain: une vue d'ensemble
- No. 2 Cancún and Post-Cancún Briefing Papers on Africa and the Doha Development Agenda: *The Current State of Play in the Negotiations*
- No. 3 Trade Liberalization under the Doha Development Agenda: Options and Consequences for Africa
- No. 4 Trade Facilitation to Integrate Africa into the World Economy
- No. 5 Fiscal Implications of Trade Liberalization on African Countries
- No. 6 Trade Liberalization and Development: *Lessons for Africa*
- No. 7 Libéralisation commerciale et développement: *Quelles leçons pour l'Afrique?*
- No. 8 Exclure l'Afrique des marchés? *Evaluation de l'accès aux marchés pour les pays africains*
- No. 9 Economic and Statistical Analyses of Trade Capacity Building in Sub-Saharan Africa
- No. 10 Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements
- No. 11 Unrestricted Market Access for sub-Saharan Africa: Important Benefits with Little Cost to the QUAD
- No. 12 Trade Preferences and Africa: The State of Play and the Issues at Stake
- No. 13 Assessing the Consequences of the Economic Partnership Agreement on the Rwandan Economy
- No. 14 Doha Round entre promesses, désillusions et résignations
- No. 15 Évaluation de l'impact de l'Accord de partenariat économique entre les pays de la CEMAC et l'Union européenne
- No. 16 Peut-on mettre la globalisation au service du développement?
- No. 17 Comment sauver le textile maghrébin?
- No. 18 Le cycle de Doha peut-il bénéficier à l'industrie africaine?
- No. 19 Facilitation du commerce intra-africain: Démanteler les barrières pour le commerce intra-africain
- No. 20 Pourquoi l'Afrique s'est-elle marginalisée dans le commerce international?
- No. 21 Foreign Direct Investment in Africa: Performance, Challenges and Responsibilities
- No. 22 Effets des accords de partenariat économique entre l'UE et l'Afrique sur l'économie et le bien-être
- No. 23 Evaluation de l'impact de l'accord de partenariat économique entre les pays de la COMESA et l'Union européenne
- No. 24 Evaluation de l'Accord de Partenariat Economique entre l'Union européenne et le Mali
- No. 25 Non-Tariff Barriers – Their Prevalence and Relevance for African Countries
- No. 26 L'Accès aux marchés peut-il aider l'agriculture africaine?
- No. 27 L'Afrique et les préférences commerciales – Etat des lieux et enjeux
- No. 28 The EU-SADC Economic Partnership Agreement: A Regional Perspective

- No. 29 Evaluation de l'impact de l'accord de partenariat économique entre les pays de la CEDEAO et l'Union européenne (also available in English)
- No. 30 Progress Report on Regional Integration Efforts in Africa towards the Promotion of Intra-african Trade
- No. 31 Trade Regimes, Liberalization and Macroeconomic Instability in Africa
- No. 32 Emerging Issues and Concerns of African Countries in the WTO Negotiations on Agriculture and the Doha Round
- No. 34 Non-Agricultural Market Access (NAMA) Negotiations in WTO: *Modalities for a positive post Hong Kong African agenda*
- No. 35 Diversification: towards a new paradigm for Africa's development
- No. 36 La Diversification: vers un nouveau paradigme pour le développement en Afrique
- No. 37 Assessment of the impact of the Economic Partnership Agreement between the COMESA countries and the European Union.
- No. 38 Multilateral Agricultural Liberalization: What's in it for Africa?
- No. 39 Did Africa benefit in Hong Kong?
- No. 40 Market Access for Non-Agricultural products - The impact of Doha Round on African Economies; A simulation exercise
- No. 41 Non-Agricultural Market Access: Which modalities for a positive agenda for Africa
- No. 42 Can market access help African Agriculture
- No. 43 Assessing the consequences of the Economic Partnership Agreement on the Ethiopian economy
- No. 44 The cost of Non-Maghreb: Achieving the gains from economic integration
- No. 45 Can the Doha Round benefit Africa's Industrial sector?
- No. 46 Facilitating firm entry, growth and survival with special attention to SMEs
- No. 47 Global trade models and economic policy analysis relevance. Risks and repercussions for Africa
- No. 48 Financing development in Africa: trends, issues and challenges
- No. 49 TRIPS and public health: what should African countries do?

