SOUTH AFRICA'S POST-APARTHEID FOREIGN POLICY: TOWARDS A DIPLOMACY OF TRADE

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THIS THESIS IS DEDICATED TO MOTHER SARASWATI - GODDESS OF KNOWLEDGE

AND

TO MY LOVING PARENTS, AMRAT AND REVA DULLABH

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ABSTRACT

This thesis attempts to argue that a post-apartheid foreign policy will no longer be based on seeking legitimacy for the South African Government. Instead, it argues that if South Africa wants to grow, both domestically and internationally, it will be imperative for it (South Africa) to move from an import-substitution trade policy to an export-oriented trade policy. It is further suggested that the export-led strategy will be an important component for the promotion of South African international trade in the post-Cold War era.

South Africa cannot improve the status of its trade regime by its own doing. It will require the support and assistance of international organizations and hence, the international community. Following the principles, rules and procedures of the General Agreement on Tariffs and Trade (GATT); it is argued, will help South Africa reconstruct its trade policies on the basis that they are free, fair and above all competitive. Furthermore, maintaining a constantly favourable relationship with the international community will allow easy access to international markets for South African goods and services, and eventually the smooth integration of the South African economy in the international political economy.

This study, noting the importance of trade with a dedicated commitment to exports, concludes that although exports would flourish, there will be an immediate need for diplomats to be

conversant with contemporary international trade developments. This would require diplomats to be innovative, steadfast and disciplined in their day-to-day negotiations.

In the final instance, the role of trade in South Africa's future will ultimately be determined by its trade postures and the type of diplomacy to be used by its diplomats.

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CHAPTER ONE

SOUTH AFRICA'S INTERNATIONAL ISOLATION

South Africa has paid a heavy international price for apartheid. Not since the 1940's, when South Africans were identified with General Smuts, the troops he led against Hitler and the United Nations (UN) Charter he helped to write, has national pride been recognized abroad. Not since the 1950's, when apartheid became formal policy, has South Africa been recognized as an acceptable and legitimate government. And not since the 1960's, when Verwoerd took South Africa out of the Commonwealth, which formed the country's only organic link with the international community, have South Africans travelled or traded widely without apprehension or disguise. Neither the fame of Gary Player and Chris Barnard, nor the fortunes spent on advertising, public relations and bribery could restore South Africa's international standing (Tyson, 1991: 1). The world community has thus ostracized South Africa for its pursuit of a universally rejected domestic policy, thereby forcing the country into isolation.

ISOLATION IN PRACTICE

The work of Geldenhuys (1985: 40-45) provides the best operationalization of South Africa's international isolation. He argues that the international community aimed its isolation efforts at four broad areas, viz., the diplomatic, economic/technological, military and socio-cultural terrains. For each area of isolation he also distinguishes a number of indicators.

To measure diplomatic isolation two indicators are used, viz., diplomatic links and participation in international organizations. With regard to the former, South Africa enjoyed full diplomatic relations with only 29 states in 1988 (including the four nationally `independent' homelands), i.e., only 16 percent of the states represented in the UN (Geldenhuys, 1989: 282). On a geographic spread of diplomatic representation, there was a very strong West European orientation. Fourteen of South Africa's twenty-nine embassies were in that region. Five in Latin America, one in the Middle East (Israel), one in the Far East (Republic of China or Taiwan), one in Australasia, only one in Africa (Malawi), and one in each homeland (Geldenhuys, 1990: 200). In the latter indicator, South Africa is still a member of the UN, but has been unable to participate in General Assembly proceedings and Security Council meetings. South Africa has been denied access to any of the important sub-global political organizations such as the Organization of African Unity (OAU), the Commonwealth and the Non-Aligned Movement. However, its participation in international organizations of which it was considered a member was limited to political or technical inter-governmental expertise. In formal diplomatic terms then, South Africa was not represented in the Communist World, almost entirely so from Black Africa and Asia and also virtually unrepresented in the rest of the Third World. The low frequency of its (South Africa's) international treaties and its sub-diplomatic representation abroad, i.e., consulates general, consulates and trade missions provide further evidence of its diplomatic isolation.

In terms of international economic relations, five indicators are used to measure economic/technological isolation, viz., international trade, technological transfer, the supply of oil, and the supply of enriched uranium.
It must be noted that the Republic's external economic relations has been a prime target of the isolaters.

South Africa's international trade (both imports and exports), exist mainly with industrialized Western states, and most - clandestinely - with 49 of the 51 African states. The effect of sanctions on South African trade in the short term, was difficult to ascertain. For example, trade between South Africa and Japan increased by 25 percent to R7.2 billion between 1985 and 1986, while trade between South Africa and the United States fell to R7.72 billion in the same year (Africa Research Bulletin, 1987: 8846).
Table 1 indicates that two broad types of trade sanctions existed. One was the embargo on export, intended to deprive the South African economy of necessary imported goods. The unavailability of foreign goods would force consumers either to use domestic substitutes (if available) or to forgo the use of such goods altogether. A second type of trade sanction was the ban on imports from South Africa. Table 1 shows that sanctions which banned the import of Krugerrands, iron, steel, and agricultural products were imposed by several countries. Norway and Denmark have had total sanctions, and Sweden has imposed

sanctions even against goods passing through a third country (Khan, 1989: 31).
The isolation of technology transfer can also be perceived as similar to that of international trade, because the fact remained that the most of South Africa's technology was of foreign origin. Replacement, particularly by domestic production was at a higher price (Bloom, 1986: 20-21).

Foreign investment was an important target of isolation. A ban on new investments were imposed by the Commonwealth, the Nordic countries, the OAU, etc, (See Figure 1). But the most publicised activity was the disinvestment campaign headed by the American Congress. The September 1986 United States Comprehensive Anti-Apartheid Act (CAAA) was only one of a few strong measures adopted against South Africa. This Act was unusual not only in setting out Congresse's policy toward South Africa, but also specifying the conditions that should be met both by the Government and the African National Congress (ANC). The Act set out specific and other measures including, prohibitions on:

- new investment in South Africa;
- loans to the South African Government;
- exports of computers and oil;
- direct air links, and
- the import from South Africa of uranium, coal, iron, steel, agricultural products, textiles and products from ` parastatal organizations ' - except for "strategic minerals" required by the West.

As a result 96 American companies had severed direct investment links with South Africa since January 1st, 1986 (Citizen, 23 October 1987). These include IBM, Kentucky Fried Chicken, ITT, Kodak and Ford (Financial Mail, 16 May 1987).

With respect to the oil boycott, the dominant view was that it had been unsuccessful (Van Wyk, 1988: 74). The Government had placed a high priority on the elimination of import dependency by means of domestic coal to oil conversion (Sasol), extracting oil from oil shade, producing ethanol from sugar cane and utilising nuclear energy. The processes involved huge sums of money and had hence raised the price of oil and other oil - related goods.

The supply of enriched uranium also reflected a worsening situation. The production problems of South Africa's nuclear power station at Koeberg have emphasized that the supply was far from stabilized. At one stage during 1985, Koeberg ceased to operate. Escom was then forced to import enough enriched uranium to feed Koeberg. This was not an easy task, due to the American ban, but Framatone of France supplied the necessary fuel on a once-off basis. However, since the CAAA France has also banned the sale of new nuclear equipment.

In relation to military isolation, South African officials claim that they have beaten the arms embargo imposed by the UN Security Council in 1977. A South African Defence Force (SADF) General and Deputy Minister respectively argued South Africa had attained self-sufficiency and had become a major exporter in the arms industry. These perceptions, however, accurately reflect South Africa's military capacity (Crocker, 1981: 51).

This enhanced status in the arms industry can be attributed to South Africa's relationship with Israel (another pariah government). This relationship materialized in the form of modern military technology transfer that resulted in military equipment such as the Cheetah jet fighter and the Scorpian ship missile that were identical to Israel's Kfir jets and the Gabriel missiles. The arms trade between those two countries amounted to about R1 billion p.a. (African Research Bulletin, 1987: 8449).

Despite this success, there still existed two indicators of isolation. The first was the negotiation of military agreements with foreign powers. South Africa has not been a member of a military alliance since the Second World War. The Simonstown agreement (1955-1975) only provided for naval cooperation, and the use of its basis by British forces. The second indicator, the Republic's difficulties with the procurement of arms, are well known. For example, high profile visits and cordial relations with other pariah states such as Paraguay and Chile had brought direct military, technological and procurement benefits to South Africa (Leyson, 1991: 39). Another indicator of isolation was when a number of western countries were not willing to accept military attaches (Van Wyk, 1988: 77).

In the socio-cultural realm, South Africa's ostracism was reflected in the existence of only two official cultural agreements with other states, (one of them being with Paraguay); and problems of access to other countries with a South African passport. Conversely, the Republic's ostracism prevented the full realization of tourist potential; bans on landing and overflying rights and reciprocally to docking facilities for its ships; and lastly the well known sports and academic-interchange boycotts (Venter, 1989: 277). The UN Special Committee on Apartheid (and its blacklist) had been the most effective deterrent for entertainers, artists and academics to refrain from participating in South Africa.

Despite the severity of other sanctions, it was quite clear that economic trade sanctions were not imposed in their most harsh form. Conservative Government leaders, including, Reagan, Thatcher and Kohl were expressly opposed to sanctions. By the same token, the prolonged negotiations required for any sanction decision has enabled the South African government to partially counter the desired effects by preparing for this eventuality either through import-substitution strategies (to be discussed in chapters 2) and " under-the-table " deals. It had adapted to the new situation, at least in the short run, but at the expense and detriment to the country (Braun & Weiland, 1989: 53).

Facing a combination of international isolation and intervention South Africa was left with precious little room for manoeuvre in its foreign relations. There were very few states prepared to formally associate with South Africa in a diplomatic or economic coalition, not to mention a military alliance. South Africa's closest partners were fellow pariahs and neighbouring southern

African states that entered into formal economic associations typically presented such links as the unfortunate results of necessity rather than free choice (Geldenhuys, 1991: 9).

South African Foreign Policy (SAFP) was therefore designed to counter the rising tide of isolation. Barrat (1990) has succinctly summed up the overall goal of SAFP as ` one of trying to ensure the security, status, and legitimacy of the state within the international system against the background domestically of preserving a white-controlled state ' (Barrat & Barber, 1990: 4).
To ensure the status quo, foreign policy displayed both reactive and opportunistic features. Pretoria responded to external challenges as they arose, the fire-fighter approach, with little evidence of a comprehensive, considered foreign policy with defined ends and clear means. South Africa employed diplomatic, economic, military and propaganda means to meet perceived threats, often using them in a haphazard and hamfisted way (Geldenhuys, 1992: 10).

This, however, gives greater impetus on the actual formulation of foreign policy. Geldenhuys's categorisation that the policy is ` oligarghic-bureaucratic ' is the most apposite. He states that decisions were concentrated in the hands of a few senior officials and ministers, with the rest of the country, especially the blacks having no say in its formulation. This foreign policy displayed some of the characteristics of what was known in Latin America as a ` praetorian-ideological ' style of diplomacy. Associated with the authoritarian regimes of Paraguay and Chile, it has been described as a direct, no-option-open style that allows no room for negotiation and compromise, its tone is often accusatory, and it is associated with the military establishment rather than the foreign office (Geldenhuys, 1991: 10).

THE BEGINNING OF A NEW ERA

Since February 2, 1990 when Mr De Klerk announced the unbanning of political organizations and the release of Nelson Mandela, one saw a gradual change, and hence normalization of foreign policy. In fact, most Pretoria watchers point to South Africa's role in the negotiation process leading to Namibian independence during 1989-1990 period, as marking a watershed in this quest (Barrat, 1991: 12). The very public success of this combined with Mr De Klerks' internal initiatives, the collapse of communism and the moving towards a multipolar era, has led many to believe that ' normal ' state-to-state relations were just around the corner. That South Africa's period of solitary confinement is about to end and that a forgiving international community was eagerly awaiting its first steps into the sunlight (Evans, 1991: 714).

The record shows that the extent of South Africa's international relations has increased, for example, with the opening of diplomatic ties and economic missions with Eastern Europe, the Commonwealth of Independent States (CIS), Asia, particularly South East Asia, Middle East and Africa (Evans, 1991; Vale,

1991; Young, 1991; and Vale, 1992).
This indication, according to some authors, falls short of what one might reasonably expect from the promise of "new thinking", and the constructive qualitative changes this implies. Critics believe that the Former Director-General of Foreign Affairs, Mr Neil van Heerden speaks of `new diplomacy' and not new `foreign policy'. They argue, Mr van Heerden's `new diplomacy' suggests that the changes he envisages refer only to the enabling vehicle. They do not encompass a change in the composition of the passengers, the purpose of the journey or significantly the eventual destination (Evans, 1991: 712).

A new system of thinking and a new work ethic within a transformed foreign affairs regime is needed to break away from the traditional mould. Assumptions and presuppositions are needed, so that they are exposed and debated if we are to understand the subject of change in foreign policy as it affects South Africa's transitional phase and its long-term future. The inclusion of a sub-council on foreign affairs within the Transitional Executive Council (TEC) demonstrates the importance of foreign affairs during and after this transition period. This sub-council would co-ordinate and formulate `new' foreign policy, re-structure the foreign affairs establishment, attend to the training of new diplomats, and prioritise its efforts on representativeness.
It is telling, that South Africa has to work through two transitions. Firstly, an internal transition that must materialize in a stable, democratic and non-racial South Africa;

and secondly, it has to deal with the emerging multipolar world that is moving away from a military/security conscious mentality to a wealth (economic and business activity), welfare (human rights), and environment (ozone layer) conscious orientation.

While it is true that the debate on SAFP has just begun, there exist very little information to work from. However, there exist six assumptions pertaining to foreign policy, expounded by John Barrat (1990) and Harvey Tyson (1990), and the White Paper on Foreign Policy (discussion document) that is being discussed by the National Executive Committee (NEC) of the ANC.
With regard to the former, the six assumptions are as follows: The first assumption that South Africa will have a multi-racial, black-dominated government within the decade. This leads to the second assumption that not only policy but the whole environment for making policy will change. The third assumption is that while foreign policy must change, it will also change in other subtle and perhaps unpredictable ways, i.e., it will be determined by cultural, family and historical allegiances. The fourth assumption is that Africa will finally become this nation's home; southern Africa its home base; and the sub-continent its major sphere of influence. The fifth assumption is that it will be unwise for South Africa to put all its eggs in a southern African basket. It is therefore essential for South Africa to look for markets in Europe, the America's, Asia, the Middle East and northern Africa. The sixth assumption is that foreign policy must maximize domestic growth and development, because after all foreign policy is the extension of domestic

policy (Tyson, 1990: 1-2).

These assumptions obviously point out that a " new culture " in foreign policy will prevail. This leads directly to the ANC's discussion document on foreign policy. The thrust of ANC foreign policy would stand on six basic principles:

a. the pursuit of human rights;
b. promotion of democracy on a worldwide scale;
c. adherence to justice and international law;
e. the peaceful solution of conflict;
f. the reflection of African interests; and
g. the growth of regional and international economic co-operation (Daily Dispatch, 15 September 1993).

The document adds an important principle of foreign policy:

" We accept unequivocally that South Africa has an African destiny .... it would take its place in the underdeveloped south where it could use its first world ties to act as an interlocutor on development with the industrialised north ".

Furthermore, the discussion document insists that the new South Africa would " renounce all hegemonic ambitions " and reject pressure to become a local superpower, despite its strong business and industrial base. The ANC sees Africa as a victim of an unjust global economic system, crippled by debt and marginalised in world affairs. It says that the world trading system requires reform and expresses concern with the agricultural policies of some Western nations as well as with high levels of protectionism.

The discussion document believes the **essence** of foreign policy to be the following:

> The essence of South Africa's foreign policy is to promote and protect the interests and values of its citizens. We prize our commitment to peace and to the promotion of human dignity in the far corners of the globe, but recognise that the security of our people and their yearning for a non-racial, non-sexist democracy also lies close to our foreign policy. South Africa is both a trading and a maritime nation. Our international relations should actively seek to accentuate the significance of these by promoting the economic interests of all our people. (Foreign Policy Discussion Document, Draft 6: 2).

A striking feature of both the assumptions and the discussion document is their particular emphasis on economic growth and development. It is telling, that an area of particular interest that will enhance South Africa's growth domestically, regionally and internationally is **international trade**. The green-light given for the lifting of international economic sanctions by Mr Mandela on the 24th September 1993 in the UN, provides a clear indication that economic sanctions will soon be something of the past. Calls for re-investment and economic cooperation by both the ANC and Government officials provide greater impetus and importance for the expansion of the international trade regime. If one looks at trade in a very general sense, it is the oldest and most important economic nexus among nations. Indeed trade has been central to the evolution of international relations. The modern interdependent world market economy makes international trade more important, and developments in the 1990's have had a profound effect on the nature of the international political economy. This scenario has, however, made it imperative for South Africa to develop an international trade regime that will lay down the principles, norms, rules and decision-making procedures for formal and legitimate trade.

This study will contribute to the importance of international trade in foreign policy, with a view to understanding and improving South Africa's trade regime. In the first instance, the theoretical chapter will outline the various perspectives of international political economy and their respective theories of international trade. This will be followed by an analysis of South Africa's trade regime. Particular attention will be placed on its initial development, its current status quo, and will be concluded with practical solutions to improving the trade regime. The next question will be: How should South Africa exercise its trade options? Clearly, it cannot be a member of every single international organization or agreement. It simply does not have the capital or skilled human resources to do so, and it would in some cases not be politically prudent to do so. It will be most advantageous to join organizations that would maximise South African interests and values. Participating as an active member in the General Agreement on Tariffs and Trade (GATT) is one way of improving South Africa's trade regime and fostering international relations. Therefore, the next chapter will analyse South Africa's relationship with the GATT. The thesis is thus concluded with some explanation on the use of diplomacy to strengthen trade relations, and a brief description will be given on the type of foreign policy orientation that would be most suited for enhancing South African trade regime in a post-apartheid/multipolar era.

CHAPTER TWO

APPROACHES TO POLITICAL ECONOMY

The parallel existence and mutual interaction of the `state' and `market' in the modern world create `political economy'; without both state and market there could be no political economy.

The Webster's Third New International Dictionary of the English Language defines political economy as :

1. an 18th century branch of the art of government concerned with directing governmental policies toward the promotion of the wealth of the government and the community as a whole.
2. (a) a 19th century social science comprising the modern science of economics but concerned principally with governmental as contrasted with commercial or personal economics.

   (b) a modern social science dealing with the inter-relationship of political and economic processes (Gove, 1961: 1755).

The Collins Cobuild English Language Dictionary defines political economy as follows:
Political Economy is the study of the way in which a government influences or organizes a nation's wealth (Sinclair, 1987: 1110).

However, Gilpin (1987: 11), in my view, gives a more apposite definition. He defines political economy as " the reciprocal and dynamic interaction... of the pursuit of wealth and the pursuit of power ".

This definition recognises that although the state as the embodiment of politics and the market as the embodiment of economics are distinctive features of the modern world they cannot be separated. The state profoundly influences the outcome of market activities by determining the nature and distribution of property rights as well as the rules governing economic behaviour. The market itself is a source of power that influences political outcomes. In fact, economic dependence establishes a power relationship that is a fundamental feature of the contemporary world.

International political economy (IPE) then is the study of those international and global phenomena that have an inherently economic, political and social dimension. IPE scholars are often concerned with the intersection of economics and politics: more fundamentally, they look for developments in a world in which economics and politics - wealth and power - are intertwined at the most basic level. IPE also emphasizes the symbiosis of wealth and power on the global stage, and does not attempt to separate them.

An important functioning element within international political economy is international trade. International trade can generally be defined as the fruitful exchange of goods and services among independent countries or nations. International trade has expanded because societies have sought goods not readily available at home. As a result this expansion has produced many consequences, viz., (1) technological diffusion, (2) a demand effect on the economy that stimulates economic growth,(3) benefits for individual producers as trade increases, (4) and increase range of consumer choice, (5) a reduction in the costs of inputs such as raw materials, and (6) a cultural effect (Gilpin, 1987: 172).

International trade forms an important component in the balance of payments. The balance of payments accounts are a statement of a country's total international transactions. It is made up of the current account and capital account. The emphasis in this thesis will be on the current account. The current account is made up of the flows of imports, exports and services. Exports and service receipts give rise to the inflows of foreign exchange and are therefore entered as positive items. Conversely, imports and service payments result in outflows of foreign exchange and are entered as negative items. The balance on the current account is the sum of all receipts less the sum of all payments for goods and services. Thus, if exports exceed imports we have a surplus on the current account (an accumulation of foreign exchange reserves) as opposed to a deficit if imports exceed exports.

International trade is vital for a very basic reason. First, it expands a nation's consumption possibilities; and secondly, it allows a nation to consume more of all goods than is possible within its domestic production-possibility frontier under no - trade self-sufficiency. Hence, five important motivations for international trade may be illustrated: (1) new markets, (2) new ideas, (3) skilled labour, (4) natural resources, and (5) exotic products (Magee, 1980: xiii). An added importance to international trade has been outlined by C.P.Kindleberger (1962), who has argued that a country's international trade can fulfil one or more of three possible roles: as a leading sector, as a lagging sector or as a balancing sector in economic growth. In the leading sector, the stimulus of foreign demand acts as the autonomous variable in conjunction with technological change in the domestic economy. In the lagging model, the impetus stems from investment for the expansion of the domestic market rather than exports, which tends to increase imports faster than exports and thus necessitates import restrictions. Finally, the third model occurs when a country is able to balance the expansion of imports needed for economic growth with a concurrent expansion of exports (Kindleberger, 1962: 195). With reference to these models, trade regimes have been respectively classified as export promoting, import substituting or neutral depending on the incentives which have been given to the production for the domestic or international market. These models will be discussed in more detail below.

In this chapter, an attempt will be made to study the various perspectives of international political economy, and then their respective theories of international trade. I have not attempted to carry out a broad and comprehensive theoretical analysis. Rather emphasis is placed on a limited number of perspectives and theories for discussion and debate. I have drawn on the ideas of several analysts, most especially Robert Gilpin (1987). Gilpin's threefold classification of international political economy remains the most effective and persuasive as a means of categorizing the range of approaches. Many of his established studies can be reduced to three such approaches; viz, (1) Liberal or Neo-classical, (2) Marxist or Dependency, and (3) Mercantile or Neo-Mercantilist.

Liberal or Neo-Classical Approach

The liberal theory is derived from economic liberalism; and is called the theory of the "dual" economy. It regards the evolution of the market as a response to the universal desire for increased efficiency and the maximization of wealth. The theory argues that the process of economic development involves the incorporation and transformation of the traditional sector into a modern sector through the modernization of economic, social and political structures. They include the innovation of new products', productive techniques, the expansion of markets, accumulation of capital and the innovation of new technologies and organizational forms that would set the world on a course of continuous economic growth and global interdependence (Gilpin, 1987: 67).

The main tenet of liberal thought is that the less governments intervene to obstruct the flow of trade, the better. Free trade, it is held, will allow the most effective allocation of resources to the production of goods and services. It will then, throughout a world market, encourage each society to specialize in those goods and services that they can produce most efficiently (Stiles & Akaha, 1991: 135). In a nutshell, liberals maintain that it is in the interest of all nations to specialize in the production of goods and services in which the country holds a comparative advantage and then mutually exchange these goods through trade. This principle of comparative advantage is revealed in the costs of production and these relative costs are linked to differences in labour and productivity (Shaw, 1993: 46).

This classical theory of international trade conceived not as a zero-sum game, but as a theory based on a harmony of interest founded on specialization and comparative advantage is founded by David Ricardo (1772-1823). Ricardo believed that if one country was more efficient than another in the production of two products, it still paid for each country to specialize in the production of that product in which it enjoyed the greater relative advantage and then engage in international trade (Oser & Blanchfield, 1975: 99-102). The harmony of interest doctrine provided a new basis for liberal trade theory and also a cornerstone for the whole edifice of liberal economics.

A major criticism of Ricardo's theory is the omission of the cost of transportation and the assumption that the factors of production were mobile domestically and immobile internationally. Comparative advantage was seen as being static, and could not be transferred from one country to another. Neo-classical writers have therefore modified the classical theory which has become known as the Heckscher-Ohlin-Samuelson (H-O-S) theory.

Neo-classical economists have explained differences in comparative costs in terms of factor endowments. Different goods require different proportions of the various factors of production, viz; land, labour and capital in their production. The basic proposition is that trade will be most likely between unlike economies, and gains from trade will be greatest where conditions are most dissimilar in terms of factor endowments and the costs of production.

The basic H-O-S model/theory deals with two countries, three factors (land, labour and capital) and two goods that are traded. Within this framework the country which is relatively well endowed with one factor will export the good that uses this factor intensively. The theory has been extended to show that in a multi-country world a country which in terms of factor endowments is in the middle will export more labour-intensive goods to countries with higher capital endowments and more capital intensive goods to countries with lower capital endowments (Krueger, 1977: 40).

The H-O-S theory is based on a number of assumptions: (a) immobility of production factors internationally, (b) perfect competition, (c) constant returns to scale, (d) no product differentiation, (e) no consumer preference differentiation, (f) no transport costs, and (g) no country specific resources (Grimwade, 1989: 11). It becomes immediately apparent that many of these assumptions fail to hold in the real world. However, this does not constitute sufficient grounds for rejecting the theory. In fact, one of the attractions of the theory is that it provides a set of fairly simple and readily testable predictions by explaining actual trade patterns. Furthermore, politically this theory is favoured because of its justification of liberal policies.

The main problem with the H-O-S theory is its (comparatively) static character. Factor proportions are essentially viewed as given, whereas in reality they are the result of human activity in different societies over a long period of history (Shaw, 1993: 47).

An alternative to the H-O-S theory has been formulated by Staffan Linder (1961). Linder argues that while factor proportions plays a dominant role in determining patterns of trade in primary commodities, the structure of demand is more important for trade in manufactured goods. The main thesis is that the more similar the demand structures of two countries, the more intensive, potentially is the trade between the two countries. The income level is seen as the most important determining factor behind the demand structure. In short, goods are first produced for the home market and then subsequently, when the domestic market becomes satiated, goods are exported to other countries with similar consumption patterns.

Linder also believes that countries with a similar per capita income will exchange different varieties of the same product. Geographical proximity and cultural similarity are also other factors which increase trade between countries.
Linder's theory appears to come close in predicting real world trade flows of manufactured goods, i.e.; trade in manufactures has grown fastest among advanced industrialized countries (Grimwade, 1989: 16).

A weakness of both the H-O-S theory and Linders demand trade theory is that they are essentially static theories of trade. Neither theory incorporates the influence of technological change in patterns of trade and specialization. A theory that does explore the relationship between technological development and trade is the Product-Cycle-Theory (PCT) by Raymond Vernon (1979).

The main thesis is that knowledge about new products and production processes over a period of time will spread through diffusion from the centre of innovation. When a new product is introduced, for a period it will be produced only in the innovating country. But when the product becomes more standardized and exported to other countries, its production is likely to be either replicated or imitated. As the product matures the relative costs of production will determine the comparative advantage and this may shift to other countries, for example where there are lower levels of wages. PCT in practice is applied to explain North-South trade in manufactured goods.

Vernon's theory apparently can explain the emerging division of labour between on the one hand the New Industrializing Countries (NICs) and on the other hand the remaining developing countries. He believes that when products have become sufficiently standardized, the NICs develop a capacity to produce and export them at highly competitive prices. Some authors, for example, Carlsson (1988) have used this theory as a theoretical foundation to understand South-South trade. According to Carlsson (1988:193) the NICs enter into a division of labour with the rest of South, exchanging product cycle goods for primary products.

Vernon's theory has the attraction that it not only incorporates innovation in a model of trade, but includes also the role of direct investment abroad and the role of multi-national companies. It represents an attempt to bring together international trade and international investment to create a single theory of international production. In the words of Grimwade, (1989: 24) PCT constitute a dynamic theory of trade and shows how comparative advantage changes over time.

It becomes clear from the above liberal theories that regardless of their theoretical differences, liberal economists maintain their basic commitment to the mutual benefits of free trade and private enterprise to specialization based upon comparative advantage and to the virtues of a global territorial division of labour. These principles are enshrined in such global arrangements as the General Agreement on Tariffs and Trade (GATT).

Following the destruction caused by World War 2, there were numerous efforts to reconstruct the world economy. One such ambitious effort was led by the United States to establish a comprehensive system of multilateral institutions and rules governing international commercial activity. The GATT emerged from this process. The Bretton Woods Conference which established the International Monetary Fund (IMF) and the World Bank in 1944 failed to create an organization of equivalent status for trade. There was a blueprint which was never implemented. Instead world trade was to be organised and monitored by ` agreement '. Originally, an International Trade Organization (ITO) that paralled the (IMF) and the World Bank was planned, but the United States pre-empted the initiative by simultaneously negotiating the GATT with 22 other countries. The treaty consisted of a general framework of rights and obligations for its members which are discussed below.Despite its somewhat inferior status in comparison to the IMF and the World Bank and its controversial structural adjustment programs, the GATT has exercised considerable influence on the world economy in the last 45 years (Coote, 1992: 105).

Those countries which signed up for GATT are known as ` contracting parties '. These contracting parties are a large group of countries who believe that their economic interests are best served through a multilateral trading system based on open markets. The dismantling of trade barriers, in a trading system that is underpinned by rules of conduct, openness, and a mechanism for arbitration was seen as the main purpose for the GATT. The GATT was furthermore seen as the main forum for debating and negotiating the rules and the standards of international trade. As such, the contracting parties agreed to respect four key principles governing world trade. The first is that any protectionist measure should take the form of tariffs rather than import quotas or other non-tariff barriers. The second is that if one contracting party lowers its tariffs against another's exports, there should be matching reductions by the other member. This is known as the principle of reciprocity. For example, if South Africa agrees to import manufactured goods from Britain duty-free, then Britain must do the same for South Africa. Thirdly, no contracting party should grant preferential treatment to another country. This is the principle of non-discrimination. It means that contracting parties have to extend to each other the most favourable terms negotiated with any trading partner. This is known as the Most Favoured Nation (MFN) treatment, and exceptions are permitted only where there are regional trade agreements. Finally, members agree to commit themselves to periodic multilateral negotiations on tariff reductions.

Hence, the Agreement is based on different Rounds of multilateral negotiations. So for, seven Rounds have been completed, as summarized in Table 2. Of these seven Rounds, the biggest tariff cuts were made in the first and sixth rounds. The first Round involved cuts of roughly one-third on imports accounting for roughly one-half of world trade. The sixth Round involved tariff cuts of over one-third on imports accounting for roughly three-quarters of world trade. The seventh Tokyo Round also involved substantial tariff cuts but covered a smaller proportion of trade, and the tariff cuts were staged over a period of ten years. The Tokyo Round was important in representing the first attempt by GATT members to tackle the problem of non-tariff barriers (This issue of non-tariff barriers are dealt with in greater detail later in the chapter).The eighth Round, the Uruguay Round, was launched in 1986. During the thirty years up to the mid-1970s, the GATT made significant progress towards reducing tariffs. GATT has succeeded in reducing external tariffs on goods from an average of 45 per cent in 1945 to 4.5 per cent in 1986. In the process, world trade has expanded 500 per cent - twice as fast as global output. Also in that period, international membership to GATT trebled to 110 members, while a few dozen others de facto apply its rules (Finance Week, November 1993: 22). However, the Tokyo Round took place against a backdrop of a fast-deteriorating world trade environment. This created chronic balance of payments problems in the US, the world's largest trading nation and the driving force behind GATT liberalization, which eventually gave rise to protectionist pressures (Coote, 1992: 106).

A major criticism to the GATT has been lodged by the developing countries. They accuse the GATT of being a club that regulates world trade to suit the interests of the United States and the European Community. These countries felt marginalised in trade negotiations, which concentrated only on industrial goods - an area of least concern to the developing world. They also argued that ` equal treatment of unequals is unfair ', thus rejecting two of the GATT's fundamental principles: non-discrimination and reciprocal trade liberalisation. GATT is also criticised for its lack of democracy and its lack of transparency, in that negotiations take place behind closed doors. Their dissatisfaction with GATT led to the creation of the United Nations Conference on Trade and Development (UNCTAD) in 1964 which is discussed later in the chapter. Another weakness of GATT, given the fact that there is no real international consensus as to what constitutes acceptable behaviour in the pursuit of national interests, the GATT cannot be said to represent a mechanism for enforcing a comprehensive set of shared economic and industrial policy values (Howell, 1992: 15).

Mutual consensus on the values and the rules in the pursuit of national commercial advantage need to be given priority, with emphasis on the elaboration and strengthening of the GATT dispute resolution mechanisms.

The Marxist or Dependency Approach

Basic to the Marxist perspective is the contention that history has been characterized by patterns of economic exploitation and the attendant class struggle of which capitalism is but the most advanced and dynamic form (Jones, 1983: 1978).
Such a view is further expounded by the theory of the Modern World System (MWS) defined by one proponent as " a unit with a single division of labour and multiple cultural systems " (Wallerstein, 1974: 390). Accordingly, Wallerstein believes that the pluralistic balance of power system of western Europe and North America characterized as ` world empires ' was the necessary prerequisite for the emergence of the MWS.

Wallerstein believes that capital accumulation and productive investments in these command economies are thwarted by the absorption of the economic surplus by parasitic bureaucracies. As the market was never able to escape political control, commerce and capitalism could not reach their full potential for producing wealth and transforming society. Wallerstein also considered the interaction of international trade and investment to be the fundamental mechanisms for the perpetuation of its structural features.

This structure is the single capitalist world division of labour. The major components are three hierarchical tiers of states, viz., the core, the semi-periphery and the periphery. The core states tend to specialize in manufacturing , the periphery is relegated to the production of raw materials, and the semi-periphery is somewhere in-between.
An important feature of this structure is that apart from being functioning as an integrated whole, it extracts economic surplus and transfers wealth from the dependent periphery to imperial centers. This issue of ` wholeness ' is emphasized because the same mechanisms that produce capital accumulation and development in the core produce economic and political underdevelopment in the periphery. In short, it is a system that tends to reproduce itself as the rich get richer and the poor get poorer (Gilpin, 1987: 71-72). This conception of the world economy has influenced many less developed countries (LDCs) and their objections and complaints are raised in their continued demand for a New International Economic Order (NIEO).

Numerous strategies have emerged to bring about this NIEO. They range from Marxist to social-liberal writers such as on the one hand as Amin (1990) and Stewart (1984) on the other, who may be grouped under the heading `dependency' theorists. Samir Amin (1990) believes that under colonialism and later neo-colonialism genuine autocentred development has been dominated from the

North; in the economy by foreign capital and in the political sphere by state intervention. Accordingly, Amin states that capitalism has polarized wealth and power at the global level.

This analysis forms the background to Amins' oft-quoted suggestion that countries of the South should consider delinking from the capitalist world market as a crucial element of a different development strategy that would entail considerable trade and cooperation among the LDCs.

In a summary presentation of his view he writes:

> " Social contrasts intolerable at the periphery of the system, provide the objective conditions for a revolution directed against this currently existing capitalism; one that inaugurates a long post-capitalist period... This long transition calls for linking, not in the sense of an autarchic withdrawal, but from subjection of the external relations of the national and popular society to the imperatives of the complex stages of its internal development " (Amin, 1990: iv).

This concept is sometimes linked to a process of revolutionary change in the Third world; and sometimes it is applied in a context which resembles the contemporary world much more (Shaw, 1993: 55).

Amin enhances his principle of delinking by making a number of concrete suggestions in order to foster South-South cooperation. These include:

1. direct trade between LDCs;

2. tariff reductions between LDCs;
3. direct payments, avoiding the International Monetary Fund (IMF) and establishing a Third world payments system;
4. compensation to Third world nations hit by price increases;
5. free technology transfers between MNCs;
6. preferential status for transnational companies from the LDCs, and
7. a mutual fund for development created through taxation of exports and imports.

In his most recent book, Amin (1990) argues that South-South trade in both agricultural and industrial products may contribute ` to a better world integration ', but only as part of a ` provisional compromise solution ' between the current forms of integration in the world system and a genuine delinking strategy (Amin, 1990: 164-165).

Among other authors in this dependency camp, Stewart (1976: 1984) is also in favour of South-South trade. She argues that: The trade among developing countries has been biased downward by the colonial period. North-South trade generally involves goods that are expensive and embody technology which is too advanced for the needs of the South. The free import of goods from the North inhibits technological innovations in the South. Thus North-South trade may harm the South and should be constrained.

Stewart also emphasizes that it is not easy to redirect the trading patterns from South-North to South-South. Transport, financial, and communication links are North-South; in essence it would be difficult to trade without the North. However, Stewart believes and suggests that to overcome such a calamity would require institutional arrangements favouring South-South trade, notably trading and monetary arrangements.

An important criticism of Stewart is that she underestimates the magnitude of the problem and the relevant transformation needed to facilitate South-South trade. This criticism may also be attributed to Amin's delinking strategy.

A less radical perspective can be found in the writings of Raul Prebisch who has mobilized considerable political support from the LDCs for an alternative conceptualization of these states trade difficulties. He calls for comprehensive reforms of the international economic order designed to eradicate the structural inequalities. Such a program would require the North to facilitate the expansion of LDCs exports of manufactured and semi-manufactured goods. It would include numerous commodity agreements covering primary product exports. The agreements between major exporters and importers would be designed to ensure access to the markets of the rich states as well as to stabilize world market prices for specific commodities at levels assuring poor states both a larger income and smaller annual fluctuations in revenues. To the extent that such arrangements in commodity and industrial trade fail to materialize, Prebisch insists that a compensatory finance scheme be established by which industrial states would return capital to the LDCs in the form of grants and low interest loans (Blake & Walters, 1987: 39-40).

It becomes evident that Prebisch and his advocates want to create a new economic order - one that recognizes the special needs of LDCs and that affords them a greater share of the benefits than could be expected even in a world of free trade. According to these proponents Gatt principles are viewed as a means of exploiting poor states and denying them the opportunity of industrializing. The result being that the LDCs pushed hard for the establishment of the United Nations Conference on Trade and Development (UNCTAD) in 1964, with Raul Prebisch as its first Secretary-General. Through UNCTAD, the LDCs have sought to secure a variety of structural reforms of world trade; and have been successful in challenging liberal economic principles. However they have met with little success in the actual transformation of trade reforms into financial and economic transfers from the North to the South.

It is quite obvious from the above Marxist - Dependency approaches that proponents thereof firmly believe that colonialism and neo-colonialism with their inherent political and economic exploitation, and social engineering have produced a world capitalist division of labour. The creation of this world division of labour has been the focal point of controversy. Wallerstein has thus explained this problem while Amin, Stewart and Prebisch provided alternatives in trying to solve it.

Mercantalist or Neo-Mercantilist Approach

Mercantilism in all its forms shares with the political realism of analysts like Hans Morgenthau the basic assertion that the world is fundamentally a ` self-help ' system (Jones, 1983:

186). It is a world that lacks an uncontested and capable ` world authority '. This ` world authority ' is expounded in the writings of Charles Kindleberger in his theory of hegemonic stability. In the words of Robert Keohane, the theory " holds that hegemonic structures of power, dominated by a single country are most conducive to the development of strong international regimes whose rules are relatively precise and well obeyed... the decline of hegemonic structures of power can be expected to presage a decline in the strength of corresponding international economic regimes "(Keohane, 1980: 132).

The theory in its simplest form argues that the existence of a hegemonic or dominant liberal power is a necessary condition for the full development of a world market economy. The theory also holds that the hegemonic political structure is permissive, but does not determine either the nature of commercial policy or the content of economic transactions. Commercial policy is determined by domestic conditions and interests, and economic transactions by economic variables (Gilpin, 1987: 129-130). The hegemon has the responsibility to guarantee provision of the collective goods of an open trading system and stable currency. In addition, the growth and dynamism of the hegemonic power should serve as an example of the market system and perform as an engine of growth for the rest of the system; its imports should stimulate the growth of other countries and its investments should provide developing countries with financing needed for growth. Through the process of technology transfer and knowledge diffusion, the North should supply developing economies with technology technical expertise required for their industrialization and economic development.

The demand for a liberal international economic order clearly suggest that this theory was not put into practice. Although the theory used its influence to create international regimes (defined as principles, norms, rules, and decision-making procedures around which actor expectations converge) (Krasner, 1982: 185), it failed to limit conflict, ensure equity and facilitate agreement. Hence, the United States who took the lead in promoting a liberal economic order with formation of the Bretton Woods institutions have not totally succeeded in their endeavours. The result being that nationalistic policies began to emerge.

Economic nationalists have emphasized the costs of trade and favour economic protection and state control over international trade. Their central idea is that economic activities should be subordinate to the goal of state building and the interests of the state. Hamilton (1791), ` father ' of economic nationalism developed a dynamic theory of economic development based on the superiority of manufacturing over agriculture. He set forth the import-substitution (IS) strategy of economic development:

> " Not only the wealth, but the independence and security of a country appear to be materially connected with the prosperity of manufacturers "(Gilpin, 1987: 180).

According to Hamilton, governments can transform the nature of their economies through what we now call "industrial policies". Two such industrial trade policies have emerged (1) an inward -

looking import-substitution (IS) economic policy and (2) an outward - looking export-oriented (EO) economic policy. Although the latter economic policy is more liberal oriented, it is however fitting to include it within the nationalist perspective because in recent years it has been seen as an alternative to the former economic policy.

IS policies involved two phases. Firstly, an attempt was made to develop domestic production of consumer goods, such as food and beverages. It was achieved through imposing high tariffs on imports. Secondly, import barriers were used to encourage the development of local intermediate-goods industries and the production of capital goods. Other measures designed to restrict spending on imported goods were multiple-exchange rates. This involved charging residents a much lower exchange rate for foreign currency to acquire non-essential imports, than the rate applicable for necessities. The aim of such measures was to protect industry from foreign competition and encourage the development of local industry with or without foreign capital.

Such a policy over the years has seen a threefold attraction. First, in theory, it reduces the country's dependence on the advanced industrialized countries to the extent that it was successful in establishing local production of goods previously imported. Secondly, the developing country will conserve foreign currency and ensure that it is used only for the purchase of essentials. And thirdly, the policy has a strong theoretical support in the infant-industry argument used to justify protection. According to this argument, in industries where production is subject to increasing returns to scale, protection may be needed in the early stages of the industry so as to enable it to grow to size where it can compete with developed countries (Grimwade, 1989: 326-327).

Despite its attractions, it rarely worked in the manner intended for the following reasons:

1. fast growth of domestic demand for locally-produced light consumer goods has normally increased the demand for intermediate goods used in the consumer-goods sector. The objective of reducing imports hence failed;
2. IS policies tended to discriminate against industries that are geared towards exporting;
3. IS policies require large amounts of finance. This created a dependence on foreign capital because domestic savings are inadequate; and
4. high import barriers also served to increase the extent of monopoly and oligopoly power enjoyed by local producers in the affected industries.

Disillusioned with the results of such policies, countries began to switch over to a more outward-looking EO economic policy. Such an economic policy involved a combination of the following:

1. a more liberal trading policy, including lower tariffs, fewer import quotas and fewer import prohibitions;
2. a much lower exchange rate, making exports cheaper and imports more expensive;
3. introduction of direct and indirect incentives, such as export subsidies, favourable tax treatment and the setting

up export processing zones;

4. introduction of tight domestic monetary and fiscal policy to keep down domestic costs and prices to ensure export competitiveness; and
5. elimination of exchange controls.

These factors form the foundation to understanding this economic trade policy, its emphasis being on the promotion of growth through the restriction of imports.

The advantages of export-led growth are as follows:

1. it gives greater encouragement to the industries in which developing countries are likely to have a comparative advantage;
2. that provides local producers with greater scope for exploiting economies of scale. The home market is usually too small to achieve this purpose;
3. fast export growth has a stimulating effect on the domestic economy;
4. the removal of import barriers and its exposure to foreign competition may force firms to hold down prices and increases efficiently; and
5. such a strategy can develop new industries as the nature of the country's comparative advantage changes. For example, as a country industrializes and is successful in accumulating more capital and industrial skills, it will develop a comparative advantage in the capital intensive and skill intensive branches of manufacturing. Resources will automatically shift out of the more labour-intensive and

into more capital-intensive and skills-intensive sectors. Against these numerous advantages there is, however, one major problem: It is dependent on the willingness and ability of the developed countries to go on absorbing large amounts of manufactured exports from developing countries. Industrialized countries have become concerned at the threat posed by such exports to their ailing industrial sectors at a time of huge unemployment and general recession. If there is a permanent stagnation and their exists wide ranging restrictions on exports such an EO policy may be put into doubt (Grimwade, 1989: 330-331).

EO economic policy is clearly visible in mercantilist thinking, emphasizing the importance of export trade and the importance of a surplus on the trade balance as a source of national wealth. In order to maximize export capacity and minimize import needs, mercantilism emphasizes the national interest in developing all sectors of industry (Hagelstam, 1991: 97). This forms the bedrock of neo-mercantilism, the result being an intimate interrelationship between business and the state. The role of government in preserving economic well-being has been an extremely powerful motive for neo-mercantilism.

Neo-mercantilist or nationalist practices are ubiquitous in the modern world. Such ubiquity has also made it vulnerable to criticism. It is believed that such an approach is deemed to excessively meddlesome in the economy. Critics believe that an over-expanding bureaucracy encroaches upon business activity, making it less effective and more costly the task of managing economic production and distribution. It is held that the features of the free-enterprise system are negated with detrimental effect to domestic economic freedom, efficiency and general vitality. And internationally, economic nationalism is criticized as disrupting patterns of trade.

Hence, mercantilists believe that the discipline of `political economy' needs rehabilitating. Theoretical and practical space must be created for the role of politics in economic development, and this should go beyond the reduction of political phenomena to reflections on economic forces or the exclusion of political factors altogether via ceteris paribus assumptions.

PROBLEMS OF INTERNATIONAL TRADE

This chapter would be incomplete without at least some explanation of the problems of international trade. Countries have increasingly resorted to a variety of new devices to restrict imports and protect domestic producers. Such restrictions may take the form of various kinds of natural barriers (for example, high transport costs) as well as artificial barriers to trade. The latter includes all those barriers which governments erect to exclude or restrict the entry of foreign products to the home market. Tariffs are one kind of restriction. Other forms of restriction include import embargoes, import quotas, import deposit schemes, and various kinds of administrative and technical barriers to trade. Attention will be placed on the new types of non-tariff barriers which have become important in recent decades. However, emphasis will first be placed on the issue of tariff barriers.

Tariffs may take the form of (1) a specific duty payable on each unit imported or (2) an ad valorem tariff expressed as a percentage of the value of the goods imported. Tariffs generally raise the price of goods imported and in most cases the effect is to reduce the quantity imported. Tariffs are generally imposed either as revenue-raising devices or as a means of protecting home producers from foreign competition. In most cases, however they reduce the level of economic welfare of the importing country (Grimwade, 1989: 25).

If tariffs lower economic welfare, it may be asked, why do governments impose them? In many cases, the reasons are non-economic. Governments in some cases, to ensure political survival respond to pressure from a particular sectional interest to impose protectionist policies. In other cases, governments may simply be acting shortsightedly, unaware of the damage which tariffs cause. For example, it might be thought that a tariff boosts domestic employment by reducing imports and increasing domestic production. Although this may be true in the short term, the effect will be to shift unemployment to some other country and invite the latter to impose retaliatory tariffs. The first country will thus experience a fall in exports and thus domestic production and employment which cancels out the gain achieved by imposing a tariff. In addition, consumers suffer a welfare loss from the tariff.

However, there do exist some sound arguments for tariffs. One of these is the infant-industry argument which states that new

industries in developing countries may need temporary protection before they can grow to a size large enough to be able to compete. However, even in this case, it can be demonstrated that a tariff is a second-best policy. A domestic subsidy paid to the new industry would be economically more efficient because a subsidy, unlike a tariff, lowers price. On the other hand, a subsidy requires increased government expenditure which a developing country may be unable to finance.
A further argument for a tariff can be made out where a country is a large importer of a particular product and able to influence the terms of trade (another problem in international trade). Such a country may enjoy a monopoly or buying power such that by imposing a tariff it can drive down the world price of the imported product. In this way it may be able to shift the terms of trade in its favour.

However, we can safely conclude that, these arguments aside, the effects of tariffs are generally economically harmful. They in the long run reduce the economic welfare of importing and exporting nations. This is not to mention the even worse effects of non-tariff barriers. Sheila Page has attempted to classify the various kinds of non-tariff barriers which has affected world trade. She proposed the following system of classification:

(1) International agreements, such as international cartels (e.g. OPEC) and market-sharing agreements (such as those in textiles and steel).
(2) National controls on trade, such as import quotas, anti-dumping duties, certificates of origin, and other

administrative controls, price controls, voluntary export restraints, and government imposed restrictions on the purchase of imports.

(3) Other national controls whose major effect is on trade, such as safety, health, or technical product standards, domestic subsidies, customs clearance procedures, patent laws, or licences and price controls, where the main motive may be domestic rather than any desire to restrict imports.

With this extensive list of non-tariff barriers, Sheila Page estimated that, by 1980, as much as 48 per cent of world trade was ` controlled ' or ` managed ' compared with 40 per cent in 1974 that was ` uncontrolled '(Grimwade, 1989: 352).

While both tariffs and non-barrier serve much the same purpose, the advantage of exclusion by a tariff barrier, rather than by a non-barrier tariff, is that it is visible, fixed and calculable. The exporting country knows where it stands. The non-tariff barrier, on the other hand, takes many forms and is sometimes harder to identify as already shown above. Finally, by raising the price of imports and by protecting firms from competition, tariffs and non-barrier tariffs increase a country's rate of inflation and render the management of the macroeconomy more difficult. It is this realization that has spurred countries to seek ways of reducing these restrictions whether through international agreements or regional trading organizations.

Another problem that would not ensure the smooth running of the international trade regime is the issue of the terms of trade.

This can be defined as the ratio of a country's average export prices to average import prices (Grimwade, 1989: 449). The terms of trade reveal whether a country is trading under relatively favourable or unfavourable conditions: for example, a rise in the ratio of import prices to export prices is indicative of an unfavourable change in the terms of trade because greater exports will be needed to pay for a given value of imports (Lumby, 1990: 68). The converse argument where export prices are higher than import prices would be most beneficial to the economy because after imports are paid off there will be a surplus of funds to import more goods.
This pattern of the terms of trade can be maintained, without international trade being restricted, if the country concerned maintains a comparative advantage with particular emphasis on competitiveness.

This chapter has provided a purely theoretical background in understanding international political economy and more importantly international trade theory and its problems. It has focussed on Gilpin's threefold classification, explaining the various approaches and theories, and then assessing their strengths and weaknesses. To what extent these approaches and theories may be applied to the South African political economy is my next area of inquiry and analysis. This theoretical chapter has been important in defining, explaining, and maybe predicting the likely approaches and trade theories that South Africa might pursue in the post-apartheid era.

CHAPTER THREE

AN OVERVIEW OF SOUTH AFRICA'S TRADE REGIME

South Africa enters the 1990's with a legacy of political and economic problems that makes a long and depressing list. Since the Union of South Africa came into being in 1910, political, economic, social, ideological and international developments have contributed to a unique South African milieu of rapid and declining growth and ongoing conflict. In addition, South Africa has experienced several fundamental structural changes that have altered the power framework within which the political, social and more importantly the economic processes have unfurled.

From an institutional viewpoint, modern South Africa has what is known as a mixed economy. In fact, it has become difficult to classify South Africa because it has the features and characteristics of a First World and a Third World interwoven, which are clearly noticeable in this country of contrasts. Nattrass (1990: 26) believes that South Africa is essentially a capitalist system of production (First World) in which private enterprise plays a major role, but does so in an economic environment that is managed by the state. This is a fair but not consistent analysis because South Africa's poverty and income inequality is appalling. The uneven balance between the rich and poor has led South Africa being classified as a middle-income country.

The aim of this chapter is to provide an overview of South Africa's trade regime. Emphasis is placed on the issue of international trade (both imports and exports) which forms an important component in the balance of payments (See Chapter 2) Particular attention is placed on the trade regime's initial development, its current status quo and the future scenarios. These developments are divided into two periods, that is, a period prior to World War 2 and a period after World War 2. Both periods have seen the import substitution and export led growth strategies in operation. This is followed by examining South Africa's closest trading partners, both in terms of exports and imports. The chapter is thus concluded with a few strategies to improve the growth of the trade regime.

PERIOD PRIOR TO WORLD WAR 2

The discovery of diamonds in 1870 and gold in 1886 marked the conclusion of the pioneer era in South Africa as the growth in population and trade necessitated the transformation of the self-supply economy (Van Biljon, 1939: 68). By means of railways and chief harbours connecting the hinterland, the country was speedily being linked with the outside world.

While the origins of South Africa's international trade relations can be traced back to the seventeenth century, numerous developments have occurred since. In 1903, before the Union, a uniform custom tariff was instituted between the four colonies which provided for preferential (lower) duties on almost all goods which originated in Britain (Bruwer, 1923:

121). With a few minor modifications the tariff was maintained by the Union until 1914, in which year the Union's first Customs Tariff Act No. 26 was passed. It aimed at revenue - raising rather than protection, although it enhanced the protection already enjoyed by certain sectors in agriculture (Coleman, 1983: 200-201).

There was no compelling reason to promote the interests of exporters in a more active manner, the reason being that South Africa's exports at that time consisted mainly of gold, wool and diamonds - all of which enjoyed a strong foreign demand - while the economy experienced an appreciable inflow of the necessary foreign capital via the gold mining industry (Lumby, 1990: 63). During World War One, government influence was mainly confined to the utilization of the railway service for military purposes and to the regulation of shipping and foreign trade with a view to exporting food and war material supplies in the post-war era (Van Biljon, 1939: 69). This influence of rising exports led to the rapid expansion of both industrial and agricultural sectors. The broadly outward-looking attitude towards foreign trade was also explained by the high cost of white labour, limited technology and the very limited size of the domestic market, all of which inhibited the development of the domestic industry (Lumby, 1974: 21).

The class based pact between the English-speaking Labour Party led by Creswell and Afrikaans-speaking National Party led by Hertzog which replaced Smuts' South African Party government in

1924 changed the economic philosophy of the government, that is, it shifted from economic liberalism to economic nationalism (the tenents of both these approaches are dealt with in Chapter 2). This change in economic policy was also prompted by the impact of the First World War, the strategic importance of certain supplies, the post-war depression of 1921-22, the deteriorating position of the gold mines and the adverse terms of trade (Leslie, 1927: 60-66). All these factors contributed to the adoption of an inward-looking strategy aimed at national economic self-sufficiency via a deliberate policy of import-substitution by way of tariff protection for local industry from 1925 onwards. This operated through the Customs Tariff Act of 1925 and the reconstitution of the Board of Trade and Industries with extensive powers for the protection of secondary industry, mainly agriculture and mining. The establishment of parastatals such as ISCOR (Iron and Steel Cooperation) in 1928 was one such endeavour. As a result, it had become necessary periodically to enlarge government contributions to ISCOR so that secondary manufacturing ventures could be undertaken with the increased involvement of the public sector in the economy (Biljon, 1939: 58).

The abandoning of the gold standard in 1932 saved marginal gold mines and increased manufacturing expansion as seen with ISCOR. As a result, with the increase in manufacturing mutual commercial ties began to develop. The Ottawa Conference of 1932 was one such example which recommended an extension of imperial preferences that were adopted by South Africa by way of the

Ottawa Trade Agreements of 1932. Three years later, in 1935, the customs tariff was converted from a two column to a three column tariff to enable South Africa to conclude most-favoured-nation treaties. Hence agreements were concluded with the United Kingdom(UK) (1935), Australia (1935), Canada (1935), France (1935), the Netherlands (1935), Belguim (1935), Italy (1935), Czechoslovakia (1937) and India (1938) (Van Biljon, 1939: 178). Between 1930 and 1940 the South African economy grew at a rate of 5 per cent per annum. The peak and trough of both imports and exports from 1910-1939 are clearly illustrated in Tables 3 and 4 respectively. Both imports and exports displayed a strong upward movement between 1910 and 1913 whereafter declines were registered. After 1915, imports experienced a marked recovery and growth to the high peak of 1920 during the post-war boom. Meanwhile, exports exhibited a continuous upward trend from 1915 to 1920, due largely to the high demand for foodstuffs and raw materials in Europe as a result of the war and the post-war boom. Thereafter, the short, but sharp, post-war depression of 1921-22 caused a shrinkage in the value of both imports and exports, after which they commenced their long and steady expansion which lasted until the Great Depression of 1929-32 (Lumby, 1990: 65).

It is evident from the forgoing analysis that, prior to the mid-1920s, South Africa's foreign trade policy was geared towards an outward-looking strategy of exports. This strategy involved a mixture of liberal and mercantilistic principles. From 1925 onwards South Africa adopted the import-substitution strategy which marked not only a fundamental shift in foreign trade policy, but also a change in the role foreign trade played in South Africa's subsequent phase of economic growth. This strategy involved the use of mercantilistic principles with particular emphasis on government intevention. During this stage, largely as a result of the expansion of industry for the domestic market, exports began to lag as a factor in economic growth, the end result being that imports were stimulated at a faster rate than exports. It however has to be mentioned that the remarkable expansion of secondary industry after 1925 had only been achieved by an increasing reliance upon a growing volume and value of imported raw materials and capital equipment. However, in the absence of significant manufactured exports, the secondary sector (and, indeed the very success of the import-substitution strategy) was depended upon the foreign exchange earning power of the primary sector, especially the gold mines.

PERIOD AFTER WORLD WAR 2

Particular changes to South Africa's trade regime is clearly evident in the post-1945 era. In this regard, attention is paid on the import-substitution strategy, suppliers of South African imports; and of greater importance to the export-promotion strategy and receivers of South African exports. This is followed by analysing the problems in the manufacturing sector. The lessons of the NICs and possible solutions to South Africa's trade problems forms the conclusion to this period.

IMPORT-SUBSTITUTION STRATEGY

The outbreak of World War 2 disrupted normal international trade and this further stimulated the development of South African industry. For this particular reason import-substitution had been encouraged through a system of customs tariffs or duties on imports and/or quantitative restrictions in the form of import quotas or licences. Thereafter, the principle of infant industry protection was applied by the Viljoen Commission in 1956 as the driving force for industrialization. During the 1950's and 1960's South Africa followed a strong import-substitution strategy which was implemented by means of import tariffs and periodic quantitative restrictions. Initially, imports consisted mainly of consumer goods, then as the mining industry started to expand and to generate an infant manufacturing sector, capital goods were imported. This trend continued and has been estimated that over the 20 year period from 1950-70, the proportion that capital formed of total imports rose from about 32 per cent to 40 per cent. A further 10 per cent comprised raw materials which were inputs in the South African industry (Reynders & Van Zyl, 1973).

The importance of imports as a source of development has been highlighted in a study that showed that over the period 1956-74, imported capital goods represented approximately 70 per cent of total fixed investment in the manufacturing sector, and 30 per cent of the country's total fixed investment (Du Plessis, 1963). At the same time, the inability of the manufacturing sector to expand capital goods production increases the dependence on imported capital goods. This dependence is illustrated in Table 3, which shows import penetration ratios (ipr) for different categories of manufactured goods. Table 5 shows that import-substitution is all but complete in the consumer goods industries. The (ipr) for clothing has declined from 10.8 per cent in 1965 to 7.2 per cent in 1985. The rise for footwear has risen from 3.4 per cent to 10.4 per cent despite protection, while textiles have declined from 37.8 per cent to 15.8 per cent. The intermediate goods such as wood, paper, paper products, chemicals and metals have all experienced substantial declines in (ipr), whereas machinery, rubber, motor vehicles and transport equipment still have high (ipr). The most significant feature of Table 5 is that import penetration of machinery is at the highest level and has shown no tendency to decline over the past two decades.

Accordingly, over half of South Africa's domestic expenditure is devoted to imported machinery. Bearing this in mind, it becomes appropriate to show the value of imports for the three International Standard Industrial Classification (ISIC) sectors of agriculture, mining and manufacturing and the ` other ' category which is comprised of petroleum and armaments imports. These sectors are illustrated in Table 6. From the table it can be seen that the manufacturing sector is the most import-intensive, but the ` other ' category has also risen significantly since the oil crisis of 1973 together with an increased arms build-up. Whereas this category accounted for 2.9 per cent of imports in 1970, it had arisen to its peak of 29.8

per cent in 1980 and stood at 19.8 per cent in 1986. The relative decline is probably attributable to the coming on stream of Sasol 2 in 1980 (Kahn, 1991: 69). The effects of the drought in 1983-84 can be seen in the increase of agricultural imports from 1.6 per cent in 1982 to 4.6 per cent in 1984. In 1983-84, maize imports alone accounted for 1.3 per cent and 2.5 per cent of total imports respectively. As mentioned, the largest import category is machinery which in 1985 accounted for 30 per cent or 49 per cent when taken with oil and arms. In 1980, this figure was 56 per cent, more than half of all imports. The other major import categories were motor vehicles and transport equipment.

Complementary to this inward-orientation has been government sponsored concessional finance for major projects (e.g. Sasol), through the Industrial Development Corporation (IDC) (1). Here public funds were channelled to capital-intensive projects designed to exploit the significant reserves of, inter-alia, coal and iron ore and develop downstream heavy industries such as synthetic fuels and steel.

The application of trade sanctions against the country in the mid-1980's lent considerable impetus to the import-substitution strategy, taking the form of an import surcharge introduced in 1985 that ranged between 10 per cent and 60 per cent, and was directed especially at the importation of luxury goods. Although the surcharge was reduced to its present level of between 5 per cent and 40 per cent, it still contributes importantly to the current high level of effective protection. The (IDC) (See Note 1) estimates that the manufacturing sector now enjoys an average rate of effective protection of more than 30 per cent (Lachman et al, 1992: 33). A comprehensive analysis on current protection in South Africa may be found in the International Monetary Fund (IMF) Occasional Paper by Lachman et al (1992) and Holden (1993).

SUPPLIERS OF IMPORTS

The major source of South African imports originated in ten countries, viz., Germany, Japan, U.K., U.S., France, Italy, Netherlands, Switzerland, Taiwan and Belguim. The individual country data on Table 7 (The source for the statistics in Table 7 is the IMF Direction of Trade Statistics Yearbook, 1991) illustrate that four countries have been by a wide margin South Africa's most significant import suppliers since 1980; these are Germany, the U.K., Japan and the U.S. These countries are the world's major suppliers of mechanical and electronic goods, vehicle parts and accessories and other industrial equipment which South African industry require.

Germany increased its exports to South Africa significantly in 1987 and 1988. By 1989, it was supplying nearly twice as many of South Africa's imports as its nearest rival Japan. Germany's share of exports declined slightly in 1990 and 1991, although its share in 1991 was still one third higher than the U.S.

Japan's exports to South Africa rose by more than 50 per cent in 1987, the first full year in which the U.S. Comprehensive Anti-Apartheid Act (CAAA) (1986)- restricting U.S. trade with South Africa came into force. They then lagged behind the other four countries in 1988 and 1989. This pattern was the result of a semi-official government policy in Japan to freeze total trade with South Africa. This decision is said to have been taken by Japan after it came under criticism from the U.S. for undermining the (CAAA) (Garner & Thomas, 1992: 13).

U.S. exports rose marginally in 1987. The fact that they did not fall completely suggests that the primary impact of the (CAAA) was to restrict South African exports to the U.S. rather than to decrease U.S. exports to South Africa (Garner & Thomas, 1992: 13). In 1988 U.S. exports rose very strongly and in 1989 fell by less than those of the U.K. and Japan. In 1991, exports rose dramatically, by 22 per cent, more than any of the other four countries. The cause of this rise may be attributed to the July 1991 decision of the U.S. President to lift the sanctions imposed by the (CAAA).

The U.K.'s exports to South Africa rose steadily in 1987 and 1988 but fell back to a slightly greater extent than the general fall in South Africa's imports in 1989. In 1990, they rose very strongly, by 17 per cent, due to the U.K.'s decision to relax and lift sanctions after February 1990. In 1991, they fell back by 9 per cent, making the U.K. South Africa's third import supplier.

Taiwan has clearly been South Africa's fastest growing import supplier with a growth rate of 94 per cent in 1987 and 45 per cent in 1988. In 1991, Taiwan supplied South Africa with $701mn of imports. Anecdotal evidence suggests that Taiwan has expanded her exports in the areas of consumer electronics and computers, which were spheres previously dominated by Japan and the U.S.

Other countries which have increased their supplies of imports since 1986 are Belguim and Italy. France's exports to South Africa doubled in 1991 after the removal of European Community (E.C.) sanctions in December 1990. E.C. countries supplied in 1991 goods worth $6,958mn or 59 per cent of the total of the ten biggest import suppliers.
The above data and analysis clearly illustrate that the listed countries since 1986 have increased their trade with South Africa in nominal dollar terms in the last five years (1986-1991).

Import penetration in South Africa would be incomplete without providing some data and analysis of African imports and exports. Table 8 (The source for the statistics in Table 8 is the IMF Direction of Trade Statistics Yearbook, 1989 and 1991) presents data on South Africa's trade with six biggest African import suppliers and its seven biggest African export markets. These IMF data are unfortunately only available up until 1988. It is also acknowledged that African countries have been more reticent in revealing their trade with South Africa for obvious reasons. Despite these problems some conclusions can be reached. Firstly, for the African countries which report to the IMF on their trade with South Africa there is a fair overlap between those countries which are big suppliers of imports and those which are big receivers of exports. With a productive and efficient South African trade mission based in Zimbabwe, it is not surprising that the country is by far South Africa's biggest supplier of imports and also -although by a lesser margin - its biggest receiver of exports. Secondly, South Africa exports overall much more to its African trade partners than it receives from them in the way of imports. Furthermore, South Africa's positive trade balance with the countries in Table 8 (exports minus imports) rose from $369mn to $563mn between 1985 and 1988, a rise of 53 per cent. Zambia and Malawi too have been important African export markets for South Africa.

The significance of the positive trade balance can be understood better if we compare the total of South Africa's trade with all the countries in Table 8. In 1988 South Africa's total imports from the six countries mentioned were $175mn, less than half its imports from any of the ten major trade partners in Table 7. However, South Africa's exports to the seven countries mentioned in Table 7 were $738mn, much larger than its exports to France, its seventh biggest export market. The data and analysis show that trade between African countries have not being significantly high. It is telling that trade between South Africa and Africa will be improved because of the geographic proximity and also a greater mutual access to markets for both South Africa and Africa will be available in the future.

EXPORT PROMOTION STRATEGY

It is evident from the above analysis that import substitution has played an important role in South African economic development. However, in the early 1970's doubts arose as to the ability of import substitution to provide further employment and growth in the economy. Several significant events in 1972 suggest that South Africa then seriously began to seek ways of switching from import substituting to export - led growth. One such event was the appointment of the Reynders Commission of Enquiry to investigate the possibilities for growth in the export sector of the economy. This report emphasized the need for South Africa to rely less on gold for its foreign exchange earnings, and to diversify its exports. The emphasis was on diversification into non-gold exports in general, rather than manufactured exports specifically. A striking feature of the report was the absence of any suggestion that import liberalization was a necessary condition for accelerated export expansion (Bell, 1992: 84). Rather, it favoured pursuing both export expansion and import substitution, stating that there was no real conflict between the two (Reynders, 1972: 630). This report was followed by the Van Huyssteen Committees proposals which culminated in 1978 with the adoption of the system of Categories A-D of assistance to exporters and the principle of uniformity to exporters. By 1980 exporters received incentives through direct cash grants, tax concessions on export turnover, rail freight concessions, drawbacks and rebates of import duties on imported inputs, tax concessions based on the disadvantage of using tariff laden inputs and tax concessions on profits derived from exports (Holden, 1993: 3-4). These incentives were given uniformly to all exporters in an attempt to redress some of the bias that existed against exports.

The other significant event occurred in 1972 when the government began to dismantle the quantitative restrictions on imports. Up to that point South Africa had a full scale system of import controls, which it had tightened or relaxed according to the state of the balance of payments. In an attempt to accelerate the process, special procedures for unbinding (lowering) tariffs were arranged with the General Agreement on Tariffs and Trade (GATT), (to be discussed in Chapter 4) but the process was nevertheless slow. Quantitative restrictions, however, were relaxed between 1972-76. The net result was a reduction in levels of protection since the raised tariffs were lower than the tariffs implicit in the quantitative restrictions that had been removed (Bell, 1992: 85). During the early 1980's quantitative restrictions were replaced by import tariffs.

By 1985 a relatively small proportion, 28 per cent of the manufacturing tariff lines and 23 per cent of the value of imports were still covered by import permits (IDC, 1990). In 1985, South Africa switched from a positive list of permitted imports, which creates uncertainty and pressure from lobbying, to a negative list of imported items which required approval and unrestricted entry for all other items. Both these actions indicated that the trade regime was moving in a more liberal direction.

In 1989 structural adjustment programmes were introduced for certain industries, namely, motor vehicles, textiles and clothing. These programs gave domestic producers the right to import duty-free, either imports or finished goods, provided that they exported some of their production. Holden (1993: 5) argues that the right to duty-free imports would have helped reduce the anti-export bias in the above mentioned industries. In April 1990, the General Export Incentive Scheme (GEIS) was introduced for the export of non-primary products. The GEIS links subsidies to actual export sales, rather than the production and marketing costs, and encourages local content. Hence, those industries which have a high value added and high local content have found that GEIS provides a tax free subsidy amounting to 19.5 per cent of export turnover, and in contrasts low volume added and low content producers only receive a subsidy of 2.0 per cent. The contemporary liberalization of the South African trade regime can be found discussed in articles by Bell (1992), Holden (1993) and a World Bank publication by Belli et al (1993).

Table 9 and Table 10 show the share in exports by Selected Industrial Classification (SIC) in total exports and manufactured exports in each sector respectively from 1957 to 1985. Despite some diversification as seen in Table 9, South Africa remains heavily dependent upon the successful export of relatively few items and the composition of her exports largely reflect her natural resource endowment. The table shows that the role of mining exports, in particular gold, has not diminished over the last 30 years, with mining exports accounting for 62.3 per cent of total exports in 1985. Growth in the volume of merchandise exports in general, and in the export of manufactured products in particular, has been slow from the period 1950-76. Analysts have attributed this poor performance to a combination of increasing domestic demand, less favourable trading conditions on the international markets, poor agricultural harvests in certain years, the slow growth in productivity in the sectors exporting manufacturing products and a deterioration in South Africa's political situation (Nattrass, 1990: 270).

Table 9 shows that the role of mining exports, in particular gold has not decreased over the last 30 years. What is notable is the declining importance of agricultural, fishing and forestry exports while the manufacturing exports rose from 28 per cent of total exports in 1957 to 32.9 per cent in 1985. During the period of reduced bias against exports from 1971 to 1985, manufactured exports did not increase their share of total exports. Table 10 shows that within manufactured exports, basic metals increased their share dramatically from 14.3 per cent in 1957 to 51.9 per cent in 1985. In 1985 basic metals accounted for 17.5 per cent of total exports (Table 9). In Table 9 one also sees machinery and mechanical equipment exports have remained static during the 1980's, averaging 1.3 per cent of total exports. Precious metals and precious stones form an important category, which has declined from 14.1 per cent in 1980 to 7.2 per cent in 1985; whilst base metals have arisen from 7.8 per cent to 11.5 per cent. Textiles and chemicals have both risen from about 2 per cent to 3 per cent of total exports.

Despite attempts by the government to diversify the export base, exports of primary and intermediate goods still predominate. It hence becomes apparent that South Africa's place in the international division of labour has not changed from being a raw material supplier. Despite gold, one small exception, however, has been the exporting of armaments. As the Cape Times (21 January 1988) quoting Jane's Defence Weekly reported, " Armscor is now the largest single exporter of manufactured goods in South Africa, with sales to 23 countries valued in 1987 at R1.8 billion ... and the current backlog of orders worth R9 billion ".
An Armscor spokesman added Armscor had changed from an importer to an exporter over the past decade (Kahn, 1991: 74).

RECEIVERS OF EXPORTS

With one addition, the four countries that dominate the supply of imports to South Africa also dominate the market for South Africa's exports. Table 5 (The source for the statistics in Table 7 is the IMF Direction of Trade Statistics Yearbook, 1991) shows that Italy is the fifth biggest purchaser of South Africa's exports which are made primarily of gold and more recently coal.

The U.S. was South Africa's single biggest export market in 1986 buying goods worth $2.476mn. However, U.S. imports from South

Africa fell by 43 per cent in 1987 because of the implementation of the CAAA of 1986. This resulted in sharp falls in U.S. imports of agricultural products, and some strategic minerals. Although total imports recovered slightly in 1988 and 1989, by 1991 the U.S. was only the fourth biggest export for South Africa.

In line with its expansion of exports, Japan's imports from South Africa rose in 1987. However, this fell significantly in 1988 (as already) mentioned in imports. Although imports recovered slightly in 1989, by 1991 they were still significantly lower than 1986.

Italy's importance as a market for exports has emerged in the last six years. A large percentage of exports appears to be gold for use in the Italian jewelry industry. In 1991 Italy imported goods with a total value of $2.462mn, 28 per cent more than Germany, which was the second biggest of South Africa's export markets.

Germany was South Africa's fourth important export market in 1986. German imports fell in line with other countries in 1987 but grew by 38 per cent 1988. Although a slight fall in 1989, imports grew at a high rate in 1990 and again in 1991.

The U.K. was South Africa's fifth biggest export marker in 1986. U.K. imports fell in 1987 but rose as sharply as those of Germany in 1988. In 1990, they grew by 30 per cent. This seems to have been caused by the effects of the U.K.'s early relaxation of sanctions. U.K. imports fell in 1991.

Taiwan has increased very significantly its purchases of South African goods, becoming the fastest growing market for South African exports. In 1991 total Taiwanese imports amounted to $1.026mn. These range from South African coal, fruit, aluminium, pig iron and steel industries which have been responsible for the rapid increase since 1987.

Spain, Belgium and Luxembourg have also raised their purchases, thus becoming more important trade partners in 1991 than they were in 1986.

The export of South African goods to Africa has already been dealt with under the sub heading of suppliers of imports.

South Africa's trade partnerships show a mixture of stability and volatility. This is to say that South Africa's partnerships with its import supplies have been more stable than those with receivers of its exports.
According to recent statistical data by the South African Department of Trade and Industry, the U.S. has pipped Germany as South Africa's most important trade partner. Trade between the U.S. and South Africa in 1992 was about R12 billion, made up of imports of R7.142 billion and exports from South Africa of R4.858 billion. This is a 13.5 per cent increase on the R10.569 billion in the previous year when imports were R6.602 billion

and exports R3.967 billion. The increase was led again by a sharp increase in the import of maize following South Africa's devastating drought crop.

German trade with South Africa dipped to R11.596 billion in 1992 from R11.895 billion in the previous year. Exports from Germany last year earned R8.588 billion and imports from South Africa cost R3.008 billion. According to the South African - German Chamber of Commerce, the weak South African economy and the consequent fall in the demand for machine tool and automotive components resulted in Germany forfeiting the top position. Third, according to South African figures is Britain with R9.905 billion lower than 1991's R10.016 billion. And in fourth place lies Japan. Its trade with South Africa last year was worth R9.324 billion (Sunday Times, 13 June 1993: 3).

PROBLEMS IN MANUFACTURING

Since the 24th September 1993, when Mr. Mandela gave the go ahead for the formal lifting of sanctions, numerous trade opportunities have arisen. Trade shows, trade missions, trade delegations and South African trade representatives for overseas missions are the order of the day. These events see the unfolding of numerous bilateral and multilateral consultations and eventually treaties and accords. These developments are indeed encouraging but the problem in South Africa is that the export base is still concentrated in resources and resource - based industries, particularly food products, chemicals and basic metals, and as a result the export sector has not grown over the years. Between 1960 and 1970 manufacturing output grew by 8.6 per cent. In the following decade this growth rate declined to 5.3 per cent. Between 1980 and 1990 output of manufacturing increased by a paltry 0.1 per cent (Joffe & Lewis, 1992: 21). A detailed analysis of the growth of the manufacturing sector is provided by Bell (1992).

The failures of the manufacturing sector are evidenced at a number of levels. Firstly, the manufacturing sector has failed to create jobs. In 1980, manufacturing employment comprised 28.8 per cent of total non-agricultural employment. By 1989, this proportion had declined to 26.6 per cent. The failure to create jobs is based on South Africa's (1) inability to attract investment and (2) partly because of the exceptionally low productivity of investment (low volumes of output for every new unit of investment) and very high capital/labour ratios. Investment has been directed to capital-intensive sectors rather than labour demanding processes. Secondly, although investment was placed in capital-intensive sectors, South Africa has failed to produce the necessary machinery and capital goods for the actual operation of the capital-intensive sectors. The result is that there have to be imported, which has eventually made the manufacturing sector a considerable net user of foreign exchange. Hence, everytime the manufacturing sector began to expand, it required new injections of foreign exchange. Thirdly, and probably the greatest glaring weakness has been South Africa's inability to sell some of its output in international markets. The dynamics of South Africa's export trade has already been dealt with. In short, then, South Africa is selling into a declining market where the increasing proportion of world trade is in manufactured goods and not primary products as it is the case with South Africa.

Essentially, an exceptionally skewed distribution of income has generated a manufacturing sector whose output has been directed at producing sophisticated consumer goods for elite income groups. Foreign exchange was provided by gold exports bolstered by extremely low wages paid to mineworkers (Joffe & Lewis, 1992: 26).

The above analysis points to an obvious conclusion that the structure of manufacturing is an obstacle to a growing and equitable economy. In a very general sense, restructuring is needed on two fronts. Firstly, the manufacturing sector's relationship to the domestic market has to change. Secondly, to ensure growth, the manufacturing sector's relationship with the international market has to be restructured in a way that allows the export of processed commodities and manufactured goods.

Industrialization is an essential aspect of long-run development. Industrial expansion is necessary to raise growth of incomes and employment, to diversify exports and extend markets, to avoid excessive dependence on a few commodities for foreign exchange and protect the economy from worsening terms of trade for primary products; and to enjoy the learning economies, economies of specialization and of scale that are associated with industrialization. In the South African case, the manufacturing sector has the greatest potential for industrialization and hence growth. As Lall (1992) states:

" In nearly all economies, manufacturing industry has been the critical agent of the structural transformation that makes the transition from a primitive, low productivity, low income state to one that is dynamic, sustained and diversified " (Stewart, et al, 1992: 14).

The New Industrializing Countries (NICs) have exploited industrialization to its fullest potential and hence has grew faster than any other region in the world. It is thus appropriate to discuss some features of NICs growth before turning our attention to South Africa.

LESSONS OF THE NICs

There is general agreement that the NICs have exhibited extra-ordinary growth rates over a long period of time, both in terms of exports, manufacturing value added and gross domestic product. The NICs are usually defined as comprising South Korea, Taiwan, Hong Kong, Singapore, Brazil and Mexico. The development of the manufacturing sector with priority in the export of mostly labour-intensive manufactured goods has been the prime strategy for growth. In South Korea and Taiwan the development of a home market has been an integrated part of the industrialization process. Hong Kong and Singapore, with a limited home market, have obviously relied on exports.

The neo-classical intepretation of the relative success of the NICs runs somewhat like this:

These countries have implemented outward-oriented trade policies, providing incentive for export liberalizing and adopting realistic exchange rates. They have succeeded in ' getting the prices right ' in capital, labour and goods markets. They have pursued their comparative advantage and generally relied on market forces. In short, their export-oriented, liberalistic policies are the key to their success (Balassa, 1981, 1982; Little, 1981; Havrylyshyn & Wolf, 1987).

This intepretation has however been criticized and alternative explanations have been brought forward by a number of authors, viz., Hamilton (1983), Kaplinsky (1984), Schmitz (1984), Browett (1985), Singer (1989) and Shaw et al (1993):

All the NICs have a long history of industrialization. Taiwan and South Korea have in all different phases pursued a blend of import-substitution and export orientation policies. In many cases an export drive concerning a particular product has been preceded by the production of the same product for the home market. The trade policies have by no means been universally liberal, on the contrary all the countries have maintained a system of selective protectionism, at the same time protecting infant industries and allowing free import of machinery technology and intermediate goods necessary for the industrialization process. In South Korea and Taiwan the protection offered has usually been of a temporary nature, hence these countries by and large have avoided the stagnation and other adverse effects (bureaucracy and corruption) associated with extensive and prolonged protectionism (Shaw, 1993: 60).

The state has played a vital role in the development of the NICs - with the exception of Hong Kong and partly Singapore. A fair section of their manufacturing industries has been developed in the form of state-owned industries. The vital access to credit has been mediated by state institutions. The state has played an important role in regulating the labour market, often by preventing, obstructing or restricting the activities of trade unions in order to keep wages down at competitive levels. Hence, far from relying on the market mechanism for the efficient allocation of resources, the state has maintained substantial investment in the training and education of the work force.

In terms of industrial branches and products the export oriented industrialization has covered a fairly narrow range, i.e., the exports can be divided into four categories:

1. standardized labour-intensive goods;
2. capital-intensive process industry goods;
3. differentiated final products; and
4. labour-intensive components and parts of differentiated goods

The NICs have been most active in the last category (for e.g. electronic components). In the early 1970's exports of goods of category (1) were most important (for e.g. textiles and apparel).

The NICs have succeeded partly because of their privileged relationship with the U.S. All the Asian NICs have had relatively easy access to the U.S. market and this has been an important element in the continued export success in the 1980's (Shaw, 1993: 61). Furthermore, massive financial aid was extended by the U.S. to Taiwan and South Korea for the 'containing of communism'.

The role of the Multi National Cooperations (MNCs) should not be taken for granted for they have been actively involved in the industrialization of the NICs. According to a United Nations (UN) report in 1988, foreign affiliates contributed the following share of the manufactured exports of the NICs: Singapore (90 per cent) (1983), Taiwan (26 per cent) (1981), South Korea (25 per cent) (1978) and Hong Kong (17 per cent) (1984). The strategy involved for the penetration of foreign firms took the form of Export Processing Zones (EPZs).

The rapid growth of exports, a result of the export-push policies of the NICs, combined with the superior performance of these economies in creating and allocating human capital, provided the means by which they attained high rates of productivity. The question now arises, how did the unusually high rates of growth of exports and human capital contribute to the productivity performance of those economies? Most explanations of the link emphasize such static factors as the economies of scale and capacity utilization. While these may account for an initial increase of productivity, they are insufficient to explain high growth rates. Rather, the relationship between exports and productivity growth may arise from exports' role in helping economies adopt and master international best-practice technologies. High levels of labour force cognitive skills permit better firm-level adoption, adaptation and a mastery of technology. Thus, exports and human capital interact to provide a particularly rapid phase of productivity - based catching up (The East Asian Miracle - World Bank Policy Research Report, 1993: 317).

THE PATH FORWARD FOR SOUTH AFRICA

From the above analysis, it is apparent the export success of the NICs have valuable lessons for South Africa, not only in terms of improving its manufacturing sector, but also in the process creating jobs for the vastly unemployed. These lessons range from a commitment to an export led growth strategy with emphasis on technology and diversification in goods and services to labour-intensive manufacturing to the positive and efficient role of the state. These features form the foundation blocks upon which the South African manufacturing industry can prosper. Numerous strategies have been sought to improve the manufacturing sector's performance; in this case two such strategies will be discussed.

A key advocate of the export-led strategy following the NICs example is Trevor Bell. Bell (1990) begins by questioning why in recent decades South Africa has proved unable to emulate the economic performances of the NICs. Bell maintains that " the export of manufactured goods is the key to sustained, rapid industrialization and to rapid increases in the standard of living " (Bell, 1990: 5). Bell's argument is that the high value of South African mineral exports during the 1970's and early 1980's boosted the Rand and thereby rendered South African manufacturing exports more expensive on the world market. However, given the weakness of the Rand from mid-1984 (reflecting the decrease in the price of gold), the opportunity is now there for manufacturers to export a much larger volume and broader range of South African goods. Despite this optimism, Bell insists that South Africa should not rush towards global competitiveness by indiscriminately reducing tariffs, for too early exposure to foreign competition could just as easily kill off certain industries. The strategy must therefore be to target particular sectors of industry for export promotion, selecting them on the basis of their comparative advantage and the technological and other benefits they are likely to confer on other industries. Yet the need to increase global competitiveness will add to social and political stresses, for wage rates in South Africa - although low - are not low enough compared to those paid in other competitor countries. The present inequitable distribution of income will therefore not easily be redressed, except via the sustained rapid growth of manufacturing and appropriate export oriented industrialization.

In a recent study by Richard Lawton (1993), the author concluded that South Africa has a comparative advantage in only three value-added manufacturing sectors. These were all associated with commodity industries, viz., mineral working machinery, crushing machinery, and steam boilers. Lawton postulated that there are competitive value-added industries, and though small in terms of world trade classification, they could be encouraged to grow. Lawton's research drew on work on competitiveness from Harvard Business School business guru, Micheal Porter. Porter believes that ` clusters ' of industries form in an economy, where cost synergies created the potential for sustained competitiveness. Lawton (1993) examined export successes to see where potential clusters might form, and found that among the success stories were flexible manufacturing techniques used on short production runs. The techniques evolved because the domestic market was small, but required a range of high-quality products. When companies had reached the limit of satisfying the domestic market, they sought growth in exports. Lawton (1993) believes that new clusters will be located next to existing clusters which are competitive on a commodity basis - metal and minerals, petroleum and chemicals, food and beverages and possibly textiles and apparel (Sunday Times, 21 November 1993: 8).

A related discussion is that of Goodison & Littlejohn (1992). They believe that South Africa's way to growth is through increasing the proportion of total mineral exports which are processed prior to export. However. it is emphasized that such a project would take many years to mature, and would be dependent upon the attraction of foreign companies into the development of downstream mineral processing.

Lawton (1993) and Goodison & Littlejohn (1992) provide a starting point for a re-structuring and general improvement of the manufacturing sector. Emphasis however, has to be placed on diversification through the creation of new clusters from the above mentioned resource industries. Identifying and creating such clusters would take a few years, but once recognized and its comparative advantage sought, the benefits would indeed be rewarding, provided that they are globally competitive. These clusters will improve the manufacturing sector through the creation of new infant-industries by first providing for the domestic market; once the domestic market has been fully satiated, increased production will commence for exports.

This idea of satisfying the domestic market and then promoting exports can be identified with Staffan Linder's demand theory in Chapter 2. The structure of demand for manufactured goods formed the basis of his theory. Linder's theory thus provides practical validity in the South African case. The only problem is that South Africa has to find countries that have similar consumption patterns and similar demand structures. Once this has been achieved it (South Africa) must find a niche for its goods and services in these foreign markets. This is indeed the task of the diplomat, to utilize his persuasive skills to negotiate the best deals for South Africa. This area of the use in diplomacy will be discussed in Chapter 5. Achieving success in the above endeavour will lead to an increase in export production to cater for other bigger markets.

An important offspring in the creation of clusters is that they will produce technological innovation and development. This is

clearly seen in all the NICs, that is, technology has been the backbone for the success of exports. However, there must exist a relationship between this technological development and trade to boost exports. The strategy applied is outlined and explained in the Product Cycle Theory (PCT) by Raymond Vernon in Chapter 2. One example would be the creation of a robust product design suitable for African conditions, since Africa will be an important trading partner in the future.
These strategies should, however, not be seen in isolation but part of the continuing overall debate on improving the efficiency and effectiveness of the manufacturing sector.

The positive role of Government is vital for the success of an export-led growth strategy as seen with almost all of the NICs. The Government of the day has to provide political stability, a stable macroeconomic environment and a reliable legal framework to promote domestic and international competition. The government has to orient its policies towards international trade with emphasis on the absence of price controls and other distortionary policies. A recent World Bank publication by Belli et al (1993) has concluded the following:

> If South Africa wants to stimulate investment in export activities, it would be useful for the Government to articulate a strategy for the external sector, allowing sufficient time for the private sector to make the necessary adjustments. Such a strategy might include the following elements: (1) a commitment to export-led growth, (2) a policy package to give exporters free access to inputs used to manufacture of exports,

(3) a strategy to offset the anti-export bias associated with continued import protection, and (5) a plan for rationalizing the tariff schedule and eventually reducing protection (Belli et al, 1993: 38).

In addition, investment in people, education, health and welfare are legitimate roles for Government. Particular emphasis on the above and a genuine effort to create jobs and employment and general living standards are the greatest challenges facing the new Government.

If one takes a very general approach to the changes that have taken place in South Africa's foreign trade policy over the past century, it is possible to isolate three distinct phases. The first phase, which lasted up to 1925, was characterized by a liberal, `laissez-faire' approach towards international trade. The second phase, which ran from 1925 up to the early 1970's, was period in which the Government adopted a much more `inward looking' policy and concentrated its efforts upon encouraging the development of `import replacing' investment. The third phase, which is the current phase, shows yet another switch in philosophy, this time in favour of policies to stimulate growth through the acceleration of exports.

The clear message throughout this chapter with regard to future trade policy is the need for South Africa to place particular attention on the export sector. Undoubtedly, there exists numerous opportunities for growth in this sector as already mentioned. To ensure sustainable growth, there must be an efficient and effective utilization of both liberal and mercantilistic principles. That is, liberal and mercantilistic priciples should compliment each other, and hence be practiced simultaneously. In terms of Kindlebergers' classification in Chapter 2, South Africa must move from a balancing sector to a leading sector in economic growth with emphasis on increasing exports. One direction through which this can be attained is by adhering to the rules, principles and procedures as outlined in the GATT. The importance of the GATT, and South Africa's relationship with the GATT is the next inquiry of analysis.

Note:

1. The Industrial Development Corporation (IDC) provides capital for industrial projects, export and import financing and small business development. In 1990, it issued a major study on tariff protection and recommended reforms to the trade regime and pre - announced a schedule for tariff reductions. A number of the IDC's recommendations have gained official support.

CHAPTER FOUR

SOUTH AFRICA'S RELATIONSHIP WITH THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

In much the same way as it was a founder member of the United Nations (UN) in 1946 and pledged itself to foster world peace, in 1948 South Africa was one of the twenty-three founder members of the GATT. For 42 years - from 1948 to 1990 - its membership of GATT, as of the UN, was such in name only. As it broke all the rules of democracy and human rights in the pursuit of the mad dream of separate development, so it flouted the rules of trade to build an import-replacing industrial fortress behind high tariff walls. (This has extensively been dealt with in the previous chapter). And as it was always bound to do, the world caught up with South Africa and Pretoria had to admit that apartheid was a ghastly mistake. Now all manner of reparations are being negotiated so that South Africa may rejoin the world. Also in trade.

The aim of this chapter is to give an account of South Africa's relationship with the GATT. South Africa will have to adhere to the principles, rules and procedures laid down by GATT if it is to achieve economic growth and prosperity, as will be seen later in the chapter. Before moving deeper into analyzing South Africa's trade offer to the GATT and the report of the GATT secretariat, it is appropriate in the first instance to provide some discussion on the functioning of the GATT system and outline some of the basic features of the current Round of multilateral negotiations, viz., the Uruguay Round.

FUNCTIONING OF THE GATT

The four principles governing world trade have already been dealt with in the theoretical chapter. (See Chapter 2). It should be stressed that despite these principles, GATT does not prescribe free trade as such. It simply insists on stable levels of protection among the member countries (Corbet, 1989: 214). There are good economic reasons for focussing on liberalization - plus - stability in trade policy. Levels, or degrees, of protection are only partially a matter of international concern. The cost of protection is mainly borne by the protecting country itself. It is changes in the levels and the incidence of protection, and the uncertainty which follows, that is most costly to other countries because the plans and dispositions of their firms are upset.

The GATT was written around tariffs. Tariffs are preferred for three reasons. They are consistent with the price mechanism. They are relatively `visible' or transparent. And they are normally easily used in a non-discriminatory way. By contrast, quantitative restrictions (QRs), whether administered on imports or exports, thwart or destroy the integration of markets. The GATT accordingly prohibits the use of import quotas and licences (except when they are used in agricultural policy or when a country is in balance-of-payments difficulty) (Corbet, 1989: 214). As Grimwade (1992) points out, the danger of using QRs is contained in Article 2 of the GATT treaty:

Quotas seek to restrict imports by requiring importers to obtain licences from authorities before goods are allowed in the country. Such quotas are generally considered to be more harmful than tariffs since they have a detrimental effect on economic efficiency (Grimwade, 1992: 32).

Hence, the aims of the GATT, set out in the preamble, are `the substantial reduction of tariffs and other barriers to trade' and `the elimination of discriminatory treatment in international commerce'. There are provisions in the GATT for negotiations on both objectives. The GATT has several `escape clauses'. These include provisions against imports that are dumped (Article 6), against imports which enter the market with the help of a subsidy (Articles 6 and 16) and, against imports which are simply too competitive for domestic producers (Article 19). Article 6, however, best describes the escape clauses:

> When products of one country are introduced into the commerce of another country at less than the price of the same product when sold in the exporting country. If no such price exists, the relevant price is the highest price for the product sold in any third country. If no such price exists, then the relevant measure is the cost of production of the product in the exporting country plus a reasonable addition for selling costs and profit.

In a nutshell, GATT permits selective import duties where exporters are found to be subsidizing exports, `dumping' at prices lower than either costs of production or normal prices in the home market.

Gatt also provides a machinery for conciliation and settling disputes between countries, and supervises the rules and procedures. Any member country can call for a panel, consisting of three `experts' from countries not involved in the dispute, to rule on cases where they feel their rights are being withheld or compromised by other members. If there is a consensus decision in favour of adopting the report, member states have a duty to act in accordance with its findings. If the transgressor does not implement the recommendations, the plaintiff country can seek permission to take retaliatory action (Watkins, 1992: 25).
GATT, however, has no power to enforce the rules of the agreement on member states. It depends for its effectiveness on the willingness of countries to abide by the agreement. If certain countries fail to adhere to the rules, the retaliatory action mentioned may take the form in which member states may choose to withdraw concessions or deny them the Most-Favoured-Nation (MFN) treatment.

On the one hand, the GATT is a forum in which governments negotiate on the liberalization of trade and `consult' on trade disputes. On the other hand, it is a framework of principles, rules and procedures which is meant to provide a stable institutional environment for the conduct of international trade.

THE URUGUAY ROUND

Since the inception of GATT in 1947, there have been seven Rounds of international trade negotiations carried under the auspices of the GATT (See Table 2 of Chapter 2). The current Round began in

1986 in Montivideo in Uruguay, and is called the Uruguay Round. It was due for completion after five years of negotiation, but because of the `take it' or `leave it' package nature of the Round and because of the sensitivity of agricultural trade policy reform, the Round has not yet been completed. Optimists believe the Round would be completed on December 15, 1993, ratified by April 15, 1994, and implemented from January 1, 1995.

To conduct the Uruguay Round negotiations, a Trade Negotiating Committee was established with two subsidiary bodies: the Group of Negotiations on Goods (GNG) and the Group of Negotiations on Services (GNS). The former is divided into 14 negotiating sub-groups covering traditional areas such as tariffs, tropical products, etc (See Table 11 for complete breakdown). In addition, the (GNG) covers two areas previously outside of the GATT's competence, viz., trade-related investment measures (TRIMs) and trade-related aspects of intellectual property (TRIPs). Both were incorporated at the insistence of the developed countries following intensive lobbying by the transnational corporations (TNCs). In the former, the developed countries want to see an international investment regime which establishes rights for foreign investors with less constraints on (TNCs). And in the latter, the developed countries want to ensure a minimum worldwide standard of protection of intellectual property, in order to protect the technology developed by their (TNCs), and so maintain their competitive position in world markets.

The second negotiating group, the (GNS), was also setup at the insistence of the developed countries. They argue that this is a growing area of economic activity and trade, and should be brought under GATT rules and procedures. The service sector includes economic activities as varied as telecommunications, transport, data processing, banking and insurance, and educational and health services (Coote, 1992: 111).

The inclusion of these `new issues' - TRIMs, TRIPs and services - created widespread discontent among developing countries. They argue that the GATT should first deliver on past promises, such as the removal of tariffs on tropical products; and regarded the inclusion of the `new issues' on the agenda as unacceptable (Coote, 1992: 109). However, to the benefit of the developing countries, agriculture, for the first time was included in the liberalization process. In addition, textiles and clothing, an area of trade governed for nearly three decades by a regime of its own, the Multi-Fibre Agreement, is also included in the Uruguay Round.

In recent times, the most interesting change has been the shift in perspectives between developed and developing countries. Originally, developed countries championed trade liberalization and developing countries were tardy trade partners. Today, many developing countries accept the virtues of liberalization, but are concerned that developed countries evade the strict application of the GATT rules through a range of non-tariff barriers (NTBs), such as the exercise of raw market power. The term `new protectionism' has hence arose in response to this tendency. This `new protectionism' is a serious issue for countries such as South Africa which have no access to preferential trade arrangements, and therefore rely on the effective operation of the GATT as the guarantor of a reasonably level playing field (Hirsch, 1993: 3).

The requirements of the Uruguay Round of all GATT members can be summarized as follows:

- A 33 per cent average cut of all industrial tariffs (in the context of conversion of non-tariff and specific barriers into ad valorem duties). Both industrial and agricultural tariff cuts to be phased into equal annual cuts over five years;
- A 36 per cent average cut of all agricultural tariffs (in a similar context), and the dimunition of domestic supports and export subsidies, and guarantees of minimum levels of market access for agricultural products;
- Agreement to a series of compulsory codes on export subsidies, (TRIMs) (for example local content programmes), and other issues);
- A commitment to a longer - term programme of liberalizing barriers to the trade in services; and
- An agreement to bring textiles and clothing into the GATT instead of segregating them, in a Multi-Fibre Agreement.

From the above, it is clear, the Uruguay Round is seen as one of the most important Rounds of multilateral trade negotiation ever to be seen. The success or failure of this Round is succinctly summed up by GATT Director-General, Peter Sutherland:

It could be the start of extensive co-operation and renewed prosperity that cuts deeply and decisively into what were hitherto regarded as issues of national sovereignty. Or it could herald an era of such disastrous division that the world trading and financial systems are satiated and the prosperity enjoyed by developed and developing countries alike in the Eighties becomes just a memory (Financial Mail, October 1993: 21).

SOUTH AFRICA UNDER SCRUTINY OF THE GATT

The GATT reviewed South Africa's trade policy on 1st and 2nd June 1993 in Geneva, Switzerland. (It should be noted that for the purposes of this thesis emphasis will be placed on industrial policy and not agricultural policy). The review was conducted in terms of a GATT decision of 1989 to review the trade policies of all GATT contracting parties on a regular basis. In the case of South Africa, this is to be done every four years. The purpose of the reviews is educative for the subject and its trading partners rather than prescriptive. The reports presented, one by the GATT secretariat and one by the country under review, are debated in the council with the aim of creating transparency and understanding of two-way problems and needs. There is no question of anyone laying down the rules, but it provides an exchange of views and enhances understanding about shortcomings and problems (Sunday Times, 6 June 1993: 20).

In view of its political transition, South Africa is classified as a developed country, but has been redefined as an 'economy in transition'. This re-definition provided certain concessions for South Africa, viz., certain domestic industries are allowed to phase out import protection over a longer period and the other concession was that South Africa was to be given leniency when applying the principle of reciprocity.

The South African delegation to Geneva was led by Dr Steffan Naude, the Director-General of Trade and Industry. Dr Naude faced two days of questions and criticism from the country's biggest trading partners, viz., the United States, the European Community and Japan, and others from Canada and the Scandanavians to Korea, Australia, Argentina and Mexico. Implicit in these exchanges between South Africa and the 80-odd council members was peer pressure for reform and change. The need for change has been made all the more urgent by the economic revolution sweeping the world, where reforms from China to Argentina are opening up markets and sucking in foreign investment - which South Africa badly needs if it is to grow. Not a single sector of South African business has escaped the attention of the GATT. Everything from cars to maize is surveyed in a 189 page report produced by the GATT secretariat. The report, although largely non-judgemental, gives many clues and raises problem areas which GATT has identified in the South African economy.

The summing up of the salient points of the review by Chairman of the Council, Andras Szepezi, indicated that all the countries fully appreciated South Africa's problems: 40 per cent unemployment, high inflation, a large fiscal deficit, low reserves and weak confidence among consumers and investors. The review, however, gave full credit for the efforts being made to bring South Africa back into the international trading community.

It also acknowledges the problems of ironing out the distortions which are the legacy of apartheid and isolation. Furthermore, GATT estimated the combined cost of trade sanctions, the financial embargo and disinvestment cost the country R40bn (GATT Secretariat Report, 1993: 5). But, equally bad, are the rigidities and uncompetitiveness, high cost structures created by protective import-substitution policies. The result being that South African trade focussed `principally on capital-intensive benefication and processing projects with limited potential for domestic employment creation'. At this juncture the GATT report states that "present policies need to restructure the productive capacities of the South African economy by increasing its export orientation". But the report cautions South Africa, that export-led growth while beneficial to the balance of payment, is unlikely to immediately affect the levels of unemployment, unless labour-intensive downstream industries can be developed (Sunday Times, 4 July 1993: 10). This is a similar conclusion that has been reached in the previous chapter.

The report also welcomed the lowering of tariffs and reduced import controls and open market reforms. However, it finds that the last is being "cautiously pursued". In addition, the tariff structure and the review mechanism underlying it are far from stable and transparent. In this respect the report suggests greater binding of tariffs in GATT and less reliance on sectoral protection which would provide a more reliable trading environment for firms in South Africa and for its trading partners (Financial Mail, 4 June 1993, 31-32). The report was concluded with recommendations to achieving greater uniformity in the tariff, a pre-announced schedule of tariff reductions, the phasing out of the import surcharge and a review of the rebate system.

According to observers at the debate words such as `courageous and ambitious' were used to describe the objectives of the Normative Economic Model (A blueprint underlying future economic strategies and economic policies for a post-apartheid South Africa) produced by Trade and Finance Minister, Derek Keys. In conclusion, the GATT review of South Africa's trade policies and practice gives full credit for the reforms to normalise the post-apartheid economy. Underlying the even-handed language of the GATT secretariat's report is the clear message: South Africa could do better, and that eliminating trade barriers and competition would stimulate growth, increase competitiveness, lower fiscal pressures and increase investor confidence. From examples such as Argentina in mind, the GATT believes that South Africa can learn valuable lessons: Evidence from other countries at similar levels of development and trade orientation to South Africa, which have undertaken reform, gives a clear signal that autonomous trade liberalization, coupled with prudent macro-economic and progressive social policies, can bring notable and sustained economic growth and development (Financial Mail, 4 June 1993: 32).

South Africa put forward offers for negotiation in 1990 according to the original timetable of the GATT. These offers were drawn up with limited consultation with the private sector, and no consultations beyond it, leading to angry accusations of secrecy and high - headedness. As the right of the Government to make unilateral decisions that would affect the long-term future of the country came under fiery questioning, the freedom for the Government to behave in this way diminished (Hirsch, 1993: 4). While the delayed negotiations meant that South Africa's original offers were never formally negotiated, they were with-drawn in 1993. The reasons offered were vague references to the unhappiness to trading partners, to arguments that offers were hastily prepared and needed to be revised into a more consistent structure, reflecting policy considerations.

Hence, the revised industrial tariff offer has the following characteristics:

- The number of tariff headings has been reduced from 12 800 to around 1 000 to simplify paperwork and harmonize with rest of the world.
- Industrial tariffs will be cut, on average, by about 33 per cent, in five equal stages by 1999. Within this agreement, the maximum tariff for a consumer good will either be 20 per cent or 30 per cent - the maximum for intermediates including capital goods will be 10 per cent or 15 per cent, while the maximum for raw materials will be 0 per cent or 5 per cent. In other words, by 1999 all industrial products will have a maximum tariff at one of these 6 levels.
- There will be some casualties, notably in clothing, textiles and motor assembly, which will have longer phasing-in-periods. The labour-intensive clothing industry enjoys import

protection of 100 per cent, which will be more than halved (i.e. 60 per cent) over an eight - year period commencing in 1995.

Textile producers are unable to compete with cheap imports from the Far East notwithstanding high levels of protection, and clothing prices have been driven up because of high domestic cost of textiles. It is hoped the eight year phasing-in period with a maximum tariff of 30 per cent will allow the industry sufficient time to adjust to tougher international competition.

The motor industry faces rationalization once it is forced to drop import-substitution of 100 per cent to 50 per cent over the same period, i.e., eight years, with a maximum tariff of 50 per cent for assembled motor vehicles and 30 per cent for components. The industry plans to reduce the number of models produced from 35 to around 20 as part of a restructuring programme. This will result in job losses, but a more profitable industry in the long-run.

The rationale for the overall structure of the offer is the desire to encourage the manufacture of potentially competitive higher value-added products, which are consumer products or capital goods. Beyond this, the relative neutrality of the offer is intended to encourage specialization in the fields in which South Africa has some comparative advantage (Hirsch, 1993: 4). (The areas in which South Africa has comparative advantage has been identified in the previous chapter). Unlike the first offer, the revised offer was canvassed more widely. In addition to being published, the offer was discussed in the National Economic Forum (NEF) and several `industrial task forces'. These are triparitite institutions on which the Government, business and labour are represented. All aspects of economic policy are debated in this Forum, with trade policies being no exception.

The GATT trade offer put forward by South Africa led to the introduction of a package of domestic trade reform measures consisting of:

1. a reduction of tariffs to subject the industrial sector to greater competition;
2. monetary and fiscal reform in support of competitiveness; and
3. financial assistance on the supply side by supporting technological upgrading and the training and re-training of workers.

In line with the above, the comprehensive customs tariff rationalization is aimed at simplification, greater transparency and a more uniform and stable tariff. Dr Naude has on numerous occasions insisted that the restructuring of trade policy is principally aimed at the promotion of a competitive export-oriented manufacturing sector, i.e., South Africa will have to put greater emphasis on exports as the main vehicle for sustainable future growth. The positive nature of the Uruguay Round and its will to create an environment of certainty and rules will enhance the export sector only when South Africa has altered its export structure significantly.

South Africa, however, could not act speedily. It would depend on a host of factors such as the political debate in the (NEF) and not least in making industries more competitive. The other problem for South Africa is that the cost of restructuring protected industries will have to be met before the benefits of a stronger export industry flow through. The `weakness of the economy implied that the reform process would have to be gradual', according to Mr Szepesi. It is noted that tolerance of South Africa's problems has been a very important objective of the trade negotiations. Furthermore, the whole process of tariff reform will have to be managed carefully and implemented gradually in a co-ordinated way. The crucial point according to Dr Naude is that neither tariff reform nor the abolition of the subsidy can be effected overnight. The export incentive will be phased out with the gradual implementation of tariff liberalization (Naude, 1993: 4).

As South Africa is at present in transition, it would be undesirable to unleash the full force of international competition. A sudden disruption of the economy could cause further larger-scale retrenchments which have to be avoided at all cost. The danger of unleashing full international competitiveness is also shared by Trevor Bell (1990). However, the veil on competition must be lifted once domestic industry has recovered from the recession. To awaken South Africa with a bucket of cold water, while the industrial world and South Africa's main export markets remain in semi-recession would probably induce trauma from which it would take years to recover (Cavill, 1993: 20).

South Africa's trade offer to the GATT was made under difficult political circumstances, and without a sufficient degree of preparation as the trade offer was released in early July and had to be delivered in its final form to Geneva by the end of August. Nevertheless, it will bind South Africa to a maximum degree of protection for all its goods and services.
One estimate suggest that GATT will cost South Africa $600m a year because of expected declines in the real prices of exports. The question is then asked, if the GATT is going to cost South Africa jobs and expose some industries to intense foreign competition, why doesn't South Africa go it alone? The immediate reaction is, because South Africa's trading partners have committed themselves to GATT and if we (South Africa) decided to ignore the agreement and continue protecting our domestic industry, this would invite retaliatory measures that would be extremely harmful to South Africa. It is for this reason that Dr Naude stressed that South Africa had no option but to follow the agreements on trade liberalization in Uruguay if it is to have sufficient economic growth (Daily Dispatch, 3 November 1993: 9).
Another question which has raised similar concern is whether South Africa will be swamped with cheap foreign goods? The obvious answer is yes. But the effects of GATT will be felt gradually rather than suddenly. South Africa's labour costs are substantially higher than those of many East Asian economies, so competition will be greatest from these countries. Consumers will notice an increasing inflow of foreign goods such clothing, textiles, cars and consumer electronics. A wider range of cheaper, high quality products will be available in South African

shops. In the case of the `dumping' of goods, South Africa will have leverage to impose import duties as prescribed by the GATT agreement.

If some of the elements of the GATT trade offer have disastrous effects, it will be possible to renegotiate them until 15 April 1994 when the GATT treaty will be ratified. But South Africa cannot at all cost afford to abandon its membership to the GATT. "There is no way," says Dr Naude "that we can reintegrate with the global economy outside GATT. There is a clear appreciation of that" (Financial Mail, 16 July 1993: 22).
With this succinctly stated, there now exists many decisions to be made on the domestic front. GATT merely sets maximum levels of protection; it does not formulate the industrial policy to make the tariff offer work. There are numerous opportunities available to South Africa. One such opportunity is adding value to the country's vast mineral wealth which should assume national priority. Instead of exporting raw materials to other countries so that they can add the value, South Africa must develop industries `downstream' of the mines and primary producers to create wealth internally. GATT will force South Africa to develop an aggressive export culture. It is without doubt that South Africa's economic survival depends on expanding trade links with the rest of the world. We need to increase our exports to generate wealth and foreign exchange with which to pay for imports and repay loans. The new Government regardless of its composition is bound to accept the terms negotiated. The African National Congress (ANC) and other opposition groups were

consulted throughout the GATT negotiation process and are in general agreement with the outcome. Foreign investment will gravitate to those countries with high productivity and low labour cost (and growing, stable economies). In an interview with Sir Leon Brittan, the European Communitys' (EC) chief negotiator to the GATT, his message to South Africa on foreign investment was succinct: You can't force people to invest in your country. South Africa must create conditions which make it safe and attractive for investors to come. Investors will come to South Africa when their exists political stability, skills, access to markets and a regime that is friendly to them (Sunday Times, 22 August 1993: 1).

Also on the domestic front, urgent attention must be given to the institutions that formulate and implement trade policy and industrial policy to ensure that we do not repeat the mistakes of the past. Several policy research initiatives are currently investigating policies and constitutional frameworks for future trade policies. Some are located within Government such as the Industrial Development Corporation; others are located in the private sector such as the Cosatu linked - Industrial Strategy Project, the University of Cape Town (UCT) based Trade Policy Monitoring Project, the (ANC) based Macro Economic Research Group (MERG), and the South African Chamber of Business's (SACOB) industrial policy initiative. These initiatives clearly indicate that the debate on future trade industrial policy is a serious one.

The above analysis indicates that South Africa's membership to the GATT is no longer in name only. Since 1990, it has become an active participant in the activities of the GATT. South Africa's membership has for the first time provided clarity and transparency on its trade regime. The GATT Council has provided some useful recommendations that can only benefit a post-apartheid South Africa.

In turn, South Africa's trade offer to to GATT indicates that it is committed to trade liberalization with emphasis on an export-led growth strategy. Initiatives taken on the domestic front have been most encouraging in this endeavour. This enthusiasm now warrants greater access to information and other resources such as technological innovations to a pursue a trade policy that is competitive and fair. Besides having access to contemporary developments, South Africa needs skilled personnel (negotiators) to locate niches for South African goods and services and hence negotiate the best deals and contracts for South Africa.

After all that has been said and done, trade takes the form of either bilateral or multilateral negotiation. The often complex and transboundry nature of the action required, technological progress as well as an evolution in the shared values of the international community, create a framework of interdependence, and underscore the need for cooporation between states. Whether it be called `bilateral diplomacy' or `multilateral diplomacy', the growth of diplomacy has led to the emergence of new diplomatic styles and methods in the quest for achieving common objectives. The characteristics of this new form of diplomacy together with the diplomatic characteristics that diplomats should possess will be given greater attention in the next (final) chapter.

CHAPTER FIVE

SOME CONCLUDING REMARKS ON THE ROLE OF DIPLOMACY IN TRADE

A clear message throughout this thesis is: if South Africa is to grow, develop and prosper it will be essential for it (South Africa) to put into practice the export-oriented strategy of growth. While South Africa is developing the growth of its sectors and adjusting its trade policies, it must also start identifying the likely and lucrative new markets for its goods and services. This requires South Africa not only to become internationally competitive, but also to have skilled negotiators who are fluent in bargaining tactics and who speak the language of trade diplomacy.

The traditional study of diplomacy has focussed on such concerns as the legal status of ambassadors, the functions performed by embassies, and the qualities to be a successful negotiator. However, in recent years, the concept of diplomacy has been broadened to mean the general process whereby states and/or organizations seek to communicate, to influence each other, and to resolve conflicts through bargaining - either formal or informal -short of the use of armed force (Pearson and Rochester, 1992: 234).
South Africa over the years has been involved in limited bilateral (two - country) diplomacy, and with very little or no emphasis on multilateralism (The meeting together of several countries). The reason for this has been that the South African Department of Foreign Affairs (DFA) until recently had no multilateral division,

and has hence lacked exposure to multilateral diplomacy at international conferences, summits, international trade agreements (GATT), etc. Multilateral diplomacy has become increasingly prevalent in the twentieth century, owing to a number of factors: (1) the existence of many problems (not only arms control but economic and environmental concerns) that spill over several national boundaries; (2) the proliferation of intergovernmental organizations at the global and regional levels such as the United Nations (UN) and the European Community (EC) which provide ongoing institutional settings for the conduct of multilateral diplomacy; and (3) the existence of many Less Developed Countries (LDCs) that have come to rely on the UN and other multilateral forums for the bulk of their official contacts (Pearson and Rochester, 1992: 241).

Multilateral diplomacy has become a highly developed phenomenon and South Africa must take cognisance of its existence. To play a constructive role in multilateral institutions and conferences, adequate training in speech-making, parliamentary maneuvering, voting procedure and protocol will be essential for South Africa. South Africa needs the development of knowledge that was previously *terrae incognitae*. South Africa's growing international involvement means that the Republic will be involved to address global issues such as the ecology, nuclear non-proliferation, population development, etc. This requires expertise and global problem solving-techniques with which South African diplomats need to be accustomed with. To improve the quality of diplomatic training, both in bilateralism and multilateralism, South Africa will need to enlist the support and assistance of organisations such as the United Nations Institute for Training and Research (UNITAR), whose main focus of diplomatic training has been in multilateralism. This is not to say that bilateral diplomacy needs no improvement. On the contrary, with the continued international challenges within international relations, diplomats will have to be more thoughtful and innovative in their thinking and actions. They will need a clear understanding of the world which is itself undergoing fundamental change. Furthermore, South African diplomats must appreciate the fact that in any foreign policy initiative , domestic rehabilitation will need turning on a purposeful and constructive engagement with the international community.

It is telling from the above that diplomacy has changed in the course of time and so, presumably, have the requirements to be met by the 'ideal diplomatist'. Of all the qualities that Harold Nicolson lists as essential to being an ideal diplomat, the first is truthfulness and honesty - if only to retain future credibility and effectiveness. The others include precision, in terms of clarity of expression; calmness and a good temper; patience and modesty, since vanity could make a diplomat more likely to alienate the other side with arrogant behaviour or to succumb to its flattery; adaptability, that is, the ability to listen with attention and reflection; loyalty to ones owns own government, physical and mental endurance; linguistic versatility and courage (Pearson and Rochester, 1992: 255) and (Kaufmann, 1989: 134-140). South African diplomats must inculcate the above principles and values in their daily routine, with a view to represent the interest of all (majority and minority) South Africans.

The type of diplomacy used must be made adaptable to the changing times and circumstances of the international system. It is within this scenario that it becomes imperative to analyze and understand the type of foreign policy orientation that would be most suited for promoting South African interests, especially in trade. The foreign policy orientation of a state is described by Holsti (1983:98) as `a state's general attitudes and commitments toward the external enviroment and its fundamental strategy for accomplishing its domestic and external objectives and for coping with persisting threats'. The foreign policy objective of an international actor thus refers to its perception of the ideal level and nature of involvement in the international system, and its own level of international participation. The contemporary international system has the choice of three such orientations, viz., isolation, permanent neutrality and non-alignment.
Isolation, with its emphasis on disengagements and dissociation in international affairs would be an improbable and costly option, as already witnessed in the sanctions era. Permanent neutrality on its part has been negatively affected by the overall unprecedented and profound changes in the international system, and would also be an unlikely option. Non-alignment on the other hand, has one of its major objectives as the maximization of freedom of choice, maneuverability and flexibility in foreign policy decision-making based on the dictates of national interest rather than ideological prescription. There is no consensus in the literature on the exact characteristics and principles of non-alignment. However, Singham and Hune (1986:14-15) have identified five principles of

non-alignment, viz., (1) peace and disarmament, (2) independence and racial equality, (3) universalism and multilateralism, (4) economic equality, and (5) cultural equality.

The most apposite definition of non-alignment has been given by the Prime Minister of India, Mr P.V.Narasimha Rao: Non-alignment is the right to take independent decisions not trammelled by either promptings from outside or pressures from any quarter. When we agree with someone, it should not be seen as the result of an agreement under pressure. If we disagree with someone, it should not again be seen as the result of opposition. When opinions coincide, they, are opinions which create a consensus. If they don't, then the individual country has the right to stick to their own opinions (Rao, 1991: 7).

The importance of non-alignment is further indicated when examining the global restructuring of international economic relations. Since South Africa has the characteristics of a developing country, and since all non-aligned countries belong to the category of developing countries, emphasis will be placed on the need to eliminate the existing economic inequalities in the world. What the developing countries demand is not a formal transfer of riches, but an opportunity to earn their share through a more just and less inequitious set of rules of the game (Rao, 1991: 23). To find a mechanism or institution to bring about the fruition of the above is indeed the objective of the North-South Dialogue. It is clear that without the fullest cooperation of the international community, especially those who hold the awesome power of money and technology, any worthwhile progress is inconceivable.

Therefore, appropriate importance has to be given to the developmental efforts at the national level, as well as to the concept of collective self-reliance and cooperation among developing countries. Self-reliance and cooperation would involve the pooling of resources and the coordination of policies. There is no longer any need, nor justification in taking a purely Eurocentric view of the world. In fact, South Africa and other developing countries need to develop their own philosophy and ethos of development which should be informed by justice and equity, and should not add to the problems of dependence, as it was prevalent in the colonial era.
The flexibility and practicality of non-alignment together with the five principles mentioned appears to be the most attractive foreign policy option available to South Africa. Non-alignment as a foreign policy orientation would respect South Africa's sovereignty and spirit of independence in an interdependent world, and would also at the same time contribute to the development of other developing countries. South Africa's decisions and opinions would be respected, despite their differences with other countries, and these differences could be ironed out through decision-making by consensus. It is this culture of tolerance, openness and the free expression of views that makes non-alignment the most suited foreign policy orientation for a post-apartheid South Africa.

During the apartheid era, a major goal of foreign policy was to establish the legitimacy of the South African Government in the international arena. In the diplomatic quarters of some of the worlds capitals, the South African embassy tended to "stick out". It was the building with the highest walls, the thickest razor wire and the most satellite dishes and aerials. The embassy personnel were a hunted breed, struggling to explain the grotesque nature of apartheid to a hostile public (The Eastern Province Herald, 13 October 1993: 5). In the process, South Africa established links with other pariah states, and build an import-replacing industrial fortress behind high tariff walls. So, by the early 1990's South Africa was left with a complex, unstable and unpredictable system of protection, which had no relationship to a programme of industrial development, let alone export-oriented industrialization. Consequently, no country wanted to formally associate itself with South Africa, let alone trade legitimately with it.

With the apartheid era now reaching the end of its journey; and with the prospect of a legitimate and internationally recognised Government emerging after 27 April 1994, the search for legitimacy will no longer be the primary foreign policy goal. Consequently, South African foreign policy will be heavily influenced by the requisites of its domestic priorities; and to cater for this domestic growth there will be the intense need for the serious dedication and commitment to applying the export-led growth strategy and seeking out new and profitable export markets. However, before fulfilling this objective there must be domestic change, that is, Government, business, labour and technology will have to work together to replace the import-substituting trade regime with an export-led trade regime, with particular emphasis on the simultaneous application of liberal and mercantilist principles.

The reality in South Africa is that black South Africans are heavily unrepresented in the economic mainstream. With the country on the threshold of a new era, the problem has to be addressed on a wider front and more intensely than before. As economic activity becomes more complex, so "rules of the road" are required for the orderly development of the economy. The role of big business is important in the transference of skills and training and management techniques. It has the expertise, facilities and opportunities to produce a sophisticated and skilled management class and entrepreneurial sector with the intention and purpose of creating a competitive manufacturing sector. Business must realize that assistance cannot be based on altruistic or philanthropic policies but on economic principles. And as rule they must abandon restrictive practices, remove barriers to entry in the market and resist taking quasi-monopoly positions. If business fail to adhere to the above, it will, in the long-run have the most to lose.

The acceptance of the need for an export industrial policy carries with it an acceptance for a measure of Government involvement aimed at creating an enabling environment for growth in the industrial sector. What South Africa urgently needs is the setting up of a Forum for Industrial Policy (FIP) similar to the Industrial Structures Council of Japan's Ministry of Trade and Industry (MITI). The main actors would be representives from Government (DFA officials), industry (business professionals) labour (trade unions leaders) and the `suppliers of technology' which would include academics and scientific bodies. The role of the FIP should not only give a long-term orientation (the `vision') but should also entail the coordination of the relevant actors, federating them around the vision, pooling their financial contributions and expertise in joint projects and hence creating the climate in which consultation would be an ongoing process. The successful fruition of the above would require a constant flow of information, from and between the actors. This would allow a more information-based policy formulation and a policy implementation perceived less as a threat and more as a `signal', an orientation prepared after much consultation, information sharing and discussion of alternatives. The DFA must play a pivotal role in the FIP by adequately assessing changing situations and providing constructive alternatives so as to be abreast of international developments.

In the final analysis, South Africa desperately needs to utilize its resources efficiently and effectively to ensure that its transformation into the next century is secure and that all its people can prosper. As the year 2000 approaches, the current generation is faced with entering not only a new century but a new millennium with numerous challenges ahead. As the last years of the twentieth century tick away, then, this would seem as good a time as any to pause and reflect upon South African society and what might be done to improve it. More than ever, the future is now for the diplomacy of isolation to be replaced with the diplomacy of cooperation, participation and peaceful coexistence.

APPENDICES

TABLE NO.1

WESTERN SANCTIONS AGAINST SOUTH AFRICA

	Trade Sanctions	
	Against Exports to South Africa	Against Imports from South Africa
EEC	Partial: no military arms	Partial: no iron, steel, gold coins
Common-wealth	Partial: no sales to the government	Partial: no agricultural products, uranium, products made by parastatals
Britain		Partial: no iron, steel
Canada		Partial: no government purchases of SA products; no uranium, agricultural products, gold coins
Denmark	Total	Total
France	Partial: no computer equipment for military or for maintaining order; no petroleum products as source of energy	Partial: no scrap iron, steel, gold coins
Italy	Partial: government authorization required for oil exports	Partial: no scrap iron, steel, gold coins
Japan	Partial: no computer sales to "apartheid supporting agencies," such as police/armed forces	Partial: no future contracts for iron, steel; no gold coins
Netherlands	Partial: no military equipment	Partial: no iron, steel, gold coins
Norway	Total, except for oil tankers whose destination is decided at sea	Total
Sweden	Total	Total, even SA goods passing through third parties
United States	Partial: no computer/equipment technology to government agencies enforcing apartheid; no nuclear materials/technology; no items on munitions list; no crude oil or petroleum products	Partial: no gold coins, military articles, uranium, coal, textiles, agricultural products, iron, steel, sugar, or any other products from SA parastatals

S O U R C E: Khan, H.A. The Political Economy of Sanctions Against South Africa, 1989, p.32.

TABLE No.2

GATT Negotiating Rounds

Round	Country	Dates	Number of countries
1	Geneva	1947	23
2	Annecy	1949	33
3	Torquay	1950	34
4	Geneva	1956	22
5	Dillion	1960-61	45
6	Kennedy	1962-67	48
7	Tokyo	1973-79	99

S O U R C E: Coote,B. The Trade Trap - Poverty and Global Commodity Markets, 1992, p.106.

Table No.3

EXPORTS OF THE UNION OF SOUTH AFRICA
1910 - 1939
(000)

Year	Merchandise (excluding gold)	Gold	Specie	Total
1910	21 819	31 791	330	53 940
1911	21 960	35 064	284	57 308
1912	24 632	38 342	299	63 273
1913	28 980	37 589	90	66 659
1914	19 390	20 544	290	40 224
1915	16 665	18 153	194	35 012
1916	25 990	39 693	187	65 870
1917	31 665	59 910	153	91 728
1918	35 402	34 231	223	70 856
1919	44 751	51 561	48	96 360
1920	51 989	46 776	101	98 866
1921	31 244	42 989	116	74 349
1922	33 032	31 841	72	64 945
1923	39 253	41 712	314	81 279
1924	39 963	44 219	75	84 257
1925	47 947	41 203	199	89 349
1926	42 678	43 130	234	86 042
1927	51 330	44 724	287	96 341
1928	52 043	44 028	248	96 319
1929	51 263	46 269	197	97 729
1930	35 790	47 457	93	83 340
1931	25 622	45 883	238	71 743
1932	20 361	49 176	107	69 644
1933	25 291	68 872	120	94 283
1934	25 822	55 926	117	81 865
1935	30 734	71 510	137	102 381
1936	31 010	82 720	780	114 510
1937	42 461	82 883	35	125 379
1938	32 508	73 307	45	105 860
1939	34 110	91 400	33	125 543

S O U R C E : Official Yearbook of the Union of South Africa, 3/1919, 6/1923, 9/1926-27, 12/1929-30, 15/1932-33, 18/1937, 21/1941.

Table No.4

IMPORTS OF THE UNION OF SOUTH AFRICA
1910 - 1939
(000)

Year	Merchandise	Government Stores	Specie	Total
1910	34 007	2 720	2 213	38 940
1911	34 945	1 980	1 110	38 035
1912	36 010	2 829	1 006	39 845
1913	38 526	3 302	968	42 796
1914	31 323	4 032	1 037	36 392
1915	29 209	2 602	2 023	33 834
1916	38 759	1 641	785	41 185
1917	34 715	1 725	1 889	38 365
1918	47 397	2 090	2 059	51 546
1919	46 713	4 078	2 327	53 118
1920	93 406	8 422	4 100	105 927
1921	49 878	7 922	401	58 201
1922	47 228	4 186	144	51 558
1923	54 544	3 270	22	57 836
1924	59 621	6 195	79	65 895
1925	63 224	4 705	9	67 938
1926	67 938	5 221	161	73 320
1927	70 773	3 297	59	74 129
1928	75 502	3 586	26	79 114
1929	79 040	4 409	6	83 455
1930	60 187	4 371	21	64 579
1931	50 276	2 669	70	53 015
1932	31 466	1 207	140	32 813
1933	47 532	1 587	259	49 378
1934	63 885	2 367	69	66 321
1935	71 618	3 671	44	75 333
1936	81 099	5 183	22	86 304
1937	97 305	6 063	16	103 384
1938	86 371	9 487	28	95 886
1939	85 411	5 911	20	91 342

S O U R C E : Official Yearbook of the Union of South Africa, 3/1919, 6/1923, 9/1926-27, 12/1929-30, 15/1932-33, 18/1937, 21/1941.

Table No.5

IMPORT PENETRATION RATIOS

	1965	1970	1975	1980	1985
Food	9.7	11.3	12.7	6.0	7.7
Beverages and tobacco	4.5	5.3	4.0	2.4	4.9
Textiles	37.8	30.2	20.8	15.8	15.8
Clothing	10.8	14.6	10.1	6.7	7.2
Footwear	3.4	8.4	10.5	8.6	10.4
Wood and wood products	25.0	19.7	18.7	12.0	9.3
Paper and paper prods	23.4	24.3	17.9	16.4	13.6
Chemicals	25.0	25.2	16.5	15.1	15.1
Metal and metal prods	21.1	17.1	16.5	7.0	11.1
Non-metal mineral prods	22.8	17.7	12.6	6.3	20.0
Rubber products	21.4	20.2	19.3	22.8	20.6
Machinery	50.3	57.0	52.3	50.1	52.1
Motor vehicles and transport eqpt	37.1	39.2	34.5	31.4	30.0

S O U R C E: Kahn (1987) South African Journal of Economics.

Table No.6

IMPORT VALUES BY ISIC CLASSIFICATION (Rm)

Year	Mining	Manufacturing	Agriculture	Other
1968	106.0	1 699.4	45.2	29.8
1970	93.5	2 343.2	67.7	74.3
1972	181.4	2 546.3	56.7	242.8
1974	114.2	4 629.1	119.7	881.1
1976	136.6	5 547.8	139.1	1 613.8
1978	101.4	5 971.4	159.7	1 786.5
1979	130.9	6 647.1	197.6	2 929.1
1980	223.4	9 638.9	228.1	4 290.9
1981	212.9	13 242.6	324.0	4 650.3
1982	194.5	13 423.3	303.0	4 443.9
1983	197.0	12 260.0	550.3	3 216.7
1984	305.2	17 167.6	997.3	3 165.7
1985	469.1	18 214.0	578.4	3 429.1
1986	460.6	20 397.8	98.6	5 306.5
1987	365.4	23 221.8	613.3	4 472.1

S O U R C E: South African Quarterly Bulletin of Statistics, various issues.

TABLE NO.7

SOUTH AFRICA'S TRADE WITH TRADE PARTNERS, 1986-1991

Suppliers of Imports	1986	1987	1988	1989	1990	1991
Germany[1]	1,941	2,548 (+31%)	3,332 (+31%)	3,263 (-2%)	3,044 (-7%)	2,839 (-7%)
Japan	1,249	1,882 (+51%)	2,047 (+9%)	1,737 (-15%)	1,491 (-14%)	1,639 (+9%)
UK	1,247	1,557 (+25%)	1,912 (+23%)	1,699 (-11%)	1,983 (+17%)	1,807 (-9%)
US	1,158	1,281 (+11%)	1,691 (+32%)	1,659 (-2%)	1,732 (+4%)	2,113 (+22%)
France	405	467 (+15%)	581 (+24%)	563 (-3%)	509 (-10%)	930 (+83%)
Italy	352	456 (+30%)	501 (+10%)	637 (+27%)	694 (+9%)	628 (-10%)
Netherlands	253	289 (+14%)	336 (+16%)	297 (-12%)	286 (-4%)	390 (+36%)
Switzerland	243	272 (+11%)	320 (+18%)	315 (-1%)	378 (+20%)	345 (-9%)
Taiwan[2]	224	434 (+94%)	629 (+45%)	590 (-6%)	563 (-5%)	701 (+15%)
Belgium[3]	210	285 (+36%)	366 (+28%)	385 (+5%)	387 (+1%)	364 (-6%)
Total top ten countries	7,281	9,471 (+30%)	11,715 (+24%)	11,145 (-5%)	11,065 (-1%)	11,753 (+6%)
Total all countries[4]	11,762	14,111 (+20%)	17,353 (+23%)	16,949 (-2%)	16,545 (-2%)	16,974 (+3%)
Receivers of exports	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**
US	2,476	1,399 (-43%)	1,575 (+13%)	1,586 (+1%)	1,752 (+10%)	1,779 (+2%)
Japan	2,266	2,436 (+8%)	1,955 (-20%)	2,047 (+5%)	1,858 (-9%)	1,832 (-1%)
Italy	1,916	1,788 (-7%)	2,163 (+21%)	2,621 (+21%)	2,546 (-3%)	2,462 (-3%)
Germany[1]	1,376	1,248 (-9%)	1,727 (+38%)	1,553 (-10%)	1,822 (+17%)	1,918 (+5%)
UK	1,218	1,073 (-12%)	1,425 (+33%)	1,477 (+4%)	1,915 (+30%)	1,696 (-11%)
France	486	583 (+20%)	708 (+21%)	755 (+7%)	750 (-1%)	663 (-12%)
Belgium[3]	360	385 (+7%)	559 (+45%)	730 (+31%)	662 (-9%)	654 (-1%)
Hong-Kong	348	325 (-7%)	449 (+38%)	435 (-3%)	373 (-14%)	401 (+8%)
Taiwan[2]	326	794 (+144%)	999 (+26%)	869 (-13%)	975 (+12%)	1,026 (+5%)
Spain	283	320 (+13%)	386 (+21%)	477 (+24%)	429 (-10%)	455 (+6%)
Total top ten countries	11,055	10,351 (-5%)	11,946 (+18%)	12,550 (+5%)	13,082 (+4%)	12,886 (-2%)
Total all countries[4]	18,485	23,541 (+27%)	21,549 (-8%)	22,220 (+3%)	24,306 (+9%)	26,599 (+9%)

S O U R C E: International Monetary Fund Direction of Trade Statistics Yearbook 1991, Monthly statistics of exports and imports; Ministry of Finance; Taiwan.

TABLE NO.8

SOUTH AFRICA'S TRADE WITH AFRICAN TRADE PARTNERS, 1986-1991

Suppliers of Imports	1985	1986	1987	1988
Zimbabwe	103.4	130.3 (+26%)	111.5 (-14%)	136.7 (+23%)
Malawi	15.6	17.8 (+14%)	21.3[1] (+20%)	25.6[1] (+20%)
Zambia	5.1	5.3[1] (+4%)	6.4[1] (+21%)	7.6[1] (+19%)
Mauritius	1.5	2.0 (+33%)	3.8 (+90%)	4.8 (+26%)
Reunion	0.1	0.1 (+0%)	0.2[1] (+100%)	0.2 (+0%)
Senegal	0.1	0.2 (+100%)	0.3[1] (+50%)	0.3[1] (+0%)
Total top six countries	125.7	155.6 (+28%)	143.4 (-8%)	175.2 (+22%)
Receivers of exports	**1985**	**1986**	**1987**	**1988**
Zimbabwe	169.1	210.8 (+25%)	217.4 (+3%)	255.8[1] (+18%)
Zambia	123.3	129.4[1] (+5%)	155.3[1] (+18%)	186.4[1] (+22%)
Malawi	109.0	74.5 (-32%)	89.4[1] (+20%)	107.3[1] (+20%)
Mauritius	44.9	67.7 (+51%)	86.3 (+27%)	110.3 (+28%)
Reunion	30.7	40.4 (+32%)	34.0 (-16%)	35.1 (+3%)
Seychelles	9.0	13.4 (+49%)	14.6 (+9%)	18.9 (+29%)
Senegal	8.3	16.7 (+101%)	20.0[1] (+20%)	24.0[1] (+20%)
Total top seven countries	494.2	552.8 (+12%)	617.0 (+12%)	737.8 (+20%)

S O U R C E: International Monetary Fund Direction of Trade Statistics Yearbook 1989 & 1991.

Table No.9

EXPORT SHARES IN TOTAL EXPORTS (PERCENTAGE)

	1957	1964	1971	1978	1983	1985
Agriculture, fish, & forest	18.9	15.6	9.6	7.4	3.8	4.8
Mining	53.1	58.5	56.6	59.6	50.4	62.3
Food	7.6	10.2	12.2	7.4	2.8	3.5
Beverages and tobacco	0	0.7	0.5	0.4	0.1	0.1
Textiles	2.2	1.8	3.7	1.7	1.2	1.6
Clothing and footwear	1.3	0.8	0.9	1.0	0.2	0.2
Wood and wood products	0	0.1	0.1	0.4	0.2	0.2
Furniture	0	0.1	0	0	0	0
Paper and paper products	0.7	0.9	1.2	0.8	1.0	1.9
Printing and publishing	0	0.3	0.2	0.1	0	0
Leather and leather products	0	0.2	0.4	0.1	0.1	0.2
Rubber products	0.6	0.2	0.2	0.1	0	0.1
Basic chemicals and petrol	4.2	3.1	7.6	6.4	2.2	3.4
Non-metallic products	0.4	0.4	0.8	0.7	0.2	0.2
Basic metals	4.0	5.4	4.5	8.5	12.1	17.5
Metal products	0.9	0.9	1.5	0.8	0.3	0.4
Machinery excl. electrical	1.7	1.1	2.1	0.8	0.7	1.3
Electrical machinery	0.5	0.3	0.8	0.3	0.2	0.3
Motor vehicles & transport	0.9	0.7	1.0	0.8	0.7	1.0
Miscellaneous	2.0	1.5	3.0	2.9	0.9	1.5

S O U R C E: Nattrass, N. & Ardington, E (ed.) The Political Economy of South Africa, 1990, p.266.

Table No.10

EXPORT SHARES IN MANUFACTURED EXPORTS (PERCENTAGE)

	1957	1964	1971	1978	1983	1985
Food processed	27.0	39.7	36.2	22.3	12.1	10.2
Beverages and tobacco	1.1	2.7	1.5	1.1	0.6	0.4
Textiles	7.9	7.0	10.9	5.1	5.2	4.9
Clothing and footwear	4.6	2.9	2.7	3.0	0.7	0.9
Wood and wood products	1.0	0.5	0.3	1.1	0.7	0.7
Furniture	0.5	0.4	0.1	0.2	0.2	0.2
Paper and paper products	2.7	3.3	3.4	2.4	4.3	5.5
Printing and publishing	0.4	1.2	0.6	0.3	0.1	0.1
Leather and leather products	0.2	0.7	1.2	0.4	0.4	0.6
Rubber products	2.4	0.9	0.6	0.3	0.2	0.2
Basic chemicals and petrol	15.0	12.3	22.2	19.4	9.7	10.0
Non-metallic products	1.5	1.4	2.3	2.2	0.7	0.8
Basic metals	14.3	21.1	13.2	25.6	52.8	51.9
Metal products	3.3	3.5	4.4	2.3	1.1	1.2
Machinery excl. electrical	6.1	4.4	6.2	2.3	3.2	3.7
Electrical machinery	1.8	1.3	2.5	1.0	0.9	0.9
Motor vehicles & transport	3.1	2.7	3.0	2.3	3.0	3.0
Miscellaneous	7.1	5.9	9.0	8.6	4.0	4.5

S O U R C E: Nattrass, N. & Ardington, E (ed.) The Political Economy of South Africa, 1990, p.267.

Table No.11

ORGANIZATION OF THE URUGUAY ROUND

The TRADE NEGOTIATIONS COMMITTEE supervises three Committees which are set up in negotiation groups:

A. The Committee of Negotiations on Trade in Goods (CNG), which is sub-divided into 14 groups of negotiations:

1. Tariffs.
2. Non-tariff measures.
3. Products based on natural resources.
4. Textiles and clothing.
5. Agriculture.
6. Tropical fruits.
7. GATT Articles.
8. Examination of agreements and arrangements stemming from multilateral trade negotiations (Tokyo Round).
9. Safeguard measures.
10. Subsidies and countervailng measures.
11. Trade-related aspects of intellectual property rights (including trade in counterfeit goods) (TRIPs).
12. Trade-related investment measures (TRIMs).
13. Settlement of trade disputes.
14. Functioning of GATT (FOGs).

B. The Committee of Negotiations on Trade in Services (CNS).

C. The Monitoring Committee: it is understood that, with regard to trade in goods, the Ministers are committed to taking no new measures that are incompatible with the General Agreement ('standstill commitment'), and to gradually eliminating existing measures which are incompatible with this agreement ('rollback commitment').

S O U R C E: GATT Briefing No. 1, June 1990, published by RONGEAD, France.

FIGURE NO.1

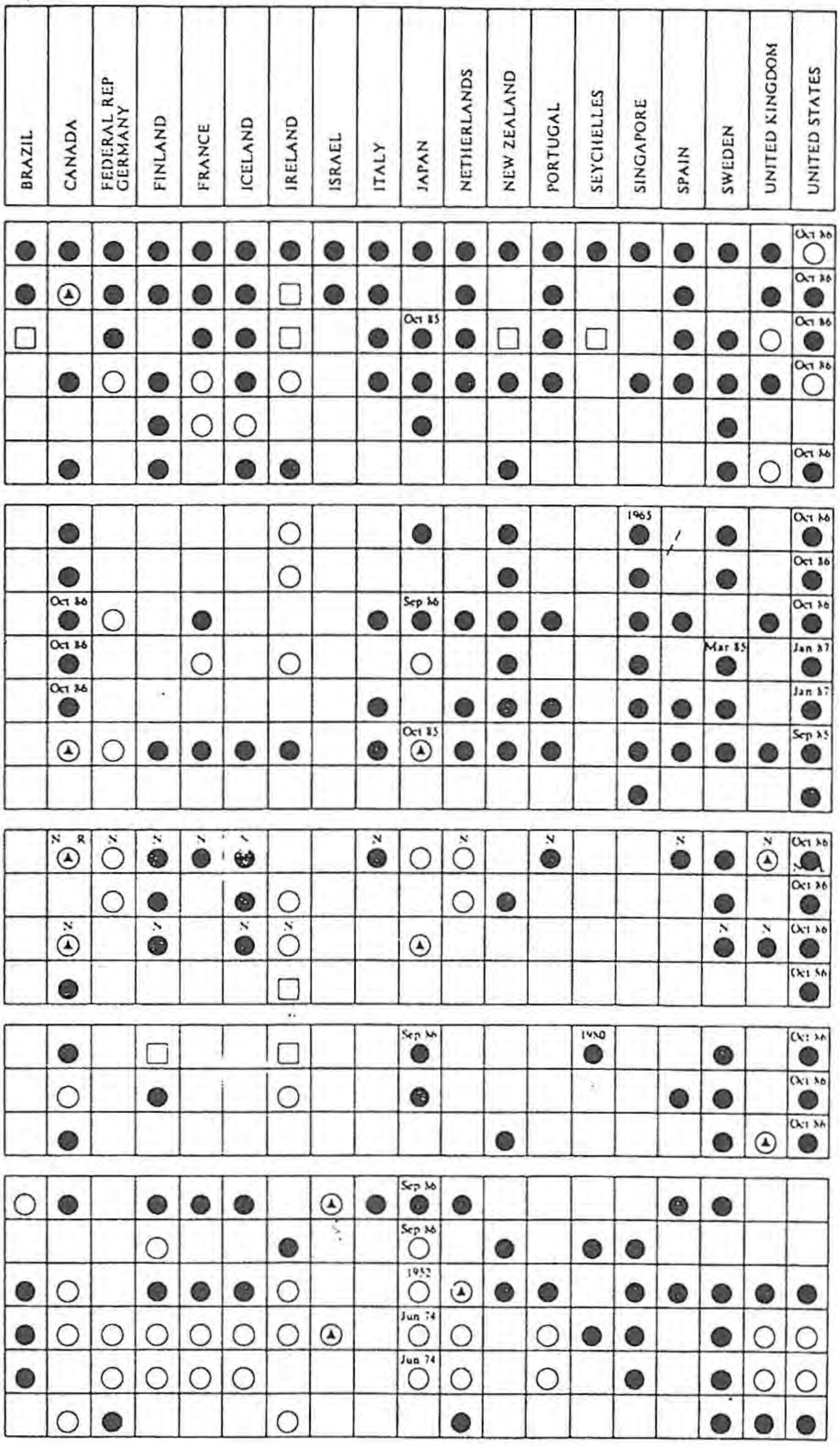
INTERNATIONAL SANCTIONS AGAINST SOUTH AFRICA

	BANNED:	UNITED NATIONS GENERAL ASSEMBLY	UNITED NATIONS SECURITY COUNCIL	COMMONWEALTH	EUROPEAN COMMUNITY	NORDIC	ASEAN	ORGANISATION EAST CARIBBEAN STATES	AUSTRALIA	AUSTRIA	BELGIUM
EXPORTS/SALES TO SA	MUNITIONS, MILITARY COOPERATION		1976 ●	1977 ●	Sep 85 ●	●	●	●	●	Sep 85 ●	●
	OIL *(including petroleum products)*	Ⓐ		Oct 85 ●	Sep 85 ●		●	●	Aug 85 ●	●	●
	NUCLEAR TECHNOLOGY		1976 ●	Oct 85 ●	Sep 85 ●	●	●	□	●	●	●
	COMPUTER HARDWARE, SOFTWARE *(security linked)*		●	Oct 85 ●	●	●		●	Aug 85 ●	●	
	OTHER TECHNOLOGY TRANSFERS					○					
	ALL GOVERNMENT PROCUREMENTS			Aug 86 ●		●		●	●		
IMPORTS/PURCHASES FROM SA	FRUIT & VEGETABLES	Ⓐ		Aug 86 ●				●	Jun 87 ●		
	SUGAR *(and other agricultural products)*	Ⓐ		Aug 86 ●				●	Jun 87 ●		
	IRON & STEEL	Ⓐ		Aug 86 ●	Sep 86 ○		●	●	Jun 87 ●	●	○
	COAL	Ⓐ		Aug 86 ●				●	Jun 87 ●		
	URANIUM	Ⓐ		Aug 86 ●				●	●		
	KRUGERRANDS *(and other gold coins)*	Ⓐ		Oct 85 ●	○	●	●	●	●	Sep 85 ●	○
	OTHER MANUFACTURED GOODS *(esp. textiles, vehicles)*	Ⓐ							○		
FINANCIAL	FINANCIAL INVESTMENT *(N: new investment, R: reinvestment)*	Ⓐ		Aug 86 ●	N ○	●		●	Ⓐ	●	N ○
	EXPORT CREDIT GUARANTEE		●			●		●		●	
	ALL PUBLIC PRIVATE LOANS *(N: new loans only)*	Ⓐ		Aug 86 ●		N ●		N ●	N Ⓐ		
	TERMINATION DOUBLE TAX AGREEMENTS			Aug 86 ●				●	□		
OTHER ECONOMIC	LANDING RIGHTS TO SOUTH AFRICAN AIRWAYS	Ⓐ		Aug 86 ●				●	Oct 87 ○		
	ALL NATIONAL CARRIERS SERVING S.A			Aug 86 ○		●		●	●		
	TOURIST PROMOTION			Aug 86 ●				●	●		
SOCIAL/POLITICAL	VISAS TO S.A. TOURISTS					●		●	●	●	●
	SEVERING DIPLOMATIC RELATIONS	1974 Ⓐ		Aug 86 ●				●			
	SPORT *(eg. 1977 Gleneagles Agreement and UN resolution)*	1977 Ⓐ		Jul 77 ●	●	●	●	●	●	●	●
	CULTURAL LINKS *(eg. entertainers)*	Ⓐ		Oct 85 ●	○	○	○	○	○	●	○
	SCIENTIFIC, EDUCATIONAL LINKS	Ⓐ		●	○	○	○	●	○		○
	PENALTIES AGAINST COMPANIES/ INDIVIDUALS BREAKING EMBARGOES									○	

● Full sanction backed by government legislation already in force, or to be imposed by January 1987	Ⓐ Sanction recommended by government but with voluntary status
○ Partial sanction restricted measure usually to be introduced into legislature by end 1987	□ Category not applicable

FIGURE NO.1 (continued)

INTERNATIONAL SANCTIONS AGAINST SOUTH AFRICA



S O U R C E: South, January 1987, p.32-33; Africa Research Bulletin, Vol.24, 1987/8, p.8449-8450

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