Assessing Industrialisation in South Africa with Special Reference to Textile and Clothing Trends during the 1990s

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Assignment presented in partial fulfilment of the requirements for the degree of Master of Arts (International Studies) at the University of Stellenbosch

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March 2002

'Declaration'

I..Simon Qobo........the undersigned hereby declare that the work contained in this in this assignment is my own original work and has not previously in its entirely or in part been submitted at any University for a degree.

Signature: date.

Abstract

As the wave of globalisation sweeps across the countries of the world, the economies of these countries are increasingly opening. The industrial and trade strategy approach is shifting to greater openness due to the pressures of international competitiveness. This means that domestic economic activity alone cannot sustain the national economy. One of the features of this openness is trade liberalisation. Trade between various countries is becoming more important as a way of earning foreign currency to address balance of payment problems and as well as to boost the domestic economy. This has great potential, in the long run, to generate employment opportunities. Immediately after South Africa ushered in a democratic dispensation in 1994 it had to contend with global pressure to liberalise its trade and put in place economic fundamentals that synchronize with the global economic order.

The political economy of global trade structure is characterized by bargaining power inequalities amongst the developed countries (North) and the developing countries (South). Trade relations between the developed and developing countries has an element of power-play that advantage developed countries and the terms of trade are still skewed in favour of developed countries due to the power that developed countries wield in the global economic system.

This study uses the structuralist development theoretical perspective (dependency theory) and the combination of qualitative and quantitative paradigms in understanding the trade relations between the developed countries. The study, through this theoretical paradigm, seeks to examine the degree of success or failure of the Uruguay Round of trade negotiations in particular with regard to tariff reduction commitments, and opportunities or constraints created thereof. A case study of textile and clothing industry will be used, and this will highlight some of the negative implications of the Uruguay Round commitments.

Opsomming

Namate die globaliseringsgolf oor die lande van die wêreld spoel, word die ekonomieë van dié lande meer toeganklik vir ander state. Die industriële en handelsstrategie benadering het, as gevolg van internasionale mededinging, 'n klemverskuiwing na meer openheid meegebring. Dit het tot gevolg dat huishoudelike ekonomiese aktiwiteit nie alleen 'n ekonomie kan onderhou nie. Een van die kenmerke van hierdie openheid is die liberalisering van handel. Handel tussen state word toenemend belangrik vir die verdien van buitelandse valuta om betalingsbalans probleme aan te spreek, asook om plaaslike ekonomieë te stimuleer. Oor die lang termyn hou dit groot potensiaal in om werksgeleenthede te skep. Onmiddelik na demokratisering in 1994 was Suid-Afrika geforseer om sy handel te liberaliseer en sy ekonomiese grondslag te sinchroniseer met die globale ekonomiese orde,

Die struktuur van die politieke ekonomie van internasionale handel word gekenmerk deur ongelykhede tussen die ontwikkelde Noorde en die ontwikkelende lande van die Suide. Handelsbetrekkinge tussen ontwikkelde- en ontwikkelende lande bevat 'n element van magspel waarin eersgenoemde bevoordeel word.

Hierdie studie maak gebruik van die strukturalistiese ontwikkelingsperspektief en 'n kombinasie van kwalitatiewe en kwantitatiewe paradigmas, ten einde 'n beter begrip te verkry van handel tussen ontwikkelde lande. Deur middel van dié teoretiese paradigma, probeer die studie om die werkbaarheid van die Uruguay Ronde, spesifiek met betrekking tot tarief verlagings en die geleenthede of beperkings wat daardeur geskep word, aan te toon. 'n Gevallestudie van die tekstiel en klerebedryf sal gebruik word om die negatiewe implikasies van die Uruguay Ronde te belig.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank some individuals and institutions that made this study possible through their encouragement and contributions, no matter how small.

Foremost thanks and praise to God Almighty, and my personal Saviour and Lord Jesus Christ through who all is possible for His excellent guidance and support.

I am much indebted to my supervisor, Mr. Anthony Leysens for his painstaking but gentle coaching, and supervision throughout this project. Thank you very much for initiating and focusing my study. I would like to thank my co-supervisor, Prof. W.J. Breytenbach for his valuable input and assistance. In the same breath, thank you very much to Prof. P. Nel, and thank you very much for giving me the opportunity to do this MA in International Studies – may God bless you.

To my precious wife, Pinky I say thank you for having given me the wings to fly; your selfless sacrifice, love, patience and encouragement made this study possible.

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LIST OF ABREVIATIONS

ANC African National Congress

CSS Central Statistical Services

DTI Department of Trade and Industry

DCCS Duty Credit Certificate Scheme

ECLA Economic Commission for Latin America

EU European Union

FDI Foreign Direct Investment

FTA Free Trade Agreement

GATT General Agreement on Trade and Tariffs

GDP Gross Domestic Product

GSP Generalised System of Preferences

GEIS General Export Incentive Scheme

IDC Industrial Development Corporation

IDZ Industrial Development Zones

ILRIG International Labour Research and Information Group

IMF International Monetary Fund

ISA Investment South Africa

ISI Import Substitution Industrialisation

LDC Least Developing Countries

MAP Millennium Africa Recovery Plan

MFA Multi-Fibre Arrangements

MNCs Multinational Corporations

NAFTA North American Free Trade Agreement

NAI New Africa Initiative

NICs Newly Industrialised Countries

NTB Non Tariff Barriers

OECD Organisation of Economic Co-operation and Development

OAU Organisation of African Unity

PPMS Productive Performance Monitoring Scheme

R&D Research and Development

S A South Africa

SACTWU South African Clothing and Textile Workers Union

SADC Southern African Development Cooperation

SARB South African Reserve Bank

SAP Structural Adjustment Programme

SDI Spatial Development Initiative

SDZ Industrial Development Zones

SMME Small Medium and Micro Enterprises

TNC Transnational Corporation

TR Training Requirement

TRIM Trade Related Investment Measures

TRIP Trade Related Aspects on Intellectual Property Rights

UK United Kingdom

UNCTAD United Nations Conference on Trade and development

US United States of America

WTO World Trade Organisation

CHAPTER ONE

1. INTRODUCTION

1.1. Problem statement

Due to its apartheid policies South Africa has for many years suffered isolation from the international community. Isolation was one of the tools that were used in order to make the regime of the time to comply with the plea of the world to end apartheid. Sanctions were imposed against South Africa for the same reason; nations of the world showed their disapproval of apartheid by not trading with South Africa. This compelled the South Africa to opt for Import Substitution Industrialisation that is to produce goods that were previously imported from abroad. South Africa's economy was severely affected by the Import Substitution Industrialisation inefficiencies, and also by the political situation within South Africa at the end of the 1980s, which was characterised by political instability.

The growth of the economy has been slackening from the second half of 1996, and further weakened in the third of quarter of 1997 (South African Reserve Bank (SARB) Quarterly Bulletin, 1997:1). Also according to this report, output growth outside the primary sectors of the economy slowed down noticeably. In particular manufacturing output, which was envisaged to improve the impetus to economic development and employment growth, declined in absolute terms from second to third quarter of 1997.

Average level of total real gross domestic product in the first three quarters of 1997 nevertheless was some 2% higher than in the first three quarters of 1996. The projections in 1997 pointed to a growth rate of South African economy of between 1, 5% and 2%, which was considerably lower than generally expected at the beginning of the year and was slower than the average growth rate experienced over the previous three quarters. The report indicated that even though a technical analysis could not provide conclusive evidence that South Africa entered a downward phase of the business cycle, the economy was definitely not producing at full capacity in the third quarter of 1997, and output growth clearly did not match the economic growth potential of South Africa.

Real growth domestic expenditure in the third quarter of 1997 declined for the fourth time since the third quarter of 1996, according to Reserve Bank report. Real value added by the secondary sectors declined at an annualised rate of 0, 5% in the third quarter of 1997 after it had increased at a brisk rate of 5, 5% in both the first and second quarter (SARB Quarterly Bulletin, 1997:4). Output in the manufacturing sector declined at the rate of 1% as slack aggregate domestic demand and slower growth in export demand for manufacturing goods left their mark. The increase in domestic manufacturing sales and order volumes slowed down in the third quarter of 1997, output declines occurred in industries producing food, paper products and machinery and transport equipment. Growth in the combined tertiary sectors also slowed down from an annualised rate of 1,5% in the second quarter of 1997 to less than 0,5% in the third quarter

Output in the manufacturing sector, which fell in the third and the fourth quarter of 1997, declined further at annualised rates of 1% in the first quarter of 1998 and 3% in the second quarter. The sluggishness of manufacturing output was directly related to the slackness of activity in the primary sectors of the economy, a slump in the sales of motor vehicles and weak growth in aggregate real gross domestic expenditure. This can be accounted as adverse effects of globalisation / liberalisation of trade.

Since the inception of democratic government in April 1994, South Africa became part of the international community and a newly found democratic state. The lifting of sanctions and the 'smooth' democratic transition opened up new possibilities and challenges for South Africa. South Africa's democratic transition intimately coincided with the wave of globalisation and the challenges it poses. The increasingly globalising world economy compels South Africa to integrate into the 'global village' and be part of its logic.

Globalisation is a process through which national economies open, becoming subject to supranational economic influences and less amenable to national control (Mishra, 1999:3). This means that the governments have no absolute power and influence over their economies. Nel (1995:4) refers to globalisation as "compactation of interactions in a specific area of life, by means of mutual interpenetration of actors and events across traditional boundaries and the resulting world wide homogenisation of behaviour, norms and values". In his observation this constitutes real and fundamental differences between beneficiaries of globalisation. Globalisation is therefore characterised by losers and winners. Most important the losers are often developing countries or the countries of the South. Though trade liberalisation is advocated as a model of economic growth and development, the proceeds of trade liberalisation accrue mostly to the developed countries as they would introduce non-tariff barriers, like quality standards which most of the developing countries cannot meet due to the lack of technology required. Automatically the products of the developing countries are disqualified to enter the markets of the developed countries.

The globalisation wave, which some view as a new epoch of capital accumulation, makes it difficult for domestic economies to de-link from the global chain of production, trade and accumulation. Hence South Africa had no option but to climb the band-wagon of countries opening up their economies to the outside world. The logic of global capitalism holds that in order for an economy to grow in this new epoch it has to apply certain measures, which include liberalising its financial markets, and its trade relations, and deregulating its labour market. These are the imperatives of *laissez faire* economic practices, which underlie the current wave of globalisation.

One of the key ways to integrate a nation's economy in the global economy is by trade liberalisation, with the World Trade Organisation (WTO) playing a strategic role to facilitate trade amongst the countries of the world. Even within the W T O there are power imbalances: the developed countries (North) are the most powerful players in the game due to their economic might. Another reason may be disunity and disorganisation of the Southern countries. North and South here does not mean a geographic location, but levels of economic development. Those countries, which have high content of primary products in their economies like agriculture or minerals, are called developing countries or the South. Countries that have high content of manufacturing goods and other sophisticated systems of production are highly developed economically are regarded as the North.

The reason for this disunity and disorganisation may be due to lack of resources or capacity on the part of the Southern countries to interact with the WTO processes and play a meaningful role on an ongoing basis in the multilateral trading system. South Africa is among a group of countries that are supporting the launch of a new round of trade negotiations with the hope that this would afford developing countries an opportunity to negotiate favourable terms of trade and assert their interests (Department of Trade and Industry (DTI), 2001: 31-32).

Since 1994 South Africa has started to open up its economy to the outside world by liberalising its trade. One of the critical questions that need to be asked is: has trade liberalisation created opportunities for the South African economy or has it introduced new constraints? If trade liberalisation has introduced opportunities, does this suggest industrialisation has been influenced in the 1990s? If there are some constraints as a result of trade liberalisation, has de-industrialisation occurred in South Africa? If there has been a decline in South Africa during the 1990s what are the factors that led to this?

1.2. Purpose and significance of the study

The purpose is to assess what has been done in terms of stimulating and boosting industrialisation. The significance of this study is that it highlight's the challenges faced by DTI and the textile and clothing industries. This research is geared towards investigating industrialisation with special reference to textile and clothing trends in South Africa in the 1990s, which means the first decade of the post-apartheid South African industrial development. It is important to know the root causes of the illness of the South African economy so that relevent and better cures can be suggested, which will not address the surface but the root cause of the illness of the economy. And, also it is of utmost importance to know what keeps South African economy going so that much attention can be put on the main contributors to the economy. The negative factors that impacted the South African industries are shown for the purpose of managing them well and try to come up with more creative ways of addressing them for the benefit of the entire economy. The motivation is to establish possible ways of reducing the factors contributing to industrial decline and also to strengthen those that have positive spill-over effects.

1.3. Methodology

Data has been collected in the form of information from documents of the Department of Trade and Industry, newspaper articles. The Internet has been used when looking at business map regular survey on the investment trends. This study project is a combination of both qualitative and quantitative research data. This means that besides using available already written work in the form of books and written articles, this project has also made use of figures from South African Reserve Bank data and business map regular surveys.

1.4. Definition of industrialisation

Industrialisation can be defined as a process, which moves the economy from dependence on agriculture to a dependence on manufacturing activity, and while accompanied by sustained economic growth. Capital investment, increase in efficiency in terms of management skills and technological know-how play a major role in moving the economy to this trend of sustained economic growth.

Kerr et al (1960:33) defined industrialisation as the actual course of transition from the traditional society toward industrialism. Industrialism is a concept of fully industrialised society, which the industrialisation process inherently tends to create. This is fuelled by capital investment, increase in efficiency in terms of management skills and also technological know-how.

According to Kemp (1989:1) there is scarcely a country in the modern world where an improvement in the material level of living is not regarded as a defined a desirable goal by rulers and ruled alike, and where industrialisation is not the necessary means to achieve it. The rich and powerful nations, which possess a technologically advanced industrial base, capable of turning out a volume of manufactured goods. On the other hand, poor and dependent nations, which have little or no industry and are primarily agricultural. Even so, industrialisation has become a world process, no longer confined to a privileged group of leading economies. Industrialisation embodies the technology and organisation, which have transformed production methods and ways of living at a staggering rate in the twentieth century (Kemp, 1989:1).

Industrialisation is widely seen as the major means through which those areas of the world that suffer from poverty and backwardness can move closer to the advanced nations (Hill, 1989:ix). The industrialisation process began in a group of islands off the Northwest coast of Europe some two centuries ago, with what is usually described as the British Industrialisation Revolution (Kemp, 1989:1). In order to throw light in the understanding of industrialisation, this requires the study of theory of industrialisation. Structuralist development theory, which is also known as dependency theory will inform the explanatory framework on the industrialisation in South Africa.

1.5. Structuralist development theory

1.5.1. Motivation

Structuralist theory developed as an alternative to orthodox theory. It started from the premise that 'certain specific features of the economic structure of the underdeveloped countries make an important portion of orthodox analysis inapplicable and misleading (Hirschman, 1981:375). This is the sense in which the term structuralism is often used in current discussion of development theory.

The reason this theory has been chosen in preference to others is its critical description of North and South trading order. The structuralist theory of industrialisation criticises the links between the developing countries and advanced industrial countries using the notion of *centre and periphery* relations to highlight the differences between the developed world and the developing nations. The unequal nature of the relationship, for example, a number of arguments has been put forward over the years to explain why international trade operates to the detriment of the developing countries. Deteriorating t*erms of trade* is one of the reasons, which are put forward to explain why trade relation between North and South always work to the detriment of the latter. The *terms of trade* refer to the relative prices of countries exports and imports. This would be explained in terms of differences in demand for primary products and manufacturing products. It is often argued that there is high demand for manufacturing products than primary products, which pushes the prices of the manufactured products high (Jenkins, 1992:137-138).

The term "structuralist" was first used in development theory to refer to the ideas of group of social scientists at the United Nations Economic Commission for Latin America (ECLA) (Jenkins, 1992:136). Subsequently the term "structuralist" came to be used more broadly to refer to a much wider group of social scientists, particularly economists concerned with issues of economic development. In addition to their concern with structural change and in common with ECLA structuralist paradigm, these writers rejected much orthodox economic theory. One of the leading scholars of the time Dudley Seers, who had worked at ECLA and was a leading proponent of structuralist ideas, argued that main stream or orthodox economic perspective was a theory of special case, relevant to only small group of the advanced industrialised countries during a relevant short period of their history (Jenkins, 1992: 136; Seers, 1963).

Structuralist theory has the following five central features:

a) Scepticism about the beneficial effects of the free market; structuralism questions the belief that the free play of market forces can bring about economic development in the third world countries. This applies both to domestic and international market, leading to the questioning of the theory of comparative advantage in the international trade.

The developed and the Third World countries are linked through movements of goods, capital and labour. Although the last one is becoming irrelevant as immigration control in the developed countries is becoming strict and limits the extent of the overall labour migration. The structuralists see these links as leading to increased international inequality between countries of the centre and those of the periphery. The countries of the periphery are subjected to international forces over which they have no control or influence. Some linkage factors will be examined:

- Deterioration of the terms of trade of the Least Developed Countries (LCDs): this means that the prices of the primary goods tend to fall compared to those of the manufactured goods over long periods of time. This can be explained in terms of demand for primary products, and manufacturers, and in terms of the supply conditions under which they are produced in the periphery and the centre.

- Demand: as the economy grows the demand for the manufactured goods tend to grow rapidly than the demand for primary commodities, particularly agricultural products. This means that the growth in demand for the exports of LDC is unlikely to keep up with the rapid growth of the demand for the manufactured products imports from the developed countries.

- Foreign investment and the flow of capital: whereas orthodox economic theory suggests that capital will flow from the rich countries where it is abundant to poor countries where it is scarce, structuralist theories suggest the opposite. In reality capital is attracted to the developed countries where the infrastructure and large market exist and political stability is guaranteed, so that free international movement of capital leads to capital flowing from the periphery to the centre.

b) An emphasis on the structural change.

Development is seen as a process of transformation of the economic and social structures, in which industry, particularly manufacturing industry, plays a crucial role. The level of development cannot be derived simply from the levels of per capita income or simplistic measures of economic growth. In terms of structural changes, the structuralists advocate the shift away from agriculture towards manufacturing industry. The following reasons are given for this shift:

- Economies of scale: industrial production is particularly subject to economies of scale. In other words as the volume of production increases, the cost per unit of production tend to fall.
- Externalities and linkages: Externalities occur when the setting up of one activity leads to the benefit of another activity. For example, when a manufacturer needs a distributor for goods, the emergence of the distributor strengthens the industry more and creates employment. One specific example, a car manufacturer will increase the demand for steel, glass, and rubber, thereby stimulating the industry in these sectors.

c) Concerns with issues of ownership and control of the resources.

Structuralists believe that high level of concentrated control and ownership resources in the Third World countries affect the outcome of economic policies and have to be taken into account when trying to understand development. Transnational Corporations (TNCs) exercise considerable market power, which enables them to earn monopoly profits; they also influence the policies of the LDCs countries to their favour, which lead to repatriation of large volumes of profits to the parent country. This further intensifies the drain of surplus from the periphery, and worsening the balance of payment problems from which most developing countries suffer.

d) An emphasis on the dynamic aspects of technology.

Technology is seen as playing a pivotal role in the economic development. Third World countries can be technologically dependent as a result of excessive imported technology; furthermore, Third World buyers are powerless when it comes to bargaining due to their lack of information and expertise.

e) A central role of capital accumulation.

A high rate of capital accumulation is seen as crucial for rapid economic development. This is a necessary condition to bring about structural transformation and increased productivity levels.

1.5.2. Comparison with neo-liberal theory of industrialisation

By the 1980s structuralist theory has been replaced by neo-liberalism as a dominant development orthodoxy (Jenkins, 1992:151). The World Bank and International Monetary Fund have contributed to this shift. Neo-liberals reject the structuralist perspective that the conditions prevalent on the Third World make it necessary to develop special economic theory. They believe in universal validity of certain economic principles. Neo-liberals came up with three factors as critique to the structuralist factors erasing the argument that there is a need for alternative. These are the following:

Price distortions producing inefficiency

This theory underlies the belief that market prices provide the best indicators, or signals, for the decisions about resource allocation. According to this theory, if prices diverge from their free market level, for example, because of government price control or subsidy then the economy will not reach efficiency.

Gains from free trade; critique of import substitution

Countries can gain from trade by specialising on those goods that they have a comparative advantage and importing other goods. The problem with import substitution according to this theory is that it deliberately interferes with trade in order to encourage the local production of goods, which are produced more cheaply abroad.

The critique of state intervention

Neo-liberals maintain that if government intervene in the markets and imposes controls, people will devote much of the time attempting gain some leverage.

Therefore they will switch from productive activity to unproductive activity thereby wasting resources. This is called rent seeking.

1.5.3. Critique of structuralist development theory

A central weakness of structuralist theory is the view of the state as an autonomous entity, above society, making decisions on national interest. The rationality of state intervention is overestimated. Although the structuralist case for state intervention to overcome economic backwardness is sound, vested interests could also pervert state intervention to serve their own ends. For example, infant industries protection, which needs to be granted for a specific period while local producers become more competitive, has also been granted indefinitely because of the influence of the protected industrialists (Jenkins, 1992:195). Also empirical studies have shown that changes in relative prices always have effects on supply and demand, including food supplies and foreign exchange. Sheahan (1987:13) argued that the structuralist prescription that ignore the incentive effects of relative prices, often caused serious trouble, sometimes creating shortages that could readily have been prevented. The growing internationalisation of production and finance also raises the question of whether the national economy, which is central to the structuralist paradigm still exists in a meaningful way. Within the increasingly integrated world economy, national development strategies may decline in relevance; moreover, structuralism is not strong on explaining change.

1.6. Inward and outward Industrialisation

Industrialisation can take an outward orientation; a view supported by neo-liberalism view or can take an inward orientation, which is more supported by structuralism as discussed above. A distinction, which has become conventional, is that between inward and outward looking industrialisation. The former refers to policies aimed primarily at meeting the needs of domestic economy or market. The latter refers to those policies that do not discriminate against and often encourage export sales.

In general inward looking economies are those that have pursued policies of import substitution industrialisation (ISI) like (South Africa before 1994), so that the domestic industry is established to supply markets previously served by imports. Trade policy measures often employed in such economies include relatively high import tariffs, quota restrictions on imports, and controls of access to foreign exchange. In such economies exports sector is generally penalised relative to the sector producing for the domestic market.

The definition used frequently is that inward looking economies are those where in aggregate sales in domestic markets receive a higher rate incentive that do sales for exports. The leading outward oriented economies are normally seen as the four Southeast Asian newly industrialised economies – Hong Kong, Singapore, Taiwan, and South Korea. These achieved impressive percentages of income and exports post 1960. These are sometimes referred as "the Gang of four" (Weiss, 1988:29).

The major inward looking economies in the latter 1970s included India, China and some of the major Latin American economies, such as Mexico, Argentina and Brazil. Also Egypt, Turkey and Philippines have recently been added to this group.

Therefore, ISI implies the relocation of industries to growth points away from the metropolitan areas in order to keep black people out of white South Africa. Relocation and costly transportation were not always inducing efficiencies, despite cheap labour costs. Subsidies paid by the state to such industries were often wasteful and led to corruption. Even before the imposition of sanctions, the government opted for high tariff barriers especially in the motor, and textile and clothing industries. International isolation and protectionism combined and made these industries non-competitive in a fast globalising world trading order. Then when isolation ended in 1994 with the advent of democracy, the GATT had completed the Uruguay Round of trade liberalisation. This was endorsed by new government. Export subsidies (the GEIS-scheme) had to be phased out by 1997.

Outward looking industrialisation need not imply that import protection is removed; for example the four leading outward looking economies are the first to be seen as free trade economy. In the 1960s and 1970s the others maintained varying degrees of import protection.

The prospects of successful industrialisation thus appear very varied on nation-by-nation basis. The most successful industrialisers in recent decades can be regarded as special cases. There are the small Asian countries like South Korea and Taiwan without great natural resources, but having abundant labour power. They have industrialised largely by supplying a certain range of manufactured goods to the world market with the help of foreign capital, and as hosts to the branch plants of the Multi-national corporations (MNCs).

They have produced profit hungry local entrepreneurs backed by authoritarian government encouraging export drive and reassuring foreign investors. However there are limited possibilities that other countries can follow these examples.

Also, it should not be thought that import substitution – defined as a falling share of imports in total supply did not take place in these economies in several branches of industry (Weiss, 1988:32).

1.7. De-industrialisation in South Africa

This subsection provides evidence that de-industrialisation has occurred in South Africa during the 1990s. Firstly, there are many definitions as many people have tried to define the concept. The World Bank defines de-industrialisation as a decline in manufacturing that is not transitory, reduces economic efficiency and places the economy on a lower growth path. An on going process of de-industrialisation would manifest itself in significant and persistent declines in industrial output, output share of GDP and employment, stagnant productivity, and a pace and pattern of investment that are impeding long run industrial growth and transformation (World Bank, 1994: 13).

According to the DTI survey, in 1993 there were 89 000 fewer jobs in the manufacturing than there had been in 1982. Manufacturing exports actually declined between 1989 and 1992. The current revival in manufactured exports is very recent. South Africa's rate of increase has been lower than that of its competitors. A number of factors have contributed to the recent rise in manufactured exports. These include export incentives. The increase of manufactured export is still far from satisfactory and the increase does not arise from South Africa becoming significantly more competitive, but from preferential trade access grants by the European Union and is unlikely to be sustained. Overall South African exports still remain concentrated in primary products.

The net inflow of long-term capital contracted from a record high of R18, 2 billion in the first quarter of 1998 to R10, 6 billion in the second quarter. The net inflow of long-term capital in the second quarter of 1998 originated mainly from an inflow of capital to private sector. This inflow was due to continued solid purchases of shares listed on the Johannesburg Stock Exchange as investors rebalanced their emerging markets equity portfolios in favour of South African assets. Non-resident share buying was largely left unaffected by the emerging market crisis; in fact the net equity purchases increased from R12, 8 billion in the first quarter of 1998 to R14, 1 billion in the second quarter (SARB Quarterly Bulletin, 1998:16).

The real value of aggregate inventories continued to fall in the second quarter of 1998, but the rate of inventory decline did not differ significantly from that of the first quarter. The increased cost of carrying inventories in the second quarter and the warning prospects of an improvement in the domestic demand contributed to the reduction of inventories, especially in the manufacturing sectors. As a result, the level of industrial and commercial inventories relative to non-agricultural gross domestic product declined from 16% at the end of March 1998 to 15% at the end of June.

Even before the outbreak of the currency crisis, economic growth had tended to be weak. This trend continued to the second quarter of 1998 when the seasonally adjusted domestic product recorded an annualized growth of about 0,5% for the fourth quarter in succession. The combined real value added by the mining and the secondary sector declined from the first to the second quarter of 1998.

Growth in domestic expenditure, which has been erratic since the second half of 1995 changed the direction once again in the second quarter of 1998 when an increase followed the decline in the first quarter. This was mainly due to an increase in fixed investment spending, particularly by Telkom which is using the capital injection from privatisation proceeds to expand the telecommunications network (S A R B Quarterly Bulletin, 1999:5).

The low saving ratio in South Africa is a perennial concern. Despite a small improvement in the second quarter of 1998, domestic savings at its current level is still in adequate to finance the investment required for sustained high economic growth. Given the unpredictability of international capital movements it is risky to rely on foreign portfolio capital inflows to compensate for the paucity of domestic saving. In view of the need for higher new fixed capital formation, current expenditure by private households and general government deficit must be contained in interest of a better national savings effort.

Motor manufacturing has also undergone some difficulties. Following the sales boom of 1995 and 1996, sales fell slightly in 1997. A modest recovery was expected in 1998 but the market crisis and international financial market instability led to the imposition of very high South African interest rates which severely impacted on the domestic market for vehicles. New vehicles sales slumped to 350 500 units in 1998, which recorded by the industry as one of the worst years in the decade for the total industry. With stability returning to financial markets and with declining interest rates the market started to recover during the second half of 1999. New vehicle sales for 1999 as a whole are however estimated to be 12,5% lower than 1998, but industry expectations of a respectable 10% to 15% growth compared to 1999 was forecast for 2000.

In the South African context de-industrialisation has led to an estimated half a million jobs lost since 1994, with a projected 210 000 expected to be lost in 1999 alone. Despite ambitious statements of intent on job creation after a much-vaunted national job summit last year, there is little to suggest that much has been done to plan around a predictable and highly problematic scenario (http://www.bmap.co.za/inv/sample_inv_annual.html).

According to the commentator of the trade union movement in South Africa (COSATU), between 1991 and 1999 there were 500 000 jobs lost in all sectors except agriculture.

- In the mining sector there were 150 000 jobs lost.
- In the manufacturing sector there were 110 000 jobs lost.
- In the building sector there were 100 000 jobs lost and 30 000 jobs are threatened.

(http://www.cosatu.org.za/campaigns/jobloss.htm).

Though unemployment and retrenchments have occurred in the South African industries, these cannot be entirely attributed to de-industrialisation. Other factors might indirectly lead to unemployment and retrenchments: for example drive for efficiency can result in massive retrenchments of employees who do not perform the core functions in the industries; so other functions which are at the periphery can be outsourced to other organisations which can provide those goods \ services at a lower costs.

1.8. Overview of the Chapters

Trade liberalisation has led to major job loses as an especially in the textile and clothing industry where most firms were forced to restructure their workplaces with massive retrenchments.

Chapter two deals with the political economy of the global trade structure where it is argued that the economies of the South were shaped to meet the needs of the advanced industrial countries of the North. The economies of the South remained underdeveloped and served as primary producers with little or no modern industries, low per capita incomes and little growth outside the primary producing sector. Even though the economies of the Southern countries were not yet developed they were encouraged to jump into the ship of trade liberalisation so that their economies could gain from trade. Since their economies were underdeveloped, most of their industries were exposed to competition with the giant companies of the industrialised countries. This has led to massive job losses in these countries. One of the major commitment that South Africa has made in its economic history is the Uruguay Round commitment of tariff liberalisation, the phasing down of tariff resulted in "mixed" implication whereby South African industries were forced to be efficient. In return for the opening up, South Africa has managed to have access to many markets like Europe. Chapter three argues that trade liberalisation losses outweighed the gains, because most firms were forced to close down and massive retrenchments resulted since the textile and clothing industries were the most affected, these industries are used as case studies to indicate the adverse effects of trade liberalisation.

CHAPTER TWO

2. POLITICAL ECONOMY OF GLOBAL TRADE STRUCTURE

2.1. World Trade Organisation (brief background)

The obligations of WTO since 1995, implied not only the liberalisation of protective and phasing out of subsidies, but also to search for greater efficiencies to enhance industry competitiveness in the new global order This include free trade agreements and appropriate macro economic policy frame-work domestically. The launch of Spatial Development Initiatives, especially Maputo Corridor, became an important initiative.

The World Trade Organisation (WTO) is one of the greatest achievements ever be made in the history of the global economy to facilitate trade amongst the countries. The WTO, which comprises of about 142 members, the majority of whom are developing countries, inherited the legal system and provisions of the legacy of completed General Agreement on Trade and Tariffs (GATT) rounds, and last of which was the Uruguay Round. These provisions are:

- Entrench and formalise the GATT provisions. These include tariff concessions, anti-dumping codes, preferential treatment for the developing countries, technical barriers to trade, import licensing procedures, custom valuation code.
- Give the trade policy authority a distinct legal status, unlike GATT, which was an agreement than an organisation.
- Establish a dispute settlement mechanism. This function was not available on an ongoing basis under GATT. Establish a trade policy review mechanism, with subsidiary bodies for Trade Related Aspects on Intellectual Property Rights (TRIPS), goods and services trade.

During the era preceding the advent of globalisation, pre-1970, most of developing countries were pursuing an industrial strategy approach known as import substitution industrialisation. This approach was mainly characterised by high import duties. The rationale for this was to encourage the domestic consumption so as to allow the domestic industries to gather momentum. Instead of gathering this momentum the local industries relaxed and enjoyed the protection, becoming inefficient. As a condition for lending money to these countries the World Bank & International Monetary Fund encouraged developing countries to open up their economies to the outside world as a way of encouraging efficiency in their economies. Therefore trade was seen as one of the most important elements to improve the economies of the developing countries.

This chapter will touch on issues of political economy of global trade structure, in which the most important issue is South Africa's commitment to the Uruguay Round and the implications that follow. The clothing and textile industries are the most affected industries, with negative implications ranging from retrenchment to total exposure of the industries. Proponents of trade liberalisation often argued that this liberalization would be able to benefit all countries. However, this is not true, as the benefits are not distributed equally to all the countries, indicating that there are losers and winners in this game. It is also evident that the losers are the developing countries, which should be the beneficiaries of trade to boost their economies. It is often assumed that trade liberalisation will change the structure of the economies of the developing countries from domestic oriented to global markets, however when these economies try to penetrate the global markets they encounter non-tariff barriers in the form of certain standards that should be met before the products can be exported to those countries or to that market.

The direct benefits of trade liberalisation are that countries, which previously had balance of payment problems, will be able to bring balance to their foreign accounts by earning as much foreign currency as possible from the proceeds of trade.
Because of the non-tariff barriers, however, these countries do not earn more foreign exchange. Another problem which may worsen the balance of payment problems could be the fact that when they have earned those foreign currencies they will need to pay back the debt that they owe to the World Bank / International Monetary Fund.

2.2. EU-SA trade agreement compatibility with WTO regulations

The new ANC-led government made an immediate start with normalising its external relations. The negotiations on a trade and co-operation agreement with the EU were part of that. These negotiations officially started in November 1995. The EU offered South Africa a 'package of immediate measures' which main contribution was the expressed intent to continue aid, technical assistance and to improve market access for South African products on the EU market.

The EU has stressed that a trade agreement with South Africa should be compatible with WTO regulations. Regarding preferential trade agreements the WTO caters for three principal routes. Under Article XXIV, countries that are creating an FTA or customs union may lower trade barriers amongst themselves without generalising this deal to third parties. But to be acceptable, the arrangement must cover 'substantially all' trade and be completed within 10 years or a 'reasonable length of time'. All WTO members must approve such arrangements unanimously. A second route is the 'Enabling Clause', which is designed principally for developing countries. Under the Enabling Clause industrialised states may offer preferential market access to developing countries. Finally, if all else fails states can seek waivers under Article XXV but these can, by definition, only be granted for any purpose by a 75 per cent majority vote.

Differentiation based on development levels is thus possible. However, since South Africa is labelled a 'developed country' in the WTO, an FTA with the EU was tested against Article XXIV demanding an implementation period of 10 years and coverage of substantially all trade.

The exclusion list of labour-intensive products in the agricultural sector has caused major upheaval in South Africa and delay in the negotiations. It was the first time for the agricultural sector to include in FTA negotiations. In the case of South Africa, agricultural exports account for only 6 per cent of the EU's total imports from South Africa and by excluding almost 50 per cent of current agricultural exports an FTA agreement would still be WTO compatible (http://www.niza.nl/uk/publications/016/niza-paperno1-1998.htm#chapter 1/29/01/2002)

2.3. Global trade structure

The global trade structure is made up of developed countries, the developing, and the least developing countries (LDCs). The developed countries are those countries with fully developed industrial base. The industries in these countries are more sophisticated with advance technology. The production in these economies is also characterised with increasing rate of returns, which means that per little input in the production system, these countries are able to make large volumes of output. This can be as a result of both trained-skilled employees and the advanced technology employed.

Developing countries are those characterised by low levels of technology, semi-skilled employees; low levels of productivity; and decreasing returns in their production system, which means that per huge input they would get low return (inefficiency). The developing countries are also divided into low income, middle income, and upper middle income. Despite the obvious diversity of countries and classification schemes, Todaro (1994:27) indicates that most of the developing countries share common and well-defined goals, including reduction of poverty, inequality, and unemployment; the provision of minimum levels of education, health, housing, and food for every citizen; broadening of economic and social opportunities, the forging of a cohesive nation state, and wide and growing disparities in distribution of income. According to Todaro, low-income countries include Lesotho, Guinea, Malawi; middle-income countries include Chile, Cuba and Botswana; upper middle-income countries are mostly newly industrialised countries such as Brazil and Singapore.

The developed countries are characterised as the countries of the North, while the countries of the South are the developing countries. The global trade structure is accordingly divided into North and South. North and South here does not mean a geographic location but levels of economic development. Trade takes the form of North – South, North – North, or South – South. Terms of engagement are often at the discretion of the countries or the group of countries involved. Developing countries are however not in the most favourable position in their trade engagement with the developed countries as most of the times they have are at the mercy of developed countries. This situation lends itself to the possibility of might over principle or reason. Developed countries can always flex their muscles or use hard arm-twisting approaches to force through trade terms on the developing countries.

The development of the industrial base of North is often linked to the underdevelopment of the South countries, according to the dependency theory. The industrialisation of the Britain and other advanced countries of Western Europe and North America in the 19^{th} century would not have been possible without bringing into existence the division of labour where most areas of the world (South) were turned into sources of primary products (Kemp, 1989:199). The economies of the South were shaped to meet the needs of the advanced industrial countries of the North. They remained underdeveloped and served as primary producers with little or no modern industries, low per capita incomes and little growth outside the primary producing sector.

The industrial North buys unprocessed food, processes it and exports this to the less developed and dependent areas (South). Kemp (1989:199) captured this by indicating "some countries were destined to be workshops of the world while others had to accept the lower role of hewers of wood and drawers of water".

European latecomers, such as Germany, and Japan had rejected this implication of free trade doctrine as far as their economies were concerned and subsequently adopted protectionist policies to assist the early development of their industrial base. These countries joined the dominant group of economic giants in the world markets.

Most countries failed to follow their example though they adopted the protectionist policies. As a consequence of their weakness they were incorporated in the world economies in a dependent fashion, often being annexed politically by imperialist powers as their policies needed to be shaped to suit the standard of the North. The World Bank and International Monetary Fund encouraged the developing countries to create policies that are in line with the interests of the developed economies (World Bank, 1994:12). Opening up the economies damages the infant industries in the developing countries and leads to major job losses.

Investment by capital rich countries of the North built up infrastructure in those parts of the world, which held out promise as resources of raw material and foodstuffs, and as markets of manufactured goods. As in the case of India or Brazil, such investment did little to promote industrial development, but merely increased their dependency and one-sided economic relationship to the world market (Kemp, 1989:200). In the now fashionable terminology, they formed the periphery and the advanced metropolitan countries made up the core.

Classical economic theory provided a powerful ideological support for this division of the world into manufacturing and primary producing countries, through the elaboration of the law of comparative advantage of costs. According to this law, all trading partners would benefit most if each concentrated on the production of those commodities for exchange in which it has a relative advantage.

This doctrine was static by its nature, not allowing for development and technological change and overlooking the unevenness of development between countries and regions (Kemp, 1989:200). Its practical application brought with it a great advantage to the developed countries of the North, providing them with theoretical and moral justification for what they were doing on the world scale. This involves opening up the economic resources of the developing countries of the South on most favourable terms, while the economies of the advanced industrial countries of the North were becoming specialised and sophisticated with the emergence of technology, taking the advantage of economies of scale.

Merchant and financial capital in the advanced countries controlled world trade, and this enabled the prices of primary products to be kept down while manufactured goods were sold on most favourable terms (Kemp, 1989:200). The pattern of trade was made up principally of exchange between the advanced countries on the one hand, between them and primary producers on the other hand. The latter did little trade among them.

The result of international specialisation, which grew up in the 19th century, was first of all, to make possible the plunder of natural resources in the dependent economies of the South with little benefit to shape their industrial base. This process continues today. Income became highly dependent upon fluctuations in the world prices with devastating effects when they fell sharply. The productivity is generally lower in primary production than in industry, therefore there was a very limited scope to raise income levels. These conditions explain why the primary-producing countries remained underdeveloped as result dragged by the developed countries into the world markets, which are driven by the advanced countries of the North.

2.4. The nature of South Africa's industries

The high protection of the textile industry generally worked to the detriment of the clothing industry (Mamree, 1995:53). The other important factor, that contributed to South Africa's poor manufacturing performance is that South Africa made inefficient use of the plant, equipment and labour employed in production. Therefore South Africa's manufacturers had a very low rate of productivity growth for a sustained period. Also productivity growth in manufacturing has been declining over time and has latterly been negative (Joffe et al, 1995:11).

South Africa's manufacturers were protected from import competition by variety of direct controls and tariffs, and had access to cheap capital goods imports. Not being encouraged to compete internationally through exports, the manufacturers settled down to enjoy internal markets and in some cases returns to scale were not achieved (Fine & Rustomjee: 212). According to Fine and Rustomjee, "many infant industries seem never to have grown up and required tariffs and protection decades after being started". They further argued that although the easy stage of import substitution in light final and intermediate goods industries ended in 1960s, there were no shifts towards exporting light manufactures and the efficient production and export of capital goods did not take place.

Therefore it is evident that South African manufacturing uses its employed resources very inefficiently and, worst of all, this poor rate of productivity increase has come about at a time when investment, employment and output have all been declining. Workplace practices are rigid and supervisory control is hierarchical and authoritarian. There is racially entrenched division of labour on the shop floor with strict, highly paid, and often unskilled supervision. This division of labour provides little incentive to management to acquire and deploy enhanced skills or for workers to acquire skills. The system of collective bargaining – particularly at the plant level – is characterised by adversarialism, with the skills profile very poor, in addition to which the outcome of the hierarchical and rigid model of organisation reinforces this work organisation (Joffe et al, 1995:86).

Developments in South Africa's trade policy have to a large extent been influenced by a global move from protectionism to trade liberalisation, mainly as a result of the Uruguay Round and the GATT Agreements (a gradual phase-down of import tariffs) reached by GATT member countries at the end of 1993. This also exposes firms and economies to intense competitive pressures. Declining terms of trade have resulted, and in some circumstances to immiserising growth, an increase in economic activity, which delivers lower standards of living (Kaplinsky, 1998:1).

A level of economic liberalisation has accompanied political transformation like never before experienced in the history of South Africa. South Africa's trade and industrial policy is in the process of fundamental change, moving away from a highly protected, inward looking economy toward an internationally competitive economy capitalising on its competitive and comparative advantages. Striving to achieve a balance between greater openness and improvement in local competitiveness while pursuing a process of industrial restructuring aimed at expanding employment opportunities and productive capacity is a major challenge (http://www.isa.co.za).

A further feature of South African trade policy has been the development of bilateral and regional relationships.

2.5. Production and trade trends

In terms of output growth there has been structural shift away from mining and quarrying production towards services. The share of total gross output fell from 8,6% to 6,8% over the entire period 1984-1997 period, while the share accounted for services rose from 34,9 to 38,1% over the same period. Growth financial and other business services sector as well as the proliferation of communication and information technology related services, has boosted the growth of this sector (Edwards, 2001:472).

According to Edwards, there has been relatively poor performance in the manufacturing sector and the share of gross output accounted for by manufacturing fell from 40,3% to 37,5% between 1984 and 1993. International South Africa's manufacturing performance was very poor with growth significantly lower than both developed and developing countries during the 1980s. Capital-intensive sector output has risen as a share of manufacturing output, from 37,6% in 1984 to 42,4% in 1997. In contrast, the share for the labour-intensive sector fell from 8,7% to 7,9%. This shift appears to have accelerated since 1993, a period of increased trade liberalisation (Edwards, 2001:472).

The composition of total exports has also changed, with manufacturing displacing mining and quarrying as the major export sector. Manufacturing export growth has not been with the strong export growth within the labour intensive sector pushing its share of total manufacturing exports from 10,3% in 1984 to 17,8% in 1997. The bulk of this shift according to Edwards (2001:475) is due to rising export of electrical and non-electrical machinery and equipment, particularly to African countries.

2.6. South Africa's trade with the North

According to the World Bank, approximately 60% of Africa's global exports earnings in 1998 were generated by five economies. South Africa's share was 18.4 % while Nigeria and Algeria recorded shares of 14.8% and 12.6% respectively. Libya was the fourth largest export earner with a share of 8.6% followed by Morocco with a share of 5.4% (DTI contribution to The Millennium Partnership for the Africa Recovery Programme, May 2001: 1).

The prolonged trend of weak trade performance reflects the combined effects of both deep long term structural constraints in the economy of the South Africa and adverse features in the international trade regimes. Some of the highest levels of protection in the key international markets have affected the products in which South Africa specialises, constraining the country from taking the advantage of the dynamism of the world trade in the 1990s (DTI contribution to The Millennium Partnership for the Africa Recovery Programme, May 2001: 3).

The combination of macro-economic imbalances, lack of human and physical capital, poorly developed infrastructure and economic governance institutions, and an underdeveloped private sector, especially small and medium enterprises, these constitute the key impediment to South Africa's participation in the world trade and new global growth dynamic based on new technologies and increased investment flows.

These structural factors have weakened the supply response of South Africa's economy to existing and new international market access opportunities. The decline in the African continent's share of the world trade has coincided with the remarkable opening of the international markets for the continent through unilateral preferential market granted to Africa under various schemes by the major industrial countries, as well as through the series of rounds of multilateral trade negotiations under GATT / WTO.

The general feature of the market's access available is concentrated in low value added sectors, while high value added activities with the greatest potential of widening economic opportunities (investment and employment) and sustaining economic growth have been restricted (DTI contribution to The Millennium Partnership for the Africa Recovery Programme, May 2001: 12-14). Despite preferential market access granted to many countries including South Africa, competition is severely restricted by massive domestic support of agriculture in the industrialised countries. Moreover, export subsidies distort international markets, depress prices and drive otherwise competitive agricultural productions out of the market.

Although tariff escalation has decreased as a result of the Uruguay Round, tariffs from raw material to intermediate goods have risen and sometimes tariffs for finished industrial products have peaked. These continue to restrict export opportunities and hamper vertical diversification and industrialisation in the South (Africa) and other developing countries. Therefore this remains an obstacle to agricultural diversification growth (DTI contribution to The Millennium Partnership for the Africa Recovery Programme, May 2001: 12-14).

Traditional labour intensive sectors as well as capital and resource intensive industries, which could offer entry into the world markets, are among those exposed to higher average tariffs and non-tariff barriers in the industrialised country markets. In general, the growth of exports of the developing countries to industrial countries is inversely related to the degree of tariff protection in the latter. Apart from tariffs, exports from the South countries face a range of non-tariff barriers in the form of standards and technical barriers and trade remedies like antidumping and countervailing duties.

Deepening South Africa's economic relations with the key countries of the North is imperative to lock-in supplies of capital, technology and capital. In this context, Europe has been South Africa's dominant trading partner. Although the share of the total trade with Europe is declining, it is still around 45% of the total (DTI publication, 2001:22).

Much of the FDI into South Africa comes from the European Union. Within Europe, South Africa's strategic partnerships are United Kingdom, Germany, France, and Sweden.

Within the North American Free Trade Area (NAFTA), South Africa's key relationship is with USA. For example, exports from South Africa to the USA increased from R1 billion to 25 billion in the period 1988 – 2000; constituting an average growth rate of 26 over the period. South Africa's total exports increased by 13% per annum while the share of the US exports in total South African exports increased from 24% to 11% in the years 1988 to 2000 (Bilateral trade analysis between SA and US (DTI publication) 2001: 1.

2.7. South Africa's trade with the South

With regard to the countries of the South, South Africa's strategy take SADC and Africa as a starting point, and incorporates countries on opposite sides of the word in the Latin America and Asia. This concept is further developed in Free Trade Agreement (FTA) negotiations with Nigeria and India, and with the formation of the G-South (DTI publication, 2001:22).

Trade with SADC countries has increased dramatically during the period 1988 – 1997. Imports from SADC increased from R531 million (less than 1% of total imports) during that period. The increase of the South Africa's exports to the region was even more dramatic – from 2 billion in 1988 (4% of total exports) to R15.2 billion in 1997 (11% of total export).

At the present, the ratio of South Africa's exports to imports stands at 6:1. South Africa's exports to the region are concentrated in the high value-added sectors such as minerals, base metals, chemicals, machinery, transport equipment, food and beverages.

2.8. South Africa's exports to Africa (excluding SADC)

South Africa's export performance in Africa has shown that exporters in sophisticated sectors have made considerable inroads in this region.

Total South Africa exports to Africa (excluding SADC)

Year	1994	1995	1996	1997
Exports	R2792 million	R3465 million	R3618 million	R4382 million

Source: SACU exports, Customs & Excise DTI publication, 2001:23

Profile of South Africa exports to Africa (excl. SADC)

Product Category Total	Value
Machinery and allied equipment	R647 million
Chemical and allied products	R426 million
Vehicle, aircraft, spare parts thereof	R399 million
Metal and metal articles	R584 million
Prepared foods, beverages, tobacco products	R396 million
Plastics and article plastics	R201 million
Paper, paper board	R200 million
Textiles, clothing	R63 million

Source: SACU exports, Customs & Excise DTI publication, 1998: 43

2.9. South Africa's exports to Middle East

Since the end of the sanctions South Africa's export performance in the Middles East has been quite remarkable with an average 30% increases since 1994 (DTI publication, 1998:23). However the export thrust has peaked since 1996 and the objective to increase market share requires exporters to diversify their export profile in the region. The Middle East presents a unique opportunity for South African exporters, both manufacturers and project developers. The market is able to sustain imports bills due to the availability of foreign currency and therefore payments are not an issue in export contracts (DTI publication, 1998: 43).

Total exports to Middle East

Year	1994	1995	1996	1997
Exports	R2368 million	R3139 million	R4273 million	R4388 Million

Source: SACU exports, Customs & Excise DTI publication, 1998: 44

Profile of South Africa's exports to the Middle East

Product Category Total	**Value**
Machinery and allied equipment	R240 million
Chemical and allied products	R248 million
Vehicle, aircraft, spare parts thereof	R180 million
Metal and metal articles	R770 million
Prepared foods, beverages, tobacco products	R396 million
Plastics and article plastics	R201 million
Paper, paper board	R104 million
Textiles, clothing	R100 million

Source: SACU exports, Customs & Excise DTI publication, 1998: 45

2.10. Implications of South Africa's commitment to the Uruguay Round

One of the sources of challenges comes from the Uruguay Round of GATT concluded in 1993. The Uruguay Round determines that South African textile industries will have to be lowered to approximately half their existing rates over twelve years. South African commitment to the Uruguay Round is one of the major contributors to industrial decline in South Africa. This commitment led to the phasing out of the export subsidies, which were a key to revive incompetent industries by importing technology needed to achieve efficiencies. Sadly most of the general incentive schemes were phased out in the same manner. This commitment had negative implications for clothing and textile industry.

Developed countries will as result of the new measures on TRIPs and Trade Related Investment Measures (TRIMs), which protect established industry but do not provide hope for the new, domestic supported industries. The Newly Industrialised Countries (NICs) will also gain due to the decrease in the industrial tariffs and phasing out of Multi-Fibre Arrangements (MFTs). The latter are a form of bilateral quota, and violate the GATT provision on Non Tariff Barriers (NTBs). It is interesting to note that the Low Developed Countries do not stand to gain much from this new arrangement of international trade policy regime. A general reduction in tariffs is required, albeit at a slow rate for the developing countries. Without it, developing countries will be prevented from following the export-led path with initial protection of the small industries.

For South Africa, one can actually find that there are mixed implications in the countries commitment to Uruguay Round or in other terms, trade liberalisation. This is due to the nature of the country's economy as it has both the characteristics of developed country and also the features of a developing country. This contradiction has also been discovered by the European Union when making trade negotiations with South Africa. The South African economy is characterised with dynamic industries, such as motor industry and also inefficient industries for example textile and clothing industries.

2.11. South Africa's gain from trade liberalisation

Increase in Market Availability: at the end of 1999 South Africa concluded a trade deal with the European Union, which gave South African producers to the region duty free access; this is a huge market for South Africa. This is another reason why South Africa has increased its productive capabilities so as to exploit the availability of those opportunities. Further more the European Union is confirmed as the largest trading partner with South Africa. South Africa has secured preferential arrangements with a number of countries. South African exporters derive benefits under the generalised system of preferences (GSP) accorded by industrialised countries to certain goods coming from developing countries. The following countries have granted GSP status to South Africa: United States of America; European Union; Japan; Canada; Switzerland; Norway; Hungary; Martinique; Canary Islands (DTI publication, 1998:18)

Efficiencies: efficiencies in this context can be defined as the way in which an industry / firm can produce quality goods and services less expensively compared to its competitors. This feature is very important in the world of business where competition is rife. This competition can be reflected through the prices and this can be done in the following manner: when one firm can produce a good or a service less expensively than its competitors it can simply reduce the price at which that product can be sold which is a guarantee of customers as consumers are price sensitive or price elastic in a most business terms. The lower the price, the more goods and services will be bought and sold (given the their quality).

South Africa's textile industry has been characterised by inefficiencies and outdated machinery, for example in the 1990s the amount of investment has been insufficient to replace the even plants and equipment as it wore out. There were low investments in the textile industry over the past years meaning that much of the technology has become outdated. For example, at the start of 1992 the average age of textile machinery used in spinning, weaving and knitting ranged 14 to 20 years, with the exception of open-ended spindles, which have an average of 8 years (Mamree, 1995:27). Also, again with the exception of open-ended spindles, more than 50% of all equipment was more than10 years old. In most cases a far larger proportion of machinery exceeded 10 years old. In the case of shuttle looms, 100% were more than ten years old, while 93% of the flat knitting machines, and two thirds to three quarters of the remaining machinery, exceeded ten years of age (Mamree, 1995:27).

The South African textile industry's relatively low level of investment in new technology therefore serves to undermine its ability to face up with the international competition. Price is no longer the major determinant of market share; new standards of quality, reliability and innovation are required to ensure survival. Hence the low investment in new technology can have negative externalities for South African produced goods abroad (Joffe et al, 1995:14).

Introduction of new technologies in the production sector have stimulated the production as evidence confirms below. It is indicated that despite the marked rise in industrial action in 1999, the growth of output per worker or labour productivity in the formal non-agricultural sectors of the economy rose continuously from a year on year rate of 2.1 percent in the first quarter of 1999 to 4.6 percent in the fourth. On average, production per worker increased at a year on year rate of 3.3 per cent in 1999. The improvement in the labour productivity was not only a consequence of declining employment, but also of a broad based economic recovery in the second half of 1999. Introduction of modern technology by the South African producers is one of the major contributors to increased efficiencies (South African Reserve Bank quarterly bulletin, 2000:16).

2.12. Losses for South Africa due to trade liberalisation

The greatest loss resulted from the removal of General Export Incentive Scheme (GEIS). GEIS was the major export incentive scheme for manufacturing industry as a whole. In the textile industry there was a second very important export and import incentive scheme, namely the Structural Adjustment Program (SAP), which has been replaced by a Duty Credit Certificate Scheme (DCCS). GEIS, dating back to April 1990, was designed to offset the price disadvantage the South African exporters face in the international markets. It provided a tax-free financial subsidy to exporters based on the value of the exports, the degree of processing and the local content of exported product. The export subsidy increased with the level of beneficiation, the level of local content, and with the value of Rand against a basket of currencies.

The importance of GEIS in reducing or even removing the anti-export bias in manufacturing is evident from the following findings. The additional revenue obtained through GEIS in the manufacturing sector as a whole was estimated to increase the value added in exports by about 83.9 percent in 1991. However value added in domestic sales without GEIS would be 88,6 percent. With GEIS the value shifted to negligible 4.7 percent. It is therefore doubtful that South Africa could sustain the present level manufactured exports without GEIS (Belli et'al 1993:27-28). Mamree argues it was equal doubtful if the state could afford to sustain GEIS. In 1991 R900 million was paid under GEIS, of this R100 million went to the clothing and textile industries. In 1992 it is estimated that GEIS paid out R1.5 billion (Trade Monitor, 1993:8).

The removal of GEIS was the factor that made expected return to fall most and reduced the South African region's competitiveness vis-à-vis other countries round the world (Bridgman, 1993:7-9).

Outflows persisted in the early 1990s, causing the economy to lose as much as 2% real GDP growths annually. Indeed, while demanding increased liberalisation, the country's major corporations have in the 1990s embarked on a spree of investment abroad. Thus, according to Marais (1998:124) the largest conglomerates have invested substantially in Chile, Venezuela, Ecuador and Vietnam – with South Africa's trade and industry minister defending the trend on the basis that the country needs a corporate presence in countries with which it trades. Capital outflows, in 1991, equalled 90 percent of Africa's GDP – more than five times of total investment, 11 times private investment, 120 times as much as foreign investment (Marais, 1998:124)

Tariff reductions have continued at the rate that has squeezed tens of thousands of workers out of jobs, and have seen very significant companies closing their doors permanently. An excess of 500 000 jobs were lost between 1991 and 1999.

The area of focus for chapter three will be the case study of the many losses in the clothing and textile industries.

CHAPTER THREE

CASE STUDY OF TEXTILE AND CLOTHING INDUSTRIES

3. The South Africa's former textile trade regime

3.1. Protection: complexity and Fluidity of textile tariffs.

Since the early 1980s, South Africa has made much progress in liberalising the trade regime, this include the removal of quantitative restrictions, the process has shifted in focus to import liberalisation through tariff reductions. As South Africa has integrated in to the world economy, so concerns about the impact on employment, production and growth were raised (Edwards, 2001:471). These are highlighted in reference to textile and clothing industry in the latter part of this chapter.

South Africa used to have a tariff system that has been described and categorised as one of the most complex in the world (Belli et'al, 1993:3). For example, there was variety of duties each with the multitude of rates, which were used separately or in combination with each other. Some rates were *ad varolem;* some were specific, while others were based on formulae. According to Belli et al, in some instances the specific duties were not related to import prices, but were stated as specific rand amount per unit of weight, volume or other product characteristic (1993: 3- 4).

3.2. Levels of protection of textile products

a) Nominal tariff rates

The textile, apparel, and leather products sub-sector was one of the most protected in the manufacturing industry. The following table will demonstrate the high levels of nominal protection (from 1989-1991), which the sub-sector received, compared to the manufacturing industry as a whole. This table reveals that, within the sub-sector, nominal protection is the higher for wearing apparel and footwear than textile products. The weighted mean of the nominal rate of protection of textile, apparel and leather products were more than twice than the manufacturing weighted average (about 66%). The weighted mean of the apparel goods was almost four times higher than the manufacturing average and for footwear more than three times the manufacturing average (Belli et al, 1993:12).

South Africa: Nominal rates of protection on manufacturing, textile, apparel, leather, and footwear.

Sector\Sub-sector	Unweighted Mean	Weighted Mean	Maximum Rate	Minimum Rate	Coefficient Of Variation
Manufacturing	28	30	0	1389	158,4
Textile, Apparel& Leather products	66	62	0	1389	129,6
Apparel	104	81	5	265	51,3
Leather	15	23	0	90	88,5
Footwear	90	65	0	659	130,5

Source: Belli et al, 1993:15

b) Tariffs based on import duty collections

Industrial Development Corporation (IDC) calculations using 1989 data inputs show that the manufacturing sector had nominal protection of about 13% on average while input had 18% protection, providing effective protection three times higher than the manufacturing average. Belli et al (1993:22) indicates that 94%effective protection of the sub-sector was in fact the highest of all manufacturing sectors.

Effective protection on manufacturing and textile, apparel and leather sub-sector

Sector/Sub-sector	**Protection on: Inputs**	**output**	**Effective Protection**
Manufacturing	12,6	17,8	30,2
Textile, Apparel, & Leather	27,8	43,6	93,6

Source: Belli et al, 1993:22

3.3. Trade liberalisation

Of all the negative implications following the liberalisation of trade in South Africa, the textile and the clothing industry are the most affected industries. These industries are the evidence that de-industrialisation has taken place in South Africa's economy.

The textile and clothing industry employs a large proportion of women, so when this industry had to lay off staff, many women often the only bread winners in single parent families, more lest unemployed with no income.

In 1998 alone, South African Textile and Clothing Workers Union (SACTWU) tracked 22 169 net job losses countrywide. For the first six months of 1999, there were a further 10 030 job losses. So in the 18 month period from 1 January 1998 to 30 June 1999, at least 32 000 jobs were lost.

The job losses were caused by both a reduction in staff numbers at many workplaces, and a number of factory closures, including very old, very large and very established factories (SACTWU, report 1999). There are many reasons why the damage has been enormous in these industries, those reasons range from the import substitution industrialisation (ISI) that was practiced in South Africa during the 1970s. Moll (1991:283) indicates that manufacturers were protected from some import competition by a variety of tariffs. Most industries including textile and clothing industries were not encouraged to compete internationally in terms of exports, these industries were sitting down on the comfort zone of the local market, which did not demand high quality standards and efficiency.

All this was enough to cripple the clothing and textile industries when the tariffs were phased down. The worst part of the matter was the fact that South Africa committed to phase down the tariffs even more than the World Trade Organization required. The actual phase down is shown in pages 42-47 of this chapter. The clothing and textile industries were unable to absorb the shock and make necessary adjustments, so they were forced to reduce the costs by retrenching the massive number of employees in this sector. South Africa's implementation of more than GATT requirements has earned the Minister of Trade and Industry, Alec Erwin, the label "holier than GATT" amongst some sections of the trade union movement.

This assignment's theoretical framework maintains the view that there are mixed implications for South Africa in the effects of trade liberalisation This chapter will include, the brief background on GATT/WTO influence in the clothing and textile industry; Uruguay Round / tariff reduction; impact of Tariff liberalisation on clothing and textile industries; and positive effects of tariff reduction on Textile and Clothing industry. These mixed effects are due to the fact that South African industry consists of more dynamic industries as well as those less dynamic already discussed.

World Trade Organization cannot be blamed for the ugly side of the trade liberalisation, because World Trade Organization's rationale is to facilitate the trade between countries. World Trade Organization does not exist to force countries to open up their economies to the outside world, but to encourage free trade among countries for the benefit of all economies. The WTO also seeks to provide a multilateral framework that is likely to deal with protectionism – a tendency that is most prevalent in developed countries, and to distribute equitably the gains and benefits of trade liberalisation. It has also been argued by South Africa, in particular, that multilateralism offers better hope than unilateralism - an approach where the interplay of power in the global economic system prevails and developed countries act unilaterally in defining terms of trade engagement with developing countries.

Rudiger Dornbusch, put it this way "in a broad swing of the pendulum, developing countries have been shifting from severe and destructive protection to free trade fever". Dornbusch further explains that the enthusiasm for freer trade stems from some overlapping sources:

- Poor economic performance: many developing countries have suffered dismal economic performance and declining productive potential. Much of the reason can be traced to the populist macro-economic policies that engendered debt crises and hyperinflation. Part of the cause is the external pressures of globalisation.

- Information availability: citizens worldwide are exposed to more information about the opportunities available in other countries. It is no longer possible to conceal that goods in other countries cost three or four times lesser. For example, the poor want low cost consumer durables that are available in the world markets.
- World Bank pressure and evidences of successes: World Bank has documented the problems of inward-looking industrialisation strategies and discerned the lessons from outward oriented industrialisation

The access to a variety of foreign inputs at lower costs shifts the economy-wide production function outward, which illustrates a concrete link between productivity and trade regime. In addition, the availability of imported intermediate goods and of technology is an important source of gain in shedding a restrictive trade system (1992:69 – 71).

A gradual path to trade liberalisation has been suggested by Dornbusch to take two steps. In the first round, the country should move from quotas, other licenses and other non-tariff barriers to a uniform, high tariff of 50%. Later, as the economy grows and the external balance (balance of payment) can support liberalisation without the risk of a foreign exchange crisis, tariffs can be taken down to 10% (1992:82). South Africa has no followed this path of liberalisation. The reason may be that South Africa wanted to show to the investors that the country was committed to liberalisation of the economy, so as to attract as many investors as possible. Another reason may be the fact that, historically the ruling African National Congress (ANC) has been associated with socialist-prone policies, which is a contrast to market-friendly policies favored by most investors, therefore the ANC would want to show its commitment to market friendly policies so as to facilitate investment for more economic growth and thereby create more jobs.

3.4. Uruguay Round of tariff reduction

Since the end of the Uruguay Round of GATT negotiations in 1995 and the consolidation of the process at Marrakesh (Morocco), the South African government has been pursuing a policy of tariff reduction.

The Uruguay Round of multilateral trade negotiations, which was concluded with the signing of the Final Act in 1994, was the longest of the eight rounds held under the auspices of the GATT. The old GATT system played a central role in reducing tariffs, the main form of protectionism during the inter-war period. In 1947, the average tariff on manufactured trade was 47%, by 1980, following successive rounds of trade negotiations; it had fallen to 6%. Full implementations of the Uruguay Round agreement will further reduce the average industrial-country tariff to 3.9% (GATT 1994: 96).

Even before its conclusion, the Uruguay Round was widely celebrated as the dawn of a new era, with enormous gains for all countries confidently predicted, including the poorest. The ministerial declaration, which launched the Round, included in its first objective the extension of benefits from international trade to developing countries as one of the major aims of the negotiations: Tariff reductions; the lowering of non-tariff barriers; the integration of textiles into a new set of trade rules; and the liberalisation of agriculture.

The Uruguay Round agreement, now being implemented under the WTO, was widely regarded as a triumph for multilateralism - and was a decisive step towards the creation of a globalised international economy, in which the benefits of free trade could be distributed to all countries. Developing countries have been identified as among the prime beneficiaries, with important gains for export earnings and poverty reduction widely anticipated (Barker D, Epstein and Pollin R, 1998:7).

In fact, the benefits accruing to developing countries from the Uruguay Round are considerably more limited than such accounts suggest. Under the old GATT regime, trade liberalisation was geared towards policies and sectors (mainly tariffs on manufactured goods) of interest to the industrialised countries. Under the new regime, the benefits of tariff reduction have again been weighted in favour of the industrialised world. Moreover, the move towards full liberalisation in textiles and agriculture is considerably more restricted in practice than the principles enshrined in the WTO framework might indicate. An additional problem for the poorest countries is that many of the structural problems which hamper their capacity to benefit from more liberal trade did not feature on the Uruguay Round agenda. Developing countries still suffer capacity constraints in implementing some of their obligations to GATT, and as such would not be ready to negotiate on any new issues put on the table by developed countries for a possible round of trade negotiations.

In its approach to the global economic system, in particular the aspect of production, South Africa argues for structural relocation of production from the developed countries to the developing countries more especially those areas where developing countries have comparative advantage. These industries are what the Minister of Trade and Industry terms "grandfather industries" – that includes steel, textile and clothing. Currently, these are shielded by industrial tariffs. South Africa at the present moment is mobilising the developing countries both in the SADC and other developing countries to launch a new round of multilateral trade negotiations – which would be broad-based and developmental.

This round, as noted previously, is geared towards mobilising the developed countries to transfer the industries, which produce labour-intensive goods to the developing countries and leave the more sophisticated industries in the developed countries. Sustained global economic growth lies in unlocking the growth and development potential of the developing countries. To achieve these developing countries must pursue industrialisation by processing their natural resources where they possess comparative advantage (International Trade and Investment Development Division of Department of Trade and Industry – South Africa: Global economic Strategy; 2001: 32). However, the protectionist interests in the North under various national policy regimes have frustrated the realisation these full potential advantages.

Under the existing international trade and finance rules, globalisation is marginalizing some countries, and actively threatening the livelihoods and welfare of vulnerable communities. This was true of the 1980s, when market liberalisation emerged as a dominant political and economic force under the influences of IMF-World Bank adjustment programs - and it remains true of the 1990s. Part of the evidence is to be found in the declining share in world trade and investment suffered by many of the world's poorest countries. The forty-eight least-developed countries now account for less than 0.3%of world trade - half the level two decades ago (Todaro, 1994:27).

The Uruguay Round of tariff reduction exposed most South African industries to competitive industries abroad and this fuelled the decline of most of the industries in South Africa, especially the textile and clothing industries. This has led to massive unemployment and retrenchment, as more industries seek to reduce costs to achieve efficiency.

One of the sources of challenges comes from the Uruguay Round of GATT concluded in 1993. The Uruguay Round determines that South African textile industries will have to be lowered to approximately half their existing rates over twelve years. South African commitment to the Uruguay Round is one of the major contributors to industrial decline in South Africa. This commitment led to the phasing out of the export subsidies, which were a key to revive incompetent industries to import technology needed to achieve efficiencies. Unfortunately even most of the general incentive schemes were phased out in the same manner. The commitment to the Uruguay Round had negative implications for clothing and textile industry on the whole.

3.5. The negative impact of tariff liberalisation on clothing and textile industries

The South African textile industry is a large and diversified industry producing a whole range of products, from cotton and woollen fabrics to door-and tailgate panels. The industry forms part of pipeline in which the raw material (fibre) passes through various distinct transformation processes that often constitute different industries. The clothing industry is more concentrated in terms of production and ownership and includes men's, lady's, and children's clothing as well as furriery and millinery.

3.5.1. International industry trends

The clothing industry is facing competitive business conditions globally because of the ongoing trend towards casual-wear; value conscious consumers; consolidation of retailers; pricing pressures; and sluggish markets (DTI report 1997:54). The DTI report adds major importing countries (mostly OECD member countries) have introduced eco-labeling programmes, which discriminate against environmental harmful products. The clothing industry has been facing an increasingly diversified market globally with demands for high quality standards and the additional requirement of environmental friendly technologies.

The industry response to global developments has differed depending on the region and industry segment. For low cost producers in the developing countries the industry response has been to lower costs and improves product quality. For niche market producers in the upper income countries and OECD countries; the industry response has been to produce high value added, and design intensive products, to increase productivity by adopting advanced technologies and engineering methods and by increasing flexibility and product variety, to suit changing consumer preferences. The textile industry response has been to improve productivity through investing in capital intensive and technological advanced production methods including automation.

3.5.2. Domestic industry trends (Production)

There have been three distinct phases in the growth of the ***textile industry*** in South Africa over the past two decades. The first period from 1972 to 1981 was one of the sound growths of output; the average annual compound growth rate over the period was not less than 5.7%. In 1981 production reached a peak of R9 721 million (in 1990 prices). The second distinct phase from 1981 to 1992 has been characterised by decline in the textile industry. The third phase from 1994 to the present this industry has been characterised by restructuring of the sector with the view that the sector has potential growth industries. In 1996 the volume production for the textile industry dropped by 28% over the 1995 level.

The production volume index in the ***clothing industry*** declined by 5.1 % in 1996 compared to 1995 level (DTI annual report, 1996-7:55).

The ***footwear industry*** has experienced a decline in output in the last decade, and particularly so in 1996. Output in terms of the number of pairs produced declined by 29 % during the last decade, to 58,3 million pairs in 1995. From a peak output of 88 million pairs in 1989, output has declined to about 48 millions pairs in 1996. The volume of production index declined from 83% in 1995 to 71% in 1996 (DTI annual report, 1996-7:56).

The ***tanning industry*** for footwear leather has shrunk over the year, in tandem with the decline in footwear manufacturing. The official data indicates that the volume of production index has declined marginally (about 2%) in 1996 over the 1995 level.

3.5.3. Domestic industry trends (employment)

Estimates of total employment in South African clothing sector vary considerably and often fluctuate dramatically. Official statistics reflect total employment in the industry approximately 140 000 (1998) and the value of production as R8, 4 billion (Rogerson, 2000:693). More generally the clothing industry in terms of formal employment represent between 9% and 10% of total employment in South African manufacturing sector. This percentage is very small when looking at the fact that this is a labour intensive sector which should be employing most of the people to reduce unemployment, those most of the people who get retrenched in this sector set up their own small production and subcontract with bigger firms (Rogerson, 2000:693).

The employment loss observed in 1995 eased in 1996. The official data reflects a 15% for the ***textile*** sector. The clothing sector saw an 11% increase in 1996 compared to 1995. Employment in the ***footwear*** industry has fallen significantly along with the decline of the industry. Footwear employment's contribution towards manufacturing employment has declined from 2.3% to 1.8% between 1989 and 1996. Employment in the leather industry recorded in 1996 shows a slight decrease (about 1%) over 1995 level. The decline in job opportunities is due to the decline to the industry itself (DTI annual report, 1996-7:58).

3.5.4. Domestic industry trends (trade)

During 1996, imports of ***textile*** products grew to new heights with the level of imports continuing to exceed that of exports by a significant margin. While exports of textile products grew somewhat in 1996 this was of relative importance because base and trade deficits remain substantial, according to DTI report of 1997.

The ***clothing*** industry saw substantial worsening of its trade balance in 1996. Exports have declining since 1993 and although they did increase in 1996 this was not enough to offset the large increase of imports.

The footwear industry, in addition to the decrease in footwear production, has faced a marked increase in a number of pairs of shoes that are imported, while the average price per pair of imported footwear has fallen. Analysts attribute the growing number of imports to the reduction in tariffs. Imports are predominantly from the low-cost mass-producers countries, like China (DTI report, 1997).

According to Central Statistics Services (CSS) data, imports grew from R495 million in 1994 to R764 million in 1996 (measured in 1995 constant prices); reflecting 35% increase in the two years. Exports however have increased from R69 million in 1994 to R83 million in 1996 reflecting a 17% increase which is a far smaller increase compared to the increase in imports over the same two year period, resulting in huge trade deficit (DTI report, 1997:60).

Of those factories, which closed down in 1998, the breakdown by sector and by region is as follows:

Factories per sector

Clothing	54
Textile	13
Leather	7
Other	1
Total	75

Source: Deputy General Secretary Report to SACTWU, 1999

Factories per region

Western Cape	30
Gauteng	22
KZN	16
Eastern Cape	6
Central	1
Total	75

Source: Deputy General Secretary Report to SACTWU, 1999

Many factories have large-scale retrenchments; job losses have resulted from to further tariff reductions since 1998. One graphic example is that YCH Shoes closed their factories in Batshabelo, even though wages were only 37% of the industry norm, or R126, 36 per week (Deputy General Secretary Report to SACTWU, 1999:8).

Between 1997 and 1999 clothing and textiles have been exposed to three further tariff reductions reducing them to a rate well below the rate agreed on at the WTO. 1999 statistics show top five countries from which South Africa is currently importing its clothing:

Malawi	R243m
China	R211m
India	R131m
Hong Kong	R58m
Italy	R45m

Source: Deputy General Secretary Report to SACTWU, 1999

Total imports in 1998 amounted to R931 million, while in 1997 this was R784 million. This represents 19% increase in the value of legal imports.

GATT Offer (% Ad Valorem Duty i.e. of taxes to the estimated value of the goods concerned – L = according to the value)

Year	93	94	95	96	97	98	99	00	01	02	03	04	05	06
Fiber			25	25	25	25	23.5	22	20	18	16	14	12	10
Yarn			35	35	35	35	33	31	29	27	25	22.5	20	17.5
Fabric			50	50	50	50	47	44	41	38	35	32	29	25
Made Ups			60	60	60	60	56.5	53	49.5	46	42	38	34	30
Apparel			100	100	100	100	94	87	80	73	66	59	52	45

Source: Deputy General Secretary Report to SACTWU, 1999

3.5.5. Actual phase down

Year	93	94	95	96	97	98	99	00	01	02	03	04	05	06
Fiber	25	25	23	21	19	17	15	13	11	7.5	7.5	7.5	7.5	7.5
Yarn	35	32	30	28	26	24	22	20	18	15	15	15	15	15
Fabric	50	45	42	39	36	33	30	27	24	22	22	22	22	22
Made Ups	60	55	52	49	46	43	40	37	34	30	30	30	30	30
Apparel	100	90	84	78	72	66	60	54	48	40	40	40	40	40

Source: Deputy General Secretary Report to SACTWU, 1999

In 1997, GATT tariffs on clothing were due to be 100%, while government had set it at 78%. In September 1997, DTI reduced it further, to 72% and in 1998 to 66%. Then in 1999 it decreased to 60% and this rate should be in 2004. From the above it is clear that clothing tariffs are five years ahead of the country's commitment under the terms of GATT. This has led to a large proportion of job losses in South Africa the industry requires only semi-skilled workers.

In the leather sector, the problems of lower tariffs have even more intense. When the Uruguay Round of tariff reduction was being finalized in 1993, SACTWU had a smaller leather membership, and had less influence on the final rate that developed. This was set at 30% and the reduction programme has resulted in a catastrophe for the sector. In 1990, the total employment in the sector was over 40 000 while today is 22 000 (Deputy General Secretary Report to SACTWU, 1999:9).

The clothing and textile sector accounts for 205 000 jobs in South Africa or 2.5% of the total employment figure (Labour Bulletin, Vol. 23, February 1999). The industries are labour intensive industries. This means that there are many workers who make up the production processes of these industries. There are also many women who are working in these sectors. In the clothing sector for example women make up 76% of the labour force (Labour Bulletin, Vol. 23, February 1999).

The transformation of the clothing and textile sector in South Africa over the last ten years has affected not only the workers, but also the families and the communities they support. In SACTWU memorandum tabled to the department of trade and industry, the union said that between 1990 and to date 80 000 jobs have been lost (ILRIG, 1999:3).

More over ten years after the South African clothing and textile industry was opened to international competition, there have been increases in short time workers and retrenchment within the industry. These short time workers earn below the collective bargaining wage agreement, and this is contrary to the government promise of better life for all.

One of the reasons why deindustrialisation occurred is high cost of imported machinery because of exchange rate problems especially in the mid 1990s, as most of the firms did not have much of the revenues to buy new machines overseas. Most of their revenues spent in paying retrenched employee packages. Shortages of skills are another factor for most of the structural changes in the management system, which is now improving, did not take place in the mid 1990s. Therefore all these factors accelerated the closing down of many firms as they were facing tough competition from imports (Rogerson, 2000:693).

3.5.6. Other implications

As argued in the previous chapter South Africa has experienced mixed implications, though it cannot be denied that negative implications outweighed the positive implication.

De-industrialisation is also likely to have negative implications for industrial relations in South Africa, particularly for the role-played by the trade unions. Trade unions traditionally derive their strength from industry, where modes of production and standardised nature of work makes it easier to organise workers. In services workers are typically more difficult to organise (with possible exception of public services) and unionisation has thus been less prevalent, owing not least to wide differences in the type of work available.

As de-industrialisation continues in South Africa, centralised wage bargaining arrangements seem likely to face serious challenges. Such centralised wage-bargaining systems have been practised in a conscious attempt to narrow wage differentials between different groups of workers (Finnemore, 1998: 166-167).

3.5.7. Positive effects of tariff reduction on Textile and Clothing industry

Investment: as a result of tariff reduction the textile industry has embarked on a massive investment drive, modernising its equipment and work methods. In 1995, R900 million was spent on new plant and technology. In 1996, R1 100 million was invested. Future investment is expected to reach R4 billion by the year 2002. The average age of equipment in the textile industry is already declining: for spinning equipment the average age has declined from 16.2 years in 1991 to 14.2 years in 1996, to 9 years in 2001. The world player scheme offered by the Industrial Development Corporation (IDC) has been well utilised by this sector for investment in new machinery and equipment. There are also a significant number of newcomers and South Africa seems to be attracting the attention of large international groups (DTI annual report, 1996-7:63). The investment in this industry has led to major improvement, among these are strategies like process innovations, organisational changes, and the introduction of new technologies. Such changes are interdependent with process innovations. The application of new technologies goes hand in hand with new organisational changes and the encouragement of multi-skilling practices. New technologies such as computer-aided design facilitate the adoption of unit production system, which enhances efficiency (Rogerson, 2000:695). According to him, research discovered important regional variation with regard to South Africa's context regarding the changes as result of investment. For example, it was found that clothing firms based in the Witwatersrand or Durban metropolitan areas were very slow to implement the process innovations. By contrast clothing enterprises in the Western Cape particularly tended to be more advanced in introduction of new production technologies and flexible organisational forms. This restructuring programme has been agreed with government (DTI) and is designed to achieve international competitiveness linked to 7th year phase down of tariffs (Rogerson, 2000:695). In general it is expected that the industry as a whole will become more export oriented, focusing on value added products niche markets.

In essence the rise in exports of one sector indirectly raises the output of the other sectors from which the export sector draws inputs for production purposes. This sector in turn has spillover effects on other sectors (Edwards, 2001:475). For example firms producing cloth material can expect a high demand of its cloth, which further stimulate employment creation etc.

3.5.8. *The Productive Performance Monitoring Scheme (PPMS) and Training Requirement (TR)*

Trade liberalisation has also led to a productive monitoring scheme, training considerations and also enhanced international competitiveness. The department of trade and industry has encouraged this kind of initiative. By establishing Duty Certificate Credit Scheme (DCCS) to give some benefits in the form of assistance for exports. Applicants who registered for participation increased from 68 during 1995/96 to 85 for the 1996/97.

The DCCS has clearly contributed towards the restructuring of the these two industries by assisting in the penetration of export markets and facilitating increased training and productivity to enable the growth of competitiveness during the tariff phase down (DTI report, 1997:64).

Therefore the critical lack of training in the textile and clothing industries, as identified in 1994 Swart Panel Report, has been addressed by the development pilot training programme aimed at improving labour productivity in the industries in conjunction with the department of labour. The working group, which would develop and monitor a human resource development policy, has been established. According to DTI report, DTI has launched a wool and mohair cluster study, which was successful, in that 95 % of the raw and semi-processed wool is currently exported.

CHAPTER FOUR

4. CONCLUSIONS

4.1. Introduction

This chapter will report on the findings of the study. The study purported to answer the critical question of whether the commitments to the Uruguay Round of tariff reduction has imposed any constraints or have these commitments offered some opportunities for the economy of South Africa. Using the dependency theoretical framework the study identifies winners and losers in the international trade.

4.2. Negative effects of trade liberalisation

As argued in the previous chapters South Africa's case is a unique one, as it has strong dynamic industries and also weak industries. So the effects of the commitment to the Uruguay Round of tariff reduction are mixed; which means that we find both positive implications and also negative implications, though the negative effects outweigh the positive effects This has been demonstrated in chapter three in the case study of textile and clothing industries.

In terms of production, there have been three distinct phases in the growth of the textile industry in South Africa over the past two decades. The first period from 1972 to 1981 was one of sound growth of output; the average annual compound growth rate over the period was not less than 5.7%. The second distinct phase from 1981 to 1992 has been characterised by a decline of growth in the textile industry. In the third phase from 1994 to the present the industry has been characterised by a restructuring of the sector to focus in the potential growth areas. The volume of production for the textile industry dropped by 28% in 1996 compared to 1995. The production volume index in the clothing industry declined by 5.1 % in 1996 compared to the 1995 level (DTI annual report, 1996-7:55). The footwear industry has experienced a decline in output in the last decade, and particularly so in 1996. The tanning industry for footwear leather has shrunk over year together with the decline in footwear manufacturing.

For trade, during 1996, imports of textile products grew with the level of imports continuing to exceed that of exports by a significant margin. The clothing industry has seen substantial worsening of its trade balance during 1996. The footwear industry, in addition to the decrease in footwear production, has faced a marked increase in shoes that are imported, while the average price per pair of imported footwear has fallen. According to Central Statistics Services (CSS) data, imports grew from R495 million in 1994 to R764 million in 1996 (measured in 1995 constant prices) reflecting a 35% increase in the two years.

Many factories have had large-scale retrenchments; job losses have been exposed to further tariff reductions since 1998. De-industrialisation is also likely to have negative implications for industrial relations in South Africa, particularly for the role played by the trade unions. Trade unions have traditionally derived their strength from industry, where modes of production and the standardised nature of work have made it easier to organise workers.

As de-industrialisation continues, in South Africa centralised wage bargaining arrangements seem likely to face serious challenges. This system has had to deal with a conscious attempt to narrow wage differentials between different groups of workers (Finnemore, 1998: 166-167).

4.3. Positive effects of trade liberalisation

There have been major investment flows into the textile and clothing industries as a result of trade liberalisation. The textile industry has embarked on a massive investment drive, modernising its equipment and work methods. In 1995, R900 million was spent on new plants and technology. In 1996, R1 100 million was invested. Future investment is expected to reach R4 billion by the year 2002.

The trade liberalisation has also led to productive monitoring scheme, and training considerations and also enhanced international competitiveness. The department of trade and industry has encouraged this kind of initiative, Trade and Industry established Duty Certificate Credit Scheme where by the firms in this industry would be given some benefits in form of assistance for their exports.

4.4. De-industrialisation in South Africa

The growth of the South Africa's economy has been slowing down since the second half of 1996, and further weakened in the third of quarter of 1997 (South African Reserve Bank Quarterly Bulletin, 1997:1). According to this report, output growth outside the primary sectors of the economy also slowed down noticeably.

The projections in 1997 pointed to a growth rate of the South African economy of between 1.5% and 2%, which was considerable, lower than generally expected at the beginning of the year and was slower than the average growth rate experienced over past three quarters. The report indicated that even though a technical analysis could not provide conclusive evidence that South Africa has entered a downward phase in its business cycle, the economy was definitely not producing at full capacity in the third quarter of 1997, and output growth clearly did not match the economic growth potential of South Africa.

Real value added by the secondary sectors declined at an annualised rate of 0.5% in the third quarter of 1997 after it had increased a brisk rate of 5.5% in both the first and second quarter (South African Reserve Bank Quarterly Bulletin, 1997:4). Output in the manufacturing sector declined at a rate of 1% as slack aggregate domestic demand and slower growth in export demand for manufacturing goods left their mark. The increase in domestic manufacturing sales and orders slowed down in the third quarter of 1997, output declines occurred in industries producing food, paper products and machinery and transport equipment. Growth in the combined tertiary sectors also slowed down from an annualised rate of 1.5% in the second quarter of 1997 to less than 0.5% in the third quarter

Output in the manufacturing sector, which fell in the third and the fourth quarter of 1997, declined further at annualised rates of 1% in the first quarter of 1998 and 3% in the second quarter. The sluggishness of manufacturing output was directly related to the decline in activity of the primary sectors of the economy, a slump in the sales of motor vehicles and weak growth in aggregate real gross domestic expenditure. This can be attributed to the adverse effects of trade liberalisation.

Motor manufacturing has also suffered. Following the sales boom of 1995 and 1996, sales fell slightly to 399 000 units in 1997. A modest recovery was expected in 1998 but the market crisis and international financial market instability led to the increase on interest rates in South Africa, which severely impacted on the domestic market for vehicles. New vehicles sales slumped to 350 500 units in 1998 and was recorded by the industry as one of the worst years in the decade. With stability returning to financial markets and with declining interest rates the market started to recover during the second half of 1999. New vehicle sales for 1999 as a whole are however estimated to be 12. 5% lower than 1998, but expectations of a respectable 10% to 15% growth compared to 1999 were forecast for 2000.

Overall South African exports still remain concentrated in primary products. Poor export performance has been the major factor prohibiting the entire economy from growing at a faster rate. South Africa is heavily dependent on the need to import especial capital equipment. When the economy expands, the demand for imported capital equipment rises very rapidly placing a pressure on balance of payments.

4.5. Political economy of global trade and how it contributed to de-industrialisation

The political economy of global trade relations can viewed in terms of developed countries and developing countries. The developed countries are classified as the "North" and the developing countries are defined as "South). The Dependency theory argues that the economies of the North developed at the expense of the economies of the South. The reason for this argument is that the economies of the South were shaped by the North to serve the economies of the North.

The structuralist theory of industrialization criticizes the links between the developing countries and advanced industrial countries using the notion of *centre and periphery* (or core and periphery) relations to highlight the differences between the developed world and also the unequal nature of the relationship; for example a number of arguments have been put forward over the years, to explain why international trade operates to the detriment of developing countries.

Deteriorating t*erms of trade* is one of the reasons that are put forward to explain why trade relation between North and South always work to the detriment of the latter. "Terms of trade" refers to the relative prices of exports and imports. This can be explained in terms of differences in demand for primary products and manufacturing products. It is often argued that there is high demand for manufacturing products and a lower one for primary products, which put upwards pressure on manufactured products (Jenkins, 1992:137-138).

Power dependency relations between the core and the periphery operate to reproduce inequalities between states. Chase-Dunn (1975:268) argues that one way in which dependence retards development is by linking national elites in the periphery to the interest of transnational corporations. Africa's increased marginalisation in the world economy based on its structural position confirms analyses based on the core-periphery model of dependency theory. For example twenty, of the poorest nations in the world, sixteen are in Africa (Easterly, 1996:19). In terms of investment level, of the $220 billion in foreign direct investment (1991-1994), Africa's share decreased from 11% to 3% while over 50% went to the Asia Pacific region (World/bank.org.htm.extpb/wdt95ENG/ssa.htm).

The economies of developing countries are structured to perpetuate their dependency to the economies of the North. This makes the development of South-South trade difficult. Roads and ports were developed to channels goods to facilitate trade with the core. For example most of the raw material and minerals are exported to the core for processing and sold back to the periphery.

4.6. Evaluation

Integrated investment promotion for developing countries could help to diversify their economies. Most have already embarked on this kind of initiative through regional integration. This could stimulate trade among developing countries, which was never encouraged during colonial times as the core countries were looking at developing their economies at the expense of the periphery. South Africa's Department of Trade and Industry is working on regional integration SADC in particular, as well as the Millennium Africa Recovery Plan (MAP), which is aimed at developing the continent politically and economically. MAP is about removing impediments to economic growth and enabling African people to be meaningful participants in their national economies and global economy. Sustainable development will only be achieved when Africans become significant investors and wealth creators in their own countries and in the continent (MAP final Draft, 2001: 23). The MAP initiative has gone through many phases. The Organisation of African Unity (OAU) gave a mandate for the MAP initiative, which is mainly a South African initiative; to be merged with Senegal's Omega plan. This created what became known as the New Africa Initiative (NAI), and it has since been changed to the New Partnership for Africa's Development (NEPAD). At its centre is an emphasis on new forms of partnership at different levels: South-South partnership, North-South partnership, and partnerships with the civil society.

4.6.1. *Spatial Development Initiative (SDIs) and Industrial Development Zones (IDZs)*

SDI's are a particular vehicle of government intervention with the 'objective of crowding in' private sector investment in specific regions. SDIs are, firstly, based on the notion of regional agglomeration, referring to the tendency of industries to be concentrated in relatively confined geographical areas. This is because any particular industry is dependent on a range of other industries, associated institutions, and service providers for its continued existence and successes. Secondly, SDIs are theoretically consistent with the development literature, which stresses the necessity for government to contribute to basic infrastructure, such as roads, water and electricity, in order for private investors to invest in profitable industrial concerns. Many economists, like Nicoli Natrass refer to this situation as the 'crowding in investment' initiative (Natrass, 1997:193).

SDIs have a number of important operational aspects: firstly, they leverage private investment funds by packaging industrial projects and introducing these to potential investors. Secondly, they install and upgrade physical infrastructure through public sector institutions including parastatals. Thirdly, each SDI is designed around at least one key anchor project funded by the IDC. Fourthly, regulatory mechanisms and supply side interventions to support the establishment of Industrial Development Zones (IDZ) are put in place. At present 383 projects are at various stages of consideration for involvement in SDIs. These projects involve a total potential investment of more than R67 billion and would create more than 63000 jobs in some of the least developed parts of South and Southern Africa (DTI discussion document, 1998:27).

4.6.2. *Industrial Development Zones*

Industrial Development Zones will provide a further mechanism to facilitate investment in the complex manufacturing. They are designed to attract Foreign Direct Investment for export oriented manufacturing production and will be located within designed SDI regions so as to maximise the natural linkages between these two programmes. The industrial concentration as discussed in the SDI section just above is increasingly important in the global economic environment of the 1990s (DTI discussion document, 1998:29).

4.6.3. *Industrial strategy for South Africa*

Building a competitive, integrated manufacturing economy that leads to sustainable growth, development and employment requires a shift from dependency on primary exports to value-added, globally competitive manufactured exports. South Africa has considerable advantages in raw material, energy and infrastructure, which can provides competitive advantage for higher value-added production. Industrial strategy through a range of supply side measures can eliminate inward bias and distortions in order to consolidate and advance the competitiveness of industrial activities. Industrial strategy should also be designed to support more dynamic areas of manufacturing that are knowledge intensive. An integrated manufacturing strategy should entail not only the provision of raw material input into production but also attendant processes that add value to final output such as design, innovation, marketing, and distribution (DTI unpublished paper, 2001: 16).

Forging partnerships and intensifying co-ordination between the government and exporters is the key to a global strategy. Success requires a shared and detailed appreciation of the strengths, weaknesses and dynamics of South African industry and industrial policy at sectoral level. This is also the basis for both formulating and implementing a global economic strategy and for effective bilateral and multilateral negotiations as instruments to enhance access to markets for exports, investment and technology.

The provision of financial assistance to potential exporters, particularly SMMEs, and those exporters attempting to penetrate complex foreign markets is essential. This financial assistance can be in the form of credit guarantees to encourage exports and to support successful tendering for projects, particularly in the construction and engineering fields (DTI unpublished paper, 2001: 17).

4.6.4. *Deepening relations with the North*

Deepening South Africa's economic relations with key countries of the North is imperative to lock-in supplies of capital, technology and finance. In this context, Europe has historically been South Africa's dominant trading partner. Within Europe, South Africa's strategic partnerships are with the United Kingdom, Germany, France and Sweden.

Within NAFTA, South Africa's key relationship is with the USA, which is a major source of investment and technology, as well as being the major pole of global economic growth. Furthermore it is the world's super power, requiring comprehensive engagement at many levels.

In Asia, Japan has consistently been in the top four of South Africa's largest trading partners and source of substantial investment. The potential for deepening ties is significant: Japan is the second largest economy in the world and is leading the world in many industries, notably electronics. Australia and the Newly Industrialised Countries (Singapore, Taiwan, and South Korea) should be prioritised.

4.6.6. *Deepening relations with the South*

Regarding to the countries of the south, South Africa's strategy is termed the "Butterfly Approach". This takes SADC and Africa as a starting point, and incorporates countries in Latin America and Asia. These countries possess great potential as destinations for South Africa's manufactured exports. Mercosur is strategic in Latin America. In approaching that region South Africa's strategic partner is Brazil discussions over future trade arrangements have been initiated. Argentina and Chile are also priority markets that must not be ignored.

In South Asia, India is South Africa's key strategic partner. China is a strategic country in a region with which South Africa need to build strong ties, so that relationship must evolve into a strategic partnership. In the Middle East, Saudi Arabia and Iran are the strategic countries that could become strategic partners.

Also centrality of South Africa in infrastructure development within SADC region would facilitate South-South trade and also attract investment in the region. Major projects have been created in this regard for example:

- Lesotho Highlands Water Project which is literally making rivers in Lesotho reverse course and flow northwards towards Gauteng industrial heartland via a vast system of tunnels and hydroelectricity-generating dams.
- The construction of the 1440 km-long transmission line between the Gabora Bassa hydroelectric scheme on the Zambezi River in Mozambique and Gauteng province. This R330 million project is expected to be finished in 2003. This has a potential of generating 100000 megawatts, more than double the power produced on the entire continent (Ahwireng-Obeng and McGowan, 1998:15).
- Trans-Kalahari Road between Lobatse in Botswana and Windhoek in Namibia. This all weather road will primarily serve to link Gauteng province with capital of Namibia, and with that country's major port, Walvis Bay. The road brought port 500 kilometres closer to Gauteng that the past, and the Namibian authorities were pushing hard for South African exporters to Europe and the Americans to use the Walvis Bay as their port of choice (Ahwireng-Obeng and McGowan, 1998:16).
- Another project, which was formalised by bilateral agreements signed between the Mozambican and South African Ministries of Transport in July 1996, is the Maputo Corridor. This innovative R1, 1 billion projects combines private sector investment with initiative coming from provincial governments of South Africa, the National government of Mozambique and South Africa, and the World Bank.

4.7. Policies

Policies could include a mix of the following: trade and investment missions; trade arrangements such as Free Trade Areas; Multilateral strategies; alliances; Technology,

Also Joint Ministerial Councils and Binational Commissions can be used as instruments to achieve the deepening of relations.

4.7.1. *Investment*

FDI has slowed down in 1999 for the first time since 1994 (Heese, 2000:389). There are several factors that account for this for example a slow down in investment in the developing countries, political uncertainty of South Africa's 1999 June elections, decreased investment in Southeast Asian and local economic volatility.

Key trends can be identified starting from 2000 to 1995, which is about 5 years.

- Privatisation remains an important investment leverage;
- Prominent investors (especially from US, Malaysia and UK) have tended to remain significant throughout the five year period with some increasing European investors emerging;
- Mergers and acquisition are becoming more prominent; and the IT sector remains the strongest, followed by oil and energy.

The UNCTAD report confirms that FDI is sector and firm specific and that it is unable to transfer technology as well as capital assets. With well-developed financial markets South Africa can benefit from these flows as FDI will b impacting on the micro-economic capacity of South Africa over the long term (Heese, 2000:390). More effort is needed in this aspect so as to fight unemployment rate, though most of these investment affect mostly skilled employee than unskilled, and mergers and acquisition, also privatisation can result in massive retrenchment as the drive is towards cost cutting and efficiency.

4.7.2. *Trade arrangements such as Free Trade Areas*

The most prominent example here is EU-SA free trade arrangements, which was completed in March 1999. The four-year negotiations made a significant breakthrough late in 1998 and a draft was reached in January 1999. At the talks the EU agreed to improve the access of South Africa's sensitive agricultural exports, thus removing one of the major hurdles to a deal (Ahwireng-Obeng and McGowan, 1999:101).

Some sensitive farm products were previously excluded, but will now enjoy partial and gradual liberalisation by the EU. They include: cut flowers, citrus fruits, juices, wines, apples, pears, diary products, potatoes, meat and canned fruit. In return, the EU asked South Africa to reduce its tariff barriers in the industrial sector, especial for cars, auto spare parts, textiles, clothing and footwear. Brussels, in addition, wanted changes in South Africa's competition and state aid policies, and recent tariff increases on textiles and wine to be rolled back (Ahwireng-Obeng and McGowan, 1999:102).

The final agreement saw about 90% of trade liberalised on both sides. South Africa liberalise its markets to 81% of EU agricultural products and 86% of its industrial sector, and the EU did so 99% and 61% of South African industrial and agricultural products respectively. This arrangement is seen by Ahwireng-Obeng and McGowan (1999:103) as unequal with South African exports to the EU only 1,4% of total EU imports, and EU's exports to South Africa standing at 44% in 1996. Compared to South Africa's ultimate desire at the end of the negotiations, the outcome of the four-year deal is disappointing. The expected net-benefits have eroded by the dynamics of the interest group politics. However South Africa is not alone in receiving unfair treatment from the EU, whose free trade agreements with Morocco, Tunisia and Egypt included only limited concessions in agriculture (Ahwireng-Obeng and McGowan, 1999:105). This also spelt out the power imbalances between the South and North; the fact that when it comes to trade the North always are at the winning end whereas the South mostly found at the losing end only gaining a status of having relations with the developed countries. Gains of free trade agreement are the following:

- FTA brings about cheaper imported goods, which has got positive spill over effects of the income of the people. By purchasing these cheap imports the consumers save money, which is spent on other things in the economy.
- On the other hand the South Africa's producers are able to find market access to Europe, which earn foreign exchange to alleviate balance of payment problems.
- Good relations with the countries of the North help to shift negative untrue perceptions about the country thereby bringing investment into the country.
- Also the free trade arrangement bring with it the developmental aspect, for in the negotiations the status of the developing countries underdevelopment is revealed and the developed country is obliged to help in terms of development so as to put the developing country at a better level to compete.

4.7.3. Trade integration (SADC as an example)

In SADC there seems to be a view among policy makers that although the promotion of intra-regional trade is important, it is not the ultimate objective of regional integration. Rather the view regional integration as a strategy to achieve economic growth and development, based on the dynamic effects that accrue from a regional free trade area (Kalenga, 1999:23). The formation of European Economic Community (EEC) in the 1960s was accompanied by surge of foreign direct investment into Europe, Kakanga added. This was to enlarge European market thereby attracting investors in the region.

Therefore creation of free trade area within the SADC would enlarge the size of the market, which is more likely to improve the image of the region among foreign and local investors resulting in an inflow of investment in infrastructure and productive sectors of the region's economies.

Individually countries are unable to deal with immense challenges of globalisation. Not only may regional platform be the best way to raise their export competitiveness;

it may also be easier to participate on multilateral trade negotiations as a regional trading block

4.7.4. *Multilateral Strategies*

Multilateralism is the intergovernmental, institutional and policy response to globalisation and growing interdependence of national economies. The establishment of the WTO marks the emergence of a strengthened, rules-based international trading system. Despite the imbalances and deficiencies, the WTO reduces the scope for unilateral trade measures and aims to ensure that economic interactions, including the resolution of disputes, are governed by a system of rules, which are universally applicable, and not solely by unilateral action. Therefore, developing countries should have a clear interest in strengthening the system in a manner that will promote the development of their own economies.

4.7.5. *Alliances*

Previous rounds of multilateral negotiations demonstrate the importance of all alliances and coalition building. Agendas are set and outcomes are influenced by those countries that either have the frightening economic strength or are able to participate effectively in bargaining coalitions. Increasingly, coalitions are built around specific interests of like-minded countries.

South Africa's strategy therefore should focus on entering into appropriate alliances to strengthen the developmental dimension in multilateral trade relations. In this regard, South Africa is attempting to foster common approaches with SADC, as well as among developing and like-minded countries.

The marginalisation of many countries in the global economy and the question of coherence in global economic policy making constitute the key challenges within the multilateral trading system. Therefore with regard to creating better global policy coherence South Africa supports attempts to enhance co-operation, co-ordination, and complementarities between UNCTAD, the WTO, the IMF and the World Bank in terms of policy development and operations (DTI, 2001:31)

4.7.6. *Technology*

Technological advancement plays a major role in the creation of higher paying productive jobs. Moreover technological advance is critical to achieving greater product variety, quality and customization which has an ever more pervasive effect on the competitive position of national and firms. Recognition of the importance of technology and that this cannot be left to the market forces alone has driven the governments to develop policies to address the challenges of the knowledge economy.

South Africa currently devotes R2. 8 billion to all types of Research and Development (R&D) and this represents fractionally more than 1% of GDP. In South Africa business expenditure on R&D and overall expenditure on R&D as a share of GDP is at least higher than some Latin American countries, but lower than in the successful Newly Industrialized Countries. However R&D expenditures declined in 1991/2 and R&D has declined faster than capital expenditure. R&D personnel as a percentage of the workforce has also declined and this is in sharp contrast with most of NICs (Joffe et'al, 1995:239). In addition, South Africa has significantly fewer scientists and engineers compared to many other countries.

Most important have been technological developments in respect of atomic energy and armaments. According to (Joffe et'al 1995:241) it is not possible to calculate precisely the importance of R&D expenditure in these areas, but R&D related to defense exceeded R290 million (more than 10% of total R&D expenditure), and 22% of the business sector's expenditure on R&D. A recent report on the defense industry put the total expenditure on all types of defense research and development at 420 million Rand per annum.

As a result, South Africa's trade balance in high or medium technology commodities is negative. High technology goods show a declining trend. The medium technology industries trade deficit is reasonably constant, but only one category (non-ferrous metals) registers a positive balance.

South Africa's manufacturing faces the following challenges in technology:

- Links between firms and tertiary education generally and, in many instances, with science councils, are weak.
- Technological capabilities are employed far more effectively in adapting production methods to local conditions than in enhancing and adapting products so as to meet the needs of the market.
- A high reliance on technology imports, primary via licensing, results in generally good operational capabilities, but a low level of expenditure and weak development innovatory capabilities at firm level (Joffe et'al, 1995:250).

At the level of the macro-economy, a stable, high-growth environment provides both the incentive and the financial wherewithal for investment in enhancing technological capability. For almost two decades; in comparison to other successful industrializing countries, South Africa's macro economic growth has been poor, and manufacturing growth, in particular, has been limited and particularly volatile, especially in many key (capital goods) sectors (Joffe et'al, 1995:250) Thus, an inward-oriented trade regime, combined with high levels of market concentration, have been major factors inhibiting technological capabilities of local manufacturing firms.

4. 8. Structuralist development theory relevance

Dependency has been used as the key concept to describe the relations between developed and underdeveloped countries. The core exerts its power through a chain of monopolistic and extractive exchanges. States are not seen solely as autonomous units with policies dominated by their internal political economic and social dynamics. They are subordinates as political entities of capitalist world system (Hout, 1992: 72). This state of affairs is illustrated by South Africa's economic policy, which tries to satisfy the demands of the capitalist world system so as to attract as much investment as possible.

Matsebula and Simelane (1996: 53-54) distinguish between two broad themes to explain the determinants of increasing divergence between the core and periphery. These are trade related growth, and unequal exchange.

- Trade related growth: the core produces and exports secondary products to the periphery in return for primary products. Secondary products tend to have higher price value and income elasticities of demand and supply which primary products lack. Thus gains from trade will accrue disproportionately between the core and the periphery with the core getting a lion's share. This has been so in most developing countries. Therefore the Minister of the Department of Trade and Industry is campaigning and trying to win the support and the will of other developing countries for the next round of trade talks in WTO. One of the issues on the 'agenda' is convince the core countries to locate firms that process the primary products to the Periphery.
- Unequal exchange: the core is always in the dominant position vis-à-vis the periphery, simultaneously, the periphery is dependent on the core, therefore the outcome of bargaining at different levels are typically to the advantage of the core because of its superior economic power.

The dependency model focuses on the world capitalist system, specifically on how the political and economic relations between the industrialized world (north or the core) and the developing world (south or periphery) lead to perpetuation of underdevelopment. Chase-Dunn (1995:255) rather focuses on the exploitation and the suppression of autonomous policies. The exploitation of the periphery by the core involves the classical market paradigm of competition for scarce resources, which leads to the penetration of the periphery by foreign investment draining away surplus from the periphery to the core in the form repatriation of profits and interests. Also, the exploitation of the periphery is manifested in the subordination of exchange rate control to a competitive capitalist environment. Therefore a vicious circle is created whereby the peripheral economies grow or stagnate in response to the economic changes in the core (Chase-Dunn, 1995:255).

Another manifestation of the suppression of the periphery takes the form of the exertion of political pressure to prevent tariffs from protecting infant industries against competition from already developed producers at the core. This has been the case between the European Union and South Africa during their trade and development negotiations. Most of the South Africa's industries are exposed to competitive European industries. While the European Union didn't want to expose their agricultural industry, which is highly subsidised to competitive South Africa's agricultural products.

The whole trade debate revolves in essentially revolves around this issue, however the Dependency theory is an outdated application especially in a more open world economy where linkages with other countries is essential for economic growth and development. Therefore, dependency can be overcome by making South Africa's industries more competitive by encouraging speed up in technology transfer speed up, and with the combination of policies mentioned above.

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