SOUTH AFRICA’S TRADE POLICY AND ITS LINKAGE TO POVERTY REDUCTION

REVISED
COUNTRY BACKGROUND PAPER
FOR
CUTS-CITEE’S TRADE, DEVELOPMENT AND POVERTY (TDP) PROJECT

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1 Introduction

1.1 The origins of South Africa’s economic policy

South Africa’s democratic transition was considered one of the ‘miracles’ of the 20th century. In the epoch that highlighted the horrors of the Balkans war, the Rwandan genocide and the Israeli-Palestine conflict, the seemingly intractable crisis between the apartheid state and the liberation struggle ended in a negotiated political settlement, which refuted the claims of history. While post-apartheid South Africa was celebrated as a model for conflicted societies seeking peace, the challenges that the newly elected democratic regime faced were immense.

At the core of it was the debilitating crises that underpinned the economy following two decades of steadily worsening difficulties that manifested themselves more potently after the 1973 oil shocks: feeble gross domestic product (GDP) growth rate, low rates of investment, spiralling inflation, and chronic balance of payment difficulties. Although the external shocks of the 1970s heightened South Africa’s economic stagnation, internally the policies of the apartheid regime also contributed to the crippling of the economy. Part of this related to how the apartheid system was modelled; namely, it thrived on a system of cheap low skilled labour. The attendant impact this had on skills development and labour relations in South Africa led to a skewed path of development between the minority and majority of South Africans bound by race, class and gender.

Moreover, the imposition of sanctions effectively froze South African corporates from trading with the world, while global multinational corporations (MNCs) were barred from trading with South Africa and foreign direct investment (FDI) came to almost a halt due to sanctions and the unstable nature of the state.

Despite the structural malaise of the economy, the post-apartheid regime also had to correct the distortions that the apartheid policy created within the economy, particularly the issues of exclusion from the formal economy, the education and skills deficit of the majority of the population, the racially biased distribution of wealth, services and infrastructure and worsening poverty amongst the majority of its black population.

In doing so, the democratic regime had to be mindful of the changing nature of the international economic policy setting, i.e. the ascendance of the neo-liberal economic paradigm. The government had to find common ground between what the majority of the electorate expected, effective reintegration into the mainstream economy, and South Africa’s renewed and successful participation in the global economy through competitiveness, higher value-added production, reduction in tariff barriers and a shift from import substitution to an export based growth path.

In 1982, the National Party (NP) government accepted a loan from the International Monetary Fund (IMF) with conditions in line with neo-liberal orthodoxy (Marais 1998:105). By 1985, the NP introduced duty-free import provisions for the clothing industry and import volumes of clothing started to grow (Sellars 2000:492; Altman 1993:89). In 1989, the NP government’s Structural Adjustment Programme (SAP) increased exposure to international competition and boosted import penetration to over 40 percent of the local market between 1989 and 1991. Worn clothes constituted a
substantial part of these imports, increasing by more than 64 percent between 1989 and 1990 (Altman 1993:vii, 15, 95, 115).

This phase from 1982 marked the shift to trade liberalisation and such developmental challenges compelled the democratic regime to design key objectives and strategies for revitalising the economy. If the twin challenges of the domestic developmental concerns were to be reconciled with the commitments of the global economy, then the most logical approach was to frame a policy perspective that incorporated both these elements.

This paper attempts to provide a concise and holistic overview of post-apartheid South Africa’s competing imperatives in designing its economic policy in which its trade and industrial strategy features prominently. It shows how South Africa’s trade policy was developed in order to address the twin challenges of reversing the skills deficit found amongst the majority of its people and its economy’s reintegration in the global economic system based on a competitive advantage.

It also highlights South Africa’s attempts to move towards a trade strategy that aimed at effectively reducing the distortions created by the apartheid regime and tackling the underdevelopment and poverty that are prevalent in the daily lives of the majority of people. It is important to understand how democratic South Africa’s growth and economic development pattern has been influenced by the type of industrial policy it has adopted in the past.

2. Economic Challenge of the Historical Apartheid Legacy

On assuming power in 1994, the newly elected democratic government faced a set of developmental challenges that posed serious structural setbacks to its vision of creating a society where everyone enjoyed the economic benefits of the democratic dividend. According to Gelb (1999), the dire state of the economy was reflected in the following key economic indicators:

- A feeble GDP growth rate, which descended from its 5.5 percent average during the 1960s to 1.8 percent in the 1980s and eventually plunging into negative territory (-1.1 percent) in the early 1990s;
- Declining rates of gross fixed investment (which plunged as low as -18.6 percent in 1986, and stayed negative from 1990-1993) and high rates of capital flight;
- Low rates of private investment, which led to under-utilisation of manufacturing plant capacity (dropping from 90 percent in 1981 to 78 percent in 1993) and declining competitiveness;
- Plummeting levels of personal savings, which as a proportion of disposable income, dropped from 11 percent in 1975 to three percent in 1987;
- Very high levels of unemployment and the economy’s inability to create enough new jobs to absorb even a fraction of new entrants into the labour market, a trend exacerbated by under development in labour intensive sectors;
- Chronic balance of payment difficulties.

Marais (2001) argues that the debilitated economy was further bedridden by:
A shortage of skilled and a surplus of unskilled, poorly educated and low-productivity labour – the cumulative result of business treating ‘black workers as a replaceable factor of production rather than as a human resource’;

- Poor, conflict-ridden industrial relations;
- The state’s failure to reverse the latter trend by encouraging or compelling productive investment by business, which unleashed speculative investment and the shrinking of the manufacturing sector;
- Industrial decay, which was reflected in ageing capital stock, limited capital goods production and the failure to develop exports by beneficiating raw materials and expanding the scope of manufacturing sector. This compounded the poor export performance in manufactures, compared to other middle-income countries;
- Low levels of investment in research and development (R&D), with most technological development occurring in the armaments and telecommunications industries;
- A heavy bias against the small and medium-sized business sector;
- Maldistribution of social infrastructure such as housing, education facilities, healthcare and transport, which restricted labour productivity;
- Rampant poverty entrenched by a very high unemployment rate, which stifled productive potential and domestic demand for manufactured goods, the latter having been depressed by deflationary policies.

These inherited weaknesses were accompanied by an economy that was heavily reliant on resource- and energy-based products that were of declining importance in world trade and subject to drastic price fluctuations. In short, the South African economy, which was outward looking, rested on the following narrow pillars: primary product (mainly minerals) exports, and imports of capital goods and technology. To make matters worse, by the early 1990s as much as 40-45 percent of the economically active population was found outside the formal economy, while labour absorption into the formal economy plummeted from 60 percent to under 40 percent during 1994. Net job creation during this period amounted to just 440,000 jobs compared to growth of over five million in the economically active population. This implied that less than one in every 10 new entrants into the economically active population was being absorbed into formal employment (Michie & Padayachee 1997:13). Employment in the private sector also fell consistently, while pre-1994 income and wealth inequality is now cited as the second worst in the world after Brazil. Against this background and in light of the competing challenges of competitive reintegration into the global economy, the ANC-led government had to fulfil its electoral promise of reconstruction and development.

3. Competing Debates on South Africa’s Post-apartheid Macroeconomic Strategy

3.1 Factors shaping the debate

The debates shaping South Africa’s macroeconomic strategy were essentially influenced by the historical legacy of apartheid and the competing economic imperatives that unfolded following the Cold War. Effectively, the collapse of the communist bloc in Eastern Europe and the Soviet Union introduced a new set of variables around whether a state-led macroeconomic policy was applicable, as opposed to a market-led approach.
This divide between which approach was more conducive in the post-Cold War era forced governments like the ANC regime to reconsider their economic vision allied to the long, drawn out battle against apartheid and the Freedom Charter’s famous clause that called for the restoration of the national wealth to the people.

While the ANC’s economic elites and their tripartite partners recognised that the market alone could not engender a redistributive focus without some form of state intervention, the newly elected ANC-led government was forced to confront this dichotomy in the context of the global economic forces that promoted the ascendancy of the neo-liberal paradigm and its free market principles. This generated debates about the most appropriate form of macro-economic policy to be applied in the post-1994 period.

The most pressing challenge that faced the democratic regime in 1994, however, was redressing the imbalances and distortions that the apartheid regime created in the economy. Vast discrepancies in wealth creation and inequality that situated itself in race and class terms compelled the post-apartheid government to seek ways and interventions that would find a common ground to reconcile its domestic commitments with taking South Africa back into the global economy. Of course, reintegrating South Africa into the global economic engine meant that the democratic regime would have to advance South Africa’s competitive trajectory outside of the realm of being a primary exporter of goods. This meant finding an industrial policy which succinctly incorporated South Africa’s competitiveness in the areas of value-added and labour intensive export production.

So it came to pass that one of the most fraught tests that the ANC faced before assuming power in 1994 was what kind of macroeconomic policy it could fashion under its rule. As noted elsewhere in this paper, part of the dilemma faced by the ANC was meeting the expectations of the electorate, who demanded that a substantive focus of the macroeconomic policy would engender a redistributive element in the form of wealth restoration, and access to service delivery that would improve the quality of daily life. While the intention of the ANC was to strive to ensure that this was sufficiently captured in its economic policy, it also had to confront how this would be funded in the face of mounting resistance from big business, capital flight, and an overall structural economic crisis evident in low domestic savings, foreign direct investment and balance of payment difficulties (Habib and Padayachee 2000; Marais 2001).

This was to be encapsulated in the economic vision of the ANC’s electoral manifesto called the Reconstruction and Development Programme (RDP) Policy Framework (also known as the Base Document), but was later followed by the RDP White Paper – a post-election document of the Government of National Unity (GNU), within which the ANC was the majority partner. The White Paper departed from the redistributive ambitions outlined in the RDP Base Document, adopted a fiscally conservative position, and promoted trade liberalisation and an export-oriented industrial strategy.

4. South Africa’s Macroeconomic Policies

4.1 The RDP (Reconstruction and Development Programme)

The RDP Policy Framework or Base Document broadly argued that apartheid had generated massive inequalities and poverty, which were a central obstacle to broad-based
growth and employment creation. On the one hand, these factors reduced the ability of the poor to generate incomes for themselves outside of the formal sector. On the other, they limited domestic demand, especially for basic goods and services, which are relatively labour-intensive.

The Base Document was structured around five core chapters, representing the key programmes for ensuring reconstruction and development. Crucial to these objectives were the sustainability of the process and its results. The five key programmes were:

1. Meeting basic needs - improving infrastructure and government services for the poor, which would increase local demand especially for relatively labour-intensive industries;
2. Developing human resources - supporting a strong industrial strategy and land reform to expand sustainable labour-intensive sectors and broaden ownership and control;
3. Building the economy - encouraging new centres of capital and expanding the access of the majority to productive assets and skills, including through cooperatives and support for SMEs;
4. Democratising state and society;
5. Implementing the RDP.

The point of departure for the Base Document was the end of the apartheid era. It drew extensively upon the concrete residues of the era in asserting the need for transformation, reconstruction and development in South Africa.

One of the major strands of the RDP strategy argued that the market would not end structural problems. It proposed that governments shift to more equitable, job-creating type of strategies.

This analysis pointed to the importance of production for the domestic market, both to build productive capacity and to support greater equity. Export industries, while obviously an important component of any development strategy, by themselves would not create adequate employment or meet the needs of the majority. The RDP therefore emphasised land reform, support for cooperatives and micro enterprises, and a massive expansion in basic infrastructure, housing, education, welfare and health care for poor communities.

This strategy had important implications for the formal sector. In effect, it required a re-orientation to meet growing domestic demand for basic goods and services for the poor (such as housing, basic infrastructure, education and healthcare). Much of this demand would be funded through the state. According to the recent Central Committee Review of industrial policy for COSATU (2005), the RDP itself was markedly unclear and in fact contradictory on the transformation of the formal economy.

A second strand of the RDP, however, focused on export-oriented growth. This strand emerged almost exclusively in the section on the economy, specifically in the objectives for industry, trade and commerce policy:
… In general our objective is to enhance our technological capacity to ensure that as part of the restructuring of industry, South Africa emerges as a significant exporter of manufactured goods. The industrialisation strategy aims at the promotion of a more balanced pattern of industrial development, capable of overcoming the acute over-concentration of industrial activities in certain metropolitan centres of the country. (para 4.4.2.1)

Industrial policy, in this view, was largely focused on increasing beneficiation for the purpose of exporting, rather than meeting basic needs, ensuring more equitable ownership or creating jobs. As the RDP Base Document declared:

While trade policy must introduce instruments to promote exports of manufactured goods in general, industrial policy must support and strengthen those internationally competitive industries that emerge on the basis of stronger internal linkages, meeting the needs of reconstruction and raising capacity utilisation. (para 4.4.2.3)

The RDP could not lead the economy to consistent proposals for restructuring. Instead, two contradictory strategies emerged: a redistributive strategy that proposed raising local demand by ensuring more equitable income distribution, and a competitiveness strategy focusing on macroeconomic stability and driving exports.

In a nutshell, the RDP as a whole focused on a redistributive strategy, where a more equitable income distribution would lead more or less automatically to balanced growth. But the economic section already reflected a second, more conservative tendency, which focused on encouraging exports by the high end of manufacturing, including refined metals. This approach held that rapid growth in formal manufacturing for export would lead to substantial expansion in the economy as a whole.

4.2 Growth, Employment and Redistribution) Strategy (GEAR)

The GEAR was adopted in June 1996 as the government’s overarching strategy for economic development, overriding the often-contradictory macroeconomic principles and objectives of the RDP. In contrast to the RDP’s commitment to driving balanced growth through redistribution, the GEAR sought to constrain government spending. Its central argument was that high government spending reduced saving and investment by the private sector. It set various targets for macroeconomic policy outcomes, and for growth and employment, *inter alia*:

- 400 000 non-agriculture jobs *per annum* by the year 2000;
- Six percent growth by the year 2000;
- Ten percent per annum increase in exports (13-14 percent increase in manufactured exports); and
- US$2bn of FDI *per annum*.

The GEAR rested on two pillars: a rapid expansion of non-traditional (i.e. non-gold, manufactured) exports and an increase in private sector investment. In terms of industrial strategy, GEAR thus explicitly focused on competitiveness, liberalising trade, and growing exports. This marked a shift away from developing domestic industry to meet
basic needs, while reinforcing the export orientation. The GEAR did argue, however, for support for labour-intensive industries, mostly through tax incentives and the public service.

When the policy was introduced, macroeconomic targets were expected to lead to more rapid growth, permitting continued expansion in government spending while reducing the deficit relative to the economy. In the event, however, economic growth slowed through the late 1990s, at least in part as a result of constrained government spending. As a result, the deficit targets translated into real cuts in the budget.

In these circumstances, the GEAR actually slowed delivery of services to the poor and led to downsizing of the public sector (COSATU Central Committee Review, 2005). It also supported commercialisation and privatisation of basic services, leading to big cost increases for low-income households. Investment in infrastructure was also heavily reduced. These policies reversed the RDP’s focus on redistribution and anti-poverty measures as a stimulus for local demand and ultimately production.

Although GEAR has delivered greater macro-stability and fiscal discipline, it has been criticised, particularly by the trade unions and the left, for its failure to deliver in several key areas (particularly job creation, economic growth, manufactured exports and redistribution). By 2000, the official endpoint for the GEAR targets, it was clear that conservative fiscal policies had failed to stimulate investment or growth. Unemployment soared from 16 percent to 29 percent between 1995 and 2000, while the rate of public and private investment relative to the GDP had fallen to a ten-year low.

According to COSATU, an assessment of the GEAR using its own criteria demonstrates the failure to meet its economic goals. The only exceptions are targets for policy instruments - the government deficit and average tariffs – and inflation. The decline in inflation reflected worldwide trends, with almost every other country seeing similar trends.

The democratic government has made attempts to break out of the poverty trap through redirecting government expenditure and new labour laws. However, GEAR and trade and industrial policy, which narrowly emphasise the need for South African industry to be internationally competitive, continue to reinforce the negative impact of trade liberalisation on poverty reduction.

It is now widely acknowledged that GEAR has, despite its name, failed in terms of economic growth, the creation of quality jobs and redistribution towards the poor. The failure of GEAR made apparent that the strategy was intended for narrow financial stabilisation purposes only. With stabilisation having been largely achieved, government is increasingly feeling the pressure to address the wider socio-economic failures of economic policy.

There is a growing frustration among different actors that the current economic policy cannot be sustained under current social conditions. The new debate attempts to side-step GEAR’s ideological barrier through a pragmatic focus on identifying the main drivers of growth and to ensure that the poor benefit the most.
At the same time, there is a recognition that the impetus for growth and development must come from the state and should focus on shifting the national budgetary process towards a more developmental vision.

4.3 **The Microeconomic Reform Strategy (MERS) and the Integrated Manufacturing Strategy (IMS)**

The South African government implemented a Microeconomic Reform Strategy (MERS) in 2002 to complement progress made on the macroeconomic front. This MERS identifies six key performance objectives, namely: enhancing economic growth, employment, small business development, black economic empowerment (BEE), competitiveness, and the geographical spread of growth and development. The MERS rests on three pillars:

- Cross-cutting issues, including human resource development, infrastructure, access to finance, technology, and research and development;
- Actions to improve the efficiency and lower the costs in three input sectors, namely transport, telecommunications, and energy; and
- Growth sectors that demonstrate a high potential for growth and employment, such as tourism, exports, agriculture, ICT, and cultural industries.

The IMS is the industrial policy component of the MERS, and similarly targets key growth sectors for attention. These include: ICT, agro-processing, bio-technology, chemicals, textiles with value-added, tourism, craft and cultural industries, and the services sectors in general. This could lead to the creation of sector specific incentives, as is the case in the motor industry.

4.4 **ASGISA and a new industrial strategy**

Since 2004, the government and the ANC have increasingly espoused the need for the South African state to become far more developmental and play a more active role in facilitating economic growth and development. With this in mind, the government has launched the Accelerated and Shared Growth Initiative for South Africa (ASGISA), including a more active and robust industrial policy. In contrast to the rolling-back of the state under GEAR, the state is now becoming far more interventionist to ensure that economic policy delivers on poverty reduction, job creation, and economic growth. This has sparked a debate on whether South Africa can be a 'developmental state', and the challenges in emulating the growth trajectories of the East Asian Tigers.

ASGISA is a growth strategy that seeks to contribute to halving unemployment and poverty by 2014. In this regard, it aims to catalyse an annual growth rate that averages 4.5 percent or higher between 2005 and 2009, and a growth rate of at least six percent between 2010 and 2014. It is not an industrial policy, but consists of a limited set of interventions to overcome key constraints in: the macroeconomic environment; infrastructure and logistics provision; skilled labour availability; the competitive environment and cost structure of the economy; the regulatory environment and the institutional capacity of government to deliver. A key component of the strategy is a public expenditure programme of South African Rand 370 billion (US$53.4bn) with many multiplier effects, and the identification and nurturing of sectors that can immediately contribute to growth and job creation. In this regard, ASGISA is targeting the tourism and business process outsourcing (BPO) sectors, with others to follow.
In addition to ASGISA, the government is finalising a broad industrial policy framework to fast-track South Africa’s industrial development. This new policy regime will better focus human and financial resources on a narrower range of high impact sectors, and increased financing and improved incentives (with greater conditionality) will be made available for industrial development. There are four broad areas that have been identified for focused attention:

- Sectors identified by ASGISA as ripe for growth and job creation, namely business process outsourcing (BPO) and off-shoring, and tourism;
- Sectors with potential for growth and employment creation in the medium term, but which need significant restructuring, including clothing and textiles, the motor industry, chemicals and agro-processing;
- Sectors that have not been the subject of industrial policy up to now, but with the potential for significant job creation. These are sectors that also link into the second economy, including bio-fuels; and
- Sectors in which South Africa could develop cutting edge technological excellence and become a world leader, namely parts of the aerospace industry, parts of the hydrogen economy, medical technology, and biotechnology.

In addition, there are cross-cutting interventions identified in the MERS and refined by ASGISA. They include the infrastructure development programme, regulatory reviews, and the skills initiative and other training programmes.

5. South Africa’s Trade and Industrial Strategy

After the lifting of sanctions, South Africa actively participated in trade negotiations on both a bilateral and multilateral level. This has led to a significant increase in market access. The government also reinforced the need to increase investment and re-orient resources away from a highly capital-intensive industrial structure that characterised the economy throughout much of the apartheid era. Trade liberalisation at the multilateral, regional and bilateral levels has been pursued to discipline inefficient and uncompetitive domestic producers, and to gain market access for South African exports.

5.1 Multilateral negotiations: the WTO

South Africa signed the Marrakesh Agreement establishing the World Trade Organisation (WTO) with commitments as a developed country. A formal programme of phased tariff reductions and tariff harmonisation commenced in 1995 in terms of an offer presented in 1993. Since then, South Africa has made significant reductions in tariff barriers, ahead of the WTO timetable, resulting in the lowest trade weighted average rate of protection in the South African Development Community (SADC) region. The steepest reductions have been in those sectors previously most heavily protected. South Africa’s multilateral obligations have included the following:

- A phased reduction in (simple) average tariff levels from 11.7 percent in 1995 to 5.5 percent over five years;
• Replacement of all remaining quantitative restrictions (QRs) and formula duties on imports by *ad valorem* duties;
• Reduction in the number of tariff bands to six ceiling rates (0, 5, 10, 15, 20 and 30 percent), and a significant reduction in the number of tariff lines;
• Binding 98 percent of tariffs lines; and
• The introduction of a cascading tariff structure promoting value-addition: primary products and capital goods (0-10 percent), components (10-15 percent) and consumer goods (15-30 percent).

While the WTO Secretariat report for 2004 notes that South Africa's five-year trade liberalisation programme will help its products compete internationally, it also recognises that policy makers should continue with plans to simplify and coordinate the various aspects of trade policy, especially the tariff structure.

In addition, South Africa committed to make its policies more WTO-compliant, particularly by removing explicit export subsidies. In other words, there has been a salient shift away from price-distorting demand-side measures towards productivity-enhancing supply-side measures. For this reason, the government phased out the highly inefficient and costly General Export Incentive Scheme (GEIS) in 1997, and replaced it with market-led support measures. A wide range of WTO-compatible supply-side measures, financial and non-financial, have been established to facilitate industrial restructuring, technology upgrading, investment and export promotion, skills development, and SMME development. These measures are geared to supporting higher value-added manufacturing projects as well as major infrastructure projects, such as the Industrial Development Zones (IDZs). Export Councils were introduced in 2000 to provide matching grant funding. This enabled exporters who could not afford to market themselves abroad individually to do so collectively.

### 5.2 Regional and bilateral negotiations

South Africa has diversified its export markets and trading relationships. Apart from the country’s traditional trading partners, South Africa has developed more extensive relations with South America, Asia and Africa (the so-called ‘butterfly’ approach which seeks to open up South Africa’s ‘trading wings’ from Africa to Latin America and East Asia). As part of this trade strategy, South Africa has negotiated the following free trade agreements (FTAs), or is the process of doing so:

• Following protracted and difficult negotiations, the Trade, Development and Cooperation Agreement (TDCA) with the European Union (EU) was finally signed in late 1999 and came into effect on January 01, 2000. This agreement involves the EU liberalising 95 percent of its imports from South Africa (worth US$9.7bn) over a 10-year period, with an asymmetrical obligation for South Africa to liberalise 86 percent of its EU imports (worth US$10.3bn) over 12 years. Of South African farm products, 63 percent were granted unrestricted access to EU markets, with a further 12 percent entering under duty-free quotas. EU imports of several products originally on the ‘excluded’ list were partially liberalised. The annual duty-free quota for South African wines was increased by three percent, but South Africa agreed to phase out its use of the terms ‘sherry’
and ‘port’ over 12 years. It was also agreed to conclude separate substantive negotiations on fishing rights (Blumenfeld 2006:444). The value of two-way trade has increased in the wake of the TDCA, although it has not necessarily spurred FDI.

- The SADC Trade Protocol was signed in 1996 and came into force in September 2000. In recognition of the severe imbalance of the regional economy, South Africa/SACU negotiated an asymmetrical FTA with the rest of SADC. SACU will accordingly phase down tariffs in eight years by 2008, while the rest of SADC will do so in 12 years.

- The Southern African Customs Union (SACU) Agreement between South Africa and Botswana, Lesotho, Namibia and Swaziland (BLNS) was renegotiated and came into effect in 2004. It provides for more democratic decision making on tariff policy and trade remedies.

- Negotiations between SACU and the four non-EU European Free Trade Area (EFTA) members – Switzerland, Liechtenstein, Norway and Iceland – have been concluded. South African exports of all industrial goods, including clothing and fish products, will have duty-free and quota-free (DFQF) access to EFTA countries. The purpose of this negotiation was to bring trading relations with EFTA in line with the TDCA.

- SACU-US FTA negotiations started in June 2003, with the aim of locking-in the preferential access granted under the unilateral African Growth and Opportunity Act (AGOA). Under AGOA, SACU nations are the leading suppliers of non-fuel goods to the US, accounting for more than a third of the US’s non-fuel goods imports from eligible sub-Saharan African (SSA) countries. However, SACU’s resistance to the inflexible approach of the US and its insistence on the onerous inclusion of the new generation trade issues led to a downscaling of the talks in April 2006. While consolidating trade and investment ties, the parties will work towards a FTA vision in the future.

- In late 2004, SACU concluded a Preferential Trade Agreement (PTA) with the MERCOSUR free trade bloc, consisting of Brazil, Uruguay, Paraguay and Argentina. The agreement only covers 2,000 product lines, since the critical conditions and interdependencies for a full FTA were simply not present in bilateral trade between the two groupings.

- Substantive FTA negotiations with China and India are due to begin as soon as the exploratory phase underway is concluded. Similar agreements with Nigeria, Egypt and Kenya have been mooted.

6. **Success and Failure of South Africa’s Trade and Industrial Policy**

The South African government has had mixed success over the last decade in strengthening and developing the country's economy. This is according to a discussion
document, *Towards a Ten Year Review* (2004), which examines the impact of its policies over the first 10 years of democratic rule.

The decisive moves towards outward orientation with a focus on export promotion by means of a wide variety of incentives, such as tariff concessions and credit facilities, have seen an improved balance of trade but also brought about serious market distortions which the current trade policy is aiming to reduce. Countries of South African Trade Union (COSATU) warns, however, that if industrial policy comes to be characterised by such a concession-driven approach rather than a clear, policy-driven strategy, South Africa will be embarking on the same self-defeating path as those countries which compete for investment through offering loopholes and lower standards. This has been described ‘a race to the bottom’.

By international standards, the competitiveness of the South African economy has improved since the early 1990s. In the same Report reviewing South Africa’s economic performance, the exports have improved and diversified and there have been significant gains made in labour productivity. However, the availability of skilled labour and the cost of transport and telecommunications are still a source of concern.

David Jarvis (2001) critiques the current thinking that South Africa’s industrial strategy should aim to reduce market distortions to allow for the growth of sectors where a country may have a perceived comparative advantage.

This is insufficient for a number of reasons. First, it ignores the past, where the development of certain industries was based on market distortions, usually caused by the private sector lobbying government. Second, it neglects the developmental role that industrial growth plays within a country, relegating economic activity to only the realm of the market. Third, it ignores external factors, and assumes a free and fair playing ground and thereby fails to take into account the power of other actors such as trading blocs, international agencies and MNCs.

Thus far, South African government policy has focused only on increasing competitiveness and strategies to expand exports forming the state’s entire industrial strategy. The absence of a comprehensive industrial development strategy means that economic development in South Africa follows the dictates of the markets.

Civil society is increasingly raising alarm at the negative effects of trade liberalisation policies and the possible de-industrialisation that will ensue. According to a senior trade unionist from COSATU:

> The clothing sector has lost 75 000 jobs as a result of rapidly increasing imports. Our footwear industry has practically disappeared. The furniture sector, which is hailed by some as a success story because it has increased exports, has also lost significant numbers of jobs as a result of trade. Plastic companies have retrenched workers, dairy farms have closed down, pharmaceutical companies turned manufacturing sites into distribution facilities for imported drugs. The list goes on and on.¹

¹ Speech delivered by Violet Seboni, 2nd Deputy President of the Congress of South African Trade
In April 2006, COSATU launched its non-agricultural market access (NAMA) campaign against further cuts in industrial tariffs in the WTO, which included a one day strike.

6.1 Sectoral Contributions to the Economy

From a broad perspective, there have been important structural changes in the reasonably diversified South African economy since the 1970s (Table 1). The share of the primary sector (agriculture and mining) in overall GDP has decreased over the past three decades, although the secondary sector’s share of GDP has maintained a more or less constant between 1970-2001. The tertiary sector (including services), which has traditionally had the largest GDP share, is increasingly growing at the expense of the primary sector. This is in line with the trend towards less reliance on primary products and more on high value-added services.

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<td>29.6%</td>
<td>27.6%</td>
<td>27.9%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Tertiary [6-9]</td>
<td>54.3%</td>
<td>57.0%</td>
<td>61.0%</td>
<td>60.0%</td>
<td>62.2%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
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Source: TIPS, A Review of the Changing Composition of the SA Economy

However, despite recent strikes in the mining sector, this sector and related activities remain at the centre of the South African economy and account for some 40 percent of export earnings from merchandise trade. As the backbone of the economy with various linkages to manufacturing (e.g. iron and steel products) the mining and quarrying sector receives the largest share of financial assistance from the government.

The manufacturing sector, largely centred upon capital-intensive minerals processing, contributes nearly 25 percent of GDP. However, Towards a Ten Year Review reveals that the international competitiveness of manufacturing suffers from a lack of skilled labour. This sector is protected mainly by tariffs, which average nearly 16 percent. Textiles, clothing and related items are also among the most tariff-protected products. Services are the largest employer, with over half of total employment, and account for nearly 60 percent of GDP.

However, in the last two years, large employers such as the textiles sector, machinery and equipment manufacturers, the motor vehicles sector and also iron and steel producers have recorded the most significant job losses, while the only manufacturing sectors that showed some increases in employment levels were the leather, wood, plastics and printing sectors which collectively only account for 12 percent of all manufacturing sector employment. There is growing concern about the effects of competition from Chinese imports, particularly in the clothing and textiles sector. Tables 2 and 3 illustrate the growth in exports and imports by sector.

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<tr>
<td>Primary [1-2]</td>
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<td>Secondary [3-5]</td>
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<td>29.6%</td>
<td>27.6%</td>
<td>27.9%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Tertiary [6-9]</td>
<td>54.3%</td>
<td>57.0%</td>
<td>61.0%</td>
<td>60.0%</td>
<td>62.2%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: TIPS, A Review of the Changing Composition of the SA Economy

Unions, to the SANGOCO workshop on non-agricultural market access (NAMA) on June 24, 2005.
<table>
<thead>
<tr>
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</thead>
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<td>7.3%</td>
<td>10.3%</td>
<td>7</td>
<td>3.5%</td>
<td>6</td>
<td>2.5%</td>
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<tr>
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<td>6.9%</td>
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<td>53.3%</td>
<td>1</td>
<td>41.2%</td>
<td>2</td>
</tr>
<tr>
<td>Comm'ty serv</td>
<td>6.9%</td>
<td>5.3%</td>
<td>8</td>
<td>0.3%</td>
<td>7</td>
<td>0.3%</td>
<td>7</td>
</tr>
<tr>
<td>Transport</td>
<td>5.8%</td>
<td>11.7%</td>
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<td>6.1%</td>
<td>3</td>
<td>5.2%</td>
<td>3</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5.3%</td>
<td>13.6%</td>
<td>3</td>
<td>4.3%</td>
<td>5</td>
<td>3.9%</td>
<td>5</td>
</tr>
<tr>
<td>Trade</td>
<td>3.5%</td>
<td>10.6%</td>
<td>6</td>
<td>5.5%</td>
<td>4</td>
<td>4.5%</td>
<td>4</td>
</tr>
<tr>
<td>Electricity</td>
<td>-0.1%</td>
<td>14.3%</td>
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<td>0.1%</td>
<td>8</td>
<td>0.1%</td>
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</tr>
<tr>
<td>Mining</td>
<td>-3.6%</td>
<td>-3.7%</td>
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<td>26.9%</td>
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<td>42.3%</td>
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<td>0.0%</td>
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<tr>
<td>All industries</td>
<td>3.7%</td>
<td>6.4%</td>
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<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
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</table>

Source: TIPS, A Review of the Changing Composition of the SA Economy

### Table 3: Growth in Imports, 1991-2001 (1995 constant prices)

<table>
<thead>
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<th></th>
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</thead>
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<tr>
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<td>16.2%</td>
<td>11.7%</td>
<td>5</td>
<td>12.7%</td>
<td>2</td>
<td>9.3%</td>
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<tr>
<td>Transport</td>
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<td>5.7%</td>
<td>6</td>
<td>4.0%</td>
<td>3</td>
<td>5.3%</td>
<td>3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-1.7%</td>
<td>12.8%</td>
<td>3</td>
<td>77.8%</td>
<td>1</td>
<td>77.1%</td>
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<tr>
<td>Electricity</td>
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<td>1</td>
<td>0.0%</td>
<td>9</td>
<td>0.0%</td>
<td>9</td>
</tr>
<tr>
<td>Business serv</td>
<td>-5.8%</td>
<td>2.7%</td>
<td>8</td>
<td>1.4%</td>
<td>5</td>
<td>2.2%</td>
<td>5</td>
</tr>
<tr>
<td>Trade</td>
<td>-6.2%</td>
<td>4.3%</td>
<td>7</td>
<td>1.1%</td>
<td>7</td>
<td>1.6%</td>
<td>7</td>
</tr>
<tr>
<td>Construction</td>
<td>-6.2%</td>
<td>20.3%</td>
<td>2</td>
<td>0.1%</td>
<td>8</td>
<td>0.1%</td>
<td>8</td>
</tr>
<tr>
<td>Comm'ty serv</td>
<td>-6.8%</td>
<td>1.5%</td>
<td>9</td>
<td>1.1%</td>
<td>6</td>
<td>2.1%</td>
<td>6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-8.4%</td>
<td>12.3%</td>
<td>4</td>
<td>1.7%</td>
<td>4</td>
<td>2.3%</td>
<td>4</td>
</tr>
<tr>
<td>All industries</td>
<td>0.1%</td>
<td>11.7%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: TIPS, A Review of the Changing Composition of the SA Economy

### 6.1.1 Agricultural sector

In the agricultural sector, the government is promoting the deregulation of the marketing system, notably by reducing the number of control boards. Tariffs on agricultural products range from zero percent to 35 percent, with a simple average of 5.6 percent. Ceiling bound rates ranging up to almost 400 percent leave considerable margins for discretionary increases in applied tariffs.

In recent years, merchandise imports have grown faster than exports. South Africa's exports include machinery, motor vehicles and fertilisers to African countries, and minerals and agricultural products to developed markets, mainly Germany, Italy, Japan, the UK and US. South Africa's main suppliers of imports are Germany, Japan, the UK and US.

According to WTO (1998), even though South Africa privatised or commercialised a number of public enterprises in the early 1990s, the process has since slowed down. Several state-owned enterprises (SOEs) hold monopolies or exercise majority control in various areas, including electricity, water, transport and communication, mining and quarrying. In the agricultural sector, there are still 14 marketing boards in operation. In the services sector, though, the situation has improved with the restructuring of several
state-owned service suppliers and an opening to foreign investment. The Report notes that further liberalisation would help raise the competitiveness of South Africa's exports (see Box 1).

### Box 1: Example of the wheat product sector

This sector is one of the largest employers in the food industry, with more than 50 000 workers and domestic sales of over Rand 10 billion (US$1.4bn) per annum. Second to maize, more arable land in South Africa is put under wheat than any other field crop. Wheat products also play a role in household food security. The price paid for bread by working class and poor people is a key indicator of industry performance. Since deregulation and trade liberalisation, the price of bread has increased dramatically in real terms, making it very difficult for the majority of the low-income earners to afford for their families. The availability of bread in rural areas has also become a problem.

Trends in ownership and control of wheat farms are not well documented, but anecdotal evidence suggests an increased role for large white family farms as opposed to other models of production. Milling has also become increasingly concentrated.

Following deregulation, ownership and control of enterprises involved in baking has shifted substantially. The general pattern is an increase in the market share of retail storeowners as opposed to large national food manufacturing corporations. However, another large corporation involved in manufacturing baking equipment lies behind this growth in retailers’ share. There has been widespread outsourcing of low-skilled work to labour brokers. Skilled work is also being outsourced. While different fractions of capital may be competing viciously in the domestic market, this is occurring in an environment where consumers of wheat products are not properly protected. In these circumstances, vigorous competition is not leading to improved efficiency, as measured by the prices paid by poor and working class consumers. The industry’s score sheet in supporting land reform, the environment, gender equity and regional integration also leaves a great deal to be desired. Employment in large-scale mills declined by approximately 25 percent between 1992 and 1999. Workers who remain employed face an uncertain future.

*Source: Eric Watkinson, Indicator South Africa, Economic Monitor, Vol. 18 No. 3, September, 2001*

### 6.12 Job sector

The Job Sector Summits, which were created as a forum for negotiating industrial policy, presented an opportunity for labour, government and business to thrash out the growth paths for specific sectors, including ways to prevent job losses and create employment in specific industries. Sector summits have so far occurred in the gold mining and clothing and textiles sectors and have been faced with serious problems.

While many unskilled workers are unemployed, there is still a shortage of suitably skilled workers, which hinders expansion (Towards a Ten Year Review, 2004). Between 1995 and 2002 the number of employed people grew from 9 557 185 to 11 157 818, representing 1 600 633 new jobs. However, during the same period, the number of unemployed people grew from 1 909 468 to 4 271 302, an increase of 2 361 834 leading to a negative net effect on job creation.
The first quarter of 2005 was also marked by a wave of retrenchments, in which tens of thousands of jobs were lost in various sectors of the economy such as mining and clothing and textiles prompting some groups like COSATU to call South Africa's unemployment crisis a national emergency. Of most concern is the fact that declining employment levels have occurred simultaneously with a decline in investment levels.

One of the major reasons for such a crisis, as often cited by some politicians, business people, economists and the media alike, was the failure by the government to reorganise the economy away from the distorted nature inherited from the past, in which it relied heavily on its primary sector (using cheap and unskilled labour) and the capital-intensive manufacturing industries designed to cater for white minority interests. This phenomenon is still alive and continues to manifest itself in different ways.

6.13 Small business sector

The small business sector has made a significant contribution to the gross domestic product. Small and medium enterprises (SMEs) contribute about half of total employment and more than 30 percent of the total GDP. SMEs are now being seen as crucial to employment creation in South Africa although the most workers in this sector still remain vulnerable and unorganised.

Historically, unions have concentrated more on organising in big businesses and have ignored the small business sector. This is now changing. Globalisation and open market trade liberalisation or restructuring have resulted in massive full-time job losses, especially in big companies. The result has been a decline in union membership. Unions are being forced to come up with strategies to organise workers in the SME sector.

The prevailing trend is that there is an increased level of consumerism among South Africans following the establishments of shopping Malls. In almost each and every black and coloured township in the Cape Metropole, for example, open land has been occupied by shopping malls. Prominent features of these malls are supermarkets, banks' automated teller machines (ATMs) and the lottery. The SMES are not engaging in economic development projects that would significantly stimulate economic growth. “The malling strategy, brought about largely by open market liberalisation trade polices, is currently undermining local savings by encouraging consumerism and exacerbating poverty by effectively contributing to the destruction of family businesses such as spaza shops” (Simphiwe Dada, 2005).

7. Overview of Trade Policy Process and Stakeholders

The Department of Trade and Industry (DTI) is the principal institution tasked with formulating and implementing South Africa’s trade and industrial strategy. Within the department, the division on International Trade and Economic Development (ITED) is responsible for the trade negotiating agenda, and the division on Enterprise and Industry Development (EIDD) for industrial policy. While it is felt that the DTI’s institutional structure, revised around 1999, is appropriate for managing these policy challenges, there is concern about capacity constraints at two levels: insufficient staff numbers and
insufficient institutional experience of trade negotiations compared to most of South Africa’s negotiating partners.

The DTI is supported by the Council of Trade and Industry Institutions (COTII). COTII includes the Industrial Development Corporation (IDC), which funds industrial development projects; the newly established International Trade Administration Commission (ITAC), which administers trade policy; and Trade and Investment South Africa (TISA), which promotes exports and investment. In addition, the DTI co-chairs the Economics Cluster of government departments, which coordinates and integrates the initiatives and activities of those line departments that service and support the domestic economy. Instructively, given its cross-cutting policy interventions, the Microeconomic Reform Strategy is the cluster’s flagship project. It will also monitor the implementation of ASGISA.

However, as the ambit and scope of the trade negotiating agenda extends well beyond the direct competence of the DTI and impinges upon the regulatory responsibilities and technical expertise of other departments, it is important that these departments directly participate in the preparation and execution of trade negotiations. For this reason, the South African government has established an Interdepartmental Permanent Trade Forum (PTF). As a specialised forum, the PTF facilitates consultations and coordination within government in the formulation and implementation of trade policy, and in the preparation and execution of South Africa’s trade negotiations. Departments will submit their key negotiating objectives, minimum outcomes, and concerns, and develop a negotiating strategy that sets out precise offensive and defensive negotiating positions. Anecdotal evidence suggests that the PTF has yet to be effectively operationalised.

The National Economic, Development and Labour Council (NEDLAC) institutionalises a culture of corporatist decision making in South Africa, and facilitates the crafting of consensus among the state and its social partners – that is, labour, business, and the community – on key economic and social policies. Within NEDLAC, discussions on industrial and trade policies reside with the Trade and Industry Chamber. The latter has established two substructures to assist in this regard: the Fund for Research into Industrial Development, Growth and Equity (FRIDGE) engages in research projects to enhance the competitiveness of industry; and the Technical Sectoral Liaison Committee (TESELICO) aims to enhance trade-related social dialogue, including the negotiation of trade agreements and interactions with the WTO. At this point, the community constituency – which largely represents civil society – is not included in TESELICO consultations, since it simply lacks the capacity to engage on technical trade matters. This underscores the need for capacity building. In recent years, it is noteworthy that capital and labour increasingly share similar concerns about the deleterious effects of liberalisation on domestic industry and higher value-addition.

In addition to these domestic governance processes, South Africa’s trade and industrial policies must also defer to supranational regional bodies, notably the SACU. The new SACU Agreement provides for a more transparent and democratic decision making procedure over tariffs and trade remedies, in contrast to the past when South Africa willy-nilly imposed its unilateral tariff preferences on its partners. As Draper notes,
This agreement is of historic significance in that it commits South Africa to effectively ceding sovereignty over trade policy formulation and implementation to new supra-national institutions, which have yet to be established... In essence, all decisions over tariffs and trade remedies will be taken at the SACU level by a Council of Ministers, advised in turn by a new SACU tariff body and a commission of senior officials. National institutions (in South Africa’s case ITAC) will merely provide recommendations to the supranational structures on the basis of investigations the former conduct. So SACU will potentially be fully involved in all current and future negotiations (Draper 2005:13).

The new SACU Agreement also mandates its member states to develop common policies and strategies with respect to industrial development. This is particularly important in light of the current exercise to develop a more robust and active industrial policy framework for South Africa. It remains to be seen how this policy project is reconciled with the common approach enjoined by the SACU Agreement.

There are a variety of civil society organisations (CSOs) active in the South African trade policy debate. These include the technically minded Trade and Industrial Policy Strategies (TIPS), the South African Institute of International Affairs (SAIIA), the Trade Law Centre for Southern Africa (TRALAC), the Southern African Regional Poverty Network (SARP), the Southern African Trust, and the Institute for Global Dialogue (IGD). The anti-globalisation platform is most noticeably occupied by the Alternative Information and Development Centre (AIDC) as well as a host of environmental, ecumenical and social justice groups.

Progressive voices on trade policy in South Africa have coalesced around the informal Trade Strategy Group (TSG), which was formed largely in response to an increasingly aloof and antagonistic regime (not only to civil society, but also to other African countries’ interests) at the DTI during the tenure of Alec Erwin as Minister. The TSG blends reformist and radical responses to the neo-liberal disciplinary discourse, and encompasses a collection of progressive policy NGOs, trade unions, faith-based networks, women and environmental organisations that are broadly committed to the sustainable, equitable, and people-centred development of South Africa and the Southern African region. It includes such bodies as COSATU, the Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI), the Economic Justice Network (EJN), and the Gender and Trade in Africa Network (GENTA). The TSG has been especially active and vocal in opposing the proposed SACU-USA FTA, in supporting the COSATU campaign against NAMA reductions in the WTO, and in capacity building for the NEDLAC community constituency.

8. Concluding Questions

This paper has attempted to provide a background note to the origins of South Africa’s trade and industrial policy, reflecting on how it has evolved to this day. It also shows clearly how the government’s macroeconomic strategies began to shift from RDP moving swiftly to GEAR following the end of apartheid. It also highlighted some limited success of these policies in post apartheid.
There is obviously a need to continue looking at these macroeconomic strategies particularly to ensure that the Trade and Industrial policy is implemented with a mixture of well conceived, and mutually re-enforcing, incentives and penalties.

Some fundamental questions such as the following will continue to be asked:

1. Considering that the prevailing logic\(^2\) of GEAR has serious limitations, the question then is what the right macroeconomic framework for South Africa is, which will enhance poverty reduction or eradication;

2. How much of policy space is allowed for ordinary people to question certain government policies and their impact on key sectors e.g. the problem of massive job losses in the manufacturing sector; and

3. Before any new policies are implemented or adopted, how much analysis and impact assessment is done to ensure that the policies are addressing the inequalities and poverty trap that South Africa is in?

\(^2\) That if implemented properly would lead to increased competitiveness in order to have increased exports, which in turn will lead to expanded production for the expanded market, and thereby lead to increased job creation – Mainstream Economics.
REFERENCES


Central Committee Review on industrial policy for COSATU (2005)


TIPS, A Review of the Changing Composition of the South African Economy


