University of Pretoria etd – Penzhorn N 2002

CHAPTER 2

INTERNATIONAL TRADE REGIMES AND THE FORMATION OF TRADE BLOCS

2.1 Introduction

This Chapter has the purpose of shedding some light on regional agreements of which South Africa is a member. This is an important part of this study, because it indicates the regional cooperation possibilities in the light of the free trade agreement concluded between South Africa and the EU. It has nonetheless been argued that South Africa should consider forging regional ties first, before engaging in other international agreements. This becomes more of an issue, if other SACU or SADC members experience welfare losses because of the newly crafted deal.

With the advent of communication and transportation enhancing technologies, distances between producers and consumers are becoming increasingly less significant. This has laid the basis for the establishment of multinational companies, which are eroding country barriers; countries themselves are engaging in alliances, literally dividing the world into trading blocs. This study nonetheless has the objective of evaluating another piece of the global trade puzzle, namely the Free Trade Agreement between the EU and South Africa.

Most newsworthy trade events these days point in one direction only, namely to the dramatic internationalization, or globalization, of economic activity, which has really gained momentum over the last two or three decades (Goldin and Knudsen, 1990). Profound political and social consequences flow from this. A powerful confluence of forces drives globalization. Some of them no doubt reflect government policies, but more fundamentally, these are forces with a life of their own — forces unleashed by technological change, especially in the fields of transport and communication.

University of Pretoria etd – Penzhorn N 2002

In economic terms, globalization means that production and trade have become inexorably intertwined. Production processes are spread across the globe. Producers must invest to trade and trade to invest (Irwin, 1995). Irwin states that most products entering the markettoday are either traded, or heavily reliant on traded components for their production. The fact that trade plays a greater role in economic activity than it ever has before is easily discernible from statistics. The annual trade in goods and services approached $10 trillion in1997 (Kotabe and Helsen, 1998). Trade flows have multiplied fifteen-fold in the last four decades, while production has increased only six-fold. More and more jobs rely on trade, on both the import and the export side. All this has taken place against steadily rising living standards in many, but not all, countries. The fact that the benefits of globalization are yet to be globally enjoyed presents a challenge to policy makers around the world. However Anderson and Blackhurst (1993) argue that nobody should underestimate the extent to which global economic integration has helped, and is helping, to reduce poverty and marginalization. In the next few years two billion people in developing and transition economies are expected to enter the global market place, reinforcing the trends which have made a dozen or more developing countries into some of the world's most dynamic economies.

In political terms, globalization means that governments must learn to cooperate in more areas than in the past. Some of the distinctions that used to be made between international policy and domestic policy now look increasingly facile and irrelevant (World Bank, 1994). Tensions naturally arise as governments are perceived as having an ever more intrusive interest in each others' policies, and these tensions must be managed with deftness and political agility. As the domain of international rule-making and policy coordination expands, and the notion of "domestic" policy assumes a narrower focus, adequate care must be taken to safeguard diversity and preserve democracy. At the same time, defensive arguments based on sovereignty must be recognized for the illusion that they are. Krugman (1994) argues that the true expression of sovereignty in today's world is the capacity of democratically elected governments to articulate the interests of their constituents through negotiations and international commitments.

In social terms, managing globalization is also a major challenge. It is disingenuous to pretend that market-opening, continuing international economic integration, and trade liberalization will

University of Pretoria etd – Penzhorn N 2002

always be painless (World Bank, 1994). Some people may well be displaced through the resource allocation shifts that occur as a result of these processes. However the whole picture should be brought into perspective. The efficiency gains from specialization through trade stimulate economic activity and create jobs, more than making up for what may be lost through job displacement. Managing this transition, and dealing with the distributional consequences of change is a fundamental responsibility of governments, but definitely not one that will be met by shying away from the world marketplace.

Globalization will not go away. Policy-makers could not stop the process, even if they wanted to (Blandford, 1990). It is not something which is optional, but a part of normal everyday life in countless ways. The only real question is whether or not governments accompany its advance with domestic policies, which will help industries adapt to the reality of change without an unbearable social cost. Internationally, the choice is whether this inevitable process will take place within a system based on agreed rules or simply on power. In the post-war period efforts have generally been made to follow the first alternative. The remaining part of this section will investigate the bodies and agreements, which arise from the aforementioned efforts.

2.2 International Trade and Trading Blocs

2.2.1 General Agreement on Tariffs and Trade (GATT)

The information for the following sections on the GATT, the Uruguay Round, the Multilateral Trading System, the World Trade Organization and its effect on Europe was extracted from numerous working papers, reports and official publications, which will not be mentioned here in detail. However some of the more prominent sources were: Grether and Olarreaga (1998); Cadot et al. (1998a); Laird (1998); Drabek and Laird (1997); Francois and McDonald (1996); and Francois et al. (1995).

The creation of the World Trade Organization (WTO) on 1 January 1995 marked the biggest reform of international trade since the Second World War. It also reversed the failure to create an

University of Pretoria etd – Penzhorn N 2002

International Trade Organization (ITO) in 1948. Up to 1994, the trading system came under GATT, salvaged from the aborted attempt to create the ITO. GATT helped establish a strong and prosperous multilateral trading system that became more and more liberal through rounds of trade negotiations. But by the 1980s the system needed a thorough overhaul. This led to the Uruguay Round, and ultimately to the WTO.

From 1948 to 1994, the GATT provided the rules for much of world trade and presided over periods that saw some of the highest growth rates in international commerce. It seemed well-established, but throughout those 47 years it was a provisional agreement and organization. The original intention was to create a third institution handling international economic cooperation, to join the "Bretton Woods" institutions now known as the World Bank and the International Monetary Fund (IMF). The complete plan, as envisaged by over 50 countries, was to create an International Trade Organization as a specialized agency of the United Nations. The draft ITO Charter was ambitious. It extended beyond world trade disciplines, to include rules on employment, commodity agreements, restrictive business practices, international investment and services.

This first round of negotiations resulted in 45,000 tariff concessions affecting $10 billion of trade, about one-fifth of the world's total. The 23 countries involved also agreed to accept some of the trade rules of the draft ITO Charter. This, they believed, should be done swiftly and "provisionally" in order to protect the value of the tariff concessions they had negotiated. The combined package of trade rules and tariff concessions became known as the General Agreement on Tariffs and Trade (GATT). It entered into force in January 1948, while the ITO Charter was still being negotiated. The 23 countries became founding GATT members.

Although the ITO Charter was finally agreed at a UN Conference on Trade and Employment in Havana in March 1948, ratification in some national legislatures proved impossible. The most serious opposition was in the US Congress, even though the US government had been one of the driving forces behind the ITO. In 1950, the United States government announced that it would not seek Congressional ratification of the Havana Charter, and the ITO was effectively dead.

University of Pretoria etd – Penzhorn N 2002

Even though it was provisional, the GATT remained the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995.

Table 2.1. The GATT and Negotiating Rounds

YEAR	PLACE/NAME	SUBJECTS COVERED	COUNTRIES
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–61	Geneva (Dillon Round)	Tariffs	26
1964–67	Geneva (Kennedy Round)	Tariffs and anti-dumping measures	62
1973–79	Geneva (Tokyo Round)	Tariffs, non-tariff measures, "framework" agreements	102
1986–94	Geneva (Uruguay Round)	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc.	123

Source: OECD, 1995

For almost half a century, the GATT's basic legal text remained much as it was in 1948. There were additions in the form of "plurilateral" agreements (i.e. agreements with voluntary membership) and efforts to reduce tariffs further continued. Much of this was achieved through a series of multilateral negotiations known as "trade rounds". The biggest leaps forward in international trade liberalization came through these rounds, which were held under GATT's auspices. The Tokyo Round, which lasted from 1973 to 1979 with 102 countries participating, was particularly important. It continued GATT's efforts to progressively reduce tariffs. The results included an average one-third cut in customs duties in the world's nine major industrial markets, bringing the average tariff on industrial products down to 4.7%. The tariff reductions, phased in over a period of eight years, involved an element of "harmonization" — the higher the tariff, the larger the proportional cut.

GATT's success in reducing tariffs to such a low level, combined with a series of economic recessions in the 1970s and early 1980s, drove governments to devise other forms of protection for sectors facing increased foreign competition. High rates of unemployment and constant

University of Pretoria etd – Penzhorn N 2002

factory closures led governments in Western Europe and North America to seek bilateral market-sharing arrangements with competitors and to embark on a subsidies race to maintain their holds on agricultural trade. Both these changes undermined GATT's credibility and effectiveness.

The problem was not just a deteriorating trade policy environment. By the early 1980s the General Agreement was clearly no longer as relevant to the realities of world trade as it had been in the 1940s. For a start, world trade had become far more complex and important than 40 years earlier: the globalization of the world economy was underway; trade in services — not covered by GATT rules — was of major interest to more and more countries; and international investment had expanded. The expansion of trade in services was closely tied to further increases in world merchandise trade. These and other factors convinced GATT members that a new effort to reinforce and extend the multilateral system should be attempted. That effort resulted in the Uruguay Round, the Marrakech Declaration and the creation of the WTO.

2.2.2 The Uruguay Round

The Uruguay Round of Negotiations of the GATT took seven and a half years to complete, almost twice the original schedule. By the end of the negotiations, 125 countries were taking part. It covered almost all trade, from toothbrushes to pleasure boats, from banking to telecommunications, from the genes of wild rice to AIDS treatments. It was quite simply the largest trade negotiation ever, and most probably the largest negotiation of any kind in history.

Nevertheless, it took four years of exploring, clarifying issues and painstaking consensus-building, before ministers agreed to launch the new round. They did so in September 1986, in Punta del Este, Uruguay. They eventually accepted a negotiating agenda, which covered virtually every outstanding trade policy issue. The talks were intended to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles. All the original GATT articles were up for review.

Despite the poor political outlook, a considerable amount of technical work continued, leading to the first draft of a final legal agreement. It was put on the table in Geneva in December 1991. The

University of Pretoria etd – Penzhorn N 2002

text fulfilled every part of the Punta del Este mandate, with one exception — it did not contain the participating countries' lists of commitments for cutting import duties and opening their services markets. The draft became the basis for the final agreement.

For the following two years, the negotiations lurched between impending failure and predictions of imminent success. Several deadlines came and went. New points of major conflict emerged to join agriculture: services, market access, anti-dumping rules, and the proposed creation of a new institution. Differences between the United States and the European Communities (EU) became central to hopes for a final, successful conclusion.

The task had been immense, and negotiation-fatigue was felt in trade bureaucracies around the world. The difficulty of reaching agreement on a complete package containing almost the entire range of current trade issues led some to conclude that a negotiation on this scale would never again be possible. Yet the Uruguay Round agreements contain timetables for new negotiations on a number of topics. And by 1996, some countries were openly calling for a new round early in the next century.

2.2.3 The WTO

The World Trade Organization (WTO) is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations during the previous trade rounds. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, their goal is to help producers of goods and services, exporters, and importers conduct their business.

The so-called "multilateral" trading system is the system operated by the WTO. Most nations — including almost all the main trading nations — are members of the system. The system's overriding purpose is to help trade to flow as freely as possible — so long as there are no undesirable side-effects (Hine, 1994). This partly means removing obstacles. It also means

University of Pretoria etd – Penzhorn N 2002

ensuring that individuals, companies and governments around the world know what the trade rules are, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be "transparent" and predictable. Because the agreements are drafted and signed by the community of trading nations, often after considerable debate and controversy, one of the WTO's most important functions is to serve as a forum for trade negotiations.

A third important aspect of the WTO's work is dispute settlement. Trade relations often involve conflicting interests. Contracts and agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements (WTO, 1995).

2.2.4 Regionalism and the Multilateral Trading System

Nearly all of the WTO's 131 members have signed regional trade agreements with other countries. Some of these agreements are wide-ranging in scope; others aim to achieve trade liberalization across a number of sectors over time (Lal, 1993). A fundamental debate concerning regional trade agreements, however, is their compatibility with the multilateral trading system. The main requirement is that the purpose of a regional trade agreement should be to facilitate trade between the constituent territories, and not to raise barriers to the trade of other WTO members, which are not parties to the agreement (Lal, 1993). This question is central to both Article XXIV of the GATT 1994 and Article V of the GATT.

During the Uruguay Round of trade negotiations (1986–93), a number of Article XXIV provisions were clarified. Meanwhile, the number of regional agreements being reported to the WTO is increasing. Since there were already more than 20 separate working parties examining regional trade agreements, a decision was taken in February 1996 to establish a Committee on Regional Trade Agreements. This Committee was primarily created to centralize the effort of working parties in one body and to examine future regional trade agreements notified to the WTO in detail, including those relating to trade in services. It also served the purpose of providing a common platform to discuss ways of dealing with the issue of regionalism in the WTO. To date,

University of Pretoria etd – Penzhorn N 2002

144 regional trade agreements have been notified to the WTO, of which more than 80 are still in force (WTO, 1995).

To mention but a few of the existing agreements, in North America, the establishment of a free trade agreement between the US and Canada was extended as NAFTA and now also includes Mexico. There are plans for a hemispheric free trade agreement, which would also build on existing arrangements in South America, such as Mercosur, the Andean Pact and the Central American Common Market. In Asia, ASEAN has recently expanded its geographical coverage and deepened the integration process. The South Asian countries are also developing a regional arrangement (Anderson and Blackhurst, 1995).

In Africa, several regional arrangements are being explored, which we will take a closer look at in Section 2.3 below. The most important agreement for this study, however, is the Southern African Development Community (SADC), of which South Africa recently became a member. The SADC is seeking to exploit the benefits of closer regional trade relations, and the impact of the trade deal concluded between South Africa and the EU is highly significant in this context. In Europe, the European Union has built up a complex hierarchy of preferential arrangements involving all its immediate neighbors, and has wider schemes in prospect. The idea of a trans-Atlantic free trade agreement has also attracted considerable attention recently.

The regional liberalizing impulse is not in itself cause for alarm among the upholders of the multilateral system. Regional initiatives can contribute significantly to the development of multilateral rules and commitments, and in regions such as sub-Saharan Africa they may be an essential starting point for the integration of the least-developed countries into the wider global economy. At the most basic level the real split is between liberalization, at whatever scale, and protectionism. Viewed from this perspective, regional and multilateral initiatives should be on the same side, mutually supportive and reinforcing. However the sheer size and ambition of recent regional initiatives means that the complementarity between regional and multilateral initiatives can no longer be taken for granted. A clear statement of principles is needed, backed up by firm commitments, to ensure that regional schemes do not act as a centrifugal force, pulling the multilateral system apart.

University of Pretoria etd – Penzhorn N 2002

It is within this framework of regionalism and multilateralism that a free trade agreement between South Africa and the EU has been negotiated. To bring the whole agreement into perspective even further, the next section will concentrate on the EU, and South African groupings and agreements will be analyzed in Section 3.2. This will serve to indicate the existing arrangements within the two contracting parties, and the difficulties the negotiations might encounter in complying with the rules laid down by the WTO. It will also indicate the progress, which has been made by the EU and South Africa in liberalizing their respective markets and facilitating "freer" trade.

2.2.5 The European Union

The European Union's single market program and liberalization under the WTO have generally improved access conditions for the EU's trading partners and increased the exposure of the EU's economy to international competition and structural change. However, despite progressive liberalization, there are still significant internal obstacles to efficient resource allocation. These imply higher costs in some industrial and service sectors, with adverse consequences on growth and competitiveness. The present transitional period in European economic integration presents challenges both for the EU and for the multilateral trading system.

The recent WTO report (1996) confirms the continuation of the EU's steady progress towards a more liberal external trade regime from 1994 till 1996, under the combined effects of implementation of WTO tariff commitments, the elimination of quotas and voluntary export restraints, new multilateral commitments on information technology products and telecommunications services, and the completion of the single market. The report notes that in an increasing number of areas, such as the liberalization of trade in services or the harmonization of standards, the single market process and multilateral liberalization have been mutually supportive, resulting in improved market access for non-EU suppliers.

Despite some recent liberalization, insufficient competition in certain service markets means that costs for consumers and user industries remain high. The removal of restrictions to trade in services, both within the single market and externally, has become a key policy objective of the

University of Pretoria etd – Penzhorn N 2002

Union. In agriculture, favorable market trends have aided the implementation of Common Agricultural Policy reform and the fulfillment of WTO commitments. Average tariffs have fallen but high out-of-quota duties continue to protect sensitive products. While financial transfers to agriculture have continued to grow, they now take a smaller share of the EU budget; increasingly, assistance is taking the form of direct payments.

The introduction of the Euro will be a major factor governing the EU's external trading relations in the coming years. Elimination of exchange risks within the euro zone should have direct benefits on intra-EU trade; moreover, both intra- and extra-Community trade should benefit from lower transaction costs, greater transparency of the single market, and further predictability and security of trade.

The enlargement of the Union and the expansion of the EU's preferential network of free-trade agreements, which has continued since 1994, is bound to give some concern to most-favored nation (MFN) trading partners in relation to potential trade diversion. There are also concerns about the systemic effect on the multilateral trading system. The EU's Council of Ministers has called for a more careful consideration of the WTO conformity of preferential agreements, as well as a clarification of WTO rules on regional trading agreements. This has had a big impact on the negotiations with South Africa, as far as the introduction of concessions is concerned.

In 1996, the EU introduced a "market access strategy" aimed at achieving better access to third-country markets through a more focused, systematic and coordinated use of available trade instruments. According to the Commission, the strategy is not intended to create new trade instruments or to jeopardize the Union's obligations under the WTO. To date, the main concrete step has been the creation of a database collating information on existing "obstacles" outside the EU. The Commission intends to prepare reports identifying priority countries and listing their trade barriers.

In conclusion however, it needs to be stressed that trade is not just a technical question, but a matter of high political importance. In the WTO, the world now has a permanent trade policy forum as well as a more effective means of negotiating commitments and making and enforcing

University of Pretoria etd – Penzhorn N 2002

trade rules. Trade and trade policy have been put back in the front row of international concerns, where they were intended to be by the architects of the post-war international institutions.

2.3 Regional Trade Arrangements in Southern Africa

2.3.1 The Southern African Customs Union (SACU)

The first Customs Union Agreement in South Africa was signed in 1910 after the country became a Union. This agreement has been altered from time to time. The present Customs Agreement with Botswana, Lesotho and Swaziland is a continuation of the 1910 Agreement. It was signed on 11 December 1969 and came into effect on 1 March 1970. Namibia became the fifth member of the SACU during June 1990. The TBVC states (Transkei, Bophuthatswana, Venda and Ciskei) were also subject to the provisions of the Customs Union Agreement.

What makes this customs union unique is the fact that it is an agreement betweena "developing" country and "least developed" countries (OECD, 1995). South Africa has always had a dominant position in the Customs Union, deciding on the tariffs by itself, but there has also been some redistribution, effected by the formula for the division of the common customs revenue pool amongst the member states.

The SACU is a free trade area with a common outside border while each state's sovereignty is recognized. All the states are also entitled to their share of the common customs revenue pool. The agreement provides for duty-free circulation of goods within the five-country Customs Union and grants transit rights across South African territory. SACU's common external tariff averaged some 15 per cent in June 1997 (Maasdorp, 1998). Some 44 per cent of tariff lines, particularly on inputs of capital goods and products that are not manufactured and do not have substitutes in South Africa, bear a zero rate; however goods produced, or with substitutes produced, in South Africa generally bear relatively high rates. The highest average tariff is in manufacturing with 15.6%, compared to 5.6% in agriculture and 1.4% in mining and quarrying (Customs and Excise,1997).

University of Pretoria etd – Penzhorn N 2002

SACU members are concerned with the complexity of the tariff regime comprising specific, *ad valorem*, mixed, compound and formula duties, and its frequent changes. This has been cited as an impediment to implementing and administering the tariffs (OECD, 1995). It is however acknowledged by all the members, that the Tariff Rationalization Process (TRP) being undertaken by South Africa should substantially simplify SACU's tariff structure. The TRP may, nevertheless, lead to increased tariff escalation and result in a higher effective rate of protection. A simplified, more stable tariff structure would increase the efficiency of SACU's trade, enhance its ability to fulfill its multilateral obligations, facilitate the negotiation of new or expanded regional agreements and help SACU members attract more foreign investment.

The current round of negotiations was launched in November 1994, with the added objective of democratizing the Union. A Customs Union Task Team (CUTT), of which the National Department of Agriculture (NDA) forms an integral part (mainly in the Agricultural Policy Workgroup), was established to act as the negotiating institution. The NDA has consulted with the South African farming community to establish a mandate to negotiate. In addition, the negotiations are undertaken in accordance with the GATT principles established in Marrakech. The aim is to make the Customs Union more transparent in its decision-making processes by establishing a secretariat to provide administrative support. The revenue-sharing formula for the common customs pool will undergo a change, although no new formula has yet been agreed (Maasdorp, 1998).

In future, bilateral (and possibly multilateral trade agreements) will in all probability be signed between the Customs Union and the trading partners involved. This will have a significant impact on future trading policy, and will make it difficult for South Africa to enter into negotiations without first consulting Botswana, Lesotho, Namibia and Swaziland (the BLNS countries) as happened with the recent negotiations with the EU (Carim, 1997). The network of regional and preferential trade agreements within South Africa and between South Africa and Europe presents a number of challenges to policy makers in the region. While SACU must still determine its own structure, it has also to consider its operational relations with SADC (see below). There is a

University of Pretoria etd – Penzhorn N 2002

danger that the evolution of this complex set of relations could create a structure of tariffs, preferences and rules of origin that could well lead to future trade distortion.

Table 2.2. SACU Imports including the Former TBVC States: Transkei, Bophuthatswana, Venda and Ciskei (R million)

	1970	1980	1990	1995	1970–95 (Average annual growth rate, %)
Total	**2,540**	**14,381**	**44,125**	**98,513**	**15.8**
Food	103	290	1,505	4,222	16.0
Inedible raw materials	246	629	1,763	1,822	8.3
Chemicals	199	1,227	5,527	17,629	19.6
Textiles	162	357	1,457	2,644	11.8
Metals and metal products	194	680	21,543	4,685	13.6
Machinery	776	3,978	13,456	34,545	16.4
Motor vehicles	411	1,507	4,751	9,831	13.6
All other manufactured goods	346	1,412	7,633	18,793	17.3
Unclassified	104	4,302	5,879	4,342	16.1

Source: Customs and Excise, 1997

Tables 2.2 and 2.3 shed some light on SACU's imports and exports. Processed goods and manufactured goods constitute the biggest part of imports, whilst raw materials and minerals are the largest export commodities. This reflects the developmental status of the Customs Union. Notice that SACU has a positive current trade balance, which is however declining exports have been growing at a faster rate than imports over the last two decades. It is further of interest that minerals, and especially gold, are losing ground to other export products such as chemicals and machinery equipment, which is a positive sign for industrial development.

Table 2.4 gives an indication of possible future growth areas for agriculture in the Customs Union. The traditional sectors of maize, wheat and meat do not show any significant growth, whereas more specialized products, such as the horticultural sector, seem to have more growth

University of Pretoria etd – Penzhorn N 2002

Table 2.3. SACU Exports including the Former TBVC States (R million)

	1970	1980	1990	1995	1970–95 (Average annual growth rate, %)
Gold, export value	**837**	**10,141**	**18,070**	**20,118**	**13.6**
Total, excluding gold	**1,532**	**9,775**	**42,859**	**81,387**	**17.2**
Food	302	641	3,866	7,769	13.9
Metal ores	95	593	3,272	5,022	17.2
Chemicals	63	444	2,174	7,144	20.8
Diamonds, excluding industrial diamonds	110	1,241	5,375	8,473	19.0
Metals and metal products	262	1,554	8,149	13,909	17.2
Machinery and transport equipment	110	400	2,514	9,153	19.3
Other	589	3,902	17,508	29,918	17.0

Source: Customs and Excise, 1997

Table 2.4. SACU Agricultural Production (R million)

	1970	1980	1990	1996	1970–96 (Average annual growth rate, %)
Livestock ('000)					
Cattle	11,372	12,869	13,488	13,389	0.5
Sheep	36,956	33,493	33,588	28,934	–0.2
Pigs	1,364	1,286	1,532	1,603	0.6
Production ('000 t)					
Maize	6,179	11,040	9,180	10,138	0.3
Wheat	1,396	1,490	1,709	2,700	1.2
Sugar cane	12,144	14,062	18,084	20,951	0.3
Potatoes	612	765	1,261	1,516	3.7
Meat	856	1,297	1,586	1,490	2.5
Wool	139	110	106	64	–1.6
Gross value of agricultural production (R million)	**1,328**	**6,234**	**21,092**	**37,765**	**13.7**
Total field crops	573	2,897	7,370	14,254	12.3
Total horticultural products	221	988	4,511	8,384	15.3
Total animal products	534	2,349	9,211	15,127	14.2

Source: NDA, 1997

115942776

University of Pretoria etd – Penzhorn N 2002

potential, including export potential. It is furthermore widely agreed that sub-Saharan Africa could become the next "bread basket" of the world, once the necessary development gets underway, and that South African field-crop producers would not be competitive in this context to climatological disadvantages. They should therefore consider producing more capital-intensive crops, where high-tech equipment and information is needed, to carve out a niche for themselves.

Table 2.5 shows the internal trade within the Union. Growth in retail trade at real prices has been at 5.6% and growth in wholesale trade at 3.0% over the period 1970–96, indicating to some extent the growth in economic activity. This is a rather modest rate, fractionally topping the population growth rate for the Union, which is currently estimated at 2.6% (CSS, 1997). There is thus reason for concern, especially considering the most recent economic growth figures, which are far below the average.

Table 2.5. SACU Internal Trade (R million)

	1970	1980	1990	1996	1970–96 (Average annual growth rate, %)
Wholesale trade					
Sales at current prices	5,290	29,792	113,990	226,915	15.6
Sales at constant June 1995 prices	95,859	146,680	179,266	207,366	3.0
Retail					
Sales at current prices	3,596	15,678	73,301	132,645	14.9
Sales at 1990 prices	18,371	63,795	73,301	75,595	5.6
Motor trade (retail)					
Trading revenue at current prices	1,587	6,651	32,909	71,424	15.8
Hotels					
Trading revenue at current prices	220	885	2,602	4414	12.2

Source: CSS, 1997

As mentioned earlier, renegotiating the SACU Agreement would also entail a change in the revenue side with possibly serious effects on the smaller economies. The distribution of the common revenues has had a strong element of subsidy from South Africa to the smallercountries, originally justified as "compensation" for their loss of the freedom to set their own external

University of Pretoria etd – Penzhorn N 2002

policies and tariffs (Carim, 1997). Further problems, which will need to be addressed, are the smuggling of products (especially dairy products and milk powder) from Namibia into South Africa, and of cattle between Botswana and South Africa. There is general agreement that controls should be tighter.

The renegotiations have progressed reasonably smoothly, and most of the minor issues have been settled. There are however still some major issues, especially regarding agricultural tariffs, which need to be discussed. The customs tariff group of CUTT has so far presented a working document (CUTT, 1997) with the following recommendations:

- the customs tariff policy should serve the primary economic aims of SACU;
- it should be reconcilable with the WTO agreements and other international trade agreements;
- it should be used as an instrument to promote economic development;
- there should be separate customs tariff policies for the agricultural and industrial sectors.

The final outcome of these negotiations is as yet still unclear. However, it can be expected that a more integrated Customs Union will be established where all members have an equal share in decision-making. This will significantly affect economic policy in South Africa. In addition, given the relatively low development status of the BLNS countries, compared to South Africa, some resources will have to be re-deployed to address this issue. Development within SACU has to be an integrated approach, based on competitiveness and comparative advantages, especially if SACU is to be enlarged to include within its boundaries countries with a high potential agricultural output.

2.3.2 The Southern African Development Community (SADC)

The historical roots of the Southern African Development Community (SADC) go back to the struggle for liberation from colonialism and poverty in the 1960s and 1970s. The July 1979 Arusha Conference laid the foundations for the Southern African Development Coordination Conference (SADCC). In August 1992 the Windhoek Summit saw the signing of the Treaty and thereby the transformation of SADCC into SADC. Currently SADC is a twelve-member

University of Pretoria etd – Penzhorn N 2002

community comprising Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The main objective is to achieve economic growth and development, alleviate poverty, and enhance the standard of living of the people of the region through regional integration (SADC, 1997). The areas of cooperation include transport and communication, food, agriculture and natural resources, industry and trade, finance, tourism, mining and energy. SADC aims at deeper economic cooperation and integration, cross-border investment and trade, freer movement of goods, services and people, democracy and good governance, and regional political solidarity.

The five SACU countries are also members of SADC, and are thus also members to an SADC agreement, which sets out a timetable for the creation of a free trade area encompassing the free movement of capital, goods, services and labor. SADC, which is to have its own dispute settlement mechanism, is also a forum for political cooperation. SADC members, excluding South Africa, also benefit from preferential market access to the European Union under the Lomé Convention.

The network of regional and preferential trade agreements within the Southern African region and between Southern Africa and Europe presents a number of challenges to policy makers in the region. While SACU must still determine its own structure, it has also to consider its operational relations with SADC (OECD, 1995). South Africa's relations with Botswana, Lesotho, Namibia and Swaziland (BLNS) on the one hand, and its relations under the recent bilateral trade agreement with the European Union, on the other, are another piece of the regional and preferential trade puzzle.

Trade data in the SADC countries as a whole are most unsatisfactory with regard to availability, quality and comparability (Maasdorp, 1998). A recent study of tariff reductions under the SADC Trade Protocol (Imani Development (International) Ltd, 1997a) attempted to collect data on intra-SADC trade for the three years 1993–95. There were, however, no statistics on Angola. For the remaining 11 countries, the value of intra-trade given by exporting countries considerably exceeded that given by importing countries. Availability and quality of data are among the

University of Pretoria etd – Penzhorn N 2002

reasons for these discrepancies. The figures presented in Table 2.6 do, however, confirm some features, which have been reported in other studies.

Table 2.6. Value of Intra-SADC Trade, aggregated 1993–95 ($ thousand)

	Reported imports		Reported exports	
Country	**Value**	**%**	**Value**	**%**
Angola	n/a	n/a	n/a	n/a
Botswana	4,456,751	21.9	1,096,441	9.5
Lesotho[(a)]	2,311,630	11.4	222,700	1.9
Malawi	[(b)] 717,099	3.5	[(b)] 207,426	1.8
Mauritius	699,911	3.4	42,641	0.4
Mozambique	[(b)] 617,645	3.0	[(b)] 191,101	1.7
Namibia	3,772,140	18.5	[(c)] 795,615	6.9
South Africa	1,277,436	6.3	5,527,772	48.0
Swaziland	2,714,905	13.3	1,611,526	14.0
Tanzania	[(b)] 445,888	2.2	[(d)] 121,950	1.0
Zambia	[(b)] 877,277	4.3	[(b)] 152,443	1.3
Zimbabwe	2,496,580	12.3	1,550,385	13.5
Total	20,337,262	100.0	11,520,000	100.0

Notes: (a) Intra-SACU trade only.
(b) No data for 1993; 1994 figures substituted.
(c) No data for 1994 and 1995; 1993 figures substituted.
(d) No data for 1993-95; 1996 figures substituted.

Source: Imani Development (International) Ltd, 1997a

The bulk of intra-regional trade occurs within the SACU area. The BLNS countries together account for 65 per cent of intra-SADC trade, and almost all of this is from South Africa. Of total intra-regional exports, South Africa and the BLNS countries together account for 80 per cent, and most of this is among themselves. If trade with South Africa were to be excluded, intra-regional trade among the remaining countries would amount to no more than about 4–5 per cent of their total foreign trade. For all SADC countries their intra-regional trade is dwarfed by comparison with their trade with the rest of the world (ROW), and this position will not change materially in

University of Pretoria etd – Penzhorn N 2002

a free trade area. Like many other regional blocs, SADC approaches a free trade area from a low base (Maasdorp, 1998). Apart from the SACU countries, the only other significant contributor to intra-regional trade is Zimbabwe.

The three-year period for which data were collected is too short for any trend to be discerned, but there appears to have been a substantial growth in the value of reported exports. About 75 per cent of growth was, however, attributable to South Africa. This probably reflected the easing of political barriers to trade with some SADC countries, and hence the opening of new markets to South African exporters. South Africa is also the only country, which enjoys a favorable balance of trade with the region. It is widely anticipated by member states that this imbalance should be dealt with in future discussions about a free trade area.

Table 2.7. The Contribution of Agriculture[(a)] to GDP (%)

Country	Year	%
Angola	1994	12.2
Botswana	1994/95	1.5
Lesotho	1995	9.6
Malawi	1995	36.8
Mauritius	1995	9.4
Mozambique	1994	24.5
Nairobi	1995	11.7
South Africa	1995	4.6
Swaziland	1995	11.3
Tanzania	1995	54.9
Zambia	1995	17.1
Zimbabwe	1994	13.6

Note: (a) This sector also includes forestry and fishing except in the case of Mozambique and Namibia for which fishing is excluded.
Source: SADC, 1997

University of Pretoria etd – Penzhorn N 2002

Free trade will have differential effects in terms of its costs and benefits between among member countries as well as between sectors, industries and firms in any particular country (SADC, 1997). Agriculture is an important sector in almost all the SADC countries, and it is consequently bound to be affected by a free trade area both on the import and export sides. Whether a country will import a commodity will depend on the relative efficiency of its producers compared with those in competitor/partner countries, the initial levels of its import duty for the commodity, and the elasticity of its demand for imports. On the export side, a free trade area would mean that the country's producers would gain improved access to the markets of other countries in the area.

At its meeting in Lilongwe in January 1995, the SADC Council of Ministers decided that trade and investment should receive priority. The food, agriculture and natural resources sectors should be given priority in the overall program of action, as they provide the fast track to economic development and integration (SADC, 1997). To achieve this, it was decided that the Trade Facilitation Protocol, which was then being drafted, should provide for the facilitation of intra-SADC marketing of agricultural products and inputs. The protocol will thus have a direct effect on agricultural trade in the region. Trade based on the principles of comparative and competitive advantage should produce a gradual shift of production patterns in Southern Africa. Emphasis will also be placed on regional, rather than national, food security, while the development of entrepreneurial skills and enterprises will offer greater scope for growth and industrialization in the region. It is anticipated that South Africa will be the pivotal player in these developments.

2.3.3 COMESA

The Common Market of Eastern and Southern Africa (COMESA) has grown out of the Preferential Trade Area for Eastern and Southern African States (PTA), which commenced operations in 1983. The focus was on the gradual reduction of tariffs on a common list of commodities for intra-PTA trade. The PTA was transformed into COMESA from the beginning of 1994, the aim being the establishment of a free trade area in 2000 and a customs union in 2004. The name, therefore, is a misnomer (Maasdorp, 1998). COMESA has 21 members, including the Seychelles which has only just joined. However, membership will fall to 19 at the end of 1999

University of Pretoria etd – Penzhorn N 2002

when Lesotho and Mozambique intend to leave. Other countries of Eastern and Southern Africa, which are not members, are South Africa, Botswana and Somalia.

An important advance in the COMESA Treaty of 1993 is that it made provision for a multi-speed approach towards free trade, i.e., for certain members to move more quickly than others. This is often referred to in the literature as "variable geometry". In the context of Eastern and Southern Africa, variable geometry is reflected in a second grouping, namely the Cross-Border Initiative (CBI) which consists of a fast-track group of 14 countries, all of which are members of COMESA. In 1995, this grouping agreed to abolish tariffs on intra-CBI trade, that is, to have free trade among themselves, by October 1998. They also agreed to establish a harmonized external tariff (which is not the same as the common external tariff of a customs union) by that date. A harmonized external tariff allows some scope for flexibility: in the case of the CBI, a member country may adopt a tariff of 0–10–20 per cent or one of 5–15–25 percent for raw materials /capital goods, intermediate goods and consumer goods respectively.

2.3.4 Bilateral Agreements

To complete the puzzle of trade agreements in Southern Africa, a short overview of existing bilateral agreements between South Africa and its partner countries is presented in this section. (Official SADC publications were used as reference material.)

The Agreement between South Africa and Zimbabwe was signed on 1 December 1964. Agricultural products as specified in the agreement could be imported into South Africa from Zimbabwe free of duty, at a rebate of duty or on a most-favored-nation rate. Imports could, however, only take place under the authority of an import permit issued by the South African Department of Agriculture. In the case of tobacco the agreement stipulated a minimum quantity that had to be imported annually. During 1971, South Africa amended its Customs and Excise Act. The amendment stipulated that products imported from Zimbabwe would not be exempted from any increases in customs duties. Due to this amendment, South Africa's tariffication of agricultural products eroded the preferences enjoyed by exports from Zimbabwe.

University of Pretoria etd – Penzhorn N 2002

During September 1991 Zimbabwe requested South Africa, for the first time, to renegotiate the bilateral agreement of 1964. A meeting between delegations from the two countries took place on 17 September 1991. At the meeting, Zimbabwe requested an extension of the customs-free periods for a number of agricultural commodities. Similar requests were received from Zimbabwe in August and October 1992. During 1994, President Mandela visited Zimbabwe and this set the stage for a new round of trade negotiations with Zimbabwe for trade negotiations in September 1994, after which the formal renegotiation of the Zimbabwe Bilateral Trade Agreement was announced. The momentum of the renegotiation lost speed when renegotiation of the Customs Union Agreement was launched. On different occasions the NDA received requests for the re-instatement of preferential access for specific products from Zimbabwe. It must be kept in mind that Botswana and Namibia both have free trade agreements with Zimbabwe. The rationalization of the existing bilateral agreements, which creates problems with regard to agriculture, was therefore included in the renegotiation of the SACU agreement.

A second issue was a request from Zambia to enter into a preferential trade agreement with South Africa. An exploratory meeting between the two countries took place on 30 August 1995 in Pretoria. Zambia expressed its concern over the current trade imbalance between the two countries, in favor of South Africa. The country also expressed the hope that the exchange controls imposed by the South African Reserve Bank on South African capital be removed to encourage investment in Zambia and other countries in the region.

Zambia meanwhile is seeking free entry onto the South African market, both for a selected list of agricultural commodities as well as for industrial products. During the CUTT negotiations in March 1996, it was agreed that a trade agreement with Zambia should be negotiated as a SACU deal. The CUTT meeting agreed that the trade agreement envisaged with Zambia should be seen in the context of regional integration, i.e. SADC. Therefore, the SACU-Zambia agreement should be seen as a first step towards a general process of trade liberalization within the region. The agreements with Mozambique and Malawi should be handled accordingly, as was agreed by the SADC consultative conference (SADC, 1997).

University of Pretoria etd – Penzhorn N 2002

The trade agreement between South Africa and Malawi was signed on 19 June 1990. The agreement made provision that products produced, grown and manufactured in Malawi were granted free entry into South Africa, with the provision that import permits had to be issued by the South African authorities. Exports by South Africa to Malawi, on the other hand, were subject to a levy and import permits. South Africa also currently has a bilateral trade agreement with Mozambique, which was encompassed in the renegotiations of the SADC.

2.4 Trade between Developing and Developed Nations

2.4.1 The New Trade Environment

Trade negotiations between South Africa and the EU are a classical example of negotiations between a developing and a developed country or trade bloc. It is therefore necessary to look into all the issues surrounding such a situation, especially those focusing on the potential gains for the developing country. Trade between industrial or developed countries accounts for the bulk (54%) of international trade today. Exports from developing countries to industrial countries account for 18% of total world trade. Exports from industrial countries to developing countries also represent about 18%. Trade between developing countries accounts for only 9% (OECD, 1995).

Most developing countries have not benefited as much from the postwar boom in trade as developed nations. The majority of developing nations' exports are in primary products (agricultural goods, raw materials, fuels, etc). Their exports of manufactured goods are labor-intensive, using only modest amounts of technology. In recent decades, however, some developing nations have expanded their exports of manufactured goods (e.g. newlyindustrialized countries (NICs) such as Hong Kong, Singapore, South Korea and Taiwan).

Considering the problems which developing countries face in the wake of globalization, some argue that the current trading order favors industrialized countries. The exporters of primary products (developing countries) have been hurt by unstable export markets and worsening terms of trade. Some developing countries are heavily dependent upon exports of primary products

University of Pretoria etd – Penzhorn N 2002

(e.g. Zambia's copper exports account for 85% of its total exports; Saudi Arabia's oil 87%; Burundi's coffee 79%) (OECD,1995). When a poor harvest or decline in market demandreduces export revenues, domestic income and employment may suffer significantly. Others argue that the terms of trade for exporters of primary products have deteriorated while those for exporters of manufactured goods have improved over time. While there is no conclusive evidence for this, developing countries have used the hypothesis to demand preferential treatment in trade relations with the industrialized countries.

UNCTAD (the United Nations Conference on Trade and Development) was established in 1964 to address the trading relations between developing and advanced nations. Its three major areas of focus have been:

- tariff preference for developing nations' exports to developed nations;
- international commodity agreements intended to stabilize the prices of primary products;
- economic aid to developing nations.

Primarily due to the non-binding nature of its resolutions, the effectiveness of UNCTAD has been limited. Tariff rates have decreased, but non-tariff barriers (NTBs) have increased (OECD, 1995). Commodity agreements have often failed to insure price stability. Economic aid has been relatively small and ineffective. Advanced nations argue that developing countries need to initiate policies that foster economic growth, including higher capital formation, lower inflation and elimination of price distortion through market oriented mechanisms.

Developing countries have, however, used a number of other strategies to boost their economies and to ensure growth in their own countries. To reduce their dependency on foreign manufactured goods, some developing countries have attempted to industrialize their economies by protecting the domestic manufacturing sector. This is not viewed as a good long-term strategy because of its high costs, and it may protect industries with no comparative advantage (Barro, 1991).

Some developing countries used subsidies or other means to encourage the development of promising manufacture industries (e.g. footwear, textiles, clothing, consumer goods) as an industrialization strategy. The Asian NICs (Hong Kong, Korea, Singapore, Taiwan) are often

University of Pretoria etd – Penzhorn N 2002

cited as successful examples of this strategy. Since the 1970s, major industrial countries have temporarily extended non-reciprocal tariff preferences on designated imports from developing nations. The purpose of this system is to help developing nations expand their industrial base by gaining market access to industrial countries (Brown and Goldin, 1992).

The question remains whether developing countries in general gain from trade with developed countries, and if they should engage in trade negotiations with industrial countries in the first place. Goldin and van der Mensbrugghe (1995) argue that the answer has several levels, some of them not immediately obvious. Firstly, there is the number-cruncher dimension. One can look at the gains in crude trade terms — developing countries' exports are already more secure as a result of participating in the system, and they are set to increase as a result of the Uruguay Round reforms. Therefore their incomes will also rise as a result of the round. This works in two ways, as explained below.

First, more incomes, and therefore more trade, for all countries. The results of the 1986–94 Uruguay Round of trade negotiations are being phased in over about 10 years. They should accelerate growth of the world economy as a whole. Trade liberalization increases incomes worldwide, and that means greater demand for everyone's exports, including exports from developing countries. Estimates of these gains are quite substantial — typically in the region of $200–270 billion per year added to world output (and to world incomes) as a result of expanded trade. Developing countries should receive about one-third of this. That makes some $80 billion annually in additional income — more than these countries receive annually in foreign aid (around $60 billion) (OECD, 1995).

Second, developing countries' exports in a number of important sectors will enjoy improved market access. The industrial countries are lowering import duties and removing quotas on textiles, clothing, non-electrical manufactured goods, a vast number of agricultural products, metals and so on. A number of agricultural products exported by developing countries could enjoy price increases in world markets because of reduced subsidies.

University of Pretoria etd – Penzhorn N 2002

Goldin and van der Mensbrugghe continue by stating that these two points are by no means the whole story. There is also the rules and institutional dimension. Lowering trade barriers around the world was only one outcome of the Uruguay Round. Existing trade rules were revised, new rules were created, and the WTO was set up with improved procedures for settling disputes and greater transparency in the way trade policies are put into practice around the world. As a result, producers, traders and investors can have greater confidence in the system because trade (or more specifically, future market access) is becoming more predictable. There are now more clearly defined limits on what countries can or cannot do. But exactly how this translates into trade flows is much more difficult to calculate. These trade rules benefit smaller countries in particular. The alternative to the system based on rules is one based on political power. That would put the vast majority of developing countries at a great disadvantage in their relations with their "big brother" trading partners.

However, it is widely agreed that it is better to be in the system, and to have commitments, than to be out of the system. Martin et al. (1992) argue that the answer is complex, precisely becauseit depends on the difficult assessment of what is the most effective mix of strategies. Even in number-crunching terms, it is sobering to observe that some of the biggest calculated gains go to some developed countries which are very reluctantly cutting protection and subsidies in textiles and agriculture. They resisted reforms in these sectors, but their consumers stand to gain (substantially, in the case of clothing and some farm products) because the protection kept prices artificially high (OECD, 1995).

It is undeniable that the multilateral trading system gives developing countries a much bigger role in creating and operating global trade agreements. It offers them a good opportunity to expand their foreign trade. The Uruguay Round especially has substantially increased developing countries' access to the markets of industrialized countries in areas such as textiles that are of special interest for developing countries. As the richer countries reduce the subsidies they pay on agriculture, farmers in developing countries should experience some higher prices, providing them with more attractive conditions for supplying their own domestic markets, as well as for exporting. This gives developing countries opportunities to increase production and sales. But they have to have the skill and agility to adapt to the new circumstances.

University of Pretoria etd – Penzhorn N 2002

2.4.2 The Least Developed Countries

Africa is currently home to the majority of least developed countries (LDCs), in the world. Africa's problems therefore reflect the problems that many LDCs face when trying to integrate into the world trading system. Of all major regions, economic growth was until recently slowest in Africa. Incomes per head have sometimes declined. Therefore, African countries have sometimes claimed that they have been losers in the Uruguay Round (Goldin et al., 1993).

Africa's share of world trade has declined over the last three decades. Integration into the world trading system has been slow: of 36 sub-Saharan African countries, only two are considered fast integrators, 10 moderate, 10 weak and 14 slow integrators. African exports make up about 2% of worldwide merchandise exports and 2.2% of service exports (OECD, 1995).

Research done by the OECD (1995) shows that the countries with the fastest growing exports are predominantly exporters of manufactured goods. For most African countries, exports are heavily concentrated in a narrow range of products. One fifth of total exports from the whole of Africa consists of agricultural goods, about 44% is mining products and about 28% is manufactured goods, of which about one fifth is clothes. The share of manufactured goods in exports from the countries of sub-Saharan Africa is considerably lower — agriculture accounts for 30% of their GDP, 70% of their employment and as much as 66% of all their exports (excluding South Africa).

Higher prices on the world-market and better access to foreign markets are not sufficient to stimulate economic growth. An important challenge for LDCs is to respond better so that they can benefit from the opportunities on offer. These opportunities often present themselves in the form of preferential market access into industrialized countries. Most African countries currently enjoy good market access conditions. After the conclusion of the Uruguay Round, 80% of African exports to the EU, 78% of those to Japan and 85% of those to the United States enjoy duty-free or low-tariff treatment.

University of Pretoria etd – Penzhorn N 2002

Most agreements prevent the use of non-tariff barriers (NTBs) as the main instrument of protectionism. This goes some way towards allaying fears in developing countries, which have expressed concern about their use by richer trading partners. But naturally it also constrains their use in the developing countries themselves, at a time when increasing numbers are looking at the possibility of taking anti-dumping, anti-subsidy and safeguard actions in particular.

The different situation of developing countries has been recognized in the agreements — they are not subject to the same limitations on the use of import restrictions as the developed countries, in order to grant them more freedom to pursue development policies. The discussion on trade with LDCs is of great importance to South Africa in its negotiations with the EU, because of the developmental aspect. South Africa is entitled under the WTO guidelines to a much higher degree of protection than truly developed countries or blocs (such as the EU). It becomes necessary at this stage to consider a study by the OECD (1995) on whether the Uruguay Round lived up to its theoretical expectations, and whether developing countries benefit from freer trade.

2.4.3 Quantifiable Effects of the Uruguay Round

Ideally, a highly disaggregated model is needed to assess the effects of the improvements in market access on developing countries and on particular countries and groups. Such a model would take into account the various preferences enjoyed by certain groups of countries on certain industrialized markets. It would adjust for interdependencies in demand for, and in the supply of, different commodities. It would permit the dynamic effects of trade changes on growth and investment to be quantified and assessed. No such model exists. However, in conjunction withthe OECD Development Center, Davenport (1992) was able to use his general equilibrium RUNS (Rural–Urban, North–South) model to simulate the effects of the Uruguay Round agreement, particularly for temperate agricultural goods — meats, grains and sugar.

Table 2.8 makes use of 1992 data and measures the effects of agricultural tariffs together with tariffs on manufactured goods. The overall effect on all developing countries is barely significant. Developing countries as a group are net food importers, and so higher world prices will generally mean a higher import bill. However the increase is minimal — $240 million out of a total value

University of Pretoria etd – Penzhorn N 2002

of net imports of nearly $18 billion. For certain regions, Africa in particular, and certain countries (Ethiopia, Mozambique, Somalia and Guyana) the deterioration in net trade is much more important. For a number of African, Caribbean and Pacific (ACP) countries the main damage arises from the loss in the value of beef, sugar or rice exports, which are currently sold well above world prices to the EU under Lomé IV quotas, as the internal prices of these are reduced. For other exporters, notably Thailand, Argentina and Brazil, there are important gains.

Table 2.8. Summary of Trade Effects from Agricultural Tariff Reforms ($ millions) and % of 1992 Exports

	Change in net exports of temperate agriculture	**Change in value of exports to OECD countries**		**Total change in exports**	**1992 total exports**	**Change as % of total**
		Tropical agriculture	**Industrial products**			
Angola	–10.7	–0.5	–3.3	–14	3,698	–0.4
Botswana	–13.1	0.0	–2.1	–15	1,742	–0.9
Kenya	–3.7	–20.5	–4.0	–28	1,339	–2.1
Malawi	–1.7	–17.9	–0.3	–20	383	–5.3
Mauritius	–28.5	–1.1	–4.0	–34	1,292	–2.7
Mozambique	–3.8	–0.8	–3.1	–8	171	–4.6
Tanzania	–2.1	–5.2	–1.4	–9	418	–2.1
Zambia	–0.6	–0.7	–8.2	–10	1,050	–0.9
Zimbabwe	–6.3	–16.0	–6.3	–29	1,500	–1.9
African, Caribbean and Pacific countries (55)	**–217.7**	**–176.7**	**–325.2**	**–720**	**48,166**	**–1.5**
Africa	–219.5	–177.1	–526.1	–923	60,927	–1.5
Latin America	24.2	112.0	165.6	302	134,727	0.2
South Asia	–32.0	4.8	53.7	26	28,946	0.1
Other Asia	–211.3	9.4	87.6	–114	538,445	0.0
ASEAN	191.5	36.5	28.5	256	116,862	0.2
Developing countries	**–241.3**	**53.2**	**–213.0**	**–401**	**102,818**	**–0.0**
Least developed countries	**–106.8**	**–60.9**	**–110.6**	**–278**	**14,776**	**–1.9**

Source: International Financial Statistics and FAO, SOFA93 Data Bank

University of Pretoria etd – Penzhorn N 2002

The study further shows that, in the case of tropical products, most developing countriesstand to gain from improved access to markets in both the developed and the developing countries. In cases where the EU maintained tariffs to benefit the ACP producers, the ACP producers are expected to lose market share to other producing countries. In other cases (tobacco, oilseeds, oils and fish) MFN tariffs will come down in the developed countries and both the ACP and the GSP (Generalized System of Preferences) countries will experience trade shift. The world market prices, however, will edge up, with the result that overall the developing countries will experience a net gain, albeit of only $53 million in net exports. Again the main losers will be in Africa, with Kenya, Malawi, the Ivory Coast and Zimbabwe particularlyaffected, and the main gainers will be Latin America, including Brazil and Columbia.

Certain individual countries, mostly LDCs, fare much worse than the regional or other groupings. Ethiopia, Malawi, Mozambique and Guyana are predicted to lose between 4.6 and 5.9% of total export earnings. No single country gains substantially in terms of total revenues. Thailand is estimated as the greatest gainer. Its export revenues are however, only enhanced by half a percentage point. Almost all the individual sub-Saharan African countries lose because of the combined effects of losing preference on tropical products and manufactured goods and facing higher costs for their temperate imports. With most of their exports, and all of those to their dominant market — the EU — already tariff-free, it is difficult to see how they could have gained, especially given the dependence of many on the distortions caused by the past protection in agriculture.

The study however warns against the serious risk to both equity and the world trading system in setting the precedent of compensating countries for losing an advantage. It is argued that these advantages were only gained from previous distortions and that past and present gains were always likely to be short-term. They should therefore be treated like any gain from a temporary trading advantage: to be exploited but not treated as a permanent source of income. A similar argument could apply to those countries, which benefited from the subsidized imports resulting from food surpluses in the industrial countries.

University of Pretoria etd – Penzhorn N 2002

Table 2.9 shows the real income effects at the end of the simulation period, the year 2005, relative to GDP in the base simulation. Like all the RUNS simulations, it excludes the effects of the Multi-Fiber Agreement (MFA) and the direct effects on the areas' income of their own tariff cuts (and of opening up trade in services). In terms of the change in GDP, after all changes had a chance to work themselves through, the net effects on the developing countries are small, but generally positive, the exceptions being Indonesia, Africa and the Mediterranean. Africa is a net importer of food in all the categories used except sugar. Though the price of sugar rises more than that of most other foods, this is far from enough to prevent deterioration in their terms of trade.

Table 2.9. Changes in Economic Welfare from RUNS Model Simulation (percentages)

	% of base GDP
Africa	–0.3
Latin America	0.2
South Asia	0.4
Other Asia	1.4
Total	**0.6**

Source: International Financial Statistics and FAO, SOFA93 Data Bank

Some results seem firm. The countries, which will gain the most, are those, which have been most constrained in the past by agricultural protection (southern hemisphere producers including Latin America) or by the MFA (Asian producers, notably China, perhaps in the medium termEastern Europe), along with countries beginning to export those manufactured goods whose tariffs are coming down (again China). The gain will come through fully for countries, which do not have access to preferential schemes (China) and therefore cannot lose from their erosion; partially for those countries with only the minimum, general, levels of preference (most of Latin America and Asia), and hardly at all for the most preferred (sub-Saharan Africa and the Caribbean). The gain will be increased for countries which are also new entrants to the WTO, and which will therefore be gain from all the past opening of markets (China again).

As South Africa has enjoyed very little preferential access in the past, and does not fall within the LDC group, it should benefit from the erosion of worldwide tariffs and subsidies. However, the

University of Pretoria etd – Penzhorn N 2002

heavily subsidized industries of the past will experience difficulties in the future. What is needed is a comprehensive study of comparative advantages, which would point out those areas in which South African producers are competitive on a global basis. These industries should then enjoy preference in the development strategy of the government, as they will be growth areas with the potential for job creation and the generation of revenue.

2.5 Free Trade: Winners and Losers

Terms like "globalization" and "liberalization" are alien to the vast majority of people in the world, and yet the effects of these two interrelated trends have a direct influence on the lives of every individual, North and South, rich and poor (Schott et al, 2000). Proponents of globalization and the inherent liberalization of markets as embodied in the Uruguay Round insist that there is no downside to globalization. There are only virtues they insist, virtues such as increased productivity, higher standards of living, and improved allocation of resources. They also argue that globalization is not a zero sum game — both developing and industrialized countries benefit from the effects of the shake-up that it involves (Thomas, 2000).

Whether or not it is true that the overall gains of globalization outweigh the losses, an essential problem lies in the distribution of these gains and losses. It is not a homogenous world. There are at least five different levels of development. Firstly, the industrialized countries; secondly, the economies in transition; thirdly, the advanced developing countries, fourthly, the leastdeveloped ones, and lastly, the marginalized, i.e. countries, which are plagued by civil unrest and strife. Within each country, the population is also divided into many different economic and social strata. Countries, and sections of society within countries, are not evenly matched to take equal advantage of global trends (Katsiaficas, 2000). Thus, evidence shows us that there are losers, both in absolute and relative terms. A process of marginalisation and exclusion has been established and the losses are borne by those least able to bear them — the poorest countries and the poorest people, in both the North and the South.

In the present unipolar world, developing countries no longer have the strategic power to balance the interests of East and West and there is thus a growing transfer of power from the developing

University of Pretoria etd – Penzhorn N 2002

nation-states to industrialized nation-states (Thomas, 2000). However, the power accumulated in this way by the governments of industrialized nations is not limitless. As a result of technological progress, political developments, and economic and labor-market liberalization, trans-national companies (TNCs) are gaining increasing control over international commercial flows.

Migration from rural areas continues unabated all over the world as small-scale agriculture is replaced by capital-intensive cultivation. Agricultural markets remain jealously protected by industrialized countries. Dumping of surplus production on the world market is ruining the livelihoods of those living in the South who are dependent on one or two key agricultural or commodity exports (Thomas, 2000). The commodity sector is thrown into further disarray as a result of structural decline, of the monopoly power of TNCs, and of speculation on the commodity exchanges. To compound the situation, Northern donors put constant pressure on developing countries to pursue export-oriented strategies, replacing traditional food crops with cash crops, leading to a situation of food insecurity (Katsiaficas, 2000). Protectionism in industrial sectors in the developed countries, on the other hand, continues to frustrate the attempts of the South to diversify its export base, establish appropriate industrial production, and benefit from the liberalization of the international market.

Developing countries have been participating in international trade and undertaking rapid liberalization of their domestic markets for many years, often as a result of structural adjustment programs and export-led strategies imposed by international lending organizations as the price of foreign aid (Thomas, 2000). However, due to their low level of economic development, the collapse of the commodity markets, and protectionist policies of industrialized markets, most developing countries have ended up with trade deficits. Clearly, the greater the gap between the trading partners the greater the trade deficit will be.

Foreign aid was supposed to fill this gap, but the end of the cold war and the resulting loss of the countries' strategic interest in the eyes of Northern donors, together with economic recession in the North, have meant that aid levels have fallen to their lowest level in 20 years. They are now just 0.34% of the combined GNP of the world's richest countries (Katsiaficas, 2000). Ironically, it is again the poorest countries, many in sub-Saharan Africa, which have been most affected by

University of Pretoria etd – Penzhorn N 2002

this reduction in aid. In place of aid, foreign direct investment (FDI) and preferential trade terms have been proposed to deal with the imbalance. However, "FDI chooses its own direction and there is no compulsion for it to flow to poor countries" (Schott et al., 2000), and so it is concentrated in the larger developing countries. Finally, many developing countries are simply unable to benefit from trade preferences, sometimes because the benefits are not applicable to the country, and sometimes because of their interpretation and implementation. Marginalization and exclusion of the poorest and least developed countries from the global commercial flows has been the result.

For some, therefore, "ethical trade" therefore is a Utopian vision of free trade and fair wages for all. For others it is a misguided attempt to distort the normal rules of trade that could undermine wealth creation. Ethical trade is trade that attempts to be socially and environmentally responsible. It is trade in which companies take responsibility for the wider impact of their business. At root, the call for ethical trading is an attempt to address the failings of the global trading system (Sommer, 2000): failings that range from the exploitation of child labor to racial and gender discrimination in employment policies; from poverty wages to using chemicals that harm farmers and consumers alike.

It is against this background, that the WTO Seattle summit has become the catalyst uniting long-isolated social movements in common cause for the first time in recent memory. Those converging on the hometown of Microsoft and Boeing are generally of a progressive persuasion, but resistance to the corporate brand of globalization also unites left and right in ways that would have seemed unimaginable in the polarized politics of the cold war (Sommer, 2000). Many at both poles see the WTO as a global bureaucracy whose functionaries are unaccountable to those they govern and whose policies threaten individual rights, undermine community cohesion, and wrest key decisions from local control.

Suspicion and hostility toward corporate globalization have been quietly building for some time. Over the past decade, a handful of political intellectuals from both advanced and developing nations has diligently tracked the often tedious negotiations over NAFTA, GATT, and other trade agreements, alerting a broader circle of concerned citizens to their negative long-term

University of Pretoria etd – Penzhorn N 2002

implications: diminished local control, a declining quality of life, widening economic inequality and ever-increasing environmental damage. But the trade activists who summoned them to Seattle are hoping to focus their anarchic energies on just one implication: "'No New Round" of global trade negotiations before the rules of the game are changed to strengthen labor rights, assure "fair" rather than "free" trade, protect the natural environment, preserve social safety nets, and retain local control of key decisions (Sommer, 2000).

To conclude, trade and investment that depends on the exploitation of the most marginalized, be they in rural communities or in urban slums, is not sustainable. Forcing small farmers to neglect their land and crops, to move to over-crowded cities in search of work and food, is not a model of development that can reduce poverty and improve the conditions of the poorest in the new century. Yet it is felt by most globalization opponents that the Uruguay Round will, at best, not improve this system, while at worst it will encourage its perpetuation. There is an urgent need for a new vision of responsible and sustainable trade. The principle of "Fair Trade" attempts to correct at least some of the prejudices that developing countries encounter in the face of growing control by profit-motivated TNCs and international failure. It is a model that could serve as a symbol of a different sort of trade, one that would benefit producers and consumers alike.

2.6 Summary

This Chapter created the setting for the analysis that will follow. It has illustrated the reasons for trade liberalization, and has argued that there are benefits to be reaped from increased global trade. The focus then shifted to the global negotiating framework for liberalization and existing trade arrangements were discussed in terms of the WTO, previously the GATT. There was also an attempt to quantify some of the effects of liberalization by using RUNS models. For this study, it is important to translate all these recent developments and their theoretical background into a reference framework for the trade deal concluded between the EU and South Africa. The discussion in the next Chapter will therefore move away from a more general viewpoint on trade and focus directly on the parties involved in the negotiations, before analyzing the effects of the Free Trade Agreement between them.