SARPN Southern African Regional Poverty Network

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SOUTH AFRICA'S TRADE POLICY

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

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23 September 2005

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Acknowledgements

SARPN wishes to acknowledge CUTS-CITEE for the collaborative partnership in the Trade, Development and Poverty (TDP) Project.

This paper benefited greatly from discussions and comments of numerous organisations and individuals, some of whom are cited under the Bibliography.

Special thanks go to Sanusha Naidu for her contributions and incisive comments and the Institute for Global Dialogue (IGD) for their comments on the draft document.

1.0 Introduction

1.1 Origin's of South Africa's Economic Policy

South Africa's democratic transition was considered one of the 'miracles' of the twentieth 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 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 were 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 GDP growth rate, low rates of investment, spiraling 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 modeled, 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 Multi National Corporations (MNCs) were barred from trading with South Africa and foreign direct investment 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, 'first' 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 so doing 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, namely their effective reintegration into the mainstream economy, and South Africa's renewed and successful participation in the global economy through competitiveness, 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 per cent of the local market between 1989 and 1991. Worn clothes constituted a substantial part of these imports, increasing by more than 64 per cent between 1989 and 1990 (Altman, 1993:vi, 15, 95, 115).

This phase from 1982 marked the shift to trade liberalization and such developmental challenges compelled the democratic regime to design key objectives and strategies for revitalizing 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 in tackling the scourge of underdevelopment and poverty that was prevalent in the daily lives of the majority of people.

Overall and above, the idea is to able 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.

2.0 The Economic Challenge of the Historical Legacy

Upon coming to 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 S (1999), the dire state of the economy was reflected in the key economic indicators:

- A feeble GDP growth rate which descended from its 5.5% average during the 1960s to 1.8% in the 1980s and eventually plunging into negative territory (-1.1%) in the early 1990s.

- Declining rates of gross fixed investment (which plunged as low as -18.6% in 1986, and stayed negative from 1990-1993) and high rates of capital flight.

- Low rates of private investment, which led to under-utilization of manufacturing plant capacity (dropping from 90% in 1981 to 78% in 1993) and declining competitiveness.

- Plummeting levels of personal savings, which as a proportion of disposable income, dropped from 11% in 1975 to 3% 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 H (2001) goes further to illuminate that the debilitation of the economy was further bedridden by:

- A shortgage 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, and 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, 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.

The effects of 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: a primary products (mainly minerals) exporter, and an importer of capital goods and technology. To make matters worse by the early 1990s as much as 40-45% of the economically active population was found outside the formal economy while labour absorption into the formal economy plummeted from 60% to under 40% during 1994. Net job creation during this period amounted to just 440 000 compared to growth over 5 million in the economically active population, implying that less than one in every 10 new entrants into the economically active population was being absorbed into formal employment (Michie & Padayachee, 1997, p.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 fulfill its promise of reconstruction and development.

3.0 Competing Debates about 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 demise of 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 was more conducive in the post Cold War era forced governments like the ANC regime governing transitional societies to reconsider whether their economic vision allied to the long drawn out battle against apartheid or aligned to the Freedom Charter's famous clause that called for the restoration of the national wealth to the people.

While there was recognition by the economic elites of the ANC and its Tripartite partners that the market alone could not engender a redistributive focus without some form of state intervention, the newly elected democratically 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 free market principles. This led debates around the most appropriate form of macroeconomic policy to be applied in the post 1994 period.

The most pressing challenge, however, that faced the democratic regime in 1994 was redressing the imbalances and distortions that the apartheid regime created in the economy. Vast discrepancies in wealth creation and inequality which 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 area of value-added and labour intensive export production which was critical towards reaching balance and development in the domestic economy.

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 form of wealth restoration, and access to service delivery which brought about an overall improvement in 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 the aspect of how this would be funded in the face of mounting resistance from big business, capital flight and overall structural crises evident in the economy of 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 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 o fthe Government of National Unity (GNU), within which the ANC was part but not whole. The White Paper provided the broad objectives, a guide to action and a basic checklist of performance.

4.0 Moving from RDP to GEAR

4.1 The RDP (Reconstruction and Development Programme)

The RDP Policy Framework/Base document broadly argued that apartheid generated massive inequalities and poverty, which in themselves was 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 the formal sector. On the other, they dampened domestic demand especially for basic goods and services, which are relatively labour-intensive.

The Base Document was structured around five core chapters which represented the "five key programmes" the ANC chose to encapsulate their goals in the process of reconstruction and development. Crucial to these objectives was 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 co-operatives 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 RDP strategy argued that the market would not end structural problems. It proposed that government 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 co-operatives and micro enterprise, as well as a massive expansion in basic infrastructure, housing, education, welfare and health care for poor communities.

This strategy has 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, for instance 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. This view emerged in the RDP's statement on the objectives of 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 industrialization 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)

The focus of industrial policy was, in this view, largely focused on increasing beneficiation for export, rather than meeting basic needs, ensuring more equitable ownership or creating jobs.

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 utilization. (para 4.4.2.3)

The RDP could not lead the economy to consistent proposals of restructuring. Instead, two contradictory strategies emerged: a redistributive strategy that proposed increasing local demand through efforts to ensure more equitable income distribution, and a competitiveness strategy focusing on macro-economic stability and driving exports.

In a nutshell, the RDP as a whole focused on a redistributive strategy, where 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 that rapid growth in formal manufacturing for export was to lead to substantial expansion in the economy as a whole.

4.2 The GEAR (Growth, Employment and Redistribution) Strategy

In 1996 government introduced the GEAR, which promoted a very different approach to that of the RDP. In contrast to the RDP's commitment to driving balanced growth through redistribution, the GEAR sought to constrain government spending. The central argument was that high government spending reduced saving and investment by the private sector.

In terms of industrial strategy, the GEAR focused explicitly 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.

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% to 29% 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 world-wide trends, with almost every other country seeing similar trends.

The democratic government has made attempts to break out of the poverty trap through redirecting of 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 liberalization policy on poverty reduction.

It is now widely acknowledged that the Growth, Employment and Redistribution strategy (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 was 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 strategies that can ensure that the poor benefit 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, expansionary vision.

5.0 South Africa’s Trade and Industrial Strategy

Following the end of apartheid and the holding of multi-party elections in 1994, the Government of South Africa embarked on new economic and trade reforms, among others. The government reinforced the need to increase investment and re-orientate resources away from the highly capital-intensive industrial structure which characterized the economy throughout much of the apartheid era.

South Africa's Trade policy features centrally in the drive to enhance international competitiveness, and tariff policy has been an important instrument of industrial policy. South Africa has embarked on a programme of comprehensive trade policy reform that is rooted in its WTO obligations. It should be noted that the reforms being implemented were anticipated and, in the main, agreed to prior to South Africa's signing of the Marrakesh Agreement.

Key elements of the policy reform programme include:

-industrial tariff reductions averaging one-third by 2000;
-binding 98% of tariffs lines;
-rationalizing the number of tariff lines;
-converting quantitative restrictions and formula duties to ad valorem tariffs; and
-termination of export subsidies (which took effect in July 1997).

South Africa has since moved speedily on the tariff phase down as stipulated in its WTO offer, an indication of the Government's commitment to liberalizing the economy to achieve international competitiveness.

The reduction of tariffs and phasing out of subsidies have been accompanied by a shift in policy towards market-led supply-side support measures. A wide range of WTO-compatible supply-side measures (both financial and non-financial) have been put in place to facilitate industrial restructuring, technology upgrading, investment and export promotion, and SMME development.

The sectoral industrial policy approach is now reflected in South Africa's foreign economic strategy, including its trade and investment promotion efforts, as well as its bilateral and multilateral negotiations. Key trade initiatives include the Southern African Customs Union (SACU), the SADC free trade agreement, the bilateral trade and aid agreement with the European Union and the unilateral African Growth and Opportunity Act.

It is now rapidly re-integrating its economy into the multilateral trading system. While the WTO Secretariat report for 2004 notes that South Africa's five-year trade liberalization 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.

6.0 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 reviewing the impact of its policies over the first 10 years of democratic rule – *Towards a Ten Year Review, 2004*.

Its 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 at which the current trade policy is aiming to reduce. 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 multi-national corporations.

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

6.1 Sectoral contributions to the Economy

The retail and wholesale trade sector and the financial sector are the leading sectors in the growth of the South African economy.

Despite recent workers strikes in the mining Sector, this sector and related activities remain at the centre of the South African economy and account for some 40% of earnings from merchandise exports. As the backbone of the economy, the mining and quarrying sector receives the largest share of financial assistance from the government.

The manufacturing sector, largely centered on mineral processing, contributes nearly 25% of GDP. However, the report: *Towards Ten Years* 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%. 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 some 53% of GDP.

However, in the last two years, large employers such as the textile sector, machinery and equipment manufacturers, the motor vehicle 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

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 0 to 35%, with a simple average of 5.6%. Ceiling bound rates ranging up to almost 400 per cent 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 fertilizers to African countries, and minerals and agricultural products to developed markets, mainly Germany, Italy, Japan, the United Kingdom and the United States. South Africa's main suppliers of imports are Germany, Japan, the United Kingdom and the United States.

According to the WTO, Trade Policy Review, Southern African Customs Union (SACU): April 1998 Report, it notes that even though South Africa privatized or commercialized a number of public enterprises in the early 1990s, the process has since slowed down. Several state-owned enterprises 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 liberalization would help raise the competitiveness of South Africa's exports.

The table below shows one case study of how the need for further liberalizing South Africa’s economy has impacted on the wheat product sector following deregulation of marketing systems.

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 R10 billion 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 store owners 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 from things they cannot see, smell or touch. 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% between 1992 and 1999. Workers who remain employed face an uncertain future.

Source: Eric Watkinson, Indicator South Africa, Economic Monitor, Vol. 18 No. 3, Sept. 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, clothing and textile, 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, dwell more on 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 (SMMEs) contribute about half of total employment and more than 30% of total GDP. SMMEs 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 SMME 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 and the lottery. The SMMES are not engaging in economic development projects that would significantly stimulate economic growth. “The malling strategy, brought about largely by open market liberalization 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).

7.0 Concluding Questions

In conclusion, 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 till 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 to re-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[1] of GEAR has serious limitations, the question then is what is the right macroeconomic framework for South Africa 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 eg. the problem of massive job losses in the manufacturing sector and;

3. Before any new policies are implemented or adopted, how much of analysis and impact assessments are done to ensure that the policies are addressing the inequalities and poverty trap that most countries including South Africa find themselves in?

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[1] *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.*

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