institute for
global dialogue

LINKAGES BETWEEN TRADE, DEVELOPMENT AND POVERTY REDUCTION

NATIONAL DIALOGUE REPORT

SOUTH AFRICA

BY THE

INSTITUTE FOR GLOBAL DIALOGUE

Compiled by Michelle Pressend

November 2005

INSTITUTE FOR GLOBAL DIALOGUE

PROCEEDINGS OF A NATIONAL DIALOGUE ON THE LINKAGES BETWEEN TRADE, DEVELOPMENT AND POVERTY REDUCTION

23 September 2005
Diep in die Berg, Pretoria

TABLE OF CONTENTS

WELCOME AND PROJECT INTRODUCTION, Dr Garth le Pere, IGD 1
PROJECT OVERVIEW, Sanjeev Nair, CUTS – Lusaka.. 1
OVERVIEW: PURPOSE AND OBJECTIVES OF THE NATIONAL DIALOGUE, Michelle Pressend, IGD 2
AFRO BAROMETER: LIVED POVERTY IN SOUTH AFRICA. PUBLIC PERCEPTIONS OF POVERTY AND THE STATE OF THE ECONOMY, Mxolisi Sibayoni, Idasa 4
Key discussion points of the survey……………………………………………………........ 7
BACKGROUND PAPER ON SOUTH AFRICA'S TRADE POLICY BY SAPRN, Barbara Kalima-Phiri, SAPRN……………………………………………………………………......7

TRADE AND POVERTY PROJECT COMMISSIONED BY COSATU AND DTI, Matthew Stern, SEGA.. 9
Key discussion points arising from the presentation……………………………………..11

SUPPLY SIDE CONSTRAINTS FOR GOVERNMENT TO CONSIDER, Philip Alvis, SAIIA 12
PLENARY DISCUSSION INPUTS TO THE COUNTRY PAPER, KEY THEMES AND ADVOCACY POINTS, Michelle Pressend 13
Concluding Points………………………………………………………………………… .19

ACRONYMS

ANC	African National Congress
APRM	African Peer Review Mechanism
CDD	Centre for Democratic Development
CGE	Computable general equilibrium
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of South African Trade Unions
CUTS-CITEE	Consumer Unity and Trust Society – Centre for International, Trade, Economics and Environment
DFID	UK Department of International Development
DTI	Department of Trade and Industry
FDI	Foreign direct investment
GDP	Gross domestic product
GEAR	Growth, Employment and Redistribution Programme
GEAR	Growth, Employment and Redistribution strategy
GNP	Gross national product
Idasa	Democracy in South Africa
IDC	Industry Development Cooperation
IGD	Institute for Global Dialogue
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
RDP	Reconstruction and Development Programme
SADC	Southern African Development Community
SANGOCO	South African National NGO Coalition
SAPRN	Southern African Poverty Network
SEGA	Support for Economic Growth Analysis
SIDA	International Development Cooperation Agency
UCT	University of Cape Town
UK	United Kingdom
UN	United Nations Organisation
UNCTAD	United Nations Conference on Trade and Development
US / USA	United States / United States of America
USAID	United States Agency for International Development
WTO	World Trade Organisation

WELCOME AND PROJECT INTRODUCTION, Dr Garth le Pere, IGD

Garth le Pere' in his welcome and introduction gave an overview of the Institute for Global Dialogue (IGD) collaboration with Consumer Unity and Trust Society (CUTS) Centre for International, Trade, Economics and Environment (CITEE) and outlined the project value. He mentioned the project is intrinsically interesting, as it occurs against a backdrop of significant developments. Almost ten years of UN Summit conferences have culminated in a broad paradigm, which defines elements of a new way of thinking about development. There is an interesting global discourse on how to situate development in international organisations and how to embed it in the thinking of the multilateral system. In his view the apotheosis of that thinking was the conference on Financing for Development at Monterey and the adoption of the Millennium Development Goals (MDGs). In addition allied to the shaping of development thinking is the global development agenda, which for the first time also enshrines development in trade relations. While the implementation of this agenda is problematic, it also defines a new kind of parameter on how development can shape thinking around trade and trade-related issues.

However many challenges remain as revealed in the New York Summit in September 2005. It would seem that the advances made around the MDGs have experienced a setback, and that the commitment made by developed countries has been somewhat diluted. Equally worrisome is the apparent backsliding on the part of the G8 with respect to their commitments. This is the broad background against which to consider the linkages that the current project examines.

PROJECT OVERVIEW, Sanjeev Nair, CUTS – Lusaka

Sajeev Nair presented an overview of the project. CUTS is coordinating this 15-country project and implementing it in collaboration with the country partners South-East Asia and southern and eastern Africa. A key objective of this CUTS project is to link research with advocacy and mainstreaming trade policy in national development strategies, so that trade is considered as a tool for development and redistribution, rather than just for enhancing foreign exchange.

A second objective is South–North dialogue (rather than the usual North–South dialogue). The intention is to promote producer–consumer dialogue, between producers in the South and consumers in the North, to highlight the specific problems that such producers face. The project aims to look at the technical barriers to trade and differences in standards on living, and how these impact on producers in the South. Participant countries will share with one another and learn in the process. The producer–consumer dialogue will also relate to standards and consumer perceptions.

The key activities of the project in each country are stakeholder perception surveys to assess sectors that have benefited from economic or trade liberalisation and those which have not benefited. In addition, the project will also have a series of national dialogues in each country to gather stakeholder perceptions for the purpose of policy making. In addition regional dialogues will take place, with inputs from the various national dialogues.

It is CUTS hope that the project will achieve certain policy objectives at meetings such as those of the World Trade Organisation (WTO) and the United Nations Conference on Trade and Development (UNCTAD) by highlighting the issue of investment for development, with foreign direct investment (FDI) as a tool. CUTS will also play a lobbying role and advocate these objectives.

The key outcomes of the programme include:

- Setting up a multi-stakeholder alliance, so that civil society, producer groups and trade unions speak with one voice on development.
- Research-based evidence to contribute to policy making
- Civil society working with governments towards policy-making
- Capacity building in negotiations and advocating positions of developing countiries.

OVERVIEW: PURPOSE AND OBJECTIVES OF THE NATIONAL DIALOGUE, Michelle Pressend, IGD

Michelle Pressend provided the context of the roundtable within South Africa's development challenges and the current global economic paradigm.

The first contextual issue is, in the present world paradigm and economic order, trade policy and liberalisation are seen as the way to promote economic growth and in turn spur development and poverty reduction. There are many assumptions underlying this model that needs to be interrogated. By and large the experience of many developing countries that have opened up their markets is that they have become poorer, as evidenced by UN analysis.

While trade has an important contribution to make in development and poverty reduction, it is important to note that trade happens between industries and business, and governments do not control trade volumes. However, governments do control trade policies, including the levels of tariff and non-tariff barriers, membership of WTO and compliance with agreements. The issue is how governments set trade policies that will lead to development and poverty reduction. A relevant question is do trade policies reliably produce economic growth, more human development and greater poverty reduction? Partly this project contributes to answering this question by assessing empirical data through perception surveys, interactions and dialogue.

Michelle emphasised that; definitions of poverty and development need to be clear and recalled that this was an area of considerable debate at the project launch in Jaipur. Different views emerged, but discussions stressed that human poverty is much larger than income-poverty, which is the usual measurement of poverty. The World Social Development Summit of 1995 defined poverty as follows: "Poverty has many manifestations including the lack of income and productive resources sufficient to ensure sustainable livelihoods, malnutrition, ill health or lack of access to education and other basic services ... homelessness and inadequate housing, unsafe environments and social discrimination and exclusion."

Michelle proposed that the 'development' aspect of the project should be defined as sustainable development. Similarly there are differing views of sustainable development. The broader definition of sustainable development is based on principles of equity, fairness, peace and security, common good for all, including ecological parameters, to the benefit of present and future generations. Another focus on development is concern about human development – development has to build people's capabilities and translate them into to positive benefits, through measuring improved quality of life and standard of living. In cases where development is measured mainly in terms of economic growth, there is little sense of how this trickles down to welfare and improving people's lives.

The concept document for the project pointed to the following issues:

- Trade policy potentially affects poverty through its effects on economic growth and income distribution.
- The assumption is made that if protectionist policy benefits the well-off, then trade liberalisation is likely to redistribute income to the poor, but this assumption does not seem to be borne out by experience.
- A purpose of the project is to examine the conditions for mainstreaming international trade into national development and poverty reduction strategies, bearing in mind poverty coherence. Country trade policies should be defined by their development polices.

These points need to be revisited and approached within the South African context. South Africa has extreme inequality, high poverty and unemployment rates and has the present development strategy under GEAR needs to be reviewed.

Key points from the Trade and Development UNCTAD Review of 2004 were highlighted. The Review indicates that the results of trade liberalisation in developing countries are mixed. Large asset holders linked to international trade and finance tend to benefit. Other groups become worse-off (for example, through job loss and less access to and affordability of social development services). According to the Review, the Asian success has integrated those countries into the global market, but not through privatisation and deregulation. The Asian markets are quite controlled, with high levels of government intervention and state trading. They maintain restrictions and high tariffs (30–50%) on their agricultural goods and industrial imports. On the other hand many African countries have opened their markets and have not reaped the "benefits" of globalisation. Opening of markets of developing countries leaves countries prone to the speculative and unstable global regime with fewer resources to cope with the crisis. So the majority of poor nations have remained dramatically poor. The Review emphasised that no country has developed by simply opening itself to foreign trade and investment.

While the aim of a large part of the study is to provide empirical evidence of the impact of trade liberalisation, one of the objectives has to be to contribute to the transformation of the debate from a trade-centric approach to a sustainable development approach. Crucial questions for sustainable development policy include: who makes the rules; who benefits; who bears the costs (particularly in the multilateral environment), and how the rules can be reformed to an approach that is more socially equitable and environmentally geared towards sustainable development. The dynamics of markets and political systems needs to be considered as an important part of the analysis.

In conclusion, the objectives of the South African national dialogues are:

- To facilitate policy dialogue on the linkages between trade, development and poverty reduction (that is, to gain a better understanding of the impact of South Africa's trade policy on poverty and development, and assess whether South Africa's trade policy is deepening poverty or supporting poverty reduction)

- To discuss the impact of trade liberalisation in terms of the socio-economic and environment context in South Africa
- To identify key advocacy points that would contribute to the transforming the debate from trade centric to sustainable development centric.

In conclusion, trade policy is one element of a development policy. It is not the overriding factor, but a means to an end. A recent Development Bank of Southern Africa report criticises the South African government for failing to have an implementable development policy ten years into democracy.

AFRO BAROMETER: LIVED POVERTY IN SOUTH AFRICA. PUBLIC PERCEPTIONS OF POVERTY AND THE STATE OF THE ECONOMY, Mxolisi Sibayoni, Idasa

The purpose of inviting Mxolisi Sibayoni from Idasa to present the the Afro Barometer was to provide an overview of "lived poverty'' in South Africa and to find possible ways of measuring public opinion on trade and how people interact with their economic circumstances.

Mr Sibayoni gave the background of the Afro Barometer and described it as a comparative series of national public attitude surveys on democracy, markets and civil society in Africa.

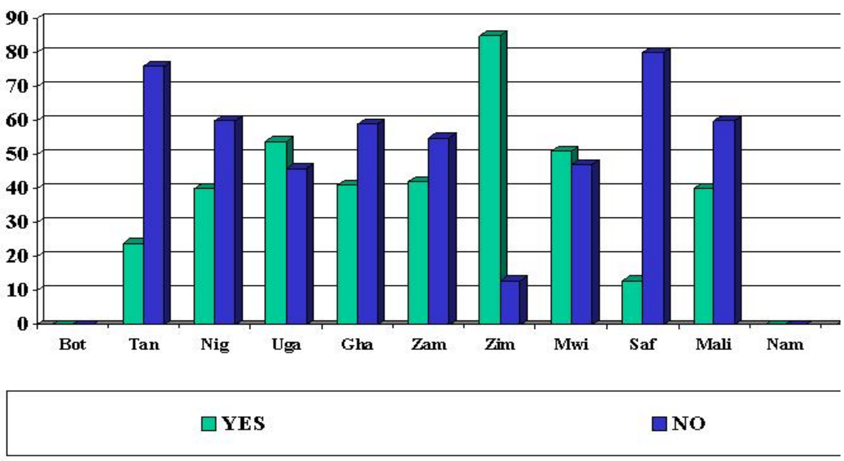
The Afro Barometer network comprises three core partners, namely, the Institute for Democracy in South Africa (IDASA), the Centre for Democratic Development (CDD-Ghana) and Michigan State University. The latter provides most of the technical support and methodology design. There are 16 national country partners (non-governmental, public and private organisations) and other research associates and support units.

The methodology uses personal, face-to-face interviews with a sample totalling over 21 500 people per round. The samples are nationally representative, stratified by gender, region, urban or rural area. The questionnaires are translated into local languages, and interviewers are fluent in these languages. Internationally comparable questions are used, adjusted for local conditions.

A cautionary issue highlighted with respect to measuring attitudes to economic reform is the low public awareness of economic reform policies. The Afro Barometer therefore tries to break responses into components that people can recognise. Alternative ways to measure key public attitudes include lived poverty, perceptions of well-being, access to public services and development and the public agenda.

One of the questions was on awareness of structural adjustment programmes – of the International Monetary Fund or the World Bank, for example – and of the conditions of aid to Africa. There is generally little awareness, with the exception of Zimbabwe (see figure).

Public Awareness of SAPs in Africa (1999-2001)



The question was adapted for South Africa to probe whether respondents had ever heard about the government's Growth, Employment and Redistribution Programme (GEAR). Only 13% of respondents had heard of the GEAR policy. Questions on black economic employment will be included in the next Round.

For Round 1, public attitudes about selected components of economic reform were broken down into:

- Price reform
- Introduction of user fees
- Privatisation of state enterprises
- Retrenchment of civil servants.

Public attitudes about price reform were explored by means of questions on whether people would prefer to have goods available in the market, even if the prices are high, or to have low prices, even if there are shortages of goods. In most countries, the majority of respondents would prefer to have goods available, and responses were particularly high in Tanzania, Uganda and Ghana. Only in Zimbabwe, Malawi and Lesotho would respondents generally prefer lower prices, even if that meant a shortage of goods. In South Africa, these categories were fairly evenly matched, with a slightly higher percentage preferring availability of goods at high prices. There were very few respondents across the continent that did not agree with either statement.

Public attitudes towards the introduction of user fees were tested by enquiring whether respondents would prefer free schooling (or health care) even if the quality is low; or higher quality even if it means having to pay fees. The overwhelming response was to opt for quality.

Public attitudes towards the privatisation of state enterprises was investigated by asking whether respondents believed that the government should retain ownership of its factories, businesses and farms or whether it is better for the government to sell its businesses to private companies and individuals. Only in Botswana did the majority of respondents believe that government should privatise, although in South Africa and

Zimbabwe, the respondents in each category were fairly evenly balanced, with government ownership in the majority by a small margin.

Public attitudes towards the retrenchment of civil servants were examined by asking if respondents believe that all civil servants should keep their jobs, even if paying their salaries is costly to the country, or if the government cannot afford so many public employees, it should lay some of them off. Only in Tanzania and Zambia did most respondents believe that some civil servants should be retrenched. In South Africa, the two categories were more evenly matched than in most countries, and only a small majority believed that all civil servants should keep their jobs.

Public attitudes to a market economy were probed by asking whether a free market economy is preferable to an economy run by the government. Only Botswana, Lesotho and Mali opted for a government-run economy.

Satisfaction with economic reform ranged from almost 70% in Kenya to less than 20% in Cape Verde, while 40–70% of respondents in the various countries agreed that reforms had hurt rather than helped most people.

Satisfaction with economic reform is further probed by asking whether each of the following aspects of the economic situation is better or worse than it was five years ago or whether it has remained the same:

- Availability of goods
- Standard of living
- Job opportunities
- Gap between the rich and the poor
- Staying the course (by which is meant accepting hardships now versus beliefs that the costs of reforming the economy are too high).

Lived poverty is measured by asking whether, and how often over the last year, the respondent's family has gone without:

- Enough food to eat
- Enough clean water for home use
- Medicines of medical treatment
- Electricity in your home
- Enough fuel to cook your food
- A cash income.

Respondents that indicated they have gone without these necessities of life many times in the last year are classified as subject to hard core poverty. In most countries, cash income tends to be dominant. Many of the countries are largely agrarian, and a cash income is thus less important, i.e. earning a wage. In these countries people still grow their own food, and there is a sense of communalism and sharing of food resources. There was a decrease in the experience of hard core poverty in 2002, but high levels again by 2004. Across most of Africa, most people regard themselves as poor. In South Africa, 43% regard themselves as poor, 23% as middle class and 34% as rich.

Optimism or pessimism about the future economic situation was studied by asking whether respondents believed that their children would be better or worse off than themselves. There was a general feeling that children would be better off. The more optimistic people are about the future, the more patient they are likely to be with economic reform (with Lesotho as an exception).

In conclusion, ease of access to public services is a marker of people's economic conditions. Job creation was considered the most important present problem, crime and security and AIDS were secondary on the list of current problems.

Key discussion points of the survey

Reviewing trends

Looking at the responses from the point of view of trend analysis and to revisit the questions in a few years' was recommended. This was taking in account by tracing opinion shifts, especially with respect to the responses on poverty.

Methodology

In light of people's limited understanding of what a market economy is and the design of questions which appeared to probe whether respondents were pro socialism or the free market, the approach to the survey and methodology was questioned. There seemed to be a disjuncture between, for example, the state maintaining assets and attitudes in favour of reforms (which would imply privatisation). Random sampling countrywide was used. The full suite of questions includes questions on whether the government should significantly intervene to alleviate poverty, as opposed to people being responsible for their own economic situation. The questions are arranged in a way that shifts from hands-on government involvement to a more *laissez faire* approach to the economy.

Bringing the perceptions to the policy arena

Bringing the results of the attitudes and reaction of policies to the public space or policy arena in a manner that effect change is a major challenge. When surveys are completed and briefings are conducted, the first port of call is parliamentarians and government. Subsequent briefings are done with journalists and civil society organisations for the purpose of lobbying and advocacy. Afro Barometer has also begun to consider how civil society could use survey data to begin to influence policy and workshops have been convened on this topic, both for grassroots communities and people at higher levels of engagement with the state.

BACKGROUND PAPER ON SOUTH AFRICA'S TRADE POLICY BY SAPRN, Barbara Kalima-Phiri

SARPN is collaborating with CUTS on the project and is responsible for compiling a background country paper and for conducting the perception survey.

The paper presented by Barbara, raises issues about what the right development and macroeconomic framework is for Southern Africa to deliver on poverty reduction. Trade and industrial policy features prominently in the macroeconomic framework. The paper reviews South Africa's trade policy and tries to understand how the country's growth and economic development pattern has been influenced by the type of trade policy it adopted in the past, as well as an overview of post-apartheid South Africa's competing imperatives in designing its economic policy.

The origins of South Africa's economic policy were examined in terms of both internal and external factors. The external factors include the 1973 oil shocks and an embargo on oil to South Africa (leading to feeble gross domestic product [GDP], low investments and high inflation). Internal factors include apartheid regime policies, modelled on cheap labour, which led to a skewed path of development. In 1982, the National Party accepted a loan from the IMF (following the market distortions and low investment) on conditions that were in line with neo-liberal orthodoxy. This phase marked the shift to trade liberalisation.

In 1994, when the democratic government came to power, it faced a number of challenges from the historical legacy. South Africa was still essentially a primary products exporter (mainly minerals). Between 40% and 45% of the active population was outside the formal sector. The biggest challenge for the new government was to face the imperative of redressing the distortions created by apartheid.

The post-apartheid macroeconomic strategy moved from the Reconstruction and Development Programme (RDP) to the Growth, Employment and Redistribution strategy (GEAR). The RDP was the manifesto on the basis of which the African National Congress (ANC) was elected to power. The RDP was a broad policy framework or base document structured to redress the massive inequalities of apartheid. The two strands of the RDP were: (1) a people-centred policy framework to reduce poverty, resolve structural problems, make society more equitable and create jobs; and (2) a focus on export-oriented growth, to ensure that South Africa emerged as a significant exporter of manufactured goods. Shortly after coming to power, the RDP White Paper was published as a strategy for addressing the goals.

In 1996, GEAR replaced the RDP as the macroeconomic framework for the economy. GEAR was more focused on the South African economy becoming competitive through trade liberalisation and increasing the export base.

GEAR had some limitations including slower delivery of services to the poor. GEAR led to downsizing of the public sector and supported the commercialisation and privatisation of basic services, leading to big cost increases for low-income households. This in turn gave rise to a large reduction in infrastructural investment.

South Africa realised the need for government to design a trade and industrial strategy that would boost the economy and address the distortions in the market. There were many reviews of South Africa’s trade policy – in 1994, 1996 and 1998. South Africa’s trade policy is largely rooted in its WTO obligations.

The key elements of South Africa's trade policy are industrial tariff reductions averaging one-third by 2000; binding of 98% of tariffs lines; rationalisation 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).

The trade and industrial policy has had mixed success. By international standards, the competitiveness of the South African economy has improved since the early 1990s, and South Africa has become more integrated into the global economy and taken advantage of smaller markets. Current thinking is that South Africa’s industrial strategy should aim to reduce market distortions to allow for the growth of sectors where the country may have a perceived comparative advantage. This approach has been heavily criticised for the following reasons:

- The current trade policy ignores the past, since the development of certain industries was based on market distortions, usually caused by the private sector lobbying government.
- It neglects the developmental role that industrial growth plays within a country, relegating economic activity only to the realm of the market.
- It ignores external factors and assumes a free and fair playing ground, thereby failing to take into account the power of other actors such as trading blocs, international agencies and multinational corporations.

She concluded that South Africa's trade policy follows the dictates of the markets and the macroeconomic strategies clearly need to be revisited as the prevailing GEAR logic has serious limitations. The following issues need to be addressed:

- What is the right macroeconomic framework for South Africa, which will enhance poverty reduction or eradication?
- How much space is allowed for ordinary people to question certain government policies and their impact on key sectors (for example, the problem of massive job losses in the manufacturing sector)?
- How much analysis and impact assessment is done to ensure that the policies address the inequalities and poverty trap that most countries, including South Africa, find themselves in today?

TRADE AND POVERTY PROJECT COMMISSIONED BY COSATU AND DTI, Matthew Stern, SEGA

Matthew Stern is coordinating a Trade and Poverty Project, commissioned by the Congress of South African Trade Unions (COSATU) and the Department of Trade and Industry (DTI). The purpose of inviting him to make presentation is to create synergies between their project and the CUTS TDP project.

The partners in the project are the UK Department for International Development (DFID), the US Agency for International Development, the IDC, the IGD, Support for Economic Growth Analysis (SEGA), the University of Cape Town (UCT) and the Department of Trade and Industry (DTI).

The project was initiated by COSATU to understand the linkages between trade and poverty in South Africa. The project was developed by a core group of researchers at UCT and is expected to be completed by December 2005. It is thus a very rapid assessment. The project will generate a large amount of data that the CUTS programme could possibly take further.

Mathew expressed that it is difficult to understand the links between trade and poverty. Measuring poverty is very controversial, and economists do not agree on the various measures that can be used. Linking trade liberalisation to poverty is thus even more complex. Researchers have tried to do so in a number of ways. Some of the methods have been descriptive and have used census data and surveys to uncover what is happening in society at different levels. Some of the methods have been very quantitative, and some have been case study type work based on the perceptions in different sectors. Modelling has also been done. Each approach on its own is not sufficient and only tells a partial story. A UK group of researchers supported by DFID developed a framework to understand the different ways in which trade can impact on poverty, and the different kinds of studies that could be used to measure the impacts, and how to paint a picture through the various methodologies. The three pathways of the McCulloch framework describe the ways in which trade impacts on poverty, and are as follows:

- Enterprises (profits, wages and employment)
- Prices transmission (consumption and production)
- Government revenues (taxes and spending) – this is more relevant for other African countries than for South Africa, where taxes are approximately 3% of GDP.

The COSATU/DTI research team considered the McCulloch framework in the South African context as a guide, given the available resources, researchers and data. The approach is multidisciplinary. Sixteen researchers are working on the project and will make use of as much existing research as possible. The original research is based on a framework of 14 modules, within the following five sections:

- Review of trade and poverty in South Africa, which would consider: (1) trade policy reform in South Africa and the world, the key sectors and products, and the impact on border prices and government revenue and (2) evidence on trade-poverty linkages, including employment and poverty, tariffs, prices and competition and exchange rate shocks.
- Industry level analysis would consider enterprise production and employment in terms of: (1) tariffs and employment, (2) export expansion (production and employment, (3) import penetration (production and employment) and (4) technological change and labour productivity.
- Household level analysis would consider: (1) poverty and vulnerability (geographic vulnerability to trade shocks, rural and urban households, and provincial differences), (2) household income analysis (in terms of access to land or alternative employment, and access to social grants or remittances), and (3) household consumption analysis (profile of goods consumed by the poor, urban and rural patterns, and tariff structure).
- Sector specific analysis and case studies: (1) sector-specific analysis and case studies, price transmission mechanism, changes in border and consumer prices and key constraints; (2) industry case studies – clothing and textiles, automotive, wheat, consumer appliances, chemicals and plastics; and (3) trade in services.
- Policy simulations: net impact of policy changes on poverty, in terms of the computable general equilibrium (CGE) model (looking at 300 activities, 350 households and 81 labour categories); trade policy scenarios (net impact on enterprises and employment and on household welfare and poverty).

A CGE model exists for trade and poverty. Such a model is an attempt to simulate economic relationships and create economic and computer-driven models in which the scenarios can be changed to see how the theoretical relationships would impact on different sectors of the economy and different households.

The outputs of the project are expected to be:

- A better understanding of the impact of trade reform and price changes on the poor (by industry, by region and by household).

- A better understanding of the trade and non-tariff barriers to job creation and poverty alleviation.
- A better understanding of the impact and importance of government 'safety nets'.

Key discussion points arising from the presentation

Focusing on the impact of unemployment

It was pointed that the project seems to make a strong assumption on prices having an impact on poverty and the poor, but the debate should also consider the impact of unemployment and job losses in particular industries.

In response, the impact of pricing and unemployment is at the heart of understanding the cost/benefit of trade reform, and the project will look at both as a fundamental part of the industry level analysis, and will consider the extent to which exports have contributed to increased employment and import penetration to reduced employment.

Absence of development perspective

It was expressed that the project did not seem to up bring up critical issues around development. Links to the informal sector are absent as well as environment (keeping in line with the sustainable development paradigm). In addition social issues are not addressed, such as the ability of people to be employed.

The project has limited resources and it is therefore not possible to address broader issues of the environment and sustainable development. The project will not only focus on the formal economy, particularly in South Africa where constraints in the formal sector are major restrictions on the ability to create livelihoods. To some extent, the household income analysis address this in that it will attempt to understand where households earn money, what proportion of South African households are dependent on formal employment and what alternative sources of employment are available. From Mathews perspective it would appear that the relatively wealthy in South Africa would be worst affected by trade liberalisation. People on the periphery of the economy would not be badly affected by trade liberalisation.

Assessing the competitiveness of the South African economy

It was highlighted that a country needs to be competitive to take advantage of trade liberalisation and whether the research will look at the extent of competitiveness of the South African economy and whether that affects unemployment. In addition consideration is needed of any intervening factors or mediating variables that interact with trade and might have welfare-enhancing or reduction effects, such as competition policy.

However this would not be addressed in detail, but the research would attempt to identify the issues and develop a framework that describes the things that get in the way of goods arriving at the border reaching the consumer. This would be an important area of work looking at supply side constraints to exports to try and understand non-tariff constraints to South Africa’s competitiveness. Furthermore it is the intention of the COSATU/DTI study to come up with mitigating factors including competition issues, transport, cost and distance.

SUPPLY SIDE CONSTRAINTS FOR GOVERNMENT TO CONSIDER, Philip Alves, SAIIA

Phil Alves was requested to elaborate on the research on supply side constraints he is currently involved with in collaboration with Lawrence Edwards at UCT.

There are two sides to developing country trade, namely, wanting more access to foreign markets and to foreign direct investment. Countries want access to foreign markets so as to take advantage of economies of scale. However, if a country has access to foreign markets but not the means by which to take advantage of the opportunities, it makes little difference whether foreign markets are open or closed. An uncompetitive economy, with or without access to foreign markets, will not grow its exports very rapidly. Attention is therefore increasingly being focused on the supply side in South Africa. The press has highlighted infrastructural bottlenecks. China has been topical, as South Africa cannot supply as much as China wants in terms of coal, iron and steel. This demand is good for commodity prices. Part of the research was to look at South African export performance since 1988.

The problem in South Africa is that total exports have been growing at an annual rate about 2% since 1988. The major reason why the total export figure is so low is due to problems with primary products, mainly related to negative growth rates in gold exports. Manufacturing has been growing strongly, but is still considerably below the average for developing countries (including the Asian tigers), slightly above the developed country average, and roughly on a par with the world average. Manufacturing accounts for 30–35% of the South African economy. The reason why South Africa is not seeing export-led growth is that exports are growing at a slower rate than GDP. Exports cannot lead if they form a small part of the economy and are not growing fast enough.

The next step of the research was to use econometric techniques to assess the relevance of the demand side as compared with the supply side. It is possible to show that market access and incomes from trade partners matter, but not that much. Very soon, the country reaches the point at which these factors are not important to export growth. There is far more potential to expanding export growth by addressing supply side issues. We tested variables embedded in a standard model that is used to analyse export performance.

Two factors emerged as supply side constraints:

- Endowments, particularly skills – without skilled people, it is not possible to be competitive. Another advantage of a skilled labour force is flexibility when adjustment is needed.
- Measures of infrastructure, including fuel price, rail carrying capacity (as a percentage of manufacturing GDP), communications infrastructure, infrastructure capital stock (such as paved roads, electricity) – some of which were significant and others of which were not.

The research has served largely to provide quantitative data for issues that people intuitively know. If South Africa were a more competitive economy, it would be able to supply more to world markets, assuming it could meet the world price, which it can in many cases. Research focuses too little on the supply side. The two major supply side constraints are infrastructure bottlenecks and an unskilled labour force.

It is gratifying that the government plans to spend R180 billion on physical infrastructure. Too many goods in South Africa travel by road. It is very inefficient to move goods by truck, but the rail infrastructure is no longer sufficiently reliable. Government has recognised that public sector investment, especially through parastatals, is not enough for South Africa to remain competitive. We want to see a good supply response, from Africa as a whole. Being able to take advantage of preferential access to foreign markets requires the capacity to supply. In most cases, Africa cannot supply even enough to fill quotas.

ROUNDTABLE PLENARY DISCUSSION KEY THEMES AND ADVOCACY POINTS

The discussion reflected the national context and current debates in South Africa on impacts of trade liberalisation and economic policy choices for development and poverty eradication. The discussion centred on challenges facing South Africa's (SA's) trade strategy and it implications for development policies.

<u>Challenges for South Africa's Trade Strategy</u>

Uncompetitive productivity and labour costs
Two obstacles to competitiveness highlighted were the skills deficit and poor infrastructure. It was pointed out that South Africa's productivity and labour cost are uncompetitive. For example, South Africa is not the lowest cost place in the world to manufacture clothing. In the clothing industry, China has short lead and lag times and uses high technology. South African retailers are willing to place orders in China rather than locally; such issues need to be looked at.

On labour costs some felt that the South African labour market is rigid, and we may be forced to look for other solutions. This is an area of contested intellectual and policy debate whether South Africa's labour market is over-regulated with inbuilt inflexibilities, which has a range of knock-on effects on the domestic economy. The extent to which regulations impact on labour costs is unknown. It can be shown empirically, however, that South African labour costs, adjusted for productivity, are high. The unit labour costs in South Africa compared with other developing countries are high, and it impacts on competitiveness. However the flexibility or inflexibility of labour regulations is an on going debate in South Africa. Some analysis show labour regulations err on side of flexibility through casualisation, increased contract workers, retrenchments, etc. The bottom-line is that trade needs to ensure increased employment.

Did we liberalise too fast, should we have liberalised at all?
One view expressed liberalisation in South Africa is primarily a response to repeated foreign exchange crises, which would have set South Africa back for many years. This should be borne in mind when looking for official motivations for the trade policies embarked on in 1994. Another view was that although South Africa's response to liberalisation may have been motivated by financial crises, the issue is the extent to which South Africa has exerted a sovereign national political choice in such matters.

A concern was raised that an assumption of the workshop seems to be that South Africa has undertaken aggressive neo-liberal globalisation reforms when in reality South Africa has done very little in this regard. Regardless of the ideological point of departure, tariffs have effectively remained unchanged since 1998, there has been hardly any privatisation, and labour markets have become more regulated. While there has been steady macro stabilisation – the fiscal policy has been conservative yet successful. South Africa has not been very successful at globalisation. If statistics for any measure of globalisation are compared between South Africa and countries in East Asia (for example, exports and imports as a percentage of GDP), South Africa is remarkably unglobalised and closed.

However it was reitereated that it is of interest how so-called globalisation happens in South Africa, even though it is thought to be limited. Asian countries have an approach to trade liberalisation, which has been controlled in a tactical, slow-release pattern. In the theory of liberalisation benefits, foreign direct investment is not important, given the imperative of making sure that the country has a coherently growing economy, particularly in a country with high levels of unemployment.

Defining growth and development

Measuring economic growth in terms development was discussed substantially. One stance is that South Africa's shift from the RDP to GEAR was entirely "South African owned with very narrow objectives of stabilising the microeconomic environment by increasing revenue" as it become clear that the RDP was "unsustainable". Another stance was that South Africa's shift to GEAR was influenced by IMF and World Bank type recommendations based on neo-liberal benchmarks which have not produced poverty reduction results. The basic terms of growth are factors such as physical and human capital accumulation, and protection of property rights. Countries such as Korea, Taiwan and India started trading only after enough investment in those key areas had accumulated, and not the other way around. Where trade liberalisation is important is that it enables a country to get access to technology that would take too long to develop in one's own country. At best, trade is thus auxiliary, rather than fundamental, to growth.

In addition it was pointed out the the notion of growth is not clear. Is stagflation growth? Can jobless growth be classified as growth? It we are not delivering on the key equity and social indicators, there is a serious problem with what we are doing. The WTO promotes trade as the answer to growth, and civil society has to grapple with "what is the question".

Therefore a more honest and scholarly appreciation of the economics of growth and development is required. South Africa should look at a country such as the Philippines, which has done everything the IMF and World Bank has recommended in terms of low skill export-led growth and highly skilled low wage cost, and yet their poverty indicators have worsened. The same story is repeated in key examples of developing countries. The benchmark of comparison is not the economic model that informed the Marshall Plan, or that informed European integration for the Maastricht Treaty but rather neo-liberal benchmarks, which have not produced the desired results.

Measuring development and the use of indicators

When linking trade to development, key challenges are the measurement of development and the type of indicators used. Sometimes income is used, or other macroeconomic indicators such as interest rates, which tend to hide fundamental aspects of social indicators. It may be necessary to look at the Human Development Report and measure the welfare of people, as it is possible to have economic growth without advancing poverty reduction. This needs to be investigated much more empirically, going beyond the economic data and statistics.

Trade and development: Different languages

The latest UN global human development report for 2005 is on “trade and security in an unequal world”. Trade and development use two different languages that often do not speak to each other. The UN report focuses on issues of inequality and the unequal distribution of wealth, power and opportunity. A manifestation of this was the New York Summit, which showed that most countries are not on track to meet the MDGs, yet there is theoretically enough wealth in the world to provide for the basic needs of everyone in the world. This is an issue of inequity and distribution.

Another aspect of the language of poverty is the rights-based approach. The language of the conventions (for example, on the rights of women and of children) states the rights to basic services, to basic employment opportunities, to decent work as fundamental human rights. However, the language of economics and trade focuses on the hard issue and tends to omit the dimension of people.

Lack of long term vision

One of South Africa’s major problems is the lack of a broad policy framework and long-term perspective. While a number of initiatives are taking place, it being done on an ad hoc basis (including in the socio-economic area and related to skills) that does not address local needs. Furthermore, South Africa (or southern Africa) is not considering what we have to offer the world and finding our niche. It was pointed that it is not enough to say that skills is problem, when there is no long term future vision to build skills.

Malaysia was referred to for its Vision 2020 and in terms of implementing policies in the 1990s that seemed absurd to the World Bank, but they prevailed because they were located in a historical understanding and future vision.

Policy incoherence

South Africa has a *laissez faire* approach and policy incoherence was highlighted as a challenge. South Africa’s economic growth strategy is unclear. Is South Africa looking at coherent growth strategy, or specific sectoral growth, or of the “two economies” (informal and formal)? It was mentioned that emphasis on foreign direct investment is inappropriate when the country has not systematically addressed key indicators of skills and infrastructure, especially public transport and communication. In addition, accessing markets internally and building an entrepreneurial base is not always dependent on skills. Many under-utilised skills exist in South Africa because of policy marginalisation. So an important question is how appropriate are the policies in South Africa for including people that are left out of the economy? How does South Africa compare in this regard with other developing countries?

Democratising Policy Making

An issue was raised that South African political culture does not have a democratised process of policy-making. Policy seems to emerge as a ‘secret weapon’ of the ruling party. In the process, people are alienated. There needs to be a shift towards more democratisation of policy-making, and more debate from the beginning.

Policy Actions and Advocacy Points towards a Developmental Trade Policy

Following the challenges of economic policy both at an international and national level, the discussion focused on what policies and approaches are required to ensure that trade strategy is based on a development perspective in South Africa.

Policy choices for development

The “northern bias” in WTO trade rules are increasingly eroding developing countries policy choices. It was suggested we need to make policy choices, for instance, in favour of full employment over consumer welfare, and if for the sake of employment, we may decide to tolerate inefficiency that would otherwise be inimical to neo-liberal values. We should also look at the historical tools that capitalists of now-developed countries used to get rich.

Furthermore, while we are looking at the historical process of capitalism, we also have to look at the future and seriously contemplate what our economic responses would be in a zero (or very low) tariff world, which is what the WTO is proposing under non-agricultural market access. We also have to deal with the possibility of our comparative advantage (in primary products and agriculture) being neutralised in an export strategy.

The need to maintain policy space

With respect to the discussion on owning the policy space and how we ensure that our governments draw development plans that involve wider participation, one of the areas for advocacy is to see how our governments (weak as they are in the global system) can resist the pressure to adopt policies that do not address the realities. It is fundamental to ensure that our governments are strong enough to resist pressure from the World Bank and IMF and to push their own agendas.

For instance in Zambia, during the regime of Dr Kaunda, representatives of the Ministry of Finance would go to the villages to find out what the communities needed (for example, water or a hospital). These needs were taken back to the ministry and reviewed in the light of the available resources. Policies and programmes were then designed in line with the aspirations of the people. Soon after 1994, as a result of neo-liberal influence, Zambia moved away from that planning mode, which weakened government’s ability to draw in the people and, develop programmes that address their needs. We need to strengthen our governments ability to resist pressure at the global level.

Research into South Africa’s potential

Considerable research needs to be done into South Africa’s potential, by looking at what we have now and where we want go. This does not mean following in the footsteps of other countries; a copycat mode should be avoided. A group such as the present could brainstorm a strategy for the future of South Africa as a winner, such as the strategy that Asia came up with on its own, with respect to being leaders in information technology. South Africa may need to learn from other countries to some extent, but needs to take stock of its resources and commodities, and opportunities for forming a leverage bloc. For instance trade with China should be explored as opportunity rather that a threat.

Trade liberalisation in Services versus an Industrial Strategy
On one hand "beefing up" research in services was proposed as there are massive opportunities to be exploited. On the other hand, objections were raised to services liberalisation and the need for an industrial policy. Then a poverty reduction strategy was mooted with a services policy being a secondary option. South Africa needs to consider how competitive its services are before offering commitments under GATS

An industrial policy was suggested as crucial because South Africa's economy is so dependent on external investments and demands. Attention was drawn to how much of the growth in the South African economy is generated by China, and what will happen when growth in China slows down. South Africa may then find itself in very vulnerable position.

Trade policy rooted within a country's development objectives
The disjuncture between trade policy and development was raised. Many developing countries have development plans, but lack a trade policy or strategy. So governments need to ensure that the trade policy speaks to the development planning of the country. The trade policy must not be left to grow organically, but must be rooted intrinsically in the way the country develops, and not devised just for the sake of negotiating with the WTO. Trade policy needs to be clear, and benchmarks should be established to measure a country's growth and the way it relates to other countries or other players in terms of generating wealth or income. Opening up trade should not result in high levels of unemployment.

Cross-cutting approach to policy
The need to think about the issues more broadly, in relation to sustainable human development was highlighted, and this discussion should be brought into other initiatives, such as the First People's Budget of COSATU, the South African Council of Churches and South African National NGO Coalition (SANGOCO), which developed a macroeconomic framework that is broader than the demand side.

In the short-term South African context, we need to bring the issue of the basic income grant into the debate.

Strengthening the region
Since national development is currently largely shaped by global trade policies, are we not saying that we should find creative ways to circumvent the pressures of the global trade system? For example, deeper engagement at regional level, with southern Africa, strengthening countries as a regional bloc and building up trade as a region as a possible alternative development strategy needs to be considered.

Concluding Points

1. Looking at the linkages between trade, poverty and development, will need to more open and eclectic analysis, as well as a more honest look at what we want to achieve. The social dimension is important. South Africa's poverty indicators are increasing. We need to engage in research on the problems in economies that are quite universal; these include understanding diminishing returns of countries dependent on natural resource based economies and a Schumpeterian approach increasing returns and value addition.

2. Learning from other countries like India, Brazil and China which have massive poverty issues would be useful for South Africa's development. Comparisons with these countries should be more closely looked at and stronger involvement of government should be considered in developmental policies.

3. The need to revisit South Africa's economic policy and assess whether it is delivering on socio-economic goals is crucial. Comparisons with other developing countries is important, including more successful countries such as China and India, as well as countries such as the Philippines, that have followed the World Bank and IMF 'recipes' (as South Africa is doing), but are experiencing worsening poverty. There are a number of lessons that South Africa needs to reflect on. Research in this area is recommended.

4. In the absence of a long term development strategy and the lack of political will South Africa will not achieve goals to alleviate poverty and reduce unemployment. South Africa has to develop and own its strategy in order to achieve its development goals.

5. South Africa's trade strategy and policies are driven by the neo-liberal paradigm and within the WTO rules and obligations. These trade policies need constructive assessment in terms of the government's overall macroeconomic policy based on World Bank and IMF recommendations.

In order for trade policies in South Africa to contribute to development and poverty alleviation:

- Trade policy must be seen as part of development strategy.
- It necessitates a policy shift to take into consideration issues of skills development, supply side constraints and social equity principles.
- It needs to ensure that South Africa is less vulnerable to price fluctuations, market failures, foreign exchange and competition.
- South Africa needs to focus on restructuring a context through diversification of the domestic base, developing its manufacturing base and increased employment.

In conclusion, the UNCTAD Trade Review (2004) points out that no development has happened in countries simply by opening their markets to foreign investment and trade. The Review suggests that what is required is combining opportunities offered by global markets with strategies of domestic investment to stimulate the domestic economy. UNCTAD also points out that the benefits of trade openness have been oversold, that trade liberalisation cannot be relied on to deliver high economic growth and does not deserve as high a priority as tends to be given to development strategies. There is a need to revisit South Africa's ability to compete and integrate into the global economy.