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The Case for Reciprocity in South African-European Trade Relations

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ABSTRACT: South Africa and the EU are currently engaged in trade negotiations. The main options are to be inside Lomé with exclusions, or outside with concessions, or to opt for a bilateral free trade treaty. This paper sets out the arguments in favour of a free trade treaty with Europe, namely that it would be welfare enhancing (especially if broadened into a customs union agreement and exemption from anti-dumping suits could be obtained); the Lomé deal is of limited value: South Africa should not be excluded from the world trend towards bilateral and multilateral free trade accords; the credibility of sound domestic economic policies will be enhanced (which would attract foreign investment); and the benefits for the region may be positive over the longer run. Such an agreement would also be to the advantage of the EU and could become a model for European deals with other African countries on the expiry of Lomé. To obtain a better rather than a worse type of FTA, South Africa should negotiate a negative list (if any); immunity against anti-dumping suits; provision for an eventual customs union; provisions for maintaining temporary protection for South African industries while the agreement is phased in; and the inclusion of SACU as a whole in the agreement.

KEYWORDS: SOUTH AFRICA; EUROPE; TRADE RELATIONS; POLICY CREDIBILITY
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1. Introduction

Analyses of trade relations between Europe and South Africa tend to focus on the opportunities for immediate trade between the two regions (see e.g. ERO, 1994; Page & Stevens, 1992). This is justified and useful since it is one aim of the trade negotiations to open markets for South African exports. However, the longer term gains from trade relations with Europe are not likely to be of a static nature, given the development of the international financial and trading systems, but rather dynamic, changing the environment in which producers and consumers operate. In this regard, a narrow focus on short-term export promotion is myopic, and valuable opportunities might be missed.

Export-promotion (mainly through trade liberalisation) is a centrepiece of South Africa's economic and growth strategy, which is based on the realisation that an outwardly-oriented economy is needed for sustained long-run growth. Investment is needed to create capacity in the export sector. Foreign investment has an important role to play in this regard (Padayachee, 1995; Lombard, 1995). So far, South Africa's experience with long-term foreign investment has not been particularly encouraging: during 1993 there was a net capital outflow of around R15bn, while the small net inflow from the third quarter of 1994 has been mainly short-term capital (SARB, 1995:13). Although figures on direct foreign investment are not yet available for 1994 or 1995[1], South Africa shares Africa's fate in the sense that the continent as a whole has so far failed to attract significant foreign direct investment from industrialised countries, which increased from US$ 55 billion over the period 1981-86 to over US$200 billion over the period 1989-1992; Over this latter period only between US$1bn and US$2bn went to Africa as a whole (UNCTAD, 1993).

It seems to be (notwithstanding assurances and incentives by the South African government) that foreign investors may not be convinced that a policy environment conducive to investment will be maintained, and that a certain hesitancy is still to be found amongst potential foreign investors. How can trade relations with Europe help to overcome this hesitancy?

It is argued in this paper that the current trade negotiations with Europe present a window of opportunity for South Africa. A trade treaty could lend credibility to and sustain trade liberalisation in order to stimulate investment, especially in the exportable production sectors of the economy. More specifically, such a treaty should be used initially to lock in trade policy more effectively than is done by being a member of the WTO. Furthermore, such a treaty could provide a direction for thinking about regional integration in Southern Africa[2]. It is emphasised that the sooner a final deal on trade is struck with Europe the better, and that the most preferable form would be a customs union agreement. It would be folly to play for time by negotiation for Lomé status, because South Africa's bargaining

[1] Indications are that foreign direct investment to South Africa since the April 1994 elections amount to approximately R2 billion (US$ 700 million) (*Business Day*, 13 June 1995, p.3).

[2] More than 10% of the current Lomé (IV) budget has been allocated for the promotion of regional integration.

power will be significantly eroded in a few years' time[3]. Moreover, given the world trend towards free trade accords, South Africa increases the likelihood of marginalisation, if it excludes itself.

The discussion is based on four premises. Firstly, the relationship between South Africa and Europe is asymmetric in that Europe is much more important to South Africa than the reverse (this mirrors South Africa's relationship with its neighbouring states). Secondly, and more generally as far as Africa is concerned, Grilli (1993) has pointed out that the traditional concern of Europe with Africa is *not* rooted in self-interest and is therefore likely to be replaced with an Asian focus, increasing the likelihood of further marginalising Africa. Thirdly, the result of the negotiations will send out a strong signal about Europe's intended future relationship with Africa generally. Fourthly, the European countries have been involved in regional free trade and economic integration for almost three decades, while South Africa has been in relative isolation for more than three decades, and as a consequence Europe has a considerable advantage in terms of knowledge, expertise and experience from which South Africa can benefit substantially - although this also implies that South Africa should not overestimate its bargaining acumen.

The discussion is laid out as follows. The next section describes briefly the currently known options open to South Africa with respect to trade relations with the European Union. Section 3 puts the case for a Free Trade Agreement (FTA), as a specific form of free trade treaty, while its disadvantages are discussed in section 4. Conclusions and recommendations are contained in section 5.

2. Options

For the purposes of this paper, the discussion will be restricted to the following options - which need not necessarily all be reflected in any offers from the EU- namely to be inside Lomé with exclusions, or outside with concessions, or to opt for a bilateral free trade agreement. Only the latter will require South Africa to make concessions. Although it will require approval from the World Trade Organisation (WTO), this should not be a difficulty, as the requirement under the GATT agreement is that members' tariffs not be higher than before the free trade agreement (FTA).

South Africa has applied for Lomé membership. An offer of Lomé status was, in fact, put to South Africa, but it had no substance: all trade provisions were excluded, and all aid provisions were excluded, although the latter was not a problem, since South Africa's current EU aid is higher than it would receive under Lomé. The government is now trying to negotiate a better deal, but observers are very pessimistic about its chances. Zimbabwe, for example, had real difficulties with its most sensitive exports (beef and sugar) when it applied for Lomé membership, and South African agricultural exports are perceived as a

[3] Any "Lomé" benefits are bound to be of short duration given that the negotiations are expected to last for at least between 12 and 18 months (*Business Day*, 13 June 1995; *Argus Business Report*, 16 May 1995).

threat to European producers, especially fruit and wine[4], as well as to ACP (African, Caribbean and Pacific) countries currently exporting to the EU under Lomé. Lomé provides for the exclusion of any imports that would damage European producers, so that South Africa (being larger than any of the ACP countries) would probably have this clause used against it for virtually any export of significance.

In South Africa, the view is that Lomé is better than GSP, the system of generalised preferences. (Even though the details of the new GSP agreement are not yet known, trade preferences under the old GSP were limited, and the rules on cumulation were less satisfactory than those under Lomé.) Lomé may also be better for the neighbouring countries, because the cumulation rules allow for regional processing.

What are the alternatives? A free trade agreement has been offered to South Africa by the EU[5]. This is easiest to get agreement on in the EU, since a *quid pro quo* can be demonstrated, and similar arrangements between, for example, Latin American countries and NAFTA have *not* been challenged under the GATT. Free trade agreements may vary, and, since South Africa is weaker politically in Europe than say Israel, it may find it difficult to get a similarly beneficial deal. Nevertheless, it would seem that the free trade agreement as proposed by the EU offers a higher degree of preference than Lomé. With the Southern African Customs Union (SACU) still in force, it will automatically apply to Botswana, Lesotho, Namibia and Swaziland, although it may not apply to items most likely to be exported by these countries (South Africa is more likely to seek preferences on its more 'developed country' exports), and it may carry costs for these countries (see below).

Finally, a customs union agreement[6] (possibly like that reached with Turkey in 1995) would eventually be the best option for South Africa, offering, in addition to the benefits of a free trade agreement, protection from anti-dumping suits[7], no positive list (of goods covered by the agreement) and more favourable rules of origin. It would, however, require a standardisation of external tariffs.

There is a school of thought in South Africa which sees its future relations with Africa as important (based mainly on non-economic arguments), and is willing to deal with Europe within African structures (and to consult with African countries). This will be particularly important if Europe scraps Lomé, and chooses to negotiate with regional structures - or if South Africa is offered GSP, because the rules of cumulation would require that South Africa join an organisation that has a secretariat able to affirm that members apply between

[4] Beef, veal and sugar , which could in theory be a threat to European producers, have never been contenders for preferential status and have been renounced by the South African government as a negotiating objective, while South Africa is not eligible under the banana protocol because it is not a traditional supplier with a traditional market.

[5] It will be assumed in this paper that this offer is genuine.

[6] An FTA can be seen as a step on the way to a customs union.

[7] To obtain exemption from anti-dumping suits, South Africa would probably be required to introduce competition and subsidy rules identical to those of the EU.

themselves the same rules of origin that apply to exports to the EU (Page and Stevens, 1992). (South Africa is a member of the Southern African Development Community (SADC), which has a secretariat.) However, it should be pointed out that, notwithstanding the fact that South Africa is geographically located in Africa, limiting its bilateral trade concessions to it neighbours is short-sighted, because "there is nothing to suggest that the gains from preferential arrangements are more likely to be positive (and larger) among neighbours than among other groups of countries" (Krueger, 1995:7). The support for regional integration in Africa is based on political ideals rather than economic imperatives. The consequent economic failure of such schemes are discussed in Langhammer and Hiemenz (1990) and Foroutan (1992).

In the next section, the arguments in favour of a reciprocal trade agreement between Europe and South Africa are set out.

3. Arguments for a Reciprocal Free Trade Agreement with Europe

In addition to welfare arguments in favour of free trade, there are five further arguments in favour of an FTA with Europe, namely that the Lomé deal is of limited value (and duration), that South Africa should not be excluded from the global trend toward trading blocks, that protection against anti-dumping suits could be obtained, that domestic policies might gain credibility[8], improving South Africa's attractiveness to foreign investment.

3.1 Welfare Arguments

There is consensus in the economic literature that freer trade (resulting in a more neutral trade regime) is welfare-improving[9]. Yet no single tenet of theory is more disbelieved[10]. This is primarily because small numbers of people (usually well organised) are made substantially worse off, while large numbers of people (usually poorly organised) are made only slightly better off, so that the former have a very much greater political influence. Nevertheless, some modification is necessary in a world of trading blocs.

It has been argued (Collier and Gunning, 1995) that, in Africa, a regional customs union tied to Europe with reciprocal free trade is superior either to the current moves towards regional trade integration or to current non-reciprocated arrangements with Europe. To

[8] Credibility in this paper refers to the time consistency and compatibility of policies (see section 3.6).

[9] In an illuminating recent article Romer (1994) argues that free trade not only increases the amount of existing goods that are traded, but will give rise to completely new goods being invented, produced and traded. This argument differs importantly from the traditional arguments for free trade in that it does not rely on perfect competition.

[10] It appears that a period of protectionism was important in the development of fast-growing economies in Asia, but this was followed by rapid and effective liberalisation. South Africa has already had 70 years of import substituting industrialisation.

the extent that any real progress has been made towards reducing barriers to intra-regional trade, no net welfare gains have been made that would not have been achieved under unilateral liberalisation anyway. More often, there has been a net welfare loss, as trade diversion has dominated trade creation. Non-reciprocal arrangements (like Lomé), have discriminated against non-traditional exports, because developed countries have felt free to withhold access for potentially successful exports, precisely because of non-reciprocity (see below).

Bhagwati (1993) points out that the GATT (WTO) is now the main hope for Africa's non-traditional exports. Yet African countries have had little or no influence in the GATT negotiations. What they can influence is their own negotiations with any of the large trading blocs. Consequently, if an African country negotiates a reciprocal agreement with, for example, Europe, it can achieve virtually all of the gains which global free trade would achieve[11], while having some say in the form of the trading environment (Collier and Gunning, 1995).

3.2 The Limitations of Lomé

Lomé rules exclude imports into Europe at preferential rates, if such imports are 'disruptive' (i.e. sufficiently competitive to pose a threat) to European producers or to existing members. Many traditional African exports to Europe would enter free of restrictions anyway, while Lomé does not override the restrictions on temperate agricultural products of the Common Agricultural Policy (although it does certainly contain the most extensive set of exemptions from this policy). Although Lomé does override restrictions on textiles and clothing of the Multi-Fibre Arrangement (MFA), the latter is being phased out. Although the Uruguay Round will mean the reduction of these barriers, the preferential treatment of African countries has at any rate been eroded by the lowering of tariffs to competing developing countries (Davenport, 1992:234) Many of the commodities which South Africa would most like to gain access to Europe would be specifically excluded in a non-reciprocal Lomé-type agreement, even if an extended offer could be negotiated. Finally, the Convention expires in 2000, and there are strong pressures for a fundamental reconsideration of the relationship between the EU and developing countries. It is not only a strange time to consider entry (especially given the expected time to be taken up by negotiations), but greater concessions might be negotiated for South Africa if they were not being considered for all ACP countries at once.

Lomé is therefore limited both in value and in duration. Even if South Africa were successful in obtaining membership, it would have only two years to run under the agreement, before Lomé expired, and a new round of negotiations commenced. This would prolong the uncertainty for producers, and delay even longer the hoped-for inflows of long-term direct investment from abroad. Industrial restructuring is hardly likely to occur when producers (and potential exporters) do not know whether the current trade regime is temporary or not. This consideration also mitigates against a too flexible approach, where

[11] In fact, it has been shown that free trade within a customs union can achieve all gains of global free trade for the members of the union, if the full range of production is encompassed (Srinivasan, 1993).

an indefinite period of time is given to South Africa to reciprocate, or where products are included in the agreement sector by sector, or even product by product. This would no doubt lead to lobbying and rent-seeking behaviour in South Africa, which would not only be welfare-reducing for South Africa as a whole, but probably obfuscate the real issues, and would certainly increase uncertainty. These considerations also suggest that a strategy of "Lomé-now, FTA-later" should not be an option.

3.3 The Trend Towards Trading Blocs

There is a world trend towards bilateral and multilateral free trade accords. Recently the United States has initiated the "enterprise of the Americas initiative" to form bilateral free trade arrangements with Latin American countries with the aim of eventually creating an all-embracing American FTA (Langhammer, 1992:213).

In Latin America itself, more than 30 deals had been struck by the end of 1994. Chile has made links with NAFTA and with the Pacific countries, as well as intra-South American agreements. Exports in Latin America have increased 50% per year since 1990, although it is difficult to know whether this would have happened anyway (*Financial Times*, 2 September 1994). It has been argued that nations on the margins of free trade pacts (like the Caribbean states in the case of NAFTA) are likely to lose out in terms of both trade and investment. In other words, Lomé status is no substitute.

Free-trade areas (FTAs) *are permitted* under current GATT rules, only if duties set by the members are no more restrictive than they were before the FTA was established. It is reported that eleven new regional trading arrangements, all in Europe, were notified to the GATT between April 1993 and November 1994, bringing to 40 the number notified since 1989.

Furthermore, multiple free trade deals are possible, which implies that membership of SACU or SADC does not preclude South Africa's entering into a deal with the EU and/or NAFTA.

The suggestion has been made that larger organisations should standardise their trade agreements, using GATT rules as a starting point and broadening the range of goods covered by the pacts. The South African case could become a model for European deals with other African countries on the expiry of Lomé.

3.4 Protection Against Anti-Dumping Suits

The Uruguay Round saw the end of certain types of protection, like quantitative restrictions on imports and voluntary export restraints, but this was bought at a price: it is now easier to bring anti-dumping suits (so-called contingent protection). Anti-dumping suits are brought mainly by industrialised countries already participating in powerful trading blocs. The US is the 'leader', followed by the EU (*Financial Times*, 16 December 1994). Of suits brought by European companies, 95% are successful, and 80% are terminated by the imposition of tariffs ranging from 20-97% (*Financial Times*, 20 September 1994).

One of the major successes of the EU-Iceland agreement was the specific prohibition of anti-dumping suits. In other words, Iceland is inside the ring as far as that is concerned, and is therefore free of what is called contingent protection. Iceland is now attracting foreign investment, eager to benefit from access to Europe, which is free of the threat of anti-dumping suits. If South Africa can achieve such a clause in a reciprocal free-trade deal with Europe, it will have an advantage that even South-East Asia does not have in attracting foreign direct investment. Strictly speaking, such an exemption might be possible to obtain even without a free trade deal.

To expect to win such a clause may perhaps be utopian because Europe does have something to lose on that score: contingent protection from South African producers. Nevertheless, there is precedent, and Europe will have to make some concessions for free access to the South (and thereby Southern) African market. If an FTA makes provision for an eventual customs union, where anti-dumping suits are no more possible than they are possible within a single country, then there is a strong case for including an exemption clause as a European concession in return for South Africa's agreeing to phase in competition and subsidy harmonisation.

3.5 Implications for the Rest of Southern Africa

Trade within the Southern African Customs Union (SACU) is heavily oriented towards South Africa (although less so in the case of Botswana's exports). The main concern of the smaller members of SACU is that a reciprocal free trade agreement between the Customs Union and the EU will expose their small manufacturing sectors to unrestrained competition from European producers. That there will be a net loss is, however, not as obvious as it is felt to be. The smaller members of SACU stand to gain from a free trade agreement in three ways. First, to the extent that a free trade agreement with the EU provides the smaller members of SACU with access to better quality or cheaper imports (i.e., to the extent that the SACU currently diverts trade from European to South African suppliers), they will in fact gain from the agreement. Second, preferential access under Lomé has effectively applied to only a limited range of exports, subject to a quota. A free trade agreement would give free access to all SACU exports. Third, rules of origin would of necessity include South African firms, enabling greater integration of production in SACU countries. (This applies also to the granting of Lomé status to South Africa, and may be a stronger advantage under that scenario, since it would encourage South African investment in the smaller SACU countries.) Fourth, the movement towards free trade would re-allocate some of the producer surplus in these countries towards consumers, leaving net welfare unchanged in a static sense[12].

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[12] The problems with trade liberalisation are political, rather than economic. Governments see short-run adjustment costs as being more certain than the dynamic longer-run benefits.

Furthermore, the losses which would accrue to manufacturing firms unable to withstand competition from Europe may be less than imagined; some firms already compete successfully in Europe as well as in South Africa, and there is no reason to believe that the smaller SACU countries are less able to adjust than are South African producers. At any rate, the advantages of proximity to the South African market which reduces delivery time will still apply. One could further argue that the loss of investment in the SACU countries with preferential access to Europe under Lomé (currently denied to South Africa) would be small, since most foreign direct investment in SACU is country specific (e.g. Botswana's mines), while the other members have had relatively little foreign direct investment in any case. Finally, the argument that SACU countries would benefit from South African outward investment if the latter obtains Lomé-status, because of accompanying changes in the rules of cumulation, misses the point emphasised in this paper that investors will rather postpone investment while the trade regime is uncertain - in Lomé's case because it expires in 2000.

An implication of the political transition in South Africa is the new role seen for the country in the development of the Southern African sub-region. In this area, as with domestic restructuring, expectations may be unrealistic. Even if this view is exaggeratedly optimistic, South Africa clearly is important in the sub-region. It dominates regional production, especially of manufactures, energy and financial services; it dominates regional trade; and it dominates regional transport. South Africa's domestic policies inevitably have consequences for the economies of the other SADC members, whose combined GDP is around one fifth of that of South Africa. Since South Africa is reducing its trade barriers anyway, its neighbours should support a free trade agreement with Europe as providing at least some offsetting benefits in the form of increased investment and two-way trade.

There would, therefore, also be longer term benefits to the wider region although these may be more indirect, and a longer time in coming. Any agreement signed with the EU will have to be phrased in such a way that agreements with South Africa's neighbours are not prejudiced. They will certainly be better off with a strong, fast-growing neighbour, just as Holland does well being close to Germany, and Mexico benefits from its proximity to the US. (The recent Mexican experience has lessons for South Africa, but these are positive as well as negative. A currency crisis is not inevitable, particularly if the currency is not allowed to overvalue so severely. It is significant that the NAFTA agreement gave so much credibility to Mexico, that all the other signs of things about to go wrong were ignored by foreign investors.)

It should be noted that an agreement with the EU does not preclude South Africa's negotiating agreements with other countries, whether in Southern Africa or elsewhere. The example of Chile's network of agreements was noted above, as was the legitimacy of free trade agreements under GATT rules.

3.6 Achieving Policy Credibility

South Africa's growth and development strategy is based on the premise that an outward-oriented economy is preferable to inward-looking import-substitution industrialisation, and the country has therefore embarked on trade reform[13]. This is entirely appropriate, as international empirical evidence suggests that outward-oriented developing economies grow faster (Dollar, 1992). The purpose of trade liberalisation is to get relative prices right in the tradables sector, in order to improve the efficient allocation and utilisation of resources for exports. The incentives thus created are expected to lead to greater investment in the exportables sector of the economy. Empirical evidence on the effects of liberalisation on trade and output growth suggests a positive relationship (Papageorgiou *et al*,1992). Despite the empirical evidence in favour of trade liberalisation, as well as the burgeoning theoretical literature advocating its benefits, not all intended liberalisations are implemented, and many of those which are, are subsequently reversed.

Why do liberalisations fail? This question is particularly relevant, since it has been argued that a failed liberalisation may be more damaging than no liberalisation (Collier, Gunning & Greenaway, 1993).

The answer to the above question is that it is the credibility of the trade reforms that matter. Even a well-constructed package of policies will fail if the public believes that they are incredible. In such a case, fixed investment will be deterred, because potential investors will prefer to remain liquid while they are uncertain which sector (nontradable or tradable) will eventually be favoured by trade policy (Dixit, 1989). Given the inadequate level of domestic investment in South Africa in the past, it is legitimate to ask whether or not the policies are considered to be credible or not.

The necessary conditions for policies to be credible is that they should be compatible and time consistent. These will be explained briefly with reference to the South African case. A compatible set of policies is a configuration of trade, monetary, fiscal, exchange rate and aid policies which result in external balance. Considering that balance of payments surpluses were run for most of the 1980s, it can be concluded that policy in the past has been compatible. In essence this compatibility has been achieved at the cost of domestic fixed investment expenditure and economic growth[14]. The external constraints which forced the previous government into this specific configuration of policies, fell away following the elections in 1994. Consequently, South Africa's balance of payments position turned from positive to negative, although the balance of payments is not yet in disequilibrium, as the deficits are sustainable in light of greater access to foreign borrowing. Import quotas have been lifted and import surcharges scrapped. Also, tariffs are being lowered. Given that foreign exchange reserves are rather low (about equal to 6 weeks' of imports) and a

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[13] Although attempts to reduce the anti-export bias began during the 1970s, trade liberalisation is a recent strategy - see Appendix 2.

[14] Private sector fixed investment as a percentage of GDP declined from an annual average of 13 % over the period 1971-80 to 11 % over the period 1991-1993. Corresponding to the same periods annual average GDP growth declined from 3.2% to -0.7%.

growing South African economy has always in the past demanded greater imports, especially of intermediate and capital goods, the current compatibility of policy measures are balanced on a knife-edge. A growing economy would demand more credit, especially in the export sector, where lags between outlays and receipts are longer than for other businesses. Given the high level of current government debt, unless careful fiscal control is maintained, export-oriented activities risk being crowded out by government borrowing. It should also be noted that the most substantial part of government expenditure is on nontradable goods. This will inevitably shift the internal terms of trade in favour of nontradable production, by increasing its profitability. The government faces the risk of its fiscal policy becoming incompatible with the needed export drive.

The second requirement for policy credibility is that it should be time consistent (see Kydland & Prescott, 1977). The essence of time inconsistency is that any government economic policy is incredible, if maintaining that policy would be against the government's own interests.

There are two important reasons why trade liberalisations may be perceived as being time inconsistent, namely if a country's trade policy is endogenous, and if monetary and fiscal policies (which ensure a compatible policy set) become time inconsistent themselves. These reasons are based on the following considerations.

Trade policy endogeneity occurs because governments do not set and manage economic policy in an *ad hoc* fashion, but rather according to some systematic criteria, described as 'policy rules', like "if x occurs, policy will be y". For example, if the balance of payments deteriorates, the government will impose import quotas.

If economic policy, including trade policy, has in the past followed a policy rule as described above, then trade liberalisation itself can be a response (say to a favourable balance of payments position) and can be predicted to be reversed when the balance of payments becomes unfavourable. It will thus be incredible.

As far as South Africa is concerned, the question is whether its current trade liberalisation is a genuine policy-rule change, or just an endogenous response to the change in external circumstances affecting the country.

Certainly from within the country, South Africa's trade liberalisation is perceived as a genuine policy-rule change (notwithstanding the fact that it was implemented when the balance of payments was in surplus and net foreign debt relatively low), and passes the first time consistency test. There has been a long history of attempting to reduce the anti-export bias, and the recent import liberalisation has been locked in by signing with the GATT (see Appendix 2). The liberalisation measures have been designed domestically, in response to domestic needs, in consultation with the business community, and the government has been committed to each change. The organ of protection, the Board of Trade and Industries, has resisted lobbying pressures from the private sector for the last seven years. Fears that a new government, with strong trade union links, would reverse the reforms proved unfounded; in fact the new government deepened the liberalisation by signing a GATT agreement.

In addition to determining whether trade liberalisation is perceived from outside the country as a fundamental rule change, South Africa needs to convince foreign investors that its monetary and fiscal policies are time consistent (the second criterion). This might not be the case. As had been pointed out above, a rule of thumb is that monetary and fiscal policies will be time inconsistent, if maintaining them would be against the interest of the politicians/government in power. In South Africa this will be the case when expectations become too strong to be contained or addressed through the Reconstruction and Development Programme (RDP). As Mohr (1993) pointed out, South Africa's circumstances are similar in a number of respects to the events which led to economic populism in Latin America.

A conservative estimate is that the RDP will cost R35 billion (US$10 billion) over the transition period[15]. The question is whether this is realisable without reversing the current commitment to fiscal and monetary caution[16]. This depends on the revenue constraints faced by the government. A complete discussion of this falls outside the scope of this paper; suffice it to mention that the impression might justifiably be that the South African government will ultimately have to resort to monetisation (the inflation tax), creating balance of payments problems which are sufficiently severe to tempt the authorities to impose import taxes or re-impose exchange controls. In other words, should the trade liberalisation become inconsistent with fiscal policy, will the GATT agreement hold, or will there be special pleading for a temporary suspension?

This explains, at least in part, why South Africa is not attracting long-term direct foreign investment. The government's commitment to prudence is perceived to rest on the reputations of the State President and the Governor of the Reserve Bank. Whether or not this is a correct perception, it exists. The government therefore needs some form of 'commitment technology' - in essence to limit its discretion with respect to industrial/trade policy, so that reneging would be unacceptably costly[17].

Collier and Gunning (1995) argue that a reciprocal discriminatory trade association (for example, in the form of an FTA) might be a mechanism to sustain trade liberalisation. Its advantage is that it might ensure credibility both for the trade liberalisation and the domestic policy stance by raising the penalties for a reversal of policy. That an FTA may be such a tit-for-tat game, implying a reciprocal threat, is a key insight. Their argument is particularly relevant for the African case, where the development crisis is not purely economic (Adedeji, 1993:43), but political, in the sense that a crisis in governance took place on the continent, and many governments lost political legitimacy. The World Bank's (1989) stance in its 'good governance' report is that Africa has a comparative disadvantage

[15] A White Paper on the funding of the RDP is due to be released soon.

[16] The government has most strongly established its commitment to fiscal and monetary caution by appointing an apolitical businessman as Minister of Finance, and retaining the Governor of the Reserve Bank. In this sense the commitment to stability is based on reputation.

[17] There is a concern that the GATT agreement is insufficiently binding, in the sense that there may be no penalty for non-compliance if extensions are granted in response to special pleading. Until this is put to the test, the uncertainty will remain.

in government, and so should restrict the domain of the state to minimal essential functions. Collier's (1991) call for 'agencies of restraint' on African governments echoes this loss of confidence in African political systems, and displays a desire to re-establish the discipline of the gold standard on African economies.

Types of agencies of restraint considered in the African case include donor conditionality (including privatisation), indexation of domestic debt, and budget rules (see Collier, 1994). Apart from Collier's (1994) criticisms that these schemes are inappropriate for the African context, they would probably be inconsistent with the aims of the RDP in South Africa. The responsibility of the South African government is thus in the first instance to avoid arguments for the radical restriction of its domain by setting an example of good governance[18].

South Africa can establish credibility, without curtailing the domain of the government in the World Bank's intended sense, through a reciprocal FTA. A reciprocal FTA with a large and important trading partner would establish the credibility of movements towards trade reform, by introducing penalties on policy reversal in the form of loss of preferential access to the larger market (Collier and Gunning, 1995). This gain in credibility is not achieved by either unilateral reform or by a non-reciprocated agreement with the larger partner, and is not offered currently by multilateral trade liberalisation.

The exposure of South African firms to competition from abroad is one consequence of trade liberalisation. At present the country is already embarked on this course. Signing a free-trade (customs union) agreement with Europe will not change the course, but it will change the pace. It may be that South African firms are not ready for exposure to European competition, and that a phased liberalisation might be less of a negative shock. It may be possible to negotiate an asymmetrically phased reduction of trade barriers with the EU, but this should commence immediately, before producers also need to face the removal of export incentives.

3.7 European Interests

A report by the London-based Centre for Policy Studies suggests that the EU has exhausted its capacity to expand regional trade significantly, while the US is only beginning to exploit its potential (Hindley and Lall (eds), 1994). The EU is bordered by countries unconvinced of the gains for freer trade, and needs to expand its trading capacity with new countries. This is one reason for the multiplying of deals of the past five years. In the absence of expanding further, the report argues, the EU will retreat further into contingent protection. South Africa provides an excellent opportunity for investment as well as for trade, not only as Africa's largest economy, but also as a point of entry to Southern Africa.

[18]Good governance refers to (i) the legitimacy of governments, (ii) the accountability of political and official elements of government, (iii) the transparency of decision making and (iv) a high level of respect for human rights and the rule of law.

The consensus of research is that larger partners in free trade accords gain more in terms of an expansion of trade than do smaller ones. A World Bank paper, for example, notes the following:

> Except for Brazil and Mexico, most Latin American countries stand to gain less from free trade agreements with the United States than the United States stands to gain from FTAs with them. The main incentive for the Latin American countries to form FTAs with the United States may be to attract investment or to halt the spread of new trade restrictions (Erzan and Yeats, 1992).

Europe stands to gain more from an FTA with South Africa than the reverse, and can, therefore, afford to be generous in allowing an asymmetric phase-in period, as well as permitting free entry for all goods. This does not mean that South Africa loses from the deal: trade accords are not zero-sum games[19], and South Africa stands to gain from increased investment as well as improved access to its largest trading partner for all exports.

Furthermore, the gains are dynamic, encouraging diversification by providing opportunities for innovation, invention and completely new activities (Romer, 1994).

There are additional reasons for the EU to be interested in an FTA with South Africa. Europe has a disproportionate share of Africa's total imports. Consequently, the poor performance of the continent as a whole has been costly for European exporters (Collier and Gunning, 1995). This increases the EU's interest in improving Africa's performance, and creating trade (in both directions) and investment opportunities is a low-cost way of doing this[20]. This does mean, however, that Europe needs to be generous in allowing in the full range of African exports, including non-traditional exports. Greater prosperity in Africa is not simply an altruistic aim: it may help to prevent an exodus of migrants and the use of African countries as bases for international crime (Collier and Gunning, 1995).

Moreover, the efficacy of aid programmes is questionable, given their poor record. Reciprocal trade deals may be a more powerful, less costly way of achieving growth and development in Africa. Allied to this, a significant proportion of EU aid is currently being spent on promoting regional integration in Africa, another aim which may more effectively be achieved by granting a customs union agreement with Europe to one or more African countries, and opening this up to more members on application.

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[19] The asymmetry in trade benefits has bedeviled attempts at African regional integration, with smaller countries unable to see that, even if they gain less than a larger member, the benefits to themselves are still greater than in the absence of bilateral liberalisation.

[20] Two-way trade with Africa is a minuscule proportion of EU trade, even though individual commodities may be important. In pursuing a development objective in Africa, the EU would need to provide access to <u>all</u> African exports.

4. Obtaining a Better Rather Than a Worse FTA

From South Africa's point of view, there may be costs associated with an FTA with Europe. Some South African producers will not be able to compete with European firms once all their protection is gone. A gradual liberalisation may be called for to expose South African producers more slowly to higher competition (eventually though they would have to face the risks of international trade just as they face other economic risks - without South African consumers paying the insurance). In this regard an intermediate step could be to export more towards regional markets, or to negotiate a phased reduction of tariffs for European exports, or to make use of voluntary export restraints (VERs). A definite time period would have to be stipulated, in order to send a clear message to producers as to the trade regime in which they will have to operate.

Of particular concern, if the FTA is based on a positive list of goods, is the risk that as South African manufacturing diversifies, a larger number of commodities will be excluded. A negative list would need to be negotiated - or no list at all.

Also, permission to enter a free trade deal with Europe would need to be sought from other SACU members, which have Lomé-status (although not for long). These countries may be unconvinced about the advantages of exposure to Europe. It needs to be remembered, however, that they face full exposure to South Africa, something even Zimbabwean producers fear, and yet all have higher income per capita than the other countries in the region, including Zimbabwe. In other words, despite exposure to greater competition (or, maybe, because of), the SACU members are better off than non-members. Furthermore, as Davenport (1992:236-237) stresses, successive Lomé Conventions have re-enforced the colonial African trade dependency on Europe[21] as well as the complementary structure of production between Europe and Africa, with the consequence that the complementarity between African countries, needed for successful regional integration, never developed. An elimination of preferences, the acceptance of reciprocity and the resulting exposure to greater competition "would help to break a certain psychological dependency on the EC market and make them more aggressive in searching for new markets" (Davenport, 1992:247).

There are also more general criticisms against FTAs. First, African trade relations with Europe can be classified in terms of a 'hub and spoke' arrangement where Europe is the 'hub' and the African nations the 'spokes'. Seen in this way, the high costs of trade within Africa (due to a lack of adequate infrastructure) and the lower costs of transport between Africa and Europe, make it less profitable for manufacturing firms to locate in Africa, despite Africa's advantage in terms of lower labour costs. (For example, it costs almost as much to transport a container from Durban to Johannesburg as to transport the same container from Rotterdam to Durban). Consequently, a 'hub and spoke' FTA between South Africa and the EU could, in fact, create a deterrent to direct investment in South Africa, since not only would Europeans export directly to South Africa their finished

[21] While the share of African exports going to the EU increased from around 47% in 1980 to 53% in 1989, the importance of the African market to EU exporters diminished.

products, but firms from say the US or Asia could also consider locating in Europe and exporting to South Africa without needing to locate in South Africa (inputs could be sourced more cheaply from within the EU than South Africa). Europe would thus gain substantially more from this agreement, as it would provide an 'open door' into South Africa for many firms. However, increased two-way trade between countries has historically generated foreign direct investment. Furthermore, it should be noted that the 'hub' advantage is lost to Europe if the 'spokes' start trading (this strenghtens the case for regional integration); Therefore, to match this European advantage, South Africa would have to unilaterally liberalise its external trade towards all countries (to at least European levels of protection, similar to what will happen under a custom union agreement), or over a slightly longer time frame, increase its network of free trade deals, as Chile is doing.

Other criticisms against FTAs concern the possibilities for trade diversion, and the fact that they might not be the optimal form of discriminatory trade agreement between countries. Krueger (1995) concludes that "on welfare grounds, an FTA can yield no benefits that are not attainable under a customs union, but can generate additional welfare costs that are not incurred under a customs union" (p.4). This is because under an FTA rules of origin (ROO) must be established. An FTA (unlike a customs union) maintains each country's individual trade barriers, and therefore makes trade deflection possible. The need to establish ROO provides domestic producers with an incentive to lobby for protection in the form of sufficiently strict ROO to ensure that they will not be subject to higher competition. Furthermore, the documentation involved in proving origin entails a cost.

5. Recommendations

A reciprocal trade agreement with Europe holds out the opportunity that South Africa can improve the credibility and sustainability of its trade liberalisation programme, and increase the incentives for investment in its tradable goods sectors. As indicated in the previous section, this advantage should be weighed against some of the possible costs. Given the difficulty of quantifying the effect of an FTA on investment in South Africa *a priori*, it may not be unreasonable to expect policy makers to be hesitant to commit themselves and resources towards negotiating such a deal with Europe. This is a myopic view, given patterns in international regionalisation.

Lomé is set to expire at the end of the century, and, given the disappointment in Europe in general with the agreement, it is uncertain how or with what it will be replaced. South Africa should not waste time on this, as its bargaining is diminishing. Second, Europe is currently entering numerous trade treaties (more than 40 had been registered in recent years); for example an FTA with Israel, a customs union pact with Turkey, and possibly soon some sort of agreement with North Africa. France is re-thinking its relationship with the CFA-zone in light of greater monetary integration in Europe. These developments imply that, since the entry of new members into a free trade agreement will dilute the value of the agreement to existing members, the resistance to such an agreement being extended to South Africa will be greater in a few years' time. Third, Lomé advantages for Africa are gradually being eroded as the Multifibre Arrangement is phased out and the other agreements of the GATT adhered to. Fourth, should South Africa not find itself to be part of a regional bloc of free trade soon, it stands the chance of becoming the victim of trade diversion caused by these blocs. For instance, if Turkey's exports of wine to Europe increase, then EU might resort to administered protection remedies, such as anti-dumping suits, countervailing duty relief or applying pressure on South Africa for voluntary export restraints, as used by the EU against Mauritius when its exports of knitwear to the EU started growing.

Thus, while the opportunity exists, South Africa should make every effort to make use of it. The way in which the outcome of the current negotiations is perceived, will send a signal about Europe's likely attitude towards Africa in the coming years. Diplomatically at least, the EU might attach importance to it. Economically, although the South African market is small, it is not negligible, and the business opportunities for Europeans are important. They stand to gain considerably from an FTA with South Africa. Thus, the strategic arguments for a free trade agreement are strong; the short and medium term net effects are uncertain, but the net benefits would definitely be greater if the free trade agreement includes the following points (i) a negative, instead of a positive list, if the agreement is to be selective; (ii) immunity against anti-dumping suits, (iii) provision for an eventual customs union, in order to prevent rules of origin provisions from being used as protection against South African goods; (iv) provisions to extend some temporary protection for domestic industries while the agreement is phased in, for example voluntary export restraints or the maintenance of the General Export Incentive Scheme for the period as agreed under the GATT and (v) the inclusion of SACU as a whole in the agreement. In a world of increasing reciprocity, and the end of special and differential status, "preferences smack of a bygone age" (Davenport, 1992:247).

Appendix 1: Existing Regional Trade Arrangements

(i) The Southern African Customs Union (SACU)
The SACU was established in 1969 between Botswana, Lesotho, South Africa and Swaziland. Namibia became (remained) a member on achieving independence in 1990. Tariff revenues are pooled and shared out according to a revenue formula, which has a considerable compensation element paid out by South Africa to the other, smaller members. All members except Botswana are also members of a common currency area. Although considered a success in terms of trade creation between the members, by the end of the 1970s it was apparent that all parties had reservations about certain aspects of the agreement, and since 1982 the possible renegotiation of the agreement has been discussed (Mwase and Maasdorp, 1995:9).

(ii) The Preferential Trade Area for Eastern and Southern African States (PTA)
The PTA was established in 1983, and by 1993, nineteen countries (see Table A1) joined the grouping. The original mandate of the PTA was quite large: its objectives were to promote trade among member countries and to promote development in industry, agriculture, human resources and communications within and between members. Action has focused on trade promotion, the main instruments of which have been tariff preferences and the establishment of the PTA Clearing House. The achievements have been very limited.

In 1993 a new treaty was drawn up by PTA members[22] establishing the *Community of Eastern and Southern African States (COMESA)*. The intention is to create a free trade area which will become a customs union with a common external tariff within ten years and eventually evolve into a common market. Once the treaty has been ratified by eleven of its potential 22 members, the PTA will cease to exist. Member countries will follow the PTA program of tariff reduction, although the COMESA Treaty does contain a variety of new features, one of the most important being a provision for sanctions to be applied for noncompliance (including suspension or expulsion). There is nothing to suggest that the COMESA treaty will prove any more successful than the PTA arrangements, because trade potential between member countries is low, and because member governments are no more willing to allow COMESA rules and promises to override their domestic interests than they were to submit to PTA requirements.

(iii) The Southern African Development Community (SADC)
The SADC evolved out of the Southern African Development Co-ordination Conference (SADCC), established in 1980. The latter's objectives were to reduce the dependence of the region on the rest of the world (especially South Africa) and to promote regional co-operation in development projects. SADCC was never intended as a regional trade arrangement. It worked rather well in bringing regional political leaders together, and as a means for procuring foreign aid. The SADC Treaty (1992), however, is directly concerned with trade integration between its members (see Table A1), providing for the reduction of tariff and non-tariff barriers to intra-SADC trade, greater co-ordination of

[22] Additional signatories are Eritrea, Madagascar and Seychelles.

external tariffs, the creation of regional infrastructural authorities, and freer movement of capital and people. South Africa joined SADC in 1994, and Mauritius in 1995.

(iv) The Cross-Border Initiative (CBI)

The CBI is not another independent attempt at regional harmonisation. It is an attempt to address the regional dimension of trade liberalisation and deregulation which, it is argued, is missing from national structural adjustment programmes. The initiative was launched in July 1990 at the Maastricht Conference on Africa. Its objective is to promote regional trade, factor mobility, and investment opportunities in the context of generally low trade barriers vis-à-vis the rest of the world. Several bilateral and multilateral donors (among which the European Union, the IMF, the World Bank and the African Development Bank) have actively endorsed the initiative, as have ten African countries. South Africa has participated in the discussions. Although there is a common plan of action, it is recognised that each participating country is at a different stage with respect to its trade liberalisation and efforts at regional harmonisation. The common plan of action recommends the elimination of all intra-regional trade barriers by the end of 1996 and the establishment of a common external tariff by the end of 1988. However, the initiative concentrates on regulatory impediments to regional trade and investment, recommending what needs to be done in order to increase cross-border trade and investment flows. Many of its recommendations are compatible with the aims of the PTA, SADC or national adjustment programmes, which it is not intending to replace.

The regional arrangements are a muddle. All members of the SADC, except Botswana and South Africa, also belong to the PTA. Eleven of these countries are also signatories of the CBI (which aims to promote trade and investment, but is not a formal grouping). South Africa is the dominant member the SACU, all the smaller members of which belong to both the PTA and the SADC. Zimbabwe has bilateral trade agreements with three of the five SACU countries: South Africa, Botswana and Namibia, and the SACU countries have a free trade agreement with Malawi. The overlapping memberships are recorded in Table A1. The contradictions inherent in dual (or more) memberships have not yet been addressed.

Table A1.
Membership of regional trade groupings

Potential COMESA	PTA	SADC	SACU	CBI
Angola	X	X		
Botswana		X	X	
Burundi	X			
Comoros	X			X
Djibouti	X			
Eritrea				
Ethiopia	X			
Kenya	X			X
Lesotho	X	X	X	
Madagascar				
Malawi	X	X		X
Mauritius	X	X		X
Mozambique	X	X		
Namibia	X	X	X	X
Rwanda	X			X
Seychelles				
Somalia	X			
South Africa		X	X	obs
Sudan	X			
Swaziland	X	X	X	X
Tanzania	X	X		X
Uganda	X			X
Zambia	X	X		X
Zimbabwe	X	X		X

obs = observer status

Appendix 2: South African Trade Policy

South Africa pursued industrialisation behind moderate and selective tariff barriers from 1925, although after 1948 import controls were the main instrument of industrial protection.[23] Efforts to reduce the anti-export bias were made during the 1970s: the tariff structure was left unchanged, but direct controls on some imports were relaxed from June 1972, and a range of export incentives were introduced. However, protection of the domestic market continued, with import substitution proceeding in the production of intermediate goods, and, with the exception of semi-processed metals, most sectors failed to respond to the improved system of export incentives [Holden, 1990:267].

Trade liberalisation in the form of removing quantitative restrictions (QRs) began in the early 1980s. The share of imports (by value) requiring import permits fell from 77 % in 1983 to 23 % in 1985 [Levy, 1992:10], and then there was little change until the beginning of 1995, when South Africa began to remove the last QRs, in compliance with its agreement under the GATT. Also in 1985 the positive list of permitted imports was replaced with a negative list of imports requiring approval, allowing unrestricted entry of all unlisted items [Holden, 1992a:27]. It should be noted that the QRs which remained until 1995, on imports of agricultural commodities and textiles, affected goods which are (or could potentially be) produced by neighbouring countries.[24]

As in other countries, the South African government has used increases in tariffs to offset the effects of the removal of QRs on industry. These did not take the form of increases in *ad valorem* tariffs, but the creation of a non-transparent system based on import reference prices (known in South Africa as 'formula duties'), the extent of protection increasing as the gap between the reference price and the (lower) import price increases.[25]

Even so, average levels of tariff protection were not very high (Belli *et al*, 1993). Estimates by the Industrial Development Corporation (IDC) of nominal and effective protection for 1988 (which include estimates of the *ad valorem* equivalent of formula duties and of import

[23]The system of import controls was initiated as a response to a serious balance-of-payments crisis in 1948, because of the restrictions on tariff policy which had followed the entry of South Africa into the GATT negotiations in 1947. The system of import licensing was extended and formalized in 1949, and maintained until the early 1980s. In contrast to the active policy of import licensing, South Africa adopted a relatively passive policy with respect to exchange rate changes and tariff adjustments through the 1950s and 1960s - Lachman, 1974:25. Estimates of the share of imports subject to import controls range from 50-90% - Levy, 1992:9.

[24] The administration of the remaining QRs is not simple, because there are allowances for imports of the commodities concerned in excess of the quantitative limits when required in the national interest (for example, during droughts). This means that in some years the QRs do not apply, making their impact difficult to analyse.

[25] Applications for tariff relief are considered by the Board of Trade and Industries, which operates with substantial autonomy from the rest of the Department of Trade and Industries. Reference prices were often ruling Western European prices, and a 20% *ad valorem* formula duty would be calculated as the reference price less 80% *ad valorem*. This implies that almost by definition countries exporting to South Africa at prices below those of firms in Western Europe or North America are treated as if they were dumping.

surcharges introduced temporarily in 1985 in response to the debt crisis) show that nominal rates of protection averaged 22% for 12,000 tariff lines. Rates of effective protection were also not particularly high for many goods. If 30% is regarded as a moderate level of effective protection, over half of 71 sub-sectors, responsible for 54% of value added in manufacturing, experienced effective levels of protection of less than 30% (IDC, annex C, 1990:58).

However, selectivity has created a tariff structure which is characterised by large differences in tariff levels between and within sectors. Consequently, the moderate *average* level of protection in South Africa does not necessarily imply that the countries of the region in particular do not face a high tariff wall. In fact, the average nominal rate applying to consumer goods is 32.1%, which is higher than the average for all manufacturing (McCarthy, 1992:12). The following table shows nominal and effective rates of protection for some products which are or could be produced in the region. In some of these industries, protection makes penetration of the South African market without preferential access impossible.

NOMINAL AND EFFECTIVE PROTECTION OF SELECTED SOUTH AFRICAN INDUSTRIES, 1990

	Nominal protection	Effective protection
Pottery, china, earthenware	38	421
Clothing, excl. footwear	75	239
Knitwear: other	58	235
Carpets and rugs	30	161
Bakery products	25	139
Knitwear: clothing	87	99
Textiles	40	94
Footwear	35	87
Tobacco products	40	56
Furniture	25	44
Wood and wood products	20	37
Non-alcoholic beverages	18	32

Source: IDC, annex C (1990:58); McCarthy (1992:13)

The debt crisis of 1985 forced South Africa to use vigorous export promotion to finance capital outflows. From 1987 the Board of Trade and Industry began to move pro-actively towards reforming economic policy, responding less favourably to applications for tariff protection, and devising ways of promoting exports. In April 1990 the General Export Incentive Scheme (GEIS) was introduced, replacing the earlier export incentives of 1980. The GEIS provides economy-wide export incentives, related to value added, volume of exports and local content, as well as some protection against exchange-rate fluctuations. Incentives under the GEIS are payable on exports to all countries except the partners in the SACU. Currently the maximum incentive is about 20% of export value, and the minimum is about 3%. Those industries with high value added and high local content have found that the GEIS provides considerable incentive to export. The scheme is designed to encourage the production and export of processed raw materials, but it excludes producers of indirect exports. At the end of 1993 it was extended to include exports of services. Although strictly speaking the GEIS is against the anti-dumping and export-subsidy legislation of the GATT, South Africa has successfully negotiated its maintenance until 1998, on the grounds of its importance in assisting with the post-apartheid restructuring of the economy.

South Africa has signed an agreement under the GATT, which eliminates QRs, reduces tariffs and phases out the GEIS. South Africa's offer in the Uruguay Round was the raising of the proportion of tariffs bound by the GATT from less than 20% to just over 50%, and an increase in the percentage of duty-free lines to over one quarter [GATT, 1993:5]. The tariff reduction programme began in January 1995.

In March 1995 the government abolished the financial rand, as well as exchange control on non-residents. This will deepen the liberalisation.

The most important features of South Africa's trade liberalisation are summarised in Table A2.

Table A2

Year(s)	Policy change, important commissions, relevant events
1925-72	**The period of import-substitution industrialisation (ISI)**
1925	Adoption of ISI with the Customs Tariff and Excise Duty Amendment Act
1948	Introduction of QRs
1958	Viljoen Commission recommends continued ISI, but using tariffs rather than QRs or subsidies
1969	SA govt announces its intention to lift QRs under pressure from the GATT/IMF, but does nothing
1972-83	**The first trade liberalisation episode**
1972	Reynders Commission recommends export promotion
1972	Export incentive measures are introduced
1972-76	Some relaxation of QRs
1975-79	The rand is devalued
1978	Further assistance to exporters introduced in line with the Van Huyssteen Committee's proposals
1979-80	Rand appreciates sharply
1983-91	**The second trade liberalisation episode**
1983	Kleu Study Group recommends a move away from ISI
1983-85	The reduction of QRs is resumed
1983	The dual exchange-rate system is abolished
1983-85	The external value of the rand falls significantly
1985	Govt white paper recommends a dual approach to industrial policy: ISI and export promotion
1985	Debt crisis; dual exchange-rate system re-introduced
1985	Substantial import surcharges introduced
1987	BTI begins to move pro-actively towards trade policy reform
1989	QR removal continues
1989	'Structural adjustment' export incentives introduced for clothing, textiles, automobiles/components
1990	General Export Incentive Scheme (GEIS) is introduced
1990	The phasing out of the import surcharge begins; not completed
1991	An accelerated depreciation tax scheme is introduced
Current	**The third trade liberalisation episode**
1994	Import surcharges eliminated
1995	Tariff reduction in line with GATT requirements begins
1995	The financial rand is abolished, as well as exchange control on non-residents

Source: Jenkins (1995)

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