SPECIAL REPORT

How does South Africa's trade policy effect its industrial policy

If we actually have one?

What should the relationship be between the country's trade and industrial policy. **Michael McDonald** seeks to answer this question and provides some options in ensuring that by default our trade policy does not become our industrial policy as well.

It would seem obvious that South Africa's trade policy, which has been developing apace over the last 12 years or so, would have a major effect on our country's industrial policy.

Indeed, Cosatu would no doubt argue that government does not really have any industrial policy at all and that our trade policy, in effect, is our industrial policy and that our current trade policy – basically major import tariff liberalisation through WTO and a variety of bilateral international trade agreements, has been doing little more than destroying jobs in most of South Africa's manufacturing industries.

This view may be a bit simplistic and, to be sure, South Africa's manufacturing exports have increased dramatically since the conclusion of the Uruguay Round of the WTO in 1994. In actual fact, most job losses were the result of the restructuring of industries rather than the mere lowering of tariffs. And much of this happened prior to the start of any trade liberalisation by South Africa in 1994.

To be fair to government, there was, what turned out to be, a rather feeble attempt at an industrial policy when the DTI tabled a first draft of an Integrated Manufacturing Strategy (IMS) at the National Economic Development and Labour Council (Nedlac) a few years back, but which, after a good deal of criticism and a promise of a second draft, disappeared without a trace. Until recently.

Now, after much prompting by Cosatu and, to some degree from business too, the DTI is again trying to develop anew an industrial policy, a first draft of which was presented at Nedlac recently with follow-up discussions a few weeks back at the DTI Campus in Pretoria.

At the Pretoria meeting there was much shouting of 'Déjà vu - all over again!'

Much of what was in the IMS was there once again. How to make our manufacturing more competitive and able to cope in today's global market. And a good deal of cherry picking of industries for success makeovers.

What was missing from both the IMS then and the new attempt now is at least a stab at an answer to the ever present question: How can we use industrial strategy in order to soak up the huge mass of our country's unemployed?

The new strategy does suggest this might be done through improved skills development. Problem is that many, if not most, of our current unemployed do not possess the basic maths and science skills needed in many manufacturing industries. And how long would it take to fix that? Sadly, probably a generation or more.

Also, the sectors that are being affected most by foreign competition, such as textiles, clothing and footwear, do not seem to stand much of a chance of survival anyway, as they are competing against the likes of China and India who are eating up markets all over the world. And watch out, the next low cost trade terrorist coming down the pike is Bangladesh!

Currently, 40% of South Africa's fabric, 60% of its textiles and a whopping 80% of its clothing imports are from China. Attempts are being made to introduce some kind of quota system for textile and clothing import, but, even if successful in the short term, this offers no real answer for the long term future of these and a number of other manufacturing industries in South Africa.

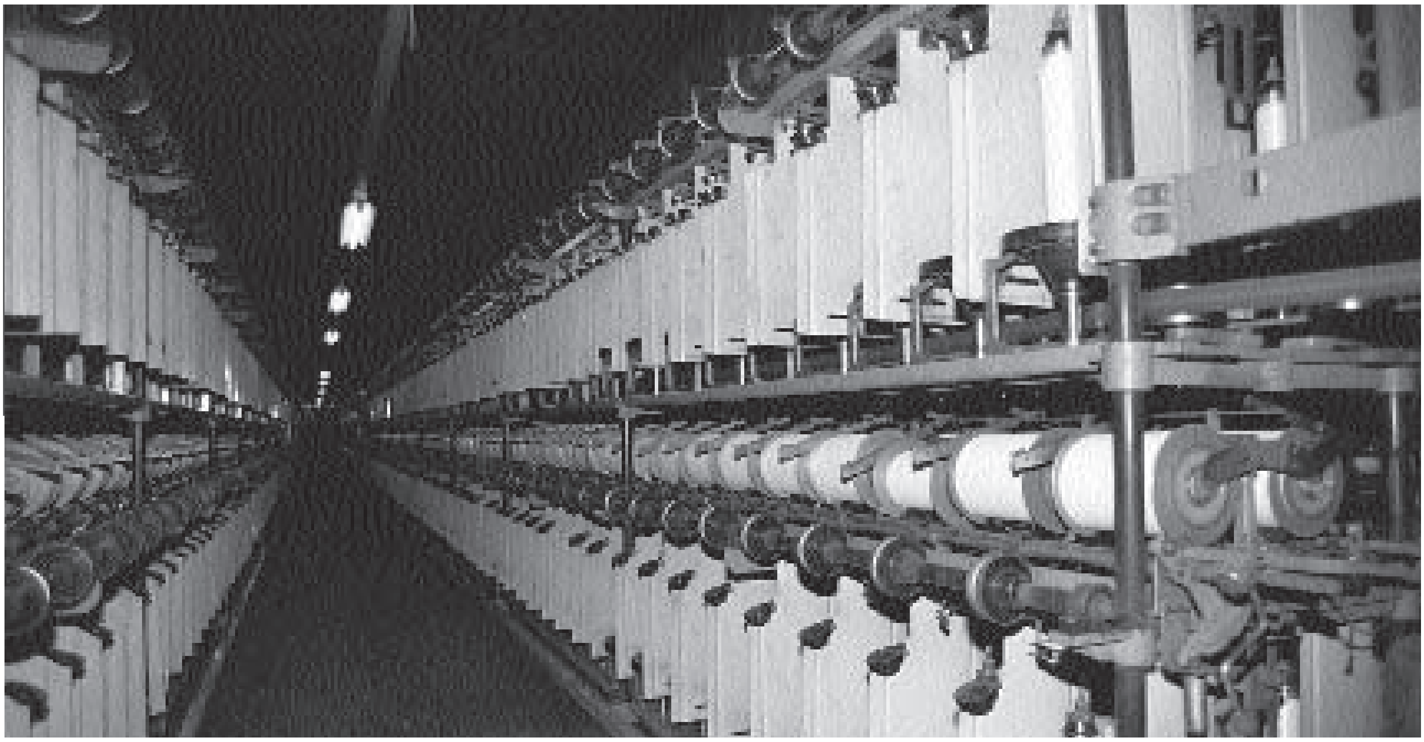
Other South African industries under threat include electronics, household appliances, furniture, computer equipment, packaging, metal fabrication and many engineering services, auto-catalysts, tyres, chemicals, jewellery and pharmaceuticals. A formidable list indeed. And soon we may add to this list steel (probably by the end of next year), aluminium (if and when there is a surplus of electricity in China) and possibly motor vehicles in the not too distant future.

SO WHAT DO WE DO?

Some would say a return to the pre-1990 laager. But it is too late for that. South Africa is well and truly back in the world in a big way and the government is determined to stay there. Witness the proliferation of international and bilateral trade agreements, which are as much politically as economically motivated.

In the development of international trade policy and practice, there is a standing committee at Nedlac called the Technical Sectoral Liaison Committee (Teselico for short) where government, business and labour meet regularly to consider South Africa's strategy in different trade agreement negotiations.

It started in the old National Economic



Forum (NEF) with the Uruguay Round of international trade negotiations in the WTO and continued in Nedlac with the South Africa/European Union Trade, Development and Co-operation Agreement; the Southern African Development Community Free Trade Agreement; the renegotiation of the South African Customs Union Agreement (South Africa along with Botswana, Lesotho, Namibia and Swaziland); the Mercosur Preferential Trade Agreement (with Brazil, Argentina, Uruguay and Paraguay) and the European Free Trade Association Free Trade Agreement (with non-EU members: Switzerland, Lichtenstein, Iceland and Norway).

Still continuing are ongoing negotiations with Mercosur as well as a possible Free Trade Agreement with the United States, which may or may not come off.

And what really gives some of us sleepless nights were the recent announcements of the intention to conclude trade agreements with India and China! Are we nuts, or what? Originally, I thought definitely yes! But now I'm not so sure.

In the Nedlac Teselico discussion, business and labour, with government spend far too much time worrying about our import tariffs.

Government would like to demonstrate considerable largess in this area, but must listen to business representatives who are more cautious and labour representatives who want to fight tooth and nail to keep tariffs up. But, frankly, in these days of the strong rand, which makes all imports cheaper, along with the extremely low prices of Chinese and other Asian imports, what assistance do tariffs really give us?

If we doubled, or in some cases even tripled import tariffs, we would still be unable to compete with China on most manufactured goods. Raising tariffs unilaterally in this way would, of course, be impossible as China is now a member of the WTO. We can fight countervailing action against unfair trade competition if we can prove that exports from China, or elsewhere, are being subsidised or if the products are simply being dumped (prices lower than in the country of origin). But, in many cases, even without subsidies or dumping, we still could not begin to compete.

So, let's repeat the question: What do we do?

Firstly, we concentrate on those industries where we can compete. These include mining, most agriculture, tourism, banking including insurance, brewing and bottling, cement, basic building supplies, telecommunication services, utility services, oil refining, retailing and (until such time as China has solved its energy problem) aluminium. We are still one of the world's lowest costs producers of steel, so we should still be all right there, at least for the time being. In other sectors, we need to strive for differentiated products, innovation, catering for shorter product runs and better service levels to our local customers.

Then, we should try to enter into a dialogue with government over the exchange rate. It may be tricky, but most developing countries made it easier to develop with slightly (and even sometimes greatly) undervalued currencies. Too much undervaluing could cause high inflation and make essential imports too expensive, but managing a moderately undervalued exchange rate could get many of our manufacturers, who previously abandoned exports because of the strong rand, back in business. However, it would take a more drastically undervalued currency to start creating new jobs in a meaningful way.

Finally, we should use the proposed trade agreement with China (and India too) to seek concessions through quotas or other means. South Africa and China both suffer from severe unemployment, which could seriously undermine stability in both countries. Our trade agreements need to be mutual co-operation and development agreements, not full-blown free trade agreements that would certainly seriously undermine our local manufacturing base.

Of course, still none of this really solves the massive unemployment problem.

But maybe that must remain a question for another day.

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