briefing

South Africa and the GATT

*Report by ALAN HIRSCH**

After years of political isolation from the multilateral trading system, South Africa now has to conform to the existing provisions of the General Agreement on Tariffs and Trade (GATT), and also to sign on to the Uruguay Round. These developments mean further commitments to trade liberalisation.

The General Agreement on Tariffs and Trade

South Africa was one of 23 founder members of GATT in 1947. GATT was rooted in the fear that the collapse of world trade, a major ingredient of the '30s depression, could repeat itself unless obstacles were put in its place. The treaty consisted of a general framework of rights and obligations for its members.

Since its founding, GATT has expanded to more than 100 members. Its regulatory framework has been revised and strengthened several times since 1948, through extended bouts of multilateral negotiation called 'Rounds'. The current round began in 1986 and is called the Uruguay Round.

From the '60s, developing countries were allowed "special and differential treatment", which meant they did not have to reciprocate in trade policy reforms to the extent that developed countries did. South Africa was regarded as a developed country.

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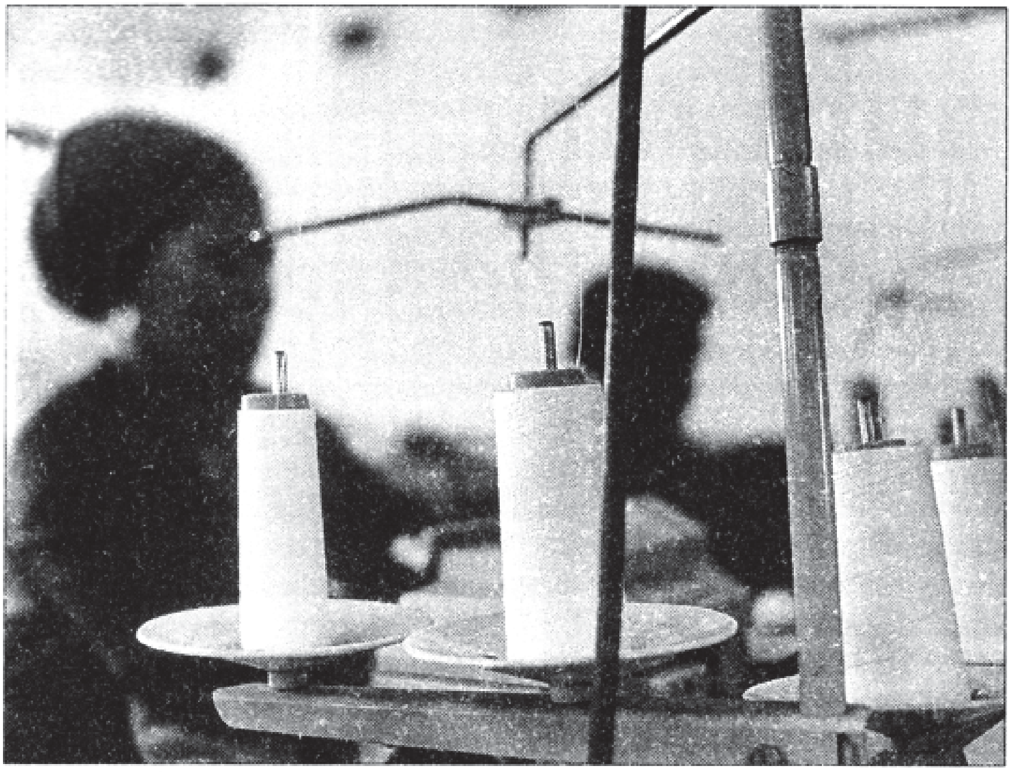
Though the Uruguay Round weakens the distinction between developed and developing countries, the latter are still allowed longer adjustment periods, which could aid developmental programmes.

In recent times an important development has been the shift in perspectives between developed and developing countries. Originally, developed countries championed trade liberalisation, and developing countries were reluctant, tardy partners. Today, many developing countries accept the virtues of liberalisation, but are concerned that developed countries evade the strict application of GATT rules through a range of non-tariff barriers (NTBs), such as "voluntary export constraint" agreements, and the exercise of raw market power. The term "the new protectionism" arose in response to this tendency.

South African trade policy

By the early '90s, South Africa had a complex, unstable, unpredictable system of protection, which bore no relationship to a programme of industrial development, let alone export-oriented industrialisation. In spite of some reform in the '80s, South Africa has a more complex tariff structure than any other country in the world, with the possible exception of Nepal.

Because of the crisis in South Africa's traditional exports and the obvious need to stimulate competitive manufactured exports, a range of South African commentators and government institutions proposed various paths to trade and industrial policy reform in



GATT – special deal for textile and clothing?

the late '80s and early '90s.

The Uruguay Round and South Africa

The pressure of the Uruguay Round therefore came at a time of general acceptance that trade policy reform was necessary in South Africa.

The requirements of the Uruguay Round of all GATT members can be summarised as follows:

i) A 33% average cut of all industrial tariffs. Industrial costs are to be phased into equal annual cuts over five years;

ii) A 36% average cut of all agricultural tariffs in equal portions, to be phased in over six years;

iii) Agreement to a series of compulsory general codes on export subsidies, trade-related investment measures (for example, local content programmes), intellectual property, and other issues;

iv) a commitment to a longer-term programme of liberalising barriers to the trade in services (from architectural services to air travel);

v) an agreement to bring textiles and clothing into GATT instead of segregating them in a Multifibre Agreement;

vi) and a commitment to create a multilateral trade organisation which will include a dispute settlement body, designed to facilitate the settlement of trade disputes multilaterally rather than unilaterally or bilaterally.

GATT members have agreed to all these points. Roughly put, the package represents a bargain between the highly industrialised countries which desire items (iii) and (iv), while agricultural and developing countries desire items (ii), (v), and (vi). In practice it is more complicated than this.

South Africa's offer

South Africa put forward 'offers' for negotiation in 1990 according to the original GATT timetable. These offers were drawn up after limited consultation, leading to angry accusations of secrecy and high-handedness.

The delay of the GATT negotiations because of disputes over the 'new issues', especially agricultural policy reform, meant that South Africa's original offers were never formally negotiated, and they were withdrawn in 1993. ("Negotiation" means that South Africa's main trading partners, assisted by the GATT secretariat, assess the acceptability of South Africa's offer, in the context of the broad agreement. A similar procedure is followed for all contracting parties.)

The revised industrial* tariff offer has these main characteristics:

- About 12 800 tariff lines will be streamlined into no more than 1 000 lines, and about 99% of the lines are 'bound', which means the maximum levels are fixed by multilateral agreement.
- Industrial tariffs will be cut, on average, by about 33%, in five equal annual stages, by 1999. Within this agreement, the maximum tariff for a consumer good will be either 20% or 30%; the maximum for intermediates, including capital goods, will be 10% or 15%, while the maximum for raw materials will be 0% or 5%. In other words, by 1999 all industrial products will have a minimum tariff at one of these six levels.
- There are some exceptions with higher, longer phasing-in periods, or higher terminal maximums, or both. The most significant are: the clothing and textiles sector with an eight-year phasing-in period and a terminal maximum of 60% for clothing and 30% for textiles; and the automobile sector, with a similar phasing-in period, and a maximum of 50% for assembled motor vehicles and 30% for components. Other exceptional sectors include television manufacture and oil products.
- The rationale for the overall structure of the offer is the desire to encourage the manufacture of potentially competitive higher value added products, which are either consumer products or capital goods. Beyond this, the relative neutrality of the offer is intended to encourage specialisation in fields in which South Africa has some comparative advantage.

* *This article deals only with SA's industrial offer, not its agricultural or services offers.*

- Unlike the first offer, the revised offer was canvassed more widely. However, the fact that the offer was released in early July and had to be delivered in its final form to Geneva by the end of August, meant that the government's partners in discussion had relatively little opportunity to research the potential effects of the offer, or to consider alternatives.
- Nevertheless, those elements which are eliciting the greatest controversy are the exceptions in the offer, rather than the structure of the offer in general.
- One unanswered question, in respect of these codes, is the issue of South Africa's status within GATT. While South Africa has traditionally been considered a developed country by the GATT, recent informal discussions with trading partners resulted in the possibility of South Africa's being considered an 'economy in transition'. By objective standards, South Africa meets many of the current criteria of a developing country. Either way, South Africa should be able to negotiate longer adjustment periods to comply with the new codes.

Beyond GATT negotiations

If the Uruguay Round is concluded, it will bind the country to maximum degrees of protection for all its goods and services, and will impose conditions on investment policies. If some elements of the offer are problematic, it will be possible to renegotiate them, but, normally, increased protection for certain 'bound' items requires the equivalent liberation of other 'bound' items. Such juggling seems possible.

Within these broad parameters, however, there are still many domestic decisions to be made. GATT merely sets maximum levels of protection, not actual rates. GATT does not formulate the industrial policy to make the tariff offer work. Urgent attention must now be given to the institutions that formulate and implement trade and industrial policy to ensure that we do not repeat the mistakes of the past. ☆