To Liberalise or Not to Liberalise?
A Review of the South African Government’s Trade Policy

Peter Draper

The project on Development Through Trade at SAIIA is funded by DFID and USAID

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS
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Introduction

Trade policy is a central feature of the South African government’s economic policy. In the early years of the transition to democratic rule it was widely debated. This debate receded recently, but is returning to centre stage as government’s trade negotiators tackle a series of significant negotiations.

Yet trade policy is generally not well understood outside of the small circle of practitioners and thinkers involved in its formulation. Partly this arises from its ever-increasing scope. Entrenched ideological positions and associated misconceptions are also partly to blame. At a time when trade policy is returning to the center-stage of South Africa’s economic policy debate, it is necessary to remind ourselves where we stand on these issues, and chart possible future directions. This paper is intended to be a small contribution to that process.

Section Two assesses a stylised debate between ‘free-traders’ and ‘protectionists’ in light of various strands of academic theory. It concludes that trade liberalisation is generally good for promoting

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competitiveness and that the latter is essential in a globalising world. However, this conclusion is hedged with the caveat that limited time-bound protection may be appropriate under certain circumstances arising predominantly from issues of social harmony.

Section Three assesses government's trade policy by looking at the thinking of the Department of Trade and Industry, the main formulator and implementer of trade policy in South Africa. It reviews the entire web of trade policy formulation and synthesises recent evaluations of its impact. In doing so, possible future impacts and new directions are identified.

The concluding remarks summarise the central argument in this paper in light of South Africa's experience with trade policy. Essentially, it is argued that whilst significant liberalisation has taken place since 1994, there is scope to undertake substantial further liberalisation. This should be seen as beneficial in its own right, to the extent that it actually occurs, but will to some extent be forced on us in any event. Therefore government's current strategic approach finds support in this paper, although it is debatable whether this goes far enough.

**Globalisation, Competition and Trade Policy**

The driving forces behind trade liberalisation in general can be located in that old culprit: 'globalisation'. In the economic sphere the key features of this phenomenon are to be found in rapidly expanding flows of trade, productive investment, and finance around the world. These are crucial ingredients for economic growth in any country. Our focus is primarily on the trade dimension, although this is increasingly difficult to separate from the investment and financial spheres. There is robust debate over the role played by trade in economic development. This debate is divided along ideological lines. In what follows, and at considerable risk of over-
simplification, the opposing views are divided into two 'camps': 'free-traders' versus 'protectionists'.

Free-traders largely take their cue from the precepts of neoclassical economics, notably from two central insights. First, the theory of comparative advantage predicts that countries will specialise in trade based on their existing factor endowments. Second, trade liberalisation is efficiency-enhancing which, from an economy-wide perspective, promotes competitiveness. In addition, lower tariffs and greater economic efficiency enhance consumer welfare, so that society benefits. Furthermore, they argue that freeing trade up on a global scale will promote convergence between developed and developing countries. Therefore, we should expect to find relatively rapid economic growth rates in developing countries that are open to trade, with their economic structures converging towards those to be found in the developed world. So whilst trade is based on comparative advantage and factor endowments, these will change over time as convergence occurs. In the long-term this should reduce global income inequalities. In this view, the primary obstacle to the realisation of this vision is government, often acting in concert with protectionist interests in society. This view permeates the thinking of the Bretton Woods Institutions (BWIs) and informs their policy prescriptions for the developing world.

On the other hand, those who favour protection proceed generally from an historical argument, the roots of which can be traced back to the German Historical School of the late eighteenth and nineteenth centuries. Within this view, the actual experience of

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2. 'Factors' meaning factors of production, or inputs into production processes. Conventionally four are identified: land, labour, capital, and technology. Neoclassical theory has traditionally treated technology as 'exogenous' and focused on the first three as key determinants of economic growth. This shortcoming is addressed below.

3. The International Monetary Fund and the World Bank in particular.

4. Friederich List and Gustav Schmoller in particular.
industrialisation and economic development in the developed countries of the world reveals extensive protection, and precious little liberalisation barring the tariff reductions under the General Agreement on Tariffs and Trade (GATT) and the recent formation of the World Trade Organisation (WTO) at the conclusion of the Uruguay round. Within this, developed countries still retain significant protection of key sectors of their economies, whilst seemingly hypocritically exhorting developing countries to open their markets. Therefore, in this view, developed countries and their perceived acolytes in the BWIs should practice what they preach, whilst developing countries' interests would be best served by building domestic industrial capabilities through protection. 5

The free-trade view

As with most things in life the truth, should it exist, is probably located somewhere between these two poles. The problem with the free-trade view is that convergence has not taken place. In fact, viewed over a long historical period the opposite seems to have occurred as economic structures have diverged on a global scale. In recent decades this has occurred despite significant aggregate increases in global trade and investment flows, accompanying liberalisation drives throughout the developing world. A free-trader's response might be that it is not at all clear that globalisation is responsible for this. Rather, a case can be made that the reverse is

5 For an interesting statement of this view see Chang H, Kicking Away the Ladder?: Policies and Institutions for Economic Development in Historical Perspective. London: Anthem Press, 2002. He argues that developed countries are deliberately seeking to keep developing countries under-developed by 'kicking away the ladder' which the former climbed to their industrial development. The 'ladder' is a metaphor for a range of policies and institutions.
true, that globalisation has in fact mitigated rising inequality but only for those countries that ‘changed their policies to exploit it’.6

An analysis of developing country participation in global trade flows highlights further problems with the free-trade view. Table 1 (see end section) reveals that in the 1990s developing country economies, whilst showing regional variations, became considerably more open to trade than their developed country counterparts.7 Furthermore, Chart 1 reveals that in the same period developing country participation in world trade rose substantially. Certainly, a single decade is not enough to judge by, yet we can note that despite these aggregate increases in participation in world trade, developing countries generally remain under-developed. However, given the short time frame we should not hastily conclude that more trade is associated with low levels of human development either. In this regard, Dollar and Kraay note that countries that have become more open to trade have tended to grow faster than the relatively more closed economies.8 Nonetheless, Table 2 reveals that Africa as a whole is increasingly marginalised from this participation in global trade expansion.9 Latin America seems recently to have reversed its relative decline in global export shares in the 1990s, largely owing to Mexico’s rapid trade expansion. However, the region’s share of aggregate merchandise imports has consistently

7 With the apparent exception of the Arab states. This could possibly be explained by their reliance on exports of fuels and associated variations in the oil price. 1990 was the year Iraq invaded Kuwait, causing a spike in the oil price. If this is the case, it also entreats us to be cautious about relying on data comparisons drawn from only two observations (ie 1990 and 2000).
9 See also WTO Committee on Trade and Development, ‘Participation of the developing countries in the global trading system’, 19 June 2002, p.5.
risen since the mid-1980s, which was partly responsible for the balance of payments difficulties experienced in several key economies.\(^{10}\) East Asia on the other hand has performed particularly well on the export front from the 1960s, owing to the emergence of Japan and the east Asian newly industrialised countries (NICs), and now China.

Developing countries as a group continue to rely on exports of commodities to developed country markets in order to generate the requisite foreign exchange for importing advanced manufactures from the developed world. But the WTO secretariat notes that the contribution of commodities to the aggregate basket of exports from developing countries has declined ‘dramatically’ since 1955, when they accounted for more than 90%, to below 30% at the end of the 1990s. They note further that this decline accelerated ‘sharply’ from the mid-1980s, roughly coinciding with the onset of extensive trade liberalisation in the developing world. They attribute this positive story to the decline of the contribution of fuels on the one hand, but more importantly to the rise of office and telecoms equipment exports. This positive picture is qualified somewhat by regional variations: Africa and the Middle East continue to rely on commodity exports for more than two-thirds of their total exports; Latin America has substantially reduced its reliance although at 40% it is still high; whilst developing Asia’s share stands at approximately 15%. However, they note again that a handful of countries drove this overall transformation within each region.\(^{11}\)

UNCTAD provides further qualifications. They point out that whilst it is true that developing countries’ share of world trade in manufactures has indeed increased, their share of manufacturing value-added has not. They assert that:\(^{12}\)

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\(^{10}\) Although exchange rate management, principally fixed exchange rates in Argentina, Brazil, and Mexico were arguably of greater importance.

\(^{11}\) WTO Annual Report 2002, chapter 2.

...few of the countries which pursued rapid growth in manufacturing exports over the past two decades achieved a significant increase in their shares in world manufacturing income ... for many developing countries, getting the most out of the international trading system is no longer just a matter of shifting away from commodity exports.

They argue that much of the increase in manufacturing exports in developing countries is resource-based, rather than technology-intensive. In this regard, they point out that the growing share of 'dynamic' exports from developing countries is driven by a small group, principally the east Asian NICs. Furthermore, they assert that 'none of the countries which have rapidly liberalised trade and investment in the past two decades is in this group'.

In UNCTAD's view a large part of the explanation for this is to be found in the fact that global flows of productive investment and trade are increasingly conducted within multinational corporation (MNC) networks. Those networks are centred on the developed countries of the OECD, incorporating developing countries into international production and associated financial networks. Thus the tendency towards concentration of participation in world trade flows is matched on the foreign direct investment front. In this regard, UNCTAD notes that, notwithstanding the fact that global FDI flows are reaching more countries over time, the world's top 30 host countries account for 95% of total world FDI inflows and 90% of stocks. Furthermore, control over the generation and diffusion of information technology, increasingly central to corporate processes, is located predominantly within MNC networks. The pace of innovation, notwithstanding the recent collapse of the 'tech bubble', is rapidly advancing, increasingly leaving many developing countries behind. These technologies enable MNCs to retain high-technology processes at home, whilst hiving off lower-end assembly

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13 ibid, p.vii.
and processing to developing countries that have cost or location advantages. Of course it may well be argued that the only thing worse than being exploited in this way is not being exploited, which UNCTAD acknowledges. However, they note that in order to secure gains from FDI, host countries need to develop their bargaining power vis-à-vis the MNCs, but acknowledge that this is difficult in an environment where investment is highly mobile. Furthermore, MNCs exercise considerable influence over the design of trade rules and disciplines at all levels. This poses challenges to the governance of trade policy, particularly when it comes to trade negotiations (see ‘Strategic partnerships’).

Lastly, new insights from within mainstream neoclassical economic theory suggest that divergence, not convergence, might well be the norm in the medium term at least.15 ‘Endogenous Growth’ theory highlights the role of investment in capital and knowledge in creating a cycle of cumulative causation, raising incomes and growth in the advanced centres of production. Developing countries struggle to match these investments, with the consequence being that they could be left further out of the development and assimilation of new ‘knowledge industries’. In this formulation technological development and associated human capital play a central role. Furthermore, the ‘New Economic History’ has highlighted the importance of institutions in the development process. Effective institutions require effective government. To this we should add the important insights developed by Gerschenkron16 in his seminal work on economic backwardness, in particular that there are different institutional paths to economic development. So


history also matters. Of more direct relevance to our subject, the so-called 'New Economic Geography' argues that economies of agglomeration, based on increasing returns to scale, promote concentration of industrial activity in relatively few locations worldwide. In this regard Henderson et al note that:

This view of the world is radically different from that of conventional international economics, predicting that the world divides into rich and poor regions, even if there are no international differences in factor endowments, skill levels, institutional quality, or other underlying economic characteristics. Development and under-development are simply manifestations of agglomeration of economic activity.

Furthermore, the existence of increasing returns to scale leads to concentration and the development of oligopolistic market structures, a feature of many industries dominated by MNCs. This militates against new entrants into these markets, especially from developing countries.

These theoretical arguments point towards continued bifurcation in the global economy, with the privileged few potentially pulling further ahead of the chasing pack of under-privileged. This should give pause to those, like South Africa's Minister of Trade and Industry, who believe that the impetus for future growth in the world economy must come from the developing world.

17 Or as Crafts notes, the central lesson to be derived from these insights is 'get a new history!' Crafts NFR 'Development history', LSE Economic History Working Paper, 54, 2002, p.19.
19 Ibid. p.6.
20 See Erwin A, 'Further integration of developing countries, including least-developed countries in the multilateral trading system', WTO High Level Symposium on Trade and Development, Panel 3, 1999.
Yet the good news is that there are limits to agglomeration economies, and sooner or later dispersion forces will outweigh them and promote de-concentration of industry, possibly into select new centres located outside of the main host economy where agglomeration economies can develop. It is to be expected that comparative advantage will play an important role in this. However, so do distance from major economic centres and transport costs. The further a developing country is from major markets, the higher are the costs of entry to those markets, and the greater the disincentive for foreign investors to relocate there. Clearly, one policy imperative in such circumstances is to enlarge the domestic market by promoting productive investment. States play a central role in this through control over various policy levers.

Concerning trade, which should be seen as an enlargement of the domestic market, the policy conclusions are obvious: promote market access through trade agreements (which generally require reciprocity) and trade facilitation programmes designed to lower the cost of doing business with international partners. However, this prescription comes with a caveat: south-south arrangements are more likely than north-south arrangements to promote agglomeration in one partner at the expense of the other. This is likely because developing countries are likely to share common economic structures and comparative advantages, yet location factors are different. Furthermore, in contrast to developed country partners it is unlikely that one developing country will be able to drive export-led growth through FDI in another given that they are generally not significant outward investors. In addition, developing countries are not in a position to transfer the most advanced technologies, unlike their developed country counterparts.

Countries like South Africa that do not have cost or location advantages are not likely to develop significant agglomeration economies. In this regard relatively superior access to key markets could be a significant policy lever for promoting domestic
investment and exports, and for attracting FDI. This will generally require granting reciprocal access to our market. Regional arrangements also offer the prospect of an enlarged 'domestic' market. So there are some potential solutions to these challenges beyond greater protection of the domestic market and local producers.

The protectionist view

The theoretical case for protection, notably infant industry promotion, can be challenged on efficiency grounds in that such policies frequently suffer from an 'anti-export bias' in the trade regime. In a globalised, highly competitive world, countries can ill-afford to adopt policies and practices that inhibit competitiveness, especially of exports. Furthermore, they can be challenged on welfare grounds in that they generally discriminate against consumers. Developing countries facing significant social problems in conditions of low aggregate incomes and structural unemployment will find it difficult to pursue policies that raise prices of goods for the poor. This can lead to a drain on state resources as governments attempt to alleviate these problems through subsidisation of basic commodities. Protection can also create rent-seeking coalitions, which in turn can lead to political paralysis at times when hard economic decisions need to be taken.

A further key problem with the protectionist view is that it does not take sufficient account of the global forces constraining policy development. There is little doubt that in the modern world a conservative macroeconomic policy stance is the sine qua non for economic development in developing countries. Failure to implement this can result in rapid punishment by financial markets, leading to wealth destruction and social chaos. This has led Thomas Friedman, the well-known New York Times columnist, to argue that developing countries are effectively placed in a 'golden straightjacket', otherwise known as 'neo-liberalism', with regard to
economic policy formulation. The straightjacket is golden because, if adhered to, it is supposed to yield high economic growth and development.

Notwithstanding the strictures of the international financial system and WTO disciplines, there is still space for active intervention by developing-country states in the management of their economies.\(^\text{21}\) Indeed, contrary to the popular view that the role of the nation state is decreasing in the face of globalisation and the internationalisation of production, it could equally convincingly be argued that the state's role is in fact becoming more important. This is supported by the 'Endogenous Growth' literature, in which states play a key institutional role in supporting human capital formation. After all, who will manage trade liberalisation processes and the regulation of the domestic economy, if not the state? No doubt this has become more complex in recent years, but it is no less important for states to play this role. However, in the developing world states often run aground on the rocks of insufficient institutional capacity. So even if alternative policy options were feasible, poor governance of trade and economic policy often militates against their adoption. In such circumstances, it is arguably better to pursue a policy of openness, thereby minimising the hazards of special interest group capture and associated corruption, than to plough the protectionist furrow.

The protectionist view also does not take sufficient account of the historical realities on which the governance of the modern global trading system is based. Concerning the evolution of modern global economic governance structures, in particular the WTO, one has to take into account the turbulent 1930s and prior episodes of global economic disintegration. The critical theoretical paradigm here is not to be found in economics, but in political science and the field of

\(^{21}\) In this regard see the interesting article by one of the foremost advocates of the developmental state, Alice Amsden. Amsden A, 'Industrialisation under new WTO law', UNCTAD X High-level Round Table on Trade and Development: Directions for the Twenty First Century, Bangkok, 12 February 2000.
international relations. The essential point is that at key points in history uncontrolled economic rivalry has promoted economic disintegration and warfare on a global scale. To a significant extent these episodes were associated with pervasive protectionist policies pursued in the developed world. To adopt an insight from game theory: what seems like individual rationality (protection promoting domestic industrial development through creation of infant industries) can lead to collective irrationality (beggar-my-neighbour policies of protection causing global economic disintegration). Connecting this discussion back to the concerns raised by the 'New Economic Geography' school, this raises crucial issues of power and control, as Gilpin points out:22

Although neoclassical economists believe that the territorial distribution of economic activity is of little consequence so long as every economy is behaving according to the law of comparative advantage, the question of which country produces what is of the utmost importance to groups, nations, and regions around the world. The geographic distribution of the international division of labour and the ways in which the spatial organisation of economic activities changes over time are among the most contentious issues in the world economy.

Multilateralism is the primary means through which consensus over the 'rules of the game' is obtained for governing international trade. In some theoretical formulations this must be underpinned by the existence of a global hegemonic power capable of ensuring order and the maintenance of an open international trading system.23 It is

23 Gilpin is the originator of the 'Theory of Hegemonic Stability'. The title says it all. For a more provocative exposition of this view, see Lal D, 'Globalisation, imperialism and regulation', UCLA Department of Economics Working Paper, No. 810, 2000. His thesis is that more globalisation is good for the global economy and development, but the US as the current global hegemom needs to become more willing to 'maintain its pax', although not through promoting what he terms 'ethical imperialism' – ie American values. This view has particular resonance in light of current US foreign policy and associated debate in US think-tanks about the US being the 'New Rome'.

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no surprise, therefore, that the manner in which trade negotiations in general are conducted betray deep mercantilist roots.

As the reader will discern from the foregoing arguments, this paper is supportive of promoting openness to trade. However, this is tempered by recognising that this in itself will not deliver the economic gains potentially on offer. Rather, the state must play an active role, in collaboration with business and key civil society institutions, in promoting South Africa's integration into the global economy. In short, the process has to be co-operatively managed. In this light, the next section assesses the strategic approach towards global economic integration adopted by government, in particular the Department of Trade and Industry (the DTI), since 1994. This is done by relating and reviewing in some detail what came to be called the 'Government of South Africa's Global Economic Strategy'. This strategy is assessed in light of our knowledge of its impact to date, and potential future impact.

**Government's Global Economic Strategy**

Chronologically, the first important initiative to be implemented was tariff reform. Thereafter the focus shifted to industrial policy, which has been something of a contested terrain. Meanwhile, on the trade front priority was accorded to two regional negotiations, namely those with the European Union (EU) and the Southern African Development Community (SADC). Lately the pendulum has oscillated between the WTO via the Doha Round and bilateral free trade area (FTA) negotiations. Meanwhile, in the background a new industrial strategy framework is in the process of being implemented under conditions of wholesale institutional re-organisation of the DTI.

Rather than offer an historical account of these initiatives, we focus instead on the thinking behind them, and try to outline possible
future directions. In South Africa the DTI is the lead department in the formulation and implementation of trade policy. It has a range of institutions at its disposal, notably the International Trade and Economic Development Division, which handles negotiations; the newly established International Trade Administration Commission (ITAC—formerly the Board of Tariffs and Trade), which administers trade policy; and Trade and Investment South Africa, which is driving industrial strategy. However, given that trade policy covers a wide field, the DTI does not directly control many of the key policy levers. These are to be found in a range of other specialised government departments. This is an important factor in the DTI’s ongoing restructuring effort, such that the department is building capacity to engage with selected government departments concerning the domestic, and by extension international, economic policy agenda. In all of this the National Treasury arguably plays an important role in maintaining pressure on the DTI for ongoing liberalisation, in line with GEAR. However, the Department of Foreign Affairs currently plays a relatively marginal role.

Therefore, in what follows we focus on the DTI’s thinking on trade strategy. The following is a distillation and interpretation of such thinking. We identify and discuss five features of the DTI’s trade strategy. These features are captured in an official document released by the DTI in 2000 called ‘The Government of South Africa’s Global Economic Strategy: A Policy Framework and Key Elements’. The discussion is forward-looking, with a view to identifying the key drivers of current policy initiatives and possible future directions.

**Tariff reform**

The reforms initiated in 1994 at the culmination of the Uruguay Round of multilateral trade negotiations led to a significant reorganisation of South Africa’s tariff structure. Two key features

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24 The Growth, Employment, and Redistribution Strategy.
stand out: the reduction in the number of tariff lines from over 12,000 to around 7,800; and significant reduction in the overall level of protection, i.e. liberalisation. Chart 2 shows that current imports are mostly tariff-free. Table 3 shows that tariff liberalisation has been most extensive in the manufacturing sector. Furthermore, these figures conceal extensive liberalisation in other areas, notably the replacement of quotas with tariffs particularly in the agricultural sector, and extensive deregulation through reduction of import and export controls and in agriculture the abolition of marketing boards.

So what has been the economic impact of tariff liberalisation? This is very difficult to measure precisely, partly owing to data limitations, but also the difficulty of separating tariff reduction effects from the impact of other policy changes. What is clear is that the economy has undergone significant structural shifts in the 1990s, generally away from reliance on exports of resources towards more value-addition in exports, and increasing dominance of services in the economy. Furthermore, table 4 reveals that the growth of non-primary goods exports has impacted positively on the current account of the balance of payments. However, Bell and Madula argue that the export growth seen to date is still natural-resource based, and that South African manufacturing industry has consequently not escaped its three decades-long decline since the 1970s. It is notable that the manufacturing industry experienced sedentary growth in the 1990s, largely owing to investment stagnation. In addition, import penetration ratios have risen virtually across the board. This is popularly associated with rising unemployment.

Nonetheless, some recent research points to a positive impact overall. Fedderke and Prabhat find that export orientation

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increased rapidly in the 1990s, notably in those sectors that experienced substantial effective trade liberalisation, and that this occurred primarily amongst manufacturing sectors. They find no evidence to support the view that increased effective protection increased export performance. Onyango\textsuperscript{27} et al note that:

While it may be that the resource shifts in the economy are a result of a host of factors other than the trade regime, what seems increasingly clear is that tariff reduction, abolition of subsidies and a continual long-term depreciation of the real effective exchange rate, combined with shrinking domestic demand has induced greater export-orientation, and in essence induced some sectoral shifts in the economy.

It was noted above that time-bound ‘infant industry’ protection under qualified circumstances may be appropriate in some circumstances. In this regard, the recent success of the automotive and chemicals industries should be seen in the context of decades of protection, giving way to substantial liberalisation in the 1990s. However, this policy option is largely precluded in the modern world. Furthermore, given South Africa’s remoteness from the main centres of production and limited market size, it is questionable whether this is still desirable, let alone feasible. In addition, in a globalising, hyper-competitive world high tariffs generally undermine long-term competitiveness.\textsuperscript{28} They also raise prices for producers, inducing an anti-export bias, and for consumers.

In this light, Van Seventer\textsuperscript{29} and Lewis\textsuperscript{30} argue that notwithstanding previous liberalisation, the tariff regime remains cumbersome,


\textsuperscript{28} It is notable that South Africa’s international labour cost competitiveness relative to other developing countries is poor. Of course other costs, such as transport and logistics, are arguably just as important as labour. See Golub S, ‘South Africa’s international cost competitiveness’, TIPS Annual Forum, 18–20 September 2000.

complex, and in some sectors significantly protectionist. Lewis argues that if the large number of zero-rated tariff lines is removed from the calculation of the average tariff, the remaining average is relatively high at 17%. In addition, the tariff structure retains a cascading pattern so that effective rates of protection have not diminished substantially. In this regard, Fedderke et al argue that effective rates of protection (ERPs) have actually increased in several key sectors as a result of the liberalisation process. Furthermore, the substantial depreciation of the real exchange rate since 1994, whilst generally good for exporters, has raised the level of protection thus offsetting liberalisation achieved under the Uruguay round. Lastly, van Seventer notes that tariff peaks remain in several sensitive sectors.

Therefore, tariff reform is being considered on its own merits, as well as within the context of the WTO negotiations. The precise direction this process will take remains to be seen. Possibly it is awaiting clear direction from the implementation of the new industrial strategy framework (see below). Yet the WTO negotiations will force tariff liberalisation up onto the DTI’s agenda at some point. Either way, if the South African government opts for significant reductions in the levels of applied tariffs, then it is likely that the trade policy debate will return to the centre stage of domestic economic policy. This will take on a regional dimension, involving our customs union partners,

31 Ibid., p.4.
32 One of the key demands made by developing countries in the Doha round is that developed countries should eliminate tariff escalation, or the cascade effect, whereby tariffs are highest on consumer goods, moderate on intermediate goods and lowest on raw materials. It is somewhat ironic that many developing countries, including South Africa, retain such systems.
33 Fedderke J & V Prabhat, op.cit.
which will further complicate the process (see 'Reversing Africa's economic marginalisation').

At the centre of this debate will be the extent to which further liberalisation is required. Apart from the structure of the tariff regime, tariff escalation and the tariff peaks noted above, this will also raise interesting questions about the large gap between bound and applied tariffs. Simply put, if the DTI opts to give multilateral concessions on the basis of its bound tariff schedule, it may in effect not liberalise the tariff schedule much at all. Clearly this would suit protectionist interests. Potentially this could be reinforced by the sectoral approach encapsulated in the new industrial strategy (see 'Industrial policy'). However, it is questionable whether key trading partners would accept this. Furthermore, in the context of a broadly based multilateral round of trade negotiations, extensive concessions on the tariff regime may be required in order to gain in other areas of interest to South Africa. In this regard, one of the key debates in the talks on industrial tariffs at the WTO is over the approach to be adopted for tariff offers. If there is ultimately an agreement to implement a formula-based approach, whereby tariffs would be reduced across-the-board according to predetermined formulas, this may well lead to substantial reductions in the remaining level of protection in South Africa.

**Industrial policy**

There was much debate in the 1990s about appropriate industrial strategy for South Africa. The apartheid government, notwithstanding attempts in the late 1970s and 1980s to shift towards export promotion, largely practiced an import-substitution regime.\(^{34}\) It should be noted that the development of a domestic

manufacturing base is intimately connected with the history of protection in South Africa, dating back to the PACT government in 1924. Nevertheless by the 1970s this model had run its course, and the National Party government was essentially unable to change direction owing to its geo-political circumstances and entrenched interests. During the transition to democratic rule and beyond the tri-partite alliance partners engaged in robust debate about the direction industrial strategy should take. In the end a multi-faceted approach was adopted, incorporating supply-side measures and resource-based projects as the two central features. These policy thrusts culminated in a raft of tailored supply-side incentive packages, and a separately designed programme around 'spatial development initiatives'.

Both approaches have since been superceded, although not discarded altogether, by the recently unveiled Integrated Manufacturing Strategy (IMS). This strategy is a distillation of work previously conducted by the DTI, and the deliberations of the cabinet economic and investment ‘cluster’ culminating in the microeconomic reform strategy. The latter strategy identified a number of sectors for targeted policy formulation, as well as key

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35 For a brief discussion of this period see Bell T & N Madula, op. cit., pp.5-8.
36 At the risk of over-simplification these generally focused on innovation enhancement and skills development. At the core of this approach is knowledge-upgrading as the basis for competitiveness.
37 Geographically-defined development programmes driven by projects designed by central government in co-operation with provincial and local government. ‘Anchor projects’ were central to this approach, and were generally based on minerals or agricultural resources. These were generally export-orientated. Supportive infrastructure development was another key feature. This programme was also extended into the region, most famously in the case of the Maputo development corridor.
39 Grouping key economic ministeries together in a high-level effort to co-ordinate policy initiatives amongst them.
enablers of growth such as transport and telecommunications infrastructure. The IMS expanded on the number of sectors, identifying the value-chain methodology as the preferred approach to formulating detailed sectoral strategies for each.\textsuperscript{40} The 'cross-cutting enablers' were also targeted with a view to building policies for each, mostly in partnership with other government departments and agencies.\textsuperscript{41} So those in charge of formulating policy for each targeted sector must take account of a range of objectives and generic drivers of growth. This strategic framework is now guiding the DTI's reorganisation.

Policymakers in the DTI have tried for several years to develop focused sectoral strategies and policies.\textsuperscript{42} This has proven to be a complex undertaking, with mixed results. The obvious success story, which forms a key reference point for other sectors, is the automotive industry. Here the motor industry development plan (MIDP) has been a key factor in the industry's export success in recent years. Understandably, therefore, there is a desire to replicate this success in the other targeted sectors. However, this is very difficult to do as each sector has its own dynamics. Most notably in the case of the automotive industry MNCs are completely dominant, and are key participants in the design of the MIDP. Furthermore, there are doubts about the MIDP's WTO-compatibility. More broadly, the rapid turnover of personnel in the DTI has mitigated against sustained strategy formulation and implementation for other sectors. In addition, the demands on the sector units in terms of the

\textsuperscript{40} In its latest strategy document the DTI identifies 10 sectors: clothing and textiles; mining, metals and minerals; automotive and transport; chemicals; tourism; agriculture; information and communications technology; cultural industries; services; and aerospace. See 'the DTI Medium-Term Strategy Framework, 2003-2006', March 2003.

\textsuperscript{41} The key problem for the DTI here is that it does not directly control the policy levers in many areas, such as telecommunications and biotechnology.

\textsuperscript{42} Several approaches have been used, inter alia: the cluster approach, Porter's competitiveness 'diamond', and now value-chains.
The scope of the objectives they must pursue are increasing all the time, as even a casual reading of the IMS will reveal. In conclusion, it will be difficult to build the sectoral approach as the basis for industrial strategy in South Africa.

This raises complex questions about the interaction between trade and industrial policy. Effective trade negotiations, in particular, should be an extension of coherent, focused, industrial strategy. In turn, sectoral strategies must be based on the sectors' integration into the global economy in light of the strong probability that this will increase over time. So opening up access to key markets abroad, and increasing the competitiveness of domestic markets, should be key premises of industrial strategy. And the process of doing so has complex feedback effects into industrial strategy. Yet owing to the limitations of the actual experience of the sectoral approach noted above, these issues have not really been embedded in DTI practice to date. Perhaps one solution to this conundrum is to focus on overall liberalisation of the tariff regime whilst appropriate capacity is built in the sector units, assuming this can be done. The former would in any event yield considerable economic benefits. The limitation of such an approach is that it would not address the political, and economic, need to negotiate bilateral free trade areas (FTAs), discussed in more detail in section 3.4.

The WTO and the Doha development round

The South African government's key objective in the new round of multilateral trade negotiations is to negotiate outcomes favourable to economic development generally, and to ourselves in particular. So the Doha 'development round' must be given meaningful content. As Trade Minister Alec Erwin remarked in his speech to WTO members in 1999 the route to this is through promoting 'structural adjustment' in the north, notably through reform of agricultural
trade regimes and eliminating protection of sunset industries. This also requires effective disciplines on the use of trade remedies instruments. However, the only way to secure the necessary concessions is to participate in a broad round of negotiations in which the interests of the developed countries (such as services, investment and competition policy) are on the table. Otherwise the trade-offs required to secure market access in areas of key economic interest to developing countries will not be available. Opting out of the negotiations altogether and agitating for wholesale reform or even abolition of the WTO, as some advocate, is not a feasible option. Nonetheless, to the extent that the round succeeds it has major implications for the South African economic policy landscape. It will also require a massive mobilisation effort on the part of government working in partnership with civil society, particularly business, to ensure that the country’s interests are effectively and harmoniously advanced.

43 Erwin A, op. cit., p.2.
44 Anti-dumping, counterveiling, and safeguard duties. The Brazilians adopt a more honest term for these, calling them instruments of ‘trade defence’.
47 Unfortunately space constraints prohibit a detailed breakdown of what this might entail. The scope of the negotiations is simply too vast to condense their potential economic impact on South Africa into a few paragraphs. Some attempts have been made to model the economic impact of a successful round on the world economy, although these of course remain hostage to data limitations and are only as useful as the assumptions on which they are based. A good example is Garret MW, Goldin I & D Rodrik, ‘Scenarios: International trade and the Doha development agenda’, Annual Meeting of the IMF and World Bank, 2003.
48 This relative prioritisation of business is based on the view that business leaders ultimately determine the level of investment through control over investment decisions in the private sector. Therefore if the rate of investment and associated
But the WTO faces several major challenges. First, in the wake of the recent Gulf War and American occupation of Iraq the uncertainties over future multilateral security arrangements could spill over into other multilateral institutions, notably the WTO, with unpredictable consequences. Whilst the mood in trade negotiation circles, notably in Geneva, seems not to reflect this uncertainty, that may change if the recent escalation of trade disputes continues and becomes part of the acrimony currently characterising trans-Atlantic relations. In this regard, WTO deal-making has historically been driven by the US-EU axis, incorporating Canada and Japan into the grouping known as the ‘quad’. Yet relations between the US and key EU member states seem to be seriously strained in the wake of the Iraq war. This tension may spill over into the WTO and manifest itself in key negotiations and alliances. The stakes are high.

Second, the character and implicit strength of the developing world has changed since the last (Uruguay) round of negotiations. Several countries are emerging as major economic and regional powers in their own right, including Brazil, China, and India. South Africa is an important regional player in the African context. Yet these countries, and developing countries in general, are not homogenous, rendering agreement amongst them difficult to achieve. This is reflected in the current impasse over ‘special and differential treatment’ (SDT). At the core of this is unwillingness on the part of developed countries to negotiate substantively different rules for developing countries beyond longer implementation periods, and unwillingness on the part of developing countries to accept the need for differentiation in SDT.\footnote{Failure to reach agreement could jeopardise the broad economic growth are to grow to levels appropriate to sustaining rapid economic expansion and employment creation, business must be closely consulted in formulating negotiating positions and strategies as agreements reached will impact on their investment decisions.} Or are both groups practising brinkmanship?
consensus required for a 'single undertaking' to bring conclusion to the Doha round.

Third, there are growing concerns about global economic prospects. It is important to recall that the economic difficulties of the 1930s were a primary cause of economic and political disintegration in that period. Current fears are centred on the United States, linked to emerging evidence that it may be on the verge of deflation. Japan has been stuck in a deflationary environment in conditions of macroeconomic decay and the effective insolvency of its banking system for more than a decade, with no apparent end in sight. And Germany, the locomotive of the European economy, is similarly experiencing stagnant economic conditions and the potential onset of deflation. These fears, and the recent depreciation of the US dollar, are giving rise to the view that competitive monetary reflation, principally through interest rate reductions, may occur in these centres of the global economy. Hopefully this will lay the foundation for future economic growth. However, in the short-term it could add to the tensions between the major industrialised powers.

50 Meaning that nothing is agreed until everything is agreed.

51 It seems unable to implement hard reforms to reverse this situation, not least because it is constrained by the EU's growth and stability pact. These fiscal strictures also raise questions about the long-term sustainability of the EU's monetary union project, as The Economist consistently points out. This is one reason why the United Kingdom remains reluctant to join the euro. Meanwhile, the eastward expansion of the EU is bringing to the surface deep divisions amongst member states, which have been exacerbated by the Iraq war. The constitutional debate underway in Europe may heighten these tensions. So Europe's institutions are under considerable stress, at a time when global economic prospects do not look particularly bright and trans-Atlantic tensions are on the rise.

Furthermore, the growth of regional trading arrangements since the conclusion of the Uruguay round continues unabated. At a time of global economic stress and the difficulty of attaining consensus in the WTO, regionalism has become an increasingly attractive option for many countries. The stresses in the security realm identified above may reinforce this trend, at the possible expense of the multilateral trading system. Developing countries, and South Africa in particular, have a major stake in the rules-based multilateral trading system epitomised and underpinned by the WTO. The prospect of the US and Europe going alone, possibly engaging in protracted economic conflict in conditions of global economic decline are too scary to contemplate.\textsuperscript{53} In such a world, developing countries would be the biggest losers, dependent as they are on developed country markets and investment. The only guarantee against such an outcome is a successful conclusion to the Doha round. The rules-based multilateral trading system, imperfect as it is, offers the only protection for the weak against the strong.

But developing countries are justifiably not satisfied with existing WTO agreements. The rules and disciplines embedded in them were negotiated in different historical conditions to those prevailing today, favouring the small group of developed countries that designed them. Now WTO membership is dominated by a large heterogeneous group of developed and developing countries with the latter in the majority. Therefore, the interests at play in the negotiations are vast and varied, making overall agreement difficult to obtain. This is reflected in the current gridlock in Geneva in key areas of negotiation, particularly those of concern to developing countries: agriculture, the litmus test of the Doha round; the agreement on Trade Related Intellectual Property Rights; continued protection of ‘sunset industries’, notably steel and clothing and textiles, in developed countries; and SDT.

\textsuperscript{53} Although this seems an unlikely scenario given the depth of trans-Atlantic relations and the priority both the US and the EU accord to the WTO.
Consequently, it is unlikely (although not impossible) that the forthcoming WTO ministerial meeting in Cancun this September will make any major breakthroughs. This outcome would be unfortunate in light of the current geo-political environment. However, the scope and scale of the negotiations is so vast that it would be unrealistic to expect progress to be rapid. After all, the Uruguay round took eight years to complete.\(^{54}\)

It is clear from the above that it will take a considerable period of time to bring the Doha round to a successful conclusion. Meanwhile, as far as South Africa is concerned, the pressure to increase our economy’s competitiveness continues to rise inexorably. Therefore, alternative avenues for promoting such competitiveness via trade liberalisation have to be developed, notably in the arena of bilateral FTA negotiations.

**Strategic partnerships**

The most significant FTA negotiated by the South African government to date is that with the EU. As the name of the agreement suggests, it is more than a pure trade agreement.\(^{55}\) The tariff liberalisation schedule is asymmetric.\(^{56}\) The EU will fully liberalise 95\% of imports from South Africa over 10 years. South Africa will fully liberalise 86\% of its imports from the EU over 12 years. According to DTI estimates, South African duty-free access to the EU agricultural market includes about 74\% of 1997 agricultural exports. This includes establishment of tariff quotas and quotas

\(^{54}\) For a brief analysis of the key strategic issues requiring resolution if the new round is to succeed, see Draper P, ‘Developing nations must grasp the changing trade agenda’, *Business Report*, 7 May 2003.

\(^{55}\) It is called the ‘Trade, Development, and Co-operation Agreement’. The co-operation component covers various forms of economic co-operation, and development co-operation via EU aid.

\(^{56}\) The following information is sourced from a DTI briefing document on the TDCA, 25 March 1999.
where these did not exist previously, but are subject to regular review. Industrial exports, barring some sensitive items relegated to reserve lists, will be mostly duty free within three years of implementation.\(^{57}\) South Africa’s sensitive sectors are protected through protocols,\(^{58}\) although these will be regularly reviewed.\(^{59}\) In the agricultural sector protection against surges of subsidised EU exports is provided through an agricultural safeguard clause, whilst certain EU agricultural products will not receive export refunds in return for lower South African tariffs on these items. Furthermore, a comprehensive safeguard mechanism provides for South Africa or our Southern African Customs Union (SACU) partners to protect ‘infant industries’ during the transitional phases in the event of import surges.

A glance at the aggregate level of tariff liberalisation on the South African side (see table 5) suggests that it is not radical.\(^{60}\) Certainly it does not appear as ‘generous’ as the treatment accorded to our SADC partners, although this should be the case given their levels of development. Furthermore, as we note in the case of the SADC FTA below, a liberal trade agreement can be undermined by the rules of origin that govern it. The SA–EU TDCA provides for list rules, whereby origin determination applies on a product-specific basis; and cumulation rules, whereby under certain conditions inputs can

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\(^{57}\) There is some evidence to suggest that South African exporters continue to receive better tariff rates under the EU’s GSP system than under the TDCA. Nonetheless, as recent Latin American experience with the EU’s GSP system demonstrates, these preferences are not guaranteed, unlike those in an FTA. See ‘Latin America to feel effects of EU GSP review’, *Bridges Weekly Trade News Digest*, 7, 15, 30 April 2003.

\(^{58}\) Covering automobiles and components, textiles and clothing, red meat, sugar, winter grains, and dairy.

\(^{59}\) For example, the automotive sector is currently in negotiations with the EU regarding trade in cars.

\(^{60}\) At first sight it would seem that tariff levels have in fact increased; however this is owing to Van Seventer’s conversion of non-ad valorem tariffs into ad valorem equivalents in the EU and SADC schedules. See Van Seventer, *op. cit.*, p.7.
be considered as originating in the EU, South Africa, or ACP states. Products that do not meet these criteria do not qualify for tariff preferences. The complexity of these arrangements and the administrative capacity required to implement them militate against the full potential benefits of tariff liberalisation being achieved, at least on the South African side and the broader SADC region.61

Turning to the present, the DTI has prioritised eleven 'strategic partner' countries outside of Africa.62 Excluding the four EU members, the principle instrument for building bilateral economic relations with the remaining seven is FTA negotiations, although the DTI is not seeking such negotiations with all of them at this stage. The rationale behind this is that the South African economy is small, offering limited economies of scale for domestic producers. These partnerships offer significant market access opportunities. Furthermore, subject to the caveats noted below in the case of China and India, reciprocal access to our market will ensure domestic producers remain competitive. As things currently stand, the US, Mercosur, and the European Free Trade Area (EFTA) are receiving particular priority. Further down the line China, India, and possibly Nigeria are on the list.

Clearly the most significant of these is the US. Their negotiating objectives are ambitious, probably leading the US team to request more significant liberalisation across a broader terrain than the EU TDCA provides for. US negotiators may consult the EU TDCA in order to fine-tune their requests, but are far more likely to be guided by their own domestic interests. For example a notable inclusion, absent from the TDCA, is services. This could inject a new momentum into South Africa’s liberalisation effort, providing a real spur to competitiveness. On the defensive side, South African

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61 SADC states are also ACP members. For further details see Joubert N, 'The SA-EU free trade agreement: Rules of origin and cumulation', TRALAC, 6 August 2002.
62 Brazil, the United States, the United Kingdom, France, Germany, Sweden, Russia, China, Japan, Australia and India.
negotiators need to guard against imports of subsidised agricultural goods from the US, and keep a careful watch on US use of trade remedies instruments. Furthermore, it is uncertain whether the US favours asymmetry as the basis for negotiations, or if it accepts this, what form it will take. In addition approximately 90% of South Africa’s current exports to the US enter duty free under their GSP system and AGOA. Therefore, aside from the approximately 10% of South African exports that attract duties, our negotiators will likely be most focused on locking-in preference levels currently enjoyed. An additional area of focus will be US rules of origin, particularly on clothing and textiles.

Turning to EFTA, this negotiation is essentially a completion of the European space, and as such does not represent a strategic choice on the level of the non-EU partners cited above. Nonetheless, given that the stakes are relatively low, this negotiation will provide learning opportunities for DTI negotiators (the importance of which should not be under-estimated) and a testing ground for new generation FTAs.

From a foreign policy perspective the negotiations with Mercosur are significant. This hinges on South Africa-Brazil relations, holding the prospect of a south-south FTA between two regional powers. The same logic applies to the potential FTAs with China, India, and Nigeria. However, the economics of the potential FTAs with the former two give rise to concerns over issues of possible industrial relocation arising from reciprocal changes to market access conditions. Furthermore, contrary to what some in the DTI think it is unlikely that MNCs will invest in South Africa in order to access any of these markets. It makes far more sense for them to invest directly

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63 Verbal communication with US embassy personnel and with Dirk van Seventer, TIPS.
64 Those which go beyond trade in goods.
in those countries. Given that MNCs play important roles in all of these countries including South Africa, and often have operations in them, the strategies they pursue have to be taken into account in formulating negotiating strategies.

Much depends on the architecture of any agreement to be negotiated. In this regard the DTI is considering the possibility of confining negotiations to preferential, or sector-specific, agreements rather than those of the 'substantially all trade' model that pertain to 'north-south' negotiations. If the recent developments in economic theory noted in section 2 are a useful guide, then this could be a sensible approach. However, the form they will take remains to be seen.

It is too soon in the life of the TDCA to evaluate its economic impact, as it has only recently been implemented. Nonetheless, given that South Africa's trade with the EU constitutes approximately 40% of the total, this agreement is clearly significant. Yet the overall impact on trade flows will perhaps not be as widespread as is popularly believed, owing to the likelihood that MFN tariffs on both sides are likely to decrease by virtue of agreements still to be negotiated in the Doha round. This means that the EU's level of preference will be eroded over time, subject to the degree of ambition in South Africa's multilateral commitments. Forthcoming FTAs with other partners will reinforce this effect. On the other hand, we should also note that

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65 This assertion is backed by recent research evaluating FDI in Southern Africa. See Jenkins C & L Thomas, 'Foreign direct investment in Southern Africa: Characteristics of foreign enterprises and some implications for economic growth and poverty alleviation'. Presentation at the Seminar on Foreign Direct Investment in SADC, Pretoria, 9 April 2003. See also Gelb S, 'Foreign companies in South Africa: Entry, performance and impact – An overview', The Edge Institute, September 2002.

66 In this context the SADC FTA could be considered as north-south in that South Africa represents an industrial centre relative to the other SADC states, with the possible exception of Zimbabwe.

67 In January 2000.
the eastward expansion of the EU may lead to erosion of South Africa’s tariff preferences in favour of eastern European accession countries, perhaps requiring re-negotiation of some aspects of the TDCA at some point.⁶⁸ Considered cumulatively, all these agreements will have a substantial liberalising effect. However, given the various escape clauses and regulations governing them, as well as the likelihood that concessions offered will not be too ambitious owing to political sensitivities, it is unlikely that we will witness radical liberalisation.

Reversing Africa’s economic marginalisation

Africa is a foreign policy priority for South Africa. Partly this is because it is clear that the African continent is becoming increasingly marginalised from the global economy. The reasons for this are complex, and cannot detain us here. Instead, we outline the DTI’s initiatives to address this marginalisation in a context where Africa is an important destination for our value-added exports. This lends a self-interested dimension to government’s policy formulation for the continent.

First, the South African government is supporting promotion of market access for African goods into key developed country markets, using the Doha round as a vehicle. However, these exports are currently narrowly based, and are typically to be found in primary commodities. In addition, African agriculture, which should be a key comparative advantage, is generally highly protected and in some cases dependent on imports of subsidised agricultural products from the EU. Given the centrality of negotiations on agricultural trade to the Doha round and South Africa’s clear interest in far-reaching liberalisation in

⁶⁸ The TDCA provides for consultations between South Africa and the EU in the event that eastward enlargement materially affects the balance of interests in the agreement.
this sector, this could put us at odds with some of our African partners. It is therefore debatable whether the majority of African states have an interest in a broad round of WTO negotiations given that their export interests are comparatively few. It would not be surprising to find that they regard their interests as being primarily defensive. This puts them into a somewhat contradictory position relative to South Africa, which has much more diverse interests and capabilities. So, one could expect African states to regard the South African government with some degree of suspicion on this front. Therefore, it will be difficult for South Africa to co-operatively develop and maintain common African positions in the WTO negotiations.

Therefore one of the New Partnership for African Development's (Nepad) key goals is to promote export diversification on the continent. This goal is now concretely reflected in the French action plan for African trade put forward for the G8 summit in Evian. This plan is certainly a step in the right direction, although it has serious limitations. It will be interesting to see whether this plan is adopted and if so what form it takes.

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70 This proposes action on three fronts: a moratorium on agricultural export subsidies and associated forms of support (such as food aid) for OECD exports to sub-Saharan Africa; harmonisation of OECD preference systems into one commonly applied system for Africa, allowing for exports of ‘semi-finished’ goods to OECD markets; and renewed discussions on commodity price co-ordination mechanisms with a view to providing short-term relief to African exporters of such commodities.

71 Notably that French generosity apparently does not extend to final industrial goods. In addition it is possible that other developing countries and LDCs will take exception to Africa being singled out for such special treatment (are African LDCs any more deserving than Pacific-island states?). Furthermore, the likely political and organisational nightmare of trying to develop a single GSP system administered by the G7 is likely to render the initiative still-born. Finally, given the failed history of efforts to create commodity-price co-ordination mechanisms,
Meanwhile, the DTI is attempting to develop a trade strategy for the continent. Carim notes that this is focused on deepening intra-African trade in order to overcome the '... situation where Africa exports its commodities to the North in exchange for higher value-added manufactured imports.' In this light, he argues that US and EU initiatives require such a strategic response from African countries and South Africa. From the South African standpoint, he identifies four possibilities, reproduced in full below:

- Extension of bilateral preferences with agreement that recipients reciprocate after a given transitional period;
- Individual country accessions to existing regional arrangements pursuing bilateral preferential/free trade agreements among key countries;
- Reciprocal exchanges of preferences on a trade bloc-to-bloc basis;
- An all-Africa free trade area, as envisaged in the Abuja treaty and carried over into the African Union.

He does not indicate which of these options, or in what combinations, South Africa should pursue. However, he notes that whatever option(s) are pursued should take asymmetry as the starting point, in recognition of differential economic structures and institutional capabilities. He also argues that such arrangements should be as liberal as possible in order to ensure maximum benefit, but that this should be complemented by strong trade facilitation... inter alia under the auspices of UNCTAD, it is doubtful whether the proposed discussions would ever succeed.


Through the African Growth and Opportunities Act.

Through the Cotonou, or post-Lome, process of negotiating Regional Economic Partnership Agreements.


Signed in 1991 at the OAU meeting in Abuja, it envisaged the creation of an African Economic Community by 2025.
programmes appropriately resourced through technical assistance where possible.\footnote{In this regard the South African government, through the DTI, is assisting the African, Caribbean, and Pacific states in their negotiations with the EU. Such assistance is also available to South Africa’s partners in the SACU.}

Bell and Madula,\footnote{Bell T & N Madula, ‘The potential for trade among members of the New Partnership for Africa’s Development’, National Institute for Economic Policy, March 2002.} on the other hand, argue for caution in such an approach. Drawing on the insights of the ‘New Economic Geography’ noted earlier that south-south arrangements are more likely to cause industrial concentration in a few centres, they argue that the key developmental issue African countries face is to promote industrialisation. However, rather than offer a view as to how this could be done they note that more research is required into this question.

Either way, there remain significant obstacles in the way of such a path. There is a proliferation of regional economic arrangements on the continent, at different stages of integration. Many countries, notably in our region, are members of several arrangements. Furthermore, these schemes are typically supported through donor-funded secretariats, raising questions about their long-term viability. Lastly, security issues throughout the continent mitigate against the more ambitious schemes, and threaten to divide region-specific arrangements. Of course this could also constitute an argument in favour of greater regional integration, given the political roots of such arrangements worldwide. Nonetheless, the point is that it is difficult to see how the more ambitious schemes could be realised except perhaps within a very long time horizon.\footnote{But then we should recall Keynes’s famous remark that ‘in the long-run, we are all dead’!}
Notwithstanding this, the South African government assists African countries in export diversification by promoting investment in infrastructure and industrial projects. This thrust is being supported by a number of South African parastatals. South African companies have benefited directly from this, a fact which is reflected in the surge of investments and exports from South Africa into the continent. This pattern has parallels with the 'flying geese' process identified as being of such importance in the development of southeast Asia in the 1980s and 1990s. Yet it is doubtful whether the South African economy has the power to drive development on as large a scale as the Japanese were able to do in southeast Asia. Nonetheless, the project-based approach arguably has the most potential to directly contribute to Nepad’s development goals.

Closer to home, the South African government aims to develop our region by offering improved and asymmetrical access to our market through the SADC FTA. This has led to a substantial tariff phase-down (see table 5). There are also attempts to commence negotiations on services trade, although these have yet to get off the ground. However, there is a view that liberalisation through the FTA has been offset by strict rules of origin in particular sectors in South Africa. Furthermore, much work remains to be done in the area of trade facilitation, and institutional capacity in the region is very weak. There is also considerable confusion amongst SADC member states arising from the possible formation of a COMESA customs-union, in which several SADC states are members. If this plan goes ahead it could cause regional realignments and create confusion

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82 Common Market for Eastern and Southern Africa.
over implementation of the SADC FTA in the new customs union.\textsuperscript{83} Therefore, it remains to be seen whether SADC member states will be able to take full advantage of the tariff concessions obtained to date.

Lastly, SACU is an important basis for the government’s global strategy. It was recently re-launched following the conclusion of the new SACU agreement. This agreement is of historic significance in that it commits South Africa to effectively ceding sovereignty over trade policy formulation and implementation to new supra-national institutions, which have yet to be established. In essence, all decisions over tariffs and trade remedies will be taken at the SACU level by a council of Ministers, advised in turn by a new SACU tariff body and a commission of senior officials. National institutions, in South Africa’s case ITAC, will merely provide recommendations to these structures, on the basis of investigations the former conduct. So SACU will potentially be fully involved in all current and future negotiations.

This raises interesting questions about decision-making and relative power regarding the determination of South Africa’s trade policy. If faithfully implemented, SACU decision-making will be democratised, with uncertain consequences regarding the future course of South Africa’s trade policy. However, to allay the fears of doomsayers in South Africa concerned about losing autonomy to our BLNS\textsuperscript{84} partners, it is worth recalling an anecdote sourced from Mercosur. There they have a saying: ‘Mercosur operates on the basis of consensus. But there cannot be consensus without Brazil!’ Given South Africa’s centrality to the new revenue sharing formula through which the BLNS countries will continue to be subsidised,

\textsuperscript{83} Assuming a common external tariff is to be developed for Comesa, would this require re-negotiating the SADC agreement?

\textsuperscript{84} Botswana, Lesotho, Namibia and Swaziland.
and South Africa's economic dominance in SACU, it is unlikely that anything substantially different will obtain here.

In closing, it should be noted that the new agreement does not represent a substantial step forward regarding further liberalisation of trade and deeper economic integration within SACU.\(^{85}\) For example, it only covers trade in goods, excluding trade in services. Furthermore, the BLNS have an interest in retaining high tariffs given their dependence on customs revenues. This could potentially provide a convenient smokescreen behind which South African negotiators could hide should the South African government wish to prevent further liberalisation. However, should the government opt for substantial liberalisation this is unlikely to be an insurmountable obstacle given the power disparities noted above.

**Concluding Remarks**

This paper has argued that trade liberalisation is appropriate in South Africa. However, this is subject to the need to maintain social stability in light of the fact that trade liberalisation generates winners and losers. From the analysis in section three it is apparent that, whilst substantial liberalisation has been undertaken since 1994, there is scope to significantly liberalise further. If this path is pursued, it will have to be co-operatively managed with our SACU partners. The tariff regime is of particular importance but other arenas, notably trade in services, are also important. These issues are being forced on the South African government in any event through the WTO, but given the complexities involved in reaching agreement there it will take time for these to manifest themselves.

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Meanwhile, the imperative remains. Therefore, government’s moves to secure reciprocal market access through bilateral FTAs with strategic partners are to be welcomed. Notable amongst these are the negotiations with the US, which promise the most liberalisation. However, there are substantial risks to guard against; hence in some areas carefully delimited protection will be required. Regarding FTAs with other strategic partners the DTI is encouraged to pursue a limited approach, restricting them to carefully identified sectors in which mutual benefit is clearly obtainable. Concerning Africa, the argument in this paper is that the ‘project-approach’ is the most suitable for South Africa to pursue. The government should continue to support African efforts to engage comprehensively with the WTO, but should not expect to receive a welcoming reception. Finally, some careful thought should be given to the trajectory of the regional integration project centred on SADC in light of recent developments concerning Comesa. The paper does not take a view on this, given the centrality of security issues in the region and the consequent need to be sensitive to these in arriving at prescriptions.

So the South African government, through the DTI, is following the path of further liberalisation. However, there are enough potential loopholes, notably in the large gap between bound and applied tariffs and the DTI’s new sectoral approach, to caution us that this path could ultimately be derailed. Furthermore, the sensitivities around further liberalisation will have to be carefully managed if the process is not to be thrown off track. This requires sustained dialogue based on quality research.
### Table 1: Comparative openness to trade

<table>
<thead>
<tr>
<th>Group</th>
<th>Imports/GDP (%)</th>
<th>Exports/GDP (%)</th>
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<tbody>
<tr>
<td>South Africa</td>
<td>19</td>
<td>26</td>
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<td>Developing Countries</td>
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<td>LDCs</td>
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<td>Arab States</td>
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<td>East Asia and the Pacific</td>
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<td>Latin America and the Caribbean</td>
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<td>South Asia</td>
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<td>Sub-Saharan Africa</td>
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<td>Central and Eastern Europe and the CIS</td>
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<tr>
<td>Low human development</td>
<td>24</td>
<td>28</td>
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#### Source:
UNDP Human Development Report 2002, pp.200–1
Chart 1: Share of developing countries in merchandise imports of selected markets, 1990–2000

Developed regions

Developing regions

Table 2: World merchandise trade by region and selected economy, 1948–99

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<td>Exports: Value ($ billion)</td>
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<tr>
<td>World</td>
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<td>83.0</td>
<td>157.0</td>
<td>578.0</td>
<td>1835.0</td>
<td>3639.0</td>
<td>5473.0</td>
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<tr>
<td>Export: Share (%)</td>
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### Table 2: World merchandise trade by region and selected economy, 1948–99 (continued)

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*a* Figures are significantly affected by: (i) changes in the country composition of the region and major adjustment in trade conversion factors between 1983 and 1993; and (ii) the inclusion of the Baltic States and the CIS mutual trade between 1993 and 1999.

*b* Membership as of the year stated.

*Note:* Between 1973–83 and 1993–99 export and import shares were significantly influenced by oil price developments.

*Source:* WTO Secretariat
Chart 2: Tariff lines (July 2000) and corresponding import values (2000)

Source: Dirk Ernst van Seventer, Trade and Industrial Policy Strategies, mimeo.
### Table 3: Tariff structure for 1997, 2000 and 2001 with imports for 200

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<th>imports (R million curr pr)</th>
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### Table 4: Current account ratios

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