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SOUTH AFRICA AND THE GATT

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Introduction

After years of political isolation from the multilateral trading system, South Africa is now being required not only to conform to the existing provisions of the General Agreement on Tariffs and Trade (GATT), but also to sign on to the Uruguay Round, which means further commitments to trade liberalization. These circumstances, together with the deteriorating performance of South Africa's traditional exports, have led to introspection and debate in the fields of trade and industry policy. Some new thinking in the field of trade policy is reflected in South Africa's current offers to the GATT, but the policies are partially formed and far from complete.

The General Agreement on Tariffs and Trade

South Africa was one of twenty-three founder members of the GATT in 1948. The General Agreement on Tariffs and Trade was rooted in the fear that the collapse of world trade, which was a major ingredient of the depression of the 1930s, could repeat itself unless obstacles were put in its place. The United States had also recently been converted to the notion that free trade was the key guarantor of economic growth, and would undermine communism. Originally an International Trade Organisation (ITO) that paralleled the IMF and the IBRD (World Bank) was planned, but the United States pre-empted the initiative by simultaneously negotiating the GATT with 22 other countries. The treaty consisted of a general framework of rights and obligations for its members.

Since its founding, the GATT has expanded to over a hundred 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 in Montevideo in Uruguay, and is called the Uruguay Round. It was due for completion after five years of negotiation, but because of the take it or leave it package deal nature of the Round (in place of the past structure of core negotiations plus voluntary Codes), and because of the sensitivity of agricultural trade policy reform, the Round has not yet been completed. Optimists still hope that the Round will be completed on December 15, 1993, ratified by April 15, 1994, and implemented from January 1, 1995.

The GATT works according to three principles: reciprocity, non-discrimination and transparency. 'Reciprocity' entails that if one country lowers its tariffs against another's exports, it can expect the other country to lower its tariffs in return. 'Non-discrimination' indicates that all ordinary members of the GATT have 'most-favoured nation' status, which entitle them to benefit from a tariff lowering initiative from any other member. As the *Economist* put it a few years ago, this is 'an exceptionally powerful double-act'. Some forms of preferential trade arrangements are allowed by the GATT, if they are considered 'trade-creating' rather than 'trade diverting'.

'Transparency' means that where protectionism exists, it should take the form of visible tariffs rather than opaque non-tariff barriers such as quotas.

From the 1960s, developing countries were allowed 'special and differential treatment', which meant that 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. 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.

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In recent times the most interesting change has been the shift in perspectives between developed and developing countries. Originally, developed countries championed trade liberalization, and developing countries were reluctant, tardy partners. Today, many developing countries accept the virtues of liberalization, 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. Jagdish Bagwhati, a distinguished liberal trade economist, now refers to American behaviour in the trade arena as 'aggressive unilateralism'. 'The new protectionism' is a serious issue for countries such as South Africa which have no access to preferential trade arrangements, and therefore rely on the effective operation of the GATT as the guarantor of a reasonably level playing field.

South African Trade Policy

The original orientation of South African trade policy, dating back to the 1920s, rested on the assumption that domestic import substitution industrialization could be financed by the export of natural resource products such as gold and diamonds. This led to the development of expensive and complex protectionist structures which nurtured largely inefficient domestic manufacturing industries. These tendencies were strengthened by the permissiveness of the state as regards the protectionist behaviour of powerful business groups, and by strategic concerns deriving from apartheid-induced international isolation.

In the early 1970s some economic analysts realised that the unprocessed natural resource exports provided a rapidly weakening basis for economic development policy. But, while some export incentives were introduced, powerful political and economic interests inhibited a substantial trade policy reform.

So, by the early 1990s, South Africa was left with a complex, unstable, unpredictable system of protection, which bore no relationship to a programme of industrial development, let alone export-oriented industrialization. In spite of some reform in the 1980s, 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 broad spectrum of South African commentators and government institutions proposed various paths to trade and industrial policy reform in the late 1980s and early 1990s. In addition, both the World Bank and the GATT Trade Policy Review Mechanism issued reports during 1993 recommending the rationalisation and reform of South African trade policy. (While all parties agreed that South African trade policy needed reform, not all agreed on the content of that reform. For this report, however, the different approaches to South African trade policy reform will be largely ignored.)

The Uruguay Round and South Africa

The pressures of the Uruguay Round therefore came at a time of general agreement that trade policy reform was necessary in South Africa. The problem was that some felt that not enough research had been done to develop an appropriate approach to trade and industrial policy reform.

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

* A 33% average cut of all industrial tariffs (in the context of the conversion of non-tariff and specific barriers into *ad valorem* duties). Both industrial and agricultural tariff cuts are to be phased into equal annual cuts over five years;

* A 36% average cut of all agricultural tariffs (in a similar context), and the diminution of domestic supports and export subsidies, and guarantees of minimum levels of market access for agricultural products;

* Agreement to a series of compulsory codes on export subsidies, trade related investment measures (TRIMs) (eg. local content programmes), and other issues;

* A commitment to a longer-term programme of liberalizing barriers to the trade of services (from architectural services to air travel);

* And an agreement to bring textiles and clothing into the GATT instead of segregating them, in a Multifibre Agreement.

All these had to be agreed to by all members of the GATT. Accession to Codes did not involve any domestic commitment beyond agreement, though there may be scope for negotiating phasing-in periods. However, the industrial and agricultural offers required that the government decide how the average cuts were to be distributed amongst industrial sectors.

South Africa's offer

South Africa put forward offers for negotiation in 1990 according to the original timetable of the GATT. These offers were drawn up with limited consultation with the private sector, and no consultation beyond it, leading to angry accusations of secrecy and high-handedness. As the right of the minority government to make unilateral decisions that would affect the long-term future of the country came under fiery questioning, the freedom for government to behave in this way diminished.

While the delayed negotiations meant that South Africa's original offers were never formally negotiated, 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.) The reasons offered for their withdrawal include vague references to the unhappiness to trading partners (especially concerning the agricultural offer), to arguments that the offers were hastily prepared and needed to be revised into a more consistent structure, reflecting policy considerations.

The revised industrial tariff offer has these main characteristics:

* About 12 800 tariff lines will be rationalised into no more than a thousand lines;

* 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 maximum tariff at one of these 6 levels.

* There are some exceptions with higher longer phasing-in periods, or higher terminal maxima, or both. The most significant are: the clothing and textiles sector with an 8-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.

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 specialization in fields in which South Africa has some comparative advantage.

Unlike the first offer, the revised offer was canvassed more widely. In addition to being published, the offer was discussed in the National Economic Forum and in several 'industrial task forces'. These are tripartite institutions on which the government, business and labour are represented. 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 of the offer which elicited the greatest controversy were the exceptions in the offer, rather than the structure of the offer in general.

At the time of writing the agricultural offer has not yet been finalised. The main features of the draft were the following:

* Agricultural tariffs would be cut by an average 36% from their 'base rates' which were taken from the period 1986-1988. Within this, tariffs up to 5% would be eliminated, and successive categories of tariffs would be cut by rising percentages, peaking at a 60% cut in tariffs higher than 200%.

* Staple products such as wheat and wheat products, which operate in very distorted world markets because of export subsidies operated by several major exporters, have very high terminal rates in the South African offer, as high as 140%. Products not locally produced, and processed food products have relatively low tariffs, between 0% and about 40%.

* In general, the agricultural offer reflects the existing structure of protection, somewhat liberalized, in contrast with the industrial offer which reflects an industrial policy orientation favouring the manufacture of higher value-added products. Agriculture officials argue that their offer does not reflect a new policy orientation because there is as yet no new agreed policy orientation for the agricultural sector. There is, as a result, some degree of mismatch between the agriculture offer which contains high tariffs on some industrial raw materials (such as cotton), and the industrial offer which sets low tariffs for almost all industrial raw materials.

* In addition, the agricultural offer was required to make certain commitments with regard to: (i) minimum levels of access to local markets; (ii) internal market support mechanisms; and (iii) export subsidies. Of these, only the last item is really important as, compared with several other countries, South African agricultural

policy is already relatively liberalized. The restrictive offer on export subsidies (to be reduced by 36% over 10 years) could inhibit the re-entry of South African agricultural products, and the entry of new products into world markets.

Most of the other provisions of South Africa's GATT offer are simply made in accordance with the 'package deal' provisions of the Round. South Africa therefore must simply make general commitments on questions such as 'TRIMs' and intellectual property rights.

One unanswered question here is the issue of South Africa's status within the GATT. While South Africa has traditionally been considered a developed country by the GATT, recent negotiations over our right to retain surcharges on imports to protect our balance of payments resulted in South Africa being considered an 'economy in transition'. This concept was developed to allow the former socialist countries some concessions, without granting them full 'developing country' status. The precise implications of 'economy in transition' status is still unclear, but it would seem to entail longer adjustment periods to new levels of GATT rules. It is not clear whether the government is able or willing to employ this status in the negotiation process. It is equally unclear whether a democratic government would be able to win full developing country status for South Africa within the GATT. 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.

The question of the services offer is still a little murky. The South African offer appears to propose that we bind ourselves to protect our services no more than current levels of protection provide. This offer was made on the assumption that South African services are already relatively unprotected in international markets. It seems at this stage as if this is one point on which our trading partners may wish to pressure us.

Beyond the GATT Negotiations

South Africa's offer to the GATT was made under difficult political circumstances, and without a sufficient degree of preparation. Nevertheless, 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 have disastrous effects, it will still be possible to renegotiate them, but normally, increased protection for certain 'bound' items requires the equivalent liberalization of other 'bound' items. Such juggling should be possible within the structure of the South African tariff offers.

Within these broad parameters, however, there are still many domestic decisions to be made. GATT merely sets maximum levels of protection, not minima. GATT does not formulate the industrial policy to make the tariff offer work; like the 'actual' level of protection (within the GATT maxima), industrial policies remain unformulated. 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. Several policy research initiatives are currently investigating appropriate policies and institutional frameworks for future trade and industrial policies. Some are located within government and the Industrial Development Corporation; others are located in the private sector such as the COSATU-linked Industrial Strategy Project, the UCT-based Trade Policy Monitoring Project, and the South African Chamber of Business's industrial policy initiative. The key issue over the next few months, in addition to the outcome of the GATT negotiations, will be whether these initiatives will come together in an effective, legitimate institutional framework for trade and industrial policy.