

## **SOUTH AFRICAN FOREIGN TRADE POLICY AND ECONOMIC DIPLOMACY IN AN ERA OF GLOBALISATION**

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### **1. INTRODUCTION**

Zwingle, quoted in Bertelsmann-Scott (2000:14), views globalisation as a reality, not a choice. Such a description of globalisation as an irreversible fact of life is an attempt to show that any critical analysis of this process should be made with a view that no state can escape the process of globalisation and its manifestations and equally so, no region can afford to be left behind.

Globalisation has, through its powerful forces, changed and reshaped the global economy in fundamental ways, with serious implications for South Africa and the Southern African region. The reshaping of the world's economy raises important questions about the place of economic issues in foreign policy (Davies 1996a:36). Economic issues for all practical purposes form an integral part of any foreign policy formulation process. Any formulation of foreign policy and the conduct of a country's diplomacy should therefore recognise that economic issues are vital and should be given consideration. Furthermore, foreign trade policy also underpins and informs the making of foreign policy and the conduct of a country's diplomacy. This understanding therefore clarifies the relationship that exists between foreign policy, economic diplomacy and foreign trade policy. In South Africa this relationship found expression in the end of the country's isolation, which marked the beginning of its acceptance into the global world. Several trade agreements with neighbouring and foreign countries were concluded such as the South Africa–Southern African Development Community (SADC) Multilateral Trade Agreement and the South Africa (SA)–European Union (EU) Bilateral Trade Agreement.

The purpose of this article is to analyse the relationship between foreign trade policy and economic diplomacy in an era of globalisation with specific reference to the contemporary South African situation. A brief theoretical framework of the

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concepts of foreign policy and diplomacy is provided. The article also covers the broad themes and problem areas relating to post-1994 South African foreign policy, particularly in terms of economic diplomacy in Africa in the context of the New Partnership for Africa's Development (NEPAD). South African foreign trade policy in an era of globalisation is contextualised by means of a brief comparative analysis of the EU–SA Free Trade Agreement and SADC trade integration.

The discussion in this piece raises three key arguments. Firstly, it is argued that economic diplomacy develops within the context of foreign policy and that the one is not an alternative to the other. The second argument refers to the need for coherence within South African foreign policy and therefore a proposition is made that there can be no sound foreign trade policy without a coherent foreign policy. The third argument relates to the EU-SA Free Trade Agreement (FTA) and the SADC trade integration. It is held that trade between the EU-SA is unequal and this raises an important question about the proportionate gains that the EU and SA would score from the FTA. This state of affairs also has a definite impact on the proportionate benefits for SADC countries in the context of regional integration.

## **2. THEORETICAL FRAMEWORK: FOREIGN POLICY AND DIPLOMACY**

### **2.1 Conceptualisation**

The concepts 'foreign policy' and 'diplomacy' have often been used interchangeably. This section seeks to distinguish between foreign policy and diplomacy and outline the environments within which these concepts are used. Holsti (1995:83) defines foreign policy as "actions or ideas designed by policy makers to solve problems or promote change in the policies, attitudes, or actions of another state or states, in non-state actors, in the international economy, or in the physical environment of the world". Evans and Newnham (1998:179) refer to foreign policy as the activity whereby "state actors act, react and interact". Foreign policy is a boundary activity since it straddles two environments, namely the internal or domestic environment and the external or global environment. These environments play a significant role in that they determine both the formulation and the implementation of foreign policy.

The domestic environment is made up of the resource base of the state; its position geographically in relation to others; the nature and level of development of its economy; and its ideology and fundamental values (Evans and Newnham 1998:179). The domestic environment forms the background against which policy is made. According to Le Pere and Van Nieuwkerk (1999:200), the South African

domestic environment after 1994 became imperative for transforming the society and consolidating the democratic gains. Of utmost importance is that the country's domestic environment simultaneously permits and constrains its ability to act and interact with its external environment.

The external environment is where policy is implemented. South Africa's implementation of its foreign policy after 1994 coincided with major shifts in the global order. The most significant of these is the unprecedented impact of globalisation on the world economy. Globalisation presented South Africa with serious challenges to grapple with in defining its foreign policy priorities, especially with regard to foreign trade. In the face of having to respond to global market pressures, the country committed itself to trade liberalisation and deregulation. This is exemplified by South Africa's conclusion of bilateral and multilateral trade agreements reflected by the SA–SADC trade integration and the EU-SA Free Trade Agreement on the international level.

Diplomacy is defined as one of the instruments employed to put the substance, aims and attitudes of a state's relations with others (i.e. foreign policy) into effect (Evans and Newnham 1998:129; White 1998:257).<sup>2</sup> White (1998:250) defines diplomacy as a process of communication that is central to the workings of the international system. But since it is concerned with dialogue and negotiations, diplomacy is in fact more than just an instrument of foreign policy. It is also an institution of the state system itself (Evans and Newnham 1998:129). According to Muller (2000:2), diplomacy is utilised in the pursuit of many kinds of aims, such as political, economic, national, trade, human rights, arms control, scientific, cultural and academic objectives.

## **2.2 Building blocks: from orientations, goals and instruments to processes and a multiplicity of actors**

All governments have purposes and goals that they want to achieve. In an attempt to achieve these goals governments employ a number of strategies depending on the specific type of objective to be achieved. These strategies are often referred to as orientations. Orientation refers to the attitude and commitment of the governments towards the external environment. Holsti (1995:87-9) identifies four models of orientation as isolation, alliance, non-alignment and neutrality.

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<sup>2</sup> Frieden and Lake (1995:65) distinguish between *state-firm* diplomacy in which states bargain with foreign firms to locate their operations within the territory of the state, and *firm-firm* diplomacy where bargaining goes on between firms. Such 'new' dimensions of diplomacy are significant, but for the purposes of this article the emphasis is mainly on the traditional notion of *interstate* diplomatic interaction.

The goals of a country's foreign policy are to a great extent determined by its needs, purposes and interests and these can be realised only by influencing the behaviour of other states. It has been established that at least four purposes that are common to all contemporary states are in place and those are security, national welfare, autonomy, and status and prestige (Holsti 1995:84).

Foreign policy goals often have their origin more in the domestic context than in the international context. This understanding brings the concept of 'national interest' into the picture. Evans and Newnham (1998:345) are of the view that interests that guide foreign policy are more likely to be diverse pluralistic sets of subjective preferences that change periodically both in response to the domestic political process itself and in response to shifts in the international environment. The national interest is likely to be what the policy-makers say it is at any particular time. One of the features of the globalised world is that a multiplicity of actors, such as multinational companies and non-governmental organisations, pursue their different interests across the state frontiers and this makes the concept of national interest hard to define in terms of whose interest is being encompassed and what criteria determine the existence of interests.

According to Mills (2000:186), states utilise a number of tools to achieve foreign policy objectives, including diplomatic bargaining, military information, coercion, propaganda, and economic instruments (rewards and sanctions). Any nation's foreign policy requires the prioritisation of goals and the creation of an orderly and systematic manner of achieving them.

The complexity of the foreign policy decision-making process stems from the fact that the decision-makers are confronted by the challenge of making a choice between competing alternative options within an expanded agenda which includes issues of economics, democracy, human rights and people's security. The increase in the number of non-state actors involved in the international system and subsequently more players interested in the pursuit of foreign policy objectives, not only complicates the decision-making even further, but also questions the realist view that states are unitary actors, making decisions on behalf of and in the interest of their citizens (Van Aardt 1996:110). For instance, in South Africa after 1994, the business community has made ample use of the offices of the Departments of Trade and Industry (DTI) and Foreign Affairs (DFA) in facilitating contact or promoting trade missions (Le Pere and Van Nieuwkerk 1999:208). In similar vein civil society was highly mobilised around foreign policy issues in 1995 with the hanging of Ken Saro Wiwa in Nigeria. A more recent example was the protests against the bombardment of Afghanistan by the US after 9/11 and the subsequent US war against Iraq in March 2003.

### 3. SOUTH AFRICAN FOREIGN POLICY: FROM PRINCIPLE TO PRACTICE IN THE POST-APARTHEID ERA

The goals of South African foreign policy are enshrined in the constitution of the country and set out in a document entitled "Foreign policy perspectives in a democratic South Africa" (ANC 1994:6-7). South Africa's post-apartheid foreign policy is guided by seven normative principles:

- An understanding of human rights which extends beyond the political, embracing the economic, social and environmental dimensions;
- just and lasting solutions to the problems of humankind can only come through the promotion of democracy world-wide;
- justice and international law should guide the relations between nations;
- international peace is the goal to which all nations should strive;
- South African foreign policy should reflect the interest of Africa;
- South Africa's economic development depends on growing regional and international economic co-operation; and
- South Africa's foreign relations must mirror a deep commitment to the consolidation of its democracy (ANC 1994:3-4; Henwood 1997:8; Le Pere and Van Nieuwkerk 1999:198).<sup>3</sup>

However, the transition from apartheid to a new dispensation was not a smooth process. During this period South Africa's foreign policy was characterised by inconsistencies and complexities and was criticised for being impractical, unrealistic or even absent (Suttner 1996:30; Mfundo 1995:53). During this period South Africa battled to define a consistent set of foreign priorities and a systematic manner (strategy) of achieving them (Mills 2000:225, 254).

Henwood (1997:12) and Muller (1998:144) identify some of the problems as being:

- the lack of evidence of a South African identity in foreign policy decisions;
- the lack of clearly defined national interests;
- contradiction and ambiguity in foreign policy decisions and actions;
- a lack of policy co-ordination; and
- the influence of personal and ideological preferences in policy decisions.

An example in which lack of policy co-ordination was noticeable is in the relationship between the DFA and the DTI. According to Muller (2000:19), the closeness

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<sup>3</sup> It is not the purpose of this article to discuss the country's foreign policy in detail. A discussion of foreign policy is only relevant here in as far as it provides the broad framework within which economic diplomacy in South Africa is conducted. Hence only a few problematic aspects of South African foreign policy and a few examples of South African economic initiatives in Africa are briefly examined.

of the linkages between the functions of the DFA and the DTI has often resulted in difficulties. More often than not, such tensions arise due to lack of proper co-ordination at the policy and working levels between the two departments. As one official observed, due to the lack of better co-ordinated foreign relations the government short-sightedly announced the winners of the contracts for South Africa's huge R30 billion arms purchase before the conclusion of the EU FTA negotiations (Fabricius 1999:220). The result was that France and Spain (which had lost on the arms contracts) spearheaded the efforts to sabotage the FTA.

In April 2000, consistent with the commitment to democracy, human rights, peace, and co-operation with Africa, the DFA issued a list in which the objectives of South African foreign policy were outlined in the light of international, continental and most importantly, Southern African economic and developmental trends. These included among others:

- to promote sustainable and equitable development in the Southern African region as a priority;
- to co-operate with all African nations to encourage and enhance the renaissance of Africa;
- to strive with other like-minded countries for a just global order founded on a rule-based international system, so as to encourage the growth of trade and investment;
- to ensure that there is adequate representation abroad to advance the needs and interests of South Africa;
- to pursue all avenues abroad for the promotion of peace, security and development for all South Africans; and
- to advance democracy, human rights and peace (Muller 2000:6-7; Schoeman 2001:73-4).

South Africa has taken a leading role to put Africa on the global agenda. In its attempt to advance the interests of Africa, South Africa has employed a number of foreign policy strategies. These include the NEPAD, through which presidents Mbeki, Obasanjo, Bouteflika and Wade made several appearances in international summits and conferences to promote the initiative. South Africa has also been instrumental in advocating the cancellation of African debts and the restructuring of world financial institutions such as the World Bank and the International Monetary Fund (IMF). These strategies help to create a more favourable international environment within which African economies can operate (Schoeman 2001:78).

The ANC government from the onset did not follow a 'zero sum' foreign policy, but rather a 'universal' one. According to Muller (1998:149), this implies that ties with Western countries were not downgraded at the expense of forging new ties with

countries that had distanced themselves entirely from the old South African regime. South Africa's conduct of economic diplomacy also continues to consider the spirit of universality. South Africa's multilateral approach to diplomacy does, however, have its pitfalls. The desire to 'be everything to everybody' comes at a price and highlights the ever-present tension between realist and idealist strands within South African foreign policy.

The realist paradigm focuses on economic and political interests. South Africa's interest with regard to Africa is particularly in the promotion of increased trade and investment flows from South Africa to the rest of Sub-Saharan Africa, with a view to enhancing domestic growth and employment creation (Gelb 2002:14). In pursuit of this objective South Africa is expected to act as a good trading partner rather than a selfish hegemon. The idealist paradigm on the other hand focuses on the moral vision rooted in South Africa's liberation struggle tradition, the debt owed to the rest of Africa, and the success of its democratic transition (Gelb 2002:19). For this reason, South Africa strives to make human rights and state morality prominent in its foreign policy.

Both approaches have their own limitations, in that the realist perspective overlooked the issue of a weak state as a key blockage to growth in Africa and the moralist approach proved to be practically unimplementable. The discussion of South African foreign policy in the broader context of globalisation helps to reconcile the tension between the realist and idealist approaches. Gelb (2002:21) argues that globalisation has increased the prevalence of various cross-border spillovers. South Africa is affected by both regional and global cross-border spillovers. There is therefore a need for South Africa to promote good political and economic governance in Africa as a basis for development (Gelb 2002:22). This will help reduce regional spillovers that manifest in the form of poor governance which, in turn, creates negative perceptions for investors, influx of refugees and illegal immigrants and global spillovers such as the impact of currency, spread of disease and crime, among others. The need for South African leadership in the promotion of political and economic governance in Africa raises the important issue of NEPAD as a plan seeking to promote collective action of weak African states to address development on the continent as well as the regional and global spillovers resulting from the lack of development (Gelb 2002:28). It is therefore South Africa's foreign policy goal to ensure the success of NEPAD since South Africa has more to lose from the failure of this initiative than the rest of Africa.

However, despite attempts to minimise the inconsistencies inherent in South African foreign policy, practice still shows up major discrepancies. Three examples are worth mentioning, namely the approach towards the Zimbabwe crisis, South

African criticism of US intervention in Iraq, and the controversy in respect of the ANC government's stance on HIV/AIDS. Firstly, the political and economic policies of ZANU-PF in Zimbabwe have had a severe impact on the interests of South African constituencies. Authors such as Mills (2003:2) are of the opinion that the effects of Mugabe's misrule are likely to spill over to the entire Southern African region. This will create a negative investment climate and will also affect South Africa's ability to provide regional leadership. Since 2000, South Africa has followed an approach of quiet diplomacy in dealing with Zimbabwe. This is partly attributed to the history of the liberation struggle and the moral debt that South Africa owes its former supporters. This approach has, however, proved enormously costly. Moeletsi Mbeki (2003:17) acknowledges that the approach has failed and that there is even a general acceptance of its failure at the highest level of ANC structures. Secondly, with regard to the US war in Iraq, Mandela made a scathing attack on the US just before the war, referring to Bush's foreign policy over Iraq as arrogant. This criticism, however, stands in sharp contrast with the NEPAD strategy through which South Africa intends to solicit international sympathy, aid and investment in return for an African commitment to good governance and democracy. Thirdly, at the domestic level, the South African government's policy in respect of HIV/AIDS has been widely criticised, particularly by the Treatment Action Campaign. An understanding of the link between unemployment and HIV/AIDS, for example, needs to be reflected in a proactive foreign policy geared toward addressing this threat. The majority of South Africans depend on wages and salaries. These incomes also have to fund the extra requirements of the terminally ill and this often results in the impoverishment of the employed (Mbeki 2003:18).

Since more emphasis is now placed on economic diplomacy and trade and investment, South Africa is in the position of joining hands with like-minded countries in multilateral fora. In order to be re-integrated fully within the globalised world, South Africa would require both vigorous foreign and, specifically foreign trade policy. The success of foreign trade policy relies largely on a foreign policy that is properly planned and coherent. It is in this context that the second argument, that there can be no sound foreign trade policy without a coherent foreign policy, is best explained.

#### **4. SOUTH AFRICAN FOREIGN TRADE POLICY AND THE CONDUCT OF ECONOMIC DIPLOMACY IN PERSPECTIVE**

Since the establishment of the new democratic government in 1994, South African foreign trade policy has undergone a dramatic change. This change was necessitated by the fact that South Africa became an active player in the global market. The demise of the Soviet Union saw the disintegration of the central administrative



structure of the command economy. This implied that many developing countries could not structure their trade, aid and investment relations in accordance with the socialist bloc as before (Davies 1996a: 36). The removal of an alternative bloc from the scene coincided with the emergence of powerful forces of globalisation and liberalisation. These forces have reshaped the world economy. This, in turn, forced many countries to change their domestic policies to suit the global economy. South Africa is not an exception to the rule. As Bertelsmann-Scott (2000:6) observes, South Africa's foreign trade policy is informed by its macro economic policy GEAR (Growth, Employment and Redistribution Strategy). By adopting this policy South Africa had to channel its economy in accordance with the rules set out by the World Trade Organisation (WTO). In order to understand South African foreign trade policy in its present form a brief historical overview is necessary.

Dullabh (1994:78) identifies three different phases of South African trade policy since 1910 (see Muller 2001:87). Firstly, from 1910 up to 1925, South African foreign trade policy was characterised by a liberal laissez-faire approach towards international trade. Secondly, the 1920s saw South Africa adopting a more protective inward-looking policy where import substitution was more dominant than export promotion. Import substitution was encouraged through a system of custom tariffs or duties and quantitative restrictions on imports (Dullabh 1994:52). For many years import substitutions played an important role in South Africa. It was only in the early 1970s when South Africa entered the third phase that export promotion replaced import substitution. According to Van Seventer (1988:278), this phase proceeded from consumer goods to intermediate products and, eventually, to manufactured raw materials and capital equipment. In the 1980s, South Africa increased its earnings from export goods due to, among other things, the diversification of markets and products (Kromberg 1990:31). Export promotion was pursued persistently from the 1970s until the new millennium.

Since 1994, the GEAR policy has been aimed at the creation of an open internationally competitive economy and the stabilisation of the South African economy. To achieve this, GEAR advocates a rapid liberalisation of trade; a more complete set of measures for the promotion of export; and a more market-related exchange policy. As Feinstein (1996:37) puts it, GEAR shares the neo-liberal commitment to low inflation, fiscal discipline and a competitive environment, without shifting focus from the poor. Since its introduction, GEAR has never received the blessing of the majority of South Africans, especially the labour movements. Observing the impact that this framework had on South Africa, Mayor (1998:37) comments that macro-economic stabilisation - no matter how necessary it may be - will always be inadequate if it is not accompanied by a strengthening of the affected state. The acceptance of GEAR, however, clearly indicates that South

Africa became part of the globalisation process. This understanding raises important questions as to what kind of trade or economic diplomacy South Africa should be undertaking.

Muller (2000:2) asserts that from the earliest time diplomacy has had an essential economic aspect and it is commonly accepted that diplomats have to involve themselves in varying degrees in economic matters. In this respect Mills (2002:24) indicates that economic diplomacy is fast becoming the major focus of the activities of the DFA. New foreign missions are primarily set up only where trade and investment seem possible (Bischoff 1995:7). South Africa's overseas missions grew spectacularly after 1990. Its representation abroad includes places such as Ramallah in the West Bank, New York, Geneva, Addis Ababa, Brussels and Vienna (Muller 1998:152).

According to Davies (1996a:37,39), any trade diplomacy needs to be based on an understanding of the global environment. This means understanding the significance of globalisation, liberalisation and an emergence of internationally regulated rule-based trading systems. It therefore follows that South Africa must focus on changing the domestic economy to fit the norms of that reality (hence GEAR). Similarly, Muller (2001:87) points out that currently the aim of the country's primary trade and industry policy is to create a more diversified export orientated production sector that is internationally competitive.

In order to become a winning nation South Africa has to develop an effective strategy to co-ordinate its trade diplomacy. This, however, calls for proper co-ordination between the DTI and the DFA. The 1996 Foreign Policy Discussion Document observes that, to attain the objectives that government departments are expected to achieve, a proper co-ordination at the policy and working levels is essential and it is important to work towards economic foreign policy (Mills 2000:282). An unco-ordinated foreign policy is likely to result in decisions that need to be changed more often and this will lead to a perception that South Africa is an untrustworthy partner. In Henwood's view (1997:16) a more cautious, stable and permanent approach to issues of foreign policy will result in more predictable foreign policy decisions and actions. It is necessary here to look briefly at South African trade diplomacy in Latin America to illustrate the point.

South African diplomatic activity in Latin America has been characterised by a number of flaws. According to Mills (2000:331), trade figures have highlighted an overall decline in the normal trade value in Latin America where South Africa has resident diplomatic missions. What accounted for this decline is largely the wrong diplomatic focus pursued by South Africa on that continent. Mills (2000:332)

firstly indicates that in 1999 there was only one trade representative who had to cover a host of countries in that region. This person, who was based in Argentina, had to ensure that other states including Paraguay, Bolivia, Peru, Chile and Uruguay were also covered. There were two others based in Sao Paulo in Brazil. The other one was based in Mexico, covering Central America as well as Cuba. The small number of DTI foreign 'specialists' based abroad in regional centres cannot provide the necessary coverage and expertise for an economy as diverse and sophisticated as South Africa's (Mills 2002:25). Secondly, South Africa lacks an effective trade strategy. The DTI and DFA components of foreign policy are not properly co-ordinated. This results in the overlapping of functions between the two departments. Thirdly, Muller (2000:25) points out that the DTI reduction in its overseas posts resulted in the DFA taking over the tasks relating to economic representation. Muller (2001:92) further says that in the approximately 60 countries where the DTI has no foreign offices the DFA foreign missions perform trade related functions themselves. This exacerbates the problem in that the DFA staff that has to handle trade issues lack a detailed knowledge of trade and economic affairs. In view of this, the DTI should reconsider its overseas representation policy. According to Mills (2002:24), several options which include cutting back altogether on foreign representation; replacing it with a combination of locally recruited staff; the better utilisation of foreign affairs personnel in trade and investment roles; and the establishment of specialist investment 'task teams' are suggested as alternative solutions to the DTI's foreign representation.

To this effect, Muller (2001:90) observes that there is a real need for proper co-ordination and integration of South Africa's economic diplomacy efforts. One of the solutions suggested (see Schoeman 2001:75) is to merge the DTI and the DFA. This merger issue has been a matter of debate for some years. Proponents of this view point out that this would facilitate policy homogeneity and would enhance the Ministry of Foreign Affairs' expertise in foreign trade and multilateral economic issues. The argument against this merger emphasises the political aspect of South Africa's foreign policy. It is argued that this should remain its first priority. In Australia the amalgamation of the two departments was successful and there was also better co-ordination in the activities of both Trade and Foreign Affairs divisions. As the Australian Department of Foreign Affairs puts it:

The amalgamation of the Department of Foreign Affairs and Trade ... has meant a more effective linking of the two major elements of foreign policy, namely political and trade policy ... The department is better placed now to assess the total policy environment, and to shape realistic and comprehensive goals and objectives (Mills 2000:203).

In South Africa, at present, there has been virtually no progress regarding the amalgamation of the two departments. Lingering problems of poor communication and co-ordination, turf wars, professional and personal suspicions, and concerns of functional expertise have all forestalled the move towards amalgamation.

## **5. FOREIGN TRADE POLICY AND ECONOMIC DIPLOMACY IN ACTION**

During the early 1990s, many countries in Eastern and Southern Africa embarked on a number of bilateral and regional trade agreements (Subramanian and Staff 2000:17). This period also saw South Africa opening up its economy to external competition. Following the period of transition to democracy, South Africa's foreign economic relations were preoccupied with the conclusion of bilateral and multilateral trade agreements, firstly with the EU and secondly with the SADC.

### **5.1 The EU-SA Free Trade Agreement**

The bilateral free trade talks between the EU and South Africa began in 1996 following the EU's refusal of South Africa's full membership of the Lomé Convention. Davies (1996b:36) points out that the EU made a counter-proposal that South Africa should instead negotiate a reciprocal free trade agreement with the EU. South Africa was keen to conclude a deal with the EU and it is against this background that formal talks for free trade agreement negotiations were launched in May 1996. The rationale for South Africa to negotiate an FTA with the EU was primarily to gain preferential market access to South Africa's largest export market. South Africa had expected that the free trade agreement with the EU would contribute positively to its development with the benefits significantly outweighing the costs, but the outcomes of the FTA were to prove contrary to South Africa's wishes and expectations.

Nevertheless, South Africa managed to score some gains from the negotiations. One of the crucial gains South African negotiators scored was to secure a high degree of access to the EU market for its industrial goods. According to Mayer (2001:11), approximately 86% of South Africa's total exports consist of industrial products. Another crucial gain for South Africa is particularly with regard to its neighbours in the Southern African Customs Union (SACU) and SADC. This gain relates to safeguard measures. It implies that if EU imports would displace products from any of the SACU countries in the South African markets, South Africa, who shares a common external tariff system with other SACU members, could then reimpose duties on EU imports to defend the SACU industry. South Africa also made it known that whatever concessions are granted to the EU will not be better

than those which South Africa extends to its SADC neighbours (Dludlu 1999:29-30). The conclusion of the EU-SA deal meant 90% of trade liberalisation on both sides. According to Ahwireng-Obeng (1999:103), South Africa will liberalise its markets to 81% of EU agricultural products and 86% of its industrial sectors and the EU will do so for 99% and 61% of South Africa's industrial and agricultural products respectively (also see Dlamini 1999:243).

As mentioned, South Africa had expected more from the free trade agreement but the outcome of the four-year deal was, however, far from satisfactory. This confirms an argument that economically weak partners often lose economically from their deals with the economically stronger partners. During the negotiations South Africa's development status was a contentious issue. South Africa insisted that the EU had to recognise its status as a relatively vulnerable developing country, since it had to undergo a series of structural reforms to make its economy more competitive (Lowe 1999:4). South Africa also argued that it still had to consolidate its new democracy, undo the drastic effects of apartheid and above all, play the role in Southern Africa ascribed to it by the international community, including the EU (Keet 1997:289).

However, the EU used the same reasons for which South Africa's full membership to the Lomé Convention had been declined, as a yardstick to determine South Africa's development status. They viewed South Africa as a developed country in terms of the WTO classification. As so-called powerhouse of Southern Africa, South Africa is widely perceived to have a dynamic economy, with a relatively high GDP per capita, a diversified production base and a relatively better infrastructure base than elsewhere in Sub-Saharan Africa. On that basis the EU demanded reciprocal trade rights and ensured that South Africa was pressured to make far more concessions than the EU.

The merits of the EU-SA FTA are therefore questionable. As Ahwireng-Obeng (1999:101) observes, free trade seldom is free and fair, nor is it always beneficial. South Africa argued that WTO rules are not specific with regard to free trade agreements in general and concerning FTAs between a developed and a developing country (Bertelsmann 1998:30). It also argued that the WTO rules do not stipulate that the percentage of trade has to be the same on either side. Dludlu (1999:30) argues that the impact of the EU-SA FTA extends beyond South Africa's borders. This will be noticeable on at least two levels, first to the five-nation SACU - including South Africa, Botswana, Lesotho, Namibia and Swaziland - and second to the SADC. With regard to the SACU the conventional wisdom in the region is that the EU-SA deal will lead to a loss of SACU revenues, while the fear about the consequences of the EU-SA FTA in the SADC member states was that once the

Free Trade deal was signed, exports from Europe would replace the SADC products in the South African market. Economic trade policy and diplomacy relating to SA-SADC trade integration can therefore not be viewed in isolation.

## 5.2 The SADC Trade Protocol

The adoption of a trade and development protocol by the member states of SADC in August 1996 marked the end of an era of sectoral co-operation and the beginning of a process of trade integration among SADC countries. This protocol stated that a Free Trade Area would be established between its members within a period of eight years from entry into force of the protocol (Hess 1999:37). It would also entail the gradual elimination and an ultimate removal of both tariff and non-tariff barriers to interregional trade (Röhm and Holbach 1999:61). The protocol would also ensure the promotion of trade and investment in the region.

Many view the protocol as an important step towards creating an integrated regional market. According to Keet (1997:267), the immediate significance of this agreement was its specific response to the EU's divisive FTA plans in the region. The stated objectives of the trade protocol as pointed out by Ngongola (2000:496) are:

- to ensure efficient production within the SADC, reflecting the current and dynamic comparative advantages of member states;
- to enhance economic development, diversification and industrialisation of the region; and
- to contribute towards the improvement of the climate for domestic, cross-border and foreign investment.

The free trade agreement in the subregion was launched on 1 September 2001 with South Africa being the first country to implement the protocol (Ngwenya 2001:1). Although the entire region is expected to benefit from this protocol, the dominant position of the South African economy relative to its neighbours is often pointed to as an added advantage for South Africa. For this reason, it is mostly argued that South Africa stands to experience trade creation from interregional trade liberalisation more than other SADC countries (Masiwa 1999:29). Nevin (2000:4) also refers to the resentment expressed by the SADC member countries about the dominance of the South African economy in the region. These countries fear that South Africa will score heavily in trade revenue at the expense of poorer, less developed nations in the area. Furthermore, they point to the fact that, at present, South Africa's exports of its goods and services into the region are worth about R10bn more than its SADC imports. As McCarthy (1999:393) puts it, the dominance of the South African economy and the commitment expressed by the government to contribute

to development in the region, will ensure an environment in which capital exports to other SADC countries will be approved of and even encouraged.

The protocol acknowledges the principle of asymmetry that implies that the stronger economic partners such as South Africa, for example, will open their markets quicker than the weaker economies. Nevertheless, successful economic integration requires countries to be at similar levels of industrial development and to have competitive industrial sectors, but with the potential to develop complementary industrial sectors. In addition, the countries should all perceive that they would gain from the arrangement, especially in respect of industrialisation.

The SADC Protocol is up for review in 2004 and its impact - as well as the success of South Africa's economic diplomacy - will depend on whether open regionalism with a focus on reorienting regional trade policies towards global integration is consistently being promoted.

## **6. CONCLUSION**

An acceptance of globalisation as a process which cannot be rolled back makes it easier for many states, including South Africa, to adapt their domestic policies to suit the changing global environment. Any analysis of foreign trade policy and economic diplomacy should therefore take place within the context of this changing global environment. The concepts of foreign policy and foreign trade policy are linked to each other. Whereas foreign policy is more open and general, foreign trade policy is more specific. Closely linked to these concepts is the concept of diplomacy which refers in this context to the art of implementing foreign policy. Economic diplomacy is therefore conducted within the framework of foreign policy.

South Africa battled to define its foreign policy priorities during the first ten years of its new democracy. This is an area that South African policy-makers have to attend to if it is to do well in global economic governance structures. The goals, orientations, instruments and decision-making processes are essential components of foreign policy and any formulation of foreign policy should take these into account. The manner in which the South African government conducts its economic diplomacy is guided by the principle of universality. In its conduct of economic diplomacy, South Africa will, however, need a certain degree of co-ordination and co-operation among the different government departments, in particular the DFA and DTI components of foreign policy. A merger of the two departments is suggested to this effect. This could save the country the embarrassment and monetary loss it suffered during the early years of its democracy.

To address the regional and global cross-border spillovers South Africa will need a coherent and consistent foreign policy. South African foreign policy will also have to express itself clearly on important aspects of international and national interest. Firstly, South Africa has to review its relations with the US if it is serious about winning the sympathy of the US and the West for its NEPAD initiatives. Secondly, the quiet diplomacy with regard to the Zimbabwe crisis has proved costly for the South African economy and decisive and transparent handling of this problem is required. Lastly, a country's foreign policy is considered credible only if it addresses itself primarily on matters of domestic concern. This is certainly true of South Africa on the issues of HIV/AIDS and unemployment.

The free trade agreement concluded between the EU and South Africa and the SADC protocol should be understood in the context of South African foreign trade policy and its related economic diplomatic initiatives. The long-term significance of these two agreements is measured in terms of the costs and benefits. In the context of asymmetrical interdependence, the EU-SA trade agreement will bring benefits to both trading partners. Similarly, the SADC Trade Protocol would be beneficial to all the member states. This would be the case, provided that these agreements work towards the development of both South Africa and the Southern African region. Anything to the contrary, will be perceived as unfair and unhelpful.

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