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The Role of South Africa in Global Structural Policy

Peter Draper / Tom Wheeler / Phil Alves

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Peter Draper, Research Fellow, SAIIA: Development Through Trade Project
E-Mail: draperp@mweb.co.za

Tom Wheeler, Chief Operating Officer, SAIIA

Phil Alves, Economist, SAIIA: Development Through Trade Project

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Tulpenfeld 4, 53113 Bonn
 +49 (0)228 94927-0
 +49 (0)228 94927-130
E-Mail: die@die-gdi.de
<http://www.die-gdi.de>

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Abbreviations

ACP	Group of African, Caribbean and Pacific states
ANC	African National Congress
APRM	African Peer Review Mechanism
ASEAN	Association of Southeast Asian Nations
AU	African Union
BEE	Black Economic Empowerment
BIG	Basic Income Grant
BLNS	Botswana, Lesotho, Namibia, Swasiland
BMZ	German Federal Ministry of Economic Development and Cooperation
CEF	Central Energy Fund
CHOGM	Commonwealth Heads of Government Meeting
COMESA	Community of Southern and Eastern African States
COSATU	Congress of South African Trade Unions
DFA	Department of Foreign Affairs
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
EFTA	European Free Trade Area
EPAs	Economic Partnership Agreements
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GM	Genetically Modified
HIV / AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
IAEA	International Atomic Energy Agency
ICC	International Criminal Court
IMF	International Monetary Fund
ITAC	International Trade Administration Commission
LMOs	Living Modified Organisms
LNG	Liquid Natural Gas
MFN	Most Favoured Nation
MIDP	Motor Industry Development Plan
NAM	Non-Aligned Movement
NGO	Non Governmental Organization
NCACC	National Conventional Arms Control Committee
NEPAD	New Partnership for Africa's Development
NPT	Nuclear Non-Proliferation Treaty
OSCE	Organization for Security and Co-operation in Europe
PBMR	Pebble-bed Modular Reactor
RDP	Reconstruction and Development Programme
SACP	South African Communist Party
SACU	Southern African Customs Union

SADC	Southern African Development Community
SDT	Special and Differential Treatment
SAIIA	South African Institute of International Affairs
TDCA	Trade, Development and Cooperation Agreement
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

Foreword

German development policy defines itself as a major contributor to Germany's international effort to generate conditions that are conducive for economically, socially and ecologically sustainable development. This policy approach has been termed 'Global Structural Policy' ('Globale Strukturpolitik'). Against this background, the German Development Institute is currently carrying out a research project which aims to identify future options and strategies for international co-operation with some of the country's important partners on development in the world. The group of countries are considered 'anchor countries' (or regional hubs) and include China, India, Brazil, Mexico and South Africa, amongst others. Anchor countries are political, economic and military heavyweights on a regional and – partly – global scale. As they increasingly engage in international fora, they will become even more important partners for industrialized countries to tackle global problems and to shape global structural policy.

In the course of the research project, a series of country studies has been commissioned in order to provide solid knowledge on the relevant structures and medium to long-term policy trends within these countries and on the role of these countries in different fora of global structural policy. This report constitutes the South African component of the project. Based on these background studies, researchers of the German Development Institute have undertaken portfolio-analyses of current relations between Germany and the respective anchor countries in order to guide the transformation of the relationships into strategic partnerships.

Further material regarding the anchor country research project can be accessed on the website of the German Development Institute. The project is funded by the Federal Ministry of Economic Development and Cooperation (BMZ).

1 Introduction

In the immediate post-Apartheid period many commentators gave the country, and the newly elected African National Congress (ANC) government, short shrift. Whilst there was a predominant air of hope an underlying “Afro-pessimism” was prevalent. Now, after more than 10 years of sustained – albeit fairly sedentary – economic expansion and a recent acceleration in the growth trajectory opinions are being revised. This re-evaluation is naturally supported by the government. But significant domestic problems remain. These problems play out in South Africa’s approach to global economic and political relations, and underpin the analysis in this report. How might these dynamics play out in specific “global structural domains” in the future?

This report is structured as follows: Part two considers South Africa in the global and African contexts. It begins by reviewing South Africa’s integration into and prospects in the global economy. Then it considers the domestic socio-economic dynamics within which economic and social policy is formulated and charts the broad contours of economic policy since 1994. It then considers South Africa’s environmental challenges and policy responses as a distinct set of challenges. It ends with a brief assessment of the country’s domestic political institutions in light of the policy challenges outlined in the previous sections.

Part three considers the South African government’s views on and stances towards key global governance issues. It begins with a substantive overview of the country’s evolving foreign policy in general, then considers a number of different issues in the global governance terrain. It then focuses specifically on global trade governance via the World Trade Organization, and situates this within a discussion of South Africa’s broader trade strategy encompassing regional dynamics and bilateral negotiations.

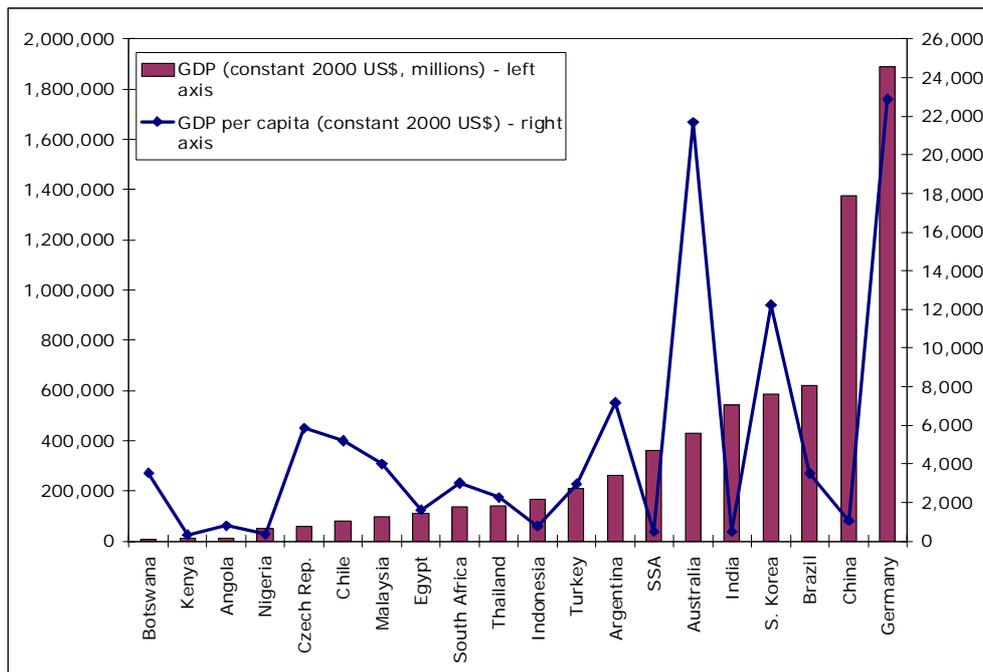
Part four briefly outlines the contours of German-South African relations and highlights some challenges in the relationship moving forward.

Part five identifies key risk factors facing the South African government and, via a simple scenario exercise indicates possible avenues for deployment of German development assistance in order to assist the South African government to address those challenges.

2 South Africa in the Global and African Contexts

2.1 Integration Into and Prospects in the Global Economy

The South African economy is medium-sized by global standards, albeit a giant in the African context. In constant 2000 US dollars, South Africa’s Gross Domestic Product (GDP) and GDP per capita in 2003 were about 139 billion and 3000, respectively (see Figure 1). The next largest African economy is Egypt, whose GDP and per capita income in 2003 were, respectively, almost 30 billion and 1500 dollars less than South Africa’s. Further underlining South Africa’s pre-eminence in Africa is the fact that in 2003 it accounted for about 38 % of total sub-Saharan Africa’s GDP, but only 6 % of its estimated 700 million people.

Figure 1: Comparative GDP and GDP per capita data, 2003

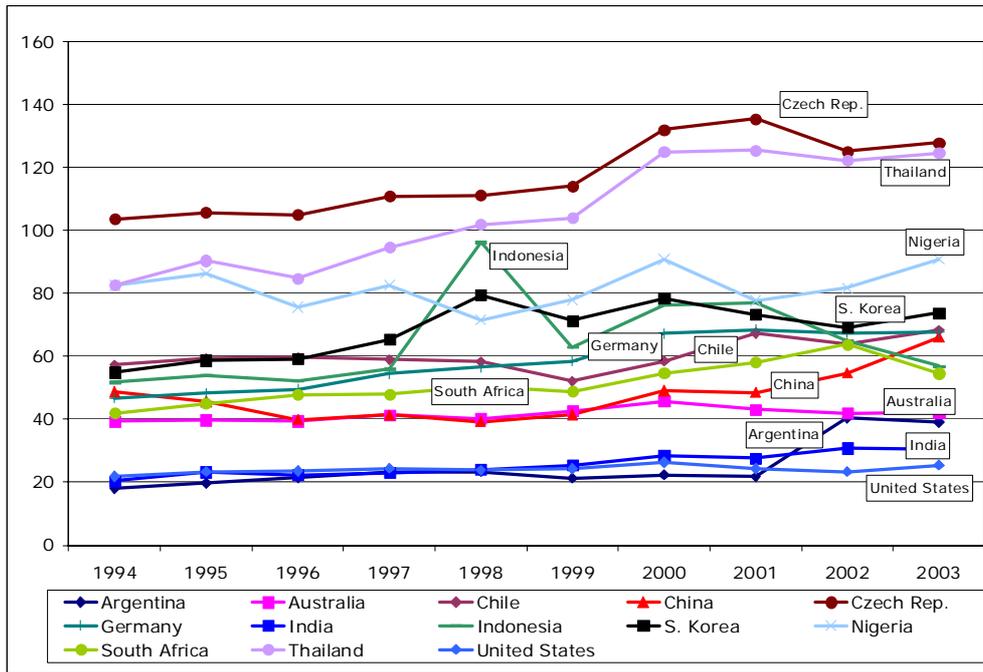
Source: World Bank, World Development Indicators, 2004

It is difficult to find a ready comparator country anywhere in the world, as most of the economies of similar size to South Africa's tend to have very different per capita income levels (viz. Malaysia or Chile, who are smaller but richer, or Indonesia, which is larger but much poorer). Only Thailand and perhaps Turkey could be genuinely regarded as being similar in size and income, although neither suffers inequality on the scale witnessed in South Africa (see Figure 2).

South Africa's openness to trade in goods and services is about average for developing countries of its size, currently hovering around 60 percent of GDP. By this measure South Africa has many neighbours, including Germany, Chile, China, Indonesia and South Korea. The USA, India and Argentina trade much less of their domestic output, while Thailand and the Czech Republic trade much more. The latter two in fact posted trade to GDP ratios in the 120 %-130 % percent range in 2003.

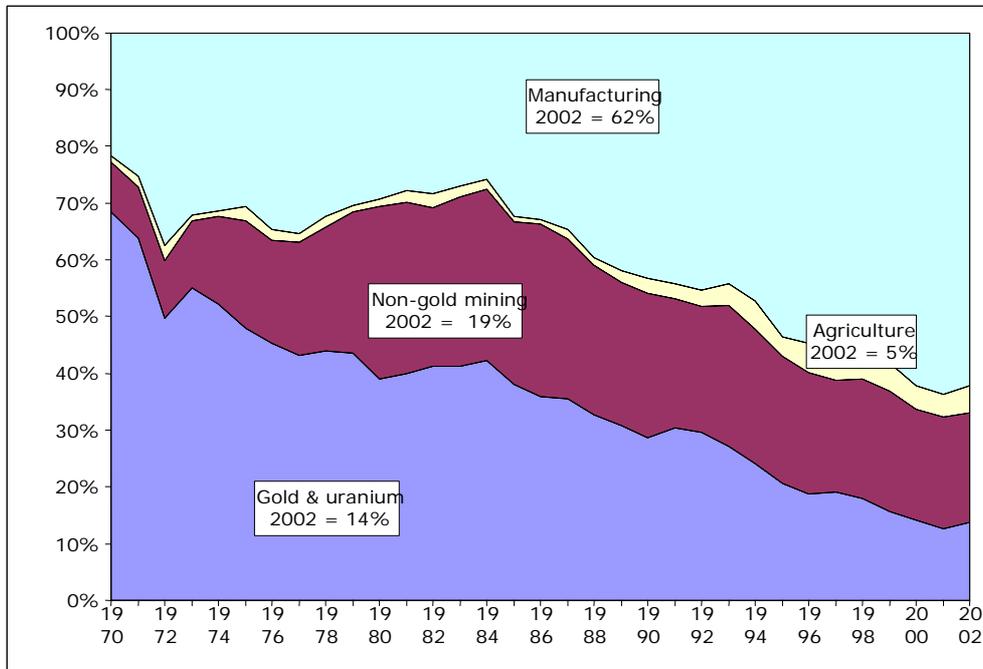
The composition of South Africa's trade has changed dramatically over the years. Gold's dominance during the 1970s is clearly visible in Figure 3 below, but so is its equally dramatic decline. Yet strategic minerals remain an important source of export earnings. These include, amongst others, gold, diamonds, platinum group metals, silver, copper, iron ore, coal, and uranium. The platinum group has taken over from gold as the single largest mineral export, but will never be as important to total exports as gold was in its heyday.

Figure 2: Total trade in goods and services to GDP, 1994-2003 (%)



Source: World Bank, World Development Indicators, 2004

Figure 3: South African export trends, 1970-2002 (real 1995 Rands)



Source: Trade and Industrial Policy Secretariat, online data available at www.tips.org.za

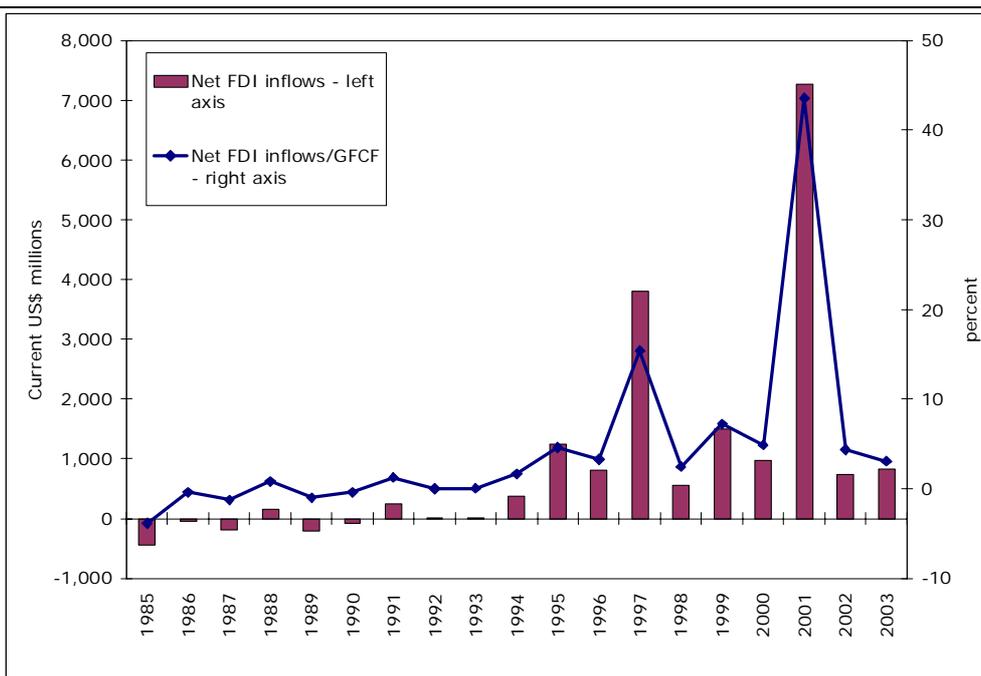
Commercial agriculture is well-established, although climatic conditions do not favour an expansion of this sector (only one fifth of South Africa's land mass is arable). Rather, export gains are most likely to come from productivity increases and diversification into higher value-added crops. Consequently, an emerging public debate over the environmental and consumer impacts of genetically modified (GM) crops and foods is gathering pace as more cropland is turned over to GM production. Furthermore, it is likely that some of the land currently available for commercial agricultural production will be reallocated (possibly through expropriation) to small-scale black farmers as part of the ongoing land reform process. This stratum of producers will need increasing amounts of state support (including land) to retain viable production. Whilst socially indispensable this process constrains prospects for expanding commercial agriculture.

Manufactured exports have risen in relative importance over the decades (over 60 % of total exports in 2002), but three points should be borne in mind. The first is that primary product exports, driven by gold's decline, have grown very slowly or not at all since the 1980s. The rising share of manufactures in total exports therefore has as much to do with poor primary product export growth as it does with good manufactured export growth. Second, many product groups classified as manufactures are beneficiated natural resources, including processed ores (iron, steel, aluminium), basic chemicals, rubbers and plastics, foodstuffs, and wood products. This, coupled with the more than 30 % of exports still attributable to mining, should leave one in no doubt that South Africa remains a heavily resource-reliant exporting economy. Third, it is generally anticipated that sustained expansion of the US economy, coupled with China's economic boom (and India coming on stream) will underpin commodity prices into the foreseeable future so the dominance of commodities and commodity-based products in our export basket is likely to continue. Revived growth in the German economy, and the European Union more broadly, would strengthen this trend, as would the inevitable appreciation of the Rand.

Historically South Africa has depended on foreign capital inflows, especially from the United Kingdom, to fuel key sectors of the economy including mining and manufacturing. The domestic market is too small to sustain an inward-industrialization strategy, a process that in any event reached its limits in the 1970s. If improvements in competitiveness are to be realised, production for global markets is necessary. And for that South Africa needs foreign investment on a much larger scale than was the case during the crisis period of the 1970s, 1980s and early 1990s. Inflows of foreign direct investment were very low during these times, but have risen relatively rapidly since 1994 (see Figure 4). Net Foreign Direct Investment (FDI) inflows now consistently contribute positively to fixed capital formation in South Africa, averaging 9 % since 1994. However if the clear outlier in 2001 (inflows associated with De Beers' Restructuring) is removed, the average drops to 5.2 %.

Thus the turnaround in foreign direct investment is still clearly in its infancy. Net inflows have averaged well under US \$ 2 billion since 1994. Volatility is also uncomfortably high. Both of these post-1994 features are to some extent attributable to the large increases in outward fixed investment by South African firms, partly into other African countries. This development is clearly welcomed by both investors and recipients. But if South Africa's industrial capacity is to expand and become more efficient, greater inward FDI remains a necessity.

Figure 4: FDI indicators, 1970-2003



Source: World Bank, World Development Indicators, 2005. Note: GFCF = “gross fixed capital formation”

Services contribute the most to South Africa’s GDP (the tertiary sector accounted for 62 % of real output on average between 2002 and 2004 – see Table 1) and employment. However, this share has not greatly increased in recent years, whilst the aggregate figure masks great variations in the composition of the sector. Services range from highly sophisticated, first world inputs in the financial and professional sectors, through government services, to tourism and survivalist retail activities. This reflects the dualistic nature of South Africa’s economy, a pattern more broadly reflected in the labour market.

Hence growth in services exports represents an area that must be considered a top priority for both the near- and long-term future. Not least because it is becoming increasingly apparent that the emergence of low-cost labour surplus countries in Asia is rapidly curtailing policy options centred on a manufacturing-led growth strategy. It is almost trite to say that the services economy will most likely expand into the foreseeable future; the question is along which axes? Tourism and so-called “infrastructure services” (telecommunications; energy; transport; finance; and construction) will benefit from accelerating economic growth and continuation of South African corporate global expansion – notably into Africa. These services will be supported by a competitive clustering of professional services in various fields (engineering; legal; architectural and so on), subject to growing skills shortages. If South Africa’s serious unemployment crisis is not addressed it is likely that the informal survivalist services sector will grow too.

Table 1: South African real output structure (% shares)		
	Ave 94-96	Ave 02-04
Primary	10.63	5.77
Agriculture, forestry and fishing	2.09	1.62
Mining and quarrying	8.54	4.16
Secondary	30.62	32.58
Manufacturing	22.20	24.83
Electricity, gas and water	1.56	1.56
Construction	6.86	6.19
Tertiary	58.76	61.65
Trade (retail, catering, accommodation)	14.01	14.21
Transport, storage and communication	5.29	7.31
Financial, real estate and business services	11.38	11.37
Community and personal services	28.08	28.76
<i>General government</i>	21.37	19.96
<i>Other services</i>	6.71	8.80
Total GDP (2000 rands billions)	750,746	950,237
Source: South African Reserve Bank, Quarterly Bulletin		

Manufacturing industry is arguably mature, with its contribution to GDP having been relatively static for some decades now. The sector is also relatively capital-intensive,¹ although the productivity of capital is relatively low.² Furthermore, the labour-intensive components of it have been hit hard by Asian, especially Chinese, competition in recent years. Growth areas are largely confined to capital-intensive sub-sectors, especially the automotive and chemicals industries, with downstream sub-sectors struggling to gain traction. Partly this is because of high input costs generated by monopoly or oligopoly firms dominating supply of these inputs (iron and steel; chemicals and associated plastics; telecommunications) and partly because of a combination of poor management practices, lack of relevant skills, and restrictive labour legislation (especially centralised bargaining). A substantial contributor to these problems in recent years has been the strong currency generating import competition. However, the strong currency has also enabled capital retooling thus laying platforms for future expansion.

From the foregoing it is clear that the South African economy remains resource-dominated with a mature industrial sector and overall not much restructuring between the major sectors. Rather, sources of economic change are to be found within the major sectors. Again this is a sign of economic maturity – a major problem in a country with very high structural unemployment. Furthermore, the majority of exports are still in some form or other dependent on the country's natural resources (minerals in particular); whilst 'pu-

1 See Natrass (2004).

2 See Natrass (2004, 146).

re' manufacturing has not decisively escaped its three decades-long decline since the 1970s. It is notable that manufacturing 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. The real question, and one which is constantly being debated, is whether a dynamic source of growth can be found that will pull the economy and employment along with it. The shifting contours of that debate are sketched below.

A Snapshot of Economic Policy Reforms Since 1994

South Africa's current commitment to an open, globally integrated economy is barely ten years old. During the Apartheid years (and before), trade was never seriously considered a means of growth and employment creation. As such, South Africa's trade and industrial policy-making histories are largely characterised by protectionism and import-substitution. Economic policy thinking began to change during the 1980s, largely in response to the increasing isolation of the Apartheid government in the previous two decades. But the sanctions period (1985-1993) effectively halted the beginnings of a liberalization process – and South African firms' access to global production networks was greatly curtailed.

This real economy approach was underpinned by a broadly accommodative monetary policy stance, particularly in the 1970s and early 1980s, but was replaced by a strict monetary policy in the wake of the 1984/5 debt crisis and associated need to attract foreign portfolio capital in order to acquire foreign exchange to service the debt. Increasing security expenditures in the 1980s and early 1990s as moves towards a political settlement gathered pace ensured that the ANC government inherited a depleted fiscus.

South Africa's reintegration into the global economy since 1994 can be broadly characterized according to three (largely macroeconomic) phases: "growth through redistribution" (1994-1995); "Economic orthodoxy" (1996-2001); and "Keynesian kick-start" (2002-present).³ Each policy phase was preceded by and accompanied with particular political and economic developments.

"Growth through Redistribution" essentially reflected the (temporary) ascendancy in the South African polity of internal anti-apartheid forces allied with the dominant trade union movement, the Congress of South African Trade Unions (COSATU). COSATU formed the so-called "tri-partite alliance" with the ANC and South African Communist Party (SACP). The core of this strategy, the Reconstruction and Development Programme (RDP), was to bridge the divide between the poor (black), marginalised majority and the rich, urbanised (white) minority through infrastructure investment and redistribution via the tax system. This was accompanied by widespread labour market reforms designed to extend greater protection to workers whilst legislating preferential hiring policies for blacks through employment equity. In essence this was a Keynesian expenditure strategy accompanied by reorganization (tightening) of the labour-market.

"Economic orthodoxy" arose in response to a serious currency crisis in early 1996 associated with the appointment of South Africa's first black finance minister who was bequeathed a legacy of excessive state expenditure by the previous government. Its adoption

3 See Hirsch (2005) for a succinct overview and analysis of current dynamics.

was also influenced by the failure of the RDP to deliver on its promises in light of the new government's difficulties in managing and controlling the apparatus of the state. The RDP was basically abandoned in favour of fiscal rectitude, although labour market reforms were retained.⁴ The key pillar was a macroeconomic stabilisation strategy designed to appease global financial markets in a context where South Africa's capital markets were increasingly integrated into global financial markets. This reorientation of economic policy was led by the then Deputy President, and current President, and is at the heart of current tensions with the ANC and its alliance partners regarding the Presidential succession set to take place in 2009.

At that time the "Washington consensus" was the dominant ideological framework governing "the markets" approach to developing country economic policy and South Africa's hastily unveiled macroeconomic strategy: Growth, Employment and Redistribution (GEAR), was designed to appease those markets for fear of being punished to the point of "mortgaging the country's future".⁵ This consisted of tight controls over state expenditure and the introduction of inflation targeting. The appropriateness of this stance was reinforced during the currency crisis of 1998 which South Africa, in contrast to other emerging markets in Asia and Latin America, managed to weather relatively well through application of orthodox interest rate policy. Throughout this period relatively stringent capital account controls were retained. Accompanying this shift in macroeconomic policy was a trade liberalization episode characterized by implementation of South Africa's Uruguay Round commitments under the newly formed World Trade Organisation (WTO) (see below) and conclusion of bilateral free trade agreements with the European Union and the countries of the Southern African Development Community (SADC).

The economic impact of tariff liberalization 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 underwent structural shifts in the 1990s. Reliance on exports of natural resources waned slightly and services became steadily more important. Furthermore, growth of non-primary goods exports (real manufactured export growth averaged 5 % between 1995 and 2002) has improved South Africa's external position.

Yet South Africa's tariff structure remains needlessly complex and inefficient. The number of mixed-duty tariff lines stood at 1701 in 2002, there were still 38 different *ad valorem* tariff rates (32 more than in South Africa's Formal Offer to the WTO), and if non-*ad valorem* rates are included, the number equalled 217 in 2002. Wherever the debate over trade liberalization goes, there can be no doubt that in the meantime a further simplification and rationalization of the existing protective architecture (itself a form of liberalization) is both a desirable and achievable policy goal.

Equally clearly, however, is that any attempts to explicitly liberalize further would have to be sensitively managed. The current leadership crisis in the ANC is exposing serious divisions over the direction economic policy ought to take in the future. And this in spite of the fact that the economy is showing signs of a sustained upturn. Crucially, job creation is

4 Thus from the orthodox economist's standpoint two major policy reforms were directly contradictory: liberalization of trade and capital markets versus tightening labour markets.

5 Hirsch (2005).

still slow and unemployment rates high, rendering arguments for trade liberalization vulnerable to attack from those hostile to it. The stakes are therefore high.

The “*Keynesian kick-start*” period arose partly out of a new-found confidence generated by a couple of years of macroeconomic stability arising from the orthodox period, but more importantly in response to South Africa’s pressing social problems. In a sense it represents a return to the “Growth through Redistribution” period but with the crucial difference that the current custodians of economic policy are actively advocating labour-market reforms.⁶ It was given intellectual support through Joseph Stiglitz’s trenchant critique of economic orthodoxy,⁷ and the “Third Way” paradigm. It has also been accompanied by greater emphasis on redistribution via “broad-based black economic empowerment” designed to give blacks a greater stake in the economy via an accelerated affirmative action programme.

Essentially this phase has been characterised by a stated desire to loosen the fiscal policy taps through selective welfare expenditures and investment in public infrastructure through state-owned corporations. As such it is a combination of demand stimulus and supply-side economics. The latter is intended to shift the economic growth path to annual rates of 6 percent of GDP by 2014 – a target some commentators regard as feasible. However, complications have arisen around a lack of capacity to spend – both at the local level in respect of welfare payments and service delivery; and at central level in state-owned enterprises. This lack of capacity is linked to a sustained and deepening skills shortage in the upper echelons of the economy, a fact not helped by the government’s obstructive stance on immigration of skilled workers into the country.⁸ In addition there has until recently been an unwillingness in government institutions, especially at local government level, to retain skilled officials and managers, in the name of racial equity.

A potentially more binding constraint is the currency. Between 1994 and 2002 the currency generally depreciated thereby boosting exports whilst contributing to inflation. In the wake of the September 11th attacks on the United States South Africa experienced a third currency shock (depreciation) and associated inflationary response. This curtailed the onset of the Keynesian kick-start period, which began to get underway in earnest only in the last two years. This owed much to the strength of the currency – in turn owing to buoyant commodity prices – and consequent curtailment of inflation. With inflation now firmly under control, albeit with previous episodes firmly embedded in the domestic cost structure, the stage is now set for fiscal expansion.

Yet wild currency swings are now regarded as the single largest impediment to investment, both domestic and foreign. Furthermore, with commodity prices seemingly set to continue their strength for the foreseeable future there are substantial concerns that South Africa is experiencing “Dutch disease”⁹ and that this will continue. Hence there is alarm in

6 See O’Grady (2005). In the article, Tito Mboweni rues ‘unintended consequences’ of his labour law. Mr Mboweni is the current governor of the central bank and previous labour minister responsible for most of the key labour market reforms in the 1990s.

7 See Stiglitz (2002).

8 See Verwey (2005).

9 Whereby the exchange rate appreciates owing to sustained revenue inflows arising from increased export receipts from commodity exports. The effect is allegedly to suppress the manufacturing sector.

certain quarters rooted in fears of “deindustrialization”,¹⁰ notably amongst groups committed to an active industrial strategy designed to boost labour-intensive industries. In this view a strong industrial policy combined with a looser macroeconomic policy and competitive currency is required to address the unemployment crisis.

The legacy of almost a century of inward orientation constitutes a significant challenge to the new ANC-led regime. Entrenched interests, gross inefficiencies, and underdeveloped bureaucratic capacities are increasingly exposed as market-driven adjustment pressures begin to tell. In this context an activist industrial policy seems unlikely to succeed, notwithstanding its putative merits. And the broader social context, characterised by high unemployment and poverty ensures a highly politicised debate concerning trade liberalization.

2.2 Socio-economic trends

South Africa is still a racially polarised society – how could it be otherwise given our history? This is reflected in daily headlines in various forms, from controversy over reforming the judiciary through black economic empowerment codes to land reform. It is the dominant fault-line in South African society. This reality is unlikely to alter in its essential aspect given that poverty, landlessness, lack of access to basic services, and unemployment are concentrated in the black (African) section of the population.

The black population is subject to two sharply contradictory demographic trends: rapid population increase in the youth cohort which finds educational and employment opportunities sharply circumscribed; and rapidly escalating deaths from HIV/AIDS. A brutal implication of the latter trend is that the unemployment problem will be ameliorated in the medium to long term through potential population decline, but the reality is that AIDS deaths primarily affect the economically active population thereby contributing to skills shortages. This is reflected in the growing problem of orphanage, itself contributing to rising social instability.

The minority populations (white, mixed race or “coloured”, and Asian) are relatively affluent, urbanised and privileged in comparison. Of these three groups the coloured population, traditionally concentrated in the Western Cape Province, suffers most from the ravages of chronic unemployment and associated criminality. The Asian population, concentrated in KwaZulu-Natal Province, also has a large underclass but seems to have avoided a descent into the kind of systematic criminality and gang violence found in the Western Cape. Historically the white population has been and remains the most affluent group and consequently redress measures designed to benefit the black population largely target white privilege.

To some extent these socio-economic dynamics are reflected in the President’s notion of “two economies”,¹¹ although this depiction is only a partial reflection of South African

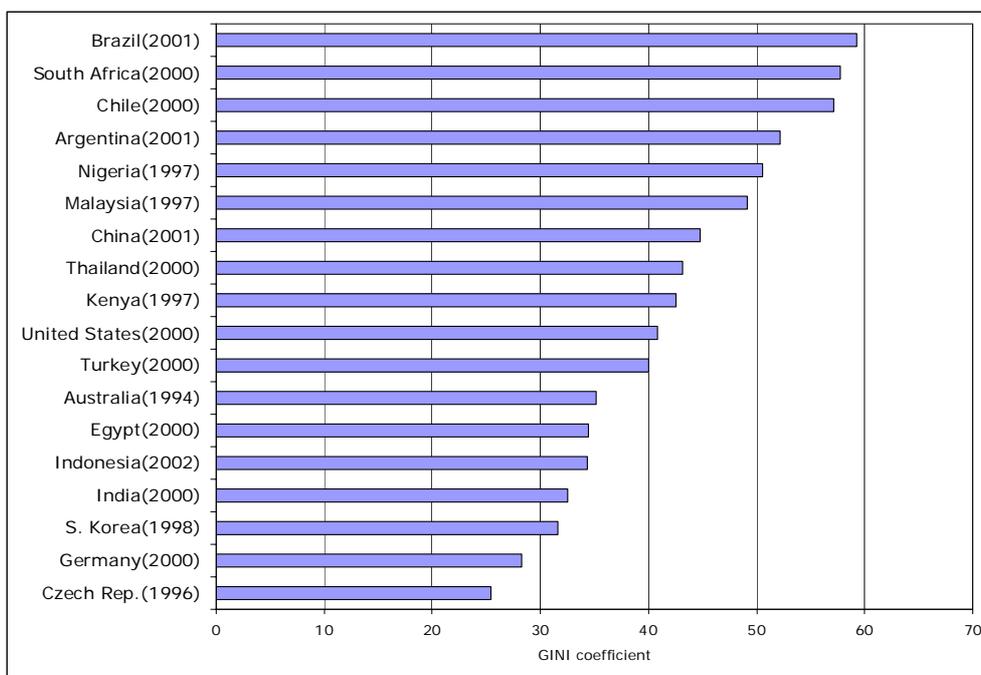
10 See Engineering News Online (2005).

11 The first economy being globalised, largely white and suburban; the second economy being marginalised from the formal economy, black (including coloured and Asian), and combining both the rural and urban underclasses.

socio-economic dynamics.¹² This notion is grounded in development theory traditions, and is associated with the writings of Nobel Prize winner W. Arthur Lewis.

It is obvious that income distribution in South Africa is highly unequal and skewed along racial lines. Traditionally South Africa vies with Brazil to claim top spot in the global Gini coefficient rankings (see Figure 5). The United States is close to the figure for the world as a whole, while countries such as Germany and the Czech Republic enjoy much more equitable income distributions. South Africa's problems are further complicated by uneven geographic dispersions of inequality within the country. Yet since 1994, and even though per capita GDP has remained stagnant, affluence amongst the black population has increased¹³ largely owing to policy measures favouring the black population and associated opening up of new economic opportunities for them. To some extent this underpins the current consumption led economic growth taking place.

Figure 5: Gini coefficients, various countries and years



Source: World Bank, World Development Indicators, 2005. Note: Numbers in brackets indicate the latest available years for each country.

However, this is rooted in a context of chronic and escalating unemployment, which is now a significant driver of inequality across *and within* racial groups (whites included). Household poverty has also risen since 1994, although by how much is a matter of intense

12 For a sceptical account see Devey et al. (2005).

13 See Development Policy Research Unit (2005).

debate.¹⁴ And there are growing concerns over implementation costs associated with an increasingly complex array of measures to boost black economic empowerment. Some black commentators have also voiced concerns that empowerment and affirmative action policies are undermining long-term incentives for black people to engage in entrepreneurial and productive activities, thus giving rise to a new and potentially corrupt rentier class.

Government argues, correctly, that rising and better targeted social welfare expenditures have significantly alleviated poverty, and that successful containment of inflation has benefited the poor, but this doesn't alter the basic fact that approximately one in three job applicants is unable to find work in the formal sector. Consequently crime levels, although stabilising in recent years, rose steadily through the 1990s and into the early part of this millennium. These problems are unlikely to be alleviated by Government's land reform programme either as it is fraught with problems associated with government's capacity to implement the programme and supply supporting services. Given the Zimbabwe problem next door this is a serious medium-term problem for government leading to a stronger emphasis now on expropriation in order to fast-track reform.¹⁵

The problem of government incapacity is chronic in many small towns across the country leading recently to a spate of violent protests against local councillors. For some local politicians holding office has become a career and an opportunity for personal enrichment, which takes priority over service-delivery to the community from whom they have emerged. Bad service delivery is compounded by the increasing disparity between the income of the politicians and their constituents. By its own admission the ANC government is hard-pressed to control these problems given that the party is not in control of nominations for local government elections.¹⁶

The local government elections on 1 March 2006 nevertheless delivered an overwhelming majority to the ANC, with the exception of the city of Cape Town, where specific circumstances prevail. The outcome points to the fact that even though the electorate were in dissatisfaction with service delivery, they were unable to discern any other political party that they would vote for. By abstaining from casting their votes in protest, they enabled the ANC to retain seats with as little as thirteen votes cast. The case of Cape Town has subsequently illustrated the unwillingness of the ANC to hand over power to another party or coalition, even when its support in that local authority was lower than the opposing major coalition partner. It has used various means in its attempts to have the governing coalition-elected mayor unseated, unsuccessfully to date.

14 Government argues that, statistically, much of this is associated with a "fracturing of households" as revealed in household censuses. By this they mean that the average recorded size of households has decreased at the same time as the number of households has risen. This is associated with rapid increases in rural-urban migration and workforce growth outstripping the capacity of the economy to create jobs. See Policy Coordination and Advisory Services "Overview" in Human Sciences Research Council (2004, 56).

15 See Hofstatter (2005a) for an interesting analysis of these problems. He documents the failure of one of government's flagship restitution projects. Essentially previously productive farmland was restored to its historical owners and, according to Hofstatter, government failures ensured the new owners were unable to recapitalise the farms and work them productively thus leaving them to fall into disuse. A growing fear is that as government turns towards forced expropriations this pattern will repeat and have serious economic consequences. These fears are probably exaggerated but the possibility remains.

16 See Paton (2005).

This is compounded by slow delivery of housing for the urban poor by national government. Yet the politics of housing delivery are increasingly fraught as provinces and municipalities seek more control notwithstanding an obvious and widespread lack of capacity to deliver.¹⁷ Matters are scarcely better at provincial level where many provinces struggle with integrative planning functions. Altogether it seems that problems associated with government's incapacity to deliver are brewing across a range of fronts. To a significant extent this reveals a broader problem of institutional ferment associated with the political transition, and accelerated "transformation"¹⁸ of all institutions. The Presidency is aware of these problems as reflected in the following statement: "...State institutions are still undergoing significant growing pains and face the danger of a permanent and debilitating state of flux".¹⁹ This may lead to more forceful interventions by national government into dysfunctional provincial and local government structures in the future.

If the economy was growing robustly and unemployed workers and new job entrants were being rapidly absorbed, the racial underpinnings of the broader social dynamic and service delivery deficits would not necessarily be problematic. However, whilst the economy is showing signs of sustained and accelerated growth this happy scenario does not currently obtain.²⁰ Consequently, contestation over all aspects of government policy is sharp and polarised. This is a potent cocktail into which the ANC's current leadership succession battle has now been added. The succession debate has consequently highlighted deep divisions within the tripartite alliance over the future course of economic policy.

Much of this contestation revolves around catering for the poor and unemployed. We outlined the broad thrust of government's response above, namely the shift to Keynesian demand expansion and upgrading the economy's supply-side. Within government (especially the Treasury) there are concerns about how far this strategy can be pushed without compromising the revenue base. Yet it has signed up to a reportedly massive expansion of public works expenditures, primarily on infrastructure, whilst also substantially increasing social welfare expenditures. On the other hand a significant constituency in the ANC now argues for reforms to promote labour market flexibility targeted at absorbing the huge pool of unskilled unemployed labour. Recognising that this probably isn't feasible in the short-term given the substantial tensions it would generate within the tripartite alliance, the government is now emphasising raising its own investment rate through significantly increased expenditures. The flip side of this is that the rate of increase of social expenditures is to be capped in favour of state-led investment expansion.²¹ This has angered proponents of a policy initiative dubbed the Basic Income Grant (BIG). Advocates of this approach argue that government needs to significantly expand domestic expenditure on the basis of

17 See Radebe (2005).

18 The precise meaning of this term is contested, but for our purposes essentially denotes promotion of non-whites into skilled occupations in both business and government in order to increase representivity of the majority population groups. Given the persistent skills shortage in the economy there is a significant premium on non-white skilled employees thus generating rapid job mobility. This dynamic undermines job retention and associated build-up of the institutional memory so critical to ensuring government delivery of services.

19 See Human Sciences Research Council (2004, 52).

20 Whilst the growth rate has trended up to around 4 percent of GDP, it is widely recognised that this needs to be increased to at least 6 percent and be sustained for at least a decade to make meaningful inroads into unemployment and poverty.

21 See Robinson / Dawes (2005).

a grant extended to all citizens which would meet the twin objectives of alleviating poverty whilst boosting domestic consumption. Treasury has ruled it out owing to concerns over how it would be funded.

2.3 Environment Policies

Climate change, the Kyoto protocol in particular, is increasingly discussed in South Africa. This is underpinned by a number of imperatives associated with perceived impacts of global warming. There is a growing realisation that South Africa stands to lose considerably through: desertification encroaching from the north and west; reduced river flows especially in the west; associated reduction in arable acreage; and re-emergence of debilitating diseases such as malaria that have hitherto been contained. Compounding this is the fact that we are already a water-constrained country, in a water-constrained region: according to the Department of Water Affairs demand will exceed available water supplies in South Africa by 2025.²²

Clearly these trends hold serious implications for the future of agricultural production; a situation compounded by uncertainties around the land reform process, as discussed above (although government would not necessarily acknowledge this linkage). And we make our own substantial contribution to global warming and atmospheric pollution through our reliance on coal-fired energy, based on our huge coal endowment. This situation is likely to worsen over the next decade or so as government embarks on a massive energy infrastructure investment drive in accordance with the overarching goal to drive the economic growth rate up to 6 percent of GDP per annum, through lowering the cost of key inputs to industry, as outlined above.

So what policy responses to these growing problems are discernible? First, substantial effort is being expended on experimentation with genetically-modified foods and crops. This is fraught with dangers, not least of which are the implications for our export profile should we pass a critical threshold the EU (our major agricultural export market) may find unacceptable. Consequently, the government finds itself in an increasingly uncomfortable location in multilateral negotiations over the Cartagena (or biosafety) protocol. Arrayed against it is a collection of African countries arguing for tight controls over export and labelling of Living Modified Organisms (LMOs), in loose association with the EU which also seeks tighter controls in order to mollify domestic consumers. Whilst the major GM foods exporters (primarily the US, Brazil, Australia and China) have stayed out of the protocol South Africa signed up to it after 1994. Arguably, from a national interest perspective this was not a very far-sighted act but nonetheless the government finds its hands tied as it is obliged to negotiate controls over exports of GM foods which we increasingly produce.

Secondly, the country is gearing up for more active participation in the Kyoto protocol, and a number of carbon-trading projects have been identified. There are some innovative projects on the table, for example a biomass conversion facility in Durban which should have positive environmental spin-offs. Sticking with this example biomass currently ac-

22 Department of Environmental Affairs and Tourism (2004).

counts for about 8 percent of energy generation, and with oil prices seemingly set to continue their inexorable rise considerable attention is being given to the possibility of utilising our substantial maize surplus and sugar production to develop biomass fuel alternatives.

This points to the third response, namely diversification away from reliance on coal (and oil) based energy. This primarily takes two forms: nuclear and gas. Concerning the former, South Africa currently has only one functioning nuclear power station, situated in Cape Town because of the distance from the coal-fired power stations in the north-east of the country and the problems arising from power transmission over distances exceeding 1000 km. The recent growth of the South African economy and the increased demand for electricity has stretched the ability of existing power stations to supply power near to their absolute limits. In addition maintenance problems at the nuclear station and accompanying extended power supply disruptions has emphasized the vulnerability of Cape Town in particular to lack of generating capacity. The existence of this now aging station within full view of the city of Cape Town has added impetus to an active anti-nuclear campaign in that city. No comparable anti-nuclear sentiment is discernible in other parts of South Africa.

Government has invested considerable capital in the “Pebble-bed Modular Reactor” (PBMR) project. This is intended to address future power needs, but is not far enough advanced to present any immediate solution. It is best thought of as a miniaturised nuclear power plant that can be customised for localised use. Government is in the process of commissioning a test plant, following which full commercialisation could proceed, and has lined up a number of foreign investors to assist in capitalising the project. Altogether it is envisaged that 20-30 such plants could be commissioned.²³ Unsurprisingly, the South African government also supports inclusion of nuclear energy in carbon-emissions reduction negotiations.²⁴

South Africa is caught between the urgent need for more electricity and the undesirability of building more coal-fired stations with their high carbon emissions to resolve future generation shortages. While various alternative energy sources are being explored,²⁵ the only viable long-term solution with the capacity to produce sufficient electricity seems to lie in the use of nuclear generating plants as yet not built. As a producer of uranium, South Africa cannot and has not excluded the option of nuclear generation as a source of its power needs.

According to the Department of Environmental Affairs and Tourism (2004, 9)) renewable energy sources account for approximately 9 percent of total national energy consumption. The same report states that South Africa is one of the world’s top 15 most energy-intensive economies. Recent moves to increase this share include the recent establishment by a German company, Johanna Solar Technology, of a joint venture with the state-owned Central Energy Fund (CEF) to commercially produce solar panels for the South African market. The CEF also recently established two agencies, The National Energy Efficiency

23 See Davie (2005).

24 See Hofstatter (2005b).

25 See Olivier (2006).

Agency and the South African National Energy Research Institute as wholly owned divisions with mandates to promote energy efficiency and undertake research and technology development to fully utilise South Africa's energy resources respectively. Hence efforts are being made, but they are fledgling at this stage.

Concerning natural gas South Africa is not endowed with its own resources, therefore government has concentrated on tapping neighbouring Mozambique's vast fields resulting in the construction of a gas pipeline from Mozambique's Pande gas field to Secunda in South Africa, with feeder pipes to coastal locations under consideration. There is an existing offshore facility in Mossel Bay; plans are also afoot to construct a dedicated liquid to gas conversion facility in the port of Coega in the Eastern Cape based on imported Liquid Natural Gas (LNG); and substantial offshore exploration is taking place off the west coast. However, with little in the way of further gas supplies available regionally it is likely that the emphasis on nuclear power will increase over time.²⁶

It is clear from the foregoing that South Africa has much to bargain for in global climate change negotiations. At the recently concluded Montreal conference reviewing implementation of the Kyoto protocol South Africa reportedly aligned with big developing countries like China and Brazil to resist carbon reduction commitments being assigned to them whilst pressing for a financing framework to assist developing countries to adapt to climate change. This is premised on the moral stance that developed countries are the major source of carbon emissions affecting the entire planet and therefore should make the major adjustments to fix the problem whilst assisting developing countries to prevent comparable problems arising in the future. In line with this South Africa, together with major developing country polluters such as India, China, and Brazil, resisted agreeing to reductions commitments now but agreed to discuss post 2012 commitments.²⁷

2.4 Domestic Political Institutions

The post-apartheid constitutions of South Africa, 1994 and 1996, introduced the concept of proportional representation to prevent the distortions that existed even among the white electorates under the pre-1994 constitution. The unforeseen consequence has been that Members of Parliament at national and provincial level and those city councillors elected by proportional representation without constituencies have proved to be loyal rather to the leadership of the party that placed their names in their party list, than to the electors who voted for the party, not the representative, of their choice. They are therefore not answerable to the voters to assure their re-election, but to the party that will again include their name on the party list. This occurs even though the party may assign them responsibility for a particular area or pseudo-constituency. The situation has been aggravated by the introduction of a law permitting "floor-crossing" in certain circumstances. This permits Members elected on the list of one party to cross to another party during predetermined "window periods", without having to resign or lose their parliamentary seats. Hence democratic accountability is a real problem throughout the body politic, and to a significant extent explains the delivery problems at local and provincial level outlined above.

26 See Planting (2005).

27 See Macleod (2005) and Hofstatter (2005b).

The report of a commission investigating the electoral system, which proposed addressing the problem by introducing multi-member constituencies combined with proportional representation, has been shelved by the government.

The Constitution also provides for a number of institutions answerable to Parliament rather than the executive. These include the Auditor-General, Public Protector (ombudsmen), Human Rights Commission, and Gender Commission. These institutions have been successful to varying degrees, depending on the willingness of the head to be unpopular with the ruling party and to follow an independent line. The most successful has been the Auditor-General, but other institutions, such as the Public Protector seemed to have been subjected to strong political pressure over the involvement of individuals close to the party in an oil scandal involving Iraq. The Independent Investigation Unit (against corruption in government) was emasculated when it wished to become involved in assessing the legality of the processes followed by government in the controversial international arms purchasing deal. This reflects the Executive's tight control over the institutional fabric of the state.

South Africa has been likened to China and to Mexico in earlier times, as destined for the foreseeable future to be dominated by a single party. In South Africa this has been observed to go in conjunction with a centralisation of power in the Presidency, impatience with criticism, and remoteness from the grassroots. There has, however, been no challenge to the principles of the Constitution or to the Constitutional Court's jurisdiction and rulings. However, delays in implementing such rulings may indeed have occurred, notably with regard to rulings against the Department of Health in respect of its HIV/AIDS policy.

This makes the watchdog role of organisations and institutions not dependent on the patronage of the executive more acute. The vibrant nature of investigative journalism and debate in the print and electronic media, and the role of civil society, are therefore critical as a monitor of and restraint on government action (see below). Continued international interest and focus on the progress being made by South Africa's young democracy are also critical factors limiting potential government excesses.

Depending on the outcome of the leadership transition in 2007 and 2009, these factors could be critical if the new leadership is less punctilious in observing the letter and spirit of the Constitution. Only time will tell.

3 South Africa and Global Governance

3.1 South Africa's Evolving Foreign Policy

South Africa's foreign policy since 1994 has consisted of a number of main themes. In the two presidencies some have received more emphasis than others. They are:

- The primacy of African issues, including the African Diaspora.²⁸
- South-South Co-operation.²⁹

28 See Sidiropoulos (2004). Several contributions deal with this topic.

- Positive dialogue with the Industrialised North, in particular the G7/G8 on development, poverty alleviation and other issues of importance to the South.
- Emphasis on Multilateralism and Global Governance.³⁰
- The development of bilateral relations with all countries, but especially with those considered important for economic, technological, political or sentimental reasons.³¹

South Africa emerged from international isolation in 1994 and immediately plunged actively into the international debate on issues of global governance. The reasons were manifold. First, becoming actively involved in the global debate as a good global citizen was a way of distancing the new democratic and internationally acceptable South Africa from the old pariah state that had been excluded from most international forums. Second, the post-1994 period was inspired by a new idealism based on a belief that commitment to the promotion of human rights, democracy, justice and international law in the conduct of international relations, international peace and conflict resolution and the interests of Africa should be cornerstones of South African foreign policy. Participation in the debate on global issues was linked to this desire to make the world a better place. (“A better life for all” is an ANC slogan.)

As an emerging middle power, South Africa would be able to make the greatest international impact and contribution through participation in the work of developing global governance through the work of multilateral forums and organisations – a position it shares with Brazil and other Latin American states.

Unlike most other African countries, South Africa had the capability to participate effectively in the global debate. This capability consisted of well-educated ANC exiles, who also had international experience in the work of organs such as the UN General Assembly; and serving diplomats from the *ancien regime* who relished the opportunity to participate in debates from which they had previously been excluded. South Africa’s critical role in the Nuclear Non-Proliferation Treaty Review and Extension Conference in April 1995, driven by long-serving diplomats, with the endorsement of then Deputy President Mbeki, is a prime example.

Post-1994 South African foreign policy and its implementation may be divided into two phases. None are mutually exclusive, but within each there was a discernible change of emphasis. The first phase coincided with the Mandela Presidency and was globally orientated on the cornerstones mentioned above. South Africa joined or rejoined many international organisations. The second phase, coinciding with the commencement of the Mbeki Presidency, while maintaining its global good citizenship, placed more emphasis on the interests of Africa and its development, peacekeeping initiatives on the continent and the reform of African institutions.

In the *Mandela period* an early decision of the new government was to have South Africa’s classification as a developed country in international organisations changed to that

29 See Wheeler (2004a).

30 See Wheeler (2004b).

31 Ngubentombi (2004).

of a developing country. Once South Africa was permitted in June 1994 to resume its seat in the UN General Assembly, it began to play an active role in debates, as well as to participate in the work of the G77, taking its turn as chair of the group. Almost from the beginning of the democratically elected government, South Africa sought to play an active role in major UN conferences and summits, such as the UN Conference on Population and Development, 1994, the Beijing Women's Conference, and the Copenhagen conference on social development. This involvement continued into the second phase when South Africa was active at the Monterrey conference on finance for development and subsequently hosted the World Summit on Sustainable Development in Johannesburg in 2002.

Several major international events were hosted by South Africa, including United Nations Conference on Trade and Development (UNCTAD) IX in 1995, The Information Society also in 1995, World AIDS summit, the Commonwealth Heads of Government Meeting (CHOGM) and the 1998 summit of the Non-Aligned Movement (NAM). South Africa joined the NAM at an early stage after the transition (at the movement's Cairo Ministerial meeting in 1994). It assumed the chair of the movement at the XII Summit in Durban, South Africa, in August 1998 and handed the leadership to Malaysia in 2003. During its term of office it took steps to make the movement more relevant to the post-Cold War world ("Non-Aligned with What?").

South Africa also rejoined the Commonwealth, various Specialised UN Agencies and organisations such as Interpol. On the other hand, it was selective in the organisations and groups it joined. It rejected overtures from the United Nations Industrial Development Organisation (UNIDO) to join and did not take up an invitation to join the G15, a group of developing nations, on the basis that the latter was no more than a talk shop and had achieved nothing.

South Africa became a member of the Conference on Disarmament, brokering a deal by which the membership was considerably enlarged. It was instrumental in the finalisation of the Treaty of Pelindaba, which seeks to make Africa a nuclear weapons-free zone, and it supported the Central Asian states in their initiative in 1997 to create a Central Asia nuclear weapons free zone.³² In the negotiations leading to the creation of the International Criminal Court (ICC), South Africa played an active part. Judges and staff were provided for the Great Lakes War Crimes Tribunal based in Arusha, for the Former Yugoslav War Crimes Tribunal in The Hague and later to the ICC itself. A highly regarded South African academic lawyer was elected to the International Law Commission with government support.

From the beginning therefore South Africa sought to play a constructive role in all issues of global governance. In many respects it played a bridging role between the policy positions of the industrialised North and those of the developing South. This was not without difficulty or controversy.

Among countries of the South, especially in Africa, there were signs that South Africa was regarded as too Western, both in life-style and in its support of issues considered to be the agenda of the North such as the observance of human rights and promotion of good governance, as well as on the position it took on the extension of the alternatively Nuclear

32 See Markram (2004).

Non-Proliferation Treaty (NPT). The latter was in conflict with the non-aligned position as advocated by Indonesia. South Africa also disagreed and continues to disagree fundamentally with another NAM leader and close ally, India, on the question of the possession of nuclear weapons. There were also concerns in some African quarters that South Africa had arrived late on the scene and should, in the African tradition, be more deferential to the views of the elder statesmen of the continent. Thus when President Mandela proposed the exclusion of Nigeria from the (British) Commonwealth after the government of Sani Abacha executed Ken Saro-Wiwa in 1995, he was humiliated by other African countries who did not appreciate his breaking ranks with them.

The South African government tended from the outset, therefore, to be very cautious about being seen as a “bully boy” or a “big brother” on the continent. This gave rise to the “*Africa Phase*” in our foreign policy. Since the Nigeria incident, and especially since the ascent of President Thabo Mbeki to the position of head of state, the emphasis has shifted, outwardly at least, towards a greater emphasis on African issues and a closer alignment with other African countries and leaders.

The controversial and, in South Africa, divisive issue of Zimbabwe is illustrative of this approach. While it has become more generally recognised that President Robert Mugabe of Zimbabwe is not susceptible to international pressure, the perception that South Africa is doing nothing about the issue under the cloak of “quiet diplomacy” seems to distance the country from much international thinking, but not from African thinking. Nor, for that matter, from South African black populist sentiments.

Because of its overwhelming economic strength and level of development relative to other African states, even if not by wider world standards, South Africa cannot avoid playing the role of regional hegemon. As stated, it attempts to act with caution and tact in its relations with other countries on the continent. They on the other hand expect South Africa to play a pro-active and high profile role on behalf of the continent, while remaining suspicious and resentful to varying extents. The comment, such as that by Nigeria some years ago, that South Africa is ‘a white country run by blacks’ was at once deeply hurtful and indicative of jealousy and the competitive nature of the relationship, especially from the Nigerian side.

Likewise Egypt, which sees itself in a leadership role in Africa as well as the Middle East, displays an attitude to South Africa bordering on paranoia and closely follows South Africa’s every international move, to the lowest level. The fact that South Africa was able in 1995 to unseat Egypt from the “permanent” seat in the International Atomic Energy Agency (IAEA) for the country most advanced in Africa in the field of nuclear issues, contributed to this attitude. Egypt had occupied the seat from 1977 when South Africa was excluded from the Board of Governors because of its domestic policies.

The Mbeki presidency has been characterised by the creation of the African Union (AU), the reform of SADC, the launch of the New Partnership for Africa’s Development (NEPAD), and involvement of the President, the then Deputy President and several Cabinet Ministers in attempts to resolve conflicts and crises in Africa – the Great Lakes, the Democratic Republic of Congo (DRC), Cote d’Ivoire, Sudan and Zimbabwe being the most prominent.

The approach of South Africa has generally been to promote the model of inclusiveness of all conflicting or rival parties in the process that was the basis of success of South Africa's progress to democracy. This could be characterised as a "soft power" approach to foreign policy whereas the instruments of a "hard power" approach are deliberately not stressed. While apparently successful in Burundi, Mbeki's role in Cote d'Ivoire has been criticised, not only by President Chirac, but also by African academics. The view of the latter is that the South African model is not appropriate in Cote d'Ivoire, because it overlooks the large immigrant populations from neighbouring countries like Burkina Faso who have family, tribal, and religious relationships with Ivoireans in the north of the country that cannot be treated as irrelevant to the peace process. South African troops, police and demining specialists and technology have been made available for peacekeeping as well as for **VIP** protection and demining activities in Burundi, DRC, Eritrea/Ethiopia, Sudan, and Mozambique, but also in the Former Yugoslavia and Afghanistan.³³

The outcome of the current political battle for succession in the leadership of the ANC (2007) and the Presidency in 2009 brings a degree of uncertainty into the foreign policy and foreign economic policy agendas that may be followed in future. While policies in the international sphere are likely to continue unchanged under their own momentum, the President may have less time to devote to international affairs while he attempts to deal with domestic party issues and grassroots discontent about poor service delivery by ANC office-bearers, especially at local government level. Symptomatic of this domestic preoccupation was his abrupt cancellation, with little account of diplomatic niceties, of the Summit on Progressive Governance in October 2005, to which he had invited progressive international leaders such as the Prime Minister of Spain, President Lagos of Chile, President Lula da Silva of Brazil and about a dozen others. Party concerns had to take precedence over international relations, even at the cost of offending these leaders and damaging his personal relationships with them. The rescheduled Progressive Governance Summit was held near Pretoria in February 2006 and was considered a success.³⁴

For several reasons, mentioned below, South Africans tend to have a perhaps unusual focus on international affairs. Many members of the current ruling elite, including Mbeki and Foreign Minister Dlamini-Zuma, lived for extended periods in exile in many countries, often as representatives of the liberation movements. They were therefore politically aware and active. Their backgrounds led them to retain an interest in the affairs of other countries and the global community.

Furthermore, South Africa has been in the international spotlight for more than 50 years. Its leaders and its military were role-players in the two World Wars and the Korean War. Also in the events following those wars, such as in implementing the League of Nations Mandate over South West Africa (now Namibia); the various peace treaties (South Africa is a guarantor of the borders of Turkey, as a party to the Treaty of Lausanne, 1925); establishment of the United Nations in San Francisco; and intensifying criticism and condemnation of its domestic policies from 1945 up until the transition to 1994. To deflect attention from domestic issues, the state-controlled media especially, and (because of the pro-

33 South Africa's demining technology has been widely recognised as providing the first innovation since the Second World War.

34 Kajee / Ngobese-Hammond (2006).

hibition on reporting the activities of proscribed political movements) also the private media tended to give attention to international rather than local news.

As a country which was and continues to be a receiver of immigrants, previously Europeans, now Africans and Asians, and also a country of emigration, many South Africans of all races have family members in many other countries. They travel widely on family visits and are therefore interested in the affairs of the country where their children and family members live or have settled. Satellite television and the Internet provide those that can afford to the opportunity to remain informed of issues beyond the parochial. The turbulent environment in the region, and the fact that members of all communities have been involved, on different sides, in armed hostilities in neighbouring countries further fuel societal interest in foreign affairs.

South Africa has a lively and relatively sophisticated Non Governmental Organization (NGO) community, many doing research on international issues and making their research results available to a wider audience through the public media and through conferences and publications. Many of the critical issues in the region have a resonance in South Africa: land redistribution in Zimbabwe; corruption; expansion of South African business interests into Africa. The influx of economic migrants from all over Africa has given rise to the problem of xenophobia in certain sectors of society who feel that their job prospects are threatened. These issues also give rise to heated debates in the newspapers and on talk radio. There is no internal consensus on the critical regional issues, such as Zimbabwe. Opinions among the public, rather than informed opinion, tend to be divided on racial lines.

For its size and relative international importance, South Africa therefore has a surprisingly well-informed and internationally engaged population. This is reflected in the frequent observation that “South Africa punches above its weight” in international affairs.

While the present government emerged from, and relied on the support of, non-governmental organisations to raise the level of awareness and debate on the apartheid issue and the continued imprisonment of Nelson Mandela and his comrades, a new sensitivity and suspicion of the role of NGOs in South Africa has recently emerged in the pronouncements of the President. Local NGOs have been accused of serving the agendas of their foreign funders, rather than being independent in their advocacy and research. The rhetoric in some respects is reminiscent of the concerns expressed by the apartheid government when NGOs mounted sustained attacks on its policies. The pre-1994 government introduced legislation to curb foreign funding of NGOs, but there has been no sign to date of similar intentions by the current government.

The President’s comments have been met with a critical response from NGOs, who have pointed out these similarities and denied that the outcome of their work is prescribed by funders. A lively public debate on a range of issues and tolerance of dissent has continued unhindered.

The President’s recent outspoken comments were inspired by criticism of the South African government’s approach to preparation for the review of South Africa’s performance by the AU’s African Peer Review Mechanism (APRM). The APRM was a brainchild of Mbeki and of those who developed the concept of the NEPAD. It is akin to the Organization for Security and Co-operation in Europe (OSCE) review mechanism and is intended

to assess the quality of governance and delivery. South African NGOs recently came to the conclusion that the South African government planned to control the assessment process, sideline the input of non-state actors, and draft the report within two months, based on the government's own report card to the electorate, produced in 2004 to celebrate ten years of democracy in South Africa. NGOs characterised this as a whitewash at a time when grassroots discontent with government delivery was manifesting itself and, more importantly, a bad example for less democratic and more corrupt African governments to use as a precedent. The government nevertheless, grudgingly, responded to their criticism by involving more NGO representatives in the process and extending the time allowed for public consultation.³⁵ Parliament, which has become more compliant to the will of the executive, has also responded to its apparent exclusion from the process by setting up its own consultation process, separate from the executive process. To its credit, and in a reversal of its earlier attitude to the role of research institutions, on 16 February 2006 the government commissioned several such institutions to compile the reports on comments received from all sources concerning various aspects of governance. These will be submitted to the APRM secretariat as the South African report.

Issues on which NGOs have had an important impact on government policy are the landmine issue (leading to the Mine Ban Convention); conflict diamonds (leading to the Kimberley Process); HIV/AIDS policy; environmental issues such as conservation, water and air pollution and the culling of elephants; and nuclear energy. Wide media coverage of their views and campaigns ensures public awareness. International NGOs, such as Transparency International, and its local branch, operate without hindrance. No attempts to deny them entry into South Africa have become known. Because opposition parties have not attracted major voter support and because criticism in Parliament has been to an extent sidelined, the media and civil society act as a watchdog and raise public awareness of issues.

Such dissent among the so-called Alliance Partners of the ANC, namely the COSATU and the South African Communist Party, and youth and women's wings of the ANC, has, however, not been well-received by the governing party, and various attempts to discipline outspoken critics and bring them into line, have been taking place. COSATU's support of their brother unionists in Zimbabwe, and their attempts to visit that country to observe conditions for themselves, were sharply criticised by the government.

These fractures in the unity of the Alliance became of more importance after the dismissal of former Deputy President Zuma following a court case in which the judge found that there was a generally corrupt relationship between him and the accused. There was for a while a build-up of support for Zuma within grassroots supporters of the Alliance. It was as much a reaction to Mbeki's centralising and distant style of government, as it was true support for Zuma. Yet these difficulties have so far not translated into punishment at the polls. In the last local government elections held on 1 March 2006 the ANC retained its overwhelming electoral dominance, garnering approximately 70 percent of the national vote. This reinforced the point that the true struggle for political power within South Africa is within the ruling party which seems set to retain its electoral dominance into the foreseeable future.

35 See SAIIA / ISS / AICC (2006).

3.2 Approaches to Global Governance

South Africa seeks to play an active to very active role in almost all questions and processes of global governance. In the next section we deal specifically with international trade and the WTO. Here we focus on the UN and aspects of security policy.

The position taken on UN reform and in particular the reform of the Security Council has tended to be low-key. South Africa did not announce its candidacy for a “permanent” Council seat until its potential rivals, Nigeria and later Egypt, did so. Until that juncture, South Africa consistently stated that it would support the African position – whatever that might be. South Africa participated in negotiations with the G4, including Germany and Brazil, to develop a common position on the allocation of new Council seats. The moderate proposal was put to a summit in Addis Ababa and was rejected by leaders of “fundamentalist” states who made a “principled” but futile stand in favour of the right of veto for any new Africa permanent members. Representatives of these states have been mandated to promote their position with other UN members, if nothing else as an exercise in bringing some more realism to the debate in Africa.

It is perhaps instructive to note that South Africa has never, in the 60 year history of the UN or the eleven years of its democracy, been elected to the UN Security Council. In spite of its bid for a non-permanent seat in 2003, the Africa Group decided to support Namibia. The lack of support of South Africa’s candidacy to date is probably further evidence of the animosity and suspicion that exists among many African states for South Africa as a newcomer and a perceived hegemon. This situation may change from 2006. After some initial hesitancy, South Africa, in the person of its Permanent Representative to the UN in New York, Dumesani Kumalo, is co-chairing the working group on the proposed UN Council on Human Rights.

South Africa’s inclination is to participate in the whole gamut of global governance issues, whether in the UN, its Specialised Agencies, or in other regional or free-standing international organisations or forums. Typical examples are the Antarctic Treaty and its Consultative Meetings and the International Whaling Commission. Thus the new democratic government might have decided in 1994 to scale back South Africa’s expensive research activities in Antarctica, but it decided instead to remain actively involved. This is in line with its positive stance towards global environmental issues. The decision went against the calls by many scientists and officials to spend available resources on more practical and less expensive scientific research projects. Questions of prestige and good global citizenship no doubt also played a role in the decision.

While South Africa has sought to play a constructive role in all areas of global governance, it has taken a less than positive and inclusive stance when it subjects its position to the lowest common denominator of the “African consensus”. Examples are supporting such paragons of human rights rectitude as Libya and Sudan for membership of the UN Human Rights Commission as representatives of the African Group and supporting the No Action motion on Zimbabwe in the Commission.

South Africa’s policies and positions in specialist organisations, such as the International Labour Organisation, the World Trade Organisation, and other Specialised Agencies tend to be handled by the technical Departments of State, rather than the Department of Foreign

Affairs, but nevertheless the political line pursued in these bodies is in general agreement with the approach of responsible global citizenship.

One of the rare instances where South Africa appears from time to time to be at odds with the UN system is in regard to HIV/AIDS. This is a reflection of the "denialist" views of President Mbeki, expressed in many of the statements and actions of his Health Minister, Manto Tshabala-Msimang. This is in spite of plans to roll out anti-retroviral treatment programmes and other measures to try to stem the spread of AIDS. Like the attitude to the issue of Zimbabwe, it is perceived as an aberration and a weak point in the policies of the Mbeki government.

As an emerging middle power, South Africa emphasizes the importance of a rules-based international system and its actions in international forums are aimed to advance the global system on this basis. In situations like the invasion of Iraq, South Africa has consistently supported the position that the UN Security Council should be the only organ allowed to impose coercive measures. The tendency of the current US administration to renege on earlier commitments to the international community, or to abrogate treaties or fail to ratify them, is a matter of concern and irritation to South Africa, at the political, official and individual level. This is reflected in the public media and in conversation.

While South Africa regards the EU as an important, indeed vital, trading partner, there is concern that development funding will be diverted to the new members in the East and away from the countries of Africa. This concern is exacerbated by the generally inflexible attitude of the EU and its member countries on question of market access for agricultural products and the effect of domestic subsidies on efforts to export competing products to the EU. The Trade, Development and Cooperation Agreement (TDCA) between South Africa and the EU is regarded as an important pillar of the relationship (see below) and provides the structures through which disagreements can be handled. On the other hand, the inability of EU member countries to agree on common foreign and defence policies has left South African decision-makers with the view that in these areas bilateral relationships with individual countries are more effective.

South Africa remerged into the international community with no baggage of earlier fixed policy positions. It was therefore able to bring a refreshingly undogmatic approach to the debate on global issues. This has sometimes been to the frustration of other parties, whether in the developing world or the industrialised north. Several examples have been provided. Where the policies of the pre-1994 government were considered sound, they were accepted and reinforced. The best example is the decision of the De Klerk administration to terminate the nuclear weapons programme, open its facilities to international inspection by the IAEA, and join the Nuclear NPT. The first formal foreign policy decision of the Mandela government was to adopt a comprehensive policy on non-proliferation, disarmament and arms control on 31 August 1994. That policy stands.

Various references are made in this document to the active role played by South Africa in international efforts to control the proliferation of weapons of mass destruction.³⁶ As a country that developed and possessed weapons of mass destruction before 1994, South Africa considers that it has an important international duty to work to prevent their prolif-

36 Markram (2004).

eration. Having voluntarily terminated these programmes and permitted international verification of their termination, South Africa has the moral high ground in working for this objective in multilateral forums, and has done so actively.

The South African government has taken an unequivocal stance against terrorism. This followed a terrorist attack on the Planet Hollywood restaurant in the Waterfront tourist district of Cape Town in 1998 and the events of 9/11. It has linked the need for counter-terrorist actions to the need for a worldwide commitment to eradicate poverty. It has further recognised that combating terrorism should also not be at the expense of civil liberties and human rights.

In implementing the policy, actions have been taken to restrict the ability of terrorist organisations to operate from South Africa. One of the perpetrators of the first World Trade Centre bombing was handed over to the US authorities, and through intelligence sharing a person suspected of involvement in the London Underground terrorist attacks was apprehended in Zambia after leaving South Africa. Legislation has been implemented to monitor money laundering through the Financial Intelligence Centre Act which places a responsibility on financial institutions to “know their customers” and to report transactions above prescribed levels, or other transactions of a suspicious nature, to the Financial Intelligence Centre. The government has given notice that it plans to tighten this legislation.

Drug trafficking, both domestically and using South Africa as a transit route, is of serious concern to South Africa and receives active attention from the responsible agencies of the state. With its transport links to all regions of the world, good telecommunications links, a sophisticated banking system, sometimes less than efficient law enforcement and customs control, a large immigrant population (partly illegal), large income disparities and high unemployment, South Africa has become a target and route of preference for drug traffickers. The problem has been approached in a multifaceted way. In addition to internal law enforcement, South Africa has been an active participant in the work of the UN Commission on Narcotic Drugs since 1994, and is a party to various international conventions on the control of drug trafficking. In addition to working with Interpol, it has developed bilateral police and anti-drug agreements and arrangements with a number of countries, such as Colombia. Such arrangements have led to the successful identification and apprehension of drug traffickers transiting airports in source regions and on arrival in South Africa.

As an arms manufacturer, South Africa strictly controls the export of all armaments. Conventional arms are subject to the jurisdiction of the National Conventional Arms Control Committee (NCACC). All export permit applications are scrutinised in terms of fixed criteria. Control of nuclear, chemical and biological weapons technology, including dual use items, are within the jurisdiction of the Non-Proliferation Council, functioning within the Department of Trade and Industry.

South Africa was actively involved in the work to ban anti-personnel landmines, leading to the Mine Ban Treaty. It also plays an active role in attempts to control the proliferation of small arms, especially in Africa, and in work concerning implementation of the Chemical and Biological Weapons treaties. As small arms are a significant threat to peace in Africa, South Africa has taken the initiative in a variety of ways to control proliferation in Africa. This has included lobbying suppliers, particularly in the former Eastern bloc, to cease exports of surplus stocks to Africa, cross-border co-operation with neighbouring

states to trace hidden illegal arms caches, and the destruction rather than recycling of surplus stocks or illegal caches of small arms. At international forums South Africa has taken an active role in attempting to deal with the problem and has expressed frustration at the US undermining multilateral efforts to control the proliferation of small arms.

The Charter of the AU makes provision for a Peace and Security Council. Its efficacy and its relationship to the UN Security Council remain to be developed and tested. The conflict in Dafur, Sudan, represents such a test.

The dilemma of respect for serving heads of state remains unresolved. There is a preference for negotiated solutions, and the South African government has devoted much time and energy to its attempts to achieve negotiated settlements to disputes in countries such as the DRC and Burundi, moving away from its earlier hosting of high-profile international conclaves.

As explained above, democratization and human rights were initially cornerstones of the post-1994 foreign policy. They remain tenets of the NEPAD programme. But dilemmas have emerged that have resulted in decisions based on *realpolitik* considerations and in order to maintain African solidarity, South Africa has supported African positions which are in conflict with the announced cornerstones of its foreign policy. A typical example is the change in South Africa's position on Iran in the UN General Assembly in 1996. Prior to the visit of then President Rafsanjani to South Africa and a private meeting with President Mandela, South Africa voted against Iran on its human rights policies. Subsequently South Africa abstained. The basis of this decision may have been financial support for the ANC during the time, even after the revolution, when Iran was supplying petroleum products to apartheid South Africa. Similarly, and like most other countries, nothing has been done to address human rights issues in China in order not to disturb a burgeoning trade relationship. And Cuba has a particular place in South Africa's contemporary political mythology. Cuban troops faced South African forces in Angola in the 1970s and 1980s. Cuba supported ANC cadres and continues to provide medical training and doctors for South Africa – although this programme is coming to an end. Therefore, although Cuba's political system is the diametric opposite of that enshrined in the South African constitutions of 1994 and 1996, warm ties of sentiment continue to exist and there is no criticism of the Cuban political system or pressure to change it.

President Mbeki attempted to have Zimbabwe restored to full membership of the Commonwealth, but was uncharacteristically humiliated by his peers from Africa and other countries of the developing world, who did not support his initiative at the Abuja CHOGM in 2004.

3.3 Global Economic Governance: Trade

Areas where the African and global agendas overlap have been the reform of the United Nations and the reform of voting rights in global financial institutions, such as the International Monetary Fund (IMF) and the World Bank, plus advancing the WTO's Doha round of trade negotiations. At this stage little is known outside the Treasury regarding South Africa's positions on reform of the international financial architecture and development finance. Consequently we concentrate here on trade diplomacy.

In the Uruguay Round South Africa committed to a major overhaul (simplification and liberalization) of its complex tariff regime, and signed up to the Single Undertaking. Special and Differential Treatment (SDT) did not play a role during this period owing to the fact that the Apartheid government considered South Africa a developed country in the General Agreement on Tariffs and Trade (GATT) context and more generally. Undergirding South Africa's commitments and participation in the Uruguay Round was the strong need to overcome the isolation of the 1980s and the need to promote economic competitiveness in a context of economic stagnation.

International competitiveness and reintegration into the global economy became crucial pillars of the ANC government's policy as it turned its back on more statist forms of economic policy in the wake of the first rand crisis in 1996. This culminated in more rapid liberalization of tariffs than required in terms of South Africa's GATT bindings.³⁷ This is a source of considerable tension in the tripartite alliance, as COSATU argues that this rapid liberalization was a direct cause of today's high levels of unemployment.

Given that the Uruguay Round was complete when the ANC came to power in 1994, the trade liberalization trajectory turned to bilateral and regional tracks. Unilateral trade liberalization has not been seriously on the agenda since. Rather, adjustments to the Most Favoured Nation (MFN) tariff regime have been left to the Doha Round of multilateral trade negotiations. South Africa's most important objective in the Doha round is to solve the agricultural subsidies puzzle first, before moving onto other areas. Therefore the Brazil-India led G20 alliance was a natural one, with South Africa straddling the two poles these countries represent (offensive in Brazil's case, defensive in India's). Largely at the instigation of South Africa's commercial farmers South Africa is also a member of the Australia-led Cairns group, with its market access focus. That is important, but hardly critical, to South Africa's export trajectory, accounting for a small proportion (approximately 10 percent) of the overall export basket, whilst agriculture constitutes a small proportion of GDP. The land reform process and associated class of emerging black farmers ensure a partly defensive posture currently and in the future.

Of far greater importance is securing access to markets for South Africa's intermediate manufacturing exports and liberalization of services sectors in African markets in particular. These interests are opposed to those of the G90 (a grouping representing the poorest developing countries)³⁸ which favours continued preferential access to developed country markets with minimal or no reciprocation. SDT and the implementation agenda – priorities for the G90 – have received differing levels of support, with the emphasis being on the former rather than the latter.

Well-established South African service sectors, employing substantial numbers of skilled and unskilled workers, could face significant threats from foreign providers if negotiations – in all fora and at all levels – are not handled very carefully. The most obvious example in this instance is the Free Trade Area (FTA) with the United States, currently under negotiation. On the negative side of the balance sheet social services liberalization will have to be carefully weighed owing to potential domestic opposition. On the positive side, further

37 However, it was accompanied by a dramatic increase in the use of anti-dumping as an instrument of protection, although countervailing duties and safeguards have hardly been employed.

38 In which the Africa group is a critical constituency.

openings in our services sector, notably in core infrastructure services,³⁹ could go a long way towards introducing competition and efficiencies into quasi-monopoly sectors. If correctly managed this would have the major benefit of lowering cost structures, thereby promoting competitiveness across the board and supporting the six percent GDP growth objective.

Regionally the picture is rather different. South Africa would do well to seek liberalization of service sectors in SADC markets, again in core infrastructure. Yet to date there has been no movement on services trade liberalization in any of the official SADC or Southern African Customs Union (SACU) structures. This is clearly as important a policy priority as any defensive concerns vis-à-vis the US (or the WTO).

South Africa's relatively low activity levels in the WTO General Agreement on Trade in Services (GATS) negotiations and in bilateral trade negotiations – at least compared to much more developed policy positions on trade in goods – represent a key area in need of greater focus and effort. The Department of Trade and Industry (DTI) has recognised this need and now seems to be building some capacity to service it. Furthermore, there is some movement within organized business to develop their capacity to engage on these issues that should be supported.

South Africa supported efforts at the Cancun Ministerial to significantly delay or even cancel entirely negotiations on two of the four issues raised at the 1996 Singapore Ministerial.⁴⁰ South Africa argued publicly that because the USA and the EU could not guarantee meaningful reform in agriculture, developing countries should rightly oppose negotiations on these issues.⁴¹ South Africa also argued that there was little evidence that industrialised countries would be committed to ensuring that any agreements on the new issues that might be reached would be developmental in nature.

The South African government is not opposed to the principle of greater transparency in government procurement. Transparency in the tender process does in fact receive a large amount of attention in the Prevention and Combating of Corrupt Activities Act (no. 12 of 2004). Rather, there are concerns over what multilateral negotiations on this issue might mean for the government's freedom to use its considerable spending power as it sees fit. The state, it is argued, should be allowed to discriminate on development grounds in the awarding of contracts to private enterprise. This is a cornerstone of government's black economic empowerment policy – a policy with widespread public support. Given the extent of poverty and inequality in South Africa, apartheid's legacy, and the large contribution government expenditure makes to GDP, these concerns are not likely to fade.

Concerning investment South Africa sought to balance its substantial outward investment position with the need for developing country solidarity. Furthermore, the government has an existing network of bilateral investment treaties, rendering a multilateral approach of

39 Telecommunications, energy (although arguably this sector is well-managed), transport, and financial.

40 The four are: trade facilitation; transparency in government procurement; trade and competition policy; trade and investment policy. Of these South Africa opposed government procurement and competition policy, adopted a neutral position on investment, and supported trade facilitation.

41 'Agriculture for Singapore Issues' was the informal 'deal' designed to reduce developing country resistance to the latter.

questionable benefit. However, given the uncertain political transition now under way in South Africa a key policy priority should be to reassure nervous investors, particularly in light of the continually unfolding catastrophe in Zimbabwe. And attracting foreign direct investment to South Africa remains a central economic policy goal.

On the *bilateral front*, after the first democratic elections in 1994 relations with the EU were high on the agenda given the preponderance of EU markets in South Africa's export basket. When the new government realized that the EU was not going to grant it full access to Lomé preferences it opted instead to negotiate a comprehensive agreement covering trade, aid and political cooperation.⁴² After six years of difficult negotiations the final agreement covered "substantially all trade" and was asymmetrical in two respects: EU markets were opened first, and to approximately 95 percent of South African exports versus 86 percent in return.⁴³ This experience, and the new government's policy trajectory in support of developing countries, constituted a substantive shift from the previous government's general approach to trade negotiations.

The process of negotiations⁴⁴ turned out to be divisive, notably the EU's decision not to include South Africa's customs union partners in its negotiating mandate. Furthermore, many Group of African, Caribbean and Pacific states (ACP) were concerned about the precedent this agreement set for the future of their relations with the EU – correctly as it turns out given the unfolding Economic Partnership Agreements (EPAs) negotiations taking place under the Cotonou Convention.

The second pillar of the regional/bilateral strategy was negotiations with the countries of the SADC to form an Free Trade Area (FTA). Approximately one-third of South Africa's manufacturing exports goes to SADC countries, hence locking in market access was a key motivation. Once again, these negotiations proved divisive, given the presence in the region of the Community of Southern and Eastern African States (COMESA) and associated overlap in memberships. South Africa's decision to opt for SADC over COMESA was widely resented by many countries in the region, which came to the view that the South African government simply wanted to work with a grouping it could dominate.⁴⁵ This experience, coupled with the South African government's subsequent support for launching the new round of multilateral negotiations at Doha – notwithstanding generalised resistance in the Africa Group – and the estrangement of our Customs Union partners in the EU negotiations has bequeathed a legacy of mistrust of the South African government's intentions in the region.⁴⁶

42 Signed in October 1999, this was known as the TDCA.

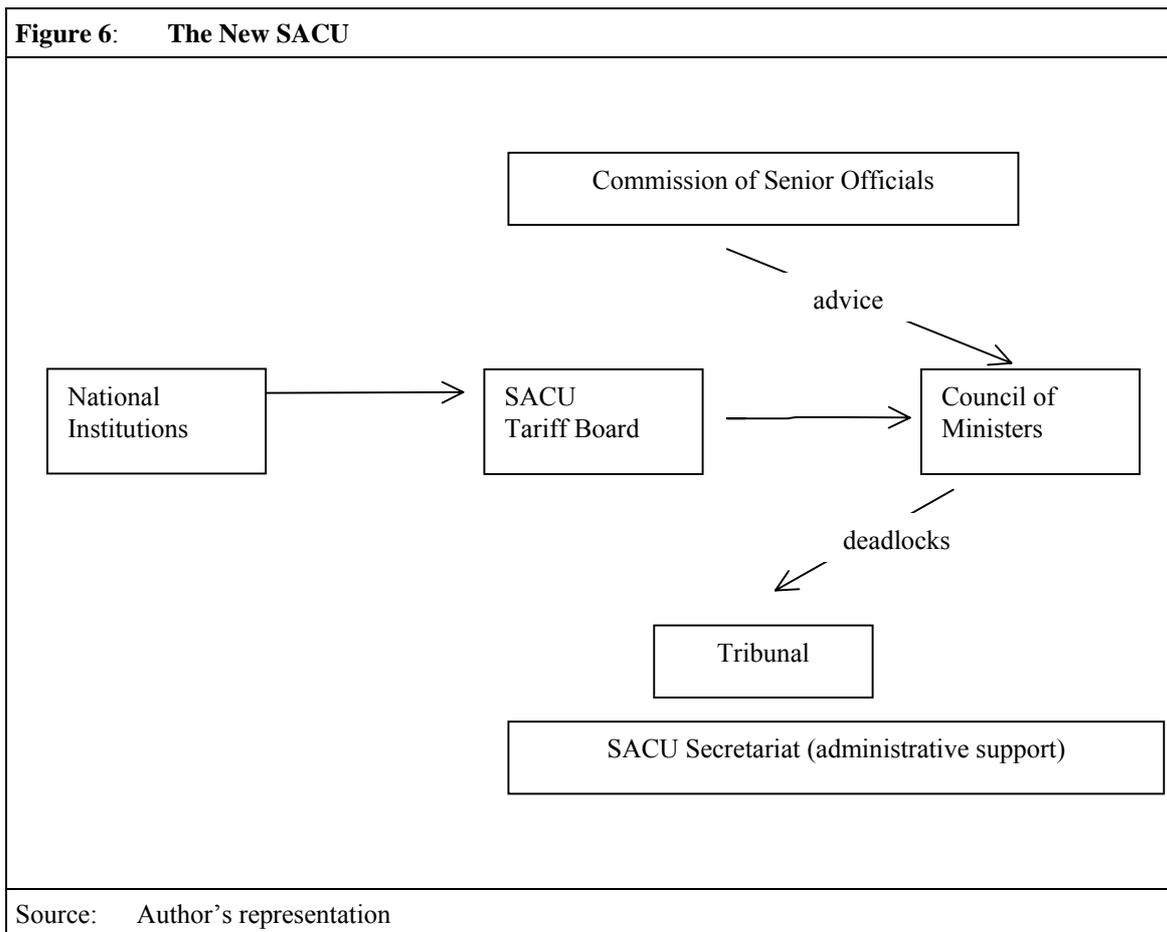
43 For details and analysis see Bertelsman-Scott / Mills / Sidiropoulos (2000).

44 For a detailed analysis of the structures and institutions associated with the negotiations process see Bilal / Laporte (2003).

45 The DTI points out that there is more to this choice than meets the eye, notably the plethora of regional integration arrangements in Eastern and Southern Africa and the need to promote regional coherence. Critics retort that South Africa's choice to join SADC and not COMESA compounded this problem.

46 In research we have conducted into regional preparations for Economic Partnership Agreement negotiations with the EU these sentiments were clearly in evidence.

South Africa's trade strategy now has to take serious cognisance of our partners in the SACU,⁴⁷ as the new SACU agreement came into force in July 2004. This agreement is of historic significance in that it commits South Africa to effectively ceding sovereignty over trade policy formulation and implementation to new inter-governmental institutions, which have yet to be established (see Figure 6). In essence, all decisions over tariffs and trade remedies will be taken at the SACU level by a Council of Ministers,⁴⁸ advised in turn by a new SACU tariff body and a commission of senior officials. National institutions (in South Africa's case the International Trade Administration Commission-ITAC) will merely provide recommendations to the supranational structures on the basis of investigations the former conduct.



So SACU will potentially be fully involved in all current and future negotiations, as required by Article 31 of the new SACU Agreement. This is a clear break from historical practice whereby South Africa decided all tariff matters unilaterally. It has complicated decision-making with respect to trade negotiations given that internal consultations now have to take place and negotiations involve all countries (although in practice the South African Department of Trade and Industry takes the lead). Furthermore, section 8 of the

47 The BLNS.

48 Historically Finance ministers constituted the Council given the dominance of revenue issues in SACU. Now both trade and finance ministers participate in the council and trade ministers schedule additional focused meetings on broader economic and trade issues.

agreement outlines a range of policy areas on which the partners are required to coordinate policy. Interestingly, South Africa's FTA negotiations with the US have brought home the need to coordinate internally prior to entering into demanding negotiations with the likes of the US. Notwithstanding these dynamics it remains to be seen to what extent our customs union partners (Botswana, Lesotho, Namibia, Swaziland – the BLNS) will grasp the nettle and use this new framework to constrain South Africa's freedom of action. And this does point to a need for the partners to integrate their planning processes more coherently over time.

Partly owing to the increasing involvement of external powers in the region⁴⁹ the South African government is interested in expanding SACU. Currently Mozambique is considering its options in this respect. An expanded SACU could absorb SADC, or even parts of COMESA, if it works well. However political differences within the region are likely to delay this agenda. Nonetheless it is an arena deserving closer attention.

Meanwhile, trade negotiations in South Africa, as in many countries, have become increasingly intertwined with foreign policy. In the multilateral system, for example, the foreign policy imperative revolves around how to mesh South Africa's economic interests with the positions taken by the Africa group in the WTO given that resolving Africa's problems is the central foreign policy terrain.⁵⁰ And in keeping with global trends, a new wave of bilateralism has broken out. This is broadly guided by the DTI "Global Economic Strategy", and is divided into three tracks: first the US, the European Free Trade Area (EFTA) and Mercosur; second India and China; third Singapore/Association of Southeast Asian Nations (ASEAN); Japan; South Korea; Nigeria and Kenya. Track one is currently underway with EFTA recently completed and Mercosur close to completion. But negotiations with the US have run into serious difficulties. This reflects major differences between South Africa and the US concerning trade liberalization in general and the US's "WTO-plus" approach to bilateral negotiations. To some extent it also reflects the South African government's desire, in common with Brazil, to pursue strong alliances with key developing countries in order to balance US power. Track two has yet to commence, although it is anticipated that negotiations will get underway next year, whilst track three is likely to be considerably delayed owing to DTI capacity constraints.

4 South Africa and Germany: Convergences and Divergences⁵¹

South Africa is historically, politically and in terms of economic development and sentiment, a country of the South. Nevertheless, it recognises that a sound relationship with the industrial countries of the North is critical if the problems of underdevelopment and poverty in Africa are to be addressed effectively. Positive engagement with the industrialised countries is therefore a major element of South African foreign policy. This applies equally to relations with Germany.

49 The European Union is negotiating Economic Partnership Agreements with all of sub-Saharan Africa whilst the US is following suit with its own negotiations with SACU.

50 See Draper / Khumalo (2005).

51 In part based on interviews with the Department of Foreign Affairs (DFA).

Similarities have been noted between effects of the fall of the Berlin Wall and the demise of apartheid, both of which were facilitated by the end of the Cold War, and between the problems that have to be dealt with in the aftermath. The principles and values enshrined in the South African Constitution run parallel to those of Germany. South Africa has learnt from the German experience and models on issues such as the role of the Constitutional Court (one of South Africa's most respected institutions), federal elements in its Constitution, and the civilian control of the Armed Forces (the doctrine of *Innere Führung*).⁵²

Germans made an important contribution to South Africa from the earliest days of the Dutch settlement in the 17th Century. Subsequent waves of German migration in the 19th and 20th century have left an indelible mark on South Africa and the region. In contemporary South Africa their descendants and members of the German business community continue to make a vital contribution to the economy and economic development of South Africa. The role in South Africa of German teachers and of institutions such as the Goethe Institute are much valued, as is the funding for independent research provided by the Konrad Adenauer, the Friedrich Ebert, the Hans Seidel and other Foundations.

There is much appreciation for the willingness of the organisers of the 2006 Soccer World Cup to share their experiences of the planning and execution of the event with the South African organisers of the 2010 competition.

South Africa attaches great value to its sound relationship with Germany and to the fact that Germany's only Bi-national Commission is with South Africa. The commission is regarded as a success. It functions as an annual political oversight and policy-formulation body for a series of focussed committees that are regarded as the basic anchors of relations between the two countries. The committees meet regularly during each year to deal with the substantive issues in those relations, within set time-frames. The committees are: Defence, Environment, Science and Technology, Economics and Trade, and Development Cooperation and Finance. The Economics committee is the most evolved and also deals with the most problematic issues, such as the implementation of Black Economic Empowerment (BEE), the effects of AIDS in the workplace, and the issues that have to be dealt with in the Doha round of WTO negotiations. South Africa is planning a series of roadshows in Germany to deal with and explain its position on some of these issues in 2006. It would seem that the large companies are more able to deal with issues such as the BEE scoreboards that are envisaged to become effective, but creative solutions for small companies, often owned by one person or family need to be found.

While there may be some residual sensitivities about the fact that German companies did not disinvest during the 1970s and 1980s, the importance of their inward investment (Germany is South Africa's third largest source of FDI) and of Germany as South Africa's fourth trading partner, greatly outweigh these issues from a past era. South Africa has a positive trade balance with Germany, much of it based on motor components, such as the leather motor car seats made in South Africa for BMW. There are believed to be 450 German companies operating in South Africa. German companies are critical in the automotive sector, although there is now a substantial, and at times acrimonious, debate over the future of the Motor Industry Development Plan (MIDP). This scheme is credited with

52 Observations during a visit to Germany sponsored by the Hans Seidel Foundation and arranged by the Institute for Security Studies in 1992.

converting the industry's position from import-substitution dependent to substantial export orientation. Critics charge that this has come at a cost in the form of inflated car prices – a liability in a country still suffering from the debilitating effects of apartheid spatial planning. This is a burning issue as the MIDP undergoes its periodic mid-term review, the outcome of which could have major implications for German car companies in South Africa.

On foreign policy issues such as the invasion of Iraq, Afghanistan, terrorism and the achievement of the UN's Millennium Development Goals, South Africa largely shares the same positions as Germany. It joined with the G4 and a number of African countries in developing a realistic proposal for UN Security Council reform – which regrettably was not supported by the following AU summit. The assumption of office of the new German Chancellor, and the policies she follows, may in future influence the degree of similarity in the policies of the two countries. In the apparently unlikely event of the new Chancellor moving German foreign policy more towards the American disdain for, and undermining of, multilateralism, as propounded by neo-conservatives who strongly influence the policies of the Bush administration, a parting of the ways South Africa should be expected.

As South Africa continues to follow responsible financial policies and seeks to create an environment friendly to foreign direct investment, no major difficulties seem imminent. Development Cooperation is sometimes a sensitive issue from the South African side, as most of the funding pledged by Germany is in fact spent in Germany on German goods and for the emoluments of German staff working on the projects. The management of development assistance is handled by the National Treasury, which insists that funding pledged to South Africa is fully spent. If for instance ten experts are pledged and only eight are sent, the Treasury will insist that the resulting savings nevertheless be spent to advance the aims of the project.

5 Risks, Scenarios, and Possible Avenues for German Development Assistance

From the discussion in parts two and three, three major domestic risk sets are identified in 5.1: macroeconomic; climate change; and political. Each set is decomposed into three major internal risks. Based on these risk sets three long-term scenarios are identified in 5.2, which in turn are used to condition the discussion of possible avenues for German development assistance in 5.3.

5.1 Risks

- **Macroeconomic:**

There is a consensus amongst economists that South Africa's economic growth path still remains closely linked to the fortunes of the global economy via commodity prices. So the performance of the international economy, especially the trajectory of commodity prices, is critical to our economic performance. Therefore any slowdown in major developed country markets, notably the US, EU, and Japan; plus a slowdown or even reversal of China's economic growth and associated demand for commodities, would have serious

implications for South Africa's economic growth trajectory. Should such a slowdown occur the possibility for a major exogenous shock to the South African economy via imported financial instability would also arise. In this respect it is important to recall that since 1994 South Africa has suffered three currency shocks, each of which was associated with declining domestic economic growth and rising inflation.

There is a wide range of conceivable threats; too many to list or contemplate here. The key question though is how well the South African economy would weather such storms and the impact this would have on the economic growth path and public finances. The primary risk is that economic growth does not measure up to expectations. This would have undesirable economic consequences, and associated social problems would multiply. Similarly, the *Keynesian kickstart* strategy could be undermined through declining public revenues. Then there is the threat posed by accumulating HIV/AIDS deaths which threaten to overwhelm the public health system and unravel public finances.

The potential conclusion of the Doha round of trade negotiations, whilst most appropriately conceived of as a set of opportunities both for cheaper imports and export markets, does constitute a risk in the sense that potentially painful domestic adjustments may be required. As things currently stand the round is inching towards an unambitious conclusion at the end of 2006.

The primary risk set for South Africa is in the area of industrial goods, where substantial revisions to applied tariffs may be required. At most risk are the clothing and textiles, and automotive sectors. Concerning the former, a wrenching adjustment process has been underway for some years now associated primarily with the rise of efficient Asian exporters. This process accelerated in 2005 after the expiration of the quota regime constraining exports, and will accelerate further after extended restrictions on China's exports lapse in 2008. Concerning the latter, the tariff phase-down associated with the MIDP may have to be substantially revised, with associated impacts on investment plans – particularly of German original equipment manufacturers. Taken together there could be substantial impacts – although it is not possible to say whether these would be on balance positive or negative – on output, exports and employment.

- Climate change:

The primary risks associated with climate change have been outlined above. These include growing water scarcity and associated agricultural production shortfalls, the latter potentially aggravated by the land reform process if it is not well-managed. This connects to a broader regional scenario of growing food insecurity arising from a combination of AIDS impacts on populations; poor governance; and regional climate change. Some observers have characterised these trends as collectively constituting an “arc of crisis” conveyed by the riders of the apocalypse extending across the region.

Two long-term threats are readily identifiable. First, South Africa's commercial agricultural production may be negatively effected, with associated impacts on employment and exports. Second, growing regional food insecurity may promote greater levels of immigration into South Africa, further pressuring our fiscus. Whilst recourse to GM technologies has the potential to ameliorate these risks, it comes with its own set of risks residing primarily in the scientific and consumer domains. Concerning the former, whilst available science does not currently identify negative impacts associated with consumption of GM

crops and foods, there is still an element of uncertainty associated with the technologies. Concerning the latter it is not clear how global regulatory regimes will evolve, and how these may impact on regional regulatory structures. It may be that a combination of these factors curtails prospects for GM food production and export in the region thereby exacerbating food insecurity.

- Political:

The primary issue in the political sphere is the leadership succession battle underway in the ANC. This is connected to the broader economic debate and the future course of economic policy. At issue is the Mbeki legacy, and whether his successor will continue down the path of (mostly) business friendly reforms. At the time of writing it seems the succession battle may be contained in the sense that it will not split the country and our institutions. However, there remains a worrying possibility that this may occur, a circumstance that would seriously test our young democracy.

Whilst the succession drama plays itself out it distracts attention from resolving pressing and growing delivery problems at local level. The key risk here is one of escalating urban unrest, associated with high levels of poverty and unemployment. This is potentially a potent factor in the leadership succession process. These dynamics have obvious connections with the macroeconomic and climate change risks identified above, although the former is of more direct short-term relevance.

5.2 Scenarios

Three basic scenarios are proffered, based on the risks identified above. These are not intended to be exhaustive, rather they are merely suggestive of broad possible futures. Clearly South Africa's future is much more complex than the simple pictures suggested here, but they may nonetheless be useful for planning purposes.

- “Malaysian manna”

This is the optimistic scenario. Economic growth achieves its targets with no major external shocks. This unlocks a virtuous cycle of state investment in growth-enhancing infrastructure projects, in turn unlocking domestic private investment. Foreign investors are attracted to South Africa's rapidly growing economy, and employment rises. The outcomes of the Doha round and other trade negotiations are positive and encourage domestic production, productivity growth, and export expansion. Climate change proves not to be as serious as thought, and commercial agriculture booms on the back of growing productivity increases associated with GM technologies. Regional food insecurity is well-managed with South Africa playing an increasingly active role in regional governance and provision of food. South Africa assumes its logical place of driving regional growth and development. The political transition is carefully managed, preserving the Mbeki legacy thereby boosting the confidence of the private sector to invest. Increasing state resources associated with a rapidly growing economy are reinvested in delivery and urban unrest declines alongside rising employment. South Africa becomes Africa's first “lion economy”, emulating Malaysia's rapid transition from crisis conditions to newly industrializing economy.

- “Italian Imbroglia”

This is the “muddle through” scenario. The political succession is fudged, resulting in a compromise candidate in no position to drive through necessary reforms. Democracy is preserved but governance increasingly resembles Italy, in the sense that the state becomes chaotic but still functions, whilst the economy bubbles along largely in spite of it. The informalisation of the labour market continues whilst delivery problems remain endemic. Criminality rises and is entrenched. The economy continues to expand, punctuated by external shocks, but cannot attain the holy grail of 6 percent economic growth. The mindset in business and government remains defensive, and new possibilities opened up via trade negotiations are grudgingly implemented. Productivity remains low and business focused on the domestic market and defending their prerogatives. South Africa remains a reluctant regional hegemon, doing little to boost regional economic growth through opening its own markets. The commercial agriculture sector retains its vitality, but shrinks in size and productivity as land reform gathers pace and is patchily managed. Regional food insecurity and governance deficits remain endemic and the region remains mired in its “arc of crisis”.

- “Zimbabwean Vortex”

This is the “nightmare” scenario. The failed state to our north sucks us into its slow-motion crisis. This scenario is driven by domestic political instability, feeding into all aspects of governance and dragging down the domestic economy. The political succession proves highly contentious, and a populist takes the helm of the ANC pandering to every whim in his broad-based constituency. Criminality and the state become inseparable. Land reform assumes Zimbabwean proportions and the economy melts down as domestic investors squirrel their money abroad and the institutional fabric unravels. Serious delivery problems and unemployment go unaddressed as political contestation takes centre stage. Democracy is replaced by authoritarianism and dissent is not tolerated. The regional “arc of crisis” extends into South Africa, and the world moves on in despair.

5.3 Possible Avenues for German Development Assistance

Of the three scenarios briefly sketched above, the “Zimbabwean Vortex” seems least likely as things currently stand. If such a scenario were to materialise there would be little prospect for bilateral development assistance beyond politically favourable projects. Whilst political calculations play a role in allocation of development assistance, in this scenario the risk of such processes becoming highly corrupted would escalate. The most logical avenue for such assistance would be civil society institutions, broadly defined. This would have a delivery component, designed to mitigate state failure, and a democracy component targeted at bolstering informed debate over policy options and democratic space. Beyond this it is not profitable to speculate about possible avenues for development assistance.

Under the “Italian Imbroglia” scenario development assistance would be best targeted at bolstering governance. In this scenario institutions continue to function, but are limited in their capacity to deliver to citizens. The best targets for development assistance would be delivery agencies, especially at provincial and local government levels. Human resource

development would also be important, both in the educational system but also basic training and entrepreneurship development. This would feed the “bubbling economy” which in turn would create sufficient economic opportunities to stave off a major social crisis. The criminal justice system would also be an important destination for development assistance in order to assist in containing social instability and associated criminality.

Under the “Malaysian Manna” scenario skills shortages and infrastructure bottlenecks (both physical and human) would rapidly manifest themselves. Consequently development assistance would most profitably be targeted at human resource development, immigration agencies, and trade facilitation institutions. This would assist the growth process thereby helping to ensure the virtuous cycle continues with its positive impacts on domestic social problems. This approach would also be profitably complemented by assistance for delivery institutions, as outlined under the “Italian imbroglio” scenario.

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