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# Evaluating the impact of the EU-SA TDCA on South Africa's policy space

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**UNIVERSITY OF THE WITWATERSRAND**

**SCHOOL OF ECONOMIC AND BUSINESS SCIENCES**

**MASTERS IN COMMERCE IN DEVELOPMENT THEORY AND POLICY**

# DISSERTATION TITLE: EVALUATING THE IMPACT OF THE EU-SA TDCA ON SOUTH AFRICA'S POLICY SPACE

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**A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, Johannesburg, in partial fulfillment of the requirements for the degree of Master of Commerce in Development Theory and Policy**

**Declaration**

I, _____, declare that this research report is my own unaided work. It is submitted for the degree of Master of Commerce at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination at any other university.

Signature: _____

Date: _____

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**Abbreviations**

EU-SA TDCA = Trade, Development and Cooperation Agreement between the member states of the European Union and South Africa

EU = European Union

GEAR = Growth, Employment and Redistribution

ITED = International Trade and Economic Development (Division of the Department of Trade and Industry)

MEC = Minerals Energy Complex

NDP = National Development Plan

SA = South Africa

TDCA = Trade, Development and Cooperation Agreement

TRIPs = Trade-Related Intellectual Property Rights

WTO = World Trade Organisation

## Abstract

Economic partnerships between developed and developing countries such as bilateral agreements are often seen as a platform for the attainment of economic growth, improvement of living standards, creation of employment opportunities as well as the reduction of poverty. However there have been some critiques centred around the vulnerabilities involved in developing countries committing themselves to bilateral agreements, as such commitments can cause them to fall short of realising their own developmental aspirations. The Trade, Development and Cooperation Agreement (TDCA) between the member states of the European Union (EU) and South Africa is a fitting case to examine this concretely. The economic partnership between the European Union (EU) and South Africa has provisions that constrain the policy space of South Africa to pursue a beneficiation strategy necessary for the diversification of the country's economy. Therefore, this paper seeks to analyse whether the implementation of South African government's progressive plan, namely the New Growth Path - that aims to utilise a beneficiation strategy as one mechanism for not only diversifying the economy, but also improving growth levels and creating employment - will be challenged in the context of this agreement. It is an agreement regarded as a means of stripping away the policy instruments that South Africa can utilise to pave its own developmental trajectory.

## Chapter 1: Introduction

Since the mid-1990s, the United States of America as well as the European Union (EU) in particular, have pursued regional and bilateral free trade agreements as a mechanism not only to promote trade liberalisation across the world, but also to "win concessions that they are unable to obtain at the World Trade Organisation (WTO), where developing countries can band together and hold out more favourable rules" (Oxfam, 2007: 2). The supposed gains for developing countries that enter into bilateral agreements with developed countries are that the former will be able to realise goals such as economic growth, improved living standards, reduction in poverty and more employment opportunities through preferential trade partnerships with the latter (Braude and Sekolokwane, 2008).

However such agreements between economies with unequal development, also threaten "to deny developing countries a favourable foothold in the global economy" (Oxfam, 2007: 2). It is feasible to argue that bilateral agreements seem to reproduce core-periphery relations where developing countries export primary commodities and labour intensive products whilst they import manufactured products (Oxfam, 2007; Hunt 1989).

Economists and researchers, among them Lawrence Edwards (2006) argue that South Africa should liberalise its economy even further in order to reduce poverty and other socio-economic challenges. In contrast to this view, Susan Newman (2010) has argued that as a consequence of South Africa pursuing economic policies that emphasise on liberalisation and macroeconomic stabilisation, the country's economy has not been able to create employment opportunities and has consequently entrenched inequalities. Thus, while trade liberalisation is seen as a mechanism for growth and development, it is also arguable that bilateral agreements that encourage indiscriminate trade liberalisation carry provisions which constrain the policy space needed by developing countries to pursue economic development strategies in order to attain social and economic transformation or development (Oxfam, 2007; Braude and Sekolokwane,2008; Shadlen, 2005).

This paper examines the theme of bilateral agreements, particularly the impact of the EU-SA Trade, Development and Cooperation Agreement (TDCA) on South Africa's policy space and developmental prospects.

Following five years of negotiations, the TDCA between South Africa and the member states of the EU - namely; Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia, Bulgaria and Romania, henceforth known as the EU-SA TDCA - was signed in October 1999 (Department of International Relations and Cooperation, 2009; World Trade Organisation, 2013). The bilateral agreement went into force on the 1st of May 2004 (Department of International Relations and Cooperation, 2009). One of the objectives of the EU-SA TDCA is to deepen diplomatic relations between the member states of the EU and South Africa as well as encourage trade liberalisation amongst the countries involved in the agreement in order to attain social and economic development (Department of International Relations and Cooperation, 2009).

South Africa's own development trajectory has also seen the incumbent government commit itself to an industrialisation path aimed at creating employment and diversifying the economy (Newman, 2010). This commitment is illustrated in documents like the New Growth Path (2010) – reflecting a shared vision for domestic economic development and the Industrial Policy Action Plan(IPAP) (Newman, 2010; Department of Trade and Industry, 2011).While the broader New Growth Path– that is engaged in this paper - preceded the newly formulated National Development Plan (NDP) (2011) as the development path that the government seeks to pursue, it seems to have come secondary to the National Development Plan (Steyn, 2012).

Beneficiation - a strategy that aims to add value to unprocessed raw materials- of the country's resources is identified as one of the key ways to ensure diversification of the South African economy and the creation of employment (Jourdan, 2001; Newman, 2010; Lorentzen, 2006). This strategy can be hindered by South Africa entering into bilateral agreements that can limit the country's policy space to effectively use development strategies or policies. This can have an impact on South Africa's prospects of pursuing an industrialisation path for diversifying the economy and creating employment.

While there are arguments that bilateral agreements do in fact further constrain the policy space of developing countries, it can also be argued that their culpability is exaggerated and in addition the argument that Di Caprio and Amsden (2004) make, that developing countries constrain themselves as a result of lacking a clear strategy for economic development, can also be

extended towards bilateral agreements (Shaefaeddin, 2006; Di Caprio and Amsden, 2004). Thus this begs the question(s): Can South Africa take advantage of the bilateral agreement and protect its policy space according to its economic development strategy (New Growth Path), or is South Africa going to allow its policy space to be further constrained by the EU-SA TDCA?

### 1.1 The rationale

Neoclassical literature that informs neoliberal thinking argues that agreements between developed and developing countries are beneficial for growth and development (Schillinger, 2008; Chang, 2001). While neoclassical economists have made a strong case for bilateral agreements between developed and developing countries, there are strong doubts regarding the negative impacts of bilateral agreements coming from a heterodox critique. This critique centres on the notion of policy space and it argues that developing countries need to use certain policy instruments to build a comparative advantage in goods production that would trigger economic development (Oxfam, 2007; Shadlen, 2005; Lin and Chang, 2009).

The EU-SA TDCA provides a fitting case to examine this concretely. The bilateral agreement between the EU and South Africa entails provisions that prevent the use of instruments South Africa requires in order to pursue an industrialisation strategy, in particular a beneficiation strategy, for economic development. In light of the above mentioned argument, it is justified to ask whether a beneficiation strategy is going to be a challenge in the context of this agreement.

### 1.2 Research aims and objectives

This research paper primarily seeks to answer the following question: Does the EU-SA TDCA limit South Africa's policy space to pursue beneficiation strategies to diversify the economy?

Using data based on trade patterns forged through the EU-SA TDCA, a bilateral agreement that has been in operation for eight years, this research paper will also seek to answer the following auxiliary questions:

- Do bilateral agreements between developed and developing countries promote and maintain trade specialisation?
- Will the limitation of developing countries' policy space - required to defy comparative advantage in order to create new advantages necessary for economic

diversification - perpetuate inequalities between developed and developing countries?

- Can the strategies of the policy documents that have been drafted by the South African Department of Trade and Industry, the Department of Mineral Resources and the Department of Economic Development for the beneficiation of minerals be initiated in the context of the provisions which are stated within the EU-SA TDCA?

Overall, this research paper seeks to make an argument that bilateral agreements such as the EU-SA TDCA, that are based on a neoclassical approach - that emphasises on comparative advantage and that through their provisions - tend to lock developing countries, such as South Africa, in a path of economic development based on specialisation in diminishing returns activities[1], consequently closing the space for economic development or economic diversification (Singer and Ansari, 1998;Chin and Grossman, 1988; Reinert, 1996; Shadlen, 2005).This research paper will also ascertain how South Africa should maneuver these agreements, through extensive re-negotiations to regain policy space, in order to explore their own aspirations to industrialise and diversify the economy.

### 1.3 Structure of the research paper

In light of the above mentioned argument, Chapter 2 will provide an overview of the type of methodology that was utilised for this research paper. Chapter 3 will present a literature review which will firstly provide an analysis of why agreements between developed and developing countries, encourage trade liberalisation. This will detail neoclassical theory rationale for following of a country's comparative advantage that is seen as a mechanism to attain economic development. Secondly, and in contrast, this chapter will discuss the heterodox critique from a Structuralist perspective of the dangers involved in pursuing a comparative advantage based on labour intensive activities and primary commodities and thus present an argument for the importance of creating new advantages through state intervention in the economy to ensure

[1] According to Reinert (1996: 2-3), diminishing returns activities "occur when one factor of production is held constant, while the other factors of production are expanded". In other words, diminishing returns activities are characteristic of a production process in which one factor is held constant, and an increase in the other factors of production would only yield less benefit (Reinert, 1996).

economic development. This literature review will explore South Africa's Mineral Energy Complex (MEC) and the influence of finance that has dominated the economy and how this has led South Africa towards a growth path that is incompatible with attaining economic development. Given the country's unsustainable growth path, this literature review will emphasise the significance of the need for South Africa to diversify its economy in order to pursue a growth path that is more sustainable and inclusive, creating employment and reducing poverty. The literature review will also reflect on arguments that are for and against the beneficiation strategy in the context of South Africa.

Chapter 4 of this research paper will provide a brief background of the EU-SA TDCA. While this agreement includes the upholding of the principles of rule of law, the protection of human rights, the promotion of good governance, fostering economic cooperation in industrial and economic issues for mutual benefits as well as promoting development cooperation which aims to provide South Africa with loans in order to attain socioeconomic development are essential aspects of the bilateral agreement between the EU and South Africa (Department of International Relations and Cooperation, 2009), the brief background of the EU-SA TDCA will focus on the trade section of the agreement. Furthermore this chapter will provide a brief account of the EU-SA trade relations and show how these trade relations can fall short of economic and social development as the agreement aspires**,** but rather perpetuate the existing developmental inequalities between a developing South Africa and a developed EU.

Chapter 5 will further discuss how South Africa has recently committed itself towards an industrialisation strategy through the New Growth Path for the diversification of its economy and whether the EU-SA TDCA is a threat towards the realisation of this diversification strategy due to certain provisions which prevent the use of export taxes as a crucial instrument which can be utilised to ensure beneficiation of South Africa's natural resources.

Even though the EU-SA TDCA seems to threaten the realisation of the progressive outcome the New Growth Path seeks to attain, in Chapter 6, the argument will be made that it is important for South Africa to re-negotiate these provisions with the EU in order to gain the policy space required to pursue a beneficiation strategy to diversify the economy and create employment.

## Chapter 2: Methodology

Interest in this research topic is informed by the desire to see the transformation of the South African economy through state intervention as a crucial step in order to attain social and economic development (Hunt, 1989; Newman, 2010). The objective is to analyse whether the EU-SA TDCA will limit South Africa's policy space to pursue a beneficiation strategy it has committed itself to through the New Growth Path for economic diversification.

This research paper made use of some quantitative data which was necessary to illustrate the brief analysis of EU-SA trade relations. According to Aliaga and Gunderson in Muijs (2011), a quantitative approach is an approach to research that utilises mathematically based techniques in order to explain certain types of phenomenon. However, as a result of having access to only eight years of data on trade patterns of the EU-SA TDCA - too limited for a regression analysis - this research paper relied on a limited use of quantitative methods.

Thus based on the nature of the topic, this paper has opted for the use of a qualitative approach. Denzin and Lincoln in Neergard and Ulhoi (2007: 5), define a qualitative approach as "multi method in focus, involving an interpretative, naturalistic approach to its subject matter". Such an approach to research involves the study of "things in their natural settings, attempting to make sense of or interpret phenomena" (Neergard, 2007: 5). A qualitative approach "involves the studied use and collection of a variety of empirical materials" (Neergard 2007: 5). A qualitative approach was used as the core approach of this research paper.

One of the key methods the research paper utilised was gathering secondary data from books, academic journals as well as analysing documents such as the EU-SA TDCA, New Growth Path and IPAP. This research paper made use of a critical-analytical approach using heterodox economic theories to highlight and expose the structuring of developmental inequities between developed and least developed countries (Neuman 2000; Hunt, 1989). Working with this theoretical framework, this paper interrogates whether the EU-SA TDCA can ensure the attainment of economic development and diversification as postulated by the neoclassical approach. Furthermore, this approach proves to be most suitable since it allows for the assessment of whether this agreement has limited South Africa's policy space with reference to the New Growth Path's vision - that seeks to transform the deepened specialisation in primary

commodities (Neuman, 2000; Newman, 2010; Department of International Relations and Cooperation, 2009; Reinert, 1996; Shadlen, 2005; Hunt, 1989).

A further qualitative approach this research paper utilised for gathering information was through a semi structured interview with a senior employee from the International Trade and Economic Development (ITED) Division at the Department of Trade and Industry. The rationale for choosing this research participant was a result of his in depth knowledge of both the EU-SA TDCA and South Africa's New Growth Path. Whilst a structured interview involves "tight control over the format of the questions and answers", this research paper made use of a semi-structured interview with the research participant which contained a list of questions but offered the interviewee space to speak more broadly about an issue (Greenstein et.al, 2003: 56).In this case, the interviewee elaborated on the EU-SA TDCA and the progressive plan South Africa seeks to pursue through the New Growth Path in order to diversify the economy through beneficiation as one of the means to address challenges of unemployment and inequality (Department of International Relations and Cooperation, 2009; Newman, 2010).

## Chapter 3: Literature Review

Over the past few decades, there have been ongoing debates between advocates of neoliberalism[2] and heterodox approaches such as Structuralism[3], on how developing countries can attain economic development (Kotz, 2000; Hunt, 1989). With the emergence of the Washington Consensus in the 1980s, neoliberalism emphasised the importance for developing countries to pursue policies such as privatisation, financial liberalisation amongst others as mechanism to achieve growth and development (World Health Organisation, 2013). One mechanism for growth and development that neoliberalism continues to place on a platform is trade liberalisation (Shaikh, 2003). The argument is that for developing countries to converge towards the developmental levels of developed countries, state intervention would be significantly decreased in their economies and trade liberalisation would not only lead to growth, but also improve living standards and reduce poverty (Edwards, 2006; Shaikh, 2003; Lin, 2010).

Heterodox approaches such as Structuralism, have presented a counter argument and have warned about the dangers involved with developing countries pursuing trade liberalisation (Hunt, 1989). The argument is that the pursuance of trade liberalisation with economies still based on export of primary commodities and labour intensive activities, will only deepen and maintain these structures and place developing countries onto a continual underdevelopment path (Hunt, 1989). For developing countries to avoid economic backwardness, state intervention within the economy is crucial in order to develop manufacturing capabilities and attain economic development in order to realise their own developmental aspirations (Hunt, 1989; Lin, 2012).

[2]In economic theory, neoliberalism argues that as a result of an economy operating without government intervention, this will ensure efficiency and economic growth (Kotz 2000).

[3]The Structuralist approach emerged in Latin America and it provided explanations on the "nature of development, the dominant causes of underdevelopment and the route to be followed in overcoming these" (Hunt 1989: 43). Structuralism rejected the neoclassical approach to development and rather emphasised the necessity for state intervention in the economy to transform (diversify) the economy and attain economic growth (Hunt 1989).

### 3.1 Growth and development through bilateral agreements versus state intervention in the economy

Neoclassical theory argues that through trade liberalisation, a country will experience an efficient allocation of production factors "in line with comparative advantage and factor endowments" which will ensure efficiency in the economy and hence growth (Deraniyagala, 2001: 80-81) (Schwartz, 1994). Underlying the belief that trade would benefit a country is the idea of comparative costs (Shaikh, 2003). The basic argument behind comparative costs is often presented as how a country would gain from trade as a result of exporting the product it produces comparatively more cheaply domestically (Shaikh, 2003). "It is the comparative costs of production which are said to be relevant here, not the absolute costs, so that a nation is enjoined to focus on producing and exporting goods which are comparatively cheaper at home" (Shaikh, 2003: 3).

While the classical trade theory explains international trade in terms of differences in comparative costs, the Hecksher-Ohlin model introduces yet another dimension making the argument that differences in comparative costs are due to differences in factor endowments between countries (Shaikh, 2003; Cherunilam, 2008). In other words, "it is the difference in factor intensities in the production functions of goods along with actual differences in relative factor endowments of countries which explains international differences in comparative cost of production" (Cherunilam, 2008: 136). Thus the Heckscher-Ohlin model argues that a particular country's comparative advantage is determined by the factor which is more abundant within its economy (Cherunilam, 2008). For example, if a country has abundant labour or natural resources relative to capital, it will specialise in labour intensive or resource intensive industries, while a country which has abundant capital relative to labour, will specialise in capital intensive industries (Lin, 2010 and Cherunilam, 2008).

It follows that since bilateral agreements such as the EU-SA TDCA encourage free trade, one can argue that they are based on a neoclassical model of development. Over the years, neoclassical literature has argued that economic partnerships such as bilateral agreements between developed and developing countries are beneficial for developing countries because such agreements can be utilised as a mechanism to attain growth and development (Schillinger, 2008). Economic partnerships, which are based on a neoclassical model of economic growth and

development, are based on the assumption that gains from trade can be attained by countries through the exploitation of their comparative advantage (Schillinger, 2008, (Braude and Sekolokwane, 2008; Lin and Chang, 2009; Shaikh, 2003). Justin Yifu Lin, the former Chief Economist and Senior Vice President of the World Bank and an advocate of the New Structural Economics[4] argues in order to promote industrial upgrading and technological advance, the role of the state in the economy should be limited towards ensuring the exploitation of the "country's current comparative advantage" (Lin and Chang, 2009). Lin further argues that if developing countries exploit their comparative advantage which is often based on labour or natural resources activities, they will be competitive within international markets and overtime these countries will develop and diversify (Lin and Chang, 2009).

Within the EU-SA TDCA, the pattern of comparative advantages, which are based on capital and labour endowments, as well as natural resources activities as postulated by the Heckscher-Ohlin model, is evident within the trade patterns between the two trading partners (Lin, 2010; Cherunilam, 2008; Quantec, 2013). For example, South Africa exports ores, slag and ash, iron and steel, precious stones, metals, mineral fuels amongst others to the EU markets, whilst it imports machinery, nuclear reactors, boilers, vehicles, pharmaceutical products, electronic equipment (Quantec, 2013).

Bilateral agreements that encourage free trade amongst the parties involved are often based on a neoclassical model for attaining growth and development, encouraging countries to follow their comparative advantage in markets which is either determined by labour or capital endowments (Schillinger, 2008; Braude and Sekolokwane, 2008; Lin, 2010; Lin and Chang, 2009). The result of developing countries entering into agreements with developed countries is based on the assumption that free trade will increase economic growth, create employment opportunities, improve living standards and reduce poverty, whilst the benefits are said to include preferential market access, "greater potential for technology and knowledge transfers" as well as higher credibility of policy reforms will be attained by developing countries (Braude and Sekolokwane, 2008: 24; Schillinger, 2008: 12, Shadlen, 2005; Oxfam, 2007). Furthermore, Peter Mandelson, the EU Trade Commissioner, even put forward an argument that economic partnerships with

[4]New Structural Economics "is a neoclassical approach to structures and their dynamics in the process of economic development". (Lin 2010: 12).

developed countries will ensure the building of regional markets, the improvement of productive capacity as well as promoting economic diversification in economies (Oxfam, 2007).

While neoclassical theory promises gains from free trade, bilateral agreements tend to "strip developing countries of the very policy instruments" they require in order to obtain the benefits from trade that is preached by neoclassical theory and thus attain economic growth and social development (Oxfam, 2007: 27; Shadlen, 2005; Shaikh, 2003). An example is an article in the EU-SA TDCA that prevents the implementation of any new export duty from either of the parties involved in the agreement (Department of International Relations and Cooperation, 2009). Such a provision within the agreement prevents South Africa from implementing export taxes, which is a policy instrument that can be utilised to prevent the export of raw materials and instead encourage beneficiation in the economy so as to export value added products (Filen, 2012).

According to Nkululeko Gumede* - an employee/officer of the International Trade and Economic Development (ITED) Division at the Department of Trade and Industry, to ensure that the EU has access to raw materials for economic and industrial growth purposes, the European Commission has opposed the use of export taxes by developing countries (Gumede Interview, 21/11/12). In the interview (21/11/12), he noted that the European Commission views export taxes as a mechanism that distorts international trade by creating an unfair advantage for domestic industries in a particular country that implements export taxes at the expense of other producers in the global economy. Gumede (Interview 21/11/12) makes the point that the European Commission has warned that the use of export taxes would lead to inefficiency in an economy and thus developing countries would fall short of their developmental aspirations.

As a result of bilateral agreements having provisions that constrain the use of policy instruments that can aid developing countries in attaining social and economic development, it can be argued that developing countries pursue a path of neoclassical economic development based on specialisation in labour intensive products and primary commodities (diminishing returns activities) having a particular impact on economic development (Oxfam, 2007; Shadlen, 2005; Reinert, 1996).

One of the key differences between the neoclassical approach and heterodox approach is that the latter stresses the importance of increasing returns activities[5], such as manufacturing, as essential for growth and development (Schwartz, 1994). Heterodox approaches such as the Structuralist approach, have in contrast argued that focusing on a comparative advantage based on primary resources and labour intensive activities as a mechanism for economic development will only maintain economic backwardness for developing countries (Hunt, 1989). Developing countries that enter into bilateral agreements often specialise in exporting products characteristic of diminishing returns activities which "occur when one factor of production is held constant, while the other factors of production are expanded" (Reinert, 1996: 2-3). In other words, when one factor of production is held constant, "the increased input of other factors yield less and less benefit" (Reinert, 1996: 3). For example, products that are characteristic of diminishing returns activities that South Africa exports to EU markets include metals, iron and steel, copper, mineral fuels amongst others (See Table 4.2.2) (Quantec, 2013).

With the emergence of the Structuralist approach, in rejection of the neoclassical approach as an appropriate paradigm for ensuring economic development, the Structuralists saw "economic development…as a cumulative process which falls completely outside the purview of comparative static equilibrium analysis" (Hunt, 1989: 46). As a result, economic development was seen as a long term process which cannot be attained by specialising in primary commodities and labour intensive activities (Hunt, 1989). Instead of relying on bilateral agreements that deepen specialisation in primary resources and labour intensive activities by encouraging trade liberalisation which in turn maintains the economic position of developing countries, heterodox approaches such as the Structuralists have thus put forward an alternative path to economic development (Hunt, 1989). That is - for economic diversification and hence structural transformation of the economy to occur, state intervention in the economy is required to build manufacturing capacity and develop sectors, and thus attain economic development and obtain the benefits from free trade (Hunt, 1989; Lin and Chang, 2009; Shafaeddin, 2000).

[5] Increasing returns occur when a firm is able to produce more outputs relative to the inputs used in the production process (Zalk, no date).

### 3.2 South Africa's Minerals Energy Complex. Why is economic diversification crucial?

According to Susan Newman (2010: 5), the structure of the South African economy "has its roots in the discovery of diamonds and then gold in the 19th Century". With the subsequent discovery of raw materials in South Africa, mining activities have not only been dominant within the South African economy, but they have also "defined the course of capitalist development in South Africa" (Newman, 2010: 5; Ashman et.al,2010: 180). As mining activities dominate the structure of the South African economy, the "development of the South African economy and the nature of capital accumulation was thus, and continues to be, highly skewed towards and organised around minerals and energy as core sectors" (Newman, 2010: 5).

The Minerals and Energy Complex (MEC) - coined by Ben Fine and Zavareh Rustomjee - refers to the "form of capital accumulation and economic development in South Africa (Newman, 2010: 5). In other words, The MEC describes the structure of the South African economy which is dominated by a system of accumulation which "has been and remains dominated by and dependent upon a cluster of industries, heavily promoted by the state, around mining and energy-raw and semi processed mineral products, gold, diamond, platinum and steel, coal, iron and aluminum" (Ashman et.al, 2010: 178).

According to Citigroup, South Africa ranks as one of the richest countries in terms of natural resource wealth in the global economy which is estimated to be worth 2.5 trillion dollars (Ashman et.al, 2010). Ashman, Newman and Fine (2010: 180) argue that the MEC in South Africa can be "understood as a specific instance of a system of accumulation" in which there is a "core set of industrial sectors which exhibit strong linkages with each other and weak linkages with other sectors". Ashman et.al (2010: 180) further argue that a "system of accumulation develops through the historically contingent linkages which develop between different sections of capital – including finance – and their interaction with the state". This leads to the discussion on the spread of financialisation in the South African economy. Ashman et.al (2010) contends that this phenomenon of an MEC and liberalised finance led growth has occurred at the expense of the much needed real investment for growth and developmental purposes. This system of accumulation "has produced a particular combination of short term capital inflows (accompanied by rising consumer debt largely spent on luxury items) and a massive long term outflow of capital as major domestic corporations have chosen offshore listing and to internationalise their

operations while concentrating within South Africa on core profitable MEC sectors" (Ashman et.al, 2010: 178).

As a result of the current structure of the South African economy, in which the centrality of the MEC has been promoted by the state and financial interests have had the power to influence economic policy according to a neoliberal development path, this has caused jobless growth and exacerbated poverty (Ashman et.al, 2010; Newman, 2010). Thus South Africa has experienced economic growth that has been "unsustainable because it was in large part driven by liquidity growth induced financial speculation, debt driven consumption and investment in their associated service sectors, such as finance and wholesale and retail services" (Mohamed, 2009: 2-3).

According to Paul Jourdan (2001), South Africa has attained a degree of steady economic growth as a result of its natural resources pre and post-Apartheid era. With that said, the South African government has overlooked the opportunity of optimally exploiting its natural resources and has continued to export natural resources without adding value to them (Jourdan, 2001). As a result, like many developing countries that have abundant resources, South Africa has opted to favour short-term gains from its abundant natural resources over long term gains which would ensure sustainable development through the beneficiation of its resources (Lorentzen, 2006).

Whilst high growth is possible in a developing country like South Africa with abundant natural resources, such resource intensity will not ensure the attainment of social and economic development (Lorentzen, 2006). Jo Lorentzen (2006: 1) argues that in order to attain the much needed economic development, what "matters is how resource intensity is being exploited". Within the global economy, there are a number of countries that have utilised their resource intensity in order to achieve economic as well as social development (Lorentzen, 2006; Jourdan, 2001). Notably, countries from the Scandinavian region, Australia, Canada, New Zealand, Finland etc, were able to use their abundant natural resources to pursue a resource based industrialisation approach which not only ensured increased economic growth, but resulted in the reduction of severe inequalities within their respective societies (Jourdan, 2001; Lorentzen, 2006).

Despite the success stories of countries that have maximised their resource intensity for social and economic development, South Africa has not drawn lessons from these countries but has rather used its resource intensity to attain short term gains (Lorentzen, 2006; Jourdan, 2001). Notwithstanding that over reliance on natural resources has its own limitations in a country with so many pressures for economic transformation, as such this puts industrial diversification of the South African economy as a critical concern (Jourdan, 2001).

Despite South Africa's wealth in resources, the prices of these natural resources "are cyclical, and volatile", and thus can "suffer from a long term real decline, and expose the economy to sudden 'boom bust' shocks" (Jourdan, 2001: 5; Lorentzen, 2006). Thus one can argue that resource intensity will not generate high growth rates over a long period of time because of the volatility of prices which then shows the importance of diversification of the South African economy through a strategy such as beneficiation (Lorentzen, 2006; Jourdan, 2001).

While short term gains are not sustainable in the long run, one of the most important reasons for the diversification of the South African economy is that its natural resources are finite, in other words, these natural resources are non-renewable (Lorentzen, 2006; Jourdan, 2001). Thus mining activities which have dominated the South African economy are not sustainable (Lorentzen, 2006). Therefore, one can argue that it is crucial for South Africa to make use of this current resource wealth through the implementation of a beneficiation strategy in order to add value to its natural resources which in turn will ensure the diversification of the South African economy and thus "obtain higher and sustainable growth" (Lorentzen, 2006: 5; Jourdan, 2001).

### 3.3 Beneficiation: A strategic path

According to Ricardo Hausmann, Bailey Klinger and Robert Lawrence (2008), a beneficiation strategy is often pursued by a particular country as a mechanism to not only encourage value addition of its natural resources, but also attain structural transformation. In order to attain structural transformation and accelerate growth, Hausmann et.al (2008) argue that policies such as beneficiation are often pursued by countries on the basis that having natural resources is a platform enough to encourage a country to progress from exporting unprocessed natural resources towards exporting products with added value. In other words, such a desire to ensure

the realisation of structural transformation of the economy through a beneficiation strategy is influenced by what Hausmann et.al term forward linkage[6] relationships (Hausmann et.al, 2008).

However, Hausmann et.al (2008), through their empirical analysis, found that the creation of forward linkages has a small impact on the structural transformation of an economy. According to these authors, countries that have a desire to pursue policies on forward linkages such as beneficiation often do so based on a flawed logic that exporting raw natural resources is not sensible because this carries high transportation costs (Hausmann et.al, 2008). It then follows that these resource exporting countries, will pursue a beneficiation strategy to encourage the processing of their natural resources, as well as to aid the reduction of transportation costs (Hausmann et.al, 2008). Hausmann et.al (2008) contend against this rationale, arguing that forward linkages on structural transformation is only based on a flawed logic, rather than on empirical analysis which reveals that the costs and time required for the creation of forward linkages makes this strategy uneconomical. Also, given the lack of international and or regional precedence of its success, Hausmann et.al (2008) argue that a beneficiation strategy is not suitable for the South African economy.

However, one can argue that this is not the case as there are success stories where countries have attained growth and development as a result of exploiting the option of value-addition to their natural resources (Jourdan, 2001). It is well documented that some Scandinavian countries exploited their natural resources for value-addition, which in turn ensured the attainment of industrial development (Jourdan, 2001; Lorentzen, 2006). It is thus justified to counter the argument made by Hausmann et.al that a beneficiation strategy is not a suitable policy for South Africa. The assessment by Hausmann et.al is therefore limited since other research studies reveal that it is feasible for South Africa to pursue a beneficiation strategy in order to move from being a net exporter of primary/raw materials to being an exporter of value added goods.

[6] Linkages are used to identify sectors in an economy that would drive economic development (Newman, 2010). A backward linkage refers to "the links an industry makes with sectors from where it gains its inputs" (Newman, 2010: 17). If an industry has a backward linkage, the growth of this industry would have a positive impact on the other sectors that supply its production process (Newman, 2010). On the other hand, "Forward linkages describe an inter-industry linkage between a sector and those to which it supplies its output, i.e. its downstream customers" (Newman, 2010:17).

## Chapter 4: The EU-SA TDCA

The Trade, Development and Cooperation Agreement (TDCA) between the member states of the European Union and South Africa, was signed in October 1999 after five years of negotiations between the parties involved, coming into force almost five years later in May 2004 (Department of International Relations and Cooperation, 2009).

The aims of the EU-SA TDCA include a desire to not only increase and deepen the relations between the member states of the EU and South Africa in order to facilitate co-development, but as well as encourage trade liberalisation amongst the parties involved by means of "trade in goods, services and capital" (Department of International Relations and Cooperation 2009: 4-5). Furthermore, even though the agreement aims to ensure the integration of the South African economy into the global economy through trade liberalisation, the agreement also aims to "promote regional cooperation and economic integration in the Southern African region to contribute to its harmonious and sustainable economic and social development" (Department of International Relations and Cooperation, 2009: 5).

### 4.1 Trade

The EU-SA TDCA aims to ensure the creation of a free trade area between the member states of the EU and South Africa in "accordance with the provisions of this Agreement and in conformity with those of the WTO" (Department of International Relations and Cooperation, 2009). The bilateral agreement "provides for the liberalisation of 95% of the EU's imports from South Africa within ten years, and 86% of South Africa's imports from the EU in twelve years" (Europa, 2009: 1).With the gradual creation of the free trade area between the EU and South Africa, this aims to ensure the attainment of market access for EU countries in the South African economy, as well as ensure South Africa attains market access within the EU market (Europa, 2009). As a result, the free trade area aims to ensure the "free movement of goods in all sectors" as well as the "liberalisation of trade in services and the free movement of capital" (Department of International Relations and Cooperation, 2009: 6).

Despite the fulfillment of a free trade area being one of the aims of the EU-SA TDCA, certain products from vulnerable sectors from both parties involved in the EU-SA TDCA have been excluded from the free trade area whilst others are only subject to partial liberalisation (Europa,

2009; Department of International Relations and Cooperation, 2009). Among these are textile, clothing and motor vehicle products from the South African economy and agricultural products from the EU (Europa 2009; Department of International Relations and Cooperation, 2009).

Although one of the objectives of the bilateral agreement is to create a free trade area, the agreement also stipulates that if a particular product is imported in increased quantities by either South Africa or by a member state of the EU and that product threatens a particular industry and thus causes a "serious deterioration in the economic situation" of South Africa or a member state of the EU, whilst alternative solutions have been considered and exhausted, the EU-SA TDCA includes a provision that allows the parties involved in the bilateral agreement to implement safeguard measures to protect the threatened industry (Department of International Relations and Cooperation, 2009: 13; Europa, 2009). For example, an "increase or reintroduction of customs duties" may be utilised by South Africa as a safeguard measure if imports from the EU threatens one of its sectors (Department of International Relations and Cooperation, 2009: 13). Regardless of the safeguard measures that can be implemented by either South Africa or the EU, the EU-SA TDCA seeks to encourage trade liberalisation amongst the parties involved in the bilateral agreement (Europa, 2009; Department of International Relations and Cooperation, 2009).

## 4.2 EU-SA Trade Relations

### Table 4.2.1: Annual total values of South Africa's exports and imports

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| SA's exports to EU<br><br>Unit: $ | 15,878,330,701 | 17,845,240,707 | 19,729,989,657 | 22,340,306,672 | 25,270,153,847 | 17,715,476,503 | 21,827,984,587 | 24,741,254,075 | 20,122,097,368 |
| SA's imports from the EU<br><br>Unit: $ | 20,058,046,262 | 21,968,377,168 | 24,748,607,639 | 28,408,233,527 | 29,410,917,786 | 22,217,112,564 | 27,091,015,292 | 32,566,571,424 | 30,628,956,053 |

(Source: Quantec)

### Table 4.2.2: A list of some of the products exported and imported by South Africa

| South Africa's exports to the European Union | South Africa's imports from the European Union |
|---|---|
| • Pearls, precious stones, metals coins etc<br>• Ores, slag and ash<br>• Iron and steel<br>• Mineral fuels, distillation products, etc<br>• Nuclear reactors, boilers, machinery<br>• Vehicles other than railway, tramway<br>• Edible fruit, nuts, peel of citrus fruit, melons<br>• Beverages, spirits and vinegar<br>• Organic chemicals<br>• Fish, crustaceans, molluscs, aquatic inveterbrates | • Nuclear reactors, boilers, machinery etc<br>• Electrical, electronic equipment<br>• Vehicles other than rail way, tramway<br>• Special classifications provisions<br>• Pharmaceutical products<br>• Optical, photo, technical, medical apparatus<br>• Plastics and articles thereof<br>• Paper and paperboard, articles, of pulp, paper and board<br>• Impregnated, coated and laminated textile fabrics<br>• Pearls, precious stones, metals, coins etc<br>• Iron and Steel |

(Source: Quantec)

According to Gumede (Interview, 21/11/12), the financial crisis has had an impact on the trade relations between South Africa and the EU. Gumede (Interview 21/11/12) further noted that South Africa has experienced a decline in its exports to EU markets and its exports have not fully recovered to the 2008 level of total exports (See Table 4.2.1). However, even though South Africa's exports have experienced a sharp decline after the financial crisis, Gumede (Interview 21/11/12) made the point that the EU is still one of South Africa's important trading partners.

Although the EU is one of South Africa's important trading partners, the structure of trade between the these two parties mainly involves South Africa importing a huge bulk of manufactured products from EU states, and South Africa exporting products which are produced mostly from diminishing returns activities (Gumede Interview, 21/12/12; Reinert,1996; Quantec, 2013) (See Table 4.2.2). Thus one can argue that relative to South Africa, the EU benefits mostly from this trade agreement since it mostly exports manufactured goods (Hunt, 1989). Accordingly, as a result of the EU exporting manufactured goods and South Africa exporting primary commodities, this raises the question of whether the EU-SA TDCA is promoting the mutual economic and social development or perpetuating existing developmental inequalities between EU and South Africa.

According to the Structuralist approach, developing countries have been integrated in a global economy of unequal trade in which they export natural resources, whilst they import manufactured products from developed countries (Hunt, 1989). The result of this sustained unequal exchange is that developing countries would not be able to attain economic development if they continue being exporters of natural resources as this only perpetuates developmental inequalities (Hunt, 1989). In order to avoid further divergence in developmental levels, the Structuralist approach fittingly argues that developing manufacturing capacity through state intervention in the economy is a crucial step that developing countries should pursue within the global economy (Hunt, 1989; Lin, 2012). Thus one can argue that in order to avoid further perpetuation of developmental inequalities between South Africa and EU, state intervention in the South African economy is crucial to shift South Africa away from an unsustainable sector development path, towards developing manufacturing capabilities in order to attain its own developmental aspirations.

## Chapter 5: South Africa's beneficiation strategy and EU-SA TDCA constraints

According to Lorentzen (2006), having abundant natural resources can generate high growth rates for a particular economy. However, such resource intensity will not ensure the attainment of economic development because what matters is how the natural resources are exploited (Lorentzen, 2006). "South Africa has had problems in reconciling resource exploitation with more knowledge intensive, higher growth activities" (Lorentzen, 2006: 2). Rather than exploiting abundant natural resources through strategies such as beneficiation which would help generate knowledge and improve technological capabilities overtime as well as create employment, South Africa has seemingly maintained its reliance on the export of raw materials and thus benefit from short term gains (Lorentzen, 2006; Lin and Chang, 2009; Department of Trade and Industry, 2012; Khan, 2009). However, given success stories of countries such as Finland, Australia etc that used their natural resource intensity to not only attain economic growth, but as well as achieve social development, there is substantiation of the value of long term gains that can be attained by exploiting resource intensity for economic development purposes (Lorentzen, 2006; Jourdan, 2001).

### 5.1 The New Growth Path

According to Susan Newman (2010: 7), the economic policies that were adopted under the Growth, Employment and Redistribution (GEAR) plan provided the South African government with a "macroeconomic policy framework for economic and industrial development". "The macroeconomic policy framework under GEAR emphasised fiscal austerity, deficit reduction and pegging taxation and expenditure as fixed proportions of GDP" (Newman, 2010: 7). Furthermore, the government's major priorities through GEAR became trade and financial liberalisation, restricting government expenditure, tariff reductions as well as inflation targeting (Newman, 2010). An assessment of the policy by Hein Marais found that "there was no example internationally where neo-liberal adjustments of the sort championed by GEAR had produced a socially progressive outcome" (Marais, 2001:170). Yet**,** the South African government believed that the private sector and foreign direct investment would play a crucial role in the growth and development of the South African economy (Newman, 2010).

The result of pursuing a "neoliberal growth path characterised by globalisation, increased internationalisation of South African conglomerates, financialisation", this reinforced "the exclusionary nature of South Africa's industrial structure" (Newman, 2010: 11). Therefore, one can argue that such a neoliberal growth path has not aided in terms of addressing South Africa's developmental challenges (Newman, 2010). Consequently, the South African government committed itself towards a progressive outlook on industrial and economic policy through the New Growth Path with the objective of addressing these challenges (Newman, 2010).

The New Growth Path aims to target economic sectors within the South African economy that have the capability of creating employment opportunities for millions of unemployed South Africans (Department of Economic Development, 2010). Therefore, the New Growth Path aims to "use both macro and micro economic policies to create a favourable overall environment and to support more labour-absorbing activities" (Department of Economic Development, 2010: 18). Thus, it can be argued that the envisioned achievements of New Growth Path will be displayed in employment opportunities that are generated in country, the strength of economic growth and significant reduction of poverty levels (Department of Economic Development, 2010).

Indeed the New Growth Path therefore seeks to shift away from the neoliberal growth path that has exacerbated inequalities and has failed to create employment opportunities, towards a growth path that diversifies the economy and is more inclusive through job creation (Newman, 2010; Department of Mineral Resources, 2011).

The beneficiation of South Africa's resources has been identified in the New Growth Path as one way for attaining growth and creating employment (Department of Mineral Resources, 2011). According to Marian Walker (2006), rather than extracting raw materials and exporting them unprocessed, beneficiation entails a process of utilising ones natural resources and transforming them into finished products which have a higher value compared to the unprocessed raw material. Although South Africa has beneficiated some of its natural resources since the 1970s, the strategy seeks to beneficiate more of South Africa's resources and thus "seeks to translate the country's sheer comparative advantage inherited from mineral resources endowment to a national competitive endowment" (Department of Mineral Resources, 2011: iii). The beneficiation strategy, which forms part of the broader industrialisation path the South African government has committed itself to, aims to "encourage and upgrade value-added, labour

absorbing industrial production, and diversify the economy away from a current over-reliance on commodities and non-tradable services" (Department of Mineral Resources, 2011; Department of Trade and Industry, 2012). Rather than exporting raw materials without any value being added to them, and given the potential returns from exporting value-added goods, it can be substantiated that the beneficiation of South Africa's natural resources be seen as a crucial mechanism by the South African government through the New Growth Path which will not only ensure the acceleration of growth in South Africa, but also aid in addressing South Africa's key challenges of severe unemployment and poverty (Department of Mineral Resources 2011; Department of Trade and Industry 2012, Newman, 2010).

### 5.2. How the EU-SA TDCA hinders South Africa's progressive plan for diversifying the economy

Like many developing countries, the South African government has set its sights on attaining economic development in order to address the various challenges facing society. As outlined, focus has shifted to the New Growth Path as a means to address challenges of unemployment and poverty (Newman 2010). Key to note is that the progressive plan of state intervention in a MEC dominant economy, makes provision for creating a diversified economy by means of pursuing a beneficiation strategy (Department of Trade and Industry, 2012; Department of Mineral Resources, 2011).

According to Jed Michaletos, a tax director from Deloitte firm, the South African government has utilised an export tax on diamonds - which has discouraged the export of unprocessed diamonds - in order to encourage mines to beneficiate and export processed products (Kolver, 2012). As part of its progressive plan to diversify the economy through the New Growth Path, the South African government aims to make use of export taxes to ensure more beneficiation in the economy (Department of Mineral Resources, 2011;Filen, 2012). While the South African government has committed itself to this vision aiming to accelerate growth and create employment, it has a further committed itself to the EU-SA TDCA whose certain provisions can hinder the national agenda for diversifying the economy (Shadlen, 2005; Oxfam, 2007).

According to Shadlen (2005: 751), the "contemporary international political economy presents developing countries with choices between different forms of integration into the international economy" for gains. While committing to WTO is one way to reap international political economy benefits, another means for developing countries to integrate themselves further into the global economy is through bilateral agreements (Shadlen, 2005). Despite the WTO being the organisation that regulates trade within the global economy, there is a general agreement that there has been an increase of preferential agreements such as bilateral agreements (Ravenhill, 2008; Winham, 2008; World Trade Organisation, 2011). It is therefore no surprise that developing countries are attracted to bilateral agreements with the promise of increased market access in developed countries as well as attracting the much needed foreign direct investment for development purposes (Shadlen 2005). These agreements, however "may have serious implications for developing countries capacities for achieving upward mobility in the international economy" (Shadlen, 2005: 751). Thus, even though bilateral agreements may warranty gains for developing countries like South Africa, they often have provisions that do not give developing countries the policy space they require to achieve the desired economic and social development (Shadlen, 2005; Oxfam, 2007). This greatly hinders the development project.

Some provisions of the EU-SA TDCA demonstrate this very stripping of policy instruments that South Africa requires to develop and converge towards the aspired developmental levels (Shadlen, 2005). For example, as a result of the bilateral agreement aiming to establish a free trade area between the EU and South Africa for the mutual benefit of the parties involved, Article 19, titled *Border measures*, states: "No new quantitative restrictions on imports or exports or measures having equivalent effect shall be introduced in trade between the Community and South Africa" (Department of International Relations and Cooperation, 2009: 13). Furthermore, Article 19 states that "No new customs duties on imports or exports or charges having equivalent effect shall be introduced, nor shall those already applied be increased, in the trade between the Community and South Africa" (Department of International Relations and Cooperation, 2009: 13). As a result of these clauses, export taxes - that are a policy instrument the South African government can utilise to prevent the exporting of raw ores and thus encourage beneficiation within the economy, are forgone (Filen, 2012). Thus one can argue that this hinders South Africa's progressive plan for diversifying the economy to accelerate growth and create employment.

Given that the agreement prevents the potential use of export taxes for beneficiation purposes, it can fittingly be argued that the EU-SA TDCA embodies neoclassical thinking in economic development, hindering mechanisms the state may use to intervene in the economy for the best gains. The limitations further maintain South Africa's specialisation in exporting unprocessed natural resources which in turn results in South Africa being hindered from diversifying its economy, defying its comparative advantage and creating employment.

## Chapter 6: Re-negotiating South Africa's policy space

In 1994, the newly elected democratic government of South Africa chose to pursue a neoliberal growth path that emphasised that growth and development can be attained through "liberalisation policies in tune with the fashion of economic policy in industrial nations of Europe and North America" (Newman, 2010: 8). As opposed to pursuing policies that may have ensured the structural transformation of South Africa's economy by making it more diversified, and thus gearing it to addressing unemployment and inequality challenges, the result of pursuing a neoliberal growth path, has exacerbated these challenges (Newman, 2010). It is as a result of these enduring developmental challenges, that the South African government committed itself towards a reviewed progressive plan the New Growth Path (Newman, 2010).

Despite the South African government's vision of pursuing a growth path to attain the much needed economic and social development, the EU-SA TDCA seems to be a barrier towards the realisation of this vision. As with many agreements between developed and developing countries that promise gains of increased market access in developed country markets, the flow of foreign direct investments to developing countries, the EU-SA TDCA has provisions that strip away the very policy instruments SA requires to attain economic and social development (Shadlen 2005; Oxfam 2007). For example, Article 19 of the bilateral agreement between South Africa and the EU opposes the implementation of export taxes, which is an instrument SA can utilise to beneficiate its abundant natural resources which would in turn diversify the economy creating employment and reducing poverty (Department of Department of International Relations and Cooperation 2009; Department of Trade and Industry 2012; Kolver 2012).

### 6.1. Regaining policy space

As a result of developing countries committing themselves to the WTO, articles such as the Trade-Related Intellectual Property Rights (TRIPs), which emphasise the protection of property rights, have in turn limited the policy space of developing countries to use similar, but context specific, industrial policies to acquire and develop technologies which was a mechanism utilised by the East Asian countries to attain economic development (Shadlen 2005, Di Caprio and Amsden 2004). One can argue that bilateral agreements, such as the EU-SA TDCA, that have incorporated WTO rules, further limit the policy space available to developing countries through

certain provisions making it more difficult for developing countries to utilise their home grown**,** context-specific development strategies in order to converge towards aspired developmental levels.

According to Di Caprio and Amsden (2004: 1), "the rationale behind the stringent constraints of the WTO agreements is found in the Washington Consensus view of development". This view perceives development as being possible through trade liberalisation and thus there is little support for countries to pursue industrialisation strategies through state intervention in the economy (Di Caprio and Amsden, 2004).

Although Amsden used the adverse policy space argument in particular reference to WTO rules, and not bilateral agreements, one can extend the use of this author's arguments in the context of bilateral agreements (Shafaeddin, 2006; Di Caprio and Amsden, 2004). For instance, it is arguable that the restrictions within bilateral agreements which seem to constrain policy space are exaggerated (Shafaeddin, 2006; Di Caprio and Amsden, 2004). As such, certain diplomatic measures such as re-negotiation, can be used with the EU for the realisation of what the New Growth Path wants to achieve through a beneficiation strategy (Gumede Interview 21/11/12).

This view is also shared by Gumede, who contends that as a result of the decision that was made in 2005 to merge the TDCA Review with Economic Partnership Agreement (EPA) negotiations when South Africa joined the process, the country can negotiate with the EU through the EPA process to re-negotiate the article within the EU-SA TDCA that prevents South Africa's aspirations to utilise export taxes which can be instrumental in terms of the realisation of the objectives the New Growth Path seeks to attain (Gumede Interview 21/11/12). Even though the EU-SA TDCA threatens the beneficiation strategy, one can argue that South Africa should optimise on the opportunities afforded by the EPA process to engage in thorough negotiations with the EU about the article which constrains export taxes. By doing so, South Africa can thus regain some of the policy space and autonomy it requires for it to pursue a beneficiation strategy, using trade policy instruments like export taxes as a means to achieve the ends of not only diversifying the economy and accelerate growth, but to also address challenges of unemployment and poverty.

## Chapter 7: Conclusion

With the increased proliferation of preferential agreements that include bilateral agreements such as the EU-SA TDCA, advocates of neoclassical literature have often viewed economic partnerships between developed and developing countries as a platform for developing countries to not only reap the benefits of increased economic growth, but also to improve standards of living, reduce poverty and create employment. South Africa entering into a bilateral agreement with the EU is one example of how the South African government has been persuaded of idea that bilateral agreements are one of the key strategies to assist the country to overcome its developmental challenges. However, the evidence provided in this paper proves that such agreements can lead to conditions that make it difficult for developing countries to implement and ensure the realisation of transformative policies which will see their economies compete on an equal footing as developed countries in the global economy.

Even though advocates of neoclassical literature are in favour of the benefits associated with developing countries committing themselves to bilateral agreements for growth and development purposes, it is worth noting that there are critiques to these bilateral agreements based on the uneconomical risks involved in committing to bilateral agreements. This paper has highlighted a critique that centres on the issue of the contraction of policy space that developing countries require to transform their economies, and thus industrialise and pave their own developmental trajectories.

While there have been strong arguments against beneficiation stating specifically that there is no international precedence of its success, this is a shortsighted observation as there are examples of countries that have successfully pursued beneficiation. Thus, it is not only a previously attempted strategy, but a worthy, probable and progressive path for South Africa.

South Africa's sustained challenges of unemployment, poverty, persistent inequalities, has seen the government commit itself towards a progressive plan, namely the New Growth Path, that has identified beneficiation of the country's natural resources as a mechanism to address these challenges and diversify its economy. This paper has argued that while committing itself to WTO arrangements, South Africa has also limited its policy space by committing itself to the EU-SA TDCA and thus making it more difficult for the country to industrialise and realise its

developmental aspirations. In doing so, this paper has highlighted how within the EU-SA TDCA, there are articles that limit the policy space available to South Africa by preventing the use of export taxes that are a crucial policy instrument South Africa can utilise to beneficiate its abundant resources.

However, in addition to highlighting criticism, this paper has also presented possible solutions to these challenges. For instance, this paper argued that there are ways to maneuver obstacles surrounding the limitation of policy space and that developing countries should deter from the tendency to limit themselves as a result of not having a clearly articulated development strategy and not pursuing their interests accordingly. Therefore the paper argues that in order to pursue the vision associated with the New Growth Path, it is important for the South African government to maneuver the limitations that may hinder progress in policy space by trying to re-negotiate certain aspects of the bilateral agreement with the EU to ensure that it is able to use policy instruments such as export taxes to beneficiate its wealth of natural resources and thus move closer towards the realisation of the vision that the New Growth Path seeks to attain.

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**Interview**

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