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The Emergence of Losers in the South African Economy as a Result of Trade Liberalization

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Abstract

Trade liberalization is the process of reducing government-imposed restrictions on international trade. In South Africa, trade liberalization has been a key aspect of economic policy since the end of Apartheid in the 1900s. The nation has sought to increase its competitiveness by removing trade barriers, implementing more liberal trade policy frameworks, and anticipating the demands of South Africans for foreign goods and of foreign countries for South African goods. The results of trade liberalization have been mixed, with some industries benefiting greatly from this liberalization while others have struggled due to a lack of government support. Despite these challenges, South Africa continues to pursue business that its natural reserves and technological advancements can accommodate and is experiencing rising demand. This paper analyzes the mining, vehicle manufacturing, and agricultural industries in South Africa. Recent policy actions and trade transactions demonstrate that all three industries are experiencing growth. However, too much liberalization (lack of government support) is posing a threat to the extraction of certain precious metals, while the inconsistent distribution of foreign investment in vehicle manufacturing is causing the emergence of losers among a small number of small and medium-sized enterprises (SMEs).

Keywords: Economics, South Africa, Trade liberalization, Apartheid, International Trade

1. Introduction

South Africa's prospective to contribute to the global economy is significant and has the potential to grow if it can make the most efficient and tactical use of its resources, which starts with knowing where productivity is lacking as a result of its recent trade liberalization measurers. With a young and growing population, a favorable geographic location acting as a gateway to the African continent, and new involvement in international organizations such as the World Trade Organization (WTO), the Group of 20 (G20), and Brazil, Russia, India, China, and South Africa (BRICS), the nation will have more opportunities to engage in global trade negotiations, promote investment, and collaborate with other nations on economic and development issues. Even so, the country must identify the losers in the South African economy. In this paper, the term "losers" refers to individuals, groups, or industries that experience negative consequences or hardships due to various economic factors or changes, which in this case, is trade liberalization. The term "losers" does not imply personal failure or a lack of effort but rather highlights the adverse impacts certain individuals or sectors may face. By recognizing the losers, South African policymakers can design targeted policies, interventions, or support mechanisms to address their concerns, mitigate negative impacts, and promote a more inclusive and equitable economic environment.

South Africa has a long history of trade liberalization, which began in the 1990s as the country transitioned from apartheid to a democratic government. The government of South Africa has implemented a number of policies aimed at reducing trade barriers and encouraging foreign investment. These policies have led to increased trade and economic growth but have also had some negative consequences, such as increased competition for domestic industries and a growing trade deficit. Despite these challenges, the South African government continues to pursue trade liberalization as a key strategy for economic development. As such, the following analysis demonstrates that there are three groups that will be experiencing losses due to trade liberalization in South Africa: the gold-mining industry; vehicle-manufacturing firms that are unable to develop advanced technologies; and agricultural industries that are overdependent on remittances.

Prior to implementing trade liberalization, South Africa pursued an industrialization strategy of import substitution (ISI). Reduced reliance on imports and the development of domestically owned, self-sustaining industries were the two objectives of ISI. This strategy had some detrimental effects, such as lowering customer choice in terms of commodities, decreasing economic efficiency, and delaying the growth of the export industry. South Africa started moving away from ISI in the 1990s and toward trade liberalization. Over the last decade, South Africa's trade policy has changed significantly, including the elimination of tariffs and subsidies through WTO commitments, the signing of free trade agreements with other nations, and the negotiation of upcoming liberalization commitments at the multilateral and regional levels. However, the average unweighted tariff on imported goods in South Africa is still fairly high at around 11% (du Venage, 2021). South Africa's overall commerce (imports plus exports) grew from 37% to 60% of GDP between 1994 and 2018 (Flatters and Stern, 2007). As a result, South Africa's exports have greatly increased, with minerals, metals, and automobile items among its top exports. Due to their great contributions to the nation's GDP, this paper focuses on the changes experienced in the Metal Mining, Vehicle Manufacturing, and Agricultural industries.

However, in times when the nation is facing difficulties with adopting liberalized trade policies, two industrial policies are ensuring some stability in the country. The South African government created the National Industrial Policy Framework (NIPF) as a framework for policy to direct the industrial growth of the nation. The NIPF has provided support for small and medium-sized enterprises (SMEs), which are an important source of employment and economic growth in South Africa (Mather and Greenberg, 2010). The second industrial trade policy that has become essential to the nation is the Industrial Policy Action Plan (IPAP). The IPAP (Mather and Greenberg, 2010) addresses a multitude of factors that affect the South African economy, such as their unstable currency, the slow rate of their capital expenditure, the anti-competitive behavior of competitive firms, the weak skills system, the poor sector-level productive integration, and the scarcity and high cost of capital. Another important policy framework to note are Black Economic Empowerment (BEE) policies, which set targets for the participation of black-owned and black-managed companies in the industry, and the creation of special economic zones that offer tax incentives and other support for businesses owned by historically disadvantaged groups. BEE policies are essential when considering trade because they establish standards that companies need to meet in terms of equity ownership, and change the composition of ownership in businesses and therefore the firm's trade partners.

1.1 Mining Metals

The metal mining industry in South Africa has undergone significant changes in employment in recent years. The industry has been affected by a combination of factors, including global economic conditions, competition from cheaper imports, and technological advancements. The industry has been negatively impacted by the lack of government support, power shortages, and other infrastructural problems.

Gold and uranium ore are significant parts of the South African economy (S&P Global, 2019). The gold market in South Africa has experienced a number of changes in recent years. Only two years in the past 20 years have seen a positive annual increase in gold production for gold mining businesses, with South Africa generating 87% less gold in January 2015 than it did in the same month in 1980 (Republic of South Africa Statistics Department, 2015). Given that South Africa, according to estimates from the US Geological Survey, has the second-largest gold reserves in the world, the steep fall in gold production is surprising. As such, politicians who are relying on the growth of this profitable sector are upset about the status of the sector. According to Kevin Mileham, the opposition's spokesman for energy and natural resources, mining is dying "not because the mineral resources are running out, but because of government incompetence, bad policy decisions, and militant labor unions," he said in a July speech to parliament. These operational obstacles and a lack of government support are slowing down the mining process of precious metals such as gold and preventing South Africa from being able to compete with foreign competitors. The uranium market in South Africa, on the other hand, has seen an increase in demand (Consolidated Uranium Inc., 2023), driven by the growing use of nuclear energy worldwide. However, this demand has not translated into significant growth in production, as South Africa has relatively limited reserves of uranium ore. Uranium deposits were found in the Namaqualand region (surficial deposits), the Karoo Uranium Province (sandstone-hosted deposits), and the Springbok Flats Basin between 1967 and 1976. (carbonaceous shale and coal-hosted deposits). Recent exploration has boosted the potential for resources in these deposits, with the exploratory activities concentrating on drilling to confidently identify resources. Therefore, while there have definitely been setbacks in the mining of these specific metals, there are opportunities that the South African people are trying to take advantage of.

1.2 Vehicle Manufacturing

The South African automobile component trade has undergone significant changes in recent years. In recent times, the industry has shifted towards exporting components to other countries in order to maintain competitiveness and growth. Factors that affect this include labor costs, taxes, and the overall cost of living. South Africa's cost competitiveness has been negatively affected in the recent past by factors such as high unemployment, low GDP growth, and political instability. The total contribution of the automotive industry to the GDP in 2020 was 4.9% (2,8% manufacturing and 2.1% retail), down from 6.4% in 2019, which was due to the severe effects of COVID-19 on automotive manufacturing and retail as a result of the country lockdown restrictions that were in place during the year (NAAMSA, The Automotive Business Council, 2023). The manufacturing of vehicles and automotive components, the country's largest manufacturing sector, contributed a significant 18.7% of the value added to the domestic manufacturing output, maintaining the industry's position as a major participant in South Africa's industrialization process. According to the National Association of Automotive Component and Allied Manufacturers (NAACAM), the industry employs over 130, 000 people in South Africa, and the export of components is worth around R56 billion ($3.7 billion) annually. The NAAACAM provides services to its members, such as market information, training, and networking opportunities, and also works to improve the competitiveness of the industry through the promotion of technology transfer, research, and development. Additionally, the South African government has implemented supportive programs such as the Automotive Production and Development Program (APDP) and the Automotive Industry Support Program (AISP) that provide financial assistance to the industry. So, the vehicle manufacturing industry has managed to stay stable and provide opportunities for employment and increased integration into the domestic economy.

1.3 Agriculture

The agricultural industry in South Africa has undergone significant changes in employment in recent years. The industry has been affected by a combination of factors, including changes in government policies, globalization, and advancements in technology.

One of the most prosperous sectors of the South African agricultural industry is the citrus market. The Citrus Exchange (Mather and Greenberg, 2010) in South Africa is a platform for the trade of citrus fruits, such as oranges, lemons, and grapefruits. The majority of South African citrus exports are destined for Europe, with other key markets including the Middle East, the Far East, and North America. The industry is governed by various trade agreements, such as the European Union-South Africa Trade Agreement and the Southern African Development Community (SADC) Trade Protocol. These agreements aim to facilitate trade and ensure fair competition in the global citrus market.

However, another significant factor in the agriculture economy in South Africa is the corn market. The corn market is a huge part of labor and remittances (Crush and Caesar, 2017) and an important factor in the chronic poverty in the nation. While the lowering of trade barriers tends to indicate more economic integration, opportunities, and hence economic growth, South Africa has reacted in the opposite way. Studies have shown that substantial resource transfers from migrants to South Africa haven't significantly reduced chronic poverty (Booth, 2021). Where remittances are used to create money, they generally replace revenue streams that have been lost as a result of the

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country's general economic downturn. This situation is paradoxical because there are few incentives for migrants to remit where networks are weak, such as in places with more recent mobility patterns. These findings have significant ramifications for our understanding of the purpose of remittances and our expectations of how they can advance social protection and reduce poverty.

2. Materials and Methods

The specific industries identified in this research are metal manufacturing and mining, transport, and agriculture. Once the industry or industries have been identified, gather relevant data on employment within those industries. This includes data on the number of employees in each of the respective industries. The data for all graphs has been collected from the Integrated Public Use Microdata Series, International (IPUMS-International). The data for general industry participation is from the "INDGEN" variable in the database. The INDGEN variable records the industrial classifications of all the various samples into twelve groups that can be fairly consistently identified across all available samples on the IPUMS-International database. Generally speaking, the groups follow the International Standard Industrial Classification (ISIC). Important information about the service sectors that could not be reliably differentiated in all samples is retained in the third digit of INDGEN. The activity or output of the company or industry where a person worked is referred to as the "industry." The data was then adjusted to accurately represent the number of people working in each industry by examining the "PERWT" variable. This variable calculates the actual part of the population that has been considered for data in each respective year.

3. Resutls

The relationship between trade liberalization and employment in South Africa is mixed and depends on the specific industry. On the one hand, trade liberalization has allowed South African businesses to access larger markets, attract foreign investment, and promote export-oriented industries. This has had a particularly beneficial impact on the manufacturing industry, as employment in that sector has increased from 1996 to 2007. On the other hand, trade liberalization has also exposed some sectors, as increased competition from imports has led to a decrease in employment in the mining and extraction and agricultural industries. The country's historical inequalities and structural challenges, especially those relating to skill gaps and limited labor market flexibility, have contributed to declining domestic mining and extraction and agricultural industries.

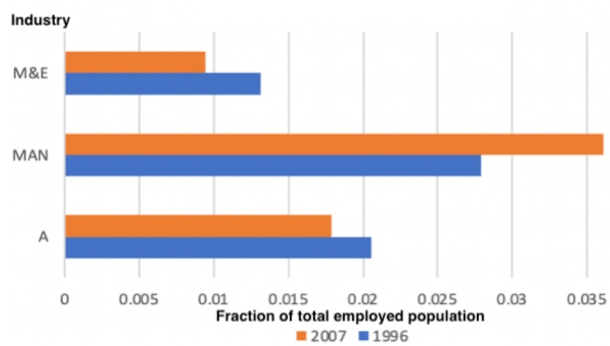

Figure 1. Illustrates the fraction of the total employed population employed in the Mining & Extraction (M&E), Manufacturing (MAN), and Agricultural (A) industries in 1996 and 2007.
Note. IPUMS-International. (1996, 2007). Harmonized International Census Data for Social Science and Health Research. *https://international.ipums.org/international/index.shtml*

4. Discussion

Knowing a country's leading sector is important because it can help inform government policies and decision-making in areas such as taxation, infrastructure development, and trade. It can also provide insight into where to focus investment and resources to promote economic growth. Additionally, understanding the leading sector can help identify potential areas of expertise and competitiveness in the global market.

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Based on Figure 1, it is suspected that the mining industry experiences a decline in overall employment, and this is confirmed by Table 1, which depicts the decrease in nominal value of workers in the sector. This clearly indicates a decrease in the demand for jobs in the mining industry, and this aligns with what was mentioned in the literature review. Currently, there is only one metal that South Africa can export, uranium, so that already narrows down the avenues South Africans can take in terms of employment. Furthermore, it confirms that the insufficient government support to allow for efficient extractions of the ore is limiting the number of firms that can actually find this metal and trade with foreign consumers. The data conveys that trade liberalization has indirectly allowed the metal mining industry to focus and prioritize extracting metals that are needed more urgently and are considered to be harder to find.

Table 1. States the number of employees in the Mining & Extraction (M&E), Manufacturing (MAN), and Agricultural (A) industries in 1996 and 2007.

Number of Employees by Industry		
Industry	1996	2007
A	834428.23	843395.13
MAN	1132228.11	1704152.66
M&E	531707.14	444158.24
Total	40578356.9	47173595.1

Note. IPUMS-International. (1996, 2007). Harmonized International Census Data for Social Science and Health Research. *https://international.ipums.org/international/index.shtml.*

The vehicle manufacturing industry is enjoying an expansion of employment, as evident from all three figures and tables. During Apartheid, trade regulations were incredibly strict; hence, South Africans could either choose to buy a car or a motorcycle from a local firm or not at all. As such, trade liberalization has clearly revolutionized the vehicle manufacturing industry for three reasons. Firstly, there are many emerging associations and councils that work to protect the rights of these companies. Secondly, employee rights are being considered more heavily. Thirdly, there is an increase in direct investment from foreign manufacturing companies. This means more South Africans are needed to work at these newly available companies. However, something to consider is that, in order to keep up with global demands, South Africa will need to adopt advanced mechanization processes to produce vehicles more efficiently. This will mean that eventually there should be a decrease in employment in this industry, but it isn't apparent yet.

Table 2. States the fraction of employment (out of total national employed population) in the Mining & Extraction (M&E), Manufacturing (MAN), and Agricultural (A) industries in 1996 and 2007.

Fraction of Total Employed Population by Industry		
Industry	1996	2007
A	0.02056338	0.01787854
MAN	0.02790227	0.03612514
M&E	0.01310322	0.0094154

Note. IPUMS-International. (1996, 2007). Harmonized International Census Data for Social Science and Health Research. *https://international.ipums.org/international/index.shtml*

The agricultural industry poses an interesting viewpoint because, while Figure 1 depicts the decline in fraction-based employment, there has been an increase in the nominal value of employees in the sector. This means that the industry is growing at a considerably slower rate. This expresses the true extent of the impact of an increased reliance on remittances after trade liberalization. South Africa is a significant exporter of citrus fruits and corn, but due to the lower barriers to international integration, many South Africans are moving to work at agricultural posts in other countries. This is causing an increase in the remittance inflow to the nation, but it presents the potential situation where these workers will stop sending money back to South Africa, negatively impacting the nation's economy.

5. Conclusion

This paper examines the impact of trade liberalization on three industries in South Africa: metal mining, car manufacturing, and agriculture. These are three industries that contribute most significantly to the nation's exports. In relation to the metal mining industry, small and medium sized enterprises have been hit the worst by trade liberalization in South Africa. Small and Medium Enterprises (SMEs) in the metal industry mining gold in South Africa have been affected in a number of ways. Beginning with the fact that there has been a decrease in demand for precious metals, fewer firms are being incentivized to reap the benefits of this by entering the gold mining industry. The issues surrounding the gold industry include declining grades of ore, increased costs, and increased regulations.

However, the outlier of this trend is Uranium, which is experiencing increasing demand, making it a pull-factor for South Africans in search of jobs. In the vehicle manufacturing industry, it is clear that while car manufacturing holds the most significant position in the South African GDP, the losers from trade in this market are the South African car manufacturers who do not have the appropriate technology to adapt to electric vehicles. In this way, these local manufacturers are not able to export their products as other nations increasingly want eco-friendly forms of transport. But, it is still experiencing gradual increases in employment since there is an increase in direct foreign investment for these firms. The agricultural industry seems to be the only South Africa where there is no clear “loser". The nation has rich resources allowing them to satisfy the demand of a growing population and chronic poverty in many rural areas. Out of all the markets in the agricultural sector it is clear, however, that the citrus and corn markets are what carry the heaviest load of the GDP and the South African resources. While the industry is experiencing slow growth, it is the only one that is expected to grow consistently due to trade liberalization. Although, it should not be overlooked that corn-producing-firms in the agriculture industry are vulnerable to becoming losers if predictions about the increased remittances come to pass. As a general trend, trade liberalization decreased the price of the goods examined in the industries analyzed in this paper and increased their quality. As such, it could be further researched whether this a tendency that exists in all African countries, or whether it is unique in South Africa due to its history of Apartheid. It could even be expanded to other regions that may have undergone racial segregation and inequality to a similar scale.

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