



# A Fit for Purpose Foreign Policy: Integrating Investment, Growth & Diplomacy

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## A FIT FOR PURPOSE FOREIGN POLICY: INTEGRATING INVESTMENT, GROWTH AND DIPLOMACY

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## **Executive summary**

South Africa's Department of International Relations and Cooperation (Dirco) recognises that it needs to focus more on economic diplomacy, including upskilling its diplomats to promote trade and investment. But this work needs to go further if South Africa is to pursue a foreign policy fit for economic growth and prosperity. There is a broad consensus that it needs to better coordinate the different elements- including business- which have a role to play in economic diplomacy, broadly defined. One way of doing this would be to merge Dirco and the Department of Trade, Industry and Competition into one department managing South Africa's economic relations. That would be a big step towards a SA Inc. And it might free trade from the dubious grip of industrial policy makers.



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## The Global Context: The Emergence of a Liberal Economic Order

Over the last three decades or more, boosting economies has increasingly become the priority goal of international relations.

Globalisation and a – generally - more peaceful world have played the major roles in this shift. Different countries have responded better or worse to the change in the world order; from a bipolar system dominated by a clash between two hostile political and economic ideologies towards a unipolar system dominated by liberal politics and economics.

“[A]s the intensity of the Cold War was diminishing, greater priority was being given worldwide to economic, as distinct from political, issues and relationships,” former top Australian diplomat Philip Flood wrote in 2017. He was explaining why, 30 years before, in 1987, the government of Prime Minister Bob Hawke had taken the historic step of merging the departments of foreign affairs and trade into one, to create “DFAT” – the Department of Foreign Affairs and Trade.

Looking back, Flood believes “Australia’s success in developing free trade agreements, in diversifying trade, in managing major trading partners, in dealing with ASEAN and the EU, and initiatives such as APEC and the Cairns Group, are among some of the benefits successive governments have derived from an integrated Department of Foreign Affairs and Trade.”<sup>1</sup>

Australia was prescient in gearing itself for a more integrated and effective economic foreign policy. The tendencies which Hawke foresaw in 1987 and Flood describes, were soon to become more pronounced, as the Berlin Wall toppled in 1989, the Soviet Union imploded in 1991 and globalisation and world trade accelerated with the creation of the World Trade Organisation in 1995.

Since then the importance of economic diplomacy has greatly increased in the foreign policies of most countries.

The concept of economic diplomacy is not well defined. It is usually used to refer quite narrowly to the efforts by a country’s diplomats posted abroad, to identify export opportunities in that country for their country’s companies, to seek investments from their host country’s companies into their country as well as to boost tourism from that country to theirs.

That is the way the term is generally used in the South African government and among foreign policy analysts here- and it is generally that which they are assessing in their critiques of economic diplomacy. And so this paper will start by assessing that aspect of it before looking beyond.

Sometimes that sort of activity by formal diplomats is labelled instead as “commercial diplomacy” and “economic diplomacy” is defined more broadly to include economic policy issues.

The unipolar liberal world order which emerged, seemingly unchallenged, in the 1990s was of course the world into which the new, democratic South Africa was born in 1994, not very comfortably.





For a socialist party until recently aligned to the Soviet Union, this was not an hospitable environment.

In Western countries like Australia, economic diplomacy has largely been about liberalising trade, investment and other economic instruments. This might explain why the concept of economic diplomacy took some time to catch on in South Africa's foreign policy and still hasn't completely taken hold.

### South Africa: Slow to Economic Diplomacy

Eddy Maloka, probably captures the underlying ANC attitude quite well when he rather disparagingly describes economic diplomacy as “economism” or “economic determinism” in his book; *When Foreign Becomes Domestic; The interplay of national interests, Pan-Africanism and internationalism in South Africa's foreign policy*.<sup>2</sup>

Maloka is now CEO of the African Peer Review Mechanism (APRM) Secretariat but was previously an adviser to former South African Minister of International Relations and Cooperation. In the book he scans the evolution of ANC foreign policy under its different presidents and concludes that economic diplomacy only came to the fore under President Jacob Zuma.<sup>3</sup>

Nelson Mandela was focussed on restructuring the apartheid-era department of foreign affairs and redirecting it towards the much wider world of international partners.<sup>4</sup>

Thabo Mbeki's foreign policy was “Afro-centric”. He was inspired, by his vision of an African Renaissance, to try to restructure the continent. This included his leadership in transforming the moribund Organisation of African Unity into a more dynamic African Union (modelled on the European Union); and the creation of the New Partnership for Africa's Development (Nepad) and the APRM to improve Africa's governance.

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Mbeki's African focus also included his peace-making efforts in troubled countries like Democratic Republic of Congo and Zimbabwe. And Mbeki also devoted much energy to lobbying industrialised countries of the North- especially through the G7 and G8- to increase financial support for Africa's development.<sup>5</sup>

“Economic diplomacy gained prominence during the Zuma administration, being elevated into a policy priority with a dedicated training and capability development for South African diplomats,” Maloka says- though not very approvingly, as we shall see later.<sup>6</sup>



Maloka wrote his book just as Ramaphosa was coming into national office, and certainly before he had had time to put his stamp on foreign policy. And indeed with so many domestic distractions, the president has still not really done so.

However in his foreword to *Towards a 25 Review; 1994-2029*, an assessment by the Presidency's monitoring division of a quarter century of ANC government, Ramaphosa appears to synthesise Mbeki's and Zuma's priorities by merging the former's Afrocentrism and the latter's "economism".<sup>7</sup>

He said the review aimed to appraise how SA could harness its competitive advantage and mutual partnerships to achieve its international goals and objectives.

"Key among these is to realise the Africa we want, a peaceful, prosperous and interdependent continent connected by a massive and expansive network of infrastructure."<sup>8</sup>

In other words not just Africa for Africa's sake but Africa connected up for a surge in trade from which all, including South Africa, might benefit.

### **Assessing South Africa's Economic Diplomacy**

Most commentators believe that South Africa has suffered from too little economic diplomacy, not very well done.

The 2012 National Development Plan 2030 drafted by a team under former finance minister Trevor Manuel was quite sharply critical of South Africa's foreign policy and quite pragmatic and unideological in recommending a foreign policy that delivered returns.<sup>9</sup>

South Africa's foreign policy should now be based on immediate domestic demand, including through regional burden sharing of common resources like water and energy to address the country's "crumbling infrastructure" in these. Foreign policy should also focus pragmatically on integration through trade and investment and efficiencies in the transfer of goods, services and the movement of people regionally, continentally and globally.<sup>10</sup>

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This should include boosting the efficiency and effectiveness of regimes and institutions which South Africa was party of, like the Southern African Customs Union (SACU), the Southern African Development Community (SADC) the evolving Tripartite Free Trade Area, the Brazil Russia, India, China South Africa forum (BRICS), the global South and the institutions of global governance.<sup>11</sup>

The business community and researchers and academics should be brought into the formulation of foreign policy.<sup>12</sup>





Dirco's research capacity should be strengthened to support the government and businesses in making policy. The NDP also recommended "a thorough audit" of South Africa's foreign missions to understand what it costs South Africa to maintain them, including diplomats' pay.<sup>13</sup>

It would be "unacceptable" if South Africa's diplomats were earning the same salaries as their counterparts from the wealthiest countries in the world, the NDP said.<sup>14</sup>

South Africa's diplomatic interactions should include experts from private commercial, banking and scientific institutions, especially in economic diplomacy. Dirco should provide appropriate training and education, deploy professional diplomats and train or upskill political appointments, improve communication and marketing, and develop an effective interface with civil society and academia in order to build the required capacity.<sup>15</sup>

Dirco needed also to develop a more sophisticated public diplomacy strategy. The NDP also suggested that Dirco should adjust South Africa's foreign policy objectives to more realistically match the country's position as a middle-income country.<sup>16</sup>

"The department should increase its focus on economic diplomacy training and develop officials to be specialists, rather than generalists in areas like climate change, trade negotiations, peace and conflict resolution and mediation, and human security issues."<sup>17</sup>

### **The Pahad Report also Urges Changes**

The report of the March 2019 Foreign Policy Review (the "Pahad Report") was similarly critical of Dirco's conduct of economic diplomacy and recommended that it should be greatly strengthened. The report was written after a review of South Africa's foreign policy by a panel of foreign relations experts commissioned by International Relations and Cooperation Minister Lindiwe Sisulu and chaired by former deputy minister of foreign affairs Aziz Pahad.<sup>18</sup>

"In assessing how South Africa's peers conduct their work in economic diplomacy, it became clear that the country is not using its economic potential and its inherent natural resources optimally," the report said.

For one thing, the government was not tapping the extensive presence of South African companies in Africa to advance economic diplomacy and advance national priorities, as it should.

Pahad's team also called for a clear programme of work around economic diplomacy, better coordination with DTI, streamlined reporting mechanisms and timeous follow ups.

The panel also said South Africa should use its relatively advanced economic infrastructure, to take the lead in industrializing Africa.



“While the diplomatic academy has a module on economic diplomacy, it is not adequate to prepare South Africa’s diplomats to represent the country in the complex and challenging global economic environment.

“There is no mechanism to strategically define and monitor South Africa’s efforts in economic diplomacy. Other countries set annual targets which are measured and reviewed as part of performance appraisals for diplomats.”

South Africa did not have a clear country-by-country strategy for economic diplomacy and so Dirco, DTIC and other relevant departments should conduct a mapping exercise of all countries and regions to determine what economic opportunities, relations and cooperation could be established or strengthened with each one. This should include identifying the compatibilities of these countries with SA’s economic priorities.

Diplomats posted to foreign missions should be trained to identify these compatibilities and opportunities. They should report back to headquarters periodically in a structured way.

Pahad’s panel also recommended that Dirco’s economic diplomacy should be reviewed to ensure that it was still helping to promote current national priorities.

Like the NDP, the review team also recommended that Dirco and DTIC should fully examine SACU to advise how it could better serve South Africa’s interests. The implication was probably that South Africa was giving away too much of the common customs revenue pool to its fellow SACU members, Botswana, Eswatini, Lesotho and Namibia.<sup>19</sup>

Among formal commentators, Maloka is something of an outlier, in that he criticises the Zuma administration, in particular, for too much rather than too little economic diplomacy.

“Africa was a casualty in South Africa’s drift towards economic diplomacy in its foreign policy post 2009,” he writes. “South African foreign policy without Africa and the AU at the centre has lost its identity.”<sup>20</sup>

Maloka says Zuma largely ignored the AU which Mbeki had helped to create – with the notable exception of lobbying very aggressively for his ex-wife and current cabinet minister Nkosazana Dlamini-Zuma to be elected chairperson of the African Union Commission in 2012.<sup>21</sup>

So it is not surprising that he explicitly finds the NDP criticism of Dirco’s economic diplomacy unduly harsh. Maloka’s critique also implicitly embraces the Pahad report.

By setting quantitative targets for diplomats to meet – such as increasing South African exports to the countries where they are based by X % – economic diplomacy has

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“side-lined the equally important need for qualitative measurement of the performance of Dirco. Foreign policy is about the country’s influence and the projection of this influence globally,” he writes.<sup>22</sup>

“It should be measured primarily by the extent to which a country is able to influence other states and international organisations in a desired direction.

“Of course this influence can be for economic benefit. But political considerations are as important in the world of today.”<sup>23</sup>

He also decries the parallel geographic shift by the Zuma administration away from Africa towards Asia- culminating in the hard push towards membership of the BRICs bloc- with Brazil, Russia, India and China- which accepted South Africa as a member in 2011.

Maloka’s views of South Africa’s economic diplomacy are worth noting particularly as they probably give a sense, from a former diplomatic practitioner as well as a scholar of Africa, of how many in the ANC establishment think about the concept. And why it has not been embraced with much enthusiasm.

### **Responding to Criticism; Turning Disguised Unemployment Into Productive Diplomacy**

Notwithstanding such misgivings, Pahad’s report was taken to heart by the department, according to a senior ambassador. It assembled an economic diplomacy unit to try to focus Dirco more on economic diplomacy, including better teaching of economic skills at Dirco’s training academy, both for junior diplomats as well as for heads of mission prior to deployment.

The economic diplomacy unit also tried to tailor economic diplomacy to the demands of different countries. For a diplomat based in Singapore, for example, it could be mostly about trade negotiations.

For most other countries, the focus would be more on classic economic diplomacy- which is also sometimes called commercial diplomacy to reflect its narrower focus. So that would be about how to open up market access to the host country and how to boost investment and tourism into South Africa from that country.

The economic diplomacy unit drew broader lessons from the actual experiences of its diplomats abroad, the ambassador said.<sup>24</sup>

One of these was the success of South Africa’s ambassador to Spain in the early 2000s, Gert Grobler, in persuading the huge Spanish department store chain El Corte Inglés, to stock a wide range of South African products. Grobler, now retired, said when he arrived in Spain he saw an Indian month was underway in various branches of El Corte Inglés, displaying Indian products. So he met the CEO and board of the company and proposed a similar South Africa month. But it took the



intervention of Jacob Zuma, then Deputy President, to clinch the deal. Grobler persuaded him to detour to Madrid on a trip to Europe and arranged a lunch for him with the El Corte Inglés CEO and several board members.

“Jacob Zuma was amazing. He charmed the pants off the Spanish,” Grobler said. The company sent a team of buyers to South Africa and returned “with tons of stuff” which it put in the South Africa month displays across Spain and then stocked the stores with South African goods, including wine, rooibos tea, other foods and arts and crafts.<sup>25</sup>

Grobler said he wrote to the current International Relations and Cooperation Minister, Naledi Pandor, when she was appointed in 2019, offering her advice on economic policy, distilled from his experience.

He told her that despite good work already done on economic diplomacy by many Dirco officials, the department and its missions abroad were not yet adequately geared and equipped to actively promote South Africa’s exports every day and seek inward foreign direct investment.<sup>26</sup>

“What we need to look at are the nuts and bolts issues, i.e. how do Dirco and its missions abroad go about carrying out economic diplomacy on the ground and on a practical daily basis,” he told Pandor.

Above all it was critical to inculcate in all Dirco staff the mindset “that economic diplomacy is not a task of DTI and other economic departments but that at HQ and in each of our approximately 110 plus missions abroad, economic diplomacy must become our daily bread and butter and top priority.” This was especially true since there were DTI representatives in only about 35 of SA’s foreign missions.<sup>27</sup>

Grobler’s “nuts and bolts” advice included;

1. Give all diplomats a grounding in economic diplomacy;
2. in addition, develop a core group of Dirco experts in economic diplomacy;
3. Include regularly-updated economic diplomacy objectives in all of Dirco’s strategic, business and annual performance plans and in the assessments of individual diplomats;
4. greatly improve coordination at all levels between Dirco and DTI and other economic departments and with the private sector;
5. Equip SA’s foreign missions to ensure that they became the essential first stop in every SA business delegation’s visit abroad;
6. Dirco and DTI should conduct detailed and effective research to match South Africa’s products with the demands of specific foreign markets and also to



discover which foreign sectors could be interested in investing in SA. (“It cannot be One Size Fits All,” he said);

7. Dirco and its ambassadors and diplomats abroad should interact with the SA private sector daily. If there was not a SA Chamber of Commerce the country where the ambassador was posted, he or she should help create one- as he had done in London, Tokyo and Antananarivo when posted there.

Pandor welcomed his advice and said she would apply it.<sup>28</sup>

The anonymous ambassador quoted above also cited the experience of Peter Goosen who, as ambassador to Argentina, had helped greatly to boost South African exports to that country, despite its highly protectionist trade policy.<sup>29</sup>

Goosen commissioned detailed research by economists into all the products which Argentina was importing from other countries and which South Africa also produced. This enabled him to go directly to individual importers and tell them that South Africa could supply them, for example, the same quality of oranges as they were getting from Spain, but at a better price.

According to his colleague, Goosen managed to switch many Argentine companies to South African products and so to partly redress a large trade imbalance in Argentina’s favour.

Dirco diplomats now refer to this approach of targeting individual foreign importers with information about better South African alternatives, as the “Goosen model” this ambassador said.<sup>30</sup>

In his book, *The Accidental Ambassador*, about his posting to Argentina, from 2009 to 2012, immediately following Goosen, former Democratic Alliance (DA) opposition leader Tony Leon alludes to Goosen’s exhaustive research.

Though he rather sarcastically describes it as “deeply impressive but highly theoretical,” Leon also indicates that he used the research as the basis for targeting Argentine importers with further lobbying efforts to try to persuade them to switch to SA products.<sup>31</sup>

Such efforts to boost trade helped the embassy helped achieve in 2011 “a record R1,3 billion export total to Argentina, an increase of 80 percent increase compared with the year before. In the same year, the World Trade Organisation (WTO) had branded the country ‘the most protectionist in the world’, making our accomplishment go against the grain,” Leon wrote.<sup>32</sup>

Leon’s account of his ambassadorship in Argentina is in some ways a case study in economic diplomacy worthy of being analysed in Dirco’s diplomatic academy- alongside Goosen’s experience and Grobler’s.

Mzukisi Qobo, head of the Wits School of Governance, has praised Leon for understanding and attempting to graft the essentials of the more rigorous new craft of economic diplomacy onto the traditional stately role of ambassador.<sup>33</sup>



As a former opposition leader critical of government profligacy, Leon, who had been appointed by Zuma alongside a few other ex-DA MPs, felt a particular sense of mission to turn the job on its head and to really make the embassy earn its budget. He describes how he began his own diplomatic training in Pretoria August 2009 inspired by the biography of the liberal economist John Kenneth Galbraith.

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Like Leon, Galbraith had been appointed by his president (“admittedly in his case in the mighty form of John F. Kennedy”) to serve as the US ambassador to India in the early 1960s. Galbraith wrote that during his time in New Delhi there were about 50 ambassadors.

“They were spectacular examples of what economists call ‘disguised unemployment.’ The ambassadors of Argentina or Brazil could not have had more than a day’s serious work in a month. The more deeply engaged diplomats from Scandinavia, Holland, Belgium or Spain, could discharge their essential duties in one day a week,” Leon quotes Galbraith as saying.<sup>34</sup>

Leon describes being exasperated at a heads of missions meeting when Minister of International Relations and Cooperation Maite Nkoana-Mashabane and other senior officials boasted about how South Africa now had 110 diplomatic missions in the world and at the same time complained about having to cut projects for lack of budget – “as though the two were unconnected.”<sup>35</sup>

“In fact an embassy is a cost rather than a profit centre in terms of projecting and promoting the country,” Leon noted appositely. He found that once all the fixed costs such as salaries for local staff, rents, travel, education for diplomats children, etc had been spent, “practically nothing was left for the core purpose of public and trade diplomacy.” His suggestion at a missionheads meeting that “we close down and rationalize the proliferation of diplomatic outposts and establish a core of big missions in key centres on each continent and deploy diplomats on a satellite basis into neighbouring domains was met with stony silence.”

“You are trampling on too many vested interests” a colleague cautioned him.

Leon, never one to pull a punch, also described how the diplomatic academy where he received his “crash course” in diplomacy was then located “in a particularly ramshackle edifice showing symptoms of sick building syndrome, which also seemed to have infected one or two of our elderly instructors.”<sup>36</sup>

Though Leon’s account preceded the post-Pahad report improvements described above, Qobo for one remains unimpressed by the current quality of economic diplomacy at Dirco.

“The first thing the government should do is to rationalize its diplomatic missions”, he says. They should be fewer, smaller and more focussed on promoting South Africa’s economic interests abroad.<sup>37</sup>



“There is paucity of economic skills, of a trade and investment-type of mindset. The foreign missions are still predominantly staffed by your old-style political diplomats. Even if you have diplomats who are skilled in trade and investment promotion, if you have heads of mission that are predominantly political appointees, they will battle to understand the economic imperatives of foreign policy.”

“Especially the very old liberation struggle diplomats who come from backbenches in Parliament, or from provinces, which is still sadly the case. Our diplomatic missions are still 80% headed by political appointees. That doesn’t augur well for the kind of agility and finesse required to promote the country abroad for growth, investments and so on.”<sup>38</sup>

Zuma must shoulder most of the blame for appointing so many inconvenient politicians to ambassadorships. Ramaphosa has slightly reduced the percentage but has also apparently felt the need to dispense such patronage to quite a few such individuals – including quite a few unwanted Zuma loyalists.<sup>39</sup>

Leon was also one Zuma’s political appointments, though Qobo commended him, saying he “did a great job on economic diplomacy”. Leon understood the meaning of economic diplomacy and felt comfortable with business people. “So there was a different mindset there.”

“Qobo believes that in the Zuma era at least, the economic diplomacy rhetoric got swallowed up by some of the inter-government tensions about who was really responsible for economic diplomacy between DTI and foreign affairs.”

To Maloka’s complaint that Dirco went overboard on economic diplomacy during the Zuma era, Qobo says; “There was a lot of talk about it but there wasn’t much substance on the ground. We would have the results if there was such an emphasis on economic diplomacy.”

He describes the training for ambassadors and staff as “very arms-length” with “no coherent training programmes.” “They would attend some courses at DTI but that didn’t mean the overhauling of the template of thinking about foreign policy.”

Qobo believes that in the Zuma era at least, the economic diplomacy rhetoric got swallowed up by some of the inter-government tensions about who was really responsible for economic diplomacy between DTI and foreign affairs. And then later the role that the Presidency also wanted to play on trade and investment promotion.

“There was this agency which was proposed which never really took off. It was a trade and investment agency that was to be located at the Presidency. When the DTI already had a trade and investment agency.”<sup>40</sup>

Qobo notes that apart from the more familiar economic diplomacy goals of trade and investment promotion, the economic dimensions of foreign policy lie mainly in trade policy and in how trade agreements, bilateral and multilateral, are negotiated.<sup>41</sup>



This points to a broader definition of economic diplomacy, sometimes called foreign economic policy or political economics.

### **Viewing the World Through a Wider Lens: Foreign Economic Policy**

And so economic diplomacy has been defined more broadly as “a form of diplomacy that uses the full spectrum of economic tools of a state to achieve its national interests.”<sup>42</sup> And “the scope of economic diplomacy can encompass all of the main international economic activities of a state including, but not limited to, policy decisions designed to influence exports, imports, investments, lending, aid, free trade agreements, etc.”<sup>43</sup>

More specifically “Economic diplomacy is concerned with economic policy issues, e.g. work of delegations at standard\_setting\_organizations such as World\_Trade Organization (WTO). Economic diplomats also monitor and report on economic policies in foreign countries and give the home government advice on how to best influence them. Economic diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign\_policy objective. This is sometimes called “economic statecraft”.<sup>44</sup>

Whatever might be the limits of South Africa’s economic diplomacy, as generally defined quite narrowly by commentators such the NDP and the Pahad panel, the ANC government has certainly pursued this broader “economic statecraft” quite energetically.

Catherine Grant-Makokere, a former diplomat for New Zealand and currently a director at South Africa’s Tutwa Consulting Group, suggests that South Africa has taken a political-economic approach to economic diplomacy.

It has attempted to pursue its national interests, remaining cognisant of the need to work within the restraints imposed by existing international obligations – such as the WTO rules of free trade- but also determined to try to change those rules where they clash with South Africa’s perceived national interest.<sup>45</sup>

Sanusha Naidu, senior research fellow at the Institute for Global Dialogue, says the ANC evolved a socialist economic orientation during its many years in exile. “Such an economic policy has to be adaptable to the structural conditions of the country and its feasibility in today’s global economy.” Nevertheless, Pretoria should focus on a pragmatic development agenda for its foreign policy which realizes the values of its constitution, especially the Bill of Rights. “What’s the best deal you can get for your country in global affairs in terms of national economic interest?” is the question South Africa should be asking.

“It doesn’t only mean commercial diplomacy,” Naidu said. It also included political economics, such as reform of the global economic architecture. South Africa’s leading role in advocating a waiver of TRIPS – the Trade Related Intellectual Property rights – for Covid-19 medicines and vaccines- was a good starting point for Pretoria to return to its former role of adding value with its foreign policy.



Naidu said that a revival of South Africa's peacemaking efforts in Africa – which were prominent under Mandela and Mbeki- should also be considered an important contribution to economic policy as the development of the continent was not possible without peace and stability.<sup>46</sup>

The trade policy which the new ANC government embarked on in 1994 was expansive. As the Presidency's Review of 25 years of ANC government reminds us, that trade strategy was characterised – by the first trade minister Alec Erwin, one recalls - rather lyrically as a butterfly, opening new trade wings with the EU and North America to the north, as well as Asia and Latin America to the east and the west.<sup>47</sup>

South Africa significantly expanded trade with the North – including through the major European Union-SADC Economic Partnership Agreement of 2016 which has largely liberalised trade between the EU on the one side and the SACU countries and Mozambique on the other.

Trade has also been substantially boosted with the US through the 2000 Africa Growth and Opportunity Act which gives duty and quota free access to the lucrative US market for most exports from eligible African countries.

But the focus of trade has steadily shifted to China – which is now South Africa's biggest individual trade partner (though the EU as a bloc remains much bigger) - and Africa. South Africa's total trade with Africa has soared from R11.4 billion in 1994 to R420 billion in December 2017, with a large trade surplus in favour of South Africa, reflecting the low manufacturing base of many African countries.

Africa has become the single largest regional market for South African goods, accounting for 26% of South Africa's total exports and 12% of total imports in 2018.<sup>48</sup>

The emphasis on Africa will continue with the African Continental Free Trade Agreement (AfCFTA) which was supposed to start trading on January 1, 2021, but is facing some teething problems. Qobo says the AU and others are talking it up “but in reality there are going to be problems when countries are making their tariff offers.”<sup>49</sup>

South African business engagement in Africa has also expanded rapidly over the last three decades and it is among the top ten investors into the continent, according to the 25 year Review.<sup>50</sup>

The review also alludes implicitly to the way that South Africa has struggled to reconcile its huge economic predominance in Southern Africa and beyond with that ideal of a “self-less” African solidarity of the Mbeki era which Maloka laments the passing of.<sup>51</sup>

The review characterises South Africa's growing business engagement in Africa rather enigmatically as “an as an important trade-off for its trade surplus with Africa” and equally enigmatically says “South African companies are also key players in the industrialisation strategy of the region.”



The latter may refer to South Africa's attempts to establish regional value chains of industrialisation in SACU and the wider SADC FTA, drawing in inputs from other members. Other SACU members regard the disproportionate share of customs revenue pool they receive as compensation for the way South Africa has de-industrialised their economies through the customs union. They do not seem convinced by South Africa's efforts to promote regional industrialisation as a quid pro quo for sharing less of the SACU customs revenue pool.

Mbeki's leading role in the creation of the New Partnership for Africa's Development (NEPAD) should also be seen as part of a wider definition of South African economic diplomacy. It has hosted the NEPAD Secretariat since its founding in 2001.

One of its more concrete achievements has been the NEPAD Presidential Infrastructure Championing Initiative (PICI) conceived by South Africa in the Zuma era, in which different African presidents have driven key African cross-border infrastructure projects. South Africa's responsibility has been for the North-South Road and Rail Development Corridor, ironically a latter-day attempt at finally realizing the "Cape to Cairo" dream of the arch-imperialist Cecil John Rhodes.

South Africa has also used its prestigious position as an unofficial Africa representative in informal but influential global clubs like the G20 and BRICS to push the African development agenda.

As the co-chair of the G20 Development Working Group (DWG) since 2010, South Africa has lobbied hard for the group to tackle the scourge of illicit financial flows (IFFs) particularly from Africa. Pretoria's pressure has helped move reforms of global rules which allow multinational corporations to avoid tax by hiding their profits in tax havens.

And the South African government remains an active participant in the efforts to comprehensively reform the architecture of global governance, including the UN system and the Bretton Woods Institutions. Such reforms should increase the voice of developing countries in those institutions and infuse their agendas with the concerns of the developing world.

South Africa accession to BRICS in 2011 was a "high-water mark for South African diplomacy," the 25 Year Review says.<sup>52</sup> Apart from using it as a platform for advocating for greater and faster reforms of the global governance system and to lobby for support for Africa's development, South Africa has also benefitted materially, borrowing a total of R75 billion so far from the BRICS New Development Bank, (NDB) including about R30 billion in emergency funding to cope with the Covid-19 crisis. South Africa is also lobbying at BRICS for rule changes to the NDB to allow other African countries to borrow from it.

Qobo notes, however, that South Africa has not reviewed its trade policy since 2010. So many fundamental questions of broader economic policy remain unanswered, such as "how we negotiate, what is our thrust in negotiating bilateral trade relations, especially with major economies like the US, China and other emerging economies like India. So our trade policy is still very much stuck in the past."<sup>53</sup>



Rather than reviewing it, the Ramaphosa administration seems to be going further down the road mapped out in that 2010 policy- A South African Trade Policy and Framework Framework. It was authored by then Trade and Industry Minister Rob Davies and by Xavier Carim, Deputy Director General, International Trade and Economic Development Division at the DTI.<sup>54</sup>

The policy essentially stipulated that “that our trade policies will be informed by South Africa’s industrial upgrading and employment objectives.”

And so tariffs might be lowered or removed from inputs into local manufacturing processes but could also be raised on imports of the type of goods produced in South Africa to protect local manufacturers from foreign competition.

In other words, trade policy was essentially made a servant of industrial policy. The current Trade, Industry and Competition Minister Ebrahim Patel, is going further towards implementing this policy. For instance he is contemplating the raising of protective import tariff barriers as part of his plans to boost local production in six sectoral master plans – in automotive; clothing, textile, footwear and leather; sugar; poultry; steel and metal fabrication; and furniture- with others to come.<sup>55</sup>

In addition, Patel this year announced a post-Covid economic recovery plan which aims to substitute 20% of current non-petroleum imports with local products.<sup>56</sup>

In a study commissioned by Business Unity South Africa and Business Leadership South Africa about the impact of this localisation policy, Intellidex calculated that it could raise local prices by an average of about 20%.<sup>57</sup>

Mining and trade lawyer Peter Leon of the firm Herbert Smith Freehills has warned that raising import tariffs or imposing local content requirements could contravene not only the WTO’s free trade rules, but also those of the EU-SADC Economic Partnership Agreement and the AfCFTA, by putting foreign companies at an unfair disadvantage and so provoke retaliation by trading partners.<sup>58</sup>

Those free trade rules could also be violated by the 2018 Broad-Based Socio-Economic Empowerment Charter for the Mining and Minerals Industry which says mining houses may not procure more than 30% of their mining goods and no more than 20% of their mining services from foreign suppliers.<sup>59</sup>

The Covid-19 pandemic has presented a major test of the Ramaphosa administrations’ economic diplomacy in the wider sense. And it’s been a tests a test which has been passing quite convincingly, according to Qobo and Daniel Bradlow, Professor of International Development Law and African Economic Relations, University of Pretoria, Elizabeth Sidiropoulos Chief Executive, South African Institute of International Relations and Lethu Kapueja of the DSI-NRF Centre of Excellence in Human Development, University of the Witwatersrand.

In a paper they have written for the Presidency’s Department of Performance Evaluation and Monitoring on SA’s external relations during Covid-19, they conclude that “South Africa has made effective use of its international relations in dealing with the pandemic.<sup>60</sup>



“It was able to benefit from its international relations during the pandemic because it has invested time in building and sustaining these relations and building credibility with its interlocutors over a number of years.”<sup>61</sup>

It particularly commends the work Ramaphosa did as AU chair in 2020, including his appointment of a high-level team of special envoys to lobby internationally for material and financial support to help Africa cope with the pandemic.

These efforts contributed towards a considerable boost in financial support for African and other developing countries through the G20’s Debt Servicing Standstill Initiative and from the Bretton Woods institutions, including an agreement for the IMF to issue \$650 billion in Special Drawing Rights.

Qobo saw South Africa’s Covid-19 response as evidence that its foreign economic policy could be nimble and effective if it operated outside too many institutional restraints.

### **Towards a Foreign Policy More Fit for Economic Growth**

The 25 Year Review from the Presidency of 2019 joined the chorus of criticism of South Africa’s economic diplomacy and endorsed many of the same recommendations as the Pahad report for instance, including the need for “a closer collaboration between government and the business sector, so that there is true synergy between them both at home and abroad.”<sup>62</sup>

A South African foreign policy fit for growth, prosperity and reduction in poverty, unemployment and inequality would in the first place implement those practical recommendations of the 25 Year Review, the Pahad Report, as well as the many other recommendations flowing from critiques of economic diplomacy as practised and which are reflected in this report.

At the most practical level that would include measures to ensure that all diplomats in Dirco are given a thorough grounding in applied economics, with a focus on the economic aspects most relevant to their functions, i.e. identifying market and investment opportunities.

It would drastically reduce the number of political appointments to ambassadorships, ending the debilitating practice of using the country’s embassies as havens of patronage or “disguised unemployment” for disgraced or otherwise superfluous politicians.

It would align the number and location of South Africa’s foreign missions more closely with its economic interests. This would include closing some missions, and giving responsibility for those countries to embassies in neighbouring countries. It would also reduce the staff size in other missions.

It would embrace South Africans outside government much more closely in the formulation and even implementation of foreign economic policy, in particular traders and investors.





It would continue and expand the focus on trade and investment in Africa, South Africa's natural economic hinterland, including through injecting more urgency into getting the AfCFTA off the ground.

“It would drastically reduce the number of political appointments to ambassadorships, ending the debilitating practice of using the country's embassies as havens of patronage or “disguised unemployment” for disgraced or otherwise superfluous politicians.”

It would also continue to pursue its advocacy at the G20 and elsewhere of an equitable international tax system where companies paid taxes where they do business.

And it would focus more on improving its own governance and in providing practical assistance to traders, investors and manufacturers and less on ideological point-scoring.

Take South Africa's campaign for a waiver of the WTO's TRIPs agreement which would allow South Africa, India and other developing/emerging countries, to simply seize the patents of pharmaceutical companies and manufacture their Covid-19 vaccines free of charge.

The TRIPs waiver has become something of a touchstone issue. For some it's clearly become an emblem of the sort of politico-economic diplomacy which they believe South Africa should be conducting to revive the halcyon Mbeki days when SA made an impact internationally.

Others believe it is simply ideological and impractical. They suggest South Africa should throw more effort into what its pharmaceutical companies, like Aspen Pharmacare and Biovac are already doing well- negotiating mutually-beneficial licensing agreements with Covid-19 vaccine manufacturers like Johnson and Johnson and Pfizer, to make those vaccines in South Africa.

And Pretoria should also be vastly improving the efficiency of its vaccine rollout programme which is falling well short of target. The Sunday Times reported that on August 13, 2021 only 153 999 jabs were administered, 43% lower than the 273 011 daily record set on July 21 – even though vaccines are available.<sup>63</sup>

“It's one thing whinging about the rich world hoarding vaccines and another to be unable to use the ones you already have,” as Sunday Times columnist Peter Bruce noted.<sup>64</sup>

A former DTIC official, now doing private research, says the weakness of South Africa's foreign policy (and many aspects of domestic economic policy) is that it is “too policy- and narrative-focused, and too weak on a services-focus. We're too obsessed with writing a good summit declaration, and too weak when companies want to walk into an Embassy or the DTIC campus and need direct assistance for things like translating a document.

“There are cases when a big win at the WTO or G20 is important, but I think the largest share of benefits sits in the type of firm-level support that our very old-fashioned foreign policy structure isn't built to handle - we barely even have a front



office that companies can walk into for help.” I think this will likely come more sharply into focus in the coming years, since there seems to be a growing synthesis between foreign policy/trade policy, and the more firm-support focus of industrial policy.”<sup>65</sup>

The need for this greater synthesis of South Africa’s varied international economic relations is widely acknowledged across the board.

The ANC, for instance, decided at its last elective national conference, at Nasrec in December 2017, that; “The Department of Trade and Industry and Department of International Relations and Co-operation should ensure that they improve their co-ordination with regard to economic diplomacy.”<sup>66</sup>

The Foreign Service Act, long in gestation, was finally enacted in June 2020. It prescribes that the Department of International Relations and Cooperation must “lead the coordination and alignment of the Republic’s international relations between all spheres of government.” [Section 3 (b)]<sup>67</sup>

The Presidency’s 25 Year Review of ANC government laments that: “The development of a single comprehensive economic strategy on international relations with components on trade, investment, diplomacy, etc. is yet to come about.

“A better coordinated deployment of essential skills in economic diplomacy, both to institutionalise this diplomacy and to ensure that decisions on specialist attachés in diplomatic missions abroad, is taken purely out of a single department’s internal consensus.”<sup>68</sup>

Given the strong consensus that much greater coordination of foreign economic policy is needed, it seems to make sense to merge foreign affairs and trade into one department or one ministry- following the successful examples of other countries like Australia, New Zealand and Canada. Perhaps Brand SA, the stand-alone agency for marketing South Africa abroad, could be thrown into the mix- or simply disbanded since it has become largely dysfunctional because of internal disputes and corruption.

As we saw at the start of this report, the merger of foreign affairs and trade in the Australian government, in particular, is widely regarded as a major success, over 30 years later. Australian diplomats confirm that privately.

Grant-Makokere, -a former trade negotiator for New Zealand- says if a country has economic development objectives at the international level, combining foreign affairs and trade into one department makes sense. And that also helps to recruit the necessary mix of skills to pursue an economic foreign policy.

And by extension, the private sector - particularly big business- as well as state owned enterprises and development finance institutions such as the Development Bank of Southern Africa, should also be involved in the shaping and execution of foreign policy.<sup>69</sup>

The seasoned South African ambassador, quoted above, who requested anonymity as he is not authorised to speak on such policy matters, said he had always advocated for a merger of Dirco and DTIC- or perhaps a partial merger.



“There’s such a disjuncture often between what we’re trying to do at Dirco and the type of support we get from DTIC. There are definitely opportunities which were lost because DTIC was so slow in responding, or non-responses or just didn’t see that market as an opportunity. Whereas we had identified it as an opportunity.

“So for me it makes sense to go that way. You would have a department of international relations and trade and investment. And then the current DTIC would be the department of industry.”<sup>70</sup>

The former DTIC official quoted above thinks the best mix would be to move the DTIC’s International Trade and Economic Development Division into Dirco, while keeping the more operational-level trade officials in Dirco.

“I think that would best allow for an approach to export promotion that includes a strong focus on domestic policy interventions, while moving the side of DTIC work that best aligns with DIRCO work (the summits and negotiations and other ‘soft’ work) into one department.”<sup>71</sup>

The ambassador quoted above believes a merger of all of the trade functions of DTIC into Dirco would create a more synergised approach. “You would make sure you didn’t lose the intellectual and other capacities of DTIC because that would be disastrous if you just had a merger in name and lost all the talent.

“If we can retain the DTI intellectual capacity and couple that with Dirco where for the last few years we have very much turned to economic diplomacy as the driving motif for our work, then to me it makes sense.”<sup>72</sup>

This ambassador believes just such a merger was on the table when Ramaphosa re-structured government departments in 2019, for instance collapsing the Department of Economic Development into DTI to form the new DTIC. For some reason which he does not know, the idea fell off the table.

Which he believes is great pity. As the countries he has seen over the years that have been the most successful are the likes of China, Australia or Brazil which apply a whole of government approach to foreign economic policy – an “Australia Inc” approach, for example.

“Because we talk about SA Inc but in reality we don’t have a SA Inc. And until we really develop a proper SA Inc we won’t be as successful in competing against these other countries, like Australia and China.

“Because you need a unified approach. We can’t continue with this approach of seeing business as in some ways the enemy. Business should be our bosom buddies, our closest allies. You need government and business to truly become allies.”<sup>73</sup>

To open up markets and bring in investors, South Africa also needed others on board, like the trade unions and particularly Home Affairs, to entice investors and not frustrate them with visa requirements. “You need a one stop shop that truly takes care of investors, trade opportunities, etc.”<sup>74</sup>



“To open up markets and bring in investors, South Africa also needed others on board, like the trade unions and particularly Home Affairs, to entice investors and not frustrate them with visa requirements.”

Dirco officials cite the example of how South Africa’s embassy in Beijing succeeded after considerable diplomatic effort in persuading the Chinese government to add South Africa to the brochures and online marketing platforms of all the Chinese tour operators. “We saw a huge jump in their tourism numbers from China.”

Then Home Affairs under its minister Malusi Gigaba imposed a range of new visa requirements such as birth certificates for children and bank certificates for adults. The Chinese tour operators responded by removing South Africa from their promotional materials and Chinese tourist arrivals plummeted from one year to the next. Numbers also dropped from other countries.

One can imagine that the reason Ramaphosa failed to merge Dirco and DTIC in 2019 might have been the sort of turf wars which Qobo referred to above. He says he used to believe a merger of the two departments would be a good thing but has since changed his mind because he believes Dirco would be the dominant force in the merged department and it would kill the trade and investment promotion capabilities of DTIC.<sup>75</sup>

As Flood has noted above the Australian merger of foreign affairs and trade to form DFAT is widely regarded as a great success which has driven a solid expansion in the country’s trade volumes. It also seems to have succeeded in New Zealand and Canada.

But there are those experiences truly replicable to South Africa? The creation of Australia’s DFAT occurred in the context of a trade agenda since the 1980s that has mostly been about freeing up trade as much as possible, both through lowering its own trade barriers in almost all areas to zero or only slightly above zero, as well as pursuing many free trade deals bilaterally, regionally and globally.

This trade liberalisation agenda is of a piece with the broader ‘liberal internationalist’ agenda which Australian governments have pursued for many years.

South Africa’s trade policy priorities and international agenda are obviously different in certain ways, as one Western diplomat observed. “And so I think South Africa still needs to define much more specifically and clearly what its national interests and foreign policy agenda are before it considers changing departmental structures and resources to achieve them.”<sup>76</sup>

Even though the South African Presidency acknowledged in its 25 Year Review, that South Africa has not explicitly or publicly defined its national interest, it’s apparent that South Africa’s trade policy priorities and international economic agenda are markedly different from, say, Australia’s.

While Australia has embraced globalisation whole-heartedly, for example, the ANC regards it with grave suspicion.



And so while Australia enthusiastically pursues trade as a worthwhile and profitable endeavour in itself, the architects of South Africa's trade policy see trade as essentially just an instrument of industrial policy, as we have seen.

That may be why a merger between Dirco and DTIC is unlikely to happen and yet why it could be a good idea, and for the same reason, that it might liberalise trade policy from the grip of DTIC's central planning.

Australia's and South Africa's varied approaches to economic policy more generally have been instructive over the last two decades or so. If one looks at mining, for example, Australia surfed the 2004-2011 commodities supercycle with great profit, while South African mining largely missed the wave as it grappled endlessly with the government over the government's BEE requirements and other official interventions. On balance this exercise seems to have been a net loss for all South African sectors concerned.

Perhaps we are seeing something similar now as the DTIC tries to conjure up an industrial revival out of trade. US President Barack Obama's provisional suspension in 2015 of South Africa's AGOA benefits for agricultural exports in retaliation for SA raising import tariffs on US meat, were a warning on how industrial policy can harm trade. And the TRIPs waiver case seems to illustrate a tendency for the SA government to externalize its economic problems, when the real solutions lay close to hand.

It would surely be more beneficial for all concerned in the long run if, by and large, the government let business people themselves decide where their best opportunities lay.



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