What Impact will South Africa joining the BRIC countries have on its Clothing and Textile sector: A focus on Governance and Trade Policy Issues

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by
Shabnam Sablay Parker
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Supervised by: Trudi Hartzenberg
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ACKNOWLEDGEMENT

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ABSTRACT

Emerging market economies are occupying an increasingly important role in the international arena. With the rise of the emerging market economies as dominant players in the global economy, a challenge over the next decade will be how the international governance system evolves to accommodate for this transformation. Ultimately, change in the key aspects of global economic governance; international architecture, and geo-politics seems inevitable, and with it new challenges will arise for policy-makers and scholars alike.

This paper seeks to examine the question of what it means for South Africa’s (SA’s) inclusion into the BRIC group of countries, from a governance and trade policy perspective with a specific focus being on SA’s clothing and textile sector.

The South African clothing and textile industry constitutes an important sector of SA’s economy. This sector mainly requires low-medium skilled labour. In the South African context this is important given that the vast majority of unemployed people in the country lack skills to work in the formal sectors. The SA government therefore sees the industry as a job creating one requiring low-medium skill and due to this potential, the industry is seen as one worth fighting for.

This research will illustrate that BRICS countries compete with one another in various spheres of economic activity. A key question that is to be addressed as part of this research is therefore whether SA’s membership of the BRIC’s grouping will influence trade policy generally and particularly as it pertains to the clothing and textile industry in which member countries, specifically SA and China, compete very actively. Critics of China’s trade and investment relations with Africa argue that the rising giant is replicating the behaviour of the original colonising powers in Africa, through the extraction of mineral resources in operations that do little to develop the host country involved. Further criticism can be levied at the imbalance in trade that is exacerbated due to SA’s inability to compete with cheaper Chinese imports, as the result of exploitive Chinese labour practices.

However, despite differences in ambitions and economic perspectives, Africa and the emerging economies appear to share common goals of seeking to advance their economies
and international status. It is important to note that there is no agreement binding the BRIC group of countries; this is an informal grouping of emerging market countries. This does not exclude however the potential for policy influence by one or more members on others of the grouping. The importance of a sound governance framework to facilitate trade relations among BRICS member countries will be explored.

In answering the question of what impact will SA joining the BRIC countries have on its clothing and textile sector, focusing on governance and trade policy issues, the relationship between SA and China will be a focus point throughout this paper. It is contended that SA joining the BRIC group of countries may positively favour trade and foreign interest in SA thereby shaping international relations across the various industries in SA, including the clothing and textile industry. One way that SA may benefit is from further foreign direct investments (FDI) from BRIC member countries as seen in the case of China. However, this will not be an automatic event; SA will have to take active and strategic steps to build relations and capabilities in order to benefit from opportunities.

All things considered, despite being a turbulent time in the international arena, ideas for reform can be a powerful aid to help guide developments in institutional building, as well as trade relations amongst BRICS countries. This paper will further look at the current trade policy and governance issues that may serve as barriers to more effective international trade relations amongst BRICS countries. Recommendations to close some of these shortcomings will be made and areas for further research will be highlighted. In conclusion, it is contended that SA should take advantage of its strategic position in the BRICS grouping and improve its engagement with these member countries in order to boost investment in the country, and also on the continent. A necessary step as part of improving its engagement with member countries will be to negotiate and work towards a reliable governance framework.

**KEY WORDS:** Trade Policy, Governance, Clothing and Textile, South Africa, BRICS, China, Emerging Markets, WTO, Trade, Agreements
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<tr>
<td>ANC</td>
<td>African National Congress</td>
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<td>BRIC</td>
<td>Brazil, Russia, India, China</td>
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<td>BRICS</td>
<td>Brazil, Russia, India, China, South Africa</td>
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<td>DSU</td>
<td>Dispute Settlement Understanding</td>
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<td>DTI</td>
<td>Department of Trade and Industry</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FOCAC</td>
<td>Forum on China-Africa Cooperation</td>
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<td>FTSE</td>
<td>Financial Times Stock Exchange</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>IDC</td>
<td>Industrial Development Corporation</td>
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<td>International Monetary Fund</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>NDP</td>
<td>National Development Plan</td>
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<td>OECD</td>
<td>Organisation for Economic and Cooperation Development</td>
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<td>PTA</td>
<td>Preferential Trade Agreement</td>
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<td>Regional Trade Agreement</td>
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<td>SA</td>
<td>South Africa</td>
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<td>South African Revenue Services</td>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>UN</td>
<td>United Nations</td>
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<td>USA</td>
<td>United States of America</td>
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1. Introduction

Current global developments cannot be considered without noting the role of the fast growing emerging market economies. A landmark Goldman Sachs report published in 2003 forecast that the economies of Brazil, China, India and Russia (BRIC) could grow to be collectively larger than the G-6 economies (USA, Japan, UK, Germany, France and Italy) in US dollar terms before the middle of the 21’st century. (Wilson & Purushothaman, 2003)

The rapid recognition of BRIC (recently changed to BRICS with SA becoming a member in December 2010) as a group of major emerging economies is said to be challenging the established order, resulting in global relations being in a state of flux. As a result of the rapid ascension and credible recognition of the BRICS countries as major emerging economies, policy and governance matters result in a potential predicament regarding the lack of descriptive parameters governing the interactions of the BRICS countries. This poses challenges for policy makers and governance matters become an important consideration.

At its current status, BRICS is an informal grouping of emerging market countries, which in its current form, has the potential for policy influence by one or more members on others within the grouping. This is due to BRICS member countries not being regulated by a legally binding instrument, which would seek to formalise and place predictability, transparency and a rules-based dispensation on interactions between member countries. Thus far, there seems to be a lack of “political commitment” with agreements being based on a best-endavour approach which can be seen from agreements concluded between SA and China.

Much debate and focus continues to question the diverging interests and lack of unification of the member countries, as each country is primarily concerned with their own trade agenda. For instance, China’s absorbed interest is focused on acquiring natural resources, required to fuel its high powered and fast growing economy, whereas other nations, like SA and Brazil, is focused on attracting foreign direct investments (FDI).
Contention and criticism has also been directed at SA’s admission into the BRIC grouping. Analysts are sceptic regarding the qualification of SA’s membership to a body of much larger economies with a higher propensity for dominance. Murmured undertones suggest that the inclusion of SA is an opportunistic grab at establishing a foothold into Africa, rather than the recognition of the South African economy in itself. It can also be argued that SA’s inclusion in the BRIC’s grouping is an aspirational gesture on both an economic and political level.

It is in this regard that this paper finds its premise. This research paper seeks to evaluate the dynamics of the BRICS countries, with a specific focus on the trade and investment relationship between SA and China. A more detailed assessment of the clothing and textile industry is analysed in order to identify the practical implications of the relationship. This is particularly important seeing that China invited SA to join the BRIC’s grouping, in addition to observing the history of SA’s foreign policy pursuant to developing favourable relations between the two countries for the past decade.

Critics of China’s trade and investment policy relations with Africa argue that the rising giant is replicating the behaviour of Africa’s original colonising powers. This poses a threat in two instances. In the first, China seeks to extract and exploit resources in operations that do little to develop and include host countries. The second aspect, and notable for this research paper, is the threat that cheaply produced Chinese imports has on local manufacturing sectors.

For this reason, SA-China relations require considerable focus, management and control. The South African clothing and textile industry constitutes an important sector of South Africa’s economy, as it is one of the most labour-intensive sectors in manufacturing, contributing to the government’s mandate of making a significant impact on poverty reduction and job creation.

In all regard, China is likely to continue its aim at exporting high volumes of clothing and textile goods, whereas SA will continue to focus on strengthening this sector in line with policy directives, focussing on labour issues and skills development programmes to encourage further local production. This is but one example that illustrates the uneasy nature of SA and China’s trade relationship and complex issues that are at play.
The major challenge that then exists for SA, in the context of its BRICS membership, is to manage the threat that China could potentially be to the South African domestic textile industry. Given the competition between member BRICS countries and particularly SA and China, a sound governance framework and a rules-based dispensation governing their relationship becomes important as it creates transparency, predictability and therefore allows member countries to implement risk management controls that may be important in their trade relations with other countries.

BRICS member countries are members of the World Trade Organisation (WTO) with Russia anticipated being a member by early 2012. One has to question whether this is enough though as membership to the WTO only facilitates matters that fall within the ambit of the WTO, especially since it is becoming an increasing trend for member countries to conclude agreements outside of the WTO. In addition, international organisations such as the United Nations (UN) and the World Bank have recognised the need for reform due to outdated governance structures. It is envisaged that countries will at some stage demand that the WTO develop more formalised governance structures.

It is interesting to note that Africa and particularly SA has been under the spot light recently, not only in light of competition for its resources, but also as a growing market in the international trade arena. This shift in how the world now views Africa requires strategic responses from African government. (Hartzenberg, 2011) SA stands to benefit from the potential preferential trade pacts and economic cooperation agreements that may be concluded with BRIC countries. However, without a legal instrument to encourage transparency and a clear governance framework, tension between member countries as evidenced by the clothing and textile sector will remain without guidelines on resolution of potential conflict. Furthermore, a lack of a rules-based dispensation begs the question: which BRICS member countries’ interests are being protected?
1.1 Research area and problem

Context

Emerging markets have become a buzz word and increasingly the world is focussed on emerging markets. “The liberalization, growth and globalization of these still-nascent economies have made them a tremendous source of interest, opportunity and anxiety over the past twenty years.” (Khanna & Palepu, 2010, p 3)

So what are some of the factors that are contributing to the spotlight being on emerging market economies? In the first half of 2009, for example, the FTSE International Emerging Markets Index was up by 41.1 percent, whereas the FTSE All World Developed Markets Index was up by 7.2 percent. China, India and Brazil have reported significant growth during this period as the developed world struggled to recover from the 2008 financial crisis. (Khanna & Palepu, 2010) Emerging markets have been sources of capital and growth to companies that were battling the financial crisis. Some have seen the financial crisis as an inflection point, accelerating the emergence of these markets as dominant players in the global economy; arguing that this “rise of the rest” is a transformative shift in the distribution of global power. (Zakaria, 2008)

The rapid recognition of BRIC (recently changed to BRICS with SA joining the group) as major emerging economies is said to be challenging the established order, resulting in global relations being in a state of flux. Asserting their new found influence, these emerging markets seek to be more assertive and a reorientation of power towards multi-polarity exists. These countries have demanded a new set of international norms, equitable representation and are emerging as important players in the new trade agenda in the multilateral arena. (Shaw, 2009)

Given the limited scope of this paper, the researcher will focus the research on two emerging market economies, namely SA and China.

China’s presence in Africa has been met with mixed responses. For most parts, African government officials have been positive about China’s FDI in exchange for resources. This has been viewed as a positive step towards the countries’ growth and development especially since FDI is used to improve African countries’ infrastructure which has been identified as one of SA’s key challenges. On the contrary, there has been growing resentment towards
Chinese business practices on the continent and arguments that China is a predator in aggressively and strategically ensuring that it secures oil and resources at the expense of poor labour, environmental and socio-political practices in Africa.

China’s relationship with South (Africa) is particularly significant seeing that it was China who formally invited SA to become a member of the BRIC’s grouping on 10 December 2010.

Research problem

It is commonly assumed that the emerging market economies share common interests and agendas on the international arena. This may be true to some degree, emerging economies may all call for more consideration for their developmental needs and better concessions from developed countries in respect of trade negotiations, for example, BRICS countries also compete with one another in various spheres. Member countries compete for international status, although the International Monetary Fund (IMF) has started to recognise their emergence through increasing voting rights. (Shaw, 2007) Due to their rate of economic growth; trade potential and growing influence globally, these emerging powers are demanding that their voice be heard. This can be seen from India and Brazil having called for the expansion of the Security Council so that it includes their representatives.

Some analysts are of the view that we are at a transformational moment in the history of the world. (Steger, 2010) The rapid rise of the emerging economies has shifted the global power balance and with this, the influence of the USA as a hegemonic power has shifted. The current architecture of the international system was developed in the immediate post-World War II whereby developed countries led by the USA and Britain, for a very different world and time. Will these international organisations responsible for governance matters undergo the necessary reform to cater for today’s international landscape? This remains to be seen.

The 2008 financial crisis has highlighted the need for different and in some areas, more international regulation. In addition, the change in the key aspects of global economic governance, international architecture, and geo-politics seems inevitable and with it new challenges will arise for policy makers and scholars. Innovative and interdisciplinary responses for the conceptualisation of the BRICS emergence are therefore imperative. Unless developing countries are able to play a part in the design of new governance regimes for the
international economic system, the very relevance and legitimacy of these institutions such as the World Trade Organisation (WTO) which aims to deals with the global rules of trade between nations will be at risk. (Steger, 2010)

The main function of the WTO is to ensure that trade flows as smoothly, predictably and freely as possible. (WTO, 2011) The extended Doha Round of trade negotiations demonstrates that the changing global landscape is also changing the nature of the agenda in the WTO and raising fundamental issues about its role in multilateral governance as well as more specific issues such as the accommodation of developing country ambitions within its agenda.

This paper will explore what the impact of SA’s membership of the BRIC’s group is likely to be on trade policy and broader governance issues. There is no agreement among the BRIC group of countries; creating scope for a different kind of political and policy engagement among the members. All are now members of the WTO (Russia was the last to join the WTO in a very recent accession). The WTO’s Dispute Settlement Understanding (DSU) procedure for resolving trade quarrels under the DSU is aimed at enforcing the rules and for ensuring that trade flows smoothly. A dispute arises when a member government believes another member government is violating an agreement or a commitment that it has made in the WTO. The authors of these agreements are the member governments themselves and the agreements are the outcome of negotiations among members. Ultimate responsibility for settling disputes also lies with member governments, through the WTO’s Dispute Settlement Body. (WTO, 2011) Any agreement entered into between the BRICS countries outside of the WTO framework will not be covered by the DSU. This presents a governance gap in respect of issues that fall outside the ambit of matters within the WTO. It is important to note that bilateral and regional trade agreements usually address dispute resolution mechanisms; however, there is no agreement between the BRICS member countries. Without a legally binding instrument, BRICS member countries are left without clear governance guidelines for issues outside the realm of the WTO.

In order to highlight particular and more focussed research findings within the broader context mentioned above, the South African clothing and textile industry will be analysed as a case study in exploring the research area. This will allow for a more focussed approach in
analysing the impact of SA joining the BRIC countries from a governance and trade policy perspective.

**Purpose of proposed research**

This will be an exploratory study with the aim of understanding the impact of SA joining the BRIC group of countries, from a general governance perspective, and specifically with a view to understanding the impact on the clothing and textile industry, one where there is intense competition among the BRIC countries. This research should assist emerging market policy makers to design and implement more effective governance tools and trade policies taking into account the changing geopolitical landscape and the effect that the emerging economies have on it. One can argue that without an effective governance framework in place to guide the BRICS countries through their international relations with each other, their potential to act as a collective emerging power speaking as one voice may be diluted.

**Significance**

The research is significant in that it recognises fundamental changes in the global economy as emerging market countries, specifically the emerging markets, which include the BRICS, play a more important role in production trade and perhaps also in the development of new global governance regimes. It highlights current trade policy and governance issues that may serve as barriers to more effective international trade relations amongst BRICS countries. Noting that SA does not fit the profile in terms of economic indicators of the BRICS, this study seeks to explore the impact for SA of joining this group. First, this study will focus at a broad governance level, and secondly it will focus on a specific sector in SA, the clothing and textile sector to assess whether membership of the BRIC’s group could have implications for SA in terms of trade policy impacting on this sector. Understanding these issues may facilitate a deeper discussion amongst South African policy makers and relevant stakeholders in an attempt to equip itself with a more robust and transparent trade policy framework. The analysis will hopefully shed light on specific recommendations that can be targeted to: 1) South African policy makers and relevant stakeholders 2) firms looking to access the South African market, and last but not least 3) the South African Government.
1.2 Research questions and scope

Within the broad context of emerging markets and particularly the BRIC countries, with SA having joined the BRICS member countries, does SA fit in this grouping? What is SA’s role and how could SA benefit from being part of the BRICS club? In answering these questions, the researcher will explore the role that BRICS countries are playing in the global economy. The researcher will focus on SA and China as members of the BRICS emerging powers. This is particularly important seeing that China invited SA to join the BRICS grouping. In addition, this relationship is important because SA and China have been developing relations for more than a decade, but the nature of these relations in respect of governance issues is questionable. A further focus area will be the SA clothing and textile industry which has long been a contentious issue as demonstrated by SA’s Department of Trade and Industry (DTI) quota response to Chinese imports in 2007. A key question is therefore whether SA’s membership of the BRIC grouping will influence trade policy as it pertains to this sector in which member countries, including SA and China, compete very actively.

Following from the above, this paper focuses on the following main question:

What impact will SA joining the BRIC countries have on its clothing and textile sector: A focus on governance and trade policy issues.

The key research question will be further broken down into the following sub questions:

- Definition and characteristics of emerging markets
- BRIC emerging markets: SA’s invitation to join BRIC
- A focus on SA and China
- Challenges for SA
- Governance matters
- Trade issues and policy
- China’s impact on SA’s clothing and textile industry
- What will be the impact of BRIC club membership for SA?
Scope of research

This research will focus on SA and China as emerging market economies and will not attempt to draw general conclusions in respect of all BRIC member countries. Due to the nature of SA’s social, political, natural and economic environment the results from this research should be generalised with caution bearing in mind context specific factors which may be relevant. A further focus point will be on the clothing and textile sector in SA.

1.3 Research assumptions

According to Leedy and Ormrod (2005), careful researchers set forth a statement of their assumptions as the bedrock upon which their study must rest. There are a few main assumptions that are made to create a starting point of evaluation of this topic.

The first assumption is that the reduction of trade barriers to encourage international trade is positive for international trade relations amongst countries and for the global economy. (Cavusgil et al, 2002)

Another hypothesis is that transparency and rules-based governance framework are desirable for good governance and trade policy perspective, which has a positive effect on international trade relations. A further assumption is that secondary data relied on is fairly accurate.

1.4 Research ethics

The requisite Ethical Clearance online form was submitted and approved by the University of Cape Town’s Graduate School of Business’ Research Ethics Committee.

2. Literature Review

2.1 Introduction

“The global political economy is in considerable flux, with a new set of players changing the nature and scope of global interaction.” (Shaw, 2007, p 673)
A major challenge over the next decade given the significant transformation taking place in the global economy with the rise of the emerging economies will be how the international governance system evolves. It seems clear that the forecasted economic growth of emerging economies will have a ripple effect at a national, regional and global level. Thus a change in the key aspects of global economic governance seems inevitable and with it new challenges will arise for policy makers and scholars.

2.2 Definition and characteristics of emerging markets

Definition

Historically *emerging market* was a term applied to the former Soviet satellite states that were emerging from a *planned* to a *market economy*. (Enderwick; 2007, p4) In recent times the term has been generalised to replace the term *developing countries* and often authors use these terms interchangeably. Emerging markets share many of the characteristics that are used to define developing countries. They typically have large agricultural sectors; low productivity; poor infrastructure; large disparities between rural and urban sectors and negative outcomes in health and education levels. (Cavusgil et al, 2002) If one uses this interpretation, there are more than 150 emerging economies accounting for nearly 85% of the world’s population. However, not all poor countries can be termed emerging economies. Economists contend that a defining criterion is that emerging economies are experiencing positive momentum in respect of economic growth as well as concomitant change and development. (Enderwick; 2007, p4)

The World Bank defines an emerging market as one that has an average income per capita of less than US $9,000 and is experiencing rapid growth and transformation. (World Bank, 2002) A large emerging economy is one that has a sizable population and the most commonly identified large emerging economies are the so-called BRIC’s-Brazil, Russia, India and China.

Characteristics of Emerging Markets

Given the scope of this paper, the researcher will address only some of the characteristics that are widely shared by emerging market economies.
Economic characteristics

It is commonly understood that emerging market economies enjoy some of the fastest growth rates in the world. Economic indicators however show that this growth rate is often varied with marked fluctuations. For example, while China has had high and relatively stable growth rates over the past two decades, Indian growth rates over the same period have shown major fluctuations. (Enderwick; 2007, p4) It is also worth noting that rapid growth is often accompanied by high levels of inflation, which in turn can prompt government to curb growth.

Analysts believe there have been two important shifts in the global economic dynamic. Firstly, emerging economies have transformed into locomotives of the world economy. China, for instance, has accounted for around 25 percent of global growth over the past five years, according to data from the IMF. The BRIC’s together accounted for almost half of the global growth and all the emerging and developing economies combined about 66 percent, compared with 50 percent in the 1970’s. (Hong, 2008)

Secondly, the pattern of trade itself has changed, as almost half of the exports from emerging and developing nations are now directed towards other such economies, with rising intra-regional trade in Asia most notable.

Similarly, high rates of return are associated with emerging markets but the evidence is that rates of return on emerging market securities have, on average, been not much better than those obtained by investing in developed countries. (Klingen, Weder, and Zettelmeyer, 2004)

Technological characteristics

Singh (2006) noted that another characteristic of emerging market economies is their limited investments in technological development and their dependency on advanced economies for technology. Gilboy (2004) argues that China is weak in terms of technological infrastructure, such as collaborative linkages, market knowledge, and domestic technology supply chains. However, technological conditions in China, as an example of an emerging economy, are improving rapidly as it recognises the importance of developing capability and attracting research and development investments from major multi-national enterprises including Microsoft, Motorola, and Intel. (Rodrik, 2006)
Socio-cultural Characteristics
The socio-cultural conditions in many emerging markets present strong changes. Many emerging market economies are characterised by considerable ethnic and cultural fragmentation. (Luo, 2002) Many emerging market economies face continuous urbanisation. A large percentage of China and SA’s population is still in the rural sector. However, attractive employment opportunities and income differentials mean that the urbanisation process will continue. (Enderwick, 2007)

Political Characteristics
It is argued that political risk is a universal standard of emerging markets. This may result from a number of factors. One such factor is political instability and the uncertainty around a particular political regime. Another cause for political risk occurs where there is widespread protectionism and government intervention. High tariff levels and ideological views that support government control of strategic industries may create significant risks for international businesses. In addition, economic reform represents a political risk in emerging markets. Despite liberalisation and privatisation that create new opportunities for international investors, it has been argued that those who move in quickly face the risk of operational uncertainty and unpredictable change. These risks may be intensified where other institutional reforms such as judicial processes and government policy formation fail to keep pace with such reforms. (Enderwick, 2007)

2.3 BRIC countries and SA’s invitation to join the “club”
BRIC Countries

In 2001, Goldman Sachs economist Jim O’Neill coined the term BRIC (Brazil, Russia, India, China) to describe the growing influence of these large, emerging economies which accounted for about half of global economic growth between 2000 and 2008 and are expected to account for 61% in 2014. (Lund, 2010) On 10 December 2010, SA was formally invited to the BRIC’s grouping which is now termed BRICS.

Some commentators question the sustainability of BRICS growth in terms of production and trade, indicating the potential dangers in the financial structures of the BRICS economies and risks of financial crisis (for example, due to large non-performing loans in China), slower
growth of Foreign Direct Investments (FDI) inflows, environmental concerns and the 
“absorptive capacity of the Operation for Economic and Cooperation Development (OECD) 
limiting exports from BRICS. Another issue is that growth is based in just one sector of each 
economy. For example, Chinese growth is based on FDI inflows and goods trade, Russia on 
oil and gas exports to the EU, whereas India is mainly internally generated due to the growing 
service trade. (Kobayashi-Hillary, 2005) Brazil depends on its agriculture and mining and SA, 
being rich in minerals and natural resources, can focus on these items driving growth. SA also 
found its niche in global supply chains in exporting automotive parts for European Union 
(EU) manufacturers.

Table 1 below summarises the economic background in relation to the BRICS member 
countries. One can see that the overall GDP of SA is much lower than that of the other BRICS 
member countries. This is not surprising given that SA has a much smaller population of 
approximately 49 million compared to Brazil and Russia with a higher population and India 
and China with a significantly higher population above the billion mark. It is interesting to 
note that the merchandise trade performance expressed as a percentage of GDP is higher in 
SA compared to other BRICS countries particularly Brazil. A huge problem for SA though is 
the level of unemployment, significantly higher than the other member countries. (Sandrey, 
2011)

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>RSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP $ billion</td>
<td>1,573.40</td>
<td>1,231.90</td>
<td>1,130.20</td>
<td>4,984.50</td>
<td>285.40</td>
</tr>
<tr>
<td>Population million</td>
<td>193.7</td>
<td>141.9</td>
<td>1,155.30</td>
<td>1,331</td>
<td>49.3</td>
</tr>
<tr>
<td>GDP/head $</td>
<td>8,123</td>
<td>8,681</td>
<td>978</td>
<td>3,745</td>
<td>5,789</td>
</tr>
<tr>
<td>PPP$/head $</td>
<td>9,371</td>
<td>14,833</td>
<td>2,625</td>
<td>5,371</td>
<td>10,632</td>
</tr>
<tr>
<td>Poverty %</td>
<td>21.5</td>
<td>19.6</td>
<td>28.6</td>
<td>2.8</td>
<td>22.0</td>
</tr>
<tr>
<td>Unemployment %</td>
<td>7.9</td>
<td>6.2</td>
<td>5.0</td>
<td>4.2</td>
<td>22.0</td>
</tr>
<tr>
<td>Merc Trade % GDP</td>
<td>18.2</td>
<td>40.2</td>
<td>31.5</td>
<td>44.3</td>
<td>47.6</td>
</tr>
</tbody>
</table>

Source: World Bank, CIA and WTO web sites
SA Joins the BRIC Club

President Jacob Zuma visited all of the so-called BRIC countries during the early part of 2010. His stated mission was to get SA included in that “prestigious” grouping: the world's fastest-growing economies, which, according to Government, “offer a panacea to SA's intractable unemployment and poverty troubles”. (Lund, 2010)

In December 2010, SA was formally invited by China to join the BRIC grouping. SA’s inclusion in the BRICS group of emerging economies has sparked much debate with some commentators saying that it will hit a “BRIC wall” and that the country is trying to punch above its weight, while others applaud the inclusion as a step towards becoming a more prominent global player. (Cloete, 2011)

2.4 A Focus on China and SA

In the final draft of SA’s Foreign Policy: White Paper 2011, The Department of International Relations has emphasised that commitment to South–South cooperation forms part of SA’s foreign policy. South-South trade is expanding rapidly and is the new major source of growth in the global economy. SA’s foreign policy is aimed at asserting the link between domestic socio-economic objectives and SA’s international relations. For example, if jobs, poverty eradication and education are key priorities, SA’s approach to its foreign relations should reflect this. Strengthening South-South relations, especially against the background of the developed world’s economic difficulties, is viewed as an important vehicle in this regard.

As reported by the South African Institute of International Affairs (SAIIF, 2011), China is both an important partner at a political and economic level for SA, but also one which has elicited scepticism from some commentators, especially in the trade union movement where it has been accused of being responsible for the loss of jobs in certain manufacturing sectors such as the clothing and textile sector. At the political level, SA regards China as a key player in the global debates that characterise the shift to multi-polarity. In recent years, China’s growing role in peacekeeping in Africa also points to potential synergies with SA’s own African peace and security priorities. Furthermore, over the last two decades the links between the Chinese Communist Party and the ANC have deepened, with regular exchanges between the two taking place. Economically, the growth in two-way trade and investment
since the start of diplomatic relations in 1998 has allowed SA to diversify its commercial relations away from their traditional northern alliance. (SAII, 2011)

It is no surprise that SA accepted China’s invitation to join the BRIC grouping with open arms as it has been focused on building relations with China as part of a wider strategy to enhance SA’s presence on the geopolitical stage. (Africa Monitor, March 2011)

It has been reported that there were several factors behind China’s invitation extended to SA. SA’s Foreign Affairs Minister reported that: “China believed that SA’s accession would promote the development of BRICS and enhance cooperation amongst emerging market economies.” (Africa Monitor, March 2011) The strategic location of the country may also have been an important part of the decision. It has been said that SA will be a good gateway for other BRIC counties to the continent of Africa. As part of the Southern African Development Community (SADC), SA offers access to 14 countries with a combined nominal GDP of US$685million and a population of 262million.

Many shortcomings have been highlighted in the press. It has been argued that that the nation compares unfavourably with the established BRICs and several other emerging markets that may fit better into the BRIC grouping. SA’s economy is not particularly fast growing, with average annual real GDP growth forecast by BMI at 4.1% over 2011-2015; it will likely be outperformed by Bangladesh (5.8%) and Nigeria (7.5%). The size of the economy is also relatively small as a share of global GDP (0.6%) and the population (just under 50 million) is smaller than several other emerging market economies. (Africa Monitor, March 2011)

Professor Mills Soko of the University of Cape Town’s Graduate School of Business, in a recent commentary said that markets in the rest of Africa, Middle East and other Latin American countries should not be neglected, and emphasised that the BRIC’s grouping is not in fact an organisation, but the construct of an economist, and does not have a strategy or clear objectives”. (Radebe, 2010)

So what might some of the reasons be for China choosing SA? It is obvious that China wants to build trade and investment links with the nation, but in addition to this, it is argued that China sees SA as a gateway to the wider Sub-Saharan Africa (SSA) region. If one considers SSA as a whole, it is a strong contender for BRIC’s grouping as economic growth forecast is
seen as strong, at an annual average 6.3% over 2011-2015 with a sizable population of 782 million and SSA accounts for 2.0% of GDP-only slightly less than Russia at 2.6%. (Lund, 2010)

**South (Africa) and BRIC Relations**

Africa was once a continent known largely for conflict but now boasts some of the fastest growing economies in the world, both small like Equatorial Guinea and large like Angola. Africa continues to have “developmental states” such as Botswana and also “fragile” states such as Somalia. Although Africa has attracted investment from China, Japan and India, it has more than ever contributed to comparative international relations. (Dunn & Shaw, 2001)

China was the first to initiate the Forum on China-Africa Cooperation (FOCAC) summit in 2000. The FOCAC Summit was preceded by almost a year of intense consultations between Chinese diplomats and their African counterparts from each of the participating countries to discuss and work out consensus for the China-Africa Strategic Partnership which was announced at the summit.

There have been various “outreach” efforts to Africa made by the various BRIC’s countries such as India hosting an India-Africa Forum Summit with 14 African leaders. That the BRIC’s are interested in Africa should not be taken to say that the continent offers the same possibilities and opportunities for each of the member countries. There are various diplomatic connections between the member countries, now including SA. It is important to note that the new makeup of global governors is not homogenous and not necessarily focussed on the same interests. The BRICS label can be misleading in terms of the images of commonality that they project.

**2.5 Challenges for SA**

There has been much scepticism of SA’s admission to the BRIC grouping with many analysts questioning the logic of SA’s membership to a body of much larger economies. It has been contended that SA will have to work at stepping up to play in the field of the emerging powers as clear disparities exist between SA and the rest of the BRIC member countries. It has been reported that for SA to benefit from being part of the BRICS grouping, opportunities are not automatic and SA will have to create a capable environment conducive to reaping
benefits that may accrue, such as cooperative international relations and trade benefits. The researcher will further explore these points at a later stage.

Some of the challenges that SA is faced with include:

**Research and Development (R&D) Disparities**

A high percentage of GDP spent on research and development is a common trait of the BRIC countries. Brazil spent 1.04%, Russia 1.28%, India 0.84%, and China 1.31% of their respective GDP’s on R&D in 2006. SA, on the other hand, only spends 0.74% of its GDP on R&D. SA will have to step up somewhat to catch up with the innovative BRIC nations. (Lund, 2010)

**Human capital**

Human capital is another critical factor that's contributed to BRIC's successes. For example, when it comes to engineers China and India produce around 900,000 a year. SA's notorious skills deficit is a consequence of its ailing public education sector, which was ranked 137th of 139 by the World Economic Forum's recent competitiveness report (September 2010). The same report sets out: "SA is likely to keep sliding down in the global competitiveness tables, which recently rated our education as among the worst in the world, if the country fails to address illiteracy." (Lund, 2010)

**Infrastructure**

Aside from overhauling its public education system, there are other issues SA must tackle to boost its competitiveness and, therefore, convince the world it's worth including in discussions of first tier emerging markets. Infrastructure is critical, especially infrastructure that's going to guarantee electricity supply. Eskom has warned it's going to require recapitalisation to finish its build programme by the planned 2017 date and has also warned Government it has to start making plans post-2017 now. When it comes to ports, the new deep water harbour at Coega in the Eastern Cape has improved SA's capacity but more will have to be done, especially when it comes to improving efficiencies and costs. A World Bank
Report (August 2010) said SA's ports took an average of 43 days to clear a standard unit of cargo, against 37 in Nigeria, 30 in China and just 16 in Argentina.

The Fitch Ratings Agency has communicated that the investment in Sub-Saharan Africa’s infrastructure has not kept up with demand. Power outages in the region are common while poor roads and non-existent railway systems in many countries are stifling trade. Infrastructure investment has, however, increased in recent years, largely because of debt relief that put more money in governments’ pockets and assistance from the Chinese. (Fitch Rating Report, 2011)

**Corruption**

Although governance has improved, many African countries continue to consistently rank near the bottom of Transparency International’s Corruption Perceptions Index. Certain countries – such as SA, Namibia, Botswana, Mauritius, Seychelles and Rwanda – are, however focusing on keeping corruption in check. (Fitch Rating report, 2011)

**Trade and labour disparities**

"SA is exporting far less industrial output and attracting less foreign direct investment than many in the same peer group. More significantly, it's not exporting or attracting foreign direct investment as much as it needs to tackle its twin challenges of high unemployment and widespread poverty," reads the World Bank Report (2008).

**Economies of scale**

SA's population is one fourth of India's and equal to the population of a medium sized province in China. That’s precisely why Martyn Davies, chief executive of the consultancy Frontier Advisory argues that, if SA is serious about being associated with the BRIC grouping, it should be pushing much harder for regional integration in Southern Africa, especially SADC. “The SADC countries have 250 million people, which make it larger than Russia or Brazil,” says Davies. But the reality is that the regional integration of SADC isn't going anywhere, despite political rhetoric to the contrary. In spite of repeated commitments to speed up integration, the reality is that it's extremely difficult to move people or goods across SADC borders. Intra-regional trade in the European Union - where integration has been
politically driven - is more than 60% of the region's total trade. In Asia - where integration isn't formal and driven by markets only - intra-regional trade accounts for just less than 60%. But in Africa less than 10% of the continent’s trade is intra-regional. “Asia has proved the key to integration isn't political union but through market competition,” says Davies, who adds it would bolster Africa's emerging market fortunes if the continent’s 23 stock exchanges were mostly consolidated on the JSE. (Lund, T, 2010)

2.6 Governance Matters

All emerging economies jointly called for reforms of the Bretton Woods Institutions, pointing to their practical inadequacy and out-dated structures. For example, voting structures in the IMF is currently dominated by the G7, which has 47.13% of the votes and does not represent the interests or concerns of the developing world. (Shaw et al, 2007) Woods and Lombardi (2006) conducted a study which points out that countries represented in the IMF by their own directors retain a high degree of control over decisions made by the Board through both formal and informal mechanisms. Emerging economies (with the exception of a few such as China) that have fewer votes and that are represented in the constituencies have less influence over their representatives, and thus delegate much more authority to the IMF.

Emerging countries also use regional trade agreements (RTA’s) concluded outside the WTO to pursue economic cooperation. Antkiewicz and Whalley (2006) report that with the apparent mid-2006 demise of the Doha Development Round of multilateral trade negotiations, BRICS countries are becoming more active in negotiating RTA’s. These agreements may vary in scope and coverage but a growing number of them go beyond issues dealt with in the WTO. These RTA’s may cover matters such as service trade liberalisation; mutual recognition, and cooperation in investment. Some of the countries seem to be tailoring their agreements across their partners in negotiations, which stands in contrast to the cookie-cutter approach seen by the USA and EU approach. Texts of these agreements also tend to be less legalistic and less detailed than the USA and EU RTA’s. Whilst this may leave more room for subsequent negotiations, it may also prove to be a source of potential disputes. (Antkiewicz & Whalley, 2006)
Engagement between SA and China

The most recent Memorandum of Understanding (MoU) signed between SA and China in August 2010 which was focussed on Solar energy heating was silent on negotiating a legally enforceable agreement between the two countries. The MoU is more general than specific and does not deal with issues around how to address potential conflict. The MoU is also silent on issues around dispute resolution mechanisms. This shows a lack of a rules-based dispensation governing the relationship between the BRICS remember countries, and specifically between SA and China. An analysis of the MoU points to the kind of relationship that SA and China seem to be building in that it highlights a “best endeavour” approach rather than a rules-based dispensation. This begs the question as to how to deal with situations where either country is unable or unwilling to uphold what has been set out in the MoU.

China’s global competitiveness especially relating to the cost of labour makes it difficult for SA to compete. It has been reported that SA’s reluctance to proceed with a free trade agreement with China reflects concerns about the threat it may present to the survival of the local labour-intensive clothing and textiles industry, although a recent study by the Trade Law Centre of SA indicated that expected losses (in employment, wages and production) would be largely offset by gains in other sectors with a stronger competitive prospective (chemicals, plastics, and machinery). (SAIIF, 2011)

BRICS member countries

It is important to note that BRICS member countries also offer each other differential treatment. The market needs and the growing economies of the member BRICS countries result in increasing competition in the various sectors of the global economy. In the case of the South African clothing and textile sector for example, China is likely to continue to aim at exporting high volumes of clothing and textile goods whereas SA will continue to focus on strengthening this sector, focussing on labour issues and skills development programmes to encourage more local production.

Another area of intense competition between member BRICS countries, particularly between India and China, is access to resources. China continues to buy up mines and other resource companies from South America and Africa. These types of transactions are easier to conclude
in these countries than in the OECD states as issuers of subsidisation of purchases (low interest loans from the Central Bank), human and labour rights and involvement of the government are not usually central considerations. The converse is that China and India’s scramble for Africa is having a profound impact on the demand for price of its resources, from oil and gas to basic metals. A consequence is that the acquisition of oils, minerals and water has had the effect of quickly growing the number of fast-growing economies in Africa. (Shaw, 2007)

So what makes governance matters in respect of the emerging countries so challenging? Emerging market characteristics as discussed above make these economies dynamic and challenging to deal with. Global governance in the 21st century requires flexible, innovative forms of public diplomacy which may lead to divisions of power or responsibility among the BRICS countries. Some may advance the several codes of conduct under consideration; others may support sectoral certification codes whereas others may focus on global health issues such as HIV AIDS. (Narlikar, 2006)

All BRICS member countries with the exception of Russia are members of the WTO. It is however anticipated that Russia will be a member of the WTO by early 2012. The final formal meeting of the Working Party on the Accession of the Russian Federation was scheduled for 10-11 November 2011, at which an ‘accession package’ is likely to be adopted. The adopted ‘accession package’ must also be presented to the Ministerial Conference or General Council for adoption which is scheduled for 15-17 December 2011. Once adopted, the Protocol of Accession enters into force thirty days after acceptance by the applicant, either at signature or by deposit of the instrument of ratification if parliamentary approval is required. In acceding, Russia is making legally binding commitments to conform to WTO rules. In future, it would be possible to scrutinise its foreign trade and investment regime. In addition, it will also become possible for Russia to settle trade disputes with other WTO members. Furthermore, it will have a voice on how those rules are made and implemented. If all goes well, Russia will finally become a full member of the WTO early in 2012. (Cronje, 2011)

In respect of governance issues, the Warwick Commission was set up in 2007 with the broad mandate to examine the governance of the multilateral trading system and to make recommendations to improve it. It noted that there is a support for further open markets and
emphasised that sustaining the WTO is a collective responsibility on the part of all the members. On dispute resolution settlement, it recommended that a dispute resolution settlement ombudsman be appointed as well as the strengthening of transparency mechanisms. The Commission’s recommendations are yet to be implemented.

Steger (2010) argues that unless developing countries are able to play a part in the design of new governance procedures for the international economic system, the very relevance and legitimacy of these institutions such as the WTO will be at risk. It is a turbulent time in the international system, but in times of uncertainty and pressure, ideas for reform can be a powerful pillar to help guide developments in institutional building. International organisations such as the UN, the IMF and the World Bank, have recognised the need for reform due to out-dated governance matters. However, this concern does not seem to be on the radar of WTO members. Why? It is believed that a key reason is due to the negotiations at the Doha Development Round having been so difficult and protected. The main objective of the director general and members of the WTO is to conclude the Doha Round of multilateral negotiations. Until this has been achieved, all other matters are held off. However, the longer this situation continues, if member countries are frustrated by the internal process of the WTO, they will increasingly (as is already happening) resort to alternate forms of economic governance, including bilateral and regional Preferential Trade Agreements (PTA’s). (Warwick Commission Report, 2007)

Steger (2010) reports that because the rule-making procedures of the WTO are so difficult, countries are turning increasingly toward negotiating regional trade agreements. While RTA’s have not been shown to provide the same economic benefits as multilateral agreements, there is growing business pressure, especially in the fast growing economies of the world, to negotiate new regional agreements and the bigger the risk that the WTO will become increasingly out-dated and irrelevant to the world community. It has been reported that the increase in RTA’s is causing fragmentation of the multi-lateral trading system and erosion of the most favoured nation principle. (Steger, 2010)

In conclusion, it is envisaged that countries at some stage will start to increase the demand that the WTO develop more formalised governance structures to put it on par with other international organisations, making it more functional and efficient and to render it more accountable to all its members, including emerging economies.
2.7 Trade issues and policy

Introduction
There has been a focus on reducing trade barriers to encourage and stimulate international trade. This has been the focal point of the WTO and its members. The WTO initiatives to reduce trade barriers and facilitate trade are in many ways complimented by other initiatives at regional levels. (Hartzenberg et al, 2005, p.242)

Trade Barriers
Various governments introduce policies with the aim of restricting foreign producers from gaining access to their markets and selling their products to local communities. The main types of trade restrictions are:

Tariffs
Put simply, this is a tax on imports from foreign countries. The idea is that the payment of tax serves as a disincentive to import as oppose to sourcing and/or manufacturing goods locally within a country, thus serving as a protection mechanism for local producers that are more shielded from foreign imports. It is important to note that for many countries such as SA, import tariffs are an important source of government revenue.

Quotas
A quota is another important source of trade restriction. A quota is a restriction on the quantity of imports. It sets a ceiling on the number of imports that can be affected for a particular period. Unlike a tariff, a quota does not have the effect of generating revenue for the government.

Voluntary export restraints
Some firms may sometimes agree to limit the amount that they export to foreign countries in an attempt to avoid tariffs and quotas being imposed. (Hartzenberg et al, 2005: 243)
SA’s Trade Reform

Before looking at China’s impact on SA’s clothing and textile industry, it will be useful to briefly examine some of the country’s historical trade liberalisation events.

SA’s readmission into the multi-trade system in the early 1990’s signified the end of decades of international isolation brought about by the country’s apartheid regime. In 1994 SA signed the Marrakesh Agreement of the General Agreement on Tariffs and Trade (GATT) which showed its commitment not only to liberalise its trade policies in accordance with the rules based international system, but also to formalise its standing as a strong trading nation after many years of operating outside the GATT discipline. (Soko, 2010) The Uruguay Round (UR) had a strong political and economic impact on SA: the normalisation of SA’s trade relations within the WTO resulted in a favourable disposition towards the country, while trade reforms implemented in line with UR commitments laid the foundation for major changes in the SA economy.

The UR was the most extensive negotiating round taken in the history of the GATT, it was seen as significant with its aim of incorporating agriculture and textiles into the GATT rules and disciplines. It was also significant because it introduced new issues into the GATT negotiations such as trade in services and investments. Developing countries were reluctant to the inclusion of these new issues as they feared that domestic policies that the developing countries considered as critical to their national economic development would be undermined. (Spero and Hart, 1997) Besides multilateral liberalisation, trade reform has been facilitated by the bilateral and regional preferential trade agreements SA concluded with key trade partners.

2.8 China’s impact on SA’s clothing and textile sector

Given that the continent is the weaker power, what might be some of the benefits and costs for both state and non-state actors of BRICS relations over time?

Some sectors in SA, such as clothing and textile, may lose out to Chinese imports. Some areas such as services and retail suppliers in countries such as Tanzania and Zambia may benefit from Chinese demands on minerals, as they supply throughout the region, from banking and telecommunications to supply chains for mines and supermarkets.
SA may run a bilateral trade deficit with China in sectors such as clothing and textiles, yet SA companies in more sophisticated sectors such as MTN and SAA, may be gaining new opportunities in the rest of the continent due to Chinese demand. Loss of domestic markets share for some companies in SA may be accounted for by SAB Miller’s 55 breweries in China and China Industrial and Commercial Bank’s investment in Standard Bank, which facilitates the flow of Chinese supported investment capital throughout the continent. (Shaw, Cooper & Antkiewics, 2007)

BRICS will have implication for Africa and it remains to be seen whether there is a danger of other BRIC countries becoming dominating or even disinterested, although the latter seems unlikely at this stage.

International commentators highlight how the operations of China’s national oil companies in Africa are closely tied if not driven by Chinese strategic interests. Others question the assumptions, emphasising the tension that exists between state companies and central government authorities as well as competition between companies. (Downs, 2007) Another area of intense debate is the impact of BRIC investments, particularly from China and India on Africa. African government leaders have embraced Chinese investments. China has been seen as having thrown a life line to Africa in investing in the continent. The response at a societal level has however been more mixed. Tension emerged and protests have broken out in Zambia and Namibia about poor working conditions and poor pay in Chinese operations. Local NGO’s also expressed concerns about the environmental impact of the scramble for resources brought on by the Asian drivers.

Although the scope of this paper will not focus on numerous sectors, but rather on the textile and clothing sector-the above is worth noting in the interest of painting a broader picture of some of the issues relating to SA’s membership to BRICS and its international relations with China in particular.

It is commonly accepted that much of BRIC’s attention on Africa and now that SA has joined the club, is related to member countries securing natural resources. This has generated a debate around just how much of this interest is rooted in self interest amongst the member countries rather than the more noble international motivations.
In January 2007, workers from the largest textile mill in Zambia, Mulungushi Textiles, protested outside the Chinese embassy to demonstrate against ‘poor wages, mistreatment and the temporary closure of the plant that left 700 workers without pay’ (Asia News, 2 May 2007). This can be seen as an expression of “anti-Chinese sentiment” that was seen surfacing during the presidential campaign in 2006. Now that these two countries are part of the same BRICS club, what factors, if any, will change in terms of trade negotiations? Will there be less tension and a more cooperative approach? Whose interests will be met? In order to gain a deeper understanding, this paper will focus on the clothing and textile sector as a basis for analysing the tension that exist in the trade relations between SA and China. This sector will also be used as a platform to assess whether SA’s membership to BRICS positively impacted any trade relations from a trade policy and governance perspective. In conducting a case study, the researcher will begin by proving a brief overview of the clothing and textile industry in SA, examine some of the weaknesses inherent in the industry and provide an overview of the trade measures that have been implemented to address the “struggling” industry. An analysis of SA’s relations with China as another developing country and exporter of clothing and textiles will be explored, highlighting the legal issues involved.

**A Brief History of the Clothing and Textile Sector in SA**

Prior to 1994 that marked a change in government and an end to the apartheid regime, SA’s clothing and textile firms enjoyed protection against international competition for many years prior to liberalisation. Many of these firms failed to invest in technologies during this period. The industry has however been in rapid decline since SA’s reintegration into the international economy, post 1994. After SA joined the WTO in 1994 and open its trading doors to the international community, its clothing and textile industry proved to lack the vigour and skill for competing internationally. (Van der Westhuizen, 2006)

In the Uruguay Round of international trade negotiations and since the end of the Agreement on Clothing and Textiles in 2005, SA liberalised its import duties quite aggressively. This resulted in the move away from worldwide quotas in the clothing and textile sector leading to increased competition from low cost production stemming from the Far East, especially China.
Figure 1 below illustrates that Chinese imports of clothing accounted for just over 16% of clothing imports in 1996, yet by 2006, the share of South African clothing imports coming from China was well over 75%.

![Figure 1: Imports of HS 61 and HS 62 from China as a share of total South African imports in these lines](image)


Quotas

Statistics SA reported that in the period of 1995 to 2010, the clothing, textile and leather industry suffered more than 120 000 job losses. The main reason behind the dire straits of this sector was due to the increased influx of cheap textiles and clothing products mainly from China. As a result of this, the DTI introduced a quota system on Chinese import in 2007. The aim of the quota system was to curb imports and to encourage domestic manufacturing. The result of the quota system did not prove to be effective as the total number of imports into SA was not reduced. The quota system caused importers to replace Chinese imports with imports from other low cost producers in countries such as Vietnam and India. At the same time it prevented some local manufacturers from sourcing the textiles required for their manufacturing. Another adverse effect is that the quota systems lead to an increase in customs fraud, especially relating to illegal Chinese imports. Quantitative restrictions on imports of certain clothing and textiles from China have been shown to have failed to achieve its
intended outcome of boosting local production and employment. (Woolfrey, 2009) As a result, the quota system was phased out in 2008 despite resistance by some manufacturers.

The clothing and textile sector experienced difficulties prior to the 2008 recession; however the recession exacerbated the effects of the already struggling sector which resulted in many clothing and textile companies having to close their doors. The South African government had to step in and assist the sector and the Industrial Development Corporation (IDC) was tasked with implementing rescue packages to assist the sector from the effects of the credit freeze by commercial banks as a result of the recession. Companies did not have enough cash flow to continue day to day operations and the effect of this was liquidation of many clothing and textile firms. There have been several industry policy measures for example, skills development programmes in an attempt to assist the clothing and textile sector.

**Trade and Policy Matters relevant to the Clothing and Textile Industry**

The South African Clothing and Textile Workers Union (SACTWU) and others have focused much of their efforts on lobbying government to protect the local industry from cheap Chinese imports, and these efforts were recognised with the enforcement of quantitative restrictions in 2006 on certain clothing and textile lines from China.

The DTI’s National Industrial Policy Framework emphasises the importance of growth in non-traditional tradable goods, given the intensity of low-medium skilled labour. In the South African context this is particularly important given that the vast majority of unemployed people in the country lack skills to work in the formal sectors. The SA government sees the industry as a job creating one requiring low-medium skill and due to this potential sees the industry as one worth fighting for.

The WTO’s Agreement on Safeguards makes provision for countries to respond to a surge of imports if it is believed that the quantity of imports of goods cause, or threaten to cause serious harm to the domestic industry that purchase that goods. The response can take the form of either increased duties or quantitative restrictions. (Woolfrey, 2009) After SA’s unsuccessful experiment with quotas, the DTI proposed a temporary increase in duties rather than a quantitative restriction of clothing imports to be applied to all imports of targeted goods irrespective of the country of origin. This approach may be more “acceptable” to
member BRICS countries and developing countries as it is not as “protectionist” compared to an approach of raising tariffs.

2.9 What will be the impact of BRIC club membership for SA?

So now that SA and China are part of the same club, what does this mean for SA? Trade tension is still likely to exist and the question remains: how will this be resolved? Shaw (2007) contends that the BRICS countries can benefit from acting collectively and using their joint bargaining power to reform global institutions at the Doha Round for example, and to enhance international trade relations. But what is the position in respect of international relations amongst BRICS member countries? There seems to be a lack of a rules based dispensation that addresses how potential conflict should be managed. None of the BRICS member countries have signed a legally binding agreement that sets out a governance framework in the context of trade relations with each other. In addition, there is a void in respect of dispute resolution mechanisms outside the ambit of the WTO discipline.

Since becoming a member of the BRICS grouping, SA and China have not entered into any legally binding agreement that could address the issues raised above. SA may benefit from more substantive informal engagement with China, but without a binding legal and / or policy instrument that governs the international relations, including relations specific to the clothing and textile industry, what benefits will there be for SA being a part of the BRICS club? The researcher will further explore the question as what has changed from a governance trade policy perspective now that SA has joined the BRICS club.

The researcher will explore whether increasing tariffs on clothing imports, in addition to the political and economic costs that would result in such a decision, would be of any benefit to the local clothing and textile industry and to SA as a whole. Increasing import tariffs are also likely to result in disgruntled BRICS member countries which seems counteractive and against the spirit of member countries working together to negotiate positive international relations. If a viable future for the industry is to be achieved, should government rather focus on safeguards and being committed to providing the industry with programmes such as skills development to enhance operations? Woolfrey (2009:2) commented that not only are safeguards inherently temporary and conditional, thereby forcing the local industry to
undertake much needed restructuring, they are also likely to be much better received by the international community than an increase in tariffs.

The researcher will examine the idea of SA and China taking more political steps (starting with trade negotiations) towards the conclusion of a more comprehensive and legally binding trade agreement. This will require a closer analysis of whether this would benefit both countries to deepen and consolidate their commitment to a better co-operation, for both general trade relations and trade relations specific to the clothing and textile industry. A further analysis will be conducted relating to possible concessions that these countries may have to make. It is difficult to predict what this might be, one can imagine that such a scenario may reinforce the trade-off whereby clothing producers gain at the expense of other actors in the SA economy. (Woolfrey, 2009)

The recent MoU signed between SA and China appears to be more general and is silent on a legal instrument to govern the international relations between the countries. The fall-back position is the rules of the WTO with SA and China being active members. However, this has been the position prior to SA joining the BRICS grouping. Again, this begs the questions of whether SA’s membership to BRICS has served to create any additional governance mechanisms to facilitate trade relations between these two countries. This aspect will be further explored and recommendations will be made at a later stage.

2.10 Literature Review Conclusion

A change in the key aspects of global economic governance and international landscape seems inevitable and with it new challenges will arise for policy-makers. Innovative and interdisciplinary responses for the conceptualisation of the BRICS emergence are therefore imperative.

Africa and particularly SA has been under the spot light recently, not only in light of competition for its resources, but also as a growing market in the international trade arena. This shift in how the world now views Africa requires strategic responses from African government. (Hartzenberg, 2011)
This paper will elaborate on whether the problems that exist within the clothing and textile industry prior to SA joining the BRIC countries remain unchanged now that SA is a member of the BRICS club. Even though the BRICS member countries, with Russia anticipated to be a member by 2012, are members of the WTO, the rules of the WTO do not address how potential conflicts outside of the WTO discipline will be resolved. Bilateral and regional trade agreements may set out dispute resolution mechanisms, but the BRICS member countries to date have not entered into any legally binding agreement.

SA stands to benefit from the potential preferential trade pacts and economic cooperation agreements that may be concluded with BRIC countries, whose combined population of 2.5 billion people shares an estimated annual gross domestic product of more than US$9 trillion. (Redebe, 2010) However, without a legal instrument to encourage transparency and a clear governance framework, tension between member countries as evidenced by the clothing and textile sector will remain without guidelines on resolution of potential conflict.

It has also been contended that SA joining the BRIC countries may positively favour trade and foreign interest in SA and also shape international relations across the various industries in SA, including the clothing and textile sector. (Radebe, 2010) One way that SA may benefit is from further direct foreign investment from BRIC member countries as seen in the case of China. The researcher will conduct a further analysis of whether these investments can be used as spin off in “struggling industries” such as the clothing and textile industry by building capabilities in the industry through skills development programmes for example.

In conclusion to this literature review, it is hoped that a brief overview has been given of those areas, theories and terms which are likely to contribute to the researcher’s understanding of the data gathered as well as to the development of research findings and recommendations.

3. Research Methodology

3.1 Research approach and strategy

The proposed research will have an inductive, qualitative approach. An inductive approach is particularly suitable for this research because such an approach emphasises: a close
understanding of the research context; the collection of qualitative data; a realisation that the researcher is part of the research process; and is less concerned with the need to generalise (Saunders, Lewis, and Thornhill, 2009). Thus given the above explanation of the planned research and the goal to better understand, not measure, what impact SA’s membership to BRIC countries will have on its clothing and textile sector: A focus on governance and trade policy issues, these characteristics of an inductive approach are very fitting.

In understanding that the researcher is part of the research process, it is important that reflexivity exists in that the researcher bears in mind, when analysing the data, how she may be influencing the research. With regard to the qualitative aspect of the approach, because the researcher seeks to understand secondary data, qualitative methodology is ideal. According to Fenwick:

“Using relatively small samples, qualitative methods seek not so much to establish patterns that can be generalized to broad populations but rather to probe the details, ambiguities and nuances that individuals’ narratives often reveal – the kinds of information that can be lost in larger survey questions or aggregated into categories that may obscure important particularities. “
(Fenwick, 2010, p.115).

3.2 Research design, data collection methods and research instruments

Research design

The research design of this research is a case study. A case study identifies a single event, or company, or phenomenon. In exploring the research question as to what impact will SA’s membership to BRIC countries have on its clothing and textile sector: A focus on governance and trade policy issues - the clothing and textile industry will be analysed and researched as a case study to narrow the researcher’s focus and to better understand the outcome to the research question.

The appropriateness of the selected research design is also influenced by the methods that have been chosen to answer the research sub-questions. The sub questions, for example, ‘trade issues and policy’ will be qualitative in nature. SA’s membership to the BRIC countries is a very recent development and as such it is likely that there will be insufficient quantitative data on the trade effects on SA post membership to the BRIC countries. “When little
information exists on a topic, when variables are unknown, when a relevant theory base is inadequate or missing, a qualitative study can help design what is important.” (Leedy and Ormrod, 2005, p 134) A detailed understanding of the research problem can be better understood from a qualitative research approach. A qualitative research approach allows one to obtain a certain amount of insight into complex settings without enabling the researcher to predict what those settings are (and thus influencing the outcome of the research) before the research commences. (Denzin, 2000)

Methodology in a qualitative study can continue to evolve over the course of the analysis of the research subject matter. For example, new trade agreements between BRICS member countries may be signed which may shed some new light on the research area. The researcher will take any potential changes that may impact the research findings into account and will note this in the research. Minor changes that do not have an impact on the research and that is unlikely to significantly affect the study may not be taken into account.

Data collection methods

The main data collection method will be done through secondary data collection. The main aim of such an exercise is to obtain detailed information that relates to the main questions of the study:

- Definition and characteristics of emerging markets
- BRIC emerging markets: SA’s invitation to join BRIC
- A focus on SA and China
- Challenges for SA
- Governance matters
- Trade issues and policy
- China’s impact on SA’s clothing and textile sector
- What will be the impact of BRIC club membership for SA?

The researcher will make extensive use of books, journal articles, periodicals, electronic sources, media reviews and any other relevant literature.
The population for the case study of China’s impact on the South African clothing and textile industry will be the SA clothing and textile industry and relevant stakeholders such as the DTI, policy-makers and unions.

3.3 Data analysis methods

The method of data analysis to be used will mainly follow Leedy and Ormrod’s (2005) approach of breaking down and sorting a large body of information into a smaller set of abstract, underlying themes.

The large body of information will come from secondary data obtained, including archive information, books, journal articles, media releases, corporate reports, newspaper articles and information obtained from the World Wide Web.

3.4 Limitations

Limitations in terms of time will mean that priority will be afforded to the main research questions. A deeper analysis into related dynamics will be explored although an in-depth analysis may not be carried out, unless there is time available to engage in additional research.
4. Research Findings

The global economy will be dominated by emerging market economies, particularly the fastest growing emerging market economies-BRICS.

Analysts have highlighted the shift in dominant players in the global economy from the Western powers to the rise of the emerging market economies and their growing influence on the global economy. Emerging market economies accounted for about half of global economic growth between 2000 and 2008 and are expected to account for 61% in 2014. (Lund, 2010) Some commentators argue that this “rise of the rest” is a transformative shift in the distribution of global power. (Zakaria, 2008) It is further found that these emerging markets seek to be more assertive and a reorientation of power towards multi-polarity exists. These countries have demanded a new set of international norms, equitable representation and a new trade agenda in the multilateral arena. (Shaw, 2009) This finding is significant in that it points to the transformative period that we are in and to the fact that the world is in a state of flux, thereby presenting both challenges and opportunities for emerging markets and the rest of the world.

China’s footprint into Africa has been met with ambivalence from both the local and international community.

Chinese push into Africa is in part driven by China’s need to find oil and industrial raw materials to feed its resource-guzzling and world’s fastest growing economy. (Hazelhurst, 2010) China’s presence in Africa has been met with mixed responses. For most parts, African government officials have been positive about China’s FDI in exchange for resources. This has been viewed as a positive step towards the countries’ growth and development especially since FDI is used to improve African countries’ infrastructure which has been identified as one of SA’s key challenges. On the contrary, there has been growing resentment towards Chinese business practices on the continent and arguments that China is a predator in aggressively and strategically ensuring that it secures oil and resources at the expense of poor labour, environmental and socio-political practices in Africa.

The international community’s concerns about the Chinese presence in Africa range from preserving normative ideals such as the protection of human rights, political freedoms and the
environment to fears about diminishing Western political and material influence in Africa. As with the local responses, international views are mixed, although there is preponderance of a negative perception about Chinese activities in Africa. China has been portrayed as exercising “irresponsible global leadership” because of its resource, particularly oil, security interests. China has furthermore been accused of hiding behind a commitment to a non-interference policy to pursue a “predatory” foreign policy in Africa, “grabbing” Africa’s resources without any “moral scruples” about the conflicts that plague many countries in the region.

China’s relationship with South (Africa) is particularly significant seeing that it was China who formally invited SA to become a member of the BRIC’s grouping on 10 December 2010.

Governance: There is a lack of rules-based governance among the BRICS countries, specifically between SA and China

There have not been any enhancements from a trade policy and governance perspective since the advent of SA becoming a member of the BRIC group of countries. Even though the BRICS member countries (with Russia anticipated to be a member of the WTO by early 2012) are members of the WTO, the rules of the WTO do not necessarily address how potential conflict between member countries should be resolved. This is due the fact that only disciplines covered by the WTO will form part of the WTO’s Dispute Settlement Understanding (DSU). Any agreement entered into between the BRICS countries outside of the WTO framework will not be covered by the DSU. This therefore presents a governance gap in respect of issues that fall outside the ambit of matters within the WTO. It is important to note that bilateral and regional trade agreements may well address dispute resolution mechanisms; however, there is no such legally enforceable agreement between the BRICS member countries. Without a legally binding instrument, BRICS member countries are left without clear governance guidelines for issues outside the realm of the WTO. It is further found that China’s trade relationship with Africa seems to be based on a best endeavour approach without a legally binding framework governing the relationship. This is evidenced by the recent MoU signed in August 2010 that was silent on a legally binding agreement.
After SA’s membership to the BRICS grouping, there has been no improvement to the clothing and textile sector from a trade policy and governance perspective

The South African government intends to revitalize the textile and clothing sectors to assist the government in its endeavour to create a medium to long-term strategy composition of SA’s textile and clothing sector. The aim is to improve the competitiveness of the industry and to boost its export performance through a best practice support scheme and an adequate legal framework. (Van der Merwe, 2011). Despite SA and China being part of the same BRICS grouping, competition between these two countries will continue, particularly in the clothing and textile sector where China is likely to continue to focus on their export strategy whilst SA will be focussed on uplifting the sector and curbing cheap imports, especially from China. This begs the question as to how conflicts will be managed in the absence of a legal instrument dealing with how trade relations between the two nations will proceed, especially in the case of a dispute.

This finding is significant because now that SA and China are part of the same BRICS club, and given the countries’ diplomacy efforts in order to foster good trade relations, there is uncertainty as to how future trade policy and agreements relating to this sector will be negotiated.

5. Research Analysis and Discussions

5.1 The change in world’s geo-political landscape

The rise of emerging markets with political institutions, social values, and income levels that are very different from those of advanced countries that have dominated the global economy over the past century has immense implications for international economic cooperation, environment, political relationships, and world trade. (Dadush & Shaw, 2011) It can therefore be argued that we are living in a transformative period in history.

Analysts have forecasted huge shifts in global trade. Emerging markets will dominate the world trading system, with their share of trade rising from less than one-third today to nearly 70 percent by 2050. (Dadush & Shaw, 2011) It is further forecasted that China will account for a quarter of global trade, or more than three times the USA share. China is also expected to dominate bilateral trading relationships—its share of USA trade, for example, is expected
to rise from less than 10 percent in 2006 to 30 per cent in 2050. (Dadush & Shaw, 2011) One therefore has to question what will be the legal framework that will govern these bilateral trade arrangements. Whether this dramatic change in power can be accomplished without conflict is a major question and the author is of the view that much will turn on the governance framework of these trade relations.

This notable changing geo-political landscape is further punctuated by the current matter of the European bailout fund. The head of the European Financial Stability Facility (EFSF), Klaus Regling, has turned to China for assistance and has made China his first fundraising stop for the Eurozone’s recently unveiled plan to raise $1.4 trillion to bolster weakened economies. Rein (2011) argues that the best thing China can do for the world’s economy is to continue to buy actual products from Europe and be cautious in rolling out money to ill-conceived plans. Rein (2011) further argues that buying products will help the region restructure economies and provide employment which is the key to any recovery. Until Europe’s politicians can prove to China that they have got their act together with detailed plans, China should not add much money into the fund. There is a rising scepticism that the fund is not a golden ticket that will bail out Europe and solve the world’s economic problems. Whether China will be Europe’s white knight remains to be seen but irrespective of China’s actions, the notable point remains: How the times have changed. Previous crises in the global economy saw those looking for solutions focussing only on developments in the core of the capitalist system, which until recent decades comprised of the USA, Britain, Germany, France, Japan and a few others. This focus on the developed world reflected half a millennium of steady Western ascent and eventual domination in the global economy. What is remarkable is the range of states now included among the key actors whose involvement in any potential solution to the crisis is deemed crucial. (Andreasson, 2011) The thought, even a few decades ago, that decisions made in developing nations would impact on the ability of major Western economies to solve their economic problems would seem far-fetched indeed. Never mind a suggestion that for any solution to be viable, the West would depend on the willingness of developing regions to lend their support in terms of substantial economic investment and signalling of their confidence in Western countries’ willingness and ability to actually implement drastic measures to rescue themselves. (Andreasson, 2011) It can therefore be seen that the world economy is in a considerable state of flux and this brings with it exciting opportunities as well as challenges and risks for economic players. This again emphasises the importance of having a good governance framework to manage associated challenges and risks.
Challenges facing SA

Trevor Manual, Chairperson of SA’s National Planning Commission released the National Development Plan (NDP) on 11 November 2011 which highlights the Commission’s vision for the country’s growth and development leading up to 2030. The Commission’s vision is to eliminate poverty and reduce inequalities as these are the two main challenges that the country faces and that affect many other areas. To achieve the 2030 objective, the NDP focuses on the challenges and opportunities in the economy, including employment; economic infrastructure; the transition to a low carbon economy; involving and uplifting rural communities; SA’s position in global and regional integration; education, innovation and training, promoting health and social protection and addressing corruption.

The NDP identifies the following trade challenges which must be addressed to increase SA’s role and position in the world trading system:

- Africa has the weakest infrastructure in the world. On average electricity costs are approximately double the cost in other developing countries. The largest infrastructural gap is in energy, 30 out of the 47 countries in sub-Saharan Africa experience regular power shortages and interruptions. Various structural weaknesses SA needs to overcome include: poor transport links and infrastructure networks; tariffs and non-tariff barriers which increase the cost of doing business and hinder investment and internal trade, and weak legal institutions and poor governance increasing the risks of investing. SA is a member of SADC which also faces significant challenges, including infrastructure deficiencies, non-tariff barriers to trade and inefficient governance.

- Intra-Africa trade is among the lowest in the world. Approximately 10 percent of African trade is within the continent, compared to approximately 40 percent and 60 percent in North America and Western Europe, respectively. Intra-SADC trade is also very limited with most countries trading with SA. Less than 6 percent of SA’s merchandise imports are from other SADC countries, while more than 18 percent of SA’s merchandise exports are to other SADC members. (Viljoen, 2011)

The NDP highlights the following actions in order to address these challenges:

- One of the key goals of the NDP is to increase intra-regional trade in Southern Africa from 7 percent to 25 percent of trade and SA’s trade with its regional neighbours from
15 percent to 30 percent of South African trade by 2030. To reach these goals the focus is on: (i) focused trade penetration and diplomatic presence in the fast-growing markets, including Asia and Brazil; (ii) a focused regional integration strategy which emphasise road, rail and port infrastructure in the region, reducing transport logistic costs, the reduction of red tape, corruption and delays at the borders and using financial institutions to partner with businesses wanting to expand on the continent; and (iii) the development of regional markets for food, energy and water.

5.2 Mixed Reactions to China’s Presence in and Relationship with South (Africa)

Throughout diplomatic processes like the FOCAC initiated in 2000, China has increasingly co-ordinated its development engagement with Africa.

One way of viewing China’s relationship with Africa is to see China as offering a surprising bargain to many African countries today. This bargain says: your country has ample riches, but you’re not using them to your advantage. You can leverage what you have and what we want oil and resources for example, and use these resources to secure finance to develop infrastructure and build hydropower, telecoms, and rural electrification projects you believe to be necessary for your country’s development and modernisation. (Brautigam, 2011) China has been seen as Africa’s donor when Western traditional donors have stepped back, unwilling to invest in “risky” Africa. Foreign aid and business engagement from the West has not, on the whole, been very successful in raising standards of living in Africa or fostering growth and employment. A survey of African stakeholders carried out in 40 African countries by the OECD for the African Economic Outlook 2011 found that emerging partners such as China were ranked as having a comparative advantage for cooperation in infrastructure, innovation, and even health compared with Africa’s traditional bilateral and multilateral partners. (Reisen, 2011)

However critics of China’s trade relations argue that the rising giant is replicating the behaviour of the original colonising powers in Africa, extracting resources in operations that do little to develop the countries involved. A further criticism is that in a country where the manufacturing sector has been shrinking over the past two decades, cheaply produced Chinese imports are seen as a huge threat.
Trade deficit

Martyn Davies (2010) noted that China’s economy, worth an estimated $4.3 trillion (R31.9 trillion) in 2009, represented 8 percent of combined global GDP and he predicted it could surpass the US economy within fifteen years. He further noted that there had been “political tensions” around SA’s trade deficit - the gap between revenue from exports of goods and services and the import bill with China. And to remedy the situation the Chinese government “is actively buying more from SA”. According to SARS, the deficit fell to R18bn in 2010 from R36bn in 2008. It has been highlighted by Hazelhurst (2010) that the current account deficit was equal to 3.3 percent of gross domestic product in the second quarter of 2010. At its peak in 2008, it was at 7.1 percent. Three percent is generally accepted as a ceiling for a sustainable deficit. However, without strong export flows the current account deficit would be larger, and without investment it would be harder to finance the shortfall – which would seriously inhibit SA’s ability to grow.

It is interesting to note that China imported US$21.1bn worth of goods from Africa while it exported US$18.7 billion, showing a deficit of US$2.4bn in its trade with Africa. Chinese officials point to this as indication of its commitment to helping generate surplus revenue to finance African development. But the deficit may largely be explained by China’s voracious energy consumption and its emerging dependence on Africa’s resources. Apart from a few very resource-rich countries, the majority of African countries have “mounting trade deficits” with China. Chinese exports to Africa also grew by nearly 300 per cent from 2003 to 2005. Sino-African trade is expected to reach US$100bn by 2010. (Terence, 2011)

*Economic Transformation: South (Africa) and China*

There is a stark contrast in economic transformation between China and Africa. Over the past three decades, economic transformation has underpinned the dynamic growth of many Asian economies, particularly China, where diversification has generally been driven by industrialisation, and an export-led growth strategy. In contrast, Africa’s lack of economic transformation and diversification is well-known. The continent has been lagging by all measures and accounts in diversification indicators in comparison to its developing country peers. The UN’s Economic Commission for Africa in 2007 described the diversification process that has characterised the continent over the last few decades as a “slow and volatile”
Africa’s export profile strongly reflects its natural resource comparative advantage. More than 90% of US imports and around 90% of Chinese imports from Africa are dominated by mineral fuels and precious metals or other materials in raw form, as illustrated in Table 2. Manufacturing exports are notably absent from Africa’s trading profile. However, even this limited presence of Africa in export markets is increasingly facing Chinese and other Asian competition. Chinese competition is becoming more heightened in third markets, especially in the clothing sector. This is despite having tariff preferences into the US market, and at the same time as China being faced with quota and other constraints. While there is argument that cheaper Chinese exports are creating gains for African consumers, these are also putting considerable pressure on Africa’s domestic manufacturing capabilities – pressure which the continent is often not able to handle. The dominance of China in the world markets and continued pressure on imports is making it harder for the continent to diversify away from its natural resources-based export profile.

(Edinger & Sandrey, 2010)

Table 2: China’s imports from Africa; and US imports from Africa, 2008
(US$bn and % share)

<table>
<thead>
<tr>
<th>HS Sections</th>
<th>China from Africa</th>
<th>US from Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total US$bn</td>
<td>55,883</td>
<td>113,520</td>
</tr>
<tr>
<td>Mineral fuels</td>
<td>83.9%</td>
<td>86.1%</td>
</tr>
<tr>
<td>Precious metal</td>
<td>3.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Textiles &amp; articles</td>
<td>0.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Transport</td>
<td>0.0%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Base metals</td>
<td>4.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.7%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Prepared food</td>
<td>0.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Machinery &amp; electrical</td>
<td>0.7%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Special</td>
<td>0.3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Vegetable fruit</td>
<td>2.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Plastics &amp; rubber</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Wood</td>
<td>1.8%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Animal product</td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Pulp &amp; paper</td>
<td>0.1%</td>
<td>0.0%</td>
</tr>
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A particular problem for Africa continues to be the cyclicality of commodity prices and many countries remain unable to deal with the boom-bust scenarios. In fact, since the 1700s,
commodity prices have displayed greater volatility than prices of manufactured exports. The dependence of primary commodity producing economies on these exports and complementing lack of economic diversification have adversely impacted resource exporters in the long term, with boom-bust cycles impacting on the countries’ growth trajectories, as price volatility discourages and even hinders much needed private investment. (Edinger & Sandrey, 2010) Another area where China could assist in the diversification of African manufacturing exports into China is in tariff preferences. Currently, except for raw cotton (with a duty of about 40%) and some manufacturing products exported from SA, Africa has an already almost duty-free tariff access into China, given its export profile of largely resource exports. China has trade preferences for some 440 products of 30 African least-developed countries (LDCs) in place – products which have duty-free access into China. At the fourth FOCAC summit in November 2009, it was announced that by 2012, this duty-free access would be extended to 95% of all products. While economic benefits for Africa of this duty-free access on 440 products has been limited, this announcement points towards China looking to extend the scheme to a much broader range of products, and potentially even considering, in future, a duty-free and quote-free access policy. Such liberalisation to trade could be argued to be a true win-win situation and could result in further cementing China’s economic and trade ties with Africa, with the continent enjoying an additional stimulus to access the Chinese market for manufactured products in particular. However, the supply-side constraints in Africa, and restrictive Chinese non-tariff barriers, such as rules of origin, may well undermine the full potential of such an agreement for Africa. (Dubbelman, 2011)

South (Africa’s) Growth

Within the last decade, Africa managed to sustain steady growth mainly driven by the demand for raw materials and oil. Figure 2 below shows that Africa as a developing country has grown above the world average and faster than Latin America since 2002. (Dubbelman, 2011)
The IMF predicts that 19 African countries would enjoy economic growth rates ranging from 6.0 to 8.5 per cent over the next two years. With these growth rates, the collective GDP of African countries is expected to rise to $2.6 trillion by 2020, from $1.6 trillion in 2008. (Komolafe, 2011) Given Africa’s growth rate, it is no surprise that SA has been affiliated with the BRIC’s grouping of powerful emerging economies. It can therefore be argued that the country is recognised as a developing economy of significance in its own right and also as the gateway to the continent of Africa.

**China’s Growth and how this has impacted on its Relationship with Africa**

China has showed phenomenal growth by an average of 9 percent per annum over the last 25 years which has been reported as the fastest growth rate for any major economy in recorded history. (Burke & Corkin, 2006) It has been reported that China’s growth rate could reach a high of 13% per annum. Industrial output and production has also increased by almost 50% creating overproduction in sectors such as the clothing and textile sector. (Dadush et al, 2011)

This rapid expansion has created the need for energy and raw materials from import markets such as Africa and export markets for Chinese manufacturers. It is not surprising that China will therefore continue to focus on increasing export volumes in their clothing and textile and other sectors.
Figure 3 below shows the significant increase in Sino-Africa trade volume which is expected to continue to increase.

![China-Africa Trade Volumes](image)

**Figure 3 China-Africa Trade Volumes**  
*Source: (Arkhurst & Laing, 2006)*

By asserting itself as a leader of the developing world, China promotes the interests of African and other countries in the UN, including supporting the expansion of the permanent membership of the UN Security Council to include an African country. In return, China counts on the support of African countries for Chinese foreign policy interests in the UN and Asia. Susan Rice, a former Senior Policy Advisor on Africa in the Clinton administration and currently foreign policy strategist with the Brookings Institution, has said that because of its vast resources, Africa cannot be ignored by countries concerned about resource security. While it is the poorest region in the world, Africa is one of the fastest growing telecommunications markets in the world and Chinese telecommunications companies, as well as Chinese companies in other sectors, are proving “fortune at the bottom of the pyramid” to be true. It can be said that China has helped countries like Africa who have been neglected by Western donors. For Africa’s traditional partners, there is still an opportunity to raise their economic profile in Africa in their own self-interest and for Africa’s good. Already, Chinese companies are cooperating with a number of Western and Asian oil giants like Chevron Corp, Royal Dutch Shell, Malaysia’s Petronas and India’s ONGC in African countries in spite of frequent fierce competition amongst them for African oil assets. The frequent accusations of Chinese predation in Africa may therefore not always be accurate. It
can the therefore be argued that the Chinese have learned to compete as well as to collaborate and their aggressive push into Africa does not necessarily constitute a foul game. Investments particularly in infrastructure, creates an opportunity for traditional development partners to focus on their mission to end global poverty. For Africa’s traditional donors, it is time to engage China as a major player in designing the rules of global economic governance and to review aid conditions to identify what does and does not work for African development in order to continue to remain influential and credible in Africa. (Arkhurst & Laing, 2006)

Arkhurst & Laing, J. (2006) contend that there are three main aspects to China’s strategy in Africa. 1) Chinese officials use public diplomacy such as high-powered visits as seen with FOCAC, to deepen relations with African elites. It is clear that China seeks to build solidarity with African governments. 2) China pledges large amounts of investments and aid in Africa’s infrastructure and other sectors. 3) China uses aid donations to encourage Chinese companies to internationalise and acquire overseas assets, such as oil related assets in Africa.

One point of view is that China should be left alone to forge their unique relationship with African countries and the West should simply learn to compete. Implicit with this viewpoint is a warning that the West no longer has a monopoly over development ideas, practice and funds. China, and with it the rest of the BRICS and other emerging market countries will be speaking their own language which the rest of the world will have to learn. This brings one back to the point that China-Africa and other emerging market economies should play an active role in policy formation in international institutions such as the IMF and WTO in order to have their “voice” heard.

5.3 Local Response to Chinese Presence

China Helps Countries Neglected by the West

The Chinese government and companies have showed that they are prepared to invest in high-risk countries that are affected by conflict such as Sierra Leone. This results in the population being grateful to see new schools, roads, stadiums etc. being developed. By financing a range of projects from infrastructure to education, the Chinese have won the trust of large parts of the population and policy-makers in a number of conflict-ridden and post-conflict countries where government-backed Chinese firms operate (Arkhurst & Laing, 2006)
encourage Africa seeing China as a leader in the representation of emerging market economies and also that China is supporting member BRICS countries.

**China’s Aid to Africa is Beneficial for Development**

Whereas China poses as a competitor to certain industries on the continent, specifically in third markets, perhaps undermining further diversification in those sectors, the country also provides opportunities for manufacturing development. This probably comes at least partially as a result of buying “goodwill” on the continent, in exchange for securing access to natural resources. The rollout of large-scale transport and power infrastructure specifically, as well as proposed investments in key manufacturing hubs on the continent demonstrates this. (Edinger & Sandrey, 2010)

Greater Chinese investments in Africa’s infrastructure requirements pose opportunities for private sector development. Chinese funding in particular has been directed at hydropower and transport projects, which has positive consequences for the domestic industrial productivity, cross-border trade and connectivity to global markets. This plays a potentially vital role in the economic diversification efforts of African countries. Firstly, the provision of infrastructure can promote further investment as greater capacity and support will be evident to access markets and allow for sustainable productivity. Secondly, local production will be supported and promoted through access to infrastructural needs. Both local productivity and international investment will be enhanced as the cost of doing business and or transaction costs will decrease through greater capacity resulting from increased infrastructure provision in areas such as transport and telecommunications.

China has pledged continuing development assistance and government-backed FDI to African countries. By December 2006, China had given over US$5.5bn in aid to African countries. At 2006 Summit of the FOCAC, China pledged to double aid to Africa by 2009. Major investments continued. Hannah Edinger, the head of research at Frontier Advisory, said the stock of China’s FDI in SA reached $4.2 billion (R33.5bn) by the end of 2010. FDI flows during 2011 were $411.17m. China’s aid to Africa cannot go unnoticed and this aid focussed on two main areas: infrastructure and human development. (Arkhurst & Laing, 2006)
Figure 4 below shows a geographical distribution of China’s Foreign Aid Funds in 2009. It can be seen that the largest percentage was dedicated to Africa.

Graph shows figures of geographical distribution of China's foreign aid funds in 2009, according to a white paper on China's foreign aid issued by China's Information Office of State Council on April 21, 2011. (Xinhua/China's Information Office of State Council)

China’s footprint into Africa seems to be deepening and now with SA being a member of the BRIC’s grouping, China appears to be focussed on continuing FDI inflows to SA. This is evidenced by the fact that FDI inflows to SA rose to R17.3 billion in the first six months of 2011, which was nearly three times higher than the amount recorded in the first half of 2010. (Terence, 2011) Ironically, though, the bulk of that FDI was likely to be attributed to Wal-Mart’s acquisition of a large interest in Massmart, which was the subject of a Competition Appeal Court hearing brought by three government departments, which believe the conditions on the transaction were too lenient.

China’s aid is especially welcomed given that infrastructure within Africa is one of the country’s main challenges in doing business with the rest of the world. Infrastructure development and China’s assistance in this regard favours South African policy objectives to enhance the country’s infrastructure which facilitates better trade.

The recent announcement by ratings agency Moody’s that SA’s local and foreign currency government debt ratings outlook has been downgraded from stable to negative may have an adverse effect on investor confidence in SA thereby reducing FDI. The agency said the downgrade was a reflection of concerns about heightened political risk in the context of increasingly constrained public finances. The primary driver was the concern over the rising
popular pressure to ease fiscal policy and address growing levels of poverty and unemployment. In addition, there is little doubt that tensions within the ANC caused by the looming leadership battle have trickled over into the public arena, and that this is starting to have a direct effect on foreign investor sentiment towards SA.

We cannot ignore the effect that the downgrade of SA’s outlook will have on investor confidence. The impact of the rating downgrade is also significant because government will immediately be charged more interest on its borrowings which in turn means that it will have less to spend on new hospitals, schools and roads. Moody’s is particularly concerned about SA’s political landscape. In its statement, the ratings agency said the political commitment to low budget deficits and the government's ability to keep within its current debt targets could be undermined by socio-political pressures. (Planting, 2011) Politically, high sovereign risk and bad governance will shy away investors which in turn means less FDI to ramp up struggling sectors like clothing and textile.

A question that remains open in respect of Chinese investments in Africa is just how conditional these investments are and whether SA is under pressure to accept a less than legally binding agreement.

*Chinese Business Practices in Africa*

As previously highlighted, China’s relationship with Africa has been critiqued, especially by the West, it has been contended that Chinese got hold of Africa in search for oil and resources and that China set up a huge aid programme, propping up governments in resource-rich, pariah states that the West is reluctant to touch. It has further been argued that Chinese companies bring in all their own workers and refuse to employ African citizens. (Brautigam, 2011) An opposing view is that China’s relationship with Africa is not predatory but rather a result of China entering into a strategic partnership with Africa with a long term view of doing business. Brautigam (2011) argues that in figuring out how to react to the rise of China in Africa, the West first needs to understand how Chinese engagements work and that “for too long we have been trying to force the square pegs of Chinese engagement into the round holes of familiar Western patterns.” (Brautigam, 2011, p. 4) Official development assistance is often thought of as the main currency for relations between Africa and the more developed world, China is often seen as doing the same, instead of seeing their aid as a relatively small part of a far broader and more strategic engagement.
Government officials have expressed positive views. Dr Situmbeko Musokotwane, the Zambian minister of finance at the IMF Annual meeting in April 2011 stated that China used aid and other tools vigorously to encourage its companies to invest in Africa. He said that this did not seem to be the case for Europe and America, whose aid programmes were more paternalistic and seemed to be designed as charity: “at least help them not to suffer, we can’t do much more than that-they are not ready for investment.” (Brautigam, 2011, p. 13)

Furthermore, Mthuli Ncube, the chief economist at the African Development Bank commented that the Chinese model is fascinating in terms of how aid is flowing into Africa and how infrastructure development is being conducted and supported. (Sandu, 2010)

China’s approach to development cooperation offers opportunities but also entails some risks. The benefits include lower transaction costs and emphasis on infrastructure development for example. The risks include the potential for higher costs when contracts are signed without competitive tenders, as well as the lower labour, social and environmental standards that come with a developing country partner, as opposed to a developed country. (Brautigam, 2011)

China has been applauded for its development assistance to Africa but there is an on-going concern about Chinese labour deployment in Africa, which limits opportunities for transfer of skills and technology. Deployment of Chinese labour in Africa reduces the potential positive effects of Chinese investments on household incomes in Africa which goes against the policy objectives set out by the South African government and has led to accusations of Chinese predation. Across Africa there is growing resentment about the environmental impact of Chinese activities and failure of Chinese companies to address them.

Irrespective of whether one views China’s relationship with Africa as having a positive or negative impact on Africa, the relationship needs to exist within a sound governance framework to facilitate good relations going forward. Without a legally binding instrument governing the relationship, there is much room for an abuse of power which may adversely affect Africa.
5.4 The South African Clothing and textile Sector

Matters relating to the South African clothing and textile sector highlight some of the unfavourable Chinese business practices in Africa as well as some of the challenges that SA faces in China’s dealings with Africa and also generally as a country.

Chinese imports, particularly of textiles, have been devastating competition for African firms using outdated technologies to produce for local markets. At the same time, some local businesses are partnering with Chinese companies or using new Chinese machinery and technical assistance to compete with Chinese imports in the region. However, the latter forms a small part of the positive effects of China on the clothing and textile sector. (Brautigam, 2011)

This section draws on trade data for the two years of quotas’ existence with the aim of showing the effects of the quotas in (1) reducing the surge of clothing and textile imports into SA and (2) stimulating production of textiles and clothing by South African manufacturers. The general effects of the quotas will also be considered. The analysis is an illustration of some of the economic effects of the quotas and whether this will be a viable option in the future especially given SA’s membership to the BRICS grouping.

South African Quotas on Chinese Clothing and Textiles

SA implemented quotas on imports of selected clothing and textile lines from China at the beginning of 2007. This was in response to major declines in production and associated employment losses in the domestic clothing and textile manufacturing industry. The decrease in production and employment was believed to be causally linked to persistently increasing imports of textiles and clothing from China. The originally envisaged two year implementation period for the quotas was concluded at the end of 2008. However, South African government approached their Chinese counterparts for an extension of these restrictions. The request was subsequently denied. (Van Eeden, 2009)

The quotas were imposed on 31 identified tariff lines classified under the broad clothing and textile categories. It should be noted that the quotas were not imposed on all clothing and textile lines entering SA from China – restrictions accounted for about 70% of clothing and textile imports from China (in value terms) when originally imposed. The quotas were
imposed by way of a negotiated settlement between governments of SA and China, set for an initial two year period (January 2007 to December 2008). Further extensions would have to be negotiated. The Chinese government was opposed to further extension of quotas and after China has invited SA into the BRIC’s grouping to which SA gladly accepted, it is difficult to imagine the revival of the quota system which would potentially leave China disgruntled thereby causing a strain on the countries’ trade relationship.

**International trade flows: economic effects of SA quotas**

South African imports of clothing and textiles from China increased dramatically between 2000 and 2006. This is shown in Figure 5 which plots imports of clothing and textiles within the 31 quota lines from China and the World (all exporting countries), respectively. It is also clear that the increase in South African imports of these clothing and textile lines were almost entirely driven by imports from China up to the end of 2006. Other important trends that should be clearly visible from Figure 5 include the following: the above average rise in imports in the fourth quarter of 2006; the sudden drop in imports from both China and the World at the beginning of 2007; the less than proportional drop in imports from the World compared to those from China; and the subsequent recovery of quota line imports in total from July 2007 onwards. (Van Eeden, 2009)

The identified trends can be explained by the following: Although the South African clothing and textile quotas were officially implemented at the beginning of 2007, importers were aware of imminent restrictions by the final quarter of 2006 and, as a result, stocked up on quota line imports before the quotas were officially implemented.
Similarly, the sudden drop in imports at the beginning of 2007 can be linked directly to the imposed quotas. Again, the decrease in South African imports can be linked almost entirely to a drop in imports from China.

The evident recovery of quota line imports into the South African market from July 2007 onwards can be attributed to the increased presence of clothing and textile imports from other low cost producing countries. Figure 6 contains real import data (deflated by the CPI for clothing and footwear) for the countries that showed the most pronounced increase in quota line exports to SA over this period. Particularly Bangladesh, Mauritius, Malaysia and Vietnam increased their imports up to 20 fold on a monthly basis compared to the period preceding the quotas. Increased imports from these countries has meant that total imports of clothing and textiles within the quota lines are now at a similar (or higher) level to what was witnessed before the start of the quota regime with an additional complication of a variety of low cost producers exporting to SA. This may have been an advantage for South African retailers as they had a variety of import sources to choose from, but placed domestic clothing and textile manufacturers under increased pressure for the same reason.
Figure 6: South African Imports of Clothing and Textiles in Quota Lines from Bangladesh, Mauritius, Malaysia and Vietnam, 2000 to 2008 (monthly)

Source: Quantec Research and SARB

Production and Employment

South African production and export data for the first two years of the quotas have also not produced favourable results. Statistics SA data from the Manufacturing, Productions and Sales Survey show that domestic production of clothing and textiles increased by 2.68% in 2007, but decreased again by 1.47% in 2008 (in real terms). Employment data show similarly poor results over the two year period. The December 2008 Quarterly Employment Statistics (QES) shows a decrease in manufacturing employment in 2008 of 35,000 jobs in addition to the 22,000 jobs lost in 2007 (December 2007 QES). In both instances, job losses in clothing manufacturing were listed as contributing to the overall decrease in manufacturing employment. This is reinforced by export data, contained in Figure 7. Real exports within the 31 quota lines, deflated by manufacturing PPI, are shown for the entire two year period. It is clear that export orientated production has shown no significant signs of improvement for the duration of the quota regime. (Van Eeden, 2009)
It was shown that while imports in the targeted lines from China dropped substantially due to the imposed quotas, importers compensated for this by way of substantially increased imports from China in the period leading up to the quotas and imports from other low cost producing countries for the duration of the quota restrictions. Furthermore, it was shown that output, employment and exports relating to domestic clothing and textile manufacturing did not produce the improvement hoped for over the two year implementation period. Of particular concern is the drop in employment in 2007 and 2008.

Given the apparent ineffectiveness of the quotas in both reducing the flow of low cost clothing and textile imports into SA and stimulating the domestic clothing and textile manufacturing industry, it does not seem like the answer to solving the many problems that the sector faces. Furthermore, given the established links with other low cost producing countries and Chinese refusal to extend the quota regime, it seems the South African clothing and textile manufacturing industry may now be under more pressure than before the two years of quota restrictions. Van Eeden (2009) highlights the fact that the latest data shows that domestic production of clothing and textiles were actually 10% lower during January and February 2009 than in the same period in 2008. This suggests that the industry’s position has deteriorated in spite of, or perhaps because of the implementation of the quotas. One therefore has to question the government’s rationale for wanting to extend the quotas, including any future indication of wanting to extend the quotas system.
New challenges for the South African Clothing and Textile industries in the Global Economy

Lack of competitiveness of the local clothing and textile sector

Manufacturing industries in SA have traditionally been protected from international competition by a number of government policies, including tariffs, quotas, and export incentives. However, when joining the WTO in 1994, SA committed to a gradual reduction of trade barriers and an opening of its markets. As a result, the firms in the clothing and textile industries know that to be successful in the future they will have to become more competitive in the international marketplace. Firms will need to have appropriate technology and operate with both technical and economic efficiency. However, the existence of scale economies will certainly assist firms in their efforts to increase their ability to compete internationally if they can grow their markets. Increases in the prices of domestic labour and domestic intermediate goods do seem to positively impact the demand for foreign intermediate goods for the clothing industry. Similarly, a change in the price of domestic labour appears to have a direct relationship with the quantity demanded of foreign intermediate goods in the textile industry. Kaplan (2004, p. 633) states that South African clothing exports have grown very slowly over the past ten years and that new investment in the industry has not been substantial. Both the clothing and textile industries need to find ways to increase their efficiency and, therefore, their international competitiveness. It is becoming more and more difficult to compete internationally solely on the basis of low wage rates, and there are other countries with lower wage rates than SA. Thus, these industries need to search for and exploit any opportunities for specialization in particular niches of production where they may have a comparative advantage. Some industry sources have argued that niche markets will not be sufficient to achieve the necessary scale economies for the industry to be competitive, and that mass is important and that the South African government take steps to make certain that the necessary infrastructure (for example, energy and transportation) is in place or developed to assist the industry in operating at competitive unit costs. Greater investments in human capital are important. Government may also wish to consider policies that would incentivise these industries to develop such internationally competitive specialisations and/or efficiencies so that growth of their exports becomes economically viable and introduce measures to limit industry imports. Nevertheless, past experience with inward-oriented policies in SA suggest that such policies will only impede progress toward
making domestic textile and clothing industries more internationally competitive. (Truett, 2010)

Illicit imports and customs abuse

Finance Minister Pravin Gordhan stated in the 2011 Budget Speech that a task team comprising representatives of the manufacturing, importing and retail industries, and a range of public sector stakeholders, would begin interventions across the entire supply chain to clamp down on illicit clothing and textiles imports.

In addition, SARS’ Customs division has expressed concerns about the extent of illegal imports particularly from China which impedes the development of the local clothing and textile sector. Customs is mandated with a statutory obligation to protect the country from illegal imports and to collect customs duty as defined in the Customs and Excise Act, no 91 of 1964. The Customs department towards the end of 2010 highlighted their efforts to combat smuggling and to enhance compliance and risk management within the clothing and textile sector.

Why might the clothing and textile sector be a key focus area in SARS? Clothing imports has one of the highest rates of duty at a 45% of the declared value and in addition the clothing industry has the highest potential for job creation with low barriers to entry. The industry is a government priority and the combating of customs fraud is one of the DTI’s core projects. Customs fraud may take the form of under-invoicing or undervaluation where an importer under declares the Customs value of an item that has a higher rate of duty. For example, clothing at 45% duty rate where an importer has declared a jeans at R10 and therefore paying a duty of R4.50 instead of declaring the jeans at R100 and paying R45 duty can massively influence the received price and ultimately this affects whether a local manufacturer can compete on price had the full duty been paid. Other forms of fraud that will not be elaborated on given the scope of this paper include: under-declaration of quantity; mis-declaration of country of origin and transit diversion.

It should be noted that Government efforts towards uplifting the clothing and textile sector is not enough, all stakeholders should work towards a cohesive approach to building the industry along with government. The importance of a sound governance framework, locally
and in respect of international relations is therefore deemed as essential for the development of this sector.

Attempts by the South African Government to assist the struggling clothing and textile sector

It is not surprising that the South African government is determined to uplift the ailing clothing and textile sector as it is considered vital to developing countries like SA as reflected in the NDP (2011).

For one thing, the clothing and textile sector is highly labour intensive and has played a critical role in keeping a significant number of households from desperate poverty situations (Van der Westhuizen, 2007). The demographics of SA reveals that a vast parentage of the population is unskilled and unemployed, particularly women. The clothing and textile industry has the propensity to employ low skilled workers, and particularly women thus working towards the country’s policy objectives of alleviating unemployment and decreasing poverty.

As part of governments attempt to step in and assist the struggling sector, the DTI, together with industry stakeholders, drafted a rescue package for the industry containing policy measures believed to assist the sector. Trade policy measures, included proposals to increase import duties on clothing, and to implement safeguards. (Woolfrey, 2009)

The imposition of protectionist trade measures such as the quotas by the South African government as detailed above highlights the difficulties involved in using trade measures to assist local industries and as noted by Woolfrey (2009). This provides a cautionary lesson that should be heeded when evaluating the use of other trade measures to achieve industrial policy aims. Despite the failure of the quotas, the South African government remains committed to assisting the industry, as evidenced by the rescue package that has been drafted to assist the industry. High wage costs, low skills and a lack of new technology all combine and result in the South African clothing and textile industry being far lower than in many other countries such as China and India.
The DTI’s draft rescue package, in addition to calling for an increase in tariffs to bound rates, also proposes a safeguard investigation, with the aim of implementing provisional temporary duties on clothing imports. (Woolfrey, 2009) In addition, the WTO’s Agreement on Safeguards makes provision for countries to respond to a surge in imports if it is determined that the goods are being imported in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry that produces those goods. This response can take the form of either increased duties (which can be above bound rates) or quantitative restrictions. After South Africa’s unsuccessful experiment with quotas it is unsurprising that the DTI is proposing a temporary increase in duties rather than a quantitative restriction of clothing imports. These increased duties would be applied to all imports of the targeted goods, regardless of their country of origin.

SA, being a member of the WTO would be able to apply safeguard duties for a period of up to four years, subject to a determination that such measures are necessary, and, importantly, that the domestic industry is making efforts to adjust to international competition. Woolfrey (2009) points out that an assessment of the trade measures proposed as part of the DTI’s Draft Rescue Package for the clothing and textile industry would benefit from the protection of temporary duties, but would be forced to make efforts at increasing their own efficiency and competitiveness, and would be aware that the protection afforded to them is only a temporary measure.

Some interesting legal questions may be raised in light of the MoU signed between the governments of SA and China in 2006. In the MoU, SA committed itself to not applying Article 16 of the Protocol on Accession of China to the World Trade Organisation which allows countries experiencing a potentially detrimental surge of imported goods from China to apply safeguard measures aimed at the imports of that good originating from China. At the same time China agreed to restrict the export of 31 clothing and textile lines to SA. Although SA waived its right to make use of these targeted safeguards, and thus cannot impose safeguard measures aimed only at Chinese clothing imports, the MoU made no reference to the WTO Agreement on Safeguards, and thus does not appear to stop SA from making use of safeguards under this agreement. (Woolfrey, 2009) In other words, it seems that China would not be exempt from these safeguards. Of course, any safeguard duties applied under this agreement would have to be levied on all clothing imports, not just on those from China.
The importance of having a binding legal instrument and a rules-based dispensation is highlighted in the following points: Firstly, can a MoU of this sort be classified as a binding international treaty? The MoU again demonstrates a “best-endeavour approach” as opposed to a legally binding document, there is much room for negotiation in respect of the weight that the MoU carries. Secondly, while the quotas which were in force until the end of 2008 have expired and have not been renewed, the MoU itself does not seem to have been terminated. The parties agreed that the MoU would remain in force unless ‘terminated through mutual consultation (SA, 2006). It appears then that SA is still committed to not applying safeguards in line with Article 16. If this commitment is still applicable and legally binding, it would appear that the only safeguard measures that SA can make use of are those contained in the WTO Agreement on Safeguards.

As noted by Woolfrey (2009), there are a number of reasons why applying safeguard measures to assist the local clothing and textile industry makes more sense than raising tariffs to bound levels. Safeguard measures allow for duties to be raised above bound levels, thereby affording quite substantial protection to the industry and the temporary nature of safeguards, and the fact that they can only be extended subject to efforts by the protected industry to adjust to international competition, means that these measures are likely to provide more drive for local reform efforts than an increase in tariffs. An important point to note is that safeguards are likely to be more acceptable by the international community than an increase in tariffs.

The complications of SA and China not having signed a legally binding agreement within the context of the clothing and textile sector, but rather a MoU signals a best endeavour approach that leaves much room for unanswered questions which in turn creates a governance issue.

**Small Steps towards a More Positive Outlook**

In a recent media release dated 10 October 2011, Tim Harris, DA Spokesperson on Trade & Industry (2011) reported that the special wage deal between the SACTWU and textile sector employers to lower the cost of employing new workers is already paying off.

A Cape Town-based manufacturer has announced plans to add 100 new staff to its operations, a 25% growth in personnel numbers for firm. This is an excellent sign, showing that creative
wage deals like this can lead to job creation. SACTWU has received favourable comments relating to this deal in the textile sector, which has been hit by job losses over the last decade. A large part of SA’s lack of competitiveness in this sector stems from the relatively high wages paid to unionised textile workers compared to the wages paid in China and or direct competitors in this market. Harris (2011) noted that with this wage deal, new workers will earn a lower salary than established workers, which solves two problems: the need for lower textile production costs and the need for greater job creation. This can therefore be seen as a win-win solution.

The magnitude of the challenges confronting the South African clothing and textiles industries are clear from the information presented above. The international environment is incredibly demanding, with the removal of quotas providing an entirely new operating framework for clothing and textiles manufacturers’ alike. Given intensive global competition and unfavourable domestic operating conditions for clothing and textiles manufacturers, it is perhaps not surprising that the industries have declined over the last few years. However, with the very significant employment it is also clear, however, that too many jobs and too many socio-economic factors reside in the two industries to give up on them.

5.5 Governance Matters:

This forecast of rapid growth and enormous shifts in trade regimes presents major challenges for the global trading system. Geopolitical tensions, reactions to climate change, financial crises and differing policy objectives arising from them could each trigger protectionist policies.

There has been growing African resentment against aspects of the Chinese presence on the continent. It can be argued that it is in China’s long-term interest to address negative aspects of its business and aid practices to avoid being in the spotlight of local politics and losing credibility as a responsible development partner. Arkhurst & Laing (2006) noted that the recent attack by more than 200 rebels of the Ogaden National Liberation Front on Chinese oil interests in Ethiopia is an example of what happens when the concerns of local stakeholders are not addressed by both government and foreign investors. The root cause of most uprisings in oil-rich Africa has been a combination of underdevelopment, official corruption, environmental damage and other conditions.
A major criticism of the prevailing international development regime is that conditional aid caused African governments to lack practical policy initiatives on the major challenges that confront the countries. One can imagine that Chinese aid without political strings may reduce Africa’s peonage in international system and encourage African governments to assert policy independence to initiate projects that address specific local development challenges. Arkhurst & Laing (2006) warns that the caveat is that this will happen only if aid without conditions is used primarily for developmental purposes. The history of African development does not suggest this is always the case. Critics argue that Chinese aid practices may be channelled towards bad political equity for unaccountable regimes and send some countries back into the dark eras. Philibert Afrika, Director of Operations Policies and Review Unit of the African Development Bank, cautions that Africa should avoid falling into another debt crisis in the long-term. While having many potential positive effects on African development, Chinese aid and investments could create an entrenchment of non-democratic regimes and increasing political assertiveness against Western donors and their reform demands. As history has shown, it is African growth and the population that suffer under such degenerate conditions. This highlights again the importance of a rules based dispensation to govern the relationship to some extent between SA and China and other BRICS member countries. In the absence of a sound legal instrument, the countries does not have a good governance structure to rely on and the WTO rules is not sufficient to guide resolution of potential disputes mainly because it does not deal with matters outside of the WTO discipline.

There are also suggestions that China is seeking to mobilise the 38 African members of the WTO to support a plan to bend the rules of global trade in its interest. Unlike in the UN Security Council, the World Bank and the IMF, members of the WTO have equal votes and no veto rights. With the support of Africa, the largest regional bloc in the WTO, China could have the power to effect, or even frustrate, trade in its favour.

International organisations such as the UN, IMF and the World Bank, have recognised the need for reform due to out-dated governance matters. The African governments need to take the initiative to evolve policy responses to the negative aspects of their relationship with China, including labour and environmental standards, by taking a leading role in setting the rules of engagement. Where there are adequate local regulations and demands on standards, Chinese companies play by the rules. Martyn Davies suggests environmental and labour
standards have not become a major concern in SA’s relations with China because there are strong local regulations on these issues in SA. An examination of the impact of environmental and labour matters is beyond the scope of this paper but the point that is worth noting is that adequate regulations and standards allows for better trade relations between countries. Strong civil society activism may also encourage the Chinese government and its companies to work with African governments to prevent possible negative consequences on local populations of Chinese operations.

It is anticipated that the growing economic influence of emerging markets will present new opportunities to expand and liberalise trade, but also pose new risks. In the midst of a rapidly-changing global economic order, the WTO must adapt its role and its tools if it is to stay relevant and help facilitate meaningful reform on trade. As more trade is encompassed by regional agreements, the WTO dispute settlement process may become less important. At the same time, the WTO should devote energy to determining how the complex web of bilateral and regional agreements can selectively and gradually be translated into a set of enforceable rules that can gain wider acceptance. Dadush & Shaw (2011) suggests that this should be done not by another comprehensive trade round, but rather gradually by urging universal adoption of reform measures that require only small steps. All of this would require strengthening the WTO secretariat to vigorously pursue a reform agenda. It can therefore be argued that with the toughest issues yet to be addressed such as the high levels of protectionism against manufactured imports in many emerging markets—global trading system urgently needs new leadership from the WTO. (Dadush & Shaw, 2011)

It is an important development that Russia will soon be a member of the WTO as this will bring all BRICS countries subject to the WTO rules. In acceding, Russia is making legally binding commitments to conform to WTO rules. Henceforth, it would be possible to scrutinise its foreign trade and investment regime. Similarly, it will also become possible for Russia to settle trade disputes with other WTO Members. Moreover, it will have a voice on how those rules are made and implemented. The question remains whether this important development fills the current governance gap in respect of trade issues between the BRICS member countries. The author is of the view that this important development is not enough. In the absence of the BRICS member countries signing a legally binding instrument in respect of their trade relations, any aspect beyond the ambit of the WTO rules is left in abeyance. Trade disputes that do not fall within the WTO discipline will not be subject to the WTO settlement
procedure. Member countries can enter into regional trade agreements but to date no legally binding agreement has been signed. The lack of a rules based dispensation and a sound governance framework leaves an uncertain environment for future trade relations between BRICS member countries. One can envisage that bad governance and weak institutions may shy away investor activities, together with weak industrial policies and frameworks. This in turn will have a negative effect on SA’s opportunities for growth and development.

The MoU between SA in China that was signed in 2006 and 2010 reflect a best-effort approach and does not reflect any commitment of signing a legally binding instrument. What happens in the event that either party does not uphold their commitment? Can SA be assured in the absence of legally binding consequences for potential breach of the MoU that China will deliver on what was agreed? There is no reassurance that this governance gap will not prove to be problematic in future dealings between these countries.

6. Research Limitations

This research is limited to the study of trade policy and governance issues between emerging market economies, particularly in respect of the BRICS grouping with a focus on SA and China. This research does not extend to international trade policy and governance issues between emerging market economies and developed states although aspects of the traditional framework in developed countries are covered.

7. Research Conclusions and Recommendations

This research paper illustrates that emerging market economies, have transformed into locomotives of the world economy. It is therefore no surprise that President Jacob Zuma has made an effort to get SA included in this “prestigious” grouping: the world's fastest-growing economies, which, according to Government, “offer a panacea to SA's intractable unemployment and poverty troubles”. (Lund, 2010)

A key aspect of this research highlighted that the challenge over the next decade given the significant transformation taking place in the global economy with the rise of the emerging economies will be how the international governance system evolves. It seems clear that the forecasted economic growth of emerging economies will have an impact at a national,
regional and global level. Thus a change in the key aspects of global economic governance, international architecture, and geo-politics seems inevitable and with it new challenges will arise for policy-makers and scholars.

Due to their rate of economic growth, trade potential and growing influence globally; these emerging powers are demanding that their voice be heard. An important conclusion is that without an effective governance framework in place to guide the BRICS countries through their international relations with each other, their potential to act as a collective emerging power speaking as one voice may be diluted.

It is concluded that trade policy and governance weaknesses may serve as barriers to more effective international trade relations amongst BRICS countries. It is further concluded that despite being a turbulent time in the international arena, in times of uncertainty and pressure, ideas for reform can be a powerful stake to help guide developments in institutional building. International organisations such as the UN, the IMF and the World Bank, have recognised the need for reform due to out-dated governance matters. It is envisaged that countries at some stage will start to increase the demand that the WTO develop more formalised governance structures to put it on par with other international organisations, making it more functional and efficient and to render it more accountable to all its members, including emerging economies. Furthermore, emerging markets should be afforded the opportunity to play a part in the design of new governance procedures for the international economic system, in the absence hereof, the very relevance and legitimacy of these institutions such as the WTO will be at risk. (Steger: 2010) It remains to be seen whether these international organisations responsible for governance matters will undergo the necessary reform to cater for today’s international landscape.

However, a response from international organisations is not enough as BRICS member countries may enter into their own agreements that fall outside the scope of the WTO and as a result will not be subject to the WTO framework. BRICS countries are becoming more active in negotiating agreements. These agreements may vary in scope and coverage but a growing number of them go beyond issues dealt with in the WTO. Texts of these agreements also tend to be less legalistic and less detailed than the USA and EU RTA’s. Whilst this may leave more room for subsequent negotiations, it may also prove to be a source of potential disputes. (Antkiewicz & Whalley, 2006) This can be further be seen from the MoU’s that SA and
China entered into in 2006 and 2010 which is rather general and is silent on a legal instrument to govern the international relations between these countries. These agreements should be based on a rules-based dispensation instead of a best–endeavour approach in order to prevent potential conflict in the event of either party not performing in terms of the agreement they entered into. In addition to being legally binding, these agreements should deal with a dispute settlement mechanism.

This is particularly important as businesses thrive in an environment of certainty; it is therefore recommended that policies, communications and public relations on trade and investment issues to be very clear and well documented. An important question that was explored as part of this research related to the impact of SA joining the BRIC’s countries from a governance and trade policy perspective. Since SA becoming a member of the BRIC’s grouping, these countries have not signed a legally binding agreement. The position prior to and after SA joining the BRICS grouping has not changed in respect of more clearly defined rules of engagement. This begs the questions of whether SA’s membership to BRICS has served to create any additional governance mechanisms to facilitate trade relations between these two countries. To date, there has been no improvement from a governance and trade policy perspective and it remains to be seen whether this situation will improve in the future.

While SA’s relationship with emerging economies (China in particular) is often defined by FDI into this country, now is an opportune time for local companies to grow their businesses in those markets, thanks to SA’s inclusion in the BRICS group of nations.

It is a common view that the increasing Chinese push into Africa is in part driven by China’s need to find oil and industrial raw materials to feed its resource-guzzling and world’s fastest growing economy. (Hazelhurst, 2010) This research presented the opposing arguments that China is a predator in Africa and contrary arguments that China is doing business in their own way and that the West must learn to accept it. The author contends that irrespective of whether China is viewed as noble in their aid to Africa and trade dealings with Africa, or whether China is engaging in bad business practices including offering conditional aid and thereby clouding governments policy initiatives-the effects in terms of governance and what needs to be done in order to ensure sound trade relations remain the same.

This research illustrated that BRICS countries also compete with one another in various spheres. An important consideration is therefore whether SA’s membership of the BRICS grouping will influence trade policy generally and particularly as it pertains to the clothing
and textile sector in which member countries, including SA and China, compete very actively. This is particularly important seeing that China invited SA to join the BRIC grouping. In addition, this relationship is important because SA and China have been developing relations for more than a decade, but the nature of these relations in respect of governance issues is questionable.

The clothing and textile sector mainly requires low-medium skilled labour. In the South African context this is important given that the vast majority of unemployed in the country lack skills to work in the formal sectors. The SA government sees the industry as a job creating one requiring low-medium skill and due to this potential sees the industry as one worth fighting for. SA’s foreign policy is aimed at asserting the link between domestic socio-economic objectives and SA’s international relations. For example, if jobs, poverty eradication and education are key priorities as set out in the NDP of November 2011, SA’s approach to its foreign relations should reflect this. Strengthening South-South relations, especially against the background of the developed world’s economic difficulties, is viewed as an important vehicle in this regard.

It can be concluded that tariffs on clothing imports, in addition to the political and economic costs that would result in such a decision, would be of any benefit to the local clothing and textile industry and to SA as a whole. Increasing import tariffs are also likely to result in disgruntled BRICS member countries which seems counteractive and against the spirit of member countries working together to negotiate positive international relations. If a viable future for the industry is to be achieved, it is recommended that government should rather focus on safeguards and being committed to providing the industry with programmes such as skills development to enhance operations. To better equip SA to be a global trade player, SA should be focusing on skills development and capacity building in the form of clear policy and governance frameworks. It is further recommended that African governments need to take the initiative to evolve policy responses to the negative aspects of their relationship with China, including labour and environmental standards, by taking a leading role in setting the rules of engagement.

Another recommendation is that SA and China take more political steps (starting with trade negotiations) towards the conclusion of a more comprehensive and legally binding trade agreement. This will require a closer analysis of whether this would benefit both countries to
deepen and consolidate their commitment to a better co-operation, for both general trade relations and trade relations specific to the clothing and textile industry. The countries should add to their trade negotiations agenda an analysis relating to possible concessions that these countries may have to make. It is difficult to predict what this might be, but one example may be the trade-off whereby clothing producers gain at the expense of other actors in the SA economy.

In answering the question of what impact will SA joining the BRIC countries have on its clothing and textile sector, focusing on governance and trade policy issues, it is contended that SA joining the BRIC countries may positively favour trade and foreign interest in SA and also shape international relations across the various industries in SA, including the clothing and textile sector. (Radebe, 2010) One way that SA may benefit is from further FDI from BRIC member countries as seen in the case of China. It is recommended that these investments can be used as spin off in “struggling industries” such as the clothing and textile industry by building capabilities in this industry until it is more “stable” and able to stand on its own feet. However, this will not be an automatic event; SA will have to take active and strategic steps to build relations and capabilities in order to benefit from opportunities.

Verachia (2011) noted that African countries were familiar with Western investment, specifically from the US and the European Union, and followed a traditional model of engagement with these trading partners. The wave of Chinese investment on the continent, however, means that countries needed to reassess how they engaged and did business with the Asian giant. “Those States that best position themselves to do business with China will gain competitive advantage on the continent”.

In conclusion, SA should take advantage of its strategic position in the BRICS grouping and improve its engagement with these member countries in order to boost investment in the country, and also on the continent. A necessary step as part of improving its engagement with member countries will be to negotiate and work towards a reliable governance framework.

8. Future Research Direction

The research findings show that the nature and effectiveness of a legal instrument and governance framework that can be subscribed to by member BRICS countries and
particularly between SA and China is in much need of further research. This research has touched the surface of a complex area of trade policy and governance in order to ensure that BRICS member countries, particularly SA and China, have a reliable framework within which to carry out their trade relations. Further research is especially needed seeing that this is a fairly new area of research with SA only recently joining the BRIC’s grouping. The following areas should assist in gaining a deeper understanding and direction of this complex area of trade policy and governance issues:

- A study exploring the role emerging markets, particularly BRICS can take in order to play a part in the design of new governance procedures for the international economic system. It remains to be seen whether these international organisations responsible for governance matters will undergo the necessary reform to cater for today’s international landscape. Further research into this area will therefore be valuable in shedding light on the effectiveness of international institutions such as the WTO and IMF.

- SA’s membership to BRICS has been a recent development and to date there has not been any additional governance mechanisms to facilitate trade relations between member countries. Further studies should be conducted to assess whether there has been any development and improvement from a governance and trade policy perspective in the future.

- Further research should be conducted to explore whether SA’s membership of the BRICS grouping will positively influence trade policy as it pertains to the clothing and textile sector in which member countries, including SA and China, compete very actively. An interesting research area would be the exploration of concessions in trade, if any, that may have been made by member BRICS countries.

- Lastly, further research should be conducted to assess whether SA is taking advantage of its strategic position in the BRICS grouping and whether the country is improving its engagement with these member countries in order to boost investment in the country, and also on the continent.
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