

South Africa and the United States of America economic and trade relations (1994-2016): lessons to learn

Savita

Ph.D. Scholar, Centre for African Studies, School of International Studies, Jawaharlal Nehru University, New Delhi (India)

ARTICLE DETAILS

Article History

Published Online: 20 February 2019

Keywords

AGOA, Economy, Economic Relations, unemployment, South Africa, United States of America, Trade

*Corresponding Author

Email: savi.badgujar[at]gmail.com

ABSTRACT

Economic and trade relations are the backbone in the bilateral relations between states. South Africa and the United State of America shares monopoly and considered as hegemony powers in African and American continent in the economic realm. When the new democratic chapter began in South Africa in 1994, they set the new agenda in the economic and trade relations. The economic and trade relations are guided by the African Growth Opportunity Act (AGOA) since 2000. The paper discusses mainly the constraints and challenges in the economic relations between South Africa and the US. How the economic relations have evolved and grown between these two states? Does South Africa get benefits from trade the ties with the US? The paper tests how South Africa and US trade relations have substantially increased on the consequences of the concession of the African Growth Opportunity Act or not. At last, it questions the trade model between South Africa and the US does bring development in South Africa. The paper discusses the economic and trade relations between two different parts of the world, one is north- United States of America (US) and second is south - South Africa. Their economic relations are a century old. However, the economic relations revived during the cold war period or as we know the apartheid period (1948-1994).

1. Introduction

South Africa has close relations with many states, but its relations with the US have been described as vital. The Paper widely deals with the trade and economic and trade relations between South Africa and the US from 1994 to 2016. South Africa became a democratic state in 1994 and emerged a new engagement in the bilateral relations with the US in the economic realm. In 2016, marks the end of Obama's bilateral relations policy with South Africa.

The AGOA has provided easy access to South Africa to capture the US market and it definitely gives an advantage to South Africa. Table3 has shown the data in favour of South Africa. South Africa is one of the non-oiled supplier AGOA country in Africa. But at last, it questions the trade advantages and how this could not be delivered to the common people of South Africa. Because the unemployment rate has been still very high. Despite the advantage and huge profit in the trade relations. The poor are still living in a vulnerable situation. The development policies of South Africa do not fill the gap of the discriminating nature of apartheid. The question comes if the trade benefits the African country, then why not they bring positive and economic benefits to their common citizens. Can we impose the same trade structure on other African countries, obviously not? The African continent tries to bring their own developing structure to develop themselves

2. Africa and Development debate

The development debate is centuries old. Discussing the development perspective in the lense of Africa does it has a different perspective or does it follow the route of the western world. The development agenda of the colonial powers to the

neo-colonialism reflected in the development as the European perspective.

The theory of development as modernization and postmodernization theory has presented a narrow viewpoint of development. Where only economic development has been set an agenda for the newly independent states of Africa and Asia during the early period of cold war.

Looking at the development of an African perspective, it finds different from the rest of the world. Development is just only to fulfil fundamental needs or as Amartya Sen (1999) goes beyond basic needs to an emphasis on development as the freedom. This paper tries to attempt on the broader definition of development compared to the fulfilment of basic needs.

The development of African perspective: Human development index indicates that human development is the real. The Developed debate has been taken a paradigm shift from modernization to neo modernization. From human beings needs to fulfil their human needs, such as education, health, and human rights.

However, when the matter of trade balance concerns it most of the time finds on the lower side. The dependency theory by Immanuel Wallerstein discusses its phenomena as it becomes the tussle between the core and periphery countries. The ties between the developed North (core state) and underdeveloped South (semi -periphery and periphery state) have an exploitative nature of economic and trade ties. The relations between South Africa and the US also understood trade relations also categories not in the same manner.

Factors which consider are the development in South Africa, are economic, social and political stability. These indicators are GDP and basic needs, poverty lines purchasing power, social indicators - adult literacy, life expectancy, and infant mortality. The paper will test these indicators to show the development perspective.

When most of the African states have gained their liberation in the 1960s and 1970s, then, they took up most of their efforts to combat underdevelopment. The development initiatives have been taken up by their newly independence governments. Africa being an underdeveloped and colonized continent has many issues related to the development, such as unemployment, uneducated, unstable undemocratic government system, economic downfall, and unskilled workers and so on. The African continent has been discussed as the lost development decade of the 1980s, later the next decade has witnessed the lowest economic growth.

But Africa's image as the underdeveloped continent has shown some positive outcome. Africa has very rich in minerals and blessed with large labours. Many initiatives have been taken such as the Lagos Plan of Action (1980-2000) to put the agenda for the African economic development. After Lagos Plan of Action, the new development initiatives have been taken up The African Union began the New Partnership for Africa's Development (NEPAD) in July 2002, as the new policy of development of the continent. NEPAD sets the main objectives as the African integration and easy regional economic trade flow.

3. South Africa in the African Continent

South Africa is different from the African state in the context of economic and trade relations, since the change in the form of political system in South Africa, "The South African economy has recorded an average rate of economic growth of 3.3% per annum in real terms over the period 1994 to 2012," (IDC, 2013:1). If we compare it with the world economy, it obviously has no comparison, but it improves the situation of the South African economy, despite the economic crisis and major turnover in the spring revolution.

South Africa is the second largest with better infrastructure in Africa. Well, its society is the most unequal society in the continent as the most wealth and poverty at its extreme level. South Africa has been a different measure of poverty as three levels, considering food poverty, lower and upper bound poverty line.

South Africa provides a stable economy and monetary system. Its' currency Rand was easy and freely exchangeable, a large number of skilled and unskilled labour force, easily accessible electric power well-developed money market suited American investment in the country. The relations are going to be seen through the north-south axis. But, the question put as the relations are also like the exploitative nature of the South or do the South had advantages over the north?

4. South African Government Development Policies

The South African definition of the development by ANC government after the 1994 election decided that South African

must reach to the basic needs as their first priority. The Reconstruction and Development Programme (RDP) be finalized, with human development to provide them with education and training, houses, electrification, health care and to build the South African economy. South Africa developed a bottom-up process of planning to boost the economy. After two years of RDP, the Mandela government decided to close the programme and has begun Growth, Employment and Redistribution Strategy (GEAR) (1996-2000). GEAR focuses on sustainable growth with job creation. It stresses public-private partnership and gives the equal opportunity of wages. It has a more focal point of growth, employment, and redistribution.

GEAR could not deliver on its promises and be unsuccessful. The newly Mandela and later Mbeki administration's development policies have immense pressure. Truly, previous disadvantages in the existence of South Africa society were at a massive level. Which the later developmental policies could not fill the gap between them. South African government creates economic policy which serves the reasonable balance to north-south relations.

Most of the African nation tries to make changes in the economic sector to come up under the AGOA. The Act provides them access of US market while, the main constraints in the economic and trade relations between South Africa and the US are: South Africa must build its economy - an open market, which they already try to build after 1994, combating corruption, protection of workers' rights. There are numerous issues which happened during the period, one is 9/11 attack, 2007-08 economic crisis, which affect the relations between both the states.

South Africa does not have the concept of minimum wages, as it produced a most unequal society in the world according to the World Bank. Meanwhile, the wealthiest 20 percent account for 65 percent. Unemployment has been increased by 22.9 percent in 1994 to 25.6 percent in 2012.

5. Economic and Trade Relations between South Africa and the US

South African relations with the US, particularly interesting for a number of reasons, South Africa strategic location and economic interests kept both the states closer. The South Africa Democratic institution, stable democracy and rule of law system gained and used to build relations between them. The foreign policy objectives of US have been shifted to have close relations with democratic states.

The main reasons for the economic and trade relations between South Africa and the US can be understood through mutual benefits. The US economic policies in South Africa remained flexible because the minerals are discovered and the US ships and trade route carrying oil and other commodities use the sea route of South Africa. The land of South Africa capitalized as the bread and butter for the US ships, as they received weather reports, fuel, and food. South Africa as the most valuable state in the region serves US interests.

The diplomatic relations between South Africa and the US were quite normal during the apartheid (1948-1994). However, their economic relations between them were very impressive. The prosperity of the apartheid government was due to the commercial relations with US companies.

The US shared a massive part of the South African market. The actual impact of the racial problem has more psychological rather than an economic downfall. The negative impact had put pressure on foreign investment. The US always chose economic and commercial ties over the political issues in South Africa. South Africa is very much dependent on the investment, foreign trade and economic links of the US and its allies. The US remained its one of the most helpful trading partners.

US investments and business were booming in South Africa during the apartheid regime, because of the US private sector investments and it continued to increase because of the widespread threats of the Soviet bloc. Ambrosio, (2002) stresses the importance of the prosperity of the apartheid government due to US investments. Belgio (1978) has mentioned that both the countries had strong and close economic relations despite the political disagreements.

AGOA provides the easiest path for trading the South African commodities to the US markets and the state benefits the most by this act in the African continent. The security cooperation is exceptionally weak because both the states have a different perspective on a wide range of issues. South Africa can play a vital role to combat terrorism and peacekeeping agenda in Africa.

The US recognizes South Africa as the economic power and opinion leader in the African affairs in the 90s. Joseph (1997) says that US-South Africa Binational Commission BNC provides an opportunity for South Africa and the US to increase government to government and people to people contact. Hesse (2001) examines the importance of BNC (established in 1995) as it was the only it's kind of commission with a sub-Saharan African country. Each state market has a mutual benefit and significant for each other. Table 1 (refers to appendices), discusses the trade in goods US with South Africa. In this Table 1, in 1994, it represents the trade balance in favour of the US, but that was not so high in the numbers. After the democratic system, South Africa became dear to each state and that closeness with states increased the trade relations.

South Africa and the US economic relations have been the backbone of the relations. South Africa received huge support from US companies post the democratic transformation. Both the states decide to establish Binational Economic Commission (BNC) in 1995 at the president or vice president level. After, the high profile visit of President Mandela in 1994 to the US. It broke the diplomatic ice between both the state and leaders as well.

The meeting of the BNC has been continued in every year, respectively, several projects have set up headed with Mbeki - Gore involvement. The projects were mainly dealing

with human resources, trade, investment, education, development, science and technology, sustainable energy and agriculture. The BNC provided a great platform at the top ministerial level and communicate each other economic interests. Most of the criticism that BMC received that it did not address the basic poverty issues in South Africa. It was another term of US domination, power over South Africa with no communication with the local level.

After the BNC system of organized meeting the new Bush administration and Mbeki Administration has taken to the free trade level agreement 'The US South Africa Trade and Investment Framework Agreement (TIFA)'. It gave a regular platform to resolve trade barriers at the working level.

6. Economic and trade relations have evolved and grown between South Africa and US Post AGOA.

After 2000 AGOA, both of them become interdependent. The next milestone in the relations between South Africa and the US was AGOA. Truly, it's not only signed by South Africa, particularly but with the other African states as well. It was a multilateral agreement between the US and Africa states. South Africa trade relations with the US have been moved and booming from two sides - bilateral level and multilateral level. Table 2 (refers to appendices), and elaborate the trade inflow and outflow. South Africa enjoyed their golden period because of the concession in the trade ties.

Then Ambassador of US, Patrick Gaspard's in 2014 in South Africa said that the democracy can be run successfully if we work to achieve health, education, and jobs. He stresses on the stable job creation and skilled workforce which lead to a strong economy. US companies are providing good wages and under president Obama administration job creation has touched and managed to create a new opportunity for the new trade relations and new jobs in South Africa. The "US economy has added 8 million new jobs since Barack Obama became president"(). He also states that under AGOA, South Africa is the one of the biggest exports state rather than any African state. Table 3 (refers to appendices) represents the trade, exports and imports have shown from 1994 to 2016. Furthermore, the economic ties between these two giant states can be examined by mutual growth.

Table 3, (refers to appendices) shows the negative trade balance, it means the trade balance in favour of South Africa. One key output of the trade relations with the US is to support jobs in South Africa. The Prosper, South Africa interdependent with the US will benefit the growth of the African Continent.

The trade does not bring prosperity to the South African society. As per data of the South African government, poverty trends have been increased in 2015. But the poverty decline between 2006 and 2011. "More than the half of the South African was poor in 2015, with the poverty headcount increasing to 55, 5 % from a series low of 53, 2 in 2011" (Stats SA, 2017). The period from 2011 to 2015, the influential factors were internal and external, but external influence more than the internal.

7. Conclusions

South Africa and US economic relations have been growing in particular. Over the two decades of the democratic system in South Africa, the question has been rising as what the state has achieved. The main constraints of the paper in the realm of economic and trade relations have been discussed. South Africa must build its economy - an open market, which they already tried to build after 1994, combating corruption and protection of workers' rights. It has a very unequal society, a middle-income state, as the small section of society still have captured and have access to wealth and the vast majority lacks and struggles basic services.

The first decade after the political transformation ruined the expectations and the GDP was worse than the previous decade. However, the light on GDP of positive has brought back after 2004 and many obstacles and world economic crisis somehow positively deal with the South African economy. The situation of South Africa is, in fact, better than the democratic transition. Per capita income has been improved, GDP is growing, and school dropout has gained, the impact of the economic growth on the commons mainly on the poverty decreased.

There are bilateral trade agreements between South Africa and the US, such as BNC, and Trade and Investment Framework Agreement (TIFA) but the AGOA is the most influential agreement. There are several constraints on the relations, but AGOA removed all the hassle and tussle. On the other side of the picture is that AOGA is not a bilateral agreement, it's the Act between US Congress and African countries, so it's a multilateral form.

The paper has presented an African perspective in the relations. Being an African State, South Africa is getting benefitted from the relations with the US, as trade balance is shown in table 3 (refers to appendices) in favour of South Africa. Concluding the paper, can we ask to impose the economic liberalism on other African countries or the structural

adjustment program? It argues that can the African states follow the trade route of South Africa, where the path of trade could not heal the wounds of the apartheid era.

US companies invest in many projects, especially in social projects in South Africa. Schneidman (2013) and Ploch (2011) have discussed all the issues related to AGOA and US priority in Africa and especially in South Africa. The investments between South Africa and the US are very low compared to the other giant states like China, India, and the European Union.

In 2015, the US is the third largest trading partner and their relationship is guided by the AGOA. US top exports to South Africa are machinery and mechanical appliances, vehicles, vessels and aircraft, chemical products, plastic and optical and medical equipment. South Africa exports more manufactured products to the US under AGOA than any other country.

South Africa must resolve their multinational issues with multinational perspective within their territory, like to provide basic skills training to their vulnerable section. The development strategy of the South Africa government could not address the main constraints of their economies. The unemployment ratio is quite high, which can be created unequal and unrest in the society. The main lessons the researchers can learn that the economic benefits to the country could not bring change in the social sectors. The main policies of development where each country in Africa was told to bring the structural adjustment programme in the domestic sectors, have already failed.

The future argument can be done on the bilateral relations and improve domestic conditions of a particular state and its correlation between the domestic condition and the trade balance. When the relations are not discriminating nature between the south and north axis. Then, why not the vulnerable section of society still can't take gain?

References

1. Cook Nicolas (2013) South Africa: Politics, Economy, and U.S. Relations Specialist in African Affairs, Congressional Research Service.
2. Larry W. Bowman (1982), "The Strategic Importance of South Africa to the United States: An Appraisal and Policy Analysis" *African Affairs*, Vol. 81, No. 323, pp. 159-191
3. Martha Bridgeman (2001), "The US-South Africa Binational commission", *South African Journal of International Affairs*, 8:1, 89-95,
4. McCoy Christopher J , (2011), America's Role in the End of South African Apartheid, *Journal of International Affairs at UCSD*.
5. [Database], Poverty on the rise in South Africa, Accessible at: statssa.gov.za/?p=10334 (25 October, 2018)
6. Rich Paul (1988), "United States Containment Policy, South Africa and the Apartheid Dilemma" *Review of International Studies*, Vol. 14, No. 3 , pp. 179-194
7. Schraeder Peter, (1994), *United State's Foreign Policy Towards South Africa: Incrementalism, Crisis and Change*, Cambridge University Press
8. Shepherd George W., Jr. (1984), The United States' South Africa Policy: The Failure of "Constructive Engagement" and the Emergence of New Options, *Africa Today*, Vol. 31, No. 2 (2nd Qtr., 1984), pp. 15-35
9. South African Government, (2015) Minister Rob Davies on *South Africa-USA Bilateral Trade and Investment relations*, South Africa.
10. [News site with identifiable author] Vicki Needham, (2012), US, South Africa step up trade relationship, Accessible at: <https://agoa.info/news/article/5207-us-south-africa-step-up-trade-relationship.html> (10 October, 2018)
11. [Database] UNDP Sustainable Development Goals, Accessible at <http://undp.org/content/undp/en/home/sustainable-development-goals/background.html> (10 October, 2018)
12. [Database] United States – South Africa Trade and Economic Relations Accessible at za.usembassy.gov/business/trade-and-economic-relations/ (20 August 2018)

14. [Database] United States Census Bureau, (1994), Accessible at census.gov/foreign-trade/balance/c7910.html#1994 [20 October 2018]
15. [Database] UNICEF South Africa, Accessible at unicef.org/southafrica/resources_4768.html (25 October 2018)
16. US Embassy and Consulates in South Africa, (2014), *United States-South Africa Trade and Economic Relations*, South Africa.
17. Valentine J. Belfiglio (1978), "United States Economic Relations with the Republic of South Africa", *Africa Today*, Vol. 25, No. 2, Background on Some Current Policy Issues, pp. 57-68.
18. Wehner Joachim, (2000), "Development Strategies in Post-Apartheid South Africa", *Africa Spectrum*, Vol. 35, No. 2, pp. 183-192

Appendices:

TABLE 1
1994:U.S. trade in goods with South Africa

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. Table reflects only those months for which there was trade.

Month	Exports	Imports	Balance
January 1994	159.9	166.9	-7.0
February 1994	144.5	107.8	36.7
March 1994	199.4	174.3	25.1
April 1994	164.8	167.0	-2.2
May 1994	183.2	169.4	13.8
June 1994	193.7	191.7	2.0
July 1994	178.9	187.0	-8.1
August 1994	200.8	172.8	28.0
September 1994	166.3	171.0	-4.7
October 1994	198.4	130.5	67.9
November 1994	177.2	181.9	-4.7
December 1994	205.3	210.4	-5.1
TOTAL 1994	2,172.4	2,030.7	141.7

SOURCE: United States Census Bureau. <https://www.census.gov/foreign-trade/balance/c7910.html#1994>

Table 2.
2000: U.S. trade in goods with South Africa

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. Table reflects only those months for which there was trade.

Month	Exports	Imports	Balance
January 2000	200.7	247.2	-46.5
February 2000	209.4	268.9	-59.5
March 2000	216.8	318.0	-101.2
April 2000	189.9	335.0	-145.1
May 2000	218.8	345.3	-126.5
June 2000	382.7	439.6	-56.9
July 2000	248.9	456.3	-207.4
August 2000	220.9	330.0	-109.1

September 2000	371.1	399.3	-28.2
October 2000	286.9	385.0	-98.1
November 2000	293.1	375.3	-82.2
December 2000	250.2	310.1	-59.9
TOTAL 2000	3,089.4	4,210.0	-1,120.6

Source: <https://www.census.gov/foreign-trade/balance/c7910.html#2000>

Table 3. U.S. trade in goods with South Africa

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. Table reflects only those months for which there was trade.

Year	Exports	Imports	Balance
1994	2172.4	2030.7	141.7
1995	2,750.5	2,208.0	542.5
1996	3,112.0	2,323.3	788.7
1997	2,997.4	2,510.1	487.3
1998	3,628.2	3,049.0	579.2
1999	2,585.3	3,194.4	-609.1
2000	3,089.4	4,210.0	-1,120.6
2001	2,959.4	4,432.5	-1,473.1
2002	2,525.7	4,034.1	-1,508.4
2003	2,819.3	4,624.4	-1,805.1
2004	3,178.5	5,944.8	-2,766.3
2005	3,906.9	5,885.6	-1,978.7
2006	4,461.7	7,500.8	-3,039.1
2007	5,521.4	9,054.1	-3,532.7
2008	6,490.5	9,948.0	-3,457.6
2009	4,452.6	5,878.9	-1,426.2
2010	5,631.7	8,220.2	-2,588.5
2011	7,271.3	9,486.9	-2,215.6
2012	7,552.8	8,672.3	-1,119.6
2013	7,293.4	8,465.2	-1,171.8
2014	6,375.5	8,325.6	-1,950.1
2015	5,457.3	7,323.0	-1,865.7
2016	4,597.5	6,765.7	-2,168.2

Source: <https://www.census.gov/foreign-trade/balance/c7910.html>