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The Influence of International Trade Policies on the Economic Growth and Development of South Africa: Free Trade or Protectionism?

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Abstract

This paper questioned the influence of International Trade Policies on the economic growth and development of South Africa by examining the effect of free trade and protectionism on economic growth and development. A literature search showed that South Africa follows a policy that seeks a balance between free trade and protectionism in South Africa. The paper applied the Mercantilism theory. Mercantilism is an economic development theory that advocates for home governments to regulate the economy and facilitate international trade so that domestic industries are promoted and protected. To gather relevant information, the paper followed a semi-systematic literature review as a methodology. The paper discovered that amid the current policy stance, which seeks to balance free trade and protectionism in South Africa, communities predominantly suffer from poverty, unemployment, and income inequality. The paper concluded that trade agreements and policies must be reevaluated if governments want to combat poverty, unemployment, and income inequality. Considering the above, the paper recommends that, owing to the power and role of government institutions in South Africa, selected areas of the economy must be reserved for local industries and

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producers, and MNCs must be brought in where local industries cannot supply.

Keywords: International trade, Free trade, Protectionism, Economic growth, Economic development, Globalisation.

Introduction

The end of the apartheid era and the subsequent emergence of democracy in South Africa marked a significant turning point, prompting the country to liberalise its trade policies. International trade, which refers to exchanging goods and services across borders (Grozdanovska, 2018), is vital in stimulating economic growth and development. According to Belloumi and Alshehry (2020), international trade enables countries to expand their markets, access goods and services that might not be available domestically and enhance market competitiveness. These dynamics often result in lower prices and greater affordability for consumers.

Globalisation, which fosters economic, technological, cultural, and political integration, has been central in promoting these trade connections (Grozdanovska, 2018). Countries need sound trade policies to engage in international trade and stimulate economic growth. Economic growth is essential for increasing income per capita, raising living standards, and providing more opportunities for the population (Afolabi et al., 2017). However, many developing nations, including those in Africa, face substantial barriers, such as inadequate infrastructure and supply-side constraints, that hinder their ability to participate effectively in global trade. The World Bank (2018) underscores that trade is crucial for poverty eradication, as countries involved in international trade experience faster economic growth, innovation, enhanced productivity, and greater opportunities for their citizens. Additionally, trade enables lower-income households to access more affordable goods and services.

Existing literature reveals a robust body of research on the relationship between international trade policies and economic growth (Okenna & Adesanya, 2020). This paper explores how international trade policies influence economic growth and development in South Africa, a country that has actively engaged in global trade since the end of apartheid. A key question is whether

South Africa should embrace free trade agreements or shift towards protectionist policies in response to evolving global economic dynamics. Gunnella and Quaglietti (2019) warn that rising protectionism could stifle economic growth by increasing trade costs, reducing trade volume, and distorting global supply chains. However, as Rekiso (2018) points out, many African nations, including South Africa, have not yet fully achieved the industrialisation necessary to capitalise on international trade. Noman (2013) and Malefane (2018) emphasise the need for structural transformation in Africa's economies to ensure sustainable growth.

South Africa is often described as having an open, liberal economy that relies heavily on imports and exports to support economic activity. Imports help meet domestic consumption needs, while exports are essential for industrialisation and job creation (Stern & Ramkolowan, 2021). Despite its open economy, South Africa's export performance has been declining since 2010 (World Bank, 2020), raising concerns about its trade strategy's sustainability. Additionally, trade integration has been shown to generate jobs, particularly in tradable sectors such as agriculture, mining, manufacturing, and tourism, which tend to employ a larger proportion of unskilled and semi-skilled workers than the service sector (Rodrik, 2008). Therefore, growth in these sectors is vital for achieving South Africa’s goal of increasing the employment intensity of economic growth.

South Africa's unequal society further underscores the importance of trade integration. The country is one of the most unequal in the world (World Bank, 2022), and approximately half of the population lives in poverty (Statistics South Africa, 2020). Youth unemployment is particularly alarming, with an unemployment rate of 45.5% among those aged 15-34 and an overall unemployment rate of 32.9% in the first quarter of 2024 (Statistics South Africa, 2024). These statistics highlight the urgency of policies that stimulate economic growth and job creation.

This paper examines whether South Africa should pursue free trade or adopt protectionist measures to create jobs, reduce poverty, address income inequality, and promote industrialisation. This paper aims to contribute to the ongoing debate about the role of international trade in fostering economic growth and development in South Africa and other less economically developed countries (LEDCs). The structure of the paper will include the following sections: Methodological Approach, Theoretical Framework, Results and Discussion, Conclusion, and Recommendations.

In summary, South Africa's trade policies, particularly considering global trends towards protectionism, will play a critical role in shaping its economic future. Whether the country should continue to embrace free trade or adopt more protective measures is a question that requires careful analysis of the trade-offs between economic openness, industrialisation, and job creation.

Methodological Approach

Research Design and search strategy

This paper relies exclusively on secondary data. The PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) method has been adopted to explore the influence of international trade policies on economic growth and development in South Africa, with a great focus on free trade and protectionism. As a result, the PRISMA method helped to guide the review processes, including ensuring a lucid, replicable, and transparent approach to identifying, selecting, and appraising the most relevant literature. The author(s) used the PRISMA guidelines to offer a comprehensive synthesis of existing studies by highlighting the main findings, themes, and gaps in the literature.

The study collected data from major academic databases and search engines, including Google Scholar, Sabinet, SAGE Journals, and the Social Science Citation Index (Web of Science). A systematic strategy was used in the search, incorporating keywords such as "international trade policies," "economic growth," "development," "free trade," "protectionism," and "South Africa." Initially, 731 records were identified. The search aimed to encompass various types of studies, such as peer-reviewed articles, book chapters, and conference papers, to ensure a thorough review of the literature about the research question.

Screening and Selection Process

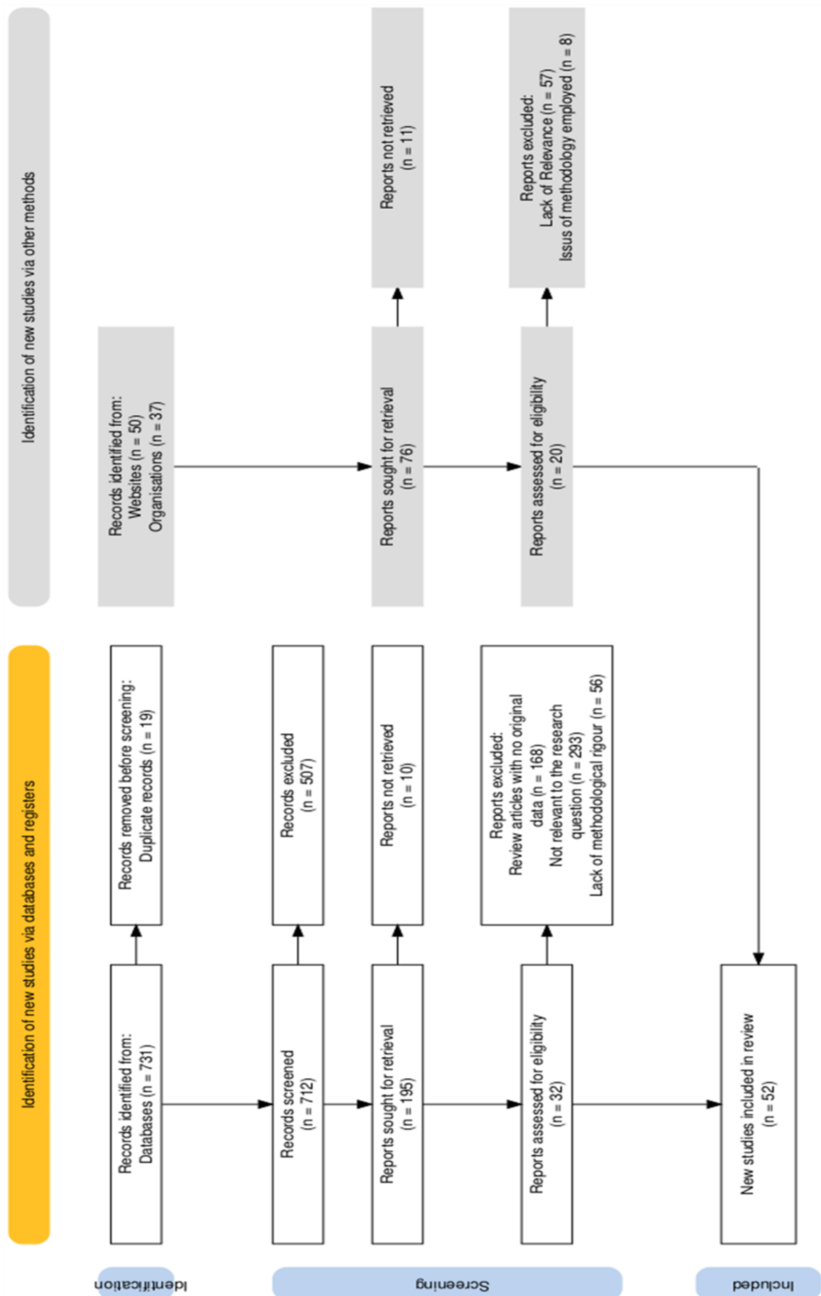
The screening and selection process followed the PRISMA flow diagram to ensure a systematic and transparent approach. After removing duplicates, the remaining records were screened based on titles and abstracts, excluding studies that did not address the research question. Full-text articles of the remaining studies were then assessed for eligibility, focusing on methodological rigour and relevance.

The PRISMA flow diagram was employed to conduct a thorough and transparent screening and selection process. Once duplicates were removed, the remaining records underwent screening based on titles and abstracts, which excluded studies that did not pertain to the research question. Full-text articles of the remaining studies were subsequently evaluated for eligibility, emphasising methodological soundness and relevance. The data screening and selection process is presented in Figure 1 *(next page)*.

This process led to the inclusion of 52 new studies that met the criteria for this review. Studies were excluded if they lacked methodological rigour, were irrelevant, or did not directly address the questions under investigation.

Inclusion and Exclusion Criteria

The inclusion criteria for this paper were established to ensure that only relevant and high-quality research was considered. Research studies had to specifically explore the effects of international trade policies on economic growth and development within the context of South Africa. Eligible studies encompassed peer-reviewed articles, book chapters, and conference papers published in English. The emphasis was placed on free trade and protectionism to present a well-rounded discussion perspective. Furthermore, studies were expected to have a well-defined methodological framework and contribute substantially to understanding the research topic under investigation.


Identification of new studies via databases and registers
Identification of new studies via other methods
Identification
Screening
Included
Records identified from:
Databases (n = 731)
Records removed before screening:
Duplicate records (n = 19)
Records screened
(n = 712)
Records excluded
(n = 507)
Reports sought for retrieval
(n = 195)
Reports not retrieved
(n = 10)
Reports assessed for eligibility
(n = 32)
Reports excluded:
Review articles with no original data (n = 168)
Not relevant to the research question (n = 293)
Lack of methodological rigour (n = 56)
New studies included in review
(n = 52)
Records identified from:
Websites (n = 50)
Organisations (n = 37)
Reports sought for retrieval
(n = 76)
Reports not retrieved
(n = 11)
Reports assessed for eligibility
(n = 20)
Reports excluded:
Lack of Relevance (n = 57)
Issus of methodology employed (n = 8)

The review excluded studies that did not meet rigorous methodological standards, were irrelevant to the research question, or did not focus on South Africa. Furthermore, studies that did not examine the impact of international trade policies on economic growth and development or were considered outdated or redundant were not part of the consideration. This exclusion process was essential in ensuring that the final selection of studies was pertinent and strong, providing a dependable foundation for analysis.

Data Management and Data Analysis

Zotero, a reference management software, was utilised to organise and manage the collected data. Zotero facilitated the storage and retrieval of references, notes, and full-text articles, ensuring an efficient and systematic approach to data management. This tool allowed the researchers to monitor all sources, simplify the citation process, and preserve a thorough and well-organized literature review database. Utilising Zotero ensured precise citation of all references, and the data management processes were effective and dependable.

The data from the included studies were analysed using textual analysis. This qualitative method involved a detailed examination of the content of the selected articles to identify common themes, patterns, and insights related to the influence of international trade policies on South Africa's economic growth and development. The examination concentrated on classifying the consequences of free trade and protectionism, contrasting the results from various research, and combining the outcomes to reach significant conclusions. This method enabled a thorough comprehension of the diverse aspects of trade policies and their impact on the economy of South Africa.

Theoretical Framework

This paper employs the Mercantilism theory to examine the relationship between international trade policies and economic growth in South Africa, focusing on trade integration, job creation, poverty alleviation, and income inequality reduction. Mercantilism is an economic theory that advocates for government regulation of the economy, particularly international trade, in a way that promotes and protects domestic industries over foreign ones. According to Mercantilist thought a country's wealth is primarily determined by the accumulation of precious metals such as gold and silver, which are historically considered the main sources of wealth (Pettinger, 2019). In this view, a nation can increase its wealth by exporting more goods, which brings in gold and silver, while importing goods results in the outflow of wealth (Randhawa & Arora, 2020). Central to this theory is that countries seeking employment, reducing poverty, and addressing income inequality should aim for a trade surplus, exporting more than they import.

In the context of this paper, Mercantilism is interpreted as a framework for implementing protectionist trade policies. These policies limit imports while encouraging exports and protecting and fostering domestic industries. Though the theory originated in the 16th century in England, when silver and gold were seen as the primary markers of national wealth, its basic principles remain relevant today, particularly in countries seeking to develop economically while managing global trade pressures.

Despite its historical significance, Mercantilism has been criticised for concentrating too much power in the hands of the government. Critics argue that protectionist policies, such as export subsidies and import restrictions, can distort international trade and lead to inefficiencies (Braudel, 1979; Bharat, 2023). Additionally, these policies can foster trade tensions between countries, which is problematic in today's globalised world, where free trade is generally encouraged.

However, this paper adopts Mercantilism from an epistemological perspective, focusing on how countries, notably less economically developed countries (LEDCs) like South Africa, can leverage trade policies to foster economic growth and development. The aim is not to rigidly apply the theory but to use it as a conceptual framework to understand how trade policies can help South Africa and other LEDCs address domestic challenges such as poverty, unemployment, and income inequality while participating in the global economy.

Historically, more economically developed countries (MEDCs), mainly European nations, colonised LEDCs, particularly in Africa, to extract raw materials. These raw materials were then processed into finished goods and sold back to the colonised regions at a higher price (Pettinger, 2019; Sharma, 2023). This colonial legacy has left many African countries reliant on exporting raw materials, limiting their ability to develop value-added industries. Mercantilism, therefore, offers a framework for reimagining trade policies in South Africa and other LEDCs, encouraging them to move beyond mere exporters of raw materials and instead become producers of finished goods while still engaging in global trade.

In this light, the paper argues that South Africa and other LEDCs have the agency to negotiate trade agreements that protect and promote their domestic industries without isolating themselves from the global market. By adopting Mercantilist principles, these countries could focus on increasing exports of finished goods, fostering local industries through strategic protectionist measures, such as tariffs on imports and export incentives, and investing in local manufacturing. This approach could create jobs, reduce poverty, and address income inequality.

The Mercantilist theory stresses the importance of accumulating foreign currency through exports. In modern terms, this encourages LEDCs to strengthen their domestic industries to increase their export capacity. The theory suggests that investment in key sectors, such as manufacturing, agriculture, and technology, can help boost the production of value-added goods sold in global markets. Additionally, Mercantilism advocates for maintaining good diplomatic and trade relations with other countries, enabling access to global markets while protecting domestic industries from harmful foreign competition.

Although Mercantilism has been criticised for its protectionist nature, this paper argues that its principles can be adapted to the contemporary globalised world to support economic growth in LEDCs. A balanced approach, where governments regulate trade to protect key industries while remaining integrated into the global economy, can help achieve sustainable development. By adopting strategic protectionist policies, governments in LEDCs can build the capacity of local industries, create jobs, and reduce poverty.

Results and Discussion

Trade agreements in South Africa and Africa.

South Africa has historically implemented a mixture of international trade policies. During the Apartheid era, South Africa implemented protectionist measures and moved towards liberalisation post-apartheid (South African Reserve Bank, 2023). Amid the transitions, South Africa is still characterised by poverty, high unemployment, and high-income inequality and is not distinct from other LEDCs in Africa (World Bank, 2022; National Planning Commission, 2020). Table 1 below indicates that there has been a steady increase in unemployment after trade liberalisation, peaking around 2020-2024, reflecting both economic challenges that can be attributed to slow economic growth and labour market inefficiencies that have persisted despite trade openness.

Table 1: Unemployment Rate Pre- and Post-Trade Liberalization in South Africa

Year	Unemployment (%)
1990 (Pre-Liberalization)	24.5
2000 (Post-Apartheid)	26.5
2010	25.6
2020	34.5
2024 (Estimate)	34.6

Source: Statistics South Africa, World Bank

With regards to poverty and inequality, table 2 below shows that despite efforts to reduce poverty and inequality, there have been very slow improvements, with the poverty rate remaining high and income inequality stabilising around 0.63 in 2024. This suggests that trade liberalisation has not significantly alleviated these persistent issues.

Table 2: Poverty and Income Inequality in South Africa (1990-2024)

Indicator	1990	2000	2010	2024
Poverty Rate (%)	50%	51%	53%	55.5%

Income Inequality (Gini Index)	0.62	0.64	0.65	0.63

Source: World Bank, National Planning Commission, Statistics South Africa

The Ministry of Finance (2021) worryingly notes that over the years, South Africa has experienced significant de-industrialization from around 22% of GDP in the late 1980s to the early 1990s; manufacturing now contributes around 12% of GDP. In addition, the manufacturing sector's capital base has shrunk – from R677.7 billion in 2008 to R545.9 billion in real terms. According to the International Trade Administration (ITA) (2024), South Africa is known mainly for following duty-free trade, with some characteristics of protectionism with several countries from around the world and with the Southern African Development Community (SADC). According to the South African Department of Trade and Industry (2020), duty-free trade is done for job creation, poverty alleviation, and to help bridge the income inequality gap (triple challenges). South Africa is a member of the African Continental Free Trade Area (AfCFTA), which commenced trading in January 2021. The World Bank Group (2020) communicates that the African Continental Free Trade Area (AfCFTA) agreement creates the largest free trade area in the world, as measured by the number of countries participating.

The pact connects 1.3 billion people across 55 countries with a combined gross domestic product (GDP) valued at US$3.4 trillion. It has the potential to lift 30 million people out of extreme poverty, but achieving its full potential will depend on putting in place significant policy reforms and trade facilitation measures. Duty-free trade between South Africa and Botswana, Lesotho, Namibia, and eSwatini are classified in the Southern African Customs Union (SACU). Further, the Southern African Development Community (SADC) Free Trade Agreement, endorsed in 2012, allows duty-free trade among 12 of the 15 member countries. South Africa also has trade agreements with Europe. The European Union-South African Trade and Development Cooperation Agreement was enacted in the early 2000s (ITA, 2024).

Furthermore, South Africa also negotiated agreements with the European Free Trade Association, the United Kingdom, and Mercosur, which focused on industrial goods such as fish and other marine products, processed agricultural products, and essential agricultural products. South Africa, through SADC, has finalised negotiations on Phase I of the Tripartite Free Trade Agreement, which links SADC, the East Africa Community (EAC) and the Common Market of Eastern and Southern Africa (COMESA) into a free trade area. In South Africa, the Department of Trade, Industry and Competition (DTIC) is empowered to regulate and ration imports to South Africa as a matter of national interest. However, most goods may be imported into South Africa without restrictions (ITA, 2024). Interestingly, Mahlangu (2024) and ITA (2024) declare that the South African government policy stance strongly believes they should open the market further to increase trade and develop more competitiveness for its domestic industries to grow the economy.

According to Mahlangu (2024), for South Africa and Africa as a content to attain economic growth and development to the fullest, a free trade area must be conquered. Mahlangu further argued that the AfCFTA must be regarded as a high-ambition trade agreement that can bring together all 55 member states of the African Union, covering markets of more than 1.3 billion people. Recently, the president of South Africa and current chairperson of the African Union, President Ramaphosa, oversaw and endorsed the launch of the African Free Trade Area (AfCFTA), which is currently the largest free trade area in the world and is believed to be economically emancipate Africa from the struggles of poverty (South African Government, 2024).

Considering the above, it is important to note that AfCFTA was adopted in 2018, enrolled in 2021, and is regarded as one of the projects on Africa Agenda 2063. Primarily, it aims to fast-track intra-African trade, which is hoped to potentially grow the African economies and improve people's lives across the continent. Further, literature searches suggest that the agreement will accelerate economic growth and increase investment and employment opportunities for South Africans and the rest of the continent (Mahlangu, 2024). Table 3 below illustrates South Africa's trade policy shifts from protectionism to liberalisation. It shows the shift from protectionist policies before 1994 to more liberalised trade policies post-1994.

Table 5: South Africa's Trade Policy Shifts: Protectionism to Liberalization

Period	**Trade Policy Approach**	**Key Measures**
Pre-1994 (Apartheid Era)	Protectionist	Import tariffs, trade restrictions, isolation from global markets
1994-2000(Post Apartheid)	Gradual Liberalization	WTO accession (1995), regional trade agreements (SADC), reduced tariffs
2000-2024(Post Liberalization)	Mixed Policies, Focus on Global Integration	Free Trade Agreements (AGOA, BRICS), regional agreements, trade agreements with African nations, tariff adjustments

Source: World Bank, National Planning Commission, Statistics South Africa

The Impact of International Trade Policies on Economic Growth and Development

International trade policies significantly impact economic growth and development in countries around the world, which may be both positive and negative. Traditionally, the proponents of neoliberal policies contended with the idea that the opening of third-world economies attracts foreign direct investment (FDI), creates sustainable employment that can stimulate economic growth, and generates exports that can also produce capital to finance the development of LEDCs that are in debts (Simmons et al., 2006; Widmaier, 2016; Manzoor et al., 2019). In essence, trade policies such as tariff reductions and trade agreements centred around 'free trade' can lead to increased market accessibility for goods and services, which can stimulate economic growth and development. This is possible because it allows businesses to expand beyond domestic boundaries. International trade is an economic growth engine that can promote sustainable development. It can be a powerful force for creating jobs, fostering efficient use of resources, stimulating entrepreneurship and ultimately lifting people out of poverty. Although trade can contribute to development, many developing countries face challenges in making sure trade contributes to development. This is because they cannot analyse the relationship between trade, productive capacity and employment, assess policy options and formulate and implement adequate national trade policy frameworks. This hampers their ability to use trade's transformative power for development fully.

A look into 'Free Trade' and 'Protectionism' and its Effects on Economic Growth and Development of Ledcs.

The concept of free trade (FT) is widely understood. According to Athukorala (2020), free trade is an accord between two or more countries under which tariffs are removed on goods produced by the member countries, whilst tariffs on trade with countries that are non-members are maintained. According to the World Trade Organization (WTO) (2024), trade agreements can be bilateral, plurilateral, or multilateral. In this sense, bilateral occurs when two countries agree to remove trade restrictions to expand business opportunities, plurilateral refers to when agreements occur between many countries, and multilateral is when countries in the global stand reach agreements to trade without described barriers. Considering the above, it is important to note that free trade agreements (FTAs) have been a contentious issue for LEDCs, with proponents and opponents. Proponents believe that FTAs promote economic growth, while opponents claim they hinder economic growth and development. For this reason, a clear understanding of how these two policies to trade affect economic development in LEDCs is necessary.

As mentioned earlier, in the context of international trade that follows 'Free trade', the underpinning belief is that it improves people's lives. This is because it is boasted to encourage competition in the supply of goods and services, incentivising people to develop better, less expensive goods and services. Ultimately, trade policies such as 'free trade' are believed to expose domestic industries to international competition, which will make them more efficient and innovative and allow them a competitive space that can drive productivity improvements, which are crucial for sustained economic growth (Adhikary, 2011; Zahonogo, 2017; Malefane et al., 2020). Noticeably, whilst South Africa and Africa have invested mainly in opening their markets to free trade and open market systems, it has not been clear how this has positively affected the overall economic development. Nonetheless, it cannot be overlooked that the growth of foreign investment negatively affects existing local industries (Malefane et al., 2018).

To explore the concept of 'free trade' further, it is important to draw an understanding from places like Europe. Literature suggests that the European Union positions free trade policies at the core of economic growth and development. The Union views trade policy as integral to employment creation and a viable and sustainable economy. Whilst this has also been the case for LEDCs, it is worth noting that for the European Union, two-thirds of their imports are raw materials, and these imports make up components that they need in their manufacturing sector, which will subsequently be exported (Zahonogo, 2017). In essence, it is fundamental that Europe's market remains open to such supplies.

For this reason, in Europe, open markets generate more economic growth and create jobs at an impressive pace. However, the same cannot be said for Africa. Whilst jobs and economic growth are evident, literature searches suggest that poverty, unemployment, and income inequality are prevalent amid open markets, and in countries like South Africa, it is growing remarkably (Andreoni & Tregenna, 2021; Statistics South Africa, 2022). For instance, the South African economy has been experiencing an economic decline; the GDP growth was estimated at 0.3 per cent in 2019 (Industrial Development Corporations of South Africa (IDC), 2020). South Africa has minimal economic growth that cannot combat poverty, unemployment levels, and the growing income inequality. Further, Statistics South Africa (2020) highlighted that approximately 108 000 jobs were lost over the year 2019, more recently in the first quarter of 2023, it was reported that South Africa experienced a decline in the number of total employees 59 000 jobs were lost compared to the previous quarter (Stats SA, 2022).

Nonetheless, considering the above, it is important to highlight that the South African economy grew by an estimated 2.5 per cent in 2022 (National Treasury, 2023). However, for South Africa to overcome the pressing challenges of unemployment and poverty, much higher economic growth is needed. One cannot overlook that growing the economy to higher levels will require careful and detailed planning and strategising from both businesses and the government. With the challenging environment, the country should also invest in emerging opportunities for domestic industries. This remains a prime concern for South Africa because, more recently, Statistics South Africa (2023) highlighted that bridging the income-inequality gap in South Africa is one of the most challenging features of the society. Considering the above, proponents of open markets and free trade argue that well-designed international trade policies are crucial because they foster economic growth and development by enhancing market efficiency, promoting technological progress, and facilitating participation in the global economy (World Trade Organisation, 2022). In this light, countries that actively engage in international trade with clear policy frameworks should be experiencing higher levels of prosperity and resilience.

Considering the discussions above, looking at the other end of the stick and evaluating how protectionism affects trade between and among countries is important. Abboushi (2010) explains protectionism as a government trade policy intended to assist domestic producers against foreign produce by raising the price of foreign products and lowering costs for domestic producers. In some cases, protectionism policies may be intended to limit foreign producers' access to domestic markets. As presented earlier, proponents for neoliberal policies strongly argue that the idea behind the opening LEDCs economies will attract foreign direct investment (FDI), which will, in turn, directly assist in the creation of jobs and stimulate economic growth and development (Simmons et al., 2006; Widmaier, 2016; Manzoor et al., 2019). Whilst 'Protectionism' advocates for home government interferences in local markets and industries to protect them against imports, on the other hand, neoliberals contend that home governments should defend free markets within the country, whilst all other functions are settled by the private enterprise (World Bank, 2023; Jessica, 2023).

The choice between protectionism and neoliberal ideas has received much attention. According to the World Bank (2023), it is argued that since the 1990s, global trade from around the world increased incomes by 24 per cent worldwide and by an astonishing 50 per cent for the poorest, 40 per cent of the world population. More than 1 billion people were lifted out of poverty in this regard. Further, trade played a pivotal role in shaping the world's economy and promoting positive socioeconomic outcomes globally. However, today, it is argued that protectionist ideas are on the rise and are raising concerns about the trajectory of globalisation. This paper is central to understanding whether free trade or protectionism is essential in combating poverty, unemployment, and income inequality in South Africa and LEDCs in general.

The economic implications of free trade and protectionism are subject to ongoing debates. Proponents of free trade argue that it promotes competition, efficiency, and innovation, leading to lower prices and a wider variety of consumer goods (The International Trade Council, 2023). It also allows countries to specialise in industries where they have a comparative advantage, leading to increased productivity and economic growth. On the other hand, protectionism aims to protect domestic industries and jobs. Advocates argue that it shields domestic producers from unfair competition, prevents dumping goods at artificially low prices, and supports strategic industries (The International Trade Council, 2023). However, critics argue that protectionist measures can lead to higher prices, reduced consumer choice, and inefficiencies in resource allocation.

What is the State of Domestic Industries and Trade Policies in South Africa?

South Africa's industrial base is highly diverse, encompassing mining, manufacturing, agriculture, and services. Despite this diversity, the country faces various challenges that impede industrial growth, including economic volatility, policy uncertainty, infrastructure deficiencies, and social issues (United Nations, 2021). Within this context, South Africa's trade policy is complex, aiming to balance the protection of domestic industries with the pursuit of global market opportunities. This delicate equilibrium, as highlighted by numerous scholars, reflects a broader global trend where countries seek to harness the benefits of neoliberal trade policies while also safeguarding their local industries (Simmons et al., 2006; Widmaier, 2016; Manzoor et al., 2019; Zongwe, 2020).

South Africa's trade policy focuses on attracting foreign direct investment (FDI), which is seen as a mechanism to create employment, reduce poverty, and address income inequality. At the same time, the government aims to provide some level of protection to domestic industries to foster local job creation and economic development. While neoliberal policies are believed to encourage FDI by creating a more open and competitive environment, they also expose domestic industries to intense competition from foreign goods, which may undermine the growth of local businesses (The Department of Trade and Industry, 2019).

A prime example of this dynamic is South Africa's trade agreement with the European Union, facilitated through the Southern African Development Community (SADC) Free Trade Area. According to the International Trade Administration (2024), this agreement allows many European products to enter South Africa duty-free, which, while beneficial in terms of access to European goods, poses a challenge for local industries. Domestic businesses struggle to compete with cheaper imports from countries with lower production costs and more efficient supply chains, particularly in sectors such as manufacturing and agriculture (Mugido, 2019).

The South African government has implemented various trade measures to shield local industries in response to these challenges. These include tariffs on a range of goods to protect against foreign competition and trade remedies such as anti-dumping duties to counteract the impact of low-priced imports (Department of Trade and Industry, 2019). Additionally, the government can financially support local industries through subsidies, grants, and other incentives to stimulate growth (World Bank, 2022).

South Africa's trade policy is also shaped by its multilateral and bilateral trade agreements membership. As previously discussed, South Africa is part of the SADC Free Trade Area and participates in agreements with organisations such as the World Trade Organization (WTO). The WTO promotes reducing tariffs and enhancing market access, which can benefit South Africa's exporters and lead to greater domestic market competition (WTO, 2024). South Africa’s liberal economic stance, which seeks to attract FDI, is evident in the range of incentives provided to foreign investors.

These incentives, such as lower taxes, preferential loans, and monopoly rights, are designed to create an attractive environment for multinational corporations (MNCs). However, while these measures may attract investment, they can also harm local industries, which struggle to compete with the resources and advantages afforded to foreign companies (Andriansyah, 2021; Bakari & Mabrouki, 2017; Zhu et al., 2022).

The Department of Trade, Industry and Competition (2021) emphasises the need for a trade policy that supports South Africa’s industrial development objectives to drive sustainable economic growth, generate decent jobs, and promote broader economic inclusion, particularly for women and youth. This vision requires a strategic shift in policymaking, especially considering South Africa's challenges, including stagnant growth, rising inequality, and increasing unemployment. There is growing recognition that trade policies must foster trade growth and enhance national industrial capabilities. Achieving this balance necessitates greater coordination and collaboration between government, business, labour, and communities to build a robust industrial base capable of locally and globally competing (Department of Trade, Industry and Competition, 2021).

Conclusion

The South African Reserve Bank (2021) outlines South Africa’s trade policy stance, which seeks to balance elements of protectionism and free trade. The paper reveals that South Africa’s trade policy combines both approaches, reflecting the country’s efforts to protect domestic industries while engaging in global trade (South et al. Bank, 2021). However, a review of existing literature does not indicate how well this balance is achieved. The paper suggests that the decision to prioritise free trade or protectionism lies mainly at the government's discretion, with both policies holding significant value.

Through this analysis, the paper asserts that the South African government favours free trade over protectionism. Literature supports this assertion, indicating that many countries adopt a similar approach, seeking to protect domestic industries while also reaping the benefits of global trade, such as attracting foreign direct investment (FDI) (Amal, 2013; Villaverde & Maza, 2015; OECD, 2024). The paper highlights the importance of government policies that promote economic openness and competitiveness while incorporating elements of protectionism. This balance is crucial for creating a sustainable economic path for domestic industries and the broader economy (Chang, 2002). Without such regulatory measures, neoliberal policies have struggled to address the "triple challenges" of development—poverty, inequality, and unemployment—particularly in less economically developed countries (LEDCs). Given the significant challenges related to income inequality, poverty, and unemployment in South Africa, the paper concludes that it is essential for government institutions to develop policies that address these issues effectively.

While protectionism has often been criticised, it cannot be overlooked that policies such as tariffs and quotas can protect local industries from foreign competition and help preserve jobs in sectors where South Africa has a comparative advantage (Zongwe, 2020). The literature reviewed in this paper broadly supports the view that neoliberal policies, which prioritise open markets and deregulation—are believed to attract FDI, thereby creating jobs, reducing poverty, and alleviating income inequality (Simmons et al., 2006; Widmaier, 2016; Manzoor et al., 2019). However, despite the widespread adoption of neoliberal economic policies in many LEDCs, including South Africa, issues like poverty, unemployment, and inequality persist (National Treasury SA, 2019; Stats SA, 2022; Workman, 2020).

For this reason, the paper argues that, in the context of globalisation, governments must continuously assess and adjust trade policies to adapt to changing economic conditions and global trade dynamics. The paper concludes by advocating for policy adjustments that foster economic growth, job creation, and poverty eradication. At the heart of effective international trade lies the need for productive and well-negotiated trade agreements. The findings suggest that trade agreements between countries must reflect each nation's competitive advantages amid globalisation and the promotion of free-market systems. In practical terms, this means that South Africa should pursue trade negotiations that promote the beneficiation of its natural resources, which can help enhance domestic industries and maintain the independence of its industrial sector.

Recommendations

Based on the analysis in this paper, several recommendations are proposed to strengthen South Africa's trade policy and foster long-term economic development:

The South African government should provide more targeted support for local industries, particularly those in sectors where the country has a comparative advantage, such as mining, agriculture, and manufacturing. A key strategy should be encouraging the benefit of South Africa's rich natural resources. This can create downstream industries that add value locally, boosting industrial capacity, creating jobs, and generating higher-value exports.

To build a more resilient domestic economy, the government should promote local consumption through national campaigns encouraging South African consumers to purchase locally produced goods. This can be achieved through public education initiatives, incentives for local production, and legal frameworks prioritising local goods in both public procurement and consumer behaviour.

The government must revisit the legal and regulatory frameworks surrounding small businesses and cooperatives. These entities are often the backbone of local economies, yet they struggle to compete in a globalised market. By creating policies that protect and empower small-scale producers, South Africa can stimulate job creation, reduce poverty, and strengthen local supply chains. This can also involve facilitating access to financing, capacity-building programs, and better market access.

Local municipalities should be encouraged to develop and implement economic policies that connect local producers with existing retailers and larger markets. These policies should facilitate partnerships between small local businesses and larger commercial entities, ensuring local producers have access to broader market opportunities while fostering a more inclusive, sustainable local economy.

While foreign direct investment (FDI) remains a vital source of economic growth, it must be carefully regulated to ensure that multinational corporations (MNCs) do not undermine local industries. The government should adopt policies prioritising local businesses, particularly in strategic sectors while allowing MNCs to operate in areas where local production is insufficient. This approach ensures that foreign investment complements domestic industries rather than displaces them.

South Africa's trade agreements should be designed to open access to foreign markets and reflect the country's developmental goals. Trade deals should prioritise sectors where South Africa has a comparative advantage and incorporate clauses encouraging technology transfer, skills development, and industrial growth. South Africa must negotiate trade terms that align with its broader economic objectives, such as reducing unemployment, fighting poverty, and addressing inequality.

By adopting these recommendations, South Africa can create a more balanced, inclusive, and sustainable trade policy. The challenge of balancing free trade and protectionism will always remain. However, with the right mix of policies, South Africa can harness the benefits of international trade while protecting and nurturing its domestic industries. Only then can the country unlock its full economic potential and build a future where growth, equity, and development go hand in hand.

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