

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1191
21 May 1960

Limited Distribution

CONTRACTING PARTIES

Sixteenth Session

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH THE UNION OF SOUTH AFRICA

1. In accordance with its terms of reference the Committee conducted the consultation with the Union of South Africa under paragraph 4(b) of Article XII. The Committee had before it: (a) the "basic document" prepared by the secretariat and (b) documents provided by the International Monetary Fund. In conducting the consultation the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The discussions with the Committee were completed on 3 May 1960. The present report summarizes the main points discussed during the consultation and the report is based on the factual information as available to the Committee at that time.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with the Union of South Africa. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the Executive Board decision taken at the conclusion of the 1959 consultation with the Union of South Africa under Article XIV of the Fund Agreement and the background material prepared in connexion with that consultation as well as a supplementary background paper on recent developments. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the Union of South Africa. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision taken at the conclusion of the 1959 consultation with the Union of South Africa under Article XIV of the Fund Agreement¹, and the background material prepared in connexion with that consultation. The consultation was concluded on December 23, 1959. The Fund has also provided a supplementary paper, dated April 18, 1960, to supply background information on recent developments.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the Executive Board decision taken at the conclusion of the 1959 consultation with the Union of South Africa under Article XIV of the Fund Agreement, and particularly to paragraph 4 which reads as follows:

¹ See Annex.

14. The South African pound was made externally convertible at the end of 1958. The exchange control system has since been further simplified, and exchange allocations for current invisible payments have been liberalized. The Fund welcomes these developments. The Fund notes the intention of the South African authorities to relax the remaining restrictions in 1960 and anticipates that they will proceed with the elimination of these restrictions if the balance of payments remains favourable.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with the Union of South Africa. The Fund has no additional alternative measures to suggest at this time."

Balance-of-Payments Position and Prospects

3. In his opening statement the representative of the Union of South Africa outlined the movements in his country's external financial position and recent economic developments affecting the level of its import facilities. He recalled that at the time of the last consultation with his country in May 1959, the South African economic scene had still been dominated by recessionary forces largely as a result of developments abroad. The decline in world market prices for a number of commodities exported by his country had led to a fall in export earnings which, in turn, had led to a contraction of consumer demand and a curtailment of the output of almost all sectors of the South African economy. The depressing effects on the economy of this decline in consumer expenditure had been reinforced by poor agricultural crops in most parts of the Union and the resultant appreciable decline in farm incomes. Despite the decrease in South Africa's foreign exchange reserves which had occurred during 1958 as a result of these unfavourable developments, the South African Government had adhered to its policy of maintaining the level of import liberalization already achieved, and had sought to relieve the pressure on the country's external financial position by means of stricter fiscal and credit controls rather than through an intensification of import restrictions. In its attempt to stem the tide of recessionary forces, the South African Government had been guided by the belief that the maintenance of economic and financial stability demanded flexible fiscal and economic policies which, on the one hand, provided adequate recognition of the growing demands of an expanding economy but which, on the other hand, sought to exercise a strict discipline on the economy as a whole so as to contain and counteract inflationary pressures. The optimistic expectations concerning the early recovery of economic activity which his Government had held at the time of the last consultation had been fully justified by the general economic recovery which had occurred in the country since that time as a result of appropriate governmental policies and on the basis of the inherent strength of the South African economy.

4. During the second half of 1959 there had been a modest but nonetheless persistent increase in industrial production, and the increased output had well been sustained during the first quarter of 1960. Practically all branches of secondary industry had shared in this recovery but the most notable increases in output had been registered by the clothing and footwear industries. The revival of industrial production had been accompanied by considerably increased levels of

activity in the building and mining industries. The increases in the output of the mining industry could largely be attributed to a sustained expansion of gold production and, more particularly during the last quarter of 1959, to the substantial increase in coal production which resulted from the heavier demands from industry accompanying the recovery of industrial production. Largely on account of more favourable climatic conditions than those prevailing during the 1958/59 crop year, the volume of agricultural and pastoral production had also shown some improvement during the latter half of 1959 although the figure for the crop year as a whole would probably not be higher than that for the previous year. In line with the developments in other sectors of the economy, the indices of retail sales for the second half of 1959 had also reflected a steady strengthening of consumer demand, a development which was well sustained during the first quarter of 1960.

5. The most conspicuous feature of South Africa's economic recovery since the middle of 1959 had, however, been the steady upward trend in the level of the country's gold and foreign exchange reserves. This was the result of a material improvement in the balance of payments on current account, and was largely due to a contraction of consumer demand and to the slackening of industrial activity during the first half of 1959. Total value of imports into the Union during 1959 was £68 million less than in 1958. On the other hand, as compared to 1958, merchandise exports in 1959 rose by £41 million and the output of gold by some £32 million. The decline in imports during 1959 had been spread over practically all classes of goods except wheat in which commodity, due to a crop failure, there had been an increase in the value of imports by £7.8 million as compared with the previous year. On the other hand, the rise in the country's export earnings was due primarily to increases in the exports of wool, manufactured goods and diamonds, both in terms of value and volume. As a result of increased gold production and because of the improvement in the trade balance the deficit on current account of £74 million during 1958 had been turned into a surplus of £73 million during 1959, or a net improvement of some £147 million on current account. On the other hand, during 1959 there was a deficit of £33 million on capital account as compared to a surplus on capital account of £78 million in 1958. For 1959, the South African balance of payments showed a net surplus of £40 million or an improvement of £36 million over the previous year when the net surplus had been some £4 million.

6. The representative of South Africa explained that the decline in total imports in 1959 was due mainly to three factors, namely: (a) the contraction of consumer demand which had followed the decline in farm incomes and the slackening of industrial activity, (b) the reduced rate of capital formation which had resulted in smaller outlays for the importation of capital goods, and (c) the reduction of merchants' inventories to levels more in keeping with the lower volume of sales. Although the Government had no means of ascertaining to what extent permits issued to individual importers had actually been used by those importers, there was good reason to believe that many importers had not taken full advantage of their import quotas for 1959. The decline in imports must, however, be regarded as an abnormal and purely temporary development which was directly related to the recessionary conditions affecting the South African economy during the greater part of the year.

7. Referring to the measures taken in 1959 to relax import restrictions, the representative of South Africa reaffirmed that it was his Government's declared objective to move as rapidly as possible towards the ultimate complete abolition

of import restrictions maintained for balance-of-payments reasons. In his view, the South African Government had succeeded in maintaining a sustained forward movement in the relaxation of these restrictions ever since the first steps had been taken in this direction in 1951, and the substantial progress testified to his Government's determination to restore normal import conditions as speedily as this could be done without jeopardizing the external financial position. With relatively minor exceptions, his Government had not gone back on the relaxations which had been introduced since 1950; the resulting stability in the marketing of imported goods must have benefited overseas suppliers. In response to the improvement in 1959 in the balance of payments, the South African Government had been considering further relaxation of import restrictions; the recent increase in the facilities for imports of consumer goods should be taken as further evidence of his Government's desire to move as rapidly as possible towards the complete abolition of import control. He concluded, however, that any further progress in the direction of import liberalization had necessarily to be related to developments affecting the levels of export earnings and monetary reserves. All available economic indicators appeared to show that the stage was set for a renewed upsurge of economic activity and for growing prosperity in South Africa. In view of the expected upward trend in output and income, it seemed almost certain that South Africa would need to expand its export markets if it was to maintain the level of import liberalization already achieved or to make further progress with the dismantling of its remaining import restrictions.

8. The Committee thanked the representative of the Union of South Africa for the detailed and comprehensive statement and expressed gratification at the improvement in South Africa's foreign exchange reserves since May 1959. Members of the Committee noted the large surplus on current account (net of gold output) in 1959 as a result of which South Africa had been able to add £40 million to its gold and foreign exchange reserves, in addition to net investment of £18 million, much of which appeared to be long-term investments, particularly in the Federation of Rhodesia and Nyasaland, while at the same time making payments to the International Monetary Fund equivalent to £17 million. Total reserves, about £140 million in April 1960, were equivalent to the value of approximately three months' imports. It was noted, however, that reserves in April 1960, although higher than at the end of the third quarter of 1959, were lower by about £13 million than at the end of 1959. Members of the Committee enquired about the reasons for this development, particularly whether this reflected a normal seasonal variation in reserves, and about the prospects for exports during the remainder of the year.

9. The representative of South Africa noted that the loss on current account during the first quarter of 1960 had been only about £2 million, a much lower figure than the usual seasonal loss on current account. On the other hand, there had been a rather more substantial loss on capital account, which was due largely to the repatriation of foreign capital and purchase of foreign-held Union securities by Union residents and which was expected to continue for some time. It was hoped to maintain during the current year the record level of gold production attained in 1959. In view of the high and rising level of economic activity in the Union, there was likely to be a continued deficit on visible trading account; the heavy industrial demand for raw materials and capital goods was likely to be accompanied by an accumulation of inventories, all of which would generate new demand for imports. Furthermore, the import bill for consumer goods was also likely to increase following the newly announced increase in

allocations for consumer goods imports. As for export prospects, while demand for South Africa's exports should remain at a satisfactory level owing to a sustained high level of economic activity in the rest of the world, setbacks in production might place limitations on export availability. Indications were that the wool clip and agricultural production in general in South Africa would be at a lower level as compared to 1959. It was also doubtful whether the high level of diamond exports attained in 1959 could be expected to continue during the current year.

10. Some members of the Committee thought that in view of South Africa's present strong balance-of-payments position the import policy pursued by the Government was over-cautious. The representative of South Africa stated that his Government considered that the present level of reserves was not so high as to justify further immediate changes in import restrictions. Account would also have to be taken of the possibility of further capital outflows, the recent increase in import quota allocations, and the various development projects which required substantial outlays for capital equipment and which could not be stopped abruptly. The record of South Africa's import liberalization showed that the Government never aimed at building up excessively high reserves but was indeed ready to accept substantial losses in foreign exchange reserves. In 1958, for example, no new restrictions were imposed although the level of reserves had fallen to about £73 million, an amount barely exceeding the value of one month's imports.

11. In response to various questions the representative of South Africa expressed the opinion that the large increase in imports during the first quarter of 1960 probably reflected mainly heavy purchases of constructional timber, iron and steel, metal manufactures, machinery and other capital goods. Automobiles and constructional timber as well as iron and steel had been the commodities showing the largest decreases in imports in 1959. Both automobiles and constructional timber had however been over-imported previously and the reduction in inventories was accompanied by a decline in consumer demand for automobiles and a decrease in building activity during the recessionary period. Furthermore, a poor harvest had led to further decreases in consumer expenditures, disposable farm incomes having fallen by about £35 million. In the case of iron and steel the Union, which could normally produce only about 65 per cent of domestic requirements, had turned into an exporter. One member of the Committee enquired about the causes of the apparent continued decline in textile imports in recent years. The representative of South Africa explained that uncertainty among traders regarding import control policies on textiles had led to heavy imports of textiles in 1957, and that this over-importation had naturally been followed by a period of declining imports in these products while the excess stocks were being worked off. On the other hand, the increase in tariff rates on textiles, which had been introduced to revitalize the industry, might also have contributed to the decrease in textile imports. Imports of made-up textile goods were expected to recover as consumer purchasing power and standards of living increased as a result of the high and rising levels of economic activity in all sectors of the economy.

12. One member of the Committee, recalling the statement made by the South African delegation at last year's consultations that the large-scale development programmes for agricultural improvement, road building and electrification, which were then in progress, were about to be completed, enquired whether the final stage of these programmes had been reached in 1959. The representative of South

Africa explained that although the particular programmes which the representative to last year's consultation had had in mind were now nearing completion, the continued growth of the economy and the exigencies of the country constantly called for new developmental projects, which would undoubtedly continue to exert pressures on the budget and on the country's external reserves.

13. One member of the Committee enquired whether the improvement in South Africa's balance-of-payments position in 1959 was mainly due to an increase in the volume of exports or whether there had also been an improvement in the terms of trade. Between the middle of 1958 and the end of 1959, for example, the South African wool export price index as given in International Financial Statistics of April 1960, had increased by about 50 per cent. The representative of South Africa recalled the general fall in primary commodity prices in 1958-59 and the subsequent recovery in 1959. Increased volumes had, however, contributed substantially to the larger export earnings in 1959.

14. In response to a question concerning the trend of production and trade in his country, the representative of South Africa noted that under the stimulation of war-time conditions and as a result of continued industrial expansion, the Union now produced a wide range of goods. In the general merchandise sector, for example, domestic production before the war had supplied about 20 per cent of domestic requirements, while today about 80 per cent of domestic requirements were met by domestic supply. Only the demand for certain quality goods, e.g., optical instruments and cameras, which owing to the limited market could not be produced economically in the Union, had generally to be met by imports. The contraction in imports which had been noted in 1959, must be regarded as a passing phase. Imports in the first quarter of 1960 were about £17 million higher than in the corresponding period in 1959. Projecting this development on an increasing scale it had been estimated that for the year as a whole imports should be higher by about £80 million than last year.

Alternative Measures to Restore Equilibrium

15. Members of the Committee expressed satisfaction at the effective way in which fiscal and monetary measures had been used by the Government of South Africa in redressing pressures on the balance of payments. They also welcomed the reaffirmation of the South African Government's readiness to take such alternative measures whenever necessary. Noting that these measures of restraint had been relaxed during the current year they wondered whether a continuation of the policy of restraint would not have helped to bring about the termination of the import restrictions, and asked whether any pressure on South Africa's foreign external financial position, resulting from the present expansionary forces in the economy, would be redressed by the use of appropriate internal measures rather than by an intensification of restrictions. The representative of South Africa replied that his Government's basic policy was to rely as much as possible on measures other than import restrictions for the protection of the country's external financial position. In deciding on the policies for any given time, however, the Government had to strike a balance between the objective of trade liberalization and that of assuring continued economic expansion and growth. Economic expansion and the creation of new employment opportunities were particularly important in South Africa in view of the large number of people entering the labour market each year.

16. One member of the Committee enquired whether the South African Government expected the measures it had taken to promote economic recovery would lead to an increase in South Africa's export capacity and thus contribute to a strengthening of the balance-of-payments position. The representative of South Africa replied that although the renewed increase in capital investment could be expected in the long run to have such favourable effects, as a short-term proposition the measures must be expected to place additional pressures on the foreign exchange reserves because of the increased import requirements in raw materials and industrial equipment. The expected high level of import requirements on account of continued economic expansion and the possibility of further losses on capital account were the factors behind the Government's present policy of caution and its hesitancy in eliminating import restrictions on consumer goods. It had been estimated that complete liberalization might lead to a considerable increase in import outlays (see paragraph 23 below). Even the maintenance of the present level of import liberalization would be contingent upon a satisfactory position on capital account and increased export possibilities.

System and Methods of Restriction and their Effects on Trade

17. Members of the Committee noted that there had been little change in the proportion of imports subject to import control. At the time of last year's consultation, 25 per cent of South Africa's total imports had been free of all import control, about 67 per cent had been subject to licensing control but no effective restriction and about 8 per cent of actual imports were under quota restriction. The only change had apparently been a decrease to 7 per cent in the proportion of imports under quota with a corresponding increase to 68 per cent in the category of imports subject to licensing control but no effective restriction. With the improvement in South Africa's balance-of-payments position, one would have expected that the number of goods free of licensing control or under automatic import licensing should have increased substantially during the year. The representative of South Africa explained that although there had been no substantial change in the classification of goods for import control purposes, import opportunities had been significantly increased through increases in the quota allocations. In the consumer goods sector, the only sector which South Africa considered as still effectively restricted, Category A goods (those not produced in South Africa) which had previously been given allocations equivalent to 70 to 80 per cent of base year imports were now admitted up to full requirements. The quota allocation for Category B consumer goods (those also produced in South Africa) had been increased from 50 per cent to 60 per cent of importers' basic quotas. The de facto liberalization of Category A consumer goods would cost another £2.5 million in foreign exchange expenditures, while the increased outlays resulting from the increase in the quota allocation for Category B goods was expected to amount to £8 to 10 million. For imports of raw materials, capital goods and (since 1957) motor vehicles (except those with an f.o.b. value when new in excess of £800) import licences had always been granted to meet importers' full requirements.

18. In discussing the significance of the phrase "full reasonable requirements" used in the South African import regulations, the representative of South Africa explained that this meant in effect full requirements, the sole condition being that the import applications should bear some relation to an importer's inventories and trade requirements as determined on the basis of his current transactions. The licensing authorities also had to bear in mind the interest of other importers in the same field and the need to ensure an equitable

distribution of imports among the large number of importers. In practice the granting of import licences up to "full reasonable requirements" had the same effect as licensing on a replacement basis. Members of the Committee pointed out that the inclusion of the word "reasonable" carried with it the notion of control and it did not appear right to claim genuine de facto liberalization for goods falling into this category of licensing control. Furthermore de facto liberalization, while desirable as a step towards full de jure liberalization, was no substitute for the latter. The fact that an import licence was required constituted in itself a psychologically inhibiting factor to trade, especially as foreign exporters might be made reluctant to risk investment in promoting a product in a market where their goods were subject to licensing requirements. Members of the Committee expressed the hope that the South African Government would make every effort to transfer imports into the licence-free category. The representative of South Africa stated that for 68 per cent of imports in question import licences were issued freely and that his Government had not felt that this requirement had any deterrent effect. He agreed that some items could possibly be transferred to the licence-free category but emphasized that under the present system importers could fully replenish inventories on a replacement basis and could claim an upward revision of their basic quota allocation when this was warranted by the volume of transactions. The reason why no additional goods had been moved from the de facto liberalized to the licence-free group during the past year was that the former covered about 70 per cent of all imports into South Africa and an over-importation of a number of commodities, when freed from licensing requirements, could have serious effects. The possibility of fairly large variations in import orders could have serious effects on the relatively low level of South Africa's foreign exchange reserves. In this connexion one might recall the over-importation of motor cars following the liberalization measures in 1957, when dealers' inventories were built up to nine, ten and more months of normal market demand. One member of the Committee pointed out that the situation in the automobile market was probably not characteristic of the market for a great many other goods, especially as the cost of holding large inventories would serve to inhibit traders from maintaining unduly large stocks. On the other hand, the continuation of import controls for a large sector of the import trade might well have been the reason for the over-importation of certain individual commodities, such as automobiles, constructional timber and textiles which had been observed in the past.

19. In answer to questions concerning the administration of the licensing controls the representative of South Africa explained that the decision to grant an importer the status of "registered importer" was taken by the Director of Imports and Exports. All decisions concerning import licensing were subject to appeal to the Secretary of Commerce and Industries and ultimately to the Minister of Economic Affairs. One member of the Committee suggested that the practice of reserving import rights on a large number of products for registered importers might, through inhibiting the free play of competition, hamper the achievement of a policy of stabilizing internal prices. The representative of South Africa explained that although the granting of an import licence required importers to be registered, admission requirements to become a registered importer were very liberal. The practice of traffic in licences had been discouraged through changes in the licensing procedure in 1959; the number and effect of such undesirable practices had been substantially reduced. Basic quota allocations had been and might be adjusted both upwards and downwards in order to conform

more fully to the changed pattern of imports and to the actual requirements and trade opportunities of individual importing firms. In response to another question the representative of South Africa explained that the first instalment of annual quota allocations was normally announced during the third quarter of the preceding year and supplementary quotas were generally announced during the second quarter of the licensing year. He confirmed that the General Notice to Importers of General Merchandise of 1 April 1960, covered only general merchandise goods, listed in Annex C to the basic document.

20. One member of the Committee noted that prospective importers of industrial plant and equipment, which were supposed to be free of restriction, had to indicate in a form (EXCON 44) whether a similar product was available from domestic sources; it also appeared that importers had to justify import applications before a licence was to be issued. The representative of South Africa explained that the purpose of that procedure was purely to ensure that importers were informed about the domestic availability of like-products, no attempt being made to put pressure in favour of the use of domestic products.

21. Referring to the statement that only consumer goods were being subject to import restriction, a member of the Committee invited comment on the fact that cash registers, calculating machines and tabulators, fertilizers and certain types of structural timber, kraft paper and board and domestic toilet paper were also included in the list of restricted consumer goods imports. The representative of South Africa stated that these goods had been included in Annex C (goods subject to import permit for which annual quotas were granted to individual importers) because of special difficulties in these sectors which made temporary import controls necessary. For example in the case of imports of structural timber many South African importers taking advantage of freight dumping and very low prices had accumulated inventories of up to twenty months normal requirements. Cash registers and certain types of office machines were being controlled in connexion with the pending change-over to the decimal currency system in South Africa. Fertilizers were being restricted to permit the absorption of domestic supplies available as a by-product in the production of fuel oil from coal. The special import controls on the other goods mentioned had been made necessary to counteract unsettling influences on domestic production exerted by associated business transfers by large international firms which had acquired processing plants in the Union. The representative of South Africa stated that apart from these special reasons, these restrictions were for the time being maintained under Article XII of the General Agreement. Members of the Committee pointed out that these restrictions scarcely seemed justifiable under these provisions. Thus the Government of South Africa should review the situation and should seriously consider applying other measures less likely to injure the trade interests of other contracting parties.

22. The representative of South Africa assured the Committee that his Government was making every effort to eliminate restrictions as soon as possible and that, given the special conditions which had led to the imposition of the restrictions, most commodities could probably be freed from import control in the near future. Products such as fertilizers might, however, constitute special exceptions. Fertilizer production might have to be protected for strategic reasons; an alternative use of the by-products was difficult to find as long as the South African chemical industry was still very small. Nevertheless, the Government was actively pursuing a policy of reducing the cost of fertilizers to farmers and of promoting alternative uses for these by-products. The use of quota alloca-

✓ tions for timber would be lifted once inventories had been brought down to more manageable proportions. Concerning the use of tariff measures for the regulations for these imports he pointed out that duties on timber and toilet paper were bound under the GATT; rather than seeking re-adjustment of these bound duties the South African authorities, while admitting the incidental protective effects, relied for the time being on balance-of-payments justifications for the restrictions. Tariff measures had been rejected as unsuitable to deal with the particular problem of kraft paper and board. Members of the Committee observed that the "hard-core" problem that seemed to exist in the case of fertilizers would not be solved but would rather be accentuated by the present aid to production. Further, a lowering of fertilizer prices should contribute to strengthening South Africa's competitive position, on which the Government seemed to lay considerable emphasis. One member of the Committee indicated that these restrictions appeared to involve an unnecessarily high degree of protection to domestic industry.

23. One member of the Committee enquired whether the South African Government planned to increase the level of tariff protection in connexion with the move towards liberalizing imports, as seemed to have been the case with textiles. The representative of South Africa stated that the increase in customs protection for certain textile goods had been made to revitalize the domestic textile industry and was unrelated to the liberalization measures. The increase in customs protection for textiles had been decided upon with much reluctance because it was a general rule that in order to keep down the cost of production the Government discouraged measures which resulted in increases in the internal price level, especially in view of the fact that the important gold mining industry could only obtain a fixed price for gold.

24. Members of the Committee enquired whether the representative of South Africa could give an estimate of the increase in imports which would take place if the remaining import restrictions were removed. The representative of South Africa, while stressing the difficulty in forecasting, stated that the cost of lifting all import restrictions, had been estimated at between £25 and 30 million. In the view of his Government, such an increase could indeed lead to a serious drain on the still fairly small reserves of the Union, especially in view of some uncertainty concerning South Africa's export prospects and capital movements.

✕ 25. A member of the Committee asked what proportion of South Africa's total imports was covered by the arrangements for importation by the Agricultural Marketing Boards. He noted that the figures in paragraph 4 (i), (ii) and (iii) of document MGT(60)21 accounted for 100 per cent of total imports and asked in which category the imports by the Marketing Boards fell. The representative of South Africa said that although he could not supply a percentage, the amount of imports accounted for by the operations of the Marketing Boards was very small in 1959.

26. A member of the Committee noted that the consumer goods on which South Africa maintained restrictions were exclusively those which were produced domestically. Consumer goods not produced domestically were stated not to be restricted. Ordinarily a system designed to conserve foreign exchange limited the import of non-essentials without regard to whether or not like products were produced domestically. The system used by South Africa in the selection of products for restriction seemed to reveal a preponderant emphasis on protection. The

representative of South Africa reaffirmed the intention of his Government to reduce and eliminate balance-of-payments restrictions as soon as possible. Whatever element of protection there was in the South African system was incidental, and would disappear with the restrictions when these were removed. Incidental protection was by general recognition inherent in any system of import restrictions, but the South African Government had always pursued policies which would reduce to a minimum any injury to the trade of contracting parties. It was true that during the war and during the last ten or eleven years a number of industries had sprung up in the Union under the protection of import controls, but the Government was determined eventually to abolish all import restrictions. Furthermore, in view of the structure of the economy and its reliance on gold production, reliance could not be placed on high tariffs. What restrictions there remained today were in practice those in the consumer goods sector and under the present pattern of imports, imports to a value of only about £15 million were effectively restricted. In conclusion the representative of South Africa stated that any further liberalization measures which his Government would undertake would depend on the future development of South Africa's export prospects and on the movements in the capital account affecting the development in South Africa's level of reserves.

General

27. In conclusion of the discussions the Committee thanked the representatives of the Union of South Africa for the spirit of co-operation and frankness with which they had conducted the consultation. They also welcomed the fact that South Africa applied its import controls without discrimination (with the exceptions provided under its trade agreement with the Federation of Rhodesia and Nyasaland which was under consideration by the CONTRACTING PARTIES in another context) On the other hand, many members of the Committee felt that the liberalization measures so far taken were not commensurate with the possibilities provided by the continued improvement in South African balance of payments and monetary reserves. The list of imports which were not subject to licensing requirements had shown no change since the time of the last consultation. Moreover, members of the Committee noted with some concern what appeared to be a not insignificant element of protection in the operation of the import control system. The Committee welcomed therefore the reaffirmation of the stated objective of the Government of South Africa to reduce and eliminate import restrictions as rapidly as possible. Members of the Committee hoped that the Union of South Africa would in the near future abolish licensing requirements and introduce de jure liberalization for many products now subject to licence, free many products from quota restriction, and increase the allocations for the products on which South Africa considered it necessary to retain for the time being quota restrictions.

ANNEX: Decision taken at conclusion of the 1959
Consultation between the IMF and the Union of
South Africa on 23 December 1959

1. The Government of the Union of South Africa has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements. The Fund took the occasion of these consultations to review again the other restrictive practices of South Africa.
2. The slowing down of economic activity which began in 1958 continued in the first half of 1959 with some further increase in unemployment. Consumption in the twelve months ended mid-1959 was somewhat lower than in the preceding period and the level of inventories in mid-1959 showed little change compared to a year earlier. Prices have generally been stable in 1959. The South African authorities have found it possible, in the light of the improved balance-of-payments position, to relax monetary policy since late 1958 and to give some stimulus to internal demand by various selective measures taken in the second quarter of 1959. Bank credit to the private sector has risen moderately. The ordinary budget continues to be in surplus and the level of public investment in 1959/60 will be about the same as in 1958/59.
3. As a result of a continued low level of imports, and some increase in exports, the current account of the balance of payments has been in surplus since the third quarter of 1958, following a period of deficit which began around the middle of 1957. Reserves have continued to rise.
4. The South African pound was made externally convertible at the end of 1958. The exchange control system has since been further simplified, and exchange allocations for current invisible payments have been liberalized. The Fund welcomes these developments. The Fund notes the intention of the South African authorities to relax the remaining restrictions in 1960 and anticipates that they will proceed with the elimination of these restrictions if the balance of payments remains favourable.
5. In concluding the 1959 consultations, the Fund has no other comments to make on the exchange system of the Union of South Africa.