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POLITICAL STABILITY A KEY TO SOUTH AFRICA'S ECONOMIC GROWTH

With the changing political climate and the start of the removal of sanctions in 1990, the normalization of South Africa's international relations is going ahead and its potential as a market, a supplier and a host for new investments, given political stability, is considerable, says the GATT Secretariat's report on the trade policies and practices of South Africa.

Since 1990, import surcharges have been lowered, the scope of direct import controls has narrowed to some 15 per cent of all tariff lines, compared to 77 per cent in 1983, and the export incentive system replaced by a more transparent scheme, which in turn is intended to be phased out by 1996. "However, the tariff structure and the review mechanisms underlying it are far from stable or transparent," says the report. "In this respect, greater binding of tariffs in GATT and less reliance on sectoral protection would promote a more reliable trading environment both for firms in South Africa and for its trading partners."

Endowed with mineral resources that have provided a reliable source of export earnings, South Africa has traditionally aimed at inward-oriented development with trade policy serving to foster import substitution. The cost of capital has often been kept artificially low, and this has been supported by State involvement in a number of large-scale industrial projects.

This traditional policy of inward industrialization was reinforced by the trade sanctions in the 1980s. While acknowledging the difficulty in evaluating exactly the effects of the economic sanctions, the report states that the general evidence would appear to be that trade sanctions, by themselves, had relatively little impact on economic growth, whereas

financial sanctions and the disinvestment campaign may have had severe repercussions. Between 1985 and 1989, it is estimated that trade sanctions reduced export earnings by 7 per cent, while the estimated combined cost of sanctions and disinvestment amounted to roughly Rand 40 billion, equivalent to some 13 per cent of 1991 GDP.

The report notes that since 1989, in line with the slowdown in world economic growth and less expansionary macroeconomic policies, the South African economy has been undergoing a severe recession, the longest in its history, with an estimated one million jobs lost in the past three years. The past policies aimed at extensive import-substitution and self-sufficiency, combined with the rigidities in resource allocation created by apartheid, have created a high-cost structure. The authorities have recognized that the structure of the economy detracts from competitiveness and limits employment opportunities. Deregulation, privatization and macroeconomic stabilization are being cautiously pursued; and, with the lifting of sanctions, greater outward-orientation in trade policies is being sought.

"Nevertheless," says the report, "it is evident that serious social and economic problems are faced by South Africa as a new governmental structure evolves and as a programme of uplift for the mass of the population is undertaken. The immediate challenge is to regenerate growth in the context of policies aimed at social advancement. To this end, the reorientation of production away from emphasis on satisfying limited domestic demand and more along the lines of South Africa's comparative advantage should lay the foundation for sustainable growth. Domestic political stability remains the key indicator of future growth potential. A smooth transition to a new government, accompanied by stable and transparent market-oriented policy measures, will give positive signals to the local and foreign investors and the international trading community."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the South African Government, will be discussed by the GATT Council on 1-2 June 1993. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.
2. The reports cover developments in all aspects of South Africa's trade policies, including domestic laws and regulations; the institutional framework; trade-related developments in the monetary and financial sphere; trade practices by measure and trade policies by sector. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.
3. A record of the Council's discussion and of the Chairman's summing-up, together with these two reports, will be published in Autumn 1993 as

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the complete trade policy review of South Africa and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

4. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 and 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990 and 1992), Korea, Rep. of (1992), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), the Philippines (1993), Poland (1993), Romania (1992), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), the United States (1989 and 1992), and Uruguay (1992).

TRADE POLICY REVIEW**South Africa****Report of the GATT Secretariat - Summary Observations**South Africa in World Trade

Following a long slowdown in its economy, South Africa is currently undergoing one of the most severe recessions for many years. Real GDP growth slowed from an average of 6 per cent in the 1960s to less than 2 per cent in the period 1981-89 (a decline in real per capita GDP of more than 1 per cent a year). Since 1990, the economy has contracted, under the influence of a severe drought, weak investor and consumer confidence and sluggish export performance; in the period 1990-92, real per capita GDP has fallen by about 3 per cent a year. Concurrently, unemployment has risen to record levels and over 40 per cent of the labour force is now estimated to be outside the formal sector.

Economic performance over the past decade was disappointing for a number of reasons. Exogenous factors included intermittent droughts, causing fairly wide fluctuations in agricultural production and income, and a downward trend in the price of certain metals including gold, South Africa's main export commodity. Domestically, South Africa's traditional orientation towards import substitution, combined with policy-driven restrictions on the mobility of labour, contributed to a relatively high cost structure. The trade and, especially, financial sanctions applied by trading partners against South Africa between late 1985 and the early 1990s were also significant; it is estimated that these measures may have cost South Africa as much as R 40 billion, equivalent to some 13 per cent of 1991 GDP.

Endowed with mineral resources which have provided a reliable source of export earnings, South Africa's industrial strategy has been guided by import replacement policies for much of this century. The cost of capital has often been kept artificially low, and this has been supported by State involvement in a number of large-scale industrial projects. Such a policy has created a highly capital-intensive industrial structure requiring a resource whose real scarcity has been exacerbated by financial sanctions, as well as by a high direct tax burden and, since 1989, a restrictive monetary policy. At the same time, rising labour costs and persistent inflation have undermined the competitiveness of exports. Lack of competitiveness has also been critical in furthering business concentration (roughly 80 per cent of industrial activity is controlled by four corporations) which, in turn, is likely to have contributed to price rigidity.

The mining industry has been the backbone of the South African economy and mineral exports still account for over 50 per cent of export earnings. However, there appears to be a secular decline in the contribution of mining to GDP, partly due to the exhaustion of high grade and shallow

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reserves and fairly rapid increases in production costs. Similarly, the contribution of agriculture appears to be falling, although the pace of decline is difficult to determine because of the impact of periodic droughts on production. South Africa is normally a net exporter of its major agricultural commodities. The share of manufacturing in GDP has increased marginally in the past decade but, overall, manufacturing output has declined since 1981 and the sector has shed jobs. In certain sectors, including food, beverages and clothing, domestic production meets over 90 per cent of domestic demand. Overall, imports of manufactures satisfy some one-fifth of domestic requirements.

Between 1980 and 1991, South Africa's rank among world exporters (in value terms) fell from 16th to 30th; in 1991, its merchandise exports accounted for 0.7 per cent of the world total. The export base is still concentrated in resources and resource-based industries. As the price of gold fell, its share in South Africa's merchandise exports dropped from nearly 50 per cent in 1983 to less than 30 per cent in 1991, while the shares of coal, iron and steel products, chemicals and textiles rose. The manufacturing sector has experienced annual average export growth, in constant U.S. dollars, of somewhat under 10 per cent since 1985, partly with the aid of subsidies but also because the sluggishness of domestic demand has caused producers to direct underutilized capacity toward foreign markets. Since 1985, South Africa has also sought to diversify its export markets, particularly to Asian and African countries.

South Africa's rank among world importers fell from 25th in 1980 to 36th in 1991, partly as a result of a fall in the value of oil imports as prices declined and partly as additional domestic oil-from-coal capacity came on stream. Since 1986, the growth in the volume of merchandise imports has exceeded that of real gross domestic expenditure, with a resultant rise in the import penetration ratio from just under 20 per cent in 1986 to some 23 per cent in 1991. However, import growth in value terms has fluctuated around zero since 1988, reflecting the contraction of domestic demand and the effects of import surcharges. Intermediate and capital goods dominate merchandise imports, with machinery, transport equipment, chemicals and textiles accounting for more than half of the total.

Institutional Framework

South Africa is one of the original signatories to the GATT. It has participated in all rounds of multilateral trade negotiations and has adhered to the Tokyo Round Codes on Import Licensing and Customs Valuation, as well as the International Arrangement on Bovine Meat and the International Dairy Arrangement; it has observer status in the Government Procurement, Subsidies and Anti-Dumping Codes. The General Agreement has been approved by Parliament but cannot be invoked before national courts.

Legislative authority is vested in the State President and Parliament. Trade-related legislation is debated before the Standing Committee on Trade and Industry. The private sector can enter the debate through its representation on the State President's Economic Advisory Council, which

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gives advice on the appropriate mix of policy measures to achieve priority economic goals. The recently established National Economic Forum adds the voice of organized labour to that of business and government.

Trade policies are formulated and coordinated by the Department of Trade and Industry. The Board on Tariffs and Trade, an independent, advisory body, and the Industrial Development Corporation contribute to the formation of trade and industrial policies through their advice to the Department.

The principal activities of the Board on Tariffs and Trade revolve around the processing of applications for tariff protection and tariff relief, which leads to selective support; investigation of dumping, subsidized exports or disruptive competition; and, on its own initiative or at the request of the Minister of Trade and Industry, investigations into structural adjustment in specific industries. It may recommend permanent or temporary changes in tariffs, normally following a period for public comment.

The Industrial Development Corporation (IDC) provides capital for industrial projects, export and import financing and small business development. It also provides policy advice. In 1990, it issued a major study on tariff protection and recommended reforms to the trade régime, including more uniformity in the tariff structure, a switch from selective to more automatic tariff protection, and a pre-announced schedule of tariff reductions. A number of the IDC's recommendations have gained official support.

The Department of Customs and Excise, within the Ministry of Finance, administers the Customs and Excise Act, regulating the implementation of tariffs, excise duties and other import taxes. Changes in tariff rates or import control can be introduced without Parliamentary approval, although amendments to the Customs and Excise Act require ratification. Import control is determined by the Department of Trade and Industry's Import and Export Control Directorate, in consultation with other relevant Government departments and industry.

Trade in agriculture is regulated principally through the Marketing Act, which gives control boards, under the supervision of the Department of Agriculture and the National Marketing Council, statutory powers over imports and exports of most agricultural commodities. Compliance with health and sanitary regulations on food products is ensured by the Department of Agriculture and the Department of National Health, while the South African Bureau of Standards is concerned with technical regulations and standards on manufactured goods.

Trade Policy Features and Trends

Recent evolution

South Africa has traditionally aimed at inward-oriented development, with trade policy serving to foster import substitution. The hallmarks of

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the trade system for long were a structure of selective tariff protection and binding import controls. Since the 1970s, direct import controls have, in most instances, been replaced by tariffs. Complementary to the inward-orientation of trade policy has been concessional finance for major projects; through the Industrial Development Corporation, public funds were channelled to capital-intensive projects designed to exploit the significant reserves of, inter alia, coal and iron ore and develop downstream heavy industries such as synthetic fuels and steel.

In the early 1970s, the costs of the import-substitution strategy to the South African economy began to make themselves apparent and various advisory groups recommended greater emphasis on exports. Quantitative restrictions were gradually eased - partly under pressure from external trading partners - during the 1970s, but the process came to a halt in the early 1980s in response to a deterioration in the external payments situation. Export incentives, to compensate for the anti-export bias implicit in import restrictions, were introduced in the 1970s and expanded in the 1980s. Nevertheless, until the early 1980s, the binding constraint on imports was an extensive system of import controls.

The dismantling of import control was resumed in 1983; its coverage was reduced from 77 per cent of imports in 1983 to 23 per cent in 1985, when the positive list of permitted imports was replaced with a negative list of imports still subject to control. Tariffs were increased selectively to compensate for the removal of quantitative restrictions. These developments were consistent with the cautious approach to moving away from import substitution taken by the Kleu Study Group of 1983, and with the dual approach of maintaining protection and promoting exports emphasized by the 1985 White Paper on Industrial Development.

Motivated both by international protest against the system of apartheid and the increased economic uncertainty inherent in South Africa's volatile political situation, many foreign governments and corporations limited their trade and investment relations with South Africa - if on a selective basis - in the period from mid-1985 to early 1990, when sanctions began to be dismantled. Disinvestment and the need for debt rescheduling put pressure on the balance of payments; to repay debt, South Africa successfully sought to generate current account surpluses. Exchange control was tightened through a dual currency system and an import surcharge, initially of 10 per cent, was imposed. In 1988, the scope of the import surcharge was broadened and financial policy became more restrictive, dampening domestic demand and, by freeing production capacity, implicitly encouraging exports.

There has also been increased reliance on explicit export promotion policies. In 1990, a new, more transparent General Export Incentive Scheme was introduced for non-primary products. The GEIS links subsidies to actual export sales, rather than production and marketing costs, and encourages processing and local content. In all, export subsidies amounted to some R 1 billion in 1991/92 and are likely to be in the order of R 2.4 billion in 1992/93, compared to R 125 million in 1986/87. The GEIS is due to be phased out in 1995.

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Thus, significant political and economic factors from the mid-1980s contributed to slowing the process of South Africa's trade liberalization. This strengthened the dualistic import substitution/export promotion character of its trade régime in the period, and increased the costs to the economy as a whole of such a policy.

Type and incidence of trade measures

Since 1990, the removal of direct import controls has regained a certain momentum. Such controls now apply to some 15 per cent of all tariff lines, compared to 23 per cent in 1985. In consequence, the tariff has become the main instrument of protection to manufacturing industry in South Africa. However, the tariff is complex, both in the number of items and the structure of rates applied, and its application lacks stability and transparency.

The South African tariff comprises over 12,600 tariff lines under the Harmonized System. The overwhelming majority of rates are applied on an m.f.n. basis, and only a minor percentage of imports enter at preferential rates. The average unweighted tariff is 7 per cent in agriculture and some 21 per cent in industry. These mask wide variations in the averages, from about 7 per cent on professional equipment to over 60 per cent on tobacco; within sectors, rates of over 35 per cent apply to such product categories as motor vehicles, yarns, clothing and footwear.

The tariff structure is complicated by formula duties, which apply to around one-sixth of all lines. The duties are generally applied in cases where "disruptive competition" causes, or is likely to cause, material injury. Under formula duties, the tariff collected is the higher of an ad valorem rate and a rate determined on the basis of a reference price. Thus, while ad valorem tariffs range up to 100 per cent, the ad valorem equivalents of formula duties can be several times higher.

South Africa's tariff displays a fairly substantial degree of escalation. In 1990, the weighted average rate for primary products was 2.5 per cent while that for manufactures was almost 27 per cent.

The import surcharge, in place since 1985, further increases such escalation. The surcharge currently averages 6 per cent but varies by sector, with the highest rates, up to 40 per cent, on beverages, tobacco and clothing.

Less than one-fifth of South Africa's tariff is bound in GATT. South Africa's offer in the Uruguay Round would raise this proportion to just over one-half. Under the offer, the simple average tariff for industrial products would also decline by a third and the percentage of duty-free tariff lines would rise from less than 20 per cent at present to over 25 per cent.

Rebates or refunds of tariffs are possible under a number of different circumstances; in addition, the import surcharge is not generally charged on rebated goods. As a result, although the nominal incidence of duties

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collected is well below the average unweighted tariff, the frequently-applied practice of extending rebates to industry on inputs not locally available raises effective rates of protection; over one-quarter of value added in manufacturing is estimated to receive effective protection of over 50 per cent. The process of granting tariff protection, or exemption from tariffs, is often ad hoc and selective; rates are changed often, and rebate provisions adjusted, by the Board on Tariffs and Trade in response to requests from sectoral interests.

Under the structural adjustment programme for textiles and clothing, interim tariff quotas were introduced in 1992 followed by an increase in duties on textiles and a reduction of duties on clothing. The programme is under review, the aim being to reconcile the interests of textiles and clothing manufacturers. Exporters of clothing have been eligible for duty-free imports of inputs but this provision will be removed as the system has led to widespread abuse.

Import licensing remains the main instrument of control in agriculture, forestry and fisheries, covering some three-quarters of the relevant tariff lines. In addition, over 90 per cent of tariff lines are under import control in the beverages, tobacco and rubber sectors; over 85 per cent in food; and nearly 60 per cent in clothing, which has also one of the highest tariff incidences. Control boards have exclusive rights to the distribution of roughly two-thirds of farm production, fixing prices for certain commodities and exerting statutory powers over imports and exports of most agricultural products. Overall, it has been estimated that import control adds 10 per cent to the average nominal rate of protection.

Government procurement is conducted under conditions established by the State Tender Board. Individual government departments may award contracts of up to R 50,000, or R 500,000 for construction and engineering projects, on their own account. Normally, tenders are invited only from firms based in South Africa; preferences granted to domestic suppliers are estimated to create a margin of some 30 to 40 per cent in favour of locally-produced goods, where available. Local content incentives are also integral to export subsidies on non-primary products, and in certain industries, including motor vehicles, local content is encouraged by levying excise duty in inverse proportion to domestic value added.

New anti-dumping and countervail legislation was introduced in 1992 with a view to establishing clearer definitions and conditions in this field. According to the authorities, this new legislation should allow the eventual phasing-out of formula duties. The South African Government recognizes that further adjustments in the new legislation, particularly to the definition of injury, may be necessary to bring it in line with the existing MTN Codes or the outcome of the Uruguay Round.

To compensate for the cost-raising effects of protection on manufactures, export subsidies are available through the General Export Incentive Scheme (GEIS), averaging around 20 per cent of the export value. Exporters may also import items duty-free for export processing; subsidized interest is available on loans for expansion of export capacity;

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favourable export credits can be obtained and certain export promotion costs are reimbursed by the State. In addition, recent tax amendments provide advanced depreciation for approved beneficiation projects that add value of at least 35 per cent to inputs; applications for these allowances close in late 1993, by which time it is likely that they will have been granted to a number of large, capital-intensive and export-oriented undertakings.

New initiatives

Apart from the reduction in direct import controls noted above, and moves towards a more transparent mechanism for temporary import relief, South Africa has taken a number of steps to deregulate elements of its economy, including privatization and a strengthening of competition.

Commercialization, followed by privatization in some cases, has been applied to a number of public enterprises. Thus, State-owned oil and steel firms have been privatized, while enterprises in fields such as railways, telecommunications, abattoirs, postal services and forestry have been placed on a commercial footing while remaining under State ownership. Under competition law, certain widespread practices were declared unlawful in 1986, including horizontal price collusions, aspects of market sharing and collusive tendering. In addition, investigations into monopoly situations and restrictive practices have, in a few cases, resulted in market-opening measures. However, certain sectors (such as construction, cement, newspapers and retail franchising, softwood marketing and sugar) have been granted exemptions from restrictive practices provisions, as being "in the public interest". No convictions have been obtained for contravention of such provisions. Deregulatory actions in the last several years have resulted in the abolition of price control for a wide range of goods and the removal of restrictions on the establishment of black-owned businesses. More government funds are being channelled to small business development.

An expensive industrial decentralization policy has been streamlined and ineffective regional incentives terminated. The electricity rebate scheme, under which exporters of metal products received a discount on the cost of electricity, has been abolished. Certain local preferences for which government contractors have been eligible are being phased out and the South African Bureau of Standards quality mark has recently been made available for foreign goods.

Steps towards deregulation have also been taken in the farm and food sectors. Price control on staples such as bread, milk and butter have been removed, and supply management of meat and eggs has been removed. This trend towards more market-related policies is likely to be reinforced in the light of conclusions by recent public investigations into agricultural marketing; these have recommended that the marketing system be restructured with emphasis on deregulation and the abolition of the statutory single channel marketing and price support schemes administered by the Control Boards.

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Trade Policies and Foreign Trading Partners

Since 1990, the legal provisions of apartheid within South Africa have been dismantled. Normalization of the country's international relations is also going ahead and its success depends in large part on a steady movement to majority rule. The potential of South Africa as a market, a supplier and a host for new investments, given political stability, is considerable and the stakes are, therefore, high.

Nevertheless, it is evident that serious social and economic problems are faced by South Africa as a new governmental structure evolves and as a programme of uplift for the mass of the population is undertaken. The immediate challenge is to regenerate growth in the context of policies aimed at social advancement. To this end, the re-orientation of production away from emphasis on satisfying limited domestic demand and more along the lines of South Africa's comparative advantage should lay the foundation for sustainable growth. More market-oriented policies would limit the diversion of scarce resources to internationally uncompetitive industrial or agricultural sectors, and would assist in lowering the underlying rate of inflation, by diminishing structural rigidities.

Many distortions remain within the South African economy. The past policies aimed at extensive import-substitution and self-sufficiency, combined with the rigidities in resource allocation created by apartheid, have created a high-cost structure. The authorities have recognized that the structure of the economy detracts from competitiveness and limits employment opportunities. Deregulation, privatization and macroeconomic stabilization are being cautiously pursued; and, with the lifting of sanctions, greater outward-orientation in trade policies is sought.

The trade régime has undergone welcome changes in the past decade; tariffs have been lowered and the extent of import controls has declined considerably. However, the tariff structure and the review mechanisms underlying it are far from stable or transparent; in this respect, greater binding of tariffs in GATT and less reliance on sectoral protection would promote a more reliable trading environment both for firms in South Africa and for its trading partners. Further steps toward achieving this would include greater uniformity in the tariff, a pre-announced schedule of tariff reductions, a phasing out of the import surcharge, and a review of the rebate system.

Present policies seek to restructure the productive capacity of the South African economy by increasing its export orientation. The prevalence of export subsidies illustrates the anti-export bias of import protection and fundamental lack of competitiveness of many sectors. The authorities have realised that costly export subsidies must be phased out; moreover, as greater market-orientation is brought to the trade system, its anti-export bias will be reduced, gradually obviating the present perceived need for export assistance. Other incentives for promotion of export-oriented industries still appear focused principally on capital-intensive minerals beneficiation and processing projects with

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limited potential for domestic employment-creation. Phasing out such assistance will also benefit the government budgetary balance.

International sanctions in the second half of the 1980s are likely to have contributed to inhibiting the pace of economic reforms. Their removal should be a signal to the South African authorities - in the transition to a more democratic system - to encourage conditions for the construction of an internationally competitive economy. A successful conclusion to the Uruguay Round would no doubt give an impetus to this process. However, the evidence from other countries at similar levels of development and trade-orientation to South Africa, which have undertaken economic and trade reform, gives a clear signal that autonomous trade liberalization, coupled with prudent macroeconomic and progressive social policies, can bring notable and sustained economic growth and development.

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TRADE POLICY REVIEW

South Africa

Report by the Government of South Africa - Summary Extracts

INDUSTRIAL TRADE POLICY

Trade Policies and Practices

Due to a new political dispensation taking shape in South Africa and as international trade sanctions against the country are being lifted, South Africa's trade policy is, of necessity, undergoing certain changes.

In this regard the South African Minister of Finance and of Trade and Industry has during March 1993, announced a comprehensive economic restructuring programme. This programme is contained in a document entitled, "A Normative Economic Model", the aim of which is to serve as a discussion document in order to facilitate the formulation of future policies. Amongst others, the Model quantifies the available resources for economic development, identifies the constraints that inhibit more rapid economic growth and also contains an indication of the probable eventual outcome of alternative policy options. The more important aspects which are addressed in the said Model are summarised in a document called "The key issues in the Normative Economic Model". A copy of this document is attached as "Annex A".

The South African Trade Policy Review should, in the light of what has been stated above, be regarded as a document containing trade policies that are being revised and could change over the medium and longer term.

Objectives of South Africa's Trade Policy

With its trade policy, the Government of South Africa strives to promote better living standards and quality of life for all South Africa's inhabitants. In order to achieve this goal the present macro-economic policy, which includes national trade and industrial policy, strongly focuses on increasing the economic growth potential of the country.

For a considerable period of time South Africa's trade and industrial policy has been characterised by the promotion of import substitution under the umbrella of extensive protective measures. This was mainly effected through the implementation of customs tariffs. This policy has contributed to the development of a high domestic industrial cost structure and the inhibiting of effective international competition. The application of international sanctions compounded the difficulties experienced in regard to this development. Consequently, South African manufactured goods are relatively uncompetitive in world markets. This relative uncompetitiveness, to a large extent, inhibited the development of an export culture amongst South Africans, especially in the manufacturing sector.

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Moreover, since the mid-1970's, fewer import substitution opportunities occurred and gold exports diminished. The South African economy was, to a significant extent, unable to compensate for this state of affairs through sufficient industrial exports. The result is a declining trend in economic growth and stagnating industrial development. In order to rectify the situation and to reach the above-mentioned goal, various objectives are pursued.

The main objective is to restructure the South African economy. It is generally accepted that sustained long-term economic growth could mainly be accomplished through increased investment in internationally competitive exporting industries. Thus, to strengthen the supply-side of the economy, Government provides various investment incentives, including, amongst others, a comprehensive technology innovation programme.

A further objective is the fostering and expansion of the competitive environment by preventing the formation of monopolistic cartels and restrictive practices.

A policy based on market-orientated, export-led and investment-driven economic growth implies trade and import liberalization. Accordingly, the reformation of South Africa's industrial protection policy is being attended to and Government is currently considering certain proposals. These proposals include:

- (a) a carefully managed, phased reduction of tariffs;
- (b) the removal of formula duties and tariff peaks;
- (c) a more uniform, simplified and stable tariff structure;
- (d) the removal of tariffs on product groups not manufactured in South Africa; and
- (e) the lowering of tariffs on raw materials and intermediate goods that are still subject to duties, with a view to lowering cost structures.

The reduction of import tariffs is also under review, especially in view of the requirements of the Uruguay Round.

International financial sanctions against South Africa and the country's commitment to repay its debt in terms of the Interim Debt Agreement which was concluded with foreign creditor banks, forced the South African authorities to implement particular economic measures in order to maintain a surplus on the current account of the balance of payments. This was achieved by:

- (a) suppressing domestic demand;
- (b) promoting exports; and
- (c) maintaining fiscal disciplines.

Apart from the above, fairly stringent monetary and fiscal policy measures aimed at achieving financial stability, have been maintained during the past three years.

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Finally, a committee on financial policy and strategy also convenes regularly to ensure that trade, industrial and macro-economic policies are properly co-ordinated. This committee consists of the different Ministers involved in economic policy-making, senior officials of the relevant government departments as well as officials of the South African Reserve Bank.

The Trade Policy Framework

Formulation of trade policy

The legislative arm of the South African Government consists of the State President and Parliament which approves, amongst others, all statutory provisions relating to South Africa's international trade.

South African trade policy is formulated on recommendations received from the Department of Trade and Industry, other public sector bodies such as the Board on Tariffs and Trade and the Industrial Development Corporation of South Africa, as well as from organised commerce and industry. The executive arm of government concerned with trade matters consists of the Ministers and Deputy Ministers of Finance and of Trade and Industry, their Directors-General and Commissioners and their officials.

The Implementation of Trade Policies

General trade policy measures

South Africa has for many years applied a policy of import replacement. Moderate and selective customs tariff protection was applied in cases of "normal" competition. Formula duties on the other hand, were applied to products imported at prices that were not considered "normal". To obtain the "normal price" with respect to a particular product, the domestic price of South Africa's main trading partners was taken into consideration. These formula duties were indiscriminate in that they were not specifically aimed at any one or group of countries.

In addition, specific sectors are from time to time selected for special investigation and treatment, for example, the motor vehicle industry.

Currently, and in response to the need for South Africa to improve both its growth potential through export promotion and its competitiveness internationally, an active debate is taking place concerning tariff policy. The Industrial Development Corporation was requested in March 1990 to prepare a report on the existing tariff protection policy and to recommend to Government any amendments the Corporation deemed necessary. The Corporation's report was handed to the Government in July 1990 and released for public debate in April 1991, with a view of achieving consensus for moving towards a more market-orientated industrial policy.

The Board on Tariffs and Trade, on its part, has in the meantime indicated its reluctance to continue applying the system of formula duties.

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In preference, the Board is working towards greater use of transparent anti-dumping and countervailing duties.

Although South Africa has embarked on an economic policy of export-led growth, it is clear that major changes will have to be effected, especially in view of the present round of negotiations of the GATT. Major restructuring of the tariff policy, coupled with a package of economic policy measures aimed at creating export-led industrial development, is needed.

A number of important steps have already been taken in this respect. The import surcharge on capital and intermediate goods has been scaled down, whilst capital goods and exports have been exempted from value-added tax. Other measures include a reduction in the rate of company tax and special rates on electricity, railage and loans from the Industrial Development Corporation.

Prospective changes in trade policies

Financial and trade sanctions, which resulted in the debt standstill of 1985, posed grave problems for the South African economy. South Africa was forced to pursue strict monetary and fiscal policies in order to maintain large surpluses on the current account of the balance of payments with a view of financing debt repayments. This affected the growth rate negatively, causing the creation of employment opportunities to come to a standstill. Since 1985, South Africa experienced a massive flight of capital, as overseas investors, including large multinational corporations, began to disinvest on a large scale. However, due to the strict monetary and fiscal policies that were introduced, South Africa was able to meet its foreign debt repayments. The result was that total foreign debt declined from US\$23.7 billion at the end of August 1985 to \$19.4 billion at the end of 1990.

If South Africa is to successfully change its economic policy from import substitution to export-led growth and greater liberalization, then it is imperative that entry into existing and new external markets are ensured. This could be achieved if all participants will be adhering to the obligations which are being negotiated in the Uruguay Round. To this end South Africa has submitted its tariff offer in 1990. South Africa also intends to embark on a process of tariff reform. This process will include, among other things, tariff reductions, over and above its commitments in terms of the Uruguay Round, and a more uniform, simplified and stable tariff structure. However, in view of the present severe economic recession and political instability, the tariff reform process will have to be managed carefully and gradually to avoid sudden disruptions to the economy and cause further large-scale retrenchments. The pace and extent of tariff reform will also be influenced by the way in which the economy adapts to the changes as well as to the steps taken to assist industry in order to increase its competitiveness.

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BACKGROUND INFORMATION PERTAINING TO THE ASSESSMENT OF TRADE POLICIESWider Economic and Developmental Needs, Policies and ObjectivesGeneral

According to the Economic Advisory Council of the State President, the implementation of a purposeful and coherent economic and socio-economic strategy is essential for formulating clear and valid policy guidelines to achieve the following complementary objectives:

- (i) an increase in the long-term economic growth rate and the employment creating capacity of the economy;
- (ii) a reduction in the inflation rate to a level comparable with that of our major trading partners; and
- (iii) improving the standards of living of the poorest sections of the population through policies aimed at creating employment and addressing their basic needs.

The following factors would assist South Africa in improving its economic conditions :

- (i) a return to steady growth rates worldwide;
- (ii) inward foreign investment due to improved perceptions of South Africa's future;
- (iii) foreign development funding combined with increased domestic development expenditure;
- (iv) freer access to foreign capital markets;
- (v) access to IMF and World Bank loans;
- (vi) lower corporate and individual tax rates;
- (vii) lower inflation rate comparable to South Africa's major trading partners;
- (viii) fiscal prudence and accountability; and
- (ix) strict monetary policy.

Broad policy issues

To achieve higher economic growth, to create employment and to improve the standards and quality of life of the poor, the implementation of the following broad policy issues would be required:

- (i) More effective use of scarce production resources

To improve productivity of all the factors of production is probably the single most important element which will contribute to higher economic growth. The following measures are required in order to improve the said productivity:

- (a) increasing the supply of skilled labour and entrepreneurial talent considering the economic needs of the country;
- (b) promoting vocational education over pure academic qualification;

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- (c) promoting affordable, but quality education for all;
- (d) training, aimed at improving productivity;
- (e) de-politicising the labour market;
- (f) maintaining a positive real interest rate;
- (g) maintaining strict monetary policy guidelines;
- (h) removing distortive tax legislation;
- (i) reducing government consumption expenditure;
- (j) reducing public sector employment levels;
- (k) deregulating control boards and certain State corporations;
- (l) privatization and commercialization of State enterprises;
- (m) encouraging private sector saving to create capital; and
- (n) creating a favourable climate for investment.

(ii) Export promotion

Future economic growth in South Africa will be heavily dependent on the export of manufactured value-added products. Potential competitive advantages, therefore, have to be identified, developed and exploited to the fullest. Although the improvement of productivity and the application of cost-effective technology will enhance South Africa's competitiveness and stimulate exports, attention should also be focused on the promotion of local beneficiation and processing, with the objective of exporting more value-added commodities. The maintenance of existing foreign trade relations in the Southern African context should also be borne in mind in this context. The collective export potential of the member countries of the Customs Union Agreement (Botswana, Lesotho, Namibia and Swaziland) should be exploited more effectively.

(iii) Industrial protection

South Africa's current tariff protection policy requires fundamental reform. This requires that:

- (a) excessively high import tariffs be lowered in a differentiated and non-disruptive manner in order to increase international competition, to lower inflation as well as inflationary expectations;
- (b) import tariffs should not be permanent and should be revised; and
- (c) the tariff structure arrived at must be simplified, stable and uniform involving less manpower to administer.

AGRICULTURAL TRADE POLICY

The South African Agricultural Sector in Perspective

Agriculture in South Africa has two distinct sectors: a well-developed commercial sector and a subsistence-orientated one. Approximately 12 per cent of South Africa's surface area is utilised for the growing of crops.

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Although a net exporter of agricultural products in prosperous years, in world terms South Africa is a minor player. As such it cannot influence international market trends and prices. Consequently, South Africa attaches great importance to the liberalization of world agricultural trade over the next decade.

Agricultural exports amounted to 8.4 per cent, of total exports in 1991, which is 23 per cent of the value of agricultural production. This illustrates the importance of international trade for the agricultural sector. The most important export products are wool, sugar, maize, deciduous fruit, citrus fruit, hides and skins. In respect of several of these products 50 per cent or more of output, is being exported, with more than 90 per cent of total production in respect of certain products.

Threats and opportunities

The cost effectiveness, efficiency and competitiveness of South African agriculture are dependent on free access to foreign markets and international trade. The effect of sanctions which restricted South Africa's access to international trade, caused a loss of export marketing opportunities for the agricultural sector and thus further depressed the economy. Despite this, the quality of South Africa's agricultural products, its marketing reliability, and stringent quality controls, enabled South Africa to maintain its position as an exporter to a discerning world market.

The political reforms and moves towards democracy in South Africa, have enabled the international community to forego sanctions and to trade more freely with South Africa. These developments have allowed South Africa to re-enter the realm of international trade, exposing our businessmen to new levels of competition, quality, standards and prices, but also providing them with many opportunities.

South Africa enjoys a comparative advantage in Southern Africa due to efficient commercial farming methods. As a result of fluctuations in climatic conditions, sporadic surpluses occur, resulting in these surpluses being sold on a depressed world market. Being a small player by world standards the comparative advantage is then lost.

Liberalization within the agricultural sector

The international agricultural market is plagued by protectionism, especially subsidization. South Africa cannot compete against the assistance levels granted by others countries, especially by certain members of the OECD. Fiscal pressures have forced the government to phase out bread and maize subsidy schemes which were aimed at reducing the price of these items to consumers.

The recent formation/expansion of economic trade blocks, such as the EC and NAFTA, within which tariffs and other forms of protection are reduced and even abolished, while such measures are maintained and

sometimes even intensified against the rest of the world, is cause for great concern in South Africa.

Although South Africa is a member of the Southern African Customs Union, its major agricultural markets remain Europe and the Far East.

During the 1980's reforms were introduced to improve the efficiency and responsiveness of various sectors to market forces. A change in the emphasis from the traditional production-orientated approach of the pre-1980's to a more market-related one, is currently being followed in agriculture. Farmers are now more aware of consumer trends, tastes and demands. The Government is committed to privatization and deregulation of Control Boards to improve efficiency. In line with the proposed obligations in terms of the Uruguay Round, South Africa is moreover in the process of replacing all quantitative import restrictions with tariffs.

A major structural adjustment programme in regard to agriculture, the land withdrawal scheme, was introduced on 1 October 1987. The objective of this scheme was to withdraw 1 million hectares of marginal cropland for grazing.

South Africa's erratic climatic conditions sometimes necessitates special disaster relief measures to counter the effects of drought, floods and hailstorms.