

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS  
ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH THE  
REPUBLIC OF SOUTH AFRICA

1. The Committee has conducted the 1963 consultation with the Republic of South Africa under the provisions of paragraph 4(b) of Article XII.<sup>1</sup> The Committee had before it (a) a basic document prepared by the South African authorities (BOP/30) and an addendum containing information supplied subsequent to the compilation of the basic document, and (b) a document provided by the International Monetary Fund, as noted in paragraph 3 below.
2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7S/97-98). The consultation was completed on 4 December 1963. The present report summarizes the main points of discussion during the consultation.

### Consultation with the International Monetary Fund

3. 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 South Africa. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's document concerning the position of South Africa. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a paper dated October 25, 1963, which deals with economic developments and changes in the restrictive system in the Republic of South Africa.

"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 systems and methods of the restrictions, the Fund is currently conducting a consultation with South Africa under Article XIV of the Fund Agreement and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, pending the conclusion of its current consultation with the Republic of South Africa, the Fund has no comments on alternative measures."

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<sup>1</sup>See also paragraph 24.

Balance-of-payments position and prospects

4. In his opening statement, the full text of which is annexed, the representative of South Africa outlined developments in the South African economy since the last consultation. In particular, he indicated that real gross national product had increased by about 6 per cent between 1961/62 and 1962/63; private consumption had risen by 9 per cent in 1962/63; both exports and imports had increased in the first ten months of 1963 as compared with the same period of 1962; the surplus on current account had declined from R245 million in the first nine months of 1962 to R108 million in the same period of 1963; there had been a net surplus of R80 million in the overall balance of payments in the first three quarters of 1963 compared with R169 million in the corresponding period of 1962; the Reserve Bank's gold and foreign exchange reserves had risen from R430 million at the end of 1962 to R519.4 million on 30 September 1963 but had subsequently declined to R511.4 million on 15 November 1963.

5. The Committee discussed with the representative of South Africa the factors underlying the South African balance-of-payments position. In particular, members of the Committee based their questions on specific points appearing in the report of the Committee on the Balance-of-Payments Restrictions Consultation with South Africa in October 1962 (L/1852).

6. Members of the Committee observed that South African reserves of gold and foreign exchange were, in August 1963, three times higher than they had been in 1960 and twice as high as they were in 1961. They noted that there had been a slight decline from the middle of August and enquired whether this was indicative of a trend. The representative of South Africa stated that the present level of reserves was relative and had to be viewed in the light of the upsurge in commitments and the vicissitudes of South Africa's export trade over which the South African authorities had no control. He said that a decline in reserves at this time of the year was unusual since it was during the fourth quarter of the year that reserves normally tended to increase as a result of peak exports of certain agricultural products. In reply to a question, the representative of South Africa confirmed that the reserve figures given in his opening statement did not include commercial bank holdings. The representative of the Fund stated that, according to information available to him, these amounted to R35 million at the end of August 1963.

7. The members of the Committee discussed with the representative of South Africa the adequacy of his country's reserves in relation to its imports and other short-term commitments. They noted that reserves now amounted to about five months' value of imports. The representative of South Africa pointed out that this calculation was accurate if imports were valued on an f.o.b. basis but if c.i.f. costs and other current account expenditures were taken into consideration, the reserves would cover only about three months' outlay.

8. The Committee was informed that South African imports, which amounted to R1,058 million in the first ten months of 1963, were 24.4 per cent higher than in the corresponding period in 1962. The representative of South Africa stated that it was expected that imports for the year 1963 would amount to R1,260 million. Commenting on the increase of imports in the first ten months, the representative of South Africa explained that this was attributable to increased imports in the private sector of capital equipment, R39 million; motor vehicles, R43 million; raw materials, R51 million; wheat, R10 million (necessitated by a smaller South African harvest following a drought); and consumer goods, R25 million. It was expected that, in 1964, as a result of the maintenance of a rapid rate of industrialization in South Africa, imports of capital equipment would again rise. The representative of South Africa, in reply to a question, stated that increasing imports had not led to any abnormal increase in stocks so that it could be expected that present import levels would generally be, at least, maintained in 1964.

9. The Committee was informed that exports had risen from R796 million in the first ten months of 1962 to, an estimated, R823 million in the corresponding period of 1963. Members asked whether the South African authorities expected this improvement to be maintained. The representative of South Africa indicated that agricultural products and raw materials bulked large in South Africa's total exports and that the demand for them, as well as their prices, varied directly with the fluctuations in the volume of world production and world trade. Moreover, export opportunities depended upon access to the markets of other countries, and there were, therefore, various uncertain factors including e.g. the international trade cycle and other developments which might have a bearing in agricultural exports. He pointed out that, after showing an improvement during the first nine months of 1962, South Africa's terms of trade had again shown some weakening in recent months and he was not at all sure that a clear reversal of this tendency and the removal of other uncertainties appertaining to export possibilities could be expected in the foreseeable future. The South African authorities were doing their best to diversify exports. It was true, however, that South Africa's exports of manufactured goods were still mainly directed to neighbouring countries and there had been a tendency recently for South African exports of manufactured goods to level off.

10. The representative of South Africa confirmed that there had been a continued upsurge in fixed private investment. This had been particularly marked in the industrial sector and it was for this reason that the South African authorities expected imports of capital equipment to rise in 1964. However, there had been a net private capital outflow of R67 million in the first half of 1963. In this context the representative of South Africa observed that there still existed a significant gap in the prices of the South African stocks quoted by London and Johannesburg stock exchanges. The South African Government, as a result, considered it desirable to maintain controls on capital movements.

11. The South African representative replied to a question on the prospects for gold production. It was the expectation of the South African authorities, he explained, that gold production will reach its peak in 1964 and, thereafter, start to decline.

12. A member of the Committee enquired whether the South African Government was attempting to encourage exports by the provision of incentives to exporters. The representative of South Africa stated that, as part of their efforts to diversify and strengthen the South African economy, the authorities encouraged exports, as far as possible, in various ways. He explained that the Minister of Finance had, in his last budget, extended the scheme introduced the previous year in order to enable all exporters to deduct, for income tax purposes, 125 per cent of allowable expenditure incurred in the development of export markets irrespective of whether they were successful in increasing their exports or not.

#### Alternative measures to restore equilibrium

13. Answering a question, the representative of South Africa stated that the South African authorities were not anxious about the increase in the money supply. The South African Government had been largely successful in preventing price increases. In 1962, the index of overall retail prices rose by only 1.4 per cent and had remained relatively steady during the first three quarters of 1963. Wage rates had also remained steady but recently there had appeared a shortage of certain skilled labour which was having the result of bidding up wages for this category. The South African authorities were keeping a careful watch on this trend since they were not prepared to permit the emergence of an inflationary situation which would be harmful to the national economy and particularly detrimental to the vulnerable gold mining industry.

#### System and methods of restrictions

14. Members of the Committee recalled that in paragraph 4 of the International Monetary Fund Executive Board decision of 10 September 1962 it had been stated that "in view of the continuing increase in reserves, the Fund considers that South Africa should be able in its 1963 import programme to make substantial progress in eliminating restrictions". They also noted that since the date of the Executive Board decision the general economic position of South Africa and the level of the reserves had considerably improved. The representative of South Africa observed that since South Africa's 1962 GATT consultation, fifty-three items had been removed from the restricted list. In accordance with the request made at that consultation, South Africa now freely issued licences for imports of motor vehicles of an f.o.b. value of R1,600 and above. Allocations of exchange for Group A and Group B commodities had been increased. For both groups these allocations were 25 per cent higher in 1963 than in 1962. For Group A items the 1963 allocation was  $66 \frac{2}{3}$  per cent greater than the 1961 allocation and the Group B allocation 42.8 per cent higher.

As far as Group A commodities were concerned the allocation now amounted to 125 per cent of the average imports of 1959/60. It was noteworthy, he continued, that when, in October 1963, additional allocations for Group A goods were announced one third of the importers of such items had not taken advantage of this additional allocation. Moreover, during 1963 a concession had been granted to holders of Group B import permits enabling them to convert their permits to allow for the importation of goods on the restricted list on the basis of R1 for R1 for the first R5,000 of their total permits and on an R2 for R1 basis thereafter. Although it had been found necessary to add raw coffee to the list of goods subject to a raw material import permit, this would not lead to any shortage of coffee in the Republic. In the circumstances the measures taken by his Government indicated its preparedness to relax controls as and when prevailing circumstances were deemed favourable to do so.

15. A member of the Committee commented that the brunt of the restrictions maintained by South Africa fell on a rather narrow range of goods, those included in Groups A and B and those subject to specific import permits. As regards Group A items there were many which South Africa did not even produce. This member also pointed out that imports from his country of certain items, falling under Group B had declined. Another member of the Committee noted that fruit appeared on the list of goods subject to specific import permit and he asked the reasons for this in view of the fact that South Africa was herself a large producer. The representative of South Africa observed that his country was largely self-sufficient in fresh fruit throughout the year but nevertheless allocations were made to importers of fruit to enable them to maintain their established overseas trading contacts. In so far as Group A goods were concerned the allocations granted for these goods, based as they were on 125 per cent of the average 1959/60 imports, were very liberal.

16. The representative of South Africa, in reply to a question regarding the use of State trading or government monopolies, explained that certain of the agricultural marketing boards have exclusive responsibility for arranging importations, where necessary, of some agricultural products, e.g. wheat and butter. Full details of these had, in the past, been furnished to Committee II.

17. On the question of allocations to new businesses, the representative of South Africa stated that initial allocations had to be arbitrary but were, after initial trading figures were available, calculated on a formula based on the size of the business and the type of business done. Such allocations were available for the importation of goods on the Restricted List.

18. Members of the Committee, in noting the reasons given in paragraphs 6 to 9 for continuing to exercise caution in the removal of import restrictions, observed that, in their view, the factors referred to, when taken as a whole, could not be considered, at present, a deterioration in the situation which

prevailed when the Committee made its report in October 1962. On the contrary, the members considered that the marked improvement in the level of exchange reserves, and the healthy state of the internal economy, resulted in a significant net improvement in the overall position of South Africa in the last twelve months.

19. In reply the representative of South Africa recalled a statement by the Minister of Economic Affairs in October 1963 in which it was stressed that South Africa's general import policy, as expressed through import control, would continue to take cognizance of all relevant factors not least of which is the need to plan further relaxations positively yet cautiously. The Minister in his speech had also stressed the undesirability of taking precipitous and ill-timed steps which might have to be retracted at a later stage and which could not serve any useful purpose for either foreign suppliers or local producers.

20. Replying to a question, the representative of South Africa stated that his Government had not adopted any standard criterion for assessing the adequacy of foreign exchange reserves. However, it had been stated that, once the level of reserves had reached a figure equal to cover expenditure on imports and invisibles for six months, the general question would be reviewed. The six months basis had been mentioned in view of the fact that the reserves held prior to 1939 had been at that level and no difficulties had then been experienced regarding balance of payments. The recent remarks of the Chairman of the South African Reserve Bank were, however, to the effect that he had no specific figure in mind and he knew of no simple practical formula which would constantly serve as a reliable criterion since there are so many variable factors to be taken into account at any particular time. Furthermore, the adequacy of reserves for any country depended also on the degree of vulnerability of the balance of payments.

#### Effects of the restrictions

21. A member of the Committee noted that the South African Government had recently added two items, hand knitting wool and buttons, to the list of goods subject to specific import permit. He deduced that the reason for this was the increase in manufacturing capacity of these items in South Africa. The representative of South Africa stated that the reclassification had been made to correct an administrative anomaly because it was not the policy to include on the free list goods which were manufactured locally to any extent. This reclassification did not however mean that there would, of necessity, be a reduction in imports of the commodities concerned. Imports of buttons had actually increased.

22. The representative of South Africa confirmed that it was the objective of his Government, in its import control policy, to divert consumption from imported to locally produced products by means of restrictions, in order to make the best use of the country's available foreign exchange. It was not, however, the intention of the South African Government to use the restrictions as a means of encouraging the establishment of uneconomic industries which would render difficult the removal of such restrictions when relaxation was feasible on balance-of-payments grounds as such. In considering whether permits should be

issued for imports of products competing with local industry, the South African authorities took into account the ability of the local producers to compete in price, quality and delivery dates. He confirmed, however, that, as regards fertilizers and timber, imports were based on the difference between local consumption and local production.

23. Members of the Committee commented that the system of diverting consumption from imports to local production by means of the restriction system would seem to be conducive to the establishment of uneconomic industries in the Republic. They pointed out that such development would have an adverse impact on costs. The representative of South Africa stressed that his Government was well aware of the need to ensure that its import control policy did not lead to increased internal costs, particularly in view of the vulnerability of the gold industry in this regard, and the results of the policies followed had proved that such fears were unfounded.

#### General

24. The Committee noted from the statement of the representative of the International Monetary Fund, quoted in paragraph 3 above, that the Fund was currently conducting a consultation with South Africa under Article XIV of the Fund Agreement and that the Fund expected to transmit the Executive Board decision to the CONTRACTING PARTIES when it became available. The Committee felt that, in view of the provisions of Article XV:2, the findings of the IMF on certain points were essential for the conclusion of a consultation under Article XII of GATT, and that, when the IMF decision on South Africa became available, the Committee might wish to discuss further the South African import restrictions and their relationship with the criteria and conditions of Article XII in the light of any new findings of the Fund. It was therefore agreed that, in submitting the present report, the Committee should suggest to the Council that it should, when the decision of the IMF Executive Board on South Africa had been received, determine whether this consultation need be re-opened.

25. The Committee congratulated the representative of South Africa on the improvement in the general economic position of the Republic and, in particular, in its foreign exchange reserves position.

26. Members of the Committee welcomed the measures taken by the South African authorities to relax import restrictions. They considered that, with reserves in 1963 at an exceptionally high level, circumstances were now generally propitious for a further immediate and meaningful liberalization of South Africa's import restrictions. It was suggested, in this connexion, that the South African Government might give consideration to the establishment of a time-table for the removal of all restrictions. Members expressed their disappointment that the initial policy statement by the South African Minister of Economic Affairs relating to his country's import control policy for 1964 had not included any undertaking concerning further liberalization. They considered that the South African reserves were adequate to withstand further liberalization.

27. The Committee thanked the representative of South Africa for the thorough manner in which he had answered the questions they had posed. The representative of South Africa stated that his Government would give most careful consideration to the suggestions made in the course of the consultations.

ANNEX

Opening Statement by the Representative of South Africa

At the previous consultation which took place on 1 October 1963, I mentioned that conditions prevailing in South Africa at that time were favourable for further economic expansion.

These expectations materialized to a marked extent.

The gross national product for the year ended 30 June 1963 is provisionally estimated to have amounted to about R6,180 million, which is about  $7\frac{1}{2}$  per cent higher than for the previous year. In 1961/62 the increase amounted to 5 per cent and in 1960/61 to 4 per cent. Allowing for price increases, the real gross national product increased by about 6 per cent between 1961/62 and 1962/63, and since the annual rate of population growth is about 2.3 per cent, the real gross national product per head rose by approximately 4 per cent compared with 1 per cent between 1960/61 and 1961/62.

An important factor contributing to the expansion of economic activity was a sharp revival in private consumption which rose by 9 per cent to R3,960 million in 1962/63. The increase occurred mainly in durable consumer goods, and it not only stimulated the wholesale and retail trade, but helped to absorb surplus capacity in secondary industry.

A continuation of the marked upward tendency in the current expenditure of the Government and other public authorities, which rose by R112 million or 16 per cent between 1961/62 and 1962/63, also contributed to the increase in economic activity.

Fixed investment and stocks of goods also registered advances, the latter increasing by about R108 million, mainly reflecting a rise in commercial and industrial inventories. This increase in stocks was partly associated with a sharp upward movement in imports, but also partly involved substantial purchases of domestic goods, thus further stimulating economic activity.

The principal factors responsible for the acceleration of the rate of economic growth were, according to the Chairman of the Board of the South African Reserve Bank in his annual address to stockholders of the Bank last August, firstly, a notable resurgence of confidence, both internally and abroad, in the potentialities of the South African economy; secondly, the direct and indirect stimuli emanating from large development projects; thirdly, the persistence of a favourable balance of payments; and finally, an improvement in the international economic position and outlook.

Exports from South Africa showed a strong upward tendency in the first half of 1962, but, in contrast to the relatively buoyant business conditions prevailing in South Africa in the second half of 1962, declined sharply as the world economic situation tended to weaken and commodity prices moved downwards. With an improvement in the economic outlook abroad from the beginning of 1963, however, exports showed a modest recovery. For the first ten months of 1963, they have been provisionally estimated at R823 million compared with R796 million in the corresponding period of 1962, the main increases being registered by maize, diamonds, copper, sugar, ferro-alloys and wool.

The value of South Africa's imports on the other hand, according to preliminary statistics, increased by no less than 24.4 per cent in the first ten months of 1963, as compared with the first ten months of 1962, to reach a level of R1,058 million. This rise can be ascribed partly to the upswing in economic activity to which I have referred, and partly to a further relaxation of import control which I shall elaborate more fully later on. Major increases in private imports were registered by foodstuffs, textiles, metal manufactures, machinery and vehicles. Both on the grounds of the level of economic activity in South Africa, and the degree of relaxation of import control, it is expected that the upward trend of imports will continue. In this connexion, it is of interest to note that South African imports constitute a comparatively high proportion of the gross national product, namely 19 per cent in 1962/63.

The surplus on the current account of the balance of payments declined from R245 million in the first three quarters of 1962 to R108 million in the corresponding period of 1963, reflecting the following increases:

R26 million in merchandise exports;  
R47 million in the net gold output;  
R184 million in merchandise imports; and  
R22 million in net current invisible payments.

Taking into account a net capital outflow of R28 million in the first three quarters of 1963, there was a net surplus of R80 million in the overall balance of payments, compared with R169 million in the corresponding period of 1962.

These developments were reflected in an increase in the Reserve Bank's gold and foreign exchange reserves from R430.8 million on 31 December 1962 to R519.4 million on 30 September 1963 followed by a decline to R511.4 million on 15 November 1963. In the middle of 1963, the level of

the reserves was equivalent to four and a half months' imports, valued f.o.b., on the basis of imports in the first half of 1963, or sufficient to cover current account expenditures for approximately three months.

The Chairman of the Board of the South African Reserve Bank stressed in his annual address to stockholders that the Bank had no specific figure in mind as to the optimum level of reserves and knew of no simple practical formula which would constantly serve as a reliable criterion, since there are so many variable factors to be taken into account at any particular time.

I should also like to stress the close relationship between import control and exchange control. In this connexion, the Chairman of the Board of the South African Reserve Bank said in his address:

"Although the country's external position has been considerably strengthened during the past few years, as a result of both the decrease in its foreign liabilities and the increase in its foreign assets, its balance of payments needs to be protected against external pressures that might arise from one source or another, particularly bearing in mind not only the remaining large holdings of list South African shares owned by non-residents and the persistence of a noteworthy difference between Johannesburg and London prices, but also the repayments of maturing loans and the heavy foreign expenditures that still have to be incurred on various large development projects. In these circumstances, the wiser course for the near future would surely be to continue to play safe and husband our financial resources, while letting off excess steam from time to time".

Before concluding my remarks with a brief outline of the latest developments in the field of import control, I should like to mention that, as far as exchange control is concerned, the relaxations to which I referred at the previous consultation have been maintained. A further relaxation was announced by the Treasury on 25 July 1963 to the effect that the 5 per cent five-year blocked rand bonds were being replaced by  $3\frac{1}{4}$  per cent three year bonds. Non-residents may now utilize blocked funds to subscribe to a special issue of Government bonds, bearing interest at  $3\frac{1}{4}$  per cent per annum, repayable in three equal annual instalments, and freely transferable in foreign currency on the expiry of each instalment.

With reference to the information on import control before the Committee, I should like to emphasize that the restricted list has been reduced by fifty-three items since the last consultation, and that the quotas authorized for both Group A and Group B consumer goods for 1963 are  $66\frac{2}{3}$  per cent and 42.8 per cent respectively higher than those authorized for 1961.

In addition, import permits are now freely available to persons who wish to import built-up motor cars of a free-on-board value in excess of R1,600.

By means of these relaxations, Mr. Chairman, the South African Government has sought to comply with the views of this Committee as expressed at the previous consultation.

The postponement of this year's consultation with South Africa has made it possible to take account of the import control policy for the following year. Members of the Committee will have before them copies of a press statement by the Minister of Economic Affairs in regard to import control policy for 1964. In particular I should like to draw attention to the advice to importers that by April 1964 they may expect allocations for Group A and Group B consumer goods equal to the total issues for these categories of goods for the whole of 1963, thus enabling them to plan their overseas purchases in advance.