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TRADE POLICY REVIEW OF SOUTH AFRICA
1-2 JUNE 1993

GATT Council's Evaluation

The GATT Council conducted its first review of South Africa under the trade policy review mechanism (TPRM) on 1-2 June 1993. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review 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.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Autumn 1993 as 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.

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).

Concluding Remarks by the Chairman of the Council

Review of South Africa
1-2 June 1993

1. In concluding this first Trade Policy Review of South Africa, I should like to highlight, on my own responsibility, the salient features that have emerged from the discussion. As usual, these remarks are not intended to substitute for the Council's collective appreciation of South Africa's trade policies and practices. The full discussion, including the introduction and replies given by the representative of South Africa, will be reflected in the minutes of the meeting.

2. I should like to thank the South African delegation for the written answers provided during the meeting. It is understood that further written answers to questions posed by Council members will be supplied by South Africa in due course.

3. The Council identified five major themes for discussion:

(i) Economic and political background

4. Participants recognized that fundamental political, social and economic changes were currently taking place in South Africa. The task of transformation was complicated by the current deep recession. The domestic economy was characterized by high inflation, unemployment of around 40 per cent, a large fiscal deficit and low reserves; investor and consumer confidence was low. Members ascribed the present difficulties in part to South Africa's long-standing import replacement policy, which had necessitated protection for domestic producers and considerable government support, and the factor rigidities induced by apartheid. During the 1980s, the situation had been exacerbated by exogenous factors such as recurrent droughts and declining world prices for minerals. The urgent need to foster growth made greater competitiveness a priority; trade, internal liberalization and improvements in education and training would play crucial rôles in the process.

5. Participants welcomed the recent changes in South Africa's trade policy, which aimed to restructure the productive capacity of the economy. The Normative Economic Model, introduced as a discussion paper for the National Economic Forum, highlighted international trade as key to economic prosperity. The aim was to further open the market, using the tariff as the basic trade policy instrument. However, participants emphasized the risks inherent in the cautious approach adopted by the authorities and urged that reform be more rapid; they noted that eliminating barriers to trade and competition would stimulate growth, promote competitiveness, lower fiscal pressures and increase investor confidence.

6. In reply, the representative of South Africa said that his authorities envisaged that the process of structural adjustment would lead to equitable access for all South African citizens to opportunities in the economy. Growing per capita income was essential to the process; to this end, it was necessary to overcome functional imbalances and domestic market inefficiencies. Improved education and training were fundamental to achieving international competitiveness, and deficiencies were being addressed;

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job creation programmes were also being examined. A major element in the present investment climate was the uncertainty inherent in political transition. He recognized that the instability, complexity and lack of transparency in trade policies were not favourable to foreign investment.

(ii) Measures affecting imports

7. Council members stressed that South Africa's tariff structure was complex and far from transparent, with few bindings and frequent rate changes. Formula duties added to the complexity and exacerbated an already escalatory structure. Participants recognized the Government's intention to phase out formula duties, with the introduction of anti-dumping legislation, and sought information on the timing of this process. The import surcharge violated tariff bindings and was applied on a discriminatory basis; members sought information on a time-frame for its removal. Members also urged South Africa to improve its Uruguay Round tariff offer.

8. Members commended the significantly reduced incidence of import licensing on industrial goods. Nevertheless, widespread barriers still remained in certain sectors, particularly agriculture. Members sought clarification on a time frame for the complete removal of these barriers and expressed concern that tariffication not result in an obstacle to freer trade.

9. Some participants noted that certain excise duties were higher on imported than on domestic products and asked how this would be rectified. One member drew attention to the discriminatory application of VAT on gold coins.

10. The various measures to restrict imports resulted in high levels of effective protection. The system of rebates increased tariff escalation, and made effective protection levels even higher.

11. Participants welcomed the planned replacement of formula duties by new anti-dumping procedures, but the absence of published regulations reduced transparency. The "public interest" clause could serve to curb abuse of the statute, although one member suggested that the legislation did not offer exporters adequate means of defence. Members questioned the consistency of South Africa's safeguard legislation with Article XIX, particularly in relation to provisions governing "disruptive competition".

12. In response, the South African representative said that a thorough review of trade policy was being undertaken. The Government was committed to a more open, transparent trading system. He recognized that the tariff was complex and fluid, created uncertainty and lacked transparency. Tariff reduction and rationalization was a high priority, but the aim of uniformity might lead to increases in some rates. Formula duties would be phased out; but the speed of the process would depend on progress in developing an effective anti-dumping and countervailing mechanism and in making industries more competitive.

13. Tariff and other reforms were under discussion in the National Economic Forum; hence, a precise answer on timing could not be provided now. The weakness of the economy implied that the reform process would have to be gradual.

14. South Africa intended to submit a revised tariff offer, in the framework of the Uruguay Round, which would improve the level of bindings and reduce the average rate. The revised offer would be submitted on schedule, after discussion in the National Economic Forum.

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15. Excise duties were fiscal measures which did not discriminate between domestic and imported products. The two cases mentioned were not in accord with general policy and would be reviewed. The matter of VAT on gold coins was being investigated.

16. The import surcharge had been introduced as a temporary measure in order to safeguard the balance of payments. South Africa would soon consult in the relevant GATT forum. The Minister of Finance had already indicated that the surcharge would be withdrawn as soon as circumstances permit.

17. Progress had been made in phasing out quantitative restrictions; those on remaining industrial tariff lines should be phased out within the next year, remaining only for secondhand goods and items subject to social, health and cultural considerations. Commitments made to investors in a very few cases would, however, be honoured. In agriculture, the process of tariffication was continuing.

18. "Disruptive competition" was defined in the Board of Tariffs and Trade Act; provision had been made in the Customs and Excise Act for action against such competition in the form of safeguard duties and procedural guidelines were being developed. These provisions were intended to create a statutory basis for safeguard action as provided for in Article XIX of the GATT.

(iii) Measures affecting exports

19. The General Export Incentive Scheme (GEIS) was recognized as inconsistent with the GATT; although it aimed to compensate for the anti-export bias of import protection, it represented a significant drain on public coffers. Clarification on its review and phase-out was sought.

20. The South African representative said that GEIS had replaced tax concessions with direct subsidies, as a step towards eventual elimination of export subsidies inconsistent with the GATT. Progress in trade liberalization would allow for lower levels of export assistance; the phasing out of GEIS would be part of the overall package.

(iv) Domestic policies

21. Members noted that industrial goods were protected by preferences for local content in government procurement. Local content incentive schemes also applied to the motor vehicles and other sectors.

22. Despite some liberalization, import controls remained extensive in agriculture and control boards exercised marketing powers, inter alia, restricting competition in the food sector. One participant requested South Africa to provide an assessment of the regulatory effects of this system.

23. Council members, noting the high level of concentration in the South African economy, saw a need for further deregulation and broader scope for competition policies. Some questioned the exemption of key sectors from restrictive practices provisions on the basis of public interest.

24. In response, the South African representative stated that regional preferences in government procurement would be eliminated by the end of June 1993. Preferences for electronics were also being phased down. The local content scheme for motor vehicles was being reviewed and might be replaced.

25. The restrictive effects of regulation in agriculture were difficult to quantify, particularly as output was subject to considerable fluctuations. Tariffication of quantitative restrictions was generally based on the difference between world and local prices. Rates would be scaled down in line with Uruguay Round commitments.

26. Economic concentration had increased during the period of sanctions. A process of "unbundling" had now begun and competition law would be strengthened, particularly with regard to acquisitions.

(v) Trade agreements

27. Participants noted that South Africa, though an original signatory to the General Agreement, was not fully integrated into the GATT system. Information was sought on its willingness to accede to remaining Tokyo Round Agreements, particularly those on government procurement, technical barriers, anti-dumping, and subsidies and countervailing measures. One member felt that South Africa should notify the Southern African Customs Union under Article XXIV and another requested information on the bilateral agreements concluded with certain central and eastern European countries.

28. In response, the South African representative stated that no decision had been taken with regard to accession to further Codes. South Africa would accept the obligations of the Codes by acceptance of the Uruguay Round Final Act. South Africa expected to take a more active participation in the multilateral trading system in future. It was also studying alternatives to regional cooperation under the Southern African Customs Union. Notification of the Customs Union under Article XXIV was not required since the agreement pre-dated South Africa's accession to the GATT. Information on other bilateral agreements would be supplied in writing.

29. In conclusion, the Council recognized that the South African economy was subject to many constraints. With sanctions largely dismantled, South Africa, as a country undergoing significant transformation, should make every effort to align its economy fully with the multilateral trading system. The Council stressed the benefits to be obtained from a resolute pursuit of trade liberalization. It also emphasized that a successful outcome of the Uruguay Round would provide external discipline for the liberalization process, assisting South Africa in its reintegration into the world economy.

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