

# Trading with South Africa: the policy options for the EC



Sheila Page

Christopher Stevens

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Sheila Page  
and  
Christopher Stevens

Overseas Development Institute

A British Library Cataloguing in Publication Data record is available on request.

ISBN 0 85003 187 7

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Typeset by ODI

Printed by Chameleon Press Ltd, London.

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## Acknowledgements

We have relied heavily on advice and information from interviews with officials, representatives of producers and bankers, and researchers in the UK, South Africa, Botswana, Lesotho, Swaziland, and Zimbabwe, and in the EC Commission, GATT, and other international agencies. It is not possible to name them individually, because some gave their help without wanting attribution, but we are grateful to all of them for their careful comments on the problems raised here. Many also helped us to see new aspects of the question, and to develop our analysis. We should like to give particular thanks to those who helped us to assemble and reconcile the data on which the study is based, and to those who were able to comment on an earlier draft. None of them is responsible for any errors or misinterpretations which remain, or for the views expressed here.

Richard Ketley and Jane Kennan assisted in the preparation of the data. As will be obvious, this was a major, not routine, contribution to this study. We are very grateful for their assistance.

This Report is based on research financed by the British Government through its Overseas Development Administration (ODA). We are grateful for this support, but ODA is not responsible for the results and conclusions presented, and does not necessarily share any views expressed here.



## Summary

The moves towards majority rule in South Africa have brought the end of sanctions and, within South Africa, a reappraisal of its economic strategy and its relations with its trading partners. This report looks at the role of the trade regimes which EC countries could offer to it in the context of its new needs and objectives.

### **South Africa's economy and trade**

In terms of income and the educational, health, and social characteristics of its economy, South Africa is similar to a middle-income developing country. It needs and expects to increase spending on social infrastructure. The share of manufacturing in total output is smaller than in the NICs, or, among its neighbours, Zimbabwe, but it has a developed financial and trading system. Its industrial pattern and its production techniques within industries are exceptionally capital intensive. It has an urgent problem of unemployment, and wants to shift to more labour-using industries and methods. South Africa's present system of industrial and export incentives still favours capital-intensive industry, but there are proposals to change this. The most important new exports for which investment is under way, however, are from the capital-intensive metal and chemical industries, and compared to its neighbours in southern Africa it has high labour costs and less well trained labour.

South Africa does not at present have serious external debts or a current deficit. Its major exports, however, are slow-growing, and it is heavily dependent on imported investment goods. Its principal exports are minerals and semi-processed metals, with gold still dominant. These are about two-thirds of the total. Other important exports are chemicals, coal, agricultural products (cereals to Africa and fruit to the EC, North America, and Asia), paper, and textiles. South African trade is unusually diversified by destination. The EC is its major market (a quarter), and within that the UK, followed by Germany. Japan and other Far Eastern countries are becoming more important. Africa is 7% of the total, with Zimbabwe a quarter of this. South Africa's trade with Europe is even more concentrated on primary and semi-processed goods than its average; manufactures, especially machinery, go mainly to Africa.

Data on relative costs and on effective protection suggest that South Africa's manufacturing industries are not at present internationally competitive, and productivity has not been increasing. Changes in domestic and trade policy could, however, alter this. Until recently, it followed a policy of high tariffs and other barriers to promote import substitution. The government has begun to lower these barriers.

South Africa is in a customs union with its immediate neighbours. Some joint customs arrangements are likely to continue, but the present element of subsidy to the other countries is likely to disappear. South Africa is negotiating trade concessions with other African countries, and is expected to join SADCC and the PTA, and to encourage greater trade within these.

## **The potential trade regimes**

South Africa is now commonly classified as a developed country, but it could gain access to some financial and trade privileges if it were reclassified as a developing country. An examination of the legal and the customary procedures suggests that it could obtain developing country status, but that this would carry only limited trade benefits without further concessions. Its 'less developed' character lies in specific sectors or industry characteristics, and in social indicators, rather than in the more common lack of physical infrastructure, financing mechanisms, experience of trading and access to markets. To be most useful, preferential trade arrangements would need to be directed to the former areas or to assist its planned restructuring of industry and of the economy. This suggests that a more 'tailored' scheme, which would permit various types of targeting, could be more helpful than a standard one, but both past experience and current trends in trade policy negotiations suggest that it would be easier to secure agreement on admission to an existing arrangement. Negotiating a new scheme would also require more time, and it is the period of readjustment in the next few years which is identified here as the one during which preferences would be most useful.

The present South African government and representatives of a possible new government are exploring some possibilities, well as re-examining their relations with regional trading partners, but neither they nor EC representatives have taken an official position. This report has therefore examined six options which we believe encompass the range of possible trading arrangements. All except the first imply reclassifying South Africa as a developing country. They are:

- standard Most Favoured Nation status;
- the Generalised System of Preferences;
- a reciprocal association agreement;
- a non-reciprocal association agreement;
- 'associate' Lomé Convention status;
- full signatory of the Lomé Convention.

Other significant changes are likely in South Africa's external economic relationships, notably the removal of sanctions and new arrangements with the Southern African Customs Union and other regional African trading groups. These are discussed briefly because they would determine the context of any agreement with the EC.

## **Data and method**

Trade data for South Africa must be obtained using a variety of sources, for South Africa and its trading partners. The present flows are themselves the result of the special circumstances of South Africa, internally and externally, in recent years, and therefore an imperfect guide to its future trade. By comparing the various sources, and examining the potential biases introduced in the data and the actual flows, we believe that we have produced a broadly accurate picture of the present. Current and expected industrial and trade-promotion policies were examined as a guide to the likely and preferred evolution of trade in the next few years.

To identify precisely which products would be most affected by the choice of trade regime, and what the effects would be, the EC trade statistics were analysed to select the most important goods for South Africa, and among these, those products for which preferential

access to the EC market is likely to be most beneficial to it, and the goods where increased South African access would involve the greatest potential disruption to developing country or EC interests. Particular attention was given to areas of potential competition between South Africa and the ACP states, to which the EC has a special commitment of 'no detriment', and to the neighbouring states of Southern Africa. Within the EC, the member states most likely to be affected by preferences on each 'potential problem product' were identified.

### **The impact of preferences**

Preferences offer little benefit to the metals and minerals which are South Africa's major exports to the EC because barriers are already low. It appears that less than 20% of current South African exports to the EC would benefit from standard trade preferences. The most important barriers now faced are on sugar (quotas), coal (restrictions permitted under ECSC regulations), and some fruit products. Although access for these could be offered under the Lomé system of preferences, South Africa would have to negotiate special arrangements to benefit, and it is likely that there would be strong resistance in the EC to such a move.

Some fruits and paper could benefit from preferential access. The fruit sector is a major employer, so helping it would accord with current South African economic objectives. These products, however, compete with exports of other developing countries, especially in South America, but also in some ACP countries and South East Asia. A more preferential regime for clothing, in particular one which, like Lomé, allowed South Africa to combine with other African countries, using their cotton and perhaps labour to supplement its own woollen textiles, could offer major benefits to it. If it used South African labour, this would promote South Africa's labour-using objectives, but it would be correspondingly more damaging to its neighbours, especially Botswana and Zimbabwe. At present, however, the South African industry is very uncompetitive, and at current labour costs it is difficult to see such a combination succeeding. A further consideration is that the South African market for clothing is expected to expand rapidly, and to divert manufacturers' interest away from exports, although if the present policy of liberalisation is continued, returns on the domestic market could fall sharply. Its metals industries would compete with both EC and other developing country producers. Neither these nor chemicals promote labour-intensive production.

The analysis of Lesotho, Swaziland, Botswana and Zimbabwe identified some products in which existing exporters expected preferences to damage export prospects, especially in Zimbabwe. The direct impact on Lesotho and Swaziland might be smaller (provided sugar was not included), but they will be badly affected by the simultaneous changes in the Customs Union, in revenue from migrant workers, and in capital inflows, and therefore they will be particularly vulnerable and sensitive to other changes.

### **Conclusions**

South Africa is, by most criteria, a developing country. Although it is middle-income, it is attempting a major economic restructuring and a movement to a more democratic regime. It thus meets normal criteria as a suitable candidate for external assistance for long-term development and short-term adjustment. Its principal economic problems and policies,

however, are domestic, not external, and its external ones related more to inadequate or misallocated investment than to inadequate access for its exports.

The EC takes a much smaller share of its exports than of the exports of most Lomé countries. A large proportion of its exports to the EC are not subject to import restrictions. Some of the exports which it wishes to promote or which suffer restrictions on access would not be included in any standard preference regime. Special arrangements would offer less immediate assistance than extending standard ones. Offering South Africa special arrangements would be potentially damaging to some producers in the ACP, other developing countries, and in the EC, and also in other developed countries. Some industries might gain from joint production with South Africa's neighbours, but the number is small, and there are also risks that these will benefit South Africa at the expense of the others.

The gains from preferential trade regimes seem small. Although the damage from trade diversion would probably also be small, countries might be sensitive even to small risks because of other changes in South Africa or because of a general concern about preference arrangements. Other forms of external assistance should be considered which would be in the form and in the sectors where South Africa's needs are greatest.



## 1. INTRODUCTION

### **The objectives of the study**

The move to majority rule in South Africa has already brought the lifting of sanctions on trade and investment. It should also lead South Africa and its trading partners to reassess possible alternatives to the current, formal trade regime, which gives it Most Favoured Nation treatment as a GATT member, but no access to trading groups or preferential treatment. The more developed countries, and in particular the EC, may be willing to grant more favourable treatment, and South Africa may wish to have a status more like that of a 'developing country'. This research study provides information on the consequences of alternative trade regimes that might apply between the EC and a post-*apartheid* South Africa.

Both South Africa and the EC will have to judge how great are the benefits for South Africa and the consequences for other countries, as well as taking into account compatibility with existing international obligations. Whereas generalised trade liberalisation benefits all parties, partial liberalisation in which a country is moved from one tier in the EC's 'pyramid of privilege' to another tends to redistribute the economic rent resulting from protectionist restriction of supply. The problem may be particularly acute for South Africa's neighbours, which have benefited most obviously from trade diversion as a result of sanctions. They would face the prospect of not only losing the sanctions advantage but also, if South Africa were accorded a preferential trade regime, suffering a narrowing of their margins of preference.

This report attempts to provide a factual analysis of the risks of trade diversion, some of which could be offset by any potential for joint production; the likely benefits to the South African economy of a preferential trade regime, and the effects on the EC's own trade. The report first examines the present legal regime, and the various possible options, indicating the formal criteria for each. These must include the changes expected in South Africa's trading relationships with the present members of the Southern African Customs Union (SACU): Botswana, Lesotho, Namibia, and Swaziland, and with the other regional economic groups in Africa, most notably SADCC and the PTA.

Chapter 3 then describes briefly the present state of the South African economy, and the changes in internal economic strategy which are likely to follow a change of political system, insofar as these may have an impact on South Africa's external economic position. Chapter 4 presents data on South African trade in general terms, while the following chapters consider present and potential major exports in more detail. This gives the necessary background to permit analysis in Chapter 7 of which commodities would be affected by a more favourable treatment and the effects on other suppliers to the EC. Chapters 8 and 9 consider in more detail potential competition with its neighbours and with the EC. The conclusions are presented in Chapter 10.

### **A note on South African trade statistics**

South Africa has not published full trade statistics, with details of the composition by partner country and commodity, since 1985. It has published data on some partner countries and by

commodity, but there are large unclassified elements, and strong suspicions that some commodities or partners may be concealed or wrongly identified either to protect 'sanctions breakers' directly or through diversion of sanction-beating trade through third parties. To this must be added the normal difficulties of identifying trading partners for a country much of whose trade is not with bordering countries, but shipped to entrepot ports.<sup>1</sup> In the past year more data have been released, officially or unofficially, including a country breakdown of South Africa's trade with other African countries and some regional information, but it remains necessary to use a combination of South African and trading partner data.<sup>2</sup>

Through using detailed import data for South Africa's major trading partners, the EC countries, US, Japan, Zimbabwe and Taiwan, the available South African data, and additional data for other important trading partners, we have attempted to build a picture of the nature and level of South African exports. The sources which we have used are given in the tables, and the trade flows are discussed in Chapter 4.<sup>3</sup>

Subject to the accuracy of the data, the various sources permit identification of the present major commercial exports<sup>4</sup> and markets, and apparent trends in these. The major economic difficulties are elsewhere, in knowing how much the direction and size of the flows will change simply from the removal of sanctions and in judging how competitive actual and potential export commodities would be in the absence of the additional costs imposed by sanctions and of the compensating subsidies now offered by the South African government.

Because the extent of the sanctions-related inaccuracy in the trade statistics is unknown, it is helpful to consider the effect it might have on the conclusions. Two types of sanctions-avoiding measures have different implications. In one case goods destined ultimately for the EC market may have been shipped to an intermediary state for re-export. In the other case South Africa may have been forced to export to markets that are less lucrative than Europe because of a sanctions-induced depression of demand in the EC.

<sup>1</sup> It makes little practical difference, for example, whether exports of gold to be made into jewellery in Italy are recorded as going to Switzerland first, as recorded in South African but not Italian data, but it means that South African exports to the EC will be lower than EC imports from it.

<sup>2</sup> Garner (1991a) and Commonwealth Secretariat (1990) offer useful discussions and attempts to estimate trade flows for the last five years.

<sup>3</sup> A major technical problem was that imports into the UK at least from South Africa are not properly recorded in the EC data base. The Comext data (the foreign trade statistics compiled by the European Statistical Office, Eurostat 1991; 1992) show UK imports from South Africa as zero in many product categories where UK trade statistics show imports. The gaps in UK data became evident because we examined the major importers individually and because we had ready access to the original data. There may be problems in the import data for other EC states; the other major importers show plausible figures, but we have not checked them. Our and Department of Trade and Industry checks against UK trade data indicate that the principal explanation is that South African data were entered under Namibia, and Namibian, under South Africa. We have assumed that this is the only error or misrecording, but anomalies remain, and the carelessness which this error reveals does not inspire confidence. Checks against available South African data and discussions with officials, research economists and companies trading with the EC did not suggest additional export products relevant to this study.

<sup>4</sup> Goods sensitive from a security point of view are problems for all trade data, but are unlikely to be the subject of economic trade preference arrangements.

To the extent that goods have been 'laundered' through third countries the principal effect on trade statistics will have been to inflate artificially the volume of exports from the intermediary to the EC and, hence, the apparent danger of trade diversion. Thus, for example, if fruits were exported via a third country, EC import statistics would overstate the true level of that country's exports, and, in future years, the apparent trade diversion from it to South Africa.<sup>5</sup>

If goods have been sold in less lucrative markets, the risks of trade diversion may be greater than current trade data indicate. As sanctions are removed, South African exports will take a larger share of the EC market, and any further rise through trade preferences will result in greater-than-expected competition for other suppliers to the European market.

More generally, exports of many South African products are believed to be held below equilibrium level by the extra cost of the 'sanctions premium': the costs imposed either directly by extra shipping or fees to evade sanctions or indirectly by purchasers' ability to impose lower prices in exchange for the risks or unpopularity of dealing with South African goods. The commodity for which this has been most studied is coal (the numbers are discussed in Chapter 6), but there is no reason to believe that other goods, less standard and therefore more difficult to analyse, would show a different pattern. The removal of the sanctions premium could increase the supply of all South African goods on all markets (and, at the margin, permit exports of some presently non-traded goods), thus increasing the magnitude of any effects computed on the basis of present flows. The competitiveness of different products is considered in more detail in Chapters 3 and 4. At current high rates of inflation (and perhaps overvaluation of the currency), this may not be a major influence on the conclusions of this study of the changes which could be induced by preferences, but it is a serious constraint on forecasting a 'base case' of how South African trade will evolve following the removal of sanctions.

### **A note on policy changes**

This last problem is closely related to a more serious obstacle to forecasting future trade patterns. The current pattern, particularly of manufactures, is unlikely to reflect accurately the country's comparative advantage. This is because of the substantial and sustained distortion to the South African economy over past decades (see Chapters 3 and 4). The highly complex system of taxes on inputs to manufacturing (as a result of import protection) offset by targeted subsidies to both production and export make it virtually impossible to identify accurately the items that the country might be able to export competitively in the future (and, hence, the degree to which other developing countries might face competition). The heavy weight of capital-intensive goods in output and exports, and the poor performance of some labour-intensive ones, may reflect economic policy, but they may also be related to the past political situation and relations with labour.

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<sup>5</sup> A report on trade data for Swaziland (frequently cited as a possible source of 'laundering') did not find evidence of this for trade with the EC, although there were some apparent inconsistencies between Swazi data on trade with the US and (high) US recorded imports from Swaziland.

A further area of uncertainty arises from the GATT negotiations, scheduled for conclusion in the very near future. Any analysis of the potential financial value of trade preferences would depend on the outcome of the GATT Round. If there is generalised liberalisation on any of the products of interest to South Africa, the value of a trade preference will diminish. For this reason, it is not sensible to attempt at this stage a detailed quantification of the potential benefits for South Africa.

## 2. THE OPTIONS FOR AN EC-SOUTH AFRICAN TRADE REGIME

### The choice of regime

Neither the EC nor the present and potential policy-makers in South Africa have moved beyond a preliminary stage in identifying the most appropriate post-*apartheid* trade regime. Both the current South African government and the ANC have made statements indicating that they might seek developing country privileges in some international relationships, up to and including Lomé membership. Neither, however, has yet been able to devote sufficient attention to these medium-term concerns to make decisions, and only informal approaches have been made to the international organisations involved. Opinions expressed tend towards two extremes: one, that South Africa's future lies with the OECD and that, in order to avoid sending the wrong signals to private investors and commercial banks, it should retain developed country status, implying an MFN trade regime. The other was that the employment creation problems facing a new South Africa would be so severe that the country should seek the most preferential trade regime possible (*c.f.* Hirsch, 1991). The trade regimes that might apply to a post-*apartheid* South Africa can be classified into six (although all contain variants):

- standard Most Favoured Nation (MFN) treatment under the GATT;
- beneficiary of the EC's Generalised System of Preferences (GSP);
- a reciprocal association agreement;
- a non-reciprocal association agreement;
- 'associate' Lomé Convention status;
- full signatory of the Lomé Convention.

For each of the six options we identify in broad terms the *pros* and *cons*. '*Pros*' are defined in terms of beneficial effects in South Africa and potential trade creation for other developing countries, notably those in Southern Africa. '*Cons*' are defined in terms of the potential trade diversion from other developing countries. The former include both higher income and growth through foreign exchange earnings *per se* and preferences that assist the growth of exports that directly contribute to key development problems (*e.g.* fostering labour-intensive activities).

The assumption underlying all preference schemes is that the protection afforded to some producers in the offering countries may be reduced in the interests of developing country growth. From an economic viewpoint, the EC will tend to gain from any liberalisation, even of a partial variety. However, it would be naïve to assume that protectionist lobbies in the EC will not seek to restrict trade preferences to South Africa that they perceive to be potentially detrimental to their interests. Hence, this report identifies for each option, and discusses in Chapter 9, the extent to which EC producer interests may be adversely affected.



The final choice of the regime that will apply to relations between the EC and a post-*apartheid* South Africa will have to take account of a range of economic and political considerations in addition to narrow trade factors. These can only be indicated here, for example, by the brief survey of the probable industrial policy and the political considerations which will influence it, and by noting what other privileges would follow from some trade regimes. The option of associate Lomé Convention status is included explicitly because it could offer South Africa the full range of Lomé trade preferences without the aid and institutional relationship which applies to the ACP.

The assumption underlying all but the first two must be that the EC would be willing to negotiate preferential market access with a majority-ruled South Africa. The possible justification for such preferences in terms of the EC's normal policy response to developing countries is that the country shares many of the characteristics of a developing country, as described in Chapter 3, and that the economic challenges facing a new South Africa will be formidable. It is not clear whether the EC would require as a precondition for any preferential trade arrangement that South Africa be reclassified as a developing country by an international organisation.<sup>6</sup> The juridical and political considerations on this are unclear and there appears to be no definitive view. As indicated below, a change would probably not be legally difficult, but a second facet of the question is whether a new South African government will be willing to propose a status change. Some of those consulted during the fieldwork argued strongly that South Africa should retain its current status in order to attract foreign investment. As research on the motivations of foreign investors lends little empirical support for such an attitude, it is likely to be an initial reaction which will not survive as a considered policy. There is also some reason to suppose that a change of status will be sought for other reasons. South Africa may wish to be grouped with other African countries in the IMF or World Bank, for example, or to be eligible for their full facilities for developing countries. The World Bank has, however, lent to South Africa in the past (in the 1960s) and given technical assistance more recently, so for most purposes formal reclassification is not needed.<sup>7</sup> The IMF, which has extended terms for developing countries, may lend to it; there South Africa is already listed as developing. South Africa is eligible to tender for World Bank contracts (it is classed there with developed states).

As an African country, South Africa could also join and obtain loans from the African Development Bank, once it has been admitted to the Organisation of African Unity. The target date cited by the President of the Bank is 1994 (African Development Bank, 1992), but lending would in practice depend on the installation of a 'legitimate' government (durable enough to take on long-term financial obligations). With this would go the right to tender for Bank procurement.

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<sup>6</sup> By granting GSP treatment to some East European countries the EC has set a precedent for offering it to countries still not normally called 'developing', but this was in the special circumstances of wishing to offer trade facilities rapidly to countries whose internal trading structure was changing too rapidly to permit the negotiations that any other trade preference would require.

<sup>7</sup> It would, however, be unprecedented to give South Africa soft-loan, IDA (International Development Association) status. This has a strict income *per capita* cut-off which is about one-third the South African level. While some South Africans fall below this, this is true of many countries with unequal income distributions, and giving South Africa IDA loans could be seen as supporting such a distribution.

At present, South Africa is classified as a developed country within the GATT, a status that dates from the foundation of GATT. All but one of the six regimes would imply treating South Africa as a developing country. There is no legal definition in GATT of a developing country. If South Africa were to announce that it wished to redesignate itself, therefore, this would stand unless some other country challenged it. This would be unlikely. Only limited special treatment would follow directly from this. In almost all cases, such a status would only make South Africa eligible for special treatment, not grant it automatically.

If South Africa were to be granted membership in an existing scheme (GSP or Lomé among those specified above), or alternatively granted some special form of association with the EC (the other three options), this would need to be reported to GATT by the EC. In all cases, any member of GATT which thought that its trading interests would be damaged by such an offer (all of which are *prima facie* against the GATT rule of MFN) could either formally challenge it, and require that a vote be taken, or allow the necessary waiver, while entering a reservation. The same procedure would apply to any entry by South Africa into a regional trading organisation of African countries. The most recent example of such a procedure was the approval of a waiver for the granting by the US of preferences for the Andean countries, Colombia, Bolivia, Ecuador and Peru (*Financial Times*, 19 February 1992).

The custom appears to have evolved that arrangements to benefit developing countries (or for regional pacts among them) are examined more cursorily, and are less likely to be challenged, than those for developed, and that extensions of existing arrangements are less likely to be opposed than new or special ones. Two contrary factors might now work against these customs, and would be relevant for South Africa. The first is the growth in the last few years of both new preferential arrangements and new regional groups. Countries which are not involved have expressed growing concern that these could be increasing too much for the system to cope with. This appears to be leading to greater caution, with the southern Latin American arrangement, Mercosur, for example, being asked to submit to stricter review than has been required in the past. Special studies within the secretariat on regionalism may crystallise this concern. The lingering view that both the EC and the Lomé Convention stretch the borders of what is acceptable could be revived by the special association arrangements being granted to the East European countries. These are acceptable under GATT only if they are the prelude to full membership. The second is concern over the recent extensions of preferences to countries (including the East European, but also those which are sources of illegal drugs) which developed countries wish to help, but which would not normally be eligible for such privileges.

Regardless of these special factors, a final consideration which would influence the likelihood of a challenge to any arrangement for South Africa would be whether any country saw a risk of trade diversion for itself. This report concentrates on the effects on developing countries, particularly in Africa, but any GATT country, developing or developed, could challenge. The discussion below identifies potential impacts on products of interest to the major Latin American countries, the South Asian countries and several Asian NICs and new NICs. The pattern of Australian exports is in some ways very similar to that of South Africa.

If South Africa did not want long-term trade preferences, but simply more time to adjust to its changed position in world trade and to a more liberal trade policy, for example by taking restrictive measures to protect the balance of payments or by deferring binding any

new tariffs reduced either under its own liberalisation programme or under the Uruguay Round, this could be requested. In the past, it might have been conceded more or less informally, without any special change in status, but here also changes in the international trade regime may intervene. The Uruguay settlement is likely to limit further the use of the balance-of-payments exemption, and GATT is now taking a stricter view of binding, and gives fewer concessions to new (or returning) members.

### The international status of South Africa

The normal justification for preferences for developing countries is that they assist poor countries. Offering a preferential status to South Africa which goes beyond that 'normal' for a country of its income level would be a discriminatory gesture of support which could damage in relative terms, even if not in absolute, any country not receiving such support. But both the boundaries of 'normal' preferences by the EC and the level of South Africa's 'development' are blurred. In many aspects of its financial and physical infrastructure, South Africa is a developed country. With a GNP *per capita* in 1990 of \$2,530 and a share of industry in GDP of 44%, it fits into the World Bank's 'upper middle income group' (World Bank, 1992). It compares closely in both characteristics with countries like Brazil and Venezuela, which also have a similar distribution of manufacturing value added between sectors. In purchasing power parity income terms, it still falls between Brazil and Venezuela, at \$4,958 (Table 1).

**Table 1: South African development indicators**

	<i>South Africa</i>	<i>Zimbabwe</i>	<i>Similar real GDP per capita</i>		<i>Similar HDI level</i>		<i>Similar exporter level</i>	
			<i>Brazil</i>	<i>Venezuela</i>	<i>Thailand</i>	<i>Turkey</i>	<i>Australia</i>	<i>UK</i>
Human Development Index	0.674	0.397	0.739	0.824	0.685	0.671	0.971	0.962
Real GDP per capita	4958	1469	4951	5908	3569	4002	15266	13732
Life expectancy at birth	61.7	59.6	65.6	70	66.1	65.1	76.5	75.7
Adult literacy	70	66.9	81.1	88.1	93	80.7	99	99
Mean years schooling	3.9	2.9	3.9	6.3	3.8	3.5	11.5	11.5
Average education attainment	1.59	1.44	1.87	2.24	2.16	1.82	2.93	2.94
Human Development Index rank	70	108	59	44	69	71	7	10
GNP per capita rank minus HDI rank	-15	-1	-5	12	10	4	15	11

Source: UNDP, 1992.

Yet South Africa has many trading characteristics of a much poorer developing economy. It is heavily dependent on the export of primary commodities and has been adversely affected by the relatively slow growth of world demand for these. At 3-digit SITC level, all of its 15 principal exports are primary goods or slightly processed metals or precious stones, and its five principal exports account for 46% of the total. For Zimbabwe, this figure is 44%, although below the top five South Africa's pattern is more diversified (UNCTAD, 1991). The figures for developed countries tend to be 30-35%. South Africa's three principal exports are gold, other precious metals, and coal. Only Australia, which is also unusually dependent on primary products and has very similar principal exports of wool, coal, meat and gold, comes close to South Africa's ratio for the top five with 42%, and only slightly greater dispersion.

In terms of other measures of development, for example, the education and health indicators used for the UNDP's 'Human Development Index' (UNDP, 1992), South Africa lags well behind many developing countries with an international rank of 70, well below Brazil and Venezuela, and on a par with Thailand and Turkey (Table 1). On both life expectancy and adult literacy, it is even lower than they are. This divergence between potential performance, as indicated by income, and actual, raises the question of how far the international donors should compensate for a country's own failure to benefit its poorer population.

Had it not been politically isolated, South Africa almost certainly would have been put in the 'non-associables' category of states when the first Lomé Convention was negotiated. The country's industrial base is more substantial than that in most of the Mediterranean states with which the EC has negotiated non-reciprocal association agreements. But in the years since Lomé I was negotiated the EC's complex hierarchy of preferences has become less clearly related to income. This is partly because some Lomé countries have prospered, for example Mauritius (\$5,375). But it is also because the EC has chosen to extend improved preferences to some middle income states. Since 1991, for example, Colombia and three other Andean Pact states have had virtually the same preferences as the ACP for many of their exports. In 1992, Costa Rica and the other Central American states were granted similar treatment for agricultural exports. Colombia's and Costa Rica's incomes are only slightly lower than that of South Africa: \$4,068 and \$4,413 (UNDP 1992).

Twenty-nine countries to which the EC grants preferences have a 'human development index' higher than that of South Africa. These include seventeen which are signatories of the Lomé Convention, which receive 'special' preferences under the GSP, or with which the EC has a preferential, non-reciprocal association agreement; nine other beneficiaries of the EC's GSP; and the three East European countries with which association agreements have recently been negotiated.

Hence, there are precedents for providing a preferential trade regime to countries which share some of South Africa's characteristics, but there are also indicators against doing so. If there exists a rationale for doing so now, and in particular for granting one of the stronger preference regimes, it is that South Africa is a country with an under-developed rural sector and high unemployment whose new government will face the economic and social development problems which characterise many low-income developing countries.



## Changes likely to occur in the South African trade regime

Three types of change can be identified as likely in the next few years: the removal of sanctions, a 'larger and looser' (the official South African phrase) Southern African Customs Union, and South African membership in SADCC (the Southern African Development Co-ordination Conference) and the PTA (Preferential Trade Area).

### *Sanctions*

There are two extreme views of what will happen after sanctions are removed. South Africa has recently been successful in increasing exports; if it has achieved this under sanctions, it will see a boom when they are removed. The alternative view is that this success indicates that it has lost little and therefore has little to gain. As was discussed above, it is clear that there have been at the least increased costs of doing business which will have lowered South African export prices and volumes (or had more indirect effects on the efficiency of the economy if the price effects were counteracted by the subsidies), and which may have distorted the composition of the trade both by product and by type of trader. Studies of recorded South African trade (*e.g.* Commonwealth Secretariat, 1989 and 1990) clearly indicate that there were changes after the imposition and tightening of sanctions. The extra costs were often of the order of at least 10%. Except for goods in which South Africa is the major supplier, therefore, the effects could be significant. The countries whose exports' principal advantage was being 'not South African' will lose either volume or excess profits. The importance of these changes for this study (other than the one discussed in the first chapter of altering the base from which to measure effects of preferences) is that some of the countries most affected by losing the sanctions effect will be among those potentially vulnerable to further trade diversion, and therefore any preference reduction will affect them at a moment when they are already adjusting to greater competition from South Africa.

The direction of actual trade flows may not change greatly if, sanctions have been ignored or evaded, but the recorded flows will change to the extent that there has been any 'laundering' in third countries. The view expressed by all those consulted was that EC trade figures may understate the level of imports in some categories for this reason, but that they give nonetheless a broadly accurate picture. Some probable inaccuracies have been identified (Commonwealth Secretariat, 1989:75-79). Japanese data show a fall in imports of gold and platinum from South Africa, accompanied by a rise in imports from countries which import from it. Coal imports by the UK, and probably other EC countries including Denmark, and perhaps South Korea, were thought then to be higher than reported. Uranium trade is badly reported because it is a security-sensitive good (Commonwealth Secretariat, 1990). It is obvious that two characteristics of South African exports make it particularly difficult to determine trade flows by country: a large share of primary goods and a large share of intra-company trade, within multinationals with a variety of sources of supply and markets (diamonds are the clearest example of the latter). A possible concern for suggesting future trends, however, is that these characteristics may have in turn been reinforced by the existence of sanctions. A greater variety of exports and of exporters could emerge relatively quickly if sanctions have placed other goods and other suppliers at a disadvantage.

Aside from the sanctions against military cooperation with and sales to South Africa, the principal government-agreed sanctions on South African exports imposed by the EC were on trade promotion activity, on iron and steel, on gold coins, and on some coal imports. Other

countries, including Canada, the US, Japan, Australia and some non-EC European countries, had tighter bans on some of these imports, and additional controls on agricultural products and uranium. Sanctions on investment in South Africa and sales of oil to it also affected its exports. Other products, however, were potentially affected by direct or indirect consumer or (especially in the US and Canada) shareholder pressure. Official sanctions have now been lifted by the US (1991) and the EC (January-April 1992), and observance has in fact diminished sharply since the South African liberalisation process began in 1989. One consequence of sanctions (official and unofficial) was that bilateral discussions with South Africa were effectively impossible in the early stages of the GATT Uruguay Round so South Africa has not been active there.

#### *The Southern African Customs Union*

South Africa would like to extend the Customs Union to other nearby countries, and has negotiated various ranges of special agreement with Malawi, Zimbabwe (now under renegotiation), and some more distant countries. The effect of these is to increase the potential advantages of having a common status relative to the rest of the world (as developing countries or as fellow-ACP members, for example) through increasing the opportunities for joint production. The new arrangements could suggest that the countries negotiating them do not particularly fear South African producers as competitors at least in their own markets. This would not, however, be an entirely valid conclusion because some agreements (notably that with Zimbabwe) are not fully reciprocal (as SACU is) and because the goods that are important in intra-African trade are not the same as those which both South Africa and its neighbours export abroad. Manufactures tend to have a larger share in intra-African trade while (as discussed in more detail in Chapters 5 and 6) the principal exports to outside the area in which competition is likely are primary or semi-processed goods.

But an expected change in the revenue side of SACU could have a serious effect on the smaller economies, and therefore their vulnerability to further shocks. The distribution of the common revenues has had a strong element of subsidy from South Africa to the smaller countries, originally justified as 'compensation' for their loss of the freedom to set their own external policies and tariffs. Although the combination of a two-year lag in payment and recent South African inflation has eroded their value, these payments remain an important part of government revenue (two-thirds in Lesotho; about one-third, reduced over the last few years from 50%, in Swaziland; now less than a quarter for Botswana). It is agreed by both the present South African government and ANC advisers that this arrangement must end, especially now that arrangements have been made with Malawi without a compensation element. The reduction in South African tariff rates, and therefore total receipts, has reduced the amount remaining for South Africa, and the need to increase spending on social programmes has made the burden on its budget unacceptable to either the present or any new government. The existing agreement has already expired, with the old arrangements carrying on pending renegotiation. This will be an additional adjustment imposed on the present members in the next few years. In addition, if new members join, the present members will lose their preference margin in South Africa. In contrast, the other African countries which may join gain additional access to South Africa with little perceived loss as only Botswana is thought to have some possibility of, and interest in, managing its own tariffs. Both old and new members have a potential direct interest in South Africa having a status that permits joint production, subject to one suspicion. There is a long-standing dissatisfaction among present SACU members which believe that South Africa 'simply does not wish the BLNS countries

to develop industrially unless it is in South Africa's domestic interest that industries be developed and located in the BLNS countries' (Riddell, 1992b). South Africa effectively controls both the common external tariff and the granting of derogations from it for industrial policy.

#### *SADCC<sup>8</sup> and PTA<sup>9</sup>*

It is assumed in the governments of all South Africa's neighbours that it will join, even be 'welcomed' into SADCC, PTA, and other African regional organisations as soon as an internationally acceptable government takes over. (The ANC have been observers in SADCC and PTA since their foundation, and the PTA already has a committee considering South Africa's membership.) Only among South African officials were doubts expressed about whether it would be eligible or permitted to join. There were some doubts also about potential costs, but these appear to be ill-informed about actual PTA budgetary arrangements.<sup>10</sup> (The actual costs would not be high, according to those familiar with the PTA budget.) But it was also clear that negotiations about the degree of access for South African exports would not be easy, and PTA officials have expressed reservations about countries making separate bilateral pacts in the interim (the Secretary General, quoted in [the Zimbabwe] *Herald*, 24 January 1992). The assumption by some of the South Africans who did expect to join that their superior size and level of development would give them a leadership role was not shared by all the other countries. It is possible that any relations will be politically friendly but economically competitive in the next few years. In these circumstances, changes in preferences granted by outside trading partners could become a sensitive issue, particularly if they did not take account of the arrangements being reached within regional organisations. The Lomé option would require South Africa's neighbours and other ACP states to be involved in any decision. If one of the trade options other than full Lomé membership or standard Most Favoured Nation treatment were to be adopted, the EC would have to take special steps to ensure that regional sensitivities were taken into account.

The combination of an extension of SACU and South Africa's greater interest in trade with the SADCC countries and a chosen few of the other PTA countries (probably Mauritius, perhaps Kenya) could contribute to a restructuring of the PTA and its (at present arm's length) relationship with SADCC. South Africa, Lesotho and Swaziland would probably favour a 'fast-track' group within PTA, again creating potential controversies that could be affected by other changes in trade regime.<sup>11</sup> There is already pressure within the PTA for SADCC to merge with it.

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<sup>8</sup> Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia, and Zimbabwe.

<sup>9</sup> SADCC, excluding Botswana and Namibia, plus Burundi, Comoros, Djibouti, Ethiopia, Kenya, Mauritius, Rwanda, Somalia and Uganda.

<sup>10</sup> It is not unfair to note the ignorance and, more surprising, misinformation, about trading institutions, including South Africa's potential role or eligibility for various types of regime, on the part not only of opposition economists, but even a few officials of the present government. It is perhaps because both groups have had more urgent questions of economic policy to consider in the last two years.

<sup>11</sup> The question of South Africa's relationship with other African countries post-sanctions is being considered by an African Development Bank study on 'Economic integration of Southern Africa in the Post-Apartheid Period', scheduled to be completed later in 1992 (c.f. Riddell 1992b and 1992c).



Membership of South Africa in PTA would offer advantages in joint ventures with the other countries not only in potential exports outside the region but within it as well: only products which meet rules of local ownership of the producer as well as local content are eligible for full preference. The rules have been weakened in recent years, and Swaziland and Lesotho have always enjoyed special derogations for South African inputs and ownership, but these are limited and will need renewal during 1992. This may not be automatic once the regime in South Africa changes, removing one argument for the PTA's offering special assistance to Lesotho and Swaziland.

### **The possible trade regimes**

#### *Most Favoured Nation status*

This would be the simplest option to adopt, and no special action would be required in or out of GATT, but it would fail to provide any extra support to South Africa's efforts to develop new exports, if a new government did adopt an export strategy, except indirectly through the removal of any primary-export bias resulting from sanctions. It would not encourage growth of intra-regional production of exports to the EC. Given the possible new regional arrangements discussed in the previous sections, it is important that any agreement between the EC and South Africa does not limit the scope for intra-regional trade and production.

Whilst it would be possible to negotiate cumulation provisions<sup>12</sup> within an association agreement and, to a less satisfactory degree, within the GSP, this would not be possible with MFN status (except through derogations of the type made in the past by the PTA). South Africa, and other African countries, could export goods based on joint production or using each other's inputs, but these would be ineligible for Lomé preferences if they contained more than the prescribed proportion of South African inputs (including energy, power and transport services and labour). Whilst this situation would be no different to that at present, it can be argued that its impact may become more serious in future. As the southern African states, including South Africa, diversify into more processed exports the need to include each other's inputs may grow, especially for the smaller countries. The advantage of MFN status for other countries, especially those with Lomé status, is that it would preserve part of their preferential margin of access to the EC and other developed countries at a time when they are losing the part derived from being 'not South Africa' under sanctions.

#### *The Generalised System of Preferences*

The EC's GSP is currently under review. The current Commission proposal, which is by no means certain to be adopted in its present form, would replace the existing system with one in which there would be three possible treatments for each product/country pair:

- duty-free entry without quantitative restrictions for most goods;
- reduction in the MFN duty (without quantitative restriction) for products which are recognised as being sensitive;
- exclusion, pure and simple, of product/country pairs which cannot be fitted into either of the above categories, either because a product is extremely sensitive or because it is not possible to reduce the duty sufficiently to provide an acceptable margin of preference (EC, 1990:11).

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<sup>12</sup> These permit 'local content' stipulations to be met from other countries with the same degree of preference.



In the case of most countries the standard used for allocating country/product pairs would be past performance. However, because of South Africa's isolation there is no GSP precedent to go by and only limited information on MFN trade. Hence, negotiating the GSP for South Africa would require detailed bargaining, as in an association agreement.

The EC (and any other industrial country which offered GSP) would be placing South Africa at an advantage relative to its present status and relative to those developed countries (the US, Canada, Japan, Australia and New Zealand) with which it does not have association agreements. It would reduce the preferential margin for ACP and other countries with special preferences or association agreements, and remove it altogether from other developing countries.

Since the Commission's proposals for a new GSP have not been adopted, and their value depends on the MFN outcome of the Uruguay Round, it is difficult now to indicate the value of this option for South Africa.

The GSP is likely to be the least attractive option for South Africa (apart from MFN treatment). The relative unattractiveness of the GSP arises both from the limited nature of the trade preferences and from the less satisfactory rules on cumulation. The GSP is a bilateral, non-negotiated agreement. Before the EC is willing to agree to cumulation within regions it requires, under Regulation 2955 of 1985, that the areas seeking cumulation must have a secretariat which will affirm that the members of the sub-regional group will apply between themselves the same rules of origin as those that apply to exports to the EC. Such cumulation has been offered to three groups of GSP beneficiaries: the Andean pact, ASEAN and Central America. Thus far, only ASEAN has availed itself of the opportunity because of problems in obtaining agreement in the other two cases.

For South Africa and its neighbours, therefore, obtaining cumulation provisions under a GSP arrangement would require South Africa to join an organisation that has a secretariat able to provide the necessary policy statement. SADCC or the PTA are the obvious candidates; it is possible that a specially-created 'SACU Secretariat' would be sufficient for the task. It is not clear that a sub-set of the PTA, willing to offer complete reciprocity among themselves, could do so. In all these cases the requirements would be similar to those applying to an association agreement. The GSP rules of origin are less favourable in some respects than those of the Lomé Convention. Hence, there could still be problems for its neighbours of reduced access to the EC market for items including South African inputs.

This, and all the regimes below, would require submission to GATT. Under the proposed Uruguay Round settlement (GATT 1991), GATT has proposed that 'the effectiveness of the role of the contracting parties in reviewing agreements' be reinforced. This is likely to mean in practice tighter requirements for regular reports and enforcement of settlements with any countries considering themselves adversely affected. The practical effect is difficult to judge, but it could mean greater delays or more vulnerability to objections.

#### *A reciprocal association agreement*

This term is used to describe an accord that is similar to the EC's free trade agreements with Israel and the EFTA states. It is perhaps the option that is best adapted to the 'developed country' aspect of South Africa. It might be easier for the EC to obtain its own members'

agreement to offer substantial trade preferences if it could demonstrate a *quid pro quo*, and the process could strengthen the South African government's hand in pursuing its trade liberalisation policy. It would, however, be in principle the most open to challenge under GATT because it would be neither a special non-reciprocal concession to a developing country nor a preliminary to full EC membership.<sup>13</sup>

There are possible adverse consequences for both developing country and EC producer interests. Whilst SACU remains in force, any trade liberalisation agreed by South Africa would automatically apply also to the SACU countries, Botswana, Lesotho, Namibia and Swaziland, and any additional members. There is no reason to suppose either that the items liberalised would be those most appropriate for the other economies or that, on present practice, these states would be consulted in any meaningful way. At the same time, South Africa might well deem that under a reciprocal agreement the EC should concede cuts in protection on precisely its more 'developed country' exports such as processed minerals, automobile parts, electronics, *etc.* Hence, while offering a more direct stimulus to development, a reciprocal association agreement might be more difficult to negotiate, because it would disturb more powerful European lobbies, than an accord that followed more closely the typical 'EC-ldc' pattern.

The possibilities of sub-regional cumulation under the reciprocal and the non-reciprocal association agreements are similar to those under the GSP. The EC has shown a willingness to agree regional cumulation provided that the countries involved apply the same terms to trade among themselves. The recently agreed association agreements with Poland, Czechoslovakia and Hungary, for example, provide for cumulation among these three states. Hence, as under the GSP, South Africa would need to establish a formal link with its neighbours.

#### *A non-reciprocal association agreement*

The term is used to describe an agreement such as the EC has negotiated with most of the Mediterranean states. It would increase the scope for tailoring the preferences to South Africa's particular needs and capacities, without imposing the same obligations on South Africa. It might be more likely to be accepted in principle as 'special and differential' treatment for a developing country under GATT than a reciprocal agreement, although equally subject to challenge by countries whose interests were damaged. But, like a reciprocal agreement, it could damage the interests of any non-associated developing or developed country, in absolute or relative terms. It would be difficult and time consuming to negotiate, and might not provide the trade support to a new South Africa during its transition period, which was one of the suggested justifications for preference. It could easily exclude products that become important exports in a few years time. Without the compensation of reciprocity, it might attract more opposition from groups in the EC.

The EC's set of non-reciprocal association agreements dates largely from the 1960s and was designed to deal with rather different circumstances to those applying to the EC and a post-*apartheid* South Africa. In most cases, their aim was (partially) to protect traditional exports to the EC of products for which the European import regime was becoming more

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<sup>13</sup> This is in principle a condition for GATT approval of any Association agreement.

protectionist and to provide limited potential for diversification into new, sensitive exports. It is clear that the issues facing EC-South Africa trade in the 1990s are significantly different from those that applied to, for example, Morocco-France trade in the 1960s.

There is some potential for sub-regional cumulation for purposes of the rules of origin under a non-reciprocal association agreement. The EC allows such cumulation among the countries of the Maghreb, with the usual condition that the partner countries agree to apply the same origin rules for trade among themselves as are applied to exports to the EC.

#### *Associate Lomé membership*

There is no precedent for such a status, but the term is used here to describe a bilateral agreement with South Africa that would include all the trade provisions of the Lomé Convention, including cumulation with ACP production for the purposes of the rules of origin, except for a negative list of specific exemptions, but not the non-trade elements.

The advantage of this option is that it would recognise South Africa's special status as an untypical African economy whilst providing a convenient route to a broad and flexible package of preferences. It would avoid two serious problems with an association agreement as described above, which is normally negotiated on an item-by-item basis. One is that a limited agreement might limit the ability of South Africa to export in future 'new' items in which its competitiveness becomes apparent only as the effects of sanctions disappear and current trade policy reforms are implemented if these were not specifically included in the agreement. Second, item-by-item negotiation tends to be a slow and difficult business in which the EC producer lobbies seeking protection are able to concentrate their opposition on each proposed preference in turn. If the EC does decide that preferences to a new South Africa are justifiable, their beneficial impact on producer and investor confidence during the potentially difficult period surrounding the change of government will be enhanced greatly by the rapid implementation of a wide-ranging agreement.

The choice of which items to include on the negative list would, however, depend on bargaining, and there the negotiations would still be difficult and probably slow. The principal product groups that the present ACP members might wish to exclude are some fruit and vegetables and labour-intensive manufactures. Although Chapter 7 suggests there is little direct competition in the latter from South African exports at present (only in clothing with a few countries), these are precisely the products South Africa may now promote. The ACP would not, however, have any formal status in the negotiations, except to protect its promised 'no detriment' position. If they were consulted (as they were on the extension of the GSP), their views would not be binding, and the interpretation of 'no detriment' does not appear to have excluded the new preferences granted in 1991-92. For EC producers, coal, wood and metal products (see Chapter 9) might also raise objections. Any or all non-trade parts of the Lomé relationship could be excluded.

#### *Full Lomé membership*

This could be a valuable option for South Africa in four respects. The degree of preference given to the ACP is the most substantial offered by the EC on a non-reciprocal basis to any group of states, although less than is offered in reciprocal agreements like that with EFTA. Second, it would allow regional processing. Third, it would provide quickly a definite relationship with South Africa's most important export market, nominally guaranteed for the



remainder of this century. This may be especially valuable given the other uncertainties facing South Africa. Fourth, the Lomé Convention provides preferences over a wide range of products, an important consideration if changes to South African economic policy result in the emergence of new and unpredictable exports.

On the other hand, South Africa is not a 'typical' ACP economy: it is large and relatively industrialised. The largest previous 'new entrant' to Lomé was Zimbabwe. The difficulties associated with the negotiations surrounding its most sensitive exports, such as beef and sugar, provide an indication of the extent of European resistance to extending trade preferences. The interests affected by South Africa would be much greater, and the negotiations would not in practice be automatic and predictable.

South Africa would affect the political and economic balance within the ACP group, and these issues would need to be settled between South Africa and the ACP countries. This report can present some of the data on which the EC and the ACP could judge whether any trade concessions to South Africa would vitiate the Community's existing agreements not only with the ACP (not to reduce the benefits of the Lomé Convention) but also with other developing countries. But they would have to accept inevitable uncertainties. As the most preferential of the EC's trade regimes for developing countries, the Lomé Convention would involve the greatest potential for trade diversion. Lomé Convention membership is the only option that requires *de jure* that the ACP be consulted (in addition to notification of all GATT members). Fears of trade competition might be offset by the realisation that Lomé status offers the ACP a greater opportunity to make their views felt.

Lomé membership would, however, include the potential for trade creation among ACP countries through intra-regional cumulation in terms of the EC's rules of origin. The rules of origin that apply to the Lomé Convention are more favourable than those applying to the EC's other trade agreements; they permit imports from both the EC and other ACP states to be counted towards the attainment of originating status, which could be a positive stimulus to intra-regional trade. Among African members, the provision has remained a dead letter because there is insufficient complementarity between them. The entry of South Africa into the ACP group could give substance to it. Given the changes taking place in the South African economy it is not easy to identify precisely the products that would be involved. South African officials suggest, for example, that it might be commercially viable to combine South African design and marketing with cloth from Zimbabwe in a more efficient clothing industry, while other observers have suggested combining South African gold with Zimbabwe's labour in a jewellery industry (Riddell, 1992c). The practical possibilities are discussed below.

A further trade feature of the Lomé option is that it would allow South African companies to tender for European Development Fund aid contracts among the ACP.<sup>14</sup> The extent to which this would increase the cost-effectiveness of aid for the ACP and the exports of South

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<sup>14</sup> The Lomé Convention provides a margin of preference for ACP over EC suppliers in the sense that a contract may be awarded to an ACP firm even if its tender was not the lowest. However, the preference has not had much impact on actual contracts since the ACP state awarding the contract has rarely been willing to pay a higher contract price to foster intra-ACP trade.

Africa would depend upon the relative competitiveness of South African contractors/suppliers. An indication of this may be obtained from an analysis of the country's success in obtaining contracts financed by those aid donors which permit it to tender. It has obtained some contracts from the World Bank, with a share in the total similar to smaller developed countries or the more advanced developing (Australia and Brazil, for example), again indicating South Africa's 'developed' character. Kenya and Nigeria are the only other successful African countries.

### 3. THE STATE OF THE SOUTH AFRICAN ECONOMY

This section is intended to summarise those general characteristics of the present South African economic structure and performance, and of the industrial strategies likely to be supported by a new government, which are relevant for assessing what exports are most likely to be competitive; which the country is likely to want to encourage; and what types of trading concessions by its trading partners are most likely to be immediately helpful. Chapter 4 will then examine the external sector itself more closely.

The most important points to note are the poor recent performance of the manufacturing sector, the strong past and present support for capital-intensive industry, and the apparent high cost and low productivity of the more labour-intensive sectors. Although it is clear that any regime is likely to take an active approach to industrial strategy, including sectoral planning as well as macroeconomic intervention, current indications are that the type of industries which have been favoured in the past are likely to remain so, and that the cost of labour is likely to remain high. Therefore, any expectations for trade or suggestions for trade policy must take this structure as the base, although in the 1980s sanctions may have further weakened the economy.

#### Output performance

The share of the manufacturing sector is relatively small and growing only slowly. Its share in GDP has increased by only 3.5 percentage points in 30 years: from 20.5% in 1960 to 24% in 1989 (SACOB, 1991:13).<sup>15</sup> This remains significantly lower than in most developed and newly-industrialising countries (although not in Australia and New Zealand). It is higher than that in Lesotho, Botswana or Swaziland, but lower than Zimbabwe's 30% (Ncube, 1991). (In absolute size, of course, it is much larger than its neighbours.) South African manufacturing is more in intermediate (48%) and capital (23%) goods than Zimbabwe (24% and 12% respectively). Compared to South Korea and Taiwan, South Africa has a smaller share in the consumer goods sector, but a larger share of relatively heavy intermediate industries. The share of capital industries is substantially lower, at 31%, especially the sectors most characteristic of industrial countries, machinery and transport, where the share is much lower, at 16%, than their 27% (Lall, 1991); within this, in turn, the share of electronics is low. (South African consumption and imports of electronics goods have been increasing.) This pattern clearly reflects South Africa's geographical and political isolation, as well as lack of

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<sup>15</sup> The World Bank's (1992) estimate of the change is even lower: a rise between 1965 and 1990 from 24% to 26%, and no real growth in the 1980s.

development. This increases the uncertainty of analysing South Africa's potential structure, and therefore exports, post-sanctions.

Moreover, manufacturing grew at only 1.25% during the 1980s (compared to 2% for GDP); both figures are well below the average for middle-income countries or for South Africa's neighbours. Only in South Africa, Mozambique, and Tanzania has the share of manufacturing value added actually fallen in the 1980s (Riddell, 1992b). Output fell slightly in 1990 and 1991. Since 1981 only the production of non-durable (largely food) goods has increased; production of semi-durable goods has been stagnant, whilst output of durable goods has declined significantly. Investment in the sector has declined. Between 1985 and 1989 manufacturing's share of the total fixed capital stock fell from some 13% to 11% (SACOB, 1991:17), while total investment itself was stagnant in the 1980s, ending the decade at under 20% of GDP. One reason for the compression of investment was the inability to obtain foreign finance in the second half of the 1980s (as banks and investors withdrew because of sanctions), combined with South Africa's high dependence on imports for investment goods. Although import penetration is now quite low for consumption goods, and for chemicals and metals where local industries have been built up, it is 60% for some types of machinery and transport equipment (Riddell, 1992b; Hirsch, 1992). Although the removal of financial sanctions lifts part of this constraint, such ratios make the balance of payments highly vulnerable to any increase in investment. Thus although the present balance of payments position is favourable, in the absence of foreign capital, increasing exports could be an essential part of an ambitious growth policy.

### **Capital intensity**

Government policy has tended to favour capital-intensive production depressing manufacturing's potential demand for labour. A high proportion of investment has gone to the most capital-intensive sectors, particularly in the years of high total investment, the 1970s and early 1980s. It was this which produced the shift to intermediate production, especially in chemicals and iron and steel, and away from the consumer and other light industries characteristic of early industrialisation, and most likely to be labour-intensive: foods, textiles, and clothing. There were thus shifts to both capital-intensive industries and greater capital intensity within industries. The proportion of the labour force employed in manufacturing has also fallen: from some 29% of the non-agricultural labour force in 1980 to 27% by the end of the decade; some 16% of the economically active population is now employed in manufacturing (SACOB, 1991:16).

During the 1970s and early to middle 1980s there were prolonged periods of low, and often negative, real interest rates. The Rand was overvalued during this period, and there were a number of tax expenditure schemes specifically designed to encourage capital formation (SA Reserve Bank, 1991). The tax system gives particular incentives to the mining sector (which is among the most capital intensive), and the measures taken to stimulate the economy have encouraged investment promotion, for example through accelerated depreciation, also encouraging high capital use. Even in the 1950s, 1960s and 1970s, when its output was growing rapidly high and its level of investment also strong, employment grew substantially less. South Africa's pattern of industry thus reflects choice as well as isolation. Since the 1920s (reinforced since the 1950s) it has followed a pattern more of import substitution than of export promotion, with particular emphasis on the mining sector. Until

the reduction in commodity prices (including gold) of recent years, this permitted it to grow without encouraging the growth of manufactured exports.

Its exports therefore show a very underdeveloped pattern. The concentration ratios (as indicated in the introduction) are unusually low in comparison not only with developed countries, but also with its neighbours, especially Zimbabwe. Its exports are also still predominantly primary goods while it imports manufactures (see Table 2).<sup>16</sup> Overall, South Africa had a large surplus on raw materials, rough balance on intermediates, and a deficit on final products.

The conclusions relevant for trade policy are that its trade structure leaves it vulnerable to the problems shared by commodity-dependent countries of low export and high import demand elasticities, but its domestic industrial structure has been deliberately shifted away from labour-intensive sectors.

### **Competitiveness, productivity, labour and social programmes**

At present, only a limited number of South African non-primary products are considered to be competitive in the European market. They include processed agricultural products, such as fruits and wine, some engineering goods, and some clothing items (see Chapters 5 and 6). The reasons for this lack of competitiveness are a matter of some dispute. The distortions caused by protection are undoubtedly one factor: the Industrial Development Corporation of South Africa (IDC) has estimated the cost-increasing burden brought about by tariffs (including protection surcharges) as some 14% of GDP (IDC, 1990b:7). This represents the amount by which the cost of the South African product has been increased compared with a hypothetical situation in which all inputs could be sourced at world market prices.

Calculations undertaken by the IDC and Board of Trade and Industries show which sectors of manufacturing are adversely affected by having heavy tariffs imposed on their imported inputs (see Table 3). The spinning and weaving industry, for example, which provides 5.2% of the inputs into the domestic manufacturing sector, enjoys combined tariff protection of some 53.6%. The clothing manufacturers have long complained that this makes their own production uncompetitive in world terms. A special duty rebate scheme, whereby the clothing industry can import both material and ready-made garments, has been in operation since April 1989 (under the Structural Adjustment Programme described in Chapter 4), but is under fierce attack from the textile sector.

Productivity in manufacturing is low. This is undoubtedly due partly to the lack of investment in the sector. Figures produced by the South African Chamber of Business (SACOB) suggest that the value added per unit of labour is relatively low in manufacturing compared to other sectors of the economy, being less than a half that achieved in agriculture (SACOB, 1991:34). It has also fallen sharply since 1985.

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<sup>16</sup> They are also surprisingly similar to its own trade pattern 80 years ago, when 60% was gold, 12% diamonds, and 7% wool. Ostrich feathers, however, are no longer the fourth largest export.



**Table 2: South Africa's exports and imports 1984-90 (US\$ millions)**

	Exports						Imports						Balance of Trade			
	1984	1985	1986	1987	1988	1989	1990	1984	1985	1986	1987	1988	1989	1990	1985	1990
Food and Live Animals	674.6	724.5	1079.3	1271.5	997.6	1624.2	1485.2	595.4	298.4	426.4	495.8	544.6	559.5	589.2	426	896
Fruit	381.6	350.0	458.9	534.2	441.1	527.0	561.0	37.2	22.3	32.4	53.3				328	561
Beverages and Tobacco	15.4	18.1	28.6	39.6	39.4	51.9	82.2	85.5	80.5	104.5	126.7	149.9	159.5	147.9	-62	-66
Inedible Raw Materials	1220.0	1307.9	1601.4	1702.3	3727.5	4454.4	4270.6	445.5	353.7	454.4	475.4	604.1	659.8	690.6	954	3580
Hides and Skins	74.0	79.3	100.2	112.3	108.5	113.9	97.4	1.2	1.1	1.4	2.5				78	97
Coal					1102.3	1212.5	1408.5									1408
Metal Ores	472.8	516.8	625.9	607.5	939.4	1210.6	1280.4	73.0	76.0	72.4	33.5	25.0	35.2	45.0	441	1235
Mineral Fuels	906.7	1267.9	1467.2	1245.7				40.0	51.2	57.1	62.9				1217	
Animal and Vegetable Oils	18.9	29.1	31.6	43.1	41.1	51.5	40.4	123.3	135.1	129.5	113.0	116.0	135.9	115.4	-106	-75
Chemicals	374.5	395.8	592.8	657.8	728.4	873.6	846.3	1076.4	1076.9	1644.0	1985.9	2155.3	2182.3	2162.7	-681	-1316
Manufacturing Goods	2071.9	2687.5	3901.6	4809.8	4792.6	5835.9	5906.1	1229.9	975.4	1334.7	1808.0	2088.6	2400.0	2424.8	1712	3481
Leather and Rubber	28.9	34.6	51.2	77.8				114.9	76.2	116.4	156.7	183.4	242.2	236.4	-42	-236
Wood and Cork	25.2	32.2	52.6	62.9				19.8	13.6	18.7	31.8	32.2	37.0	43.9	19	-44
Paper and Paper Board	74.6	119.5	187.4	260.9				184.6	162.1	199.0	244.3	284.3	288.5	335.3	-43	-335
Textiles	50.2	93.7	124.9	120.8	96.4	116.8	132.9	202.8	144.1	245.8	407.2	481.3	529.3	569.5	-50	-437
Non-Metallic Mineral Products (diamonds)	720.5	892.8	1417.4	1968.0	1531.6	2029.0	2096.5	165.3	135.7	196.5	257.8	318.7	372.8	397.6	757	1699
Metals and Metal Products	1172.5	1514.8	2068.1	1801.3	2703.7	4297.8	4813.2	542.5	443.5	558.4	710.1	787.9	929.6	842.0	1071	3971
Machinery and Transport Equipment	246.0	353.5	526.6	500.5	565.5	686.3	929.7	4660.2	3583.8	4850.9	6243.2	7652.7	7988.4	7447.7	-3230	-6518
Motor Vehicles												2030.2	2198.5	1864.4		-1864
Miscellaneous Manufactured Articles	90.4	129.6	178.4	197.6	193.7	236.5	313.4	879.7	618.9	833.7	1173.7	1336.7	1410.3	1392.1	-489	-1079
Clothing	40.7	46.3	54.5	50.7	44.7	54.4	80.9	90.2	51.0	51.7	86.5	106.5	103.0	108.6	-5	-28
Not Classified	1809.6	1379.1	2245.1	2704.7	1574.2	1552.4	2525.5	1762.6	1663.7	2430.3	2316.0	1957.9	2146.5	2296.7	-285	229
Gold	5432.0	6047.6	7656.8	9226.7	8252.3	7582.2	7051.2								6048	7051
Sum	15900.9	18020.4	24450.5	27996.0	27880.0	32510.7	33921.5	12329.	9963.3	13758.1	16784.3	20855.2	22378.6	21709.9	8057	12212

**Notes:**

Metal and Metal products are taken as the sum of 67, 68, 69 in 1990 Yearbook  
 Non-Metallic Mineral Products are assumed to equal diamonds in 1991 statistics  
 1984-87: South African Statistics Yearbook 1990  
 1988-90: R.S.A. Bulletin of Statistics, September 1991



**Table 3: Manufacturing sector inputs to manufacturing sector**

	<i>Portion of input %</i>	<i>Tariff wall %</i>	<i>Effective surcharge %</i>	<i>Level of protection</i>
Spinning & weaving industry	5.2	47.2*	6.4*	High
Pulp, paper & paperboard	4.8	10.3	0	Medium
Synthetic chemicals & plastics	6.6	27.3*	2.0	High
Basic chemicals	11.4	15.6	0	High
Iron & steel basic industries	10.9	8.0	5.8*	Medium
Non-ferrous metals	4.9	8.5	1.2	Low
Fabricated metals	5.0	13.6	10.0*	High
Motor vehicles	7.0	29.0*	10.2*	High
<b>Total</b>	<b>41.3</b>	<b>20.0</b>	<b>4.0</b>	

*Note:* \* above average.  
*Source:* SACOB, 1991:40.

Although the principal explanation for this pattern of investment and output appears to be a deliberate policy, later reinforced by sanctions, of moving to a highly protected, low labour using system, it has been reinforced by high labour costs compared to those of neighbouring countries, or other middle-income developing countries, especially measured against the low level of skills of the labour force. SACOB 1990 estimated the costs as about half those of the US, but at least 50% and possibly 200% higher than those in NICs, and they are believed to be 2-3 times higher than those in its immediate neighbours. In terms of education, South Africa is less developed than other countries of a similar level of income. Although some government officials suggested that the informal training and skills are better than this might imply, it is unlikely that these are a good substitute for education, and the fact that South Africa is a significant net importer of educated labour from the neighbouring countries suggests that poor education is a serious constraint on labour productivity.

Labour costs have risen sharply in the last decade. Unit labour costs, which take account both of wages and the relative productivity of labour, increased in nominal terms by 13.6% between 1981 and 1988, which was significantly higher than the rate in the OECD countries and NICs. However, this increase was offset by the devaluation of the Rand, so that the real cost of labour did not rise substantially. In fact, between 1970 and 1988 real earnings rose in South Africa by an average of only 1.6% annually, which was significantly lower than the OECD average, and between 1984 and 1987 real hourly earnings declined steadily (SACOB, 1991:34). At the end of this period, however, there was a jump in the real cost of labour. The real wage per non-agricultural worker rose at an average annual rate of 2.5% in the period 1987-89 and by 2.0% in 1990 (SA Reserve Bank, 1991:19).

The relatively high wages may reflect the difficulty of maintaining a very low-income-country pattern in a country with a relatively high-income portion of the population as well as union political power. Both these influences will be reinforced under a majority government. This suggests that although merely removing some of the protection and

subsidisation for capital-intensive industries and investment will start a reversal to a different industrial pattern, active policies to promote labour-using industries may be necessary to counteract structurally high cost labour, at least until improvements in education and training can take effect. If investment remains low because of the economic and political uncertainties, restructuring will be slow. Assisting the process could therefore be one consideration in setting trade policies.

### **The need for high social spending**

The need to create more employment is a major economic and political challenge for South Africa. The high subsidies and protection for capital-intensive industry and investment, the poor success of manufactured exports, and the high levels of unemployment all suggest that the present structure of production is not efficient, and the instability of both the present and any new majority government can only be aggravated by high and growing unemployment. The fall in demand for labour, whether because of low growth, capital-intensive investment, or high costs, combined with rapid growth of population, has meant an increase in the already high rate of unemployment. It is estimated that in the late 1980s only seven new employment opportunities were created in the formal sector for every one hundred new entrants to the labour market. Estimates for unemployment among blacks range from 30% to 40%, or even 50%, although a quarter to a third of these may be employed in the informal sector.

Education spending has increased in recent years, but the system remains disrupted, and in order to meet the existing shortage a large increase in spending is expected under a new government. In the long run this will improve productivity, but in the short it limits investment resources for other sectors of the economy and will put severe pressure on the government budget.

Other types of social infrastructure spending are also expected to need to be high because of present shortages and commitments to the supporters of any new government. These include higher investment in housing and health services. Both may improve productivity in the medium term, but in the short term will restrict the public sector's ability to devote resources to encourage labour-using (or any other) industrial investment, directly and because they imply relatively high tax mobilisation. Land redistribution, another immediate commitment, may also affect the allocation of public investment, and the cost of labour.

The obvious local parallel to these needs and this type of response would be Zimbabwe in the early 1980s. The results there included short-term rapid growth, but this was largely locally based. There was some discouragement of exporters because of the attractions of the growing domestic market. In the long run there was a switch away from such policies, as the costs became too high for the system to sustain, and a shift to the present structural adjustment programme. The two possible scenarios this suggests for South Africa are repetition (with perhaps a worse period of uncertainty before any policy is followed) or an attempt to avoid the present Zimbabwe situation by restraining social expenditure to levels below those to which a new government at present seems likely to be committed. The prospect of either could deter foreign capital, increasing the pressure on the trade sector.

## **New industrial strategies**

Both the present and potential governments are in principle committed to redirecting the pattern of South African industry to a less protected, less capital-intensive, and more internationally oriented structure. Therefore, at least some policies which do not have direct budgetary costs may be changed or introduced. The government's programme (IDC, 1990b:1) is 'a more outward-looking and internationally competitive approach. In order to achieve this goal: greater neutrality must be brought about between import replacement and export production both in international trade policy and in industrial policy; and the cost pressure due to the system of import charges must be reduced. (In this report the terms 'trade policy' and 'industrial policy' are used synonymously and interchangeably.)' The last sentence is particularly notable. It appears to be taken as self-evidently true by all sides, suggesting that any industrial policy will be at least supported by, and probably implemented through, trade measures. Another significant point, however, may be that the Industrial Development Corporation, which formulated the policy, has been waiting for an official response since June 1990.

During the discussions of the political form of a new government, economic policy has been largely left to one side, and this neglect is expected to continue until a new government is in place. Given the difficulties already facing the South African economy, this is worsening the problem of meeting the high expectations of any new regime.

Although the IDC report (discussed in Chapter 4) put less emphasis on differential supports than other plans, in practice these have continued, and are also likely to be favoured by an ANC regime. There seems to be a general willingness to switch to much more sectorally- (even firm-) directed policies than in the past - the Asian rather than the Latin American model of industrial promotion. There is (as discussed in the next chapter) an awareness that any trade measures must now be internationally acceptable (in particular, that subsidies be in a GATT-acceptable form), part of the perception of a close relationship between industrial and trade support. The immediate problem is the apparent unwillingness to take new initiatives until the political uncertainties are resolved.

Increasing employment (and higher black wages) will increase the relative importance of the internal over the export market, and this is accepted as inevitable, and desirable. This would suggest some shift in industrial priorities away from intermediate and capital goods towards consumer products for reasons of demand as well as labour use. Against this is the present apparent relative disadvantage of South Africa in the production of the consumer goods required by low-income consumers. (This is discussed further in the next chapter on trade patterns.) It is, however, difficult to know how much this uncompetitiveness is the result of the deliberate promotion of the more capital-intensive intermediate sector and engineering goods, and therefore reversible. The high labour costs, however, suggest that there is some structural competitive disadvantage. A changed industrial policy could lead to some shift towards consumer industries, certainly for domestic demand and possibly in the longer term for external demand. The latter would not hold in the immediate future if the increase in output came precisely because of an increase in domestic demand, so that there would be no immediate prospect of exports to pay for any required imports of investment goods, regardless of the trade policy.

#### 4. THE SOUTH AFRICAN EXTERNAL SECTOR

##### Composition of exports

Exports (including gold) are about a quarter of total South African GDP, and have remained at approximately that level for the last thirty years (with the largest variations explained by gold price changes). The volume of exports excluding gold rose fairly rapidly from 1985-91, relative to GDP or to industrial countries' exports (although less rapidly than the NICs'), but the gold volume has risen slowly. Exports are lower than might be expected for the country's size, but distance as well as sanctions helps to explain this.

South Africa's share in world trade has halved since 1961. This change can be explained by its still heavy dependence on primary products. In 1990, there were extremely large increases in machinery, transport equipment and other manufactures; chemicals, plastics and shoes have also performed well over the last five years (South African trade data). The rises in these exports, however, are all from a low base (Table 4). South Africa's exports are still dominated by minerals. During the 1980s the share of gold alone did not fall much below 40% of declared merchandise exports, and was 50% at the beginning of the decade. Moreover, a significant part of the undeclared exports is believed to be gold. Other minerals increased the total mineral sector contribution to total exports to around three-quarters in 1985. It fell only slightly to 65% (because of price changes) in 1989. Agriculture and manufactures contributed less than 10% apiece in 1985. Of the manufactures exports, some two-thirds are at the first stage of mineral beneficiation, with chemicals most important among the rest. It is a major world exporter of gold (15% of world exports), coal and iron (about 10% each), and other metals including platinum (Tables 4 and 5).<sup>17</sup>

Its coal exports are the most likely to be under-reported because of the political sensitivity of coal imports in many countries (regardless of source), as well as the special sanctions against them. Garner (1991a) notes that Taiwan imports increased when French and Danish fell. The UK reports only trivial coal imports from South Africa, but the Commonwealth Secretariat (1989a:77) suggested that it was importing through the Netherlands in 1986.

##### Direction of exports

Europe is South Africa's most important export market. In 1990 the EC accounted for 27% of total merchandise exports (Table 6). The UK (8%), the Netherlands and Germany (5%) were the most important EC national markets; Italy and Belgium took 3% each. Switzerland's share was 9%. For the EC as a whole, and for the UK and Germany, these shares were higher than in 1985 (Table 4). The US took only 4% in 1990, sharply down from 8% in 1985, while Japan, the other country most affected (at least nominally) by sanctions took 6½%, down from 8%. The whole of Africa (outside SACU, excluded from all these data) took 7%. This was considerably higher than the 4% recorded in 1985, and the share continued to grow in 1991. African imports appear to be increasing much more than those of other areas, by 40% in 1988/9 and 22% in 1989/90 (Freimond, 1991a, quoting SAFTO), and 25% in 1991. The largest falls were for the Nordic countries (Garner, 1991a), which is in line with their observance of sanctions, but their shares had not been large.

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<sup>17</sup> All numbers quoted here are subject to the uncertainties and multiplicity of sources discussed in Chapter 1.



**Table 4:**

**South African exports by category and destination 1985 and 1990**

1985

1985

1990

1991

SA Class.	1985												Sum of listed	Africa	Zambia	Zaire	Mozam.	Malawi	Maurit.	Zimbab.	Africa	Switz.	Taiwan	1990		1991	
	US	Japan	Africa	Zimbab.	Mozam.	Malawi	Maurit.	Zimbab.	Africa	Switz.	Taiwan	Total <sup>(a)</sup>												Total <sup>(b)</sup>	Total <sup>(a)</sup>	Total <sup>(b)</sup>	
US \$ millions	46.6	11.9	8.4	6.9	7.4	0.2	4.8	39.6	19.6	20.8	17.0	20.8	181.7	129.4	181.7	209.7											
Live Animals, Animal Products	187.2	82.0	48.3	3.5	13.0	15.5	21.7	183.9	10.3	39.8	30.8	39.8	781.5	339.4	781.5	722.2											
Vegetable Products	3.3	0.3	0.2	0.0	3.5	0.1	0.0	4.1	0.0	0.2	6.7	0.2	46.5	29.7	46.5	45.3											
Fats, Oils	117.0	60.8	26.5	2.1	5.4	3.8	2.9	101.5	47.8	39.8	31.2	39.8	657.6	315.9	657.6	691.2											
Prepared foods	941.0	38.3	104.8	206.6	203.4	96.3	130.7	780.1	98.7	499.5	112.8	499.5	2752.1	1953.0	2752.1	2668.2											
Mineral Products	95.2	16.5	29.2	13.7	17.7	6.0	5.9	89.0	49.4	41.1	102.5	41.1	363.6	363.6	724.2	848.6											
Chemicals	6.2	3.3	1.1	0.2	0.4	0.6	0.4	6.0	2.6	1.0	27.8	1.0	59.8	106.0	154.6	116.6											
Plastic, Rubber	84.0	14.7	7.3	43.5	2.8	0.6	5.3	74.3	9.4	6.5	0.6	6.5	41.4	41.4	118.4	117.8											
Hides, Leather	16.4	7.0	3.1	1.1	2.0	1.9	0.9	16.0	0.7	14.9	5.4	14.9	256.5	256.5	556.5	523.1											
Wood, Straw, Cork	54.9	33.2	5.0	8.5	2.3	1.3	1.8	52.2	41.4	33.6	19.7	33.6	408.2	408.2	592.4	596.6											
Pulp, Paper	250.8	85.1	48.9	42.6	10.4	15.3	34.4	236.5	48.1	42.2	20.3	42.2	0.0	0.0	4.7	9.6											
Textiles, Wool, Textile products	1.6	0.9	0.6	0.0	0.0	0.0	0.0	1.5	0.5	0.0	2.2	0.0	0.0	0.0	0.0	10.6											
Footwear, Headgear	2.5	0.7	0.5	0.2	0.2	0.4	0.3	2.4	9.6	0.4	10.6	0.4	33.2	33.2	89.8	95.2											
Cement, Mica, Glass	368.5	274.2	19.5	0.0	0.1	46.9	0.1	340.8	81.7	22.6	0.5	22.6	2185.2	1019.3	2185.2	2205.0											
Jewellery, Precious Stones	560.5	53.9	147.0	67.4	165.2	42.7	25.4	501.5	292.5	158.7	104.4	158.7	3448.6	1581.6	3448.6	3333.9											
Base Metals	62.0	25.0	20.5	3.0	3.9	3.1	4.1	59.6	42.0	2.0	74.0	2.0	206.8	206.8	517.1	541.6											
Machinery	62.7	21.7	8.7	1.0	23.9	2.0	4.1	61.3	30.1	2.3	37.5	30.1	141.2	141.2	424.6	508.0											
Transport Equipment	15.8	8.0	3.1	0.3	1.9	0.1	0.5	13.9	4.8	0.2	5.3	4.8	28.9	28.9	51.3	51.1											
Professional Equipment	8.7	5.9	1.2	0.0	0.3	0.1	1.0	8.7	4.9	0.1	2.4	4.9	17.2	17.2	63.1	80.2											
Miscellaneous Manufactures	2.9	2.2	0.3	0.0	0.0	0.0	0.3	2.8	2.8	0.4	0.1	2.8	9.0	9.0	9.1	6.2											
Art, Antiques	215.6	98.9	19.7	0.7	74.8	0.0	9.1	203.3	379.8	184.0	5.4	379.8	9462.5	7330.1	9462.5	9423.0											
Other	3103.4	844.4	504.1	401.5	538.5	237.0	253.7	2779.1	1176.7	1109.9	617.4	1176.7	14379.0	7330.1	14379.0	14379.0											
Total <sup>(a)</sup> 1985	6468.0	1921.9	1160.6	595.1	1289.7	594.7	316.5	5878.6	951.8	1514.9	1588.3	455.4	163.9	123.3	181.5	181.9	208.8										
Total <sup>(b)</sup> 1990	1.5	1.4	1.7	1.7	1.4	0.1	1.9	1.4	1.7	1.9	2.8	1.9	2.8	0.9	0.9	0.9	0.9										
Percentages	6.0	9.7	9.6	0.9	2.4	6.5	8.6	6.6	0.9	3.6	5.0	3.6	5.0	2.4	2.4	3.4	3.1										
Live Animals, Animal Products	0.1	0.0	0.0	0.0	0.6	0.0	0.0	0.1	0.0	0.0	1.1	0.0	1.1	0.0	0.0	0.2	0.2										
Vegetable Products	3.8	7.2	5.3	0.5	1.0	1.6	1.1	3.7	4.1	3.6	5.0	3.6	5.0	2.2	2.2	2.9	3.0										
Fats, Oils	30.3	4.5	20.8	51.5	37.8	40.6	51.5	28.1	8.4	45.0	18.3	45.0	16.6	13.6	13.6	12.0	11.6										
Prepared foods	3.1	1.9	5.8	3.4	3.3	2.5	2.3	3.2	4.2	3.7	16.6	3.7	16.6	2.5	2.5	3.2	3.7										
Mineral Products	0.2	0.4	0.2	0.0	0.1	0.3	0.1	0.2	0.2	0.1	4.5	0.2	4.5	0.4	0.4	0.7	0.8										
Chemicals	2.7	1.7	1.5	10.8	0.5	0.3	2.1	2.7	0.8	0.6	0.1	0.6	0.1	0.0	0.3	0.7	0.5										
Plastic, Rubber	0.5	0.8	0.6	0.3	0.4	0.8	0.4	0.6	0.1	1.3	0.9	1.3	0.9	0.0	0.9	0.3	0.5										
Hides, Leather	1.8	3.9	1.0	2.1	0.4	0.6	0.7	1.9	3.5	3.0	3.2	3.0	3.2	1.8	1.8	2.4	2.3										
Wood, Straw, Cork	8.1	10.1	9.7	10.6	1.9	6.4	13.5	8.5	4.1	3.8	3.3	3.8	3.3	2.8	2.8	2.6	2.6										
Pulp, Paper	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.4	0.0	0.4	0.0	0.0	0.0	0.0										
Textiles, Wool, Textile products	0.1	0.1	0.1	0.1	0.0	0.2	0.1	0.1	0.8	0.0	1.7	0.0	1.7	0.0	0.0	0.4	0.4										
Footwear, Headgear	11.9	32.5	3.9	0.0	0.0	19.8	0.0	12.3	6.9	2.0	0.1	2.0	0.1	7.1	9.5	9.6											
Cement, Mica, Glass	18.1	6.4	29.2	16.8	30.7	18.0	10.0	18.0	24.9	14.3	16.9	14.3	16.9	11.0	15.0	14.5											
Jewellery, Precious Stones	2.0	3.0	4.1	0.7	0.7	1.3	1.6	2.1	3.6	0.2	12.0	0.2	12.0	1.4	2.3	2.4											
Base Metals	2.0	2.6	1.7	0.2	4.4	0.8	1.6	2.2	2.6	0.2	6.1	0.2	6.1	1.0	1.8	2.2											
Machinery	0.5	0.9	0.6	0.1	0.4	0.0	0.2	0.5	0.4	0.0	0.9	0.0	0.9	0.2	0.2	0.2	0.2										
Transport Equipment	0.3	0.7	0.2	0.0	0.1	0.1	0.4	0.3	0.4	0.0	0.4	0.0	0.4	0.1	0.1	0.3	0.3										
Professional Equipment	0.1	0.3	0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0										
Miscellaneous Manufactures	0.1	0.3	0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0										
Art, Antiques	6.9	11.7	3.9	0.2	13.9	0.0	3.6	7.3	32.3	16.6	0.9	16.6	0.9	51.0	41.2	41.0											
Other	21.6	5.9	3.5	2.8	3.7	1.6	1.8	19.3	8.2	7.7	4.3	7.7	4.3	100.0	100.0	100.0											
Country Share 1985	28.2	8.4	5.1	2.6	5.6	2.6	1.4	25.6	4.1	6.6	6.9	2.0	0.7	0.5	0.8	0.8	0.9										
Country Share 1990	9.3	3.1	3.1	3.1	9.3	3.1	9.3	9.3	21.36.6	71.1.4	1314.7	21.36.6	71.1.4	22973.18	22973.18	22986.9											

Notes:  
a) R.S.A. Foreign Trade Statistics 1985  
b) SAFTO (1991) Foreign Trade Trends  
c) Data from South African Trade Department  
d) Government Gazette, 8 November 1991, p 15-17, estimated from data from January to September

**Table 5: South Africa's principal commodity exports to identifiable destinations 1990 (US \$ millions)**

	SITC	EC	UK <sup>(a)</sup>	Ger.	Italy	Nether.	Belgium	France	US <sup>(c)</sup>	Japan <sup>(b)</sup>	Zim. <sup>(a)</sup>	Taiwan (1991) <sup>(h)</sup>	Sum
Beef	011	0.1		0.0							0.0	0.0	0.1
Fish	030	89.3	1.5	4.3	30.9	0.2	1.4	13.1		29.3	0.1	0.1	118.8
Cereals	040	23.9	15.4	0.1	2.5	0.1	0.1	0.3			1.6	0.5	26.0
Barley	043						0.0				1.6		
Maize	044		15.4	0.1	2.5	0.1	0.1	0.3			0.0		
Fruit & Vegetables	050	612.5	273.0	123.3	20.3	19.9	61.7	105.9		3.9	0.0	0.3	616.7
Oranges	0571		53.5	15.8		7.9	7.8	22.4					
Other Citrus	0572			5.8	8.5	1.6	2.8	11.4			0.0		
Apples	0574		97.8	40.6	1.6	2.8	29.9	13.5					
Grapes	0575		36.3	44.8	2.0	3.6	9.4	9.4		2.4	0.0		
Pears	05792		23.7	15.2	8.0	1.1	11.1	16.0					
Avocadoes	05797		11.0	1.1	0.2	2.9	0.7	33.2			0.0		
Sugar	061	3.7	3.3			0.0		0.5		87.0	0.1		90.8
Oil cake	08133-9	49.2		43.0	3.0	3.2					0.0	0.2	49.4
Tobacco	121	18.3	15.6	0.2	1.6		0.8	0.0		2.1	0.0		20.4
Canned Fruit		92.2	25.6	35.6	1.9	6.4	7.4	9.7		19.2		2.5	113.8
Raw Hides	211	40.9	5.7	4.6	18.5		1.5	4.7		9.3	0.0	0.2	50.5
Pulp	251	106.2	81.5	2.4	9.6	0.8	1.4	8.9	53.9	50.5	1.3	9.2	221.1
Textile Fibres	260	295.0	69.8	96.7	41.2	6.3	6.2	53.6		43.2	1.6	17.4	357.2
Cotton	263			2.0	1.1	6.2		0.3		0.2	0.0	0.5	
Synthetic polyester fibres	26652										0.5	2.4	
Synthetic waste	26721			0.2	0.0	0.1	0.3			0.0	1.0		
Wool	268		55.9	94.5	40.1	0.0	5.9	53.3		42.9	0.0	14.6	
Crude sulphur	27411	0.0									1.1		1.1
Other crude, etc.	278	100.0	31.1	40.2	9.7	2.6	3.8	6.3	24.3	102.5	5.1		231.9
Metallifer. Ores & metal scrap	280	485.4	324.5	29.8	38.6	36.4	13.0	26.4	117.7	404.8	0.7	6.5	1015.0
Iron ore	281		75.0	29.8	38.0	22.5	3.0	18.7	43.5	137.9	0.0		
Manganese ores	2877		29.6	0.0	0.6	13.9	10.0	7.7		108.0	0.6		
Coal	322	1071.9	28.0	211.3	208.4	68.6	206.0	48.2	12.1	270.2		77.0	1431.1
Carbon & Other Inorganic	5221	179.3	26.2	16.0	0.4	0.9	0.3	134.1	17.6 <sup>(e)</sup>	55.3	19.0	3.4	274.5
Titanium oxides	52256						0.0				1.7		
Anhydrous ammonia	52261										2.7		
Caustic potash	522632									0.0	1.8		
Chlor & sulph, etc.	523			1.2	0.4	0.9	0.3	0.2	3.5	2.9	11.7		
Radio active elements	52517		4.8	14.7				134.0					
Pigments	53117	0.0						0.0			0.5	0.4	0.9
Various pigments	5331	0.0			0.0	0.0					0.5		0.5
Fertilisers	562	4.5		0.9	0.0	0.1		0.5		1.0	5.4		10.9
Plastics	571	1.2		0.0	0.0		1.0				3.2	1.4	5.8
Explosives	59132	0.0									8.4		8.4
Detonators	5932	0.0									0.0		0.0
Leather	611	60.8	1.3	3.3	52.1	0.0	0.0	2.6		11.4	0.0		72.2
Paper & Kraft Paper		65.5	28.1	14.7	8.9	0.4	0.5	6.8	12.1	0.2	3.7	1.5	83.0
Paper & paperboard	6412			0.1	0.0	0.1		0.0	12.1	0.0	1.9	1.5	
Kraft paper	6414			14.6	8.9	0.4	0.5	6.8		0.2	1.8		
Cotton Yarn	6513	7.4	1.0	4.3	0.1	0.0	1.5	0.6				0.1	7.5
Diamonds	6672	883.0	7.7	1.7		0.1	873.4	0.0	30.3	5.5	0.0		918.8
Iron & Steel		65.2	43.6	1.5	0.2		3.0	1.8	183.4	248.2	30.8	132.9 <sup>(g)</sup>	660.5
Pig Iron	6712						2.7		183.4	10.1	0.0		
Iron, steel primary forms	672			1.1						238.1 <sup>(e)</sup>	0.1		
Iron, steel shapes	673			0.1							24.3		
Rolled Iron	674		1.9	0.2	0.2		0.3				5.5		
Stainless steel	6753		2.3	0.0			0.0	1.8			1.0		
Ferro-alloys	6714-5	363.7	47.3	90.6	45.0	7.2	22.8	84.8		238.1	0.8		602.6
Non-Ferrous Metals	680	1303.5	769.6	328.0	57.2	7.3	31.5	108.4	1118.8 <sup>(e)</sup>	234.0	0.8	34.2 <sup>(i)</sup>	2691.3
Platinum	6812		692.5	199.9	0.5	1.5		57.9	1021.8	195.1	0.0		
Copper	682		29.2	101.5	40.6	2.4	12.8	16.8		32.0	0.7	19.5	
Nickel	683		28.6	26.5	16.2	3.5	18.7	33.7		6.9	0.1	1.3	
Boring machinery	723933	0.4		0.2				0.2	2.0	0.0	1.3		3.8
Ball bearings	7461	0.1		0.0		0.0	0.0	0.1			1.4		1.5
Roller bearings	7462	0.0		0.0				0.0			0.8		0.8
Motor vehicles 1500-3000cc	7812	1.1		0.4	0.0			0.2		11.2	4.4		16.7
Gold	971	2208.4	25.9	201.7	1932.0			30.9		35.4			2243.8
Sum		8132.7	1825.8	1254.8	2482.2	160.7	1240.2	648.4	1572.1	1862.1	92.8	287.7	11947.5

**Notes:**

All EC Data are from Eurostat 1991 except UK

a) Zimbabwe Central Statistics Office

b) Japan Exports and Imports, Country by Commodity 1990, Japan Tariff Association

c) US Trade Summary 1990

d) Includes other iron categories i.e. 673 and 674

e) Inorganic chemical elements (Total)

f) Business Monitor MA20, Table 2, 1990 &amp; UK Trade Statistics; Imports, Country of Origin 1990.

g) Includes ferro-alloys

h) Taiwan Board of Foreign Trade, estimated from January to September

i) Includes precious stones and gold

These small changes suggest that the removal of sanctions may not have a large impact on the relative shares of different markets, although there may be a recovery of exports to the US and Japan. The recovery to the EC may have already begun (Table 6b), as there was a large rise in 1990. Japan's imports had been high in the mid-1980s (and until 1987) because it was late in imposing sanctions. This would be likely to be balanced by some reduction to the EC, rather than to the NICs or Africa, because the compositions are too different, and possibly to Switzerland, to the extent that the high recent flows there have been for re-export; diamonds appear to have been switched to there from the UK and the US (Garner, 1991a). Some of the Japanese change may have been the result of switches to other Asian countries, whether actual or nominal. Any switch back would therefore presumably also be from them. Any real change is unlikely to be by the full amount of the reduction as both buyers and sellers will have found new partners.

Unlike the commodity pattern, geographically, South Africa's trade is relatively dispersed. Most African countries are much more concentrated on the EC (and Latin American and Asian countries on the US); even among developed countries, it is much less dependent on its principal markets than all but the largest EC countries (SACOB, 1991). This could be a response to sanctions, with exporters attempting to spread their risks (*ibid.*).

Africa is much more important as a market than as a supplier, with South Africa's exports to Africa more than five times its imports from the area. In contrast it is in deficit with most of its EC trading partners (not the Netherlands, suggesting that some of the Netherlands' imports may be for re-export; this may also explain its surplus with Switzerland) (Table 7).

Zimbabwe is South Africa's principal trading partner in Africa, taking about a quarter of its exports to Africa (and supplying more than 60% of South Africa's African imports in 1990 (South African trade data, excluding trade with the other members of SACU)). The shares in its African exports of Zambia, Zaire, and Mozambique are all above 10%, followed by Malawi and Mauritius. These countries thus take together about three-quarters of its exports to Africa, explaining its special interest in trading arrangements with them.

As most of the trade is with countries which were always recognised to have difficulty in observing sanctions, here also it is unlikely that the formal removal of sanctions will change the distribution greatly. For Africa and the other markets, however, the cost and simplification of trade arguments given in Chapter 1 for expecting an increase in total South African trade following sanctions could hold.

For manufactures, Africa is much more important to South Africa than it is for total trade. Estimates of Africa's share vary, ranging up to two thirds (with the usual problem of lack of country/commodity trade flow data), but it seems likely that at least 25% of these go to Africa. In some categories, including plastics, fashion, and machinery, Africa is more than 40% of the market, and it is about a third for chemicals, vehicles and parts, and 'other' manufactures. It takes only about 10% of textiles and paper products, however, suggesting that South Africa is less competitive with other African countries in these. In imports, the position is reversed, both for Africa and Europe. The only African country supplying significant proportions of manufactures to South Africa is Zimbabwe. These include cotton, textiles, and some clothing, as well as metals and metal products and a wide variety of raw materials. The pattern (confirmed by the sectoral and product trade balances in Tables 2

**Table 6a: South African exports by destination**

1990 (US\$ million) 1-digit level	SITC	EC <sup>(a)</sup>	UK <sup>(a)</sup>	Ger.	Italy	Nether.	Bel.	France	US <sup>(a)</sup>	Japan (1989) <sup>(b)</sup>	Total Africa	Zim.	Malawi	Maurit.	Mozam.	Zaire	Zambia	Switz.	Taiwan	Total <sup>(c)</sup>	
Food and Live Animals	0	951	313	241	64	47	78	143	0.3	299.4										1485.2	
Beverages and Tobacco	1	51	21	14	4	7	2	3	0.3												82.2
Crude Materials, Inedible, except Fuel	2	1660	527	219	274	106	98	241	199.7	553.7											4270.6
Mineral Fuels, and Related Materials	3	1075	18	211	212	69	207	54	7.7	264.5											0.0
Animal and Vegetable Oils and Fats	4	3	1	1	0	0	0	1	0.0												40.4
Chemicals	5	109	44	18	13	16	8	6	50.2	95.7											846.3
Manufactured Goods	6	5056	949	715	2051	43	953	236	1364.8	616.7											5906.1
Machinery and Transport Equipment	7	257	110	64	5	17	10	45	50.2												929.7
Miscellaneous Manufactured Articles	8	152	94	44	1	2	1	9	8.1	68.6											313.4
Other Commodities	9	30	5	25	0	0	0	0	19.2	121.6											2525.5
Total (EC data)		9345.0	2081.4	1552.7	2624.4	307.6	1355.2	738.7	1700.6	2034.8											16399.5
Total <sup>(e)</sup>		6468.2	1921.9	1160.6	595.1	1289.7	594.7	316.5	951.8	1514.9	1588.3 <sup>(d)</sup>	455.4	163.9	123.3	181.5	181.9	208.8	2136.6			711.4 23730.5

**1990 (%) 1-digit level<sup>(a)</sup>**

Food and Live Animals	0	10	15	16	2	15	6	19	0	15											9
Beverages and Tobacco	1	1	1	1	0	2	0	0	0	0											1
Crude Materials, Inedible, except Fuel	2	18	25	14	10	35	7	33	12	27											26
Mineral Fuels, and Related Materials	3	12	1	14	8	23	15	7	0	13											0
Animal and Vegetable Oils and Fats	4	0	0	0	0	0	0	0	0	0											0
Chemicals	5	1	2	1	0	5	1	1	3	5											5
Manufactured Goods	6	54	46	46	78	14	70	32	80	30											36
Machinery and Transport Equipment	7	3	5	4	0	6	1	6	3	0											6
Miscellaneous Manufactured Articles	8	2	4	3	0	0	0	1	0	3											2
Other Commodities	9	0	0	2	0	0	0	0	1	6											15
Ratio (Sum/Total)		100	100	100	100	100	100	100	100	100											100
Country Share		1.4	1.1	1.3	4.4	0.2	2.3	2.3	1.8	1.3	6.7	1.9	0.7	0.5	0.8	0.8	0.9	9.0			0.7
		27.3	8.1	4.9	2.5	5.4	2.5	1.3	4.0	6.4											100.0

**Notes:**

- a) R.S.A. Central Statistical Service Bulletin of Statistics September 1991; Table 9.3  
b) Data from South African Trade Department  
c) All EC data, except UK, from Eurostat 1991  
d) Business Monitor MA20, Table II, 1990  
e) US, Japan, Taiwan: see Table 5  
f) Excludes trade with SACU countries which is estimated at 10-15% of total exports  
g) Calculated from the above

**Table 6b: Time series data of exports to major trading partners**

	EC	UK	Ger.	Italy	Nether.	Bel.	France	US	Japan	Africa	Zim.	Malawi	Maurit.	Mozam.	Zaire	Zambia	Switz.	Taiwan	Total	
1990	6468.2	1921.9	1160.6	595.1	1289.7	594.7	316.5	951.8	1514.9	1588.3	455.4	163.9	123.3	181.5	181.9	208.8	2136.6	711.4	23730.5 <sup>(e)</sup>	
1989	5861.8	1251.5	1014.2	605.7	1452.1	663.8	298.5	1543.2	2055.6 <sup>(d)</sup>	1311.6										22851.3 <sup>(b)</sup>
1988	4280.9	1181.6	803.5	465.9	732.5	434.3	257.2	1534.8	1956.0 <sup>(d)</sup>	942.4	149.3									19369.2 <sup>(b)</sup>
1987	5745.0	1089.0	1242.0	1791.0	189.0	385.0	583.0	1420.0	2280.0	114.0			76.0							11887.0 <sup>(e)</sup>
1986	5963.0	1227.0	1255.0	1914.0	195.0	361.0	488.0	2520.0	2248.0	103.0			68.0							13102.0 <sup>(e)</sup>

**Sources:**

- a) R.S.A. Central Statistical Service Bulletin of Statistics September 1991; Table 9.3  
b) Ministry of Trade and Industry (memo to British Consulate)  
c) South Africa : The Sanctions Report (1989); Table 4  
d) EIU Country Report 1991, Appendix 2.  
e) Ministry of Trade and Industry (memo to British Consulate)



**Table 7:**  
1990 (US\$ millions) 1-digit level

**South African imports by country of origin**

SITC	EC <sup>(a)</sup>	UK <sup>(b)</sup>	Ger.	Italy	Nether.	Bel.	France	US <sup>(c)</sup>	Japan	Africa	Zim.	Malawi	Maurit.	Mozam.	Zaire	Zambia	Switz.	Taiwan	Total <sup>(d)</sup>
0	121	38	25	7	8	13	22	63.1											589.2
1	113	97	1	5	2	0	5	10.5											147.9
2	411	42	171	69	19	22	54	56.1											690.6
3	34	9	13	2	1	2	6	23.9											0.0
4	17	1	4	0	9	2	0	9.6											115.4
5	1078	394	345	48	74	82	97	312.1											2162.7
6	979	298	336	125	27	89	69	165.6											2424.8
7	3813	1003	1954	376	75	80	272	846.1											7447.7
8	540	237	150	45	28	23	30	169.0											1392.1
9	56	27	0	0	25	0	1	76.5											2296.7
Total <sup>(e)</sup>	7160.8	2147.0	2996.7	677.2	269.3	311.8	556.3	1732.5	1694.4	278.2	172.5	31.6	5.5	11.7	8.6	2.7	470.2	576.4	17267.1
	7724.4	2032.4	3391.2	757.5	362.9	410.5	560.4	1964.1											17267.1

1990 (%) 1-digit level <sup>(f)</sup>																			
0	2	2	1	1	3	4	4	4											3
1	2	4	0	1	1	0	1	1											1
2	6	2	6	10	7	7	10	3											4
3	0	0	0	0	1	0	1	1											0
4	0	0	0	0	3	1	0	1											1
5	15	18	12	7	27	26	17	18											13
6	14	14	11	18	10	28	12	10											14
7	53	47	65	56	28	26	49	49											43
8	8	11	5	7	11	7	5	10											8
9	1	1	0	0	9	0	0	4											13
Ratio (Sum/Total)	0.9	1.1	0.9	0.9	0.7	0.8	1.0	0.9	9.8	1.6	1.0	0.2	0.0	0.1	0.0	0.0	2.7	3.3	100.0
Country Share	44.7	11.8	19.6	4.4	2.1	2.4	3.2	11.4											100.0

**Notes:**

a) R.S.A. Central Statistical Service; Bulletin of Statistics, September 1991, Table 9.2

b) Data from South African Trade Department

c) All EC data, except UK, from Eurostat 1991

d) Business Monitor MA20, Table II, 1990

e) US Summary of Trade

f) Calculated from the above

and 8) thus conforms unusually closely to what one might expect. South Africa imports raw materials from less developed countries and exports them to more, and the reverse for manufactures. Unless this pattern is expected to change greatly, therefore, favouring one direction of trade over the other has direct implications for the composition of trade.

Among industrial countries, the principal goods imported from South Africa vary slightly, but fruit and vegetables, metals, diamonds, textiles and coal are normally the most important, with uranium to France an additional important flow. Platinum for catalytic converters was important in trade with the UK and US. Its principal exports to the UK, its principal trading partner in 1990 (excluding gold), were metals, at various early stages of processing, more than half the total, followed by fruit and vegetables, and then paper and pulp, with their inputs and products, and textiles. For its other major European markets, coal was the major import (and gold for Italy). Coal has also been a major export to Japan, Taiwan and South Korea. The NICs and Japan, rather than the EC countries, are South Africa's major market for iron, steel, and related products.<sup>18</sup> More advanced manufactures, such as chemicals and machinery, which are important in trade with Africa, were a very small proportion of trade with other areas.

Data on trade with the former centrally planned economies are even more difficult to find than for other trade flows, but there is some evidence of increased trade since 1990 (Garner, 1991a:2). South Africa's exports appear to be mainly primary goods, although they have included telephone switching equipment (Hirsch, 1991), and its imports are manufactures (including engineering and chemical products), suggesting that South Africa has a comparative disadvantage even with them in manufactures, possibly another indicator of its appropriate position in the 'development' ranking.

South Africa is not itself a major supplier for any country except some African (Zimbabwe: almost 20%; Mauritius: 8%; the SACU countries much higher). Among the EC countries, it exceeds 1% only for Italy (SACOB, 1991).

### **Trade policy<sup>19</sup>**

As South Africa has been repaying debt since the imposition of financial sanctions in 1985, and (at least until very recently) prevented by sanctions from borrowing from either official or commercial international sources, it is in current surplus, and has been since 1985 (Reserve Bank, 1991b). From 1985 to 1990 its import volume grew very slowly. This was a continuation of near stagnation in the first half of the 1980s, so it cannot be entirely explained by sanctions. With debt now substantially reduced (to less than 20% of GDP, with interest payments less than 10% of exports) and the prospect of being able to return to international borrowing, trade policy can have targets other than merely securing aggregate external balance.

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<sup>18</sup> This section has used Commonwealth Secretariat 1989 as well as the trade data summarised in the tables.

<sup>19</sup> 'South Africa does not have a clearly defined trade policy.' SACOB, 1991:48.

The assumption that imports can rise substantially because capital inflows will revive may be more questionable. The IMF (Lachman and Bercuson 1992) assume inflows of 1¾% of GDP a year. South Africa operates strict controls on transfer of funds abroad (and a dual financial/commercial Rand system). These are expected, by the present government and opposition, to be kept in place at least through any transition period until a new government is well established to prevent capital flight (and to discourage emigration). In the past, there have been substantial outflows of both private and public capital. The latter can be expected at least to end, and probably to be reversed. Both the World Bank and the IMF have signalled that they will be willing to return to extending finance to South Africa, at latest when a new government is in place, and the African Development Bank will offer loans; bilateral donors are already returning. The prospects for large scale foreign investment in South Africa are less clear. The removal of both formal sanctions<sup>20</sup> and the less formal ones operated though public pressure which have restrained investment will permit it to rise, but the uncertain domestic and international prospects, and risks of political instability, will delay any response. As long as growth remains depressed, a large inflow must be unlikely. The removal of informal reluctance to accept South African investment could permit an increase in the process already seen of South African firms investing abroad, including in the EC. Nevertheless, the capital outflow can be expected to be reversed at least in the medium term. There is also the possibility of drawing down the stockpiles of oil and strategic metals, and thus gaining a temporary reduction in imports. All these considerations suggest that balance-of-payments pressures will not be as serious as in the heavily indebted countries, but slow resumption of inflows and high import dependency even for domestic investment could result in short-term problems. This suggests that any active assistance to South Africa's exports is most likely to be needed during its political and economic transition, *i.e.* very rapidly.

In contrast to many developing countries, particularly in Africa, there are no major infrastructure constraints on trade. In particular there is substantial surplus capacity in power, internal transport, and the ports. These include two which meet modern international standards. The banks and credit agencies also offer a developed (and at present liquid) capacity to finance trade, and probably the capacity to open more trade promotion offices to supplement the present representation, which includes an active office dealing with the international trading organisations in Geneva. Exporters have tended to have the confidence to enter European markets directly, not, like some new Asian exporters, through agents or at the importer's initiative. These apparent advantages must be viewed with some caution because of the inevitable lack of experience (or irrelevant experience from trading in an environment of sanctions), but both South Africa and the neighbouring countries consider that they give it an advantage. They imply that a policy directed to ease the general conditions of exporting would have smaller benefits than in other developing countries.

The exchange rate was devalued sharply in the early 1980s, but has been relatively stable since then. Until 1988, it had apparently been managed to 'cushion' the gold price, giving a very variable rate, less encouraging for manufactures (Kahn, 1992). Since 1985, the changes in the rate have amounted to a revaluation for minerals and vegetable products, but

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<sup>20</sup> This process could be slowed in countries like the US where some of the sanctions have been the result of state and local government regulations on doing business with firms involved in South Africa, in particular with banks, and therefore where a single decision is not sufficient.

small devaluations for textiles, metals, and chemicals, and significant ones for paper and machinery (*ibid.*). There are thus signs that a change in policy is already taking place. The exchange rate change, however, is believed to be too recent to explain the rise in manufactured exports.

The past and proposed policies discussed in this section have been directed at increasing the volume and changing the commodity composition of exports. The instruments have not discriminated by source or destination. But discussion with officials and the choice of location for trading offices suggest that policy is now expected to be directed to increasing trade principally with the EC and secondly with Africa. There has been some increase in trade representatives in Asia; Japanese trade missions visited in 1991 and 1992, and South Africa sent one to Asia in early 1992. Japan and the NICs (and other rapidly growing Asian economies) always, however, appear to be afterthoughts in trade promotion. The already diverse nature of South African export destinations may make policy-makers judge that further efforts to diversify are not necessary, but of South Africa's existing markets, those in Europe are least likely to grow rapidly.

Three reasons for concentrating on the EC are given. The 1992 effects make it the largest single market. This is sufficiently important that South Africa has deliberately changed its industries over to EC standards. Secondly, it (and the UK in particular) is a useful base for selling primary goods and contracting services world wide. In particular, it is seen as a base for building trade with the EFTA and East European countries (although these are seen as very long-term prospects). There is also an element of familiarity and tradition. South Africans see it as easier to enter. Finally, policy-makers believe that the world is breaking into regional trade pacts. If this proves to be true, the only ones to which South Africa can hope to be admitted are the African set and the EC. There is, however, little evidence from recent analysis of international trade flows that the experience of successful middle-income developing countries supports this faith in regional groups.

As noted in Chapter 3, trade policy has been highly protective and directed at import substitution more than at export promotion. There are now official proposals to change this, and some steps have been taken. The South African economy is still heavily protected: in the last five years the average level of protection has been between 40% and 50% when account is taken of currency overvaluation (Figure 1). A combination of high import duties imposed piecemeal over a period of seventy years, together with subsidies to offset some of their effects, and extensive use of quotas has created a situation in which it is very difficult to perceive which sectors of the economy are more or less competitive.

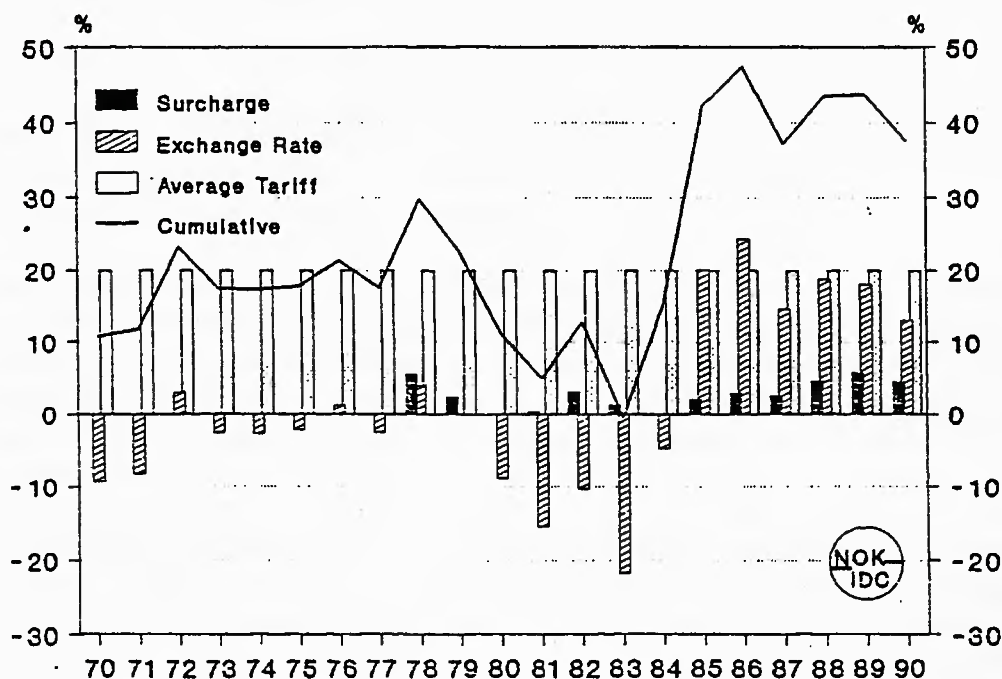
According to the proposals for reforming the system (IDC, 1990b), before 1985 'tariff levels have never before been lowered' and the system has developed since 1921 on the basis of selectivity, with the ability to satisfy the local market as a criterion. There was a sharp reduction in the use of controls in the mid-1980s. In 1983, they covered 77% of imports. This was reduced to 55% in 1984 and 23% in 1985, with little change since then (IDC, 1990a).

Table 8 indicates the levels of nominal and effective protection (in 1990) for products which are discussed as exports and potential exports in the rest of this report, along with other indicators of how competitive South African products are likely to be. Protection is



Figure 1:

## Protection



Source: IDC, 1990b:8.

significant even for paper and wood products, and metals, which are generally assumed to be competitive. For the textile and clothing lines, frequently mentioned as having good potential, the nominal rates are high, and the effective rates extremely high, but even at this level, apparently not sufficient to prevent imports or give high shares in output or value added. They are also high for some chemicals, including paints. The overall figures (20% nominal and 30% effective) are high by industrial country standards, low compared to industrialising developing countries in the past, but perhaps in line with what adjusting and liberalising developing countries are now approaching. The highly differentiated structure, however, is not in line with the currently recommended more uniform approach. Growth in employment in the protected industries is low, but this must be seen in the context of the generally low growth in employment in the last decade.

**Table 8: Principal commodities; various measures of South African competitiveness**

	<i>Nominal protection %</i>	<i>Effective protection %</i>	<i>Import intensity 1986-88</i>	<i>Export intensity 1986-88</i>	<i>Share in production 1988</i>	<i>Share in value added 1988</i>	<i>Employment growth % 80-88</i>	<i>Trade balance with Zimbab. US\$ 000 <sup>(a)</sup></i>
Beef								-474
Fish								69
Barley								1580
Maize								-2882
Oranges								-37
Other Citrus								-241
Grapes								24
Avocados								0
Sugar	20	30	2.3	34.62	1.58	1.17	-2.01	94
Oil cake								-177
Tobacco								-23911
Raw Hides								-356
Pulp	12	20	32.65	25.48	1.85	1.41	3.14	1277
Cotton								-12363
Synthetic polyester fibres	32	348	69.08	8.46	1.45	0.94	0.84	512
Synthetic waste								1039
Wool & Cotton Processing	9	-26	20.52	75.87	0.52	0.34	2.49	8
Crude sulphur								1076
Other crude, etc.								-2456
Metallifer.Ores & metal scrap								
Iron ore								20
Manganese ores								635
Carbon								1062
Paint and Varnish	25	49	5.82	0.97	0.57	0.74	1.7	
Other Basic Chemicals	13	50	21.5	17.44	10.86	7.94	0.84	
Titanium oxides								1728
Anhydrous ammonia								2681
Caustic potash								1773
Chlor and sulph, etc.								11695
Pigments								538
Various pigments								495
Fertilisers	14	26	19.18	14.91	0.89	0.95	0.84	4844
Plastics	42	215	7.63	1.04	2	1.87	0.17	3212
Explosives								8357
Detonators								-19
Leather	24	29	4.19	6.76	0.12	0.16	0.42	-1985
Paper & paperboard								1900
Kraft paper								1840
Cotton Thread								18
Cotton Yarn								-695
Spinning & Weaving	40	94	27.38	15.64	1.79	2.19	-0.89	
Finished Textiles except	22	45	11.37	9.34	0.6	0.35	2.18	-569
Clothing (knitted)	87	99	8.95	6.68	0.7	0.46	-1.16	-824
Other knitted	58	235	3.69	6.77	0.56	0.33	-1.87	322
Carpets and Mats	30	161	1.56	14.77	0.31	0.15	-0.06	103
Other Textiles	20	18	13.13	32.54	0.12	0.12	-4.6	1636
Clothes except Footwear	75	239	1.63	16.42	2.44	2.32	0.46	-2894
Diamonds								21
Pig Iron								0
Ferro-chrome								-4255
Iron, steel primary forms	14	19	7.64	2.18	2.22	2.08	1.25	-4303
Iron, steel shapes	14	19	7.64	2.18	2.22	2.08	1.25	23510
Rolled Iron								5466
Ferro-alloys								304
Stainless steel								989
Platinum								48
Copper								-6315
Nickel								-668
Boring machinery								1344
Ball bearings								1422
Roller bearings								817
Motor vehicles 1500-3000cc								4337
Sum/Average	20	30						21370

**Notes:**All South African data are taken from *Ondersoek na die Tariefbeskermingsbeleid*, Bylae C. (IDC, 1990a);

a) Zimbabwe Department of Trade and Industry.

It is possible that South African industry is not as uncompetitive as these numbers indicate, but that it is finding the same type of problem experienced by Zimbabwe post-independence, that firms which are in fact competitive and potential exporters may be too accustomed to considering the export market unavailable, or at best much more trouble than the domestic, to look for opportunities. South Africa has only recently moved into direct assistance to exports. There is the usual (for a developed country) set of services, including trade information, trade representatives, and participation in trade fairs.

In the last four years, the government has introduced a variety of new instruments to assist exporters. These, taken together, show a clear change in intention, but perhaps a less clear view of what a new policy should be, or what is likely to promote it. The programmes have been started and stopped too quickly to give security to an exporter's plans, and there appears to be little consistency in the criteria for assistance.

The most valuable currently is probably the General Export Incentive Scheme (GEIS) introduced in April 1990 (detailed in Nedbank, 1991). The level of assistance offered by the GEIS is related to the degree of manufacture, but not, as in previous industrial assistance, aimed directly at assisting capital investment. It does not discriminate between new and existing exports, and is therefore a high-cost solution. Its phasing out (by March 1995) has already been announced.

An Export Marketing Assistance scheme (EMA) was introduced after the GEIS (also in 1990), which was a limited extension of extra information services, effectively to exporters not eligible for any other schemes. Prior to the GEIS, there was a special tax allowance for spending to promote exports, which was useful for new entrants. This is now being abolished.

The earliest measure in the set of new policies was the Structural Adjustment Programme (SAP), in 1988, which was a series of industry-specific programmes directed at manufacturing, including textiles and clothing and motor vehicles. The selectivity, apparently, was to be related to the value of the industry to development rather than to either the value of exports (as in the GEIS) or the cost of starting to export (as in the special tax allowance).

In September 1991, a new tax allowance related to export performance, but for capital expenditure, was introduced, specifically for beneficiation of minerals (presumably aimed directly at two new major projects: the Columbus, stainless steel, and Alusaf, aluminium). The most recent sign of greater priority to trade policy was the appointment in January 1992 of a new trade minister from an industrial company responsible for the single biggest development expected to increase new exports over the next few years (the Columbus project). He was expected to give the department greater weight both within the government and in industry than in the past, but was given the additional portfolio of Finance in April.

On the import side the IDC (1990b) proposals<sup>21</sup> for import tariff reform emphasised not only reducing them, and continuing the substitution of tariffs for controls, but 'doing away with the selective approach', an apparent inconsistency with the export/industrial policy approach. At the time the proposal was published, in early 1991, assistance to beneficiation projects was expected to end with the removal of the old tax allowance in 1992; as indicated above, a new allowance has since been introduced. A need was, however, already seen to find a new measure to assist new exporters. The tariff proposal would keep a differential between consumer goods (at a maximum 30%) and others (15%). It proposed a transition period of at least 5-6 years.

Some changes in the specific trade-assistance measures will become necessary as South Africa re-enters fully into the international trading system. The protection at present is made up partly of a tariff and partly of a surcharge, based on the difference between the foreign and domestic price (self-evidently contrary to international rules). The importance of the latter can be measured by the fact that the revenue from it is greater than the *ad valorem* duties. The GEIS and probably some of the other allowances would be open to anti-dumping complaints by importing countries. This has not occurred up to now, but the most obvious, the GEIS, is less than two years old. The small share of South Africa in most countries' imports may also have meant not only little possibility of damage, but little awareness of its trading assistance programmes. A third constraint on affected competitors may have been the existence of sanctions. It is clearly difficult to claim simultaneously to be observing sanctions and to be suffering damage from imports. Sanctions themselves were potentially questionable under GATT,<sup>22</sup> and South Africa argued that the special assistance was designed to counter the costs imposed by sanctions. It is not clear whether the selective instrument GEIS could have claimed this successfully. With the removal of sanctions, the semi-political constraints cease to be binding, and the trade with South Africa and awareness of its trade measures will change with time. This process could be reinforced by the information which will become available when South Africa is examined under the GATT Trade Policy Review Mechanism (a report is scheduled for publication in early 1993). More specific assistance and subsidies for industry may be less vulnerable to international complaint. It is possible that greater freedom to assist would be allowed to a 'developing country' with an 'infant industry' programme than to a 'developed' country.

In trade policy, it may be particularly important for South Africa to find assistance measures which are unlikely to be challenged because it is (like many other developing countries, in contrast to industrial countries) a relatively small exporter, and distant from its largest markets. For this reason losing or seriously delaying even one shipment because of an anti-dumping action is likely to be particularly serious. On the other hand, if it turns in to the domestic market, all trade instruments may seem relatively less important than in the past.

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<sup>21</sup> In the context of increasing the transparency and predictability of trade policy, it may be noted that although the summary 'Policy Document' (IDC, 1990b) for this is published in English and Afrikaans, the background analysis and calculations (IDC, 1990a), including those of effective protection used in Table 8, are available only in Afrikaans.

<sup>22</sup> South Africa took one case against Canada to a GATT panel. Although Canada did not accept the ruling, it did alter its legislation.



More important than the international law reasons to change the trading instruments is the need to set a stable and consistent policy for industry, whether or not the output is traded. From the point of view of the questions asked in the present report, the problems are first that it is not clear from the variety of actions and proposals of recent years what the objectives of trade or industrial policy now are, much less what those of a new government might be, and thus what international measures might be of most assistance; and second, that the long history of protection, and the still high rates which are observed, make it difficult for either South Africa or its potential markets and competitors to judge which industries would be competitive under a different trading regime. From the point of view of 'acceptable' policies, as well as conventional economic efficiency, non-trade assistance is likely to be preferable.

## 5. SOUTH AFRICA'S EXPORTS TO THE EC

Many of South Africa's most important exports to the EC would be unaffected by any post-*apartheid* preferential trade regime. This is because they face low MFN tariffs and no serious non-tariff barriers (NTBs). Table 9 provides data to identify more precisely which existing exports could benefit from preferences. It lists all products for which South African exports to the EC were more than 20 million ECUs in 1990.<sup>23</sup> These are those for which *prima facie* trade preference from the EC is most likely to be beneficial to South Africa. Some, however, (marked as D) already enter the EC with little or no import duty or other restriction under the existing MFN regime. Those which could gain are marked as A. The two final columns give the most favourable likely preference regime (usually that under Lomé IV).

The other question which must be considered, however, is which products exported by other developing countries are likely to face trade diversion to South Africa if it is granted improved access. Table 9 considers three levels of aggregation, all developing countries, the ACP countries which already have Lomé privileges, and the five neighbouring southern African countries, Botswana, Lesotho, Namibia, Swaziland, and Zimbabwe. The exports which might be adversely affected by South Africa were defined as those which are at least 0.2 % of the relevant group's exports to the EC and for which the value of South African exports to the EC is at least 1% of the group's exports. The table also attempts to identify those where South Africa would compete with EC production by comparing South African exports to the EC with intra-EC trade. These potentially competitive products are marked as B in the relevant columns, and of course include some goods which are not a high share of South Africa's own exports (but all values under 1 million ECUs were excluded). Clearly these criteria are arbitrary, but the competitiveness threshold is sufficiently low that even if there are some goods for which South Africa faces only one country as competitor or where only some particular subset of a category is involved, there are unlikely to be major omissions. At the end of the table (marked as C) are goods (sugar and beef) which South

<sup>23</sup>. The definition of a 'good' was based on judgement of what level of differentiation was necessary to ensure that close substitutes which South Africa or its competitors could easily switch between were treated together (e.g. types of orange or ferro-chrome with different percentages of chrome), but those where the conditions of production were clearly different (wool or cotton clothing, varieties of fish) were separated. This explains the variation of classification from 4 to 6 digit.

**Table 9: South Africa's principal exports to the EC market classified by preferential regimes and competitor, 1990**

Exports  
Percentage share of products in EC imports from

CN Code	Product	(Million ECU)	SA	Developing	ACP	BLSNZ	Intra-EC	MFN Tariff	NTBs	NTBs under most favourable regime
7108	Gold	1733 D	9.4	0.1	1.6	2.5	0.1	0-5		
2701	Coal	839 A	4.5	0.1 B	0.0	1.3 B	0.1 B	0	Q	S
7110	Platinum	711 A	3.8	0.1 B	0.0	0.1 B	0.1 B	0-4		
7102	Diamonds	687 D	3.7	0.6	5.9	0.2	0.4	0		
72024	Ferro-chromium	188 A	1.0	0.0	0.2 B	1.9 B	0.0	8	AD,TQ	E
5101	Wool	162 D	0.9	0.0	0.0	0.1	0.0	0		
2601	Iron ores and concentrates	142 D	0.8	0.3	1.4	0.1	0.1	0		
080810	Fresh apples	141 A	0.8	0.0	0.0	0.0	0.1 B	6-14	VER, S	TQ
284410	Natural uranium and its compounds; alloys	117 D	0.6	0.0	1.0	0.0	0.0	0		
0805	Citrus fruit, fresh or dried	106 A	0.6	0.1 B	0.1 B	0.7 B	0.2 B	4-20	MIP	TQ, MIP
7502	Unwrought nickel	103 D	0.6	0.0	0.3	1.9	0.0	0		
7403	Refined copper and copper alloys	88 D	0.5	0.4	3.8	1.3	0.1	0		
0806	Grapes, fresh or dried	82 A	0.4	0.0	0.0	0.1 B	0.1 B	3-22	MIP	TQ, MIP
251611	Granite, crude or roughly trimmed	79 D	0.4	0.0	0.0	0.1	0.0	0		
2602	Manganese ores and concentrates	60 D	0.3	0.0	0.6	0.1	0.0	0		
080820	Fresh pears and quinces	58 A	0.3	0.0	0.0	0.0	0.0	5-13	S	
7402	Unrefined copper; copper anodes	52 D	0.3	0.1	1.2	0.9	0.0	0		
2510	Natural calcium phosphates	41 D	0.2	0.1	0.3	0.0	0.0	0		
230690	Oil-cake and other solid residues	39 D	0.2	0.0	0.0	0.1	0.0	0		
720211	Ferro-manganese,	38 D	0.2	0.0	0.0	0.0	0.0	4		
080440	Fresh or dried avocados	37 A	0.2	0.0	0.0	0.0	0.0	4-8		
410422	Bovine leather, pre-tanned	35 A	0.2	0.1 B	0.1 B	0.4 B	0.0	0-7		
4804	Uncoated kraft paper and paperboard	34 A	0.2	0.0	0.0	0.0	0.1 B	2.5-9	MIP	
5105	Wool and fine or coarse animal hair, carded	33 D	0.2	0.0	0.0	0.0	0.1	3		
4102	Raw skins of sheep or lamb	32 D	0.2	0.0	0.1	0.1	0.0	0		
2610	Chromium ores and concentrates	27 D	0.1	0.0	0.0	0.1	0.0	0		
880230	Aeroplanes and other aircraft	26 A	0.1	0.1 B	1.1 B	0.0	0.3 B	0-5.5		
2620	Ash and residues	26 D	0.1	0.0	0.0	0.2	0.1	0		
940190	Parts of seats	26 A	0.1	0.0	0.0	0.0	0.1 B	4.4-5.6		
2619	Slag, dross (other than granulated slag)	23 D	0.1	0.0	0.0	0.1	0.0	0		
5402	Synthetic filament yarn (other than sewing)	23 A	0.1	0.0	0.0	0.1 B	0.4 B	9	MFA	
2615	Niobium, tantalum, vanadium or zirconium	23 D	0.1	0.0	0.0	0.0	0.0	0		
720230	Ferro-silicon manganese.	23 A	0.1	0.0	0.0	0.0	0.0	5.5		
030378	Hake "merluccius spp., Urophycis spp."	22 A	0.1	0.0	0.0	0.1 B	0.0	8-15		
2607	Lead ores and concentrates	22 D	0.1	0.0	0.0	0.0	0.0	0		
2614	Titanium ores and concentrates	22 D	0.1	0.0	0.1	0.0	0.0	0		
4703	Chemical wood pulp, soda or sulphate	21 D	0.1	0.1	0.0	0.2	0.1	0		
7318	Screws, bolts, nuts, coach screws	18	0.1	0.0	0.0	0.3 B	0.2 B	5.3-6.5		
440710	Coniferous wood sawn or chipped lengthwise	16	0.1	0.0	0.0	0.1 B	0.1 B	0-4.9		
7217	Wire of iron or non-alloy steel	15	0.1	0.0	0.0	0.0	0.1 B	5.3		
5205	Cotton yarn (other than sewing thread)	12	0.1	0.1 B	0.1 B	0.4 B	0.1 B	4-6	MFA	
4418	Builders' joinery and carpentry of wood	12	0.1	0.0	0.0	0.0	0.1 B	0-6		
030749	Cuttle fish	11	0.1	0.0	0.1 B	0.0	0.0	6-8		
4801	Newsprint, in rolls or sheets	11	0.1	0.0	0.0	0.1 B	0.1 B	7-9		
870829	Parts and accessories of car bodies	10	0.1	0.0	0.0	0.0	0.3 B	4.9-6.9		
030379	Other fish	10	0.1	0.0	0.1 B	0.0	0.0	0-22		
94034+94035	Wooden furniture, kitchen and bedroom	10	0.1	0.0	0.0	0.1	0.2 B	5.6		

Exports

Percentage share of products in EC imports from

CN Code	Product	(Million ECU)	SA	Developing	ACP	BLSNZ	Intra-EC	MFN Tariff	NTBs
3201	Tanning extracts of vegetable origin	10	0.1	0.0	0.0	0.1 B	0.0	0-5.8	
200820	Pineapples prepared or preserved	10	0.1	0.0	0.2 B	0.3 B	0.0	22-32	AGR
8903	Yachts and other vessels for pleasure	10	0.1	0.0	0.0	0.0	0.2 B	0-3.8	
7306	Iron and steel tubes, pipes and hollow profiles	9	0.0	0.0	0.0	0.1	0.2 B	0-10	
7601	Unwrought aluminium	8	0.0	0.2 B	1.9 B	0.0	0.3	6	
2809	Diphosphorus pentoxide; phosphoric acid	8	0.0	0.0	0.0	0.2 B	0.0 B	11	
940360	Other wooden furniture	8	0.0	0.0	0.0	0.1 B	0.3	5.6	
7213	Steel bars and rods, hot-rolled	7	0.0	0.0	0.1 B	0.1 B	0.2	4.9-6	
7106	Silver	7	0.0	0.0	0.0	0.0	0.1 B	0-3.8	
7216	Angles, shapes and sections of iron or steel	7	0.0	0.0	0.0	0.1 B	0.3	3.8-4.9	
8411	Turbo-jets, turbo-propellers	7	0.0	0.1 B	0.2 B	0.0	0.4	0-5.5	
5208+5209	Woven fabrics of cotton	6	0.0	0.1 B	0.4 B	0.3 B	0.3 B	10	MFA
060310	Fresh flowers and flower buds, cut	6	0.0	0.0	0.2 B	0.4 B	0.2	15-20	
200940	Pineapple juice	6	0.0	0.0	0.1 B	0.1 B	0.0	19-42	AGR
2914	Ketones and quinones	6	0.0	0.0	0.0	0.0	0.1 B	6.6-11.2	
0810	Other fruit, fresh	6	0.0	0.0	0.1 B	0.1 B	0.1	0-16	
8105	Cobalt mattes and other intermediate products	5	0.0	0.0	0.3 B	0.0	0.0	0-3.8	
620342	Trousers, bib and brace overalls, breeches	5	0.0	0.2 B	0.2 B	0.3 B	0.2	14	MFA
200911	Frozen orange-juice	4	0.0	0.1 B	0.0	0.2 B	0.1 B	13-42	AGR
0713	Dried leguminous vegetables, shelled,	4	0.0	0.0	0.1 B	0.0	0.1	2-5	
610910	T-shirts, singlets and vests of cotton	3	0.0	0.1 B	0.3 B	0.1 B	0.1	13	MFA
940390	Parts of furniture	3	0.0	0.0	0.0	0.1 B	0.1	5.6	
2005	Other vegetables prepared or preserved	3	0.0	0.0	0.0	0.1 B	0.1	8-24	MOB
2401	Unmanufactured tobacco; tobacco refuse	2	0.0	0.2 B	1.3 B	5.6 B	0.1 B	14-23	S
440890	Wood sawn lengthwise, sliced or peeled, not tropical or coniferous	2	0.0	0.0	0.3 B	0.0	0.0	0-6	
3301	Essential oils, terpeneless or not	2	0.0	0.0	0.1 B	0.0	0.0	0-11	
6105	Men's or boys' shirts, knitted or crocheted	2	0.0	0.1	0.1 B	0.0	0.0	13	MFA
620520	Men's or boys' shirts of cotton	2	0.0	0.2 B	0.2 B	0.0	0.1	13	MFA
4409	Wood-including strips and friezes	2	0.0	0.0	0.1 B	0.0	0.0	3-4	
6206	Women's or girls' blouses, shirts	2	0.0	0.1	0.1 B	0.0	0.1	14	MFA
0709	Other vegetables, fresh or chilled	2	0.0	0.0	0.1 B	0.0	0.1	0-16	AGR
090240	Black tea and partly fermented tea	1	0.0	0.1 B	1.1 B	0.5 B	0.0	0	
0714	Manioc and root veg.	1	0.0	0.2	0.1 B	0.0	0.0	6	AGR
1302	Vegetable saps and extracts	1	0.0	0.0	0.1 B	0.0	0.0	0-24	
611030	Jerseys, pullovers, cardigans, waistcoats	1	0.0	0.1	0.2 B	0.0	0.1	13-14	MFA
440820	Wood sawn lengthwise, sliced or peeled, tropical	1	0.0	0.0	0.2 B	0.0	0.0	4-6	
1701+1703	Sugar	0 C	0.0	0.2	3.4	3.6	0.1		AGR
0202+0201	Meat of bovine animals	0 C	0.0	0.1	0.2	1.6	0.7	20	AGR

Notes:

- A) All products for which EC imports from South Africa are > 20 Million ECU and which face trade barriers in the EC
- B) Indicates products and suppliers for which South African competition could be important (see text)
- C) Indicates potential South African exports, completely barred from the EC under present import restrictions
- D) EC imports from South Africa which are > 20 million ECU and which do not face any significant barriers.

NTBs: Q = quota; TQ = tariff quota; S = specific tariff; O = onerous origin rules; AD = recent anti-dumping action; VER = voluntary export restraint; MIP = minimum import price; AGR = subject to levy, either instead of or in addition to tariff, often related to sugar content; MOB = subject to variable agricultural levy, E = exempt from duty if containing not more than 0.1% of carbon and > 30% but not more than 90% Chromium within the annual quota of 2,950 tonnes; MFA = within Multi-Fibre Arrangement.

Source: Eurostat, 1991; 1992; EC 1991; GAITT 1991a.

Africa produces and which the EC imports, but where the barriers to trade are sufficient to prevent any current trade between them.<sup>24</sup>

In spite of the potential omissions, the table probably gives a broadly accurate picture of the significance of the EC's trade regime for South African exports. Of the 37 identified as important to South Africa (A or D), 15 products would gain from some form of preferential access to the EC, even simple GSP, accounting for 12.5% of its total exports to the EC in 1990. Of this, coal (4.5%) and platinum (3.8%) account for more than half. The others to gain would include ferro-alloys, fruits, vegetables, fish, paper and various special categories of machinery and leather goods.

The goods which are slightly less important to South Africa, but where it offers potential competition to other countries are largely of similar types, more metal goods and fruits and vegetables, with the addition of flowers, but metal parts and clothing and textiles also appear, along with wood and some wood products including furniture. There are a very few apparently more advanced manufactures, notably in airplane engine-related goods (perhaps related to its defence based industries), but on the whole they are the combination of primary goods, with or without some processing, and light, low-technology manufactures, characteristic of middle-income countries which are only starting to move into the 'NIC' stage. Similar patterns can be found in Africa (*e.g. in Kenya or Zimbabwe*), among many of the South American countries, or in South East Asia in the 1980s. The individual goods important to South Africa are discussed in the next chapter, and the potential for competition with other developing countries and the EC considered in more detail in Chapters 7 to 9.

Although the actual percentages found are depressed by the problem of unidentified exports (as discussed in Chapter 4), and of course by the usual problem that the stronger the protection, the lower the weight, so that the apparent gain from liberalisation is underestimated, it still seems clear that on these assumptions less than 20% of current South African exports to the EC, thus not more than about 5% of its total exports, would stand to be assisted by preference.

The dominance of gold in South African exports and the high share of other tariff-free primary products tend to make any policies, South African or international, for promoting other exports appear to be of small significance. Arguments for such policy must be based on the effects from assisting industrial policy in South Africa, for example industrialisation or increasing employment. The principal products affected are coal and platinum, which are not labour-intensive or part of South Africa's current trade promotion. Coal, like sugar and beef, could not be increased without policy changes within the EC well outside the context of standard trade concessions, Lomé or others. South Africa's main agricultural exports (which do not appear at all in the EC list) are cereals which benefit from heavy subsidies, notably maize. This is primarily white maize destined for the regional market and of little interest as an import into the EC or other industrialised countries.

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<sup>24</sup> It is possible that there are other goods where current exports are zero or too small to qualify as either important to South Africa or competitors for other developing countries only because of current barriers. There is no way of screening the data for these, but the information obtained from South African and other producers did not suggest any others.



## 6. MAJOR EXPORT PRODUCTS, PRESENT AND POTENTIAL

### Present major exports

#### *Gold*

Although it is not likely to be directly affected by changes in the trade regime, the current situation of South Africa's principal export needs to be examined briefly because its poor performance and prospects are one reason for South Africa to look for substitutes, and it is also affecting the external revenues of South Africa's neighbours through employment cuts. World demand for gold as a consumption or industrial product is at best stagnant. There is a risk that international monetary shifts to other assets will lead to increased sales from international reserves. Another major producer, the ex-Soviet Union with 11% of output, could be tempted to increase sales. High interest rates and more widespread banking systems have made it less attractive as a risk-free store of value. All these restrict possible production rises in South Africa, which produces 30% of world output. The world gold price has been depressed throughout the 1980s, while inflation in South Africa has raised the costs of mining. One response to this pressure on profits has been to cut the labour force, especially workers drawn from abroad. Most are from Lesotho, followed by Mozambique, Swaziland and Botswana (Riddell 1992c). Between 1986 and 1991, the labour force fell by a quarter, from 534,000 to 407,000 (*Financial Times*, 9 April 1992).

The possibilities of joint production of jewellery with Zimbabwe have been mentioned (proposed in Riddell 1992c). This does not appear to be a current priority for either country, although it would be in line with two general perceptions, that South Africa should process more of its primary products before export and that it should combine them with lower cost labour in its neighbours to create competitive new industries. The very specialised and concentrated nature of the jewellery industry make it unlikely that two new entrants could combine to produce a viable product, at some distance from probable markets, but it has the advantage over other suggestions of being a sufficiently high-value product to overcome the disadvantage of high transport costs. It is expected, however, that it would need financial support from the governments in addition to trade preference (Riddell 1992c, p. 87).

#### *Platinum and ferro-chrome*

South Africa controls about three quarters of total world production of platinum, with a further 20% coming from the former Soviet Union. It therefore seems unlikely that changes in the tariff regime would have a major effect on either total demand for platinum or South Africa's share of the market. Ferro-alloys look more likely to benefit, but discussions with this industry did not indicate any concern with current barriers to the EC market, and for ferro-chrome in particular (where the other major supplier from outside the EC is Zimbabwe), market shares appear to be coordinated by the suppliers.<sup>25</sup>

#### *Coal*

South Africa is the world's third largest exporter of hard coal. Coal is South Africa's second most important export, in total and to the EC (and one of the goods on which data are least

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<sup>25</sup> Riddell (1992c:98) has also suggested South African-Zimbabwe jewellery production using platinum, if a suitable trade regime were in force. The same arguments apply as for gold.

reliable), and it is also a commodity in which production and trade in Europe are closely managed. Supplies of coal to the EC market that are not covered by the European Coal and Steel Community (ECSC) agreements or the EFTA accords are covered by a complex system of quotas. Under Protocol 9 of Lomé IV, however, there is in principle free access to the European Community for ACP exports of goods falling within the province of the ECSC.

As a major coal supplier (one of the EC's four largest suppliers, together with USA, Australia and Poland), South Africa might expect to be able to increase exports if its access were improved along the lines of Protocol 9. Since the other third party suppliers are largely developed countries, the direct impact on developing countries would be small. However, two of the alternative suppliers are among the countries most sensitive to the granting of special preferences (especially by the EC) and the third is one the EC is currently anxious to assist. The possibility of unlimited South African coal imports could also give rise to serious opposition within the EC, where any coal imports are sensitive in several countries.<sup>26</sup>

It is important to note, therefore, that Article 3 of Protocol 9 sets out clearly a safeguard clause whereby the EC may 'take appropriate measures, such as withdrawing the concessions' whenever imports from the ACP 'are likely to be detrimental to the functioning of the Common Market'. This would seem to provide the EC with the legal basis for reimposing quotas on South Africa even if it gains Lomé Convention status. It is therefore not obvious that South Africa would in practice receive any benefit to its coal exports from Lomé status, and none of the other preferential arrangements would give it more leverage to negotiate better treatment than it has at present.

The removal of sanctions will benefit South African producers in other markets. It was one of the commodities specifically restricted in some markets (including some of the smaller EC countries, but not the most important: see Chapter 2). Several studies have found a measurable 'sanctions discount'. The price of South African coal has been of the order of at least \$2-3, and possibly as much as \$5 (*i.e.* 10%) lower than that of competitors like Australia. After sanctions were imposed in 1985, the strong growth in exports which had been seen since the early 1980s ceased (although there was only a moderate decline) (Garner, 1991b). It is therefore possible that it will be to the sanctions-affected markets that it is most likely to try to increase exports. As noted in Chapter 4, it has also been developing markets in the Far East. South Korea, Taiwan and Hong Kong are now as important as its largest EC markets, Italy and Spain, although the EC as a whole takes about two-fifths of its total exports. World demand (and prices) for coal may increase during the 1990s (depending, as always, on the price and availability of oil), so that it is possible that improved access to the EC will not be a priority. There is capacity to increase exports, perhaps from 44 to 53 million tonnes a year, especially if the end of the oil embargo on South Africa leads to an end to the conversion of coal to oil. Increasing either production or exports beyond that would run into short-term mining and port constraints.

The combination of alternative opportunities, from pre-sanctions markets and from the recently growing ones in Asia, plus probable opposition from outside the EC to any special

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<sup>26</sup> The recent opposition to plans for increasing port capacity to handle coal imports to the UK, from the coal industry, miners and Labour party leaders, is a reminder of this.

treatment, and from within it to any imports at all, is likely to make other markets more attractive and promising to South African producers at least in the next few years.

### *Deciduous fruits*

The deciduous fruit industry (Table 10) supplies about 3% of South Africa's exports (with a small addition from processed forms), but it is important because it is a major employer and because it is internationally competitive, without subsidy. It is based largely in the Western Cape and is well established in export markets. The most important exports are apples and pears, peaches and apricots, and grapes. The industry employs some 231,600 workers.

The fruit is exported fresh, canned, dried and juiced. Fresh fruit exports are the most profitable and absorb the largest volume of production. There exists some scope to increase fresh fruit exports by substituting for processed fruit exports. However this is limited because the processors mainly use fruit that is too mature for fresh export, of too low a quality, or of varieties more suited to canning. More potential exists for increasing fresh exports by diverting produce from the domestic market by offering better prices. The industry claims that exports could also be increased through a modest extension in the area under cultivation. This would involve a further 8,500 hectares being planted, which would create 25,000 jobs at a cost of some R6,000 per job. A more favourable trade regime could offer improved returns significant to the future of the industry. The high labour content makes it vulnerable to any increase in wage costs.

The MFN duty rates applying to deciduous fruit are high but significant preferences exist for some suppliers. Of the products currently exported by South Africa, ten receive preferences under Lomé IV, albeit subject to a quota in some cases. The principal exception is grapes. Where quotas (or reference quantities) apply they are binding in the case of apples and pears (the UK is the major importer), but for apricots, peaches and plums the greater part is still unutilised. Since the Common Agricultural Policy (CAP) regime for deciduous fruit involves a minimum import price in most cases, any duty rebate will be an absolute gain to the exporting state. In the case of apples there is also a VER for the main supplying states, including South Africa.

It is clear that the impact on the industry of gaining preferences could be significant. For example, under Lomé IV there is to be a progressive abolition of the customs duty for apricots and peaches/nectarines shipped during at least part of the South African harvest period. The total duty paid on these fruits by South Africa in 1990 was R2.6 million. The soft fruit on which South Africa paid the highest duties in 1990, fresh grapes, is not covered by any concession under Lomé IV but it is covered by some of the Mediterranean association agreements. If, for example, South Africa were to be given a duty-free quota of the same size as that given to Cyprus (a far smaller country), the revenue gain would be of the order of R9 million in 1990 prices. To put these figures in perspective, the annual transfer from the EC budget to the South African exporters in respect of the three fruits above would be equivalent to some 8% of the estimated cost of the 25,000 new jobs the industry claims could be created by expansion.

Preferential rates could also benefit the exporters of canned fruits. At present, all canned fruit exports pay the full MFN tariff (20-24%) plus a 2% sugar levy. Under Lomé IV all of the canned fruits currently exported by South Africa would be exempt from customs duties

**Table 10: Deciduous fruit industry in perspective, 1990**

	Number of growers	<u>Employment</u>		Production (tonnage)	Producer proceeds (R. mn)	Gross export earnings (R. mn)
		Admin	Labour			
Fresh fruit	1,500	11,000	140,000	702,000	1,014	1,337
Canning fruit	1,400	4,000	50,000	202,000	75	340
Dried fruit	1,500	3,000	20,000	220,000	75	140
Juice processing	-	600	3,000	185,000	30	70
<b>Total deciduous fruit</b>	<b>4,400</b>	<b>18,600</b>	<b>213,000</b>	<b>1,309,000</b>	<b>1,194</b>	<b>1,887</b>
Wine industry	5,000	20,000	200,000	1,061,000	520	60
<b>GRAND TOTAL</b>	<b>9,400</b>	<b>38,600</b>	<b>413,000</b>	<b>2,370,000</b>	<b>1,714</b>	<b>1,947</b>

Source: UNIFRUCO.



and, in the case *inter alia* of pears, grapes and plums, the additional duty on sugar would also be lifted. In the case of dried fruits preferences would make little difference. The MFN tariff rate paid by South African exports averages only 3%.

### *Citrus fruit*

Citrus fruit is grown in several parts of the country: the Eastern and Northern Transvaal, Natal, and the Eastern and Western Cape. It accounts for only 2% of gross agricultural exports, but the EC is one of its major markets. South Africa is at present a major external supplier to the EC, but competition from Chile has recently become more important. South Africa produces oranges, lemons, grapefruit and tangerines/clementines *etc.*, with some 60% of production being exported. All exports are made through the Citrus Exchange, which also handles the citrus exports of Swaziland and Mozambique, plus about half of Zimbabwe's. The export industry employs some 66,600 workers (Citrus Exchange, 1991).

It is clear from its success in penetrating the European market that import controls have not been an insuperable constraint for South Africa. The volume of exports has grown about 3% *p.a.* For oranges, lemons and grapefruit tariffs are relatively low, ranging from 4% to 10% depending on the time of year. However, there is some evidence that the existing tariff structure is limiting the capacity of the industry to adapt to changing market tastes. Clementines, mandarins and tangerines attract a much higher tariff of 20%. As the European market for fruit develops there is a tendency for consumers to demand exotic fruit, for which they are willing to pay premium prices. Under Lomé IV there is to be a progressive abolition of customs duties on such 'other citrus fruit' during the period of the year during which South Africa makes the bulk of its shipments.

South Africa's neighbours consider that its size and its access to ports and to its own shipping give it a strong inherent advantage. In the European market, this is supplemented by recognition of its brand name. They, on the other hand, have the advantage of earlier ripeness as well as their current preference margin. Any preference beyond that normally available to a developing country would give South Africa an advantage over potential competitors in Latin America. In turn, it could lose North American markets from any special arrangements by the US with Chile or with other Latin American producers. Chile has emerged as an important competitor recently. Although it satisfies the US market first, its improved quality and output has increased its sales in Europe.

The citrus and deciduous fruit producers have recently formed a joint marketing arm. Their own intentions for immediate market growth appear to be principally in North America, where US and Canadian sanctions were much more effective than in the major European markets, and in the medium term to the new markets in eastern Europe and the CIS.

### *Fish*

The Lomé Convention rules of origin concerning fishing fleets have been the subject of some dispute between the EC and ACP, but South Africa, if given Lomé access, would probably be able to meet the fairly tough conditions set by the rules in terms of ownership and manning of vessels. Hence, if there were adequate supply it is possible that South Africa's exports to the EC could increase under a preferential trade regime.

Although no direct evidence was obtained on the fishing industry during the fieldwork, it is understood that the capacity for expansion is not large. During the late 1960s there was major over-fishing of South African waters so that by 1982 less than 580,000 tons of ocean fish were caught, compared with a peak catch of 1,917,000 tons in 1968 (EIU, 1991). By 1988 the total had risen again (to 1 million tons) but it is not clear how much of this was caught in South African, as opposed to Namibian, territorial waters (SA, CSS, 1990:10.3). If South Africa were accorded a trade regime permitting cumulation with its neighbours, it might compete with European fishing fleets for the rights to fish in the richer nearby waters. If MFN duties on fish are substantially reduced (as the US has proposed in the Uruguay Round) any advantage would also be lower. It is not a major export for South Africa, and it is exported to Japan as well as the EC.

### *Paper*

Paper, with pulp and paper products, accounts for about 3% of South African exports, although a lower proportion at present to the EC. It is rather more important in trade with the other African countries, particularly the paper side (see Table 8 for Zimbabwe's performance). It is one of the industries which the government is trying to promote (with special export incentives). At present production (and exports) tend to be at the lower, coarser product, end of the range, but new investment in the industry could move it up. Exports to the EC have been increasing, in spite of the tariff barriers, and therefore a preference could provide a useful stimulus. There are intentions at least of trying to increase exports, perhaps only of some specialist papers. The principal paper company has been buying paper mills in the EC (in the UK, Portugal and Germany), so that it is possible that any increase in penetrating the markets is expected to come in this way, rather than through imports (weight makes it unlikely that there are plans to export the pulp to the EC). It is, however, possible that such investment is itself a response to the barriers, and that exports would be preferred under a more favourable trade regime.

### **Potential future exports**

This section considers six sets of products. Sugar, beef and wine are products in which South Africa is competitive in other export markets, but which are largely excluded from the EC market by the high level of CAP protection. Fresh vegetables and cut flowers are examples of products into which South Africa wants to diversify, and which could gain from preferential access into EC markets. The four manufactured sectors, clothing, engineering products, metals, and chemicals are goods which South Africa is already exporting, but principally to other African countries. For all four, there are significant uncertainties about their competitiveness under any trade regime, because the South African import regime has been protective. At least two, clothing and some metals, are goods for which EC (and other industrial country trading regimes) tend to be protective *vis-à-vis* any trading partner.

### *Sugar, beef and wine*

Until sanctions, South Africa was accepted as one of the most efficient producers of sugar in the world. It is still a significant producer in world terms, and sugar exports are similar to fruit in importance to South Africa. As it is a labour-intensive crop, South Africa's costs have risen, and producers are trying to diversify into other crops. The local price is held up to provide a subsidy for exports. The drought of recent years in southern Africa has further discouraged production. It used to have access to the British market under the

Commonwealth Sugar Agreement. A quota under the EC Sugar Protocol would be valuable for the industry because it would raise the price received for at least part of the crop. Clearly, however, any increase in total import quotas would provoke major opposition from the EC agriculture lobby and any reallocation from existing suppliers is ruled out by the EC-ACP Sugar Protocol.

South Africa could export beef to the Community were it not for CAP protection. In contrast to sugar, the country is trying to increase production of meat. At present it is normally a net importer of beef (from Zimbabwe, Table 8, Namibia and Botswana), but that does not rule out the possibility of exports to the high-priced European market and a compensating increase in lower-priced imports from the neighbouring states. Again, however, it is extremely unlikely that Europe would agree an enlargement of the Lomé beef quota. At present some other producers do not regularly fill their quotas (including, among South Africa's neighbours, Botswana and Zimbabwe) but even if they were willing to release these to South Africa, perhaps in exchange for the possibility of greater exports to South Africa, other potential exporters (developing or developed) might question (under GATT) any such exchange of special concessions. The Beef Protocol refers specifically to 'traditional exporters of beef and veal' and to the objective of allowing them 'to maintain their position' in the EC market.

Given the nature of South African resources, beef is unlikely to be a major contribution to exports, or to employment, and clearly is not one to industrialisation. Both sugar and beef, however, could become important crops on new smallholdings under the proposed redistribution of land. Although this is one factor behind the uncompetitiveness on costs, it is also potentially a strong political reason for South African pressure for trade concessions.

South Africa has a well organised and competitive wine industry, although in value terms it is of negligible importance to exports. Some of the Mediterranean association agreements provide the beneficiaries with preferential access to the EC for wine. However, as with sugar and beef, it seems unlikely that in the present conditions of over-supply on the European market a concession for South Africa would be politically feasible. It should be noted, however, that if the EC opts for a non-reciprocal association agreement, many of which offer preferences on wine, it may face strong pressure from South Africa for improved access.

#### *High value fruits, vegetables and cut flowers*

The new exports on every developing country's agenda are also discussed in South Africa. Given the competitiveness of its present major fruit exports, increased exports of higher value fruits and vegetables such as pineapples, mangoes, avocados, lychees and melons, and potentially of asparagus, cherries and strawberries are considered to be commercially desirable. Diversification into cut flowers is also a possibility. As Table 9 showed, some are starting to appear. All receive preferences under Lomé IV. For some, there are quotas, but these are still under-used. The climate is suitable for these products, but South Africa does not yet have the transport system in place to get them to European markets, and vegetables at least are likely to have a growing, although lower priced, home market in the immediate future. It is therefore not clear whether South African trade will develop in this direction. It would at best face the same seasonal problems as the other Lomé and super GSP countries on tariffs and prices in the EC (and similar restraints in other industrial countries), although as a southern hemisphere country it might not face serious opposition within the EC. Both



those countries which would lose their preference margin and the other developing countries which would lose from granting advantages to a competitor could oppose it. The high EC tariff on flowers, combined with the importance to South African exports of transport costs (these raise the cif base to which the tariff is applied), make these particularly sensitive to the import regime.

### *Clothing*

South Africa has substantial textile and clothing industries, employing some 275,000 people (about half in clothing, and more than half in the informal sector) but clothing in particular is essentially inward-looking and exports to the EC are currently very small. Exports are now about 5% of clothing output. At present, the South African clothing industry faces no quotas on its exports to the EC. However, this is because the volume of exports is too low; the situation could change if exports were to pick up and if the country had no preferential trade agreement.<sup>27</sup> In Canada, for example, a quota was imposed in 1988, to expire at the end of 1991. (This was not formally examined under the MFA because South Africa is not a participant.)

It is possible that if the distortions produced by current South African trade protection were removed the industry could become a significant exporter. The high level of protection shown in Table 8 makes this *prima facie* unlikely. This view is held by the clothing industry in other southern African countries and by some industry experts, but others in South Africa are more optimistic, blaming present uncompetitiveness entirely on the protection for textiles. Clothing appears to be an industry which the present government and a future majority government would both support as a means of creating employment as well as increasing the share of manufacturing. This strategy appears to be largely based on the view that it is a 'normal' place for a developing exporter to start.

It is, however, an industry that needs either cheap labour, to compete on price, or high quality and good, fast-responding, design, to compete as a fashion good. The former is not considered a serious possibility, although increased movement of labour to the cities could help. (The recent devaluation in Zimbabwe has increased penetration from there. South Africa is one of Zimbabwe's main clothing markets, Table 8, although total South African imports of clothing remain extremely low.) The latter is considered more promising, although the distance from markets and the very different style of output from the most likely consuming countries make this seem unlikely. Most EC imports are by Germany, in textiles and clothing, and in textiles also the UK, France, Italy and Portugal (ITCB, 1992:Table 4). Japan is also an important market.

It is much less likely that the textile industry could export on a substantial scale. At present, clothing, even for sales within the protected home market, is based largely on imports from the Far East at the cheap end, while higher quality apparel uses cotton textiles from other African countries, notably Zimbabwe. As can be seen from Table 8, import penetration is relatively high in textiles. Only in wool does South Africa have significant possibilities. This is already an important export (perhaps 2% of the total).

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<sup>27</sup> If the current GATT (1992b) proposal for the phasing out of the MFA is accepted, such a quota would have to be outside any legal framework.



Given the small scale of current exports any attempt to forecast either the volume of sales in the future or the mix of articles is highly speculative. Interviews in South Africa confirm the indications of EC data that current exports to the EC are primarily of middle- to upper-market items. These include, for example, wool and wool/synthetic blends of men's and women's outer garments (*e.g.* suits and jackets). Total exports of woollen clothing were only 5 million ECUs in 1990, of which 80% went to the UK. Clearly, the extent of any possible trade diversion depends not only on the level of South African exports but also on the niche markets that it establishes.

The expansion in clothing exports appears to have been relatively recent (the clothing and textiles industries received special incentives under the Structural Adjustment Programme, as well as the GEIS), with a 50% rise in 1990, and exporters see possibilities of increasing from the current low base, although the firms do not apparently intend to shift from primarily domestic-based sales. (This could reflect expectations of strong sales to the domestic market in the near future.)

If the South African clothing industry could become internationally competitive, the opportunities not only for South African but also for regional exports to the EC under a Lomé-style regime could be considerable. A major limitation of the Lomé preference on clothing in the past has been the rule of origin concerning woven clothing, which denies a preference to states that have made their clothes from non-originating material.

An expanded South African clothing industry could be based on its own woollen textiles, as most of its exports appear to be at present, and Zimbabwe cotton textiles. As labour would remain cheaper in Zimbabwe (or the other southern African countries: one South African scenario would add Mozambique labour to the Zimbabwe textiles), it is only wool and management or design that South Africa could contribute to such a joint venture. Joint ventures are being discussed with Zimbabwe and with Mauritius (the most successful exporter under Lomé, but where labour costs are now rising). But Botswana producers fear that rather than benefiting from increased access to South African textiles, Lomé membership for South Africa could lead to a shift in clothing production to South Africa.

In both South Africa and Swaziland, it has been Asian companies which have organised production for export in recent years. They have also supplied textiles, but these are only suitable for the South African market, not for the quality which South Africa's labour costs require it to plan for to developed countries. Expansion of the industry based on these would be primarily directed at the expected increased domestic demand. Although there is no reason in principle why the industry should not expand in both ways at once - at the top of its range, towards exports based on good quality domestic textiles (and Zimbabwe imports), and, for domestic markets, cheaper products based on imports of Asian textiles - in practice it is unlikely that both would look equally attractive, and therefore that both could be achieved simultaneously. Given competition and import constraints in industrial country markets, the domestic path may look more immediately profitable. Returning to the North American market after the end of sanctions would be likely to be difficult if Mexico (perhaps with other Latin American countries) negotiates special access under NAFTA.

Leather and leather products might be less badly affected by high labour costs (the leather seats are for luxury German cars and potential competitors also tend to be from high labour

cost countries). Here, the tariffs are relatively high, and there could be a significant gain from a more favourable regime.

### *Engineering products*

Under the stimulus of a special government promotion scheme the South African automobile industry has commenced export of car components to the European market. This trade could continue, although it is extremely unclear whether, without the distortions caused by protection and other assistance, the country would be competitive in its present export mix. Some South African industry experts are examining the potential for exports of car parts. It appears to have a good position in traditional heavy engineering equipment, especially relative to other African countries. Exports could be further developed in, for example, mining equipment, pumps and agricultural equipment. Electronic and other spin-offs from the security industry are also mentioned. In some cases these are based on local raw materials, for example platinum in catalytic convertors.

In areas like mining and construction equipment, they have clear economies of scale relative to the smaller African economies, and obvious customers in those countries which are re-equipping their mining industries (see Table 8 for Zimbabwe, for example). Such exports are not normally constrained by importers, and therefore unlikely to be affected by preference schemes. They are, however, constrained by importers' ability to pay, and have not recently been significant exports. More specialised engineering equipment includes rail rolling stock, for which Taiwan, as well as other African countries, has been a customer, and telecommunications equipment, with possible sales to Eastern Europe (and, within the EC, to the eastern part of Germany). Here regulation of public purchasing is more likely to be the policy constraint than import regimes. On agricultural and construction equipment, there have been some exports to the US.

Car parts have been principally to other African countries (with some exports to the UK). In addition to catalytic convertors, some engine parts have been included, but not electronic components.<sup>28</sup> These have received significant levels of subsidy, however, and it is not clear whether they would be competitive without subsidy, or whether the subsidies will continue to such industries.

### *Processed metals and metal products*

A large part of total investment over the coming years will be absorbed by a small number of large projects in the metal and minerals sector. These include the Alusaf project, which will cost R4-5 billion, and a 400,000 ton *p.a.* stainless steel project (Columbus) which will make South Africa the largest producer in the world. Another R20 billion of beneficiation projects is under negotiation.<sup>29</sup>

These projects, in which the government tax breaks detailed in Chapters 3 and 4 are an important part of financing, are designed primarily to increase foreign exchange earnings, and

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<sup>28</sup> Some of the former subsidies were in fact based on the weight of the products, further biasing output and exports to the 'heavy' end of the sector, to highly metal-using, and therefore normally capital-intensive, rather than labour-intensive products.

<sup>29</sup> The sector is known in South African industry as 'beneficiated metals'.

stem from the common desire in early stages of development to 'add value' to raw material exports. As noted in the introduction, South Africa lags behind even its neighbours in exporting mainly primary goods, and this is particularly obvious in a comparison of relative rates of local refining of metals (Riddell, 1992c). They do not, of themselves, make any substantial contribution to employment creation, and the form of subsidy used has contributed to greater capital intensity. In spite of the apparent conflict between supporting these industries and the policy stressed by both the present and a future majority government of supporting manufacturing and increased labour use, the Alusaf and Columbus projects seem to be supported by both sets of policy-makers, and set to continue (major investment in Columbus begins in mid-1992). Not all of these new products will be exported. The hope is expressed that they may result in the establishment within South Africa of downstream industries for which these beneficiated mineral products will be a major input. The Alusaf project, for example, might lead to the establishment of employment creating aluminium fabricating industries.

Since some of these products are considered sensitive by the EC any preferential treatment for South Africa could meet resistance, regardless of the trade regime in force. The EC, for example, has VERs on steel and steel products with eleven countries, and there is a 16% tariff on some stainless steel.

The processing projects are not, however, scheduled for completion until mid-decade at the earliest. Hence any downstream use in metal products will not appear until 2000, towards the end of the Lomé IV period, at earliest. It is probably appropriate, therefore, to take account only of the initial output of aluminium, copper and stainless steel. Even for these, one possible plan for the aluminium output is to aim first at the East European countries, and later, after building up quality and volumes, to the EC. Again, this pushes back the period when access to the EC becomes important.

South Africa's current major metal exports also, as indicated in Chapter 4, include iron and steel, and excess production capacity would make it possible to increase these rapidly, but they are sensitive goods in the EC, and unlikely to be the subject of preference agreements in any of the industrial countries. They were among the goods subject to specific sanctions. Ferro-alloys are expected to increase principally to Norway (at least on the assumption that it remains outside the EC) and Japan. Zimbabwe (Table 13 in Chapter 8) and India are other major producers.

There are, as can be seen in Table 5 and in the EC data in Table 9, a variety of other possible metal and mineral exports, most of which are unlikely to be affected by trade policy, although some (like titanium, which is an alternative to lead in paints) could be helped by other EC policies, for example on health.

### *Chemicals*

South Africa has based chemicals industries on both carbon-based chemicals (using its coal) and petrochemicals (using the oil-from-coal schemes). At present both are exported, especially to other African countries and new investment continues. The future of petrochemicals will depend on their profitability once South Africa returns to importing oil, and no longer needs to subsidise the petrochemical plants as part of the general subsidy to producing oil. Table 8 shows very high effective protection rates at present, including for

plastics which have expanded particularly rapidly. The third major project (with Alusaf and Columbus) which is expected to take a high proportion of investment and support in the next few years is a R6 billion downstream processing petrochemicals project, producing in phase one ammonia, acrylic fibre, ethylene, butanol, krypton, xenon and PVC feedstock. This is not entirely for export: the acrylic fibre, for example, will be sold primarily in the domestic market during phase one, but, like the other capital-intensive projects, is justified as eventually having export potential. A few chemicals, plastics, and synthetic fibres appear in the exports in Table 9.

One consequence of the high capital-intensity of feedstock and chemical production is that, for those plants already in place, the variable costs probably do justify continued production, and possibly new investment in the downstream chemical industries, although such industries still have the disadvantage in terms of industrial policy of being capital rather than labour intensive. Domestic or external assistance targeted at them is not, therefore, likely to encourage manufacturing development. The most promising sector, given South Africa's resources, must be in carbon-based chemicals.

### **Summary of preference benefits to South Africa**

This product-by-product examination suggests that the South African products most likely to benefit from the type of more preferential trade regime currently available to developing countries from the EC are (above all) deciduous fruits and other new fruit, vegetable, and flower products; paper products; leather products; a few engineering products, like catalytic convertors; and, at least in the short run, some chemicals. On clothing, the potential benefits are large, and accord well with South African priorities, but there are doubts about both current competitiveness and supply (at least in the short term). Textiles appear unlikely to be competitive even with the most preferential trading regime. Platinum and ferro-alloys have special market conditions which are probably more important than trade regimes. The new metal projects are unlikely to produce exportable quantities in the near future, (and encouraging them does not fit well into the ostensible South African development strategy). They are too far advanced for any choice of trade regime now to affect their output. Products using them will not be available within the life of the current Lomé agreement. Iron and steel products could be subject to special restrictions under any regime.

Citrus fruits would probably benefit, but the EC is not the area to which exporters are currently looking. The engineering products for which they are most likely to be competitive tend to be those which are more likely to find markets in Africa or Asia than in the EC. On fish, there appear to be problems of supply, although in the long run benefits are possible. Coal, sugar, and beef would benefit from improved access, but are unlikely to receive it under any system, and South Africa is currently trying to reduce sugar production. The need to offer new sources of revenue to potential new farmers after any land redistribution could, however, make any trade concessions on these particularly welcome. The possibility of joint production could bring benefits to South Africa and Zimbabwe in clothing and jewellery, but in both cases the arguments are uncertain.



## 7. COMPETITION WITH DEVELOPING COUNTRIES

### The products affected

Table 9 shows (as B) all products which meet the criteria outlined for assessing which South African products are significant competitors for developing countries.

Table 11 includes all products identified in Table 9 as important for South Africa or as potential competition for other developing countries, except for those which are not subject to import barriers, those where only the neighbouring countries would be affected (analysed separately in Table 12), and a few where it appears that the good exported by South Africa is not directly competitive or is too minor in terms of world sales to be worth discussing further. For each, the developing countries with significant exports to the EC are also listed.

Of the products which are particularly important to South Africa, for coal it is already the most important developing country supplier, with a few other suppliers in South America and Asia. In deciduous fruits, it is principally Chile, followed by Argentina and Brazil which would be affected, and these, with the addition of some Mediterranean suppliers, are also those most likely to be affected by any concessions on citrus fruits or grapes. When the newer fruits and vegetables and flowers are added, Kenya, Mauritius, and the Côte d'Ivoire (from the ACP countries) and Colombia and Mexico join the list, along with several south-east Asian countries and China. Thus both non-ACP and ACP countries (including some with special arrangements) would have an interest in any preferences granted on these. The Latin Americans might hope for improved access to the US as an alternative, but those most severely affected, like Chile and Brazil, could press their interests in GATT. Some of these products have been very important to the South-East Asian countries, and remain target exports for them. Kenya in particular among the ACP countries has particularly encouraged such exports.

A significant number of other ACP states have diversified into these products and South African trade officials perceive a large advantage to be gained from obtaining preference in, for example, cut flowers (as noted in Chapter 6). At present, South Africa is exporting primarily bulky fruits and vegetables by sea; those ACP states with suitable climatic conditions are exporting primarily light, high-value products by air. The potential of ACP states to diversify into bulk surface products is limited by technical constraints and, for the land-locked, access to ports. To succeed in this business it is necessary to cultivate large stands of fruit sharing identical characteristics so that they ripen at the same rate during transport. Both constraints could change in the medium term, the former through technical advance or assistance, the latter from improved access to South African ports, a more stable Mozambique, or development of the east African ports. Although Kenya has attempted to ship by sea, these experiments have not yet resulted in substantial success. South Africa might diversify into airfreighted products. It has a substantial distance disadvantage over most of its ACP competitors, and under sanctions has had more limited air transport capacity. The latter has already changed; east Africa now permits over-flying, and the number of airlines and flights is increasing rapidly.

Paper is a product in which South Africa's main competitors outside the EC are among the industrial countries, mainly from EFTA (Sweden, Finland, Austria and Norway) but also

**Table 11: Products in which South Africa competes with developing countries, 1990 (EC imports, ECU million)**

<i>CN code:</i>	<i>2701</i>	<i>080810</i>	<i>0805</i>	<i>0806</i>	<i>080820</i>				
<i>Product:</i>	<i>Coal</i>	<i>Fresh Apples</i>	<i>Citrus Fruit</i>	<i>Grapes</i>	<i>Pears and Quinces</i>				
<i>Tariff or NTB:</i>	<i>Q</i>	<i>6-14, VER, S</i>	<i>4-20, MIP</i>	<i>3-22, MIP</i>	<i>5-13, S</i>				
S.Africa	839	S.Africa	141	S.Africa	106	S.Africa	82	S.Africa	58
Colombia	251	Chile	99	Morocco	154	Turkey	95	Argentina	50
China	111	Argentina	49	Israel	135	Chile	90	Chile	34
Venezuela	42	Brazil	4	Argentina	90	Israel	8	Turkey	1
Indonesia	13			Cyprus	55	Cyprus	8		
				Brazil	26	Afghanistan	7		
				Turkey	24	Argentina	7		
				Uruguay	19	Iran	6		
				Tunisia	10	Brazil	2		
<i>CN code:</i>	<i>080440</i>	<i>410422</i>	<i>4804</i>	<i>940190</i>	<i>5402</i>				
<i>Product:</i>	<i>Avocados</i>	<i>Bovine Leather</i>	<i>Uncoated Kraft Paper</i>	<i>Parts of Seats</i>	<i>Synthetic Filaments</i>				
<i>Tariff or NTB:</i>	<i>4-8</i>	<i>0-7</i>	<i>2.5-9, MIP</i>	<i>4.4-5.6</i>	<i>9, MFA</i>				
S.Africa	37	S.Africa	35	S.Africa	34	S.Africa	26	S.Africa	23
Israel	45	Brazil	136	Brazil	82	Turkey	18	Turkey	52
Mexico	15	Argentina	35			China	8	Taiwan	38
Kenya	4	Bangladesh	21			Argentina	5	Israel	32
Malawi	2	China	15			Thailand	3	S.Korea	21
		Venezuela	9					Mexico	13
		Kenya	7					Indonesia	9
<i>CN code:</i>	<i>720230</i>	<i>030378</i>	<i>030749</i>	<i>030379</i>	<i>200820</i>				
<i>Product:</i>	<i>Ferro-Silicon</i>	<i>Hake</i>	<i>Cuttle Fish</i>	<i>Other Fish</i>	<i>Pineapples</i>				
<i>Tariff or NTB:</i>	<i>5.5</i>	<i>8-15</i>	<i>6-8</i>	<i>0-22</i>	<i>22-32, AGR</i>				
S.Africa	23	S.Africa	22	S.Africa	11	S.Africa	10	S.Africa	10
Brazil	11	Chile	61	Thailand	50	Morocco	11	Thailand	66
Mexico	3	Argentina	24	India	43	Argentina	10	Kenya	36
China	2	Uruguay	3	Morocco	32	Chile	10	Philippines	23
				Tunisia	8	Mauritania	9	Indonesia	9
				Mauritania	7	Somalia	8	Malaysia	9
				Senegal	6	Bangladesh	6		
						Taiwan	5		
						Panama	5		
						Iceland	5		
						Senegal	4		
						Thailand	3		

*Note:* For explanation of codes and sources see Table 9.







the US. Among developing countries, only Brazil seems likely to be affected by any preference. In paper South Africa is apparently choosing to compete by entering the EC market directly through investment.

Wood and wood products, including furniture, are important to a large number of the African ACP countries, particularly Ghana and the Côte d'Ivoire and other West African countries, as well as the better known producers like Brazil and the south east Asian countries.

Clothing and textiles are of course important to a wide range of other countries. Mauritius and Kenya are the most important among the ACP countries (and Zimbabwe, discussed in the next chapter), with a range of other countries with smaller exports, while among other developing countries, the Maghreb countries of North Africa, with which the EC has special arrangements, are major exporters of many items of cotton clothing, and Latin American, South Asian, and east Asian countries are all affected. (If competition with developed countries, like Australia and the US were included, wool might be more prominent.) The extent to which Southern African exports are directly competitive with those of the ACP is unclear. At present none of the ACP states has any significant stake in the European market for high-quality woven men's outerwear, where South Africa's limited success is found. Kenya, for example, which is poised to enter the European market in a more substantial way than in the past, would tend towards a lower market niche for synthetic outer garments (Stevens, 1990). On the other hand, the unit values of South Africa's garment exports appear to be similar to those of its neighbours, suggesting (in contrast to South African claims) that the same type of garments are involved. Within the EC, the UK is a major market for South African textiles. In leather and leather goods, the principal competitors are in South America and China.

On metal products, Brazil is frequently among those affected, with other Latin American countries, Egypt, and, for aluminium, ACP countries like Ghana and Cameroon. In ferro-silicon manganese, the degree of trade diversion is likely to be quite small. South Africa is already the main supplier, and the MFN tariff is only 5.5%. Given the nature of the market, in which a small number of companies dominate, it is unlikely that preferences for South Africa would result in major trade diversion. Fish are more important to a range of African ACP countries, and also to the countries of the Maghreb, along with the usual South Americans.

The countries which appear repeatedly on these lists are, among the ACP, Kenya, Mauritius and some of the West African countries, notably Ghana and the Côte d'Ivoire, along with Chile and Brazil, and Thailand and the Philippines. Although it is impossible to know without more detailed quantification whether these would be the most seriously affected, they are certainly those which would have most reason *a priori* to fear and protest against any special preferences for South Africa, and whose prospects would require careful study before any such preferences were proposed.

#### **Countries and products at greatest risk of diversion**

On the evidence of Table 11, the commodities, apart from those falling under the MFA, in which tariff preferences for South Africa are most likely to lead to some diversion are apples,

ferro-silicon, hake, citrus fruits, grapes, pears, synthetic filament, fish, aluminium, fresh flowers, pineapple juice, other fruits, frozen orange juice and other vegetables. These are all products in which preferences for South Africa could reduce the tariff margin available to at least some developing countries. For the first three of these, South Africa's current terms of entry to the EC are identical to those of its main competitors. This is because the competitors are close to the base of the EC's 'pyramid of privilege'. Hence if South Africa were to be admitted to a regime near the apex of the pyramid it would have potentially serious commercial consequences for other major exporters.

In the case of other commodities there is more variation in tariff treatment among main suppliers and hence it is less easy to generalise about the potential effects. The extent to which a regime other than MFN for South Africa would place its developing competitors at an absolute disadvantage would depend upon the regime which was offered by the EC to a post-*apartheid* government. In all cases there would be a reduction in their preference over South Africa. In the case of fresh flowers, for example, if South Africa were to be accorded Mediterranean treatment it would be put on a parity with Israel and Morocco, and the relative preference of the other major suppliers listed in Table 11 would be reduced; if, on the other hand, Lomé treatment were offered, South Africa would have a significant advantage over Israel and Morocco and would trade on identical terms to the other major suppliers.

The situation is further complicated because many of the products listed are agricultural and are subject to rigorous control under the Common Agricultural Policy.

The EC's protective regime for apples, pears and grapes is based on minimum import prices together with *ad valorem* and fixed duties. Apples are also subject to a VER. The level of the tariff/duties depends on the time of year in which the fruit is imported. The lowest duties are imposed during the European winter. They rise to reach a peak during the summer. Partly for this reason, imports are concentrated in the first half of the calendar year, when import duties are relatively lower and European production is not coming to the market. The UK accounts for about a third of these imports. The main preferential device for fruits used under the Lomé Convention and in the Mediterranean agreements is to allow a negotiated full or partial rebate of customs duties while maintaining minimum import price requirements. The result is that the exporting state's export revenue is increased, but in such a way that its capacity to increase market share by cutting prices is limited. This allows exporters to compete among themselves, and more efficient producers to obtain an economic rent, while protecting EC producers.

Any trade preference for South Africa would therefore require special negotiation, even if the country were to sign the Lomé Convention. The Lomé IV preference on pears (a progressive reduction of the customs duty by 50%) is limited to a quota of 1,000 tons. This is sufficient at present for ACP exports, which totalled 821 tons in 1990, but obviously totally inadequate for South Africa. This need to negotiate a special quota regardless of the regime means that the treatment of this product would not depend directly on the choice among Lomé, association agreements, and GSP, although it would depend on that between MFN and any preference.

Similarly, there would need to be specific negotiation on grapes as part of any preference option. There are no special preferences for grapes under the Lomé Convention although

these could be provided by extending Annex XL, as foreseen in Article 168 (2b). Under the other preferential options (except, possibly, the GSP) a specific quota for grapes could be negotiated. To accommodate even all of South Africa's current exports, a grape quota would need to be quite large.

The impact of South African preferences on the competitive position of other exporters is distorted by the application of minimum import prices. It is difficult to predict whether or not South Africa would displace other suppliers without a knowledge of production costs and markets at a level of detail which cannot be obtained within the context of the present study, but the high volume of its present exports shows that the impact could be large. The scale of the impact may be gauged from the figures in Chapter 5 suggesting that South African export earnings could be increased by more than R9 million (under £2 million) *p.a.*

If market prices in the EC exceed the level determined by the minimum import price, competition among suppliers could result in the market price falling to the minimum, with the possibility of some marginal producers among present preference holders being driven out. Alternatively, however, the result might simply be an increase in consumption of the fruit in question, perhaps at the expense of some other fruit.

In the case of nine products in Table 11, South Africa, with only MFN status, is currently treated less favourable than all developing countries. The products are uncoated kraft paper, seat parts, cuttlefish, pineapple, avocados, steel bars and rods, dried legumes, and two types of wood. This advantage is quite marked in some cases. In the case of parts of seats and uncoated kraft paper, South Africa's developing country competitors all have duty-free entry to the EC market. The differential is 9 percentage points in the case of pineapples and 6 points for wood and kraft. If South Africa is regarded as a developing country, not allowing it the minimum levels of preference given to other developing countries could be regarded as discrimination.

## **8. THE IMPACT OF CHANGES IN THE SOUTH AFRICAN TRADE REGIME ON LESOTHO, SWAZILAND, BOTSWANA AND ZIMBABWE**

### **Analysis of trade competition**

The southern African neighbours of South Africa are treated separately partly because their similar natural conditions mean that they have a much wider range of potentially competitive products than most other countries, but also because they will be affected by the return of South Africa to international respectability and to African trade in a variety of ways other than direct trade competition. Table 12 gives South Africa's potential effects on their trade by the same criteria as those used in Tables 9 and 11.<sup>30</sup> The most obvious areas of

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<sup>30</sup> As explained in the introduction, the figures for Namibia in the EC data base used proved to be for South Africa for trade with the UK, and the other EC countries also show some anomalies. Given these and the very recent separation of Namibia and its trade from South Africa, the Namibia figures should probably all be treated with some caution.

Table 12: Products in which South Africa competes with Botswana, Lesotho, Namibia, Swaziland and Zimbabwe 1990 (ECUs million)

CN Code	Product	MFN		Imports by EC from					
		Tariff	NTB	South Africa	Botswana	Lesotho	Swaziland	Namibia	Zimbabwe
2701	Coal	0	Q	839.5			1.7	33.0	
7110	Platinum	0.4		711.0	1.5			0.1	
72024	Ferro-chromium	8	AD,TQ	188.5					47.7
0805	Citrus fruit, fresh or dried	4.20	MIP	106.4			12.1	1.5	4.9
0806	Grapes, fresh or dried	3.22	MIP	81.8			0.5	1.1	
410422	Bovine leather, pre-tanned	0.7		34.6	4.3			1.3	6.4
5402	Synthetic filament yarn	9	MFA	23.1				2.1	
030378	Hake 'merluccius spp., Urophycis spp.'	8-15		22.3				1.9	
7318	Screws, bolts, nuts	5.3-6.5		17.8				8.4	0.1
440710	Coniferous wood sawn or chipped lengthwise	0.4.9		16.0	0.2		1.0	0.2	
5205	Cotton yarn	4-6	MFA	12.0					10.9
4801	Newsprint, in rolls or sheets	7-9		10.7	1.0			2.5	
3201	Tanning extracts of vegetable origin	0.5.8		10.2				1.9	
200820	Pineapples prepared or preserved	22-32	AGR	10.1			7.2	0.3	
2809	Diphosphorus pentoxide; phosphoric acid	11		8.2				5.1	
940360	Wooden furniture (excl. 9403.30 to 9403.50)	5.6		8.0			1.5	0.1	0.2
7213	Steel bars and rods, hot-rolled	4.9-6		7.5				1.0	0.9
7216	Angles, shapes and sections of iron or steel	3.8-4.9		7.2				2.2	
5208+5209	Woven fabrics of cotton	10	MFA	6.8	3.4		0.2	0.6	3.8
060310	Fresh flowers and flower buds, cut	15-20		6.5			0.4	0.5	9.2
200940	Pineapple juice	19-42	AGR	6.3			1.0	0.5	
0810	Other fruit, fresh	0-16		5.7				0.4	1.2
620342	Trousers, bib and brace overalls, breeches	14	MFA	4.8	0.3		0.9		7.6
200911	Frozen orange-juice	13-42	AGR	4.5			3.4	0.4	0.5
610910	T-shirts, singlets and vests of cotton	13	MFA	3.1			0.1	0.1	0.6
940390	Parts of furniture	5.6		3.0			1.6		
2005	Other vegetables prepared or preserved	8-24	MOB	2.5			1.1		0.3
2401	Unmanufactured tobacco; tobacco refuse	14-23	S	2.5					150.3
090240	Black tea and partly fermented tea	0		1.5					12.3
0201+0202	Meat of bovine animals	20	AGR		38.3		3.4	0.1	1.1
170111	Cane sugar		AGR				66.3		28.4

Note: For explanation of codes and sources see Table 9.



competition are with Zimbabwe, in ferro-chrome, cotton yarn and textiles, leather, and citrus fruit; with Swaziland, in citrus fruits and pineapples, and also paper products; with Lesotho, in cotton clothing; and with Botswana, in leather and cotton textiles. Sugar would be a potential competitor with Swaziland and Zimbabwe, and beef with Botswana and Zimbabwe. If the Namibian figures can be trusted, coal, metal products, and fish are the most likely products.

The agricultural products in which the only significant exporter other than South Africa is Swaziland pose questions discussed in more detail in the Swaziland section of this next chapter. There is close collaboration between the agricultural industries of these two countries with, for example, the South African Citrus Exchange exporting all Swazi citrus fruit. The exports are allocated between markets partly on the basis of the preferences (and absence of sanctions) which are available to Swaziland. If, as seems to be the case at present, demand is sufficient to use both countries' output, preferences affect only which producers' output goes to which market. But if there were excess capacity, and no preference advantage to Swazi output, the South African fruits' natural advantage of nearness to transport could prevail.

In the case of ferro-chrome it is far from certain that a preference for South Africa would increase competition significantly. The tariff is not large (at 8%). There are, however, a number of non-tariff interventions in the market. At present, for example, the EC has four anti-dumping duties in force on ferro-alloys and France has a bilateral quota (GATT, 1991). It might be more difficult to preserve Zimbabwe exports from these if South African supply increased in response to a preference, and ferro-chrome is a major export for Zimbabwe (Table 13). As noted above, however, trade is dominated by a small number of companies and it is not clear how 'free' the market is. The UK is not openly a major importer of this type of ferro-chrome from South Africa, although it has substantial imports under the 'secret countries' heading.

In the cotton items, if a substantial difference in unit value is taken to indicate a low likelihood of direct competition, and if 30% is taken as the threshold for a 'substantial difference', South Africa appears to be competing with its neighbours in only two items: denim (52094200) - with Botswana, and denim trousers (62034231) - with Botswana, Lesotho and Zimbabwe. (Cotton yarn would also meet this criterion of competition.)

### **The special position of South Africa's neighbours**

Their special position derives in part from the end of sanctions and also from the effects of this on the organisations, notably in Africa, which South Africa will be eligible and likely to join. There are also potential effects from the new internal and external priorities of both the present South African government and a new, majority-based, one.

These countries were chosen because their nearness and apparent close dependency on other South African policy as well as South African trade make them likely to be the most vulnerable overall to changes there. Two of these countries, Swaziland and Zimbabwe, would appear frequently in any list of countries most often affected by trade preferences. Interviews with African policy-makers suggested more than once that within Africa the countries most willing to admit South Africa to normal African status were those furthest away. The near

countries are, however, at the same time among those with the most practical possibilities of joint ventures, and other co-operation with South Africa. They also have infrastructure links in power schemes, communications, and transport systems.

These countries include, in Zimbabwe, one which has been among those most affected by the politically and militarily destabilising effects of the present South African government, and therefore one which may have a particular claim not to be further damaged by any measures to assist South Africa. At least two, Lesotho and Swaziland, and possibly Botswana as well, are so dependent on South Africa, not just in trade in goods but in migrant labour, Customs Union income, the dominance of South African companies in production and in export-marketing, and geographical vulnerability, that their own future is inextricably tied to good performance of the South African economy, and goodwill from South Africa. Hence they have to compare the possible negative effects from trade diversion to the potential positive effects of preferences on South African growth.

They are thus clearly special cases whose interests need to be taken into account individually as well as through their own membership in the various preference regimes proposed for South Africa. They are also all small countries, and countries with relatively limited trading infrastructure, including physical, human and financial, relative to South Africa although Zimbabwe is not in comparison with many other ACP countries. They give the opportunity to ask whether the preferences now offered to them can be considered a balance to this South African advantage.

### **Lesotho**

There has been little mention of Lesotho up to this point because it does not export significant quantities of anything. The total was under R150 million (£30 million) in 1990/1, of which 60% was to South Africa. (The share was 80% in 1985.) Exports to the EC are about 20% of the total, mainly to Germany and the UK, although large fluctuations in the data (and difficulties in securing any data) suggest that these numbers are subject to considerable uncertainty. All of its trade necessarily goes through South Africa, physically and legally through the Customs Union. Its principal source of external income is migrant labour remittances, also from South Africa (half its GNP), supplemented by official transfers. Among the exports which it does have, however, manufactures are perhaps half, mainly in textiles (wool and mohair) and shoes. Diamonds, handicrafts, and some clothes also appear. Textiles and clothing are the industries in which most new investment is occurring and in which the National Development Corporation is supporting most activity.

The effects of any changes to South Africa's trading regime would probably come principally indirectly through their effects on the South African economy. The direct ones, however, could be damaging. Government officials believe that most, if not all, foreign (Taiwanese and South African) investment in textiles and clothing in Lesotho is either to avoid sanctions or to get within Lomé preferences, not because of any local natural advantages. Those from sanctions must end, and giving South Africa Lomé status would eliminate the remaining investments. It is possible that some specialised, mohair-based, production could remain. Although labour costs are lower than in South Africa, productivity is also lower, and transport costs to ports inevitably higher. It is therefore likely that if any preferential arrangement for South Africa gave advantages to joint ventures, these might be

located in South Africa, using Lesotho textiles (and even, perhaps, migrant labour from Lesotho), rather than in Lesotho. (In the past Lesotho has been permitted some derogations by the EC (and similarly within the PTA) to use South African inputs, so that continuing these would be an alternative means for it to obtain the advantages of joint production.)

What are far more important in quantitative terms are the changes to come from the reductions in total Customs Union revenue and labour remittances. The first are because of inflation (there is a two-year lag between accrual and payment), the reforms in the South African import regime, which reduce total SACU revenue, and the redistribution away from the smaller members because of South African fiscal constraints. Labour remittances are falling now because unemployment and pressure on mining companies in South Africa have led to repatriation of foreign workers (a third of miners in the last two years). These will fall further under a new government if the remaining workers are permitted to establish their families in South Africa. There is strong support by South African leaders, Lesotho officials, and at least one of its political parties for Lesotho to become part of South Africa.

### **Swaziland**

Swaziland appeared in the statistical analysis principally in the context of fruits. These are a tenth of its exports, but it shares other commodities with South Africa. It exports coal to Kenya. It has a clothing and textile industry, although, as in Lesotho, this is based on foreign investment for export to countries in which Lomé gives it preferences over South Africa. It produces beef, and has an EC beef quota, but it does not fill this.

It has unlinked pieces of a paper industry, producing and exporting pulp (its third export), and importing pulp and producing kraft paper from it. Both are highly dependent on South Africa, to which most of its pulp and paper exports go, and managed by a South African company (which is now investing in the EC). As noted above, its citrus exports are managed by a South African company. The EC is a major market, in which it has substantial preferences, for both fresh and canned fruit, but the South African company is also looking at other markets, including some previously subject to sanctions (Canada and Scandinavia) and Eastern Europe.

Its principal export, however, at about a third of the total, is sugar. It has a sugar quota with the EC, which, at the EC price, gives it most of its sugar revenue, and a smaller quota with the US. Canada is also a customer. It would be damaged by any reallocation of quotas to give one to South Africa. (It still has a falling extra quota to Portugal, as part of Portugal's accession agreement with the EC.) Sugar was the first risk from preferences for South Africa mentioned by officials, as well as by the sugar industry. Extension of the EC sugar protocol to South Africa is unlikely.

Its small size means that it would be relatively easy for exporters, such as the citrus industry, to protect its producers from any loss of markets, but, on the other hand, they have little incentive to do so. All major industries are foreign-owned; many South African. It probably has more local advantages for investment than Lesotho in terms of natural resources, including productivity of labour, and location (it is nearer to Johannesburg, and a recognised tourist centre), but it is questionable what weight these would have against South African locations in the absence of preferences. Its information for foreign investors stresses the



Lomé advantage. It is in fact still attracting new foreign investment, but it believes that it has lost some investment already because of South African export subsidisation through the GEIS.

It shares with Lesotho dependence on South Africa for labour and SACU income. SACU income, however, is a smaller and falling proportion of its government revenue (now under half). Unlike Lesotho, it has one non-South African border (with Mozambique, with some transport and communications lines through it). Although in all these respects, the extent of its dependence on South Africa is less, it still finds itself vulnerable, and therefore probably not in a position to oppose South African trading interests openly even if it might want to.

It is Swaziland's declared policy to reduce its own dependence on official transfers, because of this perceived vulnerability, and therefore to increase its trade, and, within trade, to reduce dependence on special concessions. The official aid which it receives is already falling. (It is also likely to lose some of its services income because of South Africa's return to international acceptability: many international agencies have up to now chosen to have a southern-Africa base in Swaziland.) It could gain from joint ventures in clothing with South Africa, although there is no evidence of this yet.

In summary, even without changes in the trade regime, the changes in government and in policy in South Africa will have severe effects on Swaziland, and require considerable financial and structural adjustments in the economy. It will clearly lose some industries and potential for new investment from the ending of sanctions because it encouraged some companies moving out of South Africa to move to it during sanctions (the most well-known was Coca Cola, whose products probably constitute its second export). This makes it a particularly vulnerable period for it to risk the loss of other institutional advantages, even if giving South Africa trading preferences would not add significantly to these effects. It exports products sensitive to preferences. In all cases there are special conditions that could reduce any impact from preferences (provided sugar quotas were not affected), but if preferences imposed additional strains, these would come at a time when Swaziland was particularly vulnerable economically, and when it might be particularly sensitive to apparent reductions in external support. Swaziland is trying to redirect its exports away from South Africa, so the potential for joint ventures might not offer particular attractions.

## **Botswana**

At present there appears to be no direct competition with Botswana that would be affected materially by the type of trade regime accorded to South Africa, assuming that South Africa will not be accorded a beef quota or, if it is, that it will be accommodated by an increase in the ACP's global quota. Clearly, any attempt to redistribute existing national quotas in order to offer one to South Africa would involve a serious risk of damage to Botswana's interests. Unfortunately, it is less clear whether competition might emerge in the future.

The problem of potential future competition arises from the possible new exports of South Africa and Botswana's own efforts to diversify, with cotton textiles already emerging. Strenuous efforts are being made to attract investment into the export of goods for which Lomé preferences are substantial. The point was made vigorously that if South Africa also has Lomé Convention status the relative advantages of Botswana as a location will be much reduced. This was the argument in the clothing industry. The counter-argument made in



Botswana (and also heard in Zimbabwe) is that manufacturing development should be rooted firmly in areas where a country has clear advantages and should not be based solely on, possibly ephemeral, tariff preferences. Although a welcome view to a trade theorist (and a currently fashionable one for African officials), it is impossible to say how long it would prevail against producer lobbies. Preferences are most likely to be valuable if they apply to a product in which the country can be reasonably competitive even without such advantages, *i.e.* they are an additional support to overcome start-up costs or to foster faster growth than otherwise would be possible. The two aspects in which Botswana might offer a more attractive environment to manufacturers than South Africa, regardless of preference regime, are labour costs and foreign exchange. Labour costs in South Africa are higher and may rise faster than those in its neighbours. Botswana is less likely to devalue. Such arguments, however, tend to provoke among producers the understandable reaction that the 'advantages' are hypothetical, whereas the perceived disadvantage of losing better access to the EC market is real.

The extent of the problem may be clarified by the Uruguay Round outcome for a post-MFA IV regime for clothing. Any significant liberalisation required in EC clothing imports would reduce the Lomé advantage and, hence, reduce the main potential trade diversion identified for Botswana. If it is assumed that no preferential agreement with South Africa will be considered until the transfer to majority rule has been completed, it is likely that the post-MFA regime will be known, and the decision may be taken in the light of much clearer information on the possible trade diversionary effects.

### **Zimbabwe**

Zimbabwe's principal export is tobacco, for which South Africa is not an important competitor (it is a net importer, Table 8) but its next most important exports, iron, other minerals, cotton, beef and sugar (Table 13), are all goods also exported by South Africa, which have appeared in the analyses as potentially affected by competition (Table 12). It has made deliberate use of its Lomé preferences in vegetables and clothing, and in having quotas for beef and sugar. Although in the past it has not actively encouraged foreign investment, it is now starting to do so, so that any Lomé advantage could become more important.

Although South Africa is Zimbabwe's principal trading partner in Africa, it is less important in Zimbabwe's imports and exports than the EC, and Zimbabwe is not, in trade or other relationships, as dependent on it as are the other three countries. Zimbabwe is not a member of SACU, although it has a bilateral trading agreement. This was first negotiated in 1964, and it is now being renegotiated, and some Zimbabwe officials at least are willing to see much greater access, if not a complete common market. The goods which Zimbabwe currently produces may therefore be genuinely competitive with South Africa (which does not mean that either country is necessarily competitive on the world market in all of them). Zimbabwe has in fact been able to divert some exports from South Africa to more competitive, and profitable markets, suggesting that except in some special cases it does not need a preference margin over South Africa. The competitive cases probably include most of the manufactures (especially in consumer goods) and metals identified in the preceding chapters, in particular iron and steel and textiles and clothing, and also such South African exports to other African countries as railway wagons, chemicals, and some capital goods. Zimbabwe imports heavy machinery and many chemicals from South Africa (Table 8).

**Table 13: Zimbabwe's exports 1990 (US\$ millions): principal exports to principal markets and those competing with South African exports**

	SITC	UK	Germany	Italy	Neither	Belgium	France	Other EC	Total EC	US	Japan	Malawi	Botswana	Kenya	Zaire	Zambia	Africa listed ex RSA	RSA	Africa listed	Sum of these countries
Beef	0110000	0.7	0.1			0.6	1.2	2.6											0.5	3.1
Maize	0440000											43.5	4.7		1.5	0.3	50.0	2.9	52.9	52.9
Oranges	0571000	0.0	1.1					1.1				0.0	0.0				0.0	0.0	0.0	1.1
Other Citrus	0572000	0.0						0.0				0.0	0.0				0.0	0.2	0.2	0.2
Avocados	0579700	0.0			0.0	0.0	0.0	0.0		0.0		0.0	0.0				0.0	0.0	0.0	0.0
Sugar	0610000	8.2				0.0	14.3	22.6	15.7			0.0	9.7		0.9	0.0	10.6	0.0	10.6	48.9
Oil cake	08133-9							0.0				0.1	0.1			0.0	0.1	0.2	0.3	0.3
Tobacco	1210000	56.4	31.8	2.7	43.8	22.5	4.1	205.5	3.6	4.5		2.4			0.8	1.0	4.1	23.9	28.1	241.6
Canned Fruit	2000000							0.0												0.0
Raw Hides	2110000	0.0	0.0	3.4		0.9	0.1	4.3	0.1	1.0		0.0	0.1				0.1	0.4	0.4	5.9
Pulp	2510000	0.0	0.1					0.1					0.0				0.0	0.0	0.0	0.2
Cotton	2630000	2.7	20.5	13.3	0.8		20.0	57.3	4.2				0.0		0.0	0.0	0.0	12.4	12.4	73.8
Other crude, etc.	2780000	2.0	3.6	0.8	0.3	0.7	1.3	15.5	1.9	11.4		0.0	0.0	0.0	0.0	1.3	1.4	7.6	8.9	37.7
Chlor and sulph, etc.	5230000	0.1	0.0					0.1				1.2	0.1		0.1	1.6	1.6		1.6	1.8
Fertilisers	5620000							0.0									2.6	0.5	3.2	3.2
Plastics	5710000	0.1	0.1					0.1				0.0				1.3	0.0	0.0	0.0	0.2
Explosives	5913200							0.0												0.2
Leather	6110000	0.2	0.0	2.8	0.0		0.0	3.1	0.0			0.0	0.1			0.1	0.3	2.0	2.2	5.3
Kraft paper	6414000							0.0				0.7					0.8	0.8	0.8	0.8
Cotton Yarn	6513000	4.6	6.1			0.1		10.8					4.9				4.9	0.8	5.6	16.5
Ferro-chrome	6715300	10.7	24.2	11.7		7.6	3.7	61.5	30.8	20.0				0.0		0.0	0.0	4.3	4.3	116.6
Iron, steel primary	6720000	1.0	0.7	6.5				8.2				0.8	0.3	13.7		0.1	13.8	4.4	18.1	26.3
Iron, steel shapes	6730000	0.0						0.0						1.7		0.6	3.5	0.8	4.2	4.2
Rolled Iron	6740000							0.0				0.0	0.0	0.0		0.1	0.1	0.0	0.2	0.2
Ferro-alloys	6714-5	0.0	4.3	0.0		8.5	0.7	13.6	5.4	2.2		0.0	0.0	0.0			0.0	0.5	0.5	21.7
Copper	6820000	14.2	3.7		0.1			18.0	0.0	0.7		0.2	0.2	0.0		0.0	0.2	7.0	7.2	25.9
Nickel	6830000	6.3	12.6	20.5	0.1	6.2	1.4	47.2	18.2	23.5		0.0	0.0				0.1	0.8	0.8	89.6
Boring machinery	7239330							0.0				0.0	0.0			0.1	0.1	0.0	0.1	0.1
Gold	9710000	2.7						2.7										0.0	0.1	2.7

**Notes:**

All data supplied by the Zimbabwe Central Statistical Office

Values less than 0.1 US\$ million are shown as 0.0, no entry: no exports recorded

The type of joint ventures which Zimbabwe might consider desirable with South Africa lie more in the area of capital goods requiring heavy investment and South African equipment, than in the consumer goods like clothing discussed in South Africa. Ferro-chrome could be an agreed area of collaboration as both countries are interested in increasing processing and together they account for half of world production. There is also in Zimbabwe a belief that the two countries' similar periods of semi-isolation and forced import substitution have left them with similar patterns of producing too many goods, with insufficient attention to economies of scale and specialisation. As they are also the two most advanced countries in the region, this should offer scope for joint rationalisation. The important contrast is that Zimbabwe (supported by the data) sees itself as more efficient in a substantial number of industries, while South Africans, of all political affiliations, take what can at the kindest be described as a patronising attitude to all other African economies.

Zimbabwe does consider itself at the general disadvantage, relative to South Africa, shared with all but the most advanced developing countries, of inability to offer the same financial facilities to exporters. It is land-locked, and (under current conditions) completely dependent on South Africa for outlets to shipping.

Unlike Swaziland and Lesotho, Zimbabwe may see some net practical advantages from the normalisation of South Africa, especially from a more stable political regime. It has not benefited as much as, for example, Swaziland from investors displaced from South Africa, so conversely has less now to lose. (It is at present gaining some investment, perhaps because of greater relative stability and the recent devaluation.)

At the end of 1991, it adopted a major structural adjustment programme, which has included severe devaluation (close to 50%), liberalisation of imports (lower tariffs and more on open licence), and rapidly improving concessions for exporters. These are in the World Bank-designed form of authorisation to retain a proportion of revenue in foreign exchange. Although they appear now to be regarded as acceptable to GATT, they in practice amount to an important subsidy in an exchange-controlled economy. For Zimbabwe, the percentage to be retained has risen in half-yearly steps from 7% in the first half of 1991 to 25% in the first half of 1992, and is scheduled to reach 35% in 1993. As the imports made using the funds are transferable, this is effectively saleable foreign exchange. On the one hand, this makes offering South Africa improved access through its membership in African trading organisations less costly in terms of further liberalisation. On the other, it makes Zimbabwe more externally oriented, and thus dependent on and likely to benefit from favourable trading regimes, including preserving its Lomé advantages over South Africa.

## 9. COMPETITION WITH EC PRODUCERS

The same method was used as for developing countries to identify EC imports from South Africa which are (or might be) significant compared with the level of intra-EC trade, and which, taking account of the level of protection, might replace EC products (Table 14).

Some of the commodities in Table 14 clearly represent re-exports from EC countries which are not themselves producers (platinum, silver, ferro-chrome, tobacco), and this also applies for some individual EC exports of other commodities which are produced within the

**Table 14: Products in which South Africa competes with EC member states 1990 (ECU Millions)**

CN Code	Product	MFN Tariff	NTBS	South Africa	United Kingdom	FR Germany	Netherlands	France	Italy	EC Imports from:							
										Spain	Denmark	Ireland	Greece	Portugal			
2701	Coal	0	Q	839	77	364	200	56		56	1						
7110	Platinum	0-4		711	294	34	105	37	25	34	2	2					
72024	Ferro - chromium	8	AD,TQ	188		23	38	9	11	15	1					13	
080810	Fresh apples	6-14	VER	141	9	24	162	331	129	100	6	1	1	1	5	1	
0805	Citrus fruit, fresh or dried	4-20	MIP	106	14	10	111	25	37	26	988	1	1	48			
0806	Grapes, fresh or dried	3-22	MIP	82	4	9	75	24	290	12	74			160			
080820	Fresh pears and quinces	5-13		58	1	9	75	53	57	42	15			1			
080440	Fresh or dried avocados	4-8		37	1		6	15	2	2	22			1			
410422	Bovine leather, pre-tanned	0-7		35	18	36	9	8	45	1	2			1	1	4	
4804	Uncoated kraft paper and paperboard	2.5-9	MIP	34	27	51	19	172	8	32	67	1	1	69			
880230	Aeroplanes and other aircraft	0.5-5		26	174	217	152	364	966	18	74	9	11	4	10		
940190	Parts of seats	4.4-5.6		26	35	230	27	113	54	33	27	3	2	16			
5402	Synthetic filament yarn	9	MFA	23	239	837	365	207	402	238	65	57	53	11	6		
720230	Ferro-silicon manganese	5.5		23	7	4	7	24	6	2	8			0			
030378	Hake 'merluccius spp., Urophycis spp.'	15		22			1	1	23	0	0	0	0	1			
7318	Screws, bolts, nuts	5.3-6.5		18	93	439	92	157	340	45	66	13	23	134			
440710	Coniferous wood sawn or chipped lengthwise	0-4.9		16	6	128	46	44	1	64	2	13	14	134			
7217	Wire of iron or non-alloy steel	5.3		15	50	131	38	70	88	214	19	1	1				
5205	Cotton yarn (other than sewing thread)	4.6	MFA	12	13	177	32	78	187	123	76	19	14	160	20		
4418	Builders' joinery and carpentry of wood	0-6		12	19	125	69	60	35	78	16	153	6	34			
4801	Newsprint, in rolls or sheets	7-9		11	62	177	94	20	2	34	9						
870829	Parts and accessories of car bodies	4.9-6.9		10	74	710	134	651	189	76	182	13	15	1	27		
8903	Yachts and other vessels for pleasure	0-3.8		10	681	108	87	129	97	32	26	23	9	4	2		
7306	Other steel tubes, pipes and hollow profiles	0-10		9	91	306	170	157	381	141	66	27	2	5	1		
2809	Diphosphorus pentoxide; phosphoric acid etc	11		8	6	11	67	47	2	87	6	2	2				
7106	Silver	0-3.8		7	128	73	67	79	6	56	14	1					
940350	Wooden bedroom furniture	5.6		7	12	160	34	30	100	108	30	140	6	18			
5209+5208	Woven fabrics of cotton	10	MFA	7	176	505	181	381	353	245	79	36	56	39	49		
2914	Ketones and quinones	6.6-11.2		6	41	100	77	63	55	123	5						
200911	Frozen orange-juice	19-42	AGR	4	1	20	238	2	21	68	2	7	4	2			
940340	Wooden kitchen furniture	5.6		3	11	383	16	67	50	34	6						
2401	Unmanufactured tobacco; tobacco refuse	14-23		2	10	46	60	25	70	39	3						
0201+0202	Meat of bovine animals	20	AGR	15	15	52	33	1	2	4	22	238	1	98	2		
170199	Cane or beet sugar		AGR		2		28		1		40	26					

Note: For explanation of codes and source see Table 9.



EC (in many cases 'The Netherlands' probably means the port of Rotterdam). In others, the quantities shipped by South Africa might appear too small to disturb the European market, but these cannot be excluded as easily. There is first the usual problem, that exports may be small because of the barriers which exist, but also where EC producers are concerned, rather than alternative non-EC suppliers, experience suggests that the Community may prove sensitive to even very small competitors, if there is the 'threat' of a large relative change. Some products, notably airplanes and yachts, are too differentiated to be easily discussed in terms of country suppliers or markets, but could well fall into the class of low thresholds of sensitivity. The fish are difficult to judge, partly because some may be Namibian (misrecorded), but also because they are again a very differentiated product. But they probably should be included as potential problems because of the sensitivity of the EC fishing industry to all imports.

The principal 'problem commodities' are coal, fresh fruit and fruit products (apples, citrus, grapes, pears, avocados), and paper products. Others, where South Africa is a smaller supplier, are wood and furniture, leather and leather products, manganese, metal products, and cotton textiles. Beef and sugar would be problems. The producing countries most likely to be affected by South Africa appear to be the UK, Germany, France, and Belgium for coal (the Netherlands is not a producer) and Spain, Italy, France and Greece for fruits. On past EC form, the fact that there is no direct competition because of seasonal differences will not prevent opposition. This means that even if only the most obvious products are included, almost all members would have some affected producers. The minor products reinforce this spread: Portugal, the UK, and France for paper (Portugal and the UK are two of the countries in which the South African paper producer has invested, however, so the competitive interests of the paper industry in these countries may now be mixed); for both wood and leather products, mainly Germany, but also Italy, France, Denmark, the Netherlands and Belgium (as always, the latter two may include an element of transshipment); and potentially all countries for textiles. In considering this list, it is important to remember that three of South Africa's four principal commodity exports to the EC enter without important barriers (gold, diamonds and platinum); the difficulty is that the next two (coal and fruits) happen to compete with the northern and the southern parts of the EC. Those which are minor, and therefore potentially more acceptable to the EC are also still minor for South Africa. A further adverse effect for the EC of trade preferences would be a loss of customs revenue. Hence there could be budgetary opposition to preferences, although this could be balanced by consideration of a possible trade-off between trade and aid.

A more detailed look at the trading regimes suggests that standard Lomé preferences would not significantly improve South Africa's competitiveness with European suppliers for most of the 'potential problem commodities'. Oranges face relatively low MFN tariffs. Preferences might be helpful for the more exotic citrus fruits into which South Africa wishes to diversify. Grapes and pears would require special negotiations under any preferential trade regime, while apples are the subject of voluntary export restraint. Paper and manganese are relatively lightly protected under the MFN. Coal, textiles, beef and sugar are under different and less negotiable regimes (see Chapter 6). Clothing and textiles would be particularly sensitive to preferential treatment for a new supplier if it were introduced when the MFA restrictions were being relaxed.

As noted in Chapter 4, some of those which South Africa does not export in significant quantities at present include some which it is anxious to promote (more processing of raw materials; the clothing and textile industry, and other consumer goods; a diversification of agricultural production from cereals), and others which it may have strong redistributive motives for assisting (the sugar and fruit produced by smallholders). They also include very much the same products identified in Chapter 7 as competitive with ACP and other developing country exports: fruits, especially processed ones, plants and flowers; kraft paper; wood and furniture, potentially some of the ferro-alloys, and clothing and textiles.

## 10. CONCLUSION

### **Appropriateness of trade concessions**

South Africa can be classified as a middle-income developing country which is attempting a major economic restructuring in a situation of political uncertainty and risk, but while moving to a more democratic regime. This gives it a clear claim, in terms of several of the criteria normally used, for external encouragement and assistance. A basic question which needs to be asked is: which forms of assistance are likely to be most helpful to establishing it on a feasible long-term development path, given its own objectives and its particular constraints. If one of the answers to that question is assistance in promoting its exports and, more particularly, its exports to industrial countries, this conclusion leads to the questions for which this report is primarily intended to provide the background: are trade preferences a feasible and suitable instrument, and what type of preference would be most appropriate to it, while being acceptable to the EC and to other trading countries, especially those with special claims on the EC.

The first question, of whether export promotion is an appropriate area of assistance needs a thorough examination. Chapter 3 of this report could only sketch the background that would be needed. It indicated strongly that South Africa's industrial structure needs to be changed to meet even current economic problems. The likely extent and nature of the expected growth in domestic demand and redistribution under a new regime would bring fresh strains. Much South African policy analysis is being devoted to this. Beyond the industrial restructuring, other types of investment which it will be the policy of a new government to expand are in education, health, and housing. There are, on the basis of the limited examination in Chapter 4, no pressing external pressures to improve export performance, but serious long-term risks from South Africa's dependence on primary exports and on imports of capital goods. One indication of the form of external assistance which would be most effective, however, is that it was the effect of sanctions on financial flows and investment, rather than trade sanctions, which seems to have restricted the South African economy most seriously.

It is characteristic of a middle-income developing country to have some developed and some developing sectors and institutions. South Africa, its own economists and its potential competitors agree, has an advantage in the 'infrastructure' of exporting: financing, transport and ports, and marketing skills and institutions. It is the disadvantage of most developing countries in these areas which normally provides the economic rationale for general (not targeted) 'special and differential' treatment in developing countries' trade with industrial

countries. In South Africa, it is the social indicators (as indicated by its poor relative performance on the Human Development Index) and, in the economic structure, the labour intensive sectors which are under-developed. Uncompetitiveness in these more specialised areas may make general preferences seem less appropriate than normal, and, if this conclusion is accepted, this should guide the types of preference or other assistance which are offered.

The detailed South African trade objectives, and those which it has been suggested external assistance might want to encourage, are: more labour-intensive exports (or at least removal of the bias towards capital-intensive); more manufactured exports, and more processing of existing exports; perhaps, although this would require careful consideration of the proper role of the rest of the world in South African social policy, encouragement of outlets for the goods expected to be the output of redistributed land or of previously disadvantaged parts of the population. The evidence on which exports would be most helped by various preference schemes suggests that the arrangements most likely to be available would not be those most likely to help these objectives. Unlike the position for most Lomé countries (some in the Caribbean are exceptions), the EC does not dominate the South African export market, although, at about a quarter, it is clearly important. This, combined with the goods on which preferences might be available, was found to limit the quantitative importance to South Africa of special EC concessions on trade. The small weight of these exports in total South African exports implies that any assistance of this type could have only a minor role in solving the more general problem of a vulnerable external account. The emergence of South African investment in the EC and in some of the ACP countries, including investment in some of the goods identified here as relevant to a preference policy, is a reminder that greater liberalisation of flows of capital as well as trade is leading to international restructuring in ways which are difficult to predict, and difficult to accommodate in trade preference relationships.

### **Effects of trade preferences on South Africa and other countries**

In general, South Africa's labour-intensive output is directed to domestic consumption (and there are likely to be good opportunities to raise output to meet growing demand there); its principal exports are natural resource- or capital-intensive goods, and its manufactured exports go to other developing countries, not the industrial ones which might give preferences. It appears that preferences, under any of the regimes considered available, would benefit a small proportion of South African exports, notably in fruits, metals, paper and leather. Some of the primary commodity, processed fruit, and labour-intensive manufactures exports which it might want to promote would be those least available under preference schemes: coal, sugar and beef, steel and clothing. For Swaziland, Botswana, and Zimbabwe, their most important advantages in terms of preference over South Africa are their quotas on beef and sugar, and exemption from the MFA, none of which derives directly from their GSP or Lomé status. As these goods are also produced in the EC, there would be likely to be opposition to giving preferences to South Africa from within as well as from the developing countries which would lose their margin of preference.

Preferences for South Africa, especially of a Lomé-type, would affect a variety of competitors: coal and fruit producers in the EC; within the ACP: Zimbabwe, Swaziland, and perhaps Kenya, Mauritius, Ghana, and Côte d'Ivoire; among the other developing countries: Brazil, Chile, and perhaps Argentina; Thailand and the Philippines. The developed country



most affected would be Australia, with some effect on the US and EFTA. The damage to producers in most of these countries, like the benefit to South Africa, would probably be small, but the considerable uncertainties about present and potential competitiveness would make any judgement, on benefits or costs, a risky one. Some of these countries are also ones which industrial countries in general, and the EC in particular, consider that they have special present obligations to help. In particular the EC has a formal commitment not to damage the relative position of the ACP countries, although this has not prevented it from extending GSP to new beneficiaries. Others, notably the developing countries outside the ACP, might question why a country with a *per capita* income higher than or comparable with their own should receive greater preferences. They would have a weaker case against extension of the GSP preferences already available to most of its developing country competitors. Such reactions would need to be taken into account as an additional cost to the EC, or any other industrial country granting special, as opposed to general, preferences. If objections from developed or developing countries were taken formally to GATT, as they could be, they would delay preferences or make them uncertain until beyond the period of transition during which they would be expected to be most helpful.

Officials in Zimbabwe, Botswana, and Swaziland indicated that they would welcome South Africa to African organisations, and in some cases membership in Lomé, in order to give the new regime the same advantages which they have. Such a sympathetic response might not continue given that there is a widely held South African view that, as the largest and most advanced country in Africa, it should have a special role both within African organisations and in mediating trade and aid between industrial countries and the other African. If it were granted preferential treatment by industrial countries, such apparent support could further strain regional relations.<sup>31</sup> South Africa will inevitably be a major member of any regional organisation which it joins, and both the organisations and their members are sensitive to any signs that it is receiving special treatment because of its size or because of special sympathies for its problems of transition. It proved difficult to identify credible cases of potential joint production to offset any damage to other African exports, although since all the countries of the region are attempting to diversify exports, potential areas of collaboration might arise in the future.

### **Effects of trade preferences for South Africa on the trading system**

Chapter 2 suggested that trade preferences and special relationships are more likely to be questioned in the future than they were in the past. They do not fit easily into a programme of trade liberalisation such as many developing countries, ACP and other, and including both South Africa and Zimbabwe, are pursuing at present. In this context, removing constraints on imports is considered a benefit, not a cost. Attempting to obtain preferences could even be regarded as an international equivalent of 'rent-seeking' or lobbying for protection within an economy, with similar implications for efficiency. Obtaining the generalised preferences available for a developing country is perhaps not open to similar objections, but as indicated above, GSP is not the type of assistance South Africa most needs, and its value is likely to be eroded by reductions in its scope and the Uruguay Round reforms to MFN barriers. The

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<sup>31</sup> The most common reaction outside South Africa when the possibility of EC preferences was raised in interviews was incredulity.



'super GSP' granted on a temporary basis to the Andean and Central American countries would be more useful.

Both within the ACP and in the context of GATT, specially-tailored forms of preference seem likely to raise more suspicions, without offering significantly more benefits to South Africa, than using an off-the-peg model. South Africa is (like every country) a special case, with its own problems, but it is more internationally acceptable to avoid special concessions for a specific country unless there are outstanding reasons. In trade, this holds both formally, through MFN and provisions for non-discrimination in the GATT, and informally, through the tradition of adopting general concessions or formulae because they can be seen to be fair, even if not economically equal, in contexts like tariff negotiations. This is the practical advantage of the GSP and Lomé, even if in the former case it comes at the cost of not giving each country the assistance most suitable to it.

South Africa's relative lack of dependence on the EC reduces the risk that by becoming involved in the EC's hierarchy of preferences it could become vulnerable to rearrangements of the hierarchy at a time when these are starting to be frequent. Yet it also reduces the benefits from negotiating the concessions. South Africa is also pursuing trading arrangements with other areas, notably in Africa and the Far East.

### **The development needs of South Africa and its neighbours**

The clearest signs of South Africa's 'developing country' characteristics were in the social indicators, of education, health and other aspects of human development. On the economic side, its industrial development and its recent performance have suffered from misdirected investment, leading to low efficiency and high unemployment. Its exports suffered from over-concentration on capital-intensive industries, and inadequate investment in labour-using sectors.

Although some of the obstacles identified to joint production between South Africa and its African neighbours stem from the lack of obvious complementarities, others are more specific: lack of transport and communications links; lack of the type of information services for exporters and importers which are provided by trade departments in industrial countries; lack of the type of harmonisation of standards and reduction of barriers which the EC itself has been trying to achieve in the Single European Market programme; lack of finance for intra-developing country trade, and more generally lack of capital for new investment (Ncube, 1991).

The neighbours of South Africa will lose their 'not South Africa' advantage in attracting both export markets and investors with the end of sanctions. To take full advantage of the potential advantages which offset this, they will need to restructure, or in some cases abandon, some of the investments they made explicitly to reduce their own dependence on an unfriendly and politically unacceptable South Africa, notably in alternative transport and energy projects.

These needs within South Africa and its neighbours and in the links between them require increased investment. Although there are some expectations that private foreign investment will return to South Africa in the medium term, this depends on the reestablishment of

political stability and reasonable economic performance. These pre-conditions in turn, however, depend on solving at least some of the problems outlined here. In the case of infrastructure, physical and social, moreover, any investment, whether domestic or external, must normally be of a concessional nature.<sup>32</sup>

The question of whether special assistance should be given to assist South Africa economically in its transition to majority government raises problems of policy beyond the scope of this report. But if such assistance is to be given, perhaps on a strictly temporary basis, it should be in forms and sectors which will offer the greatest benefits to South Africa, and as far as possible also assist its neighbours and other developing countries. The obstacles to trade identified here suggest that assistance in restructuring the economies could be more effective than providing improved trade access and offering encouragement for regional trading cooperation before either the competitive South African industries or the regional linkages were in place to take advantage of them.

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<sup>32</sup> The needs identified by the African Development Bank (1992) were 'modernization, revitalization and enhanced competitiveness' for the industrial sector, and improved access to health, education and other social facilities. It was for these, it suggested, that external capital, and in particular a Special Fund of its own would be most appropriate.

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