

**The determinants of South African exports:
Critical policy implications**

by

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André Gouws

Abstract

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This study takes an eclectic approach drawing on historic, theoretical and empirical sources to identify the main factors influencing the pattern and direction of South Africa's trade. Rather than focusing on and proving or disproving individual theories, it looks at the broadly at various determinants of trade rather. Each of the theories that have been accepted as part of the canon of international trade theory explains part of the picture. This study therefore focuses on informing policy and therefore identifies and critically evaluates the determinants of South African exports and the role these determinants should have in policy development.

Trade volume is usually seen as determined by the level of income level and relative prices. These are in turn determined by the dynamics of each GDP component (investment, consumption, public expenditure, exports); the price competitiveness of domestic production (influenced by exchange and relative inflation rates); non-price competitiveness of domestic production (product quality, technological innovativeness, design, promotion); the country's attitude toward foreign goods; historical links with certain origin countries; and economic integration. This study attempts to isolate the determinants of export prices and volumes for the different manufacturing sectors. It will give policy-makers a clearer understanding of exporters and the factors that contribute to export growth, and will in turn inform policies, programmes and other export schemes. This information will allow the evaluation of the impact of their decisions and policies on each of the sectors' export performance. Different sectors and industries face a myriad of different, and often unique conditions: elasticity, technology, market supply positions etc., and will therefore react differently to different policies. While government makes policy decisions that impact on the whole economy, it simultaneously has programmes that assist firms (particularly the Small Enterprise Development Agency (SEDA) and Trade and Investment South Africa (TISA)). This micro-level support and macro-policy must therefore operate together and complement each other.

After setting the global and domestic scene, highlighting relevant events and trends that effect trade, this study critically evaluates international and South Africa applications of classical and new trade theories. From these processes, determinants are identified. Econometric models are then applied to test these determinants empirically. These techniques are applied to South Africa's various sectors and industries thus giving macro- and meso-determinants.

Qualitative techniques are then used to determine specific drivers at a firm level. From this a model is proposed for specific interventions to assist new exporters enter global markets, and to retain and grow existing exporters.

Based on sound economic theory and the empirical findings from these research approaches, policy recommendations are made. In an increasingly competitive and uncompromising world, the role of sound policy is fundamental to economic success. This thesis argues that policy must be comprehensive and made with an understanding of the critical interactions in place.

List of abbreviations and explanations

ADF	Augmented Dickey-Fuller	GATT	General Agreement on Tariffs and Trade
AEB	anti-export bias	GDP	gross domestic product
AGOA	Africa Growth and Opportunity Act	GEAR	Growth Employment and Redistribution
ANC	African National Congress	GEIS	General export incentive scheme
BLS	Bureau of Labour Statistics	GGP	gross geographic product
BTN	Brussels Tariff Nomenclature	GJMC	Greater Johannesburg Metropolitan Council
C&E	Customs and Excise	GSP	General System of Preferences
CBU	completely built up	HOS	Heckscher-Ohlin-Samuelson
CIF	cost, insurance and freight	HOV	Heckscher-Ohlin-Vanek
CMS	constant market share	HS	Harmonised Commodity Description and Coding System (of product classification for customs purposes)
CPI	consumer price indices	IDC	Industrial Development Corporation
CSIR	Council for Scientific and Industrial Research	IIT	intra-industry trade
CSS	Central Statistical Service	ILO	International Labour Organisation
CTMM	City of Tshwane Metropolitan Municipality	IMF	International Monetary Fund
DTI	The Department of Trade and Industry (“dti” is also commonly used)	ISE	Innovation Support for Electronics
ECM	error correction model	ISIC	International Standard Industrial Classification
EEC	European Economic Community	ITC	International Trade Centre WTO/UNCTAD
EMIA	Export Marketing and Investment Assistance	MES	Macro-Economic Strategy
ERP	effective rate of protection	MFA	Multi Fibre Agreement
EU	European Union	MFN	Most-Favored Nation
FDI	foreign direct investment	MIDP	Motor Industry Development Programme
FEM	fixed effects model		
fob	free on board		

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MIDP	Motor Industry Development Programme	SACU	Southern African Customs Union
MNC	multi-national corporations	SADC	Southern African Development Community
n.e.s.	not elsewhere specified	SAMEM	South African macroeconomic model
NAFTA	North American Free Trade Agreement	SARB	South African Reserve Bank
NEDLAC	National Economic Development and Labour Council	SARS	South African Revenue Services
NEF	National Economic Forum	SDI	Strategic Development Initiatives
NER	nominal exchange rate	SEDA	Small Enterprise Development Agency
NICs	newly industrialised countries	SIC	Standard Industrial Classification
OECD	Organisation for Economic Cooperation and Development	SITC	Standard International Trade Classification
OEM	original equipment manufacturer	SMMEs	small, medium and micro-enterprises
OLS	ordinary least squares	SMEs	small- and medium-enterprises
PD	product differentiation	SMME	small-, medium- and micro-enterprises
PPI	Producer Price Index	SPII	Support Programme for Industrial Innovation
PPMI	Producer Price Import Index	StatsSA	Statistics South Africa (previously Central Statistical Service)
PPP	Purchasing Power Parity	SUT	Supply and Use Tables
QR	Quantitative Restriction	THRIPS	Technology and Human Resources for Industry Programme
R&D	research and development	TIDP	Trade and Industry Development Programme
RCA	revealed comparative advantage	TIPS	Trade and Industry Policy Strategies (Previously Trade and Industry Policy Secretariat)
RDP	Reconstruction and Development Programme	ucc	user cost of capital
REER	real effective exchange rate	UK	United Kingdom
REM	random effects model	ulc	unit labour cost
RER	real exchange rate	UNCTAD	United Nations Conference on Trade and Development
RQE	relative quality elasticities of production	USA	United States of America
RULC	relative unit labour costs		

UV	unit value	WTO	World Trade Organisation
WCO	World Customs Organisation		

The following symbols and conventions have been used in the tables:

- 1 A dash (-) indicates that the value is either zero or negligible;
- 2 A blank in a table indicates that the item is not applicable;
- 3 A slash (/) between dates representing years, e.g., 2003/04, indicates a financial year;
- 4 Use of a hyphen (-) between dates representing years, e.g., 2003-2004, signifies the full period involved, including the beginning and end years;
- 5 Rm means millions of rand (South African currency with ISO code: ZAR);
- 6 Rb means billion (1 000 million) rand;
- 7 Reference to “pound” (£) means South African pound – the South African currency prior to 1961 when the rand was introduced at the rate of two rand to the pound.
- 8 Reference to “dollars” (\$) means United States dollars;
- 9 The South African convention of using a comma (,) to denote a decimal;
- 10 Similarly, a space is used between thousands (e.g. 12 345 rather than 12,345);
- 11 Annual growth rates refer to annual compound rates, unless otherwise stated; and
- 12 Details and percentages in tables do not necessarily add to totals because of rounding.

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