

CHAPTER 2

A historical perspective on South African trade

2.1 INTRODUCTION

South Africa is still seen as an emerging and promising country and there is ample potential for future growth. South Africa's successful democratic transition in 1994 created the conditions necessary to embark on ambitious development. The democratic transition simultaneously laid the basis for South Africa's return to the international community and to more active participation in the multilateral trading system. In this chapter an attempt is made to give an overview of the development of the South African economic policy in broad and trade in general since the early 1990s until the present. Markets are prioritized according to their importance for South African trade. It is also revealed to what extent South Africa was successful in its economic reforms.

2.2 A HISTORICAL OVERVIEW OF THE SOUTH AFRICAN ECONOMY AND TRADE

Prior to the 1990s, unrest and sanctions paralysed the country's economic growth. The establishment of sanctions only had limited effect on growth and export and terms of trade deteriorated. During 1990 to 1993, the country experienced the largest post-1945 recession in history owing to political uncertainty and the lower prices for raw materials on the world market. South Africa was and still is mainly an exporter of raw materials.

Political parties initially failed to agree on the desired economic policy and reforms, but have since reached an agreement on the blueprint for the economy: the economic

development should be based on an open (outwardly directed) market economy which must grow and in which private ownership is an important condition. The government apparatus would have to be rationalized and reduced.

The political chaos was then replaced by the government's social and economic development programme: the Reconstruction and Development Programme (RDP), which was complemented by Growth, Employment and Redistribution Strategy (GEAR). The GEAR strategy is more pragmatic, focusing on the optimal use of national and international opportunities. RDP and GEAR gave rise to reliability and predictability regarding economic policy.

The GEAR enumerates, amongst others, the following main targets for the year 2000:

- a 6% growth in real GDP
- 400 000 new jobs per annum
- an inflation rate in the region of 7,6% and a real interest rate of 3%
- 10% real growth in non-gold exports
- real private-sector-investment growth of 17% and US \$800 million in additional foreign direct investment.

In general, central to GEAR, is the promotion of sustainable and job-creating economic growth, supported by:

- fiscal and monetary discipline;
- tax reform and investment-friendly tax incentives;
- the gradual abolition of exchange controls;
- a competitive exchange rate;
- the promotion of international competitiveness;
- the speeding up of tariff reductions;
- the restructuring of state assets;
- an expansionary infrastructural programme;
- the upliftment of skills; and
- greater labour-market flexibility.

In IDC & DTI (1998) mention was also made of the fact that since its announcement, significant progress has been made with, *inter alia*:

- a reduction in the budget deficit;
- a consistently restrictive monetary policy which resulted in the resumption of a downward inflation trend;
- the relaxation of exchange controls;
- the prevalence of a competitive exchange rate;
- the introduction of industrial support measures;
- the lowering of protective tariffs;
- the privatization of state assets; and
- the delivery of social RDP-related objectives.

These factors triggered significant structural shifts in the economy, thereby improving industry's globalization drive, advancing exports towards nontraditional higher-value-added finished goods and permitting a general retention of South Africa's broad industrial base.

One factor that was necessary in order to realize the goals of Government, was that economic growth would have to increase to 6% by the year 2000. Since 1994, economic growth has recovered only to the level of close to 3% in real GDP (Figure 2.1).

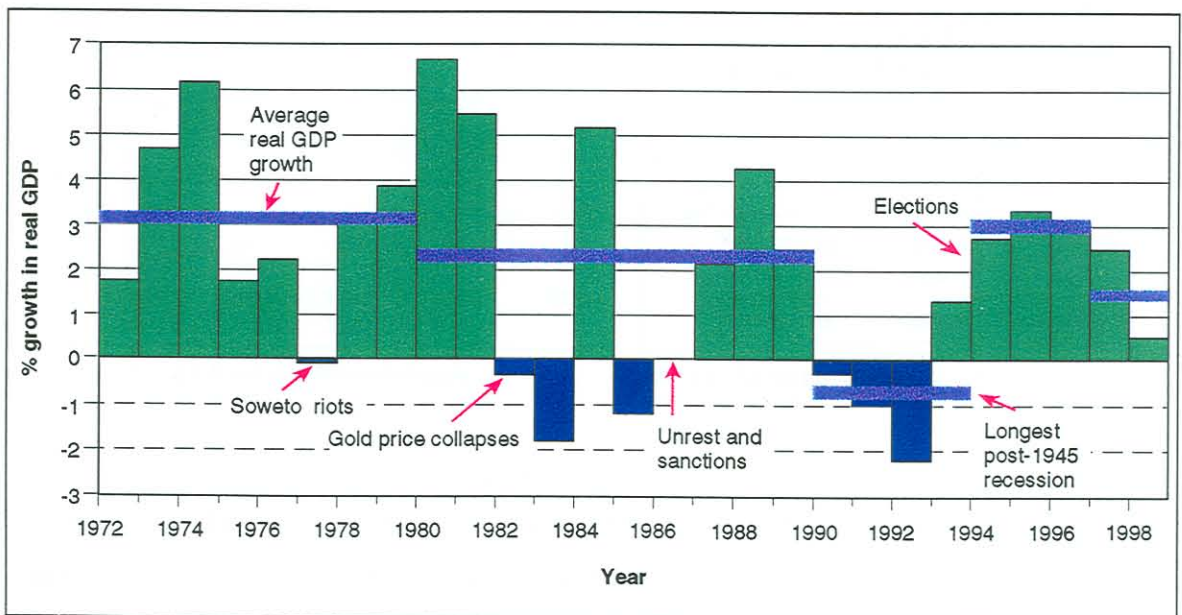


FIG. 2.1 Real economic growth has re-emerged
Source: SA Reserve Bank

Since 1993, exports have been of primary importance for growth. The increase in export value has resulted in positive spillover effects and improvement of balance of payments.

An improved export position could be a major stimulus for future economic growth in South Africa. It would also be realistic to expect a rapid improvement in exports after sanctions, with policies directed to facilitate an open economy and reintegration in the world economy.

In response to the country's reintegration into the world economy, a sharp depreciation of the Rand was experienced. Between February and May 1996, the South African currency experienced a single devaluation of nearly 30% (Figure 2.2). Because the Rand was overvalued, the devaluation was in the interest of economic development. Although the financial and business community as well as growth in investment and consumption suffered, the currency adjustment, in conjunction with ongoing efforts by domestic producers to enhance their international competitiveness, increasingly resulted in an improved performance by South Africa's export sector from 1996 to 1997 (Figure 2.3). The slowdown in domestic economic activity is thought to have reached its lowest point in 1997, with GDP growth at 1,7% for the year (IDC & DTI 1998).

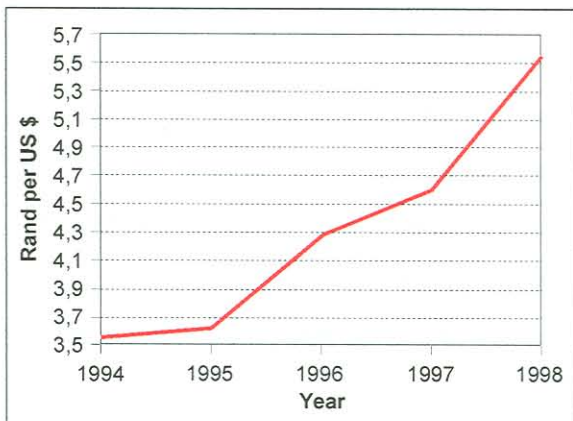


FIG. 2.2 The SA Rand depreciated sharply
Source: SA Reserve Bank

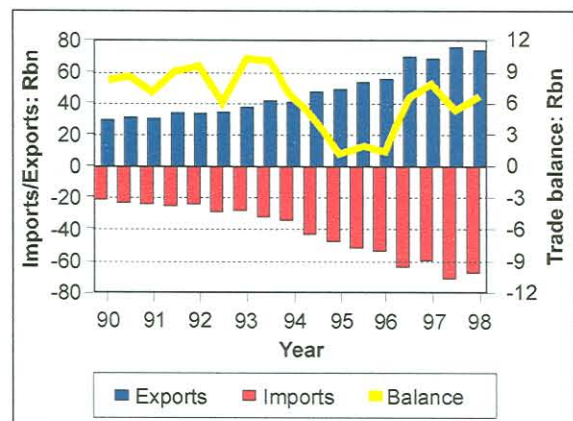


FIG. 2.3 SACU trade balance
Source: IDC (1998)

In the international arena, world economic growth for 1998 was forecast at just over 3%, in contrast with earlier projections prior to the East Asian crises in the order of 4%. The Asian

crisis, slower world growth and a low inflation environment underscore a poor outlook for commodity markets. For agricultural commodities, the supply impact of the El Niño weather phenomenon may be somewhat offset by subdued East Asian import demand. Prospects for commodity prices should improve as signs of an economic recovery in East Asia become progressively visible. An acceleration of growth momentum towards the turn of the century is likely to be led by the recovery of the Japanese and other East Asian economies, while world demand could be bolstered by increased consumer spending on the eve of the new millennium. A significant recovery is anticipated in the year 2000 (IDC & DTI 1998).

South Africa could not escape the turmoil on the Asian markets. When the first semester of 1998 is compared with the equivalent period in 1997, the anticipated negative short-term spillover effects of the Asian financial crisis on SACU's trade flows become visible. A 12% surge in imports, coupled with only a moderate 8% growth in exports, gave rise to a R1,4 billion decline in the trade surplus on a year-on-year basis (IDC 1998). See Figure 2.3. The global economic slowdown and falling commodity prices, through adverse effects on the country's export performance, will constrain growth in 1998. The economy grew by just more than 2% in 1998 and the growth rate is expected to rise to above the 3% level by the year 2000.

Export growth will be affected by a lower import demand from East Asia and a reducing agricultural output in 1998. Nonetheless, the recovery in continental Europe's consumption demand, the improved price competitiveness of South African products on British markets and high levels of economic and construction activity in neighbouring Mozambique, should still permit a reasonable rate of export growth.

The projected higher rates of import growth in 1998 and 1999 reflect the anticipated recovery in private consumption and fixed-investment spending, as well as domestic responses to the increased price competitiveness of East Asian products. Since 1994, about 250 foreign companies have entered South Africa, while South African companies continue to invest abroad (WTO 1998). The revival in economic activity in South Africa since 1993 was driven mainly by fixed investments, particularly from the private sector

(IDC 1997). Sources indicate that foreign direct investment (FDI) into South Africa amounted to R4,9 billion in 1994, R5,5 billion in 1995, R8,2 billion in 1996 and R13,6 billion in 1997. FDI increased by 49% for the period 1995/1996 and by 65% for the period 1996/1997 (WTO 1996). Improved levels of consumer confidence and rising real personal disposable incomes have, in turn, underpinned high rates of growth in real private consumption since late 1993 (Figure 2.4). According to authoritative surveys, the recent changes and developments on the political, social and economic fronts were welcomed by the country's business community, resulting in an upward trend in the level of business confidence. After having remained at double-digit levels for 19 years consumer-price inflation broke through the 10% floor in 1993 (IDC 1997). See Figure 2.5.

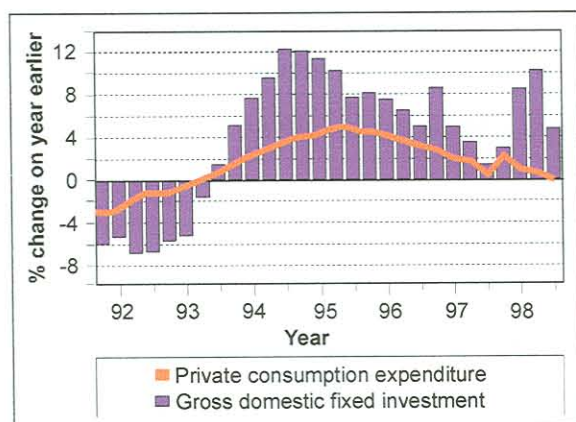


FIG. 2.4 Revival in fixed investment and private consumption
Source: SA Reserve Bank

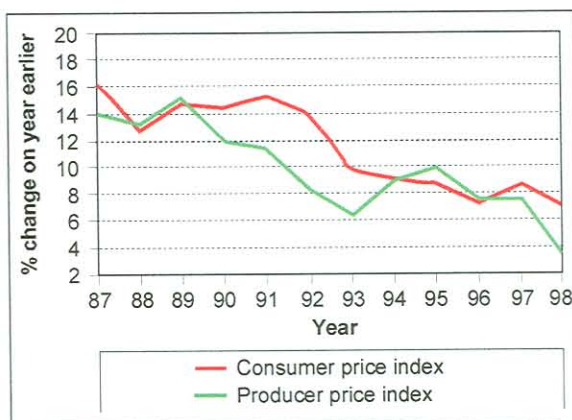


FIG. 2.5 Consumer and producer price inflation considerably reduced
Source: Central Statistical Service

Some bottlenecks for growth still prohibit optimal performance of the economy. Bottlenecks mentioned by Kievit (1997) are, briefly, high taxes and import duties, labour market, investment climate, underdevelopment of small and medium-sized companies and lack of diversification in the economy.

Nevertheless, improvement of the export position is still regarded as the engine for growth. Increased exports will enlarge the foreign reserves and also raise the available national money supply which will elevate general economic development. Increases in value-added exports will counter deteriorating terms of trade and increase the share of labour-intensive

products which contribute to employment. The extent to which exports will boost future growth will depend on the expansion of the relative export share of higher-added-value and labour-intensive products. Kievit (1997) argues that general growth in exports since the mid 1990s was caused, amongst others, by the devaluation of the Rand, high exports in agricultural products and growth in new and emerging markets. The main source of growth in 1996 was the recovery in agricultural production (WTO, 1998). Real value in agriculture, which contracted by 15% in 1995, rebounded by 26% in 1996. In contrast with the high degree of volatility in agricultural production volumes and generally steady decline in mining output, the real value in nonprimary sectors has consistently recorded growth since the beginning of 1993. The real value added by the tertiary sectors increased by 3% in 1996 (WTO, 1998).

Long-term improvements in employment and wealth creation will require a shift away from dependence on raw materials to value-added manufactured exports. The reduction of tariffs and phasing out of subsidies in South Africa have been accompanied by a shift in industrial policy towards market-led supply-side support measures. A wide range of supply-side measures, compatible with the rules of the WTO, has been put in place to promote industrial restructuring, technology upgrading, investment and export promotion, small, medium and micro-enterprises (SMMEs) development, and black economic empowerment (WTO, 1998).

Another question that arises is how government should go about improving relations with other countries. Traditionally, although relatively stable, markets like the European Union are, in the long term, declining in importance, and this has implications for future alliances with other markets. Despite the EU-SA Free Trade Agreements, agriculture could still remain largely unaffected, although it is one of the sectors that has a comparative advantage over the EU.

The need has arisen for South Africa to extend its strategic focus to other markets such as Asia, the Americas and probably Eastern European countries. The significance of less traditional and new markets for South Africa is increasing considerably, which will necessitate a change in the government's focus, and good relations with these countries

will instigate future export growth. However, the most effective immediate drive for the economy towards improved exports will be to liberalize its import tariffs. Tax on imports is also a tax on exports. The most efficient importing countries have also proved to be the most efficient exporters.

South Africa's greatest opportunity for exports should be seen in the potential growth prospects of the Asian and the Latin American markets, resulting in bigger markets (Kievit 1997). Kievit (1997) also mentioned that it is mainly primary and semiprocessed goods that are suited to the Asian markets. For higher-value-added products, Africa and particularly southern Africa, shows increasing promise. Consumer demands in the US are still a driving force behind world growth. Latin American growth has shown growth prospects similar to those of the growing Asian market.

2.3 PRIORITIZING SOUTH AFRICA'S EXPORT MARKETS

A study, the Global Economic Strategy Project, was undertaken by Kuper & Cassim (1996) to determine the priority markets for South Africa, especially for the purpose of placing foreign offices and also for that of prioritizing the government's focus on trade initiatives. This study laid the foundation for further analysis to determine the priority markets for South Africa in general.

In the next section of this chapter it is attempted to overlay South Africa's total export shares and export-growth patterns in individual countries onto an assessment of these countries' overall import performances. The technique used is that of a growth-share matrix which maps countries according to their significance in South Africa's current export picture (share) and the rate at which they are becoming increasingly more or less significant (growth) in South African trade. (Calculation of growth in exports in this chapter differs from the calculation of growth in share used in chapter 3 on agriculture. In this chapter growth refers to growth in South Africa's exports in nominal terms. In the latter chapter, growth in share refers to growth in share of exports of agricultural commodities. See 1.4 on the methodology.)

The result of this study confirms the view that countries where South Africa's export growth has been phenomenal are countries where we have a very low base. What this means is that a slight increase in exports could dramatically effect growth rates. It would therefore be misleading to base decisions on the rate of export growth only. Instead, decisions based on export growth with a certain threshold share of exports, should be a more reliable guide as to what priority markets should be. Countries with very limited or relatively non-existing trade with South Africa, have been excluded for the sake of simplicity and clarity. It is on these grounds that the World Slide was developed with three categories, low-, medium- and high share and growth, incorporating all the countries of the world. In these categories, high share refers to South Africa's total exports that are over R1 billion and low share refers to South Africa's exports that are less than R100 million. High export growth on the other hand refers to export growth above 25% over a period of 4 years (1992 to 1995) and low growth refers to less than 10% growth.

South Africa needs to expand, or at least maintain, market share in its traditional markets, but also critically needs to increase its imports into new growth markets. Some of the market diversification is taking place because of the sanctions effect, while other facts signify the growing importance of successful emerging markets (eg the South-east Asian countries).

Overlaid on the information above is the objective picture of each country's overall import performance internationally, although the latest available data dates from 1994. The names of those countries which are among the top 50 importers worldwide are not in brackets. Only those among the top 50 importers will have their growth rates indicated through the use of 'italics' or 'underline' as indicated in the 'Font Key' on the right of the matrices slides. However, this key gives a broad picture only of the import growth of the various countries and does not allow us to compare SACU's growth in export to these countries with their growth in import on a far more disaggregated sectoral level.

2.4 MARKET PRIORITIZATION BY REGION

2.4.1 Europe

Europe accounts for 23,4% of SACU's total exports (42% of allocated exports). This includes EEC, EFTA and Central Europe. The EEC accounts for 19,4% of SACU's total exports to Europe, but higher growth is evident in the EFTA countries. EFTA accounts for 3,5% of SACU's total exports to Europe, and Central Europe accounts for 0,3%. Exports increased by 20% to Europe as a whole in 1995, increased by 35% to the EU, by over 90% to Central and Eastern Europe and decreased to EFTA. Overall annual growth from 1992 to 1995 was 10%, higher for EEC and Central Europe and lower for EFTA.

Products with a high share in Europe are vegetable products, prepared foodstuffs, mineral products, chemicals, wood-pulp products, textiles and products, pearls, metals, stones and jewellery, base metals and products, mechanical and electrical equipment, transportation equipment and miscellaneous manufactures. High growth in manufactures (mechanical and electrical, instruments and apparatus) is visible for the low-share markets of Romania, Austria and Finland (chemicals and miscellaneous).

2.4.2 Asia

The Asian region takes 14,8% of SACU's total exports at a value of R19,7 billion. Japan takes R5,1 billion of these exports which means 74% of SACU's exports go to Asia, excluding Japan. South Asia takes 0,8% ASEAN takes 2,3%; the China region—Hong Kong, Taiwan and PRC—takes 4,1% of SACU exports. The rest of East Asia (Japan, North and South Korea) takes 5,3% of total exports, of which Japan takes two-thirds. Exports to Asia increased by 30% in 1995. Annualized growth to Asia during 1992 to 1995 was 18%. It was 98% to South Asia, 16% to East Asia, 57% to ASEAN and 13% to the China region.

High-share products in ASEAN are base metals and products, wood-pulp products, vegetable products with a second tier of chemicals, transport equipment (Malaysia) and mechanical and electrical equipment. Growth was significant across the spectrum, including manufactures, in Indonesia, Singapore, Malaysia, the Philippines and Thailand.

In all of South Asia, high-share products are chemicals, minerals, base metals and products and wood-pulp products and textiles (Pakistan). Growth has been across the spectrum and particularly from India and Pakistan.

High-share products in the China region are base metals and minerals, with a second tier of chemicals, textiles and products, wood-pulp products, pearls, stones and jewellery (Hong Kong) and transportation equipment (PRC). The growth has been fairly evenly spread, but not in the traditional sectors of metals and minerals.

In Japan and the Koreas, high-share products are base metals, mineral products and vegetable products (including prepared foodstuffs in South Korea). A second tier, ie products of over R50 million, are found in wood, cork, straw, textiles and products, chemicals and wood-pulp products. Japan and South Korea have seen significant growth across all sectors, including high-value-added manufactures.

2.4.3 Middle East (including Turkey and Iran)

The Middle East takes 2% of SACU's exports. Israel, Turkey, Bahrain, Saudi Arabia, UAE and Iran take over R100 million each. The next tier of over R20 million includes Lebanon, Jordan, Oman and Kuwait. During 1992 to 1995, the average export growth to this region was 13% p.a.

High-share products in this region are base metals and mineral products. High-growth products into Israel are mainly manufactures, such as chemicals, mechanical and electrical equipment, transportation, instruments and apparatus, miscellaneous manufactures, woodpulp and products and prepared foodstuffs. To UAE across the board, but with chemicals, prepared foodstuffs and mechanical and electrical equipment in the manufacturing sector. For Bahrain, the bulk of our exports is agricultural, but with significant growth also in miscellaneous manufactures and instruments and apparatus. Iran's significant import growth from SACU came from base metals, wood, cork, straw products and mineral products.

Turkey takes mainly base metals and minerals, but no growth was recorded in any sectors. Oman's major products are base metals and minerals, but it is only in vegetable products that spectacular growth occurred. Kuwait also saw spectacular growth in vegetable products, as well as a significant rise in stone, plaster, cement and base metals.

2.4.4 Southern Africa

SACU's exports to southern Africa (non-SACU SADC excluding Mauritius) forms 6,99% of total SACU exports. Export growth to this area was 9,48% in 1992, increased to 23,45% in 1994 and to 57% in 1995. Annualized growth between 1992 and 1995 was 28,6%.

High-share products to this region are base metals and products, minerals, mechanical and electrical equipment (highest), transportation equipment and chemicals. Growth in exports has occurred in most categories except works of art and antiques. Spectacular growth in exports has occurred in live animals and products, chemicals, minerals, wood, cork, straw products, wood-pulp products, pearls, metals, stones, jewellery, instruments and apparatus and miscellaneous manufactures. High-value-added manufactures have obtained consistently high growth to this region.

2.4.5 Rest of Africa

SACU's exports to Africa, including southern Africa, forms 10,4% of total exports. Of this, 6,9% goes to southern Africa. Therefore only 3,43% of total SACU exports go to Africa, excluding southern Africa. However, exports increased by 71% to this region in 1995, while an annualized growth of 44,25% was experienced during 1992 to 1995.

Products which have a high share are chemicals, minerals, and base metals, and mechanical- and electrical equipment. Products having a spectacular growth (on average over 100% growth) are all categories with the exception of raw hides and products, pearls, metals and stones, instruments and apparatus and works of art and antiques, which have had negative growth rates.

2.4.6 North America

SACU's exports to the Americas constitute 5,8% of its total exports. Exports to the USA have grown by just over 2% annualized (with wide variations), to Canada by 30% and to Mexico by 120%. Exports to NAFTA increased by 11% in 1995, but by 1,34% annualized from 1992 to 1995.

The US and Mexico mainly takes base metals and chemicals from SACU, while Canada mainly takes these and prepared foodstuffs. Exports to the US have grown predominantly in upstream products although there is some growth in textiles and products and prepared foodstuffs. In Canada there has been more significant growth in downstream products such as prepared foodstuffs, chemicals, transport equipment and miscellaneous manufactures (also unclassified). In Mexico, the growth has been mainly in upstream products, but there have also been increases in exports of chemicals, textiles and miscellaneous manufactures.

2.4.7 Latin America and the Caribbean

This region accounts for 1,6% of SACU's exports, most of which goes to South America. Brazil takes the bulk of South Africa's exports (R1 billion), while Argentina, Venezuela, Colombia and Chile form the next tier. In Central America and the Caribbean there appears to be growth, but insufficient time-series data prevents clear trend determination. In Puerto Rico, Paraguay and Uruguay, exports from SACU range between R20 million to R40 million and in Cuba amounting to R62 million. Exports to Central America increased by 106% annualized from 1992 to 1995 off a miniscule base, and by 39%, annualized over the same period to South America.

SACU's main exports to Brazil are prepared foodstuffs, mineral products, base metals and chemicals. Brazil has also experienced a major increase in manufactured imports from SACU. These include prepared foodstuffs, chemicals, wood pulp and products, mechanical and electrical equipment, textiles and products, and miscellaneous manufactures.

SACU's main exports to Colombia are vegetable products and base metals. It has however experienced increases in both commodities and manufactures. The latter concentrated on chemicals and prepared foodstuffs. Venezuela's main imports from SACU are wood-pulp products, textiles and products and base metals. Increases in wood pulp and textiles have occurred.

The low-share, high-growth countries mainly receive chemicals and base metals and they have experienced increases mainly in base metals and minerals, but also significant increases in chemicals and mechanical and electrical equipment.

2.4.8 Oceania

Oceania takes 0,8% of SACU exports, of which Australia takes 86% and New Zealand 12%. Exports to Oceania increased by 51% in 1995 but by 44%, annualized from 1992 to 1995.

The bulk of exports to Australia are chemicals and base metals (R100 million plus), with a second tier of wood-pulp products and mechanical and electrical equipment (over R60 million). New Zealand takes prepared foodstuffs, chemicals, plastics and rubber and transportation equipment in approximately similar shares (R11–15 million).

Exports to Australia and New Zealand have increased significantly across all sectors (excluding minerals, for New Zealand).

2.5 INTERPRETING THE FINDINGS

A deduction can be made from the world matrix (Table 2.1) which countries in each region have potential for exports from South Africa. Not only is this important if South Africa wants to reprioritize its trade resources internationally, but also in as far as spending them in a way that exhibits fairly comprehensive regional penetration. For example, in southern Africa, Zimbabwe and Mozambique clearly are leading markets for

Note: growth in SA exports based on average growth 1992-1995

	High share (over 25 % in 3 years)	Medium share (10 – 25 %)	Low share (less than 10 % in 3 years)
High growth (over R1 billion)	(Zimbabwe) (Mozambique) <u>South Korea</u> <u>Thailand</u> <u>Singapore</u> <u>Australia</u> A	(Tanzania) <u>Canada</u> (Zaire) <u>Mexico</u> (Kenya) <u>Brazil</u> (Nigeria) (UAE) (Ghana) Iran (Madagascar) <u>New Zealand</u> (Seychelles) <u>Malaysia</u> Sweden <u>Indonesia</u> Denmark India Austria Pakistan B	(Liechtenstein) (Uganda) (Comores) Finland (Sierra Leone) Egypt (Romania) (Somalia) (Mali) (Ukraine) (Sao Tome) (Congo) (Hungary) (Djibouti) (Bahrain) (Czechoslovakia) (Liberia) (Kuwait) (Bulgaria) (Tunisia) (Oman) (Iceland) (Gambia) (Cuba) <u>Luxembourg</u> (Gabon) (Peru) (Niger) (Togo) (Bolivia) (CAR) (Eq. Guinea) C <u>Colombia</u> (Senegal)
Medium growth (R1 billion – R100 million)	<u>Israel</u> <u>Japan</u> (Zambia) Saudi Arabia UK <u>Belgium</u> <u>Netherlands</u> <u>Germany</u> <u>Italy</u> <u>France</u> <u>Spain</u> <u>Hong Kong</u> B	(Cote d'Ivoire) (Angola) (Mauritius) <u>Argentina</u> Chile <u>Portugal</u> <u>Poland</u> <u>China</u> <u>Sri Lanka</u> <u>Philippines</u> C	(Morocco) (Cameroon) (Uruguay) <u>Venezuela</u> (Equador) D
Low growth (less than R100 million)	<u>USA</u> <u>Taiwan</u> <u>Switzerland</u> C	(Malawi) Greece Norway Russian Fed. D	<u>Algeria</u> (Libya) (Sudan) (Paraguay) (Guatemala) (Rwanda) (Burundi) (Ethiopia) (Cape Verde) (Guinea) (St Helena) E

High share: >R1 billion
High growth: >25 %
Medium share:
R100 million–R1billion
Medium growth:
10-25 %
Low share:
<R100 million
Low growth: <10 %

FONT KEY

Normal: minimal
growth in imports
Italics: import growth of
10-19 %

Underline: import growth of 20 % or more (in brackets): Not in top 50 importers worldwide & overall import growth unavailable

South African exports. The leaders in Asia are South Korea, Thailand and Australia, but of the three, South Korea is showing objectively greater import growth compared with still significant but less import growth in Australia and Thailand.

Looking globally to where values of share and growth are comparable across regions, one can clearly discern some markets which are significant in both value and growth terms for South Africa. These are labelled 'A' and represent Zimbabwe, Mozambique, Thailand, Singapore, Australia and South Korea, although some have had greater import growth overall. The rest of the countries are labelled 'B' to 'E' according to the level of importance they may represent in any future trade strategy.

It is difficult to prioritize a country in the high-share, medium-growth category as more or less significant than a country in the medium-share, high-growth category. A small percentage increase in exports to Zambia may have as significant an effect on overall export performance as high-growth in a country where share has been somewhat less, such as India. Although the high-growth category may indicate significant potential for South African exports in the future, as in many of the Asian countries, traditional markets where only medium growth has been recorded must not be ignored.

While countries in the high-growth and high-share categories are clearly markets which South Africa should focus on, a range of other criteria would also have to be overlaid on the categories labelled 'B' in order to determine which of high-growth, medium-share or high-share, medium-growth should take priority. Both would appear to be important markets in which to expend resources, although for different reasons. Those categories labelled 'C' would be less important although high-growth, low-share markets may offer potential that could be exploited with effort in a way high-share, low/no-growth markets would not. Low-growth, low-share markets would be those least worthy of greater resource expenditure by Government.

2.6 DEVELOPING A TRADE-POTENTIAL INDEX FOR SOUTH AFRICA

2.6.1 Analyzing achievements in trade

This phase provided an overview of international trade patterns and trends with an identification of major importers and key growth markets. It also provided an overview of South Africa's position in different markets based on geographical and limited-product disaggregation. In the analysis above, South Africa's export growth and value on different markets from 1992 to 1995 were examined with an identification of key growth products and total import growth of these markets. The above analysis was based on South African Customs and Excise statistics.

The world matrix (Table 2.1) is believed to hold the key for policy decision makers because it provides a simple framework from which to determine relative market potential and pinpoint overall trends as far as South Africa's recent export performance is concerned. The next step was developed to deepen the previous analysis by building more disaggregated and reconcilable data into the picture in order to develop a more comprehensive approach to analyzing trade potential for South Africa. Table 2.3 gives a picture of achievements of various sectors in terms of export share and growth.

2.6.2 Analyzing trade potential

The criteria for assessing South Africa's trade potential in the respective countries were based on several approaches. Firstly, the share of South Africa's exports was taken as a percentage of total exports in a specific market and it was combined with the average rate of growth of South Africa's exports in that market from 1992 to 1995. This exercise was done on the basis of South African Custom and Excise data.

The second step, based on UN country-compatible data, was to compare the growth of South African exports in broad sectors, namely food and agricultural products, minerals and fuels and manufactures to specific markets, with the rate of total import growth of these broad sectors in those markets. From this it was possible to compare South Africa's export growth in these sectors with the total import growth in the partner countries and to determine whether we were gaining market share or simply responding to high growth.

Specific attention was given to growth in the export of manufacturers, which is the sector that is likely to generate high-value-added export more than any other sector. A trade-potential index (Table 2.2) was developed to rank countries accordingly.

The weighing of different factors which, if combined, formed an index, was based on an attempt to reconcile the South African data set with the ITC mirror data in order to provide more disaggregation and thereby focus more on countries where South Africa has greater targeted potential. The ranking was biased towards net export products. Manufactures were given priority above other products and was biased towards partner countries with higher import growth.

2.7 CONCLUSIONS

South Africa's successful democratic transition in 1994 created the conditions necessary for embarking on ambitious development. The democratic transition simultaneously laid the basis for South Africa's return to the international community.

Prior to the 1990s, unrest and sanctions paralyzed the country's economic growth. During 1990 to 1993 the country experienced the largest post-1945 recession in history owing to political uncertainty and as a result of the lower prices of raw material on the world market. Political parties then reached an agreement on the blueprint for the economy. The political chaos was replaced by the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution Strategy (GEAR).

These factors triggered significant structural shifts in the economy, thereby improving industry's globalization drive, advancing exports towards non-traditional, higher-value-added finished goods. Since 1993, exports have been of primary importance for growth. An improved export position could be a major stimulus for future economic growth in South Africa. It would also be realistic to expect a rapid improvement in exports after sanctions, with policies directed to facilitate an open economy and reintegration in the world economy.

In 1996, the South African currency experienced a single devaluation of nearly 30% to adjust to its market value. Although the financial and business community suffered, as well as growth in investment and consumption, the currency adjustment, in conjunction with ongoing efforts by domestic producers to enhance their international competitiveness, resulted in an increasingly improved performance by South Africa's export sector during 1996 to 1997.

South Africa could not escape the turmoil on the Asian markets. The global economic slowdown and falling commodity prices, through adverse effects on the country's export performance, constrained growth in 1998. Prospects for commodity prices should improve as signs of an economic recovery in East Asia become progressively visible. An acceleration of growth towards the turn of the century is likely to be led by the recovery of the Japanese and the East Asian economies, while world demand could be bolstered by increased consumer spending on the eve of the new millennium. A significant recovery is anticipated in the year 2000.

The higher projected rates of import growth in 1998 and 1999 reflects the anticipated recovery in private consumption and fixed-investment spending, as well as domestic responses to the increased price competitiveness of East Asian products. Sources indicate that South Africa's Foreign Direct Investment has increased by 49% for the period 1995/1996, and 65% for the period 1996/1997. Some bottlenecks for growth still prohibit optimal performance of the economy which, amongst others, are high taxes, high import duties, the labour market and the investment climate. Nevertheless, improvement of the export position is still regarded as the engine for growth.

A question that arises is how Government should go about improving relations with other countries. Traditional markets are declining in importance. The need has arisen for South Africa to extend its strategic focus to other markets.

South Africa's greatest opportunity for exports should be seen in the potential growth prospects of the Asian and the Latin American markets, resulting in larger markets. Relations with countries that provide new markets will instigate future export growth. The

top ten countries that were identified as the most promising future export destinations for South Africa were Thailand, Singapore, Republic of Korea, Australia, Mozambique, Zimbabwe, Mexico, India, Indonesia and Malaysia. Of these, seven were in the Asia and Oceania region. For higher-value-added products, southern Africa also shows increasing promise.

Although the high-growth markets have significant potential for South African exports in the future, as in many of the Asian countries, traditional markets such as the European Union should not be ignored because of the sheer size of the market. The European Union-South African free-trade agreement might also spur a re-growth in opportunities, at least in the medium term.

Table 2.2 Trade potential index and ranking

Country	Index /60	Rank
Thailand	60	1
Singapore	58	2
Republic of Korea	58	3
Australia	56	4
Mozambique*	50	5
Zimbabwe	50	6
Mexico	50	7
India	49	8
Indonesia	48	9
Malaysia	48	10
Saudi Arabia	47	11
UAL	47	12
Brazil	47	13
New Zealand	46	14
Nigeria	46	15
Ghana	46	16
Zambia	46	17
Madagascar	46	18
Seychelles	46	19
Kenya	46	20
Zaire	46	21
Tanzania	46	22
Denmark	46	23
Canada	46	24
Sweden	46	25
Pakistan	45	26
United Kingdom	45	27
Israel	44	28
Spain	43	29
France	43	30
Netherlands	43	31
Germany	42	32
Italy	42	33
Hong Kong	42	34
Iran	41	35
Japan	41	36

Country	Index /60	Rank
Austria	40	37
Philippines	38	38
Bahrain	37	39
China	36	40
Belgium/ Luxemburg	36	41
Taiwan	36	42
Finland	36	43
Ukraine	35	44
Cuba	35	45
Djibouti	35	46
Hungary	35	47
Gambia	35	48
Liberia	35	49
Bulgaria	35	50
Senegal	35	51
CAR	35	52
Niger	35	53
Uganda	35	54
Sao Tome	35	55
Somalia	35	56
Sierra Leone	35	57
Angola	35	58
Equatorial Guinea	35	59
Comores	35	60
Congo	35	61
Mali	35	62
Cote d'Ivoire	35	63
Gabon	35	64
Togo	35	65
Peru	35	66
Chile	34	67
Colombia	34	68
Romania	34	69
Mauritius	34	70
Czechoslovakia	34	71
Egypt	34	72

Country	Index /60	Rank
Liechtenstein	34	73
Argentina	33	74
Kuwait	33	75
USA	33	76
Sri Lanka	33	77
Poland	32	78
Oman	32	79
Tunisia	32	80
Iceland	31	81
Bolivia	31	82
Portugal	30	83
Switzerland	30	84
Norway	25	85
Malawi	24	86
Venezuela	24	87
Cameroon	24	88
Russian Federation	24	89
Ireland	24	90
Reunion	23	91
Equador	22	92
Algeria	20	93
Morocco	20	94
Turkey	20	95
Uruguay	20	96
Greece	20	97
Paraguay	16	98
Cape Verde	12	99
Ethiopia	12	100
St Helena	12	101
Guinea	12	102
Burundi	12	103
Libya	12	104
Sudan	12	105
Rwanda	12	106
Guatemala	10	107

Source: Kuper & Cassim (1996)

Table 2.3 Relative attractiveness of export markets by industry classification

Relative export market growth (CAGR 1992 – 1995)	CAGR (>25 %)	<p>Other nonmetallic mineral products</p> <p>Leather products</p> <p>Plastic products</p> <p><u>Other food</u></p> <p><u>Beverages</u></p> <p>Scientific, optical equipment, watches</p> <p>Rubber products</p> <p>Petroleum and coal products</p> <p>Printing and publishing</p>	<p>Chemical products (1)</p> <p>Paper and pulp products</p> <p>Electrical machinery</p> <p>Machinery</p> <p>Metal products</p> <p>Chemical products (2)</p> <p>Petroleum refineries</p>
	CAGR (0 – 25 %)	<p>Pottery and china</p> <p>Wooden furniture and fixtures</p> <p>Tobacco manufacture</p> <p>Wearing apparel</p> <p>Wood and wood products</p> <p>Footwear</p> <p>Glass and glass products</p>	<p><i>Agriculture</i></p> <p>Unclassified</p> <p>Iron and Steel B-Met Ind.</p> <p>Mining</p> <p>Other manufacturing</p> <p>Nonferrous metal industries</p> <p>Transport equipment</p> <p><u>Food</u></p> <p>Textiles</p>
		Exports < R1b	Exports > R1b
		Relative export market size (based on 1995 exports)	

Source: Flemming Martin Securities

Note: CAGR is cumulated average growth rate